

## THE RELATIVE ADVANTAGE THROUGH ROMANIAN EUROPEAN INTEGRATION PROCESS

Mihaela VARTOLOMEI

“Politehnica” University of Timișoara, Romania

**Abstract.** In this work, the author wants to approach the Romanian European integration problems, from opportunity cost vision, studying the cost of the best sacrificed alternative for achieving the integration process, as chosen variant. Starting from competitive advantage concept – a link between the strategic management and international economy –, than using the relative (comparative) advantage principle, using the production possibilities border, in the framework of this work we make a comparative study of integration process, in order to research if the integration process has a lower opportunity cost comparing with the other removed alternatives. Does the opportunity cost come before the convergence cost? It is possible a convergence (economic, structural, legislative, juridical, social, nominal convergence)? If the answer is positive, which is the cost of it? How will the asymmetric shocks influence this convergence? How will look the work division and Romanian specialization after the integration process? Which would be the gained and the bankrupt sectors after the EU integration? In order to obtain partial and general answers, we make a comparative analyze of the economic structure, using economic aggregates, the economic, social and commercial policies of the EU and the main indicators of the convergence criterions.

**Keywords:** opportunity cost, relative advantage, convergence, asymmetric shocks

### 1. Introduction

European Union is the result of a cooperation and integration process, has started in 1951, in order to eliminate the economic barriers between the member states and to stimulate the competition with major consequences over standard level.

An essential issue is the interpretation of the integration process either as an economic phenomenon or a politic phenomenon. If it starts from the idea that the integration process is an economic phenomenon, than it will appear interdependence level between groups of national economies (free trade areas, custom unions, common market, economic and monetary union aso) that leads implicitly to political integration. On the other hand, if it starts from the idea that the integration process is politic phenomenon, that will lead to the dissolution of the national authorities. Anyway, the dilemma of integration phenomenon interpretation and perception persists as a process or result. In this way, the contribution of Donald Puchala (1974) is very suggestive, which has compared the science man endeavor to define the integration with the situation of the difficulties of a blind man to define an elephant.

### 2. The convergence and the relative advantage in the integration process

The convergence concept is referring to the decreasing of the gaps in the performance frame as a condition for economic-social homogeneity assurance. In European context, the *convergence* concept is approached in real terms or in nominal terms.

The real convergence pointedly refers to the long run process to reduce the disparities regarding the living standard in member states – the main objective of the European Union.

The main problems is not only to fulfill the EU accession conditions, but to realize the economic convergence by GDP/capita, for not overtax the cohesion funds and create durable lacks of balance.

The nominal convergence pointedly refers to the domestic stability and extern stability, but to the performance in price and cost terms, budgetary situations and current operations balance, the exchange rate aso. Such approach, in fact an extremely restrictive one, supposes a progressive decreasing of inflation rate until the lowest level and, in the same time, to maintain the favorable conditions for exchange courses stability. The conditions of Maastricht Treaty don't explicitly

take into account the real variables convergence, very important for standard living enhancement and unemployment reduction, but encourages the cohesion policy.

The base of the decisions and actions is the economic interest, the advantage resulted from an activity (action) reported with another alternative. So, any decision is intuitive or consciously based on the relative (comparative) advantage theory, suggested by Adam Smith and grounded by D. Ricardo. The comparative costs theory had become the base of the decision in more opportunities (alternatives) situation. It is saying about disposing comparative (relative) advantage reporting to other countries if the desired target is achieved with a lower opportunity cost.

An economic entity (either a person or a country) have an absolute advantage when it produce goods with less resources or, reciprocally when from same resources it obtain more goods than others. Regarding the relative (comparative) advantage, the issue is more complex. For its determination it is necessary to determine the opportunity cost ( $C_o$ ), it means the appreciation a country give to the relinquished alternative when it make a choice.

### 3. Macroeconomic instrument for adjustment at asymmetric shocks

The countries that support some special macroeconomics difficulties, that can or not to influence other countries, will have to handle with these asymmetric shocks, using some mechanisms as follows:

- *Labor mobility.* We can observe, if insist on some of the firsts features of Optimum Currency Area, namely labor flexibility, that there are more problems to solve them. Even if some recommendations of the Commission provide measures which can make the labor markets more flexible, in Maastricht Treaty, they are not specified. The goal of nominal convergence is to prepare for single currency, being appreciated as a minimum needed, and regarding the labor flexibility, the issues were not solved. The labor will register a migration towards the countries with economic growth, reducing the unemployment in the countries affected by the crises. This instrument will be limited in the European Union, either from institutional reasons (even if the labor

mobility is provided by Roma Treaty the harmonization of diplomas, social covering, the taxes still remains problems) or cultural reasons (the language, the cultures very different aso);

- *Sector flexibility of prices and especially of wages.* The wages trend in the states or sector affected by crises is decreased, that allow the unemployment to decreases and a competition re-establishment with differences between countries. For European Union the main issue is to obtain this flexibility without putting into danger the economic and social cohesion – an important and standing factor of competing and European economic growth. To find a solution for conciliate these two imperatives maybe is a great challenge for EU in this moment;
- *National budgetary policy.* In a monetary union of states with different looks and confronted with asymmetric shocks, an independence of national currency policies regarding response way to these shocks still remain a desire (P. Masson și J. Melitz, 1991). For, the budgetary policy has to face out many constrains in this monetary union. First, the public deficits will be strongly limited by the stability pact, member states has to not overtake a deficit of 3 % from GDP only in the case of an important recession that can surpass 2 % from GDP. Than, national budgetary policy will not necessary become more efficient in case of EMU (F.Huart, 1998) than in the situation the impact of re-launch measures depends more by the economies' structures: currency demand elasticity reporting to the income, the elasticity reporting to prices of foreign trade activity, the degree of wages indexation reporting to prices aso). And not last, these policies will strongly affect the other economies and a real coordination necessity has imposed.

Although there are some opinions regarding the modification of Maastricht criterions or renunciation to them, the using of those conditions is favoring the real and nominal convergence of the states (Padoa-Schioppa, 2002).

Table 1. Economics shocks and economics policy strategies in the EMU framework

		Demand	Offer
Shocks	Symmetric (common)	<ul style="list-style-type: none"> <li>• the common monetary policy</li> <li>• the coordination of the national budgetary policies</li> </ul>	<ul style="list-style-type: none"> <li>• the common monetary policy</li> </ul>
	Asymmetric (specific)	<ul style="list-style-type: none"> <li>• The national budgetary policy</li> <li>• the coordination of the national budgetary policies</li> </ul>	<ul style="list-style-type: none"> <li>• labor mobility</li> <li>• wages flexibility</li> <li>• structural reforms</li> </ul>

Source: Marie-Annick Barthe, *Économie de l'Union Européenne*, 2000, Paris

#### 4. Opportunity cost of EU adhesion

The adhesion to EU implies essentially opportunity cost. The option for un-adhesion or an isolationist scenario could give Romania much more costs than the adhesion process itself. Thus, the Romanian non adhesion to European Union could bring immeasurable cost and losses, in „lost opportunities” terms and we can mention:

- isolation and disposal from the making decisions processes, from FPCS policy with major implications in becoming autonomy established on economic and politic scene;
- economic isolation and the limitation of Romanian goods access on EU markets in condition that nowadays 60% from Romanian trading relations are with European Union;
- the restraint of possibilities to access for Romanian goods on European markets;
- increasing the Romanian goods vulnerability regarding the measures for commercial defend and technical barriers practice by European Union with third countries;
- increasing the economic gap between Romania and the neighbors that will become members of EU, because of communitarian funds for development;
- decreasing the possibilities to line up to communitarian „acquis”, because the intra communitarian integration is permanently advancing;
- decreasing the possibilities for Romania to develop a competitive agriculture because the lack of using the specific mechanisms of Common Agriculture Policy and as a sequel of an non-integration in time in the mechanisms of Common Agriculture Policy;
- difficulties to obtain consensus of all member states for other accessions, in the

situation of increasing the number of EU member states.

Yet, this scenario is less real because the economy is in an ample globalization process and EU represents the response of national states to globalization challenges. The costs of adhesion are, in fact, efforts that Romania could anyway make them, in the complex process of society modernization. But, the effort of this modernizing process will be sustained also by the European Union, by the accession to it, not only through pre-adhesion funds (Phare, ISPA, SAPARD) or post-adhesion funds (structural and cohesion funds), bur also, by the experience of some successful economic and social models for member states. Making a comparison between the Romanian contribution to EU budget and the sums it will receive evidently Romania will be a net beneficiary. But for this, Romania has to have a rate for absorption the communitarian funds closer to 100%. The financial efforts for EU adhesion support are gradually in time, depending on the transition period. These efforts have already started in the pre adhesion period and will continue after the adhesion date. The 2007 year has to be considered as a step in the European integration process. The adhesion costs will be supported both by national budget and by the population and economic agents. Romanian citizens will benefit, starting with adhesion date by the Single Market effects, especially the four liberties (goods, capitals, persons and services). On lung term, in fact, the benefits of adhesion will be reflected in living standard increasing.

Also, a potential delay of Romanian adhesion to EU, would had meant a delay of integration in European structures, that had represented for Romania the engine of the last years evolutions. The main implications are economic, financial, social ones. From economic point of view, it would mean a delay of accession to modern EU market structure, especially to the

benefits of Single Market (the free circulation of goods, persons, capitals and services). From financial point of view, Romania would be devoid by post-adhesion communitarian support (greater than almost three times than pre-adhesion funds). In the lack of this support (about 30 billion Euro in 2007-2013 period, for reducing the regional disparities and rural development), the major investments needed for infrastructure modernization, education, economic environment, rural space, the whole Romanian economy and society modernization would be postponed for an uncertain period of time. From social point of view, the Romanian citizen, euro-optimist in 70% percent (according to some boring), would be disappointed for the living standard looking-for.

### 5. Conclusions

The three challenges – economics, intern and extern – accompany the process of EU enlargement. The quality of EU member will be a major impact over all Romania economic, social and political issues. In the framework of European Union, Romania will benefit by the possibility to participate on collective complex decisional processes, so it being able to promote and protect more its interests.

For economic convergence scheduled by „the Copenhagen criterions”, Romania has make big efforts, intern economic, administrative, juridical, politic reforms.

But we have to notice that all these efforts

and sacrifices are inherent for this stage and are note exigencies of EU, but they represent the price for needed reforms in order to re-launch the Romania after its exit from communist block.

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