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STRUCTURAL AND QUALITATIVE CHANGES IN ROMANIA'S AGRIFOOD FOREIGN TRADE FACING POST-ACCESION COMPETITIVENESS

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Abstract

Within the double context of the disproportions created by the world crisis affecting the economies and of the competitiveness challenges subsequent the EU accession, the paper presents evolution and effects upon the external performances of Romania's agri-food sector and its commercial flows structure. The assessments, including the intra-Community agri-food trade, highlighted the existing opportunities of the products with expressed export potential and the areas affected by the net imports, by commodity groups aggregated on sections of the C.N.. The calculation of trade relative unit value indices provided the bases for appraisal of the quality of Romanian agricultural trade flows, resulting empiric evidences upon the level of integration of the agricultural trade flows and changes in their terms of trade, on the groups of products of chapters of the C.N..

Key words: agri-food trade, competitiveness, post-accession, unit value indices.

INTRODUCTION

Within the double context of disproportions created by the world crisis affecting the economies and of recent integration into the Common Market, the paper investigates Romania's agricultural foreign trade evolution within the years subsequent EU accession and presents structural and qualitative effects upon the of agricultural exchanged products and the evolution of their terms of trade. Since the importance of the EU has continuously increased, the assessments included the intra-Community agri-food trade flows.

The paper investigated the post-accession trends of Romania's agri-food trade that revealed performance or deficiencies facing external competitiveness, including sensitive areas of the Romanian agri-food sector which can be particularly exposed

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to the global crisis. The appraisal on intra-Community agri-food trade highlighted the existing opportunities of the products with expressed export potential and the areas affected by the net imports.

The calculation of the relative unit value indices provided the bases for assessment of the qualitative changes in the agricultural trade flows and the vertical or horizontal integration of the traded products. Export and import indices can be used for the estimation of the terms of trade of a given country, representing a critical variable in many economic models.

MATERIALS AND METHODS

The analyses was based on EUROSTAT trade statistics database concerning Romania's agricultural trade flows in the period 2007-2010. The assessments of the agri-food trade unit value indices have been made on products aggregated by sections of the Combined Nomenclature (C.N.).

The quality of exports is evaluated in relation to imports, by the range of the relative unit values within the classification thresholds of +/-15% [1]. In this way, when the unit value indices are lower than 0.85 the products are considered as having low quality, while when these are higher than 1.15 the products are considered of high quality, traded at higher average prices. Similarly, when the unit value index ranges from 0.85 to 1.15, it is considered that the products are horizontally integrated (homogenous); the products are vertically differentiated when the unit values of the trade flows do not fall into the +/- 15% margin.

Terms of trade are defined as ratio of export prices to import prices, and the results, revealing growth or decline, indicate an improvement or deterioration of the terms of trade for the analyzed country/sector/group of commodities.

RESULTS AND DISCUTIONS

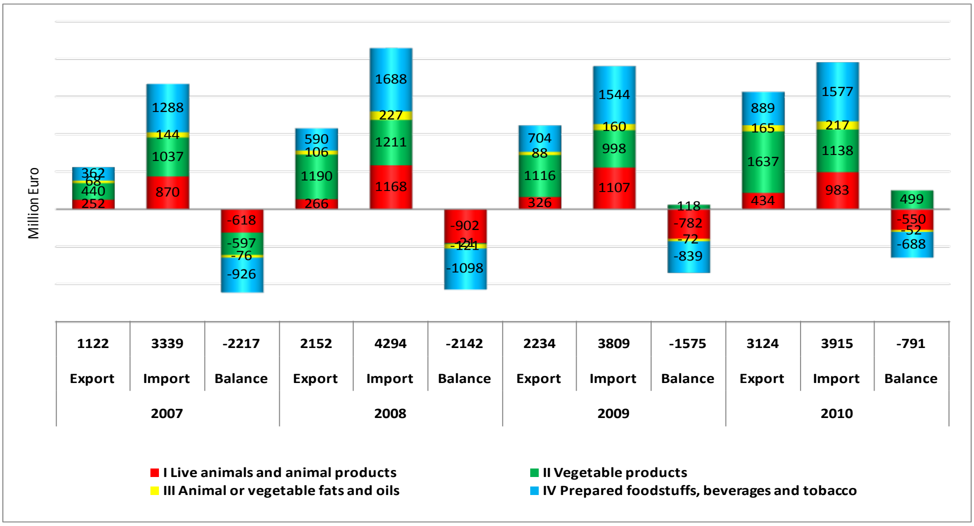
(I) Post-EU Accession Evolutions of the Romania's Agri-food Trade.

Under the influence of the internal and external developments in the domestic economy the period subsequent the EU accession has been reflected in the country's foreign trade by an intensification of both import and export flows, yet Romania remaining a net agri-food importer since 1990. As a general feature, the annual variation of trade over the last year before the accession showed a greater increase of imports than exports, the increase in European products competition as a result of the first enlargement to the central and east European countries, but also a trade creation effect on the common internal market [2].

The total agricultural trade experienced a growth compared to 2006, i.e. it doubled from 4.4 to 6.4 billion Euro in 2008 and reached 7 billion Euro in 2010. As well, the importance of agri-food exports in GDP in the agricultural sector increased from 15.6 % in 2007 to 24.5% in 2008 and 30.7% in 2009. At the same time, a continuous increase of agri-food opening to the foreign markets was noticed after 2006, significantly larger compared to the evolution of indicators obtained at national level. Romania is highly dependent on the agri-food foreign markets, estimated at 83% for the year 2009, this indicator reflecting the low potential compared to the foreign competitiveness [3].

The annual exports significantly increased, accounting for 1.122 billion Euro in 2007 and almost doubled afterwards, reaching 2.2 in 2009 and grew to 3,1 billion in 2010 (Graph 1). Imports boosted from 3.3 billion Euro in 2007, up by 37% compared to 2006, to a historical record value of 4.3 billion Euro in 2008. A slight decrease followed, and in 2010 the value of imports reached 3.9 billion Euro.

Graph 1. Evolution of Romania's agri-food trade flows and balance structure



Source: author's processing of EUROSTAT trade data base

As a consequence, the balance of trade drastically deteriorated, Romania's agri-food trade balance drastically deteriorated, reaching a significant deficit of over 2 billion euro in 2007 has been experienced a certain contraction trend, in 2010 respectively, accounting -791 million Euro.

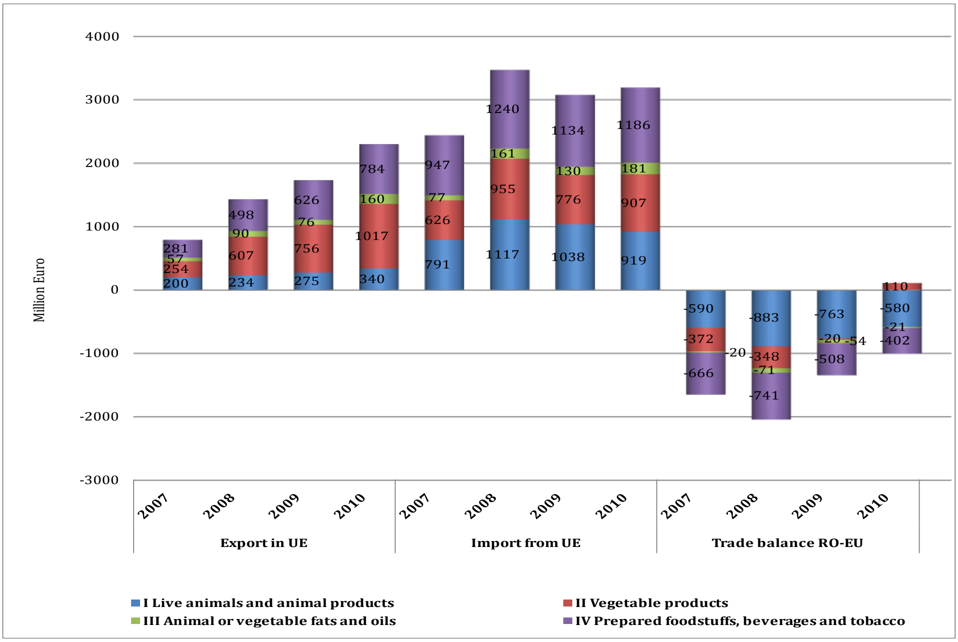
The trade deficit was mainly due to the products included in section IV- Prepared foodstuffs, beverages and tobacco (46% of the trade balance) - whose exports totaled 704 million Euro while their imports 1.5 billion Euro, and in section I - Live animals and animal products (43% of the balance), accounting for 326 million Euro exports and 1.1 billion Euro imports.

Except for the year 2009 when a net export of vegetable products was registered, the agri-food trade balance was negative for all the remaining chapters of the C.N.. The Vegetable products shared half of exports, and worth 1.1 billion Euro, and 26% of imports, totaling 300 million Euro. The traded products in section III - Animal or vegetable fats and oils, also deficient, maintained a 4% share in trade flows and balance.

EU has been the main trading partner for over a decade; in the post-accession period, EU countries represented 71-74% of food export destinations of Romania; at the same time, the import share continually raised, from 55% in 2006, to 73% in 2007 and up to 83% in 2010.

Romania's main agricultural products traded with the EU countries in 2010 covered a 41% share in intermediate and 39% in final exported products, respectively, in imports the final products prevailed, with a 60% share; while to third countries the commodities had the major share, of 56%. Since 2007, the country's relations within the EU region had an ascendant importance, whereas the imports absorbed by Romania from third countries' had a market share decrease, i.e. from 45% in 2006 to 18% in 2010.

Graph 2. Evolution and structure of Romania's agri-food trade with EU



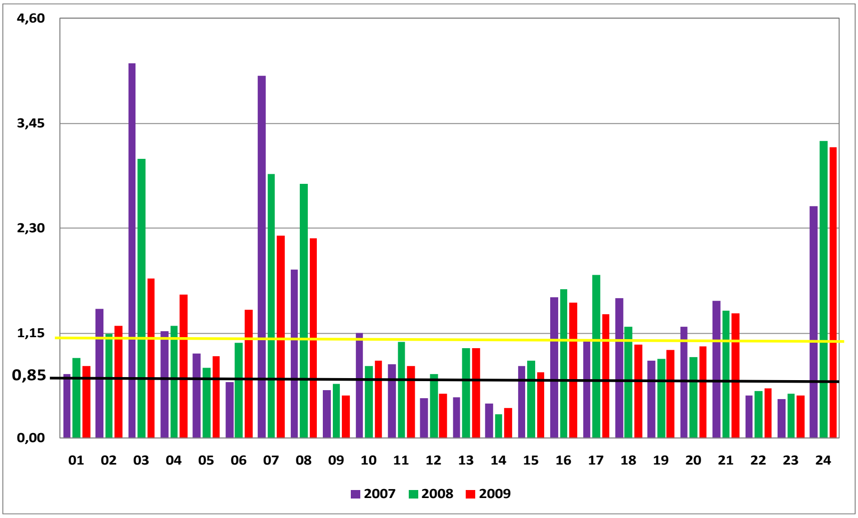
Source: author's processing of EUROSTAT trade data base

The trade balance in the relationship with the EU fluctuated, the deficit halved, from -1.6 bil. Euro in 2007 to –0.9 bil. Euro in 2010; the categories of products remained insufficient in most of the sections of the C.N., except for vegetable products in 2010 due to a favorable harvest (Graph 2). Net exports to the EU member countries have been achieved in 2009 only by products belonging to the following groups: 01 - live animals, where exports have remained on average to 136 mill. Euros, but imports gained a rate of growth of 248% in 2009 compared with 2007, from accounting for 47 to 117 mil. Euro; 10 – cereals, whose exports totaled a value of 361 mil. Euro, while imports of 228 mill. Euro; 12 - oil seeds, whose exports increased almost 4 times, registering 317 million euro, while imports 70% larger, of 105 million Euro; 24 - tobacco and substitutes, tripled their exports, worth of 348 mill. Euro, while imports of 126 mill. Euro.

(II) Changes in Romania's agri-food terms of trade and quality of the traded products, by the relative unit value index

The agri-food products which low average values of exports found in 2009, indicating a low quality, as shown in Graph 3, are those included under the following sections: 01- Live animals; 09 - Coffee, tea, mate and spices; 10 - Cereals; 11 - Products of the milling industry, malt, starch; 12 - Oleaginous seeds and fruits, medicinal or industrial plants, straw and forage; 14 - Plaiting materials and other products of vegetable origin; 15 - Animal or vegetable fats and oils; 22 - Beverages, spirits and vinegar; 23 - Residues and waste from food industries.

Graph 3. Evolution of unit value indices in Romania's agricultural trade



Source: author's calculations based on EUROSTAT trade data base

Products vertically integrated, revealing high-quality exports and specialization level, accounted for 32% of Romania's agri-food exports; aggregated by chapters of C.N., they are: 02 - meat and edible offal; 03 - fish and crustaceans; 04 - milk and dairy products, birds' eggs, natural honey; 06-live plants and flower products; 07 - edible vegetables, roots and tubers; 08 - edible fruits; 16 - preparations of meat and fish; 17 - sugar and sugar confectionery; 21 - miscellaneous edible preparations; 24 - tobacco.

Products with horizontal trade integration, had a low share in exports in 2009, of 5%; they are included in the chapters: 05 - other products of animal origin; 13 - gums, resins and other vegetable saps and extracts; 18 - cocoa and cocoa preparations; 19 - preparations of cereals, flour, starch; pastry; 20 - preparations of vegetables, fruit.

An improvement of the terms of trade in the last period of analysis on the groups of products including: meat, milk and dairy produce, other products of animal origin, live plants and flower products, cereals, other products of vegetable origin, preparations of cereals, fruit or vegetables and beverages, spirits and vinegar.

CONCLUSIONS

The results underline a decrease of domestic performance in the face of growing external competitiveness, with a strong impact both on the food industry that needs to reshape the strategies for going on the market and on the agricultural sector, where changes imposed by the adoption of CAP have increased the pressures on farmers to face the market developments.

The assessments indicate a trade disadvantage compared to the EU products, dependence on imports of processed products and of animal origin, the low competitiveness of the processing sector being the main disadvantage in obtaining higher revenue from exports.

The influences on food markets can be reflected by temporized import flows, narrowed supply ranges, but also by the reduction of the agri-food trade deficit, however through less competitive exports rather than on the basis of imports.

Evaluation of the quality of international trade is an useful instrument to support the policy decisions concerning the restoration and development of the sector; applied on foodstuffs it might have the purpose to promote the products with export potential and those returning extra benefits from international markets, focusing on products with high value added.

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