

EVALUATING COSTS AND BENEFITS OF ROMANIA'S INTEGRATION INTO THE EUROPEAN UNION¹⁾

Constantin Ciupagea, Dorin Jula, Laura Marinaş, Geomina Turlea, Manuela Unguru, Radu Gheorghiu*

Abstract. *The study „A Cost-Benefit Assessment of Romania's Accession to the European Union”, part of the programme Pre-Accession Impact Studies II that was coordinated by the European Institute of Romania, tries to offer a partial image of an evaluation of the qualitative and quantitative impact of Romania's potential integration into the EU in the short, medium and long run. The focus is on the quantification and analyses of the transformations and effects induced by Romania's accession to the European Union in terms of generated costs and benefits. The main cost categories directly associated with the accession to the European Union may be grouped in costs related to the adoption of the European norms and policies, costs related to the conformation with and implementation of the standards, costs of assuming the status of European Union member and costs related to the modernisation of the Romanian economy. The main benefits of Romania's accession to the European Union are generated from supplementation and diversification of the financial resources, from acceleration of reforms and support for the transition through the provision of fundamental elements for the definition of the national economic policies and from the intrinsic status of an EU Member.*

The impact analysis of Romania's integration process has been performed separately for the pre-accession and post-accession periods. Also, the scenarios considered in the impact assessment must be differentially conceived, one considering integration as granted, the other one trying to postpone the moment of foreseen integration into the EU. The study uses both qualitative analyses and quantitative mathematic-economic modelling tools to assess the possible changes at sectorial level, as well as at macroeconomic national level. The findings of these analyses are presented at the end of this document.

The collapse of the communist regimes allowed the states in Central and Eastern Europe, including Romania, to express their firm option to adopt the free market economy model. They all saw in the European Union a support in their potential development, while in the European integration process a chance for a new economic launch. In 1995, Romania forwarded its official

Request for Association with the European Union in line with other former communist countries during the same period. To acquire the status of EU member in the foreseeable future was set and still is an absolute priority of the Romanian politics. In the past 14 years, with almost no exception, the governance programs were defined according to the EU accession imperative, based on the

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* Constantin Ciupagea is at present a seconded national expert with the European Commission, DG-JRC, Institute for Prospective and Technological Studies Seville and Director of the Institute for World Economics, Bucharest. Dorin Jula is senior researcher at the Institute for Economic Forecasting, Romanian Academy and dean of the Department of Banking and Finance Management at the Ecologic University of Bucharest. Laura Marinaş is deputy director of the European Centre for Studies in Economy and Finance from the Academy of Economic Studies and lecturer at the Chair of International Economic Relations, in the field of the Economics of European Integration. Geomina Turlea coordinates the activity of the LINK Econometrics and Modelling Department at the Institute for World Economy and she is executive manager of the Romanian Centre for Economic Modelling. Manuela Unguru is senior researcher at the Institute of World Economics in Bucharest. Radu Gheorghiu is senior researcher III at the Institute for World Economics, Bucharest.

fulfilment of the Copenhagen accession criteria, while the decisions adopted by the national authorities have significantly influenced the “road map”, the date and the conditions for Romania’s accession. Following the Helsinki Council decision for the EU to start negotiation with Romania in the beginning of year 2000, Romania came to grips with the circumstances of taking decisions of major importance for its future. The potential “road maps” which Romania follows in its race for efficiency, competitiveness, development and stability were and may be different, and consequently the de facto social-economic evolution has varied, varies and will vary with the road map chosen.

This study tries to offer a partial image of an evaluation of the qualitative and quantitative impact of Romania’s potential integration into the EU in the short, medium and long run. The conditions and premises of the Eastward enlargement are completely different from the ones related to any of the previous enlargements. Firstly, the Eastward enlargement supposed accession, in a short period of time, of a very large number of states. Secondly, the profile of Romania and of some of the Eastern countries that joined the EU in May 2004 was a very special one, as full-grown market economy was missing and the experience of a democratic political system with only 14 years of operation was often considered to be insufficient. For this reason and as opposed to the other enlargements, a series of extremely well defined criteria were established to be met by the candidate states in order to become full-fledged members of the European group. Thirdly, it has to be mentioned that the Eastern countries were missing the specific experience of participating to integration groups, based on competitive forces of a free market environment. Fourthly, the basis of this enlargement differed to a great extent from other enlargements as they were prominently of political

reasoning.

Romania’s as well as the other candidate states’ accession is conditioned by the need to conform to the requirements (conditions) imposed by the four accession criteria:

1. Political criteria – to ensure the state of law;
2. Economic criteria – existence of a functional market economy which should allow the candidate state to cope with the competitive pressures and the market forces within the EU;
3. Legislative criteria - to assume the *acquis communautaire* in force at the date of accession;
4. Administrative criteria – to ensure the stability of institutions and the ability to assume the obligations resulting from the European Union member quality.

Beyond the necessity of coping with the juridical and administrative requirements, it is obvious that the conformation with the accession criteria and, by implication, the accession of Romania to the European Union, implies a series of transformations at economic and political level.

The aim of present study is not an exhaustive stock taking of the transformations and effects induced by Romania’s accession to the European Union but rather their quantification and analyses in terms of generated costs and benefits.

It is obvious that the institutional, economic and social adjustments induced by the adoption of the community norms and policies are cost generators. Taking into account the manner in which accession criteria are formulated, the administrative criterion respectively (the state’s ability to cope with the requirements of being an EU member), and the manner in which the accession negotiations are progressing (negotiations on the eventual transition periods

	Direct impact	Indirect impact
<i>Economical</i>	<ul style="list-style-type: none"> - disposal of the trade exchange barriers - implementation of the community provisions regarding competition (with visible effects on the business environment) - implementation of the CAP tools in agriculture - access to the structural funds 	<ul style="list-style-type: none"> - reorientation of the trade flows - industrial and agricultural restructuring - implications at regional level - accession to the convergence criteria of the UEM (Maastricht)
<i>Political</i>	<ul style="list-style-type: none"> - prevalence of the community law over the national one - direct applicability of the community legislation - modifications of the Constitution and the constitutional statute of the national parliament - representation in and participation to the community decision-making process 	<ul style="list-style-type: none"> - reorientation of the foreign policy (including trade diplomacy) - modifications in the elaboration and implementation manner of the governmental policies

following the factual accession, allocated for the implementation of the *acquis communautaire*, most of the costs associated with the accomplishment of the Copenhagen criteria will concentrate in the period prior to 2007 (the envisage date for attaining the EU member status). The main cost categories directly associated with the accession to the European Union may be grouped as follows:

1. Costs related to the adoption of the European norms and policies (*acquis communautaire*), in his category being included: costs generated by the institutional building, by the formation of human resources in these structures, costs associated with assuming community objectives of economic policy nature (which, depending on the area's characteristics and/or the time period, may imply high costs on short term, evident in

the areas where the short term priorities of the two partners, Romania and the EU, are different) etc. Most of these costs will concentrate in the period prior to the factual accession.

2. Costs related to the conformation with and implementation of the standards defined by the European norms and policies – there is an attempt to quantify the efforts required for the compliance with the community provisions in the areas subject of the *acquis communautaire*. These costs may arise at institutional level (public authorities) and microeconomic level as well. This category includes costs associated with specific areas like: modernization of the transportation infrastructure, labour and social security standards, consumer protection, quality standards, environment standards etc. In this category are also included the costs

associated with the free movement of goods, services, persons and capital.

3. Costs of assuming the status of European Union member. These costs will materialize after the accession to the European Union and include the contributions to the community budget, the participation to the community institutions etc. In a small part, these costs may be also marked out prior to the factual accession and comprise Romania's co-financing contributions to the European Union programmes where it is part (ex. Phare, SAPARD, ISPA, Leonardo da Vinci, FP6 program etc.).

4. Costs related to the modernisation of the Romanian economy. The costs included in this category are directly related to the modernisation of the production capacities and the enhancement of the Romanian products and services competitiveness in order to face the competitive pressures inside the European Union. To a great extent, these costs are situated, in terms of time periods, prior to the accession date. This cost category includes costs strictly related to the modernisation of the production capacities in the economy sectors (enhancement of the technological level, the quality of products and services etc.). The costs associated with the modernisation of production equipment, in order to ensure the compliance with the production, environment, safety and other standards imposed by the European Union are not included here.

Most of the costs derive from the existing differences between the institutional structures, the priorities and the content of the economic policies at Romania's level, on the one hand, and

the defining elements of the community model, on the other hand. Also, from a sector perspective, the greatest part of these costs derives from the low development level of a sector as compared to the EU one, which makes the *acquis communautaire* to seriously affect the sector's competitiveness and to raise the alignment costs through the liquidation of certain companies or sectors which are not able to financially support the transposition of the *acquis communautaire*.

The main benefits of Romania's accession to the European Union can be classified as follows:

- 1. Supplementation and diversification of the financial resources.** The European Union member status ensures Romania's access to the structural funds and to the cohesion funds. The volume (and implicitly the derived effects) of these fund transfers to Romania can not be currently assessed, the national financial distribution of the structural funds being subject of the new 2007 – 2013 programming period. Part of these benefits can be set off before the accession's date and it reveals the quantum and positive effects of the input of funds through the pre-accession financial instruments or other instruments and programs developed by the EU for the candidate countries.
- 2. Benefits resulting from the member status.** These benefits will arise following the EU accession and are the result of the participation to the single market and the economic and monetary union, of the better support of the national interests through the participation in the EU institutions etc.
- 3. Acceleration of reforms and support for the transition through the provision of fundamental elements for the definition of the national economic policies.** The transition

from a made to order economy to the market economy has no historical precedent. Under such circumstances, during the whole transition period the EU supplied Romania with a model for the elaboration of its economic policies (in view of the accession criteria and the integration will, in most cases this meant the assumption of the respective community objectives and policies in their whole, or the duplication of certain member states' policies). These benefits are difficult to estimate and may take the shape of an abridgement of the transition period. The technical assistance provided by the EU to Romania in different areas is an example of a benefit in this category.

From the methodological point of view, it is difficult to make a clear difference between the effects of integration and the ones of the transition process. On the other hand, the **winner/loser** dichotomy is a relative one. The identification of a sector as winner or loser in the integration process does not come to the same thing for every company or individual in that sector. Additionally, the sectorial analysis does not necessarily answer to a positive/negative influence on the welfare of the entire society. A losing sector may release resources for other sectors, thus improving the efficiency of the allocation of resources in economy.

The integration assumes the achievement of social-economic convergence targets within the EU, targets that are up-dated periodically with the requirements imposed by the historical moment. From the prospective point of view, convergence is defined through a set of benchmarking indicators mirroring the desired targets. The European Union started a monitoring process of the progress made by the accession countries, as well as by the member states, in their road towards the

achievement of the objectives set in the Lisbon Council, with the major goal of "EU becoming by 2010 the most dynamic and competitive knowledge-based economy in the world, maintaining and strengthening social cohesion at the same time". This objective is supposed to be reached through the so-called OMC (Open Method of Coordination), within which monitoring plays a priority role.

The impact analysis of Romania's integration process must be performed separately for the pre-accession and post-accession periods. Also, the scenarios considered in the impact assessment must be differentially conceived. At the level of macroeconomics, one type of analysis will refer to various simulations, temporally situated in the period 2000-2004 (already covered), meant to compare the reality to what could have happened in the Romanian society if the negotiation process would not have been started. The second type of analysis is of prospective nature, comparing various scenarios plausible for the period 2005-2015, where the accession moment will be also included, earlier – 2007-2008 – or later – 2011-2012, depending on the evolution of the pre-accession process and the negotiation one. With a view to the quantification of the integration effects on the Romanian macro-economy, two alternative scenarios have been carried out for each of the two periods (2000-2004 and 2005-2015 respectively).

One of the major impact generating elements is represented by the financial flows transferred between the EU and Romania, which will be net inflows from the EU to our country during the analysed period. Beginning with year 2000, a pre-set program was agreed between the two negotiation partners, stating that the directly transferred financial flows have been or are going to be in compliance with the following financing

scheme for pre-structural funds:

(million euro)

Years	The contribution of the European Union				Co-financing of EU funds	Total
	PHARE	ISPA	SAPARD	Total EU		
2000	88	478	151	716	247	964
2001	103	413	151	666	228	894
2002	112	326	151	589	189	778
2004	174	312	161	646	243	889
2005	162	338	161	660	241	901
2006	128	364	161	652	219	872

Following 2007 (with a programming on principle up to 2013), the EU commitments are increasing in terms of financial flows volume, while the budgetary effort of Romania is determined based on the co-financing principles settled through the European Union methodologies for structural and cohesion funds access, as well as by considering Romania's contribution to the European Union budget. The equivalent payments are clearly set for the first three post-integration years:

human resources and on the increase in social cohesion, based on rural development and regional equilibrium.

The sectorial analyses presented in the referred study generated certain important findings and conclusions:

1. The economic development will not be homogenous between the economic sectors, in none of the possible development scenarios. There will always

The Financial Package for Romania – payments (million euro, prices 2004)

Year	Payments of the European Union	Own budget effort of Romania (payments)
2007	2361	1678
2008	3124	1687
2009	3409	2298
Total	8893	5663

The macro-economic impact related to the financial package cannot be reduced only to the absolute value of the amounts directly allocated to Romania. This statement has its reasoning in the fact that the structural programmes and actions which could be developed with these funds may generate and support a process of durable economic growth, at least in the areas of agriculture, infrastructure and environment. The effect might also benefit on the development of

be relative losers and winners. One of the fundamental issues for the political decision-makers will be to find the social-economic policy solutions and measures necessary for the reduction of losses (costs) where these arise or are of acute nature, or in the best case, to find methods for transferring all the sectorial differences in a global growth area.

2. The presented figures, disaggregated by

sectors of economic or social activity, show that the possible costs and benefits of Romania's European integration or isolation are not homogeneously distributed in time. There are periods when the costs are prevailing in certain sectors or even in the economy as a whole, followed by periods of benefits supremacy. The analyses should be performed for a medium or long term and the results should be discussed based on the trends recorded towards the end of the prognosis period.

3. At the level of macroeconomics, in terms of the corporate sector, the integration costs, excluding the financial ones, will be direct costs, related to the possibility of finding the necessary resources for restructuring and financing the infrastructure investments (in transports and information sector mainly), the impact costs of a higher competition in many sectors of the Romanian economy exposed to the Single European Market (the sectors of chemistry, machines and equipment, non-metallic material processing, means of transportation).
4. Most of the costs related to Romania's accession to the EU, in view of agriculture and agricultural policy, derive from the low competitiveness and development level of the Romanian agriculture compared to the community standards. Given the predominance of the agricultural area over the total arable area, the preponderance of private property and the reduced average dimension of the agricultural exploitations, it may be stated that the Common Agricultural Policy (CAP) will have a significant effect on Romania. The production achieved by Romania in this sector is under the incidence of CAP: in 2002, 57% of the agricultural production was represented by the vegetable production (dominated by cereals) – which represents the main group of products under the incidence of CAP, and 41% by the animal production – entirely under the incidence of the common agricultural policy. So, in the Common position document, which provisionally closed the negotiations (on the 4th of June 2004), there have been identified five strategic areas: rural development, cultivable area for cereals, zoo culture - animal breeding, viniculture sector, agriculture-industry (sugar and milk processing).
5. An essential element in ensuring the long-term and sustainable-durable growth of the Romanian economy will be represented by the programs aiming at the gradual development of the human capital. Evidently, in the short and medium run there are inherent costs implied, which arise outside the educational sector, the research and development one, the health sector and the sector of information infrastructure.
6. It is necessary to increase the costs with education as GDP share. With a single exception in 1998, the public expenses with education, as a percentage of GDP, hang around 3%, despite the fact that the Education Law provides a minimum of 4%. This cost must be complemented with the efforts for the accomplishment of Romania's integration in the European

space of higher education and research, as well as the redefinition of the general framework for education, professional formation and training and the costs related to the personnel retraining and reorientation. Among the benefits implied by the adoption of the Community Acquis with regard to education there are to be mentioned: the increase of the average education level, which creates, at economic level, the premise for the increase in the sophistication level for both the productive activities and demand; the increase in the degree of correlation between the abilities developed by the education system and the ones requested in the labour market, which contributes to an increase in the degree of human potential utilisation; the assurance of an homogeneous framework for the occupational qualifications and standards, which will create the premise for a good order in the free movement of the labour force, with positive effects in respect of adjusting the imbalances existing on the labour market.

7. Relatively to most EU member states, the support given in Romania for knowledge related activities (innovation, research and development, and higher education) is situated at a low level, which affects the flexibility of our economy and population and diminishes the potential of growth in the future. Not accidentally did the Council from Lisbon propose as the EU main target the achievement of the „most competitive economy in the world” status for the EU, and the Council from Barcelona associated this target with the

fundamental factor called policies in the research and development area. The costs implied by the achievement of such an objective are unfortunately not just the direct ones, which would mean to reach a level of 3% of GDP for the total expenses in the research and development area, out of which one third governmental expenses and the rest covered by the private sector. The main issue consists in a huge difficulty and high adjacent costs necessary for impelling the private sector to increase the internal investments in research and development, on the one hand, and the huge opportunity cost hidden by the non-achievement of this objective, on the other hand.

8. According to the partial results presented in the previous chapters, the sectors that seem to be holding the winning cards for the next years, due to the specific pre or post-accession processes, are: market services, which will continue the development process started in 1990, at a higher pace relative to the rest of the economy, agriculture, due to the efforts which Romania will focus on restructuring, with an important financial and know-how support from the European Union, as well as the sectors extremely exposed to international competition, which lived through the initial competitive impact and the diminution of the domestic demand in the first years of transition. The development of imports and exports will continue at a steady pace, which will additionally increase the external competitiveness of these sectors.
9. In the information technology and

communication area, costs are related to keeping under observation the competition on the IT&C market, financing the e-Government programmes and applying the eEurope+ plan, supporting the development of infrastructure, as well as implementing the information technology in the education system. The benefits consist in the tariff reduction for the IT&C services, the increase of the telephony and Internet penetration rates, the participation in the eTen programme, but also in global advantages offered by the development of the information society (reduction in administrative corruption, increase in productivity, and reduction in production prices).

10. The social-economic activity sectors liable to suffer, in the future, at least in the short and medium run, the impact of costs at a higher level than benefits, will be those related to the necessity of restructuring the area of environment protection and the public utilities sectors. The labour market may experience distorting phenomena in the next years, regardless of the scenario chosen by the political decision-makers for Romania's development, before perceiving the beneficial effects of sustainable development among which the generation of new jobs will be mainly mentioned.

In terms of the macro-economic indicators evolution, the analyses comprised in the previous chapters and the prognoses based on the two scenarios proposed to be run on the structure of the LINK-Dobrescu model for Romania lead us to the following conclusions:

1. There is no doubt about the opportunities of sustainable economic growth offered by Romania's integration in the EU as soon as

possible. For the considered prognosis period – between 2004 and 2015 - the average yearly growth pace results to be with approximately 2 percents higher in the integration scenario case (4.54% compared to 2.55%). Besides representing a yearly excess of gross domestic product equivalent to around 900 million – 1 billion Euros, this difference allows us to talk about a convergence phenomenon of the Romanian living standard towards the average EU one, in the integration scenario case, while in the delayed scenario case divergences show up at the horizon of 2011-2012.

2. The integration of Romania in the EU in 2007 can generate higher costs compared to an alternative scenario of isolationism or delayed integration in the first period of time, corresponding to the pre-accession and the first two-three years of post-integration in certain sectors of economic activity and for certain groups of economic agents. It is the case of the growth rate of the real average gross wage by economy which seems to be higher in the delayed integration scenario, in the first years of the period of interest, up to 2009-2010. Also, the trade balance deficit is higher in the integration scenario up to year 2010, with values close to 1 billion Euros per year. The unemployment rate presents lower values in the first 5-6 years in the alternative scenario case but is deteriorating towards the end of the prognosis period.
3. One of the main benefits of Romania's integration in the European Union is provided by the openness degree of the economy towards the rest of the world (the weight in GDP of the sum of exports and

imports of goods and services). This is oscillating in the alternative scenario case between 76-80% during the prognosis period, whereas in the integration scenario this is increasing gradually from 76% up to over 100% in year 2015. The opening phenomenon is accompanied by beneficial effects as well as by the increase of foreign investment flows towards the Romanian economy sectors, the increase of the ability to cover the necessary external funding of the internal deficits, the increase of the bilateral flows of labour force between Romania and other EU states and implicitly of the income flows of the production factors, the increase of the labour productivity in the Romanian economy, even in the less-developed sectors like agriculture, as a result of the limited transfers of technology and structural funds for development and of the high competitive pressure of the single European market.

4. Even if it is supposed that the policies adopted in the case of an isolationist scenario would copy the policies of an integration scenario, the results continues to be different and in favour of the rapid integration scenario. This demonstrates that the evolution in economy is not follow the simple rules of arithmetic, but is a system with compensatory feed-back, which makes

the positive effects to be amplified through synergies of influence factors like restructuring the system of domestic and external prices, factors of technical progress or development of human capital. The concrete example is offered by the evolution of Romania's economy in the 2000-2003 period, as compared to the results obtained by running two different scenarios, one starting from social-economic policy measures similar to the real ones, the other extending the real hypotheses specific for year 2000 to the entire simulation period, up to 2004 (freezing the social-economic policies at the level of the basic year). The simulations based on the two scenarios offer results inferior to the effective achievements of the real economy, which demonstrates that a model will not be able to reveal both structural and behavioural changes to date in the macro and micro-economy. For the 2000-2003 period, the growth of real GDP cumulated in the simulated isolationist scenario is 7,34% and 12,93% in the integration scenario, whereas, in actual fact the increase in volume of the gross domestic product in Romania was close to 18% in the considered four years. A more detailed picture of the differences between the two above-mentioned scenarios is shown in the table below:

Table - Estimation of macroeconomic consequences of the integration of Romania in the second stage of the process, 2005-2015 (base year – 2004)

- Percentage difference between the scenarios (integration vs delayed-integration) -

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP	0.12%	0.60%	3.18%	6.48%	9.18%	10.51%	13.32%	17.52%	21.49%	26.80%	32.02%
Domestic aggregate demand	0.90%	0.40%	2.57%	5.91%	8.61%	9.65%	12.22%	16.47%	20.40%	25.53%	30.24%
Investment	0.19%	0.43%	4.72%	10.21%	16.53%	20.58%	27.66%	37.01%	46.04%	58.53%	71.78%
Private consumption	0.11%	0.12%	2.44%	5.13%	7.72%	8.75%	11.31%	15.60%	18.91%	24.25%	29.31%
Current account deficit *	0.00%	-0.05%	-0.31%	-0.46%	-0.57%	-0.41%	-0.40%	-0.74%	-1.10%	-1.48%	-1.77%
General consolidated budget deficit*	0.39%	0.18%	0.04%	0.17%	0.20%	0.11%	-0.25%	-0.43%	-0.27%	-0.14%	-0.19%
Employment rate**	1.88%	2.65%	1.73%	1.72%	-0.22%	2.37%	-0.95%	-0.50%	-2.61%	-3.18%	-5.52%
Unemployment rate**	-1.87%	-2.75%	-1.67%	-1.77%	0.26%	-2.57%	1.05%	0.50%	2.64%	3.35%	5.48%
Labour productivity***	0.03%	0.07%	1.22%	2.84%	4.37%	5.30%	5.96%	8.69%	12.16%	16.99%	22.46%
Real wage rate	0.01%	0.05%	0.85%	-1.74%	-1.57%	-0.16%	-0.08%	-0.06%	0.12%	3.11%	5.53%
Inflation**	0.01%	-0.01%	-0.99%	-1.04%	-0.96%	0.05%	-0.43%	-1.00%	-1.50%	-1.02%	-1.03%

*The deficit is expressed as share of GDP and has negative values. The differences presented are to be read as follows: a negative value means a larger deficit in the integration scenario as share of GDP, a positive value represents a smaller deficit in the integration scenario, expressed also as share of GDP.

**Differences between the values registered in the two scenarios.

***GDP per employed population