
Characteristics of Goods' Foreign Trade between Romania and United Kingdom within Transition Period

Ana Calina, Student

King's College School Wimbledon, Southside, Wimbledon Common, London,

PhD. Candidate Georgiana Andreea Ferariu (ferariugeorgiana@yahoo.com)

Bucharest University of Economic Studies

ABSTRACT

External economic exchanges are the most important component of economic relations. No country, regardless of the level of development, can cover all its needs only from its own production. Consequently, all countries are required to participate in foreign trade.

The aim of the present paper was to provide visibility on Romania's trade relationship with Great Britain.

The data used in the analysis of the evolution of the indicators are represented by the series of import values and by the series of export values. Also, another topic that was given importance in this paper is the impact of Brexit on Romania's foreign trade.

Keywords: *foreign trade, import, export, Brexit*

1. INTRODUCTION

In the contemporary world, the national economy of any country tends to grow, and foreign trade is becoming increasingly important in this regard. The development of economic exchanges is one of the requirements for economic and social progress. Foreign trade with each partner state is determined using the principle that it implies the existence of a country of destination (for export) and a country of origin (for import). The country destination is the country where the goods are consumed and the country of origin refers to the country where the goods were produced or where they were last modified.

International trade, foreign trade in goods and invisible trade are key factors in ensuring balanced development of the economy, the creation of gross domestic product and national income, in defining the balance of payments of any country. (Anghelache and all, 2009)

In a global economy, supporting foreign trade is essential for developing the economy and increasing the investment capacity. These can stimulate development and innovation in companies that export to various foreign markets (Aghion, 2019). A study published by INSEE in France shows that shocks on the foreign markets have influenced the increase in the number of innovations and patents of companies in France (INSE, 2020). This study shows that the effects of these external shocks are perceived at the level of French companies in a time frame between two and five years. In foreign trade relations a country may record in a one-year period or for certain periods of time surplus or deficit of the good trade balance. It is difficult to assess the efficiency of a country foreign trade only by considering the size of the surplus or deficit. In order to formulate a conclusive answer in this respect, we will have to consider several aspects, among which we consider the structure of imports and exports by product categories to be very important, by highlighting the export share of products with a high degree of processing, and the import share of raw materials and products with a low level of processing.

In Romania, foreign trade can be considered the most dynamic economic sector, in a continuous process of restructuring and in the current conditions of the competitive economy is considered an effective tool for regulating economic mechanisms.

With very few exceptions, during the last thirty years Romania has registered significant trade deficits in the foreign trade in goods with the most important countries. Romania registered trade surpluses only in trade relations with Great Britain and France, among all the European Union countries.

As we will show in the study, the year 2007, the year of Romania's accession to the European Union marked an important increase, both of exports, but most of the times also of imports from European Union countries. Therefore, if until the beginning of the 2000s the important part of the exports was oriented towards countries outside the EU space, starting with 2007 around 70% of Romanian's imports and exports are mainly from and to countries from this economic space.

Regarding Romania's foreign trade with one of the countries against which it has a surplus – Great Britain, there are various debates that have as a source the impact that Brexit could have.

Currently, there are negotiations between the Representatives of Great Britain and the representatives of the European Union, in order to have a compromise on a post-Brexit agreement, and thus, the consequences of Great Britain's exit from the EU space should not produce serious consequences.

E. Banica and V. Vasile (2017) mention in their paper that the impact of foreign trade with Great Britain on Romania's economic growth could be

marginal after Brexit, but negative, given that the added value of Romanian exports to Great Britain represent 4% of the total.

Stanciu S. (2016) considers that the impact of Brexit on the Romanian economy could be limited in the short term, due to the moderate level of bilateral trade transactions.

2. METHODOLOGY AND DATA USED

The study was conducted based on statistical data on Romania's imports and exports with Great Britain. The data regarding the two components of foreign trade are available per product categories which will allow the identification of the trend as well as the aspect related to the concentration of foreign trade activity for certain product categories. The data used to conduct the study are annual data from 1990 to 2019 and are expressed in euros. The relevant data sources are represented by the Romanian Statistical Yearbooks and the Romanian Foreign Trade Yearbooks, as well as the Eurostat database on foreign trade in goods for the countries of the European Union.

Based on the primary data, the total volume of exports, imports and the surplus or deficit registered by Romania in foreign trade in goods in relation to Great Britain are determined.

At the same time, annual data identify long-term trends for imports and exports of goods. In this sense, annual growth rates and average annual growth rates are calculated for imports and exports of goods in the period 1990 - 2019, but also for certain representative periods of time.

The data used in the study will highlight the positive impact played by Romania's accession to the European Union on the volume of Romania's goods exported and imported to and from Great Britain. The study also tries to evaluate the effects of negative messages on trade relations with Romania as a result of the process of leaving the European Union by the United Kingdom. Anticipations of the effects of Brexit on Romania's exports and imports of goods from Great Britain are difficult to be done at this time, as this process has been overshadowed by the global economic crisis caused by the global health crisis during the year 2020.

The economic space in Great Britain experienced at least at the level of the second quarter of this year the largest contraction since the Second World War. According to Eurostat, the Great Britain recorded a 21.5% drop in GDP in the second quarter. Even though the Great Britain economy grew by 15.5% in the third quarter compared to the second quarter, the GDP of this quarter, compared to last year, is still 9.6% lower.

3. RESULTS OBTAINED

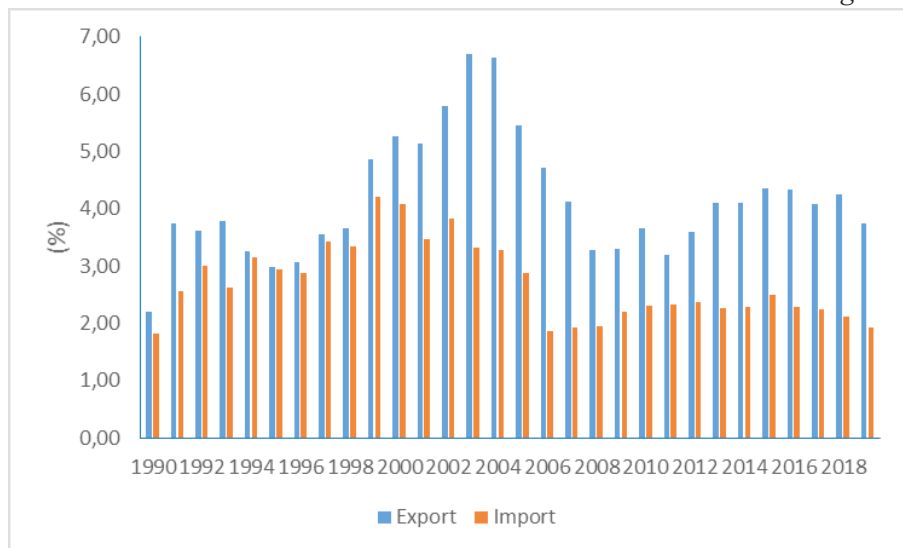
During the last 30 years, Romania has exported to Great Britain goods worth 33.6 billion euros, representing around 4.14% of Romania's total exports during this period. The share of Romanian exports in this country varied from 2.2% (at the beginning of the transition years from the planned economy to the market economy) to over 6.7% (at the beginning of the 2000s). After accession to the European Union, the share varied between 3.3% and 4.3%, oscillating in most years in the post-accession period around 4% (figure 1).

In the period 1990 - 2019, the value of imports was much lower than that of exports, this being at the level of almost 24.9 billion euros, which represents about 2.4% of the total imports of Romania in this period. The share of imports of goods from the United Kingdom in the total imports of Romania varied between 1.8% (at the beginning of the transition period) and 4.2% at the end of the nineties. After Romania's accession to the European Union, this share was maintained in most years between values between 2% and 2.5% (figure 1).

During 1990 - 2019, Romania registered a trade surplus in relation to this country of over 8.73 billion euros. It should be noted that during this period Romania registered a trade deficit of over 229 billion euros, which represents an average annual deficit slightly higher than 7.6 billion euros.

Share of UK exports and imports in Romania's exports and imports of goods

Figure 1

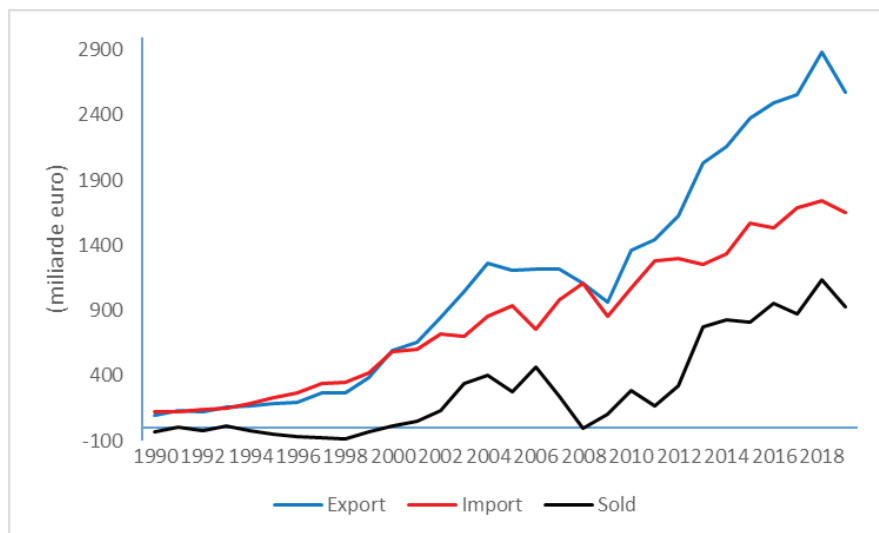


The graph in figure 2 allows the formulation of conclusions on the evolution of imports and exports of Romanian goods to the European Union.

The first conclusion refers to the increasing trend of imports and exports during the period 1990 - 2019. Thus, during this period Romania's exports of goods to the UK increased more than 27 times, which represents an average annual increase of 12.1%. Also, during this period imports of goods increased more than 13 times, which represents an average annual increase of over 9% (Table 1).

Export, import and trade balance of goods in foreign trade with the UK during the period 1990 - 2019

Figure 2



Average annual growth rate of Romania's exports and imports (total and with the UK)

Table 1

	Average annual growth rate (UK)		Average annual growth rate (Total)	
	Export	Import	Export	Import
1990-2019	12.1	9.3	10.0	9.1
1990-1999	17.0	14.3	7.0	4.1
2000-2009	5.5	4.4	11.1	11.8
2010-2019	7.3	4.9	7.1	7.0

The second conclusion refers to the fact that Romania registered a significant trade surplus as a result of trade in goods with the United Kingdom. If during the period 1990 - 2000, except for 1993, Romania registered a deficit, in the following years, a significant surplus was achieved. The only exception for the period 2000 - 2019 is the year 2008 in which the registered deficit is a moderate one of only 4.9 million euros resulting from the decrease of exports compared to the previous year (decrease of exports by 10% compared to the previous year) and an increase of imports (13% compared to 2007). Moreover, since 2009, mainly due to the process of Romania's integration into the structures of the European Union, against the backdrop of the expansion of foreign markets for the sale of goods made in the country, the trade surplus with the United Kingdom has increased .

The third conclusion highlights the fact that there are three time periods in the data series on exports of goods:

- the first one is between 1990 and 2003 and is characterized by a continuous increase in the volume of exports of goods
- the second one is between 2004 and 2009 is the period in which exports of goods stagnate
- in the third stage, which starts in 2010, there is a large increase, year by year, in the volume of exports.

The same periods cannot be identified for imports. In this case, the same upward trend is observed, but with a much lower average annual rate than in the case of exports. For this series we must mention the decrease recorded in 2009 due to the global economic crisis.

As a result of the upward trend in the annual values of exports and imports in 2018, the maximum level was recorded, both for exports of goods (approximately 2.6 billion euros) and for imports of goods (1.65 billion euros). Also, at the level of this year, Romania registered the largest trade surplus in relation to the UK amounting to almost 1.14 billion euros.

In 2019 there is a significant annual decrease in exports (-10% compared to 2018), imports (5.4% less than 2018) and trade surplus with goods (18% less than the surplus of the previous year). Contracting exports and imports of goods can be the immediate effect of Britain's exit from the European Union.

We specify that in the short term it is difficult to anticipate the impact of Britain leaving the European Union on trade relations with Romania.

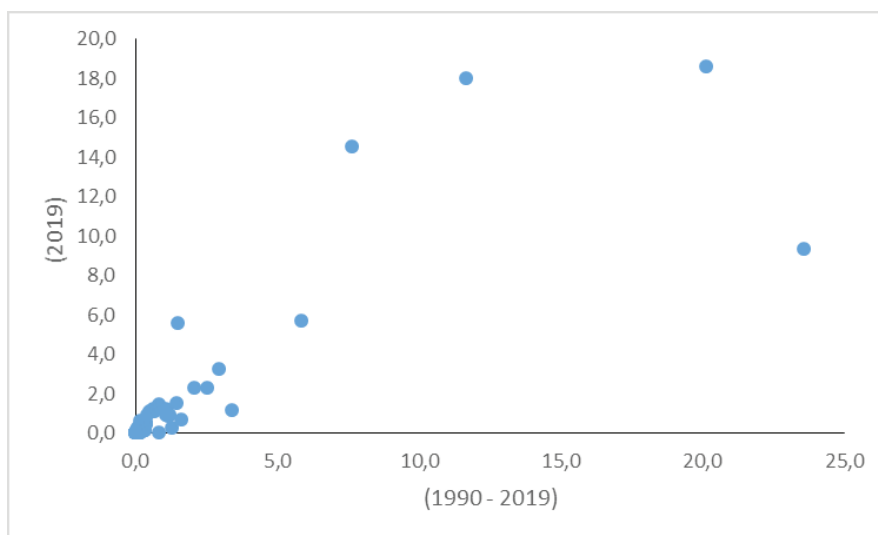
In trade relations between countries it is important to identify whether certain goods are of strategic importance due to their large share in exports. In this respect, the share in the total export to this country was determined for the

goods exported by Romania to the UK. Based on the results obtained in 2019, the graph in figure 3 was drawn up. The results obtained allow the formulation of conclusions regarding the identification of those Romanian products that have a strategic importance in the trade relationship with Great Britain:

- The above data highlight the strategic importance of several products obtained at national level to maintain high exports and to ensure trade surplus with this country. Thus, at the level of 2019, three products (meat and edible organs with 18.6%, edible fruits with 18.0% and inorganic chemicals with 9.4%) hold over 50% of Romania's exports of goods to this country.
- The three products had a share of almost 40% throughout the period 1990 - 2019. It should be mentioned that the products in the category meat and edible organs held in most years during this period a predominant share in Romania's exports to this country.
- Products from the category Articles of cast iron, iron or steel held more than 23% of the export value during the analyzed period, however at the level of 2019 the share decreased significantly to only 9.4%.
- Products in the category Copper and copper articles have a share of over 5%, both in the period and in 2019.
- In recent years, the share of products in the category Nuclear reactors, boilers, machines, appliances, etc. has increased significantly, to over 5%.

**Evaluation of the degree of concentration by product categories of
Romania's exports of goods to Great Britain**

Figure 3



The Theil index is calculated to assess the degree of concentration of imports and exports of goods:

$$T = \frac{1}{n} \sum_{i=1}^n \frac{x_i}{\bar{x}} \log\left(\frac{x_i}{\bar{x}}\right)$$

x_i represents the volume of import/export for a product category, \bar{x} represents the mean of the volume of import / export across the product categories and n represents the number of product categories that have been the subject of the import / export activity.

The index was calculated for imports and exports of products for three years: 2007, 2018 and 2019 (Table 2). The results confirm that over time the degree of concentration of Romanian exports to the UK has increased, so that a small number of products have an important share in exports. On the other hand, imports of products from the Great Britain have further diversified over time.

Theil index

Table 2

	Import	Export
2007	0.590	0.82
2018	0.716	0.617
2019	0.670	0.593

4. CONCLUSIONS

For Romania, the foreign trade activity with the Great Britain represented, at least after the accession to the EU, one of the few EU countries in relation to which it achieved a trade surplus. In 2018, the trade surplus was over 1 billion euros. In 2019, partly due to the effects of BREXIT, Romania's trade surplus in the trade relationship with this country decreased. Romania's exports of goods to this country show a high degree of concentration on certain products. On the other hand, there has been an increase in the diversification of imports over time.

It is possible that as a result of the UK exiting the EU, that the Romanian commercial surplus with regards to the UK may be reduced. The risks are even higher because Romanian exports are focused mainly on a reduced number of products. The commercial relationships between the two countries can be impacted also as a consequence of the world health crisis which has affected all economies.

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