

Recent developments of Romania's trade balance

Alina Cristina Nuta

School of Economics & Business Administration, Danubius University, Galati, Romania

*Women Researchers Council, Azerbaijan State University of Economics (UNEC), Istiqlaliyyat Str. 6,
Baku 1001, Azerbaijan*

1. Introduction

Economic globalization is the paradigm under which world countries set their growth strategies. Its premises can be traced back to the Age of Discoveries when new trade routes were developed, and goods exchange intensified rapidly. However, in the second half of the 20th century, globalization drove trade expansion and improved financial relationships to facilitate investments and capital creation. Globalization was a significant driver for the fourth industrial revolution's expansion and a major beneficiary, a complex context that created the premises for the fifth industrial revolution. At the same time, some regions (e.g., Eastern European countries) were less favored or could not fully benefit from the fruits of the global economic relationships system for different reasons – such as being a part of the Communist sphere of influence. Therefore, the unequal mechanism of the globalization itself, created the premises for other countries (e.g., Third World countries) becoming pollution havens or raw materials suppliers for more technologically advanced economies. Nonetheless, globalization expanded the economic output generation to levels impossible before, and at the same time, people's standard of living is generating technological and welfare spillovers. In this context, world economies compete and cooperate to enhance their global opportunities and increase the benefits from participating in the global economic game (Wuri et al., 2022)¹. This paper points out the characteristics of Romanian trade balance and its convergence with the global value chain.

2. General perspective on Romanian trade balance over the past few years

Romania has gone through a difficult road from exiting the communist bloc, reforming its economic system, adapting to the new free-market realities, and finally participating in the global supply chain². The country entered the soviets' zone of influence after the Second World War when a communist regime was imposed from Moscow. The national economy was organized accordingly and the international relationships were dictated, while the free-market conditions were practically inexistent. After the Soviet Union collapsed, Romania became a democracy, embracing free-market rules and restructuring its national economy.

Nevertheless, Romania is not fully benefiting from global trade as its trade balance remains negative. Most of its trade volume is with countries in Europe and Central Asia, for both imports and exports, yet the trade deficit is nearly 30% of its exports.^{3 4}. Actually, the only regions for which Romania's exports exceed its imports are Africa and North America. In the first case (Africa), the products imported by Romania from this region are mainly raw products with less added value, while in the second case (North America), the imports as well as commercial exchanges are rather limited.

Using other countries' intermediate inputs to produce goods is not bad if the country's innovative and technological profile is high and its exports are not based mainly on raw materials or less complex

¹ Wuri, J., Widodo, T., & Hardi, A. S. (2022). Global Value Chains Participation during the COVID-19 Pandemic: A Dynamic Panel Approach. *Economies*, 10(5), 121. <https://doi.org/10.3390/economies10050121>

² <https://wits.worldbank.org/CountryProfile/en/Country/ROM/Year/LTST/>

³ <https://wits.worldbank.org/CountryProfile/en/ROM>

⁴ <https://wits.worldbank.org/CountryProfile/en/Country/ROM/Year/LTST/TradeFlow/EXPIMP>

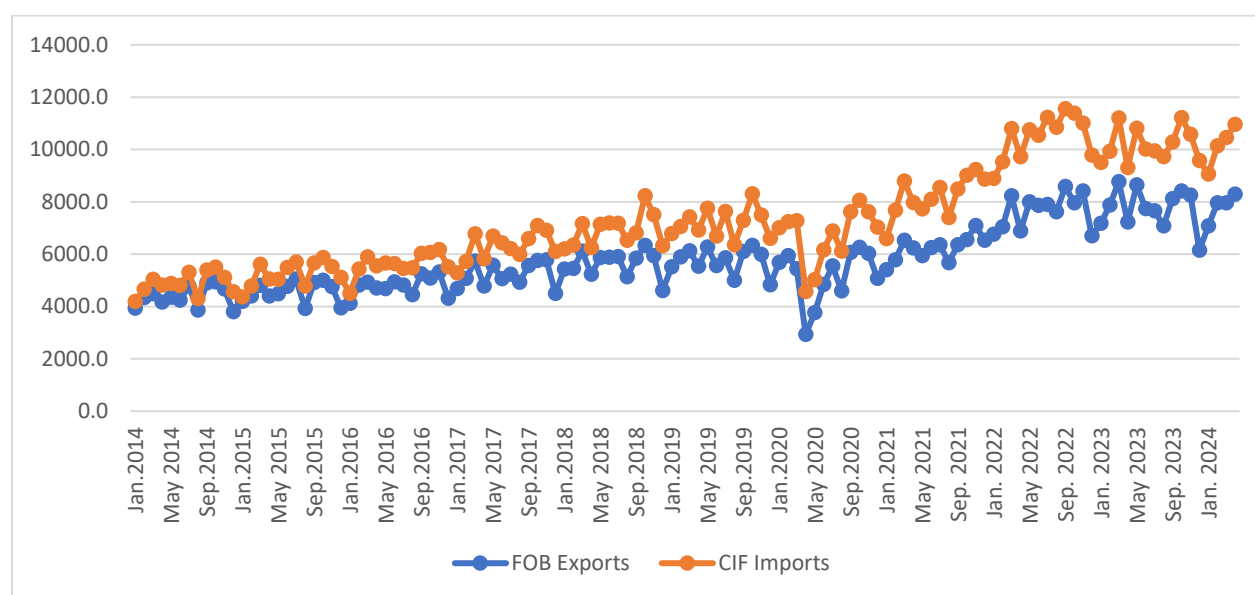
products that lack full integration in the international network. Creating domestic value-added is important for a country to become more competitive and generate net positive domestic value-added gains⁵.

When analyzing the import content of exports, it is observed that 24.4% of Romania's gross exports are import-based, according to OECD data from 2020. This percentage is relatively low compared to other countries in the region, such as Poland (30.7%), Bulgaria (33.5%), and Hungary (44.7%). However, this level is less favorable when compared to the EU-27 average of 16.3% and the OECD average of 9.7%. Although Romania's economic position is not necessarily weak, the country faces challenges in reducing its dependence on imports for more complex, value-added products.

In correspondence with the import content of exports indicator, the domestic value added of gross export measures the value of products and services from exports added by an economy. In 2020, according to the OECD⁶, Romania generated 75.6% of the value from domestic forces, while the average for EU-27 was higher, at 83.7%. From a regional perspective, Romania's global trade position with respect to this indicator is above other countries, such as Poland, 69.3%, Bulgaria, 66.5%, or Hungary: 55.3%. This means that the economy is becoming more and more convergent with other competitive economies⁷.

Generally, as shown in Fig. 1, there has been an upward trend in Romania's international transactions, with both imports and exports increasing. However, this has been accompanied by a growing trade deficit in recent years. The COVID-19 pandemic also influenced the trend of transactions with other countries; the situation was revitalized in a short period.

Figure 1. Romania's trade balance 2014-2024



Source: www.insse.ro

Note: FOB (Free on Board) price represents the price at the border of the exporting country, and CIF (Cost, Insurance, Freight) price represents the price at the border of the importing country

⁵ https://unctad.org/system/files/official-document/ecidc2013misc1_bp8.pdf

⁶ <https://data.oecd.org/trade/domestic-value-added-in-gross-exports.htm>

⁷ Wuri, J., Widodo, T., & Hardi, A. S. (2023). Speed of convergence in global value chains: Forward or backward linkage. *Heliyon*, 9(7), e18070. <https://doi.org/10.1016/j.heliyon.2023.e18070>

Foreign direct investments (FDI) are directly linked to the international trade. In this sense, the net flows of FDI in Romania⁸ presented a record level of more than 10,000 million euros in 2022 due to more relaxed COVID-19 pandemic crisis management regulations. According to the same source, the sectors with higher performance in 2022 were the industry, trade, and the financial sector. Additionally, FDI enterprises global trade had also a positive trend in Romania, increasing by more than 20% compared to the previous year. The biggest foreign investors in Romania are Germany, Austria, and France, and the most important domains are manufacturing, trade, construction, and real estate transactions, and financial intermediation and insurance concerning greenfield enterprises (meant to develop new production capacities). This is a measure of the integration of these kinds of companies into the global value chain. Moreover, this increase must also be considered and assessed in a prudent manner in the broader landscape of global macroeconomic trends, with higher prices generated by geopolitical frictions, inflation, energy, and other raw materials (which are critical in the energy transition context). It should be also noted that 71.3% of Romania's exports of goods and 66.3% of Romania's imports are based on FDI companies' activities, which experienced a downward trend during 2022.

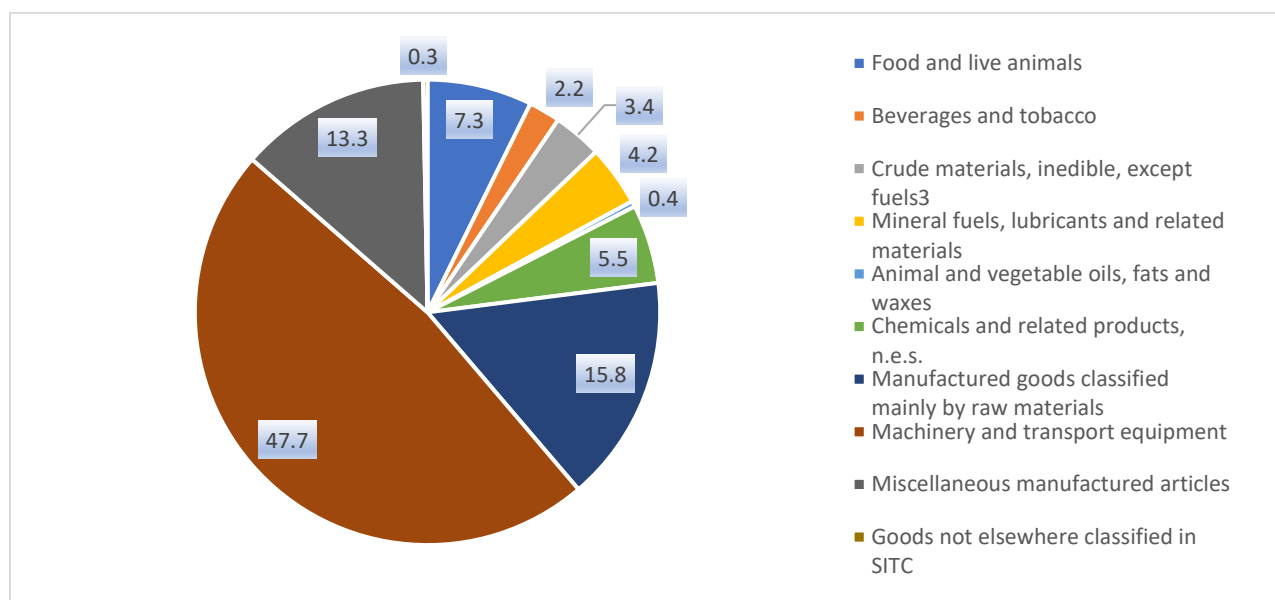
3. Structure of products.

3.1 Exports

Romanian exports structure in 2023⁹ was mainly based on parts and accessories of the motor vehicles (7.7%), motor cars and other motor vehicles (6.87%), Insulated wire, cable (4.37%), boards, panels, consoles, desks (3.84%), and petroleum oils and oils, not crude (2.6%).

During the first three months of 2024, the top products exported were machinery and transport equipment (47.7%), manufactured goods classified mainly by raw materials (15.8%), and miscellaneous manufactured articles (13.3%), as presented in Fig. 2.

Figure 2. Romania's FOB Exports by products (% in total), 1.I-31.III 2024



Source: www.insse.ro

⁸ <https://www.bnr.ro/PublicationDocuments.aspx?icid=14364> FDI in Romania 2022 report

⁹ <https://trendeconomy.com/data/h2/Romania/TOTAL>

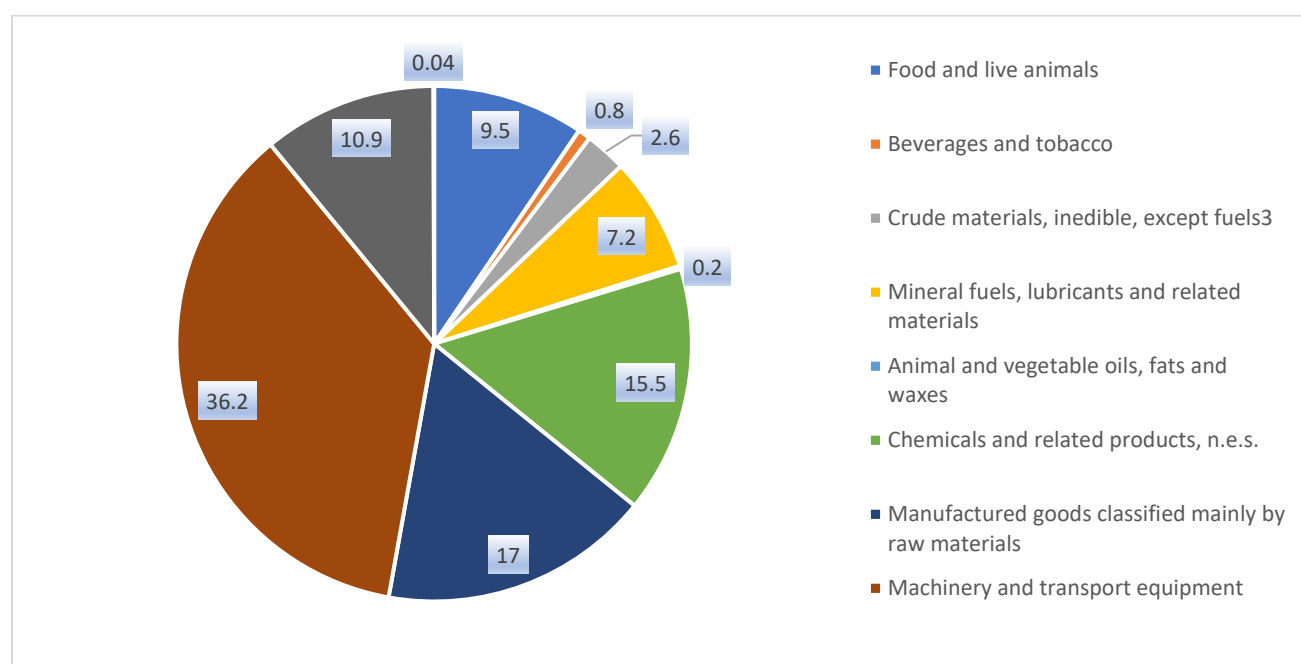
The top 5 countries where Romania exported its commodity in 2023 are Germany with a share of 20% (20 billion US\$), Italy with a share of 10.1% (10.2 billion US\$), France with a share of 6.34% (6.38 billion US\$), Hungary with a share of 5.66% (5.69 billion US\$) and Bulgaria with a share of 4.15% (4.17 billion US\$)¹⁰.

3.2 Imports

Romanian imports structure in 2023¹¹ was based on electrical machinery and equipment; sound recorders, television image and accessories (15.2%), nuclear reactors, boilers, machinery, and mechanical appliances (11%), vehicles other than railway or tramway rolling stock (10%), mineral fuels, oils and products; bituminous substances; mineral waxes (8.52%), and plastics (4.73%).

During the first three months of 2024, the top products imported were machinery and transport equipment (36.2), food and live animals (17%), chemicals and related products (15.5%) (Fig. 3).

Figure 3. Romania's CIF Imports by products, (% in total) 1.I-31.III 2024



Source: www.insse.ro

The top 5 countries from where Romania imported its commodity in 2023 are Germany with a share of 19.3%, Italy with a share of 8.65%, Hungary with a share of 6.47%, Poland with a share of 6.24% and China with a share of 5.53%.¹²

An analysis of the structure of trade relationships reveals intriguing facts that enhance the overall understanding of Romania's trade balance. In 2022, high-technology exports accounted for 11.62% of Romania's total manufactured exports, whereas the global average stood at 19%. Raw materials constitute nearly 7% of Romania's total exports, with cereals comprising almost 5%. It stands to reason

¹⁰ <https://trendeconomy.com/data/h2/Romania/TOTAL>.

¹¹ <https://trendeconomy.com/data/h2/Romania/TOTAL>.

¹² <https://trendeconomy.com/data/h2/Romania/TOTAL>.

that utilizing these primary goods more effectively in domestic industry could potentially mitigate, if not eliminate, the trade deficit. It is widely recognized that manufactured products add more value than raw materials. They involve highly skilled workers, education, and research and development (R&D), thereby generating greater social and economic welfare.

From the 2024 data, it can be observed that Romania's trade balance has improved. The most commercialized products are machinery and transport equipment, accounting for 36.2% of imports and 47.7% of exports. Despite a large portion of these exports being based on imports, this represents significant progress for Romania's development.

4. Romania-Asia foreign trade characteristics

Currently, over 70% of Romania's international trade volume is generated from commercial relations with European countries. Comparatively, Romania's trade with Asia generally shows a smaller volume due to geographic proximity and historical ties within Europe. However, in recent years, Romania has been actively expanding its trade with countries in Asia.

The most important Asian partner country for Romania's imports is China, which accounts for 5.53% of its total imports. Despite its essential place for imports, China is not included even in the first ten countries as important for exports, which indicates a bilateral deficit between Romania and China. It can be also observed that the main categories of products imported from China by Romania are the same as those exported by Romania to European Union member states, according to INSSE statistics.

Turkey is another very important partner for Romania, accounting for 3.18% of exports (mainly metals, machines, and transportation) and 6.11% of imports (mainly mineral products, metals, and machines), according to OEC data (2022)¹³

Only 0.61% of total exports of Romania are placed in South Korea, and the most important products are machines (more than 30%), vegetable products (more than 25%), motor vehicles, parts and accessories (7.89), and textiles (less than 20%). Imports from South Korea account for 0.45% of the total and are based on metals, machines, plastics, and rubbers.

5. Conclusions

The international commercial relations of a country serve as a reflection of its competitiveness and significance within the global manufacturing and trading networks for goods and services. Recently, these relations have gained importance as a key indicator of a country's economic complexity level Stojkoski et al. (2023). A higher rank in these assessments corresponds to a more complex industrial landscape for the country.

Regarding Romania's economic complexity, it ranks 26 (of 133) by trade, 42 (of 96) by technology, and 75 (of 135) by research, according to Observatory of Economic Complexity (OEC). The most specialized products are sunflower seeds, sheep and goats, and processed tobacco. Additionally, Romania's most

¹³ <https://oec.world/en/profile/country/rou?tradeScaleSelector1=tradeScale0&yearlyTradeFlowSelector=flow1>

complex products, were instruments, apparatus, ion exchangers, metal picking preparations, and cements in 2022 (OEC)¹⁴.

Romanian trade balance remained negative for several years, but its structure and complexity varied over time, including in the framework of the last events, such as the COVID-19 pandemic and the Ukrainian war. These events affected both demand and supply in Romania and other countries, considering the level of globalization and the global value chains. The fragmentation of the production (in the automotive or electronics sectors), based on specialization, offers advantages to the production processes by involving several states. These risks affected the normal functioning of the global value chain, and the contagion phenomenon increases the impact. For example, the biggest companies in the auto sector stopped their activity for a few weeks, while in the case of pharmaceutical and food products, restrictions were imposed on their delivery to other states¹⁵.

Romania should consider expanding its position in the global value chains by implementing proper trade and investment policies¹⁶, especially considering global uncertainties such as pandemics, geopolitical risks, inflation, and other factors that can undermine the country's efforts to occupy a better position. A more convergent and integrative policy as well as an increasing potential to deliver more complex products and services (e.g., machinery and transport equipment), could enhance the economic potential and human development. Integrating technology, a highly skilled labor force and a competitive cost of production with efficient partnerships and regulations could increase the benefits. For example, for better transparency, the Romanian government implemented the RO e-Transport system, which is responsible for monitoring the movement of merchandise with high fiscal risks in Romanian territory. Additionally, starting in March 2024, Romanian authorities adopted the AES-RO system to simplify the export operations for authorized economic operators¹⁷.

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¹⁵ See Banca Națională a României https://www.bnr.ro/files/d/Evenimente/2021/RA20Caseta_1.pdf

¹⁶ <https://www.worldbank.org/en/topic/global-value-chains>

¹⁷ <https://customs.ro/e-customs/aes>

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