THE DAWN OF A NEW ECONOMIC CRISIS ROMANIA'S ECONOMY IN THE CONTEXT OF CURRENT INTEGRATION AND GLOBALIZATION EVENTS

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Abstract

This project aims to highlight the aspects which best define events such as globalization and integration with major implications on the Romanian economy especially now when the euro currency adoption has a new deadline - 2024. The implications and consequences of globalization are the topics of many articles, each trying more or less to highlight the visible positive aspects of this phenomenon but there are very few that mention the negative aspects and the challenges it brings. Taking into account the last few years of "sustained" GDP growth, the lesson-learned from the previous economic crisis (at least in the banking sector regarding the granting of loans) but also the internal political instability which led to a higher level of inflation and exchange rate, a new economic crisis may have a very different and complex consequences than the previous one. The current globalization has increased interdependence between economies through free movement of goods and factors of production, and with it also the vulnerability to external shocks. In the new context of geo-economics and geopolitical events (Brexit, the commercial war between China and the USA, slowing global economic growth) the question arises: "How prepared is the Romanian economy to absorb the potential shocks of a new economic crisis?"

Keywords: *Globalization; Integration; Economic crisis, European Union; Global economy; Romania's economy; GDP/capita*

Clasificare JEL: *E50, E52, F60*

Introduction

The debates on globalization and European integration became increasingly intense not only in terms of their implications (causes, effects, costs, and benefits) but also in terms of the survival of our society as we know it. We can claim that we live locally and nationally, we identify and consider ourselves citizens of a state but we require to think increasingly more globally, to cultivate a sense of belonging to an environment where there are no borders.

The community we are part of is not limited to the neighborhood in which we live, but it is a global community. The rapidity with which we have become interdependent from an economic perspective brought into highlight a fundamental aspect of globalization: will it bring unprecedented prosperity for everyone? (Stiglitz, 2008). There is no answer to this question, the interdependence between economies can have both a positive and a negative effect point in time.

The paper was structured in 3 chapters and conclusions as follows: The first chapter is intended to review some theoretical issues starting with definitions of globalization, the evolution, and concretization of the idea of "integration" at the level of the European Union and ending with some new approaches regarding the overlapping of economic cycles; The second chapter aims to analyze the Romanian economy from the perspective of the FDI (foreign direct investments), the foreign trade (import and export) but also the degree of economy openness; Chapter three will make a brief analysis of the global economic situation but also of the internal one from 3 perspectives: BREXIT, US-China trade tensions and the internal political instability, transposed in the increasing inflation, slowing economic growth, increasing exchange rate, etc. Taking into account all the previous chapters, the last chapter will aim to analyze several indicators of the macro-stabilization policy: interest rates, mandatory minimum reserves, public debt, and trade

deficit, all of them being important as macro-stabilization measures in case of a new economic crisis.

Literature review

A brief definition of globalization can be: “is the spread of products, technology, information, and jobs across national borders and cultures. In economic terms, it describes an interdependence of nations around the globe fostered through free trade” [44]. In the book "The Lexus and the olive tree", Thomas L. Friedman splits globalization into two eras: the period before the First World War and the period we are currently living. What is new today is the pace and intensity with which the world has merged into a single global market. From a technological standpoint, the previous globalization era was characterized by lower transport costs due to the invention of railways, steamships and automobiles. Today globalization is described by low prices on telecommunications due to microchips, optical fiber cable and Internet technologies that saves time and money.

The great hope brought by globalization is that it will create equal opportunities for all countries, helping them to raise living standards: poor countries will have access to foreign markets and will be able to commercialize their products, foreign investors will have the opportunity to invest in markets to acquire their new products with lower expenses, the borders will be open to all who want to travel for studies, work, or to open small business etc. (Stiglitz, 2008,) Unfortunately globalization has not lived up to those expectations, one reason being how it was understood and implemented.

Friedman defines globalization as "the unrelenting integration of markets, nation states and technologies to an unprecedented degree, in such a way that gives individuals, businesses and national states the opportunity to go even further, faster, deeper and cheaper than ever but on the other hand, produces a strong reaction from those who are accepted by the new system and from those who are left behind."(Friedman, 2008). Globalization becomes a dynamic process with major implications on all aspects of economic, social, cultural and political life where there is no fair set of rules. Regarding globalization of the world economy, World Commission on the Social Dimension of Globalization has identified five concerns (Stiglitz, 2008)

1. The governing rules of the globalization game are designed specifically in the benefit of industrialized countries. Poor countries have not experienced prosperity, but rather their situation worsened.
2. Globalization cultivates the spirit of accumulation of wealth, material values are put before other values like life itself and its quality.
3. Globalization has undermined democracy. Economic dependence of developing states towards the world economy has diminished sovereignty and their ability to make their own decisions regarding their wellbeing.
4. Several countries have had to lose more than to gain from globalization.
5. An inadequate and harmful economic system is imposed in developing countries.

Whether we refer to globalization, integration and regionalization, although there are few aspects that differentiate these terms, their common point is "collaboration / interdependence". It was intended to remove all barriers to the free movement of capital, people, technologies, etc. so everything to be easier to obtain, cheaper and better at any time of the day. For European countries, the desire for even deeper integration led them to pursue a common monetary policy and currency union (Garcia, 2009).

The concept of "European Integration" first arose in the context of creating the European Union and involves bringing closer that stated in Europe on political, legal and economic aspects in order to create a unified system in which a citizen from Romania for instance can live as well as

one from Germany, and he has access to the same products and the possibility to travel in the same terms, but are these not the premises of globalization? As an actor on the big stage of globalization, each country integrates into the great global economy, a fact that can be checked by analysis of cross-border transactions in goods, services, technologies, direct investment, human capital, and information. The idea of "unity in diversity" started from the need for a stronger economic body (in this case the European Union) to impose itself and to cope with the major global competitors US and China, but also to preserve the cultural character of each Member State: specific cultural diversity and institutional integrity. In this context, Romania, member of the European Union which has emerged from a totalitarianism regime characterized by rigid and uncompetitive economy, is facing new challenges both in the process of "catching-up" as a member and in the globalization process. The main objective of economic convergence is the general welfare of all the countries of the Union through the catching-up process of Europe, which avoids the polarization of the factors of production (labor, capital), distribution of income and social inequalities (Mercea, 2018).

The principle of the single currency was first discussed at The Hague summit in 1969, resulting the Werner Plan - a program which aimed to establish a timetable for economic and monetary integration within 10 years. Although the original plan was approved in 1971, it has not been put into force so the first attempt to achieve economic and monetary integration in a period of 10 years has been a failure (Volintiru, 2012). Delors Committee received from the European Council in 1988 the task of analyzing the possibility of making an Economic and Monetary Union (European Central Bank, 2009), the report submitted by them in 1989 led to the amendment of the Treaty establishing the European Community becoming Maastricht Treaty signed in 1992 and applied on 1 November 1993.

As actual achievements, the Economic and Monetary Union passed three milestones (European Central Bank, 2009):

- "Phase 1 was conducted in 1990-1993 and resulted in the materialization of a single market by removing the internal barriers on free movement of people, goods, capital and services;
- Phase two occurred between 1994-1998 and began with the creation of the European Monetary Institute. Its purposes were to set up technical preparations for the adoption of the single currency, to avoid excessive deficits and to intensify the convergence of economic and monetary policies of the Member States.
- The third phase began in 1999 with the irrevocable fixing of exchange rates, the transfer of competence on monetary policy and the introduction of the euro as the single currency by the European Central Bank. "

The creation of the Economic and Monetary Union was a major step forward for the European Union, in terms of organizing the internal market so that both consumers and producers can choose and compare prices, creating a competitive environment (allocating resources more efficiently). The monetary stability of the economic environment creates favorable conditions for sustainable development, job creation, eliminating imbalances brought by currency fluctuations and increased investment in bonds and shares. The integration of financial markets into the euro zone affects all structures of the economy: the interbank monetary market, the bond market, the stock markets, etc.

The European Central Bank was established in 1998 in Frankfurt am Main. It is a supranational institution with legal personality (European Central Bank, 2009). It manages the single European currency and ensures price stability in the European Union. ECB is also responsible for defining and implementing the EU's economic and monetary policy, controlling inflation, maintaining the stability of the financial system and establishing cooperation between the central banks of the Member States that have adopted the euro.

The main tasks of the European Central Bank are (European Central Bank, 2009)

- "sets the interest rates for the euro area and keeps the money supply under control

- manages the currency reserves of the euro area, buys and sells currency when necessary to maintain the balance of exchange rates
- ensure that financial institutions and markets are properly supervised by the national authorities, and that payment systems are working properly
- authorize the central banks of the euro area countries to issue banknotes
- watches price trends and evaluates the risk that these might pose to the stability of the euro area".

As a conclusion, the European Central Bank independently implements monetary policy for the euro area, having as main objective of price stability.

Compared with individual member states economies, the euro area economy is vaster and more closed. Regarding its share of global GDP, it is the largest economy in the world after the United States of America. As in other highly developed economies, the service sector has the highest share of total production, followed by the industrial sector, while the share of agriculture, fishing and forestry is relatively small.

Also, in terms of population, the euro area is one of the largest economies in the world, with more than 341 million people (European Central Bank,2009). The introduction of the euro currency has implications on both the trade flows between countries in the euro area and the outside area as well as on the international capital flows. The consequences of introducing the euro on countries outside EMU differs depending on the degree of interrelation with the Member States, their access to the international capital market, and their promoted foreign monetary exchange policy.

The creation of the single euro currency has been designed to increase the degree of global cooperation based on proximity and convergence in the currency policies of global economic leaders. This became perhaps one of the major gains of the euro launch: the powerful economic states awareness of the risk to act alone and the benefits they bring coordinating approaches (Radulescu and Pîrvu) [30]. The introduction of the euro is undoubtedly an important step taken by the European Union in order to align with the major world economies but also a symbol of European identity of each Member State and aspirant. The advantages of the single currency primarily from the elimination of foreign exchange risk has made it a model of micro and macroeconomic benefits that each country wants to adopt (I am referring to the states that still have other currencies). However, the last economic crisis that has affected Europe has revealed some disadvantages of euro adoption. Loss of decision freedom, centralization of power, the risk of setting a wrong parity on switching to the euro, the possible asymmetries in the transmission of monetary policy may be some of the issues that adoption of the euro currency in Romania, caught unprepared for these changes, may have serious consequences on the economic environment and all its participants.

The increased economic interdependence between countries in the context of globalization has led to numerous scientific researches on the study of economic cycle synchronization. An economic cycle can be defined (Popescu, 2009) as the period from the beginning of a crisis to the beginning of the next crisis. Schumpeter in his book, "Economic cycles" (1939) has distinguished three types of economic cycles: Short cycles (Kitchin after Joseph Kitchin 1861-1932) of 40 months also known as the "periodic movements of inventories" , cycles on medium-term (Juglar-1860) of about 10 years assimilated by Schumpeter to the renewal periods of the fixed capital components and long cycles (Kondratieff-1926) for over 50 years caused by major revolutionary transformations. The problem of synchronizing business cycles at the level of the Economic and Monetary Union (EMU) is seen in the literature as a problem of the kind "One size does not fit all", considering that the same monetary policy model is not the best for all the states involved (Tatomir and Popovici, 2013). The economists approach this problem from two perspectives: the optimistic outlook claims that we will witness an increased level of synchronization as a result of a widening of economic and monetary integration (Tatomir quoting Artis and Zhang, 1999) and the negative

perspective that supports a desynchronization of the economic cycles as a result of the concentration and specialization of industries (Tatomir quoting Krugman, 1991).

1. How independent / dependent is the Romanian economy

Michael E. Porter says that "a nation's prosperity is created, not inherited" (Porter, 2008). Starting from this premise, we can find the current and permanent state of Romania "poor rich country" which has the resources but not the necessary knowledge to exploit them, which wants to be at the same level as other Member states but still has villages without electricity or sewerage, which wants to adopt the euro as their currency but doesn't have legislation, people and institutions prepared for this, which considers itself globalized but without competitive advantage, and unfortunately the list can continue.

The start of the race was lost, post-communist Romania was among the last countries that have taken advantage of the innovations in transport, labor productivity, communications and information. Unprepared for the waves of globalization, Romania post 1989 is a country with expensive products and inefficient economy, crushed by the competition from the western states. Perhaps the best description is given by the economic analyst Ilie Serbanescu: "an economic model with consumption but without production, with imports but without exports, with hypermarkets but without factories, with cars without roads and banks without real economy."(Carbon, 2012,)

The current globalization has increased interdependence between economies through free movement of goods and factors of production, and with it also the vulnerability to external shocks. In 2009 the financial crisis, which began in 2007 and spread from high-income to low-income economies in 2008, became the most severe global recession in 50 years and affected sustained development around the world. The average annual growth of gross domestic product (GDP) per capita in developing countries, while still faster than in high-income countries, slowed from 5 percent in 2000–09 (the pre-crisis period) to 4.2 percent in 2009–18 (the post-crisis period).

The shock wave of the crisis from 2008 it was felt all over the world because of investments made by US outside its borders. These investments acted as a "virus" for world economies and as expected, Europe was not spared. Taking advantage of vulnerabilities of the financial and banking system (Poladian)[27] from the euro zone (lacking uniform regulations flexible enough to respond promptly to problems caused by the crisis), the "American cold" has quickly installed in Europe, finding countries with large budget deficits and public debt. It was only a matter of time before rumors started to appear about European Union and euro currency downfall. The first affected countries were Ireland, Portugal and Greece, where the terms "sovereign debt crisis" could be heard increasingly more often and more seriously.

Under the Maastricht Treaty, countries that joined the European Union became members of the Economic and Monetary Union with temporary exemption from the adoption of the common currency (Isarescu, 2007). In this regard Romania had the first deadline in 2015 and the second one in 2019, now, according to the "National Plan for adopting the euro currency" released in December 2018 by the Romanian Government, the year 2024 become a new milestone for achieving this goal.

What are the required criteria? States which aim to adopt the euro must reach certain standards of sustainable and durable convergence. These standards are considered achieved by reference to the following nominal convergence criteria: (Isarescu, 2013)

- "Price stability: inflation does not exceed 1.5 percentage points above the average inflation rate of top three EU Member States that had the best results in terms of price stability;
- The sustainability of the fiscal position: the budget deficit does not exceed 3% of GDP and public debt does not exceed 60% of GDP;
- Exchange rate stability: remain within the normal fluctuation margins provided by ERM II for at least two years without devaluing the national currency

- The convergence of long-term interest rates: their average does not exceed 2 percentage points above the average rate of the top three EU Member States that had the best results in terms of price stability "

Real convergence criteria are aimed to reduce the disparities between EU countries on living conditions, the level of development and consumer behavior. As there are no such conditions specified in the Maastricht Treaty, the indicators (Georgescu, 2009) like GDP / capita, cost of labor, foreign trade and the openness of the economy are economic realities that can place Romania in the hierarchy of European countries. There are 5 economic indicators which measures the globalization: international trade, foreign direct investments, employment, research & development and value added. Let's take a closer look at the foreign trade, the openness of the economy (in the context of euro adoption) but also at the effect produced by the foreign direct investments.

Since 2004 (when China exceeded Japan), the EU-28, China and the United States have been the top three most important players in international trade [11].

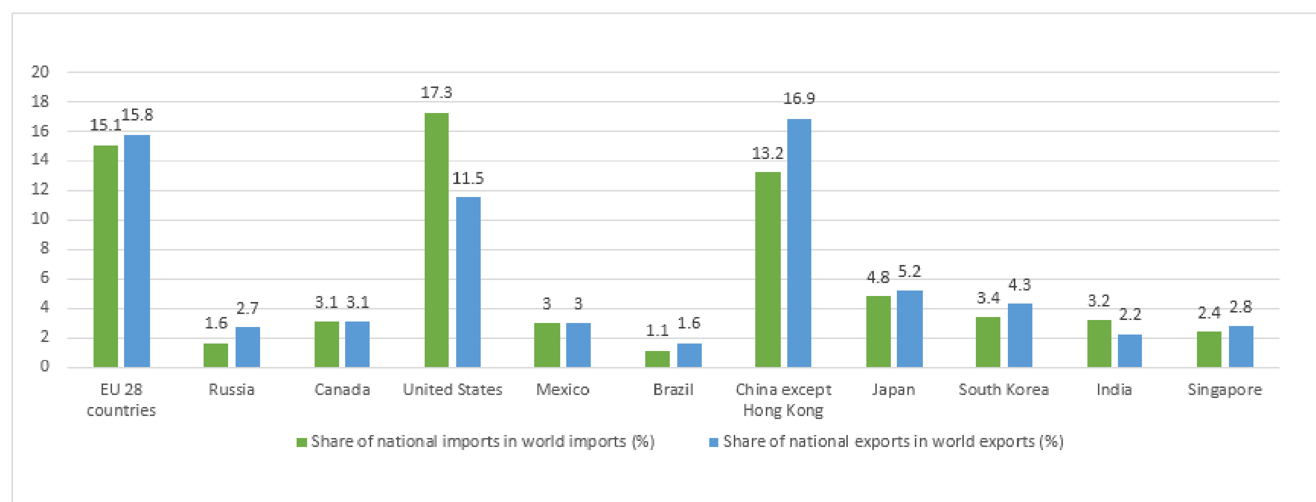

Figure no. 1: Main players of international trade in goods, 2017
Source: Author calculations based on Eurostat data

One important fact to remember for the next two chapters is that from the top three most important players in international trade, only China and EU-28 have a positive trade balance (exports higher than imports) with a value of 23.809 Billion Euro for EU and 371.406 Billion Euro for China, the USA deficit reaching 804.361 Billion Euro in 2017. In 2018, for the first time in five years, the EU-28 trade balance has become negative with 25 Billion Euro. According to Eurostat [11], among the EU Member States, Germany had by far the highest share of extra EU-28 trade in 2018, contributing 28.0 % of the EU-28's exports of goods to non-member countries and accounting for almost one fifth (18.6 %) of the EU-28's imports. The next three largest exporters are: United Kingdom (11.0 %), Italy (10.5 %) and France (10.4 %). As well as extra EU-28 trade, Germany was also the EU Member State with the highest level of intra EU-28 trade in 2018, contributing 22.2 % of the EU-28's exports of goods to other Member States and also just over one fifth (20.9 %) of the EU-28's imports of goods from other Member States. The importance of the EU's internal market is underlined by the fact that intra-EU trade in goods (exports and imports combined) was higher than extra-EU trade (exports and imports combined) for each EU Member State.

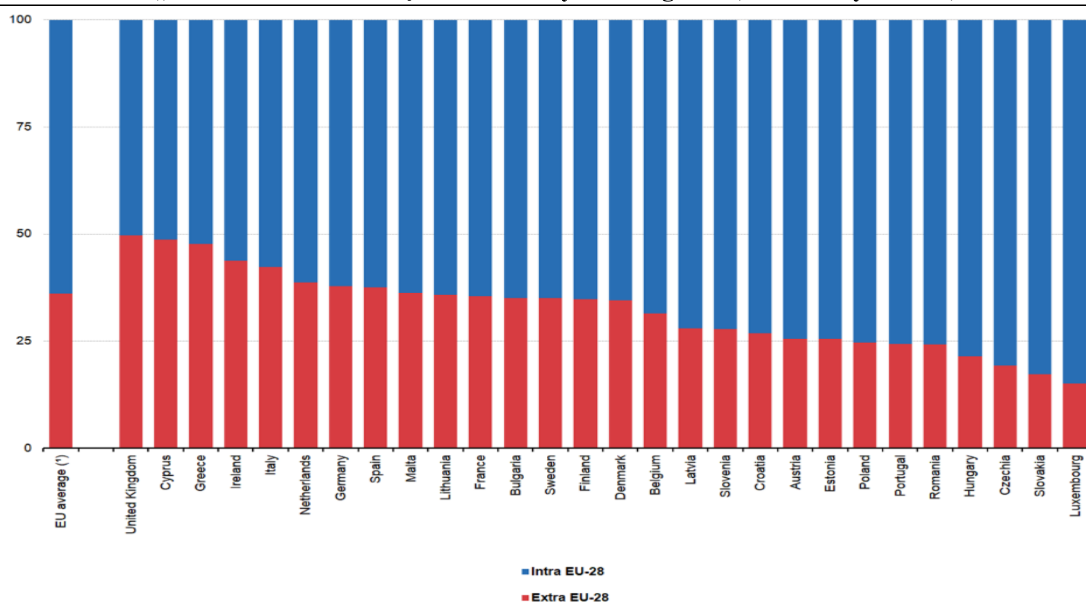

Figure no.2: Intra and extra EU-28 trade in goods, 2018 (imports plus exports, % share of total trade)
Source: According with Eurostat information, online data available at www.ec.europa.eu

Romania is on the last 5 countries with a share lower than 25% of Extra EU-28 trade, so ~ 75% of total trade in goods of Romania are made with the countries in the EU, this fact is transposed in a concentration in terms of imports and exports and a higher vulnerability of Romania economy towards the EU-28 evolution in terms of economic stability.

Main partners for export of goods for the EU-28 in 2018 remain the United States with 20.8% and China with 10.7% of total extra EU-28 exports, also the most important partner in terms of imports for EU-28 is China with 19.9% and the United States with 13.5%. The most important products EU-28 is exporting are: machinery & vehicles with a share of ~41% in total extra EU-28 exports, other manufactured goods with 22.6% and chemicals with 18.2% on the other hand EU-28 are importing machinery & vehicles with a share of 31.3% in total extra EU-28 imports, other manufactured goods in proportion of 25% and energy with a share of 20.9%.

In 2018, Romania's most important export partners were: Germany with a share of 30% in total exports EU members, Italy with 15%, France 9%, Hungary and the UK with 6% each and the top exported goods (by section according to the combined nomenclature) were "Machinery/mechanical appliances; electrical equipment; parts; sound recorders/reproducers tv image sound recorders/reproducers parts/ accessories" with a share of 30% in total exported goods with EU members, "Base metals and articles of base metal" with 28% , "Vehicles aircraft vessels and associated transport equipment" with 20% and "Plastics and articles thereof; rubber and articles thereof" with 19%. In terms of imports the main partners in 2018 where: Germany with 27% in total imports with EU members, Italy with 13%, Hungary with 9%, Poland and France with 7% each and the most commercialized products were:
"Machinery/mechanical appliances" with 29% of total imported goods from EU countries, "Vehicles" 12%, "Products of the chemical or allied industries" with 11% and "Base metal" also with 11%. The conclusions are: both in terms of imports and exports, Romania is dependent on the partnership with Germany; 66% of total exports and 63% of total imports with EU members is concentrated only on five trade relationships.

From 2008 until now the export/import ratio is constantly below 1x with the higher levels reached in 2014 and 2015 with 0.99x and the lowest in 2009 with 0.80x. In 2018 the export/import ratio was the lowest in the last six years with a value of 0.93x (while the EU-28 average is 1.08x and EU-19 is 1.10x) this being the lower value of all EU-28 countries, this means two important things: Romania imports more than exports (in absolute value the difference between exports and

imports is of -15 Billion Euro), consumes more than can produce and the consequence is a very dependent economy on imported goods. Another important aspect which depends on the level of exports and imports is the degree of openness of the national economy which means how much a country participates in the international trade circuit.

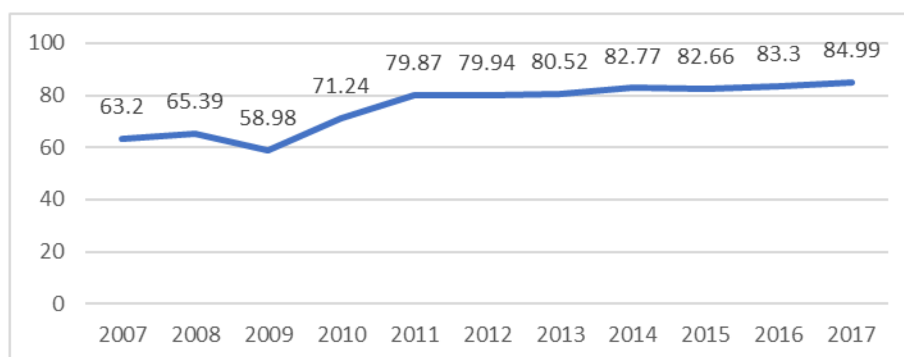

Figure no.3: Romania's trade openness (exports plus imports as % of GDP)
Source: Author representation based on The Global Economy data, accessed 05.09.2019, available at www.theglobaleconomy.com

Given the increased interdependence between de EU zone, also the trade openness has growth significantly but the freighting fact is that the biggest contribution in this openness are the imports, which is keeping a negative trade balance.

So, what have we established until now? The international trade is linked by three major players: USA-China-EU28, the most important partner for Romania in terms of imports and exports is EU-28 (mostly Germany) so in this context any international trade tensions will eventually affect the Romanian economy.

Another economic globalization indicator is FDI-Foreign Direct Investment. According to NBR the FDI means a "long-term investment relationship between a resident and a non-resident entity; it usually involves a significant degree of influence exerted by the investor on the management of the direct investment enterprise in which he has invested" (National Bank of Romania, 2018). There are four types of foreign direct investment:

1. Greenfield-establishment of enterprises by or together with foreign investors;
2. Mergers and acquisitions: partial or full takeover of enterprises by foreign investors from residents;
3. Corporate development: increase in equity holdings of foreign investors in direct investment enterprises;
4. Corporate restructuring: equity investment by foreign investors in direct investment enterprises which incurred losses in order to turn them to profitability.

According with the last FDI Report made by NBR in 2017, the final FDI stock amounted 75,851 million Euro concentrated into a share of 32% of total FDI on manufacturing (of which transport equipment had the highest share with 7.4% in total FDI), 15.3% on construction and real estate transactions, 13% trade and with 12.4% financial intermediation and insurance also note that 60% of total FDI in 2017 went to Bucharest-Ilfov region. The main investors in 2017 was Netherlands with 25.9% of total FDI, Germany with 12.8% and Austria with 12.6%, and workforce reaching 1.3 Million persons.

Beyond statistical data, let's identify the main advantages and disadvantages: the direct effects of FDI arises from the provision of a combination of financial capital, transfer of production technology, R&D capabilities, management and marketing methods, skills, institutions and entrepreneurship which might not be available, or be available as cheaply in the host country, it may also make available new institutions, encourage entrepreneurship, increase output, restructure

economic activity and raise of domestic productivity (Dunning and Lundan, 2008) on the other hand, the presence of foreign companies can lead to the deterioration of the market position of the local companies, to unfair competition (given the resources that the foreign companies have), but also to the bankruptcy of the local producers (Horobet and Popovici, 2017).

Table no.1- Advantages and disadvantages of FDI

Advantages	Disadvantages
Positive impact on the state budget, balance of payments and commercial structure	Deterioration of the market position of local firms
Human resources development	Unfair competition
Financial capital	Bankruptcy of local producers
Technology transfer and innovation	

Source: Authors representation based on information provided by Horobet A., Popovici O., 2017, *Investițiile străine directe: evoluția și importanța lor în România* pp.11

In order for all these advantages to be felt in the economy, the host country must provide a favorable environment for investors such as: infrastructure, developed economy, well prepared institutions, legislation, stable economic and social environment, work force and finally a comfortable degree of openness of the economy, unfortunately some of the mentioned criteria are the largest weakness of our economy (lack of infrastructure and internal instability).

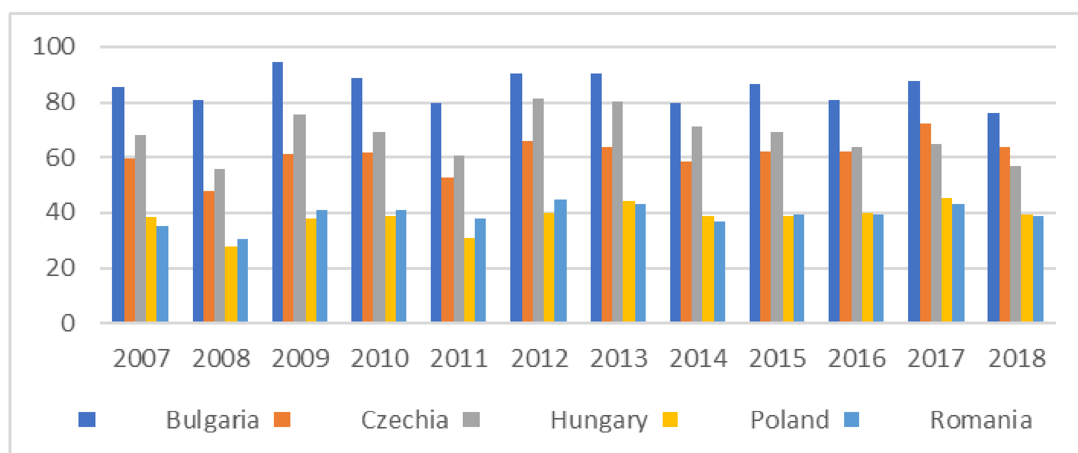

Figure no.4: Inward FDI stock (% of GDP)
Source: Author calculation based on UNCTAD data

Foreign Direct Investment (FDI) stocks measure the total level of direct investment at a given point in time, usually the end of a quarter or a year. The inward FDI stock is the value of foreign investors' equity and net loans to resident enterprises in the reporting economy (OECD, Definition). Romania has constantly the lowest level of FDI stock as share in GDP, of all five economies in the region, between 44% (2012-the highest level recorded in the last eleven years) and 30% (2008-the lowest value), poor infrastructure and bureaucracy are just a few of the reasons why investors avoid Romania for new business.

Romania's economy gravitates around Europe's strongest economies both in terms of imports and exports, the high level of concentration and dependence of foreign trade on several countries of the European Union (Germany, France) leads to a growing vulnerability of the economy to external shocks. In 2008, as the negative effects of globalization, Romania like all other EU countries were hit by the US economic crisis. We can identify a dual role of globalization in Romania: the positive role of foreign investments which can help the Romanian economy (these

investments should have attractive legal, institutional and fiscal framework), and a negative role described by the economic crisis, alienation of resources, poverty, migration, and demographic decline.

2. Current threats to economic stability

There are three major concerns regarding the future of EU, international trade and internal stability which can directly and indirectly affect the Romanian economy: Brexit, the US-China trade war and the internal "political war".

In 23 June 2016, ~52% of UK voters supported leaving the EU, in this context the Government invoked Article 50 of the Treaty on European Union, starting a two-year process which was due to conclude with the UK's exit on 29 March 2019 (which means exit from The Single Market and the Customs Union until the end of 2020). That deadline has since been extended to 31 October 2019. The reason for the extension of the period needed to leave the European Union is due to the "agreement" on how this "break" will be made. Some of the issues that the UK and the EU have to agree on are the status of EU citizens living, working or studying in the UK, fulfilling the financial obligations assumed by the United Kingdom as a Member State, cross-border trade and maintaining peace in Ireland (European Commission, 2019). Almost 3 Million EU citizens are currently living in the UK, the third largest community being Romanians. Their future is uncertain in the event of a Brexit without an agreement, especially regarding their free movement between the UK and other EU member states.

In terms of commercial relations between Romania and the UK we mention that, according to NIS, in 2018 5.5% of total Romanian exports to EU-members was to UK and the imports from the UK represented 2.8% of total EU-members (Romania has a positive trade balance on this partnership, the exports are higher than imports). One important fact must be highlighted, if no agreement is concluded, UK will simply have to rely on World Trade Organization (WTO) rules to manage the trade. WTO rules set limits on the maximum tariffs that countries can apply to trade in goods (Sanda, 2018), therefore, the customs duties will be applied at the level of the most favored nation clause. The average customs duty applicable to exports to the UK would be 5.7%, and the average customs duty applicable to UK exports to the EU market would be 4.3%, with some agricultural products exceeding 20% (Ministry for the business environment, online publication) so all the imported/exported goods will have an extra charge but also will be subject to customs procedures that will make the movement of goods more difficult. For the Romanian companies that are dependent on the UK imports or exports, Brexit will put a lot of pressure, being forced either to move to other EU markets or to reduce the profit margins to cover the costs with the customs taxes. If the United Kingdom will leave the European Union on 31 October without an agreement, the trade will contract, affecting in particular that category of products that have a closely linked production chain between British and European companies (auto industry, food industry, and pharmaceutical).

Some of the topics frequently discussed by President Trump during his presidential campaign were related to the major trade deficit as a consequence of trade with China, the relatively ineffective record of enforcing intellectual property rights, discriminatory innovation policies, and mixed record on implementing WTO obligations (Chunding, 2018). In 2018, the trade deficit in the US, in relation with China, was 419 Billion dollars, while the US imported goods worth 540 billion dollars (the main goods imported were computers, cell phones, apparel, and footwear) exports to China worth only 120 billion dollars (commercial aircraft, soybeans and autos) in this context China owns 28% of US public debt to foreign countries and is America's largest banker by buying US debt to support the value of the dollar[45]-[46]. The trade war between the US and China began on March 2018 when Donald Trump announced the new global steel and aluminum import tariffs (25% for steel and 10% for aluminum for all global partners but the most

affected was China) in order to protect the local producers. In response to these measures China canceled all import contracts for soybeans and the effects were quickly felt on the stock market and finally into the business environment. Farmers suffer from retaliatory tariffs imposed by China and Europe on their exports. In the farm belt of Illinois, Indiana, and Wisconsin, bankruptcies have risen to their highest level in a decade. In 2017, those states produced half of all US food. Nationally, farmers income fell by $11.8 billion between January and March 2019. That's the highest drop since 2016 [45]-[46]. The game "who is the strongest" between the US and China has continued throughout 2018 until now (Sept.2019) by consecutive increases in tariffs on both sides (the last threatening of Trump being an increase with 10% of tariffs on Chinese electronics and clothing) destabilizing industries like machinery, electronics, aerospace, solar panels, agriculture.

On short term, starting a trade war could be a possibility to increase the demand on the market from domestic producers (the additional tariffs imposed on certain categories of goods eventually end up transposed into the price paid by the buyer, which becomes larger than the same product purchased from a local producer) which ultimately creates new jobs. On the long term, the effect is reversed: it depresses economic growth for all countries involved and ultimately leads to the contraction of the labor market. As an effect of the international trade tensions the global economy has slowed in 2019 to its lowest pace in three years also the IMF has lowered its forecast for global growth to 3.3% in 2019, down from the 3.7% it had predicted in October (and down from the 3.6% it recorded in 2018). This would be the weakest annual growth rate since 2009, when global output was shrinking at an annualized rate of 3%. According with OECD the Global trade growth has slowed sharply and survey measures of new orders continue to decline in many countries. The trade restrictions introduced last year are a drag on growth, investment and living standards, particularly for low-income households (OECD, 2019).

On the other hand, Romania has its internal problems such as political instability. During 12 months (2018), Romania had 3 prime ministers and governments, each of them trying to make their mark on the legislative system. This inconsistency (in 2018 236 amendments to the tax code were made) and aggressive laws meant to favor a certain category of people led to vast protests from the population in multiple cities. Another important fact which contributed to this tension in the business environment was a series of legislative measures adopted by the government, as a desperate measure to collect more taxes to the state budget, such as "the greed tax" who threw at the end of 2018 the entire banking system in a general panic. The impact of political tensions translates into a loss of investor interest for the respective business environment and the market most sensitive to this is the foreign exchange market. As you may see below, in only one year the national currency depreciated against the euro by about 0.09 Ron / euro. From the exchange rate fluctuations starts a domino effect throughout the economy, increased prices of imported products=> instability for contracts concluded by entrepreneurs, as they have to take a safety margin for the prices they set=> expensive products in the market=> reduced consumption=> the state will collect less taxes=> lower investment made by the state.

Table no.2: The evolution of the exchange rate (Eur/Ron; GBP/Ron)

Year	EUR	GBP
2019 T2	4.7477	5.4291
2018	4.65	5.26
2017	4.57	5.21
2016	4.49	5.50
2015	4.45	6.12
2014	4.44	5.51
2013	4.42	5.20
2012	4.46	5.50
2011	4.24	4.88
2010	4.21	4.91

Source: Author's representation based on NBR data

Christine Lagarde, managing director of the International Monetary Fund said: "When there are too many clouds, it takes one lightning to start the storm." After a decade from the last economic crisis, the world economy is found at the end of the post-crisis cycle facing new threats such as (Bloomberg, online publication, accessed 11. Sept.2019):

- The risk of recession in the next 12 months has increased in most of the world's biggest economies reaching 40% at the end of Q1/2019 in Japan, 25% in the US and 25% in the UK;
- German industrial production has registered in June 2019 its biggest annual decline in almost a decade, highlighting the severity of a manufacturing slump in Europe's largest economy;
- Pacific region, central banks in New Zealand, India and Thailand made surprise interest-rate cuts trying to safeguard their economies from global headwinds.
- U.S. and U.K. bond markets sent their biggest recession warnings since the global financial crisis.
- Low financing costs vs. highly overvalued assets
- Uncertainty about Brexit
- Populism and geopolitical tensions

The world economy is heading for its weakest expansion since the financial crisis and if we take into account the interdependency created by globalization -everybody suffers together when times are tough-a new question rise: How prepared is Romania to absorb the shock of a new possible economic crisis?

3. How prepared are we for another economic crisis?

There are several indicators of the macro-stabilization policy: interest rates, mandatory minimum reserves, public debt, and trade deficit all of them being important as measures in case of a new economic crisis.

The interest rate, represents one of the most important monetary policy instruments that can influence the amount of currency existing in the market at a certain point in time, so when the interest rate is low it becomes a catalyst for the economy: it increases the money supply the result being a lower level of costs with loans (for individuals or companies). On the other hand, if the interest rate is increasing, the effect will be a slowdown in economic growth due to a decrease in money supply (because the cost of loans is higher) and ultimately leading to a contraction of all consumption.

Table no.3: Harmonized long-term interest rates for convergence assessment purpose

Countries	Aug. 18	Sep. 18	Oct. 18	Nov. 18	Dec. 18	Jan. 19	Feb. 19	Mar. 19	Apr. 19	May 19	June 19	July 19	Aug. 19
	Non-euro area												
Bulgaria	0.81	0.78	0.74	0.75	0.72	0.72	0.68	0.67	0.50	0.48	0.32	0.43	0.35
Czech Republic	2.14	2.14	2.14	2.07	2.01	1.85	1.76	1.82	1.82	1.86	1.58	1.36	0.99
Denmark	0.33	0.37	0.42	0.34	0.23	0.15	0.05	0.16	0.08	0.04	-0.22	-0.31	-0.58
Croatia	2.18	2.14	2.09	2.07	2.04	2.23	2.31	2.07	1.82	1.69	1.36	1.06	0.83
Hungary	3.41	3.57	3.74	3.47	3.15	2.85	2.68	3.03	3.14	3.19	2.74	2.33	1.83
Poland	3.14	3.24	3.22	3.19	2.94	2.78	2.69	2.75	2.76	2.72	2.35	2.13	1.93
Romania	4.80	4.75	4.90	4.78	4.60	4.69	4.79	4.80	4.91	4.93	4.59	4.51	4.12
Sweden	0.52	0.60	0.67	0.60	0.47	0.43	0.36	0.29	0.23	0.07	-0.09	-0.12	-0.36
United Kingdom	1.31	1.52	1.56	1.44	1.27	1.28	1.20	1.14	1.15	1.06	0.84	0.73	0.49

Source: European Central Bank, online publication, accessed 12. Sept.2019, available at www.ecb.eu

According to the latest data available (August 2019) Romania has the highest interest rate on long term (government bond yields of around 10 years maturity) both from Euro area and non-euro area. In the last three years the interest rate on long term (annual average) has increased from 3.3% in 2016 to 4% in 2017 and 4.1% in 2018. In the last 12 months (August 2018-August 2019) the average of the interest rate on long term was 4.7% while in the Non-Euro area no other country had higher interest rates than 3.7% (in Hungary and only in one month). The periods of interest rate increase coincide with the political and economic instabilities in Romania (between January 2017 - August 2019 Romania had 4 prime ministers and 3 governments changed). The uncertainty about the economic context and the volatility of the macroeconomic indicators contributes to the increase of the risk perceived by the investors regarding the assets held on the local market or expressed in the local currency. In general, the interest rate and the exchange rate are the first affected, by the fact that investors are incorporating an "extra charge" in the cost of investment projects to compensate for the additional risk (NBR, online publication, accessed 14. Sept.2019)

The mandatory minimum reserves represent the available cash of the credit institutions, in RON and in foreign currency, kept in accounts opened at the National Bank of Romania. The main functions (NBR, online information, accessed 14. Sept.2019) of leu-denominated reserve requirements are the monetary control (in close correlation with liquidity management by the NBR), the stabilization of interbank money market rates and to contain the expansion of foreign exchange loans. During the period of economic expansion, the most restrictive measure of monetary policy is to increase the minimum reserve rate (the higher the level of the required minimum reserves, the less funds the banks will have for the lending activity) and during the recession (as a measure to stimulate demand) to decrease those reserves. From 2015 (for Romanian leu) and 2017 (for other currency) the mandatory minimum reserve rate is 8% (vs. 3.5% in Poland) with 2 pp lower than the previous value. Increasing the rate of minimum reserves will be the first sign of accumulation of imbalances in the economy - over-indebtedness of debtors, excessive exposure of banks.

Regarding the public (government) debt evolution, we must mention the most important factor that influences it: budget deficit. So, the budget deficit determines the increase of the public debt, which will have to be paid in the future. If the interest rate on the public debt exceeds the rate of economic growth, the public debt will increase faster than the gross domestic product. Finally, this dynamic leads to unsustainable deficits that require corrective action (Socol, 2013). In Romania, the public deficit has been increasing, driven mostly by spending on wages and tax cuts. Tax rates have been repeatedly cut while public wages have significantly increased since 2015 and are set to increase further (European Commission, 2019). In the first Quarter of 2019 Romania had the highest budget deficit to GDP ratio in the European Union (EU), namely 4.5% of GDP, while the average in the EU was 0.6%. The budget deficit to GDP increased by 1.7pp in the first quarter compared to the last quarter of 2018, which is also the highest increase in EU. Because of the widening of the public deficit, the general government debt is projected to increase from 35.1 % of GDP in 2018 to 38.2 % of GDP in 2020. Assuming no policy change, public debt is projected to increase to above 60 % of GDP in 2029(European Commission, 2019). Despite the fact that currently, Romania has one of the lowest rates in GDP of the general government debt (according with Eurostat, at the end of the first quarter of 2019, the government debt to GDP ratio in the euro area (EA19) stood at 85.9% and in the EU28, the ratio is 80.7%) NBR estimates that over a threshold of 40-45% in GDP, the probability of recession greatly increase.

According to the last Financial Stability Report, released by NBR in June 2019, there are three high systemic risk which threatens the financial stability (see below) the first two being a result of current account balance and the budget deficit deterioration.

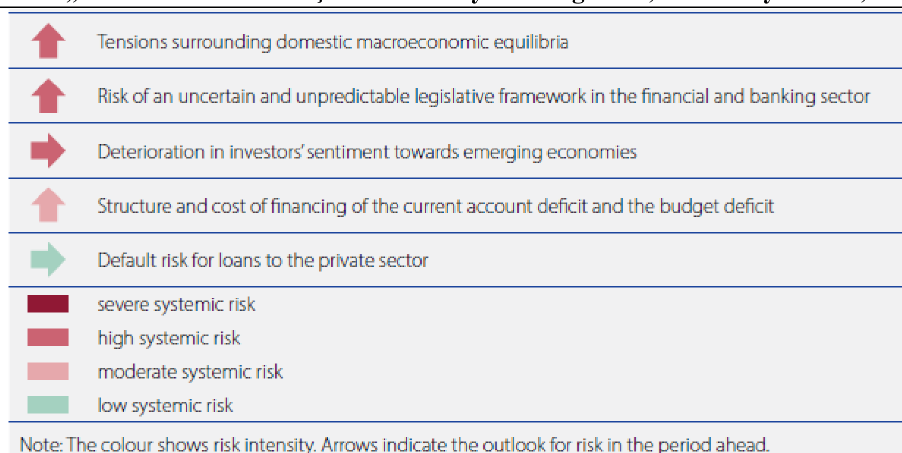

Figure no.5- Map of risks to financial stability in Romania
Source: NBR, 2019, Financial Stability Report, pp.6, Online publication, accessed 16. Sept.2019

As a conclusion, Romania has the highest inflation rate in the EU, the highest budget deficit, vulnerable government debt, the highest interest rate on long term.
Which are the signs of a new economic crisis? In the first place we are at the end of the economic growth cycle, the countries of the world are much more indebted than they were 10 years ago, the model of economic growth based on consumption is not a strategy that lasts in the long term because of the lack of added value as in the case of investments, a similarity with the period before the 2008 crisis is the determination of central banks to increase borrowing costs and finally the investors reaction to the uncertainty created on the financial markets is itself a factor that ultimately leads to a turning point.

So, if we take into account all the aspects mentioned above, the issues that Romania would face in the context of a new economic crisis, are:

- a possible increase in the vulnerability of the trade balance taking into account Romania's dependence on imports but also on exports to the EU
- the public debt now is much higher than 10 years ago, the costs of possible external loans will be higher=> the government debt will increase which will put pressure on the budget deficit=> lowering of budgetary wages, freezing jobs vacancies, raising taxes, reducing investments, etc. being just some of the first measures to counteract these negative effects
- foreign investments in Romania will be diminished
- the increased budget deficit diminishes the authority's ability to act counter-cyclically when economic activity slows down.
- Romanian companies are not ready for a new economic crisis, their economic situation is much weaker than in 2008 [38]: Equity ratio 25% now vs 35% in 2010, negative WCR (Working capital requirement) which may be translated in higher debts to suppliers and short-term indebtedness all of these increasing the risk of insolvency.

We are not prepared for an economic crisis now more than we were 10 years ago, lack of long-term strategies and investments post Romania in the face of the same challenges but with a bigger stake: delaying even more the moment of adopting the euro currency and aligning Romania with the economies of the European Union.

Conclusions

The last economic and financial crisis highlighted the problems faced by the modern society, whether we refer to the United States, whether we refer to the EU Members, these proved to be vulnerable. The economic and financial market is so interconnected that in a few days or weeks it can bring the entire world to its knees. Even though globalization brings definite economic

progress and development opportunities, this progress is far from being uniform and far from creating equal chances. Under the phrase "common good" hides a "fast world" with wide open spaces where there can be only winners and losers.

At the base of the globalization process lies a series of interconnected factors at the national, regional and international levels as political and economic factors (free movement of goods, liberalization of capital markets and services) but also technical factors (reduction of transport costs, telecommunications, increased spending for research and development). "Considering the forms that currently exist, financial globalization has the following characteristics: increased private capital flows into developing countries; increasing competition in international financial markets; the complexity, high scale and intensity of transactions and financial flows on contemporary global networks; the explosive growth of global financial activities; geographic extent of the global financial markets and international finance system; expansion of financial conglomerates; relatively high volatility in exchange rates, interest rates and the prices of other financial assets "(Trenca and Paun, 2013)

From the economic point of view, globalization means global integration of production, trade, financial and banking system.

After ten years from the previous economic crisis, Romania is facing new vulnerabilities that compromise the long-term growth and economic stability: An aging population, emigration of skilled labor, significant tax evasion, insufficient health care, and an aggressive loosening of the fiscal package all of these are complemented by a new "seismic wave" brought by globalization: a trade war and an European Union without UK.

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