EUIJ, Kansai One Day Workshop

"The EU Accession of Two New Member States: Comparison of Poland and Romania"

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Introduction

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On January 1, 2007 Romania and Bulgaria joined the European Union (EU). This is the end of the EU accession that was applied for by the Central and Eastern European countries (CEECs) in the 1990s.

The EUIJ Kansai Workshop "The EU Accession of Two Big New Countries: Comparison of Poland and Romania" was held at Kobe University on December 9, 2006, that is, just three weeks before that day. The aim of the workshop was to clarify and discuss about:

- differences of both countries' positions to the EU accession,
- political and economic impacts of the both countries' EU accession, and,
- challenges for both countries to tackle with.

After the collapse of the communist regimes in the CEECs in 1989, the ultimate goal was symbolized as a word "Return to Europe." To achieve the goal, the CEECs were to depart from the command and planned societies, and to transform themselves to democratized and marketized societies comparable to the western European countries'. The process, in fact, meant accession to the European Union.

Just after the transition started, most of the CEECs concluded the Trade and Economic Cooperation Agreements or the Free Trade Agreements, and then the Association Agreements with the EU. After they concluded the Association Agreements, the CEECs submitted applications for membership to the Council of the European Union. The Association agreement is a step to the accession to the EU, but does not guarantee the accession.

In 1993, the EU established the famous "Copenhagen criteria" to be met by candidate countries to start the accession negotiations:

- political criteria: stability of institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities,
- political criteria: stability of institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities,
- institutional criteria: ability to take on the obligations of membership by transposing into national legislation and effectively implementing the *acquis communataire*.

The accession negotiations started with five CEECs (Czech Republic, Estonia, Hungary, Poland, and Slovenia) in 1998, and with other CEECs in 2000. After the negotiations have finished, eight CEECs (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) plus Cyprus and Malta joined the EU on May 1, 2004, and Bulgaria and Romania finally acceded the EU on January 1, 2007.

The reasons we selected Poland and Romania as the target countries of the

workshop are:

- Poland and Romania are the two biggest countries among the CEECs, and,
- Poland is a sample country that many Japanese companies, especially of automobile and electric industries, have already though as a CEEC country for them to invest in, and Romania is a sample country that Japanese companies are now thinking as a country to invest in.

For evaluating the performances of Poland and Romania we adopted a complex approach in the workshop. At first, two guest speakers from Poland and Romania evaluated the performances of their own country. Then, another guest speaker from Austria compared the performances of both countries. And, four discussants from the Japanese side made their comments on three speeches from their own points of view.

Dr. Ewa Balcerowicz from Poland made an evaluation of Polish political and economic performance. At first, she found that the democratic, economic and institutional reforms undertaken prior to the accession as a precondition of the EU membership have resulted in the creation of market economies, and that the main economic developments in Poland have recorded positive results in her growth, trade, and FDI, although the expectations were pessimistic. She does not forget to pointed out Poland needs to substantially improve not only political, but also its business environment, so as to become more attractive to foreign investors. She also points out Poland's absorption capacity for the EU funds as a challenge.

Dr. Gabriela Dragan from Romania made an evaluation of Romanian performance. She also confirmed that Romania ended years 2004 and 2005 with much better macroeconomic performances than the anticipative expectations. But she also listed lack of competitiveness and absorption capacity as a list of challenges Romania has to tackle with. Romania, as the last country to receive the status of a functioning market economy, was ranked as the final positions among the new member countries regarding competitiveness. She noted following the Lisbon Agenda is an answer to the competitiveness problem.

Then, Dr. Gabor Hunya compares the economic performances of Poland and Romania. At first, after admitting both countries recorded high economic growth in the last years, he pointed out the high economic growth in Poland was led by a high growth in export, leading to improvement in the foreign trade balance, whereas the high rate of economic growth in Romania has been driven by domestic consumption, leading to deteriorating the foreign trade balance. Next, after showing both countries have increased their competitiveness, he found that Poland has had a more advanced export structure and recent market share gains took place mostly in the medium-high-tech sectors, whereas Romania's market share is concentrated on the low-tech industries. Also he concerns the strong increase in Romanian unit labor cost. Finally he compared the FDI structure, finding that in Romania industry had a higher share of FDI services, whereas in Poland services, first of all banking and trade, were

more important.

The most interesting comment Dr. KOMORIDA Akio made is that Poland is not monolithic as to the future shape of the EU as well as the attitude to the EU. Especially, the society is very much positive to the EU accession in Poland, but the government is not so much. This is one of the biggest differences in the accession processes between in Poland and in Romania. It seems the asymmetric attitude could affect the future attitude of Poland to the EU, especially to the euro adoption.

Dr. IEMOTO Hiroichi, firstly, commented that even in Japan many economists and enterprises have already noticed that the CEECs including Poland and Romania have much capability and potentiality as the European bases of manufacturing production. But he does not forget to say that they are also confused with a number of problems. Finally he added concerns of Chinese impacts on Poland and Romania.

Mr. Silviu Jora complements Dr. Dragan's work with focusing more on the stages of economic Europeanization in Romania and on the accession negotiations. He concluded the EU enlargement process is a "win-win" situation for all the parties involved, especially on the medium and longer perspectives when the structural effects of Europeanization and economic integration would have taken full effect.

Dr. UEGAKI Akira raised several questions to Dr. Dragan and Dr. Hunya. To Dr. Dragan, after admitting the Lisbon Agenda is the framework Romania should follow to raise its competitiveness, he asked to give names of the prosperous industries in Romania. To Dr. Hunya he gave several important questions. First, he concerned with appreciation of Lei by the abundant foreign currency inflow, which might danger the import-substitute industries. Second, he also concerned with the possibility of the currency crisis, whose likelihood Dr. Hunya estimated very low. Finally he asked about the problem of the Romanian workers working abroad.

As we have seen, there are similarities and dissimilarities in the EU accession between in Poland and in Romania. The accession to the EU has given positive impacts on the political and economic performances of both countries. And, both speakers from Poland and Romania raised the same challenges:

- to level up their competitiveness by following the Lisbon Agenda, and,
- to progress further their institutional reforms to improve their absorption capacity for the EU funds.

Although the challenges seem very similar, however, concrete problems differ in these countries. Of course there is no any easy solution to the problems. But, at first, the fact we could identify the similarities and dissimilarities in the performances and challenges of Poland and Romania is a step toward to thinking over the therapies. We hope the workshop would give stimuli for researchers and students to study more on the transition and the EU accession in the CEECs, and for Japanese companies to increase their investment in the region.

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The Impact of Poland's EU Accession on its Economy

The EUIJ workshops
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References

Introduction

Poland acceded to the EU in May 2004, along with seven other post-communist nations (commonly called the EU-8)[1], as well as Cyprus and Malta[2]. Unlike the previous four enlargements this was the first to address the issue of Europe's reunification and followed the fall of the Soviet rule over Eastern Europe.

However, Poland's integration into the EU economy was a gradual and lengthy process which had formally been initiated in December 16, 1991 when Poland and the EU signed the Europe Agreement. In 1993 the European Council made an official invitation for Poland and a number of other CEE countries to apply for membership and set out the so-called Copenhagen criteria, pre-requisites that needed to be met before membership could be considered. EU negotiations with Poland officially started in March 1998, and lasted for four years and nine months until their conclusion in December 2002. The negotiations covered 31 thematic chapters of the so called *acquis communautaire* and envisaged bringing the country's legislation and practices into conformity with EU legislation and regulations as a condition for EU membership. A key principle in the negotiations was that no permanent derogation from EU rules was to be accorded to the acceding nations. However, some of transitional periods to both acceding and Old Member States[3] were granted in numerically very limited areas[4]. By August 2004, i.e. soon after the accession, already 94% of a total of 2,683 EU Directives had been implemented in the NMS[5].

The Accession Treaty was signed with Poland (and the other nine countries) in April 2003 and was followed by a referendum, which was held on June 7-8. The results of the referendum as well as the turnout were issues of concern for the Polish president, the government and the people who were engaged in the accession process. After the initial enthusiasm of Polish citizens for EU membership, in the years preceding the enlargement public support decreased[6], which has been explained by fatigue with systemic reforms and the lengthy EU adjustment processes. This change in attitude vis-à-vis enlargement can also be attributed to two political parties which promoted an anti-European program for Poland as a better alternative, and were very critical of the conditions for EU-accession obtained by the Polish government in the negotiations. However, a critical mass of support ultimately emerged and in the June 2003 referendum in which 77% of voters supported Poland's EU accession, while 23% voted against[7].

The transposition of the *acquis* to the national legislation was considered not only onerous but also expensive for the acceding countries, especially in two areas: environment and transport.

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[1] EU-8: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.

[2] EU-8 and Cyprus and Malta are jointly named as the EU-10. Later in the text they will be also called NMS which stands for New Member States.

[3] Old Member States (OMS) or EU-15 – this term stands for 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

[4] In the case of EU-15 on the grounds that the rapid integration may pose particular risks (see section 3 b on migrations of labor).

[5] By March 2006 this rate increased to 99% (European Commission 2006a, p. 17).

[6] In June 1994 when the first representative survey has been made, 77% of adults were in favor of the integration while only 6 % were against it (CBOS 2006b). Such massive support (70-80%) was sustained for the next two years. However, in the first half of 1998, the share of proponents went below 70 and later continued to decrease.

[7] The turnout was only 58.9%, despite the intensive pro vote campaign.

In order to cope with the adjustment costs, the European Council decided that the EU should contribute financially through pre-accession aid[8]. Three financial vehicles were used for this purpose: the revised Phare program, as well as two new mechanisms (both created in 1999) ISPA and SAPARD. Phare program aimed to finance the institutional building and drawing up of a comprehensive National Development Plan in the acceding countries. ISPA like Phare aimed at economic and social cohesion but focused entirely on environment and transport infrastructure. The third vehicle, SAPARD was tasked with supporting adjustment in agricultural sectors and rural areas.

This paper aims to briefly discuss the main economic developments in Poland since its accession to the EU in May 2004 and see how they relate to the regulatory environment and policies which the EU imposes on the member states. The paper starts with a brief description of principles, legislation and policies adopted in the EU (Section 1), which influence the decisions made by the government, as well as entrepreneurs, investors, companies and workers. Section 2 discusses outcomes that were anticipated to occur as a result of the 2004 accession. It also presents results of studies that estimated the economic impacts of enlargement ex ante. Section 3 presents economic developments in Poland in two years of EU membership. It starts with the macroeconomic performance, including economic growth and nominal convergence. The effects of Poland's participation in the single market on Polish trade (goods and services flows), capital flows (foreign direct investments – FDI), and labor flows (and specifically migration to the EU-15) are discussed in this section. The size and destination of EU funds committed to Poland are also presented. The final paragraph of Section 3 confronts the factual results of the economic processes, highlighting the public's perception of Poland's accession and their assessment of the outcomes both for their country and for themselves as individuals.

Even though the paper concerns the recent period of 2004-2006 there are frequent references to developments that took place in Poland in the pre-accession period. This is because, as discussed above, the integration process began several years before the formal accession.

1. What does EU Accession Mean

EU membership implies the adoption of common policies and legislation by the acceding and member countries. The EU policies and legislation with regard to economic issues are built on the following principles:

1. The principle of the Single Market, which embraces four freedoms:
    - free movement of goods
    - free movement of services
    - free movement of capital
    - free movement of labor
2. Fiscal discipline of the member countries
3. Protection of competition and consumers' rights
4. Limits to state aid in the member countries
5. Entry to the Economic and Monetary Union (EMU)
6. Adoption of common financial mechanisms to support specified common goals.

[8] In fact the financial support of the EU to Poland started very early, already in 1989 the Phare program, which had been originally created to assist Poland and Hungary in restructuring their economies.

7. Adoption of the Common Agricultural Policy (CAP), which protects agriculture from internal and external competition.

Free movement of goods is an old principle in use in the European Union. The Customs Union was introduced in July 1968 by the then European Community, which at that time consisted of six countries. As of January 1st 1993, the Single Market was created. The following year the Community Customs Code was introduced.

The advancement of the second principle i.e. **free movement of services** has been varied. **Financial services** had been liberalized over the course of five years: from 1999 – 2004. Following the adoption of the EU laws in this area, now there is a need to implement and properly enforce the new regulations.

In the case of **non-financial services**, there are many legal and administrative barriers to their provisions in the member countries[9], which hamper competition and allow for high prices. This should be seen in the context of the growing importance of services and employment in terms of their added value to the Member Countries[10]. The proposals to liberalize trade in services on the internal market have been under intense discussion for the last two years. The Directive on Services (known as Bolkenstein's Directive) was submitted by the European Commission to the European Parliament in February 2006. Despite the clear economic gains that would result from the introduction of the proposed Service Directive[11] to the old Member States (their consumers and firms using services as inputs), the majority of European MPs, backed by governments and trade unions, were against the Directive in its original form. A compromise was eventually reached and formally agreed upon by the European Council, and voted on by the European Parliament in November 15, 2006. After implementation of the Directive on Services by the Member States, which is scheduled for 2009, the services market will be liberalized; albeit only to a limited extent

Capital flows within the EU have been liberalized since 1 January 1994. However, certain barriers (as they were in December 31, 1993) may have been kept for other countries. Infringements in member countries do happen, e.g. with regard to special rights in privatized companies or resistance to cross-border take-overs and mergers.

Free movement of labor was advanced in1985 when the Schengen Convention was signed. Other EU countries have since signed on to the convention. The milestone was on 1 November 1993, when the European Union Citizenship was introduced. The rule of equal treatment of all citizens within the EU was revised on the eve of the 2004 EU enlargement. Transitional arrangements were introduced, which allow the Old Member States to impose restrictions for a period of up to seven years on employment of EU-8 citizens[12]. Out of the15 old Member States, only three countries: the UK, Sweden and Ireland did not originally take advantage of the possibility to temporarily protect their labor markets. In May 2006, four more countries: Greece, Spain, Portugal and Finland decided to lift restrictions on EU-8 labor immigration. In July 2006, they were also joined by Italy.

The EU legislation imposes **limitations to state aid** in the member countries on the grounds that any public support to individual enterprises is incompatible with single market principles. State intervention into individual undertakings favors them and eventually distorts or

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[9] Interestingly, provisions of services are more restrictively regulated in the EU-15 than in the NMS (Copenhagen Economics, 2005).

[10] Services amount for almost 70% of GNP and jobs in the EU.

[11] See them estimated in: Copenhagen Economics (2005).

[12] Malta and Cyprus were treated differently and they enjoyed the general EU rule of free movement of labor.

threatens to distort competition. This is why the EU set up the legislative framework, the administrative system and enforcement mechanism to regulate, monitor and control the state aid extended in the member countries.

Starting with the Lisbon Agenda in 2000, the Member States committed themselves at the 2001 Stockholm European Council to launch the process of reducing the general level of state aid. However until now, they have not been very successful in pursuing this commitment. Only slight declines or stable levels of aid have been observed since then in the member states (European Commission, 2006b). In the old Member Countries as a whole, the state aid decreased from 0.61 % of GDP on average in the period 1999-2001 to 0.59%[13] in the years 2001-2003.

However, the Old Member States were more successful in changing the structure of state aid. The EU classification divides public support according to objectives, i.e. horizontal, sectoral and regional aid. Sectoral policies aim to resolve problems of individual companies or specific sectors and are the least accepted type of state aid in the EU. Regional support programs are concerned with influencing the development of regions suffering from special problems such as high unemployment, low levels of development, etc. Horizontal policies are the least harmful for competition as they apply to a wide range of enterprises (i.e. across sectors) meeting a particular criteria. The objective of this type of state aid is to support specific developments or undertakings that are in the common interest, such as development of SME sector, R & D, employment, education and training, environmental protection, energy saving, etc.
When looking at the same years as above, the old member states increased horizontal aid from 71% of the total state aid in the period 1999-2001 to 76% in the years 2001-2003.

The European Union (the EU-15) has elaborated **common financial mechanisms** whose objective is to support specified common goals. As of the 2004 enlargement, these mechanisms also apply to the New Member States. The funding comes from the EU budget, which is raised through the contributions of all member states according to the same rule[14]. The three consecutive budgets of the enlarged EU (for the years 2004, 2005 and 2006) amounted to EUR 100, 106 and 112 billion respectively and this constituted approximately 1% of the Gross National Income (GNI) of the EU-25 (European Commission, 2006d).

A negative correlation exists between a member country's income (measured by GDP per capita) and the amount of its net transfers to the EU budget. Since all NMS have a GDP per capita below the GDP per capita for the enlarged Europe (EU-25), all ten are net recipients of the EU budget. Another important rule binding the Member Countries is that the EU transfers to recipient member countries require national co-financing (up to 15-25%). The co-financing rule is seen as a way to foster the efficient use of the money.

The structure of budgetary expenditures is as follows. The largest portion of the EU funds (45-46%) is channeled to agriculture. The vast majority of these expenditures are used to finance interventions in agricultural markets. The other two budgetary items within agriculture are funds for rural development and direct aid.

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[13] Total state aid less railways. If agriculture and fisheries are also disregarded, the data for state aid was 0.44% and 0.4% respectively) (European Commission, 2006b).

[14] The payments from the member countries account for 72% of the EU budget revenues in 2006. The remaining 28% comes from the EU's own resources. They are: agricultural duties and sugar levies; customs duties; VAT revenues from a uniform percent rate applied on all EU countries (14%).

The second largest portion (ca 40% of the budget) is used on expenditures for structural actions. These funds are targeted towards supporting the restructuring and modernization of certain regions and sectors of economies that are in a bad economic shape. The main financial vehicles used to pursue the structural policies are the Structural Funds (there are four of them)[15] and the Cohesion Fund.
The EU also funds internal policies (nuclear safety, institution building and border control in the Schengen framework) and external actions; however these two items are relatively small when compared with the first two.

2. Expected Outcomes of EU accession

The democratic, economic and institutional reforms undertaken prior to accession and required by the EU-15 as a precondition of EU membership have resulted in the creation of market economies in the eight CEE countries. The adoption of market mechanisms brought about an increase in efficiency and a restructuring of the real sector.

In political terms, EU membership was expected to create an environment of stability, security and prosperity that would encourage foreign investment and would lead to the reallocation of production to NMS. This, in turn, was expected to contribute to economic growth (Kok, 2003).

In economic terms, membership was expected to bring about substantial gains in the medium and long run. The adoption of the four freedoms that are at the core of the EU integration should facilitate flows of labor, capital and goods. The free movement of goods as well as the factors of production is expected to lead to increased competition on labor and capital markets, as well as goods and services markets. Increased competition should consequently lead to the lowering of costs (increased efficiency), the spatial reallocation of production, and technological and institutional innovations. Increased trade brings about intensified commercial links and co-operation.

The EU state aid rules and policies impose limitations on direct government interventions into economic activity and thus protect competition[16]. These limitations adopted in the NMS should effectively stop the common practice of transition countries' governments of getting involved in solving the crises situations of individual enterprises (Hashi and Balcerowicz, 2006).

In addition, EU membership exposes member countries to EU-wide economic policy coordination and imposes fiscal discipline so as to avoid excessive public debt. Empirical research results point out the negative correlation between economic growth and a high budget deficit (Fischer, 1993). Studies have also proven that both general government deficit and inflation reduce investment and limit productivity gains.

A substantial benefit for Poland and other CEE countries of becoming EU member states is access to the structural funds raised through members' contributions and managed by the

[15] There are four of them: European Regional Development Fund (ERDF), European Social Fund (EFS), Finance Instrument for Fisheries Guidance (FIFG), and European Agricultural Guidance and Guarantee Fund (EAGG).
[16] In the years 2000-2003, i.e. on the eve of accession, state aid in Poland accounted for 1.26% of GDP and was three times higher than the average for the EU-15 (which was 0.43%, see European Commission, 2006b). Only 24% of the state aid was used for horizontal objectives, while in the old member states it was 75%. This shows the distance that needed to be cut.

European Commission. The volume of funds is substantial (see Section 1), therefore payments received by the NMS, if reasonably and efficiently used, have the potential to contribute considerably to improvement of public infrastructure.

In addition to the arguments for EU membership presented above, which were formed by economists, policy makers, and politicians, there were also anxieties voiced by the public, particularly trade unions, which were present in both the political debates in the member and candidate countries and also at the pan-European level. To respond to these anxieties several studies were undertaken before the enlargement to estimate the potential effects on both the EU-15 and the acceding countries.

Although economists used different methodologies and approaches, the results from their studies were consistent and suggested that notable gains would result from the enlargement: both for the EU-15 and for the NMS[17]. The gains were expected to be greater for the acceding countries, largely due to their smaller economic size relative to the EU-15, which would make the enlargement shock more pronounced. Yet another reason raised in the analyses was that the NMS, which had a lower level of development due to only recently adopting market rules and joining the common market, should improve their performance at a faster pace than the old member states. For example one of the studies estimated that for the EU-8, the additional growth (GDP) that would result from the 2004 enlargement would be 1.3-2.1% per year, while only 0.5 – 0.7% for the 15 old member nations (European Commission, 2001). Estimates by CASE expert (Maliszewska, 2004) were lower: the liberalization of trade and the reduction of technical barriers was forecasted to bring an increase in GDP of 3.4% in Poland in the long run, 7% in Hungary, while only 0.3% in the EU-15 .

The key concern of the old member countries was that the 2004 enlargement would cause a massive migration from the poorer new member states to the richer EU-15. They feared this would negatively impact wages (downward pressure) in the OMS, as well as the standard of living of certain segments of the labor market (deterioration). However, ex ante studies based on aggregate data did not provide conclusive evidence. While it was estimated that the wages of both skilled and unskilled workers would grow in the long run in Germany and Austria[18], in Denmark they were expected to decrease[19]. As far as the impact on the labor markets in the new member states is concerned, it was estimated that the real wages of unskilled workers in Poland and Hungary would increase by 1.7% and 3.2% respectively, and that this growth would be greater than the growth in skilled workers' wages (Maliszewska, 2004).

3. Poland 2006: economic developments in two years of EU membership

As discussed earlier, Poland's integration with the EU has been a lengthy process, and it is not yet complete. The formal accession that took place on 1 May 2004 was only a single event marking the formal change of the country's political and economic status. However, it is important to note that the developments in the Polish economy in the two years since the formal accession were influenced to a large extent by institutional and regulatory reforms undertaken in the years prior to the accession.

[17] For the brief review see European Commission (2006).
[18] By 0.5% and 0.6% respectively, see Keuschnigg et al, 1999 and 2002.
[19] By -0.81% in the years 2000-2065, see Kristensen and Jensen, 2001.

The transposition of EU legislation allowed Poland to profoundly reform the way in which its economy is regulated. Changes in such areas as financial markets, company law, accounting, and intellectual property rights have created better environment for business and have led to economic growth. The adoption of the European state aid regulations imposed restrictions on government intervention into the enterprise sector, while changes in competition law strengthened anti-monopolistic policies and the protection of consumers against the unfair behavior of producers.

In light of this, another important observation should be pointed out. Clearly, the gradual integration with other European countries has not been the only factor influencing the developments in the Polish economy. Governments of the member countries enjoy a large degree of freedom in planning and implementing domestic economic policies regulating their domestic business environments. Thus, when examining the economic developments, the impact of conventional economic factors should be taken into account as well. Finally, it should be mentioned that while the short-term shocks caused by the 2004 accession were already analyzed, the long term impact of EU membership can only be studied after several years.

a) Economic Growth

In the first two years of EU membership (2004-2005), Poland has enjoyed sound economic growth at an average rate of 4.2% a year (for yearly rates see Table 1 below). This positive trend continues to be observed in 2006[20]. At such a rate, Poland ranks high (no. 8, together with Greece and Luxembourg) in the EU-25 rankings. Poland's economic growth has been twice as high as the growth of the old Member States when taken as a whole, as the average for the EU-15 was only 2%. However the Baltic countries and Slovakia, who lead the ranking, have been doing far better than Poland[21]. In recent years, all four have implemented substantial public finance, tax and regulatory reforms which have positively impacted on business activity and private sector growth, and this has sped up the rate of economic growth.

Table 1 GDP, Exports and Imports of Poland in 1997-2005, growth rates (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
	Growth rate								
GDP	7.1	5.0	4.5	4.2	1.1	1.4	3.8	5.3	3.4
Exports	12.2	14.4	-2.5	23.2	3.1	4.8	14.2	14.0	8.1
Imports	21.4	18.6	1.0	15.5	-5.3	2.7	9.3	15.2	4.9

Source: (Poland's) Central Statistical Office data

The average rate of GDP growth in Poland in the nine year period of 1997-2005 was 3.9% yearly, the same as for the EU-10 as a whole. Since economic growth in the old Member States was considerably lower (2.3% yearly), a real convergence was in progress. In 1997, Poland's GDP per capita (in PPS) accounted for 40.1% of the EU-15, and nine years later for 46%. However the distance to the average for the EU-15 remains large. Poland is also lagging behind the majority of the NMS. Only Lithuania is still behind Poland (with 43.1%).

[20] In the second quarter 2006 GDP grew 5.5% YoY and CASE forecast for the entire 2006 is 5.3% (CASE, 2006).

[21] Latvia 9.1%, Estonia 8.6%, Lithuania 7.2%, and Slovakia 5.8%.

In 2005, the average GDP per capita for the newly acceded countries was 52.1% of the EU-15 (European Commission, 2006a).

The research results show that capital accumulation and technical progress were the key factors contributing to the economic growth of Poland (and other NMS) in the last eight years (1998-2005). Labor has had a negative impact in Poland (and a number of other NMS) (European Commission, 2006a).

b) Migrations

According to neo-classical economic theory (see Hicks, 1932) migration is perceived as a consequence of wage differentials and as a means to even out inequalities in wages and living conditions.

Labor migration from Poland to Western countries started in the early 1990s, soon after the transition to a market economy had been initiated.

The temporary nature of residence in the host countries has been the main feature of migration from the EU-8 in the whole transition period (World Bank, 2006a and 2006b). The largest flow of labor migrants from transition countries was generated by a seasonal demand for labor in agriculture and construction, mainly in Germany, but also in Spain, France and the UK. These flows were usually regulated by bilateral governmental agreements. Labor flows have also flourished under the 3-month tourist visa-free regime. Some peripherally-located micro-regions of Poland became very dependent on the labor markets of big European cities (Brussels, Berlin, Vienna, and London). One third to one half of households live on incomes earned in these cities (Jaźwińska and Okólski, 2001).

It is difficult to say how many Poles worked in the EU-15 in the pre-accession period, as official statistics are unable to grasp the phenomenon for a number of reasons. However it is certain that much of the migration was illegal, therefore any figures on labor migration underestimate the real scope of labor flows. The German statistics on legal seasonal workers shows that while in 1993 there were 143,861 Polish nationals working in Germany, in 2003 this number increased to 271,907 (World Bank, 2006a).

As forecasted, the external mobility of the CEE countries' labor force intensified after their EU' accession[22], and as predicted, inflows were concentrated to the three countries that opened their labor markets. Poland has had an important contribution to this due to the size of its labor force. In 2004, approximately 250,000 Poles stayed abroad for at least two months. This is 20% more people than in 2003. Approximately 80% of migrants work during their stay abroad. The UK and Ireland have become important destinations for labor migrants[23]; however Germany remains the dominant one (25% in 2005) (World Bank, 2006a).

The age structure of the Polish migrants has changed over time. While in 2000 those aged below 35 constituted 51% of the migrants, in 2004 their share increase to 61%. In the same

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[22] However some of the employment registered in these three states soon after the enlargement was not a result of a new inflow of migrants but rather the legalization of workers from new member states who were already working in old member states.

[23] The UK had a 20% share in 2005 as compared to 4% in 2000. Ireland was meaningless as a destination for the Polish labor in 2000 while its share in the total outflow in 2005 was 6%.

period the share of over 45-year olds decreased from 28% to 20%. However, migration remained to be predominantly short term, and this feature became even more apparent after accession; in 1995 short term migrants (those staying abroad for less than 12 months) amounted to 48%, in 2003 they constituted 53%, and in 2004 – 60% (World Bank, 2006a).

Yet two more characteristic features of the Polish labor migrants are the following: Polish emigrants are relatively well educated (better than the general population of Poland)[24] and generally overqualified for the jobs they do abroad.

However, fears that the massive migration from CEE countries would be devastating to destination countries turned out to be unfounded. The experience of the two years after the 2004 enlargement shows that the size of inflows to the three old European countries which opened their labor market turned out to be below the absorptive capacity of the receiving countries (World Bank, 2006a). The number of vacancies in the UK did not shrink as a result of post-accession labor inflows to manufacturing, construction and hotel and restaurant sectors. Also, inflows of foreign workers supplemented domestic labor rather than replaced it. This may explain why local wages remained stable which was the opposite of the expectations of trade unions in recipient countries, which feared that workers from new member states will cause a fall in nominal wage growth in the UK and Ireland (Doyle et al, 2006). Finally and contrary to expectations, it appears that migrants from CEE countries were attracted by labor opportunities and not by social welfare systems (World Bank, 2006a). All of the evidence points in favor of liberalizing labor markets in other old member countries that were reluctant to allow the free movement of labor from NMS at the outset.

While there was no negative impact of labor inflows to old member states, the evidence shows that outflows of labor may generate problems in the NMS. From May 2004 until December 2005, 1.2% of the Polish working age population left to legally work in one of the three countries that liberalized their labor market, mostly to the UK (World Bank, 2006a). Moreover, migrants are mostly young, work-oriented and well-educated. Shortages of skilled workers have already occurred in Poland (and even to a greater extent in the Baltic States) in several sectors of the economy (including health care, and particularly anesthesiologists and surgeons). In addition, wage pressures have increased, mainly in agriculture and construction. As a result Poland (and other affected NMS) may be forced to import labor, thus will have to relax their immigration policy vis-à-vis non EU member countries. If Poland does not, the labor shortage may impede economic growth in the medium term; and the country will face problems in financing the rapidly ageing population in the long run.

On the positive side of labor outflows: Poland benefits from increased remittances and expects to regain some of the labor with additional human capital. Yet remittances are mostly used to augment households' consumption and support tertiary education, so their impact on economic growth is very limited.

The evidence shows that the relatively high propensity for foreign migration is accompanied by low internal mobility. These two may be seen as alternatives.

[24] The UK traditionally attracts comparatively the largest number of Poles with tertiary education: in 2004 35% of Polish emigrants staying for more than 2 months in the UK had a university diploma.

c) Trade

Trade with the EU member states was liberalized through the Europe Agreement signed in 1991 (see Introduction). The Agreement established the framework for bilateral relations between Poland and the then European Community as a whole. Part III of the Agreement dealing with mutual trade came into force as soon as 1 March 1993. A Free Trade Zone has been established, covering 85% of the bilateral trade. Early liberalization of trade fostered Polish exports and imports to and from the European Union much ahead of the formal accession.

For many years Polish trade in goods grew at a faster pace than its' GDP (see Table 1 above), therefore the economy was slowly but consistently becoming more open. While in 1994 exports of goods and services (taken together) accounted for 21.6% of GDP, in 2003, which was the last year before the accession it increased to 33.4%; the indices for imports of goods and services for the same years were 19.7% and 35.9% (European Commission, 2006c).

Poland's trade integration with the EU augmented considerably. In 1999 exports (of goods) to the EU Member States accounted for 13.2% of GDP, and four years later, it increased to 20.1%[25].

In the last year before the accession, i.e. in 2003, Polish exports grew by 14.2%. Such a high index was also registered for 2004 (see Table 1 above). In 2005, the rate of growth went down to 8.1%, but this has to be seen in the context of the strengthening rate of exchange of Polish currency. As a result, in 2005 Polish exports amounted to EUR 77.6 billion and this was 5 times more than in 1994 (EUR 15.5 billion; see Figure 1 below). Trade integration with the EU increased further (to 22.8% of the GDP) and 78% of the exports go to the EU. In the first quarter of 2006 exports jumped again (by 21.4% YoY) and the forecast for the entire year is very optimistic (14.2%; CASE, 2006).

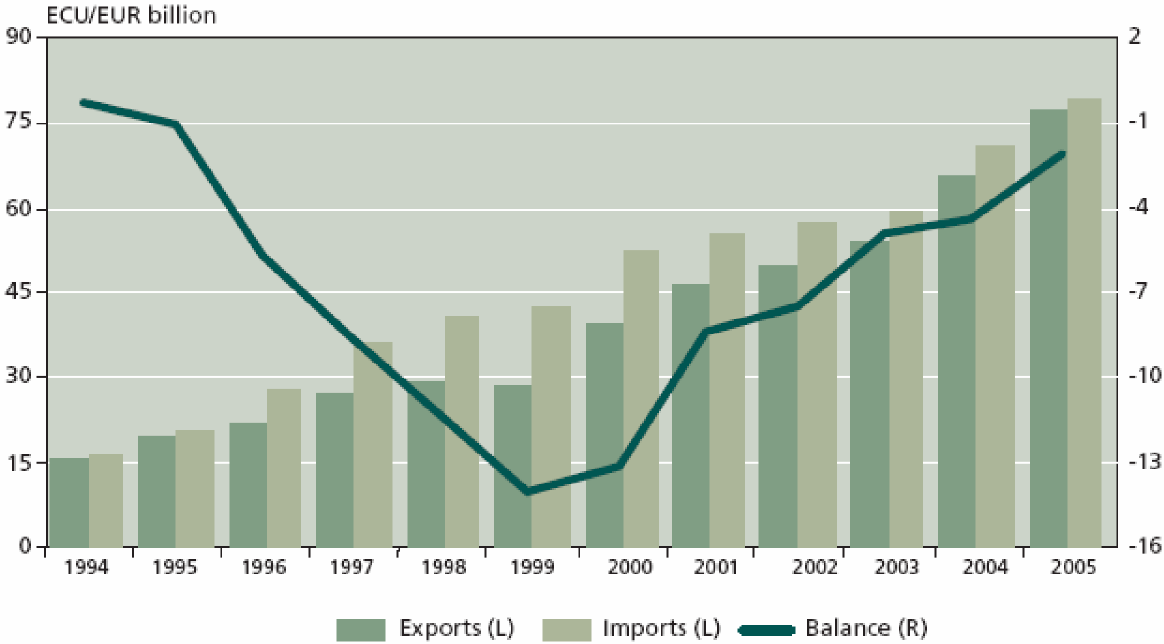
Contrary to pessimistic expectations with regard to impact of EU accession on Poland's imports, the rate of growth for exports outpaced the rate of growth for imports[26]. As a result (and also contrary to negative predictions) the foreign trade deficit did significantly decrease and in 2005 it accounted for EUR 2.2 billion (see Figures 1), which was - 0.9% of GDP. It is worth noticing that the year 2005 was the sixth consecutive year in which the foreign trade deficit continued to shrink. Also in 2005 and 2006 the trade balance with the European Union became positive; which means that the current trade deficit has been generated by trade with non-EU countries.

EU membership means not only that since May 2004 Poland has applied the Community Customs Code, but also that it has adopted the Common Customs Tariffs for the third countries. The latter caused a drop in an average tariff applied by the EU-10 on imports from the third countries from 8.9% to the EU average of 4.1%. This may explain the rapid increase in imports from developing countries (mainly from China), which is faster than from the EU. However, exports to the third countries have also reached record growth levels (mainly to Russia and Ukraine). This increase of exports may be partly explained by export subsidies to trade in foodstuffs that also apply to Polish exports, as for all EU producers.

[25] See: European Commission, 2006c. Unfortunately data is not available for earlier years.
[26] Except for 2004. The forecasts for 2006 are optimistic.

Polish farmers were afraid that after the accession, the Polish market would be flooded with imported food. This did not prove correct. On the contrary, the liberalization of trade in foodstuffs generated an increase in the Polish exports to the EU.

Figure 1 Polish Exports and Imports and Balance of Trade in 1994 -2005



Source: NBP data

The rapid growth of exports in recent years despite the low import demand from major markets may be explained to some extent by the growing presence of FDI in Poland. Foreign-owned companies established in Poland account for a major part of Polish exports.

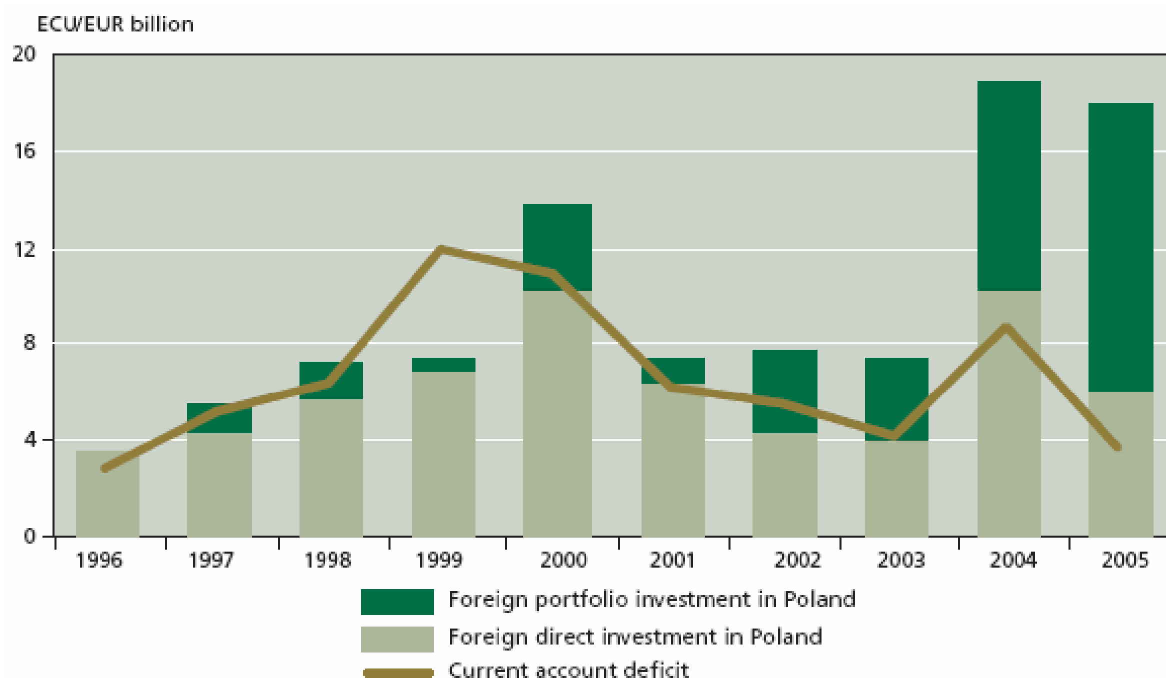
d) Foreign Direct Investments (FDI)

FDI plays a crucial role in the process of a country's economic modernization. In the case of post-communist Poland and other CEE Countries, which were transforming their economic systems and restructuring their economies in the 1990s, there was a great need for foreign direct capital. FDI complemented the limited domestic sources of funding and created the potential for increases in production increases and the creation of employment. FDI inflows also contributed to productivity growth through the transfer of technology and expertise. Additionally, FDI inflows had positive indirect effects (spillovers) as the presence of foreign direct multinationals improved the productivity of domestically-owned firms via technology transfers and enhanced competition.

At the beginning of the transition period, the FDI inflows to Poland were very low, for obvious reasons. They began to slowly increase in the mid-1990s when the market institutions were already in place. FDI received an additional impetus after 1997 parliamentary elections, when a new, pro-reform government undertook the program of privatization of big state-owned enterprises. The peak of the privatization deals occurred in 2000 and this contributed to the record amount of foreign capital inflow (EUR 10.3 billion), which holds until the present day (see Figure 2 below). The change of government in the year 2000, together with

the parliamentary elections of 2001, which brought into power two socialist parties, led to a substantial slow-down of the privatization process. The 1999 sale of a large portion of the shares of PZU, the largest Polish insurance company, to a foreign investor was formally

Figure 2 Foreign Direct Investment and Foreign Portfolio Investment in Poland, 1997-2005



Source: NBP data

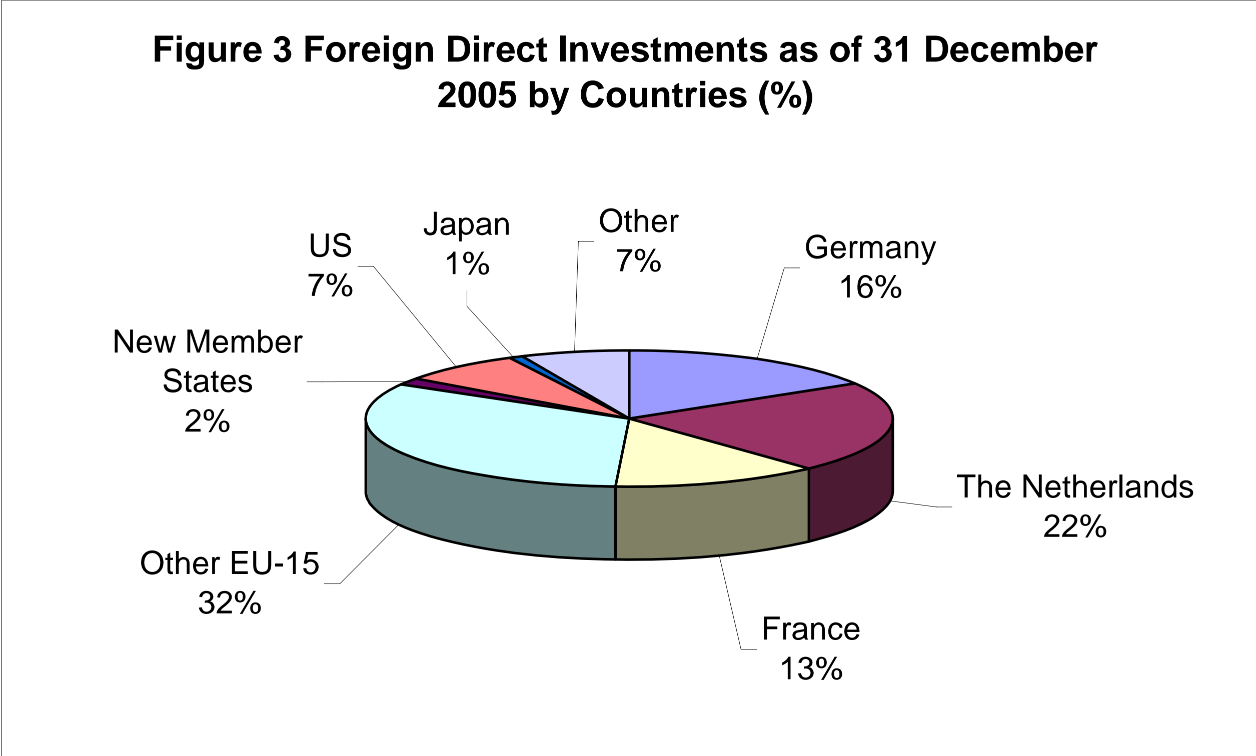
questioned by the new government and the privatization contract was breached. The foreign investor (EUREKO) sues the government of Poland. These developments negatively affected the volume of FDI, which in the years 2002-2003 dropped to less than half of the 2000 peak level. Also, since 2002, foreign direct capital inflows have mostly been green-field investments and, increasingly, takeovers of domestic-owned private companies or mergers

A considerable increase in the foreign direct investments to Poland was expected after the EU accession. These forecasts proved true as there was a spectacular increase in FDI inflows in the year of the accession: 2.5 times more than the previous year. Altogether EUR 10.29 billion was invested in 2004, nearly reaching the peak-levels of 2000. However, in 2005 FDI inflows went down by 22% to EUR 7.7 billion.

Until now, Poland has been the main recipient of FDI out of the EU-10, and understandably so when one takes into account the size of the Polish economy. By the end of 2005, the FDI stock accounted for EUR 75.7 billion. In relative terms, the cumulative foreign investments in Poland were modest and amounted to only 31% of GDP, which placed Poland close to the end of the rankings (only Slovenia and Romania trailed behind).

The ongoing process of economic integration with the EU is occurring not only in trade but also in capital mobility. The EU-15 was the major investor in Poland for the entire period prior to accession and has also dominated in the two years since the formal accession. In 2004 and 2005, the old Member States respectively accounted for 85.5% and 82% of the capital inflow in these two years (NBP, 2006b). As of 31 December 2005, the EU-15 FDI amounted

to EUR 63.1 billion and constituted 83.3% of the total FDI (EUR 75.7 billion). Foreign investments originated mostly from The Netherlands (EUR 16.4 billion), Germany (EUR 12.3 billion) and France (EUR 9.6 billion) (see Figure 3). These three countries accounted for 60.8% of the cumulative FDI inflow to Poland.



The United States, which previously made substantial investments in Poland, in 2005 invested only EUR 626 million, which accounted for 8% of the total current foreign direct capital inflow. The cumulative US direct investment to Poland as of the end of December 2005 amounted to EUR 5.6 billion. With a share of 7.4%, the US ranked 4th after the three EU Member Countries listed above (Figure 3). Japan with EUR 238 million accounted for 3.1% of 2005 FDI in Poland (NBP, 2006b). Japan's direct investments in Poland as of December 2005 accounted for only EUR 606.6 million.

Lastly, it is worth noting that although they are still small, capital flows to Poland from the New Member States are increasing.

As far as the sectoral structure of the FDI stock in Poland is concerned, investments are concentrated in three sectors: manufacturing with 37% of the total foreign investment ranks 1st, financial intermediation 2nd (20%), and trade 3rd (18%) (NBP, 2006b). In the manufacturing sector, the most attractive destinations for foreign capital were (1) motor vehicles manufacturing (EUR 4.7 million, 6.2%), and (2) food production (EUR 4.5 million, 6% of the total).

Interestingly, the Polish FDI, which for many years was very small and did not exceed EUR 100 millions a year, has increased spectacularly in the recent two years. The outflow of FDI amounted to EUR 636 million in 2004 (which was 2.3 times more than a year earlier) and EUR 2,493 million in 2005. The last figure includes the purchase of the Czech Unipetrol by ORLEN, which accounted for 18% of the total direct investment outflow.

A visible impact of Poland's EU membership is the increased foreign portfolio investment in Poland (see Figure 2 above). Though it was already growing in the two years before the accession, in 2004, it increased by 2.5 times (to EUR 8.5 billion), and in 2005 by 39% (to EUR 11.8 billion), and surpassed the 2005 FDI inflow by 54%.

To receive more FDI in the future, Poland needs to substantially improve not only political, but also its business environment, so as to become more attractive to foreign investors. Poland needs to stand out when competing with other investment destinations, which have made many improvements in regulation, tax systems etc.[27] However, the prospects for improvement are rather modest. The Law and Justice party (PiS), (which formally refers to itself as right-wing, but which is in fact populist), won parliamentary elections in September 2005 and currently runs a state-interventionist fiscal policy. The recently initiated restructuring and privatization processes of "sensitive sectors" (coal, steel, railroads, and energy) has stalled. In addition, with the help of some mass media organizations, the leaders of the three coalition parties in power have revived anti privatization and anti-foreign capital sentiments (under the slogan of the so-called "loss of national ownership"). Nevertheless, many local governments are very pro- foreign investor-oriented and work hard to attract the investments of big multinationals, and have been very successful.

e) The EU funds for Poland in 2004 - 2006

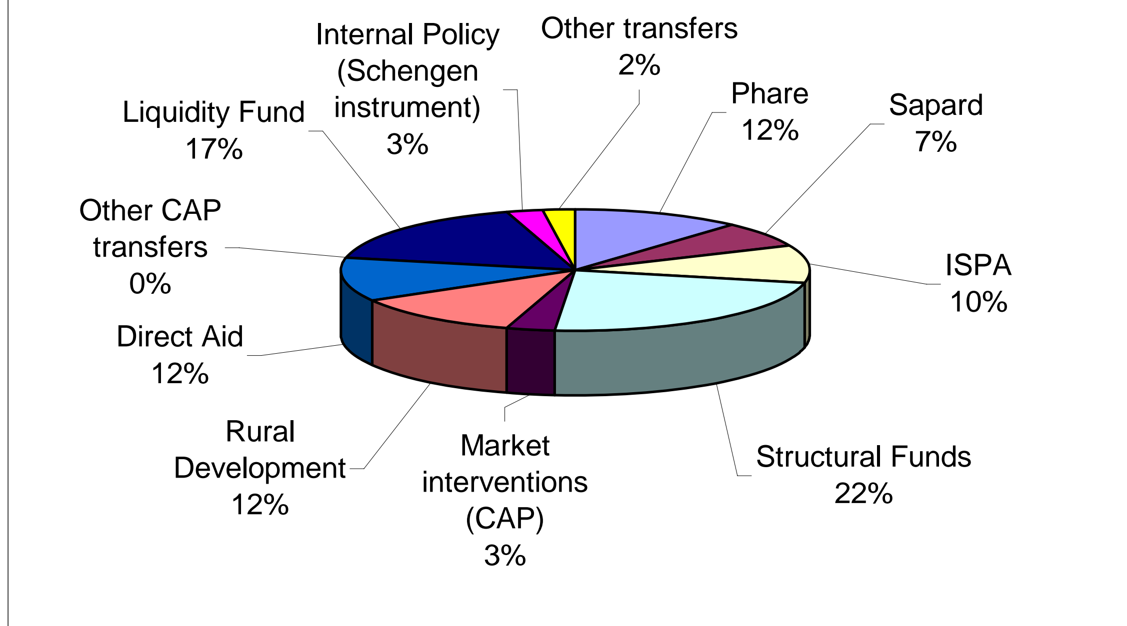
Poland accounted for 3.1% of the EU budgetary expenditures in 2004, while it contributed 1.4% to the EU budgetary revenues. With 1.7% of net transfers, Poland was a net beneficiary in the EU budget. The amount of net transfers was EUR 1.7 billion and this accounted for 0.75% of the country's gross national income (GNI) (European Commission, 2006a). The supply of EU funds to Poland was expected to increase considerably in the next few years, and was estimated that it would reach 1.2% of GDP in 2006, 1.5% in 2007 and 3,25% in 2008 (European Economy, 2005 and 2006).

Recent Polish data about transfers shows that in the first 24 months of EU membership (May 2004 –April 2006), Poland received a total of EUR 7.5 billion from the EU budget payments , while its contribution to the EU budget amounted to EUR 4.6 billion. The net transfer was positive and totaled EUR 2.8 billion (Government of Poland, 2006).

As Figure 4 below shows, over one quarter of payments (28.4%) came from pre-accession aid (Phare, ISPA and SAPARD programs), which will cease by the end of 2006[28]. With regard to the new financial instruments available to Poland since the accession (see Section 1 above), funds for agriculture and rural development accounted for the biggest share of transfers (26.9%). Transfers for structural actions (23.1%) ranked second.

[27] Poland ranks only 43rd in the country ranking by potential to host FDI (UNCTAD, 2005).

[28] According to the principle of $n + 2$, EU budget funds committed in the year n may be used only within the two years after year n. Unused funds are lost to the beneficiary and remain in the EU budget. This principle was introduced in the EU in 2000 in order to discipline recipient countries.



Source: Government of Poland, 2006.

Leaving CAP instruments aside, the use of other European Union budget funds requires prior programming for spending. The National Development Plan (NDP) for the years 2004-2006 was elaborated by the Polish government in an extensive process of consultations with local governments and social partners. This is a strategic document which elaborates plans for the medium term. It is the first such document since the transition process started which collects all the government's interventions at the country level: horizontal and into regions and sectors. The NDP includes five so-called setoral programs[29] and a program for regional development. These programs list goals and activities which may be supported from EU funds. They also give would-be recipients of the grants a framework in which they have adjusted their applications.

For the three year period, 2004-2006, a ceiling of EUR 12.8 billion was established for funds from the European resources to be used for the realization of NDP programs. Of this amount, EUR 8.6 billion was committed from the structural funds and EUR 4.2 billion from the cohesion fund.

The absorption of these resources was slow in 2004 and 2005. By the end of October 2005 all applications were collected and reviewed: the correctly prepared applications as a whole asked for 151.5% of the total Polish allocation, which indicates the high level of demand for such programs (and EU funding). However, contracts with successful beneficiaries were signed for only 50.7% of the allocation. Up to November 2005, 4.35% of the total allocation was used, i.e. beneficiaries of the programs received the payment for costs borne thus far (Żuber, 2005).

[29] These are: (1) Sectoral program for Increasing Competitiveness of Enterprises; (2) Program for Development of Human Capital; (3) Program for Restructuring and Modernization of the Agricultural Sector and Development of Rural Areas; (4) Sectoral Program for Fisheries and Fish Processing; (5) Sectoral Program for Transport.

A number of factors are to blame for the slow absorption of the structural funds (Żuber, 2005). The first one is that Poland has adopted a decentralized system of managing the structural programs. This prolongs the procedures, and requires more coordination. The second factor is the poor quality of the laws adopted in Poland that apply to the distribution and use of the structural funds. The third factor is the meager size of public funds for development projects (transport etc), which are necessary in order to co-finance infrastructural investments. The next reason is the poor quality of the system of public finances, which has not been reformed so far[30]. Last but not least is the poor state of public administration, while well-qualified bureaucrats are crucial for the proper management of the programs. Public administration was not strengthened in time to be ready to manage and process the flood of project proposals that followed the announcement of the programs elaborated by the Polish government and accepted by the European Commission for funding. In the course of 2006, the situation improved: domestic regulation concerning the use of the EU funds has been somewhat relaxed and the administrative capacity has increased.

f) The public attitude towards integration

Since the accession, public support for Poland's EU membership has been constantly increasing. In May 2004 supporters accounted for 71% of the adult population and opponents for 20%. By August 2006 the number of proponents increased by 11 percentage points to 83%, while the number of opponents was halved and shrank to 10% (CBOS, 2006b). Only 7% had no opinion with regard to this matter. Supporters of Poland's membership to the EU dominated in all socio-demographic groups. The largest share of opponents was in the group of people with only primary education completed, yet they were not many of them (every sixth adult opposes integration). It is worth noticing that the massive support for integration was a characteristic for all the electorates of the main political parties, including those which, on the eve of Poland's accession, were openly against the membership. This result has been taken seriously into consideration by the anti-European politicians.

The results of the public polls also indicate that the supporters of Poland's membership evaluate the impact of the accession much more positively than the opponents, a majority of whom see more costs than benefits of EU integration (CBOS, 2006a).

The number of people who positively assess the impact EU membership on Poland has been growing consistently over time. Two years after the integration, 54% of respondents believed that EU membership brought more benefits than costs for the country. This is 15 percentage points more than was indicated in polls taken after the first three months of the accession (August 2004) and 8 percentage points more than after the first year (April 2006) (see CBOS, 2006a). The number of those who have an opposing opinion is three times less (18%), and 12 percentage points less than shortly after the accession[31].

When asked about personal gains stemming from the country's membership in the EU, 36% declared that they benefited from the integration. 16% were of the opposite opinion and

[30] For example, currently the financial perspective is limited to one year, while in structural projects, a longer perspective is crucial.

[31] 18% of respondents believed that benefits and costs will be equal, while the remaining 10% responded "difficult to say".

thought that they personally had lost rather than gained because of the Poland's integration into the Common Market[32].

The positive perception of the impact of Poland's integration both for the country and for the personal well-being of its citizens dominates in all socio-demographic groups. People who are younger, wealthier, have completed tertiary education, and are living in big cities are the groups that most often respond that the gains outweigh the hardships related to integration with the EU.

More importantly, the positive perception of the consequences of Poland's accession to the EU dominates across all electorates[33] from all the major political parties. In light of this widely held view, Polish parties that were openly anti-European in the pre-accession period, stopped highlighting this position as one their parties' trademarks, and removed anti-European symbols from their flags.

The accession benefits which are most acknowledged by the public are the following: the possibility to legally work in the other member countries, open borders (free movement of people as visitors), support to agriculture, and the inflow of EU funds (CBOS, 2006a).

Interestingly, 45% of Poles[34] consistently believe that EU membership is more beneficial for old Member States than for Poland (percentage has remained constant since 1999). This is contrary to what the facts show. On average, the opposite opinion is more popular among the people who see net benefits of the integration for the country and themselves.

[32] 28% believed that gains and costs outweighed each other, while very many (21%) could not answer ("do not know"), which is understandable.
[33] Although the share of overall supporters differs to a greater extent.
[34] Out of those respondents who have an opinion on this issue, which is 82% of the population (12% answers: "do not know")(CBOS, 2006a).

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Romania's accession to EU: Challenges and Opportunities.

Romania between the Lisbon Agenda and the necessity to increase its absorption capacity

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Romania's accession to EU: Challenges and Opportunities. Romania between the Lisbon Agenda and the necessity to increase its absorption capacity

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Introduction

On 1-st January 2007, Romania and Bulgaria will join EU. Even if many people are aware that the EU will soon have 27 members, the interest on what new chllenges and opportunities might appear is not really significant. For the EU public opinion more colorful issues such us children adoption, corruption, Roma minority situation have been proved more interesting than real economic, social or political evolutions during the last 16 years. At the same time, this 16 years were both a transition period from plan to market, from a centralized to a market economy and a modernization one, with important transformation on economic, institutional, legislative, social and, last but not least, on political level. On the other hand, this period EU is facing some significant internal and external challenges from the Constitutional Treaty crisis, the inefficient Lisbon Agenda, the ageing of population, to globalization and the necessity of the reform of its economic and social model. The current enlargement could whether worsen most part of these problems (the economic and social divergences between new and older member states increasing the urgency of the EU internal reform) or strengthen its presence on the world economy.

Without ignoring the significance of political and social aspects, the paper is dealing with some selected economic aspects of Romania's accession to EU, focusing on the challenges and opportunities represented by the Lisbon Agenda and Structural Funds. The author has been aware that speaking about the economic benefits of accession, it is not an easy task, not only because of complexity of the subject but also because technical matters, since a very clear separation between the benefits already achieved during the pre-accession period (as a result of the Europe Agreement, candidate status and the negotiation process) and those resulting from the membership status (irrespective we take

into account flows of goods, services, capital or labor forces or financial transfers) is almost impossible to do.

After a brief outline of the some significant physical, political and economical features of Romania, the paper will focus on the main macroeconomic effects of enlargement and on some selected issues concerning the issue of Lisbon Agenda and efficiently spending of Structural Funds. From methodological point of view, the analysis will stand mainly (but not exclusively) on the research studies carried out since 2001, under the coordination of the European Institute of Romania[1].

Key words: integration, accession countries, economic performance, competitiveness, absorption capacity, EU structural instruments

[1] The whole series of impact studies, respectively more than 50 research studies papers, focuses on various topics, like assessment of the Romanian' legislative framework and its compatibility with the *acquis*, sectoral analysis (on agriculture, transport, environment, etc) or broader research concerning the cost and benefits of Romania's accession to the EU, the impact of Lisbon Agenda or a strategic outline of Romania's membership status in an enlarged Europe.

Romania and European Union

Romania's physical, economical and political background

Romania, a **country with 22 million people** (a population which has fallen over the last several years as a result of declining birth rates and emigration and according the latest prognosis the tendency will continue), is the second largest country in the Central and Eastern Europe (after Poland) and larger in population terms than 19 of the 25 current member states of the EU. It benefits from a **strategic geographic position**, having borders on Ukraine and the Republic of Moldova to the North and North East, on Bulgaria to the South, on Serbia to the South-Vest and on Hungary to the NV. The Black Sea is its eastern border and the Danube River runs along Romania's border for 1,075 km. It is rich in natural resources, among which are to be found oil, natural gas, coal, iron, ore, non-ferrous ore (copper, lead and zinc), gold and silver ore, sulphur and salt. It is also benefits from an **educated and low-cost labor force** and **good agricultural resources.**

Despite these valuable assets, at the moment Romania is one of the poorest countries in Europe, with **a purchasing power per capita of 70% below that of the EU-25 average**. The heritage of forty years of rigid central planning together with a poorly designed first decade of transition are largely to blame for this outcome. Romania faced some of the worst starting conditions among the transition economies. In addition to all the well-known market distortion and structural problems, common to all transition countries, the legacy of Ceausescu and the forced repayment of external debt had left the economy with very serious problems (World Bank, 2005).

As in other transition economies, GDP dropped dramatically following the fall of the communist Ceausescu regime (in December 1989). Romania was a later starter in the reform process, with the key measures in the area of liberalization and enterprise reform in 1997 and the first positive results only coming in 2000. Economic and financial instability prevailed during the 1990s and culminated in a major crisis in 1998/1999. The whole second part of the 90s was characterized by a low average growth, high inflation and a volatile situation in external accounts.

However, since mid-2000, macroeconomic trends have improved and despite a less favorable international environment since 2001, economic growth remained robust at 4-5 % per year, inflation declined steadily from above 40% in 2000 to 8.4% in 2004 and 4.1 in 2005 (WIIW, 2006, p.54) and, although current account developments remained at times a source of concerns, external vulnerability decreased over the period.

Taking into account the **political background**, we could observe that 2004 was an electoral year in Romania: following the Parliamentary elections of November 2004, the PD/PNL Alliance leader, Traian Băsescu, won the second round of the presidential elections of December 2004 with 51% of the votes. He announced that Romania's accession to the EU and the fight against corruption were his main priorities. Subsequently, the PNL (National Liberal Party) leader, Călin Popescu Tăriceanu, was nominated as Prime Minister and the new coalition Government was approved by the

Parliament by 265 votes to 200 in December 2004. At present, the governing coalition comprises four parties (PNL, PD, UDMR and PC[2]).

Romania and EU

Unlike the previous enlargements, which had taken place in the context of a divided Europe, the 2004/2007 enlargement was the first to address the issue of Europe's reunification, aiming to bring together those states of Europe which were for about 50 years under the Soviet Union influence.

Officially, the invitation to apply for membership was made in **1993** at Copenhagen European Council, which established the so-called "**Copenhagen criteria**" to be met by any candidate country. Romania **submitted its application for EU membership on June 22, 1995** and the official accession negotiations for Romania as well as for Bulgaria were launched on 15 February 2000[3]. The Copenhagen summit of December 2002 set 2007 as the target date for Romania's EU accession.

The decision taken by the EU Council of Ministers in **December 1999 to open EU accession negotiation for Romania** appears to have a "*catalytic effect on the momentum for reform*" (World Bank, 2004), the political being focused on the requirements for the EU accession. In its 2004 Report the Commission concluded that Romania complies with the criterion of "*functioning market economy*", a prerequisite for the EU entry, although the Report expressed a number of concerns about the Romania capacity to cope with competitive pressure and market forces within the Union.

The Brussels European Summit (16-17 December 2004) endorsed the closure of negotiations and "noted with satisfaction that progress made by Romania in implementing *the acquis* and commitments entered into as regards, in particular, Justice and Home Affairs and Competition, has made possible to **close formally all the outstanding chapters with Romania on 14 December 2004** and accordingly looked forward to welcoming it as a member from January 2007." The report on the result of the accession negotiations with Bulgaria and Romania provides a detailed overview of the outcome of the negotiations (CE, 2005d).

The **Accession Treaty for Romania and Bulgaria was signed in April 2005**, the accession itself being expected to take place on January 1, 2007 or on January 2008 if the postponement clause were activated. The Treaty includes a number of provisions under which the Union may take specific action to prevent serious disagreements in the functioning of the internal market or to deal with shortcomings in the field of cooperation in civil and criminal matters caused by Romania. The Accession Treaty has given Romania the status of "*acceding country*" and the possibility to participate as an active observer in virtually all the committees and bodies of the EU.

The Accession Treaty features ***four safeguard clauses*** (Commission, February 2005): a *general economic* safeguard clause, a *specific internal market* safeguard clause, a *specific JHA* safeguard clause and a *postponement* clause. The *general economic* safeguard clause

[2] In December 2006, the Conservative Party (PC) withdrew from the Government.
[3] In February 2000, the accession negotiation process also started for other countries which joined the Union in May 2004, respectively Latvia, Lithuania, Cyprus and Malta.

covers any sector of the economy or economic situation of a given area, both in current and new member states. The *internal market* safeguard clause covers all sectoral policies involving economic activities with cross border effects. The *JHA safeguard* clause covers mutual recognition in the area of criminal law and civil matters. Both the internal market and the JHA safeguard clause may be applied vis-à-vis new member states only. Safeguard measures may be taken under these three clauses until the end of a period of three years after accession but they remain in force beyond this period. However, any safeguard measure shall be maintained no longer than is strictly necessary and must be proportional in scope and duration. A forth safeguard clause included in the Treaty allow the Council to decide, based on a Commission recommendation, that accession would be *postponed* by one year where there is clear evidence that the state of preparation for adoption and implementation of the *acquis* is such that there is a serious risk of Bulgaria / Romania being manifestly unprepared to meet the requirements of membership by the envisaged date of accession in January 2007 in a number of important areas. The postponement can be decided with qualified majority among member states even if normally unanimity is required.

The European Commission has continued to monitor Romania's and Bulgaria's progress until accession, the latest two **Monitoring Reports** being published in May 2006 and September 2006. The **September 2006 Monitoring Report** (EC, 2006a) underlines the fact that as a result of progresses made, Bulgaria and Romania will be in a position to take on the rights and obligations of EU membership on **1 January 2007**. Moreover, the Monitoring Report notices the existence of specific tools which might be used to prevent or as remedy for these actions that Commission considers necessary to address because may impede the proper functioning of EU policies. These include safeguard measures, financial corrections of EU funds, competition policy measures and infringement procedures[4], based on the ***acquis***.

Romania's accession versus Romania's integration to the EU
Accession is the process through which Romania joins the EU meting the membership criteria. To accede to the EU, Romania needed to meet a number of specific criteria, laid down by the 1993 Copenhagen European Council:

- *Political criteria*: stability of institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities;
- *Economic criteria*: existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the union;
- *Institutional criteria*: ability to take on the obligations of membership by transposing into national legislation and effectively implementing the acquis communautaire.

Integration is the process is the process of reaping the benefits of membership by pursuing the necessary structural reforms in a stable macroeconomic environment.

Source: World Bank, Romania Country partnership strategy 2006-2009, 2006

[4]In addition, when the *acquis* is not properly applied in a Member State, private and public parties can refer to national courts to enforce EC law, and, in the final stage, to the European Court of Justice, and their government risks being condemned.

From plan to market economy

In Central and Eastern Europe the revolutionary changes which occurred in 1989 and in 1990 were followed by a powerful economic crisis, compared by some annalists with the Great Recession of the '30, or with the damage created by WWII. The intensity and duration of each crisis varied from a country to another, being more accentuated in eastern countries (some of them recorded negative economic growth with two digits). For the majority of countries, the crisis lasted until 1994. Starting with this year, until the end of the 90s, all candidate countries registered positive economic growth rates (with the exception of 1997 and 1998 when the effects of crisis from Asia and Russia were felt). The 2000 year represented the beginning of the accelerated development both for the Central and Eastern European countries (CEE) and for Romania.

Among the other Central and Eastern European (CEE) candidate countries, Romania was the last to receive the status of a **functioning market economy**. Only in October 2004, in the European Commission's report, it concluded that Romania complies with this Copenhagen criterion. Although it's beyond the scope of this paper to analyze the causes of this delay, we have to mention that Romania inherited one of the worst starting conditions for implementing the transition to a market economy[5]. As Alain Smith (Phinnemore (coord), 2006:29) concludes, "in 1989, the Romanian economy was on the verge of collapse, with widespread shortages and severe rationing of energy, while the population had endured nearly a decade of deep austerity and capital stock had become increasingly obsolete".

However, the slow pace of the transition to a market economy might be both attributed to the difficult situation Romania had in 1989 but also to the inefficiency of governments during the first 10 years of the transition period. Over the latest 16 years, Romania has experienced a rather unstable macroeconomic period, with episode of recession (1990-1992, 1997-1999), recovery (1993-1996) and recovery/growth (2000-2006). Most of the impetus for reform came from external pressures, such us International Monetary Fund[6], World Bank and last, but not least, European Union.

However, since 2000 Romania has entered a phase of high growth and disinflation. Thus, during 2000-2005, Romania's GDP grew by an annual average of above 5% [in the first quarter of 2006, real GDP rose by 6.9%] and inflation came down to 9.3% in 2004 from over 40% in 2000. The privatization process has accelerated since 2003-2004 as a result of the increasing number of direct sales of enterprises and financial institutions[7], mainly

[5] Between 1967 and 1980, the Ceausescu government had borrowed important amount of money from western banks or international institutions (IMF) to finance a forced industrialization of the country (through investment in engineering industries, refineries, petrochemical plants, infrastructure projects such us Danube – Black Sean canal or construction of House of People in Bucharest) while the population and the production of consumer goods had been completely neglected. A financial crisis in 1981, which necessitated the rescheduling of the Romanian debt, determined Ceausescu to move on a policy of rapid debt repayment which was achieved by draconic cuts of imports (energy, consumer goods, and equipment) and forcing of exports.

[6] Over the period, Romania signed six standby agreements with IMF which stipulated macroeconomic targts and structural reforms but only one successfully completed in 2003

[7] One of the largest privatisations in Romania's history were the sale of the majority share in the integrated oil company Petrom and of the Romanian Commercial Bank.

to foreign investors. Currently, the private sector produces more than 70% of the GDP. Major news of the 2005 was the fiscal policy reform and the adoption of a flat tax rate of 16%, aimed at boosting FDI and making the economy more transparent.

Romania - Main economic trends *(as of 7 October 2005)*

		2000	2001	2002	2003	2004	2005	
Gross domestic product	ann. % ch	2,0	5,7	5,0	5,2	8,3	4,9	1st half
Private consumption	ann. % ch	0,2	6,8	4,8	7,2	10,8	11,2	1st half
Gross fixed capital formation	ann. % ch	5,5	10,1	8,2	9,1	10,1	7,6	1st half
Unemployment [1]	%	7,2	6,7	N.A.	7,1	8,1	8,5	1st qu.
Employment [1]	ann. % ch	2,5	-0,8	N.A.	-2,6	0,4	2,6	1st qu.
Wages	ann. % ch	39,8	40,5	27,1	25,4	22,5	23,9	Jan-Aug
Current account balance	% of GDP	-3,7	-5,5	-3,3	-6,0	-7,5	-9,0	1st half
Direct investment (FDI, net)	% of GDP	2,9	2,9	2,5	3,8	7,0	4,9	1st half
Interim HICP	ann. % ch	46,3	34,8	22,8	15,3	11,9	9,5	incl. Aug
Interest rate (3 months)	% p.a.	50,9	40,9	27,3	17,7	19,1	9,4	Jan-Sep
Bond yield	% p.a.	49,6	34,7	22,3	14,2	12,8	7,6	Jan-Sep
Stock markets	Index	538	661	1274	1851	3208	5359	Jan-Sep
Exchange rate ROL/EUR	Value	1,99	2,60	3,12	3,75	4,05	3,62	Jan-Sep
Nominal eff. exchange rate	Index	80,5	63,8	54,5	47,3	44,3	49,3	Jan-Jul
General government balance [2]	% of GDP	-4,4	-3,5	-2,0	-2,0	-1,4	N.A.	
General government debt [2]	% of GDP	23,9	23,2	23,3	21,3	18,1	N.A.	

1: LFS data; 2: ESA 95 data.
Source: Eurostat, ECOWIN, national sources

At the moment, Romanian's economy reveals both strong and weak points. On the one hand, from structural perspective, one should notice the steady expansion of the private sector, which contributes to the GDP formation with more than 70% and employs more than 70% of active population. Moreover, we have also to observe a significant rise in foreign trade and investment and an increased integration into EU markets (trade with the EU represents around 70% of overall trade). The openness of the economy has also been noticed if we take into account the capital account liberalization, which is almost completed (access of non-residents to bank accounts was allowed in April 2005)[8].

On the other hand, a number of serious weaknesses persist in Romanian economy and might harm macroeconomic conditions and GDP growth over longer term, such us:

- The slow pace in increasing the administrative capacity of using European funds, an issue close related with the specific budgetary aspects[9];

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[8] It must be said that the capital account liberalization represented a conditions for the EU accession during the negotiation process and relates to direct inflation targeting as a new monetary policy regime. Inflation targeting as a new monetary policy regime was officially adopted by National Bank of Romania in August 2005 and reflects the NBR's intention to improve its operational independence and focus more effectively on reducing inflation.

[9] In the last years, the budget revenues were below 30% of GDP while financing needs are increasing. According to Daianu (2006) because of unavoidable financial obligations (EU budget contribution or co-financing of EU funds), Romania would face a budget "shock" at the moment of accession. Consequently, the budget deficit could raise above 3% of GDP which worse the situation of public finance.

- The investment climate has still caused problems because of administrative and red tape barriers and corruption;
- The pension system is under an increasing strain, the main financing source coming from the health insurance budget. The problem, which is also common to the EU, is generated the fact that the number of the retired population exceeds the official number of employees (nowadays the ration is 3:2 compared to 1:2 in the early 1990s);
- The very important agricultural sector represents an issue of concern in Romania's relationships with the EU. Agriculture contributes with a mere 12% to Romania's GDP although about 35% of the population lives in rural areas;
- Rigid labor markets, unemployment being kept at reasonable levels mainly as a result of massive emigration (according to the Romanian's National Institute of Statistics, one of five households in Romania has at least one member who emigrated, temporarily or permanently, in the last 15 years);

However, the expectations of the European and Romanian experts and political decision makers concentrate on a positive development that is to take place in longer term. Owing to the fact that the degree on integration between the old and the new member states is already hight, the enlargement will have a positive impact, both through the increasing and strengthening of the Single Market and of the competitiveness of the European economy. One of the EIR's impact studies (EIR, 2005f), which evaluates the progress of the NMS the first years after 2004 enlargement, has provided a meaningful message regarding the impact of the process of integration into the EU, confirming that *these countries ended year 2004 and entered 2005 with much better macroeconomic performances than the anticipative expectations of most analysts and decision-makers.*

Challenges and opportunities of the Romania's accession to the EU

Romania, between the Lisbon Agenda and financial transfers challenges and opportunities

The economic and political impact of adhesion is undoubtful significant. Neverthelss, in terms of GDP and trade flows the enlargement has not drastically changed **the size of the EU in the world economy**[10]. The EU-25 economy measured at current exchange rate is actually somewhat larger than the USA's and represent about one third of global economic activity. As one could observe from Table 2 the euro area is somewhat smaller than the USA in terms of GDP but it is of a similar size measured by trade flows and much larger in terms of exports and larger than the Japanese economy in terms of both trade and GDP by a margin of about 50%.

Table 2 The size of the EU economy in the world (GDP and external trade)

	GDP		**Trade (M+X)/2**	
	Euro billion	% of world GDP	Euro billion	% of world trade
Eurozone	7 243	22.5	1 033.4	
EU 15	9 288	28.8	993.2	19.5
EU 25	9 720	30.2	923.1	
NMS	432	1.3	177.8	3.5
USA	9 641	29.9	1 002.1	19.7
Japan	3 833	11.9	398.8	7.8

Source: D.Gross and Leonor Coutinho, The larger EU and the global economy, in The strategic implication of the EU enlargement, Esther Brimmer and Stefan Frohlich, editors, CTR, 2005, p.275

It is also significant to notice that in 2004 and 2005 the trade performance of individual European countries showed considerable variation and only the group of countries comprising 2004/2007 NMS has recorded the highest export and import growth, even exceeding the world average (WTO Report, 2005, 2006). What could explain that the total trade expand more rapidly in the Eastern part of Europe? There are more factors that played a role in this outcome: firstly, the enlargement process of the EU to the East is fostering an integration process above all between eastern and central part of Europe, secondly, at the time of accession some remaining barriers to goods trade between the old and new MS were removed (e.g. in particular in the agriculture sector) and thirdly, the trade of SE Europe has benefited from lower trade barriers within the region in recent years, thank to the *Stability Pact for South East Europe*, with its extensive network of 28 bilateral free trade agreements and fourthly, the eastern and central European countries benefited from vigorous import demand in the CIS given historical trade ties (World Trade Report, 2005, 2006).

Most of the academic studies consider the positive effects that the eastern enlargement will have especially on the **economic growth** through the deepening of the competition

[10] The most often instruments used are GDP and external trade

and the intensity of the activity on the financial markets[11]. Although, due to the relatively limited economic size of the new member states (**NMS**) – less than 5 % of the total EU-25 or 7% of the EU-27 GDP, **the direct economic impact** on the old member states (**OMS**) was estimated to be marginal and consequences such us migration flow, relocation of activity or downward pressure on wages in the OMS and adjustment costs in the NMS only transitory. As K. Barisch (K.Barisch, 2006) underlined the "eastward enlargement is yesterday's news" but from political point of view "EU has not digested the accession of the ten new members". Many people from the OMS have considered that competition in the enlarged single market is somehow unfair and in France, for example, opposition to the enlargement was one of the many reasons the Constitutional Treaty was rejected. Nowadays, in many OMS the enlargement is supported only by a minority.

Therefore it is obvious that Europe is suffering now from the so-called "*enlargement fatigue*". Nevertheless, we have to notice that not only the enlargement itself has determined this fatigue but also the EU's internal problems. A list of current conflicts within the EU should include, firstly, ***the institutional issues,*** closely related to the efficiency of EU policy-making process (more or less, addressed by the almost dead Constitutional Treaty[12]), the ***lack of competitiveness of EU*** comparing with the US (led to the elaboration of *Lisbon Strategy* in 2000) and, last but not least, the ***globalization challenges***. Nevertheless, most part of all these problems will be deepened by the current wave of enlargement, the economic and social divergences between new and older member states increasing the urgency to reform both some of the main EU policies and the financial framework of the EU policy-making. Consequently, the process of gradual integration, subsequent to the latest enlargement, is associated with the transformations and changes that will affect all components of the society in the enlarged EU[13].

The enlargement could not produce major negative effects neither for the NMS nor EU since the new member states had passed through intensive preparations during the pre-accession phase. After two years from the 2004 enlargement, as an EC study (CE, 2006b) has mentioned that "the process of convergence and wealth creation which had been under way for over a decade continued and accelerated". The EC study shows just how impressive the success of NMS has been. Trade in the ten new EU members, exports plus imports, represents 93 percent of their GDP on average, compared with an EU-15 (the old members) average of 55 percent. The EU-10 also attracted significant new foreign direct investment (FDI), reaching a total of €191 billion in 2004, or 40 percent of their total GDP; it was virtually non-existent ten years earlier[14]. It is equally true to say that

[11] The next step in the integration process will be the adoption of the common currency, Euro, the precise moment depending on how soon the member states will achieve the nominal convergence, according to the Maastricht criteria.

[12] After the failure of ratification in France and the Netherlander.

[13] Anyway, many of the challenges the new member states are struggle with, from ageing workforce to inefficient welfare systems, under-funded universities, etc. are not so different from those faced by West European countries.

[14] In the countries of the former Soviet Union and the countries of Eastern and Central Europe, the number of people living in poverty decreased by 40 million between 1998 and 2003. The GDP growth rates in the Baltic countries last year reached Chinese double-digit levels. Slovakia is the biggest car producer in the world, relative to the country's size (CE, 2006b).

openness towards a wider economic space where asymmetries, agglomeration effects and cumulative causalities has represented not only a real opportunity but a challenge because in today's world, extraordinary opportunities can coexist with failures of not less significant extent.

Nevertheless, as previous enlargement has already demonstrated, it is to be expected that the overall benefits of the integration would differ from one country to another and from one region to another (not only quantitatively but also in timing and intensity) and for Romania, as well as for any other NMS, accession will represent both an **opportunity and a challenge.**

Romania's **opportunity** to join EU can be more correct understood if it is assessed as an historic chance and the biggest **modernization challenge** (at least since the Second World). Over the last 16 years, the prospect of EU membership has represented for Romania the biggest stimulus and challenges and fully supported its modernization process. The necessary process of transition from plan to market (from a centralized economy to a market economy, from a totalitarian society to a democratic one) was not a very simple one, involving different processes both at national (macro-economic stabilization, privatization, structural reforms or liberalization process) and international level. As a result, the pre-accession period has meant many important transformations, on economic, institutional, legislative, social level but also on political level (concerning the respect of democracy, freedom, and civil rights). In other words, the process of pre-accession to EU went hand in hand with the process of modernization (economically and politically). However, this process of reform and adjustment, which has became after the communist period and affected both political and administrative culture as well as the economic and social environment of each NMS, has to continue after the accession.

A British historian had noticed once that the small countries of East Europe should not even be included in discussion on social and political changes, as "*the decisive causes of their politics lie outside their own boundaries*" (Barrington Moore jr., 1966, quoted by Alina Pipiddi-Mungiu, 2002). Certainly, we have to admit that, in its history, Romania has been too often forced to accept decisions that did not take into account its interests and aims. In our recent past (and I have in mind namely the Communist period which anyway I might consider as a deviation from Romanian's natural development), these kind of evolutions had prevented our country from a natural path of development in line with expectations and needs of the population. From this point of view, the EU enlargement project has meant not only a reintegration into the world economic and political community but as well as a way of breaking with the past and distancing from Soviet sphere of influence.

Consequently, the current evolutions are fully supported by the entire population and the level of enthusiasm has remained almost constant during the whole pre-accession period. According to a *2005 Eurobarometer* (CE, Eurobarometer 62, 2005) among the old and new member states, Romania is the country with the highest degree of trust in EU institutions (74%), the second place after the Church (82%). Even if the level of EU knowledge is relatively low, statistically, the respondents with higher levels of information are the ones most supportive of the integration process. EU is frequently associated with freedom of travel and work (64%), economic prosperity and peace being

on the second place. On the negative side, EU membership is associated with great concerns concerning the unemployment and price increases. Romanian's expectations are also very high, most of them considering that EU will play an active role in fighting terrorism (70%), foreign affaires (64%), and economic situation (64%), combating organized crime (62%), etc. Young people manifest the highest trust in the integration and there are also the most optimistic (78% believe that their life will improve in the next 5 years).

Anyway, this unreserved enthusiasm might become a real challenge after the accession. Some analysts consider that the society is hardly prepared to embrace the principles of the new administration and that Romanian companies are not aware of the challenges ahead. With only 4% of them fully informed on the acquis (a decrease compared to 7% in 2003), they exhibit the lowest share among the ten countries, whereas more than half the companies did not start organised preparations yet which again ranks Romania last among the surveyed population (CAPE, 2004).

Beyond the role of the EU membership as an anchor for continuation of economic and democratic reforms, there are also many other aspects which might be observed from those related to the NMS's presence on Internal Market, the increasing of the amount of FDI or a more favourable business's environment to a new presence in the international arena and in international organizations (such us WTO, OECD, World Intellectual Property Organization, etc).

However, Romania's membership becomes effective at a time when EU faces with an historic crisis and needs dramatic internal changes. Therefore, one question is how and to what extent the Romanian membership could influence the development of EU. Although, owing to its limited economic size, Romania's economic impact on EU should be marginal, from political and strategic stand point Romania might represent a significant member, an important geographical link between EU and the West Balkans, Republic of Moldova, Ukraine or the Black Sea. Thus, due to their historical cultural and political characteristics, Romania could represent a valuable bridge between EU and Eastern Europe (particularly with the Republic of Moldova) especially in promoting the "*European Neighboring Policy*" (ENP), a policy which try to "export" stability to and create incentives for political and economic reform in neighboring countries without an offer of membership (see EIR, 2005c).

Romania and the challenges of Lisbon Agenda

At the beginning of the '90s, EU clearly revealed a great interest in increasing its competitiveness, taking into account the assessments of the EU economy ranking in the global context as well as the challenges of the New Millennium[15]. **The Lisbon Agenda** was the Europe's answer to the competitive challenges coming from low-cost countries (especially China and India) and high-quality suppliers abroad (namely from US). A key

[15] European Commission, *An industrial competitiveness policy for the European Union*, Bulletin of the European Union, Supplement 3/94; The European Commission, *White Paper on Growth, Competitiveness and Employment, the Challenges and Wages forward into the 21 sty century,* COM (93) 700 final, Brussels, 5 dec. 1993, Chap. 2: "The conditions for growth and enhanced competitiveness "European Council, 23 and 24 March 2000

part of this agenda was the completion of the internal market, especially for services, (which account for about 70% of employment and GDP) but also the preparing of transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market. Moreover, the Lisbon Agenda was to be complemented by structural reform on the national level, especially in the area of taxation, labor market and regulatory policy.

Although in March 2000, when the Lisbon Agenda was launched, the program once referring only to the 15 member states, more recent evaluations concerning the degree of achieving the Lisbon objectives include the new and the future member states (like Romania). The main findings of periodical evaluations on competitiveness, as they appear in European Commission's reports on competitiveness, but also in some independent bodies' reports, like *World Economic Forum*[16], refer both to the degree of achieving the Lisbon objectives (the 8 objectives) and to the EU situation compared to the USA.

Different reports of the EC or prepared by independent experts (CE, 2003, CE, 2004, OECD, 2004, Ederveen, S. et all, 2005, Gross, 2005) have shown that the overall performances of the MS are disappointing[17]. While some MS have very good results (e.g. the Nordic countries), several others are considerably lagging behind. European Commission identifies the main causes which have led to the present situation, respectively: the maintenance of some barriers within Internal Market, the weak reaction of the business to the introduction of *Euro*, the insufficient highly qualified labour force, the low funding for the universities, but also their weak connections with the business environment, and the weak entrepreneurial culture.

We have to notice that even if in Romania the Lisbon Agenda theme is not a very well debated one, some distinctive initiatives tried to raise awareness among both Romanian political class and society[18]. The relative lack of interest for this kind of subject was essentially determined by the specific characteristic of this strategy, which focuses

[16] Following this particular goal, the WEF based its analysis on two synthetic indexes: the Growth Competitiveness Index, in the last report applied to 116 countries, and the Business Competitiveness Index, which is a synthesis of empirical researches' results based on a questionnaire on investors' opinions about the business environment

[17] No EU country reached the maximum points for any competitiveness indexes. The countdown, based on medium points, is as follows: three Nordic countries (Finland, Denmark, Sweden) ranked in the first positions, in the middle we find United Kingdom, Netherlands, Germany, Luxembourg, France, Austria, Belgium and Ireland; at the lowest level we find the Southern countries (Spain, Italy, Portugal and Greece). The European Union not only has not achieved the objectives on competitiveness but, it is still a heterogeneous area in terms of performance level established at Lisbon. In the same time, in each country, we can identify certain gaps in terms of performance levels. These gaps suggest that the EU policy refers only to the common aspects, the member state being responsible for identifying the specific measure in the vulnerable domains.

[18] A number of independent reports assessing Romania's economic performance have been published since March 2004: the first analysis provided a scorecard based on a brief evaluation of the main objectives set in the Lisbon Agenda, the second (November 2004) focused more on Romania's competitiveness challenges, while the third (October 2005) and the fourth (November 2006) examines the progress made in specific areas of Lisbon agenda.

mainly on the benchmarking process, using a number of indicators for a comparative perspective, but not on compulsory interventions. Moreover, the Romanian's date for EU accession (2007) was not in peril by the unfulfilled Lisbon targets since the failure in complying with Lisbon targets did not attract direct negative consequences of administrative nature.

The Worls Economic Forum's reports (*The Lisbon Review 2004, 2006),* analysing eight objectives of the Lisbon Strategy, reveals that Romania, with a score of 3,35 points out of 7 in 2004 and 3.59 in 2006 ranks on the final positions among the new member states/former acceding countries[19]. The lowest scores were registered for *Innovation, Research and Development* and *Information society* index, and the best for *Business environment for enterprises* and *Financial Services* index. According to the same analysis, the top positions of the Nordic countries are atributable to strong performances in all areas, particularly in inovation, social inclusion and sustainable development.

The evaluation of the *Group of Applied Economics* (2004, 2005, 2006) focuses on the measurement of the scores in five fields of interest. The GEA's studies reveals the lagging behind in terms of different specific indicators. Still, it is worth mentioning again that the vast majority of the EU-27 countries did not fulfill, at halfway period (2005), a mere third of the targets set for 2010. Comparing Romania's performance to the EU average, as well as to cohesion countries (Greece, Portugal, Spain), new member states (Poland) and acceding countries (Bulgaria), one should notice could notice that Romania is generally underperforming when compared to EU average, but it has, especially on social inclusion indicators, similar or better performances comparing with cohesion countries or with Poland or Bulgaria (see Table 3).

Table 3 Structural indicators for Romania and selected EU countries for 2004

	EU 25	EU 15	Romania	Bulgaria	Poland	Greece	Portugal	Spain
GDP/capita in PPP	100	109.0	32.9 (36% in 2006)	31.1	47.9	82.3	74.8	98.4
Labor productivity/ person employed	100	106.6	37.4 (40.7 in 2006)	31.8	60.7	97.5	68.8	99.3
Employment rate	63.3	64.7	57.7 (57.6 in 2006)	54.2	51.7	59.4	67.8	61.1
Gross R&D expenditure (%GDP)	1.95	2	0.4 (0.63% in 2006)	0.5	0.59	0.62	0.79	1.11
Long term unemployment rate	4.0	3.3	4.2 (4.4% in 2006)	7.1	10.2	5.6	3.0	3.5

Source: Adapted from GEA reports (2004, 2006)

[19] On the last position among the new member states / former acceding countries is placed Bulgaria with 3.25 points in 2004 and 3.31 points in 2006.

It is obvious that even if since 2000 Romania has made significant progress at GDP per capita at PPP and labor productivity per person, it still lags very much behind the EU average (but above Bulgaria) at very important indicators. Moreover, a substantial part of the progress made in terms of GDP was due also to the strong real appreciation of the national currency against Euro in the last years, while the progress made in labor productivity can be explained partially by the decrease in employment. On the other hand, Romania has stagnated at employment rate and long term unemployment. Moreover, the relative high level of employment is partly due to statistical reasons (farmers are accounted as employed, although their monthly incomes are generally lower than the minimum wage and people working abroad are missing from statistics). The relative low level of long term unemployment can be explained by a combination of hidden unemployment, due to structural reforms, massive emigration from the pool of working age population (1 in 5 households in Romania has at least one member who emigrated, temporarily or permanently in the last 15 years) black economy and statistical reasons. On the other hand, the „*Gross R&D expenditure*" (as % in GDP) has improved (from 0,4% in 2004 to 0.63% in 2006) even if its composition has not met yet the Lisbon targets (now 60% of Gross R&D expenditure is from public sources compared with only 30% required by the EU standards).

An EIR study (EIR, 2006b) analyses the performance of the EU-27 countries (the current 25 members plus Romania and Bulgaria) in the context of the LA, especially regarding the target set for public and private spending designated to research and development, while considering all maters from an institutional perspective and asking if the national institutional design for research and development activities matter in achieving the LS targets. The need of public policy actions regarding the institutional framework, the governance mechanism and the support measures sustain the conclusion of the CREST Report (2005). The latter one identifies a number of shortcomings on the Romanian innovation policy among which the uncertain role and the lack of efficiency of the industrial national institutes, a low interaction between universities and industries or the lack of an ex-post evaluation for financed programmes or of impact analysis.

The assessment of the policies related to Lisbon Strategy in the field of R &D (R&D and Innovation Policies in Romania, 2005) made by a group of EU experts from the European Commission - DG Research has revealed the following: although, Romania's efforts and commitments in this field are appreciated, big differences can be identified between Romania and the EU. More precisely, despite the great number of research centres, there is a weak participation of Universities to fundamental research and weak orientation towards R&D applied in the industry, respectively, the weak orientation towards high-tech industries. Consequently, all these evolutions might explain the low number of domestic innovations. It is highly appreciated that the *National Plan for Development* (2007-2013), which formulates objectives connected to the Lisbon strategy, respectively the *New Plan for RDI,* starting from 2005, has introduced the creation of technological platforms at national level and launches the programme for the creation of *Excellence Centres*. The financial resources - in 2007, 1% of GDP and in 2010, 3% of GDP - are considered as insufficient for achieving the ambitious objectives of the plan, especially in

terms of human resources in the field. The involvement of the private sector in supporting RDI is very weak, revealing the lack of a proper supporting policy in the field.

However the national performances, priorities and/or needs of a specific country must be analysed according to its level of development. Thus Romania's performance concerning Lisbon targets must be seen in the context of an emerging economy. Judging by Porter's development stages model, Romania is nowadays advancing from a *factor based economy* to an *investment-based economy*. For an emerging economy knowledge diffusion is arguably more needed than knowledge creation. While the OMS are mainly concerned with economic growth, job creation or allocation of more resources for research and innovation, an emerging economy has to concentrate on modernisation of its economic structures through foreign investments (especially in infrastructure) before jumping to competitiveness through innovation. In other words, for the time being, Romania has to deal with important economic development problems such us the significant need of investments in infrastructure, continuation of restructuring process (including job destruction), the wage control, consolidation of disinflation process or the improving of the business environment's quality (*investment-based economy*). Moreover, Romania is still in a particular position, investors being attracted by the presence of cheap resources (*factor-based economy*). In these conditions, the need for continuation of the structural reform process in Romania might explain why some of the Lisbon targets seem to be less realistic for current Romania's level of development.

Nevertheless, for Romania as well for the other new member states, the evaluation under the LA objectives is obvious needed not only to find out where the country is placed at a specific moment compared to the other countries, but also because the Lisbon targets might support the Romania's progress towards the EU direction in the field of competitiveness. On the other hand, the catching-up objective requires a stable macroeconomic environment and also productivity gains both through technology assimilation and efficiency gains. The time interval covered by the Lisbon Strategy (2000-2010) also includes 3-4 years of Romania's post-accession period. According to a GEA report (Daianu, coord, 2006), the Lisbon process might contribute to the Romanian's macroeconomic stability firstly, by supporting the reduction of structural trade deficit over the long term (more intense research and innovation might increse the value added of domestic production and support the export-orinted activities), secondly, by ensuring a better access to education and knowledge which can help increasing saving and investing behaviour and thirdly, by diminishing individuals' propensity to migrate, supporting the active employment and social inclusion policies.

Concerns regarding Romanian' absorption capacity

The structural assistance contributes to the integration of the accession countries in the EU structures and also has a significant impact on their structure of trade, capital and labour flows. For this assistance to have the expected influence on their economic performance, a preliminary condition to be met is to ensure a high absorption capacity of EU funds. However, the previous experiences in development of the EU regional policy and utilization of the EU Funds, from the initial stagnation of Greece to the astonishing

success of Ireland, underlines the significance of EU cohesion policy (and equaly of structural funds) and domestic policies (from macroeconomic policies, exchange rates, foreign investment policies to the the rule of low in fighting against corruption).

The accession to EU of the two new member states, Romania and Bulgaria, in January 2007, increases much more the regional heterogeneity within the EU. Thus, using as indicator the level of GDP per capita, in PPP, the 27 member states might be divided into three categories of development[20]: first group of 12 member states with a GDP/capita largely above the EU average (10% and over), the second group, of 7 countries, with a GDP/capita between 68% and 94% of the EU average and the third group which includes 8 countries (6 of the 2004 NMS plus Bulgaria and Romania) with a GDP/capita below 60% of EU average. Consequently, during the 2007-2013 programming period, in a EU with 25 members the *Convergence objective* would cover 86 regions, representing 140 milion people (31% of the EU-25 population) while in a EU with 27 memebers, 100 regions, representing 170 milion population and respectively 35.1% of the EU-27 population.

In the first ten years of the latest enlargement process, the PHARE programme[21] was used to fund different national projects. The PHARE support over 1990-1998 period of nearly 9 billon euro represented a significant volume of financial assistance, although, compared to the needs of candidate countries it was still relatively small. Thus, the Berlin European Council decided in 1999 to double the pre-accession aid from the year 2000 on. Since 2000 the pre-accession financial instruments have been allocated about 3 billion euro per year (1,5 billion for PHARE, 1,04 billion for ISPA[22] and 0,52 billon for SAPARD[23] programmes). For the period 2004-2006, in the case of the ten new member states, the Copenhagen Council finally opted for an envelope of almost 22.8 billion euro for the Structural Funds and the Cohesion Fund (the method of allocation appropriations proposed by the Commission and based on a strict application of the *acquis communautaire*).

During the same period (2004-2006), Romania and Bulgaria have continued to receive significant EU funds through PHARE, ISPA and SAPARD programmes, respectively 3 billion for Romania and 1.3 billion for Bulgaria (Table 4).

Table no 4 Pre-accession funds for Romania and Bulgaria (euro million)

Country	2004	2005	2006	TOTAL
Romania	948	1026	1104	3078
Bulgaria	406	440	474	1319

Source: Financial Statement Annexed to "Roadmap for Bulgaria and Romania", www.europa.eu/inforegio

[20] The income disparities between EU's member states will increasingly widen, the GDP per capita (measured in PPP) ranging from around 35% of the EU-25 average in Romania and Bulgaria to 220 % in Luxembourg.
[21] Originally, PHARE = *Poland and Hungary Assistance for Restructuring of Economies*
[22] ISPA = *Pre-accession instrument for transport and environment infrastructure improvement.*
[23] SAPARD = *Special Accession Programme for Agriculture and Rural Development*

As we have already mentioned, the expected results concerning the economic performance could be achieved only ensuring a high absorption capacity of the EU funds. A European Commission report (EC, 2005) has demonstrated that the PHARE funds allocated by country between 1990 and 2004 were contracted in proportion of 80.3% and effectively paid in proportion of 69.4% .

Tabel no.5 Phare funding by country between 1990-2004

Partener country	*Commitments*	*Contracts*	*Payments*
Bulgaria	*1792,15*	*1313,36*	*1120,22*
Czech Republic	*898,24*	*730,86*	*674,87*
Estonia	*337,44*	*268,96*	*254,42*
Hungary	*1462,59*	*1341,13*	*1174,57*
Latvia	*410,84*	*330,82*	*313,30*
Lithuania	*797,00*	*750,53*	*654,92*
Poland	*3930,96*	*3292,59*	*2856,95*
Romania	*2723,40*	*1860,11*	*1559,37*
Slovakia	*702,30*	*585,7*	*491,40*
Slovenia	*351,64*	*278,49*	*255,64*
Czechoslovakia	*231,40*	*230,82*	*228,88*
East Germany	*34,40*	*28,80*	*28,80*
Multi-country programmes	*3005,90*	*2382,52*	*1959,91*
TOTAL	*16677,50*	*13395,73*	*11573,29*

Source: Commision, Annex to the Communication from the Commission. Fourth Progress Report on Cohesion: Growth and Jobs and the Reform of European Cohesion Policy, COM(2006)281 final, SEC(2006)726, Brussels, 12.06.2006

In the new programming period 2007-2013[24], according to the financial framework decided by the European Council in December 2005, the new member states would have to continue to be net beneficiaries of the EU budget. Anyway, the structural assistance will meet the expected results only if a high absorption capacity – at macroeconomic, administrative and financial level – will be ensured. However, the *ability* of the new member states to fully benefit from the EU transfers has been limited due to certain agreed reforms and transitional arrangements. Thus, for the period 2000-2006, the European Council of Berlin decided that for the new member states the receipts from the EU budget cannot exceed 4% of their GDP. For the period 2007-2013, according to the

[24] Under the new financial framework 2007-2013 the SF will support the pursuing the Lisbon goals (expenditure concentrated on Lisbon objectives) and focus on: *Convergence*, the purpose being to speed up the economic convergence process of the less developed regions by improving conditions for growth and employment through investment in human and physical capital, innovation and development of knowledge society, encouraging the adaptability to economic and social change, protection of environment, improving the administrative efficiency; Regions with a per capita GDP less than 75% of the average EU; *Regional competitiveness and employment* [for the rest of the Union, regions not covered by the Convergence objective]; *European territorial cooperation, f*or strengthen cooperation throughout the Union (cross-border cooperation, transnational cooperation or networks for cooperation and exchange of experiences)

Presidency Conclusions from 15 and 16 December 2006, the maximum level of transfers to individual member states will be reduced, from 4% to 3.71 and 3.2% (and below) depending on national GNI per head.

A significant number of studies and reports prepared and/or published by the European Commission have focused on the effects of the EU structural policies on social and economic cohesion and real convergence between regions and member states. Thus, a study developed by ECORYS-NEI in 2002 upon EC's request and based on a broader analysis of four country studies (Ireland, Spain, Portugal and East Germany's Lander) and five sectoral issues (management, programming, implementation, monitoring and evaluation, financial management and control) has defined a set of key indicators, benchmarks and baseline indicators for candidate countries. According to the ECORYS NEY Report, **the absorption capacity** may be studied either as macroeconomic capacity - defined and measured in terms of GDP levels, administrative absorption capacity - defined as the ability and skills of central, regional and local authorities to prepare acceptable plans, projects in due time or financial absorption capacity - meaning the ability to co-finance EU-supported programmes and projects.

During 2007-2013 programming period, Romania will be eligible under two objectives, *Convergence* and *European Territorial Cooperation* and might receive around **30 billion** euro (about 17 billion for *Structural Intervention* and 13 billion for *Agriculture and Rural Development*).

Table 6 The allocation of Structural and Cohesion Funds, 2007-2013

Convergence objective: 16,8 billion euro

- *Competitiveness: 2,24 billion euro*
- *Transport infrastructure: 4,01 billion euro*
- *Environment infrastructure: 3,96 billion euro*
- *Regional development: 3,27 billion euro*
- *Technical assistance: 0,15 billion euro*
- *Human resources: 3,05 billion euro*
- *Administrative capacity: 0,18 billion euro*

- **European territorial cooperation: 0,394 billion euro**

Therefore, one decisive issue for Romania's economic and social development as a new member state will be how to *increase its capacity to absorb the Structural Funds* and how to reflect these financial transfers in the amelioration of regional disparities (not only in Romanian but also in European context[25]).

A recent study developed under the auspices of the European Institute of Romania aiming to analyse the administrative capacity of absorbing the post-accession EU funds has revealed that this capacity is still insufficient, due to significant and numerous weaknesses which must be tackled in the period of time before accession (EIR, 2006a).

[25] Anyway, as many studies have already pointed out interregional disparities in Romania are neither bigger nor smaller than in many other European countries. Though, the situation is by far much worse when the intra-regional disparities are taken into consideration. For example, there are many cases of big differences between counties within the same region in terms of unemployment rate.

Table 7. Evaluation of the absorption administrative capacity in Romania

	Design			Total
	Structure	Human resources	Systems and instruments	
Management	A *(95%)*	C *(54%)*	C *(50%)*	C *(72%)*
Programming	C *(50%)*	C *(50%)*	C *(60%)*	C *(52%)*
Implementation	C *(69%)*	D *(49%)*	D *(36%)*	C *(53%)*
Total	B *(76%)*	C *(51%)*	D *(45%)*	

Note: A: Strong capacity: system ready for the Structural Funds (at least 90%);
B: Sufficient capacity, but weak points should be addressed (75-90% from the maximum score);
C: Capacity not sufficient yet, serious weaknesses must be addressed (50-75%);
D: Insufficient capacity, there is no base for administrating the Structural Funds.
Source: EIR, 2005.

In this context, the evaluation of Romania's administrative absorption capacity at approximately one year before accession (see Table 7) revealed that this capacity was still at the beginning of its building-up process. Though, the comparisons with other former candidate countries – currently EU members at almost the same time before their accession demonstrated that the problems still unsolved could get an answer until accession and the delays could be recovered.

One of the most important problems that still need to be solved in relation with increasing and strengthening the administrative capacity, refer to employing an extended partnership framework, promoting a continuing education and training policy, elaborating and properly applying work procedures, etc. In another register, an efficient pipeline and co-financing capacity needs to be ensured in order to maximize the absorption of the EU funds. A sound financial management and control for all operational programmes is also required, as well as the implementation and the testing at an early stage of corresponding procedures.

Conclusions

The economic and political impact of adhesion is undoubtful significant. Nevertheless, as previous enlargement demonstrated, it's expected that the overall benefits of the integration would differ from one country to another or from one region to another, not only quantitatively but as well in timing and intensity. Most of the academic studies suggest the positive effect that the eastern enlargement will have on the *economic growth*

especially through the deepening of the competition and the increasing intensity of the activity on goods, services, labour and financial markets.

Moreover, Romania membership will became effective at a time when the EU should deal with an historic crisis, imposing significant internal changes. A list of current conflicts within the EU would include, firstly, *the institutional issues,* closely related to the efficiency of EU policy-making process (more or less, addressed by the almost dead Constitutional Treaty), the *lack of competitiveness of EU* (problem that led to the elaboration of *Lisbon Strategy* in 2000) and, last but not least, the *globalization challenges*. Most part of all these problems will be deepened by the current wave of enlargement, the economic and social divergences between new and older member states increasing the urgency to reform both some of the main EU policies and the financial framework of the EU policy-making.

Therefore, the main question arising is how and in what extent the Romanian membership could influence the development of EU. Although, owing to its limited economic size, Romania's economic impact on the EU is rather marginal, from political and strategic stand point Romania represents an important member, a significant geographical link between EU and West Balkans, Republic of Moldova, Ukraine or the Black Sea.

One of the obvious enlargement's opportunity derives from the chance Romania has to integrate in a community built on shared values such us democracy, respect of human rights, solidarity and cohesion, equal opportunities and fight against all forms of discrimination, universal access to education and healthcare, quality of life and quality in work, sustainable development and involvement of civil society, all of these representing a choice in favour of a social market economy[26]. At the same time, the challenges might come from the speed in the process of economic reform, adopting and implementing EU legislation, strengthening institutional capacity, etc, all in all in increasing the speed of the catching-up process.

The general conclusion is that the enlargement might not produce major negative effects for the NMS or EU since the new member states had passed through intensive preparations during the pre-accession phase. Moreover, the perspective and then the status of the EU membership represent a real anchor in ensuring the continuation of economic and democratic reforms in NMS. Consequently, the medium term prospects for Romania are highly positive, accession being generally close related with an improvement in growth rate, foreign trade and FDI. At the same time, the Lisbon Agenda and the absorption capacity regarding the EU funds will continue to represent two of the biggest challenges both for Romania and EU.

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EU Membership – Support and Challenge to the Competitiveness of the Polish and Romania economies

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Introduction

The competitiveness issue discussed in this paper refers to the international competitiveness of countries, which depends on the performance of industries and firms on the world markets. We shall not enter into the general debate on the competitiveness of countries (see Krugman, 1996) but apply the broad concepts of Trabold (1995), Porter (1990) and Fagerberg (1996) on the international competitiveness of industries. The link between firm-level and country-level competitiveness has been established by Porter (1990). He argues that industries and companies can be competitive if the national environment and government policy support companies' profit-earning and innovative efforts. Firm-level competitiveness depends on production factor costs, demand conditions, firm strategy and firm networking. The environment in which the firm operates is shaped by government policies, chances/opportunities and the international business environment. Internationalization of markets, in particular EU integration, opens up new opportunities for firms and leads to transnational alliances, among them foreign direct investment (FDI). The new environment demands from governments in the EU to set policy targets and use policy tools in an internationally competitive environment regulated by the EU agreements.

The competitiveness of countries as defined by Trabold (1995, p. 182) includes the ability to sell, the ability to attract and the ability to adjust – all these leading to the ability to earn. These components can be measured by specific economic indicators concerning trade and FDI as well as economic growth.

- The ability to sell in terms of international competitiveness means the ability to export. The market shares on the main export markets and their development can be taken as the basic indicators of international competitiveness.
- The ability to attract refers to attracting activities and investments from abroad. Attractiveness for foreign investment is the summary effect of location factors in the country. Although other forms of international capital flows may also be important, a basic indicator of attractiveness can be the size of annual FDI inflows and FDI stocks.

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- The ability to adjust can be measured by the speed of structural change. Through structural change the country changes its product and export specialization in order to increase its capacity to earn. Structural upgrading means a shift towards higher value-added, higher-technology products, which generally allow for higher earnings.
- The ability to earn is shown by the per capita level and increase of GDP. GDP growth compared to other countries expresses whether a country is catching up or falling behind. The structure of GDP growth reveals the main driving forces of growth and also the imbalances which may endanger further growth.

Based on the above considerations, in this paper competitiveness is measured by the rate of GDP growth, the size of exports, the structure of exports and unit prices of exports, as well as by the amount and structure of FDI. We compare two countries: Poland, which has two and a half years experience of EU membership, and Romania, which is going to join the Union in 2007. We look for lessons from Poland which may be relevant for Romania's competitive position after EU accession.

At the outset we argue that economic conditions in Romania at the time of EU accession are less favourable than they were in the case of Poland, but there is also a higher dynamic of change. Romania is less developed, less competitive and is characterized by a more backward economic structure than was Poland two years ago. In Romania the economic transformation to a market economy started late, market conditions have not yet consolidated, and the institutional environment and physical infrastructure is underdeveloped. We shall demonstrate these differences between the two countries in the following sections and raise specific questions related to Romania: How will the economy withstand competitive pressure? Will the external balance deteriorate and if yes, will the stability of the currency be in danger?

Differences in competitiveness between Poland and Romania in the 2000s[1]

Economic growth patterns

In the 1990s, Poland grew fast due to successful economic transformation, while Romania was falling behind due to stop-go policies and hesitant transformation. In comparison with the EU-25 average per capita GDP at purchasing power parity (PPP), Poland caught up from 32% to 47% between 1991 and 2000 while Romania fell behind from 29% to 25% (Table 1). Thus the current development gap between the two countries is virtually of recent origin.

1 Research regarding Poland was done by wiiw economist Leon Podkaminer (Podkaminer, 2006a and 2006b).

In the past six years, however, Romania performed much better than did Poland: in 2005 Romanian per capita GDP advanced to 35% of the EU-25 average at PPP, while Poland's GDP level hardly changed by moving to 50%. Nevertheless, Romania is still a more backward country and has a long way to go to catch up.

To illustrate the difficult way ahead, a simple growth projection can be made based on the assumption that in the next decade the EU-25 will grow by 2%, Poland by 4% and Romania by 6% - thus the trend of the last few years continues (Table 1). The results show that by 2015 Poland will be at 60% of the EU-25 average, at the same level as Hungary in 2005, and Romania will climb to the current Polish level of 50%. As economic history has shown, there is little room for miracles; catching-up processes take a long time and can be rather cumbersome.

Table 1

GDP per capita at current PPPs (EUR terms), EU-25 average = 100

	1991	**1995**	**2000**	**2005**	**2010 projection**	**2015 projection**
Poland	32	40	47	50	55	60
Romania	29	30	25	35	42	50

Projections: EU-25: 2%, Poland: 4%, Romania: 6% annual GDP growth; zero population growth.
Source: wiiw Database.

As a possible impact of EU accession, Poland has grown more rapidly in the past two-three years than it did in the three years before it joined the EU (Table 2). Polish GDP growth was particularly high in the accession year, slowed down one year later and has recovered again in 2006. Romania recorded similar fluctuation during the same period, but its growth rates were higher than those of Poland. The slow economic growth in both countries in 2005 had to do with poor harvests. As of now, optimism prevails that the estimated 2006 growth rates can be sustainable over the coming years.

Judging from the recent growth performance of the two countries, it may be concluded that they are able to grow faster than their competitors in the old member states. In general, the new EU member states (NMS) and accession countries improve their competitive position in the wider European context. But Poland's and Romania's growth rates are not particularly high as compared to the other NMS, which tend to be competitors of both countries on the EU market.

Demand structure of the current economic growth

The individual items of expenditure have played differing roles in generating growth in aggregate demand (and GDP) in the two countries (Table 2). In 2004, the year of EU accession, Poland just emerged from a recession characterized by declining investment. Stagnating domestic consumption in the early 2000s had helped the foreign trade balance to improve, but it expanded again along with the resumption of economic growth. But, in fact, the deterioration of the foreign trade balance in connection with EU accession lasted only for a few months, and in the past three years exports have grown faster than imports. Poland could withstand the competitive pressure on the European market, it has been able to sell more while its import reliance has been moderate (see also next section).

Table 2

Percentage contributions of domestic demand, consumption, gross fixed capital formation and foreign trade to yearly GDP growth, 2000-2005

Poland	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006 estimate**
GDP growth rate (%)	**4.2**	**1.1**	**1.4**	**3.8**	**5.3**	**3.4**	**5.2**
Consumption	2.2	1.8	2.4	2.1	3.3	2.2	
Gross fixed investment	0.7	-2.3	-1.3	0.0	1.2	1.2	
Trade balance	1.0	2.6	0.5	1.1	-0.8	1.1	
Other items*	0.3	-1.0	-0.2	0.6	1.6	-1.1	
Romania	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006 estimate**
GDP growth rate (%)	**2.1**	**5.7**	**5.1**	**5.2**	**8.4**	**4.1**	**6.5**
Consumption	1.3	5.5	4.2	7.0	10.3	7.5	
Gross fixed investment	1.0	1.9	1.6	1.8	2.4	2.9	
Trade balance	-2.4	-3.4	0.9	-3.9	-5.0	-5.4	
Other items*	2.2	1.7	-1.6	0.3	0.7	-0.9	

* Other items: change in stocks and statistical discrepancy.

Remark: The growth rate of each individual position was weighted with its share in GDP. The sum of the components' growth rates adds up to the GDP growth rate.

Source: wiiw Database relying on national statistics.

In Romania, the high rate of economic growth in the past five years has been driven by domestic consumption and, to a lesser extent, by investment, while the foreign trade balance has deteriorated continuously. Romania is in a phase of rapidly adjusting industry and services, with a lot of technology being imported and domestic production hardly in a position to meet the demand for investment goods. Private demand has also expanded rapidly as consumers have benefited from growing wages, improved creditworthiness and

an appreciating local currency. Private demand grew much faster than domestic production, in both quantitative and qualitative terms, and was met by rapidly growing imports. At the same time, production developed in such a way that exports also increased at two-digit annual rates, albeit slower than imports. Thus, the contribution of net exports to economic growth is increasingly negative in Romania, while it is positive in Poland.

As to the performance of the external sector, the difference between the two countries is also indicated by the current account deficit to GDP ratio: in Poland, it was below 3% in the early 2000s, jumped to 4.2% in the year of accession and came down to 1.4% in 2005. Romania, on the other hand, will report a current account deficit of more than 10% of GDP in the year before accession. Keeping in mind that in Poland, due to accession, the current account balance deteriorated sharply, a similar impact in Romania would increase the deficit to really high levels.

The difference between the two countries in terms of consumption growth may be explained by the difference in wage growth. Wage increases have been modest in Poland, keeping consumption growth moderate: real wages expanded by only 7.6% between 2001 and 2005, while GDP grew by 14.6%. In Romania real wage expansion was as much as 42% while GDP grew by 25%. (Average monthly wages in 2006 can be estimated as EUR 650 for Poland and EUR 310 for Romania.)

We conclude from the above that Poland joined the EU with an economy modestly growing, and with an improving foreign trade balance. In the past two years, expanding consumption has boosted economic growth while the foreign trade balance has improved further. Romania will join the EU with an economy growing more rapidly and displaying signs of overheating. This growth is fuelled primarily by domestic consumption while the external deficit is high and expanding. This deficit is financed by abundant foreign currency inflow which appreciates the local currency triggering a further widening of the foreign trade deficit.

Exports size and structure

The competitiveness in relation to other countries can be expressed by the change in market shares on the main export market, the European Union. Both countries have increased their market shares in the EU-15 in recent years (Table 3) which may be interpreted as an indicator of increasing competitiveness. Due to the more rapid export expansion, Poland's share in EU-15 imports increased faster than that of Romania. Considering the larger size of Poland, a market share 2.3 times higher than that of Romania in 2004 is more than justified as Poland's nominal GDP in euro terms is 2.7 times higher than the Romanian.

As to the specialization pattern of exports, both countries hold the strongest position in low-tech and medium-low-tech industries, while the market shares attained in high-tech

industries are very small (Table 3). Still, Poland has had a more advanced export structure and recent market share gains took place mostly in the medium-high-tech sectors. Romania's market share is concentrated on the low-tech industries and it was this sector which achieved most of the gains on EU markets. Currently both Poland's and Romania's exports undergo a structural change due to the diminishing role of low-tech industries, in particular textile, clothing and footwear, caused by Chinese competition. These commodities are primarily replaced by increasing exports of cars, car components and electrical machinery.[2]

Table 3

Manufacturing goods exports to the EU-15: shares in EU-15 total imports, annual averages for two periods, in %

		Low-tech	Medium-low-tech	Medium-high-tech	High-tech	Total manufacturing
Poland	1995-1998	1.60	1.43	0.63	0.20	0.92
	2002-2004	1.94	1.81	1.56	0.40	1.35
Romania	1995-1998	0.86	0.61	0.14	0.02	0.35
	2002-2004	1.73	0.61	0.32	0.11	0.58

Source: wiiw calculations based on COMEXT Database. Low-tech goods are the products of NACE industries 15-22, 36-37; medium-low-tech: NACE 23, 25-28; medium-high-tech: NACE 24, 29, 31, 34-35; high-tech: NACE 30, 32-33.

Qualitative changes in exports are typically reflected in the prices received for the products. The measurement of such price/quality improvements involves the calculation of average prices per 'ton' of various types of goods.[3] In this comparison Romania outperforms Poland (Table 4). In the second half of the 1990s the unit values of Romanian exports to the EU-15 had been below those of Poland, but by 2004 they had surpassed the Polish level. This superiority is present in all technological categories of industries. Romanian products have been modernized so that they can be exported at relatively higher price. But high prices set a narrow limit for increasing the volume of exports. Poland expanded exports mainly by quantity, competing on the basis of prices but not of quality.

[2] For the time being only national statistics support this statement; Eurostat data are not yet available.

[3] The calculations were done by Robert Stehrer, wiiw. For the methodology see, e.g., Landesmann and Stehrer (2003).

Table 4

Central and East European countries' exports to the EU-15: unit value ratios

		Low-tech	Medium-low-tech	Medium-high-tech	High-tech	Total manufacturing
Poland	1995-1998	0.802	0.846	0.665	0.860	0.789
	2002-2004	0.869	0.872	0.864	0.821	0.867
Romania	1995-1998	0.720	0.796	0.663	0.596	0.731
	2002-2004	0.956	0.895	0.903	0.838	0.924

Source: wiiw calculations based on COMEXT.

The diverting development of export competitiveness in the two countries may be linked to the differences in unit labour costs. As pointed out in the previous section, wage increases have been moderate in Poland but surged in Romania. In Poland, productivity increased more rapidly than wages, thus unit labour costs in manufacturing declined, by 17.8%, between 2002 and 2005. The costs of Polish producers diminished and they could compete with lower prices and sell larger quantities. In Romania, by contrast, productivity did not increase as fast as wages during the same period, which resulted in an increase in manufacturing unit labour costs of 24.5%. Romanian producers could not sell as much as before in the same quality were pushed to increase export prices even if quantities had to be limited.

Despite the above differences in development, unit labour costs in both country's industries are much below the EU-15 level; this fact can attract the relocation of production. Polish unit labour costs are on average still higher than the Romanian ones. Using Austria as a benchmark (a slightly higher base than the EU-15 average), Polish unit labour costs in manufacturing were at 37% in 2005, while Romania's at 32%. However, whereas Polish unit labour costs were above the Romanian ones in the manufacturing sector as a whole, they were below the Romanian level in key export industries: textiles-clothing-leather, and machinery-electrical equipment-transport equipment (Table 5).

Table 5

Unit labour costs in Poland and Romania in comparison to Austria, 2005, euro-based, %

	Poland	Romania
D Manufacturing	36.9	32.2
DA Food products; beverages and tobacco	36.9	19.0
DB Textiles and textile products	50.9	61.8

DC Leather and leather products	74.6	127.2
DD Wood and wood products	38.3	31.1
DE Pulp, paper & paper products; publishing & printing	43.4	17.0
DF Coke, refined petroleum products & nuclear fuel	121.1	37.4
DG Chemicals, chemical products and man-made fibres	47.0	24.7
DH Rubber and plastic products	28.0	23.7
DI Other non-metallic mineral products	29.1	28.8
DJ Basic metals and fabricated metal products	33.8	21.2
DK Machinery and equipment n.e.c.	43.2	60.3
DL Electrical and optical equipment	31.8	58.5
DM Transport equipment	34.9	68.5
DN Manufacturing n.e.c.	32.7	31.7

Source: wiiw Database.

We can discover a relationship between the wage surge and quality upgrading of exports in Romania, but the way of causality is not obvious. Did rapidly increasing unit labour costs push producers to upgrade their products and improve the quality, or was it the fast technological change that triggered productivity and quality gains which in turn allowed for rapid wage increases? There is no answer to this at the current level of analysis but the conclusion is clear: Romanian exporters could align costs and prices and maintain competitiveness, but they could not substantially increase the amount of exports. Polish producers increased the quantity of exports relatively more rapidly than the quality.

Another related effect of the strong increase in Romanian unit labour costs concerns the competitiveness on the domestic market. Domestic producers find themselves in a disadvantaged position in the face of imported goods. This may explain the sluggish growth of manufacturing output in the past five years and the high import growth.

FDI patterns

Finally we look into the ability of the two countries to attract FDI. In absolute terms, large countries receive higher amounts of FDI than do smaller ones. The largest country, Poland is the most important recipient among the NMS as of end-2005, with an FDI stock of more than EUR 70 billion. Romania is the most important recipient in Southeast Europe, registering an FDI stock of EUR 20 billion. But in relationship to their size, FDI is quite low in both countries. The FDI stock amounts to only 29% of GDP in Poland, and to 25% in Romania – the second and third lowest rates among the new members and accession countries after Slovenia (Table 6).

Table 6

FDI inflow and stocks in NMS and accession countries

	FDI inflow, EUR million						Stock per GDP, %
						forecast	
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2005**
Czech Republic	6296	9012	1863	4007	8837	5000	51.2
Hungary	4391	3185	1888	3754	5559	5000	58.9
Poland	6372	4371	4067	10279	6566	8000	29.1
Slovakia	1768	4397	593	1016	1694	3000	34.8
Slovenia	412	1700	300	665	445	500	21.9
Bulgaria	903	980	1851	2727	2326	3000	39.8
Croatia	1503	1195	1785	990	1403	2000	42.6
Romania	1294	1212	1946	5183	5197	8000	25.4

Source: wiiw Database on FDI and wiiw estimate.

FDI in Romania is of much more recent origin than in Poland which may be a reason for lower accumulated stocks. Inflows started to reach significant amounts only in 2004. Most of the inflows in recent years have been privatization-driven. For the year 2006 high amounts of FDI can be expected to flow into both countries (see Table 6 for wiiw estimations based on half-year balance of payments data). This year there is a general trend in the NMS for accelerating inflows, and Poland is on track to confirm its position as the largest receiver of FDI. Romania will book one-time high amounts of privatization-related FDI which will certainly be followed by a backdrop in 2007.

As for the structure of FDI, up to 2005 the two countries differed in so far as in Romania industry had a higher share of FDI than services, whereas in Poland services, first of all banking and trade, were more important. Romania will change to the Polish pattern in 2006 when the recent privatizations to foreign investors in banking and electricity distribution appear in the statistics. Poland will move in the other direction as the share of manufacturing in new FDI is growing again. The country has recently attracted some larger investment projects in the motor industry and household electronics. These are hoped to boost the exports of medium-high-tech products and speed up the upgrading of the export structure. In the past few years Romania has attracted FDI of labour-intensive production from Poland but its current wage surge and Asian competition may force these plants to move on. Larger green-field projects are still missing in Romania but may come after the country's accession to the EU; as a precondition, however, a general development of the transport infrastructure is essential.

Conclusion and outlook

In the above analysis we have found that the competitiveness of both Poland and Romania is improving by some important indicators. They have been growing faster in 2004-2006 than earlier, they have attracted more FDI and they have exported more, in an improving structure and in improving quality. Problems for Poland were identified in terms of slow structural upgrading and for Romania in terms of expanding foreign trade deficit. These problems are not easy to solve, therefore optimism concerning medium-term economic prospects has to be cautious. This refers especially to Romania current imbalances and competitiveness problems may even aggravate in the first few years of EU membership.

In general, the conditions for doing business, for foreign trade and for investment flows improve when a country joins the EU. The 2004 enlargement showed that the first year of membership may stir economic imbalances: many countries registered a push to inflation, an acceleration of imports and an increase in the budget deficit. All these difficulties have been successfully overcome by Poland. Economic growth in 2006-2007 is and will be sustainable, at a rate of about 5%. Rising incomes of wage-earners, pensioners, and farmers (the chief beneficiaries of Poland's EU accession) are likely to strengthen consumer demand. At the same time there is every reason to expect strong fixed productive investment: the corporate sector is highly liquid, interest rates are relatively low, capacity utilization levels are fairly high, domestic and foreign demand seem to be forthcoming. Despite its populist rhetoric, the current government keeps budgetary spending under control and its foreign policy statements do not discourage investors either.

Romania will accede the European Union on 1 January 2007 with a dynamically growing economy, high current account deficits, high but falling inflation, and a low but increasing budget deficit. In 2007, private consumption may increase less rapidly than in past years, but a somewhat less restrictive fiscal policy and enhanced confidence of foreign investors will support economic growth further on, still less rapidly than before. After 6.5% GDP growth in 2006 one may realistically expect for 2007 only about 5.5%. The deceleration of growth has partly reasons which are connected to the one-time nature of the 2006 growth acceleration (agricultural recovery). The forecast mainly reflects growing uncertainties due to the increasing external imbalance. Adverse effects of EU accession may appear in the form of stronger competition on the domestic market, surging imports and thus even higher current account deficits. Wage restraint and productivity-enhancing investments will be necessary to reduce unit labour costs as compared to competitors such as Poland. In addition, in the first year of membership there will be no surging inflow of EU funds yet. It will take a few years more for Romania to fully benefit the system of EU funding.

The development of the balance of payments in Romania may cause uncertainties regarding inflation and the exchange rate. Inflation may decline due to increasing competition, but the obvious overheating of the economy may impose the opposite. The current account deficit

may become a problem and trigger a depreciation of the currency, but this may also be prevented by an improved risk perception that supports the inflow of further foreign investments. Abundant foreign financing would allow for even larger deficits. Despite all these uncertainties, due to the generally optimistic attitude in and around the Romanian economy, there is little likelihood of an inverse investment flow triggering a currency crisis. The most important danger Romania has to face is that the currency stays firm while competitiveness in terms of ability to sell and to adjust will not improve properly.

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Some comments on Poland

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I understand that this workshop is focused on the *economic* impacts of EU accession of Poland and Romania and their comparison. But I am sorry to say that I am not an economist. So please allow me to raise three problems or questions, maybe too much socio-political and too less economic, only on Poland.

First, sometimes it is said that in the West the government is enthusiastic, but the society is rather skeptical about EU enlargement. On the contrary, in the East the society is very positive, but the government is not so much. As far as Poland is concerned, it seems that this statement is correct. If so, is Poland typical or rather unique in the new member states?

According to the data of Polish Public Opinion Research Center (CBOS), which Dr. Balcerowicz also makes use of in her paper, it is very clear that the percentage of the people who approve of EU membership is getting higher and higher after accession in 2004, and reached to the record-breaking level.

In this circumstance, as a result of the parliamentary and presidential elections in autumn of the last year, Law and Justice party (PiS) has come to power, at first creating a minority government, but since the middle of this year as a leader of coalition government of three parties.

The positions of the coalition parties about EU accession were or are as follows.

The attitude of PiS was and is *for* EU membership, but with tough assertion of national interests within EU.

The peasant party Self-defense (Samoobrona) was *against* at least under the negotiated conditions, which they regarded as unfair, especially in the issue of direct aids for farmers. They insisted on the renegotiation of the Accession Treaty.

The nationalistic party, League of Polish Families (LPR) was and probably still is against EU membership of Poland because of threat for the national sovereignty and Catholic tradition.

So it is understandable that many EU member states are watching the situation in Poland *with caution*. Especially it is said that the relationship between Poland and Germany is at the worst level since 1989.

How can it be possible to have such a government in the *democratic* country, in which the general public is very positive about EU membership? This is the first problem.

Second, what kind of Europe doe's Poland want?

I analyzed the debate on Treaty for European Constitution, which was held by publicists, politicians and scholars on Polish news papers in 2003 to 2004. I noticed that there are at least four issues.

(1) socio-economic and cultural model of Europe. So-called "*liberal Europe*"or"*social Europe*", and "*Christian Europe*"or "*tolerant Europe*"I would say?

(2) model of integration. Only confederation of the nation states or gradual evolution towards European supra-national federation?

(3) coalition within the member states. So-called"Weimar triangle"(close contact of France, Germany and Poland) or Anglo-Saxon option, or rather ad hoc coalition according to the concrete issue?

(4) attitude towards farther enlargement. Poland is interested in, first of all, accession of Ukraine, but for the time being the main issue is, of course, Turkish membership.

In short, Poland is not monolithic as to the future shape of EU. This is the second problem.

Third, in connection with the second problem, I would like to put two, more concrete economic questions. In the socio-economic aspect of accession - the perspective of employment or rather unemployment, and in the politico-economic aspect - German-Polish-Russian relation.

I am not ready to give my own answers to these questions. But I would like to show some data and my viewpoints.

As usual I try to recognize the political situation, arrangements of various political parties in Poland using two ideological axes. On the axis of economic system or economic policy we can distinguish two positions, a *free-market-oriented* and a *state-intervention-oriented*. On the axis of value system – a *Catholic-tradition-oriented* and a *tolerance-oriented in value choice*. These two divisions on the two dimensions lead us to four political options, *conservative-liberal*, *national Catholic*, *social-democratic* and *liberal democratic*. In my opinion, we can apply this scheme, to some extent, also to Europe.

Using this scheme, we can situate each party on the political scene.

In the presidential election, PiS described the confrontation of the main candidates

as"*solidary Poland*"vs"*liberal Poland*". This tactics was very effective, and so PiS won in two elections. But as a result of this tactics PiS moved itself from its original position to the left, state-interventionalist direction, I guess. Although the popularity of PiS has been a little bit decreasing and its coalition partners, Samoobrona and LPR were defeated in the recent local election in November, the fact that PiS has come to power means that there is a considerable, so-called *social electorate* in the EU- oriented society and that PiS succeeded to mobilize at least a part of it in place of the social-democratic party (SLD, Democratic Left Alliance), which compromised itself in the period in power.

It is true that an overwhelming majority of the Polish society approves of EU membership. But we have to examine the reasons of such an approval and especially how market economy, created in Poland as a result of transformation after 1989, is evaluated.

Again, according to the public opinion poll, among the benefits people see in EU membership, the top is *chance for work in EU countries*. It considerably increased from 24% in 2005 to 39% in 2006. *Benefits for farmers and agriculture*, which was impressive in the first years of EU membership, decreased. The percentage of people, who don't see any benefits from EU membership, diminished.

Among disfavors of EU membership, *increase of prices*, especially of food dramatically diminished. The percentage of people, who don't see any disfavors from EU membership, increased. But, for 35% of respondents it is difficult to answer to this question.

Let's examine perceptions of economic system on the basis of the other public opinion poll.

"Do you agree with statement that capitalist economy based on free, private initiative is the best economic system for our country?"" I don't agree"slightly increased during five years and now the public opinion is completely divided.

"To what extent are you satisfied with the market economy, which is functioning in Poland?"Although the percentage of people, who are, generally speaking, satisfied, increased, still almost two thirds is unsatisfied.

As to privatization, the public opinion is divided, a little bit more negative or careful. Why? Because association with privatization of economy is very negative.

Nevertheless the majority of people think that privatization was necessary.

So association with market economy is ambivalent very much. Please, pay attention to *corruption*. Struggle against corruption is just the most important policy issue, which was and is strongly appealed by PiS, Law and Justice (!). One of the

most popular politicians is Minister of Justice from PiS. This suggests one of the reasons of success of this party.

As to shape of Europe, PiS clearly supports Christian Europe of the nation states with sovereignty, unlimited as much as possible.

In terms of coalition within EU, the position of PiS as a *ruling party* is not so clear, but in the debate on Treaty for European Constitution it was clearly in opposition to French-German dominance in EU. In this sense, it can be said that PiS is at least not in favor of Weimar Triangle.

Problem of socio-economic model of Europe is, in my opinion, a little bit more complicated not only for PiS, but also for Poland or the new member states at large.

On the one hand, Poland, as a country catching up to the developed countries, wants to be in *liberal Europe* with less regulation. Director of the Institute of Market Economy Jan Szomburg says as follows. Highly developed countries attach much importance, for example, to environmental problem and can afford to introduce high level of regulations and to spend public money for this purpose. But for underdeveloped countries such costs only mean increase of unemployment. In his opinion, it is necessary, first of all, to deregulate economy and to equalize the level of development within EU through competition of different types of economic system, more liberal such as UK' and more regulated or more social such as German or French.

One of the controversial issues in this context is proposal of France and Germany to harmonize corporate income tax. This means, in fact, raise of tax rate in the new member states. According to Deputy of European Parliament from Social-Democracy of Poland (SdPl) Dariusz Rosati, low income tax is one of the means, available for Poland, partially to compensate disadvantage in competitiveness in comparison with developed countries and it can be justified because it differs from dumping.

On the other hand, Poland wants to be in *solidary Europe*, which is ready to offer more financial transfers to the new member states in order to achieve the same purpose, to equalize the level of development.

Thus Poland has double demands; demand for *liberal Europe* with less regulation and demand for more financial transfer in name of *solidary Europe*, but not social Europe.

For people of the Western member states, such double demands seem to mean double burdens for them, inflow of cheap labor and fiscal burden.

So I have reached to two economic questions in the wider contexts than purely economic one.

According to the official statistics, since 2004, when the unemployment rate was at its peak, 19%, it has been decreasing up to 15.2% in September, this year. The public opinion poll reflects such a positive tendency. "Very bad"is decreasing, and "bad"is increasing."Neither good, nor bad"is also increasing. So the situation is a little bit hopeful, but still bad. Poland belongs to the member states, in which the unemployment rate is very high, along with Slovakia. The regional differentiation is visible, in terms of Voivodship, from 11.6% in Malopolska to 23.6% in Varmia-Mazury. The number of the employed is 2,360,000, which is almost equal to the whole population of Latvia.

Dr. Balcerowicz touched in her paper the problem of outflows and inflows of labor in the context of EU accession. Of course, I understand that it is a difficult task to assess the *real* situation of unemployment. But, if possible, I would like to hear more about the situation of unemployment in Poland as a whole.

What's the reason of the recent declining tendency? Impacts of EU accession? Only a result of business cycle? Is there any kind of contribution of the governmental policy, active ore passive? Or any other reasons?

How about the farther perspective? To what level of unemployment rate can we expect in the near future, under what conditions?

The second question is German–Polish-Russian relation.

In relationship between Poland and Germany, we can point out some elements. German political support for Polish accession to EU was very clear. Needless to say Germany is the most important economic partner for Poland. But there are some issues, which brought about conflicts between two countries; Iraqi war, European Constitution, historical issue such as project of construction of Center in memory of the people expelled from the former German territory in Poland just after the end of World War II.

But still attitude of the general public of Poland is very positive. According to the public opinion poll in August, 67% of respondents support a policy to have permanent allies within EU, with which Poland cooperates continuously, while only 18% - a policy to set up ad hoc alliances in order to deal with concrete problems. Up to 73% of respondents, which are for the first option, mentions Germany as one of the most important allies, while 47%- France, 37%- Great Britain and so on.

But there is one more issue, economic issue, which irritates Poles, that is German–Russian project of pipeline, bypassing Poland.

As to Polish-Russian relationship, there are also some elements. It is sometimes said that among Poles there is a kind of Russophobia stemming from history. Russians have unpleasant feeling about Polish commitment to"Orange Revolution"in Ukraine. Still

Russia is a not negligible economic partner, especially in energy import. Besides the actual issue between two countries is Russian embargo for Polish meat, which lasts one year.

In such a circumstance in November, just before EU-Russia summit, Poland vetoed EU mandate for negotiation with Russia on the new Treaty of partnership in order to demand that first of all EU should incline Russia to abolish embargo.

How to think about this embargo problem? Russian tactics to isolate Poland? Lack of European solidarity as is argued by the Polish government? Was Polish diplomacy skillful or unskillful? There are various opinions within and outside of Poland.

This workshop is not an adequate place to discuss about Polish foreign policy or internal politics within EU as such. So here I would like to ask Dr. Balcerowicz to give us some comments about the *economic* aspect of German-Polish-Russia relation, i.e. about possible European common policy in EU-Russia relation in terms of *energy security*.

EU Designed Transition and Development Models
- Romania`s Peculiar Case and the Europeanization Therapy-

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Abstract:

The paper complements Gabriela Dragan`s work on ``Romania`s Accession to EU: Challenges and Opportunities``. The paper focuses more on the stages of economic Europeanization in Romania with a particular emphasis on the accession negotiations. The key Europeanization mechanism, the conditionality, is analyzed in its evolution in pair with the EU accession phases, raging from early contractual relations to the peak of the accession negotiations and the Accession Treaty. The "economic chapters'' of negotiations and especially the chapter on competition policy and justice and home affairs are particularly emphasized.

Overall, the paper presents the EU Enlargement process as a ''win-win'' situation for all the parts involved, especially on the medium and longer perspective when the structural effects of Europeanization and economic integration would have taken full effect.

Introduction

Among the EU candidate countries from Central and Eastern Europe, Romania has proved to be a more difficult case with a more hesitant and gradual approach in early transition reforms, periods of political and economic crises doubled by a series of inherent factors like the more ``Byzantine`` political and economic culture and a more peculiar geographical position comparing with the ``frontline`` Central European states.

In this context, Romania's strategic option of following the EU path has been indeed a historical one as it determined probably the biggest and certainly the fastest modernizing and non ideological revolution in its history.

The process of EU accession went in parallel and overlapped with the process of transition (economically and politically). Many radical reforms would have been necessary to be undertaken even without the EU accession prospect. The EU context though added a strategic coordinated approach, speed and financial support for the systemic transformation of the country. Indeed, how the economic transition might have proceeded without the accession perspective is difficult to assess, however clearly it would have been much slower and cumbersome.

To understand how the transition and EU accession went hand in hand, a short review of the EU key instruments and methodology used in the process is necessary.

The "Europeanization" methodology applies to all Central and Eastern European countries (CEECs) and Romania represents only a case study, although probably the most difficult one and therefore the most relevant[1].

Europeanization, Conditionality and its Phases

In the European Union, conditionality developed from a minor policy tool used in a limited way in agreements with third countries and development assistance, to become the main instrument of EU enlargement and the most successful tool of EU foreign policy. Conditionality basically implies that the EU is phasing assistance, ranging from economic, political and institutional incentives to full membership on the condition that, the previously set, political and economic objectives are met.

CEECs had the option of taking over the EU's institutional set-up to shortcut the process of own institution building with its typical trial and error shortcomings. The

[1] The concept of Europeanization has traditionally been used in order to assess the impact of EU governance on the member states' domestic environment. Europeanization can be defined as ``a process of construction, diffusion, and institutionalization of rules, procedure, paradigms, styles, ways of doing and shared beliefs and norms, formal and informal, defined and consolidated first in the decision-making process of the EU and then incorporated in the logic discourses, identities, political structure and policies at the domestic level`` (C. Radaelli, *Whither Europeanization? Concept Stretching and Substantive Change* in European Integration on line Papers (EioP) 4:8 2000).

"shortcut" essentially comprised of taking over a ready-made institutional system which was already proven as feasible and with a significant implementation expertise available.

Generally, the "Europeanization" through conditionality mechanism implied the following ingredients: "Models", through provision of legislative and institutional templates; "Benchmarking", providing examples of best practice that the applicants voluntarily tried to emulate; "Monitoring", which became a key mechanism in the conditionality for membership, through the cycle of "Regular Reports" published by the European Commission on how prepared each applicant is in different fields; "Gate-keeping", which proved to be the EU's most powerful conditionality tool by dividing the accession process in merit based progressive stages, particularly achieving candidate status and starting negotiations.

From aid and trade to membership prospect

The EU conditionality and its effect in transforming the CEECs moved along with the development of bilateral contractual relations.

The first phase of relations progressed from aid and trade conditions to the prospect of membership. It started with the granting of preferential trade concessions to CEECs, followed by different forms of association with the EU. Trade and cooperation agreements had been concluded with most CEECs between 1988 and 1990. Their main importance was symbolic, in removing historical trade discrimination and the substance of the trade concessions and cooperation was limited. The agreements bound CEECs to progressive abolition of quantitative restrictions on import of EU goods, although they were already in the process of liberalizing trade owing to GATT membership.

Aid and conditionality – The Phare Program

The Phare program has been the first channel for EU aid to CEECs. On its establishment in 1989, its primary instrument was direct grants, used to fund technical assistance in a very wide range of areas. Initially, the EU used Phare funds to channel advice on economic transformation, with the Commission deliberately confining its

conditionality to market-developing measures; however, from 1992 a budget line was built in for a democracy support projects as well.

Conditionality for Phare funds and the technical assistance reinforced the generally neo-liberal agenda that the EU put forward, however, the program was fragmented as a result of its dependence on consultants under contract and the overall lack of coherence.

Preferential trade and conditionality - The Europe (Association) Agreements

The trade and cooperation agreements were superseded by ''Europe Agreements'' (EAs) signed bilaterally from 1991 onwards (1993 for Romania), which provided a more comprehensive form of partnership than previous Association Agreements with Turkey, Malta and Cyprus. Eligibility for a Europe Agreement formally depended on five conditions: rule of law, human rights, a multi-party system, free and fair elections, and progress towards a market economy. EAs could have been suspended if these standards conditions were not maintained, but no suspensions have occurred.

Two developments were taking place at the same time that the Association Agreements were being negotiated, which made the accession far more complicated. The first was the completion of the Community's internal market and the establishment of an economic zone without internal frontiers. The second was the negotiation of the Maastricht Treaty establishing the European Union, which extended the role of the Union into new areas like the Common Foreign and Security Policy and Justice and Home Affairs and reaffirmed Economic and Monetary Union as an objective of Union policy, with the detailed design of the different stages towards its achievement. These two developments extended the *acquis communautaire* massively, making preparation for accession far more difficult. For the CEECs, the internal market acquis added another large layer of new legislation besides that required by their own systemic reforms.

The EAs were intended to create a free trade area and to implement the four freedoms of the Single Market (free movement of goods, services, capital and labour) over a ten-year timetable, and they also provided a general framework for political and economic cooperation, including approximation of legislation. They thus started the process of introducing the *acquis* to the applicants. The liberalization was asymmetric,

with the EU opening markets for industrial goods within five years and the CEE countries within ten.

The EAs made specific policy demands on CEECs through the chapters on trade, on competition, on free movement of workers, and on establishment and supply of services. The trade chapters were the most comprehensive, with the annexes to the EAs giving schedules for removal of trade barriers, including special protocols on ''sensitive'' sectors (textiles, iron, coal and steel) and complex restrictions on agricultural trade.

The White Paper on the Internal Market

This document released in 1995 sets out the key legislation governing trade in goods and services in the EU's Internal Market. It took the EU's agenda a stage further on from the Europe Agreements by introducing measures in a large number of new policy areas. Again, the content sets a policy agenda that is generally liberalizing.

In each sector, the White Paper divides the legislation into ''stage 1'' measures, which set out the basic policies essential to the functioning of the Single Market and the instruments required to implement them, and then the ''stage 2'' detailed implementing rules. The White Paper does not provide an overall prioritization between sectors, although suggestions are made about sequencing.

Unlike the EAs, the White Paper is not a legally binding agreement. Nevertheless, the regulatory alignment policy it outlines was a central concern of CEECs policy-makers because it gave them a framework and set of concrete measures to implement. Moreover, progress in taking on the measures presented in the White Paper was judged in the Commission's *avis* as a key element in assessing the applicants ability to take on the obligations of membership. The White Paper thus became *de facto* a part of EU conditionality for the applicants, despite its status as a document for guidance rather than a legal framework for relations.

The first real application of EU conditionality to the CEECs occurred in July 1997, when publication of the Commission's ''opinions'' (*avis*) was used to differentiate between the countries for starting negotiations.

Agenda 2000 – The Commission's *avis*

The *avis* on each applicant state were an important step forward in EU conditionality in two respects: both as a first active application of conditionality and also as an elaboration of the economic conditions to join. First, they provided the basis for the first active application of conditionality on involvement in the accession process, by providing assessments that allowed differentiation between the applicants according to how near they were to meeting the Copenhagen conditions. None of the applicants was judged to have met the economic criteria fully by 1997, but the Council concurred with the Commission's recommendation that negotiations should start with five of the CEECs candidates plus Cyprus. The Luxembourg European Council provided the first instance that benefits had been granted to or withdrawn from any applicant explicitly on the basis of the 1993 "Copenhagen conditionality". Slovakia was the only country excluded on political grounds and Bulgaria, Romania, Latvia and Lithuania were judged not to have met the economic conditions.

The Accession Partnerships

The APs were intended to make conditionality stricter on both financial assistance through Phare, and ultimately on accession itself, by uniting all EU demands and assistance for meeting them in a single framework. They set priorities for policy reforms on a timetable of short and medium term priorities. Applicants then prepared 'National Programmes for Adoption of the Acquis', which set timetables for achieving the priorities. The Commission then started to submit regular reports (since November 1998) on candidates' preparations for accession.

They united all the EU's demands and listed the economic reform priorities for the short-term. The applicants also had to establish, review or update their medium term economic policy priorities within the framework of the Europe Agreement.
For example, the short term priorities for Romania were the following:

- privatise two banks
- transform *régies autonomes* into commercial companies
- implement foreign investment regime
- restructure/privatise a number of large state-owned industrial and agricultural companies
- implement agreements with international financial institutions

For the medium term, there were additional priorities for fisheries, transport, employment and social affairs, and regional policy and cohesion.

Despite the lack of detail, the APs did not contain implicit policy models for CEECs. This has been most evident on the economic side, where the thrust of the agenda was neo-liberal, emphasizing privatization of the means of production, a reduction in state involvement in the economy (particularly industry), and further liberalization of the means of exchange.

Considering the variety of models of capitalism to be found among EU member states, the APs promoted a remarkably uniform view of what a "market economy" should look like.

In the case of Romania, until 1995, when the Government officially forwarded its application for membership, the ``EU conditionality`` has not been firmly embedded in the political discourse. While the EU standards where introduced rather smoothly in Central Europe through ``contagion`` and ``socialization and contractual ``conditionality``, in the case of Romania, the ``conditionality`` instrument became visibly effective only in the moment the accession prospects were clearer, starting with the 1997 Luxembourg Council and especially since the 1999 Helsinki Council which decided the beginning of the negotiations process.

Regarding the ``conditionality`` leverage, all successive Romanian governments were responsive enough to the EU ``stick`` to secure a steady place of Romania on the accession track.

The Accession Negotiations process and the economic transformation

During the accession negotiations the big ``Europeanization`` machine has reached its momentum. The specific typology of the accession negotiation process assured the structural and revolutionary character of the transformation process in all candidate states. This is due to the fact that the 31 negotiation chapters (now 35) cover practically all the societal and economic areas and there is little, if any, compromise in adopting the EU norms.

The EU enjoyed a particularly favorable context in the negotiation ''game'' as it was both a player and a referee and all its matches were played at home (Brussels).

In the context of this paper we will shortly approach only the chapters most relevant for the economic and the business environment of a candidate country (Romania in this case).

The closure of the negotiations for these chapters meant that important reforms, legislative adoption as well as a credible implementation record has been undertaken.

The "Internal Market Chapters"

Chapter 1-Freedom of Movement of Goods is one of the cornerstones of the Single Market, and requires a common regulatory framework. This means that basic technical standards, product certification and metrological definitions must be governed by rules established at European level.

Chapter 3-Freedom to provide services relates to financial services, such as banking, insurance and investment services and securities markets. It also contains special rules concerning the freedom of establishment Information Society directives on the provision of information in the field of technical standards.

Chapter 4-Free Movement of Capital covers much more than cross-border payments and transfers of money. The EU law not only prohibits all restrictions on movement of capital between Member States, but also, in general, between Member States and non-EU countries. Furthermore, the chapter covers the area of payment systems, and includes the two Directives on cross border credit transfers and on settlement finality, as well as the Directives on preventing money laundering.

The "Economic Chapters"

Furthermore, relevant for a healthy business environment are, among others, the following acquis chapters: Chapter 5-Company law, includes corporate governance rules, accounting auditing and IP rules; Chapter 11- Economic and Monetary Union which deals also with the issue of the independence of the Central Bank; Chapter

28-Financial control, which deals with the institutional framework for effective combating corruption and financial fraud.

The "Economic Chapters" and the ''functioning market economy'' criterion

Among the other candidate countries, Romania was the last to receive the status of a functioning market economy and it was closely related to the evolution of negotiations on the "economic chapters", especially the one on competition. Only in October 2004, after credible implementation progress including some socially painful and politically costly measures, it was concluded in the EC Regular Report that Romania complies with the second Copenhagen criterion.
Now its time to tackle the two key chapters most relevant for a sound business environment of a candidate state: the Competition policy and Justice and Home Affairs (especially the aspects related to the independence of justice system and the fight against corruption). Not surprisingly, due to their complexity and the requirement of concrete action, these chapters were the last and the most difficult to be concluded.

Chapter 6 - Competition Policy

Mere political "commitments" are insufficient when it comes to competition discipline. In this vitally important field, three elements have had to be put in place well before accession by all acceding countries: the necessary legislative framework, an adequate administrative capacity and a credible enforcement record.

The competition *acquis* covers issues such as state monopolies of a commercial character, rules applicable to undertakings, public undertakings and undertakings with special or exclusive rights. The control of mergers is based on the EC Merger Regulation 4064/89 (as amended). Part of the *acquis* on state aid is addressed under other chapters, namely transport, agriculture and fisheries. The Directives concerning the liberalization of the energy, transport and telecommunications and information technologies sectors are also addressed under separate chapters.

In order to soften the economic and social negative impact of the adoption of EU competition rules (especially the stop of the state aid granting) Romania has demanded, negotiated and obtained several transition periods:

-Phase-out of incompatible fiscal aid by 31 December, 2011 under the Law on Free Trade Areas for undertakings, which signed commercial contracts before 1 July, 2002. State aid is granted for regional investments and the net aid intensity must not exceed 50% net grant equivalent.

-Phase-out of incompatible fiscal aid by 31 December, 2010 under the Government Emergency Ordinance on Deprived Areas for the undertakings, which were awarded a permanent investor certificate before 1 July, 2003. State aid is granted for regional investments. The net aid intensity must not exceed 50% net grant equivalent.

For Romania, any serious shortcomings observed in the 2005 Commission's report in the area of Competition Policy, especially as regards the state aid enforcement record, could have activated the one year postponement safeguard clause stipulated in the Accession Treaty.

From a foreign investor perspective it is important to notice that since 1st of January 2007, at institutional level, the responsibility for state aid control has shifted from the Romania's own authorities to the European Commission and the European Court of Justice in Luxembourg is in charge in case of disputes.

The "Rule of Law": Chapter 24 -Justice and Home Affairs

This chapter has been one of the most difficult to be closed. Romania had to prove not only the creation of an institutional framework and the availability of the necessary financial resources to make it operational but also there was to show an effective implementation record. The credibility was at stake. This acquis chapter deals with issues in the area of rule of law and justice administration, law enforcement standards, police cooperation, the fight against organized crime, anti-fraud and corruption, customs. In fact Chapter 24-JHA has been the last to be closed (together with the competition chapter) and it was decisive for the timely conclusion of the whole negotiation process (finalizing the negotiations until the end of 2004 was essential in order to secure the 2007 accession date).

Independence of the Judiciary System and the fight against corruption

In the case of Romania, European Commission has repeatedly expressed "serious concerns" about judicial independence and called for "comprehensive reform".. The revision of the Romanian Constitution, process which started after 2000, had given a legal base to the creation of an independent judiciary following EU standards. The country was undergoing the task of full restructuring and reorganization of its justice system. This entailed the creation of a ``Superior Council of Magistrates``, with elected judges over which the Minister of Justice would have no direct control. In the same context, the establishing of the ``National Institute for Magistrates``, independent of the Ministry of Justice and reliant on its own budget, was supposed to be the best solution for preparing a new generation of magistrates.

As for the corruption problem, like other transition countries from the area, Romania needed a ``critical mass`` of legal and institutional framework to mount a full scale attack on corruptive practices. Transparency laws, conflict of interest legislation and anti-corruption institutions to monitor developments were crucial underpinnings of an institutional approach to limiting corruption. Consequently, ``A National Anti-Corruption Strategy`` has been released and a ``National Anti-corruption Prosecutors' Office`` was set up in 2003.

Thus the progress on institution building and legislative adoption has been quite evident while the implementation element was less convincing for Brussels. Therefore this level of mistrust and the pressure to conclude the negotiations in time determined the inclusion of a ``postponement clause`` into the Accession Treaty. Most of the sectors which might have triggered the postponement clause were related to Justice and Home Affairs area (rule of law, combating corruption).

Obviously, a one year delay of the accession would have had considerable political costs for the government in power, as well as financial costs, in terms of lost opportunities.

Needles to say, the new degree of conditionality pressure was soon the bring results in Romania. Thus, on tackling the ``big corruption`` in one year Romania has considerably improved its ``Big Fish catching`` record with the former prime minister and several government members and parliamentarians being investigated for corruption. On the side, almost on a daily basis, the TV news were presenting cases of ''petty corruption" (custom officers, policeman, civil servants) sanctioned.

Conclusion

On the medium and longer term, from all angles, the EU Enlargement presents itself as a "win-win'' situation for all the parties involved: the candidates, the EU, the other third parties/global players.

What is equally meaningful is the shaping of a transition and liberalization model with possible universal relevance. The EU has accumulated an unmatchable expertise in dealing with transition and development economies. Comparing with the confusion of early 90s, now there is a Transition "Blue Print", which could be summarized as "conditionality driven reform, liberalization and regional integration".

The EU has offered to its candidates a largely neo-liberal agenda that was in general accord with the international consensus about transition economics. The explanation for the humble acceptance of an EU pre-designed model from the part of Romania (and the other candidates) lies in the context of post-communist transition. Indeed, the inability to define for themselves what has to be done for transition has made many post-communist states very open to external influences. Throughout the process of post-1989 transformation, there has been a tendency to look for models of democracy and economic order and the EU provided an obvious one.

Particularly in the early years of transition, there was a vacuum of credible alternatives to EU policies. After an initial failed quest for ''originality'' resulting in a rather weak policy "cocktail", mixing anything from the "Asian Tigers" model to the "Swedish" one, the Romanian policy-makers understood that they have to follow a more old fashioned path and to accept lessons from the more experienced certified democracies and liberal economies. In this context, although Romania has certainly been influenced by US models and IMF/World Bank policy advice, the EU had a larger role owing to its proximity and the political, economic contractual and factual ties that have grown since 1989.

The fragility of the state, the lack of policy experience, the instability of the institutional framework and the unprecedented burdens of simultaneous transformation of the state, the economy and society all favored a welcoming response to the EU's stipulations. Not least, the EU ''lessons'' and "domestic interference" were easier accepted due to its

impersonal non-state character. Certainly, any direct interference from a Western individual national state would have been suspected of neo-hegemony and possibly rejected (the hidden influence expressed by the more powerful EU member states in the Council was acceptable though).

Many reforms would have been necessary to be undertaken even without the EU accession prospect. The EU context added a strategic coordinated approach, speed and financial support for the systemic transformation of the country. Indeed, how the economic transition might have proceeded without the accession perspective is difficult to assess, however clearly it would have been much slower and cumbersome.

By accomplishing its ``2007 mission impossible``, Romania showed that, quite often in the World politics, the reality goes beyond theory. Searching on the EU relevant academic and journalistic independent literature in the last fifteen years, even the more recent, somebody will hardly find authors predicting the EU accession of Romania before the end of the first decade of this century. Indeed, despite, the apparently insurmountable obstacles, Romania's case is eloquent for the old saying: ``where is a will, there is a way! ``.

Therefore, ``the others``, waiting in queue at the EU door, should keep their European commitment strong and act accordingly. Considering the strong economic growth in the new member states, the "location opportunities" of wages/labor will soon to be found further East and Southeast. Thus, as long as there will be an economic rationale, the enlargement will move on. Despite its temporary ``indigestion`` symptoms, the EU has strong political and especially economic reasons to continue its ``stretching``/enlargement exercise in order to keep itself fit in the Global competition.

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Comments by Akira Uegaki (Seinan Gakuin University)

On Dr. Dragan's Paper

Dr. Dragan describes challenges and opportunities for Romania to access to EU with special attention to the competitiveness of the economy in the framework of Lisbon Agenda. It provides detailed information about Romania and EU and teaches us the status of Romania towards EU.

I would like to appreciate the paper because it refers not only to Romania but also to EU as a whole. Dr. Dragan points out that EU is now facing new challenges, that is, the competition with the USA, Japan and BRICs. Romania is entering EU when EU itself is changing. The paper shows us this complicated situation very clearly.

I also appreciate the paper because of its self-criticism. It is very difficult for the researchers to expose his/her own country's weakness, when the country is entering a new bright era. At the beginning of 2007 Romania has just entered EU as a new member and many are talking about hopeful future of Romania. At this very moment, it is important that the paper points out the lack of Romania's ability to absorb the structural funds of EU. Until Romania entered EU, most of the attentions of researchers and politicians have been paid mainly on the problem of membership itself. However, after EU accepted Romania, the new assignment for Romania is to find out the way to "utilize" the EU facilities in a productive way. In this respect, the ability to absorb the structural funds of EU is one of the key problems.

I would like to propose two subjects for discussion concerning Dr. Dragan's paper. First, what kind of industry can Romania promote in the near future? She wrote on page 17 as follows:

> For the time being, Romania has to deal with important economic development problems, and to directly relate to the Lisbon strategy seems, obviously, unrealistic・・・However, certain evaluations in the Lisbon context are useful in order to find out where Romania is placed, at a

specific moment, compared to the present and future EU members, but also for giving some orientation in the field, according to the new governance approach.

Here Dr. Dragan asserts that the competitive policy in the framework of the Lisbon strategy is not necessarily recommended in Romania as of now. However, she suggests that a policy to find out some fields of the economy to be promoted is appropriate one. I would like to discuss about this policy in more detailed way. It is widely accepted that the Lisbon strategy itself has not been functioning well. The point is whether any competitiveness-promoting policy from above in the framework of EU could attain a remarkable progress in competing with the USA, Japan or elsewhere. How about Romania? Which field of the economy can be picked up as a future leading industry in Romania? Who can select it? Is it desirable to do such a thing in a liberalized economy? These are far more important problems than the problem of the capacity to absorb the EU funds.

The second subject that I would like to discuss is the problem of regional disparity in Romania. Last several years I myself have been studying the trend of population, social disparity and pension reforms in Romania. According to my study, one of the most important social and economic problems in Romania is how to mitigate the ill effects of income disparity of the people. Especially I found that the quality and mode of poverty in one region is different from that in another. How to treat with this problem in using the EU funds?

On Dr. Hunya's paper

He made a clear-cut analysis of Poland and Romania using a lot of statistical data. Here I would like to make some comments on the Romanian part of his paper. In Dr. Hunya's paper I found many points that would interest not only specialists of Romania but also general macro economists. For example, he points out that "the high rate of economic growth in the last five years has been driven by domestic consumption", "while the external deficit is high and expanding". And he attracts attention to the fact that "the deficit is financed by abundant foreign currency inflow which

appreciates the local currency triggering a further widening of the foreign trade deficit". These show the macro economic structure of Romania today very clearly. He says, "Romanian products have been modernized so that they can be exported at relatively higher prices. But high prices set a narrow limit for increasing the volume of exports". Here we see a delicate status of Romania in economic development, at which Romania has attained a middle-level industrial structure but is facing some troubles to go up to the higher level.

I would like to propose three problems to be discussed about Dr. Hunya's paper. First, I think high exchange rate of the Romanian currency Lei is an important theme today. As is mentioned by Dr. Hunya, the cause of the high exchange rate is abundant foreign currency inflow. Therefore this phenomenon cannot be named "Dutch disease" but the influence on national economy is similar. The Romanian import-substitute industries will get into danger. How can the Romanian government escape from this danger?

Secondly, the possibility of currency crisis must be examined. A currency crisis would occur when the government fails in managing the exchange rate fluctuation and the rate falls suddenly resulting rapid outflow of capital. Although Dr. Hunya writes on page 10, "there is little likelihood of an inverse investment flow triggering a currency crisis", I have some doubt about such an optimistic view because of the following three reasons. One is a large current account deficit. As is written by Dr. Hunya himself, the current account deficit of Romania was more than 10 % of its GDP recently. I think it is dangerously large number because, for example, Japan's current account surplus (not deficit!) was only 2.83% of Japan's GDP in 2002. Even so Japan is strongly accused of "unfair" trade policy. Secondly, the recent surge of FDI inflow into Romania will stop after 2007, because the wave of privatization will be stagnated in the future. Thirdly, I would like to attract the readers' attention to the problem of vulnerability of financial system of Romania, which would cause a financial crisis as in the East Asian countries in 1997.

The third problem that I want to discuss here is the problem of the Romanian workers working abroad. If we examine the balance of payments statistics

of Romania carefully, we find that “good and services trade” deficit is much more than current account deficit as a whole. A considerable part of the difference is covered by “current transfer”. According to the IMF’s definition, the “current transfer” includes, among others, “workers’ remittances by migrants who are employed in foreign countries”. Therefore if it had not been for the workers’ remittances, the current account deficit of Romania would have been much more. I think that any national economy whose international payments are covered by money from workers abroad must be called “healthy” one. How to treat with this problem?

My comments, questions and opinions

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At first, we would like to express our gratitude to the guest speakers for giving us interesting and detailed presentations.

By the way, on October 24th, the German parliament ratified Romania's and Bulgaria's accessions to EU. It was finally decided that both countries formally accede to EU. Under the background of increase in member states, EU-27, today we discuss about the socio-economic and political impacts of EU accession in Poland and Romania. Even in Japan which many of economists and enterprisers have already noticed that some of the NMS including Poland and Romania have much capability and potentiality as the European bases of manufacturing production, transportation, physical distribution, telecommunication, R&D and so on, I think that it is so important to review the benefits and losses of EU eastward enlargement and to reconsider further Kaizen(improvements) in the aspects of institutions, policies, even behaviors and business minds in order to promote more foreign direct investment in the NMS.

In my brief speech, I would like to concentrate upon Poland's accession to EU and its effects and results in two and half years mainly because of my academic interests in the Polish socio-economic reforms and institutional changes.

Dr Ewa Balcerowicz, a director of CASE in Poland, presented us the following three contents; first, the socio-political and economic meanings of EU accession, that is *What does EU mean?*; second, ex-ante analyses of EU accession effects and results, that is *Expected Outcomes of EU accession*; third, the real situations and socio-economic results of EU accession since May 2004, that is *Economic developments in two years of EU accession.*

In the beginning of the presentation, Dr Balcerowicz told about a condition for EU membership that "*a key principle in the negotiations was that no permanent derogation from EU rules was to be accorded to the acceding nations*"(p.1), and about a basic understanding that "*the integration process began several years before the formal accession*"(p.3) of May 2004. It's to be stressed that, since 1990

socio-economic reforms, "*financial vehicles*" (p.2) and the other ones both with international support programs and with EU's pre-accession aid program, made the candidate countries comprehend and recognize why and how to take the way to EU accession gradually and continuously. In this point, it was important that EU 15 reached an agreement on the precondition of EU accession that the candidate countries would succeed in "*the democratic, economic and institutional reforms prior to accession*"(p.5) and understand "*a substantial benefit of becoming EU member states*", that is "*access to the structural funds*". In short, EU-15 combined the realization of EU accession with a fulfillment of long-run and costly socio-economic reforms of the candidates through a clear setting of the prerequisite conditions of 31 items, and so EU-15 forced the candidates to strive the candidates for the full accession.

As for the pre-accession analyses of impacts, Dr. Balcerowicz pointed out the political and socio-economic gains and anxieties and the following two viewpoints: first, "*notable gains would result form the enlargement both for the EU-15 and for the NMS*"(p.6), second, "*the growth (in unskilled workers' wages) would be greater than the growth in skilled workers' wages.*(p.6)" In addition, Dr. Balcerowicz makes clear that "*ex-ante studies based on aggregate date did not provide conclusive evidence*"(p.7) about the apprehensive problem "*that the 2004 enlargement would cause a massive migration from the poorer new member states to the richer EU-15*"(p.7).

As for the effects and results in two and half years, Dr. Balcerowicz points out "*the transposition of EU legislation allowed Poland to profoundly reform the way in which its economy is regulated*"(p.7) and "*when examining the economic developments, the impact of conventional economic factors should be take into account as well*"(p.7). In addition, Dr. Balcerowicz stresses both aspects of "a real convergence" and "lagging behind the majority of the NMS" in Poland. Then, Dr. Balcerowicz explains both of the positive and negative effects, that is "*capital accumulation and technical progress*"(p.8) and "*migration*"(p.8). Concerning to the latter, Dr. Balcerowicz quotes a sentence of "*it appears that migrations from CEE countries were attracted by labor opportunities and not by social welfare systems(World Bank, 2006a)*"(p.9). Besides, Dr. Balcerowicz points out remarkable evidences of legal migration "*mostly to UK, shortage of skilled workers in several sectors, and wage pressure increase mainly in agriculture and construction*"(p.10) Further, Dr. Balcerowicz refers to the fact of "*benefits from increased remittances and additional human capital*" in skill formation(p.10).

On the Polish international trade, Dr. Balcerowicz gives us the exact opposite

expectations between imports and exports. Although the Polish currency, zloty, has been strengthening against two main currencies (US dollar and Euro) since early 2000s, the Polish international trade balance continues to be improved and, especially with EU, becomes positive in 2005 and 2006. Concerning to such the result, Dr. Balcerowicz points out that "*EU membership means not only that since May 2004 Poland has applied the Community Customs Code, but also that it has adopted the Common Customs Tariffs for the third countries. This may explain the rapid increase in imports from developing countries(mainly from China)*"(p.11).

Moreover, concerning to the rapid growth of exports, Dr. Balcerowicz refers to "*the growing presence of FDI in Poland*"(p.11). Dr. Balcerowicz shows us the time-series and horizontal (by sector and country) analyses of FDI inflow performance and stresses greater impacts of green-field FDI to the manufacturing sector. In case of considering industrial and financial significances to "*receive more FDI inflow in the future"(p.14),* it is proper to point out that *"Poland needs to substantially improve not only political, but also its business environment, so as to become more attractive to foreign investors*"(p.14).

In relation to such needs of improving business environments, I would like to introduce the JETRO (the Japan External Trade Organization) annual questionnaire investigations titled by *Japanese Manufacturing Affiliates in Europe and Turkey*(published on November of every year since 1995, http://www.jetro.go.jp/). This survey explains and analyzes the actual conditions of business management of the Japanese manufacturing companies in the Central and Eastern Europe and in Turkey. Almost all of the Japanese manufacturing companies evaluate the Central and Eastern European economies to be more advantageous and favorable from the viewpoint of green-field investment target, but they sometimes become confused about the following several problems, that is complicated and bureaucratic formalities and long-run procedures in investment, trade and work permit systems, imperfect infrastructures including a broad band telecommunication and physical distribution systems, difficulties in securing proper human resources with foreign language talent especially in the rural region, gradual increase in prices of parts and raw materials, and so on. In particular, they sometimes face to an incomprehensible problem that there is a great difference in attitudes to attract foreign manufacturing factories between the central government and local (prefectural and city) office. The latter invites them positively and actively, but the former spend long time to permit working visa and its renewal. Two years ago, the Polish government agreed with the Japanese one that the Japanese government delegates a specialist of attracting foreign investment to the

Polish Agency of Information and Foreign Investment(PAIiIZ) in order to promote proper and timely guidance and instruction for the Japanese manufacturing companies. In last two years, about 20 Japanese manufacturing companies (cumulative number of the Japanese company is 55 on October 2006) including automobile and its parts production, ball bearing production and liquid crystal TV and its parts production, have already started to produce and export their manufactures. In relation to Japan's FDI to Poland, I would like to emphasize how well most of the Polish white- and blue-workers employed in the Japanese manufacturing companies understand and accept the essence and manner of the Japanese management and quality control system. According to my research interviews with the executives of the Japanese companies, most of them stress higher quality and potentiality to absorb and digest a new human capital formation system.

Finally, I would like to ask all of the guest speakers about the Chinese economic and industrial impacts on the NMS including Poland and Romania. Recently EU-China trade and human exchange have been more active and influential. China becomes more important for EU-27 as a whole both as an importer and as an exporter. What do you think of the Chinese impacts on the NMS?

Thank you very much for your kind attention.

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