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Abstract. The paper focuses on the impact of the European Agreement on Romania's Association with European Community and, in particular, of its commercial part, entered into force on May, 1993, under an Interim Agreement. For Romania, a country in transition toward the market economy, under the circumstances of significant institutional changes and economy restructuring, despite the asymmetry of tariff concessions with EU, the first effects ended in trade deficit increase and major shift in geographical orientation of the foreign trade flows. The paper draws attention that, as regards the EU integration perspectives, arises the question of integration between countries with a significantly different level of development, this challenge requiring for Romania, to find the theoretical and practical solutions which would make it possible, by continuing reforms and structural adjustments, increasing competitiveness, diminishing the economic and technological gaps.

Key words: transition economy; CMEA; tariff concessions asymmetry; foreign trade; FTA; external debt; EU integration; Romania; competitiveness

JEL Classification: F13, F15, F36, P31, P33

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ROMANIA'S ASSOCIATION WITH EUROPEAN UNION. INTEGRATION PERSPECTIVES

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1. Introduction

The economy of command imposed a forced and inefficient development in Romania. Under the circumstances of central-administrative allocation of resources, the structure of the economy has been oriented without sufficiently having in view the international specialization and selective development criteria, according to Romania's comparative advantages.

The inherited structural distortions connected with external economic relations were related to the low ratio of foreign trade in GDP, over-dimensioning of energy and raw materials in the structure of imports, low share of agricultural exports, few exports and imports of invisible in the balance of payments. The former Council for Mutual Economic Assistance (CMEA) held about 40 percent in the total foreign trade flows of Romania. However it is worth mentioning that before 1990, among the CMEA countries, Romania had the lowest degree of dependence from the CMEA market¹.

Over the last four years, Romania has undergone profound economic and social changes. One of the key objectives of the reform program is to integrate Romania with European economy. In order to achieve a gradual integration, a European Agreement on Romania's Association with European Community was signed on February 1st 1993, in Brussels. Its commercial part entered into force on May 1st, 1993 under an Interim Agreement, based on reciprocal tariff concessions.

By the end of June 1994 the process of ratification of this Agreement had been achieved by the European Parliament and by the Parliaments of eight European Union countries. By the second half of 1994, the ratification is expected to be completed and the Agreement to practically enter into force this year.

¹ See: Ghisa Vasile, Georgescu George, *Remedii posibile pentru relansarea comerțului exterior românesc* (Possible Remedies for the Recovering the Romanian Foreign Trade), "Economistul", no. 475, 22 June, 1994.

The European Agreement on Romania's Association with the EU countries covers a wide area, including provisions on free movement of goods, economic and financial cooperation, payments, competition and other economic provisions. It also contains sections on political dialogue, cultural cooperation, movement of workers, establishment, supply of services, approximation of laws.

The main provisions refer to the gradual achievement of a free trade area, based on reciprocal tariff concessions. The Agreement provides a favourable international trade framework for Romanian producers and exporters. At the same time, its implementation could create some adverse effects upon the Romanian economy. This is the reason why, for Romania, a country in transition toward the market economy, all kinds of effects, both on medium and long term, have to be considered in order to maximize the positive ones. The main issue in the Romania's case is related to the attempt to identify the optimum combination between the transition to the market economy and the integration tendencies into European structures.

This study is organised as follows: in its first part, after a short briefing of the new general framework of foreign trade activities, the main provisions on trade facilities are presented. This is followed by the examination of the changes in trade flows between Romania and EU in 1992-1993. Several possible future effects and trends are also discussed. Finally, the main conclusions of the paper are pointed out.

2. Foreign trade reform

Since 1990 Romania has taken steps to carry out the reform of foreign trade in order to introduce instruments specific to the market economy.

The state monopoly on foreign trade and foreign exchange has been eliminated, all economic agents being allowed to engage themselves in export and import activities. About 50.000 firms with private capital are now operating in foreign trade activities. As a consequence of foreign trade de-monopolisation, the private sector has come to play a major role in foreign trade. Its share has grown from 1% in 1990 to 20% in 1991 and to 30% in 1993.

Imports and exports have been liberalized and an appropriate licensing regime has been introduced. In order to meet the criteria of transparency, all trade policy is published after its adoption and notified to the GATT, in strict compliance with the rules of General Agreement. The export and import goods from and into Romania's

custom territory are liberalized, not being subject to licenses. Exceptions are for goods subject to quantitative restrictions and control, the list being shorter year by year.

The custom tariff remained the main instrument of trade policy. Beginning with January 1st, 1992, a new import custom tariff has been implemented. This tariff was built on the basis of the Harmonized System and includes 5018 tariff lines. The global level of protection is about 17.8% calculated as a simple arithmetic average. According to GATT and IMF experts, the level of tariff protection is still high compared to that of the main partners of Romania. However, taking into account the reductions and exemptions of custom duties, including the trade with EU, the real level of protection is only about 10%.

By a special Law (no. 84 / 1992), Romania has several free trade zones (e.g. Sulina, Constanta-Sud, Braila, Galati), extending trade facilities such as: unrestricted goods import and re-exports; custom duties and VAT exemption; exemption from profit tax for the duration of company's operations in a free trade zone. In these zones, real-estate long term lease or title transfers, up to 50 years, are also legal, irrespective of the party's nationality.

In a relatively short period, the legal framework concerning the general implementation of market economy principles was practically achieved in the foreign trade field. This framework provides a wide opening of the national economy towards Europe and the whole world. In achieving the international integration of Romania's economy, over 100 bilateral trade agreements have been concluded between 1990-1993 and negotiations have started for the conclusion of new bilateral agreements. The recent agreements with the EU and EFTA countries are not contradicting Romania's commitment to the multilateral trading system. These agreements are in line with GATT provisions. Specific trade liberalization provisions, including asymmetry of implementation are included in order not to cause trade diversion. Despite the free access for sensitive goods as steel products (CECO), Romania has taken measures to maintain at a reasonable level the exports of these items into EU, in order to avoid distortions on this market.

A specificity of the future Romania's economic integration into EU is stemming from Romania's position as a signatory member of the conventions of the Preferential Trade among developing countries and Generalized System of Trade Preferences.

Free trade agreements with the other Central and East European Countries, also associated to the EU (Czech Republic, Slovakia,

Poland, Hungary, Bulgaria) are subject to negotiations with the goal to use the advantages of Romania's Association Agreement and to improve the regional economic cooperation.

During the period 1990-1993 hard currency exports had a positive evolution, increasing from US\$ 3.5 billion in 1990 to US\$ 4.2 billion in 1992 and US\$ 4.8 billion in 1993. However, due to the higher imports (US\$ 5.2 billion in 1990, US\$ 5.4 billion in 1992 and US\$ 5.8 billion in 1993) trade deficits were cumulated, even with a reduction tendency.

Obviously alike the domestic production, the foreign trade and especially exports are in a deep crisis determined by the inappropriate industrial structure, the weak performances of the Romanian enterprises, the large distortions in the price system, the fragile stability of foreign exchange market.

The abolition of CMEA deprived Romania of many sources of raw materials and traditional market for the exports. At the same time, it should be mentioned that the trade between the ex-CMEA countries favoured the tendency for the excess supply of the so-called "soft-goods" (machinery and production equipment), with a low quality level and therefore very difficult to sell on world markets for hard convertible currencies. It also gave rise to a tendency for excess demand for the so-called "hard-goods" (petroleum, mineral raw, materials, agricultural products) easily marketable for free currencies².

As a consequence, due to the slow rhythm in its production restructuring, Romania faces great difficulties in the reorientation of exports toward new markets, especially in Western Europe.

In these circumstances the trade and economic cooperation with EU countries represents a vital prerequisite for Romania's success on the way to a market economy, for its successful reform.

The European Agreement on Romania's Association with EU is undoubtedly a chance offered to Romania for its integration in European structures, for adapting its economy to the international standards. This chance entails also risks.

The economy's opening, even gradually, for foreign competition in the absence of appropriate qualitative transformations and

² Jackson Marvin, *Issues in the transition from central planning to market allocation processes and the role of market forces in the transition economy*, 8-9 May, Sinaia, Romania, 1993.

structural changes, could lead to the worsening of the economic situation, to the loosening of the positions even on the internal market.

The valorisation of favourable conditions offered by the European Agreement depends on the one hand, on Romania's own efforts toward structural adjustments of the national economy according to international specialization principles and to its comparative advantages. On the other hand, the access to a more stable EU area is perceived to be essential for the survival of Romanian companies.

3. The main trade provisions of the European Agreement

The European Agreement is set up with the intention of abolishing all restrictions on trade between Romania and EU countries. The Interim Agreement aimed at gradually establishing a free trade area over 10 years, divided in two equal periods, each of 5 years. After the first 5 years, the Association Council will analyse the implementation of Agreement provisions and will decide upon the transition for the next 5 years. The Agreement is in line with GATT provisions and its implementation, as reflected in the calendar of liberalization, and offers an asymmetrical basis, in the advantage of Romania.

The main provisions of the Interim Agreement related to the improvement of the access on the EU markets of the products originating in Romania are the following:

1. For industrial products other than textile and metallurgical products the EU is abolishing all tariffs and quantitative restrictions by May 1st, 1993. This is covering about 90 percent from Combined Nomenclature (CN) of these products. Exemptions are for some items (Annex I), or regarding the timetable of progressive abolishing: one year after May 1st, 1993 (Annex IIa) and respectively four years after May 1st, 1993 (Annex IIb). Some products (several chemical and petrochemical products, wood products, machinery, including automobiles) benefit only from a suspension of custom duties within the limits of tariff quotas or ceilings at a zero rate of duty rising annually by 20 percent, while the duties levied on quantities exceeding these amounts will be reduced annually by 15 percent (Annex III).

– for textiles and clothes, the custom duties will be gradually abolished in 6 years after the entry into force of the Interim Agreement,

except for inward/outward processing trade (*lohn* operations) which was liberalized starting from May 1st, 1993 (Protocol no. 1);

– for metallurgical products the quantitative restrictions have been eliminated and the custom duties are gradually abolished in five years after the entry into force of the Interim Agreement. The EU maintain however survey regime on imports of metallurgical products from non-EU countries, according to the Treaty establishing European Coal and Steel Community (Protocol no. 2).

At the same time, in order to ensure a relative higher degree of protection during the economy restructuring, Romania established tariff concessions on imports of industrial products from EU, including textiles and metallurgical products, which will be applied gradually, in most of the cases, in the second half of the transition period. One agreed upon the successive reductions by Romania of custom duties on imports of 70-75 percent of industrial products originating in EU countries during a period of 5-9 years. One agreed also upon Romanian Government possibility for subsidizing several sensitive sectors of the economy (mining, metallurgy, infant industries) for a period of 5-10 years.

2. For agricultural products, which represents without any doubt the most sensitive point of the Agreement, both Romania and EU shall grant each other different concessions. On the one hand, agricultural products originating in Romania shall benefit from the reduction of tariffs and/or levies within the limit of tariff quotas which are to be increased by 10 percent yearly on average over five years. For some items the custom duties shall be reduced under certain conditions. Mention should be made, view the dimension of the quotas, that Romanian agriculture products have not significant chances on the EU markets.

On the other hand, Romania shall abolish quantitative restrictions of the most part of imports of agricultural products originating in EU and, at the same time, shall reduce the custom duties up to 25 percent over a period of five years, both for some products in shortage on the Romanian market and for products required in the food industry. In some cases, these concessions are granted under the conditions of seasonal and/or quantitative limited quotas. According to Article 21 provisions, taking into account the volume of trade in agricultural product between Romania and EU, their particular sensitivity, the rules of the Common Agricultural Policy, the role of agriculture in Romania's economy and the consequences of the multilateral trade negotiations

under GATT, the Parties shall examine in the Association Council, product by product, the possibilities of granting each other further concessions.

4. Other provisions of the European Agreement

In accordance with existing GATT rules, the European Agreement includes provisions for the cases when uncontrolled import growth create major risks for the stability of domestic market. In these cases, the parties can apply the so-called safeguard clauses, which allow to introduce trade limiting measures over a determined period of time. There are clauses which may be applied in justified cases by both Parties (for products imported in such increased quantities as to cause or threaten to cause serious injury to domestic producers or serious disturbances in any sector of the economy and also in order to protect against unfair competition, against balance of payments disturbances, against shortages in the domestic market) and also some clauses allowing only Romania to use for, taking into consideration its transition difficulties.

The most important point is related to the exceptional measures concerning infant industries, or certain sectors undergoing restructuring or facing difficulties, which could generate social problems, in the form of increased custom duties. These measures shall be applied for a period not exceeding five years, and, in any case, they will cease to apply at the latest at the expiration of the transition period. It is significant to notice that, despite its difficulties, Romania didn't apply so far any safeguard clause.

It is worth to stress out that the European Agreement not only allows tariff and quantitative restrictions reduction and/or abolition, but, it also has provisions for anti-dumping actions against unfair competition. The EU has indicated that starting with a date of entry into force of the Interim Agreement (May 1st, 1993) Romania will be considered as a market economy country, even if it is still in transition.

That means Romania would receive a less unfair treatment at the hands of anti-dumping authorities. It still remains the issue of how one should apply the rules designed for market economies to an economy which is not yet a fully developed market economy. This involves a comparison between free trade and fair trade; the approach is quite innovative as against the previous one, which was basically a free trade as compared to the regulated trade. So far no anti-

dumping investigation has been in force against Romanian exports on EU markets³.

In the future, the creation of a single market of EU will lead to increase the competition between EU companies, but also between these companies and those coming from outside EU, including Romania. It is likely that the weaker EU companies will claim injuries, mainly not from increased competition within EU, but rather from unfair practices of non-member countries⁴.

The Europe Agreement also provides non-trade regulations which will enter into force when the full ratification is completed. As it was mentioned, this is expected by the end of 1994. These regulations regard movement of workers, establishment supply of services and also payments, capital and competition. Another important provision of the Agreement, which represents an essential condition for Romania's perspectives of integration is the approximation of the Romania's existing and future legislation to that of EU.

The EU and Romania will also establish economic cooperation in industry, investment promotion and protection, agro and industrial standards and conformity assessment, and also in the field of science and technology, education and training, energy and environment.

The Agreement represents, in fact, an analytical international framework, covering practically all economic and social activities. It has to be pointed out that this framework is more important for Romania than for EU, due to its marginal position, not only in the figurative sense.

Obviously, if one can say that actually, for the EU, the magnitude of economic relations with Romania is quasi-insignificant - for instance imports from Romania account for below 1 percent from total imports of EU -, on the other hand, for Romania, the connection with EU has a vital importance and that, at least for two major reasons:

- one of them consists in the dimension of foreign trade with EU, which accounts for about half of the total exports and imports of Romania;
- the second reason rests in the fact that Romania has to adapt its new institutional and economic structures, which are still in

³ See Antohi E., Georgescu G. and Oprescu Gh., *Analysis of the Particular Problems of Dumping During the Transition Period: Romania*, OECD, Trade Directorate Working Party of the Trade Committee East-West Trade, July, 1994.

⁴ Velmust E. A., Groofsma F., *European Community Anti-Dumping Law Applicable to Imports from Eastern Europe*, D. Smedt / Dassesse, Hammer and Feld, Brussels, UNCTAD, 1992.

movement and therefore unstable, according to the rules of stable entities, i.e. of the EU economic system in which it follows anyway to integrate, sooner or later. For this purpose, Romania has to carefully analyse its comparative advantages and, as a consequence, to gradually get its economy specialized. The full integration must be concluded in the right time, when the greatest discrepancies between Romania and EU countries have been eliminated.

Romania concluded also a free trade agreement also with EFTA, based on bilateral implementation as it is ratified by individual EFTA member countries. Taking into account the recent pact on the integration into European Union of the majority of the EFTA's countries, the former agreement between EFTA and Romania could be considered as a stimulating factor of European economic integration.

5. The trade between Romania and the EU

After a sharp decrease of foreign trade in 1990 and 1991 as against 1989 and the worsening of the trade balance, beginning with 1992 a recovery tendency has been registered, including the reorientation of commercial flows toward western countries, particularly EU countries.

The evolution of Romania's foreign trade with the EU is presented in **Table 1**.

Table 1

Romania's foreign trade with the EU

	1990	1991	1992	1993
	million USD			
Total	2,885.1	2,815.0	3,728.9	4,664.5
Exports (FOB)	1,669.9	1,434.6	1,399.5	1,924.0
Imports (CIF)	1,215.2*	1,380.4	2,329.4	2,740.5
Trade balance	+454.7	+54.2	-929.9	-816.5

*FOB prices

Source: *Evolutia economica si sociala a Romaniei in anul 1993*, National Commission for Statistics, April, 1994, p. 6.

As a consequence of geographical shifts in Romania's foreign trade, the share of EU in Romanian exports increased from about 30 percent in 1990 to about 40 percent in 1993 (**Table 2**).

The imports share of EU increased more than significantly, respectively from about 20 percent in 1990 to 42% in 1993.

Table 2

The share of EU in Romania's exports and imports

	- % -			
	1990	1991	1992	1993
Exports	31.5	33.7	32.1	39.3
Imports	19.7	25.1	37.2	42.0

Source: *Evolutia economica si sociala a Romaniei in anul 1993*, National Commission for Statistics, April, 1994, p. 51.

Despite this positive tendency it has to be stressed, however, that in 1992 and also in 1993 a serious external trade imbalance was registered, amounting to almost USD 1 billion annually. This amount of the imbalance is due almost in totality to the trade deficit registered with Germany, France and Italy.

Anyhow, the faster rate of imports growth than that of exports in the foreign trade with the EU, especially in 1993, when the Interim Agreement entered into force, raised the question of how fruitful the tariff concessions were for each part.

The point is while Romania faces an underproduction crisis, the EU faces the problems of overproduction. So, even if Romania has a hypothetical advantage provided by the asymmetry of concessions, practically, this opportunity cannot be covered, due to a production crisis, both from the quantity and quality viewpoints.

On the other hand, the EU countries turned into account the "weaker" concessions offered by Romania to their advantages, gaining in fact a new market, even if it was small, in the absence of domestic competitive producers. Perhaps, in this vicious circle, Romania's dilemma is to be seen and settled: trade liberalization has led to growing imports against a domestic market, unprepared for an open competition, and this has led, in turn, to the deepening of internal crisis, including the fall of exports in 1990 and 1991.

Under these circumstances, it is very difficult to evaluate the effects of the European Agreement on the evolution of foreign trade of Romania, primarily on the exports.

The growth of trade volume in 1992 and 1993, especially of exports, is due not only to the effects of trade liberalization stipulated by the Interim Agreement, but also to partial recovery of several sectors of production and stabilization tendencies of convertible currencies market. The trade deficit was covered, year by year, with the help of external financial assistance, which, in turn, lead to the foreign debt increase by 5 billion dollars in only a couple of years.

As regards the evolution of Romania's foreign trade with the EU in 1993, as compared with 1992, one can observe that the exports of several groups of products showed a significant increase (**Table 3**).

Table 3

Index of Romania's Exports and Imports from the EU in 1993
(1992 = 100)

CN	Description	Exports	Imports
I	Live animals and products thereof	58.7	59.6
II	Vegetable products	113.5	123.9
III	Fats and oils	211.3	48.1
IV	Prepared foodstuffs	93.1	101.7
V	Mineral products	128.5	63.7
VI	Chemical products	95.1	122.9
VII	Plastics, rubber	95.9	125.4
VIII	Skins, leather	166.2	164.0
IX	Wood and articles thereof	79.5	116.2
X	Paper, paperboard	98.3	109.7
XI	Textiles and clothes	229.9	11.6
XII	Footwear	293.6	111.2
XIII	Articles of stone, cement, glass	108.4	111.3
XIV	Pearls, precious stones	51.8	47.4
XV	Base metals	107.8	94.0
XVI	Machinery	113.4	149.1
XVII	Transport equipment	125.2	76.1
XVIII	Precision and optical instruments	134.0	200.8
XIX	Arms, ammunition	35.9	2.6
XX	Miscellaneous manufactures	108.4	167.3
XXI	Works of art	148.3	110.0
	Total	137.5	117.5

Source: SICOMEX

Textiles and clothes for instance (Section XI), which are sensitive products, registered an increase of 230 percent. However, we mention that the intensification of the processing trade between Romania and the EU countries (*lohn* operations in the case of clothes) had a certain influence on this positive evolution. The limited gain of the Romanian producer in this case, which includes only the reimbursement of manpower expenses, has to be noticed.

The structure of Romania's exports (see **Table 4**) is rather unfavourable.

Table 4
The structure of Romania's Exports and Imports
from the EU in 1992-1993

-% -

CN	Description	Exports		Imports	
		1992	1993	1992	1993
I	Live animals and products	3.4	1.4	1.8	0.9
II	Vegetable products	1.8	1.4	9.3	9.8
III	Fats and oils	0.5	0.8	1.3	0.5
IV	Prepared foodstuffs	1.8	1.3	5.4	4.6
V	Mineral products	11.9	11.1	8.7	4.7
VI	Chemical products	5.1	3.6	8.7	9.1
VII	Plastics, rubber	2.6	1.8	3.2	3.4
VIII	Skins, leather	1.0	1.2	2.1	2.9
IX	Woods and articles thereof	3.4	2.0	0.6	0.6
X	Paper, paperboard	0.4	0.3	1.5	1.4
XI	Textiles and clothes	19.1	32.0	16.3	18.2
XII	Footwear	3.1	6.7	1.2	1.1
XIII	Articles of stone, cement, glass	3.7	2.9	1.1	1.0
XIV	Pearls, precious stones	0.2	0.0	0.3	0.1
XV	Base metals	13.4	10.5	5.3	4.2
XVI	Machinery	7.3	6.0	20.8	26.5
XVII	Transport equipment	2.8	2.6	9.5	6.2
XVIII	Precision and optical	0.4	0.4	1.7	2.8
XIX	Arms, ammunition	0.4	0.1	0.0	0.0
XX	Miscellaneous manufactures	17.4	13.8	1.3	1.9
XXI	Works of art	0.0	0.0	0.0	0.0
	Products not classified	0.3	0.1	0.1	0.1
	Total	100	100	100	100

Source: SICOMEX

Products with weak technical performances (mineral products, textiles and clothes, base metals, miscellaneous manufactures, especially furniture, all these accounting about two thirds of the total exports to the EU) are prevailing.

On the import side, the most important group of products is represented by machinery, whose share in the total imports from the EU increased from 20.8 percent in 1992 to 26.5 percent in 1993.

Concluding this brief analysis of the evolution of Romania's foreign trade with EU, one can say that this first year has not brought yet relevant results. Nevertheless, the increase of exports and imports is at least partly a result of the enter into force of Interim Agreement on May 1st, 1993. The trade monthly average between Romania and EU in the last seven months of 1993 was 1.7 times higher than the same average of the first five months. In the first four months of 1994, the trade increased with 30 percent as against the same period of the previous year.

Whether this increase has a positive effect on the Romanian economy and trade, this is a question which is very difficult to answer. But it is certain the beginning of the intensification of trade relations between Romania and EU which, in turn, reveals an essential step toward integration. As regards the type of integration, the advantages or disadvantages for Romania, it is too early to be estimated.

To the extent to which one can think the modelling of the future, the EU and Romania must try to identify the most appropriate modalities to achieve this integration in their mutual interests, building up an effective complementarity between integrating economies with relatively different level of economic and social development.

6. Some possible future issues in the transition toward economic integration of Romania into the EU

Even if it is not possible to find out some clear effects of the European Agreement after only one year of its being in force, it is obviously Romania is facing inherent sharp difficulties in this transitional period.

Besides its relatively low level of development, as a starting point in the transition race other problems have been generated by the transition itself. One of them, directly connected with the provisions of the European Agreement, is the approximation of Romania's legislation to that of the EU. It has to be pointed out that the transition process to the market economy imposes for Romania the change of almost the entire legislation. And this change will last several years, not only because of the huge number of laws to be provided, but also due to the slow Parliament procedures.

Bearing in mind the regulation aspects, it is important to notice the problems that could arise for Romanian exporters as a consequence of certain non-tariff barriers of the EU market: quality and technical standards, health rules, environment restrictions. The observance of such requirements by Romania, obviously depends on the increase of production technical level which, in turn, is determined by the growth of investment and technology transfer, including those from EU countries.

At the same time, the competitiveness of Romanian exports on the EU markets depends on the own efforts of the enterprises to restructure their production. Obviously, this is an overall issue concerning the whole Romanian economy and its performances. What is particular to the relations with the EU rests in the extension of the access of Romanian products, including the sensitive products and, in such cases, one could valorise better their comparative advantages, relying upon the fair competition.

It is useful to recognise that the production recovering depends on exports and, simultaneously, the growth of exports depends on the production increase and its specialization according to the external opportunities and requirements, both of the EU market and world trade exchanges.

The one desirable alternative for Romania in order to increase exports and foreign trade earnings is to improve competitiveness through the unit costs cutting, technological change and more efficient allocation and use of its available resources.

A basic problem is to identify those branches having the greatest contribution to the national income valued at competitive i.e. market prices, relative to the inputs of domestic resources, such as capital and labour required by them. This means that, in the future, the decision making process should be based on the economic value-added and profitability of each branch, using the world market prices as a basis for valuation.

It should be also necessary for Romania to design a well-articulated system based on viable incentives for exporters: the extension of "draw-back" system; adequate mechanism for export financing, insurance and guarantees for export credits, in accordance with international rules; reduction in the profit tax due for exported goods and services; improvement of information at microeconomic level concerning the international conjuncture, the trade facilities, the usual prices on different markets.

The integration of Romania into European structures is not, in our opinion, a question of option, but rather a matter of effective implementation. Romania belongs to Europe, and, as a consequence, Europe should integrate Romania. The main issue is to restore the history

which abusively separated Romania from market developed economies. This restoring has to be done taking into account the bi and multilateral advantages, both for Romania and Europe.

This is not a question of fight between the two Parties in taking advantages of this integration. The real problem is to bring the weaker partner to the level of the stronger. Of course, Romania is the weaker partner. So, the EU has to have the commitment to help Romania easily integrate, in the benefit of a more powerful European continent. If Romania remains a less developed country, that will also mean a weak point for Europe.

According to its current level of development, Romania is liable rather to cooperate with other European countries, i.e. the ex-CMEA countries. One might point out that Romania's path toward Europe is passing through regional integration.

Free trade agreement with other Central and East-European countries, also associated to the EU (Czech Republic, Slovakia, Poland, Hungary, Bulgaria) are subject to negotiations in order to use the advantages of Europe Agreement.

The economic relationship with the states from the former USSR, mainly with Russia, which represents an important source for energy and raw materials for Romania, shouldn't be neglected.

Anyhow, at least for Romania, the risk of maintaining a production structure inappropriate to the future integration into the EU, starting from easily marketable products on Eastern market, has to be minimized. Otherwise, in the case when Romanian exporters are satisfied with the finding of markets for immediate purposes, only for survival reasons, without making efforts to improve the quality of their products, the horizon of European integration is moving away.

Taking into account the wide opening of the national economy toward not only Europe but the whole world, an essential issue is related to the trade with USA. Before 1989 the general level of trade between Romania and USA registered, yearly, almost US\$ 1 billion. The abolition of MFN treatment and the anti-dumping procedures opened against Romanian exports determined the fall of exports in 1990 to only 10 percent as compared with 1989, and, practically, the loose of one of the most important markets in the world. It is obvious that Romanian exporters have to make big efforts for regaining their position on USA market⁵.

As regards the future external trade relations of Romania, another important issue is concerning the multilateral trading system. Both Romania and the EU countries are GATT members and they are likely to

⁵ See *Bulletin* no. 21, National Commission for Prognosis, Bucharest, 1994.

be members of the World Trade Organisation (WTO) which will be created in 1995. Concerning the quality of contracting parties to GATT, as well as that of future members of the WTO, both Romania and the EU countries have national schedules of commitments regarding the custom duties level.

Although it is too early to appreciate the impact of the creation of World Trade Organisation, in our opinion, the new agreements of Uruguay Round, signed also by Romania in Marrakech, on April 15, 1994, undoubtedly opens new opportunities for a larger participation of Romanian economy in the international division of labour, on the real basis of optimal combination of its production factors⁶.

The Romania's integration into the EU rises two more questions. In the case of more protected items, the import custom duties will be reduced up to the EU levels, resulting in a more exposed position of Romanian products to the foreign competition. In the case of less protected items, the import tariff duties will be raised up to the EU levels, which can produce requests from other contracting parties to GATT or from the future WTO members for equivalent compensation. This compensation is directly connected with the losses registered as compared with previous exports of such products in Romania.

Certainly, there are more other issues and unknowns concerning the future integration of Romania into the EU. The most important fact for Romania is that this process has been initiated and it will be achieved, sooner or later. The costs and benefits of this integration cannot be judged only in economic terms. An eventual deficit from the economic viewpoint could be however minimized, taking into consideration the concrete situation of Romania.

6. Conclusions and final remarks

The biggest share of Romanian foreign trade relations is oriented toward Europe and primarily toward the EU. The European Agreement represents an international framework which can contribute to the economic and social progress of Romania.

In order to overcome the transition difficulties, besides its own efforts, Romania had to benefit of more help, including the increasing access of its products to the EU markets.

⁶ See Zaman Gheorghe, *Elemente ale noului sistem al comerțului mondial - Runda Uruguay* (Elements of the New World Trade System - Uruguay Round), "Tribuna Economica", no. 19; 20; 22, May, 1994.

Although it is rather early to estimate the overall effects of trade liberalization between Romania and the EU, we have to accept a general remark, in the sense that free trade is preferable.

Despite the asymmetry in the tariff concessions to Romania's advantage, according to the big trade deficits registered, at least for the time being, these effects seem to be more or less negative. Even in the circumstances of the economic recovery, as far as the main Romanian export products are in the sensitive area, renegotiations of the access of these products on the EU market have to be considered.

As regards the integration perspectives, it is for the first time that the question of integration between countries with a significantly different level of development arose. This new challenge requires theoretical and practical solutions which would make possible such an integration, diminishing economic and technological gaps and avoiding, at the same time, the possible situation of hinterland for the relatively less developed countries under the new circumstances.

Ad infinitum accumulation of trade deficits, as it has been until now, the case not only for Romania but also for other Central and Eastern European Associated countries, is conducive to a huge external debt on long term.

In the case of Romania, the relatively reduced size of the current external debt (about US\$ 6 billion at mid-1994) has, at least, a double representation. On the one hand, this amount of foreign debt might be an advantage, in the sense that further credits for restructuring the national economy could be still secured. On the other hand, it is preferable to increase the external debt at a slower pace and to encourage a partial inflow of foreign direct investments, with a more beneficial effect on the domestic business environment, production of goods and services⁷.

Obviously, the integration into European and world structures constitutes a speed up incentive of the economic and social reform in Romania, and also of the transition toward the market economy. In our opinion this integration tends to represent an economic growth factor, with favourable results for all participants of the integration, according to the principles of the game theory with a positive sum.

The integration of Romania into the EU should strengthen Romania's economic relations also with the most developed countries, especially with the United States and Japan. Thus, the trade flows with these countries will encourage the connecting of Romania to the most advanced products and technologies.

⁷ See Zaman Gheorghe, *Datoria externa - obsesia de care nu vom scapa?* (The Foreign Debt - The obsession we'll never get rid off ?), "Capital", no. 23, June, 1993, p. 11.

The integration into EU is, in fact, a part of the wide processes of globalization and internationalization, which combine the development through international transfer of technologies and foreign trade. In this context the essential role of multinational corporations for the endogenization of technical progress in the neo-classical model of economic growth is worth to be mentioned⁸.

Romania is committed to the continuation of the reforms program of its economy. The success of reforms clearly depends on Romania's ability to adapt to the fast changes in the world economy. Structural adjustments toward the market economy should entail, at the same time, changes to meet the requirements of the association to the EU and of further integration. To this end, the free access to the Western markets and also to the performant technologies of the developed countries could represent basic prerequisites of a successful integration.

⁸ See Zaman Gheorghe, *Teorii ale cresterii economice endogene* (Theories of endogenous economic growth) mimeo, Institute of National Economy, Bucharest, 1994, p. 30.