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ROMANIA'S EU ACCESSION IMPACT ON THE DEVELOPMENT OF ROMANIAN ECONOMY

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Abstract: *Romania joined the EU on January 1, 2007. Becoming a full member had effects on both Romania and the European Union. Once the Association Treaty had been signed, a complex process of integration began. The integration process didn't end after Romania's EU accession but will continue to integrate the economies of all Member States. The questions that we answer are: Which were the effects felt by Romania in the pre-accession period? What happened after the accession to the European Union?*

Keywords: effects, negotiating, Accession Treaty, accession criteria, economic integration, European Union, Romania, impact on Romanian economy

JEL Classification: O19, O52, F15, F43

1. ROMANIA'S RELATIONS WITH THE EUROPEAN UNION

Ever since the communist regime, in 1974, Romania became the first country in Central and Eastern Europe that established official relations with the European Community. An agreement was signed which included Romania in the Generalized System of Preferences of the Community (*Relația România – UE*, 2006). Six years later, in 1980, another agreement on industrial products was signed.

Right after the fall of the Berlin Wall, Romania established diplomatic relations with the European Union. Thus, on January 7, 1990, Romania has officially declared their willingness to collaborate with the EEC. In October 1990, the *Trade and Cooperation Agreement with the EEC* (European Economic Community) was signed, which came into force in 1991. Although this type of agreement was fixed for 10 years, Romania could only sign it for 5 years. The agreement was applied to all products originating the European Community, except coal, steel and agricultural products.

On the First of February 1993, Romania signed the *Treaty of Association to the European Union*, which provided an important legal framework for overcoming the gap between the Romanian state and the civilization represented by the European organization. European Economic Community committed to support Romania to a new political and economic system that respects the rule of law and the rules of fundamental human rights, including minority's, practicing a multiparty system based on free and democratic elections and to build a free market economy (Coord. M. Costea și F. Costea, 2007, p. 41)..

The European Council in Copenhagen (June 1993) outlined clear requirements from EU candidate countries. Romania and all other candidates had to meet the membership requirements: the political criteria, the economic criteria and the ability to assume the obligations of membership.

In June 1995, Romania has developed the *Snagov Declaration*, signed by most of the Romanian political forces, which supported the *National Strategy for Romania's EU Accession Preparation*. The European Commission analyzed Romania's EU accession request, developing and publishing, on June 22, 1997, the *Opinion on the Request of Romania's EU Accession*. This analysis of Romania's situation in light of the Copenhagen criteria (1993), remarked that the political action have been in the right direction, but some have remained to be done regarding the privatization area, strengthening the legal regime and consistency of economic policies, regarding competition and the adoption of the *acquis communautaire*. The Commission's conclusion was largely unfavourable, outlining that Romania can't cope with the economic constraints and obligations of membership in the medium term. Romania responded in 1997 by launching the *National Programme for the Adoption of the Acquis Communautaire*, supported by all political parties and formations.

The historic moment came in 10 - 11 December 1999 in Helsinki, when the European Council decided to begin (starting with February 2000) bilateral intergovernmental negotiations with Romania, Slovakia, Latvia, Bulgaria and Malta.

The negotiations with Romania were opened on February 16, 2000. Terms for adopting and implementing the *acquis communautaire* were adopted, including the transitional arrangements, which were strictly limited by time and conditions of application. There are 31 negotiating chapters due to the division (for methodological reasons) of the *acquis communautaire*.

Once the Romanian economy had been declared as a functioning market economy (October 2004), two months later, the negotiations for EU accession were concluded. 11 more conditions were imposed relating to judicial reform, fighting corruption, reducing steel production, environmental protection etc..

To the satisfaction of the population, who expressed confidence in the European Union, sustaining Romania's accession with a 64% majority (autumn of 2005) (Eurobarometru 64),

Romania finally fulfilled the dream of being a European Union member. *Romania's Accession Treaty* was signed in April 2005, providing Romania's EU accession, as a full member, on January 1, 2007. Thus, although Romania became, in 1974, the first country in Central and Eastern Europe that established relations with the European Union, it was among the last one to join, after a difficult path that has been chosen ever since 1993, when the *Association Treaty* was signed.

Romania's EU accession had consequences on both Romania and the European Union. We will continue presenting the two kinds of effects.

2. THE IMPACT ON ROMANIA

The impact of European Union accession on Romania, considering the period in which it has been taking place, can be divided in two categories of effects: effects produced during the pre-accession period and effects produced after accession.

2.1 The effects produced during the pre-accession period

This kind of effects was due to the intent to comply with the Copenhagen accession criteria, namely: the political criteria, the economic criteria and the ability to assume the obligations of membership (legal and administrative criteria).

Meeting these criteria was supported by pre-accession assistance funding from the European Union. Since 2000, all EU assistance grants for preparing the accession candidate countries were concentrated in three major funds: PHARE, ISPA and SAPARD. The cumulative value of all these funds received by Romania in the pre-accession period amounted to 3.934 million Euros, plus another 1.367 million Euros as co-financing, representing the national budget contribution (Petrescu, 2004, p. 2).

According the *political criteria*, Romania had to prove the stability of its institutions guaranteeing democracy and rule of law (parliament, government, judiciary, anticorruption measures), human rights and minority protection (civil and political rights, economic rights, social and cultural rights minorities) (Petrescu, 2004, p. 251). It were the only criteria to be met before the accession negotiations had started. Since this criteria were met by Romania since at least 1997, the December 1999 European Council in Helsinki decided that "Romania can start negotiations" (*European Commission 2004 Regular Report on Romania's Progress Towards Accession*).

The *economic criteria* require the existence of a functioning market economy able to compete on the European single market (*European Commission 2004 Regular Report on Romania's Progress Towards Accession*). On October 7, 2004, the country report published by the European Commission, following the reforms that had been implemented during the negotiations, awarded the Romanian economy with the status of a "functioning market economy." However, it was still unable to compete on the European single market (*European Commission 2004 Regular Report on Romania's Progress Towards Accession*).

Functioning market economy status is based on satisfying the following requirements:

- Balance between supply and demand is achieved by free market confrontation; prices and trade should be liberalized;
- Absence of entry (the creation of new firms) and exit barriers (bankruptcy);
- Ensure legal framework, including one on property rights; the imposition of laws and contracts;
- Macroeconomic stability, including price stability and sustainable public finances;
- The existence of consensus on key aspects of economic policy;
- The financial sector has to be sufficiently developed to redirect savings to productive sector (*Reports on Progress towards Accession by each of the candidate countries*, 1998).

In fulfilling the economic criteria, the development of Romania, in the pre-accession period, can be divided into two distinct subperiods:

- Second half of the '90s - was a pretty troubleling period for Romania, characterized by failure to stabilize the economy, an attitude quite reluctant to liberalize prices and markets and a long period of recession, a usual characteristic of the transitional period; inflation reached really high rates up to 154% in 1997, unemployment and budget deficit were high. Since 1996 until 1999, Romania's GDP have been falling annually;
- But since 2000, Romania has registered a steady economic growth, a steady decline in inflation and budget deficit. Creating a relatively stable economic climate attracted many foreign investments. FDI grew as a percentage of GDP which had been in turn increased (from 3.1% in 1999 to 9.36 in 2006), reaching 5213 million Euros in 2005 and 9082 million Euros 2006 (*European Commission reports on progress made by Romania in the EU accession process*).

During this long pre-accession period, the volume of commercial transactions has increased every year (imports value increased 4.07 times and exports 3.46 times), reaching in 2006 an import value of 40.74 billion and 25.85 billion of exports. Geographic shifts also occurred, so most of flows are oriented to European Union countries. The percent of imports from European Union

countries (EU-25) in 2006 was up to 62.6 and the exports to European Union countries (EU-25) reached 67.7 percent (Statistics Archives Online 2006).

In the private sector, contribution to GDP increased from 34.8% in 1993 to 70.4% in 2006.

Regarding the *ability to assume the obligations of membership* - Romania had to comply with two criteria: *legal criterion* (adopting the *acquis communautaire*) and *administrative capacity criterion* (reforming and strengthening the administrative and judicial structures for allowing the adoption and implementation of the *acquis communautaire*). Adopting negotiations, concluded in December 2004, focused on the terms in which Romania has adopted, implemented and enforced the *acquis*, and, in particular, on possible transitional arrangements (transition periods and exemptions). Much of the reforms imposed by political and administrative criteria would have been done anyway, without membership conditionality, because they are specific to the transition period. The difference was within the allocated time frame, as European Union had pressed for their faster implementation (Preston, 1997).

2.2 Effects suffered by Romania after the EU accession

As a member of the European Union, Romania participates in the adoption and implementation of EU policies. According to the EU budget for 2007-2013, the EU will have three policy priorities (Oprea and Meșniță, p.17), structured as follows:

- Regional policies - focused on economic and social development;
- Foreign policies – for increasing the EU's role among non-member countries, candidate countries and third countries;
- Thematic policies - supported by community programs, known as domestic policies. They concern agriculture, rural development, fisheries, research and development. information technology, energy, environment, education, training, health, etc..

Starting from 2007, Romania is beneficiating of 20 billion Euros in structural and cohesion funds, adding to this amount about 13 billion for agricultural and rural development. Post-accession funds are destined upgrading infrastructure and adopting measures to boost living standards, the competitiveness of companies and the number of available jobs. It is extremely important for Romania's future to increase its absorption capacity. If during 2007 approx. 2 billion Euros were available for financing projects, in 2009 Romania had the possibility to absorb up to 2.9 billion Euros.

Customs union achievement and participating in the EU Internal Market, which involves the four freedoms (goods, labor services and capital), gives an indisputable advantage for Romanian companies, which may act in a market with 500 million consumers. The accession forced Romanian companies to achieve a high level of competitiveness for dealing with European competition. This had implied some restructuring costs related to the technologies and the personnel used. In addition, application of uniform rules for business greatly simplified the procedures for companies operating in the EU market.

Romania has to pay its contribution to EU budget. This created some problems in setting up the national budget, as Romania had to find resources to cover this contribution, but also to meet the criterion of the nominal budget deficit (which requires the budget deficit to be below 3%) for adopting the Euro. In 2007, Romania had to pay 3.9 billion lei (1.1 billion Euros), which represented approximately 1.02% of Romania's Gross Domestic Product. In 2008, while Romania is ranked seventh in the EU by population, it was only on 17th considering its contribution to the European budget (Romania's per capita contribution was the penultimate by size: 47 Euros). Thus, Romania has contributed to the EU budget with 1.01 billion Euros, benefiting of 2.6 billion (Panaite, 2010). According to a press release of the Ministry of Finance, in 2010, the estimated contribution to the EU budget will reach to 5.92 billion lei (*MFP: România va plăti la bugetul UE 39 miliarde lei in perioada 2007-2013*, 2010).

Romania's contribution to EU budget and EU co-funded projects have led to a budget deficit increase from 1.7% of GDP in 2006 up to 4.9% (2008) and 7.4% (2009) (Orgonas, 2010).

On January 1, 2007, when Romania had joined the European Union, Romanian citizens became EU citizens. Starting from 2007, Romanian citizens travelling abroad have got, both within EU Member States and the territory of third countries, the basic rights of EU treaties like all other European citizens: freedom of movement throughout the entire territory of the European Union, consular protection from the embassies and consulates all EU Member States (if Romania doesn't have a diplomatic or consular representation), the right of residence in the territory of other Member States of the European Union, the right to vote and run for local elections in the EU Member State in which they reside, the right to vote and run for European elections in the EU Member State in which they reside, right to petition the European Parliament on issues covered by responsibility areas of the European Union and which directly affect them, the right of complaint to the European Ombudsman against acts of improper management of Community institutions or bodies, etc.. (*Drepturile cetățenilor români în Uniunea Europeană*, 2007).

With Romania and Bulgaria's accession to the European Union, the EU Council had to adopt a series of decisions to make all the institutional changes required by this new enlargement.

These decisions concern: new appointments of Romanian and Bulgarian members to EU's institutions, update the official figures of the EU population and the official list of exercising the EU Council Presidency (Romania will hold the EU Presidency from July to December 2019) and other changes regarding qualified majority voting (*Românii în instituțiile europene*, 2007).

Romania is holding the following positions in the European institutions: a European Commissioner, 35 members of the European Parliament, a judge of the Court of Justice, a Judge of the Court of First Instance, a State Court, 15 members of Economic and Social Committee, 15 members of the Committee of the Regions; also Romanian National Bank is now part of the European System of Central Banks and its governor participates as a full member in General Council of the European Central Bank and its committees.

3. THE IMPACT ON EUROPEAN UNION

This impact consists, primarily, in extending the Single Market, a former member economies refresher, providing new investment opportunities. The highest cost is related to the financial support needed for this new enlargement, in solidarity regarding new members trying to decrease the economic disparities arising from the Union. Three presidential of the Council mandates (Luxembourg, UK and Austria) were needed in order for the 2007-2013 budget to be approved.

Another problem arising from the recent two waves of expansion was the one regarding the European institutions. After the EU's enlargement from 15 to 27 Member States, a new institutional reform, for raising the efficiency of the decision making process was needed. This was achieved by adopting the Nice Treaty, in December 2000.

In a poll conducted by Gallup Romania, over 75% of the subjects claimed, in April 2006, that Romania had been unprepared, especially in economic terms, for the accession. An eloquent statement of a regular Romanian citizen was quoted in a BBC report: *"I do not think that the accession date really counts, but the fact that Romania is not yet ready to join the EU, and if it is accepted then it will be in its own detriment because we must understand once for all that we cannot fool them anymore with our reforms only on paper and formally applied"*.

Therefore, the accession of the Central and Eastern Europe States to the European Union was based on "return to Europe" principle, having a clear cultural-identity dimension. Nevertheless, other aspects like the geopolitical and economic needs (especially security) of the EU definitely cannot be neglected.

4. CONCLUSIONS

Most of the effects of the *trade liberalization* have already occurred. Spectacular effects regarding trade with European Union are no longer expected.

Taking over the *EU Common Customs Tariff and the Generalized System of Preferences* have produced concerns about increasing imports from third countries and trade balance deterioration. Trade deficit increased indeed in 2007 compared with 2006, with approximately 46%. But those fears were not justified, since, although in 2006 the trade deficit with non-EU countries represented 34.43% of the total deficit in 2007, it had to decline, occupying only 29.64% (2007) and 22.78 % (2008) of the total trade deficit. So, despite expectations, the trade deficit with EU countries has increased in higher proportion than the trade deficit with outside EU countries, in 2007 and 2008 compared with 2006.

Short-term effects of taking up the *Internal Market acquis* were negative because they required investmental efforts to adjust to European standards, which led to a decline of domestic firm's competitiveness, decreased exports and trade balance deterioration. Therefore, imports grew 11.2% faster than exports, leading to a 44.4% higher trade deficit (FOB-CIF) compared to 2006 (Comerțul exterior în 2007). In 2008, however, while exports increased by 14.37% and imports by 10.48% compared to 2007, the trade deficit continued to rise (because imports were higher than exports) with 5.17% (from 21.5908 million Euros in 2007 to 22.7089 in 2008).

Regarding the *Common Agricultural Policy* adoption, agricultural prices have increased, as expected, because of large differences between prices of agricultural products in Romania and EU countries. Thus, in January 2007 agricultural prices increased by 1.5% (due, in particular, to vegetable products whose prices had risen by 3.1%, while animal products had fallen by a 6%) (Buletin statistic de prețuri ianuarie 2007). Between January 2007 and January 2008, prices for agricultural products increased by 24% (20.3% for vegetable products and 4.4% for animal products) (Buletin statistic de prețuri ianuarie 2008). Between January 2008 and January 2009 prices of agricultural products declined by 10.6% (this time vegetable products became 17.8% cheaper, while animal prices increased by 7.2%) (Buletin statistic de prețuri ianuarie 2009). That's probably also because the economic crisis has already been felt in most European countries. Soon, Romania would have been embraced by the global economic crisis, although the last quarter of 2008, despite the global slowdown, the Romanian economy recorded, however, one of the highest growth rates in Europe (Badulescu, 2009, p. 236-237).

Regarding the accession to the *Economic and Monetary Union*, in the short term, negative effects will be expected if it takes place prematurely, before the candidate countries to complete the

transition to a market economy and to create the appropriate framework for macroeconomic stabilization.

Romania shows many delays in assigning the nominal and real convergence criteria. Real convergence refers to the degree of openness of the economy (expressed as the sum of exports and imports as a share of GDP), the share of bilateral trade with EU countries of total foreign trade, economic structure (expressed as share of GDP of major economic sectors), the GDP per capita. The current economic crisis and the major problems faced by Greece (part of the Eurozone) will probably determine that Romania's accession to the Eurozone to occur later than initially foreseen, in 2012.

Like all states that joined the Eurozone, Romania will have to face some disadvantages and risks like giving up independent monetary policy or a price increase.

Prospects for Euro adoption have stimulated economic growth. The need to adopt the *acquis communautaire* and its efforts for meeting the Maastricht criteria, induced an increased investor confidence and lower risk premiums.

Tangible benefits of the Euro for the Romanian citizens will be felt gradually, with the deepening of European integration. Introduction of the Euro will be a stabilizing factor that will greatly reduce losses caused by local commercial agents' exchange risks. Also, the introduction of the Euro will save precious time in business management and risk analysis.

In conclusion, in the first years after accession, some negative effects were felt, consisting of trade balance deterioration, lower competitiveness of firms, higher prices for agricultural products, increase the budget deficit (due to co-financing regional development projects and contribution to EU budget).

Whereas, after only two years to acquire membership of the European Union, an economic crisis began, and is still being felt worldwide, economic effects of accession are difficult to separate from those of crisis. It is true that the economic crisis has spread faster because of increased integration interrelationships between Member States. But it is difficult to estimate and compare the current crisis' impact if Romania wouldn't have been a EU member or more, if Romania wouldn't even have signed the Europe Agreement in 1993.

The positive effects of accession will rely on medium and long term, consisting in creating an environment of stability and growth. "Integration" means the gradual approximation of economic structures, political and social rights of the Romanian to the ones from EU, and not only becoming a member of the European Union. So integration is a process that takes several years. For Romania, the process began in 1993, when the Europe Agreement had been signed, and will continue after Romania joined the Union.

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