

OPORTUNITĂȚI ȘI PERSPECTIVE DE DEZVOLTARE A COMERȚULUI ÎNTRE ROMÂNIA ȘI FEDERAȚIA RUSĂ ÎN CONTEXT EUROPEAN¹⁶

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Summary:

The present paper has as main objective the analysis of the opportunities and development perspectives of the trade relationship between Romania and the Russian Federation, linked to the latest evolutions of the European and global economic context. Keeping in mind this objective, our paper is structured around three main sections, as follows.

The first part, "Economic Context of Romania-Russian Federation Trade Development" is centered upon the global crisis and its effects on the EU, Romania and Russia as well as the EU-Russia increasing bilateral merchandise trade flows. We examine how the global economic crisis interrupted increasing merchandise trade between EU-27 and the Russian Federation and present the main exporter countries from the EU-27 to Russia and the major EU importers from Russia and analyze in a comparative manner the very concentrated trade pattern between EU-27 and Russia.

In the next section, "Romania-Russia Trade Development", we underline that the Russian Federation is the second extra-EU trading partner of our country. We explore Romania's trade relationship with Russia during pre and post accession to the European Union and also the actual trends of the bilateral trade, which pattern is extremely concentrated.

In the last section, "Opportunities and Prospects for the Trade Development between Romania and Russian Federation", we conclude, on the basis of the comparative and prospective analysis, that: Romania could be well positioned on Russian markets; there are many similarities in competitiveness characteristics of our countries; Romania and Russia have some problematic factors in doing business; strong points of the Romanian manufacturing industry could lead to the diversification of trade pattern and, finally, Romania has the possibility to develop a strong economic partnership with the Russian Federation under the framework of the EU-Russia relationship.

Key words: *Global economic crisis, international trade, trade pattern, Russian Federation, EU-27, Romania.*

JEL classification: F10, F14, F59, O24.

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1. GLOBAL AND EUROPEAN ECONOMIC CONTEXT OF ROMANIA- RUSSIA TRADE DEVELOPMENT

A. GLOBAL CRISIS HAS AFFECTED THE ECONOMIES OF THE EU, ROMANIA AND RUSSIA

While the epicenter of the crisis, which originated in the US sub prime markets in 2007, was located in the advanced economies, shockwaves have reached all regions of the world.

In the EU, the fourth quarter of 2008 posted a decline that reflected a sharp collapse in external demand, as a result of the impact of large housing market corrections in some countries and more stringent financing constraints.

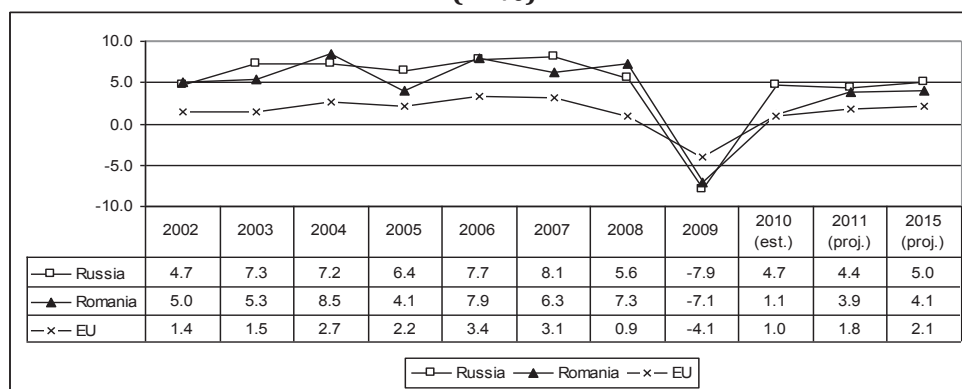
In 2009, the EU economy was in the midst of its “deepest and most widespread recession in the post-war era” [*European Economic Forecasts*, Spring 2009, Brussels]. Exports and investment registered a “sharp” contraction, while private consumption also declined, as the labor-market situation deteriorated. As the recession continued, private consumption was affected through adjustments in labor markets and low confidence in financial sector.

In Romania, after the beginning of economic crisis, the domestic demand boom, largely financed from foreign sources, came to a sudden end, following the significant tightening of international capital inflows, and due to the increased investor risk aversion to the vulnerabilities in the housing sector and decelerating disposable income. Having endured a deep recession in 2009 (real GDP contracted by 7.1%), we believe that the Romanian economy will emerge from recession in 2010.

The rate of economic decline in Romania has been slowing for the last three successive quarters, suggesting that a recovery is getting underway. This is supported by similar improvements in leading indicators which suggest that economic conditions continue to stabilise²⁰.

²⁰ 2010 Business Monitor International Ltd.

**Figure 1 : Real GDP growth in Russia, EU-27 and Romania, 2002-2015
(in %)**



Source: IMF (2010), World Economic Outlook, April 2010, Business Monitor, June-July 2010.

In the Russian Federation, tighter credit, collapsing global demand, global uncertainty, and rising unemployment hurt investment and consumption, the main drivers of GDP growth in recent years, particularly in the first half of 2009. The global economic crisis has affected Russian Federation, starting with heavy capital flight in September 2008, which caused a crisis in its stock market. The fall in global demand, especially for raw materials was a factor for a sharp decrease of international commodity prices and Russian economy. After a decade of growth, estimated GDP and industrial production growth for 2009 were -7.9% and -11, respectively, a sharp contrast to the pre-crisis performance of 8.1% and 6.3% in 2008.

Forecast on the medium term

Medium-term forecasts for the global economy indicate a slow positive growth until 2015. In this context, for the EU-27, there are expected positive growth rates, of 1.8% in 2011 and 2.1% in 2015, given the stabilization of the private consumption and the recovery of large scale industrial investments. More accelerated growth rates are expected for both the Russian Federation and Romania.

B. EU-27: INCREASING MERCHANDISE TRADE WITH RUSSIA

The European Union and the Russian Federation have a strong economic relationship.

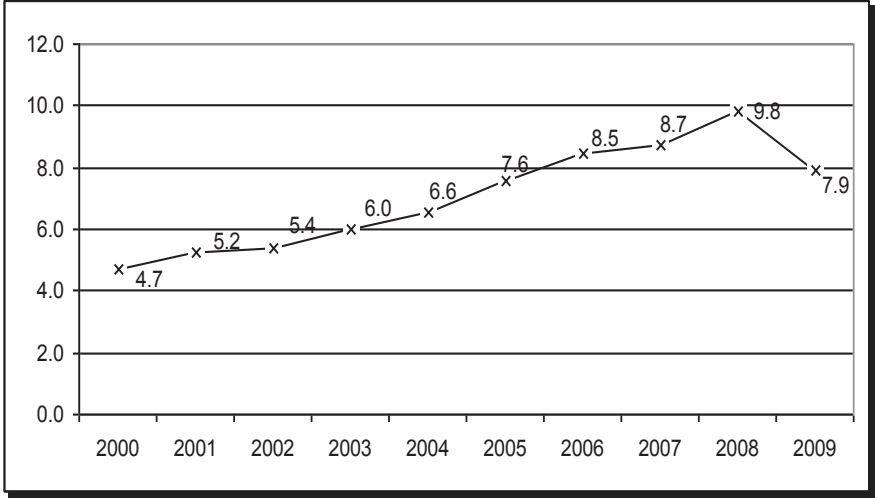
The bilateral trade and investments continued to grow rapidly in the last decade, but contracted beginning with the first months of 2009, as a result of the economic crisis. However, the EU is by far Russia's main trading partner and investor and Russia is the EU's third largest trading partner.

- **Russia – the third largest trade partner of the EU27**

The Russian Federation is a key partner for the European Union. Building a strategic partnership with Russia is of vital importance for the EU for several reasons. First of all, Russia is the largest neighbour of the EU, with a growing importance also due to the EU's successive enlargement waves in 2004 and 2007. The EU Security Strategy highlights Russia as a key player in geo-political and security terms at both the global and regional level. Trade and investment relations with Russia represent another area of dynamic growth.

The share of Russia in the EU-27's total extra-EU trade in goods increased steadily between 2000 and 2008 to 10%, but declined in 2009 to 8%.

Figure 2: Share of Russia in the EU-27's total extra-EU trade (in %)



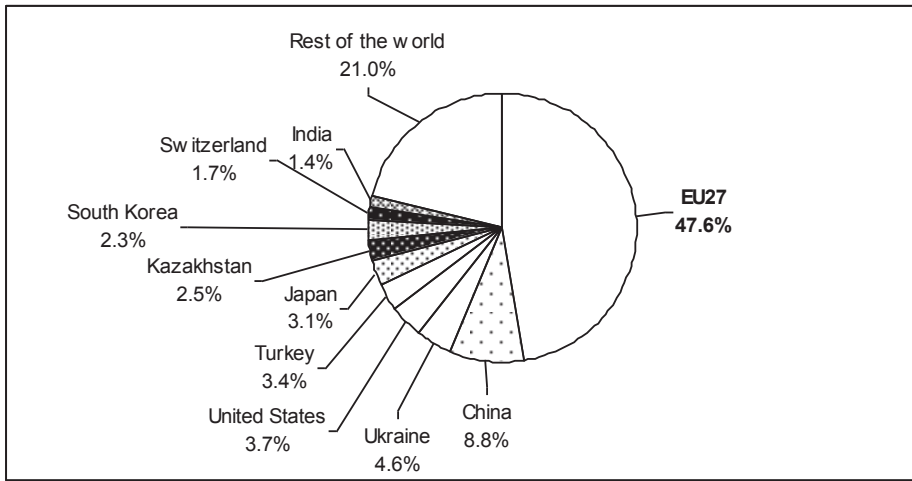
Source: Calculations based on Eurostat (2010).

Russia is **the EU-27's third most important (extra-EU) trade partner, after the USA and China.** On export side, Russia is the fourth major partner of the EU-27 and accounted for 6% of the (extra EU) exports, while on import side, it is the third major partner, with almost 10% of the (extra EU) imports in 2009.

- **EU 27 - the main trade partner of Russia Federation**

The EU's market, on the other hand, is by far the most important destination for Russian exports. About 50% of Russia's trade is accounted by the EU 27 followed by China, Ukraine and the USA.

Figure 3 : The main trade partners of the Russian Federation, 2009 (in %)

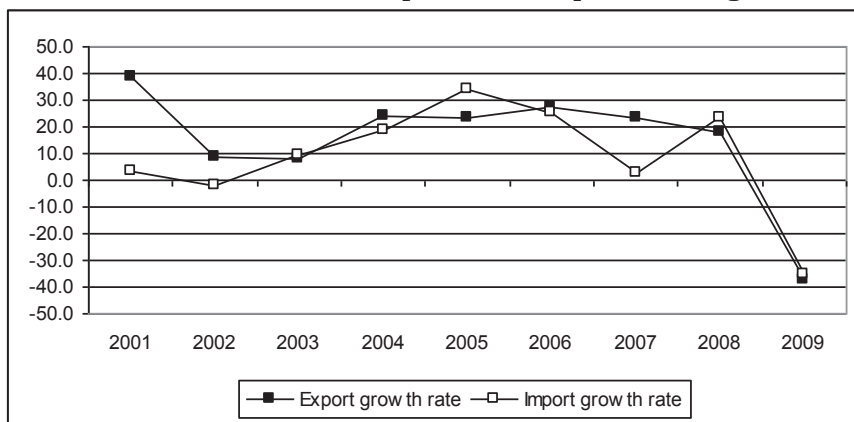


Source: European Commission, DG Trade.

- **The global economic crisis interrupted increasing merchandise trade between EU-27 and the Russian Federation**

Trade between the two economies showed steady growth rates until mid-2008, but this trend was interrupted by the global economic crisis.

Figure 4: Growth rates of the EU-27 exports and imports during 2001-2009 (in %)



Source: Calculations based on Eurostat (2010).

EU exports to Russian Federation decreased by 38% and imports from Russia by 35% in 2009, against their levels of 2008.

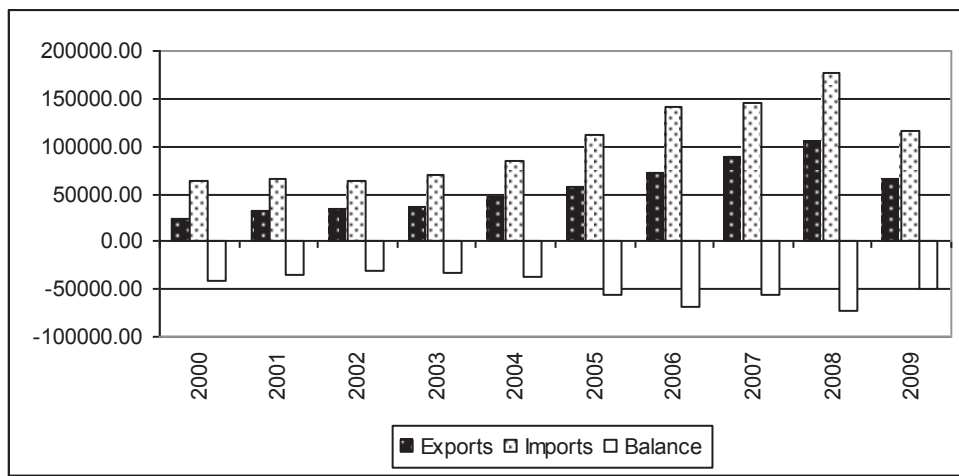
- **EU-27 is a net importer from Russia**

Year by year in this decade EU was a net importer from Russian Federation, its trade deficit accounted over 50 billion Euro per year in 2005-2009, with a peak in 2008.

The EU-27 exports to Russia registered a sharp increase from almost 23 billion Euro in 2000 to 105 billion in 2008, and almost halved to 66 billion Euro in 2009.

EU imports from Russia tripled in the same time to 178 billion in 2008, and then decreased to 115 billion Euro in 2009. As a consequence, the EU-27 trade deficit with Russia increased significantly from 41 billion Euros in 2000 to 73 billion in 2008, and fell to 50 billion in 2009.

Figure 5: Evolution of the EU-27 – Russia trade balance during 2000-2009 (million Euro)

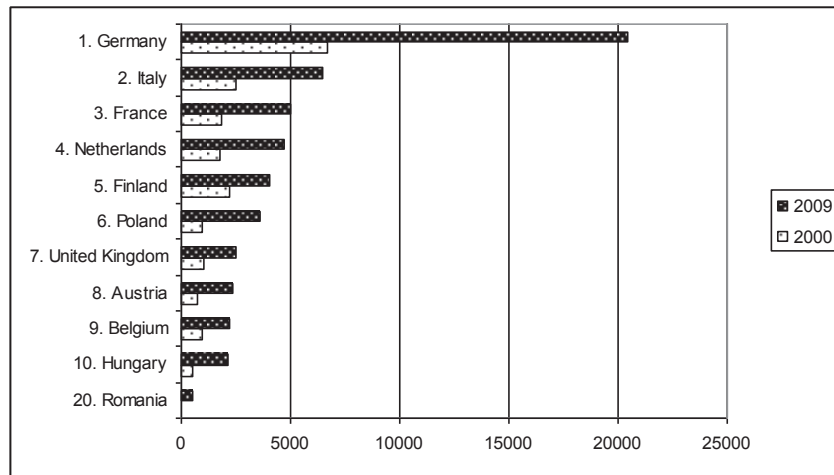


Source: Eurostat (2010).

- **The main exporter countries from the EU-27 to Russia**

The ten main exporters from the EU-27 to Russia covered 82% of the total exports in 2009: Germany (over 31%), followed by Italy (almost 10%), France (7.6%), Netherlands (7.1%), Finland (6.2%), Poland (5.5%), United Kingdom (almost 4%), Austria (3.6%), Belgium (3.4%) and Hungary (3.2%). The group of the new member states (NMS) had in 2009 a share of only 20.4% in the EU-27 exports to Russia.

Figure 6: Major EU exporters to Russia and Romania's position as exporter to Russia in 2000 and 2009 (million Euro)

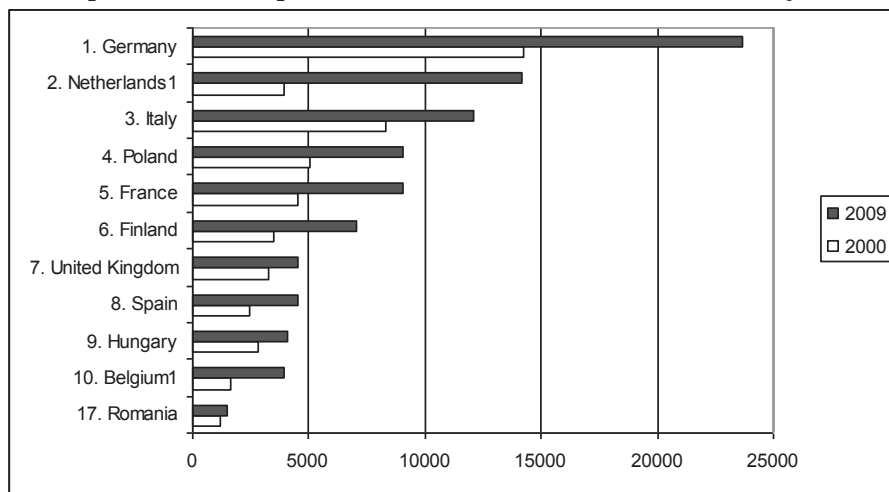


Source: based on Eurostat (2010).

▪ **The main EU importer countries from Russia**

The imports are concentrated as well, as the ten major importers of the EU-27 from Russia had in 2009 a share of almost 80% of the total import value: Germany (20.5%), Netherlands (12.3%), Italy (10.5%), Poland (7.9%), France (7.8%), Finland (6.1%), United Kingdom and Spain (each almost 4%), Hungary (3.5%) and Belgium (3.4%).

Figure 7: Major EU importers from Russia and Romania's position as importer from Russia in 2000 and 2009 (million Euro)



1. Dutch imports are over-estimated because of the "Rotterdam effect", where goods destined for the rest of the EU arrive and are recorded in harmonized EU external trade statistics in Dutch ports. To a lesser extent, Belgian trade figures are similarly over-estimated.

Source: based on Eurostat (2010).

The group of the new member states (NMS) had in 2009 a share of 25.7% in the EU-27 imports from Russia.

A number of 22 member states of the EU-27 recorded in 2009 trade deficits in their trade relations with Russia. Deficits of Netherlands, Italy, Poland, France, Germany and Spain surpassed each 3 billion Euro.

Trade surpluses were recorded by other 5 member states: Austria (710 million Euro), Denmark (572 million), Slovenia (473 million), Ireland (145 million) and Luxembourg (103 million).

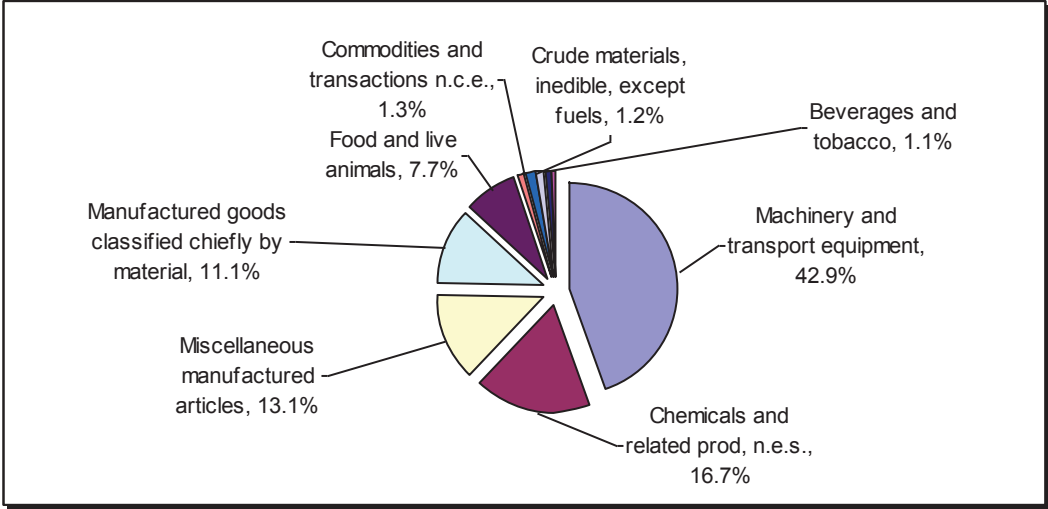
▪ **Very concentrated trade pattern between EU-27 and Russia**

The trade pattern between EU-27 and Russia is very concentrated. In 2009, around 85% of EU-27 exports to Russia were manufactured goods, while energy accounted for almost three quarters of its imports.

The exports were dominated by three product groups (out of 21), concentrating about 60% of the EU exports to Russia: *Machinery and mechanical appliances; electrical equipment etc.* (32.4%); *Products of the chemical or allied industries* (14.8%) and *Vehicles, aircraft, vessels and associated transport equipment* (11.6%).

Ten sections (out of 21) of the Harmonized System had a cumulative share of over 87% of the total exports of the EU-27 to Russia in 2009.

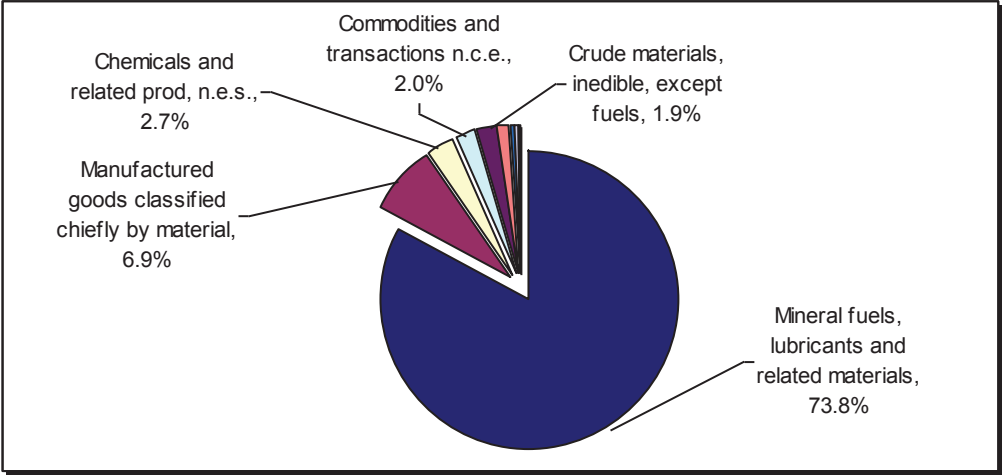
FIGURE 8: EU-27 EXPORTS TO RUSSIA - MAIN SITC SECTIONS (%)



Source: European Commission, DG Trade.

The EU imports from Russia were dominated in 2009 by *Fuel and Mineral products* (almost 75% of the total). The degree of concentration is more emphasized for imports than for exports.

Figure 9: EU-27 imports from Russia – main SITC sections (%)



Source: European Commission, DG Trade.

Ten sections (out of 21) of the Harmonized System had in 2009 a cumulative share of over 88% of the total imports of the EU-27 from Russia.

Although the EU trade balance with Russia was positive for 15 sections of the Harmonized System, the deficit recorded by fuel and the mineral products (over 85 billion Euro), could not be compensated by the surpluses of the 15 sections. This generated a negative balance of almost 50 billion Euro in the EU-27 trade relations with the Russian Federation in 2009.

▪ **Rank of product groups in the trade between EU-27 and Russian Federation**

Many group of products rank places 1, 2, 3 or 4 in the EU exports to Russia and imports from Russian Federation.

Table 1: The main product groups in the EU-27 – Russia trade

EU Exports / SITC Rev.3 - Product Groups	Rank
1100 - Agricultural products	2
1110 - Food	2
1112 - Other food products and live animals	2
2412 - Telecommunications equipment	2
2600 - Clothing	2
1111 - Fish	3
2200 - Chemicals	3
2230 - Other chemicals	3
2300 - Other semi-manufactures	3
2400 - Machinery and transport equipment	3
2410 - Office and telecommunication equipment	3
2411 - Electronic data processing and office equipment	3
2430 - Other machinery	3
2432 - Non electrical machinery	3
2433 - Electrical machinery	3
2700 - Other manufactures	3
2710 - Personal and household goods	3
2730 - Miscellaneous manufactures	3
1000 - Primary products	4
2000 - Manufactures	4
2210 - Pharmaceuticals	4
2420 - Transport equipment	4
EU Imports / SITC Rev. 3 - Product Groups	Rank
1000 - Primary products	1
1200 - Fuels and mining products	1
1220 - Fuels	1
1221 - Petroleum and petroleum products	1
1222 - Other fuels	1
1230 - Non ferrous metals	1
2100 - Iron and steel	1
1120 - Raw materials	4
2230 - Other chemicals	4
3000 - Other products	4

Source: Eurostat, 2010.

2. ROMANIA – RUSSIA TRADE DEVELOPMENT

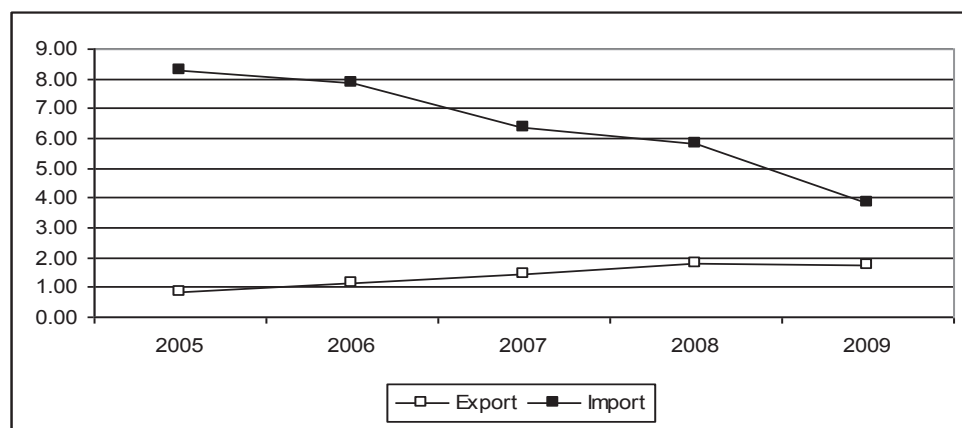
▪ Russian Federation - the second extra-EU trading partner of Romania

During pre and post accession of Romania to the EU, **cumulative share of Romania's extra-EU trading partners remains low. In 2009, export volume of Romania outside the EU was about 7.5 billion Euro, representing 25.7% of total Romanian exports, while import volume outside the EU amounted to 10.4 billion Euro, or 26.7% of total Romanian imports.**

In 2009, Russia accounted 1.8% of Romania's total exports and about 4% of its imports. While the imports' share showed a decreasing trend, the exports' share increased.

The extra-EU trade of Romania is dominated by China, Russia and Turkey. Russia, the second extra-EU trading partner of Romania held a share of almost 7% of Romanian exports to markets outside the EU and 14.4% of extra-EU imports of our country.

Figure 10: Evolution of Russia's share in the Romanian exports and imports (%)

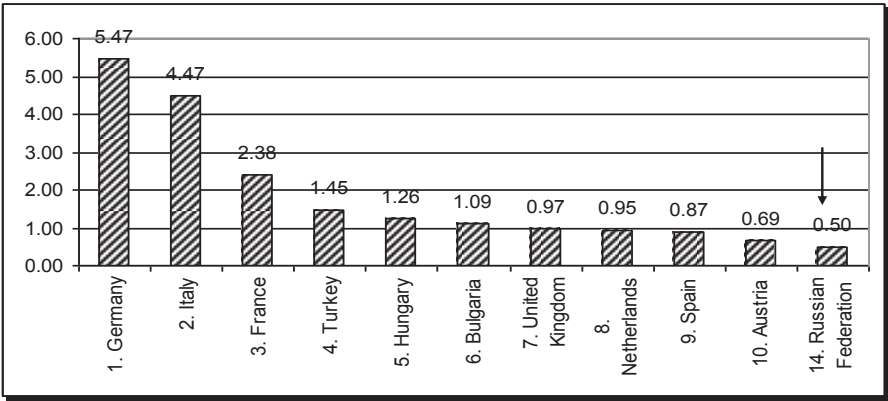


Source: based on MECMA (Ministry of Economy, Trade and Business Environment), Romania

In 2009, the **main destinations of the Romanian exports** (intra and extra community trade flows) were: Germany (18.8%), Italy (15.4%), France (8.2%), Turkey (5%), Hungary (4.3%), Bulgaria (3.8%), UK (3.3%), Netherlands (3.3%), Spain (3%) and Austria (2.4%). These countries held together a share of about

68% of Romanian exports. The Russian Federation was the 14th destination of the Romanian total exports (514 million Euro), but the second from outside the EU, after Turkey.

Figure 11: Romania's main export destinations in 2009 (Billion Euro)

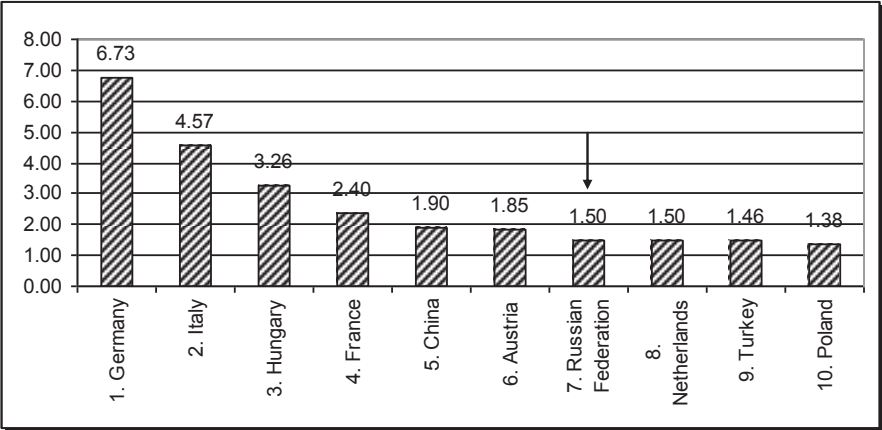


Source: based on MECMA (Ministry of Economy, Trade and Business Environment, Romania)

- **Russia is the second source of Romanian extra EU imports**

In 2009, *main sources of Romania's imports* were coming from: Germany (17.3%), Italy (11.8%), Hungary (8.4%), France (6.2%), China (4.9%), Austria (4.8%), Russian Federation (3.9%), Netherlands (3.9%), Turkey (3.8%) and Poland (3, 6%). In 2009, these countries have cumulated about 69% of Romania's total imports.

Figure 12: Romania's main import sources in 2009 (Billion Euro)



Source: based on MECMA (Ministry of Economy, Trade and Business Environment), Romania

In 2009, Russia was the second source of Romanian extra EU imports (1.5 billion Euro) after China and followed by Turkey. Given the both flows (exports + imports), Russia is the second partner of our country outside the EU.

- **Romania's trade relationship with Russia *DURING PRE AND POST ACCESSION TO THE EUROPEAN UNION***

Since the collapse of communism, the direction of Romania's foreign trade has changed drastically. While some of these changes were simply the result of the contraction of trade between the former members of the COMECON, others followed successful efforts to redirect the trade in line with economic incentives and competitive advantage. Romanian trade with the EU has expanded rapidly during pre and post accession to the EU, so that EU could quickly emerge as Romania's dominant trading partner. While there has been a significant reorientation of trade, especially on the side of exports towards the EU, this does not appear to be the result of trade diversion triggered by the European Association Agreement or the accession. The shift of exports towards the EU occurred primarily at the expense of East Asia²¹ and Russian Federation.

- **The impact of the global crisis on the Romanian trade**

In 2009, extra-community trade of Romania decreased by 34.8% compared to 2008: exports declined by 25% and imports by 40.4% - well above the reductions recorded in trade with the EU member states (respectively, 21.1% at the level of total trade flows, 8.9% for exports and 28.4% for imports).

Meanwhile, in 2009, Romania's trade balance with non-EU partners was strongly negative: 2.9 billion Euro, contributing with 30% of the total trade deficit recorded by Romania. The highest deficits at the extra-community were level registered in the relations with: China (about 1.7 billion), Kazakhstan (1.3 billion Euro) and the Russian Federation (almost one billion Euro).

²¹ East Asia includes the following countries: Brunei, Cambodia, China, Hong Kong (China), Indonesia, Japan, Korea Rep., Lao PDR, Malaysia, Mongolia, Philippines, Singapore, Taiwan (China), Thailand and Vietnam.

- **Evolution of bilateral trade: increasing merchandise trade before economic crisis**

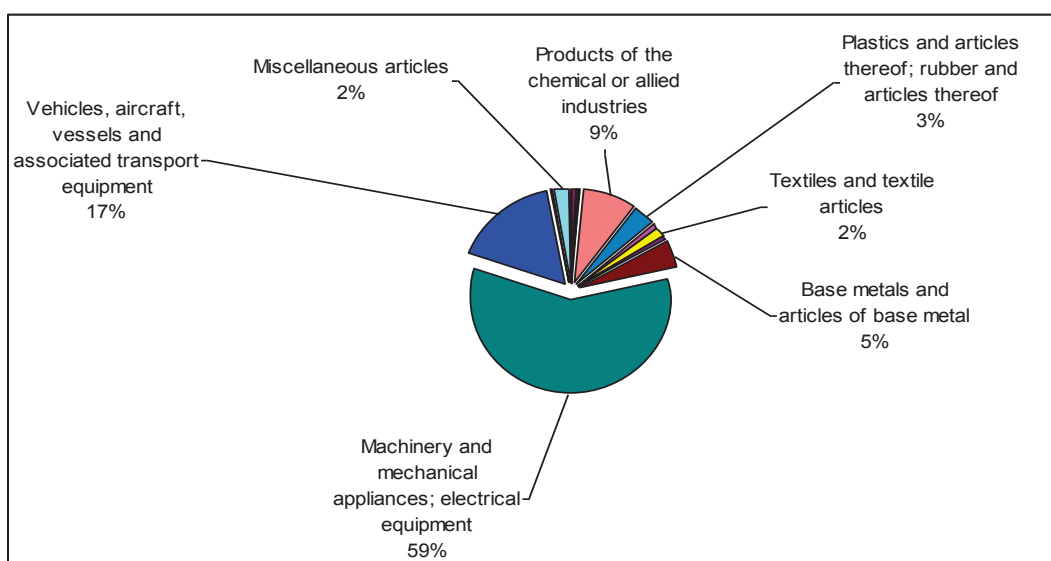
The trade flows between Romania and the Russian Federation registered a steady growth in 2005-2008, to a "peak" of 4 billion Euro in 2008 (613 million Euro in export and 3.3 billion Euro in import), but a sharp decline in 2009 and in the first two quarters of 2010, as a result of the global economic crisis.

Romanian imports from Russia, in the first six months of 2010, amounted to 1.03 billion Euro. In the same period, Romania exported to Russia goods valued at 366 million Euro, so the trade deficit with Russia declined to 664 million Euro.

- **Very concentrated bilateral trade pattern**

In 2009, the overwhelming share of the Romanian exports toward the Russian Federation was represented by electrical machinery and electrical equipment, sound recording or reproducing sound or images 58.6% (301 million Euro). Other sectors with significant shares in Romanian exports to the Russian market were: machinery and transport equipment (17.1%, almost 88 million Euro), chemicals and related products (8.7%, about 45 millions Euro), base metals and articles of base metals (4.5%, 23 millions Euro), plastics and articles thereof, rubber and articles thereof (3.3%, 16.7 millions Euro).

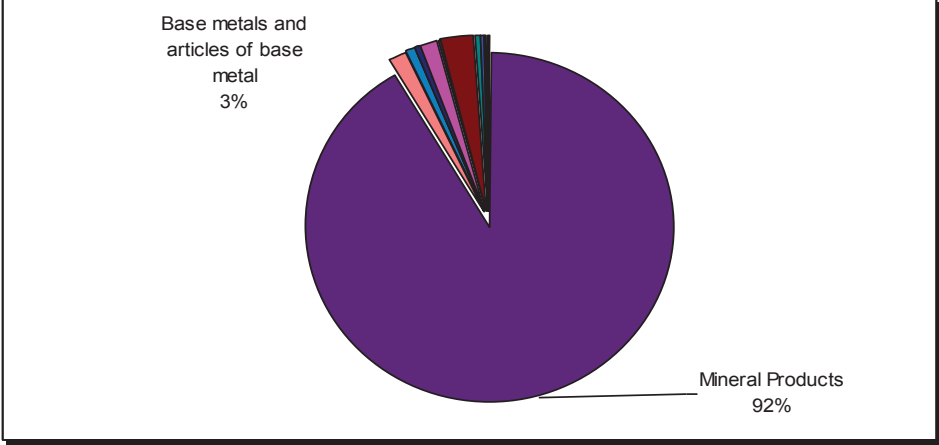
Figure 13: The pattern of Romania's export to the Russian Federation, in 2009 (%)



Source: based on National Institute of Statistics' Data, Romania.

By contrast, **Romania's imports from Russia** were dominated by fuel and mineral products, with a share of 91.6% of the total in 2009.

Figure 14: The pattern of Romania's import from the Russian Federation, in 2009 (%)



Source: based on National Institute of Statistics' Data, Romania.

In the first six months of 2010, Romanian imports also focused mostly on fuel and mineral oils - over 950 million Euro, followed by cast iron, iron and steel - 18 million Euro, and minerals - over 11 million Euro. Romania also imported paper and rubber, each valued at some 7 million Euro and exports to Russian Federation pharmaceutical products (over 32 million Euro) and grains (7 million Euro).

Romania is a net importer from Russian Federation as well as EU-27

Romania is a net importer from Russian Federation with a yearly trade deficit of 1-3 billion Euro in the last 5 years. The record deficit was registered in 2006.

In 2009, the trade balance between Romania and the Russian Federation was negative, with a deficit of around 1 billion Euro. Deficits occurred in the sector of fuel & mineral products (nearly 1.4 billion Euro), base metals and articles thereof (20 million), pulp of wood or of other fibrous cellulosic material, paper or paperboard (17 million Euro), wood, cork and wickerwork of twigs (about 5 million), food, beverages and tobacco (723,000 Euro), animal or vegetable fats and oils and their cleavage products (205,000 Euro).

Figure 15: Trade between Romania and the Russian Federation: Exports, imports and trade balances, 2005-2009 (million Euro)



Source: based on National Institute of Statistics' Data, Romania.

In the others sections, there were surpluses, but the largest surplus was only 293 million Euro (machinery and electrical equipment, sound recording or reproducing apparatus or images), so the excess of the 12 sections could not overcome deficits in other sections.

3. OPPORTUNITIES AND PROSPECTS FOR THE TRADE DEVELOPMENT BETWEEN ROMANIA AND RUSSIAN FEDERATION

Opportunities

- **Romania could be well positioned on Russian markets.**

Romania's Rank in the Economic Fundamentals of the New Member States of EU27, in 2008

- **Rank 2** / GDP at PPP (245.77 billion EUR) / after Poland
- **Rank 2** / Population – 21 513 thousands, after Poland
- **Rank 2** / Employed persons /after Poland
- **Rank 2** Lowest Price level, EU-27=100 (PPP/exchange Rate) /after Bulgaria
- **Rank 3** / GDP growth at constant prices, 2000=100/ after Latvia, Lithuania.

- **Rank 4** / Lowest Unemployment rate (6%)
- **Rank 10** Exports of goods in % of GDP
- **Rank 10** Imports of goods in % of GDP
- **Many similarities in competitiveness characteristics of the two countries**

In the most recent Global Competitiveness Report (2010), the rank of Romania in the global economy is estimated at 67 (out of 139 countries) for 2010-2011 (68 in 2008-2009), while the rank of Russian Federation is 63 (51 in 2008-2009).

With good and less good characteristics, competitiveness of Romania and Russian Federation in the global economy is very close to each other.

Romania's place in the world regarding competitiveness

Global Competitiveness Index		
	Rank (out of 139)	Score (1-7)
GCI 2010-2011	67	4.2
GCI 2009-2010 (out of 133).....	64	4.1
GCI 2008-2009 (out of 134).....	68	4.1

Russian Federation's place in the world regarding competitiveness

Global Competitiveness Index		
	Rank (out of 139)	Score (1-7)
GCI 2010-2011	63	4.2
GCI 2009-2010 (out of 133).....	63	4.2
GCI 2008-2009 (out of 134).....	51	4.3

Romania and Russia have some problematic factors in doing business

In a Survey of Global Competitiveness (2010-2011), the experts found some problematic factors for doing business in each of our countries. There are a lot of common problematic factors, but the TOP 5 of these factors, although different in Romania and Russia, have the same negative impact in doing and developing business.

In Romania, the TOP 5 problematic factors in doing business are:

- Access to financing

- Inadequate supply of infrastructure
- Inefficient government bureaucracy
- Tax rates
- Tax regulation

In the Russian Federation, the TOP 5 problematic factors in doing business are:

- Corruption
- Access to financing
- Tax regulation
- Crime and theft
- Inflation

If the two countries can solve in the future, even some of the mentioned problems, they could transform the weak points into opportunities and could develop bilateral trade on medium and long term.

▪ **Strong points of Romania in competition on Russian Market**

Several studies have shown that potential of Russian market to absorb the exports of our country is largely untapped.

The challenge facing Romanian suppliers who want to compete on Russian market is that they will have to compete with most efficient suppliers from other developed and emerging countries. China in particular is regarded as the greatest “threat”, with its huge production capacities and pool of cheap labor force. Its performance in EU markets has confirmed these fears.

However, Romania could have some **advantages** on the Russian market in comparison with many others exporters from non-European emerging countries.

First, geographical proximity may give Romanian firms comparative advantage in relation with Asian or African competitors in some production lines.

Second, because of large presence in Romania of foreign owned firms with unique commercial links to EU producers and distributors, Romania may be better positioned than many other countries to withstand augmented competitive pressures.

Yet, there is an important challenge: the export performance sustainability on the Russian market. Considering the importance of Russian Federation as a trade partner to the national welfare, this calls for designing measures that would improve domestic business climate and could stimulate an increased cooperation between the two states.

▪ **Strong points of the Romanian Manufacturing industry could lead to the diversification of trade pattern**

By comparing the data associated with the current structure of bilateral trade between Romania and Russia and the degree of specialization of Romanian manufacturing industry, complementarities can be found to lead to a lower concentration and products diversification of trade pattern, finally resulting great opportunities for the development of trade between the two countries.

Romania's Rank in Top 5 of the EU-27 Manufacturing Industry

Value-added specialization ratio (EU-27 =100)

- Rank 1: Basic iron and steel; Tubes, other first processing of iron and steel; Railway, tramway locomotives, rolling stock; Recycling metal and non-metal waste and scrap;
- Rank 2: Beverages;
- Rank 3: Basic precious and non-ferrous metals;
- Rank 4: Boilers, metal containers and steam generators; Domestic appliances; Furniture; other manufactured goods n.e.c.;
- Rank 5: Rubber products; Tobacco products;

Employment specialization ratio (EU-27 =100)

- Rank 1: Recycling metal and non-metal waste and scrap;
- Rank 2: Basic iron and steel; tubes, other first processing of iron and steel; Railway, tramway locomotives, rolling stock;
- Rank 3: Beverages; Furniture; other manufactured goods n.e.c.;
- Rank 5: Glass and glass products; Structural metal products; Boilers, metal containers and steam generators; Machinery for the production and use of mechanical power; Tobacco products.

▪ **Romania could develop strong economic relations with the Russian Federation under the framework of the EU-Russia relationship**

As a New Member State of the EU, Romania could develop strong economic relations with the Russian Federation under the framework of the EU-Russia relationship. The legal basis underpinning the current bilateral relations is a Partnership and Cooperation Agreement (PCA) between EU and the Russian Federation that came into force in 1997 initially for 10 years and has been renewed automatically.

The objective of Romania's future trade relationship with Russia is to increase rapidly bilateral trade and investments. As a member of European Union, since 2007, Romania attempted to develop this partnership in order to achieve an increased economic growth and sustainable development, in line with the goals of the Partnership and Co-operation Agreement (PCA) that has been the framework of the EU-Russia relationship.

Bilateral Agreements between Romania and the Russian Federation

- Agreement between Romania and the Government of the Russian Federation on trade and economic relations and technical and scientific relations, signed on December 30, 1991.
Currently, it is ready for signing a new economic cooperation agreement in accordance with the EU law.
- Agreement between The Government of Romania and the Government of Russian Federation on the promotion and reciprocal protection of investments, signed on September 29, 1993.
Currently it is under negotiation a protocol to this agreement to bring it in line with the *acquis communautaire*.
- Convention between the Government of Romania and the Government of the Russian Federation for avoiding double taxation on income and capital taxes (Moscow, September 27, 1993).

This agreement regulates the political, economic and cultural relations between the EU and Russia and is an important fundament for the Romania's bilateral trade with Russia. One of its main objectives is the promotion of trade and investments, as well as the development of strong economic relations between the two parties. The PCA includes special provisions regarding the economic relations between the EU and Russia. EU imports from Russia are, to a very large extent, not subject to any restrictions. Remaining

EU restrictions, notably in the steel sector, are being addressed under a bilateral agreement.

Prospects

At the centre of the EU-Russia relations are the negotiations on a new agreement to replace the current Partnership and Co-operation Agreement.

The EU and the Russian Federation are negotiating a new agreement to provide the contractual framework for EU-Russia relations in the years to come. In June 2008, at the Summit between the EU and the Russian Federation in Khanty-Mansyisk were launched the negotiations on a New EU-Russia agreement, which should update and replace the existing Partnership and Cooperation Agreement. The negotiations were started in July 2008, and by May 2010, 9 full negotiating rounds took place. This new legally binding agreement will provide a comprehensive framework for bilateral trade relations by maintaining some basic principles and objectives in the field of trade.

EU supports the Russian Federation's accession to the World Trade Organization (WTO), in spite of the new customs union initiated by Russia (with Belarus and Kazakhstan) and other unilateral measures adopted by Russia (like bans on all imports of EU pork).

The bilateral Summits represent a good opportunity for the strengthening of the bilateral cooperation. For example, the launch of the Partnership for Modernization at the 25th Summit at Rostov-on-Don on May 31-June 1, 2010 is expanding the opportunities for investment and deepening the bilateral trade and economic relations.

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