ECONOMIC, SOCIAL AND POLITICAL REALITIES AND PERSPECTIVES IN THE UNSTABLE EUROPEAN CONTEXT

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Abstract

After a complex year, with deep trends of geopolitical changes, the new year 2019 promises to be full of events in what concerns the social, economic, political and even geostrategic area. The key events of last year (the uncertain course of the Brexit, the profound lack of reforms at EU level, the year-end social events of France, the hostile manifestations of the Russian Federation towards the West, the oscillating evolution of certain European states in what concerns the values of the rule of law, the economic war between China – the United States, the Presidency of Romania to the EU Council etc.) shall greatly influence the evolution of the economy at the European and global level. This paperwork aims to analyze the main consequences of recent events on short term evolutions from the economic, social and political perspective.

We also aim to analyze the realities and main potential evolutions in what concerns the economic, social and political status of this year of turning for the European Union.

Keywords: *public policies, Brexit, geopolitical changes, economic sustainability, economic crisis*

1. Introduction

The past few months, respectively the term between the end of 2017 and the beginning of 2019, represented a period of great transformations and evolutions from the economic, social, politic and military perspective. The economic war between the United States and China, the horizons of a new cold war between the Russian Federation and the United States, on the one hand, between Russia and NATO on the other hand, as well as the uncertain evolutions within the EU, all of them point out a period of instability from a geopolitical perspective with major influences in the economic area and traditional alliances. Economic unions, governments and military alliances, that seemed unshakable, are nowadays on the moving sands making any prediction not only uncertain, but risky. The ever-growing ascension of populism and illiberal ideas increasingly removes populations and their actors from the principles of good governance.

In a long-term perspective, the basis of good governance is represented by several defining elements, such as[1]: The participation of citizens and their increased involvement in the decision-making system; Equity and fairness in law enforcement; Decency, responsibility and transparency, aiming at making the taken and implemented decisions available to the citizens. Efficiency and effectiveness, by referring to the care employed in the use of human and financial resources.

The functional categories the consequences of which are reflected in a good governance are the following: civil society, political society, government, bureaucracy, economic society and judiciary system. James Madison said (Federalist Paper no.51) "If men were angels, no government would be necessary". Once we agree that people are far from the behavior of angels, we also agree that we need something or someone to lead us or at least to coordinate our activity. "For the first time in our history, in a multipolar world, too many factors become anti-European, or, at best, Eurosceptic", Donald Tusk wrote in the letter addressed to the 27 leaders of the countries that will remain members of the EU after Great Britain will have left the European Union. The President of the European Council also proposed the topic of the "internal threat of increasing anti-EU feeling, nationalist and increasingly xenophobic". "National egoism becomes an attractive alternative to integration", and centrifugal trend and "the decline of the confidence of the pro-European elites in political integration, as well as the doubts on the fundamental values of liberal democracy" are other topics proposed by Donald Tusk.

And yet, why do we use the notions of "good governance or liberal democracy" and "illiberal democracy"? An explanation[2] would be the increasing of the authoritarian accents in many countries of the world, including in countries with old, solid democratic traditions. Authoritarianism may have its roots in:

- for states, the increasing of the challenges related to terrorism, other unconventional threats (climate

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[1] *www.anosr.ro/wp-content/uploads/2012/09/4-Ce-inseamna-buna-guvernare*

[2] Daniel Dăianu - http://cursdeguvernare.ro/daniel-daianu-democratie-liberala-vs-democratie-iliberala-de-ce-cresc-inclinatiile-autoritariste.html

change, immigration, border protection, cyber security, etc.), economic insecurity. All these increase the inclination to use direct means of control in the economy and society, in general, the use of means that can go beyond the democratic institutionalized control.

- economic insecurity, which is linked to the underestimation of the less good effects of globalization. In this context, it is worth mentioning the economic ascension of new powers (China, India), which changes the balance of power in the world. Robert Kaplan talks in this respect of "The Return of the Marco Polo World"[3]; it is about the proliferating trade conflicts.
- there is a fear of unknown (of all kinds) and there is the need of people of "comfort" in the environment in which they live in a stable way, which cannot be dissociated from habits, feeling of belonging to communities having identities shared by their members. (see Jochen Bittner, a well-known columnist at the *Die Zeit*, who talks about the need for "*Heimat*", which would give consistency to the notion of *patriotism*.
- social /societal fragmentation and anxiety produced by globalization, new technologies (i.e.: *big data*, which greatly emphasize the power of some companies) strengthen the inclination to demand protection from the state, which can accentuate interventionist policies.
- there are institutional/political structures characterized by a sole governing party.
- there is a de-connection between economic evolutions and social and political ethos characterized by anger, protest against elites, political establishment, in many countries[4];
- the impact of fake news, by challenging the "truth" (scientific side of other nature) and, not finally, the rejection of "experts" – whose advice would be behind failed public policies (i.e.: the regulatory and supervisory deficit of the financial markets).
- a genuine desire for power in the political area combined with the consolidation of some structures to maintain the status quo that privileges some interest groups can be added to this series of explanations.

Reaction of rejection of mainstream parties by an important part of the society in liberal democracies can be interpreted by several grids: the impact of the Great Recession (the financial crisis) and unilateral public policies in recent decades, which have increased social cleavages; a certain institutional sclerosis (in the spirit of the analyzes of Douglas North, Mancur Olson Jr), which, as we can note, takes place not only in less evolved societies, in terms of level of economic development[5]; the exceptional nature of our times, with a new industrial revolution which seems to confuse political and intellectual elites.

In such a society we live that, in the spirit of correct political thinking, to appreciate an individual or his/her work is the acknowledgment of the inequality between people. The idea of awarding prizes for certain merits is also condemned because the award granted to some persons would mean others feel "offended" and "inferior"[6].

In the spirit of all the aforementioned, we will take the risk to analyze the events that have already happened, by trying to take a look at the not too distant future, starting from paradigm: we are alone and maybe against all (Great Britain) or we are together within the European Union (France) and we accept. And if we accept, then what is the trend and what we are heading for?

2. An evolution under changes and rectifications (2017 – 2018)

The economy of the European Union faced several significant and particularly damaging challenges between 2017-2018: terrorist attacks and geo-political tensions, immigration flows, Brexit, risks associated to banking systems, etc. Compared to the European Commission[7] forecast which considers that the real GDP of the EU is projected to slow its growth rate to 2.3% in 2018 and 2.0% in 2019. In what concerns the Euro zone, the economic growth recorded in 2017 was of 2.3%. Notwithstanding, the European economy recorded a sustained 2.4% growth, largely driven by consumption, while the investment did not have the expected evolution. The 2017 forecasts of the IMF estimated a global economic growth of 3.9% in 2017, both for 2018 and for 2019. According to the IMF, the developed countries were supposed to record an average growth of 2.5% in 2018 and respectively 2.2% in 2019, while the developing countries will have an average advance of 4.9% in 2018 and 5.1% in 2019. The economic growth of China was revised to 6.6% for 2018, with 0.1 pp over the estimation of October 2017, on the background of the expectations on the continuation of the implementation of the economic growth policies. Notwithstanding, the risk of slowing the economic growth of China is still relatively high, provided that the growth is largely based on state incentives, corroborated with crediting expansion and slow progresses in debt reduction across companies. Therefore, for 2019, the growth rate of the Chinese economy is projected to fall to 6.4%.

[3] Robert Kaplan, "The Return of the Marco Polo World, Random House, 2018. See also Kishore Mahbubani, "Has the West Lost It?", London, Allen Lane, 2018

[4] Ruchir Sharma, "Prosperity is no lock on popularity", New York Times, 27 April, 2018

[5] See Steven Levitsky and Daniel Ziblatt, "How Democracies Die", New York, Viking, 2018

[6] Matei Vișinec, O nouă dictatură-gândirea politică corectă

[7] The Government of Romania, The convergence program 2018-2021, April 2018

Table 1: The evolution of the world economic growth (%)

	Indicator	2017	2018	2019
1	World real economic growth (%)	3.8	3.9	3.9
2	Real economic growth – European Union (%)	2.4	2.3	2.0
3	Economic growth –Euro zone (%)	2.3	2.4	2.0
4	Inflation rate –European Union (%)	1.7	1.9	1.8

Source: European Commission and International Monetary Fund

For 2018, IMF estimated a 2.4% economic growth rate within the European Union (actually it dropped by a percentage point), and for 2019 the dynamics of the real GDP was to record a slowdown of 2.0%. In what concerns the world economic growth pace (EU excluded), the European Commission forecast shows an improvement in the economic perspectives, by estimating for 2018 and 2019, the same annual growth rate of real GDP of 4.1%, exceeding by 0.3 pp the 3.8% increase of 2017.

According to the forecasts of the European Commission, the basic inflation rate which excludes the volatility of energy and non-processed prices to remain moderate, given that the matter of the under-utilization of the labor force is slowly moderate, and salary pressures remain within reasonable limits. Global inflation will continue to reflect the significant influence of energy prices, a moderate growth of it being predicted for the next period. In the Euro zone, the inflation reached 1.7% in 2017, and is to grow up to 1.8 % in 2019. Furthermore, the price projection of Brent crude oil was revised upwards, from 52.8$/barrel in 2017 to 58.2 $/barrel for 2019.

Annually, the European Union GDP recorded an advance of 1.9% in the third quarter of 2018, compared to the similar period of 2017, while the GDP of the Euro zone increased by 1.7%. The Member States with the highest annual growth rate were Poland (5.7%), Latvia (5.5%), Hungary (5%), Slovakia (4.5%) and Romania (4.1%). All EU Member States have experienced economic growth in the third quarter of 2018, compared to the similar period of 2017, the lowest "performance" being recorded by Italy (0.8%). For 2020, The EU executive indicates an advance of 3.6%

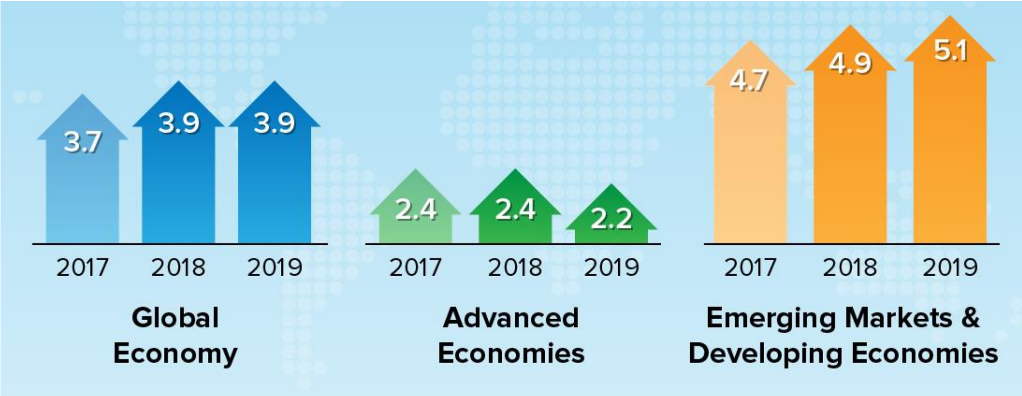
The economic evolution of Germany, the main engine of the European economy, was positive for 2017, the growth rate of 2.2% (even if a 2.3% growth had been predicted) representing an increase of 0.3 percentage points compared to 2016. In the second quarter of 2018, the German GDP grew beyond expectations, by recording a 0.5% advance compared to the first quarter of the same year[8]. This growth was due to the increase of the expenses of the state and households, on the one hand, as well as to the increase of the investment. If the German minister of economy estimated a 1.8% growth in the autumn of 2018, at the end of the same year 2018, he revised the growth forecast for 2019 to 1%, following the effects of the Brexit, commercial disputes and international tax background, AFP communicates.[9]

Furthermore, the maintenance of the dynamics of the GDP in 2018 was predicted for Italy, at the same level with the one of 2017 (respectively 1.5%), followed by a slight deceleration in the rhythm of the growth in 2019 of up to 1.2%. In January 2019, the economic date on the Italian economy were again modified and Italy entered in recession for the second quarter[10]. In what concerns France, after an acceleration of the economic growth in 2017 compared to 2016 (1.8% compared to 1.2%), growth rates of 2.0% were estimated in 2018 and a slight deceleration of it in 2019, up to 1.8%. The data rectified in January 2019 indicate a slowdown of France growth rate. Despite this, it is estimated that France will become the sixth world economy, going beyond Great Britain, with the United Kingdom leaving the European Union[11]. As we have already tried to prove, the data of the International Monetary Fund and of the European Commission were rectified in the last quarter of 2018. In this background, for example, if in April 2017, IMF estimated that, in 2018, Malta and Romania will record the biggest economic growth of Europa, of 5.7% and, respectively, 5.1%, in the report published on October 9th, IMF revised downwards the forecasts on the Romanian economy up to 4% in 2018, by 1.1 percentage points less than the estimation of spring, by predicting that in 2019 Romania is to record an economic growth of 3.4%, by 0.1 percentage points less than the estimation of April.

In the Word Macroeconomic Report, called "Less Even Expansion, Rising Trade Tensions", the experts of the International Monetary Fund draw the attention on the enhancement of the risk factors for global economy, such as the escalation of trade tensions between major economic blocs and geopolitical uncertainties. Therefore, the IMF experts forecast the deceleration of the annual dynamics of international trade from 5.1% in 2017 to 4.5% in 2019. Furthermore, FMI projected an increase in production by 3.9% in 2018 globally, by 2.5% in developed economies and 4.9% in emerging economies.

[8] http://www.bursa.ro/pib-ul-germaniei-a-crescut-peste-asteptari-67161533
[9] http://www.economica.net/germania-prognoza-de-crestere-economica-a-fost-reizuita-in-jos-la-1prc-de-la-1-8prc_164205.html
[10] https://www.gds.ro/Actualitate/2014-08-06/Italia+a+intrat+in+recesiune+in+al+doilea+trimestru+al+acestui+an/
[11] https://www.zf.ro/business-international/economia-frantei-a-doua-ca-marime-din-zona-euro-a-incetinit-in-ultimul-trimestru-al-anului-trecut-15007210

Figure 1. World annual economic growth rate (%)



Source: world-economic-outlook-update-july-2018[1]

3. Great Britain and the stages of the Brexit

On June 23rd, British citizens voted in favor of leaving the European Union. On June 23rd, 2016, with 51.9%, for leaving and 48.1% for staying, the result of the referendum on Brexit undoubtedly shocked Europe[1]. David Cameron resigned the day after he lost the referendum and Great Britain received a new prime-minister – Theresa May who declared that she would respect the people's will and that "Brexit is Brexit".

The meeting of the Council of Europe of June 28th, 2016 dealt with the results of the referendum of the United Kingdom.

The informal reunion of the 27 states or government heads of the EU took place on June 29th, 2016.

A new informal reunion took place on December 15th, 2016, where the 27 leaders and presidents of the European Council and European Commission formulated a statement to declare they were ready to start the negotiations with the United Kingdom, as soon as it would deliver the notification under article 50.

March 29th 2017 – the United Kingdom officially calls down article 50 of the Treaty of Lisbon in order to leave the European Union. The Treaty of Lisbon, the constitutional basis for the functioning of the European Union, allows Member States to withdraw from the Community bloc. The five paragraphs of article 50 briefly explains the procedure to be followed for leaving the EU. Article 50 has never been called down so far.

April 29th, 2017 – the special European Council – the first summit since the official launch of Article 50 by the United Kingdom. Guidelines for future talks on Brexit are being adopted.

June 19th, 2017 – the negotiations between the European Union and the United Kingdom are being started, focusing on citizens' rights, financial account, the border of Northern Ireland, etc.

July 20th and August 31st, 2017 – other rounds of negotiations take place, by being focused on citizens' rights.

September 26th, 2017 – the president of the European Council, Donald Trusk meets the British prime minister, Theresa May in London, while the 4th round of negotiations takes place in Brussels.

Other three rounds of negotiations took place on October 12th, November 10th, 2017 and February 9th, 2018, where matters on the transition period, Ireland and finding of solutions for the avoiding of strictly controlled borders and the governance of the withdrawal agreement were discussed.

February 28th, 2018 the European Commission publishes the draft of the withdrawal agreement between the European Union and the United Kingdom.

March 7th, 2018 President Donald Trusk issues a draft of guidelines on the European Union relations with the United Kingdom after the Brexit.

June 19th, 2018 - the Joint Declaration of the European Commission and of the United Kingdom on the progress recorded in March 2018 was made.

November 25th, 2018 – the extraordinary reunion of the European Council where the 27 EU leaders approve the draft agreement for the withdrawal of the United Kingdom and the political statement draft on the future relations between the EU and the United Kingdom.

December 5th, 2018 – the European Council launches the procedure for the signing and conclusion of the agreement on the withdrawal.

January 11th, 2019 – the European Council adopts the decision on the signing of the withdrawal approval.

When all the formalities concluded by the European Council were concluded on February 7th, 2019, President Donald Trusk and prime minister May agreed to continue discussions. The deadline for signing the separation agreement is March 29th, 2019.

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[1] www.imf.org/en/Publications/WEO/Issues/2018/07/02/world-economic-outlook-update-july-2018
[1] "EU Referendum Results," *BBC News*, http://www.bbc.com/news/politics/eu_referendum/results, (accessed on January 31st, 2019).

Great Britain joined the European Union on January 1st, 1973 and it is nowadays the second largest economy and the third most populated country of all the Member States.

Which were the causes leading to Brexit? Of course, the answer is particularly complex, by involving various aspects, such as: issues on immigration, economy, nationalism and democracy which have played a decisive role throughout the campaign. In addition to all these, there is another fundamental, worthy of attention, accumulated over time issue: dissatisfaction and disillusion with the political establishment, the way in which traditional liberal politics is practiced, along with antipathy towards political actors.

The British anti – political feeling was undoubtedly stronger than before in 2016, but there was also a populist movement with a strong Eurosceptic agenda to capture the voters' attention. And here we are talking about the UK Independence Party, UKIP, a populist party committed to withdrawing from the European Union and which made use of this state of mind, by playing an essential role both in the initiation of the referendum and in the balancing of the outcome of the vote.

When David Cameron promised, during the general election campaign of 2015, that he would organize a referendum over the EU, very few would have anticipated that his engagement would result in months of intensive campaign during which politicians would turn against each other in the most imaginative ways. It was not even suspected that the exit/staying ratio could become a new significant political cleavage. After gaining a new mandate in May 2015, Cameron proposed a plan of renegotiating the relation between the United Kingdom with the EU, which included: changes in payments in favor of migrant welfare; financial guarantees and easier ways for the UK to block EU regulation. It was already too late.

The pro and anti-European sides brought, during the debate for the referendum and in the two years since its results, a series of arguments for and against staying in the community bloc, all media agencies in the world report.

Table 2: Arguments for and against Brexit regarding the main topics of interest

No.	Issues approached	Arguments pro Brexit (Anti-EU)	Arguments anti Brexit (Pro-EU)
1	Sovereignty of Great Britain	The British Parliament no longer has sovereignty. Provided that the EU militates for an “even closer union” and for a deeper economic integration, especially after the Euro zone crisis, it is better for London to leave before the relations become even stronger.	In a globalized world, every country has to work as closely as possible with the other countries in order to flourish economically. The desire for isolation, which became an English stereotype, will undermine Great Britain. Furthermore, the British Prime Minister has already obtained in Brussels a number of exceptions to EU treaties and directives.
2	Defense policy	Great Britain could soon be forced to contribute to an EU army. A situation in which it shall be bound to give its consent in this respect, in return for a series of concessions. This must be prevented because it could undermine the independent military force of Great Britain.	The European countries face together terrorist threats from the Islamic State and an increasingly aggressive Russia and economic threats of China. By working together, they can fight against these challenges – an effort which would be undermined if Great Britain turned its back on the EU.
3	European legislation vs. British legislation	Too many British laws are conceived abroad, by means of decrees from Brussels and decisions made by the European Court of Justice; the British courts have to become sovereign again.	The supporters of the Brexit exaggerated the number of the laws established by the European Commission. It is better for London to take part in the law-making process at the European level than to withdraw.
4	The status of power of the United Kingdom and its influence in the world	The most common phrase is “Great Britain does not need EU to thrive internationally”. By strengthening the relations with the countries of the Commonwealth (former British colonies), Great Britain can have as much influence as it has within the EU.	According to liberal leader Nick Clegg, Britain “would be turned into a little England, drifting friendlessly somewhere in the mid-Atlantic”, if it leaves the EU. In a world where globalization is becoming stronger, the interests of Great Britain are best protected by remaining in the Community bloc, and the American

			and Chinese leader have already said that.
5	Finance and capital market	The discussions about a leak of financial capital outside the country have no basis. London will remain an important financial center outside the EU and banks will still want to have headquarters in the UK, due to low taxes.	Banks will withdraw from Great Britain, and City, the financial center of London will collapse, if Britain leaves the EU. Currently, the commercial advantages generated by the fact that Great Britain is part of the Community bloc increase the profit of banks.
6	Trade and international relations	The connections of Great Britain with the EU undermine its relations with emerging markets – there is no important commercial agreement with India or China, for example. The withdrawal from the European Union would allow Great Britain to diversify its international relations.	About 44% of Great Britain exports reach other EU countries and, at the same time, many countries will limit their exports to the Kingdom. The lifting of barriers to the main commercial partners of the countries would be counterproductive.
7	Labor market and employment policies	The threat for Great Britain jobs represented by the withdrawal from the EU was exaggerated. By stimulating investment with corporate tax cuts and other measures, Britain can flourish, like Scandinavian countries outside the EU.	About three million jobs are linked to the European Union and they risk to disappear after Brexit because companies will be more reluctant to invest, if the country is outside the community bloc.
8	Immigration policies	Great Britain will never be able to control immigration, if it does not leave the European Union, because the freedom of movement gives the other EU citizens the automatic right to leave in the United Kingdom.	Leaving the bloc will not solve the immigration crisis, but it will bring it to the door of the United Kingdom, because border controls from the continent will move from Calais (France) to Dover (Great Britain).
9	Justice and crime	The European arrest warrant allows British citizens to be sent abroad in order to be prosecuted by the foreign courts, most often for minor offenses. The withdrawal from the EU would end this phenomenon.	Those who commit serious offenses in Great Britain can be transferred to the United Kingdom in order to be held liable for their deeds only due to European arrest warrant. The withdrawal from the EU would prevent the functioning of the justice.

Source: Daily Telegraph

This is why the effects of the Brexit can be immeasurable for many economies, especially for the European ones. A number of European Union agencies based in the United Kingdom will be moved to other countries. And we refer here to the European Medicines Agency (EMA) which will move to Amsterdam (the Netherlands) and the European Banking Authority (EBA) which will be transferred to Paris (France). A group of Portuguese companies and French banks take a series of protection measures after the signing of the EU withdrawal agreement. France began a massive procedure of recruiting customs workers in 2018, by employing 700 persons. At the same time, France increases the budget for customs by 10% per year. 30000 French societies export products to the United Kingdom and 3000 are based there, therefore, employers' organizations call on all members in similar situations to examine the exit consequences for their activity in legal, fiscal, customs, data transfer, certification terms which have not existed so far. Since last year, Germany has already decreased exports for United Kingdom by 3.6% compared to 2017 and increased them for China. Not to mention the effects of the Brexit on Eastern European countries (Romania included) which suddenly see that their European funds are lower, their access on the labor market is restricted and exports are reduced by a great number of products to the UK. Once created the precedent, it is possible, and this is why the EU is most afraid, that other states want to leave the community bloc. Let's not forget that the Grexit was brought into discussions two years ago, when the Greeks, dissatisfied with the restrictions imposed by the EU and Monetary Fund, have chosen to be rather extremist than rational and tactful. This year, nationalist feeling is once again amplified, political, populist, racist and xenophobic political movements are triggered. They were started by the French in November 2018 when the movement called the protest of yellow vests initiated by the members of civil society degenerated into massive street violence and shall be continued this year by groups of Scotland, North Ireland and even Great Britain.

From a rational perspective, an unstable, fragmented and weak European Union is in the advantage of countries such as Russian Federation or China. If we were to think only to the two states, the gain would come from the commercial and financial area put into practice by the conclusion of bilateral agreements. Furthermore, the Russian Federation, strongly dissatisfied with the sanctions imposed to it by Great Britain after the military intervention of Ukraine, will constantly and relentlessly campaign for the destabilization of the North Atlantic Alliance.

3. Business environment and foreign direct investment in Eastern Europe

More than 100,000 Romanian citizens decided to leave to the United Kingdom[1]. Construction companies occupy the first place in the field of activities preferred by Romanian entrepreneurs in London. According to a study conducted by Enterprise and Innovation of Makwana Consulting Ltd of 2014, 15% of the 10-11000 Romanian companies in the UK carry out their activity in construction and real estate field of business and 10% in manufacturing. The document also shows that the average age of the Romanian entrepreneur is 33, 75% are men and one third of companies are based in London, followed by other major cities, such as Harrow or Milton Keynes. In 2014, London took the lead for the first time in the field of the possibility of doing business or making investment. Why?

The most important factors influencing direct foreign investment are:

- General economic and social environment of the host country allows this – the features of the macroeconomic environment of the host country, political (including political risk) and social stability, but also the level of economic freedom;
- Quality of regulations – embodied in the level of corruption, governmental efficiency, bureaucracy, legislative predictability, economic governance, competition policy or financial institution reform;
- Legislation and tax burden –refers to the clarity and stability of tax regulations, level of taxation, government consumption;
- The economy development level – measured by the level and evolution of GDP per capita, the level of industrialization and outsourcing, intensity of creative economy, degree of innovation, investment in research and development;
- Economic openness – materialized in FDI legislation and commercial openness;
- Level of development of transport and communication infrastructure;
- Market size – measured by means of the number of inhabitants, the ratio of the urban and rural population, but also by the size of the income and the purchasing power of the population;
- Labor market – the variables defining the labor market are the size and the level of education of the employed population, the level of salary, the level of unemployment, the labor/capital ratio, labor productivity;

Romania's low performances in attracting foreign investment after 1990 have a number of causes, such as: the lack of a strategic document referring to the stimulation of investment, the lack of economic levers to attract investment, low efficiency of all Romanian agencies in attracting investors. Not to mention the economic, social and legislative instability of the last two years.

In the background of positive net FDI between 1999-2015, the economies in our immediate region experienced an increase in FDI stocks, but the differences between these economies remain important. The most attractive economy from the perspective of FDI stocks was Poland, with a total volume of FDI stocks of EUR 192 billion at the end of 2015, with a compound annual growth rate of 12.88% between 1999-2015[2]. Czech Republic is the second performer of the region, with a volume of FDI stocks of EUR 101.9 billion at the end of 2015, the annual compound growth rate being of 11.3% between 1999 and 2015. The two countries are followed by Hungary (FDI volume of EUR 83.4 billion in 2015 and a compound growth rate of 8.17%). At the end of 2015, FDI stocks of Romania reached EUR 62.29 billion, and those of Bulgaria only EUR 37.95 billion, although annual growth rate between 1999-2015 was the highest for the two countries – 18.73% for Bulgaria and 15.56% for Romania. In 2015, Romania had the second lowest FDI stock of the region, although it experienced a twelvefold growth between 1999-2015.

[1] www.mediafax.ro/economic/brexit-ce-se-va-intampla-cu-cei-peste-10-000-de-antreprenori-romani-care-si-au-dus-afacerile-la-londra-15507341

[2] Alexandra Horobeț, Oana Popovici, Investițiile străine directe: evoluția și importanța lor în România, 2017 (Foreign direct investment: evolution and importance in Romania).

Table 3 Regional FDI stocks (billion EUR)

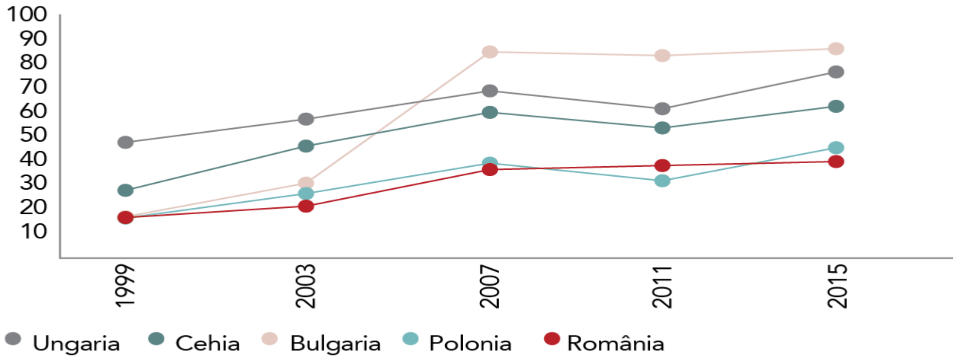
	Country/year	1999	2015	CAGR %
1	Romania	5323	62291	15.6
2	Bulgaria	2048	37950	18.7
3	Czech Republic	16468	101899	11.3
4	Poland	24465	192042	12.9
5	Hungary	21842	83039	8.2

Source: UNCTAD

It can be noted that Czech Republic, Poland and Hungary started from FDI stocks significantly higher than Romania and Bulgaria.

In connection with the GDP, Romania has the lowest volume of FDI stocks among all five economies in the region, of only 39% at the end of 2015, compared to 86.0% for Bulgaria, 76.4% for Hungary, 62.6% for Czech Republic and 44.9% for Poland.

Figure 2. FDI stocks in connection with the GDP, 1999-2015 (1999=1)



Source: A. Horobeț, O. Popovici, Investițiile străine directe: evoluția și importanța lor în România, 2017, p. 32(Foreign direct investment: evolution and importance in Romania)

It should be noted that, in case of Romania, the share of FDI stocks in GDP increased from 15.7% in 1999, and the best years in terms of this indicator were 2012 (the share of FDI in GDP was of 44.5%) and 2013 (43.2%). Of course, the increase is significant, but not enough, if we take into account the evolution of the other countries in the region, especially of Bulgaria, the share of FDI in GDP of which increased from 16.2% in 1999 (value close to that of Romania) to 86% in 2015.

This evolution was generated by the low FDI flows in Romania, especially after 2008, given that Romanian GDP had a downward trend between 2009-2012 (in 2008, GDP amounted to EUR 141.54 billion, and in 2013 to EUR 133.61 billion), followed by a GDP growth up to the value of EUR 160.39 billion in 2015[1].

4. Conclusions

At the end of 2015, the most important economies investing in Romania were, based on the data provided by UNCTAD relating to the FDI stock, the following: the Netherlands, with a share of FDI in the stock of FDI of 24.99%, followed by Austria, with a share of 14.17%, and Germany, with a share of 12.40%.

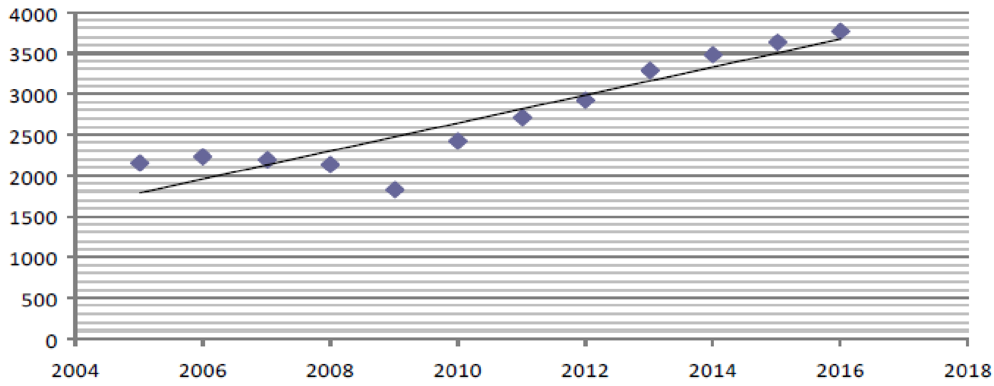
Unfortunately, Romania is losing attractiveness for foreign investors after 2009, on the background of national economic and political agitation, which are beginning to be felt in the region. FDI flows fall sharply and are almost three times lower in 2009 than a year ago, similar to the situation in Hungary and Bulgaria. By far, however, the weakest year for FDI after 2008 for Romania was 2011, where the FDI flows were more than 5 times lower than in 2008. In case of Romania, we are concerned about the low level of FDI flows in the period up to 2015, in 2015 the FDI flows reaching only the value of EUR 3.05 billion, but on the background of a slightly upward trend after 2011.

Trade between Romania and the United Kingdom The trade between Romania and Great Britain recorded an upward trend, especially as of 2005, following the conclusion of the negotiations of accession to the European Union which took place in December 2004. They reached in 2015 the amount of EUR 3.94 billion, with a commercial surplus of EUR 814 mil. in favor of Romania. In the first 11 months of 2016, the trade reached the value of EUR 3.76 billion, with a commercial surplus of EUR 898 mil. in favor of Romania.

[1] The data are available in the database of the World Bank: http://databank.worldbank.org and were converted in EUR based on the annual average exchange rates USD/EUR calculated by the European Central Bank.

The United Kingdom of Great Britain and Northern Ireland ranks first in the hierarchy of trade-friendly states favoring Romania (EUR +898 million) (The results of the international trade of Romania between 01.01. 30.11.2016.

Chart 3 Evolution of the trade performed between Romania – Great Britain[1]



Source: Chamber of Commerce and Industry of Romania (CCIR)- The effects of Brexit on the Romanian economy. challenges and opportunities at the European level

The imports of Romania from Great Britain represent about 1% of the GDP, and the Romanian exports to the United Kingdom represent about 1.5% of the Romanian GDP.

British investment in Romania In 2015, British investment in Romania amounted to EUR 1,346 billion (position 13 in the ranking of the foreign investors), representing 2.1% of the total foreign investment in Romania.

We should take into account that, given that the regime of foreign investment in Romania is regulated by the European Union, the negotiations on the relation EU – United Kingdom in the post-Brexit period will also address issues on the investment relation between the two countries (the National Bank of Romania).

Table 4 The structure of Romanian exports in the United Kingdom

No.	Romanian exports	Percentage of total %
1	Machines and appliances, electrical equipment and parts	31
2	Textile products and materials	23
3	Vehicles, aircraft, vessels and transport equipment	19
4	Furniture	7
5	Food and agricultural products	6
6	Plastic materials	6
7	Chemical products	4
8	Common metals	4

Source: Department of Foreign Trade – Ministry for Business Environment, Commerce and Entrepreneurship; Ministry of Foreign Affairs

An analysis of the Brexit effect on the Romanian business environment (Coface, 01.07.2016) indicates that, given the size of bilateral exchanges, the direct impact on short term is limited. In 2015, the Romanian exports represented 1.5% of the Romanian GDP, and the British direct investment only 2.1% of the total foreign direct investment in Romania.

Generally speaking, the negative effects will be visible especially at the level of EU budget, as the United Kingdom had a contribution of 13.45 % to the EU budget in 2016, respectively £10.76 billion, being the third largest contributor at European level, after Germany with 19% and France with 16.3%. If the UK leaves the EU, the budget of the Union will be reduced proportionally, which will directly influence the funding of the Cohesion Policy.

An opportunity for the Central and Eastern European countries, including Romania, refers to the relocation process of employees of the UK-based large companies in the financial, legal, research and design services. According to the Association of Business Service Leaders, the demand for jobs in these areas will triple, up to 1 million, between 2015-2025 (Apostoiu, 11.04.2017). Goldman Sachs will be hiring in Poland, reducing London staff by half, Pfizer will be hiring in Czech Republic, JPMorgan Chase could relocate up to 2,500 positions in the region, especially in Poland, and Hewlett Packard Enterprises could relocate in Cluj-Napoca, where it already has offices (Apostoiu, 11.04.2017).

The withdrawal of the Great Britain from the European Union will affect the European Union business

[1] The data for 2016 are available for the term 01.01-30.11.2016

environment which trades or operates in Great Britain, as well as the British one carrying out trade activities in the EU. This is why the negotiations will aim to prevent a legislative vacuum once the Treaties have ceased to apply to the United Kingdom. The goal of the European Union is to minimize the costs for the European Union citizens, for business environment, as well as for Member States (Remarks by President Donald Tusk on the next steps following the UK notification, 31.03.2017).

Romania should use this context and negotiate the transfer of the European Medicines Agency from Great Britain to our country, because it is one of the EU countries on the territory of which no European agency is based (Stolojan, 10.04.2017). Furthermore, Romania should also take into account the less positive scenario caused by the Brexit, which could weaken the European Union, effects which will be felt at national level both economically and socially.

By taking into account the perspective of direct interest of Romania and considering the size of the British market, a comprehensive post-Brexit EU – Great Britain trade agreement will be desirable.

1. The European Economic Area / Customs Union – unlikely scenario: the possibilities of the UK accession to the European Economic Area or of the accession to the Customs Union, similar to the one between the EU and Turkey are not plausible because of their similarity to the current situation (the free movement of persons for the European Economic Area, European legislation and jurisdiction for Customs Union).
2. World Trade Organization – temporary likely scenario: the scenario of the application of WTO fees in the post-Brexit period is likely, given that the European leaders have announced their intention to negotiate a trade agreement with the United Kingdom after it stops to be a EU Member State. Therefore, WTO fees would be applied to bilateral trade between the EU-United Kingdom as of March/April 2019.
3. Preferential models – the desirable scenario for Romania: EU has preferential agreements of various types with various states such as Canada, Switzerland, Balkan states, Kazakhstan, South Korea, India etc. According to the statements made by both British and European leaders, it is expected that the United Kingdom goal is to negotiate and implement a trade agreement such as the Comprehensive Economic and Trade Agreement between the EU and Canada (CETA), potentially slightly extended compared to CETA version. Implementing a CETA type trade agreement would reduce or remove tariffs for trade in goods and services between Romania and the United Kingdom. It would be ideal to implement a wider trade and investment agreement between the EU and the UK with a view to harmonizing legislation between the two parties, in order to contribute not only to the removal of tariffs, but also to the removal of non-tariff barriers.

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