
CHALLENGES OF TRANSITION FROM A COMPLIANCE-BASED LOGIC TO ONE BASED ON PROACTIVITY. THE CONTRIBUTION OF NEW TRADE BALANCES AT THE LEVEL OF ROMANIA GENERATING PROSPERITY

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Abstract

As an EU member country for more than 12 years, Romania needs to appropriately perform the following paradigm shifts: commuting from a compliance logic (specific to the EU accession period) to a pro-active one (definitory for integration process); translating from the prevalence of secondary and tertiary sectors of the economy towards a quaternary one; efficient involvement of Romanian companies into regional supply chains. Romania needs a new development model based on maximum technological intensively and increased value added. Based on a deep analysis of the main ways in which the Romanian economy evolved in the context of the European economic integration process, having as main analytical drivers the changes determined by the implementation of the four freedoms of movement specific for the new stage of the single internal market of the European Union, the authors of this paper used the free movement of goods to emphasize how the criteria for efficiency in resource allocation and contribution to economic growth have been respected. The main research objective was to highlight the level at which imports and exports influenced the general economic structure and how a smaller economy with a certain level of openness to the external environment (small, open economy) manifests competitiveness and contributes through the policies implemented to macrostabilisation in the context of economic cycle fluctuations, as well as to the increase of the degree of well-being.

Keywords:

paradigm shift, relational chart, creation and misappropriation of trade, freedoms of movement, macroeconomic balances

JEL Classification

F15, F16

Introduction

In the last decades, the trade has promoted the creation of competitive advantages, of the fairest distribution of the income increase, but also the creation of prerequisite for the economic development and prosperity, with the adjustment to the new challenges. Since the beginning of the 21st century, two forces have appeared in the world landscape: technological progress and the phenomenon of globalization, which have led to a major impact both on each economic agent and on economies in general. The process of accession and integration into the European Union has generated solid prospects for all Member States with relevant implications for economic policy makers. All these “pieces” have accelerated the process of market expanding while maintaining competitiveness remains the main goal of an economy. Therefore, trade flows, competitiveness, free movement are some of the pillars that support economic development and prosperity, not so much in quantitative terms as in qualitative terms, through rational or irrational choices, for economic or non-economic reasons that consumers make.

The accession to the EU represented a new chapter in the Romanian history with a significant economic and social burden: the economic modernization and the improvement of quality of life. Growth and sustainable development meant “ensuring a sustainable growth rate, necessary and sufficient to reduce Romania's gaps to the EU average; increasing the quality of life, reducing poverty and improving health; maximizing the effects at a unit of resource consumption, in general, and integration costs, in particular, over the medium and long term horizon” (Zaman, 2007). In order to achieve these objectives, a series of structural and social changes were required, together with the unique construction, in which the economic borders are abolished, so that we can speak of a new economic space - dynamic integration (Drăgan, 2005), but components of the national economy follow its own course (static integration), doubled by the integration of policies.

In the document on the programming the Structural and Cohesion Funds, the vision at national level is to “create a competitive, dynamic and prosperous Romania” in order to reduce economic and social disparities with EU Member States (National Strategic Reference Framework 2007-2013). Therefore, one of the clear objectives of the EU is to achieve convergence, which is divided into several types: nominal, real and structural, depending on the different types of policies, respectively economic indicators. Real convergence aims to achieve a standard of living similar to other EU Member States - productivity convergence, a similar degree of openness to the economy. In the same context, structural convergence is discussed, which refers to the structure of the economy by sectors, which can influence the business cycles and long-term development processes (Klasova et al., 2015).

The article highlights the impact of free trade on economic development and prosperity both in the European Union and Romania, given that the expansion of trade in goods and industrial capacity has been the engine of prosperity. However, with the constraint of new rules as a member of the European construct and the evolution of technology, services have become the main area of interest for development, as production and employment (Uppenberg and Strauss, 2010).

In Romania, regarding the international trade, if the value of the imports registered an upward trend after 2007, in the case of exports there were fluctuations, but the two components of the trade balance recorded values much higher than those of the pre-accession period, which shows on the one hand the establishment of new commercial relations with European partners, and on the other hand a series of significant changes in the model of GDP/economic growth, the integration of national actors in European value chains (economic integration), and the way for formulating economic policies.

Free trade encourages the specialization of nations, which improves the efficiency and productivity of workers, leading to an increase in the standard of living of individuals. Trade

is not a zero-sum game, in which if one player loses the other wins. By specializing on a particular production line, then by exchanging goods and services people can substantially increase their standard of living, as productivity gains are naturally followed by an increase in the supply of goods and services, thus an increase in real incomes (Vuldzhev, 2016).

Free trade and prosperity

Collaborative production processes allow each producer to deal exclusively with the production of those goods and services that offer the greatest benefits from productivity. In this way, all economic agents can increase the number of their products and services available, thus contributing to material prosperity. The same principle applied to the cooperation between economies has the same effect on the participating countries. A high supply of goods and services, as well as a high level of material living conditions, ensures a high standard of living and ensures each individual an independent life and full involvement in society in the context of their own freedom (Petersen, 2016).

Free trade ensures both economic growth, through the value registered by GDP in the economy, but also economic prosperity, through non-quantifiable features. One of the key elements involved in the intensification of trade is the elimination of barriers to import of goods and services, which has as a purpose to protect domestic suppliers. Non-discriminatory restrictions protect consumers from harmful health products. In this case, the imports are not treated differently from the products offered on the domestic market, so it is not possible to speak of discriminatory behavior. Eliminating barriers means granting a certain degree of freedom, a necessary condition for prosperity.

A transparent market is also a precondition for the efficient functioning of markets and for a functional free trade system. Only when consumers have information about the advantages and disadvantages of a particular product they can make the decision that best meets their needs.

In addition, for the proper functioning of the markets it is important that all the economic agents involved have the same level of information about the quality of the products marketed. Inefficiency manifests as soon as information differences arise (privileged trading on the financial market or sale of a defective product). Therefore, a system of free functional exchange needs to eliminate information asymmetries.

International cooperation implies free trade that will improve the overall prosperity of the company if the producers and consumers bear all the costs related to international trade. Therefore, such a system requires assuming responsibilities and consequences for all decisions taken. The intensification of free trade produces a general increase in revenues. The distribution of these incomes among countries does not automatically increase the material prosperity of each country. There is another side to the problem: a higher supply of goods leads to lower prices on the global market for the product in question, and a sufficient decrease can lead to a drop-off in export revenues, despite the large volume, leading to a cut in the income of the exporting country and consequently to the decrease of the standard of living of the respective country, phenomenon known as “immiserizing growth”. This phenomenon occurs mainly in the less developed economies, which export only raw materials, but not products subject to further processing. In order to prevent such a process, all industrialized countries must open their markets to developing countries, without demanding the same in return.

An intensification of international trade increases the pressure of global competition. Companies must therefore constantly resort to the reduction of production costs, especially through technological innovations (with increasing productivity).

Therefore, these are some of the elements that fall within the scope of free trade, of trade flows, which contribute to economic growth and development, as well as to achieving a

degree of satisfaction in the choices of economic agents meant to ensure a higher level of quality of life and, implicitly, of prosperity.

Statistical data and results

The Organization for Economic Cooperation and Development uses the Foreign Direct Investment Restrictiveness Index indicator to highlight the ease that accompanies economic agents in carrying out their activities on a certain European market, but also the existence of possible discriminatory regulations regarding the economic agents in that state. From the analysis, it can be observed that the national regulations of the Member States are among the most open to foreign investments at a global level, and Romania is in the first places in terms of openness to foreign investments and non-discrimination of the regulatory framework as against foreign economic agents.

Another important coordinate that contributes to the structural adjustment processes is the increase of the services' contribution to the creation of GDP as well as to the expansion of trade and investment flows.

Romania's economy has grown at a rate close to the potential starting with 2014, when real GDP grew by 3%, reaching in 2016 an increase of almost 5%. At the same time, however, the pace of export growth has slowed due to deteriorating external demand, especially in emerging countries.

Regarding the structure of exports according to products, in 2017 the largest share of Romanian exports (14.19%) was ICT services, followed by accessories for motor vehicles. The transport services support with a weight of 7.36% the Romanian exports.

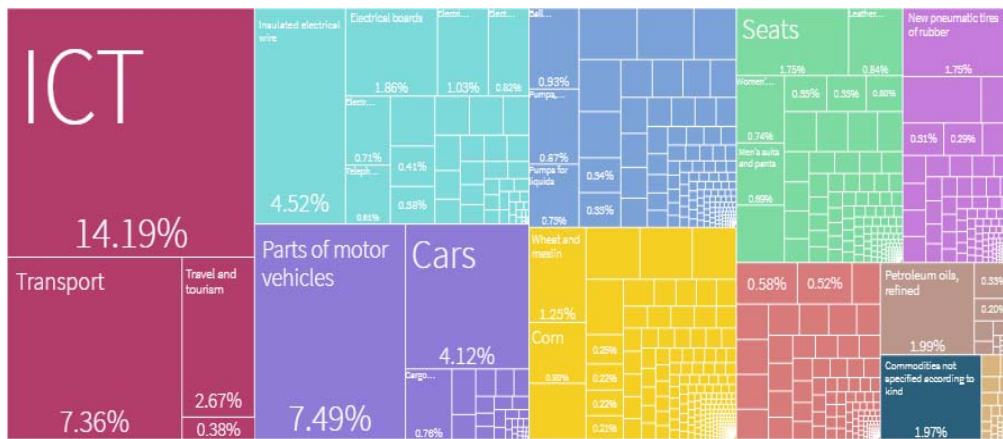


Fig. no. 1 Structure of Romanian exports in 2017 by product sectors

Source: *The Atlas of Economic Complexity, 2020, atlas.cid.harvard.edu*

If we consider the imports, we notice that their structure does not differ significantly from that of the exports, the main explanation of this similarity being that most of the production factors used in the manufacture of export goods are also imported. This also implies a low influence of the exchange rate impact on trade balance, the effect of changing the currency which would positively or negatively affect the export, compensating in large part with the effect on the import. In the case of imports, we observe a higher share of imports of tourism services compared to those of transport.

As regards trading partners, the main trade is with Germany, Italy, Hungary and France. Romania has as main markets Germany (28.76% of total exports), Italy (12.59%) and France (7.98%). Referring to imports, on the first two places are the same countries that represent sales market with 25.03% and 11.97%. The third place is occupied by Hungary, where imports account for 8.8%.

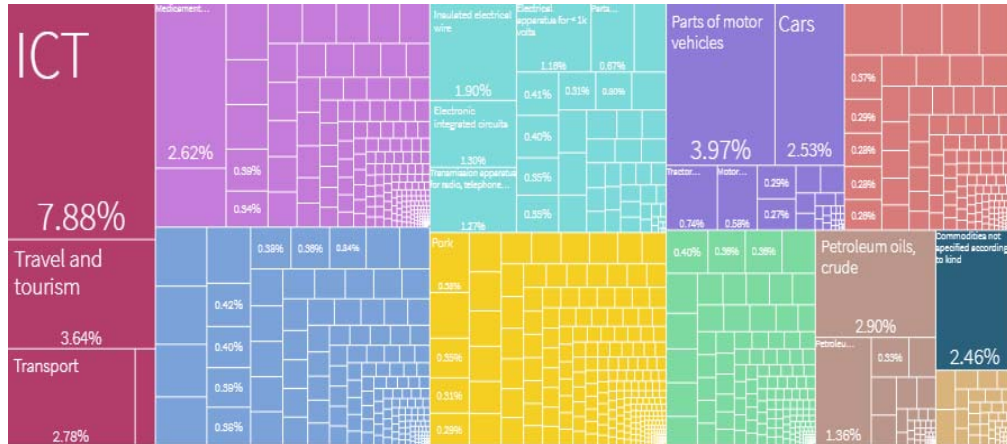


Fig. no. 2 Structure of Romanian imports in 2017 by product sectors

Source: *The Atlas of Economic Complexity, 2020, atlas.cid.harvard.edu*

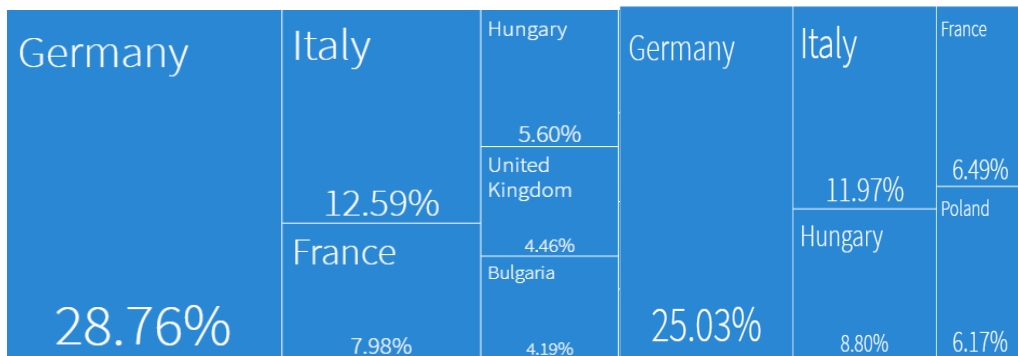


Fig. no. 3 Exports and imports partners of Romania in 2017

Source: *The Atlas of Economic Complexity, 2020, atlas.cid.harvard.edu*

Regarding the evolution of exports in terms of value, they increased until 2008. Starting with the outbreak the value of exports has fluctuated, reaching in 2019 their value to be over 52 billion euros.

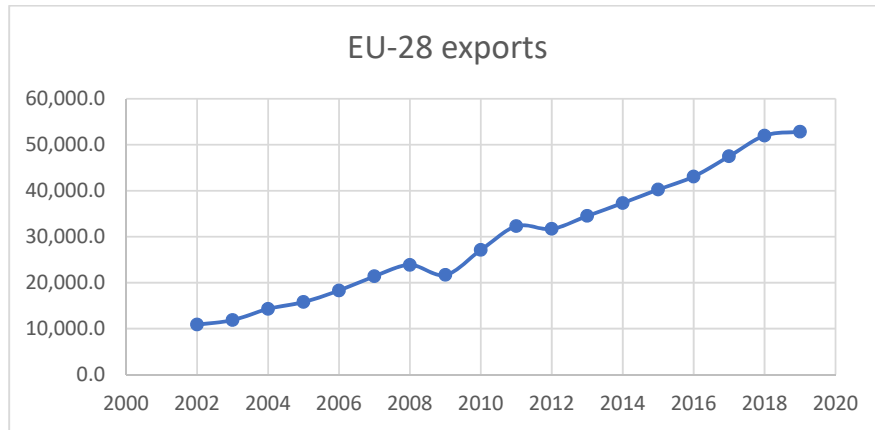


Fig. no. 4 Romanian exports between 2002-2019 in EU-28 (millions)

Source: Developed by the authors according to Eurostat, 2020,
<https://ec.europa.eu/eurostat/data/database>

Thus, an increase of both exports and imports is observed with Romania’s accession to the European Union. Thus, the degree of openness of the economy has increased, with over 86% of GDP, but compared to the other countries in the region, Romania remains the country with the lowest degree of openness, below the average level of the European Union

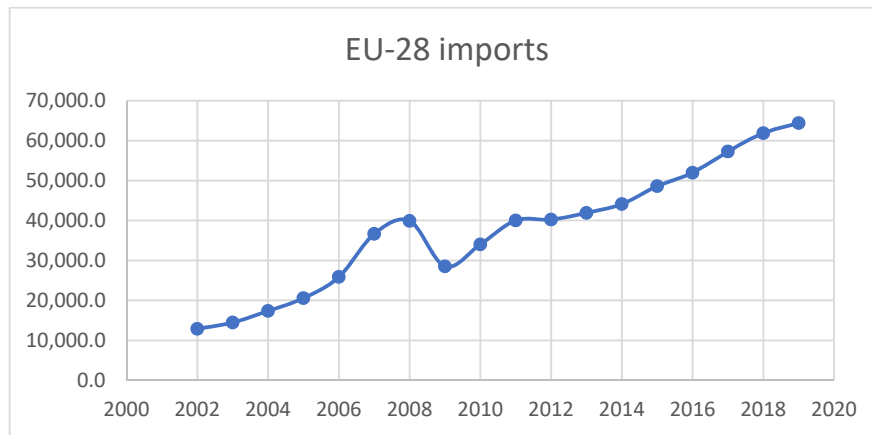


Fig. no. 5 Romanian imports between 2002-2019 in EU-28 (millions)

Source: Developed by the authors according to Eurostat, 2020,
<https://ec.europa.eu/eurostat/data/database>

The evolution of the value of imports is similar to that of exports, observing a considerable increase in the period 2000-2008, followed by fluctuations, reaching in 2019 just over 64 billion euros.

The accession of Romania in 2007 had beneficial effects from many points of view, which represented the main way of economic, social, political progress, but also the closeness of the most developed countries standards in the EU.

Conclusion

Free trade along with competitiveness is one of the essential factors of socio-economic development and prosperity, thus providing companies with the necessary incentives to become more and more productive.

An environment that supports trade will allow new products and ideas to be tested, financed, marketed and easily delivered to customers. The advantages of free trade are often explained in terms of the Ricardian comparative advantage and the improvement of consumer choices. Trade gives power to individuals and encourages competition. At the base of free trade is the possibility of consumers and companies to choose from products, services, ideas available both internally and internationally. At the same time trade gives free reins to the communication of new ideas and contributes to the increase of productivity.

Romania has significant opportunities in terms of commercial infrastructure development, considering the digital provision of public services to support the spread of ideas, but also the improvement of transport infrastructure through administrative capacity and leadership. (Legatum Institute, 2019).

True prosperity means more than economic success and material well-being, but a strong economy is needed to build sustainable prosperity. Romanian economy has undergone a difficult transition from communism to democracy, benefiting from a greater degree of economic openness with the accession to the European Union.

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