

# ROMANIA'S FIRST FIVE YEARS IN THE EUROPEAN UNION. A SHORT ASSESSMENT

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*It's been more than 5 years since our country has joined the European Union, on January the 1st 2007. It's been a long road, as fulfilling the Copenhagen criteria had not been an easy task.*

*But was it all worth it? Are we better off today, five years after? Did we know how to take advantage of European Union membership? Did we know what to do and how to do it, in order to benefit from (all) the advantages of the Single Market?*

*These are some questions we will try to answer in this paper.*

*In this paper, we will present data regarding: the evolution of Romania's foreign trade, overall, as well as with the rest of the European Union countries; the evolution of Romania's economic growth, in comparison with European Union's average economic growth; the evolution of foreign direct investments in Romania; the absorption degree of structural and cohesion funds, in comparison with other countries of the European Union.*

*We will analyze these data, and we will make comparisons between Romania and the European Union, in order to see the similarity between Romania's evolution and EU's evolution. We will also analyze the structural and cohesion funds absorption degree, in comparison with other European Union countries.*

*Finally, we will try to assess whether we knew how to take advantage of our European Union membership, as being member implies both advantages and disadvantages. Knowing how to fully benefit from the advantages and how to diminish the disadvantages is the winning strategy.*

*Did Romania know how to maximize its advantages?*

*As we will see in the conclusions of this paper, the answers to these questions are not always in our advantage. There are still some lessons to be learned, especially regarding the absorption of structural and cohesion funds, and attracting foreign direct investments.*

*Keywords: foreign trade, economic growth, foreign direct investments, structural and cohesion funds.*

*JEL Classification: E24 Employment, Unemployment, F11 Models of Trade, F15 Economic Integration, F21 International Investment, O47 Measurement of Economic Growth.*

## **The Foreign Trade**

The countries of the world have different terrains, climates, resources, worker skills, etc. Therefore, some countries will be able to produce goods that other countries cannot produce, or can produce only at extremely high costs (Arnold, 2010: p.376).

The foreign trade is also necessary for a country's economic growth. The trade promotes specialization, and specialization increases productivity. Over the long run, increased trade and higher productivity raise living standards for all nations. Gradually, countries have realized that opening their economy to the global trading is the most secure road to prosperity (Samuelson and Nordhaus, 2010: p. 339).

Romania's foreign trade has shifted after 1989. If before 1989, Romania had a foreign trade surplus, and its main partners were the countries members of the Council for Mutual Economic Assistance, after 1989, the main trade partners have become the countries members of the European Union. This trend has continued after Romania obtained EU membership, in 2007.

Overall, our trade balance is a negative one. In 2007, our exports represented just 57%, in comparison with our imports. The percentage was 58% in 2008. The crisis brought a decline in our negative balance, but still, the exports are inferior to our imports (table 1).

**Table 1. Romania's foreign trade, 2007-2011 (millions euros)**

|                | 2007    | 2008    | 2009   | 2010   | 2011   |
|----------------|---------|---------|--------|--------|--------|
| <b>Imports</b> | 50 993  | 57 240  | 38 953 | 46 902 | 54 824 |
| <b>Exports</b> | 29 402  | 33 725  | 29 084 | 37 368 | 45 041 |
| <b>Balance</b> | -21 591 | -23 516 | -9 869 | -9 534 | -9 783 |

Source: [www.insse.ro](http://www.insse.ro)

As we can see in Tables 2 and 3, more than 70% of Romania's exports and imports, for 2010-2011, are with other European Union countries, while intra-EU trade was, in 2010, of 64% (table 4).

**Table 2. Romania's export flows, 2010-2011 (millions euros)**

|                 | 2010               | 2011               |
|-----------------|--------------------|--------------------|
| <b>TOTAL</b>    | 37 368             | 45 041             |
| <b>Intra EU</b> | 26 953<br>(72.12%) | 32 031<br>(71.11%) |
| <b>Extra EU</b> | 10 415<br>(27.88%) | 13 010<br>(28.89%) |

Source: [www.insse.ro](http://www.insse.ro)

**Table 3. Romania's import flows, 2010-2011 (millions euros)**

|                 | 2010               | 2011               |
|-----------------|--------------------|--------------------|
| <b>TOTAL</b>    | 46 902             | 54 824             |
| <b>Intra EU</b> | 33 992<br>(72.47%) | 39 826<br>(72.64%) |
| <b>Extra EU</b> | 12 910<br>(27.53%) | 14 997<br>(27.36%) |

Source: [www.insse.ro](http://www.insse.ro)

**Table 4. Intra-EU trade, 2007-2010 (millions euros)**

|                       | 2007 | 2008 | 2009 | 2010 |
|-----------------------|------|------|------|------|
| <b>Intra-EU trade</b> | 66%  | 65%  | 65%  | 64%  |

Source: <http://epp.eurostat.ec.europa.eu>

If we take into consideration our main trade partners, we can see that the EU's countries occupy the first places (tables 5 and 6): Germany is our main trade partner, for both exports and imports, followed by Italy (exports and imports), France, Turkey and Hungary (for exports), and Hungary, France and China respectively (for imports).

**Table 5. Romania's exports by main destinations, 2007-2011 (millions euros)**

|                | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------|------|------|------|------|------|
| <b>Germany</b> | 4980 | 5535 | 5442 | 6765 | 8390 |
| <b>Italy</b>   | 5013 | 5219 | 4461 | 5165 | 5783 |
| <b>France</b>  | 2270 | 2491 | 2378 | 3102 | 3371 |
| <b>Turkey</b>  | 2071 | 2205 | 1450 | 2611 | 2782 |
| <b>Hungary</b> | 1637 | 1726 | 1266 | 1775 | 2516 |

**Table 6. Romania's imports by main destinations, 2007-2011 (millions euros)**

|                | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------|------|------|------|------|------|
| <b>Germany</b> | 8755 | 9409 | 6741 | 7856 | 9371 |
| <b>Italy</b>   | 6485 | 6620 | 4551 | 5434 | 6227 |
| <b>Hungary</b> | 3534 | 4295 | 3250 | 4051 | 4776 |
| <b>France</b>  | 3185 | 3210 | 2401 | 2780 | 3161 |
| <b>Turkey</b>  | 1670 | 2414 | 1902 | 2555 | 2530 |

Source: [www.insse.ro](http://www.insse.ro)

As we can see, Romania has strong trade relations with partners from other EU countries. Unfortunately, these trade relations have been focused more on imports, rather than exports, showing that Romania is mainly a consumer country. In this context, it is important to remember that Romania, in terms of population size, is on 7th place in the European Union.

### The economic growth

In the last 23 years, Romania has experimented years of severe economic recession, as well as years of prosperity. Starting with the year 2000, the country has recovered from the long transition, showing positive rates of economic growth (table 7). Romania's economy was extremely dynamic, especially in the period 2001-2008. However, the economic crisis has affected us as well, the years 2009 and 2010 being characterized by negative economic growth rates.

**Table 7. Romania's economic growth rate, 2000-2011 (%)**

| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|------|------|------|------|------|------|------|------|------|------|------|------|
| 2.4  | 5.7  | 5.1  | 5.2  | 8.5  | 4.2  | 7.9  | 6.3  | 7.3  | -6.6 | -1.6 | 2.5  |

Source:

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020>

The evolution of EU economic growth rate shows much lower economic growth rates than in Romania. Less dynamic, the European economy had barely reached 3.3% economic growth rate in 2006, while in other years, the economic growth rate was almost close to zero (0.3% in 2008). The economic crisis had affected the EU as a whole, with a negative economic growth rate in 2009 (-4.3%). However, in 2010 and 2011, the European economy started to recover, showing positive economic growth rates (2% and 1.5% respectively).

**Table 8. EU's economic growth rate, 2000-2011 (%)**

| 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|------|------|------|------|------|------|------|------|------|------|------|------|
| 3.9  | 2.2  | 1.3  | 1.4  | 2.5  | 2    | 3.3  | 3.2  | 0.3  | -4.3 | 2    | 1.5  |

Source:

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020>

If, before the crisis, Romania was among the most dynamic European economies, the years 2009 and 2010 brought negative economic growth rates (-6.6% and -1.6% respectively). Only the year 2011 marked a slow recovery (+2.5%), while the European average was positive since 2010.

## The Foreign Direct Investments

Being the largest market in South-East Europe, Romania has benefited, since 2004, from massive inflows of foreign direct investments. This can be explained thanks to macroeconomic stabilisation, strong GDP growth, large-scale privatisation and the advantages of (future) EU membership (Pauwels and Ionita, 2008: p. 1-2) (table 9).

**Table 9. FDI Inflows in Romania (millions euros)**

| 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|------|------|------|------|------|------|------|------|------|
| 1946 | 5183 | 5213 | 9059 | 7250 | 9496 | 3488 | 2596 | 2440 |

Source: [www.bnr.ro](http://www.bnr.ro)

As we can see in table 9, the FDIs have spectacularly increased in 2006, one year before our country's accession to the EU. However, starting with 2009, one can see a worrying decrease in FDIs inflows.

80% of the total FDI stock comes from the EU, and about 50% of the total comes from just three countries: the Netherlands, Austria and Germany. The top 10 investing countries in presented in table 10.

**Table 10. Top 10 investing countries, 1990-2009**

| Netherlands | Austria | Germany     | France  | Greece |
|-------------|---------|-------------|---------|--------|
| 21.8%       | 18.1%   | 13.4%       | 8.5%    | 6.6%   |
| Italy       | Cyprus  | Switzerland | Belgium | USA    |
| 5.1%        | 4.7%    | 4.2%        | 2.2%    | 2.1%   |

Source: [www.bnr.ro](http://www.bnr.ro)

Romania has attracted important FDIs inflows during the years with positive economic growth rate, fact that can be explained, among other things, by our (still) cheap labour force. But the FDIs inflows can also be explained by our appetite for consumption.

The decrease of FDIs inflows could be explained, among other things, by the fact that Romania is no longer an attractive market. The qualified labour force is more and more difficult to be found, and the households' incomes have been strongly affected by the crisis.

## Structural and cohesion funds

The structural and cohesion funds, financial instrument of the European Union, having the purpose of reducing, even eliminating, the economic and social development disparities among European regions, are, or could be, one major advantage of EU's membership. Between 2007 and 2013, Romania could benefit from 19.67 billion euros, through European Regional Development Fund, Cohesion Fund and European Social Fund (Sabau-Popa, 2010: p. 221).

According to the National Strategic reference framework for Romania, the EU funding could generate 15-20% additional GDP growth by 2015, a growth of 28% of Gross Capital Formation more than the baseline scenario, an increase of 23% of the employment in the trade sector, etc. (European Commission).

But accessing the structural and cohesion funds seems to be very difficult, for the new member states. All the countries that joined the EU in 2004 and 2007 encountered problems in accessing the EU funding. By the end of 2010, in several EU countries, the absorption degree was the following (table 11):

**Table 11. Absorption degree in several EU countries, 2010**

| Romania | Bulgaria | Latvia | Estonia | Poland | Czech Republic |
|---------|----------|--------|---------|--------|----------------|
| 9%      | 10.2%    | 29.3%  | 26.43%  | 20.43% | 12.44%         |

Source: <http://www.fonduri-structurale.ro/detaliu.aspx?eID=8617&t=Stiri>

However, the effective absorption degree in Romania could be much lower, according to recent estimations: only 3.69% (<http://www.fonduri-structurale.ro/>).

For 2012, many economists consider that the structural and cohesion funds could strongly encourage Romania's economic growth. But the very low absorption degree raises questions about our capability of attracting and spending 6 billion euros by the end of 2013.

Under these circumstances, it is very difficult for Romania to benefit from its European Union membership. Moreover, the low absorption degree could cause a significant reduction of funds allocated for Romania for the next financial perspective, 2014-2020. (<http://www.euractiv.ro/>).

## Conclusions

As presented in this paper, one can notice that Romania had a good start of its European adventure; but shortly, many problems have been raised, showing that the country was not fully prepared for accession.

In order to fully benefit from the advantages of membership, one must increase the absorption degree of structural and cohesion funds, as well as the country's attractiveness for foreign direct investments.

Being member of the European Union implies both costs and benefits. But it depends only on each member state whether it can turn into its advantage this membership, or whether it remains a secondary European Union country.

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\* This project has been funded with support from the European Commission. This communication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.



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Programul Învățare pe toată  
durata vieții

Jean Monnet European Teaching Module « Economie Européenne. Intégration Economique »,  
number 175742-LLP-1-2010-1-RO-AJM-MO