
INTERNATIONAL TRADE AND INFLATION – BRAKES ON ECONOMIC GROWTH

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Abstract

Economic growth is an essential objective in the strategy of the economy of any country and, by way of consequence, also of Romania. Analyzing the macroeconomic indicators published by the National Institute of Statistics and Eurostat, we find that two elements, two statistical quantities, namely international trade and inflation, (the consumer price index and the harmonized consumer price index, HICP) have a negative effect during this period on economic growth.

The authors aimed to highlight, using the data from the National Institute of Statistics mentioned above, how they have a negative effect on economic growth (Gross Domestic Product).

Individually, both export and import considered show a positive influence on economic growth because import is found in all the indicators regarding the uses of the Gross Domestic Product, namely household consumption, total consumption, gross investments and so on. At the same time, exports also have the same effect, only that in the calculation relationship of the Gross Domestic Product on account of uses, we add the export and subtract the import which is higher or, statistically, we consider the net export which is the difference between export and import, always deficient.

This analysis highlights that, year after year, the Gross Domestic Product is negatively affected by maintaining and even increasing net exports.

In carrying out this study, we used the data provided by the National Institute of Statistics and Eurostat, we carried out logical and interpretive analyzes that highlight the objective that the authors have assumed.

Keywords: international trade, inflation, crises, indicators, economic development, macrostability.

JEL classification: E20, H10

Introduction

In this article, I started from the fact that, as a rule, economic growth can be achieved in three ways: by increasing consumption, because the final consumption includes in its structure the value added tax; on account of investments, in the sense that they create new jobs, absorb part of unemployment and thus contribute to increasing production in all branches of the national economy; and the mixed path, i.e. growth on account of consumption but also of investments.

It must be seen that investments are limited because financial resources are also limited.

Consumption is increasing in value terms, although in terms expressed through physical indicators it does not have the same trend. But, as I explained in the article, this is achieved due to growth over a period of time.

We then analyzed inflation, the increase in prices which, in the period 2019 – 2022 and the beginning of 2023, had an even alarming growth trend.

At the end of 2022, the consumer price index, which measures inflation, was around 16 percentage points. And the harmonized index of consumer prices had a trend in the same direction, perhaps a little more tempered. These have led to price increases in the national economy, in almost all categories of goods and services.

The consumer price index showed growth both for food and non-food products, as well as for services. The increases in these prices were due to the effects of the crises that Romania's national economy is feeling. Thus, after the COVID 19 pandemic crisis, there followed the economic-financial crisis with which, from February 24, 2022, the armed conflict Ukraina - Russian Federation (the Russian-Ukrainian war), which led to the start of the energy crisis, the agri-food crisis and thus an escalation of prices for all goods and services.

In the article I even presented some convincing graphs related to the effect of international trade and the increase in inflation, measured by the two indicators, the consumer price index and the harmonized consumer price index. In some graphs and tables, we have highlighted more clearly how these two indicators influenced the evolution of the Gross Domestic Product.

Probably in the next period of 2023, starting from the fact that in the first two months of 2023 the two statistical quantities had the same trend, the same course of damage to the Gross Domestic Product in real terms will be recorded.

This will be determined following the statistical deflation process, which removes the effect of the increase in inflation, as well as by interpreting the net export, the difference between export and import that is increasing and increases the deficit of the balance of external payments.

Literature review

The evolution of activity regarding international trade and inflation were topics that a number of researchers approached. Thus, the main causes and methods of inflation analysis are studied by Anghelache, Gheorghe and Voineagu (2012). Anghel (2015), as well as Anghelache, Niță and Badiu, A. (2016) conducted studies on the evolution of the price index in Romania. Anghelache and Sacală (2015) presented a series of basic notions of inflation. Armantier et al. (2015) addressed a number of issues regarding inflation forecasts. Bernard AB, Jensen JB, Redding SJ, Schott PK. (2012) dealt with the analysis of the role of large international corporations in the international trade of goods. Elgstrom O. (2007) pays attention to the activity of international trade in terms of the content and technique of negotiations, and Fajgelbaum P., Grossman G., Helpman E. (2011) is a study on income, production quality and international trade, in which elements related to foreign trade are addressed today. Harrison, McLaren and McMillan (2011) studied inequalities in trade activity. Hill C., Smith M. (2011) published an extensive paper on international trade relations and relations with the European Union, and Hummels D. (2007) published a paper dealing with the cost of transport in international trade in the age of globalization. Karanassou and Snower (2007) addressed a similar theme in their research. Kim and Henderson (2005) addressed issues related to inflation and the influence on nominal income growth. Staiger R., Sykes A. (2011) published an analysis of international trade, national treatment and domestic regulations in countries involved in such transactions.

Data, Results and Discussion

The year 2022 was an important year in terms of maintaining macro stability. The world economy faced a number of issues, starting from the year 2019. In 2019, quarter IV, the COVID 19 pandemic broke out, starting from China and then covering the entire world map. This pandemic crisis unfolded in an alarming way, encompassing and affecting the entire population of mankind. Vaccines came out, treatments came out, but the results, at the end of 2022, hung in the balance.

On the one hand, all countries have abandoned the restrictive measures they imposed alarmingly in 2020, 2021 and the first part of 2022. Now there is more talk of the effects they produced, in the sense that through the measures taken by the authorities in each country in the desire to curb the rapid spread of this scourge of the pandemic, the economic-financial crisis was triggered.

A series of issues resulted from the measures aimed at restricting tourism, HoReCa activity, activities in other fields of activity in which people were put into technical unemployment, then a series of commercial companies

closed or went bankrupt, all at a place bringing great damage and influencing economic growth.

On February 24, 2022, the armed conflict between Ukraine and the Russian Federation broke out. At the beginning, in the form of a special intervention, it became permanent in the form of a real war in which many lives were lost, again a lot of material damage occurred not only in Ukraine and, I think, in the Russian Federation, but also in the other countries. This is because restrictions have been imposed against the Russian Federation. The Russian Federation, for its part, imposed other restrictions in the field of natural gas and oil, which triggered another energy crisis.

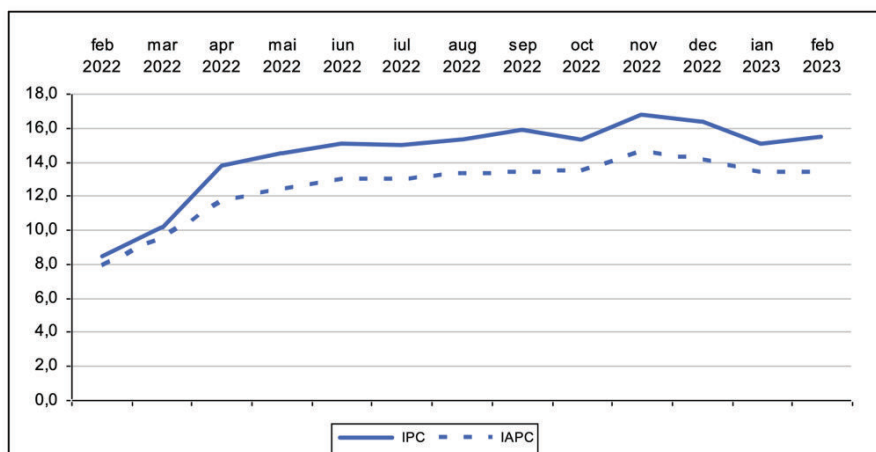
The energy crisis has led to takeover developments in other fields of activity that it has brought under the destructive effect of the energy crisis. Thus, first of all, the agri-food crisis appeared, as well as in other areas, and finally, an inflation crisis.

Inflation is the result of the ratio between the money supply existing in the market and the money supply needed, but it is the result of the increase in prices as a result of the crises we mentioned. From this point of view, we can specify that in 2022 the consumer price index increased by more than approximately 5.6%, provisional data, and attracted differentiated price increases.

Graph number 1 shows the evolution of consumer prices in the period February 2022 - February 2023.

Evolution of consumer prices during February 2022 – February 2023 (%)

Graph 1



Source: INS press release

Table number 1 shows the data on the evolution of the consumer price index and the average monthly inflation rate.

Consumer price index and average monthly inflation rate (%)

Table 1

	February 2023 to:			Average monthly inflation rate, between I I – 28 II	
	January 2023	December 2022	February 2022	2023	2022
Food commodities	101,85	103,38	122,35	1,7	1,6
Non-food goods	100,45	99,46	112,73	-0,3	0,7
Services	100,70	102,53	110,38	1,3	1,0
TOTAL	100,98	101,32	115,52	0,7	1,0

Source: INS press release

We find that the consumer price index in February 2023 compared to January 2023 is 100.98%. The inflation rate since the beginning of the year (February 2023 compared to December 2022) is 1.3%, and the annual inflation rate in February 2023 compared to February 2022 is 15.5%. Also, the average rate of change in consumer prices in the last 12 months (March 2022 – February 2023) compared to the previous 12 months (March 2021 – February 2022) is 14.9%.

As for the harmonized consumer price index in February 2023 compared to January 2023, it is 100.98%. The annual inflation rate in February 2023 compared to February 2022 calculated on the basis of the Harmonized Index of Consumer Prices (HICP) is 13.4%. The average rate of change in consumer prices in the last 12 months (March 2022 – February 2023) compared to the previous 12 months (March 2021 – February 2022) determined on the basis of the HIPC is 13.0%.

In the field of industry, the prices were the highest. Then, in the field of the agri-food industry, prices escalated, some having the effect of reducing production, and others based on the producers' excessive expenses or the desire to capitalize on the created climate in order to obtain additional profits.

The banking system could not stand aside and, under these conditions, began to raise interest rates at the same rate as prices, creating particular difficulties for private producers, who always want to have a secure source of financing, and this cannot be realized only on the basis of a well-adjusted project and in close cooperation with a commercial bank.

From this point of view, inflation in 2022 has reached, we believe, its peak which may, although it had slight increases in January-February 2023, stagnate and take on a slightly downward trend.

Researchers in the field of national and multinational predictions and forecasts foresee a stabilization of the inflation growth rate for the European Union. For Romania, I foresee a rate that could reach a single-digit level at the end of this year, in December. This is possible as long as the production activities will be intensified, the investments will be intensified to ensure jobs, to ensure increased production so that the fundamental law of the free market regarding the ratio between demand and supply comes to the market.

However, there is a fear that certain collateral issues may lead to further increase in inflation. Sure, maybe at a more moderate pace, but we're still talking about growth.

Thus, the PNNR is difficult for Romania to access considering that it encounters a series of difficulties regarding the possibility of responding favorably to the conditions that the European Union has set. As an example, we can only give the chapter on pensions, which revolves around a paradox: on the one hand, pensions do not increase, and the possibility of a new methodology that leads to a decrease in pensions can be seen.

On the other hand, the deadlines in the PNNR are almost exceeded and Romania does not respond favorably to the requirements imposed by the European Union. In this context, it is possible that a part of the allocated sums will no longer be made available for Romania.

Against this background, the purchasing power parity in Romania has changed and expresses a worrying level of shortages that lead to the impossibility of the citizen to procure the necessities of life in the current conditions.

The price of agricultural production is out of balance due to the reduced subsidies that the Romanian state can grant, but also due to the fact that, still, there has not been a favorable response to the requirements on the basis of which we can access the funds intended for agriculture from the PNNR.

On the other hand, the agrotechnical conditions in Romania are quite low and there is a danger that there will still not be sufficient precipitation, there will be no possibilities for fertilizing, chemical treatment and irrigation of a larger area, a context in which the expected productions will be decreasing.

In the field of industry, those that are still active, prices are rising. The recent document on the trend of the national economy, published by the National Institute of Statistics, shows that in all areas of the national economy, prices are the ones that will rise, predictably until June, but probably even further. These will feed the consumer price index on the three components, food products, non-food products and services, but also the harmonized consumer price index that takes into account the change in all prices in the national economy.

In this way, we clearly see that Romania's economy, of course along with those of other countries, will suffer in 2023 or at least in the first part of 2023. In this context, I stated that inflation will be a factor that slows down economic growth (of the Gross Domestic Product in real terms).

Of course, a deflation of around 10-15 percent shows that in real terms and not in current prices, the Gross Domestic Product is decreasing even though revenues to the state budget are increasing. We do not refer here to the prospect that the government, or governments of some states, aim to further increase inflation in order to be able to continue to increase their revenues to the national budget or the consolidated budget. It is easy to see that through inflation VAT is applied to goods and services with inflated prices. Perhaps, to some extent, this is also the reason why both the increase in the population's income (salaries, pensions) is procrastinated, due to the lack of the necessary sources, but also, on the other hand, some timid measures to bring inflation under control, because it is difficult to foresee that it will reach the level expected by economists worldwide, that level of 1-2 percent which is the satisfactory level for the normal evolution of the national economy.

A separate, but very worrying, aspect is also related to the evolution of international trade. In the current conditions, there is no country left that can organize and manage its macroeconomic activity under autarchic conditions. It is impossible for a national economy to produce absolutely everything or what it needs. International economic cooperation is used and its basis is, first of all, the specialization of each country to be able to participate in international economic and technical-scientific cooperation. At the same time, trade in goods and services is developing.

Imports and exports are the two sides of international trade in the sense that, through imports, those products or services are brought to Romania, but also to other countries, which are made in poor conditions in Romania, in the respective country. Against this background, imports always tend to grow in absolute terms faster than exports. Exports, in turn, would be desirable, if the economy is competitive, if it can produce more than domestic consumption needs and export to the European Union, more broadly in Europe and in other countries of the world. Exports compete internationally with two characteristics: quality and price.

The quality depends on the technological level of the Romanian economy, and the prices depend on the costs underlying the production of these products of any kind, which can also be destined for export.

From this point of view, in the year 2021-2022, both export and import increased rapidly, but with an advance in absolute figures for import. At the beginning of this year, already in January, almost 3 billion euros more was imported than was exported.

Analyzing the evolution of the Gross Domestic Product we can start from a factual theory. First of all, we say that, at least in the case of Romania, but also in other countries, economic growth is achieved on the basis of consumption, that is, what is consumed also represents a possibility of economic growth through the revenues collected, through the revenues allocated to the state budget.

From this point of view, when we calculate the Gross Domestic Product according to the consumption method, for example, we find that public consumption increases, administration consumption increases, some investments increase, exports increase, but when we calculate this aspect we establish that, in fact, the consumption of any kind is larger and it includes indigenous and imported products.

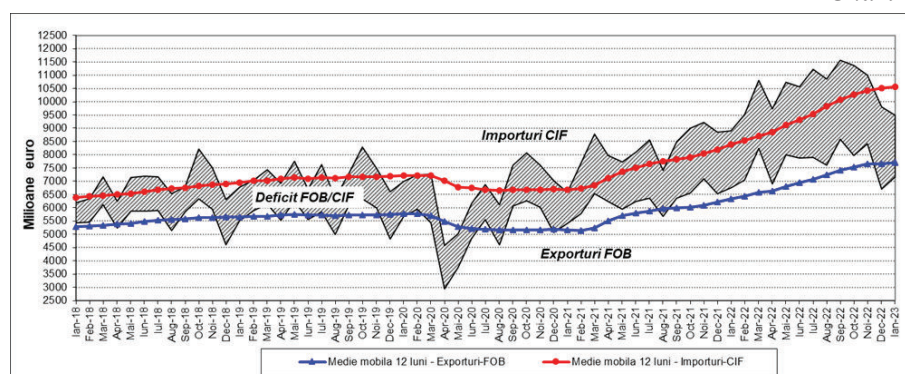
This expresses in reality the fact that through massive imports, 98 billion euros in 2021, over 120 billion euros in 2022, we have also reached an influence on economic growth, only that, taking into account that we add the export and decrease the import, we reach the indicator the net export of the national economy, which expresses the balance of the balance of international payments.

This balance, basically, added at the end of the calculation relationship of the Gross Domestic Product comes to correct the import components found in population consumption, general consumption, etc., and in this way to reach the real level that the Domestic Product recorded Gross from Romania in the respective period.

From 1990 until now, Romania has not had a single month in which exports were at least equal to imports or surpassed imports. They have increased, at first more moderately, and recently they have increased alarmingly. In this sense, a picture of the evolution of exports, imports and the balance of the trade balance between January 2018 and January 2023 is presented in the following graph.

Exports, imports and trade balance between January 2018 and January 2023

Chart 2



Source: INS press release

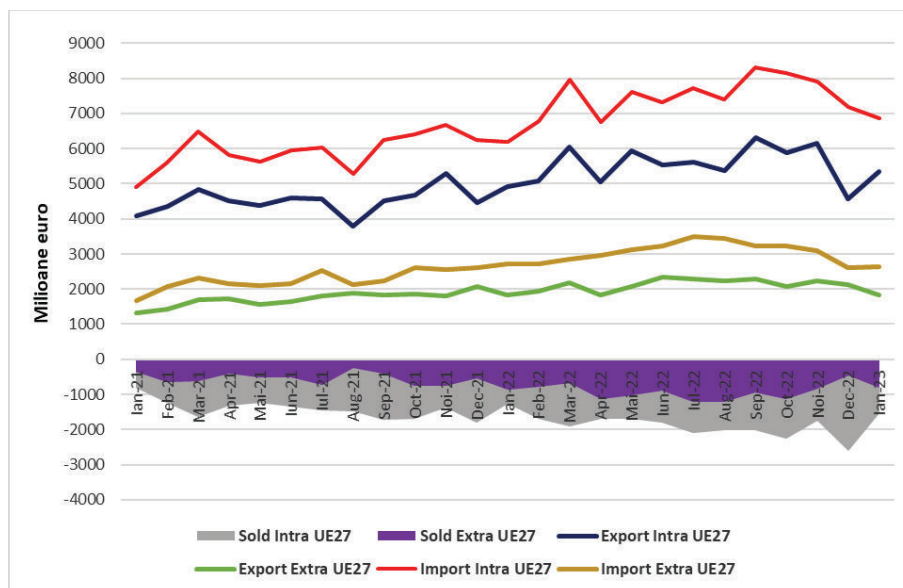
Based on the data taken from the National Institute of Statistics and presented graphically, it can be seen that compared to January 2022, exports in January 2023 increased by 6.0%, and imports increased by 6.8%. The trade balance deficit in January 2023 was 2,338.0 million euros, higher by 203.6 million euros (+9.5%) than the one recorded in January 2022.

Romania's international trade in goods and services takes place intra-community and extra-community. Intra-Community trade is facilitated by the European Union directive which provides for the free movement of goods and services in the 27 member states. From this point of view, importing and exporting is like selling or buying from the domestic market. VAT is no longer charged on intra-Community imports and exports; it is deducted from the start.

The following graph shows the evolution of exports, imports and trade balances Intra-EU27 and Extra-EU27 between January 2021 and January 2023.

Exports, imports and intra-EU27 and Extra-EU27 trade balances between January 2021 and January 2023

Chart 3



Source: INS press release

We find that the value of intra-EU27 exchanges of goods in January 2023 was 5,337.1 million euros for exports and 6,865.8 million euros for imports, representing 74.5% of total exports and 72.3% of total imports. Also, the value of extra-EU27 exchanges of goods in January 2023 was 1,823.1 million euros for exports and 2,632.4 million euros for imports, representing 25.5% of total exports and 27.7% of total imports.

In this way, the floor that intra-Community trade has is the majority in total trade. Romania carries out commercial exchanges with the other non-member states of the European Union, but under these conditions, some measures can be taken to moderate imports and stimulate domestic producers. Thus, imports from non-member countries of the European Union may be charged import taxes that aim to raise the price of the import to the level of the price of domestic production or may even increase it and, in this way, stimulate domestic producers to produce more and to sell on the internal market as large a quantity of goods as possible, of whatever kind they may be.

Romania must also aim to rebuild the industry of the future. This will involve alignment with European Union standards, alignment with the new conquests of research and development, of innovation and innovation. We must see in this sense the fact that research and development in Romania is reduced and as a result of the particularly low weight that the allocation of funds from the consolidated state budget has. Thus, until now, it has not exceeded 0.48% of the total expenses allocated during the budget year.

If we separate this amount into expenditures made by the private sector and expenditures carried out by the public sector, we will find that here things are even worse. 19-20% of the difference is allocated from the state budget, coming from the private sector.

On the other hand, a series of inventions and innovations made by Romanian researchers gain international appreciation, but they cannot be put into pilot stations to verify the production behavior of the inventions and innovations. Here, then, is another side of the national economy that is deficient.

All these together create problems of maintaining macrostability. Market prices influence purchasing power parity, negatively influence the ratio between incomes and prices, inflation, so that the population has fewer and fewer sources to meet the daily requirements of life, resorting to savings, resorting to possibilities of giving up consumption, depending on the income available.

On the legislative level, in Romania there are concerns to establish a new salary law, to establish a new retirement law but, except for the recent increase of a few percent of salaries and pensions, the governments could not

keep their promises to put into practice the measures considered both in the field of pensions and salaries. We are referring here, first of all, to the salaries of budget officers because they are also closely monitored by the private sector. Thus, only the minimum wage per economy becomes mandatory for the private sector as well. The jump of 300 lei to the minimum wage in the economy is not satisfactory in the conditions of the price explosion and even if the harmonized consumer price inflation rate or the consumer price index rate are somewhat reasonable, when we study the structure we will find that they have increased the most the prices of vital products, strictly necessary for the population, which lead to the constant reduction of the standard of living, of the quality of life in Romania.

It is easy to say that measures must be taken, but what measures to take when the external public debt has exceeded 150 billion euros. It is a colossal amount that will tend to increase in the next period, as there are no possible measures to temper and reset the economy.

This is why I said from the start that, first of all, international trade and the inflation rate are the most difficult factors to control that have an effect on economic growth (Gross Domestic Product) and at the same time lead to affecting the quality of life of the population.

Going a step further, we will find that even in the field of health and education, two areas of utmost importance for the population of any country, difficulties are encountered. Subsidies from the budget are minimal. The increase in salary expenses, in the field of education in particular, but also in the field of domestic or imported medicines, is debatable and is postponed from one period to another.

All this creates great difficulties regarding the quality of education at all levels in our country as well as health and especially the possibilities of treatment, of acquiring appropriate medication. As a paradox, the most expensive imported drugs that are used in rare diseases that have spread in Romania, are the ones that benefit from the least compensation or not at all, while the simpler, less effective drugs are still offered for free.

With this, we wanted to emphasize that the perspective of the evolution of Romania's economy will be delicate in the coming period and our involvement in granting aid to other countries appears to the average citizen as a slightly reckless measure, as long as there are domestic possibilities to subsidize the activity of smaller and smaller, of granting bonuses to the population, to the children of these beneficiaries, and the nonchalance with which aid is offered to the two neighbouring states produces uncertainty and often dissatisfaction among the large population of Romania.

Conclusions

From the study of this article, a number of conclusions emerge, among which we recall: international trade is necessary for the national economy, but the effect of the balance between export and import, which is negative, affects the growth in real and constant terms of the gross domestic product. It is also noted the need for measures to reduce the deficit in the trade balance of external payments by increasing exports and, as far as possible, keeping imports under control.

Keeping imports under control also aims at another important element for the structure of Romania's national economy, in the sense that a lower import ensures the possibility for domestic producers to sell their goods and services on the domestic and international market, which will contribute to reducing the effect of the decrease Gross Domestic Product due to the increase in the deficit of the trade balance of external payments, of net exports.

I said moderation of imports in two ways. On the one hand, since imports are lower, especially for agri-food products and others that are not strictly necessary, an incentive is provided for domestic producers to enter the market and thus ensure a greater share of these producers in sales on the domestic market. At the same time, growing exports would reduce the deficit in the trade balance of external payments or, in other words, the size of net exports.

This must be a point of view and some provisions from the National Recovery and Resilience Plan that refer to subsidies through this program from the European Union that, when used, should be used to increase agricultural production in some economic fields must also be used in this direction. And so on. Also, an effort must be made to find investment opportunities that will lead to increased exports in the context in which we must introduce the industry of the future.

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