

# Globalizing the Romanian Economy: A Financial View

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## Abstract

*The modern economy is facing various extensions of financial dependencies, in a period of global structural dynamism. This paper provides a complete overview of the Romanian integration in the new global economy, which is still in its infancy. The analysis will start with the Romanian physiognomy in this context. Building on the hypothesis of the existence of a discontinuity point in the Romanian economy globalization, the research will outline a comprehensive image of the Romanian integration in the European Union structure, strengthening the imperatives of a new transition. The quantitative approach is based on the major indicators to understand the openness of the Romanian economy, identifying the current trends of the Central and Eastern Europe countries. The results suggest the different evolution in the transition phenomenon to the market economy, due to the fact that these countries have experienced the institutional, social and political reconstruction from different positions.*

**Key words:** Romania, globalization, finance

**J.E.L. classification:** F6, O1

## 1. Introduction

Although there have been various definitions for the globalization phenomenon, this term remains poorly understood because of structural deficiencies in the conceptual interpretation. However, globalization is a complex issue involving an increase in the global cooperation, a close interconnection in the economic flows and their multiplication, a growing movement of the capital and the labor force, the fluidity of information and also a global community, with common interests and goals. According to some scholars, „growing FDI flows are a significant factor of globalization process, being one of the driving forces of globalization, and its main consequence at the same time” (Pekarskiene and Susniene, 2015, p. 205). Considering the approach developed by Welfens, the FDI flow can be viewed as „a reflection of international interdependence in terms of ownership participation” (Welfens, 1989, p. 273) and the Romanian FDI analyse can clearly indicate the globalization dynamics in the Romanian light, supported by comparisons of the international trade features.

Strating from the assumption that „globalization is first and foremost an economic and financial process” (Matsuura, 2000, p. 400), the paper will explore the FDI flows in order to emphasize the globalization downturn in financial terms. The foreign direct investment flows lead to the growing economy, through their productivity outcomes and the impact on the potential efficiency, being considered that „FDI is at the forefront of globalization” (Pereira et. al, 2012, p. 49). In the last years, there was a huge change in the economic requirements, due to the transition from the mercantile system to the economy based on a significant competitive process. If in the '60s the most countries had adopted protectionist measures with an obvious limitation character, this situation has radically changed after the awareness of all the benefits of the technology transfer and the interdependencies between states. In this way, the developed countries have started the process of opening their economies. Following their performances, the developing countries have adopted the same trend, which also stimulate the former socialist countries in opening their economies.

Globalization has the potential to bring high benefits for both developed and developing

countries only if there are considered fair rules that promote a balanced development, governed by international institutions that use appropriate tools in order to manage the global issues. On the other hand, there are various supporters of the idea that the states' sovereignty is eroded by some international organizations like the International Monetary Fund, the World Bank Group, the World Trade Organization, UNCTAD or other similar global institutions. The individual negotiation power disappears in favor of those conducted by the non-governmental organizations, involving a transfer of authority in order to act in the global context. It can not be denied the key role of these institutions in solving the globalization issues, even if there was, in many cases, a clear lack of transparency and efficiency.

The globalization is „the process through which goods and services, capital, people, information and ideas flow across borders and lead to greater integration of economies and societies” (Agénor, 2004, pp. 21-22) and its transition highlights the asymmetries between the rich and the poor nations. Overcoming these differences requires a dual identity, at individual level and in global terms, in order to restore the balance between the North and the South, periphery and center. The globalization may increase poverty as a result of market distortions and the possible discontinuities between the national development level, suggesting the long-run effects of the global change on the financial agenda.

## **2. Methodology**

This paper aims to analyze the Romanian degree of globalization, considering the political and the economic changes in an historical view. The quantitative research was based on a complete case study and the comparative analysis of the countries that have faced the collapse of the communist regimes in Central and Eastern Europe and those that belong to the European Union. In order to shape the Romanian image on the global market and to investigate its progress in the globalization process, it was used significant data provided by the UNCTAD's statistical system and the World Bank database. The structure of this paper develops an initial model of transition in relation to the time framework, suggesting the key role of financial indicators in stimulating the globalization efficiency. The transition problems will be examined taking into account the restructuring process conditions, the international trade impact, the growth rates in terms of GDP or FDI flows and the balance of trade particularities.

## **3. The Romanian metamorphosis within the global context**

The globalization is a multipolar process, extending on every aspect of human life by large connections between nations. The mutual dependencies create new dimensions in international trade dynamism. The globalization has meant for Romania the collapse of the communism system in a new national order. The main goals were achieving a functional economy and beginning the liberalization process, which would lead to the regional integration and, later, to the global one. Even if all the centrally-planned economies from the Central and Eastern Europe have some common characteristics, they have evolved differently in the transition process. The lack of effectiveness at all levels and the major support for underperforming industries create the basis for a long-term recovering process, in an attempt to transfer the market functions between the state and the private sector.

In Romania, the risk of a new crash in the command economy trap significantly reduced the investors' willingness to finance concrete objectives, increasing the gap between our country and the Western Europe developed economies. After the fall of communism in 1989, Romania was integrated in several international organizations that create the basis for a full opening to the external environment, in the context of the increasing regionalization. On the other hand, the integration of the Czech Republic, Poland and Hungary in the European Union in 2004 has forced these countries to align with the EU legal framework, offering them a major advantage in terms of stability. In the current context of the Romania's integration in the EU structure, the international economic relations of our country have diversified, renouncing to the protectionism measures and amplifying its position in the global economic system.

The access of our country to the EU statut was difficult, but once the integration was done, the Romanian foreign trade structure has profoundly changed, with the majority influence of the EU trade relations. Relative to the international trade with goods, the data provided by the National Institute of Statistics Romania confirms that the international trade with goods of Romania with the European Union prevailed. For example, the value of Intra-EU trade for goods in 2015 was 40240,8 mil. euro (expeditions) and 48584,9 mil. euro (entries). These figures can be best translated into percentage values, showing a significantly share of 73,7% from the total exports and 77,2% from the total imports.

As it can be seen in the Table 1, the sold of the trade balance of Romania (merchandise) was in a continuous deficit between 2005-2015, although there was also a permanent enhancement of the international trade of our country, from 68,206 billion dollars in 2005 to 130,453 billion dollars in 2015. Considering the global financial crisis that has also affected our country, there has been a significant reduction in the foreign trade starting with 2009, when the total value of the international trade for merchandise was around 94891 million dollars. Based on the data from the Table 1, it can be shown a more significant decrease in the value of imports than of the exports, resulting a reduction of the trade deficit from 34518 million dollars in 2008 to 9281 million dollars in 2015. The last year included in the analysis indicate an upturn for both the exports and the imports, but also a similar trend of reduction in the trade deficit terms.

*Table no.1. Merchandise - the Romanian trade between 2005-2015, US dollars at current prices in mil.*

	<b>2005</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2015</b>
<b>Exports</b>	27688	40488	49535	40567	49579	60586
<b>Imports</b>	40518	70314	84053	54324	62109	69867
<b>The sold of the trade balance</b>	-12830	-29826	-34518	-13757	-12530	-9281
<b>Total trade - merchandise</b>	68206	110802	133588	94891	111688	130453

Source: UNCTAD data, author calculations

Moreover, it must be mentioned that during the transition period, Romania was facing a double deficit: the budget deficit and the current account deficit. The last one was mainly caused by the continuous disproportion of the trade indicators, conducting to a trade balance disequilibrium. The regular intervention policy in the evolution of the exchange rate mechanism in order to reduce the short-term trade deficit was another measure that failed to resolve the underlying problems which faced the Romanian economy. Another negative point was the critical contradiction in Romania's potential, exploited especially in a quantitative manner and less in quality.

#### **4. Romania in the new global economic architecture**

A controversial item in the globalization discussion is the regionalization process, which sometimes is seen as a preliminary stage of globalization, while in other views the two processes have contradictory tendencies. Starting from the assumption that the relationship between regionalization and globalization is complementary because they reinforce each other in order to intensify the world economic evolution, the new regionalism demonstrates the market supremacy in the expansion of trade flows, eroding in the same time the complete liberalization of global economies. Thus, the globalization involves first the liberalization on partial segments, process which is named regionalization. This section will focus on the position of Romania at the regional level through a close cooperation with both the former socialist countries and the European Union, formulating the Romanian model of integration in the global structures.

Considering the FDI flows in the Central and Eastern Europe, there was a clear dependence with the set of rules specific to the market economy, that encouraged the investors. Thus, the FDI flows coming from the developed countries were directed mainly to the countries which were politically more stable, as Hungary, Poland and Czech Republic. A comparative analysis of the countries from the Central and Eastern Europe emphasize the Romanian active position in the FDI dynamism, due to the multiple advantages, like: the dimension of the internal market, the labour market characteristics and the geographical position that offers various possibilities. In 2015,

Romania ranked the third place in the region by FDI flows, with an inward of 3389 million dollars and a share of 8,86% of the total FDI flows of Central and Eastern Europe region, after the Russian Federation and Poland. In the same time, the UNCTAD data suggests that Romania is a poor FDI issuer, being surpassed in the ranking by other five countries from the mentioned region. The main FDI issuer in this area is the Russian Federation with 77,44% of the region' capital exports in the FDI form (2015), due to the large number of Russian multinationals and its significant authority in the region.

*Tabel no. 2. The FDI overview in the Central and Eastern Europe - 2015*

<i>Country</i>	<i>GDP (mil. dollars)</i>	<i>Population (thousands)</i>	<i>GDP per capita (dollars per capita)</i>	<i>FDI stock - inward (mil. dollars)</i>	<i>FDI stock (inward) per capita (dollars per capita)</i>	<i>FDI stock (inward) – percentage of GDP (%)</i>
<i>Albania</i>	11776	2897	4065	4826	1666	41.0
<i>Belarus</i>	53396	9496	5623	17972	1893	33.7
<i>Bosnia and Herzegovina</i>	15763	3810	4137	6726	1765	42.7
<i>Bulgaria</i>	48745	7150	6817	42106	5889	86.4
<i>Czech Republic</i>	181089	10543	17176	113057	10723	62.4
<i>Croatia</i>	48448	4240	11426	26375	6221	54.4
<i>Estonia</i>	22267	1313	16959	18914	14405	84.9
<i>Latvia</i>	26916	1971	13656	14549	7382	54.1
<i>Lithuania</i>	40701	2878	14142	14440	5017	35.5
<i>TFYR of Macedonia</i>	9782	2078	4707	4572	2200	46.7
<i>Republic of Moldova</i>	6466	4069	1589	3539	870	54.7
<i>Poland</i>	468663	38612	12138	213071	5518	45.5
<i>Romania</i>	171639	19511	8797	69112	3542	40.3
<i>Russian Federation</i>	1296265	143457	9036	258402	1801	19.9
<i>Serbia</i>	42688	8851	4823	32371	3657	75.8
<i>Montenegro</i>	4017	626	6417	4344	6939	108.1
<i>Slovakia</i>	86536	5426	15948	48163	8876	55.7
<i>Slovenia</i>	42342	2068	20475	11847	5729	28.0
<i>Ukraine</i>	96000	44824	2142	61817	1379	64.4
<i>Hungary</i>	118516	9855	12026	92132	9349	77.7
<i>Total</i>	2792015	323675	8626	1058335	3270	37.9

*Source:* UNCTAD data, author calculations

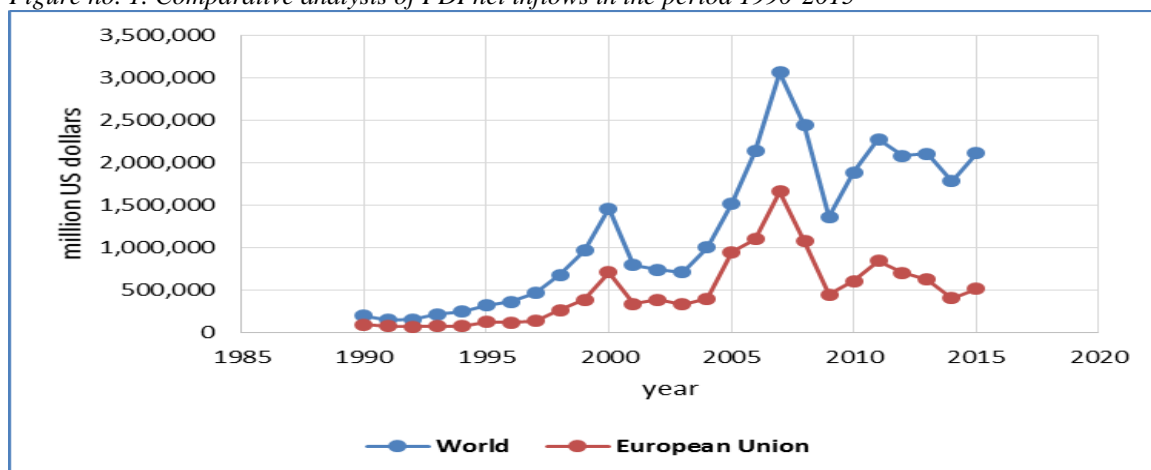
The FDI stock (inward) per capita in Romania is far below than the values of some developed countries as France (11.580 dollars per capita). According to the Tabel 2, there are only two countries in the Central and Eastern Europe with more than 10.000 dollars per capita for the FDI stock (inward), values measured in current prices. Thus, except the Czech Republic and Estonia, which exceed these values, it can be observed various discrepancies in the region, from 870 dollars per capita in Republic of Moldova to 14.405 dollars per capita in Estonia. In Romania, the total value of the FDI stock – inward per capita was 3542 dollars per capita, ranking the 13th place from the total of 20 analyzed countries. On the other hand, the FDI stock (inward) as percentage of GDP indicates the integration level of the economies from the sample. In Romania this share is 40.3%, indicating a significant contribution of the foreign direct investments in the GDP composition.

This situation also indicate a strong dependence of the national economy to the investment flows and a quite integrated economy, in a visible contrast with the overall evolution of the region, resulting in 37.9% FDI stock (inward) of GDP. Taking into account the estimated UNCTAD data, it can be observed a clear trend in the FDI inward. Thus, Romania has followed the general direction of the former socialist countries, receiving more modest FDI stock that countries which have good results in the transition process, like: the Czech Republic, Poland or Hungary. On the

other hand, Romania has a weaker potential than countries like the Russian Federation, but surpassing other countries which are still in an unstable economic context: Albania, Croatia, Republic of Moldova or Ukraine.

The Romania's adhesion to the European Union in 2007 was the result of an oscillating process, due to the poor management of the EU policies without a real support in the legislation field of our post-revolutionary society. Our inclusion in the EU's institutional system translated in a high opportunity for the Romanian structure to outline a long term strategy in accordance with the EU direction. The intensity of these radical changes highlights both the major gap with the other countries from the region and the optimistic prospects for our country in the globalization sphere.

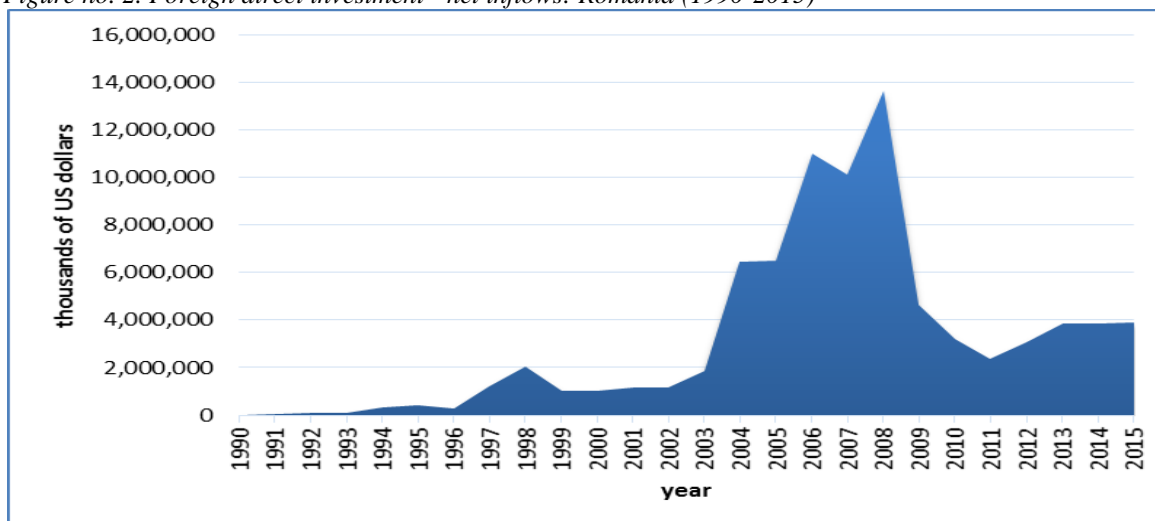
Figure no. 1. Comparative analysis of FDI net inflows in the period 1990-2015



Source: The World Bank data, author calculations

As shown in Figure 1, the EU zone has a similar trend with the World FDI net inflows in the period 1990-2015. Comparing this situation with the Romanian FDI evolution presented in the Figure 2, it can be noticed that in the same period our country has faced more frequent variations. In opposition with the analyzed areas, Romania has experienced a slight increase in the FDI net inflows until 2003, when it started a more spectacular growth, reaching the highest point in 2008. The European Union and the world economy experienced a fast raise in FDI net inflows until 2000, followed by a maximum point reached in 2007. While for these two analyzed areas the decline point was in 2008, Romania has suffered the global crisis regression only in 2009, but the collapse was much deeper. The result was a redefinition of the position of Romania at the global level, by trying to adapt the national business environment to the foreign investors from the developed Western Europe.

Figure no. 2. Foreign direct investment - net inflows: Romania (1990-2015)



Source: The World Bank data, author calculations

Although the necessity to recover the positive trend of the FDI net inflows, the Romanian Government has often treated the investors as enemies, maintaining a high level of taxes on the national market and limiting the Romania's openness to innovation. The outcomes of this analysis strengthen the Romanian adaptability and flexibility in its way to find a unique European identity in the globalization context. Thus, the Romania's integration in the European Union was based on an assumed decision to not ignore the current globalizing trends and to align to the European context to which it belongs.

## 5. Conclusions

Starting from the assumption that there is a discontinuity point in the Romanian economy globalization due to its historic position in the Central and Eastern Europe, it was noticed a distinct model of transition in the context of structural changes in the global system. The main arguments of this paper lead to the idea that globalization is driven by an oligopolistic structure formed between regional powers, that falsify the original phenomenon. The results of this paper highlight the Romania's economic performance in its effort to create the links in the geopolitical and cultural space, but also its strong dependence on the EU regional market. The transfer from the bilateral agreements at the regional level to the global ones was difficult due to the fact that the political forces have selectively introduced the globalization elements in the national economies.

The foreign direct investment study of Romania confirms the main trend in the development process, considering that the openness of the Romania's economy to the global dynamics was mainly in quantity and less in quality. Its trade relations also demonstrate a greater focus on the EU regional market than to the global market. At the moment, the small volume of FDI flows emphasize the huge potential of our country that is currently underexploited. On the other hand, the investment environment in Central and Eastern Europe has significantly improved in the recent years, Romania being the country with the best prospects, in the new transition context.

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