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Balance of services structure and evolutionary trends

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Abstract: *In developed economies the high material production of the goods satisfy new and diversified necessities. Individual and social needs in a permanent dynamic have determined the need to develop services faster than the speed of diversification of properties. Mostly modern economy is producing and consuming services. Dynamic needs influence the division of labor, considered by the experts another case, together with dynamics of needs, the growing role of services sector in the economy. On the one hand, division of labor develops collaborative relationships between suppliers of raw materials, goods manufacturers and service providers, and on the other hand, it deepens the economic competition and struggle to conquer a bigger market share. In an economy based on services are mainly produced, their complementary goods. Satisfying as more and better consumer requirements are based on both quality of services due to increasing competition and the use of complementary goods, Statistics made on tourism management and services. Services have become an important sector of world economy which continues to grow up, encompassing most of the production and employment, in most industrialized countries. Approximately 70% of total aggregate production from OECD countries is generated by service activities, which absorb a proportion similar to the active workforce. Also, the major changes in the sectoral structure of European economies, significantly correlated with GDP growth, the number of jobs and increased international trade, led to a substantial change in the service sector in these countries and persists, however, the differences from developed countries and between different countries in transition, regarding the role and performance of service sector.*

Keywords: services, balance of payments, employment, tourism, Romania.

JEL Classification: D5, E6, F36, F37, F4, G2, H6.

The macroeconomic framework for the development of services in Romania

Economic liberalization and the volume trade increasing are becoming increasingly important to analyze a country's economic relations with its partners. These relations are finding mainly their expression in the trade balance and foreign payments, whose analysis is essential, they are documents with a heavily loaded information, able to satisfy different interests, from simple empirical data analysis, to complex data on which deciders evaluate their current and future policies.¹

Although the free movement of services is one of the four basic pillars of European construction (with free movement of goods, persons and capital), being provided by the Treaty of Rome (1957), the EU has failed to achieve the aim of integrating services in the domestic market even today. Barriers witch currently affecting intra-community services trade because of differing national regulations and standards, generates huge operating costs of service providers in Europe. The lack of progress towards integration of services markets started to seriously threaten the competitiveness of EU economy growing in recent years, provided that these activities have come to contribute to the creation of 70% GDP, respectively, employment in countries, and represent 22% of total trade in goods and services of the EU-25 and 65-70% of the total stock of FDI generated and receivers (including intra-EU, 2004).

For Romania, the evolution of services production sector in 1990-2003 shows that although these activities have doubled their share in GVA (from 19% to 38%), their contribution to employment has increased by only 5 percentage points (from 16% to 21%). However, in 2003 the production occupied 37% of total employment in EU-25. A concerning fact is also the trend of worsening the gap in terms of contribution to service creation of GDP and employment between Romania and the new Member States. While these countries have made notable progress in the period 1990-2003 in terms of their macroeconomic structures convergence with the EU, approaching the sensitivity of those indicators in the EU-15 (68% on average), structural changes in Romania were very slow and insignificant. As a consequence, Romania customize the lowest level of these indicators in the group of new members and candidates.

¹ Ion Ignat, Spiridon Pralea, "Economie mondială", Ed. Sedcom Libris, Iași, 2006,

Service classification

An universally accepted classification divides them into services for population, for private consumption and for industrial services, as part of intermediate consumption. Services for population meet the needs for education, complex (the intellectual and social recognition), and are designed to stimulate the human personality development in the social context.

-Activities that relate to leisure time;

-IT support activities;

- Training activities, commerce, etc.

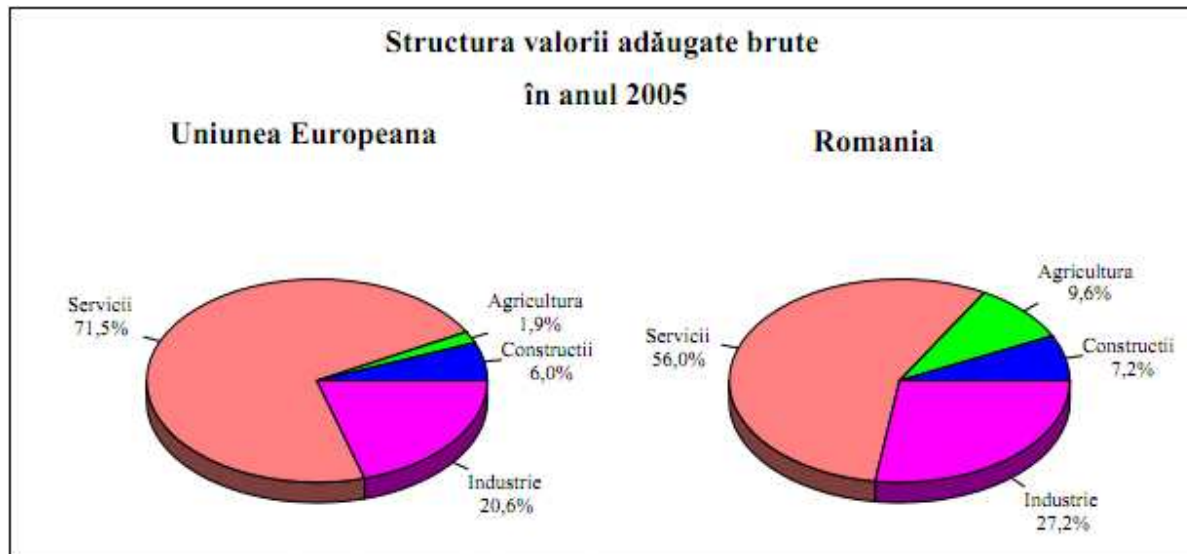
The trade services structure of Romania

In Romania, the services for household consumption had and continue to have a relatively low weight. Thus, the paid ones are only 15-16% from the total consumption expenditure of households and 23-24% of their monetary consumption expenditure, or approximately 22% of total purchases of goods and services. The level and dynamics of the services volume depend largely on GDP, gross value added and the privatization process of the economy generally and services sector in particular.²

Regarding the structure of service trade in our country, the increase of 22% in 2005 represents a favorable trend shared by tourism services in total revenue, generated by exports of services and registering a surplus of balance of tourism (170 million USD). This trend is even more remarkable, as the share of tourism services in total exports has declined significantly in recent years and tourist balance registered major deficits, in manifest contradiction with the significant potential that our country has in this area.

Over the last and half decade the importance growth of the component "other services", regarding all the flows services of Romania represent another positive aspect, such as to approach the structure of the romanian service trade to the one which predominates in Europe and worldwide. In 2005, services which were subsumed to this component have reached almost half from the total export services receipts of Romania, and respectively, from the total payments of services import account, the share being similar to those of the EU-25.

² Gerardo D. Berthen și Alin Teodorescu "Raportul național al dezvoltării umane 2001-2002, România după un deceniu de tranzații"



Sursa: Institutul Național de Statistică

Along with construction, this component includes all services of production, which are used as inputs in production processes, being determinant in increasing the efficiency and competitiveness of enterprises in all economic sectors. On the other hand, is a serious concern the fact that rising imports of production services, usefull for romanian businesses in order to remain competitive, can not be offset by an exports corresponding increase, so the balance of these services recording chronic deficits.³

The progreses registrated in information technology, that have influenced the service structure and organization, led to many changes in the service provider way for business and had as a effect the impruvement of the marketing trade of services through electronic transfer. In these years, the services foreign trade has become increasingly important, removing thereby the exclusivity of external in goods trade. Business services with electronic delivery has become one of the fastest growing sectors in international trade, the flows being directed - in line with the relocation phenomenon- from developing countries to developed ones.

³ Cristina Cristureanu “Economia imaterialului:tranzacții internationale cu servicii” Editura All Beck, Bucuresti, 2004

Foreign trade in services- Romania

	Sold (mil.Euro)			2006/2004 modificare procentuală(%)	
	2004	2005	2006	Export	Import
TOTAL SERVICII	-213	-344	6	89,9	76,7
din care:					
ALTE SERVICII	-231	-136	431	140,2	73,4
din care:					
Servicii pentru întreprinderi*)	-253	-225	83	145,9	77,2
din care:					
Servicii cu livrare electronică**)	-162	-116	128	141,8	71,4

Source: National Bank of Romania

According to balance of payments, we can estimate that 2006 represents an inflection point in the evolution of external trade in services, both because the 2006 balance of services, especially the business one, began to record surpluses and because of the high dynamics of exports.

In January 2009 the current account of the balance of payments registered a deficit of 525 million euros, decreasing with 54.6 percent compared to January 2008. The decisive influence on reducing the current account balance, has had the trade deficit of the commercial balance, which totaled 385 million, down with 66.4 percent from January 2008.

- millions euro -

	January 2008			January 2009		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
CURRENT ACCOUNT (A+B+C)	3 886	5 043	-1 157	3 117	3 642	-525
A. Goods and Services	3 163	4 220	-1 057	2 490	2 757	-267
a. Goods (FOB export – FOB import)***	2 525	3 670	-1 145	1 912	2 297	-385
b. Services	638	550	88	578	460	118
- transport	187	188	-1	181	119	62

- tourism-travel	101	80	21	72	67	5
- other services	350	282	68	325	274	51
B. Income	175	584	-409	144	705	-561
C. Current transfers	548	239	309	483	180	303

Source: National Statistics Institute

The current account deficit in January 2009 was financed entirely by non-residents' direct investment in Romania (compared to 52.1 percent in January 2008), which recorded 912 million euros (versus 603 percent in January 2008). In January 2009, the 912 million euro equity holdings represented 49.6 percent , intra-group loans 36.2% and reinvested profit 14.2%.

The modest level of service flows mediated by FDI

Low level of cumulative volume of FDI flows received by the Romanian economy is a major cause of the slow progress towards the service sector expansion since 1990. There is a correlation between the attracted volume of FDI and the economic reforms rhythm and particularly the privatization in the transition countries. Those countries of Central and Eastern Europe that have promoted economic reforms in sustained rhythms and massively privatized from the beginning, succeeded to attract a considerable amount of FDI, unlike Romania where reforms have been slow and inconsistent until recently.

ISD in Romania:⁴

YEAR	2009	2008	2007	2006	2005	2004	2003
billions Euro	4,89	9,496	7,250	9,059	5,213	5,183	1,946

In 1998 Romania registered a record volume of foreign investment of over two billion dollars. In 1999 - 2002, the volume fell to 1 - 1.2 billion dollars per year. By July 2009, the countries that had injected the largenst amount of money into the business environment in Romania are in this order: the Netherlands, Austria, Germany and France. Lying in fourth place, France had a 11%

⁴ www.arisinvest.ro/isdromd.pdf

of the foreign investment, with 5 billion euro. In May 2008, the largest foreign investments in Romania were:

- Renault - 676 million euro
- Egger - 210 million euro in the wood processing factory from Rădăuți
- Calsonic Kansei- 120 million euro
- Saint Gobain - 120 million euro
- Diesel Delphy - 100 million euro
- Nokia - 60 million euros at the factory from Jucu

Tourism and its role in the economic development of Romania

Tourism sector is an essential component of services sector for individuals, an industry with great potential for development. It is part of the tertiary sector of the national economy, consisting, mainly in service benefits, resulting in a high natural dynamic in the contemporary civilization conditions. The tourism industry is characterized by a particular structural complexity, which takes multiple forms of service. Implementation of long term strategies in the tourism sector offers the premises of accelerated development of both the Romanian tourism and the economy in general, considering that for a long time this area was abandoned.

The main coordinates on which the strategies of this field are focused are the development of tourism in Danube Delta, as a symbol of the Romanian ecotourism, attracting tourists towards the monasteries from northern Moldavia and Oltenia, the religious tourism, spa and agrotourism and generally towards all areas which have been preserved. The country's economic development should take place around two axes that differentiate Romania in the European landscape, those being the Carpathian and Danube axis.

The first one is important both in terms of connecting to the rest of Europe and to increase tourist flow. Ecotourism and tourism are currently the base of the Romanian tourism. Finally, it is absolutely necessary to attract investment and foreign partners (which was done in 1995-2004) to create standard tourism units to raise the level of the other units.

The main forms of tourism practiced in Romania

The development and civilization level of a country is given, mainly, by the level of development of the public services sphere offered to the population, from which we notice the tourism services as a part with a significant percentage of the GDP of developed countries.

From this, it is necessary to note the way that provided tourism activities and hotel business evolved in Romania in recent years. In 1990 there was a material base created in tourism, which, to be harnessed efficiently, it supposed to be quality improved, especially through privatization, in terms of the concept of tourism product and management from tourism and services industry. Only through privatization, investment and improving service quality for tourists, could be created the premises to ensure quality services adapted to people's real needs.

Establishing a tourism system privatized 100% with the support through appropriate measures of the diversification and quality improvement trend, it should be a constant concern of national development strategies and programs of the Romanian tourism, given that the sector already had a significant material basis. The need of knowing and quantifying the touristic phenomenon chosen in hotels, villas, cottages, didn't require an investment effort or a special capital.

The decreased volume of Romania's tourism service trade

The modest size of the service offer and its structure - the prevalence of traditional services (transportation, commerce, hotels and restaurants) at the expense of advanced services (financial services, business) - affect Romania's potential to generate international flows of services. Although in the last and half decade the services trade registered a sustained growth, increasing in higher rates than those from Europe and the world, our country has a marginal position in global trade of services (0.2%). In 2009, the value of Romanian exports of services rised to 4.9 billion dollars, while the imports totaled 5.4 billion dollars.

Romania's competitive disadvantages in service sphere corelated with the EU-15 and with the new Member States and candidate countries, are numerous and lie above all in the low level of development of the Romanian sector of services. A brief analysis of the Romanian economic realities in terms of services, reveals striking contrasts between Romania's performances and the ones of the Member States - old and new - through the contribution of this sector to create gross value added in employment and, implicitly, in international and investment trade flows.

Currently, in international tourism and more recently in our country mutations of the tourist traffic were more, for the purposes of diversifying the forms of tourism, defending a possible new classification of tourism by destination and area: Rural and urban tourism. Rural

tourism involves spending time in the country side, in rustic structures , inns, camp grounds, rural locations, holiday villages, etc..

Urban tourism refers generally to leisure and vacations in towns, to visit them and / or carry out various cultural activities. Rural tourism is one of the most effective solutions to harmonize the demands of tourism with environmental protection and sustainable development. In rural tourism accommodation is made in peasant household (hostel), farms and general tourist equipment (inns, stops, rustic cottages). Agro-tourism involves staying in farm household, the consumption of agricultural products and the participation at different degrees at social, group activities of the peasant households. This form of tourism has gained amplitude in the last decade.

Conclusions

Romania has some competitive advantages that could exploit in order to boost its trade with both the cross-border services, as well as those mediated through FDI. The level (still) relatively low of labor costs, high education and professional training of some labor categories , cultural affinity with the European space and, last but not least, the guarantees associated with taking over the communautaire acquis and the imminent EU accession represents as many assets that could result from export service development to the EU market.

Further more, many of the trends from the international economic scene seem to favor Romania for the competitive advantages in services, particularly because of its educational and vocational skills. By virtue of increasing the service capacity to be delivered internationally via electronic networks, many categories of services as well as numerous functions of services used by TNCs to coordinate various levels of the global value chain of their production, can be fragmented and relocated now, in various locations in the world.

Romania could take advantage of the ongoing process of "relocation" of services, used, more and more, by the European companies in order to remain competitive (in the interests of reducing costs, expanding access to professional skills and improve service quality). Current approaches regarding EU that follow the integration of the services on the EU internal market and consolidation of the competitiveness of European companies, give Romania the urgent need to accelerate structural adjustment. To face increased competition on the internal market of services and to benefit from the new opportunities as EU member, Romania will have to substantially strengthen its flow generating capacity of services, while the competitive disadvantages in services are numerous.

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