Ways to Improve the Efficiency of the Foreign Economic Positions of Romania and Ukraine

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Abstract: this article reflects approaches to assessing the effectiveness of foreign economic positions of countries. The dynamics and structure of the balance of payments of Romania and Ukraine during 2014-2017 have been studied. The efficiency of foreign economic positions of Romania and Ukraine and their sustainability has been assessed. Certain measures to improve the foreign economic positions of Romania and Ukraine have been proposed.

Keywords: Romania; Ukraine; foreign economic position of the country; balance of payments; international trade; international investment position

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Formulation of the problem. In the conditions of the current crisis in the European Union countries, which is caused by both political factors associated with the British exit from the Union (Yakubovskiy & Sydorova, 2017) and financial and economic factors, which are based on violation of the principles of building of the European Union, in particular limiting national budget deficits and the volume of public debt, the questions of research, forecasting and making recommendations for assessing the effectiveness of the foreign economic positions of countries are of particular relevance (Lomachynska, Khadad, & Yakubovskiy, 2018).

The concept of "the effectiveness of a country's foreign economic position" in the modern conditions of the world economy development is fundamental to any national economy, because without a sufficient level of efficiency of foreign economic position it is impossible to ensure sustainable economic growth and reliable functioning of the social sphere. Foreign economic position is reflected in

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the international investment position, which depends on the state of the balance of payments of the country.

Analysis of recent research and publications. Over the past decades, leading researchers, including scientists from Romania and Ukraine, have been actively studying the problems associated with the factors that determine the effectiveness of the external economic positions of countries.

Among the authors who investigated the effectiveness of foreign economic positions of countries, we can point out the work of C. Anghelache, G. Anghelache, V. Novitsky, M. Panait, A. Plotnikov, A. Rogach, T. Rodionova, V. Shevchuk, A. Shnyrkov, A. Filipenko etc.

Giving proper respect to the scientists' developments, it should be noted that there is a need for further research, since the formation of foreign economic positions of European states, including Romania and Ukraine, occurs in new complex unpredictable conditions, when there is a rethinking of the role of foreign economic relations in ensuring the economic security of the country.

The purpose of the article is to identify the features of the foreign economic positions of Ukraine and Romania and suggest the ways to improve their effectiveness.

The main results of the study. The need to control the external position of the country was realized during the Asian economic crisis of 1997. In the pre-crisis period, the states of the region, in particular the newly industrialized countries, demonstrated good macroeconomic dynamics, including steady economic growth.

However, at the same time deep liberalization of capital movements, the development of the derivatives market, the opening of services markets to foreign capital began that, despite the real economic growth, led to the accumulation of economic imbalances in Asia, which has involved financial and economic crisis.

Modern commodity markets that are characterized by considerable price volatility due to, first of all, operations with the futures contracts, which were created to hedge risk, now are the main instrument for speculative operations.

One of the approaches to the study of the effectiveness of the foreign economic positions of countries is to analyze their potential for servicing external debts. At the same time, since for most countries, including Romania and Ukraine, external liabilities are denominated in foreign currency, an important indicator of solvency is the value of exports of goods and services.

Based on it, the World Bank, when analyzing the sustainability of the country's foreign economic position, suggests using a number of indicators, provided in the publications of the World Bank Global Development Finance. In these countries, the vulnerability of countries to foreign debt is measured in terms of external debt to GDP and to national exports of goods and services.

Under these criteria, according to experts of the World Bank, the countries can be divided into three groups: with high, medium and low levels of external debt. The first group includes countries in which the ratio of foreign debt either to GDP is more than 80%, or to the export of goods and services exceeds 220%. For the second group, these figures are in the intervals between 80% and 48%, 220% and 132%. For the third group of countries - with the most stable external economic positions, ratio of external debt to GDP is less than 48%, and the ratio of debt to exports of goods and services is less than 132%.[1]

At the same time, the methodology, used by the World Bank, does not take into account external assets of the state, in particular, the volume of official gold reserves and foreign currency assets of banks, commercial structures, population, and non-state sector liabilities in debt. That is why, as evidenced by the results of previous studies, the most effective criterion in assessing the effectiveness of foreign economic positions of countries in which nominal GDP is measured in non-convertible currency is the ratio of net international investment position (NIIP) to GDP.

Critical indicators of the ratio of negative NIIP to GDP can be values of 60% and 36%. According to this criterion, countries can be divided into three groups: with high (the ratio of negative NIIP to GDP according to the module is more than 60%), with a medium (ratio of negative NIIP to GDP according to the module ranges between 60 and 36%) and low (negative NIIP to GDP according to the module is less than 36% or NIIP is positive) levels of dependence on external financing.

We use these approaches to analyze the effectiveness of foreign economic positions of Romania and Ukraine.

The results of the analysis of the current account of the balance of payments of Romania indicate its deterioration over the past 5 years. So, if in 2014 it was equal to -1.4 billion dollars, then in 2017 it made up -6.8 billion dollars. And only for the first 2 quarters of 2018 it is -4.5 billion dollars.[2]

The main sources of the current account deficit of Romania is constantly growing negative trade balance (in 2014 -8.6 billion dollars, -13.8 billion dollars in 2017 and -7.1 billion dollars in the first two quarters of 2018) and a steady increase in foreign investment incomes in Romania's economy -5.7 billion dollars in 2014 and 8.5

[1] Financial and credit dictionary. External liabilities, external debt (electronic resource). Access mode: http://www.faito.ru/pages/infresources/fkglossary/glossary.php?letter=%c0.

[2] IMF data access to macroeconomic and financial data [electronic resource] // international monetary fund. - 2018. – access mode: http://data.imf.org/?sk=388dfa60-1d26-4ade-b505-a05a558d9a42.

billion dollars in 2017. The largest incomes in the Romanian economy have direct investors - 77% of all foreign investment funds in the Romanian economy 2017.[1]

The negative items in the current balance of payments account of Romania were partially offset by a positive balance of services and personal remittances to Romania - $ 9.3 billion and $ 3.2 billion in 2017.

The lack of capital in the Romanian economy, caused by the negative balance of current operations, stimulated the inflow of foreign investment into the country - $ 6.8 billion in 2013 and $ 3.9 billion in 2017, which led to the country's negative net international investment position -103.8 billion dollars on June 30, 2018, which corresponds to 49% of the republic's GDP.

As of June 30, 2018, the total external debt of Romania amounted to 114.6 billion dollars, which corresponds to 54.1 % of the country's GDP, 213% related to exports of goods and services.[2]

According to the methodology of the World Bank, Ukraine has long been in the group of countries with the most vulnerable foreign economic position: the ratio of its external debt (115.5 billion dollars) to GDP at the beginning of 2018 made up 102.9 %. At the same time, in 2017, the gross external debt of Ukraine increased by 3 billion dollars.[3]

The analysis of statistical data suggests that the introduction of a free trade zone between Ukraine and the EU did not have a positive effect on Ukraine's foreign economic position. Thus, the export of Ukrainian goods for 2014-2016 years, despite more than three times devaluation of the national currency, declined steadily: by 14.5% in 2014, 29.9% in 2015 and 5.2% in 2016.[4]

And if in 2014 the decline in exports could be explained by the military conflict in Eastern Ukraine and the annexation of Crimea, then the main reasons for the significant decline in the volume of merchandise exports in 2015-2016 were purely internal factors, associated with the lack of economic reforms and real diversification of energy supply (Yakubovskiy, 2018, pp. 36-39) which could enhance the international competitiveness of Ukraine.

During the same period of time, fluctuations were observed in the dynamics of merchandise imports of Ukraine. So, if in 2014 and 2015 due to the significant

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[3] National Bank of Ukraine. External debt of Ukraine [Electronic resource]//National Bank of Ukraine. - 2018 - Access mode: https://bank.gov.ua/doccatalog/document?id=36693538.
[4] National Bank of Ukraine. Balance of payments of Ukraine [Electronic resource]//National Bank of Ukraine. - 2018 - Access mode: https://bank.gov.ua/doccatalog/document?id=25173323.

devaluation of the national currency and a sharp decline in living standards, which was caused by the rising cost of imported products and utilities, import volumes decreased from 81.2 billion dollars in 2013 to 57.7 billion dollars, in 2014 and 38.9 billion dollars in 2015, then in 2016 import of goods increased by 4.4%, and its volumes made up 40.6 billion dollars.[1]

As a result, in 2016, Ukraine's trade balance began to deteriorate again, which led to deterioration in the current account - to -1.3 billion dollars.

In 2017, the trend of the deterioration of foreign trade of Ukraine's position has increased, which has led to a record deficit over the past 4 years in the trade balance in the amount of -9.7 billion dollars.[2]

The ratio of official NIIP (- 25.7 billion dollars) to GDP of Ukraine is 22,9% (Yakubovskiy, 2018, pp. 36-39), but when NIIP is considered without foreign cash, which is outside the banking system, the amount of which on December 31, 2017 was equal to 83.5 billion dollars, corresponding figure will be -97.3%, which classifies the state to the group of countries with an extremely high level of dependence on the actions of external investors and creditors.

The volume of foreign cash in the shadow economy in Ukraine is more than four times higher than the official gold and foreign currency state reserve that is extremely threatening to the stable development of Ukraine and its sovereignty.

Conclusion and Suggestions

Thus, the analysis carried out in the article allows us to come to the following results.

In the conditions of imbalances that are observed in the modern world economy, special attention is paid to the problems of the effectiveness of the country's foreign economic positions. At the same time, for countries that are importers of energy resources, the diversification of their supplies becomes one of the main ways to ensure the improvement of the effectiveness of national foreign economic positions, as evidenced by the experience of Romania, which significantly reduced its dependence on energy imports from the Russian Federation. The experience of Romania in increasing the export of industrial products to Germany by increasing the competitiveness of national engineering is also positive (Anghelache, Anghelache, Panait & Jweida, 2016).

[1] National Bank of Ukraine. Balance of payments of Ukraine [Electronic resource]//National Bank of Ukraine. 2018 - Access mode: https://bank.gov.ua/doccatalog/document?id=25173323.
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However, despite the improvement in the structure and growth in exports, the constantly worsening trade balance of Romania should be noted, as well as the overall balance of the country's current operations. In this connection, in our opinion, to improve the efficiency of the external economic position of Romania it is necessary to increase the value added tax rate, which will slow down the growth of imports of goods and will make export products from Romania more attractive.

At the same time, it should be noted that the results of an analysis of the effectiveness of Romania's foreign economic position indicate that the country does not yet have a critical level of foreign debt, and the state of the net international investment position of Romania is relatively stable.

In contrast to Romania, Ukraine, due to significant volumes of foreign currency in the shadow economy and a constantly deteriorating trade balance, has already reached a critical level of external debt, and its net international investment position is unsustainable.

In this regard, Ukraine, based on the successful experience of Romania, needs : to increase the level of real diversification of energy supplies; to carry out tax reform, which would significantly reduce the attractiveness of using offshore intermediaries in the implementation of export-import operations; to reform the judicial system, which will protect the rights of foreign investors, including Romanian, in Ukraine; to start a real fight against corruption, which will lead to a decrease in the influence of big business on the public administration system in Ukraine.

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