

## **PROBLEMS CAUSED BY THE INTEGRATION OF ROMANIAN ECONOMY IN THE EUROPEAN UNION**

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**ABSTRACT:** *At almost two years from aderation, the Romanian Economy continues to place in the top the economic growth, instead of competitiveness, productivity and performance. The ability to be competitive, at an economical, but also share level, depends on the public polices that are applied, which can ease or break the economical environment. Romania, at the end of 2008, can be described as a combination of good and bad, and for example: economic growth, but not performance in research; relatively cheap labour, but a start of qualified labour workers crises as well; a pretty acceptable fiscal environment, but birocracy and greed are still present; primarely gathering of capital, in a word: rich people but also corrupted and poor people. This scientific work would like to briefly present some of the problems that the main integration process of Romanian Economy in European Union encounters, by trying to suggest possible paths to follow for a durable development of Romania in European and also worldwide context.*

**KEY WORDS:** *European Economic integration, competitiveness, economic growth, productivity, performance, durable development*

### **1. THE POSITION OF THE ROMANIAN ECONOMY IN THE EUROPEAN UNION**

Romania holds a share of total U.E. 4.4% in terms of population, holding the 7<sup>th</sup> place in the EU with a population of 21.6 million inhabitants on 1 January 2007 (Table 1.). As in other EU Member States, Romania has encountered a decrease in fertility, with important consequences upon the aging of the population, which creates problems regarding social policies, particularly for the labour market, but as well in the health system and education.

According to Human Development Report, Romania finds itself on the place 78 in the world, of all the 177 countries considered, life expectancy at birth being

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extremely low, in 2006, only 72 years total, namely 68, 5 years for males and 75.8 years for women.

**Table 1. Population, density and territory in EU 27, EU 25 and Romania, as well as other EU member countries, in 2006**

Countries	Population (mill. inhabitants)	Area (thousand km <sup>2</sup> )	Population density (inhabitants./km <sup>2</sup> )
U.E. 27	492,9	4576	107,7
U.E. 25	463,5	4228	109,6
Romania	21,6	238	90,6
Bulgaria	7,7	110	70,2
Czech Republic	10,3	79	130,0
France	62,9	552	114,0
Germany	82,4	357	230,9
Greece	11,1	132	84,3
Italy	58,8	301	195,0
Holland	16,3	42	393,3
Poland	38,2	313	122,0
UK	60,4	243	248,6
Slovakia	5,4	49	109,9
Spain	43,8	506	86,5
Sweden	9,0	450	20,1
Hungary	10,1	93	108,3

Source: Eurostat

However Romania, according to Human Development Report for 2007, advanced from position 98 in 1995 to position 60 in 2006. This is due to consecutive rhythms of increased growth (7.7% in 2006), which exceeded that of many developed countries (Table 2). Romania's overcoming of the EU growth rate is a basic condition for reducing the gap that separated the level of GDP per capita of the other EU member states.

## **2. COMPETITIVENESS, PRODUCTIVITY AND PERFORMANCE OF THE ROMANIAN ECONOMY**

Although Romania has registered economic growth rates of 6-8% annually, the lack of competitiveness of the Romanian economy is a concern. A *competitive economy* is characterized by high productivity and a high efficiency in using resources. At the population level, this is manifested through income and a higher standard of living and a higher quality of life, practically by welfare.

The European Union, through the General Directorate for Enterprise and Industry, publishes every year the EU's report of competitiveness<sup>1</sup>, with concrete proposals for future steps (Table 3.). Thus, the report of November 2007 proposes

<sup>1</sup> [http://ec.europa.eu/enterprise/enterprise\\_policy/competitiveness/1\\_eucompetrep/eu\\_compet\\_reports.htm](http://ec.europa.eu/enterprise/enterprise_policy/competitiveness/1_eucompetrep/eu_compet_reports.htm)

quantifiable arguments regarding the role of horizontal policies to increase economic competitiveness.

**Table 2. Growth rate, level per inhabitant and GDP share in Romania, compared to some EU member countries**

Countries	GDP growth rate 2005/2004(%)	GDP growth rate 2006/2005(%)	GDP share / inhabitant, 2006 (U.E. 25=100)	GDP per inhabitant in year 2006 (PPS)
U.E. 27	1,8	3,0	95,1	23400
Romania	4,1	7,7	35,9	8800
Bulgaria	6,2	6,1	35,3	8700
Czech Republic	6,5	6,1	75,6	18600
France	1,7	2,0	107,5	26500
Germany	0,9	2,8	107,7	26500
Greece	3,7	4,3	84,2	20800
Italy	0,1	1,9	98,8	24300
Holland	1,5	3,0	124,4	30600
Poloand	3,6	6,1	50,4	12400
UK	1,8	2,8	113,2	27900
Slovakia	6,0	8,3	59,7	14700
Spain	3,5	3,9	97,1	23900
Hungary	4,1	3,9	62,2	15300

Source: Eurostat

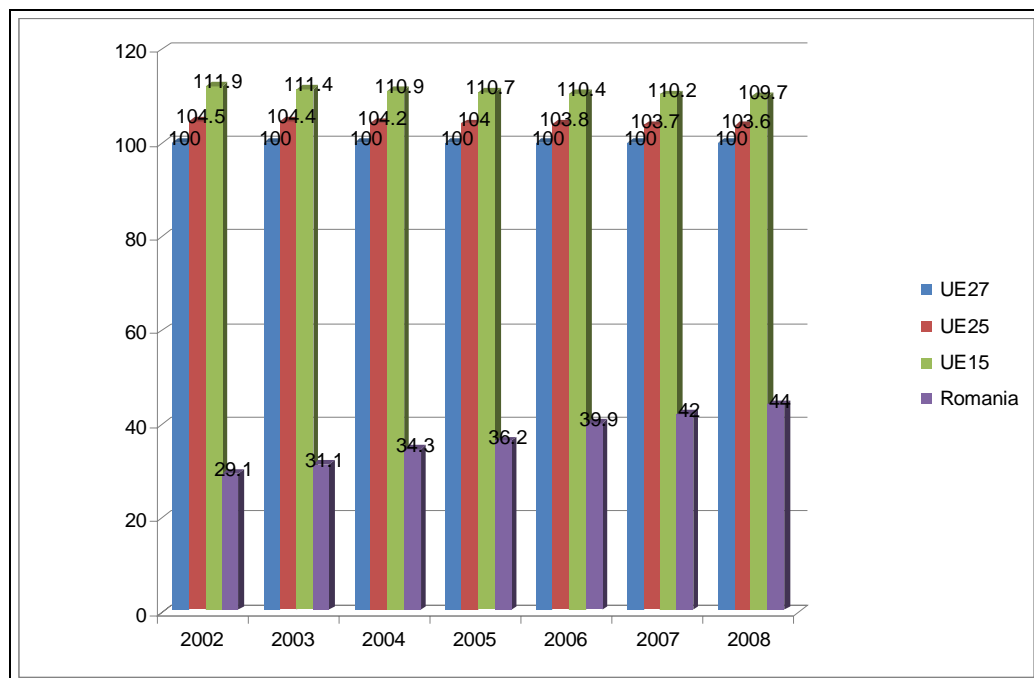
**Table 3. Macroeconomic effects of horizontal policies in EU 27**

Indicators	Qualification of the work force	Research - development	Administrative burden	Internal market	Energetic efficiency	Total
Structural effects of horizontal policies (%)						
GDP	0,5	3,0	1,5	1,7	0,9	7,7
Consuming	0,5	1,6	1,4	5,5	0,9	9,8
Export	0,5	4,8	1,4	40,6	1,8	49,0

In Romania there are a number of plans and structural programs, but they can not replace the national strategy of competitiveness in the long term. There is a need to create a public body specialized in issues of competitiveness, a "think-tank" government that is based on a public-private partnership to develop a database for evaluating and monitoring competitiveness, as well as reports on case studies and other comparison analysis<sup>2</sup>.

<sup>2</sup> More and more has been debated the need to constitute a Romanian National Council of Competitiveness (CNRC), whose purpose would be to "develop skills that can answer questions in strategic explicit forms and to assist those who make decisions assessing well established solutions", as stated the researcher at IEN and adviser to the European Parliament, Mrs. Andreea Vass, in the "Competitiveness-concern", published in the number 32/2008, pages 90-92, the Economic Tribune

A very negative aspect of the Romanian economy is that *productivity* is not even half the average level existing in the EU-27. Romania is placed last but one among the EU states according to the labour productivity per employee, before Bulgaria, while the average number of hours worked is kept at a high level, according to Eurostat Yearbook. According to Eurostat, at the level of the year 2007, labour productivity per employee in Romania was 42% of EU average calculated for the 27 Member States and Bulgaria where the percentage was 35,6%. Labour productivity in Romania has made steady gains in the range 2000-2007 at the beginning of the reference level registering 29,1% of the EU average, according to Eurostat (Figure 1).



Source: Eurostat

**Figure 1. Labour productivity per employee**

The situation on the labour productivity sectors in Romania is presented in figure 2. The lowest level recorded in agriculture, productivity decreasing compared to 1990. The industrial sector in general, has maintained the same levels throughout the period after 1989. In 1999 this sector recorded a sudden increase, but then returned to the values in previous years, in 2005 recording a slight increase, while labour productivity in the other two sectors recorded an easy rebound. The services' sector – at the beginning of the period – had low labour productivity, mainly because until 1989 the sector was not so developed. It recorded a substantial increase until 2000, and then decreased gradually from one year to another.

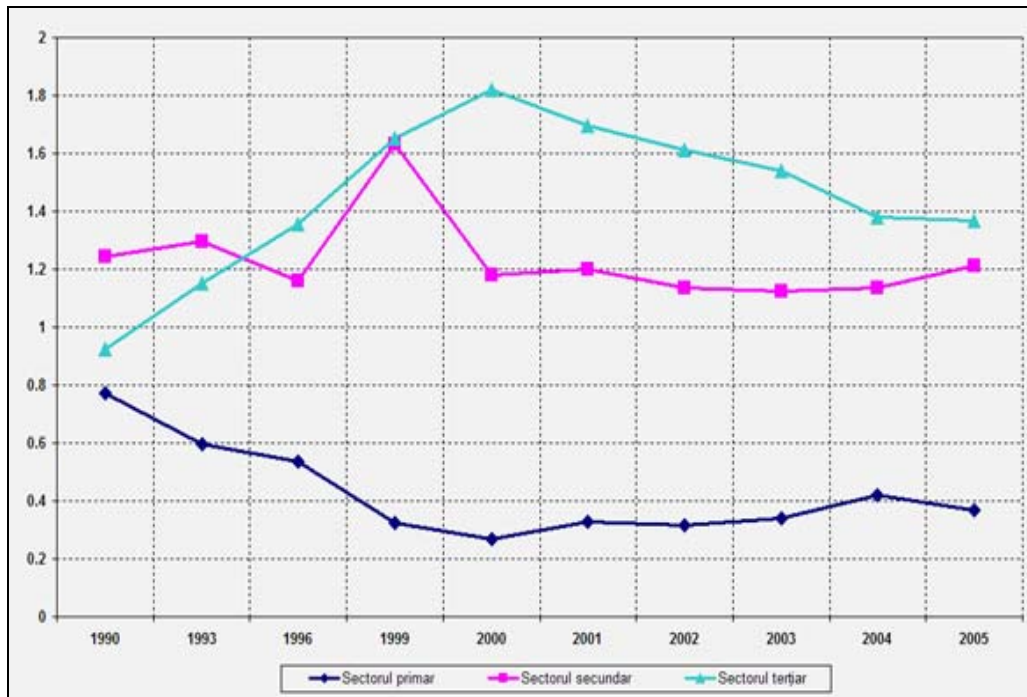


Figure 2. Labour productivity regarding sectors of the national economy

Regarding the dynamics of real wages in Romania (Figure 3) one can notice that at the beginning there was a strong decline until 1993, and then there was an increase until 1996, but this increase was immediately annulled in 1997, year after which we can notice a constant increase; this increase has been considerable in recent years.

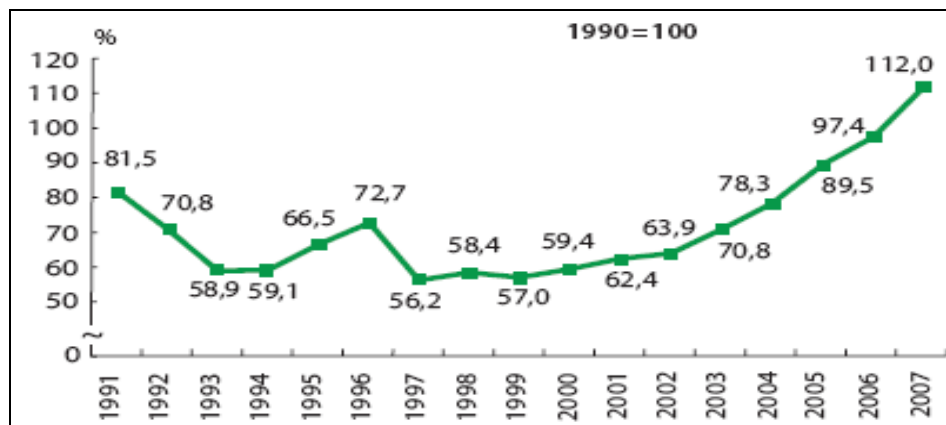
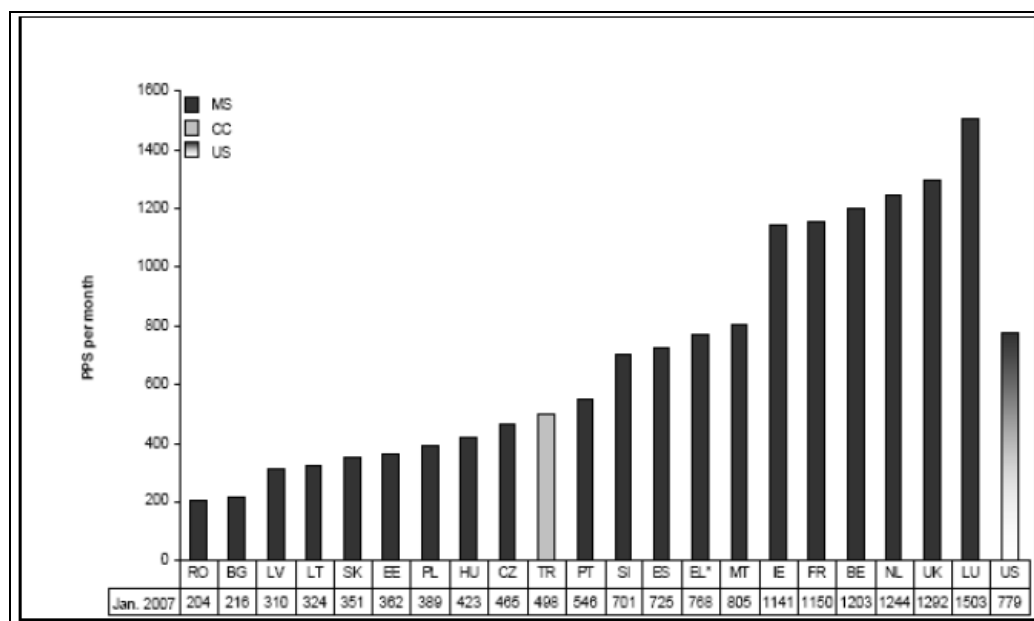


Figure 3. The dynamics of the real income index in Romania

Although wages in recent years have increased, they remained at a low level compared to other European countries. Member States of Central and Eastern Europe, Estonia and the Czech Republic provide the highest levels of minimum wage on the economy, over 5 times and 2 times respectively compared to Romania (668 Euro and 288 Euro). Compared to the highest level of the minimum wage on the economy of the EU-27 (Luxembourg), the minimum salary in Romania is about 13 times smaller.

Expressed in purchasing power parity Standard (PPS), the national minimum wage indicate gaps between smaller member states of the EU-27. Romania recorded the lowest minimum wage in the economy of all countries analyzed, 204 Euro, 7 times less compared to Luxembourg or 6 times lower compared to the UK (Figure 4).

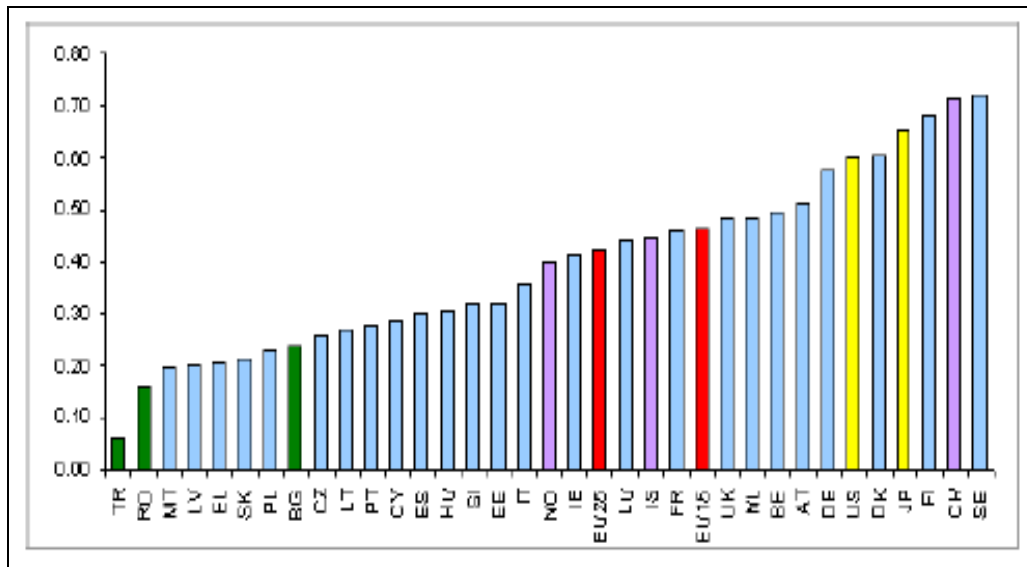


Source: Eurostat, database on minimum wages

**Figure 4. Medium wage per economy in the case of EU 27 member states regarding the purchasing power parity of final consumption expenses for families**

Regarding the *performance*, although Romanians are frequently awarded at exhibitions and workshops of inventions and innovations, showing ability towards original ideas, not the same thing can be said of the application in production of basic research, either because of technological gaps, or because of prohibitive costs which cancel the process' efficiency.

The effectiveness of the national innovation system, a key element of the innovation policy, is the ability of firms to transform innovation inputs into innovation outputs, being calculated as the ratio between the composite index of innovation for input drives and innovation composite index for output sites. According to the Report of the European Innovation Scoreboard 2005, the scientific research in Romania is placed last but one among European countries, having a performance superior only to Turkey (Figure 5).



Source: Annual Innovation Policy Trend and Appraisal Report, Romania, 2006, p. 82 <http://trendchart.cordis.lu/> consulted on 29 May 2007

**Figure 5. Values of innovation index for the year 2005**

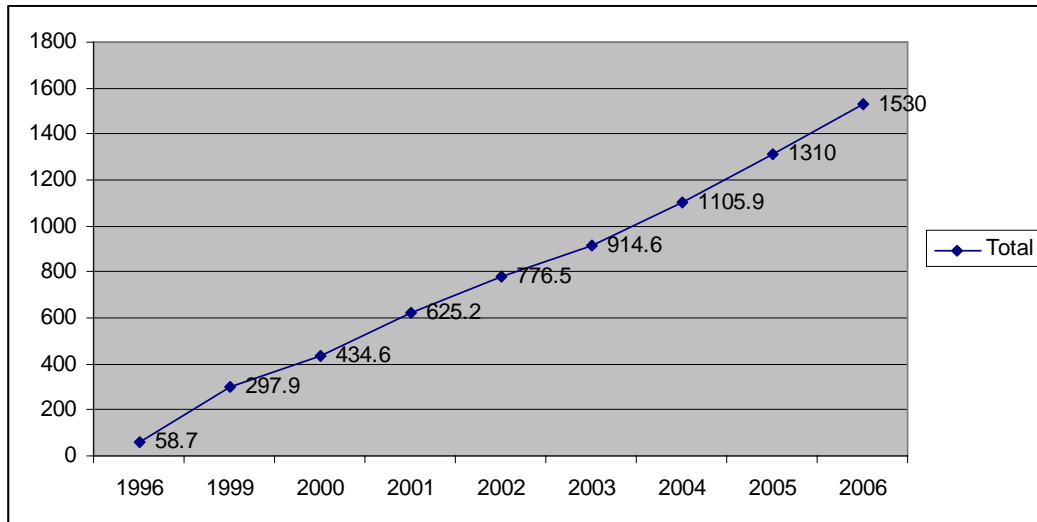
Innovation and knowledge are important and determinant factors of growing micro and macroeconomic competitiveness at the level of present regional economics, and is based more and more on producing added-value, which would be non-material. While conducting a study made by West ADR along with a team composed from 16 experts, the fact that the west region companies systematically create innovative activity (either on the product, process or organization), was made clear. Taking into consideration the fact that the research factor-development is not considered the most important competitive advantage from none of the companies, having (in the wide majority of cases) a medium importance, so, as a result, the innovative activities are developed rather when &quot; the market&quot; requests, and can not be only small-sized, compared with the sum of all companies' assets.

### 3. CONCLUSIONS AND PROPOSALS

We can notice that, in fact, the economic growth in Romania is based mainly on low cost labour and exports with low added value, and a low level of infrastructure and mechanisms of innovation, which are in an early stage of development having no significant contribution to the economic growth. These problems resulted in the mobility of the workforce searching for higher wages and creating imbalances on the labour market. Romania must bear such a cost in the long term with a view to rebalancing the labour market, boosting birth rates, investment in education, etc.

Figure 6 shows a significant and sustained increase in the average cost of labour from one year to another over the entire period from 1996 to the present, especially in the period 2000-2006, when it showed the strong economic growth. This

situation is all the more difficult as labour productivity has remained at relatively low levels.



**Figure 6. The development regarding the monthly medium cost of the work force in Romania**

Education and the investment in education should be considered key components to ensure human development in the long term. As Robert Schuman stated on 9 May 1950, "Europe is neither built at once, nor is it built as a construction of a whole: it will be done through concrete achievements"! Romania has the chance of a new beginning. Its welfare would depend on the way it will manage to resolve internal problems, following the catch-phrase: "Think globally and act locally!"

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