

# ADD VALUE MODEL FOR ROMANIAN'S EXPORT PRODUCTS

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## Abstract

*Romania as the others Eastern European countries follows the procedure of the European Integration, through the negotiations on running. The European Commission had settled a system of rules and indicators to be agreed and achieved by the nominated countries. At the same time each country established his one development strategy.*

*There is not doubt that the harmonization between the national and European objective is the main solution of the possible future economic sustainable development and quality of life growth.*

*The commercial policies could be seen as an instrument for providing the structure stability and as a way of harmonizing the European and national commercial interests through the use of promotion and protection measures.*

*The various forms of economic cooperation and international trade are so many channels for the Romanian economy to connect itself to European and International Economy. That is why, by making use of R&D (Research & Development) cooperation mechanisms, Romania could access - even in times of transition but with the help of its national highly qualified labor force - peak technology sectors.*

*By developing production capacities in cooperation with companies from the European Union, Romania's affordable (cheap) labor, natural resources, commercial facilities could be driven to the technology of the third millennium.*

*Cooperation with regard to marketing and sales is leading to the integration of the Romanian market into the European one, increasing the awareness of market requests and improving negotiation skills.*

*High technology, new technique, trade under the auspices of international competition are steering the capitalization and management of natural, human, financial and information resources, facilitating both the integration processes and the economic and social development.*

*The theory of “added value products” is more and more light up by the scientist and researchers and at the same time the practice is looking for new approaches and solutions.*

*Present paper proposes a hierarchic structural analysis of the export opportunity with the main criteria add value.*

*The proposed model evaluates the position of the Romania’s exports compared with the UE members and candidates. The analysis was handled for the first 10 products due to the fact that according with Pareto’s model these represents about 30% from total exports volume.*

*The model can be used to settle the Romanian commercial polices in order to promote the most add value products.*

*The Romania Foreign Trade Center is the expression of this concerns and has the objectives to issue the national trade strategies, based on the harmonization of macro and mondo-economy aims, to support and to promote the Romanian producers under the concept of sustainable development.*

## **1. Introduction**

After the fall of the Berlin wall and the disintegration of the soviet-type socialist system, Romania has chosen its path, since December 1989, to market economy and democracy.

The changes in the political and social systems have generated mutations in economics. Even if Romania inherited some strong background economic ties, it became part of the many upgrading and rearrangements of the international economic relations (form, structure, geographical approach and so on).

The privatization process, a major priority since 1989, demonstrates the political will to streamline economic processes with private ownership laws.

The road to market economy involves, besides the nature of (dominant) property, proper access to international finance.

At the same time, both European integration and globalization require non-restricted capital flows and branch out for multinationals.

Romania’s line up to European and international values could be achieved by developing its exchanges in commodities, technology, personnel, culture and so on. These constitute both cause and effect of strengthening economic cooperation and interdependencies, as a fundamental for development.

Romania – in its condition of small-medium size country, with not a very high level of economic development – had to address various forms of economic cooperation in order to create the backbone of its future development and to gain access to several sources of capital, raw materials, technologies and so on..

## 2. Theoretic Fundamentals

“International economic cooperation represents a specific and very complex form of international trade, which pulls together states or economic units, on bilateral or multilateral basis, in order to perform - by joint efforts and in terms of specific contracts – related activities (manufacturing, trade, R&D, services), within a timeframe, with common outputs, superior to the sum up” (Albu, 1995).

This definition highlights the major components of economic cooperation, also by pointing out its goal.

Some sort of tentative mathematics formula for the effects of the economic cooperation could be:

$$(1) \quad E_C = \sum E_i + E$$

Where:  $E_C$  = total effect of the cooperation;

$E_i$  = effect of each individual activity

( $i \geq 2$ );

$E$  = additional effect provided by cooperation, as result of a better management in partners' co-operative efforts.

The term “E” suggests both the goal and the role of international economic cooperation, which possesses some very important features, related both to parties involved and to the cooperation process itself:

- ✓ bilateral and/or multilateral basis are not exclusive, all partners having full autonomy in designing and managing their co-operative links;
- ✓ mutual co-ordination, to some extent, in order to jointly fulfill one or more economic functions;
- ✓ a catalyst for attracting more countries to the international division of labor (for better making use of their competitive advantages);
- ✓ co-operation means both macroeconomic and microeconomics-level processes, which complement and harmonize themselves;
- ✓ co-operation brings joint efforts of partners, on complementary basis;
- ✓ co-operation is a form of international commerce, with rule-of-law-based regulations and contracts, which stipulate rights and duties for all partners involved;
- ✓ co-operation means, in most cases, networking of related activities;

- ✓ co-operation provides long-term relations, which confer both complexity and stability;
- ✓ attracts foreign capital, financial and material resources for developing countries, raising their economic and technology potential.

For a better presentation of the importance of international economic co-operation, it would be worth to portray its functions. It should be mentioned that, apart from other economic activities, international economic cooperation based work fulfills duties on microeconomics, macroeconomic and world economic scales (Grigoriu, Grigorescu, 2001).

At the economic unit level (microeconomics), the functions of the international economic co-operation are:

- Contributes to the improvement of the company management;
- Increases the competitiveness of the products;
- Facilitates the rational use of resources (labor, material, financial);
- Contributes to planning of strategies for comparative advantage(s);
- Provides a window of opportunity for specialization.

At the national economy level (macroeconomics), the functions of the international economic co-operation are:

- Contributes to better use of natural resources;
- Increases the GDP and national wealth;
- Facilitates mutations in the structure of the national economy;
- Improves and intensifies foreign exchanges;
- Facilitates the training of highly skilled specialists;
- Favors some macroeconomic and/or sectorial policies;
- Contributes to the expansion of the R&D sectors;
- Contributes to establishing some balance of payments issues.

At the world economy level (the global scale), the functions of international economic cooperation are:

- Stimulates foreign investments;
- Consolidates the role of the host states in international relations;
- Widens economic and technology interactions;
- Puts international specialization into the context of branches and sectors;
- Speeds up the rhythm and increases the international trade bulk;
- Modifies the structure of international trade;
- Facilitates exchanges between countries with different levels of development /asymmetric structures and potentials/;
- Deepens interaction between different international economic flows;
- Intensifies the dynamics of labor force and highly trained specialists;
- Stimulates international interchanges of know-how, licenses, patents.

Both on macroeconomic (states, governments, international organizations) and microeconomics levels (companies, R&D units, non-profit organizations) it is important

to depict – as accurate as possible – the amount of the term “E” and the shares that are being related to each and every co-operative partner.

### 3. Method and results

The importance of cooperation and international production technology rise up from the add value analysis of the exported products.

The model is designed using the international technological classification<sup>1</sup> based on the processing level and add value included in products.

The settled levels are:

R: Natural resource-intensive

S: Low technology less textile, garment and footwear cluster

T: Textile, garment and footwear cluster

U: Medium-technology less automotive cluster

V: Automotive cluster

W: High-tech less electronics cluster

X: Electronics cluster

Y: Other transactions and products

The technological classification has to be considered as follows: S and T correspond to the low-technology products, U and V to the medium technology, and W, X, Y to the high-technology products.

For each level it was granted qualitative score as shown on the table no 1.

**Table no.1**

<b>Product type</b>	<b>Category</b>	<b>Qualitative Score</b>
- natural resources	R	1
- low technology	S, T	3
- medium technology	U, V	6
- high technology	W, X, Y	9

At the same time it was allocated a quantitative score concerning to the exported volume for each product on the categories presented after on table no.2.

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<sup>1</sup> UNCTAD, based on COMTRADE and OECD ( 1987)

**Table no.2**

- USD mil. -

Export volume	Quantitative score	Export volume	Quantitative score
0 – 4.999	1	200.000 – 499.999	6
5.000 – 49.999	2	500.000 – 999.999	7
50.000 – 99.999	3	1.000.000 – 1.999.999	8
100.000 – 149.999	4	2.000.000 – over	9
150.000 – 199.999	5		

To calculate the aggregate score for each country it was used the following formula:

$$S = \sum_{i=1}^{10} P_{V,i} \times P_{AV,i}$$

Where:

S – aggregate score

$P_{V,i}$  - qualitative score

$P_{AV,i}$  - quantitative score

i – 1 – 10 number of first 10 category of products exported

The analyses of the first 10 products exported quantity made through a score method, gives a picture of the Easter European Countries versus the European Union Country.

Also, a relevant argue for developing and conducting a national plan for cooperation is the structure of the first 10 products exported from Romania. They are talking by themselves as presented on the table no.3.

*Table no.3*

Romania first 10 exported products	Category
843 Women`s outwear non-knit	T
842 Men`s outwear non knit	T
821 Furniture and parts thereof	S
851 Footwear	T
334 Petroleum products, refined	R
674 Iron, steel univ, plate, sheet	S
248 Wood, shaped, rail sleepers	R
612 Leather, etc, manufactures	T
684 Aluminium	U
845 Outer garments knit nonelastic	T

The main export of Romania belongs to the natural resources and low technology.

For the following classification we use the score resulted from two relevant parameters considered: value of the product export as a quantitative factor and the added value category as a qualitative factor. Romania's position is better reflected on the table no4. among the East European Countries.

*Table no.4*

<b>East European Countries</b>	<b>Aggregated Score</b>
1 Hungary	53.20
2 Czech Republic	40.80
3 Russian Federation	35.70
4 Slovenia	35.10
5 Slovakia	30.90
6 Poland	28.30
7 Turkey	25.40
8 Bulgaria	20.30
9 Croatia	18.70
<b>10 Romania</b>	<b>18.00</b>
11 Yugoslavia	16.50
12 Macedonia	8.10
13 Albania	4.50
14 Moldova	3.10

The economic development is reflected on the types of products exported and weight. The growth of the net value exported is not relevant for the health of national economy.

A sustainable development aims to protect the national resources and to take advantages on them, through a wise and efficient exploitation.

Romania is situated on the last third among the East European Countries. This is a result of small amounts exported and also less processed products.

The high technology included products are competing with the strong competitors from the developed countries.

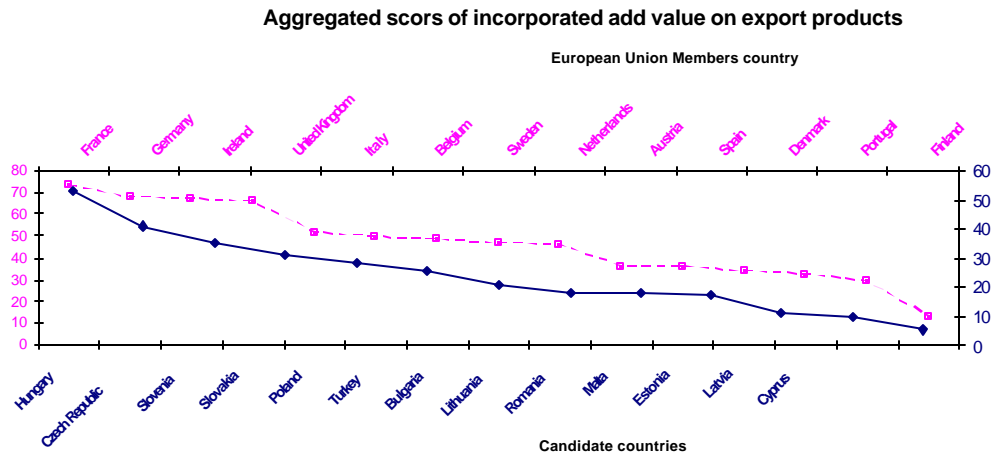
The competition can be disclosed by the comparison with the scores of the European Union Countries, shown on the table no.5.

Table no.5

European Union Countries	Aggregated Score
1 France	72.90
2 Germany	67.50
3 United Kingdom	65.70
4 Switzerland*	56.70
5 Italy	51.30
6 Belgium	49.50
7 Sweden	48.20
8 Netherlands	46.80
9 Austria	45.60
10 Spain	36.00
11 Denmark	35.80
12 Portugal	33.30
13 Finland	32.50
14 Luxembourg	29.10
15 <b>Romania</b>	<b>18.00</b>
16 Greece	13.30

Note: Switzerland is not member of EU, but it is a developed country on the geographic area of competition.

Romania is situated on the penultimate place. That means that the technological potential is very low and the integration policy should take into account the import of joint capital, as a form of allowing the access to the high technology and newest scientific solutions.



The aggregate scores obtained for the studied 150 countries were between 1.5 and 72.9. If the countries are classified according with international standards as:



- developed country
- developing country
- east European country

then the situation for the first 15 placed countries includes 8 developed, 6 developing and 1 east European country (see table no.6).

**Table no.6**

	<b>TARA</b>	<b>Category</b>	<b>Score</b>
1	France	UE Developed	72.9
2	United States of America	Developed	72.9
3	Germany	UE Developed	67.5
4	Ireland	UE Developed	66.9
5	Great Britain	UE Developed	65.7
6	Mexico	<i>developing</i>	64.8
7	Japan	Developed	63.9
8	Singapore	<i>developing</i>	63.9
9	Taiwan	<i>developing</i>	62.1
10	Malays ia	<i>developing</i>	58.4
11	Swizerland	Developed	56.7
12	Filipine	<i>developing</i>	55.0
13	Hungary	E. European	53.2
14	South Korea	<i>developing</i>	52.2
15	Italy	UE Developed	51.3

It is also relevant de difference of 20 dots in aggregated scores obtained by European Union members country and the candidates.

At the same time, the natural resources and the human resources available, can be a challenge for the international financial resources (investment capital) to perform better “services” on the market.

So, with respect to the benefits of a partner from a developed country, these consist of: investment opportunities, better use of technology, increase in sales, lower prices because of cheap labor, use of raw materials that could meet limitations in his own country.

It is very important to stress that, by being aware of the forms of international economic cooperation and its advantages for each and every party, one could itemize the possible added value.

International economic cooperation stipulates in its very definition the fundamentals that apply to the European integration related processes.

In practical terms, European integration and/or economic globalization represent the proper use of national resources in order to supply specific products to the European and world market.

From Romania's point of view (taking into consideration that it is a small-to-medium sized country and less developed than EU members), one of the roles of international economic cooperation – even if it could be harder to be described in quantitative models – is to facilitate the access of Romanian-made products to the EU common market.

The important benefits that could be achieved both at microeconomics and macroeconomic levels could become also great risks in terms of exporting cheap labor, raw materials or, to some extent, emerging markets.

From 18 analyzed enterprises that have developed contracts or other forms of international cooperation, only three of them have the goal to promote Romanian products on foreign markets (as components of a more complex product). Many companies that have been taken over by foreign partners are now selling under a different trademark, some of them using only local labor and importing raw materials (lohn). There are also some that are using the mother-company's brand even on the Romanian market.

Because of these reasons, Administration executives have to take into account a grid of criteria for evaluating the impact of international economic cooperation and to determinate the margins for profit both on microeconomics and macroeconomic levels.

#### **4. Discussions**

There are, in our opinion, some questions (problems) that should be on the priority agenda of governmental institutions when trying to establish some generic guidelines for international economic cooperation and foreign trade policies.

These could be, *inter alia*:

- International economic cooperation - is it envisaged as an instrument for economic development and European integration?
- Are high efficiency products considered as priorities in the efforts towards economic promotion?
- Are there any index systems for evaluating the efficiency and the capitalization of the international economic cooperation operations?
- The impact of the privatization process – has it been evaluated in terms of economic development and international trade relations?
- Are there any links between efficiency /both at microeconomics and macroeconomic levels/, liberalism and protectionism?
- How much liberalism and how much protectionism are necessary for a proper integration into the international trade flows?

#### **5. Conclusions**

Being aware of the functions and goals of international economic cooperation, at each and every level of engagement, one could address several forms to evaluating the benefits provided by cooperative trade efforts.

(1) *R&D Cooperation (Research/Science-related cooperation)*, both in economics and engineering, constitutes – in most cases – a concern for Governments and/or international organizations.

It is a fact that through international research programmes, topics of common interest - like solutions for the protection of the environment, ecological technologies, raw material rational exploitation and management techniques - are trying to benefit from an integrated approach. By involving specialists from transition countries (generally with limited access to R&D resources), the more developed countries could benefit of highly skilled personnel, with lower costs than usual.

An aspect has to be marked out: it is important to support Romanian specialists to be involved in international R&D cooperation programmes. A possible secure-clause that the Romanian state (or company) would benefit from the outputs could be taken also into consideration.

(2) *Co-operation in manufacturing* can be achieved by ordering certain products in the case when the foreign partner comes with a bigger involvement than partial financial support /payments for commodities/. The foreign partner could provide to the Romanian firm necessary equipment for manufacturing required items, which are going to be paid by selling the products. Another form of cooperation could be the supply of technology lines and the right to sell the surplus, after leveling the amount of products with the provider. Using manufacturing premises for local (or imported) raw materials could be another solution.

Part-production represents another way of co-operation in manufacturing. The Romanian enterprise could contribute to the end-product with specific items.

This type of co-operation makes better use of premises and facilitates easier access to markets abroad (instead of using a Romanian trademark). Another advantage is the possibility to purchase new equipment and technologies with long term financial projections /possible way out for a company in need.

Part-production is a possibility for the Romanian manufacturers to cooperate with partners from developed countries and to use some sort of umbrella-trademark for the entire product. It also facilitates access to specific markets abroad by using the partner's reputation and quality guarantees.

(3) *International trade cooperation* is accounting activities like: joint offers, specialized trade networks, leasing procedures (complex equipment, certain tools), long term trade contracts, franchising trademarks/operating techniques/products.

The benefits provided by this form of cooperation are: increase in exports; better prices on certain markets abroad and bigger profits; diversified catalogue of products; development of a commercial network abroad, nearer to end-users; long-term relationships that avoid brokers; better awareness of foreign markets; better use of favorable haphazard; better streamlining to market forces; low-cost inputs of raw materials and equipment in national economy.

(4) *Cooperation by joint ventures* is a prerequisite for making companies to become more profitable or to project Romanian firms to markets abroad. Developing a company with two or more parts involved means also cooperation in trade and manufacturing.

The advantages for the Romania partner could be: reshaping national economy without foreign currency efforts, better use of national resources, inputs in terms of modern technologies and equipment, new branches for modern products, competitive products, highly skilled technicians, increase in sales figures, easy access to emerging markets, rapid response to needs of spare parts or engineering and – last but not least – fairness in profit sharing.

All these advantages provide the possibility for Romanian-made products to meet international standards and to gain access to modern technologies, as well as the opportunity to expand on foreign markets, which, in other circumstances, might be difficult to approach.

It is to be said that, after twelve years from the December revolution, there would be natural for Romania to step into a new qualitative approach as a result of better understanding of market mechanisms and requirements, of local (national) needs and priorities.

Of course, there are many concerns related to a progress in terms of international trade favorable to the general economic development, framework in which international economic cooperation gets a higher importance.

The evolution of the cooperation with the Dutch Government is worthy of explanation – the annual Dutch funds for supporting Romanian projects are speeding up transition, facilitating integration and development processes. As leader of foreign investors, the Netherlands are providing (starting this year) economic assistance for joint venture related projects, the financial support being offered both for manufacturing and trade.

Another conclusion is that Romania has some specific natural resources and highly trained specialists that could facilitate, through policies structured mostly on efficiency criteria, the country's performances as a robust EU-type business partner.

The EU integration process is the first step towards global economy required alignments and aspiring countries, more or less in competition among themselves, have to design quite accurately their future role and actions on the world market(s). The mark-up strategies used by companies are, for the time being, more related to national prospective than to the global environment.

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