The future of an extended European Union
A strategic perspective on Romania's integration

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Introduction

According to most business and political analysts in the European Union, it is now generally agreed that the most acute contemporary problems for EU economies are the negative impact of globalisation on the European employment rates, population ageing and socio-economic disruptions caused by technological changes.

In this context, the Lisbon Agenda of 2000 (transformed into the Lisbon Strategy in 2005) represents a concerted political effort, at the level of the European Council, to address these issues. In direct response, the Strategy's objectives focus on increasing labour mobility and flexibility, increasing entrepreneurship and accelerating the pace of technological transfers – all with the purpose of boosting the competitiveness of European economies.

1. The Lisbon Strategy: background and characteristics

The Lisbon Strategy (first launched as the Lisbon Agenda in March 2000) represents the EU's current development plan, as set out by the European Council. The Agenda undertook a significant review in 2005, which provided more specific elements for implementation. The Strategy of 2005 left behind the earlier social and environmental priorities in favour of the economic priorities, which received full attention, under pressing reports of low productivity and stagnation of economic growth throughout the European market. Irrespective of the level of economic reform aimed at by the Strategy, however, its key element remains the so-called 'European social model', which aims at preserving traditional approaches to social cohesion and protection.

In contrast with the previous Agenda, the Strategy moves beyond outlining a framework for the coordination of national measures at European level, and identifies more clearly who is responsible for what in the implementation of structural reforms.

In the reform processes, it has been observed that the real problem of the labour market is not so much due to increasing unemployment caused by globalisation, but rather to the inability of organisations (profit-making companies in particular) to adjust jobs and productive activities quickly enough to the changes induced by globalisation. Hence, the Strategy is preoccupied with increasing the workforce participation rate percentage of work occupation, to ensure the sustainability of public finance and public pension systems. The Strategy's dilemma lies in that any structural changes on the labour market must also be supported by sustainable economic growth, an objective which itself remains to be attained.

Connected with the above issues are the EU policy changes regarding research and development, as well as the socio-economic environment of SMEs. Firstly, under pressure from global economic competition, European countries have had to review their approach to innovation and realise the need to introduce research results into competitive production as soon as practically possible. Secondly, in order to promote SMEs as a strong basis for European economic development, it has been necessary to clarify all the major problems facing SMEs in the traditional European economic environment. This has prompted a review of the financial market regulations (Basel II), the state assistance systems, the research and development programs dedicated to SMEs, intellectual property regimes, etc. In sum, it has led to a preoccupation for the improvement of business regulation overall.

The general success of the Lisbon Strategy may depend on flexibility by all EU member countries in accepting common solutions, combined with flexibility in the implementation of these common solutions at national level.

2. Romania's accession to the EU: the agreed framework

Romania's accession to the EU (from 1 January 2007) is an event that articulates with the Lisbon Strategy in its objectives of stabilising labour demands within the EU and producing an increased competitiveness of European products on the international market.

Although the accession has formally taken place, Romania's integration into the EU institutional, social and economic structures is far from complete. The ***Treaty of Accession*** (Brussels, 31 March 2005) stipulates major changes that must be undertaken and finalised by Romania within the next 10 years, in the following areas:

a. the country's constitution and legislation
b. the structure of public institutions and agencies
c. the regulatory environment for the enforcement of legislation
d. customs union
e. taxation
f. the commercial law provisions (including laws of industrial property)
g. the agricultural sector
h. veterinary and hygiene legislation
i. rural development
j. transport policy
k. competition policy.

Included in the requirements for EU integration are also a set of transitional measures to apply in the first accession stage. These measures aim to ensure a smoother transition from the current state of affairs to: the free circulation of people (including workforce), services and capital; fiscal support and steel industry restructuring (as part of the competition policy); agricultural reform (legislation, in particular); transport policy; taxation; energy; and the environment (especially related to reaching European standards in air quality, waste management, water quality, industrial pollution and risk management).

3. Romania's integration: challenges and objectives

In order to attain the objectives of the Lisbon Strategy, Romania's short and medium term challenges can be categorised under eight headings:

1. structural reform for economic consolidation;
2. job creation and the maintenance of the public pensions system;
3. massive introduction of new technology (emphasised over creation of new technology);
4. rapid increase in productivity;
5. better regulation of the business environment, to stimulate entrepreneurship;
6. reduction of inflation and deficits balance;
7. environmental problems; and
8. the large agricultural component of the country's GDP.

Having regard for Romania's current situation, the Romanian Government (in particular, the Ministry for European Integration and the Ministry of Finance) have outlined Romania's short and medium term objectives as: (a) economic stability and public finance sustainability; (b) improvement of economic competitiveness and productivity; and (c) functional improvement of the labour market.

In this context, the main means for the development of the country's infrastructure are tipped to be: firstly, the development of human resources, and secondly, the development of the material infrastructure. For this purpose, the Romanian Ministry for European Integration (MEI) has developed 14 key priorities grouped under the three objectives outlined above.

Regarding economic stability and public finance sustainability, the MEI has established four key priorities, namely macro-economic stability (which involves price stability and financial stability), public finance sustainability (including taxation policy reform and income administration, public expenditure reform and public deficit management), social security and health systems reform (increasing the sustainability of the public pensions system, restructuring the social security and pensions systems and restructuring the health system), and increasing the quality of public services and public administration effectiveness and efficiency.

Regarding the improvement of economic competitiveness and productivity, there are seven key priorities, as follows: knowledge and innovation (developing human resources in research-development-innovation, promotion of knowledge, promotion of innovation, promotion of R&D clustering, protection of intellectual property rights), promotion of entrepreneurship (increasing clarity and predictability in the business environment, improving access to finance, improving the industrial basis of competitiveness, developing support services, developing business education and training), development information and communication technology (increasing access to ITs and CTs, developing ICT infrastructures, developing transport networks), improvement of internal market functionings (increasing regulation quality, strengthening competition and public support policies, continuing market liberalisation), sustainable management of renewable and non-renewable resources (efficient use of resources, climate change management, promotion of eco-technologies), and the achievement of an adequate balance in the energy industry (developing new energy systems, reaching energy efficiency).

Finally, the objective of labour market improvements contains three key priorities. These are: increasing the workforce participation rate quality of workforce occupation through complementary flexibility and security in the labour market (e.g. reducing employment barriers, flexibility in collective dismissal procedures, combined with developing pre-dismissal services, introducing personalised social security services, reducing personal income tax on wages); improving access on the labour market (labour market entry and re-entry facilitation, extension of life in the workforce, reduction of unemployment and social inclusion); labour market competitiveness (lifelong professional education and training, improvement of workforce mobility).

4. The integration process: strategic perspectives

Our discussion is based on the premise that the EU (as the future centre of governance) has already reached the threshold of a *complex organisation*, where an increased number of independent variables interact in interdependent and unpredictable ways (Sanders and McCabe, 2003).

On this basis, we are dealing with two key uncertainties: (1) international cooperation (*to what extent are states willing and able to cooperate within international organisations such as the WTO or the EU?);* and (2) national institutions (*to what extent will the mix of public and private responsibilities change?).*

The combination of the two uncertainties leads to the outlining of four different scenarios (in terms of international cooperation v national sovereignty, and public v private responsibilities), as follows:

Integration ↑	Cooperation and a strong Europe	Global economy
Fragmentation	Regional communities	Trans-Atlantic market

Internal reform → Global orientation

1. Cooperation and a strong Europe: the EU decision making process is reformed; EU expansion is a success, and integration continues (geographically, economically and politically); Europe is the driver of international cooperation in trade, but also in climate change and poverty reduction; the European countries maintain social cohesion through public institutions; governments introduce selective reforms regarding the labour market, social security and the public sector; these policies lead to a stable and progressive economy.

2. Regional communities: the EU does not adequately withstand its expansion to the East and does not succeed in reforming its institutions; as an alternative, a group of wealthy European separate themselves from the Union; at a more general level, the world is fragmented into commercial blocks and international cooperation is weak; national governments fail to modernise into structures required by high living standards; a strong lobby of special interests blocks reforms in various domains; combined with an expansive public sector, this becomes a serious obstacle to the development of European economies.

3. Trans-Atlantic market: the member countries do not wish to renounce their sovereignty; the decisional process reforms come to a halt; in exchange, the EU turns its attention to the US; the two come to an agreement regarding Trans-Atlantic economic integration; in accordance with the social preferences for individual freedom and diversity, the European countries limit the role of the state and increase their reliance on the market; new markets (such as education and social security) function in the absence of transparency and competition; old generations dominate the political markets and oppose comprehensive pension system reforms in continental Europe.

4. Global economy: economic integration extends and becomes global; the new WTO round is successful, and European integration intensifies; so does the climate change issue; national institutions rely increasingly on private initiative and market solutions. European governments focus on their key attributes, such as the provision of purely public goods and the protection of intellectual

property rights; they engage less in income and public insurance redistribution; income inequality increases but moderately. (DeMooij and Tang, 2003)

In this context, Cojanu, Bîrsan, Mureşan and Aristide (2006) suggest that a strategic policy agenda for Romania for the next 10 years should include the following 11 elements (classified under the headings of, competitive development, and security and defence):

Interest representation

Element 1: Romania should prepare to regard the European Union as a composite block of policies subject to particular sources of influence (rather than as a monolithic integration unit).

Element 2: Romania's future place in Europe should be clarified, in terms of its adopted model of political government, and the balance between private and public priorities in the extended European space.

Element 3: Romania should take advantage of the trust she enjoys from several EU member states and increase this platform of trust among the more reluctant member states.

Competitive development and economic policies

Element 4: Romania should develop and modernise its infrastructure to favour investment and thus boost the international competitiveness of its economy.

Element 5: An economic cluster map should be elaborated, and the formation of economic clusters should be encouraged, based on the measurement and analysis of Romania's economic activity (using a system of indicators for Romania's internal regional economic profiles and specialisations).

Element 6: Romania should institutionalise better practices in taxation policy development.

Element 7: Romania should continue its anti-inflation policy through the Romanian Central Bank of Romania.

Element 8: Romania should prepare to enter the 'euro' space without using alternative monetary instruments (eg transitional currency) to avoid 'economic shock'; in compensation, Romania should try to absorb such shocks through improvements in export volumes.

Security and defence

Element 9: Romania should maintain a complementary relationship with the NATO and the EU.

Element 10: Romania should integrate proactively in the Black Sea Region (a key area for European security) and promote a 'new EU neighbourhood' policy, to ensure the EU's energy security and advance the agenda of Moldova and the Ukraine's future integration in the EU.

Element 11: Romania should create a national and international structure for crisis management, risk analysis and strategic action.

However, the strategy outlined above does not align with the perspective adopted by the current Romanian Government. In accordance with Government policy, the MEI remarks that Romania has to adjust rapidly to a profoundly transformed European environment, in which interdependencies among the EU member states have progressively increased and are likely to continue to do so.

It is also noted that Romania will be, at least for a while, an EU state with a GDP far below the European average, which emphasises the need to use both EU and internal resources effectively and efficiently, and to actively stimulate indigenous and foreign investment.

Hence, Romania has to maintain for as long as possible a rapid, balanced and sustained economic growth, strong and efficient institutions, a coherent legislative system and a predictable fiscal system. At the same time, Romania is under a strong obligation to meet the requirements stipulated in the ***Treaty* of Accession** and contribute visibly to the attainment of EU objectives as contained in the Lisbon Strategy. This involves: modernising physical infrastructures; adjusting the educational system to meet European requirements; reviving research and innovation; focusing on integrating economic theory and practice by fostering partnerships between industry, universities and research institutes; basic restructuring of agriculture and boosting rural development; and consolidating administrative capacity to implement the EU legislation.

According to the strategy proposed by MEI, Romania has to channel its resources towards sustainable development, environmental protection, increasing labour market mobility and ensuring the conditions for the development of an optimal competitive environment.

5. New trends in the development of the EU

Post Lisbon Strategy, but still within its horizon, the issues confronting the EU remain those of global competitiveness, economic growth and labour market reform. The most recent EU trends are no doubt affected by its gradual extension towards the East.

Although an increasing number of European analysts welcome the accession of Eastern countries into the EU as a measure likely to resolve some of old Europe's most chronic development issues, there is also the sceptic camp (led by British analysts in particular) who regard extension and integration as a challenge of unprecedented dimensions to the future of the EU.

Sceptical voices can be heard in Eastern countries as well. Studies undertaken by the European Institute in Romania (*Institutul European din România - IER*) indicate that an increase in the number of EU member states is likely to put certain pressures on the existing relationships among EU institutions and on their current decision making processes. As the whole of the EU (and not only the newly accepted countries) is undertaking significant institutional reforms, the deep seated issue of a perceived democratic deficit that has troubled the EU in its recent past is likely to become even more prominent. It has often been said about EU decision making processes that they are insufficiently close to citizens, and sometimes fail to reflect local and sectoral interests. In response to this, in the recent past there has been insufficient participation and interest in EU processes on the part of civil society and the private sector.

As the good integrated governance of European society as a whole is at stake, it is important that strategies for the integration of new countries into the EU be developed together with a well-considered reform of EU decision-making processes at the highest level, so that democratic principles (including the principle of subsidiarity) prevail. In this context, it becomes clear that the dilemma for EU leadership consists of the need to maintain a strong central EU authority in issuing Directives and setting standards, in conditions of increasing pressures for functional decentralisation.

6. Romania's accession revisited: impact on eu structures and processes

According to the World Bank's *Country Assistance Evaluation* for Romania (Report no 32452 of 25 May, 2005), the country has undergone visible progress in sustainable private sector growth in the period 2000-2004 (as opposed to 1991-1999).

This progress has been significant especially with respect to macro stability, substantial growth, and accelerated privatisation (including the privatisation of banks). A remarkable improvement is also of the agricultural sector which has changed from decline to stagnation.

In respect of poverty reduction and human development, rates of improvement have not been anywhere near as spectacular as in the economic realm. Although it can be said that poverty has declined, the quality of education has improved, and the social protection institutions have been strengthened (with some new such institutions being created), the results are still modest. Symptomatically, the health sector financing reform has been limited, and the social and cultural disparities between urban and rural areas remain large.

As far as governance and institution building are concerned, results are also only moderately satisfactory. Whilst institutional development has recorded significant progress, governance indicators are still weak compared to other EU countries (World_Bank_Institute, 2006).

In relation to the Lisbon Strategy objectives and targets, it is well known that there are significant performance discrepancies among countries, with the Scandinavian countries recorded as the highest performers and the new member states lagging far behind in most indicators.

According to the World Economic Forum (Lisbon Review, 2004), out of the 27 countries submitted to the ratings, Romania scores 24th with respect to social inclusion, 25th in information society development and small enterprise development, 26th in financial services and sustainable development, and 27th in innovation and research, liberalisation and industrial networks. However, more recent data (post-accession, to be collected by 2008) may indicate significant improvements, as preliminary research by the European Institute in Romania suggests.

Using a different methodology, the European Reform Centre in London (Lisbon Scorecard V, 2005) identifies Romania as having met only one Lisbon Strategy target (out of a total of 17 quantifiable targets) by 2005. It should be noted here, however, that the same report concluded that in 2005 most EU-27 countries were able to meet only less than one third of the targets commonly agreed upon for 2010.

Based on structural indicator methodology, EU reports identify 14 key indicators, such as: per capita GDP, labour productivity per employee, employment rate, older population employment rate, youth participation in education, total R&D expenditure (% of GDP), price comparative level, private investment, high poverty risk population rate (after social transfers), long term unemployment rate, regional distribution of employment rate, gas emissions, energy intensity of the economy, and goods transport volume. With respect to these indicators, EU reports (Eurostat Structural Indicators, Spring 2005; GEA, 2005) conclude that, overall, in the period prior to 2003, Romania's performance was still five times weaker than the EU average, and a slower pace of development. Interestingly, this did not change the EU leadership's pro-accession policy towards Romania, and its accession schedule has been carried out according to plan.

Was the EU right to invest this level of trust in Romania? According to the IER's most recent analyses, the answer is a strong affirmative. These analyses show that Romania finished 2004 and continued in 2005 with much better macro-economic performance than most analysts and political decision-makers had previously expected. The IER Report 2007 draws the following conclusions:

1. Romania's accession to the EU has not produced any major dysfunction of the EU economy or of its structures;

2. plans to bring Romania into ERM II (the 'euro' zone) should lead to economic macro-stability, the strengthening of fiscal discipline and an increased control of inflation, provided that the country's general price levels rise at an appropriate pace;

3. Romania's labour market has not changed significantly, and its mobility towards EU countries has been relatively stable, which indicates a certain inertia to significant micro-economic indicators, such as the growing discrepancy between labour income and price levels within the country;

4. While Romania's trade with the EU has increased, it has occurred clearly in favour of imports into Romania, which translates into a trade advantage for the EU in the immediate term and a trade deficit (including current account deficit) for Romania;

5. the structural funds transferred by the EU to Romania have allowed a revival of enterprise investment, as well as the modernisation and extension of infrastructure networks; human capital development has also been stimulated by this funding; however, efficiency in the allocation and use of this funding has been uneven – a fact which may have less desirable long term effects;

6. Romania has benefited from the EU policy on state support oriented towards correcting market dysfunctions and distortions, especially in the areas of innovation, knowledge economy and environmental protection;

7. as EU membership does not impose a particular social policy and social protection model, Romania has been left to its own devices in terms of selecting and implementing its own social protection systems; whether this is indeed the best approach is, as yet, unclear;

8. the pre-accession reforms introduced by the Romanian Government have sought to eliminate state monopoly, stimulate an increase in the number of service providers, and decentralise the system's administration; all of this has been implemented on the background of real and nominal growth in social protection expenditure, in both absolute and relative terms (as % of GDP);

9. there is a tendency to focus Romania's social policy towards short term objectives (e.g. unemployment); increasing public funding allocated to education promises greater convergence in the longer term; however, the health sector remains one of the most difficult problems to solve, be it in the short, medium or long term;

10. social transfers that have taken place in Romania in the most recent period seem to indicate that its poverty levels tend to approach the EU average; the total percentage of population subject to poverty risk is now significantly smaller than in the previous period;

11. Romania has been able to proceed to the application of the EU legislation according to the agreed schedule; both EU oversight and Romanian implementation seem to be developing in a satisfactory way so far.

Conclusion

The EU is currently undergoing a process of redefining its identity and internal cohesion, in the context of an acute necessity to assert itself as a competitive and dynamic player in a continuously globalising world, and of its own absorption of 12 neighbouring states in less than 5 years.

The EU is also in the process of reconnecting its central political authority with the citizens of all its member states, to regain their trust and support for its political projects of this millennium. Furthermore, it is seeking credible and effective answers to the imperative of strengthening its international role, in partnership with the US and East Asia.

What has the EU gained and lost by extending to include another 12 European states and integrate them into its system?

In terms of gains, it can be concluded that it has increased its economic, social, cultural and political power in absolute terms, as it has become, more clearly, one of the world's first merchants. Moreover, it is building homogeneous infrastructure and supra-structure networks throughout the continent (this includes finance and banking, communication-information networks, and transport).

Arguably, the EU has had qualified losses in average efficiency, productivity and macro-economic stability, in the short term. It has also lost some of its workforce mobility and flexibility, already relatively low in comparison with other strong economies in the world.

However, most studies seem to converge towards a positive general outlook, even in the short term: increasing numbers of new jobs in the new member states over the next few years; a nominal and real convergence pace superior to all previous forecasts; increased fiscal and budget control discipline; unified currency (with real chances to become main world currency within the next 10 years); an increased pace of legislative reform (more rapid than before EU's extension); a better social protection climate; and increased mobility of the individual citizens within the integrated European space.

While the general perspective on the chances of sustainable growth in the common European social, cultural, political and economic system is optimistic, the success of EU extension and integration depends, in great measure, on the structural and functional (operational) flexibility of EU institutions and the adjustment capacity of new member countries.

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