Integrating into the Global Economy through Services. The Case of Romania[*]

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Abstract

Services represent a most important and dynamic frontier of international trade and investment. The steady expansion of trade in services and its relative resilience in the recent crisis, coupled with its key role in global production networks and its increasing potential in attracting investment provides new opportunities for countries to grow their economies and integrate into the global economy. Drawing on insights from current literature and relying on balance of payments and trade in value-added statistics, this paper examines the main developments shaping Romania's services trade over the post-crisis years. Its aim is to assess whether the country is seizing the new opportunities arising from services globalization. It finds that following the dramatic crisis-induced decline in the value and performance of Romania's services trade, the outlook is now radically improving as evidenced by strongly rebounding services flows and net exports. Nonetheless, the country's integration into the global economy through services flows continues to remain below its potential.

Keywords: *Romania, trade in services, global economy, European Union, services outsourcing, trade in value-added, global value chains, transnational corporations.*

JEL Classification: *F14, F15, L24, L80, L86.*

1. Introduction

Apart from being the main source of growth and employment in most economies, services are major contributors to global trade, either as trade in services per se or in their role of facilitating trade in goods or through their incorporation as intermediate inputs into the production of goods. More importantly, services play an essential role in global value chains (GVCs) controlled by transnational corporations (TNCs), which are nowadays the dominant form of organizing global production, investment and trade. Indeed, 80% of global trade in goods and services now takes place within GVCs

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(UNCTAD, 2013a, p.135). These are effectively global factories, through which TNCs locate different stages of the production process in the world's most cost-efficient locations through a network of independent suppliers and their own affiliates. Within GVCs, services are coordinating the different stages of production dispersed worldwide, ensuring the effective movement of parts and components across national borders and facilitating trade in goods within these networks. Without services, GVCs could not function. Hence, it should not come as a surprise that two thirds of global FDI stocks is allocated to services (UNCTAD, 2013a, p. 135).

Notwithstanding the global financial and economic crisis, world trade in services has increased dramatically over the past decade, rising over threefold since 2000 to reach $4.6 trillion in 2013 (WTO, 2014). As many types of services (such as transport, financial services, insurance, etc.) are inextricably linked to trade in goods, the two categories of trade flows evolved closely over time and outpaced growth in global production. The share of services in total world trade in goods and services remained relatively unchanged at around 20% since the 1990s, when measured on the basis of balance of payments statistics. But, if measured in value-added terms, almost half (42%) of value-added in world exports is contributed by services (WTO, 2013, p. 82).

The steady expansion of trade in services, its relative resilience in the recent crisis, its important role in GVCs and its increasing potential in attracting investment and employment provides new opportunities for countries'growth and integration into the global economy. This has led many countries across the world – both developed and developing ones – to factor services trade into their post-crisis national growth strategies. Seizing the opportunities for increased services exports is one of the key focuses of the EU's trade policy. Likewise, the United States has listed promotion of services exports as one of the priorities of its national export initiative. It is also noteworthy, that in its twelfth five-year plan (2011-2015), China has set a goal for the share of GDP of the services industry to increase from 43% to 47% and for import and export of services to reach $600 billion (UNCTAD, 2013b, p. 8). But many other developing countries have targeted promotion of services exports as a major policy focus. The growing relevance of services trade for development is reflected by numerous success stories that point not only towards India with its well-known software and business services export-led growth, but also numerous developing countries (e.g. Kenya, Bangladesh, Costa Rica, etc.), that have grabbed the opportunities arising from services globalization to specialize in certain services niches and enter into GVCs.

Against this background, the paper examines the main trends that have shaped Romania's trade in services in the pre- and post-crisis years. Its purpose is to explore, through the lens of services trade flows, whether the country advances – or fails to advance – in integrating into the world economy and reaping the benefits from the ongoing services globalization. The paper relies on balance of payments statistics provided by the National Bank of Romania and Eurostat, that are complemented by new dataset on trade in value-added developed jointly by OECD-WTO. It is organised as follows: Section 1 to 3 looks at the dynamics, composition and performance of Romania's services trade over the 2005-2013 period. The analysis disentangles recent trends and particular features of the country's services trade in comparison with selected new EU member states. Section 4 investigates the peculiarities of Romania's interaction with the global economy and also highlights some of the country's assets and drawbacks in enhancing it. The last Section concludes.

2. Romania's trade in services in the post-crisis era: facts and figures

Until the outbreak of the global financial and economic crisis, Romania's trade in services recorded remarkable growth, which has led to rapid structural adjustment and steady improvement of services trade performance. Table 1 illustrates the main trends that have marked the evolution of Romania's trade in services during 2005-2013 in comparison to its trade in goods, based on balance of payments (BoP) statistics provided by The National Bank of Romania (NBR).

Table 1: Romania's trade in goods and services, in 2005-2013 (EUR million and %)

	2005	2006	2007	2008	2009	2010	2011	2012[1]	2013[2]
Trade in goods[3] (in EUR million)									
Exports	22255	25850	29549	33725	29084	37368	45274	45070	49563
Imports	30061	37609	47371	52834	35955	44968	52683	52449	52986
Net	-7806	-11759	-17822	-19109	-6871	-7600	-7409	-7379	-3423
Trade in services (in EUR million)									
Exports	4104	5587	6931	8754	7064	6622	7253	8402	10327
Imports	4448	5583	6454	8095	7356	6219	6913	7273	7740
Net	-344	4	477	659	-292	403	340	1129	2587
Share of services in total goods and services trade (in %)									
Exports	15.6	17.8	19.0	20.6	19.5	15.1	13.8	15.7	17.2
Imports	12.9	12.9	12.0	13.3	17.0	12.1	11.6	12.2	12.8

Notes: [1] Revised data; [2] Preliminary data; [3] It is important to note that f.o.b. imports for 2005-2009 are calculated according to the former conversion factor c.i.f. / f.o.b. = 1.0834, while f.o.b. imports for 2010-2012 are recalculated by the NBR on the basis of the new coefficient c.i.f. / f.o.b. = 1.0430 introduced in January 2012. Due to this statistical break, the two data sets are not comparable.
Source: Own calculations based on BoP statistics (NBR, 2005-2013).

The favourable economic setting that prevailed both domestically and internationally before the start of the crisis coupled with the preparations for Romania's EU accession on January 1st 2007 and the ensuing full EU membership years have played an essential role in the rapid expansion of the country's trade in services. The dynamic growth in production and trade in goods as well as increasing inward FDI (hitting with €9.5 billion a historical high in 2008) have boosted services flows through both cross-boarder trade and foreign affiliates' sales. According to our calculations, services exports increased at an average annual rate of 32% during 2004-2008 – more than two times faster than exports of goods (15%). Similarly, the dynamics of services imports (26%) exceeded growth in goods imports (21%). As a result, services increased their share in total exports of goods and services to 21% in 2008, similarly to the global average. Moreover, as services exports outstripped growth in imports, the chronic deficits in the services balance turned into growing surpluses in 2006-2008 (Table 1).

However, these favourable developments have been abruptly put an end by the crisis, that has badly hurt Romania's overall trade flows. The crisis has triggered a sharp trend reversal in the evolution of services trade in terms of dynamics, volume and performance, and its impact has been still felt in 2012. The dramatic decline of services trade in two years in a row, i.e. in 2009 and 2010, was accompanied by a worsening of trade balance in 2009 and ensuing sluggish growth.

Looking at the evolution of Romania's services trade flows during the crisis and post-crisis years from a global and European perspective, one can discern a number of salient features, that are indicative of the severe departure of the country from the trends shaping services flows at the global and European level (Ghibuţiu, 2013).

A first point to be made is that the decline in Romania's services exports by 19% in 2009 was far more pronounced than in the world and European average (11% and 13%, respectively). It was also more severe than the decline in goods exports (-14%), while the opposite trend prevailed internationally, with services flows showing greater resilience than goods flows (e.g. global and European exports of goods collapsed by 23% and 22%, respectively, in the same year). Moreover, a further contraction of services exports (by 6%) occurred in 2010, that was followed by modest growth in 2011-2012 (Table 2).

Table 2: Growth in Romania's trade in goods and services, in 2005-2013

	% Annual changes								
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**[1]	**2013**[2]
Goods[3]									
Exports	17.5	16.2	14.3	14.1	-13.8	28.5	21.2	-0,5	10.0
Imports	23.9	25.1	26.0	11.5	-31.9	25.1	17.2	-0.4	1.0
Services									
Exports	41.4	36.1	24.1	26.3	-19.3	-6.3	9.5	15.8	22.9
Imports	42.7	25.5	15.6	25.4	-9.1	-15.5	11.2	5.2	6.4

Notes:[1] Revised data; [2] Preliminary data; [3] Imports are valued f.o.b. See Table 1/Note 3 for further details.
Source: Own calculations based on BoP statistics (NBR, 2005-2013).

Secondly, the process of recovery in Romania's services trade is severely protracted. It is long overdue not only in comparison with worldwide and European patterns, but also the country's goods trade. Even a glance over a selected group of new EU member states (NMS)[1] reveals that services exports rebounded in all these countries already in 2010 (similarly to world exports), and in most of them exceeded already in 2011 their pre-crisis peak in 2008 (Table 3). The opposite, however, holds for Romania's services exports, that have failed to return to their pre-crisis level even in 2012 and unlike goods exports, that have regained their pre-crisis high already in 2010 (Table 1).

Alltogether, the adverse effects of the crisis have weakened even further Romania's export generating capabilities and also widened the country's traditional gap in relation to the NMS. According to Eurostat (2014) data, Poland's services exports were 3.5 times larger than those of Romania in 2012, though the two economies are comparable. But even services exports generated by smaller countries, like the Czech Republic and Hungary, were double the size of Romania's services exports in the same year (Table 3).

For the first time in the post-crisis years, BoP data released by the NBR for 2013 points towards a real turning point in Romania's trade in services following two years of decline (2009 and 2010) and ensuing weak recovery from the crisis. According to preliminary data, the country's services exports recorded a 23% surge in 2013, reaching an all-time peak of €10.3 billion, while imports of services increased by 6% over the previous year, amounting to €7.7 billion (Tables 1 and 2).

Indeed, Romania's services trade rebounded vigorously in 2013 and there are indications that services flows might return to their pre-crisis growth trajectory. Several arguments underpin this assertion. First, Romania's services exports have seemingly regained their former strength in 2013 and outpaced notably growth (6%) in global and European services exports (WTO, 2014). Second, growth of services exports was well above the dynamics of goods exports for the second consecutive year, meaning that we may witness again a trend similar to the pre-crisis years when services trade expanded at a faster pace than trade in goods (Table 2). Third, Romania's services balance improved radically. After recording a historical high already in 2012 with €1.1 billion, net exports have risen more than twofold in 2013 to reach almost €2.6 billion (Table 1). Not surprisingly, the latest IMF country report duly emphasises that the higher share of services in total Romanian exports and the surge in net exports in 2013 have been greatly instrumental in narrowing further the current account deficit from 4.4% of GDP in 2012 to 1.1% in 2013 and accelerating GDP growth to 3.5% (IMF, 2014).

Undoubtedly, BoP data for 2013 indicates a strong revival of Romania's trade in services, that could put services flows again on a dynamic and sustainable growth path that has characterized their

[1] Throughout the paper, we refer to Hungary, the Czech Republic, Poland, Slovakia, Slovenia and Bulgaria.

evolution before the outbreak of the crisis. Nevertheless, it will take time until the adverse effects of the crisis will be fully absorbed and the negative trends that have shaped Romania's services trade in recent years will be reversed. In the meantime, the crisis-induced shortfalls continue to raise concerns, especially as they are adding to structural weaknesses inherited from the past.

3. The legacy of the crisis

Notwithstanding the favourable developments in Romania's trade in services, that started in 2013, the modest contribution of services to the country's overall trade as well as feeble integration of service flows into the global economy continue to raise concerns. Consecutive contractions of trade in services in 2009 and 2010, combined with slower growth in services trade than in goods trade until 2012 resulted in a steep drop in the contribution of services to overall trade, as measured by the share of services in total exports of goods and service, namely from 21% in 2008 (very close to the world and European average of 20% and 24%, respectively) to only 13,8% in 2011, similarly to the 1990s and early 2000s. Yet, a reversal of this trend occurred since 2012, with the respective share increasing to 17% în 2013 (Table 1). Comparatively, the services share in total trade in goods and services stood at 20% and 25% in world and EU average, respectively, in the same year (WTO, 2014).

Hence, it should not come as a surprise that Romania's modest share in world exports of services has decreased to 0.2% during 2009-2012, after it took over a decade for this share to increase by 0.1 percentage points and reach 0.3% in 2008. It was only in 2013, that the country's export share came closer to 0.3%. For instance, Poland accounted for a 0.9% share in world exports of services in 2012, and the Czech Republic and Hungary for 0.5% each (WTO, 2013).

The situation is not any better when considering trade in services at the European level. While the internal market has an outstanding importance for Romania's trade in services, absorbing 76% of its total services flows, the country accounted for only 0.7% of total intra-EU services exports and imports in 2012, down from 1.0% and 0.9%, respectively, in 2008. Conversely, the corresponding weights are not only higher, but have also increased between 2008 and 2012 in Poland (to 2.6%/2.6%), the Czech Republic (1.6%/1.4%) and Hungary (1.3%/1.2%). In 2012, only Slovakia, Bulgaria and Slovenia recorded lower internal market shares for services (Eurostat, 2014).

Actually, Romania exhibits the lowest level of trade integration within the global economy (measured as average of services imports and exports relative to GDP) among the selected NMS, namely 5.6% in 2012 (Table 3). Moreover, the index increased in most NMS between 2002 and 2012 (e.g. from 8.5% to 10.6% in the Czech Republic, from 10.7% to 14.5% in Hungary, 8.7% to 12.0% in Slovenia and 4.8% to 7.1% in Poland), but in the case of Romania it virtually stalled since 2002. This means lack of progress in terms of the country's integration into the global economy through services flows and poor specialization in services activities.

Table 3: Services exports and net exports in selected NMS, in 2007-2012 (EUR billion and %)

NMS	Exports/Net (EUR bn)	2007	2008	2009	2010	2011	2012	Share of services trade[1] in GDP, in 2012
Bulgaria	Exports	4.8	5.4	4.9	5.0	5.3	5.7	11.2
	Net	1.2	1.3	1.3	1.9	2.3	24	
Czech R.	Exports	12.6	14.9	13.9	15.8	16.6	17.2	10.6
	Net	2.1	3.0	2.8	3.0	2.7	2.0	
Hungary	Exports	12.6	13.8	13.3	14.6	15.6	15.9	14.5
	Net	1.3	1.5	2.0	2.9	3.2	3.4	

Poland	Exports	21.0	24.2	20.7	24.7	27.0	29.4	7.1
	Net	3.4	3.5	3.4	2.3	4.0	4.8	
Romania	Exports	6.9	8.8	7.1	6.6	7.3	8.4[2]	5.6
	Net	0.4	0.7	-0.3	0.4	0.3	1.1[2]	
Slovenia	Exports	4,1	5,0	4,3	4,6	4,8	5,1	12.0
	Net	1.0	1.4	1.2	1.3	1.4	1.7	
Slovakia	Exports	5.1	5.8	4.3	4.4	4.7	5.6	7.6
	Net	0.4	-0.5	-1.0	-0.7	-0.4	0.3	

Notes: [1] Average of services imports and exports divided by GDP (%); [1] Revised data released by the NBR.
Source: Data compiled from BoP statistics (Eurostat, 2014; NBR, 2014).

And last but not least, Romania stands out among the NMS also in terms of net exports. With the exception of Slovakia, all NMS show systematic and considerable surpluses in their services balance and the trend is an upward one since the 1990s. The surpluses recorded by Poland (€4.8 billion), Hungary (€3.4 billion), Bulgaria (€2.4 billion) and the Czech Republic (€2 billion) in 2012 are well above Romania's (revised) surplus of €1.1 billion (Table 3). Romania's achievement in terms of net exports in 2012 is all the more remarkable as its services balance recorded traditionally structural deficits since 1990, except for some modest surpluses during the pre-crisis years, with a €659 million peak in 2008. Hence, the year 2012 appears to mark a turnround in Romania's trade performance, particularly as net exports more than doubled in 2013, hitting an all-time record of €2.6 billion (Table 1). Nevertheless, Romania's net exports since 2010 should be viewed with due caution, as one may hardly assess how much of their increase is attributable to statistical changes introduced in January 2012 and how much is due to a real improvement in services trade performance.[2]

4. Steady growth in business services: a testimony to rising services outsourcing

It is noteworthy, that in spite of the unfavourable developments in Romania's services flows in terms of dynamics and volume in the post-crisis period, the structure of services trade by main components – i.e. transport, travel and ”other services” – continued to evolve in line with global and European patterns, particularly in respect of the relative weight of ”other services” in total trade.

The share of the latter component stood at 53% in 2013 on the export side, similarly to the global average, and was even higher on the import side (62%). The fact that services included in the ”other services” component of services trade – known also as *modern services* – substantially increased their contribution to total services trade and became more important than traditional services, such as tourism and transportation, reflects the rapid structural adjustment in Romania's trade in services, that started long before the outbreak of the crisis. More importantly, the fast growth of ”other services” has been largely driven by knowledge-intensive business services, such as information services, legal services, accounting, management consulting, marketing, research & development services. These services categories are mainly used as intermediate inputs in the production process to enhance the efficiency and competitiveness of manufacturing firms. Due to new ICT, they are also increasingly outsourced and play an essential role in GVCs, adding value to traded goods and supporting their functioning.

Information and computer-related services is the main single services category among the ”other services” component of Romania's services trade and also the one with the highest growth rates

[2] The new c.i.f./f.o.b conversion factor applied since 2010 by the NBR affects the size of services imports and balance (see Table 1/Note 3). The methodology for calculating f.o.b imports has an overwhelming influence on the country's services balance due to the large share of transportation services in total services trade and the very high share of freight transportation in total transport.

of exports (expanding by 21% even in 2009, when total services exports declined by 19%). Actually, this services category has spearheaded Romania's exports of services both in the pre- and post-crisis years. Moreover, data for 2013 shows that exports and imports of information services soared by 41% and 47%, respectively, over 2012. Accordingly, the share of information services in total services exports went up to 14% in 2013 from 4% in 2004. And most importantly, information services have increasingly generated net exports, hitting with €886 million an all-time record in 2013.

Similarly, exports of business services under the ”other services” heading of the BoP – such as legal, accounting, management consulting services and advertising, market research, architectural and engineering services – expanded by 19% and 14% in 2012 and 2013, respectively, after being severely hit by the crisis in 2009-2010. This type of services also started to generate net exports for the first time since 2008 (worth €254 million in 2012 and €650 million in 2013).

Steady expansion of information services and numerous other business services is indicative of rising services outsourcing activities within the domestic economy. While BoP statistics are not equipped to permit gauging the real size of services that are outsourced by foreign companies to Romania, yet BoP data on the ”other services” component may serve as a very broad proxy for illustrating their potential size. Besides, data provided from inside the outsourcing industry confirms that the domestic outsourcing market has grown rapidly, increasing its size significantly over the last years. Romania ranks among the most attractive services outsourcing destinations both from a global and European perspective, and given its large potential in this area it is likely to preserve its position also in the long-term. According to several international rankings released by prestigious global consulting companies, the country is on the top of investors' preferences.[3] The range of services that are outsourced to Romania relates predominantly to IT services and entails both core and support business functions, such as legal, accounting and audit services.

The main factors determining Romania to rank among investors' favourite services outsourcing destinations include: relatively low cost of labour; geographic and cultural proximity to Western Europe relative to other attractive regions of the world; well-trained workforce, especially in ICT; relatively good knowledge of foreign languages; universities capable to provide young talent in several fields in demand by investors; and well-functioning ICT infrastructure.

5. Romania's interaction with the global economy

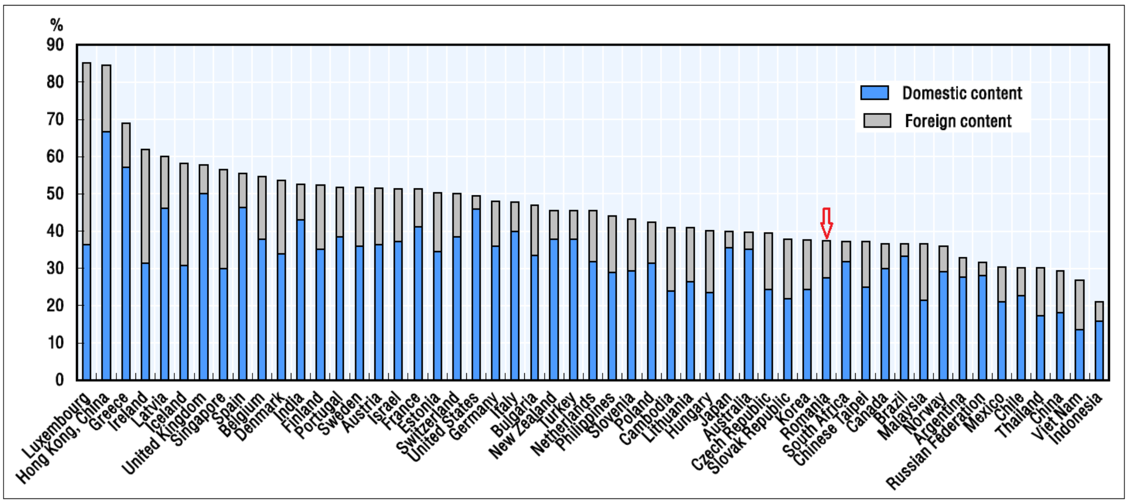
Data based on conventional BoP statistics does not convey a complete picture of the real amount of a country's services transactions, as it reflects only the volume of cross-border trade. It does not tell us anything about services embedded in goods exports and nor about services flows that take place through FDI. Estimates based on trade in value-added (TiVA) data developed jointly by OECD-WTO provide a more realistic picture of the direct and indirect contribution of services to total exports, as they also highlight services embedded in goods, i.e. inputs of intermediate services that are incorporated into final goods and exported.

[3] For example, according to the global consulting firm AT Kearney (2011), which ranks periodically the most attractive 50 locations for outsourced services in the world, Romania accounted for the 25th place in 2011, outpacing Hungary, the Czech Republic and Slovakia, but lagging behind Bulgaria and Poland. According to Tholons (2013) top 100 most attractive cities for outsourced services wordwide in 2014, Bucharest ranked 40th, after Krakow, Prague, Budapest, Brno and Warsaw, but before Bratislava, Sofia, Ljubljana and Wroclaw.

According to TiVA data, the share of services value-added in Romania's total exports stood at almost 40% in 2009, which means that the real contribution of services to total exports was in fact twice as high as evidenced by BoP data (19.5% in 2009) (Figure 1). However, in Hungary, Poland and the Czech Republic, this indicator was higher than in Romania, i.e. between 40-50%. According to WTO data, the contribution of services to total world exports is 42% on average (WTO, 2013). However, in countries like the US, UK, India or France, the respective share is 50% or even higher. In the EU as a whole, services contribute by 51% to total exports while in China by one-third (Figure 1).

Value-added trade measures also help to gain some insights into the relative positions of countries in the global economy, i.e. within GVCs. The share of foreign content in gross exports of a country – or vertical specialization – is a commonly used indicator to illustrate this. The more countries rely on imported inputs for the production of goods and services that are subsequently exported, the higher their participation in GVCs. Data provided by the OECD-WTO TiVA database points to increasing foreign content in the exports of most countries in the last two decades and, so, increasing integration within GVCs (Figure 2).

Figure 1: Services value-added[1] as percentage of total exports, in selected countries, in 2009 (%)



Note: [1] "Domestic content" and "foreign content" relate to the source of value-added, indicating the proportion of value-added generated domestically and externally (imports), respectively.
Source: OECD (2013a, p. 58), based on OECD-WTO Statistics on Trade in Value-Added (OECD, 2013b).

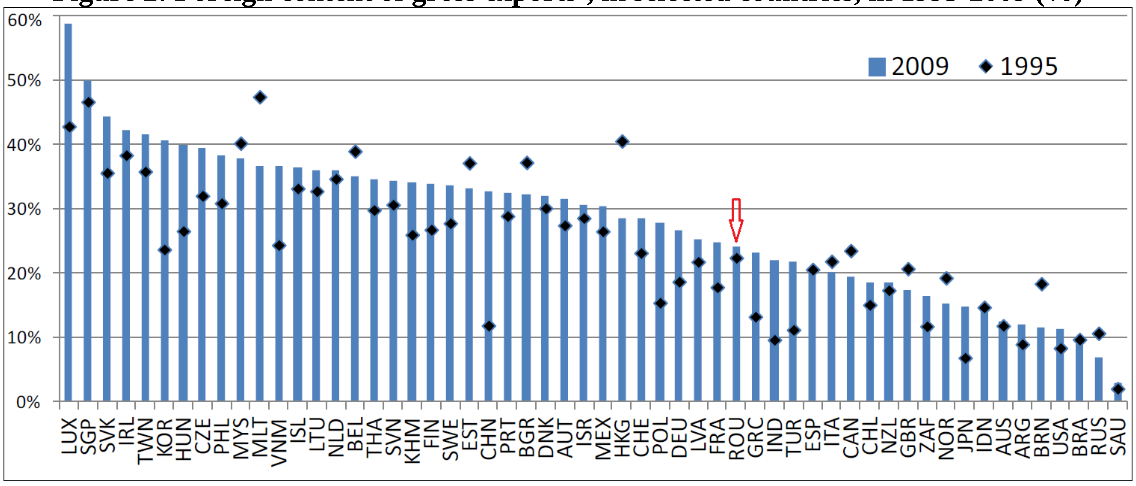
The share of foreign content in Romania's total gross exports stood at about 25% in 2009, below the world average (28%), and increased only slightly – by some 3 percentage points – between 1995 and 2009. This suggests not only a rather weak involvement of the country in GVCs, but also slow progress in enhancing it. This comes through more clearly when comparing Romania with other NMS, such as the Czech Republic, Hungary and Slovakia, where the foreign content of exports was much higher in 2009, reaching 40% or even more, and also significantly up on its share in 1995. Not surprisingly, Poland and Hungary recorded the most remarkable increases between 1995-2009, due their relatively high inward FDI stocks.

A major reason behind Romania's relatively weak presence in the global economy and slow progress in enhancing its participation over the recent years is, undoubtedly, the drastic contraction in FDI inflows since 2009. Services are intrinsically linked to FDI as most categories of services may be supplied internationally only through the presence of foreign affiliates abroad. Likewise, the expansion of TNCs operations through FDI is a major driver of growth of GVCs, as shown by the strong correlation between FDI stocks in countries and their GVCs participation (UNCTAD, 2013, p.138). Hence, the presence of TNCs bears both upon imported contents in exports and participation in GVCs.

A snapshot of developments related to Romania's FDI inflows in the post-crisis years supports the above argument and highlights the country's involvement in GVCs through FDI. After reaching a historical peak in 2008 with €9.5 billion, FDI inflows to Romania declined by over 60% in 2009, amounting to only €1.8 billion in 2011 and €2.1 billion in 2012. Despite an increase by 27% over the previous year, the amount of FDI attracted in 2013, worth €2.7 billion, remains still very low (NBR, 2014). In fact, Romania ranks among those NMS where FDI has not returned to its pre-crisis level, unlike the Czech Republic, Poland and especially Hungary, where FDI recovered and even surpassed the pre-crisis levels.

With an inward FDI stock of €59 billion in 2012, Romania lags behind Poland (€179 billion), the Czech Republic (€103 billion) and Hungary (€77 billion). In terms of FDI stock percentage share in GDP in 2012, the country (45%) ranks behind Bulgaria (95%), Hungary (80%), the Czech Republic (67%), Slovakia (60%) and Poland (47%), except Slovenia (33%) (Eurostat, 2014). Although on a descending trend, the services sector still predominates in the country's total inward FDI stock, accounting for over half (BNR/INS, 2013). More than two thirds of Romania's total inward FDI stock is owned by EU-15 investors, particularly from the Netherlands, Austria, Germany, France, and Italy. The geographical composition of foreign investment in Romania indicates a high level of corporate integration and outsourcing activities between the old and new EU member states. It also confirms that despite rapid advances in ICT that have reduced trade and coordination costs and made the geographical dispersion of different stages of production processes technically feasible, geography still does matter. In fact, this explains why GVCs have rather a distinctive regional character and Romania's presence in GVCs is associated with strong intra-EU value chain links. Put differently, the country is part of "Factory Europe", unlike "Factory Asia" or "Factory North America".

Figure 2: Foreign content of gross exports[1], in selected countries, in 1995-2009 (%)



Note: [1] Foreign content of gross exports indicates the external value-added related to total gross exports value.
Source: OECD (2013b), based on OECD-WTO Database on Trade in Value-Added (OECD, 2013b).

While the prospects for enhancing Romania's involvement in the global economy through increased FDI are not very bright in the short-term, nevertheless, encouraging signs are coming from the global outsourcing industry. According to projections, the global services industry remains on the rise, driven by continuing technological innovation and expanding world demand from upper income groups as well as outsourcing strategies by firms associated with the "splintering" of the production process. Moreover, observers from inside the industry estimate that globalization of services production is only in an early stage, with IT and BPO outsourcing being only a precursory sign of a broader trend that, in the future, will stimulate companies to resort more intensely to outsourcing of different business functions to cost-effective locations around the world. The reason is twofold: on the one hand, outsourcing is an effective way for companies to reduce costs and improve their operations, and, on the other, the dynamic expansion of GVCs has enhanced economic interdependence of countries across the globe.

6. Conclusion

Steady growth in Romania's trade in services until the outbreak of the global financial and economic crisis has fuelled rapid structural adjustment and improvement in its trade balance. However, the crisis has badly hit trade flows and services flows in particular, and reversed these favourable trends. Along with a dramatic decline in services trade and ensuing sluggish growth, the country also witnessed a sharp deterioration of its trade performance. Moreover, Romania's services trade proved to be far less resilient during the crisis and post-crisis years and went off the patterns prevailing at the global and European level, including the new EU member states.

All in all, the adverse effects of the crisis combined with protracted recovery have weakened the export generating capabilities of the country and widened further its traditional gap relative to the new EU member states in the sphere of services. The crisis also triggered a steep drop in the contribution of services to Romania's overall trade and in the country's share in both global services trade and intra-EU trade. As a result, Romania's integration into the global economy through services flows came to a halt.

With services flows strongly rebounding and net exports hitting an all-time record, the year 2013 marks a turning point in the evolution of Romania's services trade, that is likely to put services flows again on a dynamic and sustainable growth path. However, the full absorption of the harmful effects of the crisis and the consolidation of the emerging positive trends will take time. Until then, we can only conclude that Romania's integration into the global economy through services flows is far below the country's potential and also lags behind the new EU member states.

Looking ahead, if the turnround holds true, services trade flows are going to improve. But just waiting for an automatic increase in services trade will not be enough to enhance Romania's participation in the global economy. This should be actively supported by proper policy measures. Seizing the opportunities provided by services globalization and enhancing Romania's effective integration into the global economy calls for significant further investment in technology dissemination, skill building and upgrading. But apart from strengthening the necessary physical and human infrastructure, new government policies and firm strategies are needed to fully capture the benefits of globalization and minimise potential adjustment costs.

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