

Cooperation between China and Romania under Belt and Road Initiative

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Abstract

China's greatest international economic aspiration is the "Belt and Road" Initiative (BRI), to stimulate economic corporation in a wide region including sub regions in Asia, Africa and Europe. This paper does researches for the cooperation between China and Romania at the background of BRI. It shows a short introduction of BRI and analyses import and export trade data included China with Europe, Europe Union and Romania to make a prediction about future development. It makes a comparison to different countries in BRI by Belt and Road Index (BARI). We will analyze Romanian basic economic situation, main factors about BARI and potential risks.

Keywords: Belt and Road Initiative; Romania; Cooperation; Belt and Road Index

JEL Classification: J08.

1. Introduction

The legendary Silk Road began in Xi'an, the ancient capital of China. It stretches for centuries and reaches the most prosperous commercial centers like Rome and Malacca. Although this dynamic trade route has also been interrupted several times, China has become the world's largest exporter after entering the 21st century. In 2016, total exports of goods and services reached US\$2.2 trillion. BRI was launched in 2013 to rejuvenate the Silk Road, to provide a new platform for multilateral cooperation, and create new trade routes, economic ties and business networks. Land routes from China to Central Asia, South Asia, the Middle East and Europe (Silk Road Economic Belt) and sea routes from South East Asia, Oceania to the Middle East, Africa and Europe (21st Century Maritime Silk Road). The BRI has established six major economic corridors.

Romania enjoys superior natural conditions and abundant resources. Its oil and natural gas reserves rank among the top in Europe. It owns fertile land, large reserves of surface water and groundwater, and huge potential agriculture resources. The industrial and service industries have developed rapidly. As a

newly industrialized country, Romania was once regarded as the “Tiger of Europe”. It has become one of the most attractive investment destination countries in Central and Eastern Europe due to advantages in labor force, land and taxation.

At this stage, China and the European Union are working hard to build the partnerships of “peace, growth, reform, and civilization” and accelerate the negotiation of investment agreements between China and the EU. As an EU member state, Romania is an important fulcrum for cooperation between China and the countries of Central and Eastern Europe and even the entire Europe. It is also an important country along the BRI. In 2015, the Romanian Ministry of Economic Affairs and the Ministry of Commerce of China signed a memorandum of understanding on the promotion of the joint construction of the Silk Road Economic Belt. Romania became the first country to sign such an agreement with China. All these have brought the two countries closer together and become a community of destiny.

2. The analysis of Romanian environment

2.1 Romanian economic environment

Market Advantage. In Central and Eastern Europe Romania owes one of the largest markets, and in population ranks seventh in the EU. Romania became a member of EU in 2007, and the national products could enter the EU market without tax. Romanian goods enter the following countries to enjoy tariff cut: the United States, Canada, Australia, Tajikistan, New Zealand, Japan, Russia, Belarus, Kazakhstan, and Kyrgyzstan.

Location Advantage. Romania is located in the European east part, and it is the “East Gate” of the European Union. It is located at the intersection of the European Union, the Commonwealth of Independent States and the Balkans. The transportation is convenient. The Pan-European, No.4, No.7 and No.9 passages cross the territory and Romania have the largest natural harbor in the Black Sea, Constanta, so products can reach the Western Europe via the Black Sea-Danube Canal.

Labor Advantage. The labor force is of relatively high quality and has obvious advantages in foreign languages; there are many colleges and universities, and a large number of graduates enter the labor market every year; technical education is advanced, and IT and software talents are well known at home and abroad. Labor costs are lower compared with other EU member states.

2.2 Business and Investment Environment

Infrastructure. Pan-European Corridor 4 passes through Romania, connects west with Hungary, Slovakia, Austria, the Czech Republic and Germany, and connects southwest with Bulgaria, Turkey, and Greece. Pan-European Corridor 9 (Railway) passes through Romania, connects north with Moldova, Ukraine, Belarus, Russia, Lithuania and Finland, and connects south with Bulgaria and Greece. Romanian Airlines is positioned as a regional aviation center and currently has opened up routes connecting the capital and 17 cities in the country and most of Europe. The main Romanian airline is Romanian Airlines (TAROM), which currently has 25 runway-laden airports, 36 unlaunched airports and 2 helicopter airports. Pan-European Corridor 7 (Waterway) connects Romania with the other 13 European countries along the Danube River. The port on the Black Sea is linked to the Transcaucasia region, Central Asia and East Asia.

Financial Environment. The Romanian currency is Leu, which is a freely convertible currency in any financial institution or exchange point in Romania. Leu can exchange with major currencies such as the US dollar and the euro. Renminbi (RMB) cannot be settled directly with the local currency.

Law Environment. After joining the EU on January 1, 2007, Romania began to implement common trade policies such as the EU's unified tariffs, trade protection measures, and most-favored nation agreements, and it no longer has the authority to separately set customs rates and formulate trade policies. The EU's external protection measures such as anti-dumping, anti-subsidy and quotas as well as environmental protection and technical standards are equally applicable to Romania.

3. Chinese tools to boost export

For China, the new Silk Road is proposed as a tool to promote national economic development by boosting exports among other goals, to increase access to natural resources, and to provide support to significant domestic manufacturing industries (Roland, 2015).

Several tools were used to boost exports in China, for example national champions, infrastructure, credit, and trade agreements, all of them now were placed under the BRI banner. Chinese state-owned enterprises (SOEs) have moved up the global rankings quickly in recent years. Because benefits was given to them from grant scale and subsidies. In the year of 2000, Fortune's Global 500 claimed the world's largest companies by revenue, and China's firms occupied 10, 9 of them were state-owned⁴. 107 Chinese firms was included until 2007, 70

percent were state-owned. This trend is conspicuous for the construction industry. In 2017, Chinese occupied 70 percent largest construction companies in the world, by revenue⁵. So they can use these advantages to compete for foreign contracts, and to boost national export.

Credit is a powerful tool. Chinese lending is highest in the transport and power sectors and Chinese lending aggregate \$354.4 billion during 2000-2014⁶. About three quarters of these loans had commercial terms. Because China can assume risks, it is successful at locking in higher rates. For example, China provided loans to support Sri Lanka to establish a port. China take a new way to take equity in the port, because the loan's interest cannot be paid by Sri Lanka. China is also forward-looking, giving in order to pursue projects without tempt. Now Chinese loan in Sri Lanka exceed \$8 billion, and found each project too tempting to turn down after becoming leaders (Schultz, 2017).

For Chinese exports, infrastructure projects have short and long-term significant. These projects aim to increase Chinese exports of relating construction industry goods. For example, Chinese exports increased 77 percent to Pakistan from 2012 to 2015 (Sender and Stacey, 2017). Then these projects benefits were given to Chinese producers of construction materials, Chinese construction and engineering firms. For Chinese overcapacity, these projects provide modest and effective relief. But there is a problem that China's overcapacity challenges is too big to solve it by the BRI's scale. Even if China can reach the spending aim, the scale is still not enough (Dollar, 2015).

Trade agreements is another important tool to boost China's export, and they have implement according to the BRI banner as well. In order to support the BRI, Chinese officials want to establish a network of free trade agreements, but to date, China would like to focus on bilateral trade agreement (Hillman, 2017). A BRI-wide trade deal seems to be unlike to approach, according to the list of countries participating BRI. But there is lower barrier between China and individual markets, firms try to navigate rules which are complicated by additional bilateral deals. For example, China has conclude 130 transportation agreements with BRI participants (Zheng, 2017). These efforts promote to establish a high-quality regional trade agreement or a truly agreement to realize multilateral effort.

There is a huge challenge how to release potential abilities of these tools together and maximize the value. China's approach is different from the "Western approach," which uses different actors separately or compete with each other. The relationship between them is not tight¹². While different tools are centralized flexible in China. China's approach is centralized in using many above actors together in a single deal.

4. Data and results

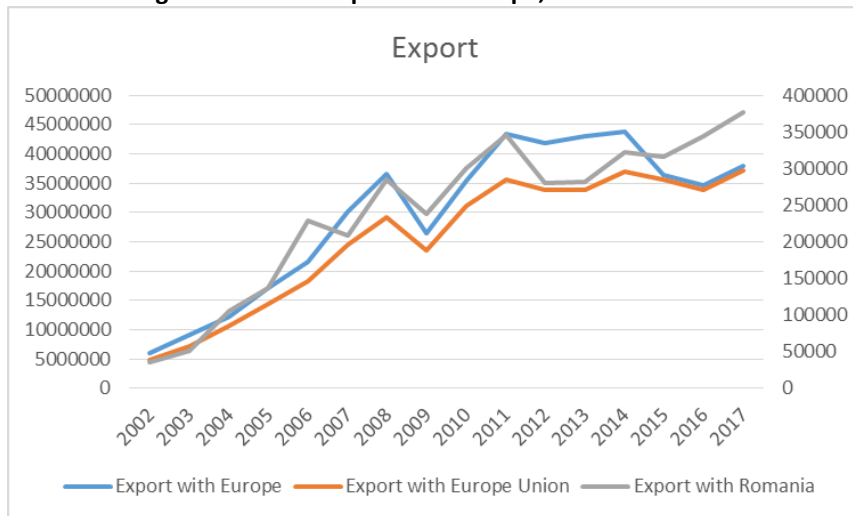
We select Chinese export and import data with Europe, EU and Romania. The data is found from Ministry of Commerce of the People's Republic of China Department of European Affairs. We get Romanian GDP growth data from Romanian Bureau of Statistics.

4.1 Export results

Figure 1 describes the trend of export between China with Europe, EU and Romania. We can see that there is a trend to go up for all of the three lines in totally. So there is a stable trend to rise, China's trade relationship with them is developed successfully. For Chinese export with Romania, there is a similar trend with Europe and EU, except in 2006. In 2006, Chinese export with Romania exists an obvious surge, while with EU is rising stably. In 2006, the European Union imposed restrictions on import quotas for certain textiles in mainland China. Many domestic companies adopted a "curve export" strategy in order to avoid restrictions. That is, the products are exported to Romania, Turkey, and other countries before being exported to the EU.

Most of these products will eventually flow to the EU. From 2008 to 2009, the decline is showed for all of the Chinese export with Europe, EU and Romania, because of the 2008 financial crisis. After financial crisis, Chinese export to Europe, EU and Romania starts to rise with economic recovery. Until 2013, the BRI was proposed by Xi and Chinese export structure with EU started to change. In 2016, there is breakpoint for both export with Europe and EU. But export with Romania started the breakpoint in 2015.

Figure1. Chinese Export with Europe, EU and Romania



Source: Ministry of Commerce of the People’s Republic of China Department of European Affairs

On the other hand, we analyse data from the aspect of proportion. From Table 1, we can see that Chinese exports to Europe, EU and Romania account for all of the China’s exports separately. In general, all of the ratios can be divided in three stages. From 2002 to 2008, the first stage shows a trend to rise gradually. The second stage among them has a difference. For China’s exports proportion to Europe and EU, they have a similar situation. They have a falling trend from 2009 to 2015, though there is a slight rise in 2010. But for China’s exports proportion to Romania, it’s a little smaller compared with Europe and EU, so there is a huge development room between China and Romania. What’s more, the falling stage in China’s exports to Romania finished earlier compared with another two. It was finished in 2013, therefore, Romania has seized the opportunity in the process of restoring trade relations with China, especially after the implementation of BRI. Then the last stage all shows a trend to rise, and the trade relations with China starts to warm.

Table 1. Export Proportion in China

Time	Europe	EU	Romania
2002	18.19%	14.81%	0.1112%
2003	20.61%	16.46%	0.1153%
2004	20.63%	18.06%	0.1782%
2005	22.46%	18.86%	0.1797%
2006	22.22%	18.78%	0.2363%
2007	24.73%	20.13%	0.1711%

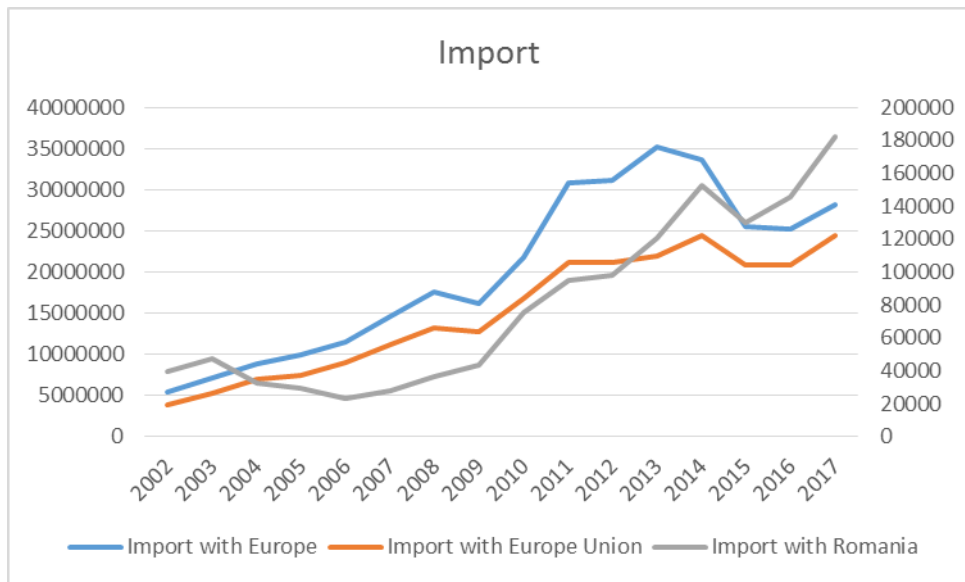
2008	25.64%	20.50%	0.1996%
2009	22.03%	19.66%	0.1978%
2010	22.51%	19.72%	0.1905%
2011	22.82%	18.75%	0.1819%
2012	20.44%	16.54%	0.1365%
2013	19.46%	15.34%	0.1277%
2014	18.73%	15.83%	0.1377%
2015	15.98%	15.64%	0.1390%
2016	16.50%	16.16%	0.1643%
2017	16.75%	16.44%	0.1669%

Source: Ministry of Commerce of the People's Republic of China Department of European Affairs

4.2 Import results

Figure 2 and Table 2 analyze China's imports data with Europe, EU and Romania. From Figure 2, we can see that the three lines have the basic trend to rise, except the year of 2009 and 2015. In the "Import with Romania" line, even during the 2008 financial crisis there isn't fall. There are three reasons that China's imports decline. The first reason is that international commodity prices fell sharply, resulting in a decrease in the import volume of bulk commodities. The slow recovery of the global economy, weak demand for commodities, and the successive release of production capacity over the past few years have led to oversupply of energy resources and commodities, and prices have continued to fall. The second reason is the deep adjustment of the Chinese economic structure, and the demand for traditional imported goods has changed from strong to weak. China is in a new stage of transformation and upgrading. Strategic emerging industries and service industries are developing rapidly, while growth in traditional manufacturing industries, high energy-consuming and high-pollution industries has slowed down; investment growth rate has slowed down, resulting in the increase speed of energy resources products imports dropping sharply. Third, the export of processing trade has continued to slump, and imports of raw materials and components have continued to decrease. China's processing trade accounted for more than 30% of Chinese exports, which is characterized by "great entry, big output," resulting in a significant portion of China's imports being intermediate products needed for export production. In the context of low demand and fierce competition in the international market, China's processing trade exports continued to decline, and correspondingly, processing trade imports fell. After 2015, China's imports has restored and keep rising with the advancement of BRI.

Figure 2. Chinese Import with Europe, EU and Romania



Source: Ministry of Commerce of the People’s Republic of China Department of European Affairs

From Table 2, China’s imports from Europe accounting for all the Chinese import have more fluctuations. For EU’s proportion in China, it experienced two troughs. Since 2014, the accounting for China’s imports is rising after the implementation of BRI. For Romania, before 2008 the proportion continued falling, and after that the number keeps rising gradually. There is no drop even during the 2008 financial crisis, so the trade prospect between China and Romania is promising especially after the proposed BRI.

Table 2. Import Proportion in China

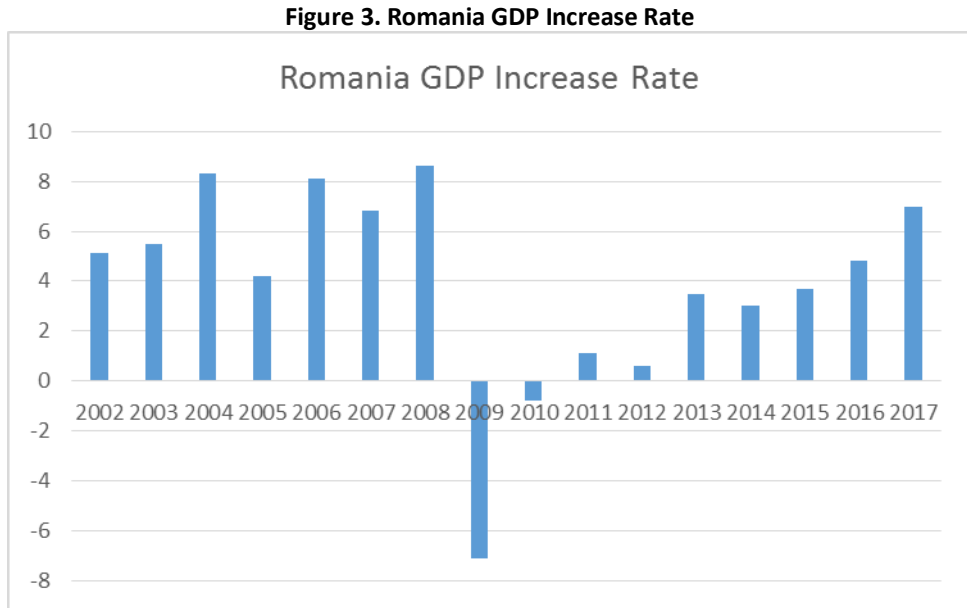
Time	Europe	EU	Romania
2002	18.10%	13.06%	0.1325%
2003	17.38%	12.85%	0.1139%
2004	15.86%	12.49%	0.0582%
2005	15.14%	11.15%	0.0443%
2006	14.51%	11.41%	0.0292%
2007	15.34%	11.61%	0.0295%
2008	15.54%	11.71%	0.0318%
2009	16.13%	12.71%	0.0431%
2010	15.62%	12.08%	0.0541%
2011	17.68%	12.11%	0.0544%
2012	17.13%	11.67%	0.0539%
2013	18.00%	11.28%	0.0619%
2014	17.16%	12.46%	0.0778%

2015	15.16%	12.42%	0.0771%
2016	15.86%	13.10%	0.0915%
2017	15.31%	13.30%	0.0991%

Source: Ministry of Commerce of the People’s Republic of China Department of European Affairs

4.3 Romania economic results

We analyse the potential ability to cooperate between China and Romania by Romania GDP increase rate. From Figure 3, we can see that Romania GDP increase rate is about 6% on average before 2009, and has a minus number in 2009 and 2010 because of the effect of the 2008 financial crisis. But since 2013, Romanian economic starts to restore and keep rising, which offers a promising platform for Chinese cooperation with Romania.



Source: Romanian Bureau of Statistics

4.4 Belt and Road Index results

Knight Frank’s BARI is based on Internationally Recognized Reliable Data. The index is divided into six sub-indicators: economic potential (EP), population advantage (PA), infrastructure development (ID), institutional effectiveness (IE), market accessibility (MA), and nature disaster resilience (NDR). For research needs, each indicator are standardized to ensure digital comparability. All

indicators are given specific weights according to the potential importance of investment decisions. The index assesses the attractiveness of countries from an overall macro perspective and also provides specific values for each specific indicator.

Among all of the 67 countries in the BRI, Romania ranks 35 in the middle position. Among all of 15 the central and eastern Europe countries, Romania ranks 12 and relatively late, which explained that the trade between China and Romania has a big room for development. From Table 4, we analyze six sub-indicators separately. Romania ranks 4 in the EP sub-indicator, 10 in the IE, 8 in the PA, 11 in the ID, 11 in the MA, and 15 in the NDR among all of 15 the central and eastern Europe countries. Romania has a promising economic development, and its economic restores quickly after the 2008 financial crisis. But in the ID, MA and NDR, Romania ranks late. So Romania needs to enhance the infrastructure to develop the logistic ability. What’s more, it needs to open up the market further to strengthen cooperation with China and invest more capital in the respect of nature disaster.

Table 3. BARI of Central and Eastern Europe Country

Rank	Country	BARI
7	Estonia	55.42
17	Poland	51.59
18	Czech	51.51
20	Lithuania	51.19
21	Hungary	50.49
22	Latvia	50.14
23	Slovakia	50.14
25	Slovenia	48.94
27	Albania	48.09
29	Montenegro	47.41
33	Croatia	46.22
35	Romania	45.63
36	Bulgaria	45.46
41	Serbia	43.50
43	Macedonia	42.78

Source: Knight Frank

Table 4. Six Sub-indicators of Central and Eastern Europe Country

Country	EP	IE	PA	ID	MA	NDR
Estonia	35.24	82.40	28.54	56.15	70.42	96.74
Poland	35.68	71.09	32.72	51.24	62.98	87.46
Czech	31.42	77.23	33.13	48.5	60.41	87.99
Lithuania	37.4	76	28	52.59	46.62	93.77

Hungary	31.3	63.53	37.17	49.33	76.62	85.75
Latvia	38.77	72.24	23.8	50.35	55.04	91.52
Slovakia	38.65	70.15	32.44	44.86	51.77	90.92
Slovenia	27.51	77.14	33.26	52.74	39.28	85.72
Albania	35.74	48.25	50.48	33.19	75.33	89.59
Montenegro	31.07	52.07	35.44	41.81	89.87	85.59
Croatia	26.39	63.19	34.09	45.39	59.68	84.68
Romania	36.54	57.1	33.03	38.75	56.55	82.89
Bulgaria	29.8	55.57	32.16	38.67	75.31	87.11
Serbia	32.14	49.38	32.42	35.7	69.91	85.68
Macedonia	34.65	44.1	36.93	35.5	58.97	89.67

Source: Knight Frank

5. Discussion, and Conclusions

The close relationship between China and Romania under the “One Belt and One Road” not only conforms to the common interests and development aspirations, but also sets a good example for the regional economic development and the healthy development of the world economic environment. The exports and imports data shows that the current level of trade integration between China and Romania is low, but the scale of China’s annual increase in export and import trade and Romanian economic potential still indicate a good prospect for the future cooperation of the two countries. Romania needs to open market further, enhance infrastructure development, and nature disaster resilience to make a sustainable development with China.

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