

## Aspects of Price Competitiveness in the Context of Preparing for Accession to the Euro Zone. New Challenges for Entrepreneurs. Romania's Case

**Lucian Claudiu ANGHEL**

*College of Management*

*National University of Political Studies and Public Administration, Romania*

*30A Expoziției Blvd., Sector 1, Bucharest, Romania, 012104*

*lucian.anghel@facultateademangement.ro*

**Florina-Magdalena PÎNZARU**

*College of Management*

*National University of Political Studies and Public Administration, Romania*

*30A Expoziției Blvd., Sector 1, Bucharest, Romania, 012104*

*florina.pinzaru@facultateademangement.ro*

**Mihaela DINU**

*College of Communication and Public Relations*

*National University of Political Studies and Public Administration, Romania*

*30A Expoziției Blvd., Sector 1, Bucharest, Romania, 012104*

*mihaela.dinu@facultateademangement.ro*

**Abstract.** *In the process of preparing a state for the accession to the Euro Zone it is essential to analyze the price competitiveness of that state's economy and the challenges that entrepreneurs will have to face in the new economic environment. In the present paper the authors want to capture some aspects of the competitiveness of the Romanian economy and implicit its entrepreneurs with emphasis on price competitiveness, whereas accession to the Euro Zone implies giving up to the independence of exchange rate policy, with a huge impact on price competitiveness. For this purpose this study will highlight a few elements on the relative importance of price competitiveness of entrepreneurs' exports performance. The process of accessing Euro Zone creates significant changes in the existing way of conducting business and impacts significantly entire business environment – and this will become evident also for Romania.*

**Keywords:** *price competitiveness, market, entrepreneurship, exports, imports, exchange rate; Romania.*

### Introduction

Once the European single currency is adopted, the exchange rate of the national currency against the Euro is being fixed on an undefined period. This involves giving up to an independent exchange rate policy run by the Central Bank until then. If the accession to the Euro Zone is being forced before the economy is prepared to give up to this additional support - which is the exchange rate policy - the macroeconomic impact can be extremely negative affecting dramatically the existing way of conducting business by entrepreneurs and changing radically the entire business environment. The negative effects could be felt through the loss of exports competitiveness of that particular state's economy via its entrepreneurs. The competitiveness of an economy is a very complex concept and can be seen from many different angles, the literature giving a lot of space to the analysis of these problems. Competitiveness depends not only on how a country performs or its entrepreneurs. It depends not only on what does that economy but also on what other economies with which its entrepreneurs enter in competition do. In other words it is not enough to see us in the mirror.

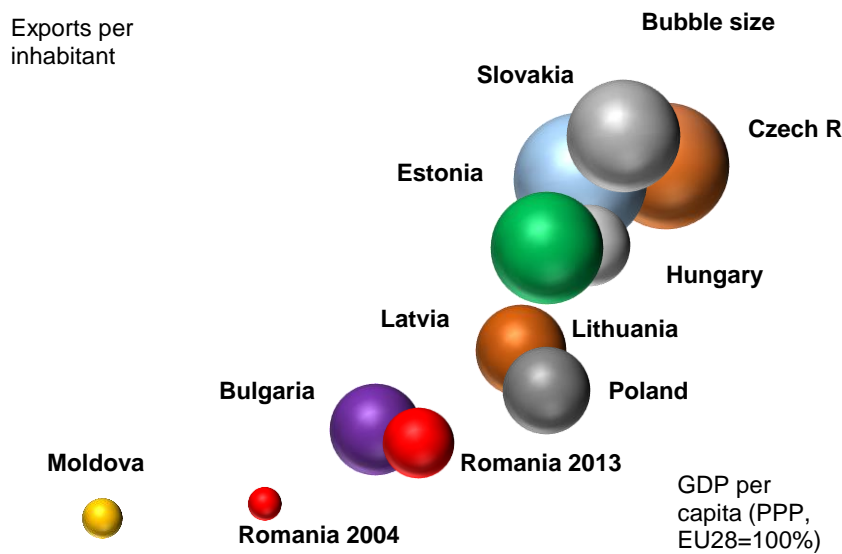
## Aspects relating to the evolution of export competitiveness of the Romanian entrepreneurs

Given that over two-thirds of the formation of the gross domestic product (GDP) in Romania is made on the basis of private consumption and net exports have generated many times as a negative contribution to GDP formation, a careful analysis of these issues is essential before joining the Euro Zone (Anghel, 2013). The chronic addiction to consumption has positive and negative elements. We depend less on the external demand. As a negative element, the addiction on more than two-thirds of GDP, if you add the Government consumption, leads us to the image of a possible fiscal consolidation that leaves scars in the economic development of Romania. Therefore it would be desirable that net exports begin to become positive and to balance on long-terms, like decades, this all-too-intense addiction that our economy is facing. If to all this we add that a consistent part of consumption is achieved at the expense of imports which causes the trade deficit, we have a clearer picture of why it is important for Romania and for its entrepreneurs that are operating in the country to produce more efficient, more competitive, in order to be able to provide both domestic demand and a share of the foreign demand.

The competitiveness of Romanian exports depends on many factors; some of them will be detailed below. Romania was and still is regarded as a country with a low cost of labor force, but also with an average hourly productivity far behind the developed European countries. Often in the public sphere the subject of intense competitiveness of exports generated by a weaker currency is discussed. In general, these factors can provide the relative competitiveness of Romanian exporters on short and medium term. What makes the difference is the long-term technological and structural competitiveness - the so-called factors of non-price competitiveness.

In order to become competitive in long term, the Romanian entrepreneurs who provide high quality products for the internal and external market need a few changes such as: the investment in technology (the generic "know-how"), the development of the research and the implementation of innovation in the production process, legislative and fiscal stability and reducing bureaucracy. The lack of these conditions, especially in the first decade after 1989, resulted in a gap that has been increased compared to countries such as the Czech Republic, Slovakia, or Poland that have started more or less from the same position as Romania. The investments made by foreign companies in the countries around Romania during the 1990-2000, period in which in Romania the flow of foreign direct investment had been very low, have created new production capabilities, designed to cope with a period of prolonged economic boom. The only purpose of these investments is currently finding locations for outlets and production (Anghel, 2013). Benefiting from a high know-how the Romanian entrepreneurs have been able to grasp an important market share in Romania - the second biggest country when it comes to the number of inhabitants after Poland -, therefore an ideal location for selling products made in the countries around us.

The next figure shows that there is a strong correlation between foreign direct investment (FDI) and exports/capita. The more a country has benefited from higher foreign direct investment the more it managed to export more and the standard of living of the inhabitants of the respective country grew (see the horizontal axis). Through foreign direct investment/capita we understand the accumulated stock which is relevant and gives a better image than the annual flows of FDI.



**Figure 1. The correlation between foreign direct investment, exports and standard of living**  
*Source: Eurostat, BCR Cercetare, Eugen Sinca, Anghel L.C.*

New production capacities can serve millions and tens of millions of consumers who are not clearly present solely in the country where the new production capacity has been created. In addition, the foreign investor also capitalizes the experiences gained in other more mature markets but which have gone a long time through the stages that we are passing through right now.

Once the country missed the chance to build new production capacities in Central and Eastern Europe it will be very difficult in the current conditions to hope to have an abundance of new FDI in Romania (Anghel, 2013). However, the EU accession has brought Romania and its entrepreneurs the advantage of being able to represent a small wheel in the gearing of European production. Thus, the plugs produced in Romania ensure the functioning of millions of cars produced in Europe under the German logo. It would have been more difficult for entrepreneurs to achieve this without know-how programs, know-how, the investment and quality control required by the buyer, the horizontal development programs of the machinery industry meant to help the international auto manufacturers present in Romania. According to NBR (2012), exports are generated at a rate of about two-thirds of the companies operating in Romania but which benefited from foreign direct investment. This highlights the dependence of exports of companies that have benefited from know-how. In addition, foreign companies that have invested in Romania capitalize on cheaper labor and currency stability based on controlled push-ups done by NBR. Another important element retrieved from these international investors is the retail market at European level and beyond. Basically we assist to a limited number of companies on this planet who control more or less intensely these markets.

At present it is extremely hard for a Romanian entrepreneur to penetrate global markets with a quality product because they are already more or less controlled as well as is the market share of the global players. It is part of the intensification of the process of globalization that the Romanian entrepreneurs should get used to. Last but not least, if at the EU level collaborations with regard to products and services created by Europeans to be exported on the entire planet would grow, a little less analyzed element would be the pressure that the European entrepreneurs and not just the Romanian ones would feel from the Chinese exports. If, at European level, we try to establish the same rules and try not to create artificial competitive advantages for any country in the EU,

Chinese exports will invade the European space, making competition even fiercer for market share.

We assist lately at a Chinese diplomatic offensive in the attempt to persuade European Governments to allow the creation or acquisition of production capacities in the territory in order to obtain tax advantages and so commercial in the Union but also their closeness to the European consumer. In this context, it should be analyzed in detail how the Chinese State sustains its own exporters. Therefore as we will demonstrate with numbers at the end of this study, after the EU, China is the main competitor of the export products produced by Romanian entrepreneurs. Therefore any advantage of any form that China will provide for its own companies should be translated into a loss of market share for the products made by the Romanian entrepreneurs. Maintaining the market share will require investment in retooling and permanent innovation so that the European consumers want to consume products made in Romania.

### **Aspects of the assessment of price competitiveness in Romania**

The international financial crisis and the crisis in the Euro Zone States in particular have brought to the forefront of attention the macroeconomic policy makers, but also the issue of competitiveness, seen as a potential cause of prolonged imbalances and some incompatibilities in the context of Monetary Union.

Thus, in November 2011 a legislative package was adopted at EU level, being intended to identify and correct excessive macroeconomic imbalances of the member countries. It has established a set of economic indicators that may signal the potential imbalances at EU level and in the framework of this alert mechanism called Scoreboard, at least five out of the ten indicators are only relevant for the assessment of competitiveness, namely the current account balance, net investment position, market share of exports of goods and services, the real effective exchange rate calculated on the basis of harmonized indices of consumer prices and nominal unit cost with the workforce. The last two indicators listed will be analyzed in the context of this study devoted to emphasizing certain aspects of the Romanian price competitiveness in the context of the transition to a regime of fixed exchange rate by joining the Euro Zone.

This analysis is important for determining the optimum moment to adhere to the Exchange Rate Mechanism II (ERM II) as intermediate step before Romania's acceptance into the Euro zone. Enforcing adherence or unduly delaying the adherence to Euro zone will lead to significant long-term consequences on macroeconomic performances. The loss of independence of exchange rate policy, and thus an important tool for ensuring competitiveness through price, represents an argument often raised against the decision to adopt the single European currency. But the evolution of contemporary economies, marked by the phenomenon of globalization, the global production chains, the emphasis of increasingly prevalent on innovation and quality, mitigates some of the importance of the price competitiveness.

Institutions such as the European Central Bank, European Commission and OECD distinguish between two broad categories of determinants of competitiveness:

- a) the determinants of price competitiveness: they traditionally relate to factors such as the actual real exchange rate and labor costs and prices and/or captures the relative costs.
- b) non-price competitiveness determinants (technological and structural competitiveness). This category focuses on factors such as product quality, innovation (measured by expenditure of research and development, the number of patents and inventions), the structure of exports by products (attention focusing on the degree of intensity of technology products) and geographical destinations, the flow of foreign direct investment, etc. In the case of technological intensity of products, the exports are grouped into three categories: low, medium and high technological

intensity. An economy is considered to be the more competitive with how incorporating in its exports made by local companies a larger share of products with high technological intensity.

Nominal rate adjustments can provide only a temporary balance of payments. On long-term, taking into consideration the trend of the internationally equalization of prices, the determinants of non-price competitiveness define the ability of countries to export. Many recent studies show that the relationship between the real exchange rate developments and export performance is very poor.

Below we detail the notion of real exchange rate as the key indicator of price competitiveness and we develop theoretical arguments according to which the depreciation of the national currency would be able to rebalance the economy in the wake of an adverse shock. However, the restrictions faced by the small and open economies reduce significantly the margin of maneuver of monetary policy (see Isărescu, 2008), and the ability of the exchange rate to be a shock absorber is limited.

In the last part of this study we present the basic methodological issues relating to the actual exchange rate, statistics made available by the main international institutions. The next section examines the empirical records relevant to assessing competitiveness in Romania.

### **Real Exchange Rate and the challenges of price competitiveness once the transition to the single currency is made**

The real exchange rate expressed in level or as a difference from the standard indicator represents the balance of external price competitiveness. It can be defined as the nominal rate adjusted for relative prices. Equivalently, the real exchange rate of the Romanian leu, noted as RER, represents the price in lei of the consumer basket in the partner countries related to the price of the basket of consumption in Romania, also expressed in lei and calculated according to the formula below:

$$RER = \prod_{i=1}^n \left( s_i \frac{P_i^*}{P} \right)^{w_i} \quad (1)$$

where RER is the real effective rate,  $i$  represents the commercial partner of Romania,  $n$  is the number of major trading partners, with bilateral nominal rate  $s_i$ , the price level in the country's economy, the domestic price level in the economy, and signifies the relative importance of trade conducted with each partner separately (or semi-elasticity).

Commonly that depreciation of the domestic currency rating makes domestic goods become cheaper compared to the foreign ones, which encourages exports and impede imports. But this is valid only in the short term, when prices are rigid; in fact, the determining factor of the current account balance that is relevant is the real exchange rate, because the trade balance is influenced by both the evolution of the exchange rate and prices.

The real, not nominal, exchange rate is the appropriate indicator of the price competitiveness of a country. The real depreciation of the national currency is equivalent to increasing the real rate given by the formula (1) and is in fact the rising price in lei of the goods produced in partner economies compared to those produced in Romania, which encourages exports and discourages imports. A real appreciation has contrary effects, resulting in a decrease of exports and an expansion of imports (*ceteris paribus*). The notion of real exchange rate plays a key role in determining the costs and benefits associated with the decision to adopt the single currency. An argument often invoked in the preference to adopt fixed parities, and subsequently, the Euro currency, is the loss of independence of the monetary policy and exchange rate policy. The latter will no longer play the role of shock attenuator and will no longer be able to be used to rebalance

the economy by boosting price competitiveness in case of confrontation with an adverse demand shock, for example.

The classical theory of Optimal Monetary Areas, whose pioneer is the Nobel Laureate Robert Mundell, explains at length the role of real exchange rate within a system of fixed exchange rate. The extremely extensive literature relating to the optimal monetary areas focuses on how a country can ensure the stability of the domestic policies which remain available after losing the autonomy of monetary and exchange rate policy. In theory, the emphasis is placed on the ways that ensure the macroeconomic balance (the balance internally and externally) after an asymmetric shock, a shock affecting only a country of the European Union, but not all of them.

Internal balance refers mainly to the two key variables, namely the unemployment rate and inflation rate, and the external balance refers to the provision of balance of payments equilibrium, viewed as a steady balance, less as reserves. Assuming that domestic products are experiencing an adverse demand shock, the internal and external balances will suffer. Excess demand will lead to recession, unemployment and even deflation from the perspective of internal balance - and to the deficit of the balance of payments - from the perspective of the external balance.

In order to restore the macroeconomic balance, Romania must follow a real depreciation to boost exports and to halt imports; at the same time, the depreciation will restore the external balance, whereas it stops deflation and boosts foreign demand. In the case of a regime of floating exchange rate, this is done automatically, as a result of the relative demand for foreign currency. In the absence of its own currency, a country that is a member of a monetary space needs other monetary levers for the macroeconomic stabilization. Taking into account the fact that what affects imports and exports is the real exchange rate, if the nominal exchange rate is fixed, it will be necessary to lower prices in the domestic economy in order for Romania to achieve real depreciation. However, this drop in prices, which pertains to the rigidity of the labor market and of the goods or services, involves serious social and macroeconomic costs, declining revenues and causing recession. This will change dramatically the way is conducting business by local entrepreneurs and also is shaking strongly the entire business environment. Those entrepreneurs that are protected in this moment by the managed floating regime of the Romanian leu (RON) against EURO implemented by the Central Bank will have to change dramatically the way are competing with their competitors for the same range of products within EU and also elsewhere on the planet. In addition, will be even more difficult to keep flat local entrepreneurs' market share within EU if their competitors are coming from outside EU and their Central Banks are supporting them to increase their competitiveness. For example the Central Bank of China is depreciating the local currency against EURO and Chinese entrepreneurs are benefiting in this moment against Euro Zone competitors. Once Romania will be in Euro Zone, local entrepreneurs will have to be ready to face this non-euro competition. Innovation, high quality, proximity and other factors will increase the importance as the price competitiveness coming from a weak RON against EURO will no longer exist for Romanian entrepreneurs.

In a recent study developed within the BNR, Bojeşteanu et al. (2012) examine the process of adjustment of external imbalances with the external shock given by the international crisis and highlight a few similarities and differences between Romania and the new members of the EU that currently have a fixed exchange rate. First of all in all other countries the trade balance adjustment was due mainly to the contraction of imports of goods, but in Romania the exchange rate flexibility has allowed an adjustment to the domestic demand with a lower cost. During 2008-2009, real exchange rate evolution explains 20% of the adjustment of the current account deficit, while in the Baltic countries the absence of exchange rate policy has placed the entire burden of adjustment on domestic demand, which contracted sharply and explains the 57% of the adjustment process in Estonia, 88% in Latvia and 106% in Lithuania.

Although the nominal exchange rate evolution can serve as a shock absorber, and nominal depreciation, which leads to the real depreciation, has positive effects in terms of encouraging exports and imports, mainly in small and open economies with a high level of indebtedness in foreign currency, monetary authorities should take account of all the channels through which the exchange rate affects the rest of the macro-economic variables (see effect of the wealth and effect of stock).

Developing countries face a sensitive issue concerning the structure of currencies, but private debt and public debt, which are mostly denominated in foreign currency; a depreciation of the domestic currency can have positive effects in the effect on exports, but has an adverse effect on aggregate demand through the impact of these liabilities. Eichengreen and Hausmann, Panizza (2003) use the phrase "original sin" to refer to the impossibility of developing countries to borrow in its own currency and to imply that nominal exchange rate's ability to act as a shock absorber of the effects is limited in small and open economies. As indicated by the used expression, "sin" is persistent and has its origins in distant periods of the policy promoted by the less developed States.

Due to the fact that monetary and fiscal policies have provided a strong and stable domestic currency, creditors have not agreed to lend the State except for the stable currencies worldwide. In Romania, foreign debt denominated in foreign currency is a reality, and in terms of private debt, over 60% of the non-governmental credit is denominated in foreign currency.

### **The importance of choosing the correct method for the estimation of the impact of trade flows on the real exchange rate and China's influence on the competitiveness of Romanian exports performed by local companies**

Taking into account the importance of the real exchange rate as a key indicator of price competitiveness, a number of international institutions with access to information and computing infrastructure with appropriate processing of a significant portion of the data, provides statistics on the actual course comparable in a large set of countries. Among these, the most important institutions are the Bank for International Settlements (BIS), the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission (EC). Methodological differences consist mainly in the number of trading partners in the countries for which it is provided, the deflators used in statistics and in the coverage of the trade flows. All four of the above mentioned institutions practice a complex weighting scheme; more precisely, if in the case of simplified weighting scheme taking into account exchange rates and price indices for each trading partner according to the relative importance of trade conducted with that partner, advanced weighting scheme takes account of the competition's third and markets.

Complex weighting scheme administered by international institutions in the calculation of RER

Real effective exchange rate depends on defining the weights given to each trading partner. Turner and Van't Dack (1993) founded the weighting schema that is currently being used by most of the international institutions which draw up calculations in the field of price competitiveness.

Thus, the share of a  $l$  ( $W_{jl}$ ) country, as well as the competing country to country  $j$ , and representing the country's importance  $l$  for determining the degree of price competitiveness of the country  $j$ , is based on the following algorithm:

*The share of imports*

$$W_{jl}^m = \frac{m_j^l}{m_j} \quad (2)$$

where  $m_j^l$  is the imports of economy  $j$  of  $l$  country, and  $m_j$  represents the total imports of  $j$  country.

The term captures the competition between the country  $l$  and the economy  $j$ , *the more the share of imports in  $l$  economy is higher, the more important the price/rate changes of the economy  $l$  are*, and that will have a larger share. According to this method, the share of imports is a simple one and does not take account of the size of the local producers of the country  $j$ .

*The share of exports*

$$W_{jl}^x = \left( \frac{x_j^l}{x_j} \right) \cdot \left( \frac{y_l}{y_l + \sum_h x_h^l} \right) + \sum_{k \neq l} \left( \frac{x_j^k}{x_j} \right) \cdot \left( \frac{x_l^k}{y_k + \sum_h x_h^k} \right) \quad (3)$$

where  $x_j^l$  represents the exports of the economy  $j$  in  $l$  country,  $x_j$  are the  $j$  country's total exports,  $y_l$  is the domestic offer of products (manufactured in the EC and BIS) obtained by the country  $l$ ,  $x_l^k$  the  $l$  country's exports are in  $k$  economy, and  $\sum_h x_h^k$  signifies the amount of exports from  $h$  countries (less  $l$ ) in the  $l$  country.

The share of exports is calculated from a double weighting scheme, which takes into account the direct competition of exports, but also the competition on the third market.

The first term of the expression represents the level of direct competition between the  $j$  and  $l$  economies, but, unlike the case of imports, the share is adjusted with a simple proxy for the degree of openness of the  $j$  economy.

Intuitively, the more consumers in  $j$  country prefer to consume from the domestic production (the  $j$  economy is a closed economy), the more the competition in this market will be fierce, and relative price changes should count more for the  $j$  economy.

For example, exports in Germany associated with the actual rate of the Romanian leu and considered relevant to capture price competitiveness depends on the trade between Romania and Germany, as well as on the competition between the Romanian exports to the German market. The first component provides a counterweight to Germany which is in direct relationship with the relative size of the Romanian exports in Germany, but also with the degree of competition at which Romanian exporters, are approximated by German consumers appetite to consume domestic products at the expense of foreign ones. The second component connects the positive way the share granted to Germany by the relative importance of Germany's exports to markets where Romania exported more.

$$W_{jl} = \left( \frac{m_j}{m_j + x_j} \right) \cdot W_{jl}^m + \left( \frac{x_j}{m_j + x_j} \right) \cdot W_{jl}^x \quad (4)$$

*The total share*

The total share is constructed by summing the share of imports and exports after they were scaled in advance depending on the relative importance of imports, exports in the total trade of the country. Subsequently, all weights are normalized to sum to 100%.

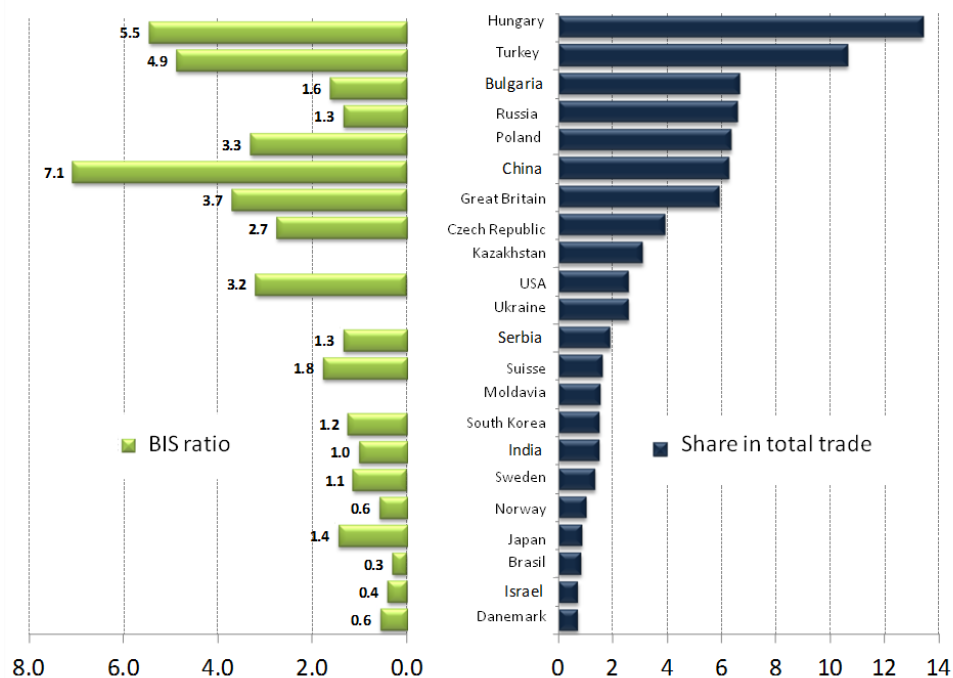
It is obvious that based on this algorithm we need an institution with high power of data processing to calculate actual exchange rates, since to capture the competition at which a certain country products are subject to, is necessary to use a double weighting schemes in exports. This



takes into account both the direct competition of exports of the two partner countries and the third's markets.

The application of the simple and complex share scheme on the case of Romania. China's influence on the competitiveness of Romanian exports

For example, Figure no. 2 illustrates the relationship between the shares calculated by the Bank for International Settlements (BRI) and the relative importance of each trading partner for Romania, calculated as the sum of the share of exports in total exports in the country and the share of imports in total imports of that economy. The Euro zone is excluded in order not to distort the graph scale-Bank for international settlements associated with the euro the biggest share, namely 54,8% for the period 2008-2010. Figure 2 presents in the mirror the shares calculated by the Bank for International Settlements under the double share scheme and the relative importance of each trading partner in Romania's total trade, calculated as the sum of the share of total exports respectively the partner and the partner's share in total imports of Romania.



**Figure 2. The relationship between the BRI shares and the relative importance of each trade partner for the total trade of Romania**

Source: Eurostat, BRI, Anghel L.C., Ciurila N., Bojesteanu E.

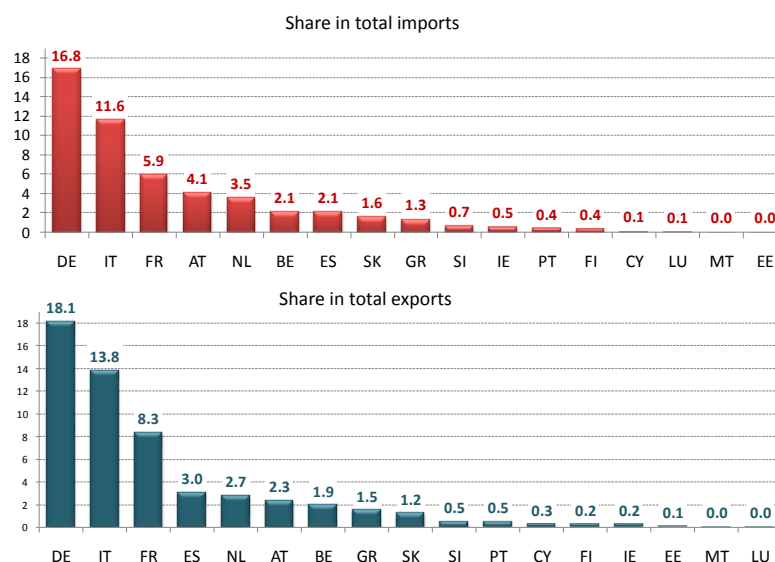
As it can be seen in Figure 2, while China is responsible for 5.4% of Romania's imports and only 0.8% of exports (Hungary, Bulgaria, Turkey, Russia and Poland with a higher total share), BRI provides the greatest savings in real effective rate of the Leu after Euro zone. The explanation lies in the application of the double share scheme, which will take account of the fact that China is a strong competitor in the markets of Romania and an undervalued yuan affects not only bilateral trade (in the form of significant imports from China and exports), but also the price competitiveness gyrations in the markets where the presence of the Chinese companies is a significant one.

This aspect highlights the superiority complex of the share scheme from simple method based only on bilateral trade. Therefore all the research papers that calculate the real exchange rate on the basis of formula (1) should use a double share scheme. These calculations show the major

impact of the evolution of prices in the economy the competitiveness of Chinese exports. China influences the competitiveness of the Romanian economy more than any other European country and not only individually (except for the Euro zone taken as a whole).

In other words we should allocate more time analyzing the measures taken by the Chinese Government from thousands of kilometers away in order to stimulate the competitiveness of Chinese exports, which thus reduces the international competitiveness of Romanian exports. The way Romanian entrepreneurs are doing business will be changed gradually and the entire business environment will be much tougher for them in the context of joining Euro Zone. Without increasing the non-price related advantages like innovation and quality of services for Romanian entrepreneurs it is possible to loose market share in front of Chinese competitors not only in Romania but also across EU. These empirical data show clearly that issue.

With all that in the calculation of shares for the real exchange rate in order to have a complete picture of international trade, the figure below illustrates the relative importance of the Euro zone countries as trading partners of Romania for 2010.



**Figure 3. Relative importance of Euro Zone countries for international trade of Romania**

Source: Eurostat, Anghel L.C., Ciurila N., Bojesteanu E.

The Bank for International Settlements publishes statistics on the real exchange rate for 57 countries and the shares, calculated by applying the double share scheme, are variable in time in order to capture the evolution of the pattern of international trade; the statistics are particularly relevant, given the fact that covers over 90% of world trade. The main difference is that the IMF shares are calculated only on the basis of the trade in manufactured products, not taking into account the trade in raw materials and services.

Unlike BRI and IMF (which deserves however noted because it also takes into account the unit costs with the labor force for some States), the European Central Bank and the European Commission cover a wider range of deflation, GDP deflator, including unit cost, the deflator of exports of goods and services (only EC).

## Conclusions

Joining the Euro Zone is a highly complex process and will change dramatically the entire business model and environment for Romanian entrepreneurs. It is necessary to choose the optimal time so as not to force upon accession in a situation where the economy and its entrepreneurs are not ready yet. In the case of Romania, the accession to the Euro Zone would determine to give up the exchange rate policy that the National Bank of Romania leads with much success and that is protected to a certain extent to maintain the competitiveness of Romanian exports in the short term. In the case of the price competitiveness analysis the authors of this study recommend the use of complex share schemes and not of the simple ones on the basis of bilateral trade, as it was proved by the present study. The databases of the BIS and the EC can be considered most relevant to the analyses related to the Romanian Leu and the calculation of RER, which the authors recommend to all for research purposes.

In addition, this study highlights the powerful impact on the competitiveness of China's exports, highlighting a potential danger for losing market share for local entrepreneurs that are securing their business model on price advantage coming from a favorable managed floating regime for Romanian leu performed by the Central Bank.

If at first glance the share scheme based on the simple image taken into account bilateral trade can only draw the conclusion that countries such as Hungary, Turkey, Bulgaria, Poland are more important than China in terms of the competitiveness of Romanian exports, using complex share scheme will lead to the upside down of this conclusion. China is by far after the Euro Zone, the most important competitor. Romanian products come into fierce competition in our foreign markets with Chinese products. Except Bulgaria that has its currency pegged to Euro, if we look to the latest official statement on Romania accession to the Euro Zone (Minister of Budget Liviu Voinea stated that Romania will adopt euro in 2019 – statement in 2014), it seems that first mover to Euro Zone will be Romania out of the above mentioned countries. That leads to a faster change for business environment in Romania than in the other economies. Their entrepreneurs will compete with Romanian entrepreneurs for the same markets.

Therefore, inflation and prices in China, the exchange rate of leu/euro and euro/yuan respectively are important factors that can influence the competitiveness of Romanian exports. It would be necessary to allocate more time to investigate the measures taken by the Chinese Government to understand how to evolve the price competitiveness of Romanian products in the light of the RER. After joining Euro Zone Romanian entrepreneurs will have to adapt their business model to a tougher business environment with negative consequences for those not ready to start changes now for their economic behavior related to non-price long term advantages.

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