

**THE METHODOLOGICAL APPROACH OF REGIONAL  
COSTS-BENEFITS BALANCE FOR ROMANIA AFTER ITS  
ADHERING TO THE EUROPEAN UNION**

1. Requests from the European Union
2. Analysis of the financial fluxes
3. The perspective of Romanian economy during 2007-2013

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**Abstract**

*The necessity of integration implies important efforts for the newest Member States. Our whole analysis is focused on the idea of Europeanization and its political, economic, juridical and administrative criteria.*

*In order to point out the costs and benefits of Romania's integration, we used a quantitative calculation.*

*Other part of this paper uses the evolution of macroeconomic indicators in Romania in order to estimate some specific tendencies.*

*On the other hand, the economic development in Romania will accelerate in order to achieve 6% in 2013.*

1. Participation to an integrationist organisation implies more and greater transformations for all Member States. The dimension of these transformations depends on the level of integration achieved by the regional group and it expresses institutional redefinitions and policy making.

The transformations connected with economic policies' implementation in Member States are evident as a result of a greater

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economic and monetary integration. These transformations are the result of the transfer of decisional competences in sector policies from each Member State to supranational organisms. As a result, the European factor becomes an important component of policy making for Member States.

On the other hand, the European factor implies some restrictions in definition and implementation of economic policies in each Member State. So, these Member States have to accept external conditionality in building their economic policies.

The actual approach is to define and to identify the implications of the transfer of competences in economic policy under the Europeanization concept (Borzel T, 1999).

Europeanization is a building process of formal and informal dissemination and institutionalization, of establishing rules, procedures, economic paradigms, know-how, common ideas and values in order to consolidate E.U.'s logical decisional process and to support institutional and political structures and national economic policies in the Member States (Rafaelli E., 2001).

At the beginning, the analysis of Europeanization was focused only on the Member States. Nowadays, the analysis was extended to candidate countries too. The basic idea is that Europeanization implies applying of European economic governance model to candidate countries. It affects the actual Member States and candidate countries too by using specific models, regulations and common policies which imply substantial redefinitions for national policies and for the institutional framework of every country (Hughes J., Sasse G., Gordon C., 2002).

The main instrument of Europeanization for the candidate countries is connected with the European conditionality especially about adhering criteria: political, economic, juridical and administrative.

Moreover, Europeanization represents an institutional arrangement, a regulation, a comport standard which allows a connection between advantages of adhering to the E.U. and duties as a Member State.

As a result, European conditionality asks for institutional transformations about economic policies of the Member States where there are differences between European and national frameworks. These adjustments imply costs for candidate countries. On the other hand, the benefits from adhering to the E.U. can be maximized only if there is a high compatibility between national policies and institutional framework and European institutional model of adopting these policies.

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The European conditionality is stipulated into Copenhagen adhering criteria and they represent an important vector for convergence ensuring. These conditions have to be evaluated before and after the adhering process.

For Romania, the same conditions have influenced the rhythm and direction of the political and economic transformations, decreased the decisional freedom degree and generated a relative decisional dependence degree (path dependence) of the Romanian authorities to European authorities (Lataianu G., 2003).

The juridical criteria represent one of the most important formal elements of the European conditionality which influent the efficiency of the Romanian enterprises.

Romania prepared its adhering to the E.U. in order to implement European standards. This process continues with new political and economic post-adhering transformations.

The impact of the adhering process is presented at economic and political levels as direct and indirect actions in table number 1 (Preston C., 1997).

The main costs for Romania connected with its adhering and post-adhering evolutions are presented in figure number 1.

The implementation of the *acquis* generates costs connected with: change of institutional framework, costs with specific human resources and costs of economic policy. Romania passed on these costs before its adhering to the E.U.

Other costs are those connected with the standards implementation as they are defined by European regulations and policies. These costs are covered at institutional level (public administration) and microeconomic level too. They include: modernization of transport infrastructure, labour and social standards, consumers' protection, quality and environment standards. The same costs are those connected with free movement of goods, services, persons and capital.

All these costs are effective at microeconomic level and are able to affect the efficiency of Romanian enterprises. It's very difficult to divide these costs into ante and post-adhering costs because the implementation of a European standard in Romania can need longer transition period (more than 10 years for environment standards implementation, for example).

There are costs connected with the statute of member of the E.U. too and they include contributions to common budget and participation

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to European institutions. Some of these costs were supported before adhering as co-financing costs to European Funds (PHARE, SAPARD, ISPA).

Finally, we can talk about the costs of Romanian economy's modernization in order to face the competition of European enterprises. Most of these costs result from the disparities between Romanian and European economic, politic and social standards.

The estimation of the costs of Romania's adhering to the E.U. is very difficult as a result of a high dynamic of economic, political and social transformations within the E.U.

On the other hand, there are positive effects of the European conditionality too. One of them is the financial and technical assistance received by Romania from the E.U. in order to create legal and institutional framework necessary for a good function of the economy. Other benefits are acceleration of economic reforms, economic growth and greater efficiency for Romanian enterprises.

The main benefits of Romania's adhering to the E.U. are the following:

- supplementation and diversification of financial resources: Romania has access to Structural and Cohesion Funds. The benefits of this access can be calculated at the end of the actual financial period 2007-2008;
- benefits form the statute of Member State: participation to single market, to European Monetary Union, a better support for national interests in European institutes;
- reform acceleration and definition of national economic policies under E.U.'s assistance.

The costs and benefits of adhering to the .E.U. can be estimated using budget implications too. We think about some specific chapters such as: contributions to European budget, CAP and structural funds for regional policy.

From a methodological point of view, it's difficult to make the distinction between integration effects and those of the transition process. On the other hand, the dichotomy winner/loser is relative. A specific sector can be winner or loser during the integration process, but it isn't the same situation with all enterprises or individuals from that sector.

Moreover, sector analysis isn't correspondent to positive/negative influences on society evolution. A loser sector can liberate resources for

other sectors and can improve the allocation efficiency of the economic resources (Daianu D., 2001).

Integration represents achievement of socio-economic objectives which are defined and periodically actualized according to the needs of a given historical moment.

Using economic models, convergence is defined as a set of specific indicators which are selected according to more than convergence needs. The correct definition of these criteria differs from a moment to moment and from case to case.

For the beginning, Romania had to achieve Copenhagen criteria about a functional market economy which is able to face the competitive pressure of the European enterprises.

On the other hand, the costs and benefits of European integration can be analysed in different manners.

As bilateral financial fluxes between E.U. and Romania, we must analyse the sums financed by the E.U. and Romania's contribution to different European programs.

Furthermore it may be better to include the whole budgetary effort, including the effects of the decreases custom taxes.

Another important element is the great impact on macro economy, including changes in labour efficiency and employment rate.

The reported costs and benefits can vary between these approaches. As bilateral financial fluxes, integration becomes favourable for every country.

Using the whole budgetary effort and the impact on macro economy, integration becomes less favourable because expenditures aren't associated with investments as a result of the fact that their future effects are not evaluated.

A relatively correct and maximum possible evaluation of the results is possible only using the impact on macro economy, which is the main economic element. This is the only level of analysis in which we can establish the inter-conditionality between macroeconomic indicators such as global efficiency, employment rate and inflation.

Using macroeconomic level for costs-benefits report analysis, we can determine the direct effects of the integration process.

The costs of integration are connected with: participation to European programs, obligatory investments and losses produced by partners or possible penalties.

The benefits of European integration are the following: greater monetary fluxes, facile access to programs, trade and labour movement,

direct results from acquis' implementation and the growth of efficiency (see figure no.1).

2. The direct financial implications represent a part of the costs and benefits of European integration which can be estimated using a quantitative calculation.

As a result, we can analyse the probable effects of the European financial package for Romania and Bulgaria during 2007-2009. This package is a component of the financial perspective 2007-2013.

The term of financial package means all direct financial and budgetary implications of the adhering negotiations about Agriculture (Chapter no. 7), Regional policy and structural instruments coordination (Chapter no. 21) and Financial and budgetary framework (Chapter no. 29).

The European financing was divided into chapters and years, using the procedures applied to the other 10 Member States which adhered in 2004. As a result, the E.U. financial assistance for Romania and Bulgaria is about 11.3 billion Euros during 2007-2009 (Commission of European Communities, 2004).

Agriculture will receive 4037 million Euros which will be divided into: market measures (732 million Euros), direct payments (881 million Euros) and rural development policy (2424 million Euros).

The European Structural and Cohesion Funds for Romania and Bulgaria cover 5973 million Euros.

Internal policies cover 1304 million Euros. This sum isn't divided between Romania and Bulgaria.

The same situation is about administrative expenditures of 346 million Euros.

The budgetary effort for Romania is calculated according to a percentage of 1.14% from its forecast budget during 2007-2009. As a result, Romania has to pay 7.4 billion Euros during 2007-2009

The engagement for financial package for Romania covers 11287 million Euros from E.U. and an internal contribution of 7411 million Euros (see figure no.3).

The effective payments from the European budget to the Romanian budget will be smaller for procedural causes. An accepted project can be financed from engaged sums during a single year. But these payments will be made sequentially during the effective period of project implementation.

As a result, the payments depend on effective absorption capacity which is determined by the presentation of eligible measures,

institutional functionality, management and financial control procedures in order to ensure funds and co-financing ensurence.

Using Copenhagen methodology, the estimated financing program for Romania will be about 8893 million Euros. This sum includes financial package and the pre-adhering sums which were engaged before.

Romania's budgetary effort related to the payments is about 5663 million Euros (see figure no.4).

The net balance of financial transfers between Romania and E.U. is calculated as the difference between payments proposed by the E.U. in financial package and Romania's contribution to the European budget. The final net balance has an exceeding of 6346 million Euros (see figure no. 5).

The macroeconomic impact of this financial package can't be reduced only to the absolute value of the sums received by Romania. The programs and structural actions can generate and support a sustainable economic growth at least in agriculture, infrastructure, environment, human resources and social cohesion growing as a result of rural and regional equilibrated development.

3. Using the evolution of macroeconomic indicators, the analysis for Romania estimates some specific tendencies.

The future integration of Romania into E.U. will support the opportunities for a sustainable economic growth. Even under present international financial crisis conditions, Romania can achieve a positive rate of economic growth.

International Monetary Fund (IMF) published its annual report at the beginning of 2007. This organisation concluded that Romania had the highest GDP grow rate from E.U.<sup>27</sup> during 2000-2006 (130%).

In 2006, Romania GDP was about 97.1 billion Euros. The preliminary dimension for 2007 is about 115 billion Euros too (see figure no.6).

The European money determined an annual economic growth of about 2%. During 2007-2013, the value of the European Structural Funds for Romania will be about 24.1 billion Euros (without Agricultural funds). 15.5. billion Euros will be senting for infrastructure, 4.2 billion Euros for productive sector and 4.4 billion Euros for human resources.

The inflation rate was 6.5% in 2006. In May 2007, the European Commission considered that the inflation rate in Romania will be about

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4.5% in 2008. The inflation rate will come down at 2.5% till 2012-2013, but Romania will not be able to adhere to euro zone (figure no. 7).

On the other hand, average productivity in Romania is 8.7 times less than average E.U.-25 productivity (20100 Euros in Romania and 174000 Euros in E.U.25). As a result, the average level of the wage in Romania was about 280 Euros in February 2007. The greatest wages are in finance, banking sector, administration and services.

In 2007, Foreign Direct Investments were about 7 billion Euros. The main economic sectors which benefited from these FDI are car building, electronic components, building, IT, pharmaceuticals and bio-diesel. At the end of 2006, Romania introduced the unique tax revenues of 16% and a lot of facilities for FDI greater than one million Euros. FDI in Romania were about 9 billion Euros in 2006, greater with 74.2% than in 2005 (figure no.8)..

Romania's exports were about 25.8 billion Euros in 2006. 18.3 billion Euros represented export in E.U. countries. In 2007, Romanian exports were about 30.2 billion Euros.

Romania's imports were 40.7 billion Euros in 2006 and 44.4 billion Euros in 2007.

As a final conclusion, we have to understand that Romania has a lot of things to do in order to achieve E.U. average economic development.

The chances for the Romanian economy as new member of the E.U. are the following:

- macro economy: for the next 5-7 years, it is expected an economic growth greater than in E.U.15. Services and public healthcare will be improved. For the beginning, the most developed sectors in the next year will be: leasing, SMEs, telephony, internet, hardware and software industries. The forecasts for 2010 show us a great development of financial market, banking, tourism and human resources. On the other hand, such industries like: textile industry, wood industry and furniture industry have to be restructured. But the most developed industries will be tourism and transport;

- prices: the development of the supermarkets will determine a new structure of the Romanian internal trade and a diminution of most of the prices. The new modern internal trade will be 50% from the market in 2010. Nowadays, this trade is about 29%. In order to obtain a greater market, the supermarkets will reduce their prices with 10-15%. The absence of the taxes will determine the movement of the prices from producers to retailers;

- free labour movement: the Romanian labour may obtain retired payees in the Member States where they work. Nowadays, there are 2 million Romanian people which work in other Member States. On the other



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hand, 11 Member States liberalized Romanian labour access on their labour markets (Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Poland, Slovenia, Slovakia, Finland, Sweden and Bulgaria) and 5 introduced a partial liberalization of the Romanian labour access on their markets (France, Italy, Hungary, Belgium and Luxembourg);

- Common Market: the public aids are replaced with European Funds. On the other hand, Romanian firms may sell their output in the same conditions with other European firms on a bigger market;

- European Funds: during 2007-2013, Romania will benefit of 28 billion Euros from Structural Funds. 11 billion Euros will be for agriculture and rural development. As a result, we must spend 8.5 million Euros every day, including Saturday and Sunday;

- environment: Romania will receive 29.3 billion Euros for its environment policy. Romania is the only Member State which has 5 bioregions (from the total 11 bioregions from the E.U.);

- fuels: The cote of the ecological diesel oil will be 5.17% in 2010. Romania has the greatest surfaces with rape, soy and sunflower;

- trade marks and brands: in 2007, 700000 European registered marks are recognized in Romania. Romanian marks have to be registered on the Common Market. That implies a tax of at least 1200 Euros;

- real estate market: price of the building will decline with 10%, except for Bucharest;

- banking: development of this sector as a result of a great European capital input on the market. The most important banks in Romania are with German, French, Austrian and Greek capital. As a result, it is expected a decline of the interest rate.

On the other hand, the threats for the Romanian economy as a new member of the E.U. are the following:

- massive bankruptcy: the Romanian forecasts tell us about 60% of SMEs as a result of a low competitiveness (19 times smaller than average E.U.);

- higher labour costs and employment migration: the main destinations for Romanian labour are Spain, Italy and Greece;

- a new structure of internal trade: the little shops will lose 15% of the internal market in 2007;

- a low capacity to use European Funds: Romania needs 10000 specialists in European Funds but it has only 1000. The specific training market was about 9 million Euros in 2007 and the cost of training/capita is 160-700 Euros. Nowadays only 25% of Romanian firms are able to apply in

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order to obtain European Funds. For example, Romania spent only 20% from ISPA Fund for environment and transport;

- food industry: has the lowest competitiveness. In milk industry, for example, the productivity is 15 times lower than E.U.25 average productivity. There are only two multinational firms in this sector: Danone and Friesland Foods;

- low productivity: in more industries, Romanian productivity is 13 time less than E.U.-25 average level. This situation will continue for at least 5 years. Most of Romanian firms are unable to think global and act local. The Romanian economy is more exposed than the economies of the Member States which adhered in 2004 because it has more inhabitants and a greater market. On the other hand, the entrance of the European firms on Romanian market will determine low costs. The Romanian firms will be unable to operate with such little costs;

- low GDP per capita: Romanian GDP per capita was 35% for E.U.-25 average level in 2005 and it will grow to 37% in 2007.

International Monetary Fund estimates that the rate of GDP growth in Romania will be about 5.5% in 2008. The same institute forecass a rate of growth of about 4.7% in 2009. It will be a result of a little growth of internal demand and of the advance of the exports connected with a lower demand of the Western Europe.

Moreover, the decrease of economic growth is connected with the decrease of capital fluxes from foreign banks. The foreign capital fluxes can be interrupted by financial turbulences from mature markets, especially by loses suffered by the banks in Western Europe.

An inverse capital fluxes can produce a breakout of credit market and a deflation of actives' prices. The most probable effect will be an unwished and sudden stagnation of internal absorption capacity combined with a painful decrease of financing sources for enterprises and population. On the other hand, the economic development in Romania will accelerate in order to achieve 6% in 2013.

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**Table no.1. The effects of adhering to the E.U.**

Domain	Direct impact	Indirect impact
Economy	<ul style="list-style-type: none"> <li>- elimination of trade barriers;</li> <li>- applying of the European competition policy;</li> <li>- implementation of CAP;</li> <li>- access to the European Structural Instruments.</li> </ul>	<ul style="list-style-type: none"> <li>- trade fluxes reorientation;</li> <li>- industrial and agricultural restructuration;</li> <li>- regional implications;</li> <li>- adhering to Maastricht criteria for convergence to the E.M.U.;</li> </ul>
Policy	<ul style="list-style-type: none"> <li>- the prevalence of European law to the national law;</li> <li>- direct implementation of European legislation;</li> <li>- changes of the Constitution and constitutional statute of national parliament;</li> <li>- representation and participation to European decisional process</li> </ul>	<ul style="list-style-type: none"> <li>- reorientation of the foreign policy, including trade diplomacy;</li> <li>- a new manner of government policies implementation;</li> <li>- new models of representation for society interests</li> </ul>

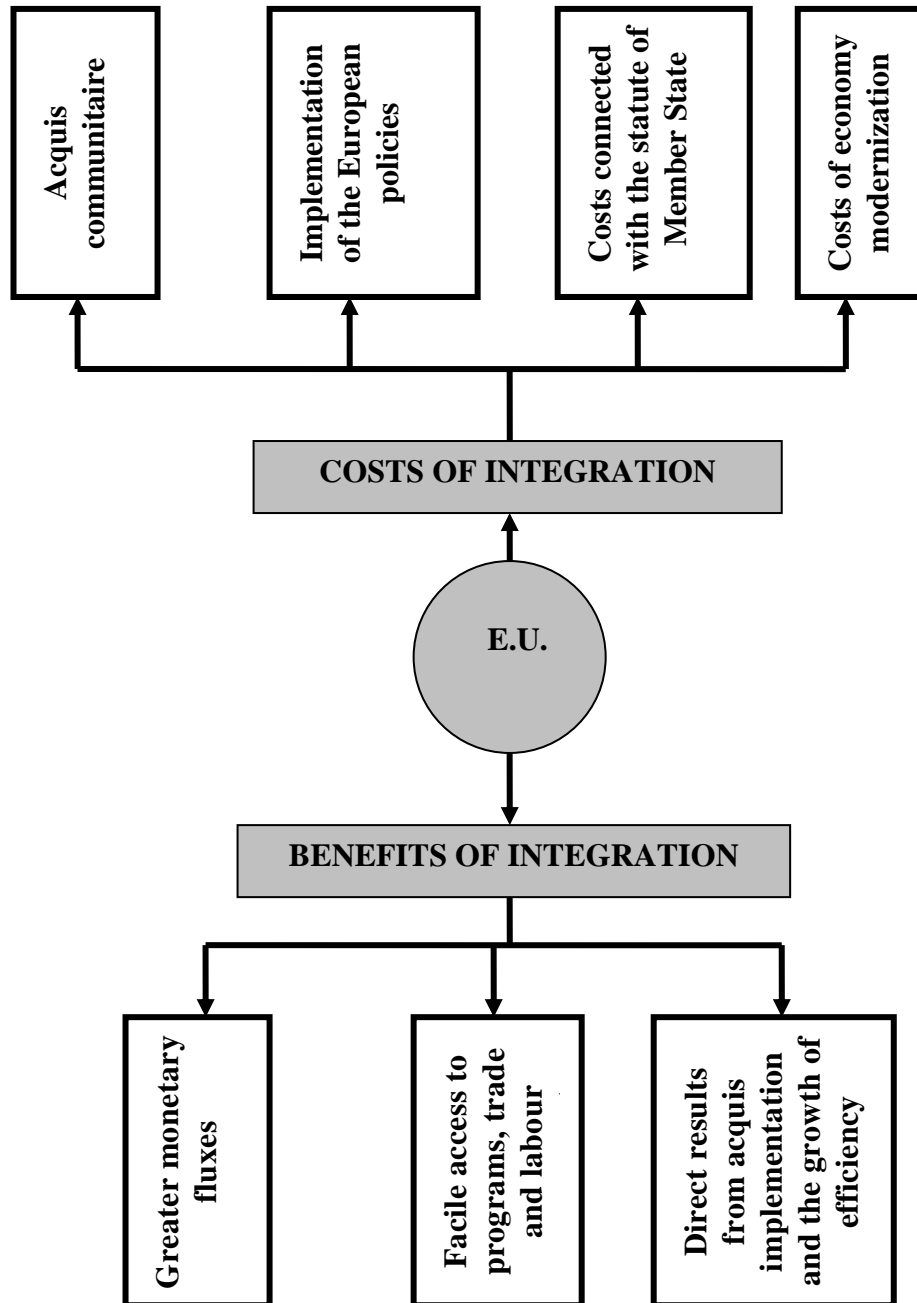


Figure no.1. Costs and benefits of European integration

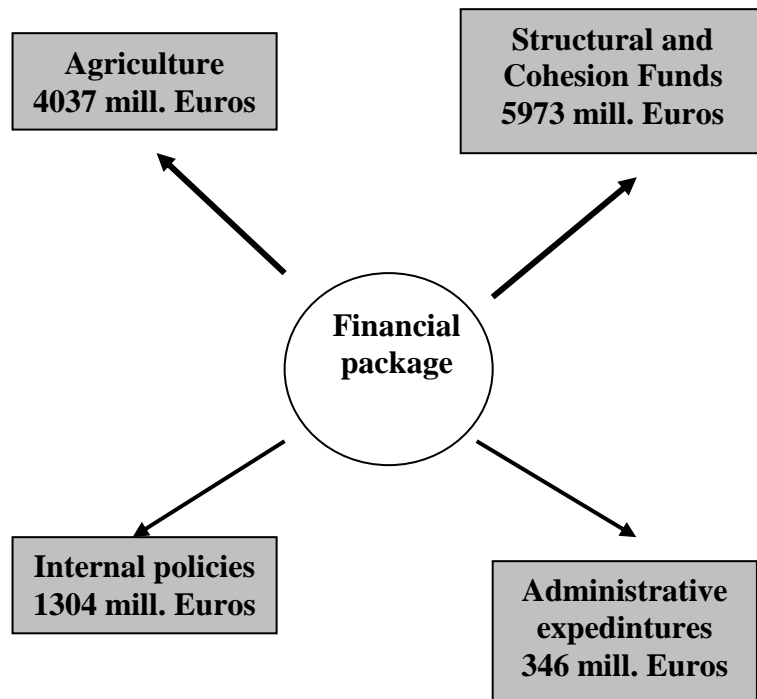


Figure no.2. Financial package for Romania and Bulgaria during 2007-2009

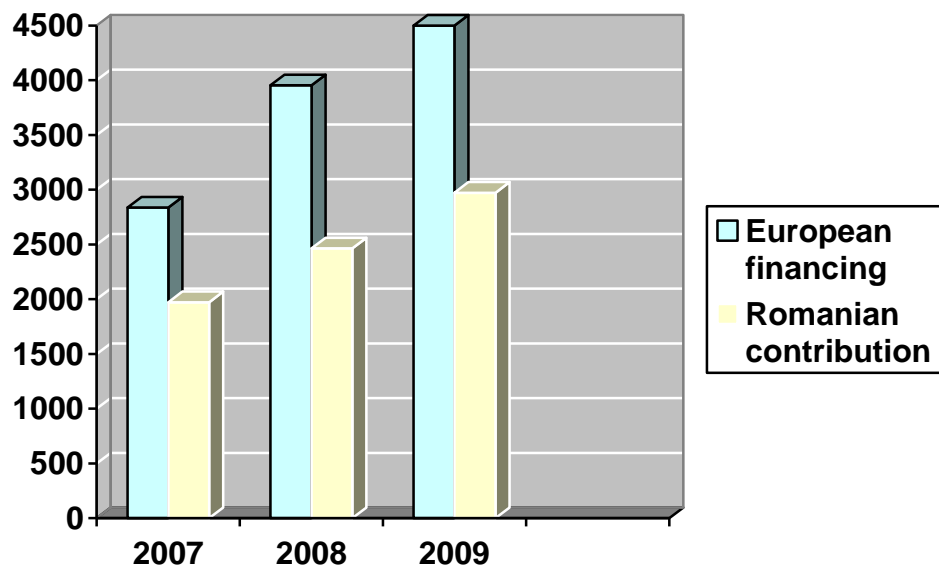


Figure no.3. Engagement for Romanian financial package during 2007-2009 (mill. Euros)

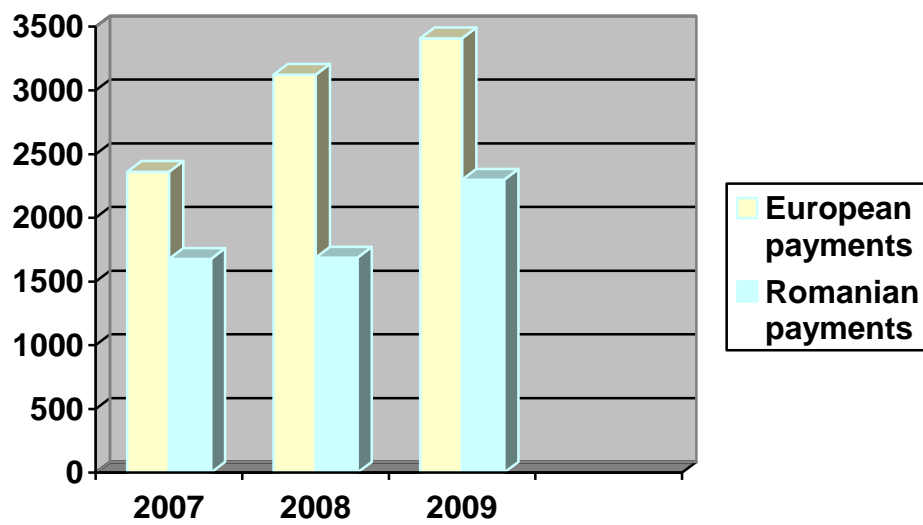


Figure no.4. Payments for Romanian financial package during 2007-2009 (mill. Euros)

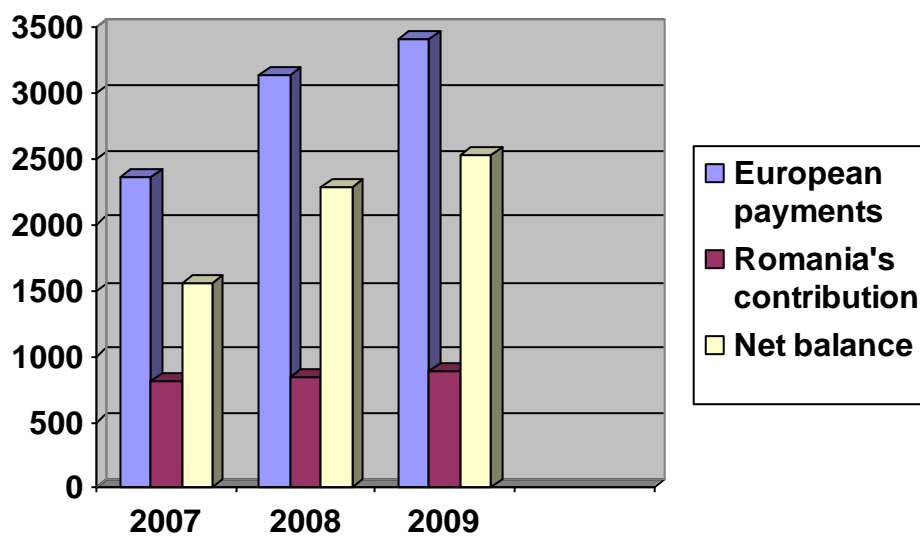


Figure no.5. Net balance for Romanian financial package during  
2007-2009  
(mill. Euros)



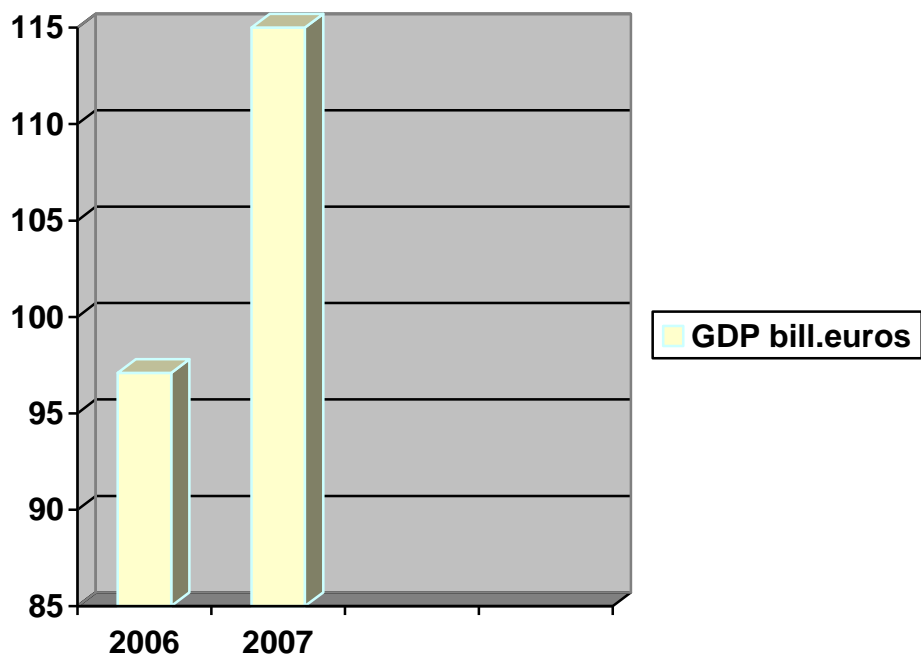


Figure no. 6. GDP in Romania

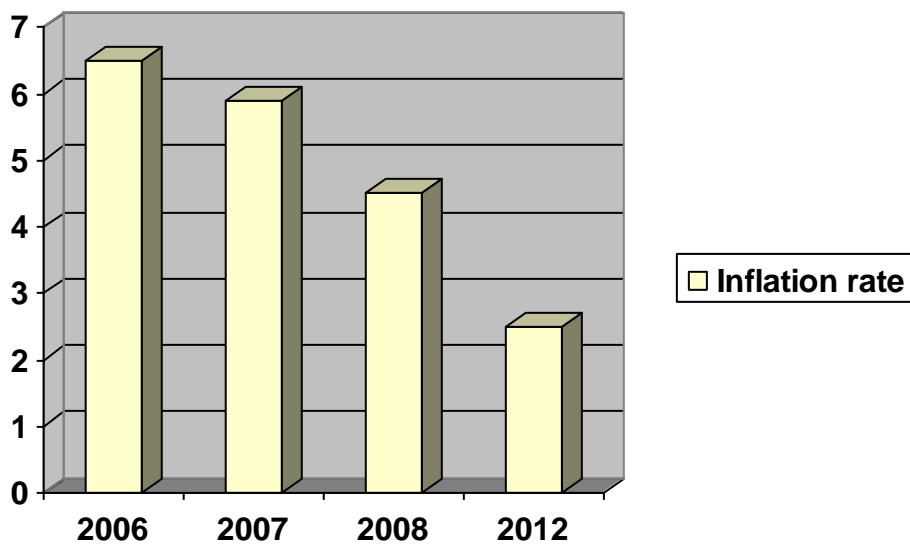


Figure no.7. Inflation rate in Romania (%)

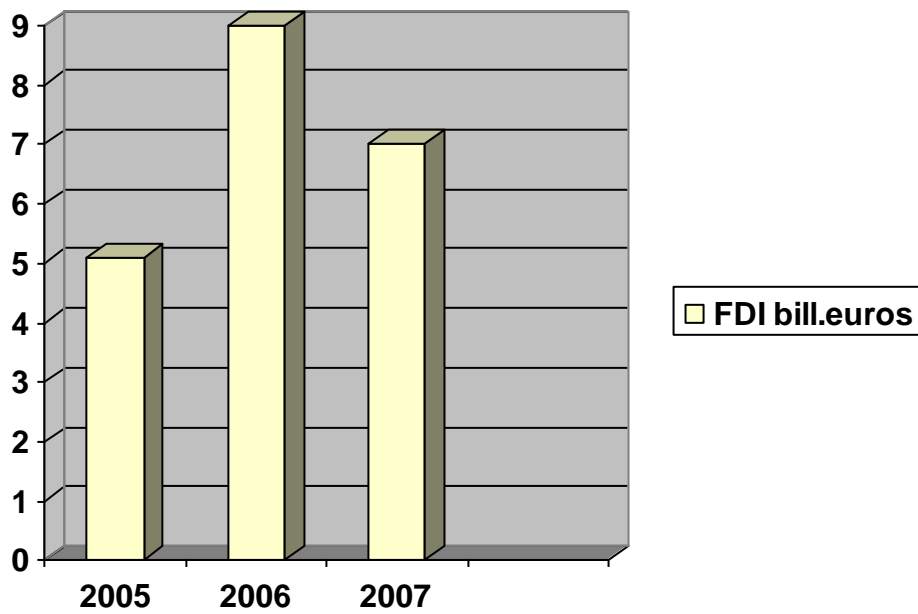


Figure no. 8. FDI in Romania



Figure no. 9. Romania's foreign trade