Available online at www.sciencedirect.com

ScienceDirect

Procedia Economics and Finance 8 (2014) 747 – 754

Procedia
Economics and Finance

www.elsevier.com/locate/procedia

1st International Conference 'Economic Scientific Research - Theoretical, Empirical and Practical Approaches', ESPERA 2013

Impact of foreign trade on Romania's economic sustainability during the pre- and post-accession periods

Gheorghe Zaman[a]*

Institute of National Economy, Calea 13 Septembrie, 050711,Bucharest, Romania

Abstract

The paper presents some aspects of Romania's foreign trade impact on the sustainability of the national economy during the pre- and post-accession periods laying emphasis on the trade balance, the influence of foreign direct investments and the trends of the revealed comparative advantages indices of Romania's export within the intra- and extra-EU27 trade. The research poses the issue of Romania's economic decline and of its slow recovery taking into account the effects of the incipient integration stages, corroborated with those of the international financial crisis which broke out in 2008. The main conclusion of the research reveals that both foreign trade and FDI at macroeconomic level failed to counteract the negative effects of the economic crisis in Romania and did not contribute to Romania's sustainability and convergence. The decline recorded by Romania's GDP in the years 2009 and 2010 was still not recovered by 2013 even if exports and imports exceeded the pre-crisis maximum level.

Selection and peer-review under responsibility of the Organizing Committee of ESPERA 2013

*Keywords:*trade balance; FDI impact; repatriated and reinvested profit; relevant comparative advantages;

* Corresponding author.
*E-mail address:*gheorghezaman@ien.ro

Selection and peer-review under responsibility of the Organizing Committee of ESPERA 2013
doi:10.1016/S2212-5671(14)00153-1

1. Specialized literature analysis, the principle of international exchanges equivalence;. Theoretical and practical approaches

The issue of "development through trade" constituted one of the most debated fields of the economic theory in time. Starting with the theories of comparative costs and of specialisation by A. Smith and D. Ricardo up to date, the theoreticians have attempted to prove that, on long-term, liberalisation of international economic exchanges represents a factor of economic growth both for developed countries and for developing ones, by deepening the international labour division, promoting technological progress, and putting to good use the economies' endowment with production factors (their quantity and quality), and by improving governance and increasing foreign direct investment and domestic investments' efficiency.

Compliance with the **principle of equivalence** and with the one of mutual advantage in the international economic exchange of goods and products is indissolubly linked to the principle of efficiency lato sensu.

The analysis of foreign trade is one complex approach requiring the consideration of the effects and of the direct costs, along with the negative and positive externalities in quantitative and qualitative terms, and the influence of the time factor, as well.

Starting from the general postulate of the strategic games' theory as positive sum (win-win) and from the classic formula of efficiency (E) as ratio between **outcomes, outputs** (O) and expenditure inputs (Ex), that is E= O/Ex we consider that the **equity and efficiency in international economic exchanges** imposes the equality of economic efficiency between all the participants or, at least, mutually acceptable differences between partners.

Complying with the principle of the quasi-equivalence of the outcome O to a unit of input effort, or expenditures provides arguments for avoiding the situation in which for the same unit of expenditure or effort some partners gain "too much" and others "much less", or not at all, or are even registering losses.

In our analytical approach we start from the premise that both foreign trade and FDI are not a purpose **per se** but important **means** for achieving the objectives of sustainable economic development for each country under the conditions of complying with the outcomes' equality requirement for the unit of effort in the case of all involved players.

The vast majority of experts consider that persisting trade deficits of a country signify an unfavourable situation for the latter, a deterrent for the sustainable GDP growth. As component part of the current account deficit, they require resorting to loans from abroad or asset sales for making possible financing the purchase of goods and services.

Other, more balanced opinions, consider as damaging only those deficits generated by:

a) loans for financing current consumption to a large extent rather than financing long-term investments;

b) diminish labour force employment or are the outcome of intensified inflationist processes.

As beneficial, and even acceptable are regarded those trade deficits supporting long-term investments, generate jobs, incomes and other investments as well as economic creditability.

Gilles Saint-Paul, Programme Director of the Centre for Economic Policy Research, France emphasises that commercial deficits can turn into a severe issue if they are the outcome of persisting competitiveness losses under the impact of inflation, and of exports' decrease.

The external debt will have to be reimbursed sooner or later which means drastic consumption reductions as painful adjustment measure.

Of interest are also allegations that maintain that (Alessandria, G., 2007) trading deficits tend to become "an omen of all the good" to come after the dictum "Post nubila phoebus"(!). Trading deficits have also benefits as they are directing the world production towards its most productive locations, enabling the individuals to gradually diminish their consumption during the period of the business cycle.

To the contrary, other economists (Griswold D.T., 2001) consider that the trading deficit is accompanied by the economic income and consumption growth and unemployment reduction: it is worth mentioning that trade deficits beneficial effects are mainly proved in the USA's particular case, country that holds a special position within the international financial system. On the other hand, Prof. Don Boudreaux, Chairman of the Economic Department of the George Mason University, stated that "If commercial surpluses are that good, the thirties' should have had to be the boom decade" (www.cafehayek.com).

We believe that the diversity of opinions regarding the impact of the foreign trade deficits is explained by the