

## CONSIDERATIONS ON THE EVOLUTION OF ROMANIAN FOREIGN TRADE UNDER THE IMPACT OF ECONOMIC CRISIS

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*Abstract: The foreign trade represent the engine of renewal of productive structures of developed countries and the essential vector for the development of newly industrialized nations as countries that can not be considered as belonging to the developing countries, mainly due to exports development.*

*Nobody doubts the need for foreign trade and its possible beneficial effects for the economy of a country, which is supported by John Stuart Mill classical economist, who said that "openness to foreign trade ... is sometimes the effect of an industrial revolution as a country whose resources are poor"*

*This paper analyses, on the one side, the importance of foreign trade and his evolution in 2001– 2010 period, and, on the other side, the consequences of the economic crisis on it.*

*The period under review includes the last years of economic growth in Romania and the first years of actual economic crisis., because the global economic crisis is reflected strongly in the evolution of Romania's foreign trade, which in February 2009, has seen a veritable collapse over the same period of the previous year.*

*Key words: domestic economy, foreign trade, market economy, economic growth, economic crisis.*

### 1. Introduction

The foreign trade is one of the key factors in developing the national economy, whose influence on economic growth is exercised in many forms.

The foreign trade contributes, first, to the achievement of gross domestic product even as the demand structure differs from the structure of supply, and secondly, international trade determines the increase or decrease of national income produced outside depending on the ratio of the national and international value of the goods subject to international trade<sup>1</sup>.

The external trade<sup>2</sup> is a distinct branch of a national economy which includes business operations or economic cooperation and technical-scientific relations with foreign countries related on sale-purchase of goods, works, services, licenses, or consignment store, representation or commission, financial, insurance, tourism and, generally, any acts or deeds of commerce.

Through participation in various forms on the world circuit of values, foreign trade has many *economic and non-effects* of each participant to achieve it, such as<sup>3</sup>:

- economic effects of such value differences take the form of receipts and payments transactions international export / import generated by national and international differences in productivity of production factors;
- economic effects of such material take the form of use values that satisfy certain quantitative and qualitative real needs of the national economy;
- economic effects spread or indirect type, although it is localized in specific sizes, is indicative assessment of the contribution of foreign trade to the introduction of technical progress, improving the proportions of the economy, better exploitation of domestic inputs, facilitating structural change of material production so internal;
- economic effects of social and political type, although you can not quantify, exerts positive influence on the incidence of multiple national economy.

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<sup>1</sup> Paliu-Popa, L. *Considerations on Transactions of Foreign Trade*, Annals of the „Constantin Brâncuși” University of Târgu Jiu, Sciences Section, 2009, p. 286, ISSN 1844-7007;

<sup>2</sup> Vișan, D., *External trade bookkeeping*, Sedcom Libris Publishing House, Iași, 2005, pag. 11

<sup>3</sup> Pop, A., *Management accounting in trade*, Editura Intelcredo, Deva, 1997, pag. 155

The external trade activity is characterized by some specific features due to the environment in which the company is forced to act, namely the foreign markets. The foreign trade activity has the following economic and financial features:

- the economic character of the activity;
- the domestic factors interference with the international factors;
- the diversity and specificity of the external trade activity;
- the system of the settlement of the external trade activity;
- finance and credit system of foreign trade activity.

Romania, a country connected to international economic flows, was not exempt from the effects of the gloomy economic environment, a fact which results from analysis of data recorded in the trade balance. Through the foreign trade activity is achieved the exchange of goods and services on the international market and ensure the participation of states in international economic cooperation.

One of the biggest crises faced by humanity in the postwar period has demonstrated once again, if needed, the high degree of interconnection between financial markets and goods market, international trade recorded an unprecedented reduction. Prior to 2007, increased global economic integration phenomenon was reflected in a rapid increase in international trade, many countries achieving more than two thirds of GDP on account of foreign trade. But its level decreased significantly following the event and the international financial crisis effects (under the WTO Annual Report 2009, world trade in 2009 reached a level of 30,957,000 million dollars, down 22.13% over the previous year, the fundamental cause is the reduction in primary demand). Thus, a direct result of the deceleration of global demand amid the wealth of firms and households reduction was the reduction in consumption of goods (consumer goods and investment products).

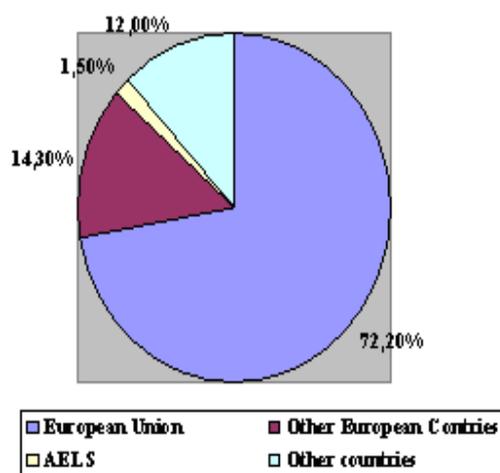
Close financial and commercial ties between the EU and the rest have been demonstrated by the magnitude of the negative crisis incidents triggered in 2007, materialized in an unprecedented decline in intra-and extra transactions. Romania, a country connected to international economic flows, was not exempt from the effects of the gloomy economic environment, a fact which results from analysis of data recorded in the trade balance.

For Romania, a country European Union member, are particularly important to enhance the participation of international trade in goods and services but also attracting foreign investment in the economy as the main possibilities for technology again the industrial sector and restructuring national economy, in order to create and maintain sustainable competitive advantages.

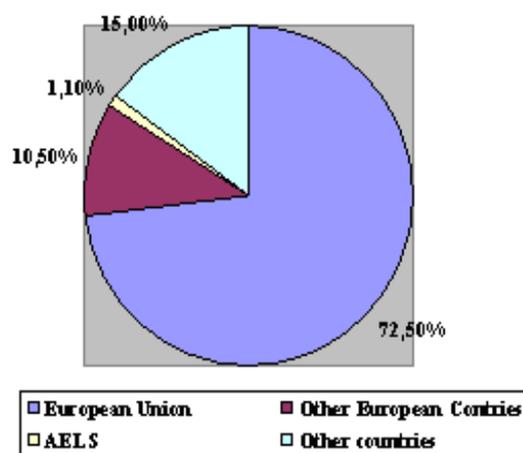
In time, Romania has become dependent on European Union, because over 70% of its total foreign trade is with European Union.

In 2010, international goods trade by groups of countries look like this:

**FOB Exports (37.293 euro milion)**



**CIF Imports (46.802 euro milion)**



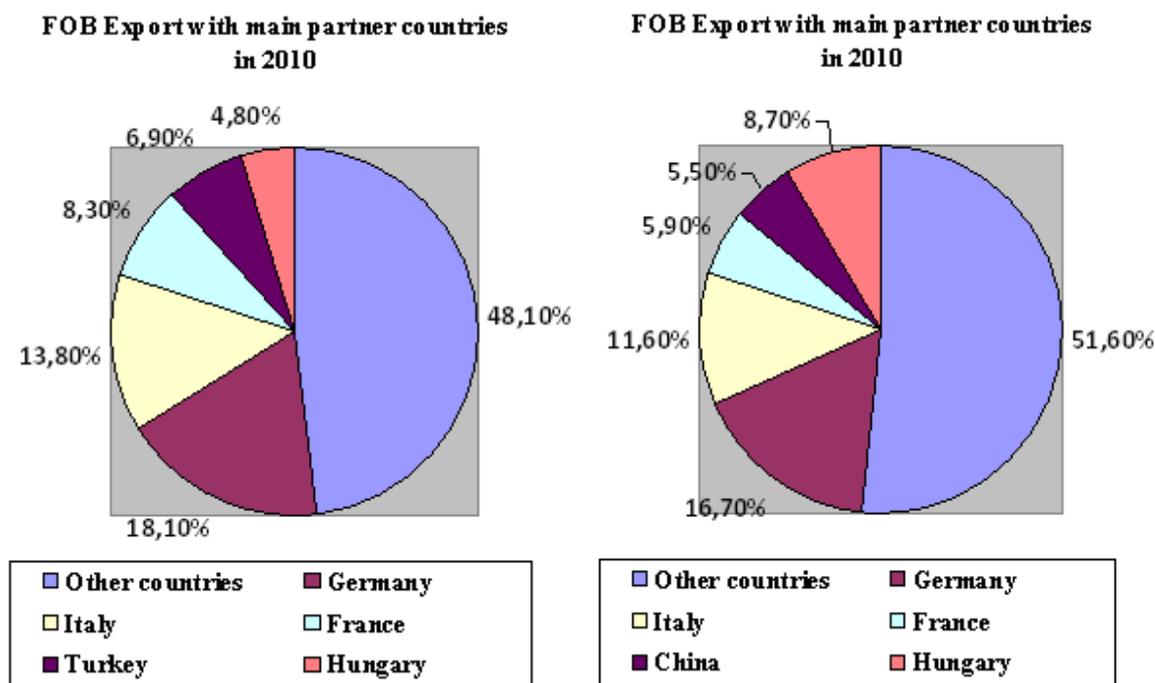
*Graph no. 1: International goods trade by groups of countries, in 2010<sup>4</sup>*

Source: National Institute of Statistics

Another important partner is the group formed by Switzerland, Island, Lichtenstein and Norway (European Free Trade Agreement – EFTA).

Also, in 2010 the most important partner countries are France, Germany and Italy.

<sup>4</sup> Provisional data

Graph no. 2: Romania's main partner countries, in 2010<sup>5</sup>

Source: National Institute of Statistics

The economic crisis has affected progressively Romania beginning with the end of the 2008 year and continuing in 2009 and 2010, his effects being found strongly in the evolution of Romania's foreign trade, which in February 2009, has seen a veritable collapse over the same period of the previous year.

## 2. The evolution of trade deficit recorded in Romania between 2001-2010

The deterioration of Romania's trade deficit in the last two years has become alarming. The trade deficit registered a sharp depreciation after 2000. Thus, the share of trade deficit in GDP increased from 7.5% in 2003 to 14.5% in 2007, amid a significant reduction in exports (from 30% in 2003 to 24.2% in 2007) and maintaining the imports to a level of about 38% within the range specified.

The year 2008 marked a decrease in the share of trade deficit by 1.5%, due to export growth at a rate higher than imports (4%). Thus, the increase in external prices, increased volume, currency depreciation against the euro, led to the recording situation mentioned.

An important moment in the analysis of Romania's foreign trade activity fall in the year 2009, when there is a reduction of trade deficit in GDP by 7.1%, growth rates of exports and imports being negative (-13.7% and -32%).

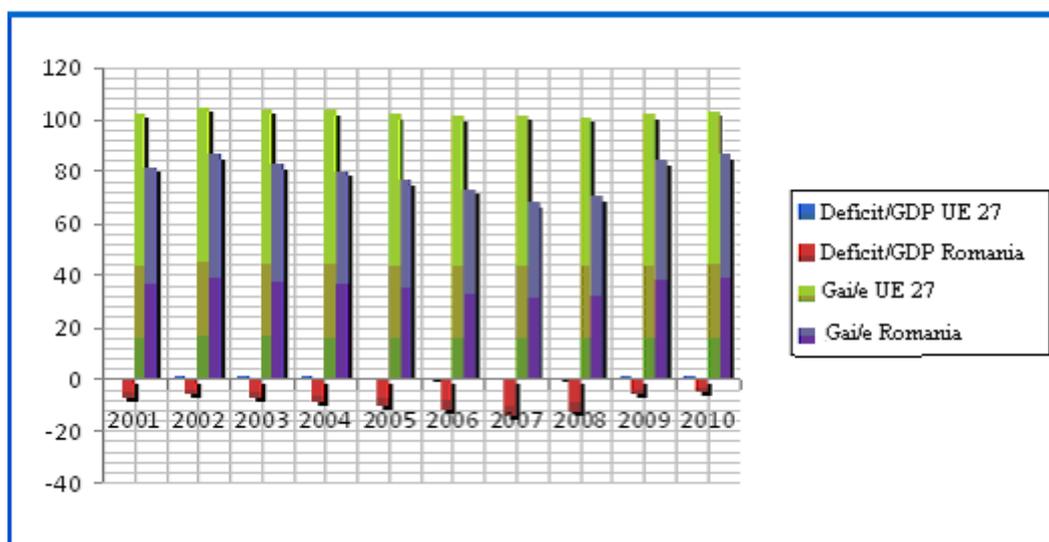
The majority of deficit was due to trade relations with Hungary, China, Kazakhstan, Austria and the Russian Federation (95%). In 2010 there was a decrease of trade deficit to 4.8% of GDP, following the resumption of exports and imports growth (growth rate of imports outpaced that of exports was 20.1% - 28.2%). In this context, the coverage of imports by exports increased by 2.5 percentage points to 86.5 percent (Table no. 1).

Table no. 1: The share of surplus / trade deficit and imports coverage by exports to Romania and the EU 27

Year		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
The share of surplus / deficit to GDP	UE 27	0,8	1,5	1,1	1,2	0,7	0,4	0,6	0,3	1	1,1
	Romania	-7,6	-5,6	-7,5	-9	-10,2	-12	-14,5	-13	-5,9	-5
The coverage of imports by exports	UE 27	102,2	104,5	103,7	103,4	101,8	101	101,5	100,8	101,8	102,9
	Romania	81,3	86,3	82,3	79,9	76,5	72,9	67,8	70	84	86,5

Source: Calculations based on Eurostat data

<sup>5</sup> Provisional data



**Graph no. 3 Evolution of the share trade deficit and the degree of coverage of imports at the expense of exports to Romania and the EU 27 in the period 2001-2010**

For a meaningful comparison, it requires an analysis of the trade balance on the account values of goods exports and imports expressed in FOB clause. The export of goods includes all commercial operations that a country sell of another country some of the goods produced or processed, while imports of goods includes all commercial transactions that a country buys goods from other countries to meet the productive and unproductive consumption.

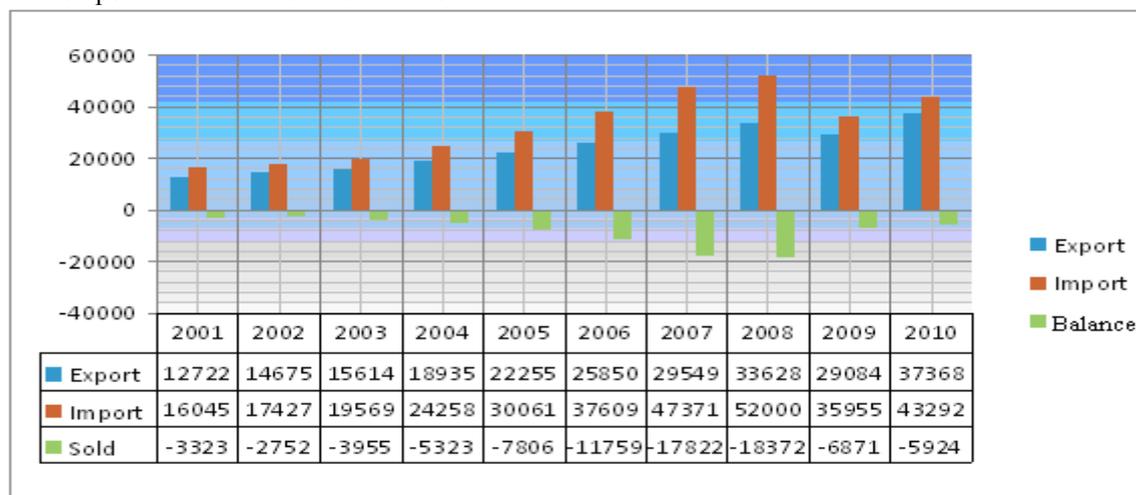
The evolution of trade balance is presented in table. no. 2:

**Table no. 2: The evolution of Romanian trade balance during 2001-2010**

Source: [www.bnr.ro](http://www.bnr.ro)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Export FOB</b>	12722	14675	15614	18935	22255	25850	29549	33628	29084	37368
<b>Import FOB</b>	16045	17427	19569	24258	30061	37609	47371	52000	35955	43292
<b>Balance</b>	-3323	-2752	-3955	-5323	-7806	-11759	-17822	-18372	-6871	-5924

Graph no. 3 shows the evolution of more meaningful trade balance, observing that 2008 is easily reflected an inflection point in the trend of this indicator.



**Graph no. 4: The dynamics exchange of goods between Romania and rest of the world in the period 2001-2010**

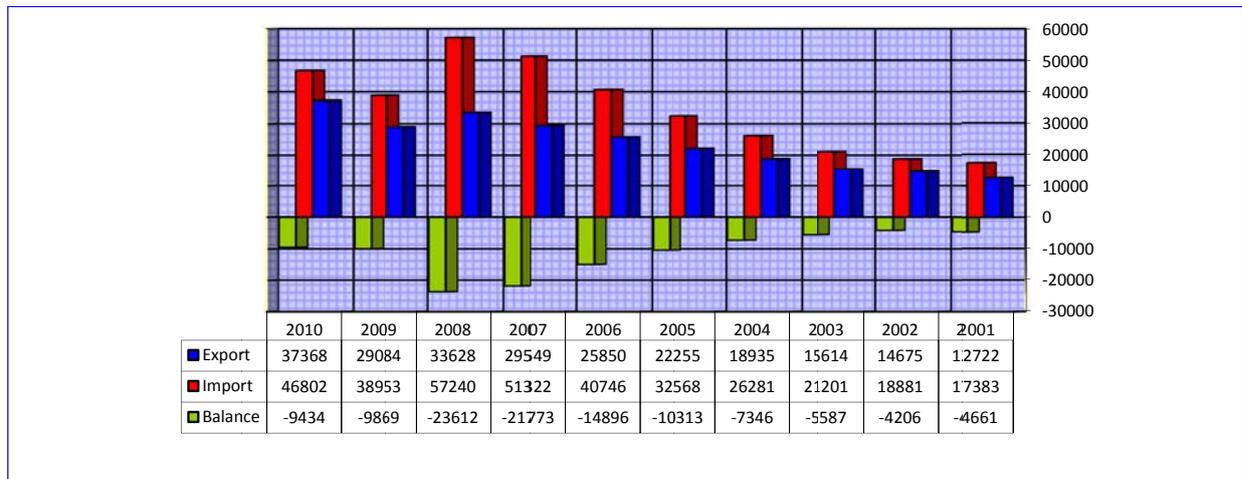
The evolution of trade balance on exports values expressed in FOB clause and imports of goods denominated in CIF clause is shown in Table. 4:

**Table no. 3: The structure of the trade balance FOB / CIF to Romania during 2001-2010**

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Export FOB</b>	12722	14675	15614	18935	22255	25850	29549	33628	29084	37368
<b>Import CIF</b>	17383	18881	21201	26281	32568	40746	51322	57240	38953	46802
<b>Balance</b>	-4661	-4206	-5587	-7346	-10313	-14896	-21773	-23612	-9869	-9434

Source: National Institute of Statistics

During the period under review, FOB exports evolution was quite changeable because the economic crisis on trade. Analyzing the evolution represented in the chart. no. 4 one can distinguish three periods in the evolution of exports FOB.



**Graph no. 5: The evolution of Romanian trade balance FOB/CIF during 2001-2010**

The value of foreign trade volume increased year by year in 2001-2008, mainly due to trade liberalization through tariff and non tariff barriers.

Export growth had a significant influence on industrial production, also reflecting and improving economic performance. In 2008, the most popular export goods were machinery, electrical equipment, sound recorders or sound and images, base metals and articles thereof; means and transport equipment, textiles and articles thereof; mineral products.

Since mid-2008 until the end of 2009, strongly feel the economic crisis of Romanian exports of goods, fluctuating values registering without reach the previous period. So at the end of 2009, FOB exports value recorded 29.084 million euros, down by 13.5% compared to 2008.

The situation changed in 2010, as exports FOB value recorded 37.293 million euros, up by 28.4% compared to 2009.

During 2001-2010, imports CIF had, in overall, performing relatively similar to the FOB exports (Chart 4). And the case of CIF imports can see the three periods of evolution presented and analyzed previously.

Analyzing the evolution of deficit FOB / CIF during the 2001 - 2010, we see that it has a different pattern compared with the evolution of FOB exports and CIF imports.

Thus, if both imports and exports of goods recorded maximum values in the period before the economic crisis (33.628 million euros in 2008 for exports, respectively 57.240 million in 2008 for imports) resulting in a deficit of up to EUR 23.612 million in 2008, after economic crisis deficit FOB/CIF is reduced significantly, reaching in January euro 2010-9434000.

The reduction of FOB/CIF deficit in the period 2009 - 2010, was not caused to increased exports, but reducing imports more pronounced during this period.

### 3. Conclusion

In recent years EU trade in goods has evolved very positively both in absolute terms and relative. Although 2009 was marked by global financial and economic crisis, which inevitably affected the trade and trade with the EU our country has gone relatively well through this tumultuous period.

As was expected, the global economic crisis dramatically affected trade flows globally and regionally.

Since the trade balance is the main sub-account balance of payments, it is obvious that most of the imbalance is caused by the trade deficit. As a result, is required an action in order to reduce it by increasing the competitiveness of Romanian products on international markets, increase exports of high value added, the surveillance of imports of consumer goods , promotion of Romanian products through business centers in countries with a potential high absorption.

At the same time, a particular importance in the balancing the balance of payments has the attraction of foreign capital. In this respect, it may cover several ways. Thus, the need to maintain the current account deficit at levels consistent on long-term with economic growth may lead to improved perception of investors on Romania. Reducing the level of National Bank of Romania reference interest can cause an exit of foreign capital but can also generate an increase in foreign investor confidence. Increasing the absorption of European funds by reducing bureaucracy in the field and the development are other measures of positive impact on foreign investments and thus on the current account balance.

Progress of society, the satisfaction of the needs community members requires a performing national economy, with results witch becoming more visible to all residents. However, only internal resources are not sufficient, so that Romania should participate in the exchange of material and spiritual world. The most direct way to achieve this goal is the foreign trade and international economic cooperation.

Romania was considered the country of lost opportunities. Foreign trade was one of those opportunities were not realized in the interest of the country. Otherwise would have shown Romania, where foreign trade activity would have been addressed in other ways.

Today, Romania's economic development prospects are linked to trends in the European Union on foreign trade. If the foreign direct investment will not increase in 2011, Romania will not exceed the current economic crisis.

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