Painful Integration or Not So Splendid Isolation? Downsides of European Integration in the Context of Romania's Double Transformation

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"All is for the best in the best of all possible worlds"
Dr. Pangloss

"Everyone must cultivate their own garden"
Candide

1. Introduction

Six months after the big bang enlargement in May 2004, the member states of the European Union (EU) agreed on a next widening round towards Bulgaria, Romania, Turkey and Croatia. As for the latter two countries, the Brussels European Council concluded that accession negotiations with Croatia could be opened on 17 March 2005 and with Turkey on 3 October 2005, provided that Croatia would fully cooperate with the Yugoslavia Tribunal and Turkey would bring into force a number of specific pieces of legislation that were identified by the European Commission (such as the new Penal Code).[2] Anticipating the successful completion by Bulgaria and Romania of the preparations for accession, the European Council called for the finalization of the Accession Treaty with these two countries.[3] The European Parliament gave its assent on April 13th and the Treaty was signed on April 25th 2005. A safeguard clause makes it possible to delay accession by one year, should progress in a number of specific areas singled out by the Commission be deemed insufficient

In this paper we will look at the special case of Romania which, according to the same European Council conclusions, would be able "to assume all the obligations of membership at the envisaged time of its accession [i.e. January 1st 2007], provided that it continues its efforts to that end and completes in a successful and timely way all necessary reforms and commitments undertaken in all areas of the acquis." It will be argued that the post-communist governments of this country have been faced with a fundamental dilemma, i.e. a choice between two unsatisfactory alternatives. On the one hand, the country's ambition to become full member of the EU on the first of January 2007 forced its successive governments to implement policies that were in line with EU conditionality. A 'functioning free market economy' was among the top priorities in this respect. Though full membership of the EU was (and is) officially presented (and legitimized) as 'the best of all possible worlds', Romania's efforts to meet the so-called Copenhagen criteria – and its economic transformation from command economy to free market economy in general – have not yet resulted in better living conditions for a majority of the Romanian people, to put it mildly. On the other hand, the alternative of staying outside, if considered at all, would not result in better economic and social performance either, but would most likely lead to further decline. Thus,

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[2] Croatia still awaits the opening of negotiations at the time of writing, as it was deemed to have failed to comply with the demands. Turkey is on track at the time of writing. However, the likely failure of the Constitutional Treaty calls smooth progress towards its accession into question.

[3] See Council of the European Union, *Brussels European Council 16/17 December 2004. Presidency Conclusions*, Brussels, 17 December 2004 (16238/04).

while integration may be considered as failing to deliver on the promises of the revolution of '89, the suggestion at the end of Voltaire's Candide that 'everyone must cultivate their own garden' would, if applied to today's Romania, indeed lead the country into a far from splendid isolation.

This article will address individual and social welfare issues in the context of Romania's integration with the European Union, focusing on the downsides of the integration process for the Romanian population. The intention is to contribute to a critical discussion of the enlargement process that takes into account the perspectives of citizens in the acceding states. Romania will serve as our (basket) case in point. It has been far too common to treat the issue of enlargement solely from the perspective of the European Union, and it has also been far too common to uncritically accept the clichés spread by both supporters and critics of the process concerning its likely effects. Moving from free trade agreements to full membership will not make people east and west miraculously richer overnight. Nor will invading hordes of cheap eastern laborers be to blame for the downfall of western welfare states. It is not necessary to maintain such simple untruths, because the real risks and benefits of integration are by now quite evident. It is also evident that official success in the form of progressive movement through the formal stages of integration, culminating in the recent signing of the Accession Treaty, cannot be taken as an indication of genuine improvement of political praxis and social and economic conditions in accession countries. Notwithstanding the strategic nods of approval from EU institutions, Romania remains a problematic case in many respects. Arguably, a more principled stance of the EU vis-à-vis this applicant could have led to more thorough improvement of conditions in this country.

We will begin our treatment by, first, taking a closer look at how the EU has treated applicant states in general and Romania in particular and explain the possible motivations behind the EU's debatable enlargement strategy. We will briefly summarize Romania's formal history of European integration and clarify its current position. Then we will assess the human welfare dimensions and implications of the integration process in more detail, providing an overview of current integration trends and their socio-economic and political costs in the country (sections 3 and 4). In a final, concluding, section we will briefly look at possible alternatives to European integration and explain why they are not feasible for Romania. By this point the enormous responsibility of the EU as the main driving force shaping the Romanian 'double transformation' will have become clear.[4] We will assess the implications of our observations for the future of EU enlargement and for the fates of the new and prospective member states.

2. EU Enlargement Strategy

The Treaty of Maastricht of December 1991 has sometimes been referred to as the last Cold War treaty because of the virtual absence of any reference to the new situation in Central and Eastern Europe after the 1989-revolutions. In fact, the so-called 'extended relaunch' of European integration in the second half of the1980s and early 1990s – i.e. the completion of the Single Market and the move towards Economic and Monetary Union - confirmed the image of the European Union as a basically inward looking actor. The 1996 Intergovernmental Conference can be seen as a turning point in this respect. This IGC, which was concluded during the European Council meeting in Amsterdam in June 1997 (and resulted in the Treaty of

[4] By 'double transformation' we mean the transformation from a command economy to a free market economy, on the one hand, and from authoritarian rule to parliamentary democracy, on the other. See also Otto Holman, "Integrating Peripheral Europe: The Different Roads to 'Security and Stability' in Southern and Central Europe," *Journal of International Relations and Development*, Vol. 7, No. 2, 2004, pp. 208-236.

Amsterdam), was primarily entrusted with the reform of the Union as it stood at the time, even though every issue under debate was in some way or another related to the hidden agenda of the upcoming enlargement to the East. In the following years, subsequent reforms (e.g. the Treaty of Nice and the Constitutional Treaty) were explicitly linked to the 'challenge of enlargement'.

This is not to say that the European Union did not react to the 'window of opportunity' in CEE after the 1989-revolutions. In the course of the 1990s, the member states of the EU unfolded a comprehensive strategy consisting of three elements: the gradual liberalization of interregional trade, a financial assistance program, and preparatory steps to absorb (some of) the CEE-countries as full members. In the following subsections we will deal with each element in turn and pay particular attention to the case of Romania.

Trade: Asymmetrical Interdependence

Until the appointment of Mikhail Gorbachev as Secretary General of the CPSU in March 1985, trade relations between the EC and the countries in CEE were to a large extent determined by the Soviet-dominated Comecon, which *inter alia* implied that the member states of the latter organization could not close bilateral trade agreements with the EC. Developments in the Soviet Union since 1985 and the subsequent changes in CEE not only resulted in the virtual collapse of Comecon but also opened the way for closer bilateral trade relations with Western Europe.[5]

Already in the period 1988-90, trade and co-operation agreements were closed between the EC and the former Comecon-countries. Soon it turned out that these 'first generation' agreements were inadequate and by the end of 1991 so-called 'second generation' agreements - better known as the Europe Agreements - were signed with Poland, Hungary and Czechoslovakia. In February 1993 Romania became the 4th CEE country to strike an Association Agreement with the EU. It was implemented successfully in the interim beginning March 1993 and in final form after February 1995.[6] The Europe agreements aimed at creating a free trade zone for non-agricultural products over a period of ten years. They guaranteed an asymmetric tariff reduction, with the EU-countries lowering their tariffs twice as fast as the CEE-countries.[7] Since the conclusion of the agreements, some of their provisions were changed - and, more specifically, eased - but substantial import restrictions were maintained by the EU for products like steel and textiles. Until the late 1990s, and apart from excluding the sensitive agricultural sector from practically every agreement, the European Union continued to use a wide range of 'strategic trade policy' measures (e.g. anti-dumping or rules of origin) to protect EU-based industry from CEE-competition. In addition, it tried to prevent non-European producers from getting a foothold in CEE. The European Commission's attempt, in 1996, to obstruct a deal of the Polish government with the Korean car manufacturer Daewoo to import 110,000 disassembled cars duty free into Poland was a good example of this ('rules of origin') strategy.[8] One might liken the approach adopted by the European Union to the two faces of Janus, with economic liberalization in the context of the completion of the internal market

[5] See Peter van Ham, *The EC, Eastern Europe and European Unity: Discord, Collaboration and Integration Since 1947* (London: Pinter, 1993).

[6] Romania emerged from the Cold War with more bloodshed and less restructuring of its political elite than its post-communist fellows in Central and Eastern Europe (CEE). It is fair to say that the country was disadvantaged in the transformation process from the very beginning, by decade-long excesses of both economic and political mismanagement that left it with more serious structural economic problems and more pronounced traces of totalitarianism than its neighbors. The country was, however, not behind yet in the early years of the transition when it came to courtship with the European Union.

[7] In the course of the 1990s, these Association Agreements (or Europe Agreements) provided the legal basis for bilateral relations between all CEE countries that strove for accession and the European Union. They covered trade-related issues, political dialogue, legal approximation, and other areas of cooperation, including industry, transport, customs, and the environment. The Europe Agreements also officially recognized the CEES' aspirations to eventually become full members of the EU.

[8] cf. *Financial Times*, July 17th 1996.

going hand in hand with the preservation of mercantilist principles and practices in external relations, even when it came to supporting the process of economic transformation in CEE.[9] Needless to say, these practices were rather inconsistent with the generally acknowledged interest in stability in the region. And on strictly economic grounds these EU-trade restrictions couldn't be defended either. The export of steel, textiles and agricultural products accounted in the early 1990s for 35% of total CEE-exports, but CEE-exports accounted for only 2% of total EU-imports in these sectors. Complete trade liberalization right from the start of the Europe Agreements could have provided an important impulse to the process of economic transformation in CEE without substantially harming EU-producers.[10]

These figures are an early indication of a more general pattern in the trade relations between the EU and CEE. The export orientation of the countries in CEE to the EU has increased enormously since 1989. In the first half of the 1990s, CEE-export dependence on the EU amounted to 60-70% of total exports. The share of EU-exports to CEE as a percentage of total EU-exports (5% over the same period) was just another indication of the asymmetrical character of the unfolding East-West trade relations.[11] From the mid-1990s onwards, export dependence on the EU remained at similar levels. In the case of Romania, for instance, exports to the EU as a percentage of total exports amounted to 67.1% in 2002. And, as in the case of all other applicant countries in CEE (with the sole exception of Slovakia), Romania's external trade balance with the EU was negative (with a deficit of 58.4 million euro in 2002).[12] In short, and despite the principle of asymmetric reciprocity enshrined in the Europe Agreements, all the applicant countries were running huge trade deficits with the EU throughout the 1990s, in the process establishing a relationship of structural asymmetrical interdependence.

At the same time, in the 1990s, exports from the EU to the CEE-countries were rising at an enormous speed, exemplified by a 20.7% increase in 1997 (18.8% in 1996). The bulk of these EU-exports went to a limited number of countries: in 1997, Poland, the Czech Republic and Hungary received 64% of all EU-exports to the region.[13] During the same period of time (notably from the mid-1990s onwards), and paradoxically, EU foreign direct investments in CEE became a source of greater competition to the EU (due to increased imports from production facilities set up or acquired by EU companies). The bulk of these FDI flows went, again, into a limited number of countries. In fact, a clear correlation can be established between the ability of the applicant 'to assume the obligations of membership by satisfying the economic conditions required' and the amount of accumulated FDI flows (see table 1).

Table 1. FDI inward stock, by host economy in Central and Eastern Europe, 1990, 1995, 2000, 2001, 2002 [14]

(Millions of dollars)

Host economy	1990	1995	2000	2001	2002
Bulgaria	112	446	2 716	3 410	3 889

[9] M. Wolf, "Cooperation or Conflict? The European Union in a Liberal Global Economy," *International Affairs*, Vol. 71, No. 2, 1995, pp. 325-337; and A. Mayhew, *Recreating Europe: The European Union's Policy Towards Central and Eastern Europe* (Cambridge: Cambridge University Press, 1998).

[10] C. Mastropasqua and V. Rolli, "Industrial Countries' Protectionism with Respect to Eastern Europe: The Impact of the Association Agreements Concluded with the EC on the Exports of Poland, Czechoslovakia and Hungary," *The World Economy*, Vol. 17, No. 2, March 1994, pp. 151-169.

[11] *NRC Handelsblad*, February 11th 1996.

[12] For these external trade figures – and other 2002 statistical indicators (for all applicant countries) – see European Commission, *Continuing Enlargement. Strategy Paper and Report of the European Commission on the Progress Towards Accession by Bulgaria, Romania and Turkey*, Brussels, 2003, p. 43 (annex 6).

[13] *NRC Handelsblad*, March 3rd 1998.

[14] The figures for 2002 are estimates. Source: Unctad, *World Investment Report 2003. FDI Policies for Development: National and International Perspectives* (New York and Geneva: United Nations, 2003), p. 260.

Czech Rep.	1 363	7 350	21 644	27 092	38 450
Estonia	..	688	2 645	3 160	4 226
Hungary	569	11 919	19 804	23 562	24 416
Latvia	..	615	2 084	2 332	2 723
Lithuania	..	352	2 334	2 666	3 981
Poland	109	7 843	34 227	41 031	45 150
Romania	..	821	6 480	7 638	8 786
Slovakia	81	810	4 634	6 213	10 225
Slovenia	607	1 763	2 809	3 209	5 074

It turns out that the three economies that performed best in terms of the economic Copenhagen criteria (see below) – i.e. Hungary, Poland and to a lesser extent the Czech Republic – were also the most attractive host economies to foreign capital (FDI in Romania is analyzed in section 3). This may come as no surprise, since FDI flows to those countries in CEE which provide the most business-friendly environment. A survey conducted by UNCTAD among investment-promotion agencies in the region showed that the factors enhancing inward FDI included low labor cost, labor skills, integration prospects, macro-economic stability and favorable privatization strategies.[15] It is this ideal combination of low labor costs, relatively high labor skills, macro-economic stability at the expense of social security arrangements, privatization of the most attractive parts of the former state sector, and the disciplining effect of (the prospect of) international integration, that determines the rating of the candidate members.

Aid: Symbolic Assistance

In the first years after the 1989-revolutions, the EU played a coordinating role with respect to the Western financial assistance to CEE. During the summit of the seven leading industrial nations (G-7) in July 1989, the European Commission was assigned to co-ordinate the aid program, initially to Poland and Hungary and later also the other CEE-countries. A consortium of donor-countries was formed (the so-called G-24, consisting of the 12 EU-member states, the six EFTA-countries, Australia, New Zealand, Canada, Turkey, Japan and the United States) in order to support the process of economic transformation in CEE financially. The EU accounted for 42.1% of the total amount of 81.4 billion dollar that was promised by the G-24 for the period between January 1990 and December 1993, followed by international organizations (IMF, World Bank, European Bank for Reconstruction and Development) (26.8%), the United States (13.3%), the EFTA-countries (9.2%), Japan (4.1%) and Canada (2.9%). The total amount that was promised by the EU consisted for the largest part (almost 70%) of contributions from individual member states: With a total amount of 13.1 billion dollars, Germany was by far the largest donor, followed by France with $4.1bn, Italy with $2bn, the Netherlands with $1.3bn, the United Kingdom with $1bn and Denmark with 996 million dollars.[16]

Also in July 1989, the Community's PHARE-program was started with the official task to support the processes of economic and political transformation in CEE. It focused on spreading technical expertise and providing institution-building and investment support throughout the region. The program was financed out of the Community's Own Resources. In 1990 a total sum of 500 million ECU was appropriated (of which 300 million ECU for Poland and Hungary), an

[15] Unctad, *World Investment Report 1998. Trends and Determinants* (New York and Geneva: United Nations, 1998), p. 286.

[16] Atlantische Commissie, *Stabiliteit en Integratie. De Veiligheidspolitieke Betrekkingen met Midden- en Oost-Europa* (Den Haag, 1995), p. 28.

amount which was raised to approximately 1 billion ECU in 1993.[17] For the period 1995-99 a total amount of 7 billion ECU was earmarked as part of the Community's 'indicative internal planning'.[18] The total amount of money that was involved in the financial assistance program of the EU was thus rather limited - especially when compared to the payments to the so-called cohesion countries in the EU through the structural and cohesion funds over the same period - and mainly of a symbolic nature. It should be considered as just a drop in the ocean or - in the official language of the EU - as an 'incentive to self-help'. This can be additionally illustrated by the limited starting capital of 10 billion ECU with which the European Bank of Reconstruction and Development was established in 1991.[19] Needless to say, these financial injections could hardly be characterized as a new 'Marshall Plan' for CEE. In official terms, the limited Western aid was legitimized by referring to the shortage of capital in the global economy, the need in the West to cut government spending and/or the negative effects which such a substantial aid program could have on the macro-economic and monetary discipline of the post-communist governments in CEE. But it seems more appropriate to conclude, as the Hungarian economist András Köves did at a very early stage, that the financial relations between the West and CEE were determined by political priorities. The limited financial assistance was based on an implicit choice: 'It reflects a more reserved attitude toward systemic transformation than the one that is implied in political declarations and policy recommendations of the major Western governments, international organizations, and experts'.[20]

The Prospect of Full Membership: Towards Differentiation in Integration Tracks

The promise of integration into the European Union was perhaps the most important element in the comprehensive strategy of the EU with respect to CEE. Although the early Europe Agreements recognized the CEES' ambitions to eventually become full members of the EU, it was only in 1993 that more or less clear-cut criteria for accession were formulated (though no concrete time schedule was offered, partially as a result of diverging interests within the EU and because of obstacles of an institutional and financial nature). Officially, any decision on enlargement had to wait until two problems were resolved: the financing of the EU until the end of the decade (the so-called Delors II package) and the ratification of the Treaty of Maastricht. In June 1993, then, the Copenhagen Summit established that 'the associated countries in Central and Eastern Europe which so desire shall become members of the European Union'. Accession would take place if the associated country could fulfill the requirements for membership by meeting the requisite economic and political conditions. In a since then much cited passage, the European Council formulated - in extremely broad terms - the following conditions:

- Stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities;
- Existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union;
- Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union.

In addition, it was stated that 'the Union's capacity to absorb new members, while maintaining the momentum of European integration, is ... an important consideration in the general interest of

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[17] Atlantische Commissie, *Stabiliteit en Integratie*, p. 30; see also H. Kramer, "The European Community's Response to the New Eastern Europe," *Journal of Common Market Studies*, Vol. 31, No. 2, June 1993, p. 223.

[18] In the course of the 1990s, the PHARE program was criticized for paying too large a share to West European consultants - up to three quarters of the program - instead of earmarking it for seed and development capital and loan guarantee schemes for small and medium-sized business (*Financial Times*, November 16th-17th 1996).

[19] S. Weber, "Origins of the European Bank for Reconstruction and Development," *International Organization*, Vol. 48, No. 1, Winter 1994, pp. 1-38.

[20] A. Köves, *Central and East European Economies in Transition: The International Dimension* (Boulder/Oxford: Westview Press, 1992), p. 112.

both the Union and the candidate countries'. In other words, an eastward enlargement of the EU could take place only after the process of consolidating and deepening the Union was completed.

This conclusion was reaffirmed during the Essen Summit in December 1994. At that occasion the European Council stipulated that the reform of the institutional structure of the EU during the IGC of 1996 would have to be completed before negotiations between the Commission and the prospective associates could start. Two other initiatives were *inter alia* launched during the Essen Summit: a structured dialogue between the EU-members and the associated countries and a strategy to prepare the latter countries for their future incorporation into the Single Market.

To this end, a Commission's White Paper was published in May 1995. The main objective was 'to provide a guide to assist the associated countries in preparing themselves for operating under the requirements of the European Union's internal market'. The Paper identifies:

> the key measures in each sector of the internal market and suggests a sequence in which the approximation of legislation should be tackled. However a merely formal transposition of legislation will not be enough to achieve the desired economic impact or to ensure that the internal market functions effectively after further enlargement. Accordingly, equal importance is attached to the establishment of adequate structures for implementation and enforcement, which may be the more difficult task. The inclusion of legislation in the fields of competition, social and environment policy will ensure a balanced approach.[21]

Furthermore, the Commission explicitly stated that 'alignment with the internal market must be distinguished from accession to the Union which will involve acceptance of the *acquis communautaire* as a whole'. In the same way, 'the White Paper is not part of the negotiations leading to accession. It contains no timetables and creates no new conditions'.

A next step in the EU's strategy of rapprochement towards CEE was the publication of the European Commission's *Agenda 2000* report in July 1997. In three parts, the report dealt with the development of the internal policies of the Union, the challenge of enlargement and the new financial framework for the period 2000-2006. It also contained the opinions on each applicant country. These opinions were prepared by the Commission at the request of the Council on the basis of the aforementioned Copenhagen criteria. With respect to the political criteria, the Commission concluded that only one applicant country - Slovakia - did not satisfy the political conditions laid down in Copenhagen. As to the economic criteria - functioning market economy and capacity to withstand competitive pressure - Hungary and Poland were considered to come closest to meeting them, the Czech Republic and Slovenia not lagging far behind. Finally, according to the European Commission only three countries - Hungary, Poland and the Czech Republic - should be able in the medium term to take on the major part of the *acquis communautaire* and to establish the administrative structure to apply it.[22] On the basis of these individual opinions, the Commission suggested that accession negotiations should be opened with only five CEE-countries: Hungary, Poland, the Czech Republic, Slovenia and Estonia.

Two conclusions can be drawn from the above. First, the Union's strategy of rapprochement necessarily implied a differentiation of integration tracks. More concretely, the fact that a final decision as to whether the candidate members were suited for full membership would be made on an individual basis (i.e. same conditions, individual testing) made it possible to exclude countries like Bulgaria and Romania because of their poor economic performance and Turkey

[21] European Commission, *White Paper. Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the Union*, Com(95) 163 final, Brussels, May 3rd 1995.
[22] European Commission, *Agenda 2000. For a Stronger and Wider Union*, Com(97) 2000 final, Brussels, July 15th 1997.

(and for a short while also Slovakia) (ostensibly) because of its bad human rights record. To put it into other words, only those countries which were able and willing to adjust their economic and political structures in line with the requirements of the European heartland would be in the first wave of the next round of EU-enlargement.

Second, eastern enlargement negotiations depended on the successful completion of the EU's institutional reform.[23] The European Council of Amsterdam did not result in concrete solutions but rather postponed a final decision to a later date. The Treaty of Nice and, more specifically, the recent Constitutional Treaty did a better job, but it remains to be seen whether (and when) the latter Treaty will enter into force. Next to this, another problematic issue has still to be resolved: the future of the Common Agricultural Policy and the structural funds. Until now, the process of European integration - and the public support for it - has been based on the principle of financial solidarity, including solidarity with farmers and with less developed member states and regions. It is an open question whether the Community's budget will continue to have this redistributive nature. It may well turn out that the countries of CEE have entered a European Union that pays only lip service to the objectives of economic convergence and social cohesion.

The (Basket) Case of Romania

As indicated above, in July 1997 the Commission delivered Opinions on all applications for membership that had been received, evaluating the situation of each country by means of the accession criteria established at the Copenhagen European Council of June 1993. On this basis, it recommended beginning accession negotiations with a first group of five countries. Romania was not included in this group. It did, however, benefit alongside the other countries left on the waiting list from the enhanced pre-accession strategy recommended in the Agenda 2000 and adopted by the Luxembourg European Council of December 1997. The cornerstones of the enhanced pre-accession strategy were Accession Partnerships with each candidate country. They laid out the priorities for each country in its preparations and focused assistance towards its specific needs, bringing together all forms of EU support within a single framework. The Accession Partnerships were first implemented in March 1998 and updated in 1999, 2000, as well as, for Bulgaria and Romania, again in spring 2003. To implement its Accession Partnership, each country had to draw up National Programs for the Adoption of the Acquis, which responded to the priorities of the Partnership agreement and laid out in detail how they were to be attained, with timetables and indications of the human and financial resources to be allocated. In spring 2002 these National Programs were complemented by Action Plans specifically designed to improve administrative and judicial capacities in the applicant states.

Following up on the Opinions, since 1998 the Commission has issued yearly Regular Reports on the progress towards accession of each applicant. On the basis of the 1999 Regular Reports, the Commission recommended opening accession negotiations with a second group of countries, including, subject to specific conditions, also Romania. The country’s integration efforts received a significant boost with the resulting admission to accession talks at the Helsinki Summit in December 1999. The Helsinki decision to increase the number of applicant states from six to thirteen (including Turkey) implied the candidature of a group of countries with an enormous development gap vis-à-vis the Union of 15 member states. A Union of 28 member states (instead of 15) would result in a population increase of 45 per cent but an increase of total GDP of only 7 per cent. At the time of the Helsinki Council (and according to December 1999 data from Eurostat), GDP per capita of the candidate members ranged from 23 per cent (Bulgaria) to 68 per cent (Slovenia) of the EU average. Growth rates

[23] Today, Turkey is being held hostage to this aspect of the EU’s enlargement strategy.

of industrial production were negative in some countries (Bulgaria and Romania) and in four other countries below the EU average. Unemployment rates were above the EU15 rate of 10 per cent in five countries, and all the applicant countries had inflation rates well above the EU15 average, with Turkey and Romania having the highest rate of inflation in 1998 at 84.6 and 59.1 per cent respectively. Finally, all applicant countries experienced general government deficits (with the exception of Estonia and Latvia) and (structural) trade deficits (see table 2).

Based on the 2002 Regular Reports, the Commission recommended the conclusion of negotiations with the ten countries (including Cyprus and Malta) that joined in May 2004. The December 2002 Copenhagen European Council extended the official invitation. As for Romania and Bulgaria, it endorsed the so-called Roadmaps proposed by the Commission. These Roadmaps, which once again emphasized judicial and administrative reforms, allowed each of the two countries to set its own pace in the accession process and combined with a revision of their Accession Partnerships in 2003 to lay out a rather clear program for still necessary reforms. The accession wave of 2004 benefited the remaining candidates in the respect that their pre-accession assistance was being significantly reinforced as a consequence. Assistance to Bulgaria and Romania is being progressively stepped up to reach an additional 40% in 2006, as compared to the 2001-2003 period.[24]

Romania's pre-accession strategy today remains founded on the following elements: its Association Agreement; its Accession Partnership and National Program for the Adoption of the Acquis; pre-accession assistance, including the Phare program and since 2000 also the ISPA support program for environmental and transport infrastructure investment and the SAPARD support program for agricultural and rural development, and co-financing schemes with the European Investment Bank and the International Financial Institutions; and lastly the progressive opening of EU programs and agencies to Romanian participation.

As said in the introduction, the December 2004 European Council concluded that Romania had made substantial progress in adopting and implementing the acquis. This had made it possible to formally close all of the remaining chapters of the negotiations on 14 December 2004. To many, this conclusion – though accompanied by the warning that the EU would continue to monitor closely Romania's preparations and achievements, including the effective implementation of the commitments undertaken in all areas of the acquis – came as a surprise in the light of a series of events earlier that year. Echoing its earlier statement that Romania's accession was "far from a done deal",[25] on March 11 the European Parliament (EP) had voted in favor of reviewing Romania's accession negotiations with the Commission. On June 21st, Enlargement Commissioner Guenther Verheugen came with a serious warning, suggesting that Romania's accession just might be decoupled from Bulgaria's and deferred to 2008. A February 2004 Reuters poll of 34 analysts showed Romania with a 63% chance to join the EU in 2007, down from 70% indicated by the previous edition of the poll in November 2003.[26] In short, increasing concern with serious implementation deficits

[24] In 2001, for example, Romania was granted ca. 290 million euro under Phare, 155 under SAPARD, 290 under ISPA, 40 in EIB loans, and 282 in EBRD loans (Source: Eurostat (from national harmonized sources), cited in European Commission, Directorate General for Enlargement, *Enlargement of the European Union: An Historic Opportunity* (Brussels: European Commission, Directorate General for Enlargement, 2003), p. 41). It must, however, be noted that Romania's absorption capacity, while slowly improving on paper, is still very low. For example, it drew only 10% of the 1.44 billion euro offered under ISPA between 2000 and 2003 (ranking last among the 10 countries benefiting from this program). As for SAPARD, Romania managed to spend 35% of the 162.2 million euro allocated in 2003 (Source: *Adevărul*, February 19th 2004). Moreover, even this very low absorption capacity unfortunately does not indicate that the money which does get disbursed is well-spent. The process of approving Commission funds seems to urgently require improvement.
[25] Judy Dempsey, "Romania's EU Accession 'Not a Done Deal,'" *Financial Times*, February 19th 2004.
[26] Cited in *Gardianul*, February 13th 2004.

combined with other causes to render formal progress in the adoption of the acquis increasingly insufficient in the eyes of the EU and a number of analysts.[27] Thus, what might have seemed like a done deal half a year earlier (re-)appeared less than fully certain in the summer of 2004. Another six months later came the positive recommendation of the European Commission. The crisis of 2004 and its somewhat mysterious abating just in time for the December European Council meeting (and, incidentally, Romanian general elections) indicate a pattern of progress against resistance which was replayed on a smaller scale in Spring 2005. Discussions before the European Parliament vote on Romania's application for accession first in the Foreign Affairs Committee and then in the plenum struck many a critical note on Romania, and only some last minute wheeling and dealing prevented the failure of the resolution.[28] Even so, 93 European parliamentarians voted against Romania's speedy accession, and 71 abstained. Also notable was the defection of several members of the European Socialists, who had generally been staunch supporters of the enlargement but who, alongside the Green party group, took a principled stance in light of what they perceived as insufficient progress in Romania. However, again in the nick of time (just before the scheduled signing of the Accession Treaty), Romania was pushed through. This pattern of stop-and-go progress in spite of rising concern provides us with an opportunity for, and should indeed encourage, reflection on the causes of the obvious difficulties in the process of Romania-EU integration as well as a (re)evaluation of the goal of accession and the manner in which it is to be achieved.

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[27] For a fuller treatment of the 2004 crisis in Romania-EU relations and its causes see Annette Freyberg-Inan and Andrei Ogrezeanu, "Transnationalization Dynamics in Southeast Europe: The Case of Romania's Progress towards EU Accession," prepared for delivery at the annual meeting of the International Studies Association, Montreal, Canada, March 17th-20th, 2004.

[28] Both the European People's Party (EPP) and the Greens announced that they would demand before the plenum that the voting be postponed, though their objections were differently motivated. The EPP was unhappy with the European Council for promising Romania and Bulgaria a post-accession financial package without first consulting Parliament, which still has to give its agreement to the 2007-2013 budget. One hour before the start of voting by the plenum, however, the EPP's demand for postponement was retracted, after a deal was struck with the EU presidency. At that point, the Greens filed an amendment to postpone the vote. Faction leader Cohn-Bendit explained that, although Romania had met many of the economic accession criteria, it still had a lot to do politically, especially in terms of fighting corruption. This amendment was rejected by the plenum.

Table 2. Key data on Candidate Countries (1998)

	I	II	III	IV	V	VI	VII	VIII	IX [29]	X
Bulgaria	8230	-6.4	11.0	23	-12.7	16.0	25.7	22.3	-0.3	-607
CzechRep.	10290	-0.9	50.1	60	1.6	6.5	5.5	10.7	-2.2	-2198
Estonia	1446	-5.7	4.6	36	1.8	9.9	9.4[30]	10.5	2.6	-1376
Hungary	10092	-4.3	42.4	49	12.6	7.8	7.5	14.3	-5.4	-2409
Latvia	2439	-7.7	5.7	27	3.1	13.8	18.8	4.7	1.8	-1232
Lithuania	3701	-0.9	9.5	31	7.0	13.3	21.0	5.1	-0.7	-1858
Poland	38667	0.2	140.7	39	4.8	10.6	19.1	11.8	-2.6	-16792
Romania	22489	-1.7	33.9	27	-17.0	6.3	40.0	59.1	-3.5	-3154
Slovakia	5393	1.1	18.1	46	3.6	12.5	8.2	6.7	-4.4	-2045
Slovenia	1978	-3.3	17.4	68	3.7	7.9	11.5	7.9	-1.5	-936
Turkey	63451		175.8	37	1.3	6.4	42.3	84.6	-7.2	-16359
EU15	374888	2.0	7585.6	100	3.3	10.0	5.2	1.3	-1.5	+19200

I. Total population (in 1,000s).
II. Crude rate of population increase per 1000 inhabitants.
III. GDP at current prices (1000 Mio Ecu).
IV. GDP per capita in PPS, EU=100.
V. 1998 growth rate of industrial production (in %).
VI. Unemployment rate (%).
VII. Agriculture: % of total employment.
VIII. 1998 inflation rate (%).
IX. General government deficit/surplus compared to GDP (%).
X. Balance of trade in Mio Ecu.

Source: Eurostat, EU Enlargement. Key Data on Candidate Countries, Memo, 7 December 1999.

[29] All countries 1997, except Romania (1996) and Turkey (1998).
[30] 1997.

3. The Nature and Costs of the Progressive Integration of Romania

EU integration has meant primarily three things for the Romanian people: hope, resources, and policy direction. First, notwithstanding the extent to which hope has been justified by sufficient information and realistic expectations, it has operated as an important factor during the transition process. The promise associated with Euro-Atlantic integration and with the affiliation with the European zone of affluence and success has exerted both positive and negative influence on the Romanian transformation. On the positive side, it is clear that hope is generally important in motivating any community to embark on and continue to endure necessary hardships on the way to a better future. On the negative side, this hope has also been abused to maintain the Romanian citizens' traditional docility vis-à-vis state power and to grant elites considerable leeway in governing the country as they have seen fit. Hope is abused when ordinary citizens are asked to make sacrifices that are either unnecessary or serve dubious goals. Which goals should be pursued and which sacrifices are necessary to achieve them are of course political questions. By not subjecting these decisions to democratic deliberation Romania's elites have safeguarded their power to use and abuse the principle of hope as they see fit. The European Union has, alongside other international actors such as the IMF or NATO, tolerated that its promise be translated into domestic politics in this highly problematic manner. It has taken an excessively technocratic approach to enlargement, emphasizing legal adaptation over consensus- and identify-formation, and it has thereby shown insufficient concern for the democratization dimension of transition in Romania as well as in other new and prospective member states.[31]

Second, EU integration has of course meant a considerable influx of resources. European institutions have provided large amounts of money and expertise, and Romania's cooperation with these institutions and promise of accession has stimulated private investment in the country as well. Of course these resources have not entered Romania without strings attached. EU integration has thus, third, meant very strong policy direction emanating from the EU institutions as well as from other international and foreign actors whose development strategies reinforce those of the EU (notably the IMF and World Bank).[32]

All three factors, hope and its domestic exploitation, the influx of resources, and a variety of forms of policy direction, combine to explain the extent to which the transformation process in Romania (as also in other candidate countries) has taken its cues from Brussels. This is not to say that the European institutions are entirely happy with Romania's progress. They evidently are not. It is, however, equally evident that they cannot deny responsibility for the course Romania's transition has taken. They have been involved in every one of its aspects since its very inception.[33]

[31] For a fuller version of this argument see also Annette Freyberg-Inan, "Which Way to Progress? The Impact of International Organizations in Romania," in Ronald Linden (ed.), *Norms and Nannies: The Impact of International Organizations on the Central and East European States* (Lanham, Md: Rowman & Littlefield, 2002).

[32] While the specific policy prescriptions of the World Bank and especially the IMF are not always fully in line with the views of the Commission and other EU institutions, both the World Bank and the IMF explicitly regard their support as supporting and contributing to the EU accession effort. Thus, Anne Krueger, IMF First Deputy Managing Director, commented on the recently concluded precautionary stand-by agreement that it was aimed at "preparing the economy for EU accession." (Cited in European Commission, *Enlargement Weekly Newsletter*, July 13th 2004, available at http://europa.eu.int/comm/enlargement/docs/newsletter/weekly_arch.htm, last accessed August 9th 2004) The World Bank published a report in June 2004 entitled "Restructuring for EU Integration: The Policy Agenda," available at http://www.worldbank.org.ro/ (last accessed August 6th 2004).

[33] This is of course not to say that domestic variables have not been crucial in co-determining the evolution of Romania during the integration process. An exploration of the precise mechanisms by which demands from the EU become causally connected to domestic policy outcomes through the operation of domestic forces is, however, beyond the scope of this article.

In the following pages we will provide an overview of the state and nature of Romania's integration with the European Union today. Since it is obviously impossible to cover each and every aspect of integration and report all relevant empirical evidence here, we will focus on making a few main points across a range of aspects of integration, hoping to provoke the reader's critical interest. Much of the data reported here is drawn from Romanian newspapers. We have worked to ascertain its accuracy wherever possible, remain, however, aware that caution is in order when basing our interpretations on Romanian media sources alone. We begin by looking at the status of economic integration in terms of trade, foreign direct and portfolio investment, currency and monetary policy, labor mobility and remittances, and the evolution of Romania's trade and current account balances as well as debt levels. We then look at the expectations from accession in terms of costs vs. benefits for the Romanian state and economy in an effort to understand the strong pro-accession stance of the Romanian governments (both before and after the 2004 elections). This stance is then contrasted with the problems created by the EU's development and integration policy for the Romanian population, focusing on its socio-economic repercussions as well as problems created for democratization. This requires taking a look also at the influence of other actors, mainly that of the IMF, at how it interacts with that of the EU, and at how the Romanian government has reacted to these various influences and has tried to chart its course between them. Moving towards the realm of legal and administrative adaptation we then look at the status of political integration, mainly focusing on the extremely limited assimilation of governance in Romania to EU standards. This, finally, leads to a discussion of the currently strongest argument for accession: the hope for better governance and better rules and enforcement. This hope is understandable. However, we will suggest that, paradoxically, Romania might stand to lose from accession in this respect as well, as its admission would signal a lowering of the very same standards that have so far driven its recovery.

Trade

Since the end of the Cold War, trade between Romania and the European Union has steadily increased. By now, the EU is Romania's main trading partner by far, accounting for 73% of Romania's exports and 63% of its imports in 2004.[34] Two main problems affect the structure of trade between Romania and the EU. The first is Romania's growing trade deficit, which in 2004 reached a record 7.34 billion euro.[35] In the face of now relatively steady but overall still slow export growth and their inability to stimulate it substantively, Romanian authorities (in particular the National Bank in consultation with the IMF) attempts to control the trade and current account deficits partly by suppressing domestic demand.[36] In the service of this goal, wages and living standards are kept considerably lower than they would likely be under a demand-driven recovery

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[34] Florin Cepraga, "Trade deficit exceeds half billion euros in February," *Bucharest Daily News*, March 31st 2005. See also: European Commission, *Enlargement Weekly Newsletter*, February 17th 2004, available at http://europa.eu.int/comm/enlargement/docs/newsletter/weekly_arch.htm, last accessed August 9th 2004. Main export partners in 2002 were Italy 25.2%, Germany 15.6%, France 7.6%, UK 5.8%, US 4.3%, and Turkey 4.1%. Main import partners were Italy 20.8%, Germany 14.9%, Russia 7.2%, and France 6.4%. Source: CIA, *World Factbook 2004: Romania*, available at http://www.cia.gov/cia/publications/factbook/index.html (last accessed August 5th 2004).

[35] The National Statistics Institute, cited in. *Ziua*, February 3rd 2005 and *Ziarul Financiar*, February 7th 2005. At the end of the first two months of 2005, the trade balance deficit amounted to 885 million euros (up a dramatic 84% on year). Răzvan Voican in *Ziarul Financiar*, April 1st 2005.

[36] The very high current account deficit of about 6% in 2003 and 7-8.2% in 2004 (depending on whether the old or new method of computation is used) has been a major complaint of the IMF. Romania consequently pledged to cut it down to a maximum of 6.9% (by the new method of computation) in 2005. The current account deficit is primarily fueled by the trade deficit. Its other components have, however, not been able to compensate but have rather added to it. See, for example, *Ziarul Financiar*, May 24th 2004 and February 7th 2005 and Rompres, "Romania: Government Closed Agreement with IMF," February 10th 2005.

strategy.[37] The cynicism of their approach seems to escape liberal economists, such as former finance minister Daniel Daianu, who went on record saying that "the consumption engine will have to be turned off if it becomes difficult to finance foreign deficits."[38] Demand-side economics are, as will become clearer below, generally ruled out by the conditionalities applied to Romania's reform efforts by outside actors such as the EU and, more dogmatically though with less pulling power, the IMF.[39]

The second basic problem of the structure of trade between Romania and the EU (as well as the rest of the world) is that Romania imports far too many products (and also some services) that could easily be generated inside the country, in which case employment could be supported and prices could be kept in better synch with purchasing power. A particularly perverse example are food imports. Massive food imports are one of the main factors overburdening the Romanian trade balance. The EU is Romania's main trade partner on this segment as well, accounting for 64% of exports and 48% of imports in the first half of 2004. During this time, foodstuff imports increased by 25% year on year, causing a 620 million euro deficit in the farming product trade balance.[40] The one product contributing mostly to this trend is grain (especially wheat, of which Romania was a major exporter between the two World Wars),[41] but the country also imports massive amounts of onion, garlic, leek, carrots, turnips, beet, potatoes, sugar, butter, pork, and chicken – each and every one a product with which Romanians should easily be able to supply themselves.[42]

Imported products are priced at levels that make them frequently too costly for a majority of the population, while simultaneously threatening to push domestically produced equivalents off the market. Thus, what extension and diversification of supply takes place on the Romanian market remains meaningless to, and indeed has perverse consequences for, too large a sector of the population, whose purchasing power does not rise.[43] It is quite difficult to imagine how the current development strategy could improve their lot in the short or even medium term, as purchasing power, and consequently living standards, can, given official policy, only be allowed to rise as a result of sustained domestic productivity increases. The latter are nowhere in sight, and even accelerated privatization under the current conditions is unlikely to engender them.

The enlargement of May 1st 2004 has raised hopes that imports, in particular of foodstuffs, from Romania's former CEFTA (Central European Free Trade Agreement) partners (Poland, Hungary, the Czech Republic, Slovakia and Slovenia) will decline, because EU

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[37] The average net wage stood at 143 euro in June 2004 (*Ziarul Financiar*, August 2nd 2004). The minimum wage of 69 euro is the lowest in Europe, with the exception of Bulgaria (61 euro). In comparison, a Luxembourgian on minimum wage makes 1,403 euro a month, almost twice what a Romanian makes in a year (Source: Eurostat, cited in *România Liberă*, July 30th 2004).

[38] Cited in *Adevărul*, June 3rd 2004.

[39] It is of course true that, as liberals point out, demand growth must be supported by appropriate levels of financial consolidation to be a sustainable force for economic recovery. Where the neoliberal dogma becomes most harmful is in restricting options for pursuing financial consolidation while maintaining political control of the economy. On the impact of specifically the IMF in Romania see also Annette Freyberg-Inan with Valentin Budău, Radu Cristescu, Leonard Ionița, Ionuț Sterpan, and Valentin Vasilescu "Romania and the IMF - The Effects of IMF Support on Economic and Social Policy in a Transition Country," in *Romanian Journal of Society and Politics* vol. 3, no. 2, 2003, pp. 130-184.

[40] Agriculture Ministry State Secretary Petre Daea, cited in *Adevărul*, April 15th 2004; also: *Cotidianul*, August 6th 2004. Throughout H1 2004, Romania imported food products worth 848.2 million euro and exported food products worth 227.6 million euro. *Cotidianul*, August 6th 2004.

[41] Romania was then called "grânarul Europei" – the granary of Europe.

[42] *Gardianul*, May 11th 2004.

[43] The perversity consists in the fact that the population desires imported products but cannot well enough afford them and therefore requires cheaper equivalents which become unavailable because more expensive ones are desired (and bought frequently enough to keep them coming). The willingness and ability of international companies to incur temporary losses on the Romanian market for the sake of expected future pay-offs of course plays a major role in supporting this situation.

membership will discipline the use of fiscal incentives for agriculture and export in those countries. There is disagreement about how Romania's exports to the new members will be affected. On the one hand, some expect Romanian exporters to find it harder to penetrate these same markets after their EU accession. For example, the former Finance Minister Mihai Tănăsescu has claimed that the 2004 enlargement would cost Romania some 122 million euro in customs duties,[44] and Mihai Ionescu, general secretary of the National Association of Exporters and Importers, has estimated that the accession of the former CEFTA members upset Romania's trade balance by at least 80 million euro in 2004.[45] On the other hand, data from the first two months after the enlargement shows an increase of 49% in exports to the new EU members (compared to a 19% increase in exports to old EU members). The causes suggested are the high pace of economic growth in the new members in conjunction with a more welcoming customs regime for agricultural products under EU membership.[46] At this point, not enough time has passed to assess the effects of the 2004 enlargement for Romanian exports in the medium to long term with any degree of reliability.

Investment

Foreign direct investment in Romania has been chronically low compared to other CEES. By the end of 2003 it was estimated to have reached 1.1 billion euro.[47] In 2004 FDI per capita stood at 700 euro according the highest estimates, compared with an average of 2,200 euro for the eight new EU members in CEE.[48] The reasons for the relatively low levels of FDI are Romania's unstable and unclear legal environment and tax regulations, frustrating bureaucracy paired with high levels of corruption, relatively high taxes and employer social contributions, and the country's location at a distance from the old EU. Optimistic forecasts are not lacking. According to a poll among investment experts by the United Nations Conference on Trade and Development (UNCTAD), for example, Romania will in the near future rank third in CEE in terms of foreign direct investment, estimations indicating a 30-to-40% growth in 2004.[49] However, it has been widely expected for years that investment saturation in the transition frontrunners as well as the progressive restructuring and stabilization of the Romanian economy would lead to significant increases in incoming investment. These hopes have so far been largely disappointed. FDI has grown only slowly. Moreover, its growth such as it was has had less than entirely positive effects on the domestic economy.

There are again two main problems involved. The first is that as foreign investment has frequently stagnated and at times even dropped, Romania's current account deficit has been growing considerably. For example, between February 2003 and February 2004 foreign direct investment dropped by roughly 30%, while current account financing needs more than doubled. In 2003, foreign direct investment covered only 47% of the current account deficit of about 6%, whereas in Bulgaria, for instance, FDI covered up to 80% of a deficit of almost 8% of GDP.[50] This suggests that Romania's level of attractiveness as an investment location is increasing much

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[44] Cited in *Adevărul*, June 16th 2004.
[45] Cited in *Ziarul Financiar*, April 19th 2004.
[46] The customs treatment of industrial products has remained the same. Source: Sorin Paslaru in *Ziarul Financiar*, August 9th 2004.
[47] European Commission, *Enlargement Weekly Newsletter*, February 17th 2004, available at http://europa.eu.int/comm/enlargement/docs/newsletter/weekly_arch.htm, last accessed August 9th 2004.
[48] Oxford Analytica**,** "Bulgaria Leads the Way in Attracting FDI in Southeast Europe," April 12th 2005**.** 2004 was a peak year for FDI in Romania due to several large privatization deals.
[49] Romania is expected to share this position with Russia; Poland and the Czech Republic will rank first and second, respectively. Cited in *Ziua*, April 16th 2004. See also Miruna Lebedencu in *Ziarul Financiar*, Feb. 25th 2005.
[50] These figures are reported by Răzvan Voican and Miruna Lebedencu in *Ziarul Financiar*, April 29th 2004. We cannot vouch for their accuracy.

more slowly than its market accessibility – a sign that economic integration is taking place before a sufficient level of national competitiveness has been reached.

This suspicion is further confirmed by the second problem besetting FDI in Romania: its nature. In 2004, FDI in Romania hit a peak at 4.09 billion euro.[51] However, this was due to a few large privatisation deals, such as the sale of a 25% stake in the Romanian Commercial Bank and the sale of the huge National Oil Company Petrom as well as the power distributors Electrica Banat and Electrica Dobrogea. These are not new investments that could have a rejuvenating effect on the domestic economy but rather long overdue pay-offs of a lengthy and very costly restructuring process.[52] Little FDI is greenfield; most is acquired through privatizations, many of which over the years have gone bad, with investors and/or domestic partners breaking promises, contracts being cancelled, and ensuing reprivatizations under yet worse conditions.[53] The widespread perception among the population that Romanian property is sold too cheaply is frequently justified,[54] not only because investors pay little money for the properties acquired, but also because of massive additional incentives provided by the state, such as most infamously cancelled debts.[55] Over 90% of the companies privatized so far received state aid, either in the form of debt pardons or in the form of loans used to pay suppliers. Stunningly, between 1992 and July 2004, the Romanian state has derived an aggregate sum of privatization revenue of some 900 million euro but has granted aid worth some 2.3 billion euro in its effort to speed up the process of economic restructuring.[56]

Aside from public funds, FDI through privatization usually costs many jobs as well, as the new owners inevitably streamline their operations, even if the government negotiates to obtain assurances to the contrary. What good these investments will do in the long run is frequently made additionally questionable by suspicions that as labor and regulatory costs will

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[51] Miruna Lebedencu in *Ziarul Financiar*, Feb. 25th 2005.

[52] Răzvan Voican and Miruna Lebedencu in *Ziarul Financiar*, April 29th 2004.

[53] Among the most popular examples in recent years have been Banca Agricola and steel plant Reşiţa, whose American owner, Noble Ventures, is now suing the Romanian government. There has also been trouble with off-road carmaker ARO, with the investor, US-based Cross Lander, evidently breaking contractual obligations by selling a component of the factory for a price many times larger than the price it had paid for the entire company in spite of a stipulation against selling off core business and by failing to invest in retooling by the specified deadline. See *Adevărul*, June 9th 2004, *Jurnalul Naţional*, July 12th 2004, and *Adevărul*, August 4th 2004.

[54] For example, the former minister of industry Radu Berceanu has recently complained that the sale price of an aggregate total of 111.8 million euro for the two recently privatized electricity companies Electrica Banat and Electrica Dobrogea is "ridiculous" and warned that it would also affect the sale price of the remaining six energy distributors, so that Romania's entire energy distribution system could be sold for as little as 450 million euro – a price which the former minister called "a bad joke". Cited in *Ziua*, July 22nd 2004.

[55] The recent privatization deemed the most successful in Romania's history of the petroleum giant Petrom was proceeded by such a cancellation as well as other measures to increase its attractiveness. See, for example, *Gardianul*, April 5th 2004. Another major privatization, that of the steel mill Sidex, was also preceded by a huge debt cancellation. Banca Agricola Bank and the refinery RAFO are other examples. See, for example, *Adevărul*, July 28th 2004. Arrears are a serious problem in the Romanian economy and one the IMF is particularly keen to see addressed. According to the IMF, arrears (to utilities companies and the state budget) have accounted for 40% of Romania's GDP over the last three years and continue to be a major source of financing (35%, compared to 8% for bank loans) (*Ziua*, July 28th 2004). The IMF has identified four causes behind Romania's arrears: the authorities' lenience towards well-connected private and towards state-controlled companies; poor tax collection; the practice of approving the budgets of state-controlled companies without making sure that they will actually pay their dues to the state; and the tax-dodging culture in Romania (*Adevărul*, May 19th 2004). Romania's handling of arrears has also contributed to its problems with closing the Competition chapter in accession negotiations with the EU, because they can be considered a form of state aid (Adrian Marsanu in *Ziarul Financiar*, July 12th 2004).

[56] The steel industry alone received some 1.83 billion euro, half of which went to Sidex, which received a pardon of debts worth 1 billion euro upon privatization, the sale price having been around 10% of this sum. Agricola Bank was privatized for some 1.5 million euro, although privatization costs amounted to 125 million euro, while the refinery RAFO was privatized for 1.25 million euro and received state aid worth nearly six times that much. *Adevărul*, July 28th 2004.

rise in Romania, foreign investors will quickly be off to take advantage of yet more desperate conditions elsewhere.[57] To all this is added the understandable concern that a massive share of the means of production should be transferred to foreigners in the first place. The fact that this is an inevitable consequence of transnational economic integration without a minimum level of national competitiveness being first ensured tends to be too little understood in the country.

The long-term benefits of the yet more flighty portfolio investment are of course debatable for the same reasons. Foreign capital investment in Romania has been on the rise and has been given further impetus (and raised fears of speculative attacks) with the recent full liberalization of the capital account (which also brought access for foreigners to local currency deposits) but it is still very low, and the Romanian stockmarkets remain small.[58] The fact that "Luxembourgian" investors rank first by the volume of investments in Romanian shares might be an indication of the tactical rather than strategic perception of Romanian investment opportunities.[59] Notable is that fellow CEE investors from Slovakia and the Czech Republic follow in places three and four, probably taking advantage of their emerging markets experience.

As for the sources of overall investment in Romania, a study of major foreign investments, that is investments in excess of 833,000 euro ($1 million) conducted by the Romanian Agency for Foreign Investments (ARIS) revealed an aggregate value of 2.1 billion euro of such investments made between October 2001 and May 2004. Around 53% (1.1 billion euro) came from abroad, originating, in descending order, in the Netherlands, France, Germany, the US, and Italy. The main areas of interest to the grand investors were telecoms (28 projects and an aggregate value of 416 million euro) and services (36 projects and an aggregate value of 394 million euro).[60] The most successful multinationals present in Romania include Pepsi bottler Quadrant Amroq Beverages, Coca Cola, British-based domestic gas central heating equipment producer Baxi, and the mobile telephony group Orange.[61]

Monetary Policy

Progressive economic integration with the European Union is also evidenced by Romania's currency and monetary policy. In March 2003 the National Bank (BNR) started to reference the Romanian Leu (ROL) exchange rate to the euro directly instead of going through the dollar, which had been the benchmark currency for the Romanian market until that time. As of January 1st 2004, the euro's weight in the euro-US dollar currency basket used to gauge the performance of the ROL has been increased from 60% to 75%, reflecting the euro's increasing weight in Romania's trade as well as in the structure of the foreign currency reserves managed by BNR. In

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[57] On July 13th 2004 *Ziarul Financiar* cited an article in *Wall Street Journal Europe* of the 9th of July in which the downsides of EU accession for the investment location of Timişoara in northwest Romania are discussed. In it, Siemens project manager Thorsten Kupitz predicts that it is only a matter of time before wages rise enough in Timişoara to prompt Siemens, which first arrived in 2000, to leave: "I give it five to ten years," he said.

[58] For more information see Cătălin Ciocan and Vlad Nicolaescu, "Romania's Capital Market: 2004 In Retrospect," in *Ziarul Financiar*, Jan. 3rd 2005.

[59] Source: The National Securities Commission (CNVM), cited in *Gardianul*, April 26th 2004.

[60] Cited in *Adevărul*, June 8th 2004.

[61] *Adevărul*, July 28th 2004. Romania is, however, still terra incognita for many international business giants. Out of the world's top twenty companies in terms of market capitalization, only eight have invested, directly or indirectly on the Romanian market (General Electric, Citigroup, AIG, Vodafone, IBM, Procter&Gamble, Shell and Coca-Cola). Also, their investments are not very large, often amounting to just tens of millions or even only millions of euro. Cited reasons are low purchasing power and an uncertain business environment, as well as location and lack of large tax exemptions for investors (as compared to Hungary, for example). The largest three among them in terms of investments in Romania are Shell (at over 190 million euro), Vodafone (whose stake in Mobifon is valued at 167-192 million) and Coca-Cola (with investments in excess of 250 million euro). Source: Laurențiu Ispir in *Ziarul Financiar*, June 1st 2004.

2005 Romania may start quoting the ROL entirely against the euro.[62] The Romanian economy would then be more exposed to the volatility of the euro/US dollar exchange rate on the international markets than under the current conditions.

While Romania is of course a long way from joining the euro-zone, this long-term goal already not only influences currency policy but also pushes macroeconomic policy towards the Stability Pact criteria. Perversely, while countries in which it might make more sense to stick to these criteria can politically afford to ignore them, a country like Romania, in which attempting to balance the state budget can easily be viewed as dangerous nonsense, is forced by its dependent position (as well as the supporting influence of especially the IMF) to honor them. Thus, the goals of reducing inflation and budget deficits (with a view to improving the current account balance and maintaining long-term debt sustainability) are strongly prioritized by the National Bank and the Ministry of Finance.[63] This strategy of course requires the much-invoked twin ingredients of tight monetary policy and fiscal discipline. The latter is never actually realized and perhaps cannot be, given the low level of general welfare in the country. Still, the perceived need to stick to the strategy at least in terms of appearances (i.e. macroeconomic statistics) makes it impossible to try out alternatives, such as, for example, allowing for a period of inflationary growth such as that experienced by Turkey until the late 1990s. It is as if Romania were sitting on a heap of bitter pills and swallowed half of them – enough to suffer more from their taste but not enough to get well. Proponents of neoliberal shock therapy of course make the point that if Romania could just go ahead and swallow all the pills health would be just around the corner. But their dogma does not allow them to consider alternative medicines, and their influence (exerted also via the EU) does not allow Romanian citizens to do so either.

Labor and Money Flows

As with the other candidate countries as well as the new EU members, labor mobility is that aspect of the economic integration of Romania with the EU which lags furthest behind. Romanians are not allowed to work entirely freely in any EU country, with the relevant regulations varying from being relatively welcoming for knowledge migrants in the UK or for much-needed seasonal workers in Spain to being practically prohibitive in Germany or the Netherlands. In spite of all restrictions, however, a significant amount of income for Romania is generated by Romanians working abroad (not only in the EU). They have wired some 6 billion euro to Romania over the previous 4 years. Official transfers amounted to 1.1 billion euro in 2001, 1.45 billion euro in 2002, 1.5 billion euro in 2003 (36% higher than FDI), and an estimated 1.8 billion euro in 2004. This means that remittances have accounted for 2.45% of the GDP in 2001, 3.1% in 2002, 3.08% in 2003 and 3.35% in 2004. To these already considerable sums must be added the inestimable amount of money that the respective workers bring home in cash.[64]

In the end, remittances plus foreign investment plus income from exports are not enough to prevent ever-increasing trade and current account deficits and rising debt. The trade deficit increased 30% last year to reach 7.3 billion euro.[65] The current account deficit reached 4.4

[62] Source: BNR Governor Mugur Isărescu, cited in *Ziarul Financiar*, April 23rd 2004.

[63] This is of course not to say that there are no disagreements between and within these institutions, nor that the trade-offs involved in policy-making in this area are not recognized. BNR Governor Mugur Isărescu, for example, complains quite frequently that to depress inflation while structural imbalances in the economy continue to exert inflationary pressure is far from his ideal job description. (BNR has been forced to continually absorb liquidity from the monetary market as well as, generally speaking, keep interest rates up.) See, for example, Răzvan Voican in *Ziarul Financiar*, July 19th 2004.

[64] Minister Delegate for Liaison with Social Partners Marian Sârbu, cited in *Gardianul*, April 15th 2004. Of course Romanians working abroad do not always do so legally. The subject of illegal labor will be addressed below.

[65] Exports came to almost 19 billion euro, up by 21.3% from 2003, with metallurgical exports spearheading the growth (+45%). Apparel generated most of the export revenue at 4.2 billion euro (22.3% of the total). Imports

billion euro at the end of 2004, registering an increase of 43.9% on year. According to the 2004 Economic Pre-Accession Programme submitted to the European Commission by the Romanian authorities early this year, this level accounts for 7.7% of GDP.[66] Romania's medium and long-term foreign debt exceeded 17.5 billion euro at the end of 2004, an 11.9% increase on year and up some 58% since 2000.[67] The personal debts of citizens are also increasing steadily, as car, mortgage, and consumer loans have become much more readily available of late.[68] While Romania is still not very highly indebted in comparison to other developing economies and in proportion to GDP (33.2% in 2003),[69] its rising debt is particularly frustrating for two reasons. One is that Romania began its transition entirely free of foreign debt (a result of Ceauşescu's insane policy of paying it all off at a huge costs to public welfare). The second is that so little sustainable improvement is evidenced as a result of the debt that has since been incurred. It is of course highly improbable that Romania could have attempted any kind of recovery without borrowing. However, questions can legitimately be raised about the conditions that have been attached to the loans received and about the manner in which lower deficits and general macro-economic stabilization have been pursued in their context. Both EU and, more stringently, IMF conditionality operate to rule out demand-driven recovery and to tie macroeconomic stabilization to the anchor of persistently low living standards. A variety of instruments from suppressing budget deficits to euro zone levels to holding fast to anti-inflationary interest rate policies worthy of the Bundesbank are used in the interest of a stabilization policy whose benefits for ordinary Romanians and indeed for domestic economic recovery could at best be reaped indirectly, through massive and sustainable investment that would also bring high levels of lucrative employment. Such a recovery scenario is a dream. In the meantime, Romania's macroeconomic stabilization policy benefits mainly those officials who can obtain political credit by winning applause from EU or IMF delegations and those investors who wish Romania to become a less risky while remaining a low-cost and/or high-margin investment environment.[70]

Costs and Benefits from EU Integration

But what about the economic benefits arising from EU pre-accession support and expected transfers after accession? It is extremely difficult to make reliable estimations of the net benefits of EU integration. On the one hand, there are some clear financial benefits. Romania has received support under the Phare, ISPA, and SAPARD programs and this support will be further stepped up in the years to come. It has also received (and will continue to receive) additional support tied to EU conditionality, such as loans from the EBRD, and generally better credit and lower investment risk ratings than it would have had were it not for the accession process. After joining the EU Romania will of course no longer receive pre-accession support, but it will be a net beneficiary of internal EU redistribution measures (inasmuch as those will still be in place at that time). Thus, according to negotiation results on

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exceeded 2.6 billion euro, up by 24% year-on-year, with imports of means of transportation expanding by 85% from 2003. Source: *Ziua*, February 3rd 2005.

[66] Liviu Chiru in *Ziarul Financiar*, February 23rd 2005.

[67] Foreign public and publicly guaranteed debt amounted to around 10 billion euro. Non-publicly guaranteed foreign debt reached 7.5 billion euro. Source: NBR data, cited by Răzvan Voican in *Ziarul Financiar*, February 23rd 2005.

[68] The National Bank has worked to curb the resulting loan craze in the interest of controlling the current account deficit.

[69] Thomson Financial Datastream, WIIW, RZB-Group Research, cited in Raiffeisen Research (ed.), "Romania Market Outlook," May 11th 2004.

[70] The importance of low labor costs in Romania is illustrated by Renault/Dacia's decision to build its new 5,000 euro model, the Logan, in Piteşti, Romania. One element of "Renault's most aggressive attempt yet to reduce costs" was the decision to severely limit the use of automation in the production process. The car is being assembled manually by more than 2,000 workers. The average Piteşti worker earns about €300 a month, or one-tenth of a worker in a French plant. See "The Birth of a Frankenstein Car," *Financial Times*, July 20th 2004.

chapter 29 – Finance and Budgetary Provisions - Romania will contribute nearly 800 million euro/year to the EU budget between 2007 and 2009, but will receive some 2 billion euro/year back in the same interval.[71] Then there are the possible yet incalculable benefits of full (minus labor) market integration that are expected through improved trade and investment flows and the adaptation of governance and business practice in Romania to the more transparent and stable EU regulatory environment.

To what extent and in what timeframe the benefits incurred through yet closer economic integration will outpace their costs is, however, far from clear. The results of negotiations on the agriculture chapter, for example, should be cause for some worry. At present, more than 35% of Romania's active population, that is 3.6 million people, are employed in the farming sector (compared with an average of 5% in the EU member countries).[72] The sector accounts for 14% of the GDP.[73] Romania will receive some 4 billion euro in farm subsidies between 2007 and 2009, a sum equal to eight annual budgets of the Ministry of Agriculture.[74] However, subsidies and quotas will not allow Romanian agriculture to recover from its depressed state. They are instead designed to force the sector to shrink, at an inestimable social and cultural cost to a traditionally agricultural population. The EU's policy is to support farms of over 15 hectares of land or those between 3 and 15 hectares of land (semi-subsistence) that come up with business plans to prove their commercial potential. Much of Romania's farmland is presently divided into smaller than 3 hectare plots and/or used for subsistence farming.[75] Romania's grains fields quota has been set at 9 million hectares, of which 7 million hectares will be subsidizable. The 9 million hectare surface does not include hundreds of thousands of hectares that have been left to decay in recent years. Romania's milk production quota has been set at 3 million tons (subsidizable), against a current production of some 45 million tons. The country's sugar beet quota only matches 12.5% of the current production.[76] Profound disruption is sure to result from these impending changes. A study on "Rural Development and Romanian Agricultural Reform" commissioned by the Romanian Centre for Economic Policies coolly suggests that excess labour in rural areas could be reduced by migration abroad and retirement. The authors of the study found that if one million peasants currently employed in the farming sector were to retire, 2 million hectares of land would become available to be commercially exploited.[77] It is unclear how the "retired" farmers would get food on the table, nor whether living as migrant workers in foreign countries is something that especially older Romanian farmers could be expected to enjoy.

Aside from such costs incurred by radical change in a great many policy areas, the direct expense for Romania of fully implementing the Union *acquis* would be enormous. The need to adapt to EU environmental standards is a good example. Romanian authorities have admitted that Romania cannot reach European environmental standards before 2032 (an entirely arbitrary date) and have obtained extended transition periods to catch up in this area. It is, however, unclear, to what extent even lengthy transition periods (never mind their other

[71] Finance Minister Mihai Tănăsescu on the results of the preliminary closure of the chapter, cited in *România Liberă*, June 7th 2004.
[72] Stelian Negrea in *Ziarul Financiar*, May 19th 2004.
[73] According to a study by the Romanian Economic Policy Center, cited in *România Liberă*, May 11th 2004. The same study reveals that Romania ranks almost last in Europe (before only Albania and Turkey) in terms of rural utilities, rural transportation infrastructure, and rural life expectancy.
[74] Reported in *Adevărul*, June 7th 2004.
[75] No less than 67% of Romanian farms measure less than 3 hectares, according to a study by the Romanian Economic Policy Center, cited in *România Liberă*, May 11th 2004.
[76] Reported in *Adevărul*, June 7th 2004. It should be noted that Poland, the new member state with the largest agricultural sector, has not fared better.
[77] Stelian Negrea in *Ziarul Financiar*, May 19th 2004.

worrisome implications) can solve the problem of massive costs. Romania expects to require some 15 billion Euro to comply with EU water standards alone.[78] A study by Romanian and French specialists indicates that an additional 2.5 billion euro are needed to bring waste collection and disposal systems up to European standards.[79] The costs of implementation of the entire environmental acquis have been estimated at 29.5 billion euro.[80] Of course the EU helps with these costs, but it does so only at a small fraction of the sums involved. It is entirely unclear how Romania can be expected to raise the rest, especially given the downward pressure on its public sector and regulatory capacity which is exerted by the simultaneous requirements of economic liberalization.

4. Social and Political Costs

The EU's development and enlargement policy has combined with the conditionality exerted by other international and foreign actors to create significant social costs as well as costs to the process of democratization. This has been true not only for Romania, but in Romania both socio-economic standards and standards of democratic governance remain particularly low. According to official statistics, GDP per capita reached 2,185 euro in 2003 and around 2,240 euro in 2004 (the world average being 4,267 euro).[81] Eurostat reported Romania's GDP per capita in 2003 at 30% of EU average.[82] GNI per capita stood at 1,542 euro in 2003, according to World Bank data.[83] Even at purchasing power parity the picture looks very grim: For 2003 the CIA estimated GDP per capita at PPP at 5,750 euro, which ranks Romania 101st in the world, after much of Asia, Africa, and South America.[84] Romania has the lowest purchasing power in Europe at 1/7 of the European average.[85] The average purchasing power of a Romanian household equals 5% of the average purchasing power of a Swiss household, and the absolute poverty pole of Europe is the region of north-eastern Romania, at 13.4% of the average European purchasing power and with a poverty risk of 43%.[86] The UNDP ranks Romania among the medium human development countries at 72nd place in the world.[87] Notably, human development in Romania has declined slightly since 1985, the first year for which figures are available, even though the 1980s were the worst period for human welfare in Romania's post-World War II history.

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[78] Source: Florin Stadiu, a secretary of state at the Environment Ministry, cited in *Gardianul*, April 14th 2004.

[79] Adevărul, April 6th 2004.

[80] According to impact studies conducted by the European Institute in Romania, cited by Miruna Lebedencu in *Ziarul Financiar*, July 29th 2004. The studies also estimate a cost of 18.3 billion euro for transportation infrastructure in the 2004-2007 period.

[81] All figures cited by Gabriel Ţăranu in *Ziarul Financiar*, April 30th 2004.

[82] Cited in *Adevărul*, June 4th 2004.

[83] World Bank, *Romania Country Brief 2003*, available at www.worldbank.org.ro/ (last accessed August 6th 2004).

[84] CIA, *World Factbook 2004: Romania*, available at http://www.cia.gov/cia/publications/factbook/index.html (last accessed August 6th 2004).

[85] Figures according to a study conducted by German-based Consodata Marketing Intelligence and Austrian-based RegioData Research. It analyzed purchasing power in 29 European countries divided into 279 regions. Cited in *Ziua*, April 7th 2004. Another source claims GDP per capita at PPP to be 30% of the EU-25 average in 2003. WIIW, RZB-Group Research, cited in Raiffeisen Research (ed.), "Romania Market Outlook," May 11th 2004.

[86] Study conducted by German-based Consodata Marketing Intelligence and Austrian-based RegioData Research, cited in *Ziua*, April 7th 2004. The poverty risk for Moldova was calculated by the Romanian Anti-Poverty Commission (CASPIS) and cited in *Cotidianul*, July 26th 2004.

[87] Romania's HDI value is calculated at 0.773. Source: UNDP, Human Development Report 2003: *Millennium Development Goals: A Compact Among Nations to End Human Poverty*, available at http://hdr.undp.org/reports/global/2003/ (last accessed August 6th 2003).

It is quite evident that inequality in the country has risen since 1989 and is continuing to rise. However, reliable figures on income distribution trends are exceedingly difficult to come by, especially for the last few years. According to the UNDP, the gini index of the distribution of family income was 30.3 in 2000. In the same year the top 10% of households held 23.6% of the household income or consumption share, the lowest 10% held 3.3%. The richest 10% were 7.2 times richer than the poorest 10%.[88] Between 1996 and 1999 the percentage of the Romanian population living under the World Bank poverty line doubled from 20% to 41%. In 2003 it stood at 28.9%, with 60% of the poor living in rural areas. Another large part of the population lives only slightly above the poverty line, thus extreme poverty has the potential of fluctuating upward considerably.[89] According to the governmental Anti-Poverty Commission (CASPIS), 6.5 million Romanians live in poverty, 2.4 million of them live in extreme poverty, and 1.2 million among them cannot afford minimal nutrition (based on their official incomes).[90] A study by Metro Media Transilvania and Gallup Organization Romania indicates that a third of the population of Romania cannot officially afford basic products and services such as food or heating.[91] Even additional non-declared incomes are not typically high enough to ensure much more than bare survival for this population group. According to a poll by Metro Media Transilvania, nine out of ten Romanians do not see a doctor when they need to because they cannot afford one.[92] Romania has the third highest child mortality rate in Europe with 18 deaths per 1000 babies born alive, after Albania (37) and the Ukraine (21). The figures are particularly alarming in rural areas, where both well-paid jobs and modern health care facilities are scarce.[93]

As usual, the weakest groups in society are the hardest hit by poverty. According to a study by UNICEF, Romania's Ministry of Labor, and the Bureau of International Labor Affairs, 900,000 of the approximately 5 million children of Romania are forced to work. Most of them are illiterate, as they were withdrawn from school. 300,000 of them perform extremely hard tasks of manual labor; 70,000 are practically slaves – subject to the gravest forms of child exploitation such as prostitution and/or use in narcotics networks. About 89% of the exploited children live in rural environments.[94]

In the countryside the poverty risk is 2.3 times higher than in urban areas, and 20% of the Romanian poor are farmers.[95] But also in the cities, those unable to work or to find work frequently live without even the barest of necessities. Another 20% of Romania's poor are pensioners.[96] In 2004 over 400,000 pensioners lived off under 25 euro per month, while over half of all pensioners (2,940,000 people) lived on less than the minimum wage of 69 euro.[97]

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[88] The richest 20% held 38.4% of the household income or consumption share, the poorest 20% 8.2%. The richest 20% were 4.7 times richer than the poorest 20%. Source: UNDP, Human Development Report 2003: *Millennium Development Goals: A Compact Among Nations to End Human Poverty*, available at http://hdr.undp.org/reports/global/2003/ (last accessed August 6th 2003).

[89] World Bank, *Romania Country Brief 2003*, available at www.worldbank.org.ro/ (last accessed August 6th 2004).

[90] Cited in *Cotidianul*, July 26th 2004.

[91] Cited in *Gardianul*, May 27th 2004. About 41% of the respondents said their income was just about enough to cover basic needs. Only 1% of the Romanians appear able to afford everything they need.

[92] Cited in *Gardianul*, May 11th and July 20th 2004.

[93] CIA *World Factbook*, cited in *Gardianul*, April 30th 2004. See also the AFP press report "High Infant Mortality Rates in Romania," April 18th 2005.

[94] Cited in *Adevărul*, May 7th 2004. These figures are confirmed by a study by the National Research Institute attached to the Ministry of Labor and Social Security, cited in *Gardianu*l, July 27th 2004. According to this study, nearly 900,000 Romanian children work illegally (by performing "strenuous chores for their parents or neighbors"), while another 300,000 children are legally employed (most of them on farms).

[95] Anti-Poverty Commission (CASPIS), cited in *Cotidianul*, July 26th 2004.

[96] Anti-Poverty Commission (CASPIS), cited in *Cotidianul*, July 26th 2004.

[97] The National Federation of Romanian Pensioners' Unions has revealed that, despite recurrent pension indexation, the average pension in Romania in 2004 lay at 43.76 euro, while the average pension paid for full

They are joined in poverty by a rising number of unemployed created by the restructuring process. The official unemployment rate of about 8% is grossly misleading, as it does not include those who have given up seeking official support, those whose incomes, such as in small-scale agriculture, are unsustainable, nor the large numbers of under- and inefficiently employed whose jobs are extremely precarious. Loss-making state-held companies that have been placed under a special monitoring program agreed upon with the IMF fired some 20,000 workers in the second half of 2004 alone.[98] In 2005 money-losing state-held enterprises are scheduled to shed 9,069 employees, most of them (5,159) miners. Of the 9,069 people in question, 6,489 will be fired, 990 will be "outsourced" and 1,590 will be retired.[99]

Due to a low retirement age of 56 years for women and 61 years for men[100] as well as to the after-effects of Ceausescu's anti-birth control policies, of the ca. 22 million Romanians only an estimated 10 million are currently active on the labor market. Of those only 4.2 million are legally employed. Over half of the population under 30 is estimated to work illegally. A Eurostat study identifies Romania as a European illegal labor leader, with some 21% of the GDP derived from illegal labor.[101] Romanians work illegally at home as well as abroad. When working illegally abroad they are estimated to usually obtain about 1/3 of the average salary in the country in which they work. Given the relative difficulty of working illegally in the EU, one popular destination is Israel. Approximately 200,000 Romanians were estimated to be working illegally in Israel in 2004.[102]

Of course such initiative is born from dire necessity. A sad illustration of the desperation born from the disparity between rising prices and stagnating or even declining socio-economic security in Romania could be witnessed in the days before the 2004 Easter holidays: Blood donors queued up before hospitals around the country in order to obtain the small compensation granted for giving blood. They temporarily solved the usual blood shortages - in order to be able to pay for their traditional simple Easter meal.[103] Another illustration is the alarming increase in Romanians suffering from mental problems.[104] Official statistics suggest that since Fall 2003 more than 1,000 Romanians have become mentally ill every month. However, one factor which drives this evolution is the state pension for the mentally handicapped, which averages some 43 euro/month. Mental problems are apparently increasingly faked in an effort to obtain this money. The socio-economic insecurity faced by Romanians is taking its toll also in terms of population decline through both decreasing birth

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length of service was 65.50 euro. Cited in *Curierul Național*, April 26th 2004. As for the minimum wage, the trade unions have been demanding that it be raised to 100 euro/month – a demand which the former finance minister refused as unrealistic. (Finance Minister Mihai Tănăsescu, cited in *Realitatea Românească*, August 4th 2004). 100 euro per person per month was (in 2004) considered what a regular family would need in order to have a decent life in an urban environment, according to a study by Metro Media Transilvania and Gallup Organization Romania, cited in *Gardianul*, May 27th 2004.

98 *Adevărul*, April 29th 2004. Based on an agreement with the IMF, around 8,000 railway employees were laid off by August 31st 2004. See *Gardianul*, June 9th and July 19th 2004. Severance payments and compensations sometimes seem generous to poor fellow-citizens but cannot make up for income and security loss in any but the shortest term.

99 *Gardianul*, March 1st 2005 and *Cotidianul*, Jan. 18th 2005.

100 There are exceptions for highly qualified labor, such as university professors or doctors.

101 Only Bulgaria seems to be doing even worse, with 30% of GDP generated by illegal labor. Cited in *Realitatea Românească*, July 15th 2004.

102 Israeli authorities expelled some 100,000 illegal workers between the end of 2002 and April 2003. No less than 23% of them were Romanians. Eurostat study cited *Gardianul*, April 22nd 2004.

103 *Adevărul*, April 9th 2004. A hospital in Piatra Neamț is cited to compensate with some 3.75 euro in cash plus a 4.88 euro meal ticket and a 12.19 euro bonus for every 5th donation.

104 Between September 2003 and April 2004, the number of the mentally handicapped increased from 74,316 to 80,597 non-institutionalized cases and from 5,985 to 6,177 institutionalized cases. In the same interval, the number of the neuropsychiatrically ill increased from 49,507 to 51,007 non-institutionalized and from 5,362 to 5,661 institutionalized cases. Source: *Adevărul*, July 28th 2004.

rates and emigration. The population of Romania decreased by 1.1 million in a decade, with the gross birth rate decreasing to 9.8 newborn per 1000 inhabitants.[105] A recent poll by Gallup Organization Romania indicates that today a full three quarters of Romanians do not want to have children. 77% of the Romanian women have no intention of becoming mothers, while 68% of the men also care little for the prospect of fatherhood.[106] The resulting loss of flexibility is one reason not to start a family in Romania: Some 700,000 Romanians are estimated to have emigrated in the past decade, and many more express the intention of leaving.[107]

In spite of the obvious misery in the real economy, Romanian governments have tended to deal in symbols and signals. The previous government worked to achieve an inflation drop from 14% to 9% and 5.5% GDP growth in 2004, while fighting to control the current account deficit.[108] The current government strives to post an economic growth of 5.5% and to cut inflation to 7% by year end, as well as to keep the current account deficit to no more than 6.9% and the budget deficit to an extremely low 0.4-0.5% of GDP.[109] Simultaneously, the tax system has been radically reformed, threatening a further rise in socio-economic inequality and leading many observers to worry about a potential budget shortfall.[110] The new government introduced a 16% flat tax on both corporate profits (down from 25%) and personal income (previously 18-40%). Payroll taxation (including the mandatory contributions to the state health insurance fund, the state unemployment fund, the state pension funds, and other social contributions) is also being progressively reduced.[111] These tax reforms follow trends in the region as well as active lobbying by business, the affluent, and neoliberal economists.[112] Simultaneously, the Romanian welfare state is dismantling itself, with steps being undertaken to progressively privatize especially the pension and health care systems. Romania is thus clearly attempting to follow in the footsteps of the rest of neoliberalizing Europe.

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[105] *Curierul Național*, May 25th 2004.
[106] Cited in *Gardianul*, May 27th 2004.
[107] *Curierul Național*, May 25th 2004.
[108] *Adevărul*, April 19th 2004.
[109] See, for example, Liviu Chiru in *Ziarul Financiar*, February 23rd 2005, and Rompres “Romania: Government Closed Agreement with IMF,” February 10th 2005.
[110] See, for example, Oxford Business Group, “Fiscal Gap-Fillers,” Romania Volume 77, February 17th 2005.
[111] The previous government’s intention was to cut payroll taxes by 2-3% in 2005, with a view to further reducing them from 49.5% to 44-45% in 2006. The number of different income tax levels would have been reduced from 5 to 3. The profit tax would have been lowered from 25% currently to 20% or even 18% in 2006. (Finance Minister Mihai Tănăsescu, interviewed by *Adevărul*, April 29th 2004). The minimum income tax rate for natural persons would have dropped from 18% to 14% and the maximum rate would have gone down two points, to 38%. (Finance Minister Mihai Tănăsescu, cited in *Ziarul Financiar*, July 8th 2004). Companies would also have profited from an extended deductibility for certain expenses. The head of the Foreign Investors Council, Gilbert Wood, called these proposed changes "terrific." (Cited by Răzvan Voican in *Ziarul Financiar*, June 16th 2004). Perversely, in recent years the most important source of state budget revenue (some 25% of the total) have been VAT (Finance Minister Mihai Tănăsescu, cited in *Adevărul*, August 4th 2004).
[112] For example, the Alliance of Romanian Employers' Confederations (ACPR), the most powerful association of businesspeople in Romania, called for the reduction of the profit tax to 18%, a 4% cut to social security contributions, and the introduction of a 14-15% flat tax rate for the income of natural persons. The ACPR is generally supported by the Foreign Investors Council, the association of major foreign businesspeople in Romania. Miruna Lebedencu in *Ziarul Financiar*, July 8th 2004. The flat tax as well as reductions in profit tax and social contributions are also actively advocated by the Economic Policy Council of Junior Chamber International (JCI). (*Adevărul*, May 18th 2004). The think tank SAR (Societatea Academică Română) also advocated the flat tax in a May 2004 report: “In a country with great fiscal fraud and a frail administration there are no serious arguments against the flat tax. … Slovakia introduced a 19% flat tax in January 2004 and made the headlines in Western press. Experts believe that reform was one of the reasons why Hyundai and Peugeot have decided to open 2 new car factories in Slovakia, turning this country into Europe’s Detroit.” Cited in *Gardianul*, May 19th 2004.

Interestingly, the European Commission is now trying to dampen these developments in some respects, counteracting the IMF's more radically neoliberal influence. It has deemed Romanian officials' forecast of GDP growth and budget deficits slightly "too ambitious" and also believes that the current account deficit will diminish only gradually (as a result of continually only gradual growth exports and a slightly moderated increase in imports).[113] It is somewhat skeptical of the strong emphasis placed by the IMF on budget and public deficit reduction, disinflation, and the tool of low wage policy. However, while apparently unhappy with excessive shrinkage of the public sector and a lack of socio-economic security in Romania, it plays into the hands of the IMF's shock therapy strategy in important respects. An illustration is provided by the IMF's response to Romanian attempts to exempt public investments from counting towards the budget deficit. In negotiations for the current precautionary stand-by agreement, the Romanian party tried to convince the Fund that investments made by the state should not be regarded as expenses and therefore should not count towards the budget deficit. The IMF responded by pointing out that the EU had changed the deficit calculation formula to the effect that any public expense (irrespective of purpose) must be included in the budget. It went on to demand that even given this strict definition of expenses, the 2004 budget deficit should be as low as 2.1% of the GDP. The government afterwards dutifully expected it to range between 2.2% and 2.4%[114] and even, after an unexpected GDP surge (6.5% in H1 2004), revised the target down to 1.64% to speed up disinflation.[115]

A 2004 IMF report assesses the Fund's experiences with Romania since 1991. It concludes that the Romanian authorities' commitment to disciplining wages and pushing forward structural reforms remains weak, largely reflecting resistance from vested interests. Specifically, it complains that collusion between the management of large state-owned enterprises, labor unions, and factions within ruling parties has hampered efforts to impose financial discipline on state-owned enterprises and to accelerate privatization. Concerns about the social impact of restructuring have allegedly been abused by vested interest to keep non-viable state-owned enterprises afloat, and efforts to reform the social safety net to make it compatible with accelerated structural reforms have started to be made only recently. The Fund also complains about the absence of a clear intra-governmental consensus on key economic policy parameters.[116] None of the IMF's criticisms are entirely unjustified. However, what reports such as this one conspicuously fail to mention is that the sort of anti-reform collusion they complain about is an expression of plurality if not majority opinion in the country and supported by important domestic interests.[117] The absence of a governmental

[113] The Commission's experts estimated that the Romanian economy would grow by 5.1% in 2004 (which was slightly less than the government's 5.5% target), and by 5.3% in 2005. Cited in *Ziua*, April 8th 2004.

[114] *Adevărul*, April 23rd 2004. The objectives stated in the original arrangement include a current account deficit cut to 5.5% in 2004, an inflation rate cut from 9% in 2004 to 6% in 2005 and then to 4% in 2006, annual economic growth of 5%, and a budget deficit cut from 2.4% of the GDP in 2003 to 2.1% in 2004. Also, bankruptcy procedures were to be initiated against five grand debtors to the state. Cited in *Gardianul*, July 8th 2004.

[115] *Ziarul Financiar*, August 31st 2004, and *Realitatea Românească*, Sept. 1st 2004.

[116] Cited in *Ziarul Financiar*, April 28th 2004.

[117] In May 2004, 48% of Romanians felt that their country was evolving in the wrong direction (against 44% who felt it was evolving in the right direction). 34% felt that their lives had deteriorated over the past year (while 41% felt it had stayed roughly the same and 24% felt it had improved). 35% expected improvement from the year to come while 20% expected deterioration (and 33% stability). 38% of people reported to be reasonably content (4% very content) with their lives, while 41% were unhappy and 15% very unhappy. The main reason for complaint is lack of money (75% of Romanians cite lack of money as a source of unhappiness, far ahead of health and the situation at work). Asked to characterize the current situation in the country in one word, 54% used a negative word (30% a positive one). After health problems, what causes most fear in respondents are the uncertainty of the children's future and the evolution of prices (in second place as first mentioned reason to fear).

consensus on economic parameters as well is not only a sign of bad governance (it is that, too, in this case) but also a reflection of public opinion and its diversity. A government willing and able to disregard such interests and diversity could hardly be called democratic. There is no doubt that IMF and also World Bank involvement has been valuable in pointing out problems and weaknesses in the Romanian transition, in identifying at least some possible solutions, and in providing support for applying them. However, there is a strong bias in particularly the IMF's approach towards treating transition as a technical problem. While there are of course many technical aspects to the reform process, the process itself is not of a technical nature, and treating it as such ultimately means denying a people its sovereignty. The EU has at least at the rhetorical level been more sensitive to this truth. However, the practical effects of its development and enlargement strategy have frequently contributed to the same problem.

Political and Administrative Integration

When it comes to political integration, the picture looks less complicated at first glance, because it is more apparent how EU recipes for the rule of law and efficient administration can help a people striving for accession to govern itself. However, while economic integration in the form sketched above has progressed relatively rapidly in the past 15 years, Romania's adaptation to EU governance standards has been woefully inadequate. One big problem is corruption, which is intimately connected with popular respect for and trust in public institutions. Despite anti-corruption measures publicized over the past years, it appears that the share of Romanians who believe the authorities are really doing nothing to solve the problem has increased from 54% in 2001 to 71% in 2003. Some 33% (24% in 2001) of Romanians believe that paying bribes is a natural part of life and that who wants to live must pay bribes. No less than 86% of the Romanians believe their country is corrupt (75% in 2001). Asked what they would do if they witnessed an act of corruption, 33% of the respondents said they would tell no one, while 37% said they would gossip about it with their friends. Only 10% said they would testify to it in court.[118] A Public Opinion Barometer released in May 2004 by the Open Society Foundation indicates that 45% Romanians believe that corruption has expanded since December 2000, while 29% believe it has remained at the same level. Only 14% of the respondents believe that official measures taken have had some positive effect. The most corrupt Romanians are judged to be the members of parliament (58%), the policemen (53%), the medical doctors (52%), the judges (51%), the ministers (49%) and the prosecutors (43%).[119] While the new Băsescu/Tăriceanu government has made the fight against corruption an official priority, it remains to be seen how the situation will really change. The European Commission will produce its next assessment report on Romania's progress towards accession in November. It is expected to once again place corruption and the slow pace of judicial reforms at the top the list of concerns.

Undue state influence is another big problem, which has even been growing recently.[120] It is exerted primarily through the courts and the media. According to a preliminary report by the Ministry of Justice and the National Criminology Institute, over

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These are the results of a poll conducted by the Gallup Organization Romania and Metro Media Transilvania, reported in Open Society Foundation, *Barometrul de Opinie Publică: România*, May 2004.

[118] These are the results of a GfK study on CEE, cited in *Adevărul*, April 22nd 2004. See also the results of a poll conducted by the Gallup Organization Romania and Metro Media Transilvania, reported in Open Society Foundation, *Barometrul de Opinie Publică: România*, May 2004. Gallup figures reveal that only one out of five Romanians "would not pay a bribe under any circumstances" if a public servant hinted at this possibility to oil the wheels of bureaucracy. Two out of five Romanians believe it is "very probable" that a bribe is in order if one wants to solve a problem. Four out of five Romanians believe corruption is a very efficient tool in solving problems. Cited in *Gardianul*, May 14th 2004.

[119] Cited in *Adevărul*, May 26th 2004.

[120] Once again, it is difficult to judge any difference made by the recent change in government at this point.

77% of the Romanian judges say that the courts are under political pressure.[121] As for the media, according to Freedom House, Romania is plagued by an increasing use of lawsuits by authorities against independent media outlets and a rise in attacks against journalists. This had led to it being ranked 103rd among 192 countries in terms of the state of press freedom.[122] According to the latest report on Romanian press freedom by Reporters Sans Frontieres, attempts to manipulate information, self-censorship, political pressures, and outright assaults are making it difficult for Romanian journalists to freely carry on their work – even fifteen years after the collapse of Ceausescu's regime.[123]

False hopes for quick riches aside, it is the field of political reform where Romania apparently stands to gain most from accession. The idea is that the EU will provide a better regulatory framework alongside some level of oversight to ensure its enforcement. It will thus compel Romania to make a step in the direction of "good governance" and the full implementation of the Copenhagen political criteria. However, this seductive logic is to some extent simplistic and might actually be faulty if the time frame of interest is extended. The logic is simplistic to the extent that governance in the EU is idealized or even misunderstood. One of Romania's most sophisticated newspapers lamented on the eve of May 1st 2004 that this enlargement wave would lure three years of potential investment away from Romania because the new EU members would "provide a safer business environment, with strict European rules, which are always obeyed."[124] While it is of course true that, ceteris paribus, business prefers a predictable environment, this quote and very many similar statements in the Romanian media show a dubious grasp of capitalist economics as well as an idealization of the EU regulatory environment. Moreover, Romanians are prone to overlook the fact that even after accession law enforcement at home would still be domestic business. Given its current weakness, joining the EU at this point in time might even be counterproductive for the very goal of improving governance. The reason is that the EU, being still and maybe even increasingly an intergovernmental polity, cannot be much more than the sum of its parts. Enlarging to include a country like Romania might not only not improve governance in Romania – it could jeopardize governance in the EU. This again would be a problem not least for countries like Romania, for which a well-functioning EU is vastly more important than, say, for the United Kingdom or Ireland, which have much more of a capacity to reorient their economic and foreign policy. Groucho Marx is reputed to have said that he would not want to be a member of any club that would accept him. While Romania can and should clearly not remain indefinitely in such a posture, the net benefits from a delayed accession under stricter criteria (and ideally even improved relative economic standing) are certain to outweigh those from the largely symbolic gratification of quick membership.[125]

[121] According to the judges, the legal system in Romania only works in 75% of the cases. Among the causes of this situation they mention overcrowded courts, inadequate laws, insufficient legal guarantees of the judges' independence, and corruption. Other polls on the same topic indicate that only 38% of the Romanians are satisfied with their legal system. Cited in *Adevărul*, May 20th 2004.

[122] It ranks between Panama and Bosnia-Herzegovina and below Burkina Faso, Lesotho, Madagascar, Antigua and Barbuda, Tonga, Uganda and Comoros, Kiribati, Vanuatu, Tuvalu and Nauru. Freedom House, cited by *Ziua*, April 30th 2004.

[123] Soria Blatmann and Jean-François Julliard (for Reporters Sans Frontieres), "Caught Between Old Habits and Democratic Strides: Romanian Press at a Crossroads," April 2004; available at http://www.rsf.org/article.php3?id_article=6528 (last accessed August 4th 2004).

[124] *Ziarul Financiar*, April 30th 2004.

[125] This argument might admittedly sound cynical to members of minorities and other persons who currently feel threatened and/or oppressed by Romanian authorities and/or majorities and who urgently seek redress of grievances from EU institutions. Homosexuals or ethnic Hungarians, for example, have additional reasons to wish for quick accession, which we do not discuss here.

5. Concluding Remarks

Not exactly the poster-child of successful post-communist transition, Romania has been widely considered a basket case of European integration as well. In the last couple of years, there were serious complaints concerning weaknesses in the rule of law, judicial independence, freedom of the press, human rights protection, and other aspects of political as well as economic transformation. As a consequence, the country did not join the European Union in the enlargement wave of 2004. Even the officially targeted entry date of January 1st 2007 might still be missed, as further progress in the effective implementation of the commitments undertaken in all areas of the acquis will be closely monitored by the European Commission. Also inside Romania a few individuals have begun asking themselves whether their country is actually prepared to take this step. It seems that the assumption of the unquestionable desirability or even inevitability of speedy integration has belatedly been somewhat relaxed on both sides (despite the December 2004 European Council conclusions). To be sure, to this day, lack of information and illusory expectations from accession, frustration with domestic politics and living standards, and cultural affinities combine to keep the goal of European integration enormously popular in Romania, more popular indeed than it has been in any other new member or candidate country.[126] However, it has also become more widely acknowledged that elites have echoed the desire for accession and have seemed to work towards this goal without fulfilling two criteria crucial to ensure the overall success of the process: First, they have not taken their citizens seriously enough to engage in a public dialogue which could link the goal of integration with that of democratization. Second, they have not taken the goal seriously enough to work for integration much beyond the declarative level. Adaptation to EU demands has thus taken place without a corresponding reorientation of society as a whole or democratization of state-society relations, and it has taken place primarily on paper. This is one reason for the declining patience of the European institutions. It is also a reason why a few critical voices inside the country are now breaking with the unquestioned consensus in favor of an accession at the earliest possible date.[127]

The logic is roughly the following: Ever since 1989, the lofty goal of Euro-Atlantic integration has seemed by far the most important driving force behind domestic reform, and, given Romania's abysmally bad condition in 1989, it is unquestionable that reforms of some description were required. It is widely believed inside the country that those improvements that have been made to governance since 1989 have been the result of pressure and promises from the outside, and most importantly of that pressure and those promises associated with the European integration process. The reason is that acceptance by the EU seemed to require that Romanian political elites get their act together and abandon their quest for personal profit and power to at least a minimal extent for the good of the country. The EU's rules, norms, and accession criteria represented a more advanced system and culture of governance, and Romania's successful evolution depended on connecting with this superior political system and culture. If the EU is now relaxing its criteria vis-à-vis Romania, and accepting the country in spite of the evident shortcomings, this sends a signal to elites and society alike that the culture of governance in the expanding EU is after all not so different from that which has been typical for Romania: It is always possible to muddle through, and serious dedication to an improvement of citizens' lives is not necessary to survive in power, even in a democracy. This would be an extremely disheartening signal, and it would leave Romanians with little hope for genuine democratization or improvement of governance at home. Instead, it would

[126] This is evident from all relevant Eurobarometer surveys, which can be found at http://europa.eu.int/comm/public_opinion/index_en.htm (last accessed August 6th 2004).

[127] See also the insightful recent book by Tom Gallagher, *Theft of a Nation: Romania Since Communism* (London: C. Hurst & Co, 2005).

play into the hands of those elites who have done no good throughout the transition period, or, worse, pursued their personal benefits at public expense, and it would further depress hopes for any truly capable and democratic opposition to emerge in the country.[128]

This is one important reason why some inside Romania have recently been asking for the EU to be tougher on their own country. The other main reason to be skeptical of the benefits of an early accession are the risks and downsides of further integration, and the lack of apparent clear benefits. Most of the benefits of integration which are mentioned as such in the press have either already be obtained, such as almost complete market access to the EU, or are not likely to be obtained even after accession, such as free movement of labor. Instead, there are evident risks, such as price increases outpacing productivity growth, the accelerated loss of means of production, including land, to foreign owners, and a large number of other problems resulting from the general inability of the Romanian economy to compete within the context of regional and global integration.[129] The EC's regular warnings that successful accession requires 'a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union' have for all intents and purposes not been understood in Romania by more than a few handful of technocrats and businessmen.[130] The question whether this form of competitiveness is even desirable, and what the consequences of its pursuit for the general population will be, has not even been raised.

Is There an Alternative to EU Integration?

Theoretically, there are of course alternatives for Romania to joining up with the European Union. Three main alternatives could be pondered: the pursuit of autarky, smaller-scale regional integration, and radical global integration. The pursuit of autarky is of course out of the question. It is clear that economic isolation would not allow Romanians to live the sorts of lives they wish to live. Given the country's plentiful basic natural resources and low population density, Romanians would probably be able to feed and house themselves, and even, given some time, fulfill their own basic energy needs. However, given the lack of a diversified industrial base and key industrial raw materials, they would clearly be condemned, for the foreseeable future, to a 19th century level of amenities. Economic isolation would of course also have a wide range of other negative consequences, such as a likely lack of collective security arrangements as well as a severe curtailment of other forms of international exchange, affecting everything from access to scientific know-how to judicial cooperation. Both hard and soft security in the country would suffer as a consequence. Moreover, aside from practical ones there are strong cultural and identitary reasons for Romanians to seek close ties with "the west". Unsurprisingly, isolationism is extremely unpopular with the Romanian people, and its pursuit neither feasible nor desirable for the Romanian government.

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[128] We hesitate to view the recent change in government as a strongly positive signal in this regard.

[129] On the problem of competition for transition economies see also Annette Freyberg-Inan, "Transition Economies," in Richard Stubbs and Geoffrey Underhill (eds.), *Political Economy and the Changing Global Order* (Oxford University Press, 3rd ed., 2005).

[130] Some Romanian businessmen have argued that the Romanian economy is about to enter an era of expansion and the country should thus wait until certain sectors become profitable, which would enable it to more successfully enter the community market. Vocal among them has been Ion Țiriac, who controls business in Romania estimated at 1 billion euro. A poll conducted by EurActiv, a Brussels-based think tank, shows that only 57% of Romanian top managers see accession taking place in 2007, while one third believe 2009 is the most likely date. 80% of the respondents stated they did not believe Romania would be actually economically ready to join at either of the two dates, but only much later. The main benefits of staying outside the European Union cited include a cheaper workforce, which would appeal to foreign investors looking to cut costs. *Ziarul Financiar*, May 19th and May 21st 2004. The same poll revealed that 90 out of 100 top managers in Romania believe that corruption is the main obstacle in Romania's way to the EU. Cited in *Gardianul*, May 17th 2004.

A second alternative could be economic integration limited to a region. Given strong anti-Russian sentiment, the fact that Romania is bordered in the north and east by former Soviet republics, and the accession of Central Europe to the EU, the only feasible and indeed, after the accession of most CEFTA countries, the only practiced option not directly involving the EU is Balkanic regional integration. Romania is a member of the Balkan Free Trade Area, set up in November 2003 with Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Macedonia, and Serbia-Montenegro. Within this area, customs duties are being progressively dismantled (with the exception of agricultural goods). However, it has been clear from the beginning of this process of regional integration that it is conceived as part of the larger process of pan-European integration. The function of the Balkan Free Trade Area is to make the participating countries more attractive to investment from the outside and to serve as a step to their eventual European Union membership. In 2001, at the EU's initiative, the countries of the Balkan region (including Romania and Bulgaria) signed a "Memorandum of Understanding on Trade Facilitation and Liberalisation" under the auspices of the Stability Pact for South Eastern Europe. The countries involved committed themselves to concluding, before end 2002, a network of bilateral free trade agreements which would develop into intra-regional relationships of which the Balkan Free Trade Area is an expression. According to the European Commission, these regional relationships "are paving the way to integration with the EU."[131] They are clearly perceived, by the EU as well as the participating states, as a stepping stone towards, and not alternatives to, European integration. Indeed, a pursuit of autonomous closer integration in the Balkans seems quite out of the question, given a lack of strong historical ties involving all member states (especially Romania), plentiful intra-regional grievances, a strong dependency on outside support, the lack of a growth engine, and the presence of strong general transnationalization pressures.[132]

A third alternative to integration with the EU would be a radical opening of Romania to the world economy, bypassing the EU level of governance. This would of course have been a possible route to take, but it is difficult to see what advantages it could have over integration with (and via) the EU. Romania would likely be subjected to all the risks and negative consequences of neoliberalization sketched in the previous section, while losing the material and psychological support it now receives from the EU and its allied actors.[133] Transition would likely have been yet more painful if it had been undertaken in this way, and a change of course now would in addition be a diplomatic affront from whose consequences the country, surrounded by EU members and candidates, would likely not be able to recover in the foreseeable future.

While the first alternative option has never been practically feasible, and the second would have faced enormous odds, the third option might have been feasible (if probably undesirable) in the very beginning of the transition period, a fact that is indeed reflected in the more critical stance of the government towards the EU at the time. Today, however, there appears to be no alternative at all to EU integration. This, of course, leaves the Romanian government with very little room to maneuver and very little negotiating power vis-à-vis the EU's institutions and member states. Political elites in the country live to a significant extent at the mercy of the integration process, while in the perception of ordinary citizens as well their fates are closely tied up with the goal of accession. The EU has played and continues to play a huge role in shaping the Romanian transformation process and, indeed, influences all

[131] Cited from the European Commission Website, http://europa.eu.int/comm/trade/issues/bilateral/regions/balkans/index_en.htm (last accessed August 5th 2004).
[132] It should be noted that the EU took its first steps plagued by all these handicaps except the last two.
[133] Stopping short of becoming the 51st state, it is unlikely that Romania would have obtained as much support even if it had accepted policy guidance exclusively from the US.

aspects of nominally domestic politics in the country. Its responsibility is therefore difficult to exaggerate and its continued leniency towards Romania made more puzzling.

The above conclusion that there appears to be no alternative to EU integration, true as it may be, certainly does not imply that stability and security – in this paper first and foremost understood in terms of a future improvement of levels of economic prosperity, social inclusiveness and democratic consolidation (and not in the narrow EU meaning of external stability and security at its, present and future, borders) - for the Romanian people is the self-evident outcome of the (partially) EU-induced economic transformation. Or, to put it differently, that 'all is for the best in the best of all possible worlds'. On the one hand, all key data presented in this paper indicate that this transformation is far from complete, or unproblematic when it comes to its (social and political) consequences. Macro-economic and monetary indicators and trends in external trade and FDI suggest that Romania is indeed a basket case in point. The EU enlargement strategy towards CEE in general and Romania in particular, on the other hand, is partly to blame for this situation. This strategy was (and is) primarily directed at preparing the countries in CEE for incorporation into the Single Market. This basically boils down to opening up the emerging markets of CEE to the benefit of - first and foremost - West European business. Financial assistance since 1989 has been symbolic indeed, especially when compared to the financial assistance to the less developed member states of the EU in the context of the structural and cohesion funds. What is more, the countries in CEE which will become members of the EU in the years to come (like Romania) may not even have the prospect of receiving larger sums of money. And they are certainly not in a position to prevent the EU from 'rationalizing' the community's regional and agricultural policies. This is the European context in which the double transformation in CEE has to be carried through in the nearby future. The outcome of these transformative processes is by no means self-evident and the strategy of the EU can be hardly seen as supportive to greater stability and security (as defined above) in the region. Much depends then on the direction in which the process of social and political restructuring is conducted. In order not to endanger both, greater sensitivity to the social and political costs of economic transformation in candidate countries (such as Romania) is urgently required from the EU's institutions and members.