Romania and European Union Enlargement

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September 2006

JOURNAL
OF EUROPEAN ECONOMY
Vol. 5 (№ 3). September 2006
Publication of Ternopil State Economic University

Regionalization and Globalization

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ROMANIA AND THE EUROPEAN UNION ENLARGEMENT

Abstract

The article considers the issues of Romania's membership in the EU. The author compares the EU's "Eastern" enlargement of 2004 with previous enlargements. As it turns out, the EU becomes poorer with every next enlargement: its per capita GDP decreases every time compared with per capita GDP of the six constitutor countries (Belgium, France, Germany, Italy, Luxemburg, and Netherlands).

There are also sufficient economic arguments for postponement of Romania's accession in 2007 (or 2008). Romania does not exhibit the same macroeconomic stability the other countries of south-eastern Europe do; its welfare is lower, and its progress in building market economy is slower compared to the countries that joined the EU in 2004. Moreover, Romania achieved little progress in fighting corruption.

Finally, the author discusses the consequences of the rejection of the EU constitution by the French and the Dutch in 2005. In view of the ratification problems, five options are suggested as possible solutions to the problems. The most probable is that the EU will proceed on the basis of the Nice treaty and political agreements. Further enlargement of the EU will be much more difficult to realize than in the past. This does not apply to Bulgaria and Romania, since the accession treaties were already signed in 2005, and they will join the EU in 2007 or 2008. However, this does apply to Croatia and Turkey, with whom the EU opened accession negotiations in October 2005.

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Key words:

Enlargement, European Union, Romania.

1. Introduction

The European Union's response to the fall of the Berlin Wall (1989) and the collapse of the Soviet Union (1991) was quite alert. The Phare program (Poland Hungary: Assistance for Reconstruction of the Economy), offering financial support to Central Europe and Eastern European countries, was set up as early as in 1989. In addition, the European Union signed the first Europe Agreements (with Poland and Hungary) in December 1991. These agreements offered trade concessions and other benefits normally associated with full European Union membership (Schoors and Gobbin, 2005). More Europe Agreements followed suit. The European Union also concluded agreements with Bulgaria, the Czech Republic, Romania and Slovakia (1993); Estonia, Latvia and Lithuania (1995); and Slovenia (1996). Eventually, this process resulted at the Copenhagen European Council of December 2002 in an unprecedented enlargement of the European Union by proposing membership for ten applicant countries by May 1, 2004. The applications of Bulgaria and Romania were put on hold, but the Copenhagen Council clearly communicated the intention to welcome them as members in 2007.

Table 1 shows the relative importance of the accession countries at the time of their applications in the mid-1990s. Their combined population amounted to 28% of that of the EU-15. Their combined GDP amounted to only 4% of that of the EU-15 at current prices or 9% at purchasing power standards. GDP per capita in the applicant countries amounted to 13% at current prices or 32% at purchasing power standards. Thus, the applicant countries are poor relative to the EU-15 and, despite their sizeable population, their economic weight is very small.

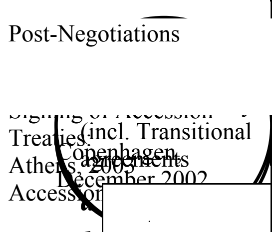
Table 2 compares the 2004 enlargement with three previous enlargements:

1. The 1973 enlargement, when Denmark, Ireland, and the UK joined the EU-6.

2. The enlargement in the 1980s (Greece in 1981 and Portugal and Spain in 1986).

3. The 1995 enlargement, when Austria, Finland and Sweden joined the EU-12.

Table 1.



The 10 Applicant Countries in Central and Eastern Europe as a Percentage of the EU, 1995

Area	Population	Total GDP (current prices)	GDP per capita (current prices)	Total GDP (purchasing power)	GDP per capita (purchasing power)
33	28	4	13	9	32

Source: European Commission, Agenda 2000 – Volume II – Communication: The effects on the Union's policies of enlargement to the applicant countries of Central and Eastern Europe (Impact study), p. 68.

Table 2.

Impact of Successive Enlargements of the EU (Based on 1995 Data)

	Increase in Area	Increase in Population	Increase in Total GDP	Change in per capita GDP	Average per capita GDP (EU-6 = 100)
EU-9/EU-6	31%	32%	29%	–3%	97
EU-12/EU-9	48%	22%	15%	–6%	91
EU-15/EU-12	43%	11%	8%	–3%	89
EU-26/EU-15	34%	29%	9%	–16%	75

Source: European Commission, Agenda 2000 – Volume II – Communication: The effects on the Union's policies of enlargement to the applicant countries of Central and Eastern Europe (Impact study), p. 24.

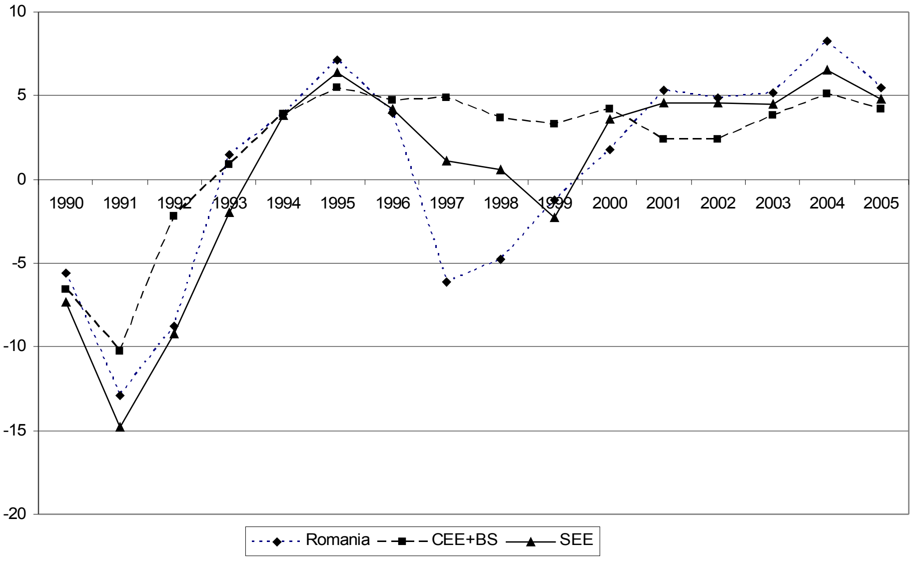
Table 2 does not include Cyprus, but it does include Bulgaria and Romania. The exclusion of Cyprus hardly makes a difference compared to the ten applicant countries in Central and Eastern Europe (CEE-10) given Cyprus' small size. In terms of area the Eastern enlargement is similar in size to the first enlargement in 1973, but smaller than the enlargements in the 1980s and in 1995. In terms of population the Eastern enlargement will be similar to the enlargements in 1973 and the 1980s, but considerably larger than the enlargement of 1995. Total GDP increased somewhat less than the population both in 1973 and in 1995, but after the Southern enlargement of the 1980s the increase of GDP was much smaller than the population increase. In fact, the result of each enlargement has been a decrease of GDP per capita. Thus, the EU became poorer by every enlargement and after the Eastern enlargement GDP per capita in the EU will be as low as 75% of that of the original six members. The 2004 enlargement was unprecedented in terms of the number of accession countries, their diversity and their welfare levels.

2. Romania: A Comparative Perspective

In order to assess whether or not the EU was right when it delayed Romania's accession to 2007 or 2008 I will compare the economic developments in Romania with the average performance of Romania's own region – South Eastern Europe[1] (SEE) and that of Central and Eastern Europe plus the Baltic States[2] (SEE + BS). To this end I present a number of Figures providing some insight in the economic performance of SEE, CEE + BS and Romania. Figure 1 shows that CEE + BS already experienced continuously positive growth rates from 1993, whereas SEE including Romania had to wait until 2000, though it experienced positive growth rates in the mid-1990s. From the late 1990s growth rates tend to converge, when they turn positive throughout the region.

Figure 1.

Real GDP Growth (in %), 1990–2005



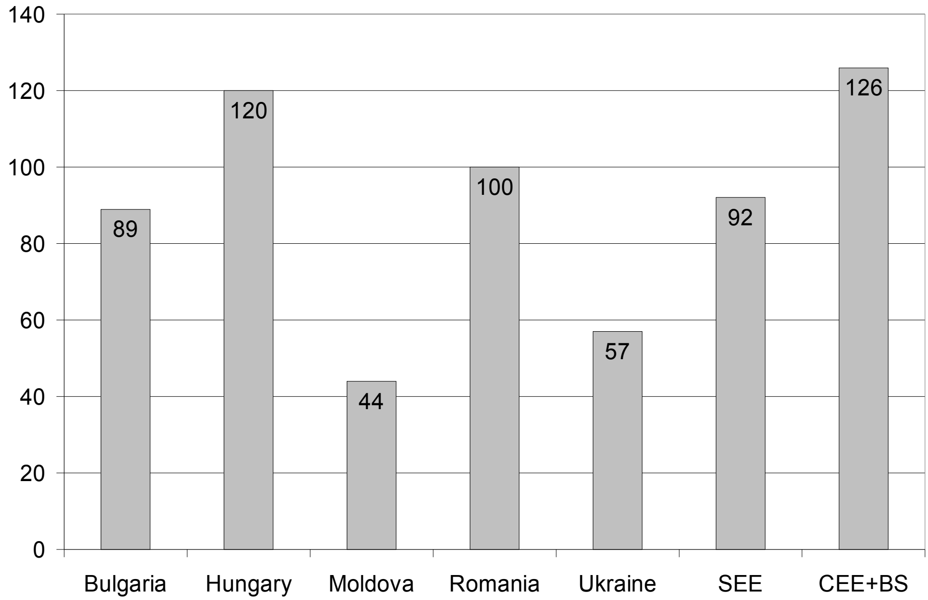
Source: EBRD.

[1] Albania, Bulgaria, Bosnia-Herzegovina, Serbia-Montenegro, FYR Macedonia and Romania.
[2] Croatia, Czech Republic, Hungary, Poland, Slovakia, Slovenia (CEE) and Estonia, Latvia and Lithuania (BS).

Figure 2 shows the results of the development in the period 1990–2002 in terms of GDP level in 2002 relative to that in 1989. The slowest development occurred in Moldova and Ukraine, but SEE (including Bulgaria and Romania) also still lags behind the level of GDP at the end of the communist era. In fact, Romania is the only accession country with negative growth in the period 1997–2001 (–1.0%)[3]. CEE + BS, however, are now well above their 1989 level.

Figure 2.

GDP Level in 2004 (1989 = 100)



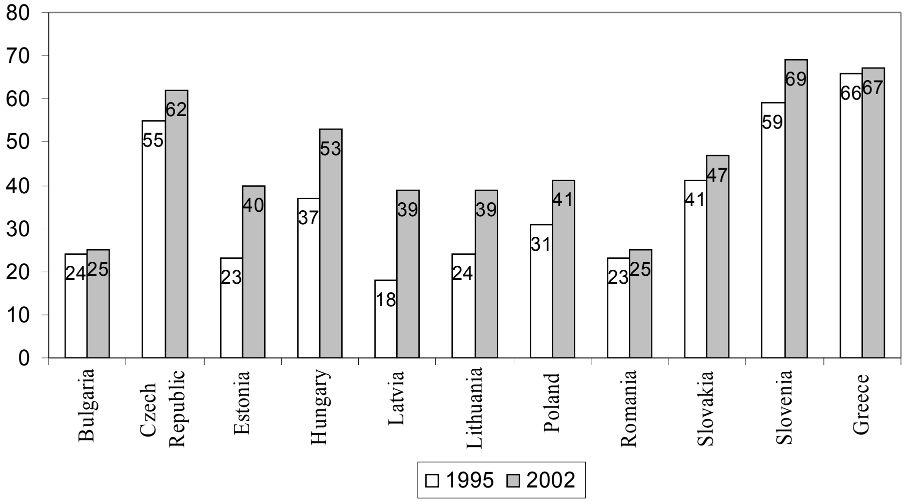
Source: EBRD.

Another way of looking at GDP-levels is by relating GDP per capita to the EU-average (see Figure 3). Slovenia was the richest of the CEE candidate countries with a GDP per capita of 69% of the EU-average, which is almost as high as that of Spain and higher than that of the poorest EU member state, Greece. Romania had the lowest GDP per capita similar to that of Turkey. As we saw above, in economic terms the Eastern enlargement is considerably smaller than the first (1973) enlargement, even though the increase in population is relatively in the same order of magnitude.

[3] The second lowest growth rate was that of the Czech Republic (1.1%).

Figure 3.

GDP per Capita in Purchasing Power Standards as % of the EU Average, 1995 and 2002



Source: European Commission.

A measure for a country's attractiveness to foreign investors is the inflow of Foreign Direct Investments (FDI). The absolute amount of FDI is not very significant, as this will largely depend on the population size. Figure 4 shows, therefore, the cumulative FDI-inflow per capita in the period 1989–2003. Obviously, Romania's attractiveness to foreign investors has been limited, which is quite representative for the region. Although Romania has done considerably better than the former Soviet republics in the region and a little bit better the region on average, it has performed considerably worse than CEE + BS.

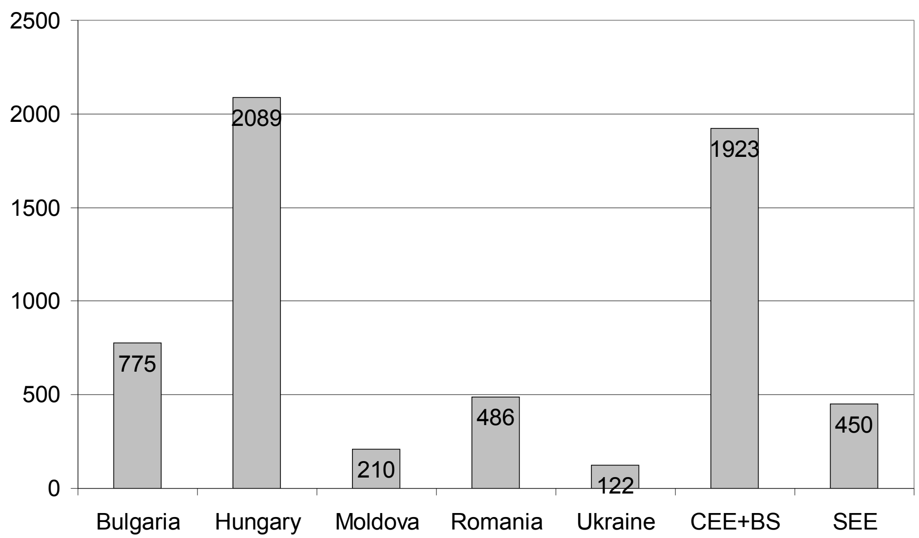
The share of the private sector in GDP is a key indicator for the reforms needed for the transition from a centrally planned to a market economy. Figure 5 illustrates to which degree the countries considered have made progress in their efforts to establish a market economy. I have included three years: 1993 (the first year data is available), 1994 (the year in which the first official applications for EU membership were filed), and 2001 (the most recent year for which data are available). One may wonder, however, how significant these data are. First, one may doubt how accurate it is. For example, was Romania's private sector share really 35% in 1993? Second, the data does not indicate what I call the quality of the privatization process. The strong increase in Ukraine's private sector share in 1994, for example, may in fact indicate a Russian type of privatization, i. e., a very small group of oligarchs capture state assets for next to nothing.

The term robbery of the state seems a more appropriate term for this process than privatization. Currently, a kind of counter robbery by the state emerges in Russia, witness what happened to Yukos (that the Russian government led to bankruptcy in 2004 by means of tax assessments) and its president Michael Khodorkovsky (who was sentenced to nine years in prison on May 31, 2005, while he was also ordered to pay more than 17 billion rubles or $615 million in taxes and penalties). As a result, Khodorkovsky cannot run for president in 2008 and 2012.

Figure 6 displays developments regarding general government balances, an issue that has received relatively little attention. It shows that there is also good news about Romania as it has done quite well with regard to its general government balance and has met the EMU-requirement of 3%. In this respect, Romania has performed better than SEE as a whole.

Figure 4.

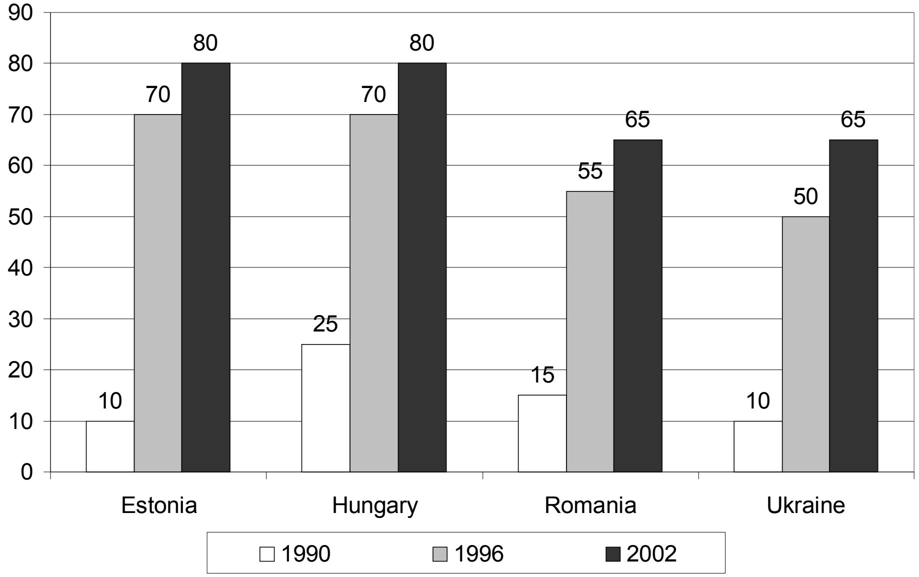
Cumulative FDI-Inflows per Capita in US$, 1989–2003



Source: EBRD.

Figure 5.

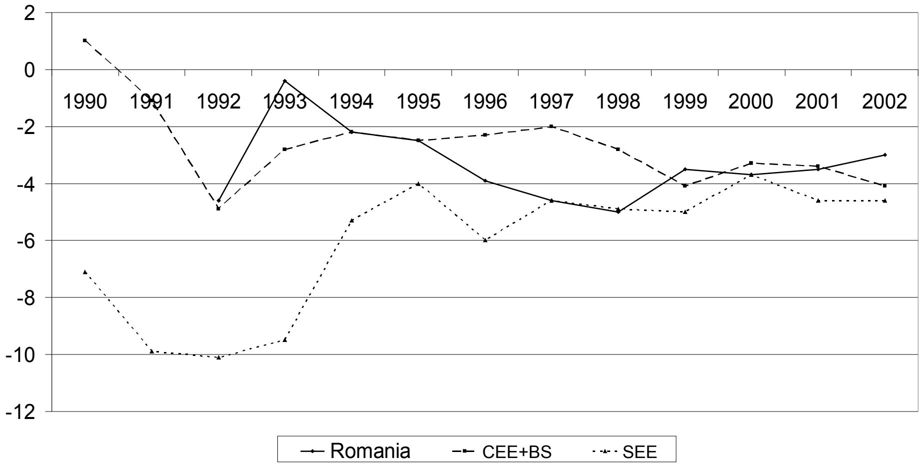
Private Sector Share in GDP



Source: EBRD.

Figure 6.

General Government Balances (in % of GDP)



Source: EBRD.

Finally, I will pay attention to a non-economic dimension that nonetheless affects the economic performance: the extent of corruption. Table 3 shows the amount of perceived corruption over time in the EU member states and Bulgaria and Romania. The scores range between 10 (highly clean) and 0 (highly corrupt) and relate to perceptions of the degree of corruption as seen by business people and risk analysts. Respondents expressed their perceptions in surveys assessing a country's performance. At least 3 surveys are required for a country to be included. Therefore, Transparency International could only include 159 countries – that is approximately three quarters of the more than 200 sovereign nations – in its 2005 Corruption Perception Index (CPI). The 27 countries listed in Table 3 are ranked on the basis of their score in the CPI 2005, while their CPI 2005 ranking is included between parentheses.

Table 3.

Corruption Perception Index, 1995–2005

			1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1.	(2)	Finland	9.1	9.1	9.5	9.6	9.8	10.0	9.9	9.7	9.7	9.7	9.6
2.	(4)	Denmark	9.3	9.3	9.9	10.0	10.0	9.8	9.5	9.5	9.5	9.5	9.5
3.	(6)	Sweden	8.9	9.1	9.4	9.5	9.4	9.4	9.0	9.3	9.3	9.2	9.2
4.	(10)	Austria	7.1	7.6	7.6	7.5	7.6	7.7	7.8	7.8	8.0	8.8	8.7
5.	(11)	Netherlands	8.7	8.7	9.0	9.0	9.0	8.9	8.8	9.0	8.9	8.7	8.6
6.	(11)	UK	8.6	8.4	8.2	8.7	8.6	8.7	8.3	8.7	8.7	8.6	8.6
7.	(13)	Luxembourg	–	–	8.6	8.7	8.8	8.6	8.7	9.0	8.7	8.4	8.5
8.	(16)	Germany	8.1	8.3	8.2	7.9	8.0	7.6	7.4	7.3	7.7	8.2	8.2
9.	(18)	France	7.0	7.0	6.7	6.7	6.6	6.7	6.7	6.3	6.9	7.1	7.5
10.	(19)	Belgium	6.9	6.8	5.3	5.4	5.3	6.1	6.6	7.1	7.6	7.5	7.4
11.	(19)	Ireland	8.6	8.5	8.3	8.2	7.7	7.2	7.5	6.9	7.5	7.5	7.4
12.	(23)	Spain	4,4	4,3	5,9	6.1	6.6	7.0	7.0	7.1	6.9	7.1	7.0
13.	(25)	Malta	–	–	–	–	–	–	–	–	–	6.8	6.6
14.	(26	Portugal	5.6	6.5	7.0	6.5	6.7	6.4	6.3	6.3	6.6	6.3	6.5
15.	(27)	Estonia	–	–	–	5.7	5.7	5.7	5.6	5.6	5.5	6.0	6.4
16.	(31)	Slovenia	–	–	–	–	6.0	5.5	5.2	6.0	5.9	6.0	6.1
17.	(37)	Cyprus	–	–	–	–	–	–	–	–	6.1	5.4	5.7
18.	(40)	Hungary	4.1	4.9	5.2	5.0	5.2	5.2	5.3	4.9	4.8	4.8	5.0
19.	(40)	Italy	3.4	3.4	5.0	4.6	4.7	4.6	5.5	5.2	5.3	4.8	4.8
20.	(44)	Lithuania	–	–	–	–	3.8	4.1	4.8	4.8	4.7	4.6	5.0
21.	(47)	Czech Rep.	–	5.4	5.2	4.8	4.6	4.3	3.9	3.7	3.9	4.2	4.3
22.	(47)	Greece	4.0	5.0	5.4	4.9	4.9	4.9	4.2	4.2	4.3	4.3	4.3
23.	(47)	Slovak Rep.	–	–	–	3.9	3.7	3.5	3.7	3.7	3.7	4.0	4.3
24.	(51)	Latvia	–	–	–	2.7	3.4	3.4	3.4	3.7	3.8	4.0	4.2
25.	(55)	Bulgaria	–	–	–	2.9	3.3	3.5	3.9	4.0	3.9	4.1	4.0
26.	(70)	Poland	–	5.6	5.1	4.6	4.2	4.1	4.1	4.0	3.6	3.5	3.4
27.	(85)	Romania	–	–	3.4	3.0	3.3	2.9	2.8	2.6	2.8	2.9	3.0

Source: Transparency International.

Northwestern Europe is doing relatively well with scores of over 8.0. Italy and Greece were the most corrupt nations in the EU-15 and after the 2004 enlargement they still belong to the most corrupt EU member states. Only three EU member countries (Slovakia, Latvia and Poland) are perceived more corrupt than Greece. Obviously, Romania is at the bottom of the list with a score of 3.0 indicating that doing business in Romania is subject to additional risks resulting from corruption causing additional uncertainties. Particularly worrying is that the corruption is not diminishing over time, but is actually worse now than it was in the late 1990s. The Copenhagen council decided in December 2002 that Bulgaria and Romania had to wait for EU membership until 2007, while the accession year could be further postponed to 2008 if these countries had made to little progress. Initially, the European Commission would publish its proposal on Romania's (and Bulgaria's) accession year in May 2006. However, in its May 2006 mo motoring report on Romania the Commission announced to postpone its proposal to October 2006. The Commission leaves no doubt about whether the accession date of January 1, 2007, can be maintained primarily depends on Romania's ability to demonstrate further results in the fight against corruption by October 2006 (European Commission, 2006b).

The data presented here make clear that there were good economic reasons for the postponement of Romania's accession until 2007 (or 2008), although these were not the only reasons. Romania did not achieve macro-economic stability as fast as the other countries in the region, neither in terms of prices nor in terms of economic growth. Its welfare level is lower and its progress in establishing a market economy is slower compared to the countries that joined the EU in 2004. In addition, it has realized little progress in the fight against corruption.

3. Prospects

The Nice Treaty (February 2001) called for "a deeper and wider debate about the future of the European Union". The Laeken European Council (December 2001) followed up by adopting a "Declaration on the future of the European Union" that explicitly referred to World Wars I and II that weakened Europe's position in the world. This brought a growing realization that «"only peace and concerted action could make the dream of a strong, unified Europe come true»". The declaration committed the EU to greater democracy, transparency and efficiency, and to preparing a constitution for European citizens. The latter was done by the European Convention on the Future of Europe, which presented a draft constitutional treaty to the European Council June 20, 2003.

On June 18, 2004, the European Council adopted unanimously the Treaty establishing a Constitution for Europe beginning with the words «Reflecting the will of the citizens…». The 25 member states signed it in Rome on October 29, 2004 after which the member states had to ratify it. Ten countries had already ratified it before the French voters rejected the constitution on May 29, 2005. The Dutch voters also rejected it on June 1, 2005, but one day later the Latvian parliament approved the constitution (on June 2, 2005). As of February 9, 2006, 14 member states had approved the Constitutional Treaty, two had rejected it and 14 member countries had not yet decided (European Commission, 2006a).

From the legal perspective it is very difficult to proceed with the EU after the «No» vote by two founding EU member states, but politically it is not possible to stop. Although it has proved very difficult for the European Council to reach a compromise on the financial perspectives 2007-2013, this is nothing new. Negotiations on the European budget have always been very difficult. Thus, this cannot be considered a sign that the EU is unable to make decisions about the future. Undoubtedly, it will continue to function even though the French and Dutch voters rejected the draft constitutional treaty in May/June 2005.

When the constitution was signed, it was agreed that that if some members would have problems with ratification, the European Council will decide what to do next. Now there are ratification problems in France and the Netherlands it seems that there is a number of options including:

1. A re-run of referendums that resulted in a No (as proposed by EU-president Juncker). However, this seems something of the past, not of the present.

2. The countries that rejected the constitution leave the EU. The current treaties do not provide for secession. The constitution does, but is dead.

3. Apply the constitution to those countries that accepted it: a EU of two blocks. This requires adjustments of the constitutional treaty. Therefore, it should be subject to a new ratification procedure.

4. Draft an abbreviated version (as the Finnish MP Kiljunen has proposed) and hold a EU-wide referendum (proposed by the Austrian chancellor Schüssel). But would that be approved?

5. Proceed on the basis of the Nice Treaty and political agreements: a diverse union rather than an ever-closer union.

In the long run, unity might still emerge. In the short run, however, the EU will most likely evolve as it has been evolving over the past: multi-tiered as the following three examples illustrate:

- Not all EU countries participate in the Economic and Monetary Union (EMU). The Denmark, Sweden and the UK have refused to join EMU and still have their national currencies. Interestingly, the new member states that joined the EU in 2004 do not have a choice. As soon as they meet the EMU criteria they must join EMU.

- Some EU countries have opted out from certain policy areas. The UK, for example, has opted out of the Social Charter, while Denmark, Ireland, and the UK have opted out of provisions related to asylum, immigration, and visas.

- The Schengen treaty shows that cooperation between a majority of EU member states with outsiders (Iceland, Norway and – after the Swiss voters' approval in June and September 2005 – Switzerland).

The most important consequence for the future seems that further enlargement of the EU will be much more difficult to realize than in the past. This does not apply to Bulgaria and Romania as the accession treaties were already signed in April 2005. As a result, these countries will join the EU in 2007 or 2008. It does apply, however, to Croatia and Turkey with whom the EU opened accession negotiations in October 2005. In addition, it applies to the Former Yugoslav Republic of Macedonia with whom accession negotiations started have not yet begun.

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The article was received on May 30, 2006.