Annals of the Academy of Romanian Scientists
Series on Economy, Law and Sociology
ISSN 2067-5704 Volume **1**, Number **2**/**2009**

ECONOMIC GLOBALIZATION IN ROMANIA AFTER 1990

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Rezumat. *Semnele cele mai evidente ale globalizării economice sunt acceleraţia constantă a ritmului de creştere a comerţului internaţional şi a investiţiilor trans-frontaliere, şi, de asemenea, creşterea concurenţei, care ar trebui să ducă la bunăstarea tuturor. Globalizarea reprezintă o transformare fundamentală a naturii, a structurii şi organizării comerţului internaţional. Toate sectoarele industriale sunt supuse unor modificări structurale profunde, care devin mai evidente în sectoarele bazate pe tehnologii avansate (cum ar fi industria auto, industria farmaceutică, telecomunicaţii, etc.). Politicile globale au fost cel mai intens abordate şi implementate în Statele Unite şi Europa în anii 1980, în timpul erei Reagan–Thatcher–Kohl. Aceşti lideri au crezut că extinderea pe piaţa liberă şi proprietatea privată ar crea o mai mare eficienţă economică şi bunăstare socială. În această lucrare, facem o analiză a fenomenului de globalizare economică şi a situaţiei economice a României după anii 1990.*

Abstract. *The most obvious signs of economic globalization are the constant acceleration of the increasing rhythm of international commerce and of the cross border investments, and also the increasing in competition which should result in welfare. Globalization represents a fundamental transformation of the structures, organization and nature of international commerce. All the industrial sectors undergo deep structural changes which become more obvious in the sectors highly based on advanced technologies (such as car industry, pharmaceutical industry, telecommunications, etc.).The global policies were most ardently enforced in the US and Europe in the 1980's during the Regan–Thatcher–Kohl era. These leaders believed that expanding the free-market and private ownership would create greater economic efficiency and social well-being. In this work paper we analyzed the economic globalization and the economic situation of Romania after 1990.*

Keywords: economic globalization, vulnerabilities and opportunities, Romania

Introduction

The most obvious signs of economic globalization are the constant acceleration of the increasing rhythm of international commerce and of the trans-frontiers investments, and also the increasing in competition which should result in welfare. Globalization represents a fundamental transformation of the structures, organization and nature of international commerce.

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All the industrial sectors undergo deep structural changes which become more obvious in the sectors highly based on advanced technologies (such as car industry, pharmaceutical industry, telecommunications, etc).

Economic globalization can be defined by three peculiar dimensions: discipline in global market, financial contents and economic network. The market discipline refers not only to goods and products but also to work and capital. The financial content refers to the speed money travels across the borders and the economic networks are founded on the economic information.

The globalization process is realized by a series of harmonization mechanisms of the national economic policies with the regional rules (an example is that of the United Europe and of the Monetary and Economic Union) and the international rules, in order to support the sustainable development and ensure the economic convergence, especially in the areas with a higher degree of economic integration, as it is the case of the Economic and Monetary Union).

This era of globalization is opening many opportunities for millions of people around the world. Increased trade, new technologies, foreign investments, expanding media and Internet connections are fuelling economic growth and human advance. Global markets, global technology, global ideas and global solidarity can enrich the lives of people everywhere, greatly expanding their choices.

Characteristics of the present world economy

The globalization of the economy is not a new process but one that has started years ago and highly developed nowadays. Someone who does not participate in the globalization process is lost. The present world of business is based upon the spread of markets globally. Thus, it takes place passing to the global economy from the international one.

Elements which characterize the world economy:

➢The free movement of the markets dealing with the free movement of financial capitals and labor force all around the world.

➢The predominance of the IT, telecommunications and audio-visual businesses. If in 1997, these were 5.3% of the gross international product (level reached only by the automobile industry), in 2000 they reached 6.3%, thus becoming a leader.

➢The strong competition between the great poles of economic and commercial power: NAFTA (USA, Canada and Mexico), the European Union and S-E Asia.

➢The contradiction between the economic judgment and the necessity to protect the natural environment

Globalization – present stage of world development

Nowadays, the world development is a process that emerges under the impact of three essential factors:

a) The enlargement of the dimensions of the international exchange by the integration of the new states from Eastern and central Europe, Latin America and Eastern Asia. In 1947, the exchange of goods and services were 8% of the gross international product, 12% in 1967 and 25% in 2000.
b) The legal framework that facilitates the development of exchanges, especially in the services field
c) The globalization of companies able to integrate their activities, mainly those of research and development, purchase, production and trade at the international level.

As an effect of the globalization of markets and companies, the globalization of competition appeared. That is why the consequences of the competitive success or a in success on national market will not be limited to that country much time but they will have a great impact upon the competition of the company thus being spread everywhere in the world. In the context of accelerating the economic restructure and globalization the international mobility of persons people has highly increased. The European Commission named the year 2006, The European year of workers mobility. The decision goods to increase the understanding and awareness degree concerning the labor advantages abroad. The development of a working activity in the new countries or sectors offers the workers new skills and experience of with both workers and their employers make use.

Romania after 1990

After 1989, Romania has been subject to a complex process of economic, social, and institutional reform generated by changing the communist political system, becoming a free country and embracing market economy. This complicated process is developing along with the globalization of world economy and our adhesion to European and Euro Atlantic organizations.

It is very important for Romania, as well as for the other developing countries that their authorities together with the international community, on constructive positions of partnership, come up with a reasonable balance between economic adjustment and developing, between the costs and advantages of globalization.

Romania is only part of production and distribution in multinational companies, lacking for the time being the necessary force to play an active part on international markets. Although there are several Romanians that have been awarded international prizes for inventions and innovations, Romania is only a beneficiary of these forms of international collaboration. After the 1990s, large multinational companies have taken the opportunity to enter the Romanian market. A still fragile, economically challenged market did not allow the development anticipated by analysts.

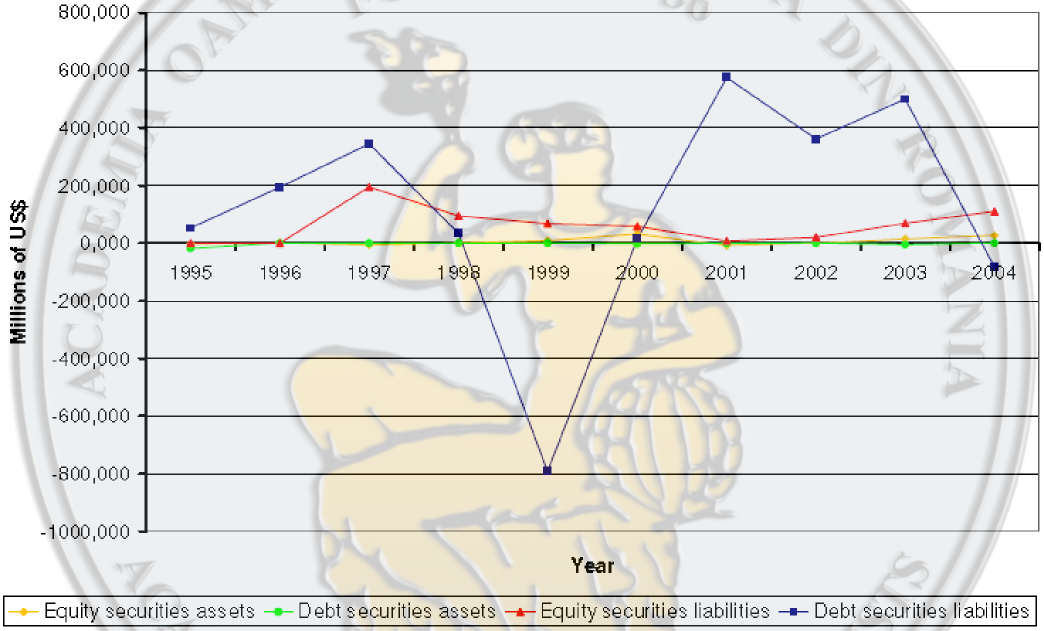
The peculiar policies of the final years of the Ceausescu regime and the nature of economic reforms in Romania in the early 1990s resulted in an untypical external financial situation in the first years of the transition process. By 1989 Romania paid off almost all of its foreign debt obligations and until 1995 remained a net creditor nation (due to claims on other post-communist countries) without credit rating and without access to international capital markets. Accordingly, the building up of external obligations in this period consisted primarily of trade-related debt and obligations towards bilateral and multilateral creditors.

The situation changed after Romania obtained credit ratings in 1995. The country borrowed from foreign institutions in international capital markets rather than through the domestic market (by issuing treasury bills), which was closed to foreigners until the end of 1998 when Romania practically lost access to external sources of financing, both official and private. The deterioration of the external financial situation that culminated in 1998-1999 resulted from a combination of factors. The unfavorable maturity structure of debt (e.g. large debt service costs in 1996) was addressed by heavy use of short-term debt instruments, which in turn implied large principal payments due in 1998-1999 at the time when the Asian and Russian financial crises significantly worsened terms of access to markets for all emerging economies. This coincided with a major deterioration of the economic situation in Romania. In 1997, Romania entered into a deep recession, with 6% GDP contraction. The fiscal situation was particularly difficult and the banking sector (mostly state owned) was in serious troubles. The Kosovo crisis was an additional negative external shock to Romania undermining its balance of payments position in this period.

In 1998 and 1999 Romania faced a difficult economic situation characterized by large external imbalances, declining output and investment as well as by structural weaknesses in the banking and enterprise sector. Despite some achievements (i.e. progress in reducing inflation from 150% at the end of 1997 to 41% at the end of 1998), large external imbalances persisted. In 1999 Romania had to repay a number of loans of private creditors and the country had extreme difficulties in finding new bank loans. Figure 1 visibly illustrates the dramatic decrease of debt securities liabilities due to the repayments. Interviewed Romanians confirm that the external repayment problems had been the main concern of that period.

The Kosovo conflict in 1999 worsened the economic situation. Trade between Romania and its neighboring countries and the transport connections in the region, particularly the river trade on the Danube, were affected. Romania's exports markets were affected immediately and contracted in the first few months following the start of the crisis. Also foreign investors became more hesitant and possible further deterioration of financial market sentiment, beyond that of the external payments problems, was feared. To cope with the unstable economic situation, the Government formulated a comprehensive stabilization and reform program aimed at narrowing the current account deficit, lowering inflation, and ensuring a sustainable economic recovery. This program was to be supported by an IMF stand-by arrangement in the amount of SDR 400 million. Also the EU through its fourth MFA operation and the World Bank by means of its PSAL 1 loan provided financial support.

Figure 1. Change in debt and securities assets and liabilities.



[Source: IMF, International Financial Statistics]

After a period of economic decline, the Romanian economy recovered in 2000, with growth rebounding to 2.1%, compared to a 5.4% decline in 1998. From 2000 till 2005 the economy experienced a period of positive growth (table 1).

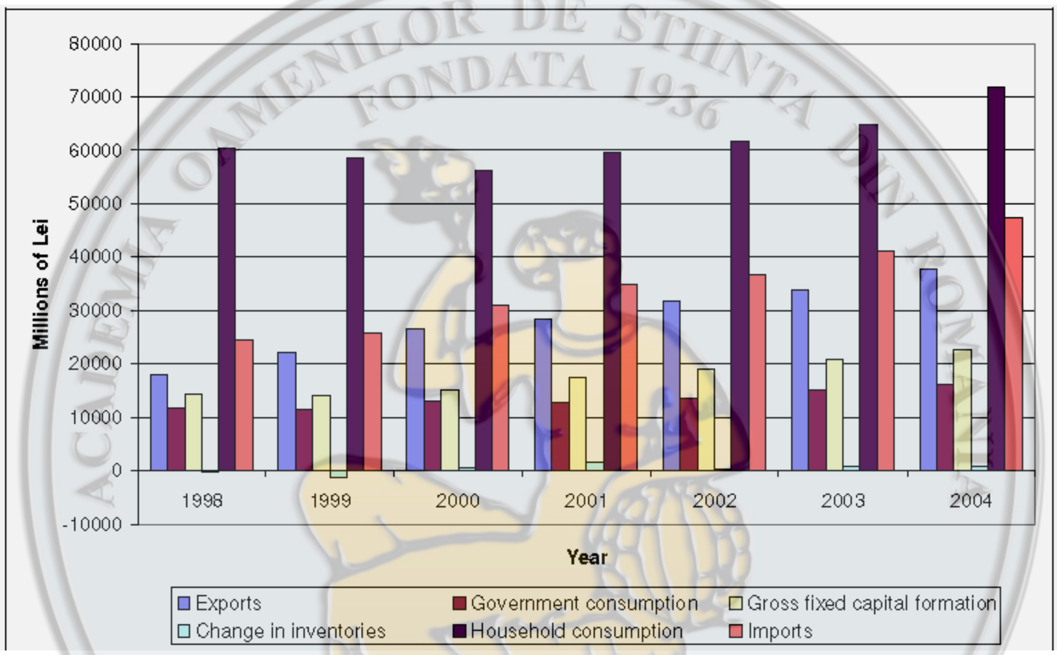
Table 1. Macro-economic indicators**200**

	1998	1999	2000	2001	2002	2003	2004	2005 *
Real GDP (change, %)	-5.4	-1.2	2.1	5.7	5.1	5.2	8.4	*4.1**
CPI (end of period)	40.6	54.8	40.7	30.3	17.8	14.1	9.3	*8.6***
CPI (average)	59.1	45.8	45.7	34.5	22.5	15.3	11.9	*9.0***

**Preliminary estimates [Source: IMF 2006 Article IV Consultation Discussions; National Institute of Statistics, Monthly Statistical Bulletin, 2/2006]*

In the recovery year 2000 growth was mainly driven by private fixed investments and government consumption. In the following years growth was driven by domestic demand, particularly private consumption, although gross fixed capital formation gradually increased its contribution and exports remained strong (though import dynamics was much higher determining negative net export contribution to GDP in all years except for 2002). In 2004 the economy increased even by 8.4% in real terms.

Figure 2. Real GDP components, 1998-2004.



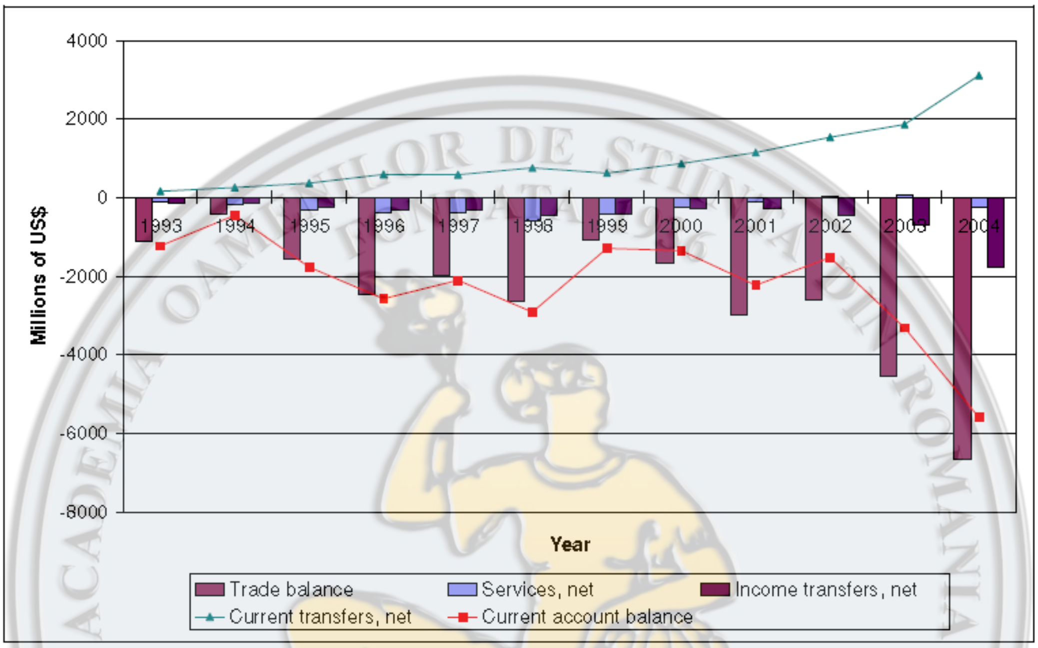
[Source: IMF, International Financial Statistics, Real figures calculated using GDP deflator, base year = 2000]

Besides sustained economic recovery Romania succeeded to bring inflation levels down, albeit disinflation was much slower than in other EU candidate countries. While 1997 still saw three digit inflation rate (154.8%), by 2004 it was reduced to 11.9% due to declining labor costs, mainly promoted by the use of the exchange rate as nominal anchor which moderated inflationary expectations and to some extent a policy of modest wage increases. Inflation decreased further to 9% on average in 2005.

Balance of Payments

While international response to the economic crisis in Romania was strongly visible only in 1999, the main balance of payments problems appeared earlier. In 1998 the current account deficit widened considerably and by 1999 a combination of policy measures and forced adjustment resulted in shrinkage of the deficit. From 1999 till 2002 the current account deficit was relatively modest. After that the current account deficit increased to record levels.

Figure 3 Current account, 1993-2004



[Source: IMF, International Financial Statistics]

While the impact of the Kosovo conflict was felt the first half of 1999, exports partly recovered already in the second half of 1999. The major assumption in estimating the exact impact of the Kosovo crisis had been the duration of the crisis. Fortunately this effect proved to be shorter-lived than earlier expected. One interviewee indicated that "*Romania got relatively away*". The real impact on total trade flows was felt for two quarters. Exports recovered more rapidly than imports, partly due to depreciation of the exchange rate. Even trade with neighboring countries restored practically within four to five quarters.

The economic environment in 2002 and the first half of 2003 was markedly different than in 1999. In 2003 foreign direct investments started also to pick up. Although, the balance of-payments situation was not anymore worrisome and Romania could borrow from the financial markets, MFA assistance was deemed essential since at that time there were still "*risks for policy reversals*" and uncertainty continued.

The – at times – large increase of wages and reduced tax burden, resulting in higher disposable incomes, stimulated partially private consumption and contributed to increased imports. This pro-cyclical fiscal effect on the current account has been and continues to be a constant concern of the IMF. The level of debt was not as such a serious concern and in % of GDP it even decreased. Public sector debt was primarily a concern in 1998 and 1999 when Romania practically lost access to foreign financing and large debt service payments were due. In both years privatization receipts and domestic borrowing had to cover the deficit.

Quasi fiscal subsidies added to the public sector deficit was a more worrisome issue for the fiscal stance since poor financial discipline and losses from quasi-fiscal activities were a major risk to macroeconomic stability.

The decrease in the quasi-fiscal deficit was achieved by restructuring and privatizations, including initiation of bankruptcy procedure for a couple of heavily indebted companies, reform in the energy sector and utilities price adjustment, and to some extent prudent wage policy in the public enterprises. The developments during 2003 and 2004 reflected mainly the decrease of losses and payments made from the State Guarantee Fund to the enterprises that benefited from loans contracted with state guarantees.

Romania – recent economic developments vs. economic crisis

Romania experienced an economic boom over the past five years that led to overheating and unsustainable imbalances. GDP growth averaged over 6½ percent per year from 2003-08, as foreign direct investment and capital inflows, in part through subsidiaries of foreign banks in Romania helped finance high consumption and investment growth.

The rapid increase in borrowing that fuelled the boom left Romania highly exposed to global financial difficulties and to exchange rate volatility. Loose fiscal and incomes policies also contributed to the overheating of the economy and to its current vulnerabilities, with excessive spending, especially on wages and pensions, as the main culprit.

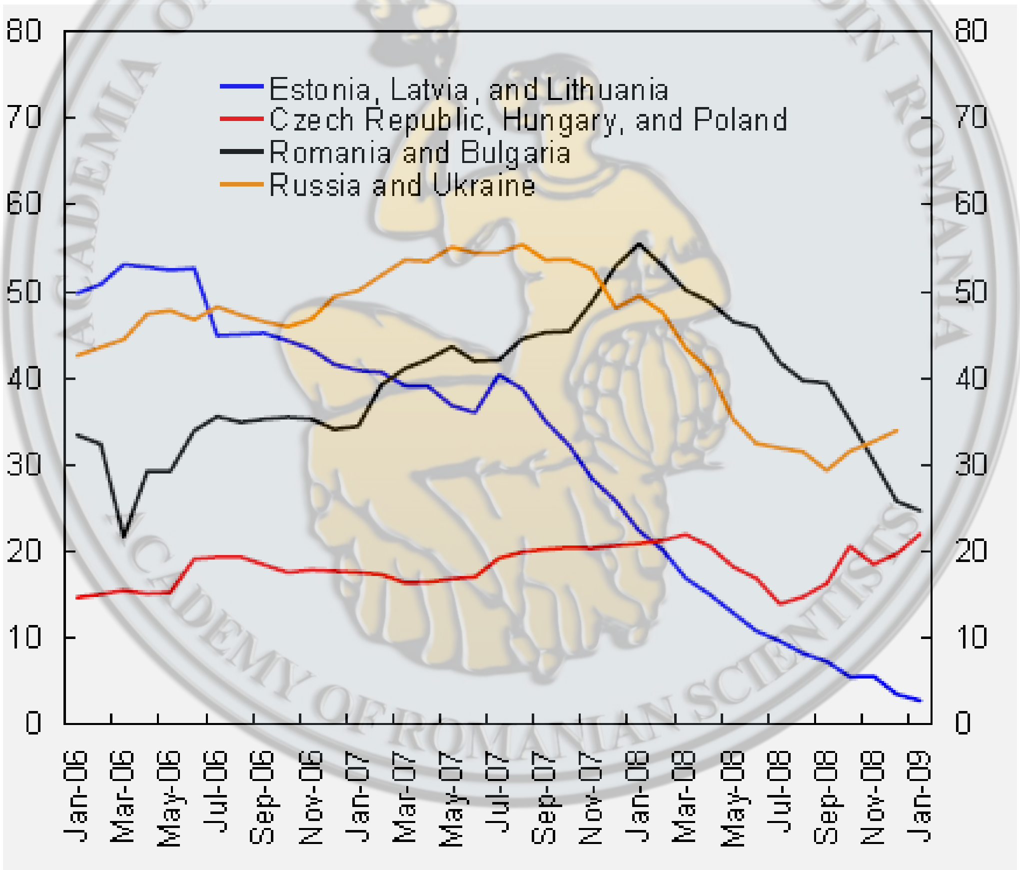
Economic activity turned down sharply in late 2008 and has fallen further in 2009. Growth is projected at about 4 percent in 2009 on account of a sharp contraction in domestic demand, which in turn will set off a correction in the current account deficit from 12½ percent of GDP in 2008 to 7½ percent in 2009. Foreign direct investment and capital inflows will drop sharply.

Increased financial stress, tightening credit standards and limited access to external funding will inhibit lending to the private sector. Once confidence is restored, domestic demand is expected to slowly rebound, but growth will remain near zero in 2010, before recovering to 5 percent in 2011. Inflation is expected to fall in 2009 to within the official target (3.5 percent, plus or minutes 1 percent) and remain there in 2010.

After several years of very strong growth, Romania was hit hard last year by the global economic downturn. Now, output is falling, exports have dropped sharply, and the large capital inflows that financed the boom have dwindled. The effects of the worldwide slump have been aggravated by economic weaknesses within Romania itself. This rapid increase in borrowing left Romania highly exposed when the financial crisis hit.

Because of the global credit crunch, the country suddenly began to experience problems attracting capital from abroad. The troubles also spilled over into the exchange rate, which has depreciated by more than 15 percent against the euro since October 2008.

Figure 4. Selected European Countries: Growth of Real Credit to Private Sector, 2006–January 2009 1/*(Percent)*



Source: IMF, *International Financial Statistics.*
1/ Unweighted averages of annual growth rates.

Because over half of domestic private (Figure 4) credit is in foreign currency, a weaker ***leu*** makes it that more expensive for consumers and companies to service their loans. As a result of all this, growth has now slowed from an average of 9 percent during the first three quarters of 2008 to a 13 percent decline in the fourth quarter. This amounts to one of the sharpest turnarounds among emerging markets. The current account deficit became very large in recent years, as imports outstripped exports. Much of this consumption was financed by private sector debt, most of it in foreign currency. The government also ran increasingly large fiscal deficits during the good times, leaving little room for manoeuvre when the economy turned down. And reforms to make the economy more productive and flexible had also stalled.

Romania's response to the crisis

The downturn led Romania to approach the IMF for a loan in March 2009. On May 4, the IMF's Executive Board approved a Stand-By Arrangement in the amount of $17.1 billion. The IMF's Executive Board has approved a 24-month Stand-By Arrangement for €12.95 billion as part of a total €20 billion financial support package. Under the program, IMF money will help cushion the effects of the downturn. We will also help the government make the policy changes needed to avoid the worst consequences of the crisis.

The Stand-By Arrangement will be combined with other multilateral financial support to fill the country's 2009-2010 financing gap. The total international financial support package will amount to €19.9 billion (about US$26.4 billion), with the European Union providing €5 billion (or about US6.6 billion), the World Bank €1 billion (or about US$1.3 billion), and the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the International Finance Corporation (IFC) a combined €1 billion (or about US$1.3 billion).

Even with help from the IMF, 2009 and 2010 will be difficult years. Growth will be negative this year and near zero next year due to the lingering effects of the world downturn. But the government's policies should allow Romania to avoid the worst effects of the crisis and to emerge with an economy that is both leaner and more competitive.

Conclusion

Globalization creates opportunities for commercial, economic and financial expansion. However, an improved technological competitiveness and wider economic freedom do not produce automatically more equity.

At the core of many of the failures of globalization is a simple fact: Economic globalization has outpaced the globalization of politics and mindsets. We have become more interdependent and have increased the need to act together. But we do not yet have the institutional frameworks to do this effectively and democratically. Globalization as it has been managed has undermined the ability of nations to deal with growing inequalities and other social and economic problems.

In each part of the global economic system, there are problems: the global financial system, the global trading system, the system of intellectual property, the management of the global environment.

The contribution of globalization to the betterment of the human condition will remain limited to a small number of individuals, social categories and countries, unless controlled and oriented towards the common good. This implies that, in the new context of the integration and participation to the globalization processes, good governance should intelligently and predictably combine economic reforms with social responsibility, adjust the system of education and training, initiate institutional reforms able to achieve, on a long term, internal stability and employment, individual security and social justice, the protection of the national economic interests, resources and the environment.

The process of globalization creates a new balance of power between states, non-governmental organizations, and transnational corporations. What is at stake is how to properly use their potential in order to influence the course of globalization for a better impact on people's lives.

With so many financial crises and so much global financial instability, it is obvious there is something systemically wrong. But little is being done to prevent the recurrence of the problem: If developing countries could borrow in their own currencies, fewer countries would find themselves with debt burdens. Three quarters of a century ago, John Maynard Keynes outlined reforms for the global system of reserves that would enhance global financial stability. There were once hopes that globalization would benefit all, both in advanced industrial countries and the developing world.

Today, the downside of globalization is increasingly apparent. Not only do good things go more easily across borders, so do bad - including terrorism. We see an unfair global trade regime that impedes development and an unstable global financial system in which poor countries repeatedly find themselves with unmanageable debt burdens. Money should flow from the rich to the poor countries, but increasingly, it goes in the opposite direction. Globalisation can be changed; indeed, it is clear it *will* be changed. The question is: will change be forced on us as the result of a crisis, or will we take control of the globalisation process? The former risks a backlash against globalisation or a haphazard reshaping in a way that only sets the stage for more problems. The latter holds out the possibility of remaking globalisation so that it can live up to its potential to improve living standards throughout the world.

This article is realized in the Sectorial Operational Program Development of Human Resources 2007-2013, Invest in people, co-financed by European Social Fund

R E F E R E N C E S

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