CHALLENGES FOR ROMANIAN ECONOMY AS AN EUROPEAN UNION MEMBER STATES

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Romanian economy is in an ongoing transformation process starting with 1990. These involve changes of legislation, institutions, human perceptions of economic activity and productivity in order to fulfill the new challenges. Transformation process have gained another status in the context of the evolution of relationships between Romania and European Union. Starting from this idea, the aim of the paper is to present these challenges.

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1. Introduction

Romanian economy is in an ongoing transformation process starting with 1990. These involve changes of legislation, institutions, human perceptions of economic activity and productivity in order to fulfill the challenges of the: (i) transition period, during 1990-2003; (ii) emerging market, during 2004-2006, and emerging country, since 2007. Also, transformation process have gained another status in the context of the evolution of relationships between Romania and European Union (EU) from a candidate country, in 1997, to an acceding country, in December 2004, and a EU member state, in January 2007. This new status in 2007 indicates that Romania fulfills political, economic and institutional criteria and implements the acquis. As a result, Romanian has an administrative capacity to transpose European Community legislation into national legislation, to implement it and to effectively enforce it through appropriate administrative and judicial structures.

Therefore, Romanian economy must face new challenges imposed by the EU member state status. Starting from this idea, the aim of the paper is to present these challenges. After a brief introduction, section 2 highlights the challenges for Romanian economy regarding investments, trade, welfare and macroeconomic indicators. Section 3 presents the main concluding remarks.

2. Challenges for Romanian economy

2.1. Investments

European integration is a problem of investments and income. It consists in the achievement of personal relationships and sharing experiences. Standard of living increases only as a personal investment in the material base, but Romania risks becoming only a consumer market. Integration costs exist because the benefits are great according to economic analysts. The population must be informed of the projects and integration mechanisms, which could make a success through the implementation of European funds to the company.

In long run, integration in the European Union will bring major benefits to Romanian economy. In the short term, it will conduct to the decline of the purchase. Romanian real income will reduce by nearly a tenth. This emerges from a study that investigates the correlation between the average forecast of Romanians salaries and the cost increasing.

Assessment of trade at international level is a very important element for the balance of payments, gross domestic product and economic studies at international and national on short run. The statistical data on trade are useful for the government to establishing trade policies and are used by some organizations that identify the possibilities for extension.
One of the major challenges is when the Romanian economy will be ready to absorb all the European funds. This means that Romanian policies must be oriented to build efficient institutions capable to absorb community funds. But, administrative capacity to absorb post-accession funds proved to be insufficient because of the many institutional weaknesses. As a result, will be necessary important human investment in order to have professional civil servants capable to develop major projects financed by European funds. Totally, 40% of the staff has experience in working with European funds12. European funds are still difficult to access, due to lack of responsibility of state bodies. Partnerships between government, unions and employers are missing. Each has a different perception on things and accepts different points of view. There is also an acute lack of dialogue between specialists of ministries, and in this case is recommended for a debate between civil society, trade unions, academics, business and government.

2.2. Trade

After joining the European Union, Romania is part of the Single European Market and should take all changes that come with that status. As a result, we will withdraw from the Central European Free Trade (CEFTA), the European Free Trade Association (EFTA) and the treaties signed with Moldova, Turkey, Israel, Serbia, Montenegro, Albania and Bosnia will no longer be valid. Most of the Romanian trade was held under the Free Trade Agreement (approximately 83.92% of exports and 70.56% of imports) and the European Union was the main trade partner (average 70% of the country's imports and exports were in EU).
Since 2007, Romania applied common European policy that includes: imports in EU without taxes, tariffs common border, the generalized system of preferences (GSP) of EU trade agreements with World Trade Organization and other treaties where the EU is a member. Community signed a set of free trade agreements with Mediterranean countries, Mexico, Chile and South Africa. On the other hand, Romania has adopted new rates for larger countries and some other anti-dumping measures for goods from non-EU countries.
Another positive consequence of integration in the European Union is the increase of foreign direct investments which focus on the industrial sector. This has led to increasing imports in the first period, but also led to improvement of business environment. In contrast, demand for domestic investment fell and focused on equipment import. Foreign direct investment must be addressed in close connection with economic growth, development, because regardless of the political system, it constitutes an important factor of economic and social development through its volume, structure and quality.
Common customs tariff shall apply uniformly throughout the EU and aims at a fair trade by avoiding concentrations in countries with lower rates. This will apply without any right at the national level. As an immediate impact on Romania, the tariffs were reduced and local businesses can access more easily the European goods. There was an exports increase to EU countries that have also contributed to exports in non-EU countries, unlike in Slovakia, for example, which had a different trend in the first year after accession.
Generalized system of preferences (GSP) of the European Union is a system of preferential tariffs for certain goods of emerging and developing countries. Among these countries are: China, India and the countries belonging to the former Community of Independent States (CIS). Starting in

[12] Oprescu,Gh.; Constantin, D.L.; Pislaru, D. (2005/2006), Analysis of the absorption capacity of European funds in Romania, European Institute of Romania.

January 2006 and until December 2008, the EU has applied the so-called a GSP Plus (appointed to support sustainable development) that expanded the number of products from 6900 to 7200. Romania as a member of GSP Plus, applies preferential treatment to certain countries which will conduct to positive results for businesses. [13]

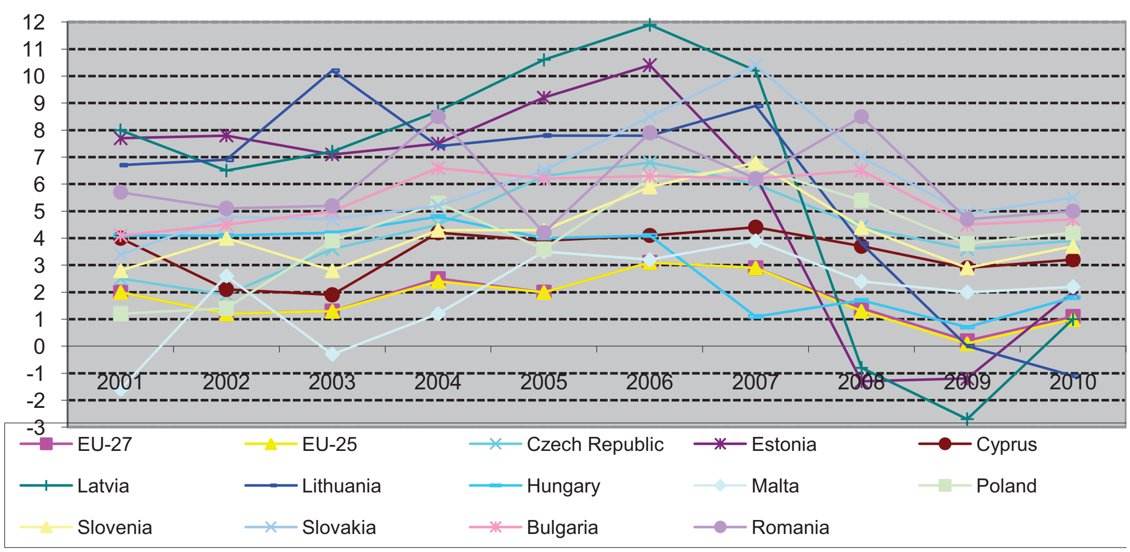
Romania's Integration in the European Union had a minor impact on exports to Iraq since the latter has the same customs tariff for both countries members of the Union and for non-member states. Considering the small volume of products imported from Iraq, the EU integration will not influence significantly the commercial balance. [14]

Trade with Jordan has brought economic benefits just because the EU and Romanian Jordan signed a deal designed to create a free trade zone by 2010. Romanian export to Jordan is concentrated mainly on industrial products and chemicals, and supplies of wood and metal. Also, import of products from Jordan will benefit of the concessions granted by the European Union. Romania import primarily agricultural products and medicines, but their value is not significant[15].

2.3. Welfare

This study intends to demonstrate the effects of European integration of the last two waves of accession in 2004 and the effects on new members starting with 2007. But the results of such a process can be observed on long term; therefore this analysis intends to use the forecasts for the coming years so that the two waves to be somewhat comparative. Figure 1 presents the evolution of economic growth for ten EU member states accepted in 2004 and for the last EU members. It can be seen that in nine cases out of ten (except for Lithuania), the accession (2004) has brought different intensity for economic growth of these countries. Moreover, the trend of the next year shows an increasing which supports the assumption that European integration brings many benefits for member states. In Romania case the next years will demonstrate if this evolution will be also achieved.

Figure 1 Evolution of economic growth (%)



Source: data are from EUROSTAT

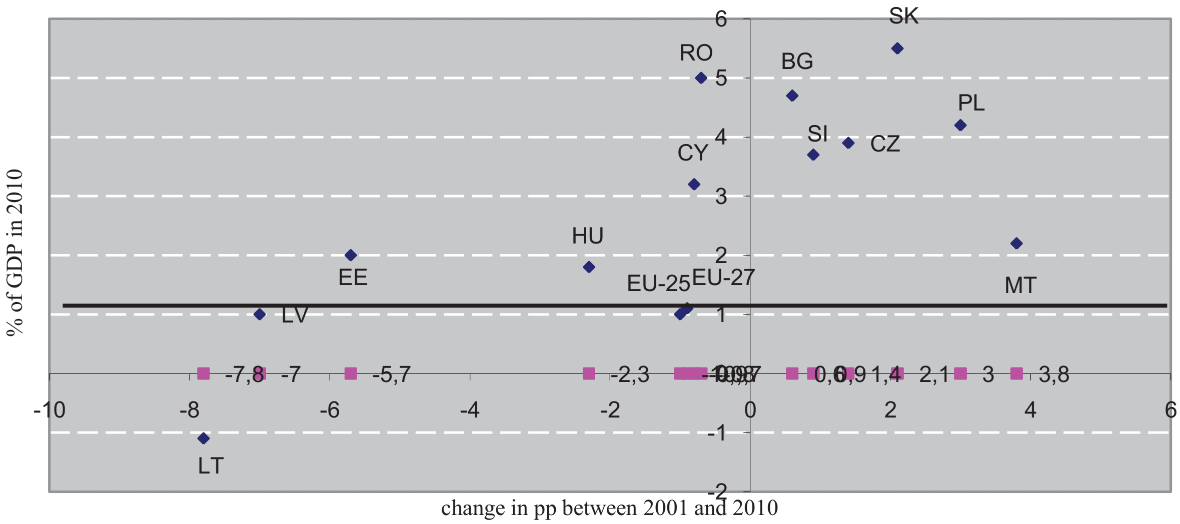
[13] National Commission of Prognosis (2006). The impact of accession on foreign trade experience of the new member states; Cosmin Zaharia (2006). Romania's commercial policy dictated by EU rules

[14]http://www.dce.gov.ro/Materiale%20site/Indrumar_afaceri/impact_aderare_afaceri/Fisa_impact_Irak.htm

[15]http://www.dce.gov.ro/Materiale%20site/Indrumar_afaceri/impact_aderare_afaceri/impact_aderare_afaceri_iordania.pdf

Based on EUROSTAT forecasts for economic growth of EU member states, we may identify the trend during 2001-2010 and group the countries in the following categories: (i) countries with an increasing GDP (Malta, Poland, Slovakia, Slovenia, Czech Republic, Bulgaria); (ii) countries with a decreasing GDP but with an economic growth over EU average (Romania, Cyprus, Hungary, Estonia, Latvia); (iii) countries with a decreasing GDP but with a real GDP growth bellow EU average (Lithuania). Important changes had been made in Malta, where economic growth will increase with 3.8 percentage points (pp), and Lithuania, where real GDP will reduce with 7.8 pp.

Figure 2 Evolution of economic growth (%)



Source: data are from EUROSTAT

When it comes to the new EU members countries and the impact of this status it can be seen also that the situation is favorable, although the case of Romania is a little different from that of Bulgaria. Adhesion and expectations have already been felt since 2006, prior to integration, which led to a significant economic growth. Although many countries are deeply affected by the current financial situation, Romania has great expectations based on an economic increasing of more than 2 percentage points in 2008, in contrast with other countries examined. Serious decline is expected to produce in Estonia (from 6.3 in 2007 to -1.3 in 2008), Latvia (from 10.2 in 2007 to -0.8 in 2008) and Lithuania (from 8.9 in 2007 to 3.8 in 2008).
Evolution of the Romanian society in all plans confirms that there are not areas known not to be fundamental changes. Uninterrupted economic growth, Romania is the country with the largest growth of GDP in EU, the measures taken in the social field (increasing wage income, pensions, the minimum gross salary), enhance the investment process reflect a healthy trend for the restoration of balance macroeconomic, progress achieved in the sustainability of public policies, increasing the country's international credibility and attractiveness to stimulate domestic economic environment for international business community.
All these impressive results in Romania occurred in the context of accession to the European Union due to the long process of integration to fulfill the requirements of being a member of the community.
Integration in the EU has stimulated and stimulates further economic growth and foreign investment, but puts pressure on inflation and to exchange rate volatility according to the specialized economic studies. The immediate effect of the integration will not be distinguishable;

either for economy or for the capital market and the benefits of the accession should be expected on a longer term.
The empirical studies point out the existence of a positive correlation between economic integration and growth rates of GDP per capita, but there is not a causal relationship between these two variables. The integration helps to stimulate convergence only if it has an influence on long-term growth potential of the economy. Economic integration may induce permanent effects on economic growth as a result of the development of research-development and realization of innovations. European data suggests the positive impact of integration on macroeconomic stability, but the growth potential of the economy on long run it is ambiguous. However, economic integration contributes to a better allocation of resources by reforming factor markets. This is an operation especially at micro level, with the goal of improving the business climate through regulation and liberalization.

3. Conclusions

Analyzed the impact of direct foreign investments on the Romanian economy, we find that the role is double: (i) as a financial flow it plays a complementary role, quantitatively, the transition process, by supplementing insufficient resources of the country in the process of adapting to free market mechanisms, creating jobs, developing activity by stimulating domestic production, through contracts of unproductive or coproduction, increasing exports; (ii) as an investment flow, it plays a structural and qualitative role, because it generates flow of advanced technologies, increases the walk of the job and contributes to the expanding of the private sector.
Regarding the commercial trade, Romania is seen more as a nation that offers great development opportunities where we can work and where to carry out successfully activities. Romania is not considered a market in which you can only transfer activity for low cost of labor. These changes are primarily due to changes in socio-economic conditions in Romania in recent years.
The macroeconomic situation is obviously influenced by the current international situation. The effects of global financial crisis are felt indirectly and in Romania through five channels: the commercial, financial, of trust, exchange rate and the effects of wealth and balance. Regarding the effects of the international crisis on trust it can be seen less willingness from investors to Romania, but also for neighboring states.
The next step after integration will likely be the Economic and Monetary Union. Romania plans to adopt the single currency in 2014-2015, but there are certain issues which must take into account the criteria to be fulfilled. According to the forecast in Romania, estimates for 2008 were an increase in GDP of 9.1%, with more than 6% in 2007. Future actions must be the result of political cooperation.

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