

THE COSTS OF NON-INTEGRATION INTO THE EUROPEAN UNION FOR THE ROMANIAN ECONOMY

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Abstract: "For Romania, the cost of historical, geographical, cultural and institutional non-integration in the new Europe is bigger than the one of integration"⁷⁶, and so are the costs of economic EU non-integration. The most affected economic sectors would be trade, foreign direct investments, and the efficiency of market economy structures and mechanisms.

1. Strategic elements of accession

Romania's decision to join the European Union (EU) stands out as a strategic move supported by virtually all-political forces of the country as well as by the overwhelming majority of the population. It is expected that Romania will join the Union in 2007 and, after fulfilling the economic criteria; it will also join the Euro zone, thus becoming fully integrated with the Economic and Monetary Union (EMU).

It is beyond the shadow of a doubt that the decision to join the EU is the only adequate and viable option to ensure Romania's development in the long run. Integration with the EU is regarded as a catalyst for progress and a tool for Romania to pick up steam and remove the disparities relative to EU standards from the economic perspective as well as concerning the institutions and the overall performance of the society. This will undoubtedly require decades of efforts, implying, first and foremost, a new mentality in favour of a society based on competition, good performance and wealth. Needless to say that, in order to narrow and close the gaps separating Romania from the EU as quickly as possible, the major directions of the economic programs must cover periods longer than the political cycles.

In this context, the accession to the EU scheduled for 2007 will, of course, represent a big leap forward, but the process of bridging the gaps will carry on long thereafter. The second leap will be to join the Euro zone. According to current regulations, this cannot be achieved in less than two years after joining the EU, but the prerequisites for entering this process are

⁷⁶ said the former EU Ambassador Karen Fogg, during a seminar entitled "European Integration Today", which took place in 1996.

not likely to be fulfilled right from the first year of EU membership. Since the entry into the Euro zone is in itself a strategic objective of prime importance, the actual timeframe to implement the decision should be weighted carefully so as to grasp both benefits and restrictions of such an endeavour.

The historic context of Romania's integration in the European Community structures is placed under the sign of the profound changes that occurred in Romanian society after 1989 (the building up of a democratic society and the instauration of a market economy) as well as of the dichotomous "challenge" at the level of the European Union: the need of internal structural reforms, doubled by its unavoidable extension upon the European countries that subscribe to the same democratic values.

The dual logic of the European construction is to be found in the political decisions and the programmatic documents consequent to the signing of the Amsterdam Treaty. The Agenda 2000, issued by the European Commission on 15 July 1997, opened the reflection process focused on the structural adjustments imposed by the new realities of a Union which is more and more integrated from the economic, political and security points of view. As a correlative, the opinions of the European Commission concerning the associated countries from Central and Eastern Europe, underlining their preparation level in accomplishing the accession criteria, constituted a realistic and objective basis for the initiation of the negotiation and accession process.

The official launching of the enlargement process of the EU was made in Brussels, in March 1998, followed by the initiation of the screening/the analytic examination of the *acquis communautaire*, whose objective is the harmonization of national legislation to Community norms.

Through the conclusion of the Agreement concerning Romania's accession to the EU (the Europe Agreement), Romania has irreversibly engaged itself on the way of European integration. The National Strategy for the preparation of Romania's accession to the EU, adopted at Snagov in June 1995, has marked the procedural steps and the actions to be undertaken in the process of closing the gap with the Community's structures.

Taking into account the deficiencies signalled in the Opinions of the European Commission from July 1997, Romania has accelerated the rhythm of institutional and economic reforms. The statute of candidate earlier expressed by the European Council in Luxembourg and made official with the launch of negotiations process in March 1998, defines a new stage in its relation with the Union and involves the undertaking of additional responsibilities in the fulfilment of the Copenhagen criteria, in the alignment to the Community's norms.

The Accession Partnership, signed by Romania, actually constitutes the key-element of the pre-accession strategy, stating the principles and action priorities and mobilizing in a single framework all the forms of Community's assistance.

The European Union is a frame destined to facilitate for the member states the achievement of internal and external policy objectives, with the consistent respect and application of certain common principles, which are assumed by Romania in their entirety:

- The principle of the democracy and the rule of law, as well as the establishment of an uniform law system and the assurance of the protection of rights deriving from community regulations;

- The principle of respect of fundamental human rights – a juridical norm having an universal value;
- The principle of the social-state;
- The principle of cultural pluralism;
- The principle of subsidiarity.

Romania's integration in the EU is structured upon the premises stated at the European Council in Copenhagen in 1993, as preliminary criteria in order to acquire EU membership:

- The stability of the institutions that guarantee the democracy, the rule of law, the human rights, the respect towards minorities and their protection;
- The existence of a functioning market economy, as well as the capacity to face competitive pressures and market forces forthcoming from within the Union.
- The capacity to assume the obligations deriving from the statute of EU member, including the adherence to common political, economic and monetary goals.

The goal of attaining the EU membership, in a short time period, constitutes an absolute priority for Romania. Its aspiration to integrate into the European Union is the natural expression of the identity of ideals, values and principles, of its vocation as a democratic nation, deeply anchored by traditions, culture and civilization in the single European space.

The Romanian major objectives in the perspective of EU accession are the following:

- The consolidation of the political system and of the democratic institutions;
- The creation of an economic and social climate that would offer a maximum of satisfaction and benefits to its citizens;
- The improving of the efficiency of market economy structures and mechanisms;
- The strengthening of political, economic and social co-operation with the EU member states and the candidate countries;
- The consolidation of Romania's statute on the European and international scene, in terms of stability and security.

On the path of the gradual approach to Community institutions, the Romanian priorities are the achievement of the reform processes and the development of the process of informing the Romanian public about the European Union, its structure and functioning, about the benefits and costs of Romania's European integration or, now more important, about the non-integration costs, as well as on the efforts and activities of the Romanian authorities in this respect.

2. But, what if we will remain outside the EU? What will be the non-integration costs?

Every time we speak about the Romania's EU integration process, we are taking into the account only the integration's costs and benefits, forgetting to speak about the non-integration costs. For making an idea about these costs, we have to take into consideration following aspects:

2.1. The impact of the EU integration is estimated by conducting a standard analysis of reaction of the model to various impulses, i.e. the integration scenario is being compared to the basic scenario of non-integration. For this purpose, we have, first of all, identified the primary sources of the integration impact. In quantitative terms, these sources appear in the model as the primary impulses. The secondary impact is estimated by using macro-econometric and sector-econometric models, wherein applying structural vector auto regression models simulates the GDP. The macro-econometric model helps to identify the components of aggregate expenditures, whereas the sector-econometric model is used to

analyse the structure of the GDP by industry, i.e. the gross domestic product and capital investments are broken down by activity. This degree of detail enables to assess the effect of the primary impact that has shown itself in individual activities and to obtain the GDP breakdown, the objective of the study. (See Picture 1).

2.2. The impact on our trade with Europe

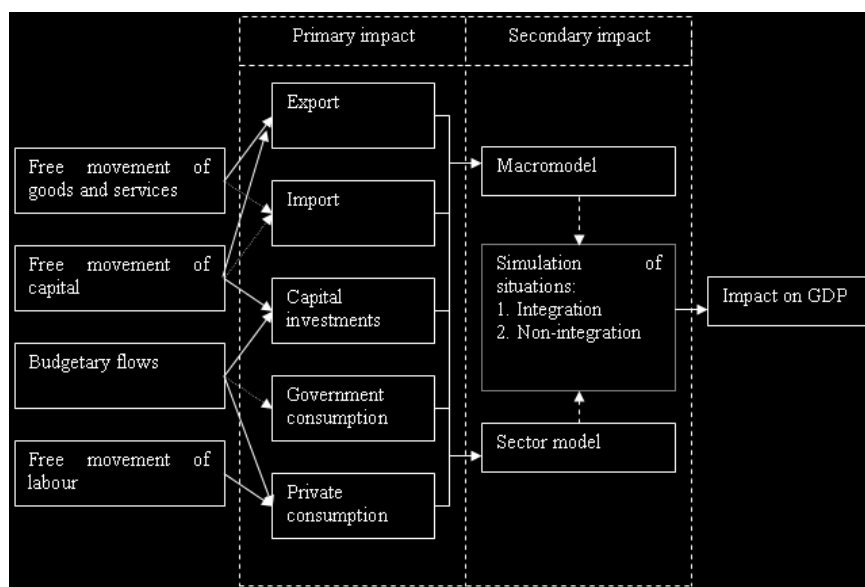
According to the current statistical data, most of our trade (exports-67,6%, imports-62,2%) is with European Union. In 2003, Romania was the EU's 21st trade partner and total bilateral trade (imports and exports) amounted to €27.1 billion, a figure which has tripled since the entry into force of the EU-Romania Europe Agreement in February 1995. Romania's other significant trade partners are America (5%), Russia (4.1%), Turkey (3.4%) and Hungary (3.1%). EU exports increased by 14.9% between the first 6 months of 2003 and the first 6 months of 2004 and imports by 12.4%. Romania has fairly similar trading patterns with the EU. For Romania bilateral trade consists mostly of textiles and clothing (€6.97 billion with Romania in 2003 i.e. 26% of total bilateral trade), machinery (€5.6 billion for Romania in 2003 i.e. 21% of total bilateral trade) and chemical products (€1.8 billion for Romania in 2003 or 7% of total bilateral trade), while trade in agricultural products only accounted for €1.5 billion for Romania i.e. 6% of total bilateral trade in 2003.

For Romania the framework for the bilateral trade relations before enlargement is the Europe agreements. The Europe agreement with Romania cover a large number of issues, focusing on:

- Trade liberalisation and other trade-related issues;
- Political dialogue;
- Legal approximation;
- Other areas of co-operation, in the area of industry, environment, transport and customs.

The Agreement aimed to establish progressively a free-trade area between the EU and the associated countries, on the basis of reciprocity but in an asymmetric manner. In other words, liberalisation was to be implemented more rapidly by the EU than by the associated countries. Currently, over 95% of our country's trade with the EU is conducted freely, while a few agricultural and processed agricultural products remain subject to customs duties on both sides.

Picture 1. Chart of the Impact of the EU Integration on Romania's Economy



The above-mentioned statistical data show that if we wouldn't have chosen to join the EU, our products had not have enough markets to be delivered, and our exports would have been much lower. Besides, the EU membership our country will open us new markets (e.g. African countries), where our products can be delivered.

2.3. The impact on Foreign Direct Investments into our economy

Investment links between the EU and Romania are substantial and their increase since the entry into force of the Europe Agreements in 1995 is spectacular: EU investment flows to Romania increased from 81 mil. Euro, to 2755 mil. Euro between 1995 and 2004.

Table 2: EU direct investment outward flows in Romania (million ECU/EUR)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
25	48	81	103	364	394	676	653	1019	677	838	2755

Without these direct capital inflows into our country, we wouldn't have on long-term the necessary local capital to improve our economy, to end the transition period, and to raise the competitiveness our products on the international market.

3. Conclusions

The EU's enlargement is expected to have positive effects on Romania: it will give economic operators direct access to a unified, larger and harmonised EU market of 450 million inhabitants, with harmonised norms and standards (which are already gradually being implemented in Romania as part of our own EU accession process). Simplification and standardisation will benefit particularly small and medium-size enterprises (SMEs) for which the costs of compliance with trade procedures are proportionately higher.

Due to the traditional links between Romania and the EU member states, and to the high degree of trade liberalisation between the EU and the Romanian economic operators are well positioned to take advantage of the opportunities offered by the 2007 EU enlargement.

In conclusion, there would have been higher non-integration costs for our economy, than the integration costs currently are.

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