European Research Studies,
Volume XII, Issue (1) 2009

The Impact of the Europeanization Process on State-Industry Interaction in Romania

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Abstract

This article argues that potential EU membership can function as a powerful impulse for the modernization of the economic, political and social systems of candidate countries. To illustrate this, evidence of the transformations of the Romanian state-societal interactions in the transition period are discussed, with special focus on privatization, enterprise restructuring and competition policy. The article also explains why the Europeanization process has so far worked more slowly and less effectively in Romania than in other Central and Eastern European countries. This analysis could be used as a learning experience for prospective EU members to adjust to the European environment.

Keywords: *Europeanization, privatization, restructuring, competition policy.*

JEL Classification: 050, 052, 057

1. Introduction

The current EU enlargement process is undoubtedly the EU's amplest ever in terms of scope, diversity and number of issues involved. In 2004, after 15 years of transition to a market economy, eight former communist countries joined the European family. However, Romania and Bulgaria missed out on the first wave of this enlargement, remaining at the doorstep of the Union for a while.

As of January, 1, 2007, Romania has joined the European Union, following the recommendation of the European Commission in its September 26 Monitoring Report and the ratification of the Accession Treaty by the national Parliaments of the EU-25 states.

This paper illustrates how the prospects of joining the EU club have constituted a solid external anchor for the transformation of the country throughout its uneven transition[3], and points out that the new Romanian path, forged by EU membership, has

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[3] *Romania experienced a rather turbulent macroeconomic history in this period, with episodes of recession (1990-1992; 1997-1999), recovery (1993-1996) and recovery-growth (2000-2006).*

been a strong incentive for the Government to continue the pace of reform, improve key areas of the country's economic performance and create a sound business climate.

Particular attention is paid in this article to explain the reasons for Romania's protracted accession process, using evidence of state-societal interactions. Sometimes, the forces of Europeanization had to struggle with the preferences of domestic actors involved with policy making and with their capacities to exploit new opportunities (e.g. attracting strategic foreign investors). The preferences were for slow rhythm of reform, slow pace of privatization and maintaining a great share of the state property – permitting control, corruption and rents. At the same time, domestic actors were not inclined to restructure old enterprises, which meant cutting off the number of workers. This would have created social tensions and the loss of a great number of votes in political elections. The adjustment pressures exerted by the EU are not the only factor that should be considered when analyzing the response of the national system of governance to these pressures. There are a number of facilitating (Börzel and Risse, 2000; Radaelli, 2000) or hindering conditions (for Romania, see Mungiu-Pippidi, 2006) that determine the outcome of this response.

Despite the significant growth of the literature on Europeanization, much of the debate has predominantly focused on the way in which old EU member states are being transformed by EU membership. The impact of Europeanization on post-communist Eastern and Central European countries has not been sufficiently explored; therefore the present analysis aims to fill this gap.

This article first offers some insights from the Europeanization literature and clarifies the concept of "Europeanization". A general picture of the Europeanization of Central and Eastern Europe countries (CEECs) is then presented. Next, the paper highlights those factors that have delayed Europeanization and hampered economic growth in Romania. The same section supplies evidence of the EU impact on Romanian state-societal interactions, with special attention paid to privatization, enterprise restructuring and competition policy. It also outlines the new Romanian path towards EU integration. The concluding remarks of the last section could be useful to policy makers in an enlarged Union to improve the capacity of prospective EU members to adjust to the European environment.

2. Insights from the Europeanization literature

European integration researchers increasingly employ the concept of Europeanization to assess European sources of domestic politics. This shift from a direct study of European institutions to a more indirect approach via the national political field started in the 1990's through collections of data regarding the institutional adjustment of member states to EU membership (Rometsch and Wessels, 1996; Hanf and Soetendorp, 1998; Zeff and Pirro, 2001). Another orientation has now evolved, focusing more generally on changes in national political systems that can be attributed to European integration. Here we can mention the relevant empirical data that have recently been provided in Green Cowles *et al.* (2001). More reflective contributions can be found in Hix and Goetz (2000); Risse *et al.* (2001); and Knill and Lehmkuhl (2002). The study of the Europeanization of former communist countries who have recently joined the Union forms a new research agenda, as illustrated in Demetropoulou (2002), Borislavova-Spendzharova (2003) and Cernat (2006).

Consequently, the concept of “Europeanization” has come to refer to the impact of the EU integration process and EU institutions on national politics and policy making. Recent bibliographic surveys exploring the range of conceptual nuances of Europeanization and the various sub-fields in which the concept has been applied are offered by Olsen (2002) and Featherstone (2003). The Europeanization process is viewed as a one-way influence, from the supranational to the national level (Ladrech, 1994), or as a two-way interaction between the two levels in which member states assimilate the influence of the EU and in turn project their interests at the EU level (Bulmer and Burch, 2000). In order to account for the EU impact on the larger domestic discourse, identities, political structures and public policies, Radaelli (2000: 3) adopts a definition referring to:

Processes of construction, diffusion, institutionalization of formal and informal rules, procedures, policy paradigms, styles, “ways of doing things” and shared beliefs and norms which are first defined and consolidated in the making of EU decisions and then incorporated in the logic of domestic discourse, identities, political structures and public policies.

Other authors, such as Majone (1990), have provided a more open definition of Europeanization based on the deregulation-regulation, or re-regulation, dimension. This conceptualization praises Europeanization for bringing depoliticization, removal of planning and public ownership, together with regulatory powers entrusted to experts, commissions and independent agencies. In the same spirit, but with a critical nuance, Scharpf (1996) refers to the influence of the EU as negative integration, arguing that the EU institutions have largely promoted a neo-liberal form of economic integration, with few matching efforts in building a system of interest representation at the supranational level. These features fuel the claims that Europeanization is “globalization by another name” or “globalization with a human face”.

Schimmmelfennig and Sedelmeier (2002) call instead for a better coordination between the theoretical studies of the impact of international organizations, the European literature, the more theoretical literature on the transformations in the CEECs, and the mainly descriptive literature on the effect of the EU on candidate countries, which is often limited to single countries and single policy areas.

Finally, one aspect concerning the Europeanization literature is worth mentioning. The analyses involved in this field could be concerned with the questions of why or how states decide to surrender aspects of their sovereignty to supranational polities – the *ontological* stage of research. On the other hand, the focus of Europeanization research could be *post-ontological,* as it explores what happens *after* states join the EU and supranational institutions begin to produce their effects. It can be noted that the focus of most Europeanization research is indeed *post-ontological.* The present analysis will cover both stages, taking into account EU conditionality in the pre-accession period.

3. The Europeanization of Central and East European Countries

When referring to CEECs as aspiring EU candidates, Europeanization can be understood as the conceptual framework which links integration and transition to a market economy. Thus, it acquires a more specific meaning - as a process of systemic transformation based on a set of special requirements for full EU membership. States that are not law-governed or are not market-oriented liberal democracies cannot be granted the status of a EU member. The EU functions as a reference model for the modernization of the political, economic and social systems of the candidate countries in transition, and Europeanization becomes a series of operations leading to systemic convergence through the processes of democratization, marketization, stabilization and institutional inclusion (Demetropoulou, 2000: 197-217). Table 1 provides a summary of the momentum of EU conditionality on acceding countries.

Table 1 presents the main official concrete steps followed by Romania and its key institutions in order to comply with the requirements of the Europeanization process. Conforming to this conditionality (made up of agreements, specific criteria, dialogues, negotiations, complex procedures, European programmes) meant boosting progress in the EU candidates, aligning them to a certain discipline. Without all these mandatory steps, the modernization process of these countries is likely to have been much slower.

Once socialism collapsed, considerable differences among these countries became apparent, even if the great majority of them shared the common aspirations of EU membership. Countries with favorable initial conditions, such as Poland, Hungary and the Czech Republic, where adjustment costs were low, while ethnic homogeneity and traditions of democracy and capitalism were significant, entered a virtuous circle and qualified for EU benefits earlier (Vachudova, 2002). By contrast, in countries like Bulgaria and Romania, with unfavorable initial conditions, weak civil society, a lack of strong democratic and capitalist traditions and an unstable environment, the Europeanization process unfolded sluggishly and wastefully.

In explaining what accounts for the different developments in the CEECs, two country-specific factors may be invoked. The first factor is related to the conjecture that developments in the countries themselves, rather than internationally-induced transformations, are the driving force of change. Katchanovski (2000) has performed a quantitative study on the cultural and historical determinants of reform in a broader group of post-communist countries. He finds that culture, defined in terms of civil society, social capital, trust, religious and business ethics, and historical experience, indirectly affects growth by influencing economic reform policy, macroeconomic stabilization, corruption and war. The second country-specific factor is geographic position. Kopstein and Reilly (2000) sustain that geographic proximity to the EU is an important predictor of successful European integration.

Notwithstanding the significance of the findings of the above studies, a key aspect is worth mentioning here. In the case of CEECs, a close connection with the EU is an extraordinary chance to overcome the backwardness trap and fulfil a century-old aspiration to modernization (Dăianu and Vrânceanu, 2002: 24). The requirements of the EU *acquis comunautaire* could be a propelling force for reducing the economic gaps *vis-à-vis* the advanced European states. Moreover, countries located outside the geographical zone of "good performance" should not be considered inferior to countries with the "right" geographic location. There is no recipe for what should produce an excellent and stable EU candidate. This idea supports the main argument of our paper, namely that external, European influences can induce vast domestic changes in acceding countries. Cernat (2000) builds a map (see Figure 1) presenting the main external influences that could affect the institutional choices made by CEECs during the transition process.

Beside the Europeanization factors, the CEECs were affected by other external forces. These forces acted both in a coercive manner (like the "policy transfer" imposed by the EU), and as a "policy learning" or "policy diffusion" process. Figure 1 draws a parallel between these external factors.

The first external influence is that of the EU, which exerted a coercive policy transfer.

The impact of other member states or other CEECs may also be a significant external factor, given the numerous channels of interaction between them, allowing for best practice policies and institutions that are successfully implemented in one country to be emulated by others. But this impact is not coercive and relies mainly on the willingness of the recipient country to learn from its peers. Therefore, instead of coercive policy transfer mechanisms, this interaction is best understood as "policy learning".

The impact of global governance, as developed by international organizations, is typically a case of policy transfer. For the most part coercive, given the lending conditionality imposed by the IMF and the World Bank, both institutions rely on policy transfer linked to financial assistance.

Finally, in the case of markets and private actors, as in the case of "policy learning", the level of coercion is minimal or non-existent. Moreover, unlike the transfer of best practices and institutions, the linkages between measures adopted by recipient countries and specific external forces are more elusive, since the structure of the external force (MNCs – multinational corporations, NGOs – non-governmental organizations, etc.) is more diffuse. Therefore, this influence of markets and private actors falls closer to what can be called "policy diffusion".

Studies of economic integration of CEECs into the global economy (Inotai, 1999; Iankova, 2001; Wallace, 2000) discuss three main types of factors that can give significant impulse to Europeanization:

(a) legal harmonization through the adoption of the *acquis communautaire*;
(b) EU financial assistance, in particular the Poland and Hungary Action for the Restructuring of the Economy (PHARE); and
(c) the process of twinning.

Let us briefly describe each in turn.

(a) *The adoption of the acquis communautaire*

The EU has made membership conditional upon the adoption of the *acquis communautaire*, which is the creation of the legal and institutional machinery necessary for the effective transfer of EU's objectives and policies, as well as its existing legislation and regulatory system.

The *acquis communautaire* is primarily a *legal* concept. Its 31 chapters had to be implemented by the candidate countries, with the European Commission acting as a guardian who checks how this body of settled laws is transferred and enforced both before and after accession. At the same time, the *acquis* should be treated as a far wider concept. Some neo-institutionalist authors, such as Bulmer (1994), have demonstrated that EU law is not only about legal decisions but also modifies the "institutional capacity" of the actors involved.

It is also important to observe that the adoption of the *acquis communautaire* functions both as a formal condition for accession and as a key indicator of the extent of Europeanization in CEECs. By setting up explicit criteria for membership and regularly assessing how far the candidate countries are from meeting them, the EU has positively influenced the economic, social and institutional progress of these countries.

(b) *EU financial assistance*

Financial assistance has been a key factor in enhancing the capacity of CEECs to adjust to EU standards. A significant technical assistance instrument was the PHARE programme, which assisted countries through investments aimed at improving the regulatory adoption of the *acquis*. But the availability of PHARE funds depended upon progress towards membership, being conditioned upon fulfillment of a set of criteria formulated by the EU. Acting as coercive policy transfers, PHARE and other financial assistance programmes contributed a great deal to the transformation of institutional building and of the regulatory framework of CEECs.

The main issue here remains the administrative and judiciary capacity of these countries to absorb European funds. Hence, additional assistance depends on increasing CEEC's capacity to manage and use funds effectively (EC, 2002).

(c) *Twinning*

EU twinning projects were officially launched in May 1998, and were the implementing companions of legal harmonization. The EU initiated a process of transfer of expertise, encouraging the influx of national experts and civil servants from EU member states to CEECs.

Unlike other Europeanization mechanisms, twinning acted as a "horizontal policy transfer", from EU member states to CEECs, of "best practices" in coping with EU requirements, rather than a vertical, coercive process.

The above description of the three Europeanization factors shows that the prospect of EU accession has influenced virtually every aspect of post-communist change reform in the candidate countries. It also seems that the element of EU conditionality defining the relationship between the EU and CEECs has rendered EU influence over these countries more pervasive than its influence over existing EU members. This is also the conclusion of a study by Grabbe (1999).

4. Romania's experience

Unfavorable initial conditions

Romania had a lower start in the Europeanization process than the post-communist countries included in the 2004 wave of EU accession. In the early 1990s, it was plagued by endemic economic crises and changing governments lacking the vision, will, and capabilities to undertake painful structural reforms (World Bank, 2002).

Empirical evidence enables us to remark that the burden of the Europeanization process usually falls on domestic elites and governments pressured to speed up reforms and thus meet the EU accession criteria. The sooner elites agree on essential issues such as privatization, the smoother and faster the transition from communism to capitalism. In the case of Central Europe (Poland, Hungary, the Czech Republic), there was a consensus for capitalism from the onset of transition, simply because the communist parties there already exhausted the possibilities of reforming the socialist economy before 1989. In Romania, on the other hand, governments in the first years of transition tried an in-between approach and failed. This attempt only managed to create over one million property-related lawsuits, generate hyperinflation which impoverished millions of people, prevent the emergence of a land market until 1999, and shape an entrepreneurial class closer to the Russian oligarchic model than to the Central European one. Policy changed only after 2000, with the Leftist parties agreeing to keep the economy open to competition and foreign investment.

Failure to create a "more equitable" market economy (the social democrats' favorite project) was not uniquely responsible for their conversion to market liberalism. European integration became their first political priority. The people of Romania welcomed the idea of joining the EU, and compared their country's weak performance against that of the Central European countries. Romania's laggard situation during most of its transition period was a point of constant criticism by the media. The Social Democrat Party of Romania (PDSR), as the main political party, in power for most of the period, needed the Romanian economy to become successfully integrated with the European one. Consequently, seeking European recognition was the Social Democrats' next urgent objective after securing domestic domination. Romania's former communists were genuinely convinced of the advantages of Romania's joining the EU. Political parties became preoccupied with developing connections with groups within the European Parliament. Even the PRM (the 'Great Romania' Party) sought to change from an anti-Semitic party into a more acceptable, European one. All these specific circumstances produced what Mungiu-Pippidi (2006) describes as "Europeanization without decommunization: a case of elite conversion". In Romania, in the early 1990s, the exit path from the totalitarian regime did not lead to democracy, but instead to some form of mild authoritarian populism. What is exceptional in the case of Romania is that it is the only post-communist country which succeeded in engaging on the European path with a balance of power clearly in favor of the former communist elites (Mungiu, 2006).

The existence of the European option prevented Romania from remaining in a situation similar to that of Albania, and from regressing to become a new Belarus. The incentive of European integration lured even the successors of communism and encouraged the pro-change constituency. It can be said that, in the recent period, European integration and the prospect of accession to the EU have shaped Romanian politics more than any constitution or electoral law. Transition with a European perspective seems indeed the best: it provides a faster and safer route to democracy and prosperity. In addition, European integration offers a shelter against the instability and perturbations of the rest of the world.

However, Romania faces a rough ride to overcome the unfavorable initial conditions and catch up with the EU. It has an income per capita that represents only 35% of the EU average, being at the same time a country with a relatively large population (22 million), as compared to the average in Central and Eastern Europe. A comparison between population and GDP per capita in Romania and the other CEECs is presented in Table 2.

Under the hypothesis of an average rate of economic growth of 6% for Romania, while the EU average rate of economic growth would be 2%, the country would need 10 years to reach half the average EU income per capita. Closing up this gap (at purchasing power parity) would take about two generations, assuming that a substantial growth differential in Romania's favor is maintained during this period (Dăianu, 2007).

In conclusion, while the Europeanization factors have clearly had a positive impact on Romania's economic progress, unfavorable initial conditions are still likely to determine a rather long and protracted timeframe for the country to catch up with EU levels.

The Europeanization of state-industry relations

The most urgent actions during the accession process were the state-industry relations and industrial policies. EU impact on state-industry relations in Romania can be summarized in relation to three main areas: (a) privatization; (b) enterprise restructuring and (c) competition policy.

(a) Privatization

The EU has assisted Romania in its privatization efforts through its PHARE programme, both through support for general policy development via national privatization institutions and through support for individual enterprises. PHARE provided the professional skills required for private enterprise and management at a time when they were in very short supply in Romania. Institution-building consisted of support to a number of agencies that were, over time, directly involved in the process of privatization: the State Ownership Fund (SOF) and its successor, the Authority for Privatization and Administration of State Ownership (APAPS), Private Ownership Funds (POFs), and the Ministry of Privatization. An important associated PHARE activity was support for public awareness campaigns, ensuring that citizens would claim the certificates or vouchers available to them under the mass privatization programmes.

Unfortunately, in the first years of transition, the political environment did not favor PHARE support. In those years, PHARE technical assistance was easily discarded when policy advice did not meet political priorities. As already mentioned, pre-1996 Romanian governments were only half-heartedly committed to a sustained privatization strategy, forcing PHARE programmes to underperform for a while. In some cases, political opposition delayed the establishment of the necessary institutional arrangements for PHARE implementation to take place.

Privatization has usually been seen as a cure for state-owned companies' lack of efficiency and for the central budget's lack of funds. Privatization creates better conditions for restructuring, frequently via improved corporate governance and capital inflows. Yet, as many cases in Romania show, privatization is not a success story *ipso facto*, for a number of reasons: unfriendly market conditions, unfair competition (there were cases where the acquirer closed the acquired company, because the latter posed competitive threats on the former), union pressures, or just the new owner being unable to change the loss-making features of the privatized company (Voinea, 2002).

The privatization mechanisms used in Romania during the transition period can be classified as follows: (1) the mass privatization programme (MPP); (2) management employee buy-out (MEBO); (3) direct sales to outsiders, implying contractual arrangements with chosen investors; (4) auctions; and (5) privatization through capital market channels.

(1) The MPP, based on various distribution schemes through which the property rights for SOEs were transferred to citizens for free (by issuing vouchers or coupons), failed to produce the expected advantages, because the institutional arrangements did not place poorly performing managers under pressure from external threats of takeovers or bankruptcy. Neither did the Romanian MPP produce an internal surveillance mechanism for managerial performance via shareholders. The only constraint mechanism left in place was political, resulting in the Romanian MPP more closely resembling the institutional architecture of "state corporatism *cum* political clientelism" (Cernat, 2006: 53). The financial institutions created by the state to handle the privatization process (SOF and POFs) were entirely captured by the industrial elites interested in delaying the process until insiders were in a favorable position to take control as new owners.

Corporate governance problems appeared as a consequence of the diffusion of control within the privatized companies. However, this stimulated the trade with vouchers (partially on the black market), which in turn stimulated an unofficial capital market. It is not a simple coincidence that the Bucharest stock exchange (BSE) and the secondary market (RASDAQ) were set up soon thereafter.

(2) The MEBO method (prevailing during 1993-1996, with a peak in 1994), incorporated specific measures for transferring enterprises to their own managers and employees, sometimes at highly preferential prices. This method was deemed fair in that ownership was transferred to employees already considered "stakeholders". However, in an economic system characterized by an excess supply of labor and a lack of good managers, insider ownership is unlikely to produce radical restructuring (which is essential for ensuring profitability and efficiency), particularly if this may disadvantage the insiders themselves. It can be noted that MEBO before restructuring is a recipe for failure. According to the SOF official documents, between, 1992 and 2000, the majority of the 18% of those privatized firms whose economic position deteriorated after privatization were firms privatized through the MEBO method. The predominance of MEBO as the main method of privatization before 1996 was due less to its objective necessity or economic advantages, and more to the lack of interest in other privatization methods, especially those involving foreign investors. This in turn can be easily explained by Romanian party politics. PDSR (the main Leftist party) supported MEBO because it allowed them to please their main clientele: trade unions and managers of SOEs.

(3) Direct sales were predominant during 1996-1998; they accounted for 68.7% of all privatization deals in 1996, respectively 81.6% in 1997, and for 65.8% of large privatization deals in 1998.

In the context of transition, the role of state policies in attracting foreign direct investment (FDI) is crucial. FDI is the best solution for problems encountered by SOEs (such as low profitability, lack of competent management, over-employment, obsolete technologies, poor marketing skills). In the case of Romania, strategic privatization did not produce the desired effects (namely, creating a competitive business environment and promoting the transfer of technology).

Direct sale to external investors, especially in 1997 and 1998 (when Romania experienced an acute lack of foreign currency) became an auction of privileges, with investors treating it as a preliminary condition to settle their plants in the country. The investors' position was strengthened by the scarcity of internal capital necessary for restructuring and by their positive impact on local industrial and social networks (jobs, productivity, and wages). This situation created a preferential treatment and, after the privatization process, the market power thus obtained allowed the new foreign owners to use it for operating in a non-competitive manner. Other potential capital flows might have been prevented from entering the market by certain barriers created by the initial investors.

A notorious example is the case of the telecommunications company Romtelecom, sold to the Greek company OTE, with the foreign investor being granted a monopoly for 5 years. During this period, prices for fixed phone calls increased in a thrilling spiral, anecdotal evidence showing that in 2002 it was three times more expensive to call from Romania to Greece than from Greece to Romania.

Moreover, instead of channeling negotiations with private investors towards ways to promote the transfer of technology and know-how, the real policy objectives of the government of the day were aimed at avoiding labor shedding. Thus, Government Ordinance 48/1997 imposed clear restrictions on the ability of future private owners to reduce the labor force. Any privatization contract had to contain clauses regarding the conditions under which layoffs could occur. Trade unions had to be informed prior to the conclusion of any privatization deal and, if such layoffs were approved, appropriate compensatory payments had to be granted.

As a consequence, in the period 1991-2002, FDI in Romania was never spectacular (see Table 3). The total inward FDI stock in the period 1989-2002 is rather moderate, i.e. slightly over $8.5 billion (about 20% of GDP). Other transition economies performed better in gross and relative terms. The annual net FDI inflows, even in 2002, are below the level of foreign remittances, and barely cover for three weeks of imports. Top 1% of foreign investors accounts for 80% of total foreign investment (Voinea, 2002).

In the group of candidate countries to the EU, Romania and Bulgaria were the worst performers in attracting FDI over the transition period (see Table 4).

Only in recent years, the perspective of Romania's accession to the EU, NATO membership and the flat income tax of 16% have determined a sharp rise in FDI penetration in the national economy. For example, in 2005 FDI registered EUR 5.2 billion, and for 2006 the figure is over EUR 8 billion. For 2007, the Romanian Agency for Foreign Investment reports approximately EUR 10 billion, mainly due to the EU accession.

(4) Auctions (used on a wider scale since 1998) were meant to eliminate disputes over the selling price, as it had to be the best price offered, not the absolutely best price. However, the method runs the risk of receiving offers that would conflict with the public interest. Evaluation, based on arbitrarily set scales, also runs the risk of being subjective. This method of privatization has intrinsic problems, which tend to make it slow and uncertain (Earle and Telegdy, 2002). Multi-criteria tenders involved a lack of transparency in the process because there were no announced or pre-determined weights for the various aspects of the bid and potential participants were left guessing about the trade-offs among them. The bids were not publicly revealed after the tender, making it difficult to monitor the State Ownership Fund's decisions. Given the lack of an objective criterion and the non-transparency of the process, the selection decision could be easily manipulated, creating the appearance (if not always the reality) of corruption. Indeed, even a perfectly clean process organized by honest, well-intentioned bureaucrats is subject to corruption charges, because there is little defense against allegations of favoritism. As most of the bureaucrats were less than honest, they acted as rent-seekers both by taking bribes in the privatization process and by colluding with the enterprise managers to strip assets before privatization.

(5) Privatization through capital market channels had relatively poor results, in line with the poor performance of the Romanian capital market institutions. An example is that of the car company Dacia Pitesti. SOF first negotiated directly with the French buyer Renault, and then (when everything, including the selling price, was settled), Renault bought the Dacia shares listed at the Bucharest Stock Exchange (BSE).

As an indication of the slow privatization prospects through the BSE, there are cases in which typical portfolio investors acquired the majority stake in a listed company, mainly in order to protect their initial lower investment either from poor management in the absence of privatization or from a foreign investor that would not like strong minority stakeholders. Many typical portfolio investors are put in the atypical situation to act as direct investors, and this may explain in part the protracted restructuring which occurs in many sectors of the Romanian industry.

The evidence discussed under items (1) to (5) above proves that the pace of privatization was very slow. This is also illustrated by the private sector's share of GDP. In 1998, this was less than 60 per cent in Romania, while Hungary reached 80 per cent, the Czech Republic 75 per cent and the Baltic states around 70 per cent (IMF, 1999: 21). Instead of creating incentives and political support for further reforms, Romanian officials maintained conditions (such as massive state ownership) feeding rent-seeking behavior (Tache and Lixăndroiu, 2006a), which is in sharp contrast with a well-functioning market economy.

(b) Enterprise restructuring

In Romania, the restructuring of state-owned enterprises has proved one of the most difficult reforms to implement. Enterprises have found ways to transfer, temporarily or permanently, some of their economic problems to their creditors (other enterprises, banks, or the state), thus avoiding a painful restructuring that would have solved problems related to inefficiency, salary costs and outdated technologies. Many state-owned enterprises decided not to pay or to postpone payment, and did not suffer the appropriate consequences. Creditors, often "captive", decided to help enterprises in financial distress by rolling over payments, reducing or cancelling debts.

Restructuring was much delayed because of the hidden state subsidies for underperformance. Successive governments sent conflicting signals by admitting in public statements that arrears were a serious problem, but rushing in many cases to block decisive action whenever energy companies tried to disconnect bad debtors. As a result, industrial companies that had piled enormous bill arrears only had to be patient and never lose confidence that the government would, eventually, come to their rescue. For instance, in 2002 the government issued numerous decrees and norms to reschedule the debts over various periods and/or prevent utilities from cutting supply. A Government Ordinance of 2002 allowed utilities to write off debtors' penalties and reschedule their debts if they paid their current bills on time. On request from the debtors, the unpaid bills of 2000 and 2001 were rescheduled in the form of monthly installments. Debt-related fines and penalties were either to be remitted or postponed after the last installment of the rescheduled debt. While there may be some merit in providing support to redress strategic economic units, the problem that remains is the unfairness created by the Ordinance and affecting those consumers who regularly paid their bills on time. As a consequence, a large number of healthy companies have also chosen to maximize profits and optimize their behavior by accumulating arrears.

Tax arrears were used as a device to soften the budget constraints of Romanian companies, and the government's attempt to use tax policy to accomplish restructuring objectives is a consequence of the slow transition strategy adopted by Romania (Tache and Lixăndroiu, 2006b).

Enterprise restructuring has been a very difficult area for interventions by PHARE (EC, 1998). However, the Industrial Restructuring and Professional Re-conversion Programme (RICOP) delivered good results. Another notable success was a joint PHARE-EBRD project for the evaluation of all state-owned commercial companies to identify those that had a better chance of being sold to strategic investors.

In sum, while enterprise restructuring can be considered as a major indicator of Europeanization, it has overall failed to produce the expected progressive results, due to unfavorable domestic conditions, in particular political attitudes and behaviors.

(c) Competition policy

Competition policy rules are important in post-communist countries because the legacy of central planning is concentrated in market structures where strong pressures for state assistance to enterprises in difficulty could not be resisted. Only in 2004, the amount of state aids authorized by the Romanian Competition Council was $ 1.8 billion. In Romania, lack of competition culture is still a problem that poses difficulties in the business environment. It has allowed all governments after 1989 to offer assistance to and favor different economic sectors, without paying attention to market signals. Over a period of 14 years, about EUR 16 billion have been extracted from the state budget in the form of (more or less screened) state aids. If only one-third of this amount had been used for other purposes (such as a complex highway project), the Romanian economy would have been in better condition now.

Notwithstanding these problems, EU policy transfer has had an important impact on competition policy. The adoption of EU competition rules on state-aid, the abuse of dominance, monopolization or merger control, for instance, had a significant role in improving state-industry relations.

The weight of arguments related to the EU *acquis* and other international commitments helped competition authorities to impose their viewpoint. For example, a case in which competition policy influenced state-industry relations was that of Letea Bacau, the only Romanian producer of special printing paper. The privatization deal concluded by SOF was not allowed by the Romanian Competition Council. SOF argued that the only way it could attract a strategic foreign investor for Letea was to sell all of its shares, accounting for 75% of Letea's equity, the remaining shares having been distributed within the MPP. Taking into account the fact that Letea had a monopolistic situation in the production of printing paper for newspapers, the Competition Council had to approve the deal, according to EU regulations. However, it appeared later that, out of all interested investors, SOF had selected a rather obscure Cyprus company, which was in fact owned by one of the largest Romanian media companies. So, the deal would have created a dangerous business agglomeration in that sector. As a consequence, the Competition Council asked to examine the ownership and corporate structure of the Cyprus company and, in the end, canceled that privatization deal.

The Competition Council, established for aligning Romania with the Community law, has generally produced satisfactory results. The number of decisions issued by the Competition Council has increased, and its sanctions policy is now a more effective deterrent. It can be concluded that, while the outcomes of competition policy were poor during most of the transition period, there are recent signs of revival and improvement.

The above discussion indicates that the effectiveness of efforts to promote a European model of industrial relations and to create a functioning market economy through privatization, enterprise restructuring and strengthened competition policies were restricted by various domestic factors such as institutional weaknesses and poor receptivity of decision-making actors engaged in clientelistic relations.

The new Romanian path

Romania's inclusion in the European integration process initiated a set of procedures aimed at elaborating rapidly and efficiently the necessary steps for the eventual EU accession.

Table 5 summarizes the institutions established to better coordinate Romania's participation in the European integration process and to facilitate the country's systemic adjustment to EU norms.

The decision of the European Council in Helsinki to invite Romania to start negotiations has given new momentum to the country's efforts to update its institutional structures and bring them closer to Western levels. A national programme for accession was initiated in 2000. The substantial growth, reorientation and allocation of pre-accession PHARE assistance, the introduction of ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Accession Programme for Agriculture and Rural Development), participation in new programmes and the extension of Twinning have eventually led to important institutional adjustments for the better management of foreign assistance projects.

Examples proving the beneficial influence of the EU on the current privatization, restructuring and competition policies could be found in the energy field and in the liquidation of some big industrial platforms. On the occasion of recently adopting the national long-term power strategy by the Supreme Council of Defense (September 2007), Romania's president Traian Basescu has pointed out the necessity of continuing the privatization with producers like the power stations Rovinari, Turceni and Mintia, and of finding solutions for the adjustment of government strategy to the requirements of the EU accession treaty (*Bursa,* 2007).

The case of the "Tractorul" industrial platform of Brasov can also be mentioned here. The European Commission has just begun an investigation concerning the potential infringement of the EU treaty due to a state aid granted by the Romanian authorities for the privatization of the factory. Romania was asked to suspend any illegal aids until the European authorities decided on their adequacy. Romanian officials imposed some conditions for the privatization of the factory, such as maintaining a certain level of economic activity during a period of 10 years and a re-hiring of the former employees. The European Commission is checking now if the respective conditions had determined lower selling prices as compared to those of an unconditional privatization, in which case those conditions could be considered as a form of state aid.

After a series of large shocks, industrial production has had a remarkable recovery. A high appreciation of the RON, caused by huge capital inflows and a sharp rise in energy prices (as a condition of adjusting internal prices to EU levels), has strained quite a few industries over the recent years. The speed of industrial production recovery suggests that several Romanian sectors are on course towards adapting their management techniques and upgrading their capital endowment with new technologies, in order to cope with competition within the EU.

The private sector contribution to GDP is almost 70%, and it accounts for over 55% of the social capital and more than 70% of the employed population. The steady expansion of the private sector in the economy has in turn generated more entrepreneurial drive, more capital formation and export orientation.

Despite the achievements mentioned above, the process of full integration into European structures has not yet ended, more efforts being required in order to fulfil European standards and norms. However, as the EU membership was secured, policy slippages could appear. With EU accession having taken place as of 1 January 2007, we are now receiving signals that the removal of the accession policy and the chasing of votes from a conservative opposition may significantly reduce the resolve of the government and other political agents to continue Europeanization at the same accelerated pace.

The new path Romania seems to have embarked upon over the following years involves: (1) an improved internal management of EU-assisted projects, through the activity of domestic institutions established to better coordinate the country's adjustment to EU procedures, standards and norms; (2) an increasing number of positive instances which demonstrate that Europeanization has had a beneficial influence on privatization, restructuring processes and competition policies (especially in the energy field and regarding the liquidation of some large industrial platforms).

The encouraging outcomes of the past few years have not been sufficient to relax the EC close monitoring of Romania's compliance with the new laws and regulations, and have further emphasized the need for government policy and action to complete the privatization of large units and the restructuring of the energy sector, and to invest substantially and decisively in infrastructure.

5. Conclusion

Contributing to the new research agenda of the impact of Europeanization on post-communist countries, this paper shows that inclusion in the European project has had a tremendous, generally positive, influence on the modernization and development of CEECs, irrespective of their geopolitical circumstances.

The EU influence may be observed through a wide range of factors, both internal and external, as well as embedded in even larger processes of change. Obstacles such as initial conditions, bureaucratic and party politics and issues of sequencing and learning are shaping the impact of the EU in CEECs, sometimes reinforcing existing features as much as altering them.

The description of the three main types of Europeanization factors shows that the perspective of joining the EU has influenced virtually all aspects of post-communist reform in the candidate countries.

While the Europeanization factors have obviously had a positive impact on Romania's economic progress, unfavorable initial conditions determined a protracted timeframe for the country to catch up with EU levels. The effectiveness of efforts to promote a European model of industrial relations and to create a functioning market economy through privatization, enterprise restructuring and strengthened competition policies were restricted by poor receptivity of decision-making actors engaged in clientelistic relations.

In Romania, because the preferences of domestic decision makers were in favor of a slow reform, any acceleration of the process can be legitimately attributed to the impact of external, European forces rather than to an endogenous transformation induced by domestic actors. The extensive support of the EU has led to complex processes of absorption and change.

However, it seems that the process of Europeanization is not just a technical one. It is also a matter of political will.

During the next decade, other post-communist countries of Europe will provide the test ground for determining whether the mechanisms of the Europeanization process are indeed working to promote a market economy in credible EU candidates.

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Table 1. The momentum of EU conditionality on acceding countries

<table>
<tr><td>First step</td><td colspan="4">Europe Agreements</td></tr>
<tr><td>Second Step</td><td colspan="4">Copenhagen criteria</td></tr>
<tr><td rowspan="4">Third Step</td><td rowspan="4">Essen Pre-accession Strategy</td><td colspan="3">Europe Agreements</td></tr>
<tr><td colspan="3">PHARE Programmes</td></tr>
<tr><td colspan="3">White Paper[4]</td></tr>
<tr><td colspan="3">Structured Dialogue</td></tr>
<tr><td rowspan="8">Fourth Step</td><td rowspan="8">Agenda 2000 – Reinforced Pre-accession Strategy</td><td colspan="3">European Conference</td></tr>
<tr><td colspan="3">Accession Negotiation Process</td></tr>
<tr><td rowspan="6">Accession Process</td><td colspan="2">Accession Negotiations</td></tr>
<tr><td colspan="2">Screening of the Acquis</td></tr>
<tr><td colspan="2">Review Procedure</td></tr>
<tr><td rowspan="3">Reinforced Pre-accession Strategy</td><td>Europe Agreements</td></tr>
<tr><td>Accession Partnerships</td></tr>
<tr><td>Pre-accession Aid and PHARE</td></tr>
</table>

Adapted from Demetropoulou (2002)

[4] The White Paper is a highly important document of 1995, assessing the progress of the applicant states on the road to accession. It defines the scope of the legal harmonization required to include the CEECs into the EU internal market (EC, 1995). This document provided the CEECs with clear guidelines and reduced their degree of freedom in deciding on the scope of the process.

Table 2. Central and Eastern European Economies – Selected Macro Indicators 2006

Country	Population (000)	GDP per capita $	Average monthly gross earnings $
Bulgaria	7 693	4 092	228
Croatia	4 441	9 663	1 136
Czech Republic	10 269	13 800	894
Estonia	1 344	12 210	750
Hungary	1 070	11 205	813
Latvia	2 289	8 784	539
Lithuania	3 393	8 778	545
Poland	38 132	8 940	798
Romania	**21 590**	**5 646**	**409**
Slovakia	5 391	10 220	632
Slovenia	2 009	18 562	1 521

Source: National statistical offices, Central Banks, Eurostat, 2007

Table 3. FDI evolution in Romania

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
FDI, USD mil.	37	73	87	341	417	263	1224	2040	1007	1051	1154	823
FDI, % GDP	0.1	0.3	0.3	1.1	1.1	0.7	3.4	4.9	2.9	2.9	3.0	2.6
FDI, % current account deficit	3.6	4.6	7.4	79.6	23.5	10.2	57.5	68.7	78.1	77.1	49.1	73.8
FDI, % total net capital inflows	1.9	3.4	6.0	12.7	26	7.3	36	89	124	27	28	25

Source: ARIS INVEST – The Romanian Agency for Foreign Investment, (2003).

Table 4. FDI inflows in comparative perspective in 1991-96 and 2002

	Average FDI (in million of US dollars)			Average FDI per capita (in US dollars)		
	1991-96	1997-02	2002	1991-96	1997-02	2002

Bulgaria	85	782	647	10	79	48
Estonia	135	422	296	90	249	197
Czech Republic	1,089	6,242	9,886	106	520	1,059
Hungary	2,156	1,890	908	211	179	106
Latvia	159	323	349	64	142	140
Lithuania	56	596	744	15	149	201
Poland	2,119	6,127	4,371	55	148	113
Romania	**206**	1,323	1,210	**9**	**56**	**51**
Slovenia	111	612	1,950	55	282	989
Slovakia	175	1,834	4,260	32	325	1,078
TOTAL/average	6,254	20,152	24,621	59	175	257

Source: various issues of Economic Survey for Europe - UN Economic Commission for Europe 2003, World Development Indicators 2003 - World Bank (2003) and IMF Balance-of-Payments database.

Table 5. Romanian institutions for European integration

The Department for European Integration (co-ordination)
The Inter-ministerial Committee for European Integration (decision-making, monitoring)
The Specialized Units for European Integration (decentralization and implementation)
The European Institute of Romania (counseling, research)
The National Fund (treasure, supervision of financial administration)
The Central Finance and Contracts Unit and the **Implementation Agencies** (management and implementation)

Figure 1. Theorizing external influences on systemic transformation in CEECs