

## TIGER ECONOMIES: LESSONS FOR THE ROMANIAN ECONOMY

AVRĂMESCU TIBERIU-CRISTIAN

PHD ASSOCIATE PROFESSOR, NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

POLITEHNICA BUCHAREST, PITESTI UNIVERSITY CENTER

e-mail: tiberiu.avramescu@upb.ro

### **Abstract**

*South Korea, Singapore, Taiwan and Hong Kong are countries that have achieved a spectacular economic growth from the 1960s until present. They are examples of how poor economies, devoid of natural resources, can be transformed into strong, technologically advanced economies with high incomes and a high standard of living. What has happened in these countries is an example of development for other countries if they adopted proper strategies and policies.*

*This paper analyzes how the example of these countries can help Romania (and not only) to achieve sustained economic growth. There were speculations that Romania would soon become an "economic tiger" when it adhered to the European Union and its economy grew rapidly. Can we consider Romania an Eastern European "tiger" capable of catching up with the more developed economically and technologically Western Europe? Or is Romania's high economic growth in recent years determined by temporary factors?*

**Keywords:** economic development, economic growth, economic tigers.

**JEL classification:** F43, F63, N15

### **1. Introduction**

After World War II, since the early 1960s to be precise, Southeast Asia has experienced an explosive economic growth. South Korea, Hong Kong, Taiwan and Singapore have experienced impressive average economic growth rates, which have allowed them to quickly reach the level of development of the Western countries and very high living standards.

South Korea, Hong Kong, Taiwan and Singapore are among the most competitive economies on the planet. These "Asian tigers" have become strong economies by capitalizing each country's opportunities, turning into global financial centers with extremely educated populations and able to innovate.

The economies of these countries have become case studies for economists, who have tried to explain the causes of their success. Understanding the causes of this economic miracle can be a lesson for the countries willing to have a similar evolution. We will try to identify the factors that contributed to the spectacular growth of these four economies and to analyze whether Romania can also become an "economic tiger".

Over time, other countries have also received or aspired to the title of "economic tiger". Ireland, due to its spectacular economic growth in the last decade of the last century, received the nickname "the Celtic tiger". After the collapse of the Soviet Union, the Baltic countries had a rapid economic growth and were called "the Baltic tigers". What can those leading the destinies of the countries learn from the experiences of these countries is the topic analyzed by this paper.

### **2. Research methodology**

When starting a research project, it is important to choose an appropriate research methodology. The research methodology chosen for a deep understanding of the topic primarily uses quantitative methods that come from secondary sources: books, academic journals, reports developed by international organizations. The objective of this work is to observe the changes that

Romania's economy has gone through in order to identify the similarities with the Southeast Asian countries and the opportunities for a similar development.

The research methodology was based on the analysis and interpretation of data provided by some international institutions, using descriptive statistics. We used the theoretical research, the analysis and the synthesis. The theoretical research consisted in the study of the specialized literature. We used the analysis to interpret the data provided by the International Monetary Fund and the European Commission, and the synthesis to present certain conclusions and to identify future opportunities for Romania.

#### 4. Results

The impressive economic performance of the Southeast Asian economies over the past 50 years is impressive. The economic growth of these countries was, for more than 30 years, superior to that of the developed Western states or the developing countries, reaching the social standards of the developed capitalist countries.

But how did this economic miracle happen? Some authors highlight that productivity growth was the key to success for these countries [7]. In this context, the role of government policies in achieving higher and higher productivity was also mentioned. We can talk about a mix of public policies: some that promoted the free market mechanisms, the free trade [1]-[4], combined with the targeted interventionist measures in some essential economic sectors [9].

Other authors note that these countries have noticed the reduced capacity of the traditional economic growth models and have explored a series of endogenous growth models. Associating the economic growth with the productivity growth was not a new approach, but the objective of the productivity growth, not the capital formation itself (the two are interdependent) represents the fundamental cause of the economic "explosion" for these countries [3]-[5].

The rapid economic growth in these countries can also be explained by the technological progress and the reduction of the technological gap achieved by these countries, which used the advanced technological innovation from the developed countries (procured through direct capital imports, by supporting foreign direct investments, including industrial espionage) and they used it intensively to stimulate the domestic economy [12]-[18]. Some authors also emphasize the amazing mobilization of the resources of these countries and the essential role of education and social infrastructure [11]-[16].

It should be mentioned that, indeed, the technological progress and the increased labor productivity represented the engine of economic growth, but the long-term accumulation represented a key factor for the economies of the four "Asian tigers" [5]-[13]. It is recognized that these countries have recorded high savings and investment rates in the last 50 years.

The notion of "economic tiger" was certainly consecrated by the economies of the Southeast Asian countries. But the notion was, is, and will certainly be used to highlight a spectacular evolution of any national economy. In the 90s of the last century, Ireland's economy grew at a sustained rate, comparable to that of the Southeast Asian countries in the 60s-70s, which made Ireland catch up with the developed countries and receive the nickname "the Celtic tiger" [10]. The qualified workforce, the increase of American investments and the use of European funds, the reduction of the public debt concomitant with, paradoxically, the reduction of taxes, the increase in the competitiveness of Irish products on foreign markets, the openness to trade and investments have made the Irish economy grow at rates the developed economies could not even hope [6]-[15]. By the late 1990s, it was three times higher than that of the 1960s, contributing to one of the most impressive economic booms in the contemporary era.

The collapse of the Soviet Union in 1991 brought independence to Estonia, Latvia and Lithuania, which went through a desperate economic situation at that time. The separation from the economies of the post-Soviet countries, the collapse of public finances, the high inflation and

unemployment, the financial crisis in Russia caused the economies of these three countries to be in free fall in the first years after gaining independence [2]. Starting with the year 2000, after implementing some radical reforms of transition from the Soviet-type command economy to the market economy, the three Baltic economies have recorded spectacular performances (increases of 7-8% per year). Although the three countries were severely affected by the global economic-financial crisis from 2007-2009, they have quickly recovered and recorded the highest economic growth rates in the European Union after 2012. Since they have registered a long period of sustained economic growth, the three countries were named "the Baltic tigers".

Why are certain national economies successful in a certain period and others not? What exactly makes the difference? The answer is very difficult to provide, because the economic policies adopted by the political decision-makers are not unitary. There is no standard recipe to follow. The development perspectives of a country are influenced by three categories of factors: endowments, policies and institutions (Table no. 1).

**Table no. 1. Development Checklist**

	<b>Korea</b>	<b>Taiwan</b>	<b>Singapore</b>	<b>Hong Kong</b>	<b>Ireland</b>	<b>Baltic Countries</b>	<b>Romania</b>
<b><i>Initial endowments</i></b>							
Natural resources	No	No	No	No	No	No	Some
Human capital	Yes	Yes	Yes	Yes	Yes	Some	Some
Foreign aid	Yes	Yes	No	No	Some	Some	Some
<b><i>Policies</i></b>							
Macroeconomic stability	Yes	Yes	Yes	Yes	Yes	No	No
Export drive	Yes	Yes	Yes	No	Some	No	Some
Investment in human resources	Yes	Yes	Yes	Yes	Yes	Yes	Some
Import openness	Some	Yes	Yes	Yes	Some	No	Some
Selective industrial policies	Yes	Some	Some	No	Yes	No	No
State-owned enterprises	Some	Some	Yes	No	No	Yes	Yes
<b><i>Institutions</i></b>							
Central economic ministry	Yes	Yes	Yes	No	Yes	Yes	Yes
Strong bureaucracy	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Political stability	Yes	Yes	Yes	No	Yes	Yes	Yes
Visionary leadership	Yes	Yes	Yes	No	Some	Some	No

Source: based on Leipziger, D., Thomas, V. – The Lessons of East Asia. An Overview of Country Experience, World Bank, New York, 1993.

The political decision-makers from all over the world are looking for successful lessons for the economic development of the countries they lead. The countries of Southeast Asia, Ireland in the 90s of the last century, the Baltic countries in the second decade of our century represent models of analysis to identify the policies of their success. Although there is no recipe for success, we identified a series of factors constantly associated with progress: the macroeconomic stability, the investments in human capital and the orientation towards exports. In addition, the development

of institutions, the coherent policies and the existence of a development vision can accelerate the progress.

If we want to call a country "an economic tiger", we should analyze a series of indicators. The first indicator analyzed is the Gross Domestic Product per inhabitant.

**Table no. 2. Gross Domestic Product per capita between 2019 and 2023**

	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
EU 27	31,310	30,050	32,680	35,450	37,620
Euro area	34,760	33,190	35,940	38,740	40,990
Estonia	21,100	20,640	23,430	27,040	27,590
Ireland	72,320	75,350	86,490	98,990	95,290
Latvia	15,980	15,840	17,710	20,350	21,440
Lithuania	17,520	17,840	20,110	23,820	25,070
<b>Romania</b>	<b>11,560</b>	<b>11,430</b>	<b>12,630</b>	<b>14,920</b>	<b>17,030</b>
Singapore	59,028	53,814	67,305	83,978	78,363
Korea	28,497	27,778	29,699	30,764	30,696
Hong Kong	43,125	40,664	42,148	45,586	46,268
Taiwan	23,138	25,014	27,962	30,968	30,004

Source: based on data from: <https://ec.europa.eu/eurostat/data/database>

The statistical data show that Romania entered the European Union (in 2007) with a major gap compared to the other member countries. Even if, from the moment our country started its journey towards a market economy, the gaps have narrowed, Romania has still kept its position in the hierarchy of member states, being even now, separated only by Bulgaria. Today, Romania has a Gross Domestic Product per inhabitant that represents less than 50% of the average of the European Union or the Eurozone, less than 60% of the average of the Baltic countries and somewhere around 20% of that of Singapore. A country that does not recover, or recovers with difficulty these gaps compared to the developed countries, can hardly be called an "economic tiger". It is true that in terms of the Gross Domestic Product calculated on the basis of the standard purchasing power, Romania has a better situation (it has surpassed Greece, Portugal and Hungary and will probably soon surpass Poland), and the total Gross Domestic Product has tripled after joining European Union, but the gap compared to the developed countries is still significant.

Another indicator is the economic growth rate. At the beginning of the 60s of the last century, the countries of Southeast Asia recorded economic growth rates above 10% over a long period. This is how these countries managed to catch up with the developed countries, although they started from the same development niche similar to African countries, which still have the same low level of economic development today. In the same way, Ireland and the Baltic countries (especially Estonia) reduced the gaps compared to the developed countries (Ireland even surpassed them) through increases in the Gross Domestic Product over significant periods of time.

The disparities from one country to another are based on the differences between the ways of using labor and the professional development of the workforce, along with the technological progress and, more recently, access to information and communication technology [19].

The economic growth is an objective of all governments. As an objective of the macroeconomic policies, the economic growth is an element of continuity regardless of the economic doctrine of different governments. This is because the economic growth is a long-term objective [14].

**Table no. 3. Gross Domestic Product percentage change on previous period  
between 2019 and 2023**

	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
EU 27	1.8	-5.6	6.0	3.5	0.4
Euro area	1.6	-6.1	5.9	3.4	0.4
Estonia	4.0	-1.0	7.2	-0.5	-3.0
Ireland	5.3	-6.6	15.1	9.4	-3.2
Latvia	0.6	-3.5	6.7	3.0	-0.3
Lithuania	4.7	0.0	6.3	2.4	-0.3
<b>Romania</b>	<b>3.9</b>	<b>-3.7</b>	<b>5.7</b>	<b>4.1</b>	<b>2.1</b>
Singapore	1.3	-3.9	9.7	3.8	1.1
Korea	2.2	-0.7	4.3	2.6	1.4
Hong Kong	-1.7	-6.5	6.5	-3.7	3.2
Taiwan	3.1	3.4	6.6	2.6	1.4

Source: based on data from <https://ec.europa.eu/eurostat/data/database>

Although in recent years, Romania has registered economic growth (except for 2020, the year of the coronavirus pandemic outbreak), this is not spectacular, even if in the last two years the economic growth rate in Romania exceeded the EU 27 and the euro zone and was much higher than that of the Baltic countries, which, in the last year, registered a slight economic decline, being affected by the crisis in Ukraine. It is expected that in the next period, Romania will achieve higher economic growth rates than many countries in the European Union, but this will be far below what is necessary to be considered "an economic tiger".

One may notice that the countries of Southeast Asia have a moderate rate of growth of the Gross Domestic Product, which is natural. They have already reached a level of development that no longer allows them spectacular growth.

The macroeconomic policies oriented towards stability also have a substantial impact on the economic yield. It is well known that there is a positive dependence between the macroeconomic stability and the economic growth, so that the reduction of uncertainty, the strengthening of credibility and the improvement of the general macroeconomic framework lead to the increase of investments and, thereby, to the acceleration of the economic growth process [17]. Thus the economic growth occurs as a consequence of stabilization and of some rational monetary and fiscal policies.

The economic theory is ambiguous when it comes to the relationship between the budget deficit and the macroeconomic variables. We are on the side of those who believe that a moderate budget deficit is a factor of economic growth, and an excessive budget deficit represents a major risk, especially if it is associated with other macroeconomic imbalances (inflation, unemployment, trade balance and balance of payments deficits). A large budget deficit exerts pressure on the national economy, especially in a world full of unpredictability and enormous challenges, the constraint is likely to significantly increase military spending in the next period, due to the security risks generated by the new international context.

The experience of other countries shows that a high budget deficit implies a series of risks. Romania has been subject to an excessive deficit procedure since April 2000, this being determined by the violation of the budget deficit limit of 3% of GDP in 2019. The situation has not improved, on the contrary, the period 2020-2023 being characterized by very high budget deficits and the lack of prospects to put an end to this situation. Of course, all countries recorded high budget deficits in 2020 due to the need to finance the measures necessary to combat the effects of the coronavirus pandemic (even the countries in Southeast Asia, which are fiscally disciplined), but, unlike these,

which returned to moderate budget deficits or even registered a budget surplus, in Romania the budget deficit remained high. The adjustment of the budget deficit is essential for alleviating macroeconomic imbalances and for creating the necessary fiscal space for the implementation of investments financed from the available European funds.

**Table no. 4. Government deficit/surplus between 2019 and 2023**

	2019	2020	2021	2022	2023
EU 27	-0.4	-6.7	-4.7	-3.4	-3.5
Euro area	-0.5	-7.0	-5.2	-3.7	-3.6
Estonia	0.1	-5.4	-2.5	-1.0	-3.4
Ireland	0.5	-5.0	-1.5	1.7	1.7
Latvia	-0.5	-4.4	-7.2	-4.6	-2.2
Lithuania	0.5	-6.5	-1.1	-0.6	-0.8
<b>Romania</b>	<b>-4.3</b>	<b>-9.3</b>	<b>-7.2</b>	<b>-6.3</b>	<b>-6.6</b>
Singapore	3.8	-6.7	1.1	1.2	3.6
Korea	0.4	-2.2	0.0	-1.6	-1.0
Hong Kong	-0.6	-9.2	0.0	-6.6	-5.7
Taiwan	-1.8	-2.9	-2.1	-0.5	-0.5

Source: based on data from: <https://ec.europa.eu/eurostat/data/database>

The balance of payments is the main tool to measure the value and external competitiveness of an economy, being, at the same time, a particularly useful tool for configuring the main macroeconomic policies. It is not enough for a country to have a high rate of economic growth to be "an economic tiger", the experience of other countries shows that a country must also have a positive balance in foreign relations, especially in terms of foreign trade and investment position. The imbalances in the balance of the external payments can affect the domestic economy, generating disturbances on the foreign exchange market (the balance of the trade balance can cause the appreciation or the depreciation of the national currency), on the monetary market, on the credit market, on the capital market; in addition, a chronically deficient balance sheet reduces the international creditworthiness, diminishing the confidence of international creditors in the country's ability to honor its payment obligations.

**Table no. 5. Current account balance as share of GDP between 2019 and 2023**

	2019	2020	2021	2022	2023
Estonia	2.5	-1.9	-2.6	-3.2	-2.1
Ireland	-19.9	-6.5	13.7	10.8	9.9
Latvia	-0.6	2.9	-3.9	-4.8	-4.0
Lithuania	3.5	7.3	1.1	-5.5	1.9
<b>Romania</b>	<b>-4.9</b>	<b>-4.9</b>	<b>-7.2</b>	<b>-9.2</b>	<b>-7.0</b>
Singapore	16.0	16.6	19.8	18.0	19.8
Korea	3.6	4.6	4.7	1.5	2.1
Hong Kong	5.9	7.0	11.8	10.2	9.4
Taiwan	10.7	14.4	15.3	13.3	13.1

Source: based on data from: <https://ec.europa.eu/eurostat/data/database>

The "Asian tigers" have had a spectacular economic growth thanks to a trade strategy based on exports and the attraction of foreign investments and continue to have a surplus in their balance of payments, even if the rate of economic growth is much lower. The other analyzed countries have also recorded economic growth based on exports and investments and less on consumption.

Romania has had a chronically deficit balance of payments since the beginning of the 90s of the last century. Even though our country has recorded almost every year increases in the foreign exchange receipts, the negative balance also has had the same evolution, which, along with the evolution of the budget deficit, are the most significant risks for the next period.

Among all the analyzed countries, Romania is the country that registers the largest imbalance in the balance of external payments, and the prospects for it to balance in the short and medium term are low, which means major risks for the economy given the turbulences in the worldwide economy.

It is obvious that the adherence to the European Union has contributed to raising the level of the economic development of Romania, mainly as an effect of the structural and cohesion funds. Even if Romania's adherence to the European Union did not bring a level of economic development similar to that of the developed countries of Western Europe, however, the differences in development between the regions of Romania and the developed states of the European Union have been significantly reduced.

## 5. Conclusions

A brief look at the recent performance of the Romanian economy may tempt us to evaluate it with a superlative. The truth is that, currently, Romania is one of the EU countries with the fastest economic growth. Considering the strong growth of the GDP, it is not surprising that the partial Romanian statistics also look very good. The rapid growth of the retail sales in Romania indicates a strong household consumption, the industry is thriving, and the unemployment rate is one of the lowest in the EU. But, is it possible to consider Romania, based on the mentioned indicators, as an Eastern European tiger, which is quickly catching up with the more economically advanced Western Europe?

If we want to call a country an economic tiger, we should focus not only on the GDP growth, but also on other indicators such as, for example, the investments. In fact, the investments, not the household consumption, help the less developed countries to catch up with the economically stronger countries. And in case of investments, Romania does not really excel, on the contrary.

The success of "the economic tigers" offers many lessons for the Romanian economy. Romania has the potential to become an economic power in Central and Eastern Europe and, drawing inspiration from the experience of other countries, it can take important steps to achieve this goal, but this goal can only be achieved through a concerted effort on the part of the government, the private sector private and the civil society, to become an environment conducive to growth and prosperity.

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