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## Be member of the EU or acceding to a competitive economic world

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**STUDIA I PRACE WYDZIAŁU NAUK EKONOMICZNYCH  
I ZARZĄDZANIA NR 4**

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**BE MEMBER OF THE EU OR ACCEDING  
TO A COMPETITIVE ECONOMIC WORLD**

**Introduction**

By accessing the EU, Romania, will benefit from a large common market, composed of 27 countries. Basically, we can think of 400 million theoretically accessible consumers, with no commercial barriers, but also an enhanced competition with companies in the same area of activity, on a European level. The EU will allow Romanian products to be exported to member countries without duties and European capital will enter Romania without restrictions. Moreover, the Romanian market will be protected, for another period of time, through taxes for certain imports from the EU and Romania will become eligible for structural European funds and social cohesion European funds. Keeping all this in mind, the accession must be regarded from a positive perspective. A renowned Romanian economist stated, in a recent article, that there are also positive aspects that impose a more reserved attitude and that “must not be turned into fetishes” (Daniel Daianu 2007). Actually, the total implementation of the European aquis might not be favourable for Romania. What would be the reasons for which we must pay attention and see things in a contextual manner that will take notice of the “profound currents” in the EU and, also, of what is happening in the global economy?

This paper makes reference to the challenges that the Romanian economy must take into consideration in the future, caused by the accession to the EU

and to the Euro zone. I will also refer to the mutations that will take place on the various Romanian markets, specifically the labour market and the effects of the accession on a competitive level in Romania. Will Romania be able to maintain its competitive advantages? The answer to this question cannot be short or lapidary.

First, we must understand that the structural bases of the economy are being consolidated and are not yet powerful. It is true that the general economic picture looks relatively well, if we don't take into account the growth of the external deficits. More precisely, the economic values that were supposed to grow – particularly the GDP, went up by 7,7% while the inflation dropped under 5%, the best level recorded after 1989. It is expected that in 2007, as well, the growth rhythm will be continuously accentuated, a level of approximately 7% being foreseen and the stipulated level for 2008 is of 6,3%. An important fact is that the political crises influenced very little the currency and stock market, which shows us that in Romania, as well as in other countries, like The Czech republic, Hungary, Poland, Slovakia, that have accessed the EU, there is a “dissociation” of the economical from the political, in the national scenery. In respect to the level of foreign investments, last year Romania was situated on the 20<sup>th</sup> place in the world, with € 9,1 billion. This is an important volume if we consider that India, with over 1 billion inhabitants, had investments of approximately € 8 billion.

The attractiveness degree of the Romanian economy was higher than estimated. Specialists consider that Romania crossed the critical point, being a country that, from this moment, will automatically attract the investors' interest. The low tax quotation of 16% has shown, after two years since it was introduced, its positive effects: budget incomes have grown (with 44% more in 2006 than 2005 and 34% more in 2007 than 2006), in parallel with the growth of the GDP and the weight of the budget incomes in the GDP, from 3% in 2004 to 3,4% in 2007. Moreover, after tax deductions, new jobs surfaced out of the grey economy, estimates showing that the approximate number of these new jobs will be 300.000. The deficit on current account remains at a high level (10% of the GDP), which is cause for concern for the Romanian authorities, even if 90,8% of it is hedged by foreign direct investments. The balance on current account of the state's general consolidated budget was 17% in 2006, which is a good percent if we consider the level that was supposed to be

recorded in relation to the nominal convergence criteria: -3%. Furthermore, we observe a record level of the international reserves (currency and gold) which, in May of 2007, reached € 23 billion, level that covers approximately five months of merchandise imports.

Regarding the ratings given to Romania by rating agencies, S&P negatively audited the country rating, based on political tensions, from “positive” to “stable”. Meanwhile, the ratings for long-term currency loans and bonds have grown and it is expected that the rating for the currency and lei debt, on a long term, will be improved from “stable” to “positive”.

Despite a general appreciation of the economical situation, there are still concerns due to some asymmetries that exist in the Romanian economy. The agricultural activities are far from being efficient. The moment when the agriculture will align with the level of medium requirements is far from reach. Also, the competitive policy has yet to efficiently solve the problem of granting public assistance. On a national level, financial intermediation is not sufficiently developed and banks approach the problem of developing retail divisions very seriously. Another black spot on the Romanian economical map is the liberalization of the utility prices, which is far from being finalized and also, apparently, far from entering normal parameters without political or other types of intrusions. Government companies were privatized and bought by the main international concerns, which have brought investments and economical growth. Data show that the private sector holds 60% of the social capital of all Romanian firms and contributes with 70% to the GDP. But what about the large and yet to be privatized companies such as Romgaz, Hidroelectrica, CEC, Posta Romana, Tarom etc.? Due to the fact that the weight of the private sector in the economy is still too reduced, the productivity of the Romanian employees is one third of that of French or German employees.

All these concerns lead us to the economical studies that demonstrate that the level of competition imposed by the EU is considered below optimum for east European countries, because the competitiveness policies of the EU are much more restrictive than the majority practiced in central and eastern European countries. Under these circumstances, there is a problem of losing the comparative advantage that Romania currently holds, because many international companies have relocated in Eastern Europe, in Romania even, for the cheap workforce and fewer regulations that will confine their activity. Thus, the hardening of certain regulations and the modification of economical

conditions might lead to a loss of foreign capital and long term investments, which might even shift east-wards, in states such as Ukraine.

According to some reports realized by the UN Population Fund, Romania will reach 16 million inhabitants by 2050, out of which more than half will be over sixty. Experts state that the country's population dropped by a million since 1992 and until 2005 and continues to constantly drop. This tendency is given by high fertility and high external migration. Almost two million Romanians are legally abroad while the number of illegal immigrants is unknown. If, currently, out of the 21,6 million inhabitants, 10,5 million are adults, 5 million young people and children and 6 million elders, studies show that in 40 years time pensioners will represent more than half of the population, there will be few adults and children and in order to cope with the change, Romania will have to reform the medical system, the educational system and the social insurance system. Starting 2007 less numerous generations will enter the workforce and the number of employees will not record a significant growth, even if a constant economical growth were to take place, as is shown in the Green Card of the population in Romania. For this reason, in five or six years time it is highly probable that Romania, known to be an exporter of cheap and qualified workforce, will fall back on immigrants, as the young workforce will be more and more reduced by the growing numbers of students in each generation and the departure of young people to better paid western jobs. Prolonging the active life of pensioners, activating unemployed people and people from rural environments and establishing a flexible program for parents with small children will probably be the solutions for the future labour crisis that Romania will enter. Concerning the implementation of the European regulations on the labour market, we must observe the liberalization of the access on the Romanian labour market for citizens from all the states of the EU, measure that is relatively recent and well regarded by our fellow Europeans. Through this liberalization, Romanian authorities try to determine the states that have imposed restrictions, for Romanian workers, to reconsider their position in the sense of eliminating all restrictions or reducing the application periods. It is appreciated (Vladimir Spilda – European commissioner) that the openness of the workforce market in our country will visibly improve the ensemble of the workforce market.

It is interesting that, according to statistics, the majority of the foreign citizens, working legally in Romania, come from Turkey – 2459, China – 1414,

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the Republic of Moldova – 1356, France – 468, Germany – 412, Italy – 247, Greece – 164, Austria – 152, and Lebanon – 145.

The main fields of work for foreigners are: commerce – 2459 and manufacture – 2344.

As we can observe, this comparative advantage – the cheap and qualified workforce – that Romania is still enjoying at present, will diminish in the future through the massive external migration and the gradual growth of the remuneration level. The maintenance of this advantage over a longer period of time highly depends on the policy applied by the Romanian authorities in this field, as they are a key factor for attracting foreign direct investment fluxes.

As it is commonly known, Europe is currently facing an unprecedented crisis on the labour market. In Germany alone, it is estimated that there are more than 22.000 workplaces in the fields of constructions and energetic this year and the losses caused by this crisis reach € 4,8 billion. Other countries like Italy and France are also faced with unprecedented problems. Under these circumstances the workforce from Romania offers solutions for surpassing the crisis, because it is well qualified, has knowledge of foreign languages and is relatively low-keyed in what remuneration is concerned. Because of the intense recruitments made by foreign companies, Romania is much more compelled to find viable solutions for maintaining qualified personnel within the country, efforts being constantly made in this regard.

In order to counterbalance the eventual losses Romania must enforce an active policy of raising competitiveness, but a substantial support from the EU is also needed. In regard to the EU, it is granting Romania a financial assistance that, for the following years, exceeds € 30 billion, money that are not to be regarded as a gift because, in order to attract it, a certain level of knowledge is needed and a good distribution of funds, on a local level, is required. The inability to appropriate funds in relation to their entry rhythm will mean fewer structural funds for Romania after 2013.

In respect to the economical competitiveness, Romania holds the 44<sup>th</sup> place out of 55 countries that were evaluated this year, based on a recent study of the IMD business centre in Lausanne. Although it is not in a leading position, the overall perception of Romania's economical competitiveness is optimistic, given the fact that our country went up a notch from the 49<sup>th</sup> place it occupied last year.

The first place was occupied by the United States (99, 1 points), on the second place was Singapore and on third place was Hong-Kong. Germany climbed on the ladder to the 16<sup>th</sup> place after occupying the 25<sup>th</sup> last year, while Great Britain remained on the 20<sup>th</sup> place. Japan dropped to the 24<sup>th</sup> position after occupying the 16<sup>th</sup> and France reached number 28 after having been on the 30<sup>th</sup> last year.

Out of all the countries that have accessed the EU in the last few years, the more substantial evolutions were realized by Lithuania, which reached 31 and the Czech Republic on the 32<sup>nd</sup>. Hungary maintained the 35<sup>th</sup> place, Bulgaria the 41<sup>st</sup> and Ukraine the 46<sup>th</sup>. It is surprising that Bulgaria is three places ahead of Romania, fact that shouldn't be ignored, especially because there is a clear competition between Romania and Bulgaria for the title of "regional leader" on several markets, as well as in attracting foreign direct investments.

The economical competitiveness top was realized based on 323 criteria, among which economical performances administrative and social performances (infrastructure, education, health, technology).

St. Garelli, the expert in competitiveness issues and also the author of the study, shows, amongst other things, that the actual battle is between the United States and the rest of the world, a modification of the international balance being felt: "the economical and commercial power moves to new countries: China, Russia and India have gathered, together, currency reserves valuing more than \$1700 billion. Local companies from south east Asia, India, China, Russia and the Golf states are buying industrial properties all over the world".

It is most probable that the industrialized nations will find such a shift of power intolerable. Thus, in the course of the following years we may expect more and more powerful measures of protection. The new faces of protectionism will be subtler than in the past: corporate governance, environmental protection, the protection of the intellectual asset and the social rights will be the new keywords. In 2007 and the years that will follow, the economical relations will be more tensioned than ever, because the developing markets will become developing powers and will question the order of the effectual competitiveness (Garelli in the Introduction to the Competitiveness Yearbook for 2006–2007).

An economy based on knowledge is Romania's chance to add more value to its products and services on a medium and long term. Although it isn't a must, the Lisbon Agenda is complementary to the necessary evolution of the

Romanian economy and refers to the majority of the public politic spheres. On a short term, the assimilation of technology is more important for Romania, because, no matter how much will there is, the stages of development can not be skipped and, in the future, there will be a need for an offensive regarding the existent innovation ability. In order to diminish the risks of loosing its competitive advantages by accession, Romania must shift from “an intensive factorial economy to an intensive innovative economy”. In the current development level of the Romanian economy the need for structural reform tends to cast a shadow over the need to develop economical cognition sectors. The investments made in education, research-development, technology transfer and innovation are complementary factors of the macro-economical stability and may establish the basis for achieving a durable and sustained economical growth in the future, mainly for reducing economical postponements. The investment made in research-development and innovation, in particular, might be one of the solutions, if not the most important, for changing Romania’s current development paradigm.

A special subject is the way in which Romania is preparing to access the Monetary Union, meaning the “euro”. In order to be successful it is necessary that we clearly frame this objective, in a realistic period of time. The convergence program foresees the adoption of the euro as a strategic target the period between 2012 2014. There are opinions according to which Romania might take this step even before that period. Still, it is absolutely necessary that the adoption of the Maastricht treaty conditions be made in accordance to our economy. In other words, the moment of the accession to the Euro space must be carefully chosen and the need of this demarche must be explained to the population. In order to access the monetary union, Romania must reach a number of nominal convergence markers (level of inflation, interest differential, public debt, currency exchange rate volatility), but it must also think of a way to maintain its performance within the MU.

In order to survive in the euro space there is a need of an appropriate flexibility on the services/products market and of the production factors (including work), a serious reform of the welfare and pension system that will take the burden off the public budget and a taxation that will take into account the mobility of the production factors under the circumstances of a single market. We must not forget that the Maastricht treaty was conceived for economically developed countries. Romania, as we have already stated, has an



emergent economy that is in need of large infrastructure investments for a general modernization. These investments that can be made with public money, funds from the EU or even private funds, could mean a massive growth of the public and private expenses in the following period, and under the circumstances in which this growth is not accompanied by a concordant and competitive growth of the domestic offer, inflationist crises might occur, as well as an even bigger growth of the external deficits. It is not by chance that countries like the Czech republic, Hungary and even Poland take their time in this regard and it would definitely be ideal that in Romania this demarche would guide our economical policy and not deceive it. The fulfilment of the objective for accessing the monetary union should help us reduce economical gaps from the richer countries of the EU and not deepen them. As you can observe from the following table, the rest of the member countries of the EU also took their time in accessing the Euro zone, some of them even postponing the initially established dates.

Table 1

## The schedule concerning the accession in the Euroland

Country	The date of accession to the EU	The date of entering the ERM II (objective)	Target date for entering the Euro zone
Cyprus	2004	May 2005	2008
Malta	2004	May 2005	2008
Poland	2004	To be established	To be established
The Czech Republic	2004	To be established	2012*
Slovakia	2004	November 2005	2009
Hungary	2004	To be established	2011*
Romania	2007	2012	2012

\* Not before this date.

Source: central banks, ECB, European Commission.

Under these circumstances Romania must seriously analyze the date of accessing the Euro zone, the year 2014 appearing to be an accomplishable objective. An aspect that is not neglected but unfortunately does not have a large impact on the economical world is the Romanian political life.

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Following the experience of the other countries that have recently accessed the EU: the Czech Republic, Hungary, Poland, and Slovakia we can observe that the accession to the EU was a “powerful anchor” in the political process. That is why we do not concern ourselves when watching the rather furious national political spectacle that accompanied Romania’s accession to the EU. Still, serious causes for concern may appear, if we take into account the fact that on an economical level there are tensions induced by the competitiveness erosion of certain local companies, that an excessive credit consume may happen, which is not convenient for the state nor for the citizen and that the presence of the foreign capital has advantages but disadvantages may also appear, if the economical policy doesn’t have a clear and coherent concept regarding the relation between the repatriation of profile and the need for an economical and social cohesion. Political extremism will appear and develop as long as fundamental problems are neglected fact that can currently be observed in Romania.

## **Conclusion**

To conclude, in order for the Romanians’ hopes, regarding the accession, to be confirmed, a public policy of substance, which would be operational, is necessary, fact that implies solving political matters and political players to have solidarity around major objectives in the economical policy.

In a Euro-barometer study made in the spring of 2005, out of 30.000 people from 29 European states, Romanians proved to be the least euro-sceptical and wanted to access the EU being, meanwhile, very little aware of what EU really meant. That is why we all must understand that the accession to the EU brings many social and economical benefits but is not equivalent to winning the lottery, because it also implies many responsibilities and risks. If eliminating risks is impossible, a positive attitude toward accession is perfectly justifiable, because through our efforts the advantages obtained by entering a global competitive economy can be big, even bigger than the potential disadvantages. In regard to the investment opportunities, large products and services, capital, financial-banking and even labour markets can mean more than an internal market, even if it is a well consolidated one. Under these circumstances Romania can still offer investment areas with a high level

of efficiency, way above the average level of the EU, with the condition of a permanent growth of competitiveness and as well as work productivity. An active policy of attracting foreign direct investments, using the structural funds given by the EU and establishing a clear position on the various sectors on the European market are the solutions for eliminating postponements and gaining a leading position in the global economy of the EU.

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### **Summary**

The accession to the EU is a remarkable achievement for Romania, from several points of view: economical, social, political, cultural etc. It is an extraordinary chance

for the Romanian economy, offering openness towards a larger market, made up, until present, of 27 states, with an enlarged configuration in the future. This opportunity must be accordingly improved by our country, as our chances of an efficient cohabitation in this space highly depend on a correct and viable approach of all the problems we will be facing with and the establishment of a realistic route for the future, taking into account the advantages that were created as well as the constrains that will appear.