ROMANIA: COMPARATIVE ADVANTAGE IN FOREIGN TRADE AND THE ACHIEVEMENT OF A SOLID CATCHING-UP GROWTH IN THE FUTURE

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***1. Poor economic performance in 90's and great expectations in a prolonged expansion period in the new millennium*.**

The systemic transformation from centrally planned system to market economy in Romania began 16 years ago. The market–oriented reforms involved a radical change of economic policies. The list of these changes is extremely large but the proposed prescription of systemic transformation has established at least six key policy measures: macroeconomic stabilization; internal liberalization; removal of restrictions on trade and foreign direct investment-the so called external liberalization; privatization of state owned enterprises; development of a new private sector; establishment of a market supportive legal framework.

The outcome of Romania's economic performance during transition remains until now somewhat puzzling. Romania developed an uncommon pattern that wittnessed not only a considerable output decline during the early years of transition(this was the common pattern developed by countries such as Poland, Hungary, Slovak Republic and Slovenia) but also a very severe recession from 1997 to 1999 (Czech Republic is the only country of Central and Eastern Europe that registered an output contraction from 1997 to 1999 but of more moderate proportions). Therefore for Romania we might refer to the existence of a specific W-shaped adjustment way in a sharp contradiction with the existence of a U-shaped adjusment path to reform experienced by other Central and Eastern European countries.

The poor economic performance of the 90s was accompanied by a high volatile inflation rate and by an unemployment rate that followed an evolution of a W-turned upside down.

The first 6 years of the new millenium are witness of the beginning of a period of expansion. The great expectations in a prolonged expansion that will continue in the future are based on the pursuance of a coherent macroeconomic stabilization policy, the existence of a deeper integration in the global economy with a dynamic inflow of foreign investment and a dynamic domestic private sector within a more business friendly environment. Despite these 6 years of renewed economic growth(2000/2005), Romania's GDP index for 2005 compared to the 1989 level was only 103,3 in 2005(1989=100).

2) Foreign trade performance: bright spot or another poor performance

After a dramatic collapse over the 1990-1993 period, Romania's nominal exports of goods began to recover increasing by a steady pace. Taking also into accoount the evolution of commercial services exports, Romania's total nominal exports rose by 174%

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to US dollars 32,6 billion in 2005 as compared to US dollars 11,3 billion in 1989. In this case we may refer without doubt to the existence of a U-shaped evolution of Romania's exports with a tendency to accelerate in the first decade of the new millenium. The import recovery was more rapid and pronounced, with the outcome of an increasing foreign trade deficit.

As compared with the GDP growth, Romania's foreigh trade performance may be considered a bright spot in the landscape of the national economy. The outcome is an increased integration of Romania s economy with the global economy.

Romania's integration with the global economy

Years	1990	2004
Merchandise trade (% of GDP)	32,8	76,7
Trade in services (% of GDP)	3,6	10,2
Foreign direct investments (% of GDP)	0,0	7,4

Source: World Development Report 2006

Before the political events at the end of December 1989, Romania's foreign trade policy towards the rest of the world, with the exception of CMEA countries (Council of Mutual Economic Assistance), may be defined as a high protectionistic one. At the same time inward foreign investment(FDI) was practically limited to joint ventures, with foreigners restricted to holding a minority share in enterprises.

Over the transition period the main change of Romania's foreign trade strategy resulted from applying for EU membership with free trade agreements concluded with EU(on an asymetric basis) and with other EU accession countries of Central and Eastern Europe(on an symetric basis). At the same time, Romania promoted an extensive foreign trade liberalization and followed its policy of participation in the multilateral system with an active role in WTO multilateral negociations.

All these remarkable changes including a reformed domestic price system that signaled relative factors scarcity have helped to bring the geographical and commodity composition of Romania's foreign trade more in line with its specific productive resources and comparative advantage.

To analyze the change suffered by Romania's commodity exports in the time period since December 1989 political events, we may use the modern classification that divides the traded products in five main categories according to the relative process of factors, different factor intensity of the industrial sectors and the relative endowment with factors:

a) Labour-intensive products
b) Resource-intensive products
c) Capital-intensive products

d) Schumpeter mobile industries: these are research-intensive industries where the research units are independent of the production process. In this case the companies are mobile on a worldwide basis when they decide where to locate their production units in pursuit of maximum efficiency and profit.

e) Schumpeter immobile industries: the so called immobile Schumpeter industries are the sectors where the border between the research and the production activities is difficult to define. Semiconductors represent such an immobile industry as compared with personal computers and components that are mobile.

As it might be expected, Romania's former specialization based on resource intensive and Schumpeter resarch intensive immobile industries was not more sustainable. These two sectors registered a massive decline of their share in Romania' s commodity trade. On the other side, taking into account the relative prices of factors and different factor intensity, Romania's comparative advantage in a first stage is given by the labour intensive production because labour force is abundant and the wages are low as compared with the capital factor that remains scarce and expensive. No wonder at all that the most impressive change in the last decade was the result of a rapid increase of the share of labour-intensive industries in Romanian total exports.

Trends of the main sectors in Romanian foreign trade(% share in total Romanian exports)

Sectors	1989	1998	2005	Share trend 1989/2005
Labour intensive products	14.1	35.6	28.5	increase
Capital intensive products	10.6	10.2	8.8	decrease
Resource intensive products	32.7	23.5	23.8	decrease
Schumpeter immobile industries	21.7	8.0	12.1	decrease
Schumpeter mobile industries	10.4	5.9	9.8	stagnation

Romania's exports and foreign trade may be considered a bright spot of the economy especially taking into account the powerful increase registered in 2001/2005. But if someone compares Romania's achievements in foreign trade with the trade development of other EU accession countries, he or she might feel a big dissappointment.

Merchandise exports and imports of selected EU accession countries, 1989-2004(billion US dollars)

Exports

Country	**1989**	**2000**	**2004**	**Index 1989=100**
Romania	10.490	10.367	23.485	224
Czech a. Slovak R.	14.450	40.993	96.032	665
Poland	13.470	31.651	74.838	556
Hungary	9.670	28.092	54.759	566

Imports

Country	**1989**	**2000**	**2004**	**Index 1989=100**
Romania	8.435	13.055	32.664	387
Czech a. Slovak R.	14.260	44.843	98.803	693
Poland	10.270	48.940	89.607	873
Hungary	8.865	32.080	59.225	668

Source: Economic Survey, UN EEC Europe, different years

The other accession countries(Czech Republic and Slovak Republic, Poland and Hungary) registered an explosion of their foreign trade relations. The nominal export index for Romania in 2004(1989=100) represented only 224 as compared with 665 for Czech and Slovak Republics, 566 for Hungary and 556 for Poland.

3)Romania as a catching-up country

The catching-up growth is defined as a process whereby an economy with a lower level of technology and income(the follower) narrows the income gap with the high technology and richer countries(the leader) through a process of technological diffusion and capital flows from leader to follower. In his categorization of countries according to growth mechanism, Jeffrey D. Sachs included Romania in a group of 23 countries(such as Bulgaria, China, Hungary, Indonesia, Malayesia, Mexico, Poland, Portugal, Spain, Thailand and Turkey) defined as catching-up economies. Romania was classified in this category because its exports of manufactures in the machinery and transport sectors (SITC 7) plus the miscellaneous manufactures sectors (SITC 8) accounted for at least five percent of GNP in 1995.

For Romania, the quality and technology catching-up may occur by three different means:

a) Importation of machinery and equipment in which new technologies are embodied. But to create the foreign currency funds necessary to import, Romania must apply a successful export promotion policy that will focus especially on the sectors with a comparative advantage. These are not only the traditionally labour-intensive products such as furniture, clothing, footwear(with an increased attention to high-priced items of a more innovative and fashion-oriented content) but also products of ecological agriculture or IT services.

b) Attraction of foreign direct investment in which the multinational companies will use technologies that are not available in the recipient country, respectively Romania. The Schumpeter mobile industries remain as a main opportunity(such as equipment for electrical production and distribution) taking into account the mobility of such production units and Romania's superior endowment with human capital, especially with scientific and technical skills as compared to other developing countries of Asia or Latin America.

c) Licensing of technologies especially those under patent.

All these ways are expected to create a process of quality and technology catching-up narrowing the gap between the quality of Romanian exported and imported products and the gap between the quality for Romanian exports relative to its competitors in the global market.

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