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REVIVAL OF ROMANIAN EXPORTS IN THE CONTEXT OF THE GLOBAL ECONOMIC RECESSION

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Abstract: *The paper examines the situation of Romanian exports in the context of the global economic crisis, by placing this issue into an EU and international framework. In order to answer this research question, the paper analyzes the impact of the banking crisis on trade, as well as the importance of trading partners for the economic growth of the exporter country. The dynamics of Romanian exports is presented in comparison with that of other countries in CEE. The paper finds similarities in the dynamics of exports within the CEE during the crisis and predicts a favourable influence of Romania's export trading partners on the Romanian economic growth. Finally, the paper addresses some policy recommendations for the trade revival as a response to the global crisis.*

Key words: *global crisis, trade, exports.*

1. Introduction

The global financial crisis brought many negative consequences in many sectors of the world economy, including the developing countries' trade. Because of the global financial crisis, the global demand for products and services, as well as export prices and export volumes have sharply decreased especially from 2007 to 2010. This paper investigates the dynamics of the CEECs exports, particularly the Romanian exports, during the global crisis and it is structured as follows. Section 1 is an introduction into the topic of paper, section 2 shortly presents a literature review, section 3 points out the main dynamics of Romanian exports during the global crisis, section 4 advances some policy recommendation regarding the trade revival during the crisis and section 5 concludes.

From the first time since 1982, in 2009 the global trade flows dropped by 12.5% as underlined above, because of the financial crisis. The main causes of this negative dynamics were the dramatic fall in demand and the vertically integrated nature of global supply chains. This collapse in the dynamics of global trade has raised the question whether a banking crisis could have a significant impact on trade flows and whether the supply or the demand side is responsible for this relation.

The year 2010 brought significant increases of the OECD exports, which hit a growth rate of 11.3%. In 2011, slowdowns are expected in the whole OECD area, which is expected to have an increase of export growth rates of 7.5% at the end of

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the year. Among the leading countries with respect to export growth rates, Estonia is the first with an increase of 20%, followed by Korea (11.7%), Germany and Slovakia (10.4%) and Spain (9.9%). High export rates will also have in 2011 Austria, Hungary, Czech Republic and Greece (9%), Sweden (7.9%), Chile (7.8%) and United States (7.5%), while Belgium, Netherlands, Luxemburg, Italy, France and Portugal will have modest export growth rates, above 6%. The slowest countries with regard to the export growth will be Japan (3.2%), New Zeeland (3.1%) and Iceland (2.7%).

2. Literature review

A large body of literature in the field of international trade investigates the mechanisms through which the banking crises affect the global trade flows, i.e. whether this relation is a supply side effect or a demand side effect. Empirical evidences have been found in both directions.

Previous empirical studies (Iacovone and Javorcik 2008, Muuls, 2008) have shown that the most important channels through which a banking crisis affects the exports dynamics are the financial constraints faced by producers and the fluctuations in the production costs. The developed financial systems carry the advantage of facilitating the development of comparative advantages in those industries that rely more on external financing (Manova, 2008), while less developed financial systems are helpful for the economic sectors that rely more on trade finance (Fisman and Love, 2003).

When a drop in demand accompanies a banking crisis, the negative impact on trade is a double one. In this sense, common characteristics of banking crises in the world economic history are the decline in consumption and the loss of confidence in the market. Also, the intensity of the effect of an economic crisis on the export revenues depends on the elasticity of the commodity's demand in the importing country. For instance, fuel and mining products are responsible to global GDP changes, agriculture products are generally income inelastic and developing country manufactured goods show an income elasticity of demand (Meyn and Kennan, 2009).

The income elasticity of developing country exports depends on two factors: the composition of export products and their destination. For instance, in the case of the European Union, the agricultural market is regulated by the Common Agricultural Policy. According to CAP, most EU products have prices above the average world market prices and they are stabilized by interventionist policies. This makes EU an attractive destination for the less developed country exporters.

3. Dynamics of Romanian exports in the context of the global economic crisis

As shown in figure 1, the volume of exports has gradually decreased after 2000 onwards, with an exception in 2010, when the 2004 level was reached. The current account balance followed the same trend, with a maximum level in 2007. After 2007, the deficit has considerably decreased. Despite the severity of the global crisis which continues to manifest as well in 2010 in the global economy, the Romanian exports had a remarkable comeback in 2010.

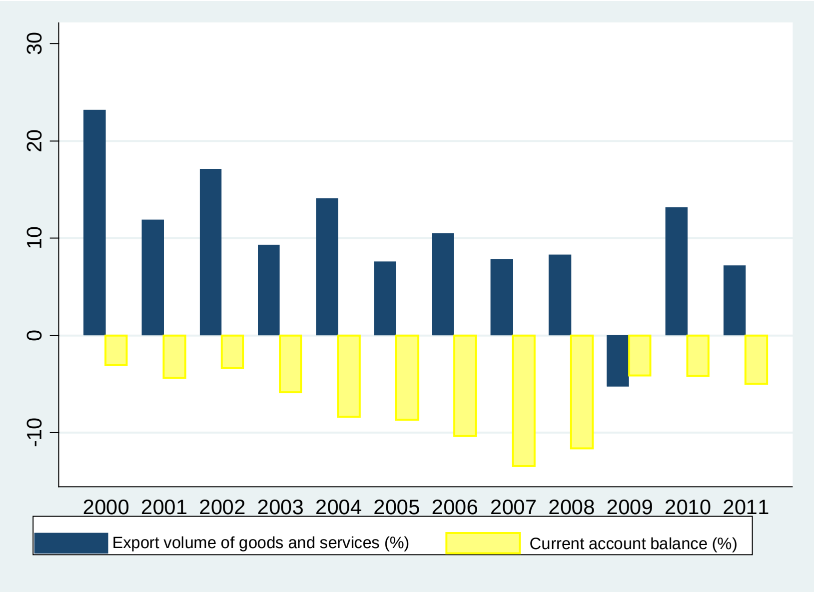

Fig. 1. *Dynamics of Romanian exports since 2000 onwards*
Source of data: World Economic Outlook database, April 2011

Figure 2 comparatively examines the dynamics exports in five CEEC countries, in order to identify whether Romania has a different trajectory in the context of the global economic crisis.

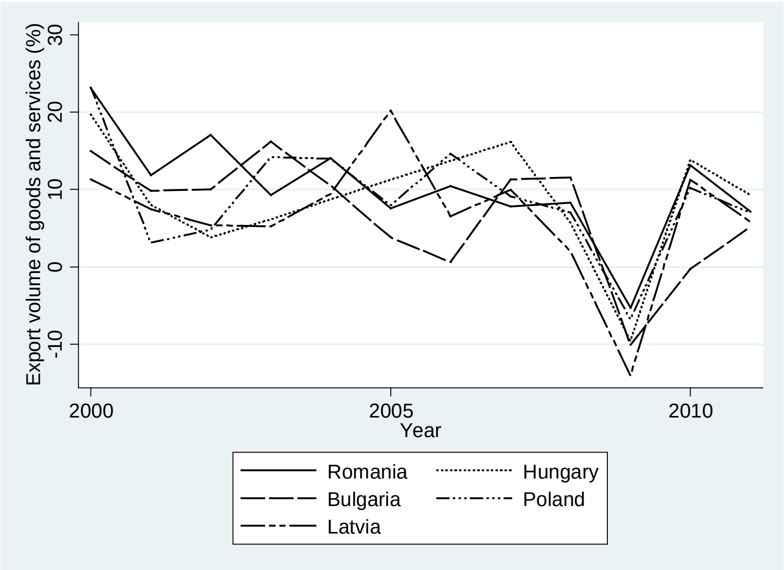

Fig. 2. *Exports dynamic of a selection of five CEECs*
Source of data: World Economic Outlook database, April 2011

In the years preceding the crisis the exports growth rate followed different patterns, and fluctuated in a band of variation of 0-20%, but without a medium term orientation. Starting with 2007, the five CEE countries included in our analysis have followed a common trajectory, with a dramatic fall from 2007 to 2009, a sharp increase from 2009 to 2010 and then another decrease, which is predicted to continue after 2011 as well. In this regional picture, Romania seems to have a better position especially after 2007, being above the other countries. During the crisis, Bulgaria has a smoother dynamics, which has allowed her to avoid the fall of export volume, as experienced by Romania, Poland, Latvia and Hungary after 2010. Anyway, at the end of 2010 all countries analyzed here have reached the same export growth rate as before the crisis.

The structure of Romanian exports has changed over time, due to the strong competitiveness of the eastern countries outside the EU, and also due to the loss of comparative advantages that Romania used to have in metals, textiles and clothes (Marinescu and Constantin, 2011). Even if the Romanian composition of exports was improving with higher-technology sectors, the empirical studies indicate that the main focus still lies in sectors with low productivity and weak technological intensity (textiles and clothing) and high energy consumption like steel (Marinescu and Raileanu Szeles, 2010).

Not only is the export volume important for the good macroeconomic situation of a country, but also the orientation toward trading partners with high economic growth. According to the literature, the economic conditions in the trading partner country matters for growth (Arora and Vamvakidis, 2005) and especially the industrialized countries benefit from trading with trading less developed countries since it leads to specialization in relatively advanced sectors (Spilimbergo, 2000). Raileanu Szeles and Tache (2011) find that the economic growth of the CEECs' trading partners has a positive impact on the economic growth in the CEECs. In this light, trading with them can be considered as a stimulus for the economic growth of the CEE area.

In 2010 the Romanian exports increased by 28%, with machinery and transport equipment (42.4%) and vehicles (12%) being the main industry-drivers. In the top of Romanian exporters a number of 5 companies can be identified: Dacia, Nokia, Rompetrol Rafinare Constanta, ArcelorMittal Galati and OMV Petrom. Unfortunately, in top 100 Romanian exporters, only 3 companies have 100% Romanian capital.

During the crisis, the structure of Romanian exports has changed. Some traditional export industries have fallen, e.g. the cement industry, metallurgy, oil, while others have grown during this period of time, e.g. pharmaceutics, chemical products and clothing. A positive factor for the successful export companies in 2010 has been the exchange rate stability, which ensured the real competitiveness on the export foreign markets. Anyway, the high competition led to the bankruptcy of 10.000 companies from a total of 25.000 Romanian export companies.

In the first half of 2011 the Romanian exports to non-EU countries increased by 40.2%, compared to 29.1% to EU countries. In line with the theories exposed above, the Romanian exports were oriented either to high-growth rate countries, or to those countries which were not affected by crisis. The most impressive increases were reached by the Romanian exports to the following countries: Kuwait (327%), Pakistan (192%), South Africa (191%), Tunisia (190%), Jordan (156%), Afghanistan (151%), Kazakhstan (143%), Singapore (111%), Azerbaijan (95,71%), Serbia (64,3%), Iraq (92,58%) and Bosnia Herzegovina (77,73%).

The growth of Romanian exports in future depends on three main factors: (1)

Competitiveness of local producers (2) Encouragement and support of Romanian production (3) Low exposure at the currency risk. The third factor has a direct effect on the real revenues generated by exports. The prospects of the RON appreciation in the next years, due to improvement of macroeconomic conditions in Romania, raise the exports' total costs and diminishes the profits, being not favourable to Romanian exporters. In this light, the fluctuations of exchange rates represent an important driver for trade, whenever the national currency floats.

Despite the financial crisis which drastically affected the export volumes in all CEECs from 2007 until 2010, the year 2010 completely changed this situation. After a short correction in 2010/2011 they are expected to rise again toward a new record of 40 billion Euros, if no unexpected events will occur.

4. Trade policies aiming to compensate the effects of the economic crisis

In literature, a range of policy measures has been advanced as being supportive for the economic recovery and export revival. It is well acknowledged that avoiding protectionism and opening markets represent the absolutely necessary but not sufficient policy responses to a financial crisis. Other macroeconomic measures should be also adopted, such as restrictive monetary and fiscal policies, pro-growth measures and employment-oriented policies.

One of the most popular policy measures is the expansion of export volumes as to compensate the price losses. But this measure might generate serious losses for exporters when meeting interventionist measures from the importer country, as it is the case of clothing, apparel and some agricultural products.

In the case of commodity resources, the pro-cyclical policies could be the best measure to optimally manage them. When facing low commodity prices, investing in alternative export products is a good option. Another measure which can be adopted by producers in times of low export revenues (or in case of export losses) would be to require protectionist measures or subsidies. But, generally, such subsidies have negative effects for consumers and export competitiveness.

Trade liberalisation encourages innovation and economic growth by facilitating the transfer of technology and skills, by protecting the intellectual property rights, by generating economies of scale and by encouraging competition and productivity (Melitz and Ottaviano, 2005).

Another set of offensive measures is directly linked to the banking system and consists of credit guarantees to support exporters or introduction of fiscal stimuli. But these measures are constrained by the macroeconomic conditions in that particular countries, such as: the budgetary deficits, high aid inflows or the restrictive fiscal policies imposed by authorities in some countries.

5. Conclusions

The global economic crisis is far away from being surpassed in 2011 and the negative consequences will probably prevail for a long period of time from now on. In the first stage of the crisis, the exports have dramatically decreased in all CEECs, but despite this severe fall, a sharp come-back has been observed in the entire region in 2010. In Romania, the crisis has brought several changes in the volume, dynamics and structure of exports. Unfortunately, in Romania a small number of companies, i.e. the first 100 exporters, brings 50% of the total revenues from exports. Although global measures to address the exporters' problems during the crisis have been designed, discussed and implemented by national authorities and international organisations, still many problems remain, such as: the discouraging fiscal treatment in the national frameworks, instability of exchange rates, lack of competitiveness and real advantages on the external markets and the high competition from the Eastern countries outside EU. Considering these challenges, Romania needs a medium and long term strategy to facilitate in future the export of high added-value products and in general of products incorporating high technologies.

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