TRANSITION AND EUROPEAN INTEGRATION OF BULGARIA AND ROMANIA: EFFORTS FOR OVERCOMING NEGATIVE LEGACIES AND NEW CHALLENGES

TRANZICIJA I EVROPSKA INTEGRACIJA BUGARSKE I RUMUNIJE: NAPORI ZA PREVAZILAŽENJE NEGATIVNE ZAKONSKE REGULATIVE I NOVI IZAZOVI

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YOJI KOYAMA
Niigata University, Faculty of Economics

Abstract: *Bulgaria and Romania were admitted to the European Union (EU) on January 1, 2007, thus making their longcherished desire into practice. It was not easy path for the both countries to reach this date. Due to their worse political and economic performance, the both countries were not admitted to the EU on May 1, 2004 together with 8 Central European and Baltic countries. Their accession delayed for two years and 8 months. Ialnazov, Dimiter (2003) argues that countries which escaped from socialism with $B!H (Bcoup d $B!G (B etat by nomenklatura $B!I (B, tended to be partial reformers, and the result has been a vicious circle of corruption and rentseeking, locking these countries into a $B!F (Bbad $B!G (B socialist trajectory. In his opinion, in order to extricate themselves from their postsocialist trajectory $B!H (Bexternal anchor $B!I (B are necessary. For Bulgaria the first $B!H (Bexternal anchor $B!I (B is the currency board system, and the second $B!H (Bexternal anchor $B!I (B is its prospect for the EU accession. Bulgaria adopted the currency board system in 1997 while Romania did not. What the both countries have in common as the $B!H (Bexternal anchor $B!I (B is their prospect for the EU accession. The reason for why the EU changed its policy toward South East European countries (SEECs) in 1999 seems to be that the EU perceived it necessary for the EU itself to lead reforms in SEECs including Bulgaria and Romania. These external anchors have satisfactorily played their roles in Bulgaria and Romania. International financial associations such as the IMF and the World Bank have strongly supported the transition to a market economy in the both countries by carrotand-stick policies. However, Bulgaria and Romania are facing big challenges, that is, fighting against organized crimes and reforms of the judicial system. Another challenge for the two countries after accomplishing the EU accession is to enter the EMU (Economic Monetary Union) and adopt Euro as soon as possible. The both countries will have to overcome structural fragility of their economies.*

Key Words: *nomenklatura, external anchor, currency board system, prospect for the EU accession, FDI*

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1. Introduction

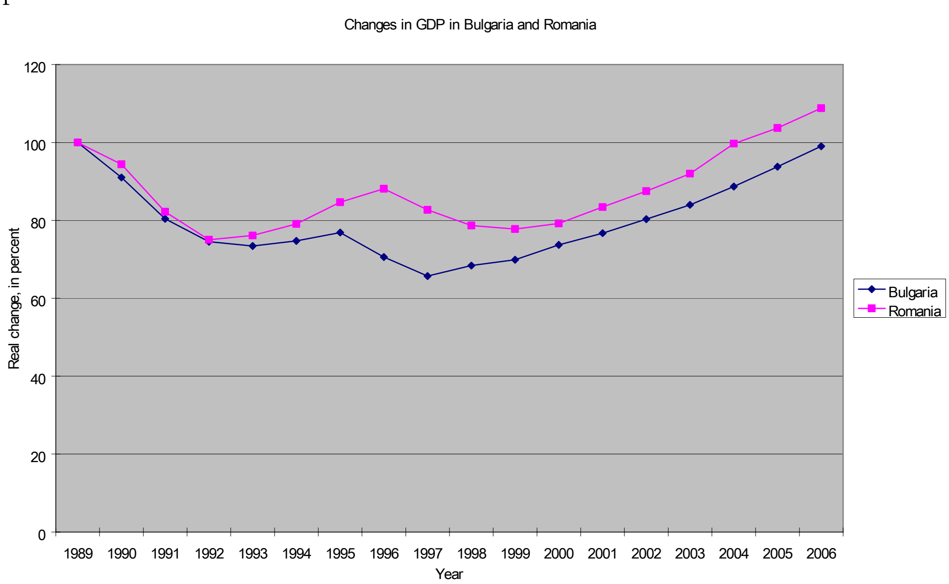
Bulgaria and Romania were admitted to the European Union (EU) on January 1, 2007, thus making their long-cherished desire into practice. It was not easy path for the both countries to reach this date. Due to their worse political and economic performance, the both countries were not admitted to the EU on May 1, 2004 together with 8 Central European and Baltic countries. Their accession delayed for two years and 8 months.

Ialnazov (2000) mentions initial conditions of transition and political changes as causes of Bulgaria's inferior performance, and attaches importance to the following initial conditions: a) relatively low degree of marketization and non-existence of anti-Establishment movement in the socialist period; b) a huge amount of external debt inherited from the centrally planned economic system, and the industrial structure which required import of a large quantity of raw materials and energy; c) Strong dependence on foreign trade with COMECON countries, especially with the Soviet Union; d) disadvantageous location such as the Balkan Peninsula (p.2).

Points a) and d) applies to Romania just as they are. Point b) does not apply to Romania because during the last years of the Ceausescu regime Romania made a desperate effort to repay its external debt and consequently there was no necessity for repay at the time when the country started the transition to a market economy. In addition, as Romania had oil and natural gas resources its circumstances were somewhat different from Bulgaria, but it can be said that similarly Romania had resource-wasting industrial structure which was specific to the centrally planned economic system. Point c) does not apply to Romania. Because this country has taken a unique position in the COMECON regime since the early 1960s, and therefore the country's dependence on foreign trade with the Soviet Union was relatively low and its dependence on foreign trade with West European countries was relatively high. Only in 1980s the country increased its dependence on foreign trade with the Soviet Union to some extent.

A characteristic feature common to the both countries is Pointa). Although during the last years of the socialist period Bulgaria tried to adopt some elements of market economy following the Perestroika in the Soviet Union, resistance by conservative forces was so strong that the reform was inconsistently implemented and the economic crisis deepened, leading to "the economic situation immediately before a coronary thrombosis" (Iwabayashi, 1999, p.245). In the case of Romania, there has been almost no effort to adopt some elements of market economy during the socialist period. What can be said in common is that almost no anti-Establishment movement has been bred during the socialist period and consequently forces which should have led the transition to a market economy were very weak after the system change. Therefore, in the both countries reforms turned out inconsistent, and the "transformational recession" has prolonged. Moreover, their economies which made upward turn in mid -1990s have stalled again, leading to the second transformational recession between 1996 and 1999 (See Graph 1). Warner et al. (2005) compares contrasting situations between Central European countries, which got out of the transformational recession in mid - 1990s and showed continuous economic development, and Bulgaria and Romania (together with Albania), which fell into the second transformational recession, and calls them 'successful case' and 'valley of tears' respectively.

Graph 1



Ialnazov (2003) argues that countries which escaped from socialism with "coup d'etat by nomenklatura" tend to be partial reformers, and the result has been a vicious circle of corruption and rent-seeking, locking these countries into a 'bad' post-socialist trajectory. He says, in order to extricate themselves from their post-socialist trajectory "external anchors" are necessary (Ialnazov, 2003, pp.85-

88). For Bulgaria the first "external anchor" is the currency board system, and the second "external anchor" is its prospect for the EU accession. Bulgaria adopted the currency board system in 1997 while Romania did not. What the both countries have in common as the "external anchor" is their prospect for the EU accession. The reason for why the EU changed its policy toward South East European countries (SEECs) seems to be that the EU perceived it necessary for the EU itself to lead reforms in SEECs including Bulgaria and Romania.

In this paper[1] I will describe the progress to a market economy in Bulgaria and Romania, their present economic situation, efforts to the EU accession and challenges for the both countries after the EU accession.

2. Transition to a Market Economy in Bulgaria

2.1 Lukewarm Reforms

In Bulgaria an environment movement and a movement for human rights and freedoms became active quickly in 1988-1989, but the anti-Establishment movements were very weak. Todor Zhivkov, First Secretary of the Communist Party and Chairman of the State Council, who had been occupying the position of number one in this country for 35 years was expelled from the positions by reformists within the politburo in November 1989. In this way, it was not anti-Establishment elite but a part of the ancient regime that came into power after the collapse of communism. The old communist party changed its name into "Bulgarian Socialist Party" (BSP) in March 1990, but it did not change its character into that of Social Democratic Party as was the case in Central Europe. A conservative group, which insisted on protection and support of state-owned enterprises, regulation of prices and maintenance of social security system inherited from the socialist regime, became the mainstream of the party. Together with some people who suffered under the communist regime as well as anti-established groups which appeared at the end of the communist era, another group of the old communist party formed the Union of Democratic Forces (UDF). Thus two big parties, that is, the BSP and the UDF have emerged. Since then keen struggles for power have been repeated between these two parties. Between February 1990 and April 1997 elections of the National Parliament were held for four times and the change of government occurred for nine times. Every time the change of government occurred top-level managers of state-owned enterprises and top-level administrators of administrative offices were replaced regardless of their ability and performance (Ialnazov, 2000, p. 3).

Another product of the system change in this country was "politicization of transition economy". "A part of the nomenklatura of the Communist Party was able to change to new elite. In addition, through suction of assets in state-owned enterprises or transformation of bank loans into bad debts a majority of the nomenklatura has accumulated enormous amount of wealth and came to have big influence on economic policies in order to protect their interests" (Ibid, p.3).

He adds, "in the climate of overall economic liberalization and political appointment the economic administration was so weak that it was no match for interests of emerging business circles. As a result of increased influence of the politics over the economy, the government has lost its power to manage the economy and became unable to provide people with basic public goods such as protection of property rights and contract rights as well as implementation of laws and regulations. During the period 1989-1997 Bulgaria became a country where criminal organizations provided people with such public goods instead of the government and informal economy and corruption prevailed" (Ibid., p.4). Describing characteristics of the Bulgarian society, Ialnazov points out a similarity between Bulgaria and Russia.

With 1993 as a bottom the economy seemingly made an upward turn between 1994 and 1995, but the country was struck by a serious economic crisis from 1996 through1997. In 1997 the inflation rate exceeded 1000%[2]. Causes of the economic crisis in the second half of the 1990s can be considered as follows:

The government lacked strong political will to promote painful reforms such as big scale privatization and restructuring of state-owned enterprises.

[1] A part of this paper, which is related especially to Bulgaria, is a result of my research trip to Sofia in mid-March 2005. I would like to express my gratitude to the following researchers for their cooperation: Dr. Plamen Oresharsky (Vice Rector of the University of National and World Economy at that time. Now Minister of Finance), Dr. Mileti Mladenov, Dr. Vanya Ivanova, Dr. Lena Roussenova, Dr. Iskra Chrisotova-Balkanska, Dr. Georgy Ganev, Dr. Boris Petrov and Dr. Nikolay Nenovsky. Also thanks to Dr. Dimiter Ialnazov for his useful comments. In addition, I would like to express my gratitude to Dr. Silviu Jora, a Romanian researcher working in Japan as Associate Professor at Kobe University, for his precious comments.

[2] The inflation rate of the consumer prices in 1997 (annual average) was 1,082.0 %. EBRD (1999), p.205.

Caporale (1999) finds serious problems in the points that virtually no foreign investors have participated in the privatization process in 1992-1997 and that the biggest share of the privatized assets were acquired by working teams, tenants and farmers. Since their main concern was maintaining high levels of employment as well as high salaries and social benefits, it is hardly surprising that productivity in such enterprises was badly affected and they run into debt (p.219).

According to Ialnazov (2000), government subsidy to state-owned enterprises should have been practically cut off by the "shock therapy" and economic entities should have faced "hard budget constraint", but after the start of the reform budget constraint has gradually become softened. Concretely speaking, the failure of two main transition policies brought softening of budget constraint: First, the disposal of state-owned enterprises' bad loans, which have been accumulated under the centrally planned economy, has been delayed. In the end banks were obliged to bear a part of them, allowing the preservation of inefficient enterprises. Second, the big-scale privatization and restructuring of enterprises were postponed, resulting in continuation of tacit subsidies to loss-making state-owned enterprises (pp.5-6).

As a result, the budget deficit as percentage of GDP expanded from –6.6% in 1995 to –16.6% in 1996. In such a situation the government used direct loans from the central bank to cover the enlarging budget deficit. This fueled inflation and expectation of lev depreciation, which became self-fulfilling. In addition, in 1995 many people have lost their deposits due to the collapse of "pyramid schemes", and an informal forecast that several banks might go bankrupt has spread. In December1995 a monetary panic occurred. After the Central Bank closed two major banks and began their bankruptcy procedure in June 1996 the Bulgarian economy became exposed to waves of the panic (Ibid., pp.6-7).

2.2 Introduction of the Currency Board System

In November 1996 the IMF proposed the Currency Board System to the BSP government as a tool to ensure financial discipline and macroeconomic stabilization. As the economic crisis deepened, the idea gained wide popularity. By the time the BSP government resigned and an interim government took office in early February 1997 all major political parties had announced their support for the introduction of the Currency Board System. In April the UDF government won the elections for the new parliament, and its government launched the currency board in early July 1997 with a start-up loan from the IMF as part of necessary foreign currency reser-ves (Ialnazov, 2003, p.91).

Under this system the money supply must be 100 percent backed by the foreign currency reserves. In July 1997 the lev, a unit of the Bulgarian currency (its plural is called leva), was absolutely fixed to the German mark at the rate of 1 DM = 1000 leva (or 1 DM = 1 denominated lev [i.e., BGN] as of July 1999). The Bulgarian National Bank has lost most of the traditional powers of a central bank, and it is now responsible for currency stability and monetary issue, as well as external balance, repayments on external debts, and regulation of banks. BNB is no longer allowed to give loans to government and banks. Therefore, soft financing of loss-making state-owned enterprises through banks and compensation of budget deficit by central bank's loans became impossible. It can be said that the currency board system is a mechanism for de-politicization of economy and restoration of credibility of the government (Ialnazov, 2000, p.9; Caporale, 1999, p.222).

Since the currency board system attaches macroeconomic stability, it is a very severe system. As a result of the introduction of this system, the inflation was drastically calmed down. The monthly rate of inflation has fallen from a truly hair-raising 242.7% in February 1997 to 1% or less in the fourth quarter of the same year (*PER*, Jan. 23, 1998) . The government of Bulgaria often received support from the IMF (ex. Extended Credit Facility) to escape financial difficulties. In exchange for it, the government of Bulgaria was urged to implement privatization of major loss-making state-owned enterprises and realize a balanced state budget, and the performance of its economic policies has been always monitored by the IMF team.

As budgetary discipline was tightened the budgetary deficit, which recorded as high as 10.5% of GDP in 1996, has decreased, leading to budgetary surplus of 1% of GDP in 1998. Although industry turned its positive growth as late as January 2000, GDP as a whole turned to its positive growth in spring 1999. All these augur well for the economy. However, we should not overlook that although the unemployment rate decreased from 13.7% in 1997 to 12.2% in 1998, it soared to 17.9% in 2000.

2.3 Political Developments

General elections were held in June 2001. For more than 10 years the BSP and the UDF came to power by turns, but people could not really feel improved lives. Issues related to people's lives such as improvement of serious unemployment, eradication of crimes, etc. were discussed during the election campaigns. Feelings of blockade prevailed among the people who were disappointed at existing political parties.

It was exactly in such a situation that in spring 2001 ex-King Simeon II started a new party 'Simeon II National Movement' (NMS2) which quickly found wider support among the people. Although he ascended to the throne at the age of six in 1943 after the sudden death of his father Boris III, the monarchy was abolished in 1946 when he was nine years old and he was forced to seek refugee in the West. Later he became a businessman and succeeded in the business world. Now he came back to Bulgaria from Spain. The NMS2, which announced its public commitment "to drastically reform the economy and substantially improve the standard of living of the average Bulgarian within 800 days", won a landslide victory with support of 42.7% and gained 120 seats out of 240 seats in total. The NMS2 formed a coalition with an ethnic Turkish party 'Movement for Rights and Freedom' (MRF), which had 20 seats, and Simon II was inaugurated as Prime Minister with many peoples' hopes on his shoulder. However, the Presidential election in November of the same year brought a first jinx to the NMS2. Since ex-King Simeon II did not meet the constitutional requirement for long-term residency in Bulgaria for that office, NMS2 did not nominate its own candidate and instead recommended popular and incumbent President Petar Stoyanov (UDF) to promote an impression of continuity and national unity. This produced the first split with its coalition partner MRF. To make matters worse, Georgi Parvanov, the leader of the Bulgarian Socialist Party (BSP) won the run-off election against the incumbent Petar Stoyanov (PER, Oct. 12, 2001 and Jan. 11, 2002) . It was not easy even for Simeon II with his managerial ability to reconstruct Bulgarian economy. Because the government's management of the economy was restricted by the IMF's guidance, and therefore the government was allowed very small latitude in determining its economic policies. Also because the campaign promise "to substantially improve the standard of living of average Bulgarian within 800 days" was in nature unreasonable. In the course of prevailing poverty and worsening corruption the people were becoming more and more disappointed with the government.

In 2003 support for the NMS2 has considerably declined, and the party lost local elections held in October of the same year with less than 10% of the total votes. In the elections of the National Parliament held in June 2005 the NMS2 lost to 'Coalition for Bulgaria' with the BSP as a center. A big coalition government of three parties, i.e., 'Coalition for Bulgaria', the NMS2 and the MRF started with the leader of the BSP Sergei Stanishev as Prime Minister in August of the same year. In the Presidential election held in November 2006 incumbent Parvanov was reelected.

3. Transition to a Market Economy in Romania

3.1 'Stop-go Transformation' Process

After the fall of the Ceausescu regime in the late December 1989, the Front for Salvation of the Country seized power. Under the totalitarian regime of Ceausescu anti-Establishment intellectuals were entirely suppressed and citizen's movement were nipped in the buds. This is why the vacuum of power was instantly filled by the ex-communists elite who were coldly treated during the last years of the old regime such as Ion Iliescu and Petre Roman. In Romania there was not a move of power supported by citizen's movement from below like in Poland, but simply a horizontal move of power. Thus the transition to a market economy was promoted by the Government composed of the Front with the ex-nomenklatura as its center.

"Adjustment program", which was published in August 1990, was quite similar to Russia's "500 days' plan" in the point that the former aimed to prepare within 640 days legislation and institutions necessary for the transition to a market economy. Compared with "500 days plan", however, Romania's "Adjustment program" did not take into account macroeconomic stabilization. According to Yoshii (2000), the reason is ascribed to a difference in initial conditions of the economic performance. As Ceausescu adopted a strategy to swiftly repay foreign debts in the 1980s, there was a surplus in the trade balance in the early 1990s. Also there was no superfluous liquidity at that time, so that necessity of macro economic stabilization was not so acutely felt (Yoshii, 2000, p.69).

In this way the system transformation began in Romania, but it was "stopgo transformation" (Hunya, 1999, p. 1). The Presidential election and elections of the Upper and Lower Houses were held in autumn 1992. The winners were Iliescu and Democratic Front of Salvation of the Country, who "seriously viewed negative factors in the process of transition to a market economy and advocated to slow down the speed of transition and provide careful social protection (Yoshii, op.cit, p.65). The reform process was characterized by 'pathological gradualism' (Hunya, 1999, p.3).

International Support Organizations including IMF expressed their dissatisfaction with sluggish privatization in this country. The Government of Romania was urged to accelerate a large scale privatization. The Law on Acceleration of Privatization was enacted and came into effect in June 1995. Even with this, however, the transition to a market economy did not make a great progress. Coupons valued at 875,000 lei (US$ 300) a piece were distributed to the population; almost 95% of the eligible citizens participated. By the end of April 1996, 90% of eligible citizens had exchanged their coupons for shares in the 3,900 state owned enterprises. However, the Law had serious defects. For example, there were many loopholes which could allow the state to remain firmly in control of the "privatized" companies (The state retained at least a 40% share in all firms). Many of the largest and most profitable enterprises have been left out of the program (*PER*, Sep, 11, 1996) . In the wake of the disastrous local elections in June 1996 Romania's ruling Party of Social Democracy (PSDR), led by Iliescu, took populist action in order to secure victories in the general elections and Presidential election in November. The PSDR has all but halted efforts to privatize and liberalize the domestic economy, and it has significantly loosened both monetary and fiscal discipline. Thus after two years of successful macroeconomic stabilization policies, the government's macroeconomic management began to deviate its course (*PER*, Sep, 11, 1996) .

In Presidential election held in November 1996 Emil Constantinescu, the candidate from the Opposition was elected to President. In the general elections also the Opposition won. The main partners in the new governing coalition were the Democratic Convention (DCR), an umbrella organization for many of Romania's right of center parties, and Petre Roman's pro-market Social Democratic Party (USD), which together held a majority in both the lower house and the upper house. Viktor Ciorbea from the DCR was inaugurated as Prime Minister. Jointly with the IMF and World Bank experts the new government drafted an economic reform program. The economic reform, which started in February, aimed at libera-lization of the foreign exchange market, liberalization of prices, and acceleration of privatization and rest-ructuring of state-owned enterprises. The govern-ment also pledged to bring budget deficits and inflation under control by tightening monetary policy and drastically reducing subsidies ailing staterun enter-prises (*PER*, March 12, 1997) .

In June 1997 the government passed a landmark law which allowed foreign portfolio investment, and the free repatriation of principal, capital gains, and interest. Although these policies were necessary for the full-scale transition to a market economy, they did not bring immediate positive effects. The economic performance was further aggravated with GDP declining for three consecutive years from 1997. At the same time, the trade deficit increased further. Since payments to service public and private foreign debt from the early 1990s were expected to reach their peak in the first half of 1999, and there was a whisper about possibility of Romania's default at that time. The country successfully paid off two international bonds in the second quarter of that year[3]. However, the crisis continued because another US$ 2 billion of foreign debt payments was expected to fall due next year and reserves were low. In order to ride out these difficulties Romania negotiated with the IMF, reaching an agreement on a new US$ 547 million loan facility in August 1999. Although this amount was not so much, the authoritative assurance of the IMF signaled other lenders that Romania was back on track. To obtain the remaining tranches, however, Romania still needed to find long-term loans from private lenders, privatize the state-owned banks, tighten fiscal control, and continue to accelerate the liquidation or sell-off of large state-owned enterprises (*PER*, Oct. 8, 1999) .

3.2 Political Developments

During fours years since the general elections in November 1996 Prime Minister of the government of Romania has changed for three times. The Democratic Convention of Romania (DCR), which consisted of Ruling coalition, was originally an umbrella organization of many center-right parties. This time the DCR formed a coalition with Petre Roman's Social Democratic Party (USD). The coalition was "a mere a marriage of convenience than a strategic alliance"(*PER*, Sep.11, 1997) . There have been ceaseless inside confrontation over port-

[3] A 52 billion yen (US$ 449 million) Samurai bond and US$ 247 million Eurobond. PlanEcon Report, July 9, 1999.

folios in the cabinet and specific policies. In March 1998 Radu Vasile was inaugurated as Prime Minister. Next year he resigned from his post, being replaced by Mugur Isarescu who has served as Governor of the Central Bank. In November 2000 general elections and Presidential election were held. As mentioned above, Romania experienced the second 'transformational recession' since 1997. Although its economy turned for the better only in the first quarter of 2000, a majority of people could not really feel improved lives. Therefore, reformist parties fought against heavy odds. In the Parliamentary elections the DCR, a leader of the ruling coalition, got only 5% of the total votes with no seat in the Parliament[4]. Ex-communist Party of Social Democracy in Romania (PDSR) won about 37% of the total votes both in the Upper House and the Lower House, becoming the leading party, followed by the Great Romania Party (PRM). The PRM is a xenophobic, nationalist party.

In the Presidential election Corneliu Vadim Tudor, the candidate from the PRM, made a leap forward, gaining the second place, but no candidate won a majority. It was expected that if Tudor would win the EU would reconsider its support for Romania's accession. The run-off was held between Tudor, who stirred up Romanian nationalism, and ex-President Iliescu. Many parties turned to support Iliescu. After all, Iliescu, who was one of the communist elite, won and made a comeback as the President. When I visited Bucharest in December 2000 for a research trip, people said that between two evils Romanian people chose less evil. This was an event that symbolically showed difficulties in the transition to a market economy in Romania. In response to the results of these elections a one-party cabinet of the PDSR, led by Mr. Nastase was formed. It seems that PDSR has learned quite a lot from its previous defeat and that it has grown up to a realistic party. PlanEcon Report commented on the PDSR as follows:

The PDSR is ideologically less committed to reform than even the previous coalition parties, but its leadership is also pragmatic. Under our baseline forecast, key reform policies of the previous government will remain intact under a PDSR government, although the process of reform and restructuring will probably slow at a time when acceleration is needed. However, the PDSR understands its historic opportunity to be the party that leads Romania toward EU membership. Moreover, the PDSR craves legitimacy from socialist governments in Western Europe, and seems to have gained an overnight sense of importance in its newfound role as Romania's protector against the extreme right and against consequent isolation from Europe and the West (*PER*, Jan.19, 2001). Four years later, in November 2004 general elections and Presidential election were held. The ruling coalition of the Social Democrats (previous PDSR) and the National Union of Humanitarian Party of Romania gained the first place in the Parliament but substantially lost its seats to about 40%. In the Presidential election also this time no single party gained a majority. In December the run-off was held between Adrian Nastase the candidate from the ruling party of the Social Democrats and Trajan Basescu the candidate from the opposition coalition of the National Liberal Party and the Democratic Party. Trajan Basescu, mayor of Bucharest, won the second ballot and became new President.

The National Liberal Party, the Democratic Party and the Hungarian People's Union formed a coalition government with Calin Popescu Tariceanu from the National Party as Prime Minister. Since the coalition government commands minority in the Parliament, its political basis has been fragile. In addition, there have been conflicts between President and Prime Minister over several political issues. Therefore, the political situation in Romania has been unstable.

4. Present Economic Situation: Bulgaria and Romania

In the both countries the economies showed upward turn around 2000, and since then the robust economic growth has been continuing. Owing to structural changes supported by international financial organizations, various support from the EU and positive prospect for the EU accession, FDI inflow has increased in the both countries and it has in turn given influence on their economies.

4.1. Bulgaria

In 2000 Bulgarian economy began developing, with GDP growth of 5.4%. It was mainly due to an increase in FDI inflows (see Table 1). As for the increase in FDI inflow, Dr. Tsvetan Manchev, Vice Governor of the National Bank of Bulgaria,

[4] Romania has had the system of proportional representation. It had the so-called 5% clause to avoid emergence of too small political parties in great numbers. While the threshold for single parties was 5% of the total votes, a coalition with more than three parties needed 10%. The DCR was the case. As a result although the DCR gained 5.3% of the total votes, it gained no seat in the parliament. PlanEcon Report, January 19, 2001.

stresses the success of economic reforms. The successful turn in capital flows can be primarily attributed to the abrupt changes in the capital flow management and the sharp rearrangement of the legislative, accounting, informational framework with the purpose to meet the EU criteria for membership before the end of 2006. The Government adopted the credible economic and financial policy supported by a medium-term stand-by arrangement with IMF, and has prepared liberal trade and investment climate. In 1996 Bulgaria became a member of the World Trade Organization. Bulgaria restarted liberalization of trade at a slow pace, but later on the process picked up speed. Since then the country has made significant progress in the sphere of telecommunications and financial services liberalization and to a lesser extent in improving the access of foreign goods to the local market. The Foreign Exchange Law (1999) and regulations are now fully compliant with the EU Directives. Foreign investors can repatriate profits freely. Currently foreign and domestic investments are treated on an equal basis. The constitutional problem prohibiting the acquisition of direct title by foreigners of real estate and land is partially resolved. Joint ventures or 100%- foreign owned companies registered under the Bulgarian law are allowed to buy land for business purposes (Manchev, 2005, pp.335-338).

The Government has endeavored to pursue sound macroeconomic policies. Since mid-1997 the prudential fiscal policy has helped to constrain the budget deficit. It was initially designed to keep an annual general government budget deficit of around 1-1.5% of GDP. The post-privatization reforms after September 2001 allowed for the deficit to decline or for the government even to maintain a slight surplus. Such a sound government budget in recent years was connected with the following factors: (1) the improved revenues collection; (2) the optimization of both interest and non-interest expenditures through an active public debt management and the reform of social security, pension and health care systems; (3) the consolidation of extra-budgetary accounts and implementation of a "single budget account" procedure contributing to a more efficient cash flow management and (4) the sharp and pre-announced decrease in the overall tax burden in 2002-2004 (Ibid., p.339).

The public and publicly guaranteed debt fell down dramatically without any visible damage on the growth and socio-economic cohesion, decreasing from more than 100% of GDP at the end of 1997 to about 41% at the end of 2004. The stability of the currency board arrangement and the steady progress in the reduction of gross external debt further provided for relatively low inflation and the subsequent stability of the real interest rates. In a currency board environment the desirable convergence of domestic interest rates toward the average euro-zone levels occurs (Ibid, pp.340-341). During the period due to the income policy adopted by the government the wage increase has been restrained. Bulgarian people had to endure pain from the reforms. The wage bill in a number of loss-making enterprises and large state monopolies was held down (Ibid, p.343).

Table 1 Bulgaria's Macroeconomic Indicators, 1990–2006

	1990	1995	2000	2001	2002	2003	2004	2005	2006
Population (10 thousand)	872	840	817	791	787	782	780	770	770
GDP real growth rate	-9.1	2.1	5.4	4.0	4.8	4.5	5.6	5.8	5.5
Industry real growth rate	-16.1	-6.3	12.0	0.7	4.0	18.3	21.5	7.3	n.a.
Agriculture real growth rate	-3.7	14.0	-9.1	-0.1	4.2	-1.4	5.6	-8.6	n.a.
GDP/capita (US$, exchange rate)	1,343	1,538	1,546	1,718	1,984	2,546	3,109	3,381	n.a.
Unemployment	1.5	10.5	16.4	19.5	16.8	13.7	12.0	9.9	n.a.
Consumer prices	26.3	62.0	9.9	7.4	5.9	2.3	6.1	5.0	6.5
Interest rate (Base rate)	n.a.	n.a.	4.7	4.7	3.4	2.9	2.4	2.1	n.a.
General government budget balance/GDP	n.a.	-6.4	-0.5	1.4	-0.2	0.6	1.3	2.4	3.0
Trade balance/GDP	n.a.	1.0	-9.2	-11.7	-9.4	-11.0	-12.4	-20.8	n.a.
Current account/GDP	-2.0	-0.2	-5.6	-7.3	-5.3	-9.3	-8.5	-14.9	-16
FDI (US$ million) Inflow	n.a.	82	998	803	876	2,070	1,232	1,991	4,000
Stock	4	337	2,257	2,758	3,662	5,082	8,200		
External debt/GDP	n.a.	n.a.	88.6	78.4	72.7	67.7	69.3	68.2	n.a.

Source: EBRD (1997), p.219; EBRD (2005), p.117; EBRD (2006), p.37; For FDI stock WIIW (2005), p.19.
Data on 2006 are revised by Dr. Ialnazov's latest information.

FDI inflow amounted to US$ 1 billion in 2000, decreasing slightly to US$ 0.8 billion and US$ 0.9 billion in 2001 and 2002 respectively. However, it jumped to US$ 2.1 billion in 2003 (see Table 1). When we look at the FDI inflow stock as of the end of 2004, we find that Manufacturing accounts for the biggest share (27.5%), followed by Wholesale, retail and automobile repairing, etc. (18.5%), Financial intermediation (14.7%), Transportation, storage and communication (13.2%), Electricity, gas and water (11.2%) (WIIW, 2005, p.70). Among manufacturing the textile, footwear and clothing industries, which have had comparative advantage, have attracted the biggest amount of FDI in recent years. These industries are increasing their exports. To a lesser extent the pharmaceutical industry, chemical and petro-chemical industries, mechanical and electrical engineering, as well as metallurgy have attracted a considerable amount of FDI (Manchev, 2005, p. 345). Current account deficit has been rather big, but FDI inflow has sufficiently covered it. Since 1997 foreign direct investment to gross fixed capital formation has fluctuated between 32% and 52% (Ibid., p.347). This ratio is the highest among Central and East European countries and this fact demonstrates that FDI has played a crucial role in the economic development especially in Bulgaria. From the above mentioned, Manchev stresses that Bulgarian experience in the transition fully proves the close interrelation between the trends of foreign investment inflows and the pace of structural reforms in many respects (Ibid., p.344).

4.2 Romania

Year 1999 was the worst. According to Hunya (2002), in 1999 the worst-case economic scenario – i.e. the country defaulting on foreign debts – was only avoided by domestic borrowing and abandoning the inflation target previously set. Devaluation played an important role in diminishing consumer goods import. It also fueled inflation and stimulated exports (p.5). In 2000 GDP increased 1.8% with a sign of upward turn, followed by 5.3% growth in 2001 (see Table 2).

The resumption of economic growth in 2000 was fuelled by external demand (export). The export surged from US$ 8.4 billion in previous year to US$ 10.4 billion in 2000 and US$ 11.4 billion in 2001. In 2001 the economic development was stimulated also by domestic demand. From 1999 through 2002 FDI inflow remained US$ 1 billion or US$ 1.1 billion annually. They came mainly neither as new green-field investment projects, nor were there significant privatization revenues. FDI came mainly during the post-privatization restructuring in the form of foreign take-over or capital increase of privatized companies (Ibid., p.6).

Privatization has been hesitantly implemented. Most of small and medium-sized enterprises have been entirely privatized, but privatization of major state-owned enterprises has not advanced easily. With utilities included, only about 15% of all large enterprises' assets were privatized by 2000.

Table 2 Romania's Macroeconomic Indicators, 1990–2006

	1990	1995	2000	2001	2002	2003	2004	2005	2006
Population (10 thousand)	2,321	2,268	2,244	2,241	2,174	2,174	2,170	2,160	2,160
GDP real growth rate	-5.6	7.1	1.8	5.3	4.9	4.9	5.2	8.3	5.0
Industry real growth rate	-23.7	10.0	8.2	8.3	4.3	3.1	5.3	2.1	n.a.
Agriculture real growth rate	n.a.	4.5	-14.1	22.7	-3.5	3.0	-	-13.9	n.a.
GDP/cap. (US$, exchange rate)	1,257	1,579	1,652	1,793	2,100	2,638	3,376	4,295	n.a.
Unemployment	n.a.	9.9	7.1	6.6	8.4	7.0	6.3	5.9	n.a.
Consumer prices	5.1	32.3	45.7	34.5	22.5	15.3	11.9	9.5	7.5
Interest rate (Discount rate)	n.a.	34.1	35.0	35.0	29.0	20.4	18.0	7.5	n.a.
General govern. budget/GDP	1.0	-2.6	-3.8	-3.5	-2.0	-2.0	-1.4	-0.8	-1.4
Trade balance/GDP	-7.0	--5.7	-4.5	-8.0	-5.8	-7.6	-8.0	-11.3	n.a.
Current account/GDP	-6.7	-5.0	-3.6	-5.8	-3.4	-6.0	-7.5	-9.3	-10.6
FDI (million) Inflow	n.a.	404	1,051	1,154	1,080	2,156	5,020	5,230	4,480
Stock	n.a.	971	6,480	7,638	7,799	12,815	18,002	n.a.	n.a.
External debt/GDP	n.a.	n.a.	28.8	30.9	35.0	36.0	36.2	34.8	n.a.

Source: EBRD (1997), p.232; EBRD (2006), p.63; For FDI stock WIIW (2005), p.19.

In order to overcome the crisis of the repayment of foreign loans, the government of Romania had to rely on standby credit from the IMF. Also the government had to rely on PSAL (Private Sector Adjustment Loans) from the World Bank. When the both international financial institutions gave loans to the government of Romania, they set conditions which might sound like interference in domestic affairs, for example, a sharp cut in the state subsidies, wage restraint in state-owned enterprises, a personnel cut and privatization of major state-owned enterprises including energy industry, privatization of the Romanian Commercial Bank (which had 280 branches and 3 million customers) and other state-owned assets, bill collection in the utility sector, investments in infrastructure, and implementation of structural reforms (*PER*, March, 2003) . Continued losses, the pressure of tighter fiscal policies and the elimination of subsidies led to an accumulation of inter-enterprises arrears in the economy, estimated at 38% of GDP in that year (Hunya, 2002, p.6). In 2001 the government forgave a part of the accumulated debts. In March 2002 the government decided to accelerate privatization. Instead of canceling the previous privatization legislation and replacing it with a new text, a new law on privatization, which included a provision for selling companies for a symbolic value ('1 euro'), was passed by the parliament (Ibid., p.8). In April 2003, the Privatization Agency proposed to the government to sell three state-owned companies – truck producer Roman, tractor manufacturer Tractorul, and steel plant Siderurgica Hunedoara – for 1 euro each. All three companies were heavily indebted and losing more every day, and previous privatization attempts have attracted no serious interest. In order to ensure the survival of the firms and protect tens of thousands of jobs, the government adopted such a method, and even eliminated debts to encourage foreign companies which would buy these loss-making companies and make new investments (*PER*, June 2003) .

The banking sector reform started late but was more effective than industrial restructuring. As of December 2000, there were 33 fully licensed banks in Romania of which four were state-owned and two of which were privatized in the following year. There were also 21 foreign-owned banks among them. During the process of bank restructuring since 1998 bad debts have been either written off or shifted to a state agency. As a result, the size of overdue and doubtful loans in percent of the own capital of banks has drastically decreased from over 250% in 1998 to 31% in 1999 and below 5% in 2000. The same debts as a percent of all banking assets decreased from 16% to 0.5%. The capital adequacy ratio in the banking sector increased from 6% in 1998 to 10% in 2000. Thus the Romanian banking system is now cleaned from the old port-folios and the remaining state banks can more easily go private (Ibid., p.6).

FDI inflows jumped to about US$ 2.2 billion in 2003 and about US$ 5.1 billion in 2004. As of the end of 2004 FDI stock amounted to US$ 18 billion, of which manufacturing account for 51.6%, followed by Hotel and Restaurant (16.2%), Wholesale, Retail, Automobile repairing, etc (11.4%), Transportation, Storage and Communication (9.2%), and Financial intermediation (6.6%) (WIIW, 2005, p.78). The reasons for why FDI inflows increased since 2003 can be considered as follows: First, political and economic stability of the country increased than before; Second, prospect of EU accession was becoming more realistic; Third, privatization of utilities and large state-owned enterprises gained momentum in this country while privatization process in Central European and Baltic countries has almost completed; Fourth, as Hunya explains using Flying Geese theory, a considerable amount of FDI has flowed into Central European countries from West European enterprises in 1990s, but labor cost has been gradually increasing. Instead, low-technology and labor-intensive industries in Romania have been attracting FDI.

I am afraid that data are little bit too old, but as of 2000, with only US$ 2 billion foreign capital invested, foreign affiliates produce 38.6% of manufacturing turnover, employ a quarter of the manufacturing labour force and account for 44% of the direct manufacturing exports (Hunya, 2002, p.17). Presumably, at present share of foreign affiliates is much higher by any indictors. Hunya worked out a table which listed 10 biggest gaining industries and 10 biggest losing industries in Romanian exports to the EU-15 during the period 1995-2000. According to the table, industries which had the biggest exports and the biggest gains (competitive gain) during the period are Wearing apparel and accessories, and Footwear with their market share in EU-15 being 5.45% and 9.32% respectively. On the other hand, industries which had the biggest decrease in competitive gain during the period are Basic iron and steel, ferro-alloys, and Furniture with their market share in EU-15 2.84% and 3.98% respectively (Ibid., p.15). The textile and leather industries have had comparative advantage and have had big market share in EU-15 markets. These two industries have attracted foreign capital which then helped to increase exports further. Hunya measured the degree of foreign penetration in Romanian economy by share of foreign affiliates in manufacturing industry sales, and he compared the degree of foreign penetration in Romania, Czech Republic and Poland. In Romania foreign penetration is higher in textile and leather industries while in all other industries, foreign penetration in Romania is smaller than in the Czech Republic and Poland. It is particularly low in furniture industry. It seems that this industry is not attributed much future by foreign investors (Ibid., pp.19-20).

When we pay attention not to absolute amount of exports but to share of foreign affiliates in exports electric machine industry had the highest share with slightly more than 70%, followed by transport machine (about 65%), leather industry (slightly more than 60%), textile and clothing industries (slightly less than 50%), and basic metal industry (about 45%) (Ibid., p.23). According to Hunya, Foreign investors support Romania's traditional specialization in clothing, footwear and metals. They are the driving force behind the emergence of exports in the electrical machinery and electronics sector (Ibid., p.24). As Romania has produced passenger cars called 'Dacia' already in the socialist period, the country has had a foundation for producing cars, and therefore the automobile industry and its related industries in the country will attract more and more FDI.

5. Progress in Path toward EU Accession

Compared with Central European countries and Baltic countries, Bulgaria and Romania were late reformers. In Agenda 2000, which was published in 1997, the both countries were placed as the second wave. After having experienced the Kosovo war, the EU felt it necessary to change its policy toward South Eastern Europe. In order to give SEECs brighter prospect, the European Council of Ministers in December 1999 decided to open EU accession negotiation for Bulgaria and Romania, and it had a further "catalytic effect on the momentum for reform" (Dragan, 2006,). The official accession negotiations for Bulgaria and Romania as well as other countries which joined the EU in 2004 were launched on February 15, 2000. In the course of negotiations with the EU the government of Bulgaria was obliged to accept the EU's request to close unit 3 and unit 4 at Kozlodui nuclear power plant[5]. Anyway, since then the both countries have endeavored to implement reforms so as to be admitted to the EU.

Let us compare the 1997 version and the 2005 version of Transition Report published by the EBRD and confirm to what extent reforms have advanced during the period 1997-2005. I would like to add Croatia to this comparison because in recent years Croatia as an EU candidate has been often discussed together with Bulgaria and Romania (see Table 3 and Table 4). When we look at private sector share of GDP, Bulgaria has made the biggest progress during the period (from 50% to 75%). In terms of other indicators, Croatia was in equal position or ahead of Bulgaria and Romania as of 1997, but the three countries are almost in line as of 2005. In terms of small-scale privatization, governance and enterprise restructuring, banking reform and interest rate liberalization, and securities markets and non-bank financial institutions, Croatia remains ahead of the other two countries while in terms of other sectors it is in line with or even lagging behind the two countries. In its 2004 Report the European Commission concluded that Romania complies with the criterion of "functioning market economy", a prerequisite for the EU entry, although the Report expresses a number of concern about the Romania's capacity to cope with the competitive pressure and market forces within the Union. The EU accession negotiations for these two countries were closed in December 2004, and the Accession Treaty for Bulgaria and Romania was signed in April 2005. Meanwhile, the two countries were admitted to the NATO at the end of March 2004.

However, Bulgaria and Romania are facing big challenges, that is, fighting against organized crimes and reforms of the judicial system. When I visited Sofia and made a field survey in March 2005 I made an interview with an economist who was working at a NGO. I asked him, "What is the biggest problem which Bulgaria is facing now?" He mentioned a weak judicial system. According to his explanation, excellent students who graduated from Law Faculties of Universities are willing to work at companies while courts felt it difficulty in employing excellent lawyers. It is said that the police has been very weak and has had connection with criminal organizations underground.

[5] This problem developed into a serious political issue within Bulgaria. The UDF and the BSP introduced their motions for a vote of no confidence in the government. These opposition parties in the right and the left cooperated for the first time in Bulgarian history, but they did not succeed. *PER*, Dec. 13, 2002.

Table 3 Progress in Transition in 3 South East European Countries (1997)

	Population (mill., mid-1997)	Private sector share of GDP in %, mid-1997	Enterprises			Markets and trade			Financial institutions	
			Large-scale privatization	Small-scale privatization	Governance & restructuring	Price liberalization	Trade & foreign exchange system	Competition policy	Banking reform & Interest rate liberalization	Securities markets & non-bank financial institution
Bulg	8.4	50	3	3	2+	3	4	2	3-	2
Rom	22.7	60	3-	3	2	3	4	2	3-	2
Cro	4.8	55	3	4+	3-	3	4	2	3-	2+

Source: EBRD (1997), p. 14.

Table 4 Progress in Transition in 3 South East European Countries (2005)

	Population (mil., mid-2005	Priv. sector share of GDP in %, mid-2007	Enterprises			Markets and trade			Financial institutions		Infrastructure
			Large-scale privatization	Small-scale privatization	Governance & restructuring	Price liberalization	Trade & foreign exchange system	Competition policy	Banking reform&Interest rate liberaliz.	Securities markets & non-bank financial institution	Infrastructure reform
Bulg	7.8	75	4-	4-	3-	4+	4+	3-↑	4-	2+	3
Rom	21.4	70	4-	4-	2+↑	4+	4+	2+	3	2	3+
Cro	4.4	60	3+	4+	3	4	4+	2+	4	3-	3-

Source: EBRD (2005), p. 4

Note: Here category 1 means little progress. Category 4+ is the highest and means standards and performance typical of advanced industrial economies.↑arrow indicates change from the previous year in that sectoral transition indicator. One arrow indicates a movement of one point (from 2 to 3-, for example).

Therefore, the police cannot arrest criminals. Even if it arrests criminals it takes too long time for courts to deliver judgments[6].

The EU has been worried about a delay in fighting against corruption and organized crimes in the both countries, and added four safeguard clauses to the Accession Treaty. A fourth clause included in the Treaty allows the Council to decide, based on the European Commission's recommendation, the accession would be postponed by one year in case where there is clear evidence that the state of preparation for adoption and implementation of the *acquis* is such that there is a serious risk of Bulgaria/Romania being manifestly unprepared to meet the requirements of membership in a number of important areas[7]. Finally, in September 2006 the European Commission proposed the European Council to admit the two countries on January 1, 2007 as planned, but with qualifications: Even after their accession the EU will continue to monitor areas such as agriculture, corruption, reform of judicial system, rights of intellectual property and border control where the two countries are lagging behind the EU standard. The European Council held in December 2006 decided the two countries' EU accession.

Croatia's accession to the EU is expected to be around 2010. According to indicators of progress in transition in EBRD's Transition Report 2006, Croatia is almost in line with Bulgaria and Romania, and in addition, Croatia is much richer in terms of per capita GDP. Nevertheless, Croatia was left until later. It is mainly due to the EU's political judgment that Bulgaria and Romania preceded Croatia in EU accession. Namely, Croatia has been negatively affected by its involvement in ethnicity conflicts of the former Yugoslavia while in the case of Bulgaria and Romania already in December 1999 the EU decided its basic line that the two countries would be admitted in the near future. Presumably, the European Commission took into account domestic affairs in the two countries. In Bulgaria, for example, ultra-

[6] According to news at the end of October 2005, Mr. Emil Kyulev was assassinated in Sofia on October 26, 2005. He was the biggest shareholder of DZI Financial group (A financial group which controls an insurance company, a lease company, etc.) and DZI Bank. The police views that he was involved in rivalry over territory. It was reported that already 15 persons were killed in that year with similar affairs (AP, October 26, 2005). Asahi *Shimbun* reports, "In Bulgaria in the past 5 years until 2005 150 persons were killed by cases of murder in which mafias were involved. Mafias' activities have almost no fetters" (*Asahi Shimbun*, January 4, 2007)

[7] The Association Treaty includes four safeguard clauses. Other than the postponement clause, there are the general economic safeguard, the specific internal market safeguard, and the Justice and Home Affairs safeguard. Dragan (2006), p.5.

nationalist party ‘Ataka’, which called to outlaw the ethnic Turkish Movement For Rights and Freedom (MRF), came fourth in 2005’s parliamentary elections. In the first ballot of the Presidential election held in October 2006 a candidate from ‘Ataka’ gained 20% of the total votes. In the second round run-off held in the end of October 2006 Mr. Parvanov, incumbent President, and Ataka’s candidate competed each other, and Mr. Parvanov won re-election, gaining three-quarters of the vote. Polling decreased from 64% in the first round to 42.1% in the second round, reflecting the poor performance of the centre-right and reform fatigue (*Emerging Europe Monitor*, Dec. 2006, pp.1-4). There might have been an alternative option – postponing accession by one year. However, judging “This would have been more likely to increase political instability and breed anti-EU sentiment that would stymie progress even more”(*Emerging Europe Monitor*, Nov. 2006, p.5), the European Commission decided to admit Bulgaria and Romania in January 2007 as planned.

6. Challenges for the Two New EU Member Countries

From the above-mentioned it may be safely said that the “external anchors” which have been necessary for Bulgaria and Romania to extricate themselves from “bad” post-socialist trajectory, namely, the currency board system (for Bulgaria) and the prospect of the EU accession (for both Bulgaria an Romania) have satisfactorily played their roles. I would like to add that international financial organizations such as the IMF and the World Bank have strongly promoted the transition to a market economy in the both countries by carrot-and-stick policies.

One of the biggest challenges for the two countries after accomplishing the EU accession is to enter the EMU (Economic Monetary Union) and adopt Euro as soon as possible. For that purpose the two countries must satisfy the Maastricht criteria, especially, budget deficit of less than 3%, public debt of less than 60% and low inflation rate. Governments of the two countries are required to pursue prudent fiscal and financial policies in their economic development. In addition, the two countries have a huge amount of trade deficit. In Bulgaria the trade deficit in percentage of GDP increased from –12.4% in 2004 to –20.8% in 2005. In Romania the trade deficit in percentage of GDP increased from –8.0% in 2004 to –11.3% in 2005. Although such huge amounts of trade deficit have been partly covered by the inflow of income from overseas, the current account deficit has been still at high level (–14.9% in Bulgaria and –9.3% in Romania). The current account deficit has been covered by FDI inflow considerably (in the case of Romania) or entirely (in the case of Bulgaria). However, I do not believe that in the long run FDI inflow will continue at such a high level in these countries. The both countries will have to overcome such structural fragility of their economies.

Although being admitted to the EU, it was conditional. As mentioned above, the two countries will be monitored by the EU in several areas where the two countries are lagging behind the EU standard. In order to win the confidence of people in the existing member of the EU the governments of the two countries have to tackle the reform of judicial system and fight against organized crimes with their full strength. The Kozlodui nuclear power plant has satisfied not only a domestic demand for electricity, but also a part of the demand in neighboring countries through electricity export. However, this plant was constructed on the basis of Soviet technology, and it does not meet the environmental criteria in the EU. Units 3 and 4 at this plant were closed at the end of 2006. Remaining units at this plant need a new investment to meet the environmental criteria in the EU. In the short-run, the country will suffer a shortage in electricity and a rise in electricity prices[8]. Bulgaria is required to solve these problems.

Regulation on migration to EU-15 is being reinforced. Prior to the EU enlargement in 2004, the existing member of the EU (EU-15) decided that they might take transitory arrangements for nationals migrating from the new member states to be substantially limited the possibilities of work up to seven years. UK, Ireland and Sweden did not use this right and have immediately opened their labor markets. As a result, migrants from EU-8 concentrated mainly to UK. Business circles in UK have welcomed labor migration on the ground that it enhanced economic growth. However, migration of a great number of workers, which exceeded prior anticipation, repelled people in the second half of 2006. In October 2006 the British government launched a new policy to limit migration from Bulgaria and Romania. According to this new regulation, other than skilled workers the number of workers will be limited up to 20000 annually, and only in food processing industry and seasonal agricultural labor. An illegal immigrant shall

[8] “Reports related to Bulgarian economy in August 2006”, provided by Mr. Toshiyuki Nawata, a second secretary at the Japanese Embassy in Bulgaria.

be fined up to 1000 pound as penalty (*Mainichi Shimbun*, December 21, 2006; *Asahi Shimbun*, January 4, 2007).

It is natural for Bulgarians and Romanians to be dissatisfied with discriminative treatment from nationals of the EU-8. Turning our eyes to domestic affairs, however, the tendency of decreasing population has been continuing since the beginning of the transition to a market economy in the both countries, notably in Bulgaria. There is a tendency for the young generations with higher education to emigrate to foreign countries more and more, but this is a serious loss to the two countries. Bulgaria and Romania are required to create jobs for the youth as many as possible and build societies full of vitality

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