COMPARATIVE ANALYSIS OF THE EUROPEAN INTEGRATION PROCESS IN CENTRAL AND EASTERN EUROPEAN COUNTRIES

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Forwarding the economic and social progress has been and still is a key target of the European policies. In March 2010 the European Commission launched the 2020 Strategy for a smart, sustainable growth and favorable to inclusion that would continue the Lisbon strategy from 2000. The objective is to overcome the effects of financial and economic crisis from 2008 and prepare the EU economy for the next decade. For analyzing the economic performance of the Central and Eastern European countries, we analyzed economic indicators from 1990 until 2013, with an emphasis on the periods before and after the EU accession. In order to reveal the positive and negative effects, we analyzed comparatively the macroeconomic indicators based on data from national statistics and EUROSTAT.

Key words: regional integration, sustainable development, financial framework, economic indicators

JEL CODE: F02, F15, P47

Introduction

In Central and Eastern Europe there are 11 member states of the European Union: Bulgaria, Croatia, Estonia, Latvia, Lithuania, Hungary, Poland, Czech Republic, Romania, Slovenia and Slovakia; 6 states of the former Yugoslavia: Albania, Bosnia-Herzegovina, Macedonia, Montenegro, Serbia and Kosovo; and 4 former Soviet republics: Belarus, Moldova, Ukraine and Russia.

The paper focuses on the situation of European Union member countries, before and after accession, on the economic consequences of enlargement, as well as on the European integration prospective. The purpose is to analyze the impact of EU enlargement on the countries of Central and Eastern Europe, namely Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland, Czech Republic, Romania, Slovenia and Slovakia. We will take into account Austria and Germany as countries that geographically belong to the Central Europe, are members of the European Union and represent a benchmark within the Union.

When talking about integration, we speak of economic growth and, inevitably, of competitiveness. The EU integration is closely linked to competitiveness increase in as many areas.

Regional competitiveness is a concept that has captured the interest of the economic, academic and political environments, generating debates and decisions of economic policy. Lately has increased the significance given by countries to obtaining competitive performance, in the context of an economy based on knowledge and of the need to identify the competitiveness factors for developing the policies to promote them.

The regional competitiveness can be defined as the success with which the member countries from an integration area compete with each other in various fields, relating either to the national and international market shares for exports, or to attracting capital or labor [Kitson, Martin, Tyler, 2004].

Martin and Tyler (2004) identify three causes for which regions go in competition:

- For investments, through the countries' ability to attract foreign private and public capital;
- For the workforce, through the ability to attract high-skilled employees, contractors and workers, by which is put forward the innovational environment inside the local labor markets;
- For technology, through the countries' ability to attract activities based on knowledge and innovation.

With regard to the competition objectives [Johansson, 2007], they include the average level of the salary and income per capita, as well as the value of public services offered in a region and its opportunities.

The studies performed on the determinants of regional competitiveness focus on two types of approaches: the first analyzes the regional competitiveness as cumulative result of a large number of factors (European Commission, 2001 - 2012, ECORYS- NEI, IMD 2012), while the second stresses the importance of a particular factor of competitiveness – the clusters in Porter's meaning, demography and migration in Glaeser's and Sheifer's vision in 1995[Glaeser, Sheifer, 1995], the hard factors: labor, nature and capital; software: research, development, innovation, education in the Kowalski's and Rottengatter's vision in 1998 [Kowalski, Rothengatter, 1998], the business environment and intercompany relations in the acceptation of Ritsila 1999 [Ritsila, 1999], the institutional capacity and government quality, innovation / regional innovation systems in the vision of Bradshaw and Blakely 1999 [Bradshaw, Blackley, 1999].

Using data provided by the Union's official statistics it has been pursued the achievement of a hierarchy of countries concerning their competitiveness in the international context, while also identifying the competitive advantage had by them in the context determined by the European Union integration.

I Competitiveness Level for the Countries of Central and Eastern Europe

The countries of Central and Eastern Europe had, after 1990, significant productivity gains generated by their transition to market economy and the flow of foreign investment.

Table 1 Global Competitiveness Index 2012-2013 – 60 countries

Countries	Rank in 2012	Rank in 2013	Evolution
Austria	21	23	Negative
Bulgaria	54	57	Negative
Czech Republic	33	35	Negative
Lithuania	36	31	Positive
Germany	9	9	Stationary
Poland	34	33	Positive
Romania	53	55	Negative
Slovakia	47	47	Stationary
Slovenia	51	52	Negative
Hungary	45	50	Negative
Estonia	31	36	Negative
Latvia	-	41	Stationary

Source: Data Processing from World Competitiveness Report, 2012-2013

In the ranking achieved by the International Institute for Management of Development (IMD) in Switzerland, the countries of Central and Eastern Europe are in the second half of it. The most competitive is Lithuania (31), followed by Poland (33), Czech Republic (35), Estonia (36), Latvia (41), Estonia (36), Latvia (41), Russia (42), Slovakia (47) Ukraine (49), Hungary (50), Slovenia (52), Greece (54), Romania (55), Bulgaria (57) and Croatia (58).

IMD uses for competitiveness determination more than 300 criteria, concerning the economy, efficiency of authorities and business environment, as well as infrastructure. Statistics data are completed on a yearly basis with a survey in which company directors in the countries studied participate. For the 2013 edition, 4,200 executive directors have been seen, on average 70 for each of the economies included in the study.

II The economic situation of the countries from the Central and Eastern Europe before and after accession to the European Union

A functional market economy is an important precondition for an economy so that it can cope with the competitive pressure and market forces within the European Union.

The developments of the Central and Eastern European countries with a view to achieving the convergence criteria that would enable them to develop within the EU can be measured through the evolution of several economic indicators of which some are given an increased importance: gross domestic product (GDP), inflation and budget deficit in relation to GDP, trade balance, productivity. These indicators reflect the economic stability of a country.

For the economies in the Central and Eastern Europe, a new stage began in 2000, when the average growth rate of GDP has doubled compared to the previous year, reaching 3.7% with maximum levels in Slovenia (4.3%) and Bulgaria (5.3%).

Table 2 Weight of GDP/capita in the EU's average GDP/capita

Country	Year	GDP/capita/EU's GDP/capita
Romania	2012	24%
Bulgaria	2012	21%
Lithuania, Poland, Hungary	2012	40%
Czech Republic, Slovenia, Slovakia	2012	50% - 70%
Latvia	2012	43%
Estonia	2012	51%
Germany	2012	125%
Austria	2012	140%

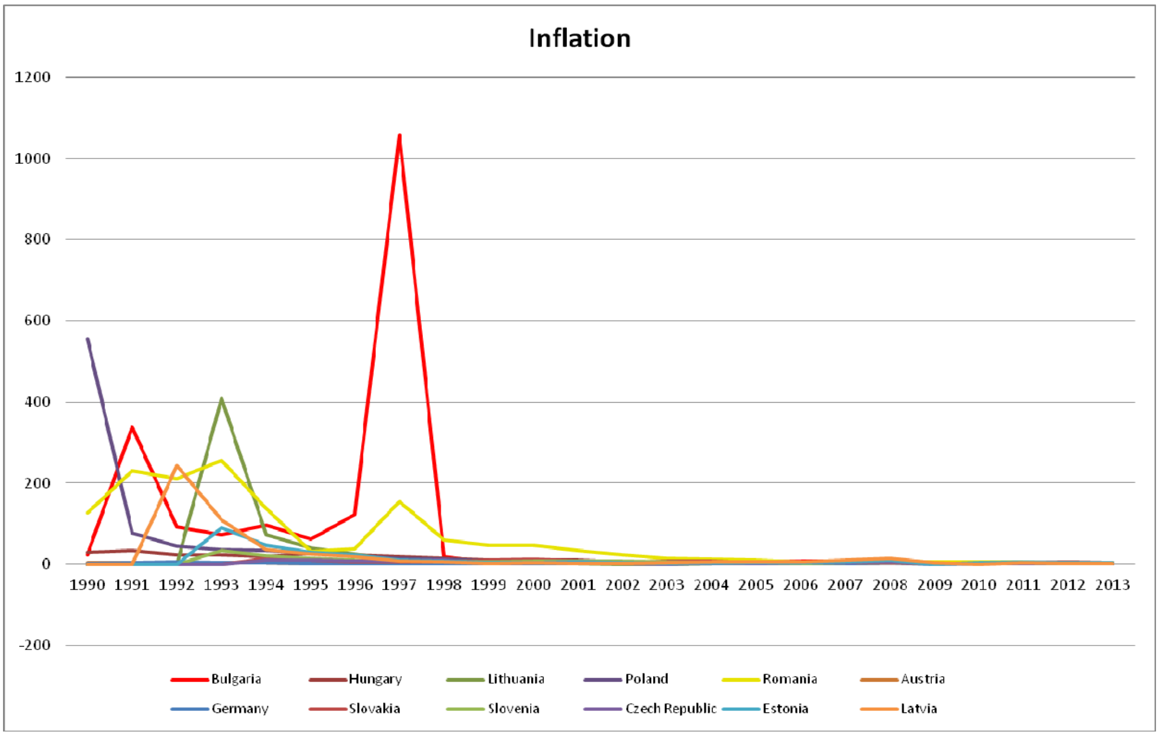
Source: EUROSTAT

In 2013, the GDP of Central and Eastern European economies recorded a growth by approximately 2.3%, higher than in the euro area.

The economic growth in Central and Eastern European countries is adversely affected by the Eurozone debt crisis as well as by the slowing of global growth. The negative impact is determined both by the imbalance of exports orientation, 85% of total exports from CEE countries going to the EU, and by the pressure in the European banking system.

Inflation is one of the most important phenomena of the economic crisis as measured by the consumer price index. According to official data published by the European Union, inflation in the member states outlined a continuous decrease from the beginning of the 90s, when the consumer price index amounted to 5%, reaching 1.2-1.9% in 1999-2000.

Figure 1 Inflation rate



Source: http://epp.eurostat.ec.europa.eu

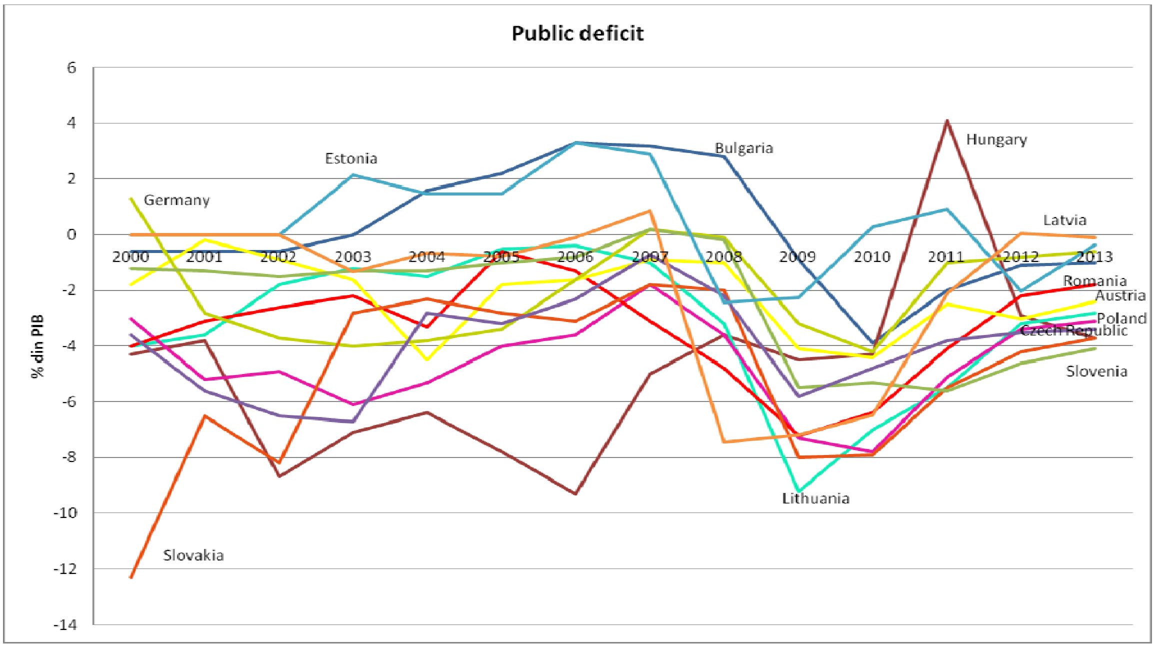
Until 2004 [Câmpeanu, Albu, 2005], the candidate countries have applied 8 restrictive programs of monetary control. After the accession countries faced with an increase in international oil and gas prices, as well as increases in the price of raw materials and semi-finished products in the ferrous and non-ferrous metals sector. The alignment of certain prices for consumer goods and services as well as some taxes and duties, required by the accession, has created inflationary pressures in the new member states, which could not be avoided or counter-balanced by the authorities in those countries.

Both Romania and Bulgaria have complied with the trend in 2007 when after accession have increased their inflation rates. Moreover, Bulgaria and Lithuania have reached a double-digit inflation in 2008, precisely due to pressures following the accession.

However it can be said that the EU accession of candidate countries has paid off, the latter reaching in 2012 an average inflation rate of 2.5%.

Data published by Eurostat confirms the constant slowing of inflation in Europe and all European Union's member countries. The lowest average price increase has been recorded in Greece 0.7% and Latvia 1.8%, and the highest in Hungary 5.2%, Estonia 4.1% and Romania 3.8%.

Figure 2 Public deficit



Source: http://epp.eurostat.ec.europa.eu

In the case of Hungary and Poland, in 2004, deficits have been high, 6.5% of GDP or 5.4% of GDP. Lithuania recorded a deficit of 1.5% of GDP. Between 2000 and 2004 Romania managed to reduce its budget deficit from nearly 4% to 1.5% in 2004. Bulgaria instead, during the same period succeeded to maintain the budget deficit below 2% of GDP.

The last two countries that joined the European Union, Romania and Bulgaria have succeeded in 2007 to reach budget deficits below 3% of GDP. After accession, both countries have faced increases in budget deficits caused by the global crisis and the need to cover the budget expenditures. In 2011, only Bulgaria, Germany and Austria managed to comply with the reference level of budget deficit criterion, considering that the EU27 average for deficit was 4.4% of GDP.

Concerning the public debt, between 2003-2008, most countries in Central and Eastern Europe have managed to lower their public debt, particularly due to the GDP increase, but starting with 2008, the financial crisis has generated imbalances in all countries.

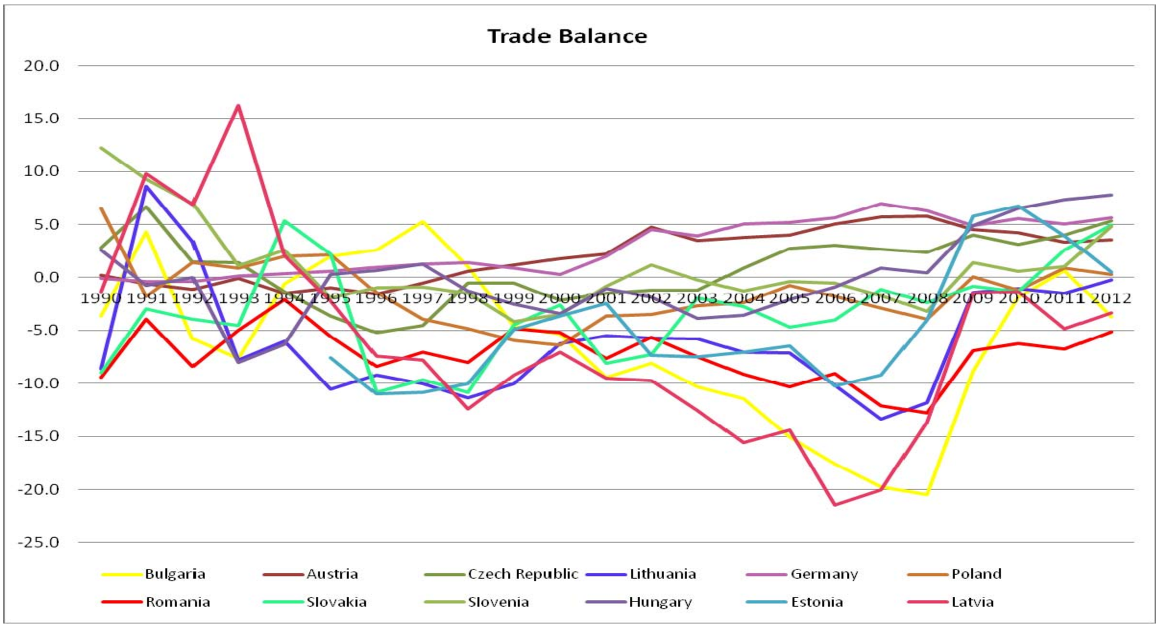
The sovereign debt crisis from Eurozone affects the German economy and the slowdown of the world's largest economy augments also the risks for growth perspectives of Central and Eastern Europe.

The accession effects on foreign trade for the Central and Eastern European countries are positive, but also negative. Regional Specialization within the EU does not support the presence of small economies on international markets without a diversified economic structure or exporter of natural resources.

During 2008-2010 [Dimian, Danciu, 2009], the import and export of Central and Eastern European countries were affected by crisis, the situation being similar to those in the old EU countries, Germany and Austria. Apart from Germany and Austria who have a positive trade balance in 1993 and 1998, after joining the European Union, only the Czech Republic in 2004, Slovenia in 2009 and Hungary in 2007 obtained a positive trade balance as a GDP percentage.

Germany is the largest trading partner for Poland, Czech Republic, Hungary, Slovakia and Slovenia, with around 25% of the external Polish deliveries and 30% of those from Czech Republic. Consequently, the countries of Central and Eastern Europe with export-oriented economies are vulnerable to the demand fluctuations in Germany. The only less vulnerable country is Poland, since its domestic demand was the basis for economic growth.

Figure 3 Trade Balance



Source: calculations based on IMF data (world economic outlook data base)

By all European policies, including the one related to labor market, it is trying to be decreased the disparities between states, and a significant difference is given precisely by the low level of labor productivity.

As concerns the productivity, following the European Union enlargement, the productivity trend in Central and Eastern European countries was ascending, being generated both by the need to adapt to the European single market, and the policies implemented in Europe.

The labor productivity in Romania recorded continuous increases during 2000-2012, at the beginning of the reference period amounting to 27.9 % of the EU average. In 2012, Slovenia is ranked first with regard to the level of labor productivity, from among the countries that joined the EU after 2004.

Nevertheless, the productivity level in Central and Eastern European countries is not by far as good as that of the EU 15 countries.

Conclusions

Both economic development and competitiveness of a country depend on the economic performance, effectiveness of the authorities and local government policies, efficiency of the business environment and infrastructure.

Romania, in 2013, ranks 55 out of 60 concerning the Global Competitiveness Index, being at the bottom of ranking, ahead of Bulgaria which is on the 57th.

As concerns the infrastructure, the basic condition of a sustainable development, Romania ranks the lowest among the EU 27 countries. On the same place lies also the health area, an ill workforce leading to a weaker efficiency of the market labor and, indirectly, to a low competitiveness, our country occupying the last position as concerns the labor market efficiency, within the 12 countries studied.

On the effectiveness of public institutions, determined by the effectiveness of attracting and using EU funds, development of strategies, procedures and rules for their implementation, Romania is still occupying the last position. This can be seen in the degree of attracting European funds per capita.

The lack of investment in research - development and innovation, classifies Romania still the last from the twelve Central and Eastern European countries. The reduced technological capacity and the absence of industrial clusters lead to a low efficiency of the goods market.

Regarding the financial market development, Romania is placed on the 6th position out of the 12 countries studied. However, in the absence of a modern management and a higher complexity of the business it is found a low efficiency of the business environment.

According to the analysis carried out, Romania would have to invest more in infrastructure, higher qualification of human resources, research and development, innovation, entrepreneurship, industrial clusters, a better attraction of the EU funds being an objective that should be taken into account.

As a conclusion, the countries of Central and Eastern Europe should better withstand a new financial crisis, due to the lower indebtedness, fiscal consolidation and decrease of current account deficits. There are still threats significant and to be taken into account for the countries of Central and Eastern Europe, the crisis has not yet passed over, the possible collapse of global demand and reversal of capital flows [Juraj Kotian].

Their advantage is that none of these countries are in a situation as problematic as the countries at the Eurozone "periphery" (Greece, Portugal, Ireland, Spain, Italy) with regard to the imbalances of current account, public debt sustainability or exposure in the banking sector.

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