

The Competitiveness of Romanian Services Exports

Corina Grigorovici

Candidate Ph.D.

Academy of Economic Studies, Bucharest

Abstract. Romania carried on significant progresses in its intercession to fetch up the gaps towards the European Union concerning the services compartment, the balance of those being of almost 10% from the total Romanian export, during the first semester of 2007. In 2006, the export of services increased with 45% comparatively to the year before, consolidating the status of our country as a services exporter. The IT left its mark on the structure and organizing method of the tertiary compartment and ameliorated the form in which the services were performed in the context of enhanced electronic transfers.

Key words: services; growth; export performance; specialization.

JEL Classification: F10, O24.

The services incomes totaled 5,587 million Euro (increasing with 36.2% towards 2005), the payments for services were at the level of 5,583 millions Euro (increasing with 25.4%), an enhancement of the export flow in 2006 was noticed comparatively to 2005, above par increments are distinguished what “other commercial services” are concerned. These positive evolutions were favored by the amplitude of the commercial relationships with services from the information technology and consulting area, the balance account of services exports is 3.5 billion Euro in the first semester of 2007, comparatively to 2.7 billion Euro during the similar period of 2006.

The IT left its mark on the structure and organizing method of the tertiary compartment and ameliorated the form in which the services were performed in the context of enhanced electronic transfers. According to the trend of technological innovations, the commercial services exchanges met progressive evolutions, the business services delivered by electronic means are representing the engine of the increased international services flow. Thereby, once again, the growth potential recorded by Romania on the segment “other commercial services” is been confirmed.

Services balance

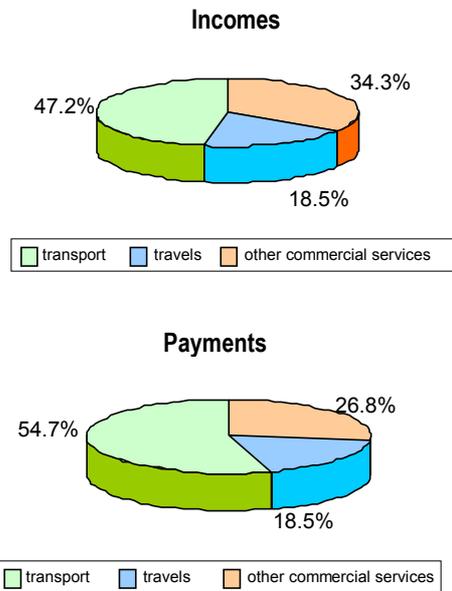
Table 1

- Million Euro -

	Transport		Travels		Other services		Total	
	2005	2006	2005	2006	2005	2006	2005	2006
Incomes	1188	1498	852	1034	2062	3055	4102	5587
Payments	1583	1916	750	1035	2118	2632	4451	5583
Net	-395	-418	102	-1	-56	423	-349	4

Source: National Bank of Romania, *Balance of payments and the international investment emplacement of Romania*, Annual Report, 2006.

The transport logistics came out in 2006, with a deficit of 418 millions Euro, ascending with 5.8 percentage towards the precedent year, this being considered, basically, to be the fault of the magnification with 12% of the deficit registered by the conveyance of materials comparatively to 2005. The passenger transport was characterized in 2006 by a positive evolution, ascending with 71.3% towards the precedent year, in the conditions of increased incomes from the aerial transport.



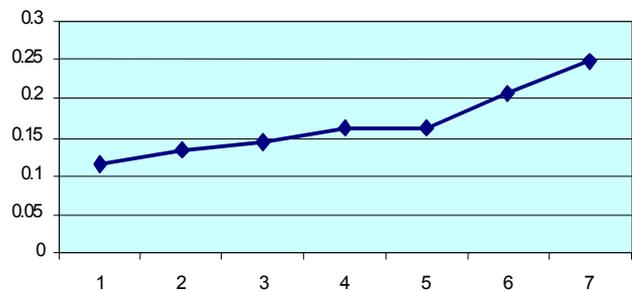
Source: BNR;

Figure 1. The heft of the main service groups in the payment and income structure, 2006

In the area of travel services, the incomes diminished due to the augmentation of the payments for business travels, which led to the annulment of the surplus registered in 2005. On the other hand, the group of “other commercial services” distinguished itself by the incomes which were increasing in a sustained rhythm comparatively to the payments (48.2%, respectively 24.3%). This increase was aroused by the communication, construction, IT, merchandizing, advertising, marketing and market research, research-development services, but also services between branches.

The growth of the export may be decomposed in three factors: (1) global request, (2) market effects and (3) effects of competition. The global request reflects the growth of the exports which can be imputable to the intensified international demand, which means the stronger the request of global imports, the more ample the increase will be for the exports of a specific country. Anyway, the increase of the market quote of a country into the worldwide commerce may be explained only in terms of the factors of the global request.

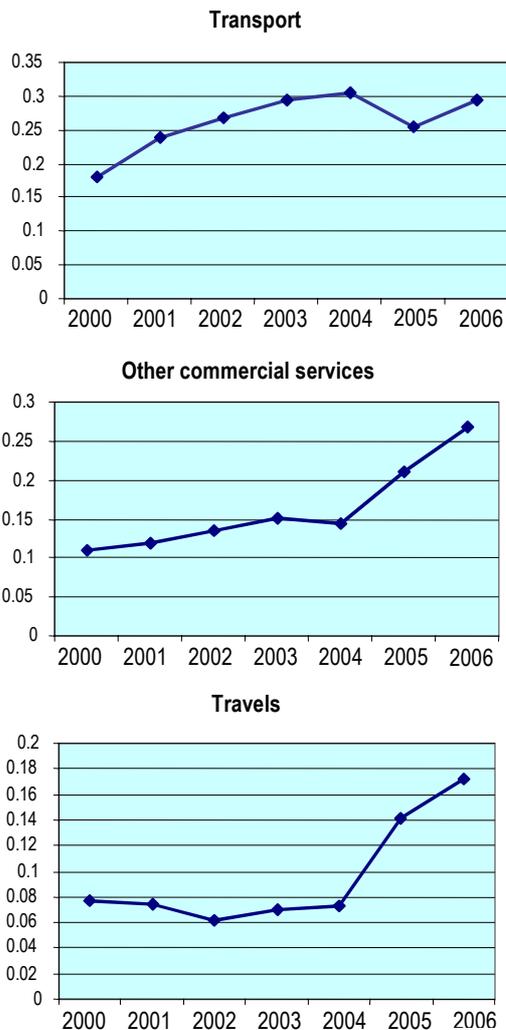
The Romanian market quote for commercial services exports, globally, followed an ascendant path during the period 2000-2006, except the year 2004, which designated an involution that was rectified in the following years, in 2006 this balance doubled comparatively to the year 2000, which suggests that the competitive performance of Romanian commercial service exports improved progressively during the above mentioned period (figure 2). The effects of competitiveness were materializing by the intensification of the exports that may be attributed to a better capacity of the national economy to “sell” commercial services at lower prices (price and cost competitiveness). Though, the export performances can be ameliorated also in the terms of the market effects, which means the increase of the exports is due to the fact that an economy specializes for some characteristic services or markets which are more dynamic than the international average.



Source: own calculations, according to Trade Profiles, 2007.

Figure 2. The evolution of Romania's balance into the global exports of commercial service

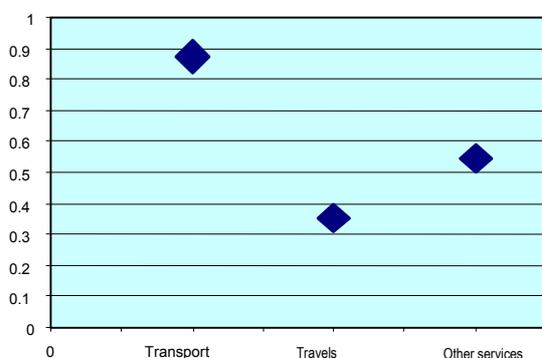
According to the main categories of commercial services, Romania had for the year 2006, regarding its rapport to the global market, a superior market quote for transport services exports (0.29%), which denotes that our country continues to be specialized in traditional services, intensive in labor force, even if these were characterized, during the period 2000-2006, by a slower evolution marked, in 2005, by a “gap” produced in the context of a diminished global request for these services. The category “other commercial services” has the biggest increasing potential that can be capitalized for the purpose of augmenting the competitiveness of services exports for Romania, especially because these have a market quote close to that of transports (0.26%), which almost tripled towards the year 2000 on the background of intensified commercial exchanges with intensive IT services. The travel services recorded in the past two years subdued to analysis, a sustained growth rhythm, but, nevertheless, they still have a reduced market quote comparative to the other two services groups mentioned before (0.17%).



Source: own calculations, according to *Trade Profiles*, 2007.

Figure 3. The evolution of Romania's balance in global exports, regarding the main services groups

Regarding the exports of commercial services carried on by Romania for UE-25, we can find out, that, what the year 2005 is concerning, the biggest market quote recurs to the transport services (0.86%), followed by "other commercial services" (0.54%) and travels (0.35%).



Source: own calculations, according to *Trade Profiles*, 2007.

Figure 4. The evolution of Romania's market quote in the commercial reports with UE-25, 2005

The commercial performance of a country can be affected by the departmental structure of its exports. For example, there may be foreseen an amplification of the market quote if the main exports include services for which the global request has a growth rhythm that advances the worldwide average.

The analysis of the departmental structure of the commercial services exports accomplished by Romania on the global market, undertaken in the precedent chapter, denotes the fact that our country is specialized in transport services, recording an important growth potential on the market of other commercial services and slow evolutions on the travel segment, situation that is similar also for the commercial relationships of our country with UE-25. The increasing of the balance for the group "other commercial services" is related not only to the fructification of the advantages of technique progress – IT –, but also to the fact that this sub-department is dominated by multinational trusts which are exporting almost the entire output that our country is producing. Additionally, the market quote of these services increased considerably during the period 2000-2006, which indicates that the exports in this segment were increasing in an alert rhythm comparative to the average of the entire commercial services. According to the fact that Romania possesses an increasing specialization for the export of IT intensive services wherefore the global request considerably increased during the analyzed period, it means that, *caeteris paribus*, the amplification of the market quote for export of our country was natural.

The exports of other commercial services increased also due to the externalization process to which the companies from the advanced economies appeal to and which aim mostly the electronic delivery services. Inside the European Union, the electronic delivery service flows are rather interactive than directed on the criteria of profitableness, with a noticeable tendency for externalization in the lesser developed countries. Hereby, in 2005 opposite to 2003, the export of business services amplified considerable in case of Slovakia (60.2%), Poland (58.8%), Hungary (47.4%), Slovenia (45.5%), Romania (24.2%).

The financial services registered an increase of 2.2 times what the export of Greece is concerned, a duplication in the case of Slovakia and an increase of 22.5% in the case of Romania. The IT services instated Romania with a front-rank amongst the new countries with UE membership, with an increase of 2.5 times, followed by Czech Republic, with an increase of 2.2 times, and by Hungary with an increase of 43.1%.

The imports of electronic services increased in the same way, that's why the balance account of the electronic services is the most representative element in the appreciation of the position a country has in the externalization process. A negative value of the hereof indicates that internal services are performed for an external beneficiary.

**The commercial balance account for the electronic services
in the main new states member UE**

Table 2

-Million Euro-

Electronic services*	2003	2004	2005
Czech Republic	-1232	-1597	-1648
Hungary	-588	-90	-23
Poland	-1129	-809	-728
Slovenia	-91	-110	-122
Slovakia	-390	-135	-235
Romania	-35	-202	-123
Bulgaria	-29	-28	-167

* The electronic services included in this comparison are: IT and computer services, financial services and other business services.

Source: National Prognosis Committee, *quoted work*, 2007, p. 10.

From the perspective of the commercial balance account, Poland and Czech Republic are detaching to be the dominant states which are externalizing services.

The growth of specialization in intensive export of IT represents a consequence of the expansion of other sub-departments, for example the travel services, which have a more significant autochthonous presents. In absolute terms, the travels were characterized by a sustained export growth rhythm, especially beginning with 2004, however, with the tendency to become better anchored in the domestic economy than the intensive sub-departments of the IT, from the point of view of the expenditures undertaken and, hereby, with a smaller probability for relocation in other countries.

The fact that the Romanian economy intensified substantially its specialization in intensive services for IT and has a reduced degree of specialization in certain departments (travel services) which registered slow export growths means that if these intensive sub-departments of IT are continuing to advance the average, the Romanian economy may capitalize, long-term, the positive effects of the commercialization outside the borders. As a result of the sustained growth of other commercial services exports, Romania enhanced its market quote in the international commerce with these services (see table 3).

**Romania's market quote for commercial services global
exports, 2000-2006**

Table 3

- (%) -

	2000	2001	2002	2003	2004	2005	2006
Commercial services	0.1151	0.1338	0.1446	0.1627	0.1622	0.2056	0.2486
Transport	0.1813	0.2392	0.2669	0.2941	0.3055	0.2557	0.2951
Travels	0.0766	0.0738	0.0621	0.0704	0.0734	0.1408	0.1722
Other services	0.1094	0.1194	0.1355	0.1504	0.1433	0.2114	0.2687

Source: own calculations, according to *Trade Profiles*, 2007.

The export performances may be affected, equally, by the changes intervened in the export request on regional level, a growth of the market quote on global level is to be expected if the exports of the target country are allocated to the markets with a faster growth than the global average.

During the period 2000-2006, Romania increased its market quote, especially on the exports directed towards UE-25. This reflects, mainly, the capacity of the autochthon economy to attract the multinational trusts to the intensive departments' of IT, the most part of the commerce between the two entities mentioned above is one intra-departmental.

The dominant commercial partners for Romania on the community market were, in 2005, Germany (6.61%), Italy (4.23%), Belgium (3.17%), Austria (2.99%) and Great Britain (2.68%), on the transport segment; the greatest percentage of Romanian travel export was directed towards Italy (4.85%), Germany (4.20%), Hungary (3.92%), and on the segment „other commercial services”, the biggest market quotes for export were registered in the relationship with Germany (12.54%), Italy (7.20%), France (5.78%), Great Britain (5.58%), Holland (2.92%) and Austria (2.82%).

The international competitiveness refers to the capacity of an economy to compete on the international market by offering products/services with lower costs or by selling those on lower prices than the competitors. Obviously, these concepts are cross correlated because the more limited the production costs will be, the lower will be the price or rate that the companies will demand for their products/services, without excluding the certainty of profitability. On short term, the development of competitiveness is often assimilated to the real exchange rate.

The real exchange rate is an important economic variable that sketches the macro-economical performance of a country; it reflects the international competitiveness of the domestic economy and has a direct impact over the course of the export and import flows of the target country. The equilibrium of the exchange rate is crucial because it affects directly the external competitiveness, especially through the export prices. In Romania the real appreciation of the national currency on long-term was determined by the improvement of the commercial and capital flow.

The real balanced exchange rate is the one that insures an internal but also an external equilibrium. The doctrine of the parity of the buying power alleges that the exchange rate is determined by the relative development of internal and external prices, suggesting that the balanced exchange rate is a constant. The recent studies are showing that the balanced exchange rate is a function of the real economic. The theoretical frame mentioned above does not contravene, usually, to the approach of the macro-economic equilibrium. A pre-eminent methodology, in this context, is the pattern of the exchange rate of general

equilibrium (Williamson, 1994). In the economic literature, there are also differentiated the concept of exchange rate of behavior equilibrium and the concept of exchange rate of permanent equilibrium (Clark, MacDonald, 1999). The exchange rate of behavior equilibrium is connecting the actual exchange rate to a vast palette of economic groundwork (MacDonald, 2000). The results are suggesting that the differential of the interest rate, the efficiency coefficients, the fiscal coefficients and the price of oil may be identified as basic determinants of the exchange rate.

The equilibrium rate exchange may be influenced by a number of coefficients, among which there is the opening degree that reflects the commercial policy of a state and the existence of commercial barriers. The accentuation of the opening degree determines the enhancement of the imports, and, implicit, of the current account deficit. Consequently, a larger amount of foreign currency is necessary to sustain the intensification of the imports, which will lead to a depreciation of the national currency. The development of the financial system is another factor that leaves its impression on the equilibrium exchange rate, for its quantification will be used a number of markers regarding the level of development of the banking system and of the capital markets. The intensification of the capital flows interacts with the equilibrium exchange rate, on short term, by generating an appreciation of this, inducing an excessive demand for goods/services that can not be commercialized, which will determine a rise of the prices for these products. On long term, the effect depends on the way the capital inflows are used. If these are put into the use of competitiveness growth of the national economy, the final effect will be a sustainable appreciation of the real exchange rate. If the capital inflow is used only to propel the consumption, than the initial appreciation of the real exchange rate will be followed by depreciation. The liberalization of capital inflows affects the real exchange rate by diminishing the real interest rate. This deflation propels the consumption, leads to a growth of the prices for the goods/services that can not be commercialized, and the final effect will be the depreciation of the real exchange rate. The fiscal policy influences, equally, the exchange rate by the amount and structure of governmental expenditures, the tax regime and budgetary deficit, to which we add the commercial policy through the level and structure of the commercial tariff, the policy is regarding the export subventions and the commercial barriers.

One of the most used methods to quantify the real exchange rate is the index of the commercial costs which provides a good reflection over the changes that are intervening in the purchasing power of the national currency and therefore may have a crucial importance for the development of the exterior commerce.

The domestic real exchange rate does not have a direct role in what the commercial performances of Romania

concerns. The exterior commerce depends on the competitiveness of the prices, appreciated with regard to the rapport of the commercial prices between Romania and its commercial partners. Through a wider perspective, the appreciation of the real exchange rate, especially in sustained rhythms on short-term, implies an erosion of competitiveness, since the indigenous goods and services become more expensive comparative to those of the partner countries.

Another used method is the cost of labor unit which is often considered to be an indicator for competitiveness more efficient than the commercial price index, considering the fact that the labor cost is an important component of the production costs. The marker for commercial prices influences a large palette of goods and services that can not be commercialized, whereas the cost of labor unit is influenced in a smaller amount by the effect Balassa-Samuelson (Checherita, 2005).

Nevertheless, when the cost of labor unit is used as a deflator, the real exchange rate can actually depreciate, reflecting costs of the labor unit relatively small and benefits on the competitiveness level.

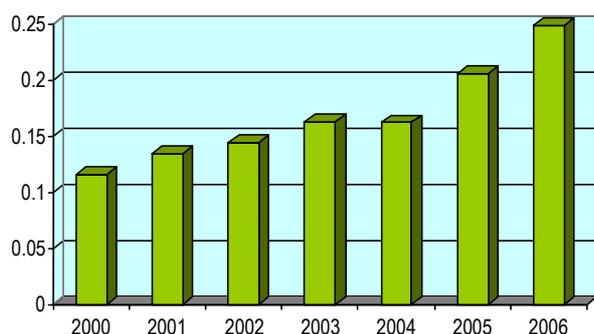
In 2005, the real exchange rate appreciated, affecting the external competitiveness. The increase of the wages had a major contribution to the cost of labor unit. The contribution of the domestic inflation to the real appreciation – if we rapport to the real exchange rate calculated with the help of the commercial price index – diminished, depending, basically, on the liberalization of the prices administrated and, partially, on the rise of the oil price on the international market, while the external inflation moderated very slightly the appreciation.

The evolution of these markers in Romania is determined by the development of the nominal exchange rate, which, in 2005 comparatively to 2004, appreciated in nominal terms towards Euro (10.6%) and dollar (10.7%), as a consequence of the intervention of the Central Bank on the currency market which generated a larger flexibility of the exchange rate. The fluctuations were owing to the liberalization of the capital account that supplemented the capital inflows which contributed to the appreciation of the national currency.

The currency structure of the export, respectively of the import, indicates an enhancement of the commercial exchange heft which had as business currency the Euro, to the detriment of the dollar, with a higher balance for the imports. This high balance for Euro are explained by the concentration of the commercial exchanges in the area of the European Union, especially with countries from zone Euro, concentrating the currency risk to which the external department was subdued in the evolution of the exchange rate Euro/Ron.

The market quote of Romanian commercial service exports in the similar imports of the UE-25 evolved

progressive, during the period 2000-2006, only the increase being modest, especially in 2004, due to the slow evolution of the efficiency and nominal appreciation of the “leu” in the conditions in which the main currency cashed in by the exporter was the Euro. Figure 5 indicates a sustained increase of the market quote during 2005-2006; in the same period it was observed an intensification of the costs of labor units due to the amelioration of the efficiency, particularly in the areas dominated by the multinational trusts (retail, banking, insurance, communication activities). The cost competitiveness sustained further the appreciation of the real exchange rate, which affected negatively the external competitiveness.



Source: own calculations, according to *Trade Profiles*, 2007.

Figure 5. The evolution of the market quote of Romanian commercial service exports in the total of imports UE-25

Conclusively, we may affirm that Romania's performances on commercial service exports increased during the analyzed period, 2000-2006, on the basis of the augmentation of its balance in the whole of international imports, as well as on communitarian level, what reflects, among other things, the increase of the depth of the specialization in intensive service rendering in IT wherefore the international request knew a strong increase and generated a favorable development of the general competitiveness. In 2005, the strongest increase of commercial services exports was registered and, therewith of the costs of labor unit, a decisive augmentation of commercial prices and consequently, the appreciation of the real exchange rate, all these acting in the direction of diminishing the competitive external position of Romania's economy. The attenuation of the competitive position Romania's amplifies the vulnerability of the autochthon economy, reason why the future challenges for the economic policy will be the consolidation of the competitive position of the most dynamic departments, including the attraction of new investments flows for the departments which add a superior value, the encouragement of the indigenous presents in this sectors and the improvement of efficiency and competitiveness in the other departments of the economy that were confronting a weak increase of the export in the late years.

References

- Cassidy, M., O'Brien, D., „Export Performance and Competitiveness of the Irish Economy”, *Quarterly Bulletin no 3/2005*, p. 5
- Copaciu, M., Răcaru, Irina, „Romania's external equilibrium – qualitative and quantitative approach”, *Study notebooks, nr. 18, BNR*, 2006, p.21
- Dupuch, S., Jennequin, H., Mouhoud, El Mouhoub, „EU enlargement: what does it change for the european economic geography?”, University of Paris XIII-Villetaneuse, *CEPN*, 2004
- Ergun Selim, J., Yilmaz, B., „The foreign trade pattern and foreign trade specialization of candidates of the European Union”, *Ezoneplus Working Paper no. 19*, September 2003
- Ezcurra, R., Gil, C., Pascua, P., „Regional specialization in the European Union”, Department of Economics, Universidad Publica de Navarra, *D.T.2004/04*
- Herciu, Mihaela, Toma, Ramona, „Competitiveness, Economic Freedom and Real Exchange Rate. Evidence from Romania”, *MPRA Paper no. 1722*, 2006, p. 7
- The National Prognoses Committee, „Company services – a department in expansion”, 2007, p. 8
- www.standard.ro.