

# The Perpetuation of the Romanian Trade Balance Deficit

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## Abstract

*The balance of trade is an indicator that reflects to a representative extent the economic development of a country over a certain period of time.*

*The trade balance deficits in certain product categories for which there is production potential, the perpetuation of the trade balance deficit over the last 30 years and the unfavourable internal and external situation are all concerns for the Romanian government and its citizens.*

*The situation is all the more difficult if we consider that of the eleven former socialist countries that joined the EU, Romania is the only one that has consistently recorded deficits in the annual trade balance of goods and services in the period following the fall of communism.*

*Within this initiative, the goal has been highlighting the negative state characterizing Romania's external trade through its trade balance deficit and the necessity of undertaking adequate measures in this area.*

**Key words:** trade balance, excedent, deficit, import/export structure, globalization

**J.E.L. classification:** F1, F10

## 1. Introduction

Given that the trade balance is a statistical-mathematical picture that compares exports and imports of goods and/or services, it provides useful information regarding the economic development trends in a country.

The trade deficit may be due on the one hand to the stronger increase in imports compared to the increase in exports, a situation in which we are dealing with a so-called "favorable" deficit, and on the other hand it can be the consequence of a smaller decrease in imports compared to the decrease in exports, in which case the deficit can be classified as "unfavorable".

In general, the trade deficit should not be a reason to rejoice for a country. A share in GDP of this deficit of under 5% should not be viewed with utmost concern. In the analysis of the trade deficit we must consider both the structure of the deficit and the way in which it is financed.

In other words, a country which, over several years, has a trade surplus is generally characterized as having a competitive economy which is capable of producing goods that are successful in the international competition.

It is easy to notice that during the fall of communism, year after year, Romania has registered goods and services trade deficits. The purpose we have pursued by elaborating this paper has been to raise the alarm regarding the chronicity of Romania's trade deficit. It is practically impossible to continue what has been happening for the last 30 years. The problems being faced by the national economy, to which the largely unfavorable international events are added, will make it difficult for Romania to finance the balance of trade in the coming years.

## **2. Theoretical background**

With an economy that did not have an antibody system developed over time and designed to mitigate the difficulties generated by the capitalist development, Romania entered the global competition and faced numerous challenges. The trade balance deficit is one of the biggest problems Romania has faced in recent decades.

A whole range of researchers and analysts have addressed the topic of Romania's trade balance deficit.

The academician Gheorghe Zaman carried out a thorough study on the impact of foreign direct investment on Romania's trade balance through the exports and imports of Romanian firms with foreign capital. Moreover, consideration should also be given to the relevant analysis that the academic Gheorghe Zaman has performed on the evolution of Romania's foreign trade in the last hundred years.

The statements made by Daniel Daianu on the reaction of the financial markets to Romania's external deficits and the assessments made by Mircea Coșea on the need to stimulate domestic production for export are very interesting. We should also note the pragmatic approaches of Mihai Ionescu (president of the national association of exporters and importers in Romania).

## **3. Trade balance excedent for Romania between the two world wars and communism**

From an historical perspective, Romania's foreign trade has had an evolution dependent on the international economic and political context and on the national political system that ensured the country's governance.

In the inter-war period, having a precarious economic development, in its foreign trade relations Romania fulfilled the role of supplier of raw materials (cereals, oil, etc.), while being a market for manufactured products which came mainly from Western Europe. Benefiting from special natural conditions and possessing substantial labor resources, Romania has generated a special interest from the rich countries of Europe.

Practicing a trade policy which can be classified as protectionist, in the inter-war period Romania limited imports, thus trying to ensure the necessary conditions for the development of its own economy. We must not forget the fact that the international prices for cereals (a product of maximum importance for Romania's exports) did not register the expected evolution. What is more, with the onset of the Great Depression these prices dropped substantially reaching less than 50% of the level achieved in the previous year.

Under these conditions, it should be noted that throughout the 1920-1940 period, Romania recorded a trade surplus of 40,3 billion lei, even if in the 1920-1926 period it recorded a deficit of 10,1 billion lei (Zaman, Georgescu, 2018, p 11). Although Romania's exports were dominated by agricultural products, generally raw materials, towards the end of the period we note a slight improvement in its structure in the sense that there was an increase in industry's contribution, especially the extractive and wood processing industries.

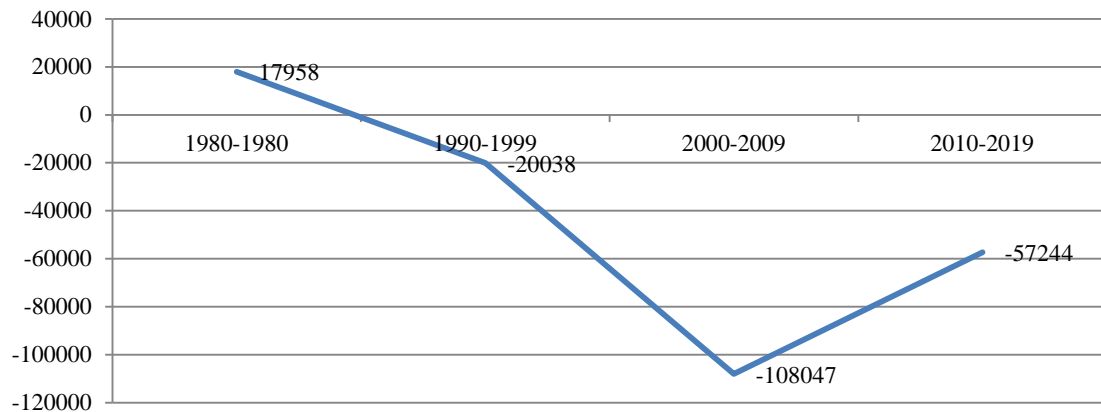
During the communist period, Romania had to respect the international regulations in the field, benefiting under these conditions from the provisions of the Generalized System of Preferences. Being part of the former socialist bloc, most of its foreign trade was carried out with former socialist countries and primarily with countries which were part of the structure of the Council for Mutual Economic Assistance (CAER). Unlike most socialist countries, Romania paid special attention to the trade with the developed capitalist countries, a trade which made up over 1/3 of the total foreign trade of our country. The improvement of the structure of Romania's exports could be noted in the sense of the increasing share of machinery, equipment and means of transportation, as well as consumer products. At the same time, in the last part of the communist period, Romania massively imported oil, gas, iron ore, etc., the domestic industry having a pronounced extensive character.

Despite all the ups and downs, throughout the communist period, Romania recorded a trade surplus of \$ 9.3 billion (Zaman, Georgescu, 2018, p 27).

#### 4. Romania's trade balance from communism to post-communism

We have considered that 10-year analyses of the evolution of Romania's trade balance would be suggestive from the perspective of the trend registered in this field. Each 10-year period of the last 40 years tackled has been characterized by specific actions and events which have obviously left their mark on Romania's exports and imports.

Figure no.1 Evolution of Romania's trade balance(\$ million)



Source: <https://unctad.org/en/Pages/statistics.aspx>

The first period tackled (1980-1989) represents, in fact, the last 10 years of communism in Romania. Except for 1980, in all the other years until the fall of communism, Romania exported more than it imported, so that for the entire decade mentioned, it recorded a surplus of 17.9 billion \$. This situation was determined primarily by the decision taken by the communist power, in the early 80s, to pay Romania's external debt as soon as possible, a goal achieved in April 1989. The need to export as much as possible and to import as little as possible generated a series of deprivations for the population materialized in the absence of food, electricity, fuels, medicines, and medical equipment, etc. The acute shortage of currency substantially reduced access to technologies which Romania could have acquired at that time, which had a strong negative impact on the competitiveness of the national economy.

The 1990-1999 period followed the fall of communism, being marked by the measures needed for the transition to a market economy, which aimed at restructuring the national economy, privatizing state-owned enterprises, price and exchange rate liberalization, etc. The immediate effect materialized in a strong economic contraction, Romania's GDP in 1990 and 1992 representing 71.3%, respectively 36.5% of the level reached in 1989. It should be noted that during this period, Romania's GDP did not approach the levels reached in the last years of communism.

Externally, Romania's transition from a planned economy to a market economy took place in the context of cross-border trade liberalization. Thus, Romania had to face major challenges amplified by the rigors imposed by the globalization of the world economy. The act which fundamentally marked the evolution of Romania's economy was the signing of the European Union Association Agreement, which happened at the beginning of 1993.

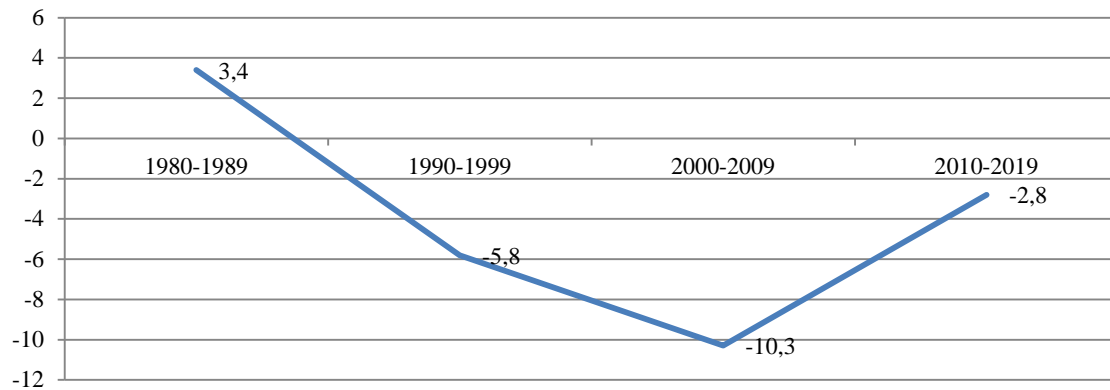
Regarding foreign trade, in 1990, compared to the previous year, Romania's exports decreased sharply, while imports experienced a slight increase. The intention was to meet the consumption needs of the population who had been subjected to a relatively long period of deprivation. The goods and services trade balance registered a diametrically opposite evolution to the one of the previous period, the average annual deficit being of 2 billion dollars.

In the 2000-2009 period we can enumerate certain events which influenced Romania's economic development, namely: the preparation and accession of Romania to NATO and the EU, the privatization of state-owned enterprises of national importance (some with a monopoly character), the global financial crisis, etc. Under these conditions, in the 2000-2008 period, Romania registered a constant and significant increase of its GDP from 37437 million dollars to 214317 million dollars. In fact, in 2004 Romania managed to obtain for the first time after 1990 a GDP higher than the

maximum reached during the communist period. The manifestation of the global crisis in 2009 determined a significant decrease in Romania's GDP.

It should be emphasized that the products processed in the lohn system played an important role in Romania's exports, their share in total exports reaching a historical maximum of 52% in 2005.

Figure no.2 The weight of the trade balance in Romania's GDP (%)



Source: <https://unctad.org/en/Pages/statistics.aspx>

Regarding the goods and services trade balance, the trend from the previous period manifested; however, the deficit was much stronger, reaching an annual average of 10.8 billion \$. Romania reached in 2000-2009 the largest trade deficits in its entire history, the absolute record (28 billion \$) being reached in 2008. Between 2004 and 2008 Romania recorded extremely dangerous shares of the trade deficit in GDP, with levels between 9% and 14%. Basically, Romania risked becoming incapable of making external payments. Contrary to expectations, on the Romanian foreign exchange market the dollar and the euro depreciated against the leu. Massive inflows of foreign direct investments, inflows of remittances, granting loans very easily (mainly in foreign currency) to companies, but especially to the population, etc. were the factors that generated a foreign exchange surplus in Romania resulting in the strengthening of the national currency.

The GDP decline in 2009, the increase of banks' rigidity in granting loans and population's wariness regarding consumption determined a strong decrease in exports, but especially in Romania's imports. The direct result was Romania's trade deficit decline by almost 60% compared to the previous year.

It should be noted that in the first half of the 2010-2019 period, the measures taken by Romanian decision-makers to mitigate the effects of the global financial crisis had a positive effect on Romania's macroeconomic indicators. The trade balance of Romania, whose deficit decreased in 2014 to less than one billion dollars (a share of 0.45% in GDP), the lowest level of the last 30 years, was no exception.

The new political power vested in the middle of this decade has made it a priority to ensure economic growth by stimulating consumption. In order to achieve this goal, among other things, there has been a much stronger increase of wages in the budget system than of GDP. The increase in consumption has inevitably led to an increase in imports, the trade deficits reaching again, in 2018 and 2019, levels that we would have liked to have forgotten.

Considering the data provided by INS, Romania in 2018 registered a goods trade deficit (FOB/CIF) of 15.1 billion euros. We can say that Romania constantly registers trade deficits for certain categories of goods, a trend which manifested in 2018, as follows: chemicals and related products (7.5 billion euros), manufactured products classified by raw material (iron, steel, rubber, etc. - 4.9 billion euros), mineral fuels, lubricants and related materials (3.5 billion euros), food and live animals (1.8 billion euros). The miscellaneous manufactured articles (clothing, footwear, etc.) category - 1.5 billion euros and the cars and transportation equipment category - 590 billion euros represented the Romanian sectors that recorded the largest trade surpluses in 2018. Exports of cars and car components represented almost half (47.4%) of Romania's goods exports. If it has become a tradition for Romania to register goods trade deficits every year, in terms of services balance, the trend has been the opposite. Thus, in 2018 Romania registered a surplus of 8,3 billion euros in

terms of external transactions with goods and services, to this favorable situation fully contributing transportation services, lohn production and IT services. At the opposite pole were tourism and travel, in whose case Romania registered a deficit of 1.3 billion euros in 2018. ([http://www.consiliulconcurrentei.ro/wp-content/uploads/2020/01/comertul\\_exterior\\_al\\_romaniei\\_si\\_barierele\\_de\\_intrare\\_pe\\_principalele\\_piete\\_europene-1.pdf](http://www.consiliulconcurrentei.ro/wp-content/uploads/2020/01/comertul_exterior_al_romaniei_si_barierele_de_intrare_pe_principalele_piete_europene-1.pdf), P 6,7,15,19)

Given that in 2019 the percentage increase in imports was twice as high as the percentage increase in exports, there was an increase in goods trade deficit (FOB / CIF), reaching 17.2 billion euros. The trade deficit registered in 2019 represents for Romania the highest level achieved in the period elapsed from the onset of the global financial crisis.

The largest bilateral goods trade deficit in 2019 was achieved by Romania in relation to China, amounting to 3.7 billion euros. In terms of value, Romania's exports to China were almost 6 times lower than the imports made within the same relationship. Paradoxically, ranked in second and third place in Romania's trade deficits are those registered in relation to Hungary (2.7 billion euros) and Poland (2.7 billion euros), respectively two of the former socialist countries. (<https://www.zf.ro/eveniment/masuri-ia-guvernul-china-provocat-romaniei-2019-cel-mare-deficit-19183385>)

However, we must emphasize that the annual average deficit of Romania's goods and services trade balance was in the 2010-2019 period about half the average recorded in the 2000-2009 period.

Considering Romania's EU member quality, the evolution of our country's trade balance must be seen in an EU context. In 2019, the 27 EU countries accumulated a trade surplus of 200.3 billion euros, a value which represents an increase of 31.9% compared to the level reached in 2018. For the same period, the trade surplus related to the euro zone increased by 15.9% to 225.7 billion euros. As a consequence, it is clear that the countries that are not in the euro zone, as a whole, achieved in 2019 a trade deficit of 25.4 billion dollars. Romania being part of the latter category, unfortunately had a substantial contribution to the achievement of the above-mentioned deficit.

## **5. The contribution of the agri-food sector to Romania's trade balance**

The evolution of Romania's exports and imports in the agricultural field has generated many debates in the last three decades, which led me to give some assessment on the subject.

Known since the beginning of the last century as the granary of Europe, Romania still has an important agricultural potential.

It should be noted that in the period since the fall of communism, the evolution of the trade balance with agricultural products in Romania has registered an evolution similar to the one recorded by the entire trade balance. Thus, in the 1990-2018 period, although Romania managed to export cereals worth 20 billion euros, it registered a deficit balance of agri-food products worth 22 billion \$. It should be noted that within Romanian exports of agri-food products the largest share was held by cereals (35%) over the entire mentioned period (<https://www.hotnews.ro/stiri-opinii-23825502-tudorel-andrei-statistica-5-produse-balanta-comerciala.htm>).

Romania recorded for the analyzed period a surplus only as regards five categories of products, namely: cereals, live animals, oil seeds and oleaginous fruits, tobacco and tobacco substitutes and materials for weaving. It should be noted that, in terms of value, the surplus achieved by the first three categories are significant compared to the surplus achieved by the last two categories.

Among the products which year after year have contributed to maintaining and sometimes even accelerating Romania's trade deficit with agri-food products we can enumerate: pork, coffee, cheese, chocolate, pastries, sugar, etc. If for products such as coffee or chocolate it is understandable that Romania has trade deficits, for the other products listed we would have expected for our country to have better results given the natural conditions it has and the tradition in the field. The direct liquidation or liquidation through privatization of many companies in the field in Romania contributed to this situation. It should not be forgotten that being part of the EU market, Romania has been competing on its own market with agricultural products from other EU member states, states where agricultural subsidies are significantly higher.

We can say in this context that in terms of the agri-food products balance, Romania excels in exports of agricultural raw materials, i.e. exports of agri-food products with low added value, while importing substantial quantities of meat, cheese, pastries and so on, respectively products which could be obtained relatively easily by local companies.

## 6. Conclusions

The evolution of the trade balance in 2019 must also be seen in the context of the worsening of other indicators which characterize the Romanian economy, such as: the share of the current account deficit in GDP, which was 4.6%, the share of the consolidated budget deficit in GDP, which was 4.3% being the highest value in the EU, the annual inflation rate which reached 4%, etc.

According to INS, in the first trimester of 2020, Romania's trade deficit reached 4.4 billion euro, being almost 20% higher than the one recorded in the same period of the last year. The forecasts for 2020 that the European Commission has made for Romania should not be overlooked either, forecasts which are far from optimistic. A decrease in GDP by 6% and an increase in the share of the budget deficit in GDP to 9.2% are estimated given that the increase by 40% in the amount of pensions this year has also been taken into account. We can expect under these conditions a substantial increase of Romania's public debt in the coming years, with direct consequences for the financing of the trade deficit.

All this must be seen in the context of a less favorable international context, a context marked by the US-China trade war which has led to a reevaluation of bilateral agreements to the detriment of multilateral agreements under the auspices of the World Trade Organization. The increase in global uncertainty has had as a direct consequence the reduction of capital flow. The phenomenon of mistrust also targeted the population whose consumption has a tendency to decrease, a phenomenon accentuated by the health crisis. The decline in GDP will be an inevitable phenomenon. Uncertainties are also manifested regarding the economic evolution of Germany, Italy and France, which are Romania's main partners, both the dynamics of Romania's economic exchanges and the level which our country's trade deficit will reach being questioned in the next period.

There are many situations in which the trade deficit does not necessarily reflect a negative evolution of a country's economy.

However, for Romania in the period following the fall of communism, trade deficits have become commonplace. We are practically no longer alarmed by the fact that we are constantly experiencing trade deficits, the debates being rather about the levels they reach. Romania has had the advantage of exiting communism without a foreign debt, making trade deficits much more bearable. For the decision-makers in Romania, however, the question "How many more years will the Romanian economy register trade deficits?" arises, a question which tends to become rhetorical.

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