

## THE BREXIT FROM THE EUROPEAN UNION - IMPLICATIONS ON THE EXTERNAL TRADE OF ROMANIA

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**Abstract:** After briefly presenting the legal framework for the exit of the United Kingdom of Great Britain and Northern Ireland from the European Union, in the article there are analysed in the trade relations between Romania and the United Kingdom. Thus, it stands out an increase in the exports and imports between these countries, as well as the fact that starting with 2013, the United Kingdom ranks first among the countries with surplus of the goods balance in favour of our country. There is a diversification and an improvement in the structure of exports toward the United Kingdom, namely the share of medium and highly processed goods increases. Romania's imports from the United Kingdom are dominated by medium and highly processed goods. Towards the end of the period under review, we can see a concentration of commodity groups imported from the United Kingdom. The author uses qualitative and quantitative assessments, interpretations, comparative analysis and correlations. The analysis is carried out for the period 1991-2017 and it concludes that it is in our country's best interest to close a trade agreement between Romania and the United Kingdom if the Brexit takes place.

**Keywords:** imports, exports, structure, consequences, commercial agreement, further trade relations.

**JEL Classification:** F14, F15, F49.

### 1. The legal framework for the exit of the United Kingdom of Great Britain and Northern Ireland (United Kingdom) from the European Union (EU)

The provisions of the Lisbon Treaty corroborated with the results of the referendum of June 23<sup>rd</sup>, 2016, according to which 51.9% of the British citizens have voted in favour of leaving the European Union, provide the legal framework for the exit of the United Kingdom (UK) from the European Union.

With the enforcement of the Treaty of Lisbon amending the European Union Treaty and the Treaty for establishing the European Community, the right of a Member State to exit the European Union was introduced for the first time in 2009 (Article 50), in accordance with its constitutional rules.

The Treaties of the European Union shall cease to apply to the State concerned from the date of enforcement of the exit agreement or, in the absence of such an agreement, two years after notification of the European Council of the intention to exit EU, unless the European Council, in agreement with the Member State concerned, decide unanimously to extend this period (the Treaty of Lisbon, Article 50).

On March 29<sup>th</sup>, 2017, the British government formally initiated the exit process from the European Union by activating Article 50 of the Lisbon Treaty.

The UK Prime Minister, Theresa May, characterizes Brexit as a method by which the UK can regain its sovereignty, particularly over immigration, trade and legislation. From the point of view of the Prime Minister, it is desirable to sign a comprehensive free trade agreement with the European Union (Stratfor, 2017). But it should be borne in mind that the negotiation and ratification of a trade agreement can take years because each national and regional parliament must express its opinion by voting the agreement or not.

UK remains a Member State until official exit, which represents having rights and responsibilities, including financial commitments that may extend beyond the date of exit (Soare, 2017), according to the resolution adopted by the European Parliament on key principles and conditions meant to approve the Brexit from the European Union.

Transitional arrangements can not last for more than three years, and the agreement on the future relationship between the United Kingdom and the European Union can be concluded only after the UK has exit completely from the European Union. Furthermore, under the European Union law, the United Kingdom can not negotiate trade agreements with third countries before the exit from the European Union.

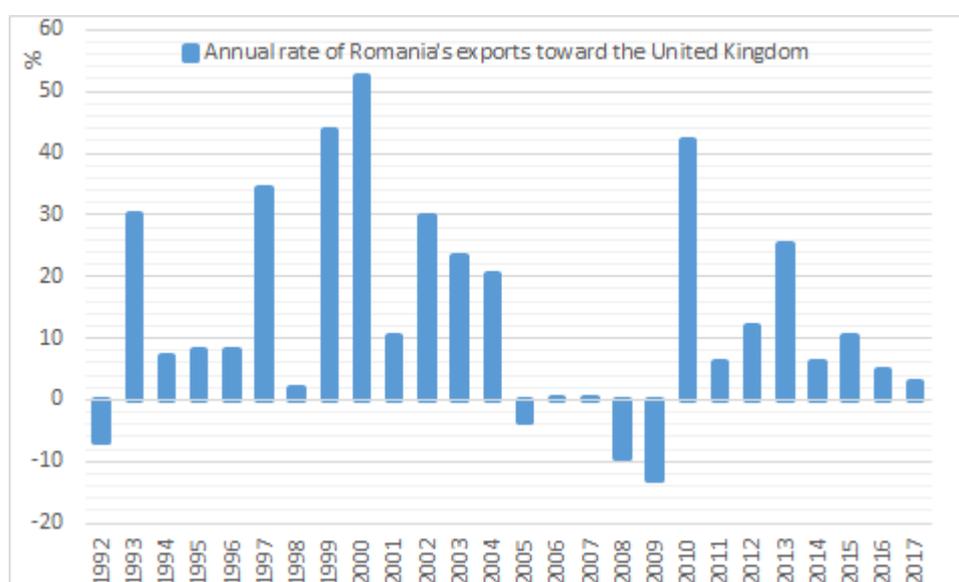
At the end of April 2017, the European Council approved the guidelines for Brexit negotiations. These guidelines define the general framework for the negotiations under Article 50 of the Lisbon Treaty and set out the positions and general principles that the Union will pursue during the negotiations (European Council (Article 50), 2017).

Under these guidelines, the European Union will act as a whole during the negotiations, with a view to achieving a fair outcome for all Member States as well as for its citizens. Thus, there will be no bilateral negotiations between the Member States and the United Kingdom. Any agreement with the United Kingdom will be based on a balance between rights and responsibilities, and the four freedoms of the Single Market remain indivisible.

The exit of the United Kingdom from the European Union will affect the business environment in the European Union that engages in trade or other activities in the United Kingdom as well as the UK business taking place in the European Union. This is precisely why the negotiations will aim to prevent a legislative vacuum once the EU Treaties have ceased to apply to the United Kingdom. The aim of the European Union is to minimize the costs for European Union citizens, for business, as well as for the Member States (European Council, 2017).

## 2. Foreign trade between Romania and the United Kingdom

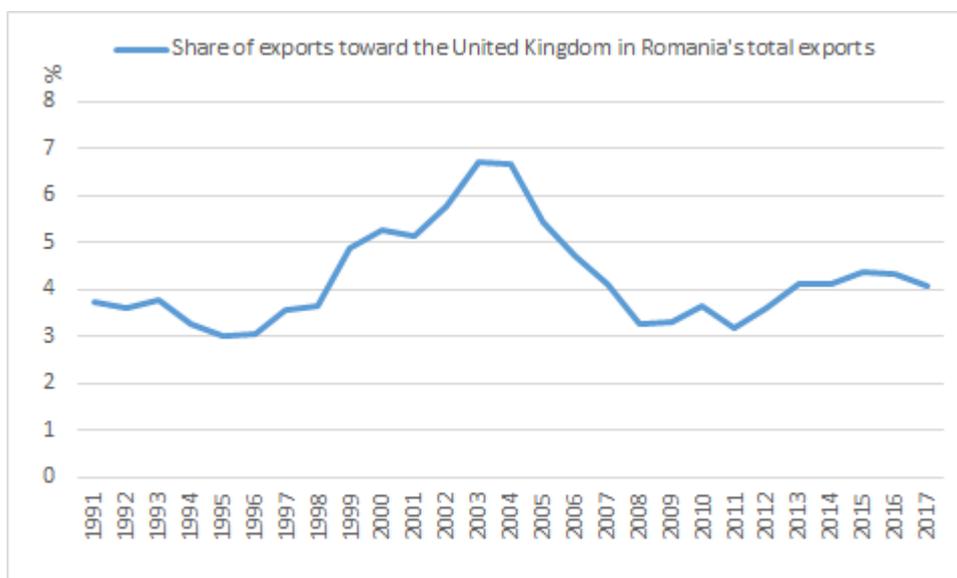
Analysing the evolution of Romania's exports toward the United Kingdom, one can see annual growth is recorded almost in all years of the analysed period (1991-2017), with the exception of the following years: 1992, 2005, 2008, 2009. The highest annual growth occurs in 2000 (52.5%) and the most significant annual decrease occurs in 2009 (-13.1%) (see Figure 1).



**Figure 1. The evolution of Romania's exports toward the United Kingdom between 1992 and 2017**

Source: author's calculation based on data from the National Institute of Statistics, 2019

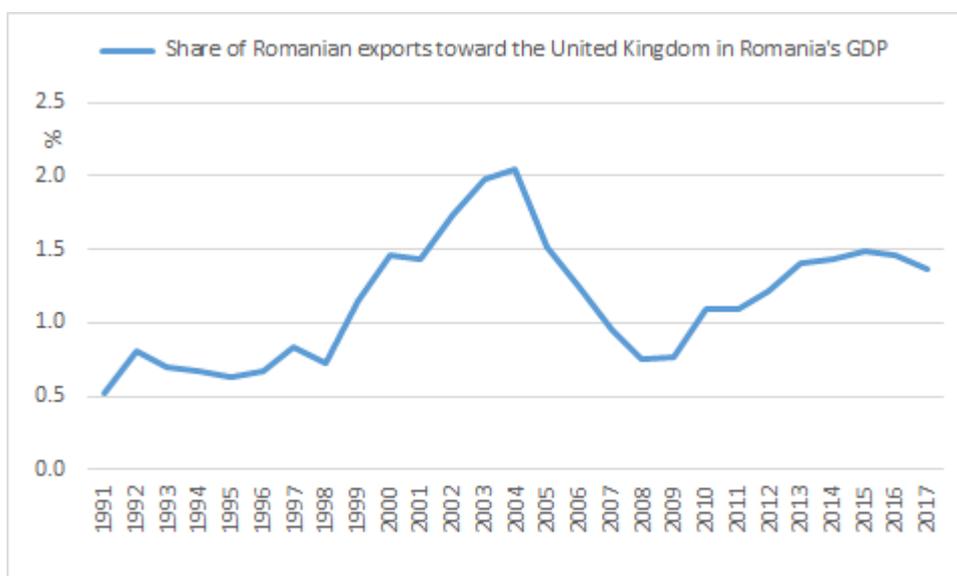
The share of our country's exports toward the United Kingdom in Romania's total exports fluctuates between 3% (in 1995) and 6.7% in 2003. Towards the end of the analysed period, Romania's exports to the UK are around 4% (see Figure 2). In the period 2015-2018, the United Kingdom ranks fifth as a country of destination for Romanian exports (after Germany, Italy, France and Hungary). The United Kingdom has climbed in the hierarchy of the destination countries for Romanian exports after 2009.



**Figure 2. The share of Romania's exports toward the United Kingdom in Romania's total exports between 1991 and 2017**

Source: author's calculation based on data from the National Institute of Statistics, 2019

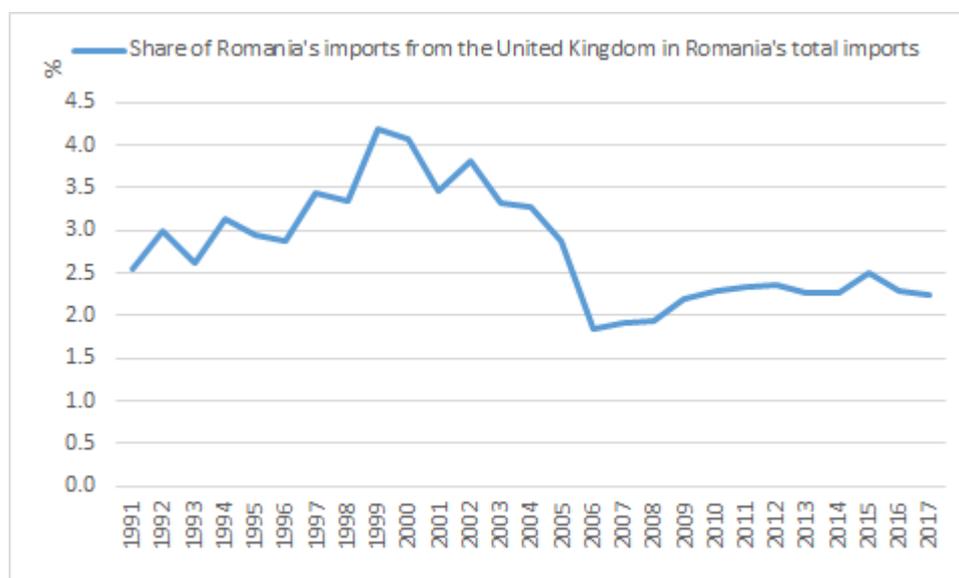
Romanian exports toward the United Kingdom represent between 0.5% and 2% of GDP (see Figure 3). Since 2005, this indicator has values below 1.5%.



**Figure 3. The share of Romanian exports toward the United Kingdom in Romania's GDP during the period 1991-2017**

Source: author's calculation based on data from the National Institute of Statistics, 2019

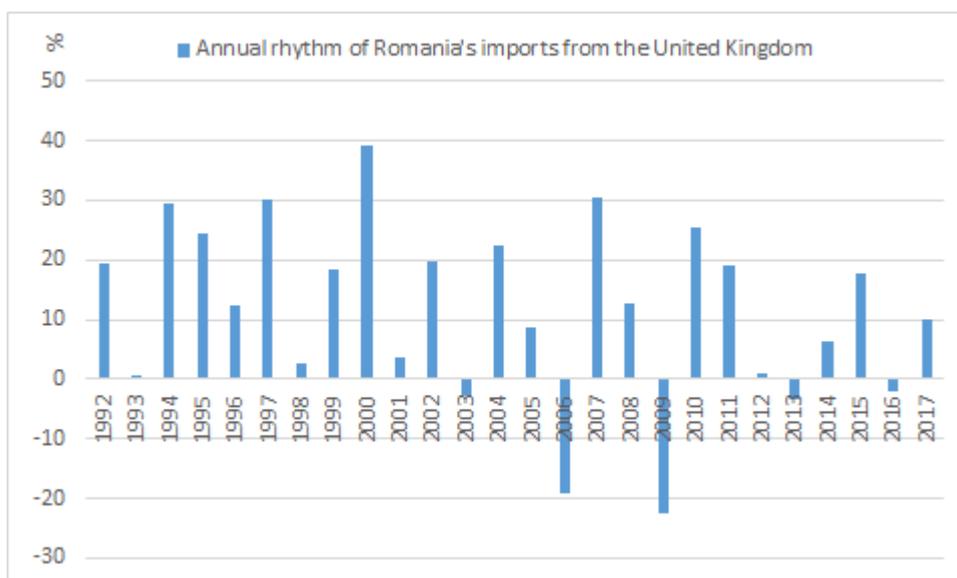
The share of Romania's imports from the United Kingdom in Romania's total imports fluctuates between 1.9% (in 2006-2008) and 4.2% in 1999. Toward the end of the analysed period, the share of Romania's imports from the United Kingdom is slightly above 2% (see figure 4). In 2015-2018, the UK ranks 16th as a country of origin / expedition for Romanian imports. It is noticed that over time (after 2009), the United Kingdom comes down the hierarchy of countries of origin / expedition for Romanian imports.



**Figure 4. The share of Romanian imports from the United Kingdom in Romania's total imports during the period 1991-2017**

*Source: author's calculation based on data from the National Institute of Statistics, 2019*

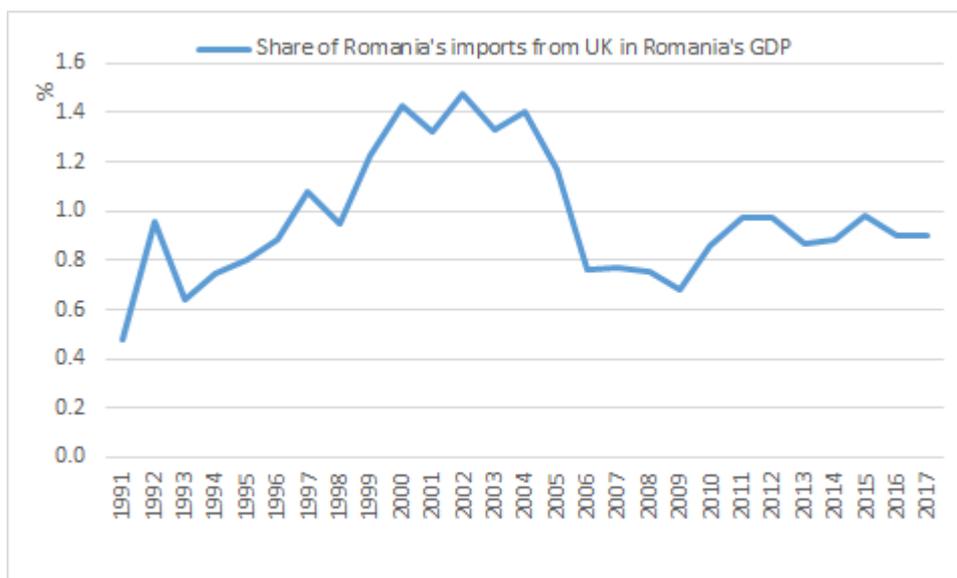
Analysing the annual evolution of Romania's imports from the United Kingdom, one can notice that there is an annual increase almost in all years of the analysed period (1991-2017), with the exception of the following years: 2003, 2006, 2009, 2013 and 2016. The highest annual increase takes place in 2000 (39.3%) and the most significant annual decrease occurs in 2009 (-22.6%) (see figure 5). We can say that the effects of the economic and financial crisis have influenced Romania's foreign trade with the United Kingdom in a sense of decrease (both Romania's imports from UK and Romania's exports toward the United Kingdom).



**Figure 5. The evolution of Romania's imports from the United Kingdom between 1992 and 2017**

Source: author's calculation based on data from the National Institute of Statistics, 2019

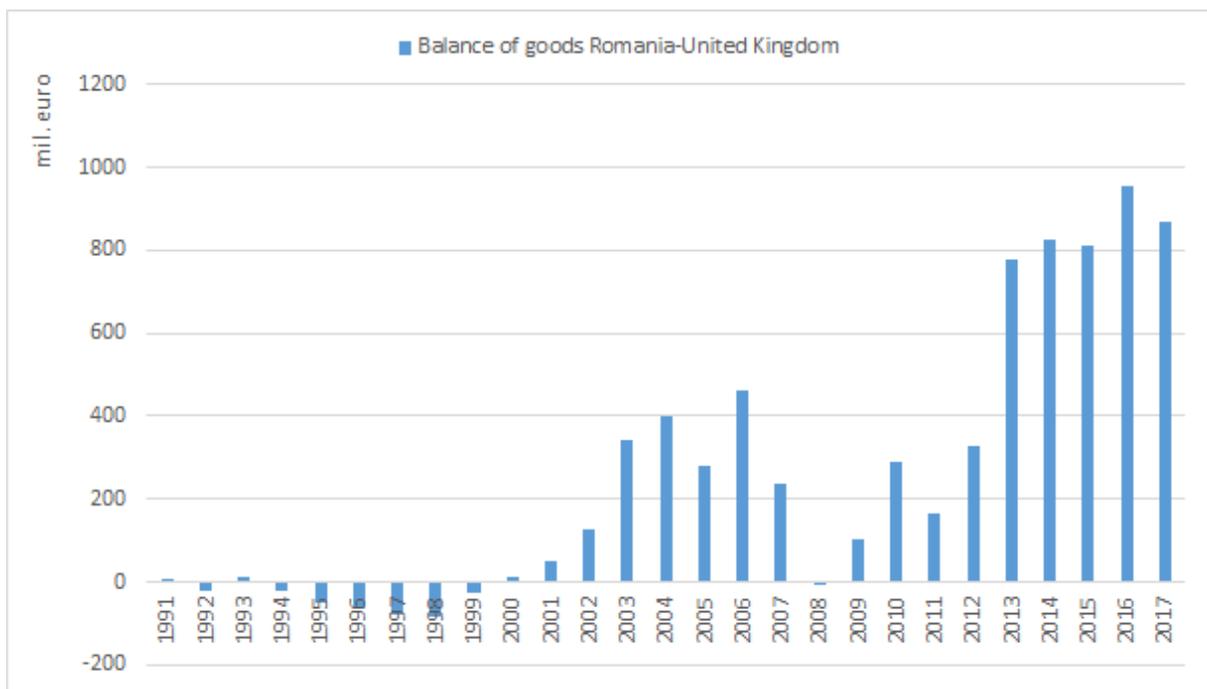
Romanian imports from the United Kingdom represent between 0.5% and 1.5% of GDP (see figure 6). Since 2006, they represent less than 1% of GDP.



**Figure 6. The share of Romanian imports from the United Kingdom in Romania's GDP during the period 1991-2017**

Source: author's calculation based on data from the National Institute of Statistics, 2019

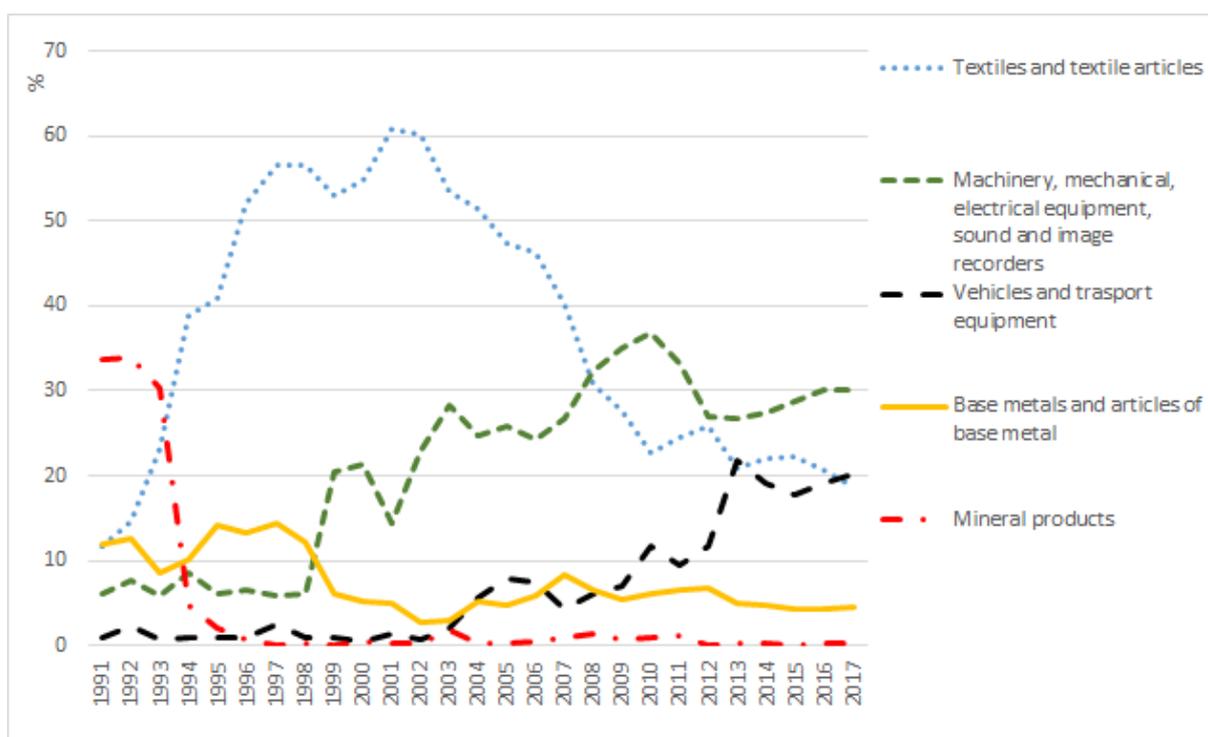
From figure 7, we can say that there are two different periods in the evolution of goods balance between Romania and the United Kingdom. Thus, between 1991 and 1999, Romania recorded mainly deficit in the trade relations with the United Kingdom (except for 1991 and 1993). From 2000 to 2017, the goods balance between our country and the United Kingdom is positive (with the exception of 2008). In the last years (2013-2018), the United Kingdom ranks first among the countries with balance of goods surplus in favour of our country.



**Figure 7. The goods balance between Romania and the United Kingdom in the period 1991-2017**

*Source: author's calculation based on data from the National Institute of Statistics, 2019*

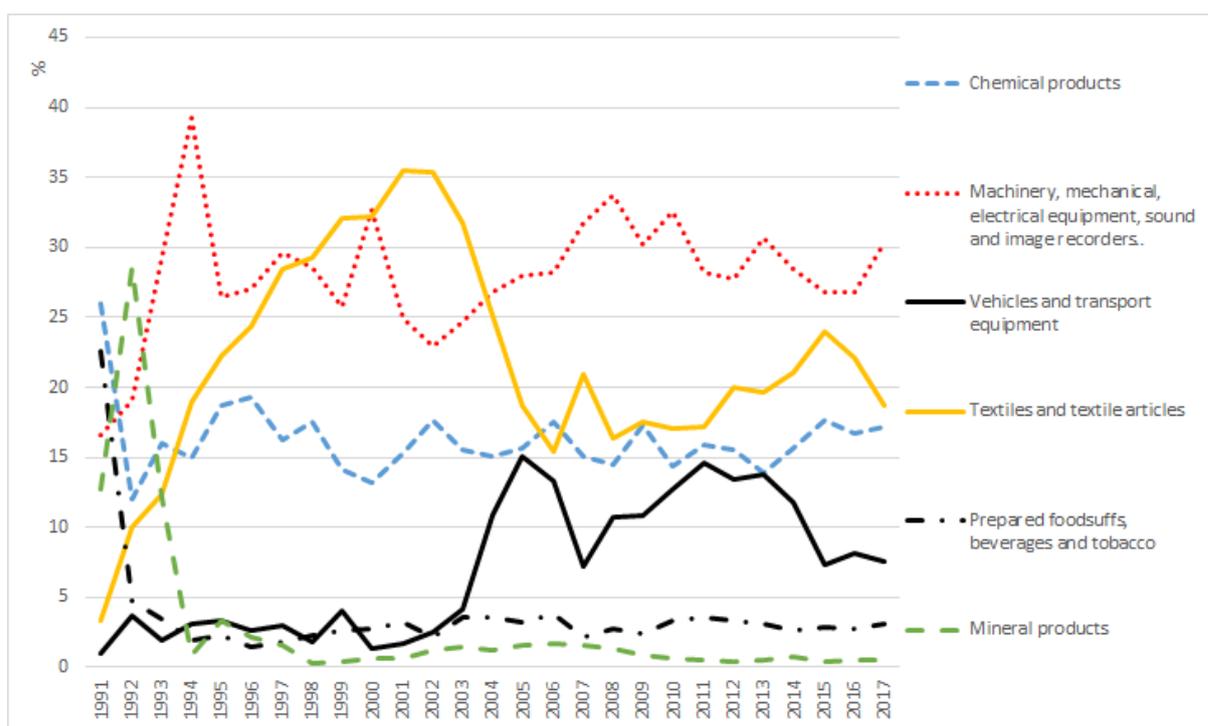
Analysing the evolution of the most important groups of products (according to the Combined Nomenclature), as a share in the exports of our country to the United Kingdom, between 1991 and 2017, we can make the following remarks. Thus, the share of Mineral Products (which ranked first in Romania's exports to the United Kingdom between 1991 and 1993) declined significantly in 1994, since 1997 until present this group of goods has generally less than 1% of total Romanian exports to UK. The share of Machinery and mechanical appliances; electrical equipment; sound and image recorders and reproducers is growing discretely, a major leap taking place in 1999. Since 2008, this group of goods ranks first as share of Romania's exports to the United Kingdom. The share of Textiles and textile articles has been growing until 2001, then it decreased gradually until present. Between 1994 and 2007, it held the first place in the exports of our country to the United Kingdom. The share of Vehicles and associated transport equipment has been growing discretely in Romania's total exports to the United Kingdom, in 2004 and 2013 taking place more significant leaps. The group of Base metals and articles of base metal has shown a discontinuous decline as a share of our country's exports to the United Kingdom, its importance at the end of the period compared to the 1991 values is not very different. The Romanian exports toward the United Kingdom have improved from the point of view of the structure, in the direction of increasing the share of intermediate and highly processed goods and decreasing the share of little processed goods (see figure 8).



**Figure 8. The evolution of Romania's exports toward the United Kingdom by the most important groups of products (according to the Combined Nomenclature) between 1991 and 2017 (shares) (%)**

Source: author's calculation based on data from the National Institute of Statistics, 2019

Analysing the evolution of the most important groups of product (according to the Combined Nomenclature), as a share in the imports of our country from the United Kingdom, between 1991 and 2017, we notice some characteristics. After the high values recorded in 1991-1993 (with a peak in 1992), the imports of Mineral products from the United Kingdom decreased significantly in 1994, up to the present being generally below 2% (as a share of Romania's imports from the United Kingdom). The share of the Prepared foodstuffs, beverages and tobacco group of products was high in 1991 (22.6%), then it declined significantly in 1992 compared to 1991, oscillating between 1% and 4% until 2017. Romania's share of imports of Vehicles and transport equipment from UK increased slightly and discontinuously between 1991 and 2003. In 2004 there was an important increase, then is oscillated between 7% and 15% in the following period. The importance of our country's imports of Chemical products from the UK into Romania's imports from the United Kingdom showed a significant drop in 1992 compared to 1991, then, in the next period (1992-2017), it fluctuated between 12% and 20%. The share of imports of Textiles and textile articles increased significantly from 1991 to 2001, then it fell until 2006. Between 2007 and 2017, it fluctuated between 15% and 25%. The share of Machinery and mechanical appliances; electrical equipment; sound and image recorders and reproducers increased significantly between 1992 and 1994, then it declined in 1995. Between 1996 and 2017, it fluctuated between 22% and 34%, with values above 26% after 2004. We can notice that in general Romania's imports from the United Kingdom are dominated by medium and highly processed goods, with increasing share towards the end of the analysed period. There is a tendency of concentration of the groups of goods imported from the United Kingdom (see figure 9).



**Figure 9. The evolution of Romania's imports from the United Kingdom by the most important groups of products (according to the Combined Nomenclature) between 1991 and 2017 (shares) (%)**

Source: author's calculation based on data from the National Institute of Statistics, 2019

### 3. Conclusions

The analysis shows that Romania's exports to the United Kingdom had annual growth almost in all the years of the analysed period, so that the United Kingdom has climbed in the hierarchy of destination countries for the Romanian exports after 2009.

But, after 2009, the United Kingdom comes down in the hierarchy of origin / expedition countries for Romanian imports, although Romania's imports from the United Kingdom had annual growth almost in all the years of the analysed period.

After a period of deficits in the evolution of the goods balance between Romania and the United Kingdom (1991-1999), between 2000 and 2017, Romania's goods balance with the United Kingdom is mostly positive. Since 2013, the United Kingdom ranks first among the countries with surplus of the goods balance in favour of our country.

The Romanian exports toward the United Kingdom have improved their structure in the direction of increasing the share of intermediate and highly processed goods and decreasing the share of little processed goods

Generally, Romanian imports from the United Kingdom are dominated by medium and highly processed goods, whose share increased towards the end of the period under review. There is a tendency of concentration of the groups of goods imported from the United Kingdom.

Therefore, although the size of the trade between Romania and the United Kingdom is not high, given the existence of a surplus of the goods balance between these countries in favour of our country as well as the size of the British market, we consider it is necessary to conclude a trade agreement between Romania and the United Kingdom, in the case of the Brexit, in order to preserve the positive effects of our country's trade with the United Kingdom.

It would be desirable to introduce a wider trade and investment agreement between Romania and the United Kingdom with a view to harmonizing the legislation between the two countries in order to bring not only the disposal of tariff barriers to trade in goods and services between Romania and the United Kingdom, but also to the removal of non-tariff barriers to trade.

In conclusion, regarding things from the perspective of Romania's direct interests, it is important and useful to continue the trade relations with the United Kingdom.

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