

EXTERNAL COMPETITIVENESS OF THE ROMANIAN ECONOMY: STRUCTURAL CHALLENGES AND PROSPECTS FOR RECOVERY

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Abstract: *External competitiveness has become a critical indicator for assessing Romania's economic performance in international markets, given the pressures imposed by globalization and European economic integration. Although exports, GDP growth and the attraction of foreign direct investment have increased in recent years, Romania's external competitiveness is affected by a number of persistent structural problems. The aim of this paper is to examine the main factors influencing the external competitiveness of the Romanian economy, focusing on structural imbalances in the real economy, weak performance in global value chains, current account deficit and vulnerability to external shocks. We also aim to conduct a critical analysis of competitiveness factors (unit labor costs, productivity, sectoral structure, innovation, infrastructure and human capital) and to identify possible solutions to strengthen Romania's external position. In terms of these, the priorities are as follows: improving economic governance, promoting innovation and applied research, reforms in education and labor force training, and strategic reorientation towards high value-added exports.*

Keywords: *innovation, global value chains, multifactor productivity, economic resilience*

INTRODUCTION

In the context of the globalized economy, external competitiveness has become an essential tool to assess the sustainability of economic growth and the ability of an economy to integrate effectively into international trade circuits. Sustained GDP growth is no longer enough for an economy. What is needed is a solid capacity to produce goods and services globally without causing significant external imbalances.

For emerging economies such as Romania, external competitiveness reflects the ability to attract external demand, to maintain a balanced balance of payments, but also to stimulate foreign direct investment in a way that creates domestic value added. In a small and open economy, competitiveness is closely linked to the structural efficiency of the economy, the quality of institutions, the productivity of factors of production and the capacity to innovate. In these countries, technological imports and foreign inputs are very important.

Assessing external competitiveness goes beyond a simple comparison of relative prices or trade balances and involves a multidimensional analysis. Unit labor cost, logistical infrastructure, human capital, export quality and the ability to integrate into global value chains are all included. External competitiveness therefore serves as a complicated macroeconomic barometer that measures how resilient an economy is to external pressures, be it trade, energy, finance or geopolitics [1,3].

In Romania, domestic value added is constrained by a number of structural imbalances and low-tech or low-cost dependencies, despite good performance in gross exports and GDP growth. These imbalances accentuate external vulnerability, reflected in a growing current account deficit and a reduced capacity to sustain an export-led growth model. Consequently, external competitiveness should be seen as a strategic element of economic security and national performance, rather than a separate indicator.

MATERIALS AND METHODS

This paper utilizes a qualitative methodology with exploratory and analytical dimensions, focused on. This paper uses an exploratory structural analysis methodology based on official secondary sources, economic statistics and specialized literature. The method is qualitative and focuses on identifying the main structural imbalances affecting the external competitiveness of the Romanian economy. It also explores possible intervention methods to strengthen the external position.

The study is based on: comparative and longitudinal analysis of main competitiveness indicators such as productivity, unit labor costs, exports and current account deficit, analysis of institutional reports (NBR, NSI, European Commission, IMF, OECD) with regard to their documentation; analysis of trends and actual statistical data on Romania's macroeconomic performance compared to other EU countries from 2010 to 2023.

The analysis also has a number of limitations determined by the fact that the method used is structural and descriptive, without an econometric component or mathematical modeling. Also, the data used reflect reported historical values and do not include projections or simulations. Thus, the proposed interpretations should be understood in the context of exploratory research, the purpose of which is to generate hypotheses and policy directions, not to statistically test causal relationships.

RESULTS AND DISCUSSIONS

1. The evolution of Romania's external competitiveness over the last two decades

Romania's sectoral structure, trade profile and place in international value chains have been profoundly altered as a result of the rapid process of integration into the global and European economy over the last twenty years. EU accession in 2007 improved trade liberalization and accelerated foreign direct investment (FDI) flows, which had a significant effect on external competitiveness. However, the positive results of some surface indicators, such as gross export growth and GDP growth, do not always reflect the structural realities of external performance. [5,6,13]

A. Evolution of exports and trade structure

The value of Romanian exports of goods increased considerably after 2000, especially in the post-accession period, in parallel with the intensification of integration into the single European market. [10,12]

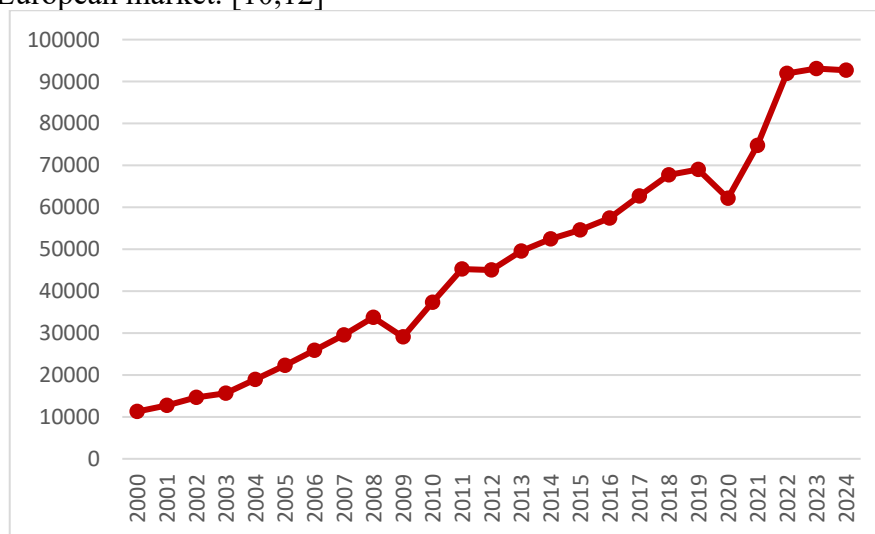


Figure 1. The evolution of the Romanian exports (million euro)

Source: made by the author based on the data from www.insse.ro

The main trading partners are Germany, Italy, France and Hungary, and trade with the EU-27 accounts for over 70% of total exports. However, a large share of these exports consists of intermediate products with low or medium added value, such as automotive components, electrical equipment and textiles.

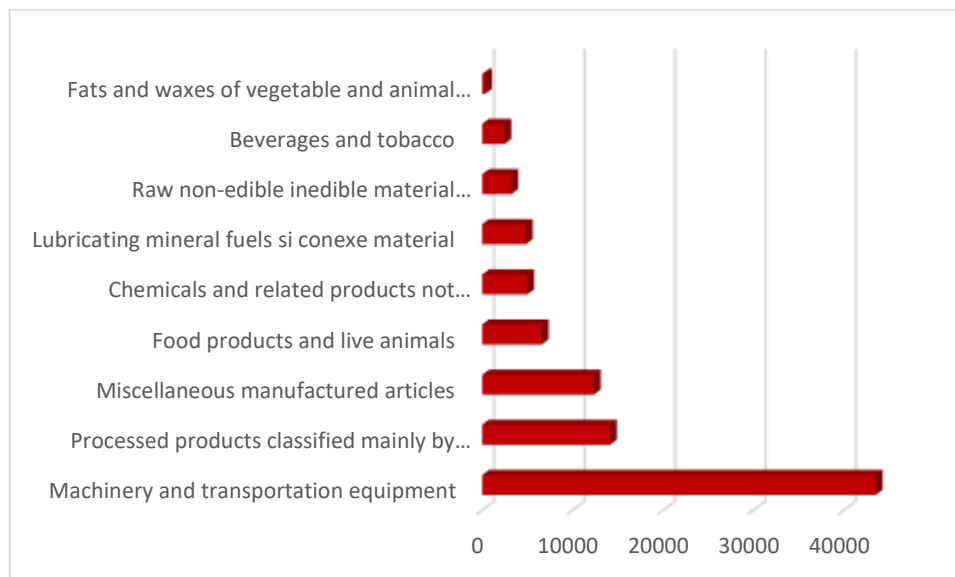


Figure 2. Sector structure of exports in 2024

Source: made by the author based on data from www.insse.ro

The sector structure reflects an industrial specialization in assembly and sub-processing activities, characteristic of the peripheral integration model. This orientation limits Romania's ability to advance into higher segments of global value chains, where profitability and innovation are higher. Services exports - especially in IT&C - have been growing steadily, but not enough to compensate for the structural deficiencies in goods exports.

B. Current account and external investment position

In spite of economic growth, Romania's current account has run persistent deficits in most years post-2007, mainly due to trade imbalances and profit transfers by multinational corporations. This external vulnerability shows that real external competitiveness is insufficient, as the economy depends on foreign investment and imported consumption to sustain domestic demand and jobs. [2,4,11]

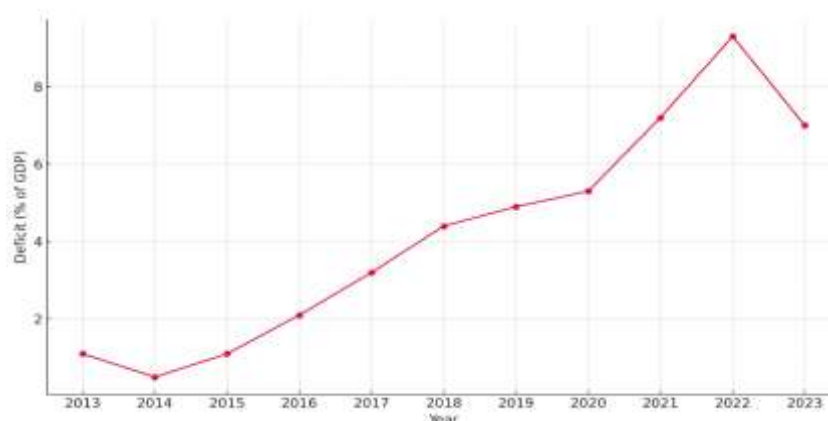


Figure 3. The evolution of current account deficit as a percentage in GDP

Source: made by the author based on National Bank of Romania Annual Report from the period 2013-2023

Romania's net international investment position (NIIP) remains negative, reflecting a significant dependence on external financing. This can create instability in the face of external shocks, such as rising international interest rates, energy crises or global trade slowdowns, if there is no balance between net export performance and capital flows. [7,8]

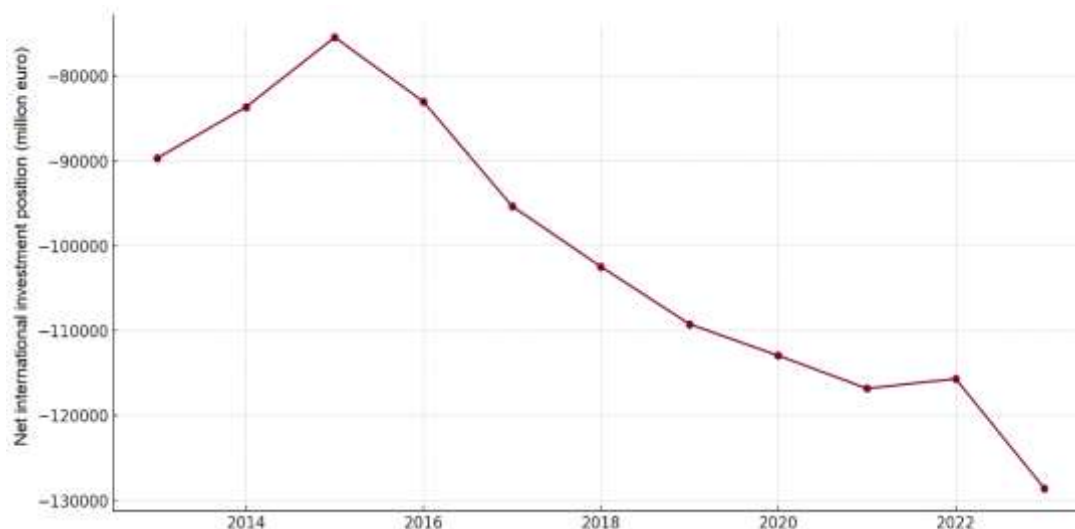


Figure 4. The evolution of the net international investment position

Source: made by the author based on National Bank of Romania Annual Report from the period 2013-2023

C. Integration into Global Value Chains (GVCs)

Romania has succeeded in integrating into GVCs, particularly in the automotive, electronics and textile industries. However, this integration is vertical, dependent and at the lower stages of the chain, such as production and assembly. Instead, strategic decisions and R&D activities are carried out abroad. This pattern limits the ability of the economy to produce positive domestic externalities and reduces the multiplier impact of exports on the rest of the economy. [9,14,15]

Although Romania exports a lot, it produces little domestic value added. This affects fiscal performance, skilled employment and regional development. In contrast, economies such as Poland and the Czech Republic have moved progressively higher up the value chains thanks to clearer industrial policies and strategic collaborations in areas such as IT, electronics, pharmaceuticals and green energy.

D. Regional comparability and partial conclusion

Despite economic progress, Romania remains weak in terms of external competitiveness as it is susceptible to disruptions and lacks strong structural anchors. Compared to other countries in Central and Eastern Europe, Romania has lower productivity per employee, less capacity to increase economic value added and higher exposure to persistent trade imbalances.

In conclusion, Romania's external competitiveness should be analyzed not only in terms of gross export figures, but also in terms of export quality, positioning in value chains and sustainability of the external account. This section argues the need for a paradigm shift: from a quantitative model of growth based on cheap labour and passive foreign investment to a qualitative model, focused on innovation, specialization and strategic autonomy in exports.

2. Structural challenges affecting Romania's external

Although Romania has made progress in European economic integration and in increasing gross exports, there are a number of persistent structural obstacles limiting its external competitiveness. The country's capacity to produce and export high value-added goods and services is hampered by these problems, reducing its position in global value chains and creating continued external vulnerability.

• *Macroeconomic imbalances and the consumption-led growth model*

The over-reliance on private consumption and domestic demand as the engine of economic growth is one of the main structural obstacles. Over the past decade, pro-cyclical fiscal policies, especially from 2016 to 2020, have favored a consumption-driven economic model at the expense of productive investment and export capacity. This dynamic has led to a widening current account deficit, indicating a persistent imbalance between supply and competitive domestic demand.

• *Peripheral specialization and rigid sectoral structure*

The structure of Romania's exports is dominated by sectors such as automotive, textiles and electrical equipment, which are dependently integrated into the value chains of the major European economies. Although these sectors contribute significantly to exports, Romania remains positioned in the lower segments of added value - assembly, intermediate production - without a substantial presence in research, design or own brand.

• *Unit labor costs and productivity*

Despite the fact that Romania has a relatively low labor cost at the European level, wage growth has frequently outpaced productivity dynamics. This has an impact on price competitiveness in both the long and medium term, especially in labor-intensive business sectors. Given Romania's comparative advantage, the lack of a coherent policy framework linking wage growth to productivity could affect investment in the export sector

• *Logistics infrastructure and poor connectivity*

Another significant structural barrier is the lack of transportation and logistics infrastructure, which affects the ability of Romanian exporters to compete successfully in European markets. When there is no uniform network of highways, modernized railways and interconnected ports, transit costs increase and delivery times become unpredictable. This prevents Romania from becoming an attractive regional industrial center and prevents it from integrating into dynamic value chains.

• *Human capital underdevelopment and education gaps*

Romania is facing both a quantitative and qualitative labor shortage, especially in high value-added sectors. Regional and sectoral imbalances are exacerbated by the brain drain, while the active population remains below the EU average in terms of technological and digital literacy. The education system is not responding to labor market demands and there is insufficient continued investment in vocational training. This has an impact on domestic competitiveness and the country's ability to attract new, high-tech investment.

• *Low innovation and weak technology transfer*

Even though Romania's IT sector is strong, research and development (R&D) spending is among the lowest in the EU. Technological progress is held back by the lack of a functioning innovation ecosystem and of connections between research, industry and entrepreneurship. This prevents the economy from producing complex products that are competitive on international markets.

The structural challenges described above form a vicious circle that limits the external growth potential of the Romanian economy. A coherent strategic approach, aimed at diversifying exports, developing human capital, modernizing infrastructure and supporting innovation, is essential to strengthen sustainable external competitiveness.

The following table summarizes the structural challenges presented above.

Table 1.

Structural challenges affecting Romania's external competitiveness

Structural challenge	Impact on external competitiveness
Economic model based on domestic consumption	Deepening current account deficit
Specialization in low value-added industries	Dependence on lohn-type exports
Stagnating productivity and growing HICP	Erosion of competitive cost advantage
Poor logistics infrastructure	High transaction and time costs
Human capital poorly correlated with market demand	Skills shortages in strategic sectors
Low innovation and R&D expenditure	Limited ability to move up the value chain

Source: made by the authors

3. Critical analysis of external competitiveness factors

The assessment of our country's external competitiveness must go beyond cost criteria and focus on crucial structural elements.

First of all, unit labor costs have risen in recent years at a much higher rate than productivity, which has had an impact on competition in exporting sectors. This trend shows how vulnerable a cheap labor model is.

Second, underinvestment in technology, industrial fragmentation and poor infrastructure lead to low total factor productivity compared to other Central European economies.

Human capital is still a crucial component. Skilled labor migration increases the skills shortage and the education system is not adapting sufficiently to labor market needs.

In addition, there is a limitation of innovation capacity due to a lack of research funding and a lack of effective links between academia and industry. R&D spending is among the lowest in the EU.

Finally, economic governance is crucial. Investment decisions are affected in the long term by regulatory incoherence, red tape and lack of predictability.

4. Recovery prospects and economic policy proposals

Strengthening Romania's external competitiveness requires a transition from an economic model based on low costs and domestic consumption to one focused on innovation, value added and structural stability. This transformation requires coherent policies and coordinated interventions in several directions.

First, a strategic reorientation of exports towards high value-added sectors - such as IT, advanced equipment, bio-based products and green technologies - is essential. The state must support these areas through smart industrial policies and incentives for integration into global value chains.

Second, human capital needs to be recalibrated for the economy of the future. To reduce the mismatch between supply and demand in the labor market, reforming the education system, encouraging dual education, lifelong learning and retaining talent are priorities.

Thirdly, innovation and applied research must be supported by increasing the R&D budget, developing partnerships between universities and companies and supporting technology start-ups.

Moreover, to ensure a stable and predictable business environment, it is essential to improve the logistical and energy infrastructure, reduce administrative bottlenecks and professionalize economic governance.

Finally, strengthening Romania's position in the global market requires a unique approach that focuses on structural reforms, strategic investments and the valorization of human resources. This policy is the only way to achieve a sustainable position in the global economy.

CONCLUSIONS

Increasing global competition and European economic integration underline the crucial importance of external competitiveness as a vector for the sustainable development of the Romanian economy. Despite steady export growth and deeper integration into the European single market, persistent structural vulnerabilities, which are reflected in widening external imbalances, have hindered this progress.

From dependence on consumption and specialization in low value-added segments to a lack of innovation, human capital and infrastructure, the analysis highlights a variety of limiting factors. These have led to a higher current account deficit and a fragile net investment position.

In these circumstances, improving external competitiveness should not be the objective of one sector, but rather a strategic priority for the country. Structural reforms, smart industrial policies, investments in education and innovation, and more efficient and predictable economic governance are essential for a paradigm shift.

While Romania has the potential to join global value chains and become a stronger economic player in the region, this objective requires coordinated actions, political will and institutional capacity to create a sustainable and durable competitiveness model.

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