

# BTI 2010 | Romania Country Report

<b>Status Index</b>	1-10	<b>8.23</b>	# 16 of 128	
Democracy	1-10	8.50	# 15 of 128	➔
Market Economy	1-10	7.96	# 16 of 128	➔
<b>Management Index</b>	1-10	<b>6.27</b>	# 25 of 128	

scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	21.5	HDI	0.84	GDP p.c.	\$	12369
Pop. growth	% p.a.	-0.2	HDI rank of 182	63	Gini Index		31.5
Life expectancy	years	73	UN Education Index	0.92	Poverty <sup>2</sup>	%	3.4
Urban population	%	54.1	Gender equality <sup>1</sup>	0.50	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

## Executive Summary

Romania's political track record since EU accession on 1 January 2007 has been mixed. More than any other candidate country, Romania has suffered from a backlash following years of policy discipline and external pressure to achieve EU membership. Literally days after accession, a highly personalized political conflict between Prime Minister Popescu-Tăriceanu and President Traian Basescu escalated. In the end, the victims of this power struggle were not only several ministers (e.g., Minister of Justice Monica Macovei and Minister of Foreign Affairs Mihai Răzvan Ungureanu), but also some key principles of proper democratic procedure, and the government ignored the opinion of the Constitutional Court and bypassed democratic institutional checks and balances with the president by calling for referendums. Romania's reputation in Europe clearly suffered most from months of dirty political infighting and a government incapacitated by politicking and unable to manage the last phase of the transitional process. The embarrassing politicking and the new electoral system resulted in a change of government after the November 2008 elections and a new coalition government led by Emil Boc and made up of the two largest parties, the Democratic Liberal Party (PDL) and the Social Democratic Party (PSD).

High economic growth in 2007 – 2008 made up for most political flaws, but the global financial crisis is bound to reduce growth in Romania as drastically as in most other post-communist economies of Eastern Europe. Romania's economic growth has been rather uneven in several respects. Little progress has been achieved in the underdeveloped agricultural sector as well as in the process of industrial restructuring. Conversely, the IT and service sectors are booming in Bucharest and a handful of other cities. Consequently, socioeconomic disparities between the populations of these boomtowns and those in other parts of the country, and especially the countryside, are rapidly increasing. The same applies to inequality in terms of income and the availability of social infrastructure. After the concerted efforts to accomplish EU accession, Romanian politicians returned to politicking, and the implementation of the reform legislation

left much to be desired over the past two years. With the EU-accession goal accomplished, moreover, strategic and political agenda-setting efforts (e.g., concerning social security policies and regional or social disparities) seem to have been declining rapidly. The country continues to benefit from its prospering economy, but labor-market reforms and social-cohesion policies are lagging behind.

## History and Characteristics of Transformation

Historically, Romania has been characterized by a modernization gap between the southern and eastern regions, which were under Ottoman domination until 1878, and the more modern, urbanized economy of the western and northwestern regions, which were under Habsburg rule until 1918. The modernization of the unified Romanian state in the interwar period was a political and economic process marked by dependency, a trend which started in the mid-19th century. Western models of statehood, democracy and a market economy were grafted onto a Romanian society rooted in qualitatively different traditions. The result was a quasi-democracy dominated by a small political and economic elite that did not represent wider societal interests and had not internalized the concept of the sovereignty of the people. National mobilization became a substitute for modernization and an integrative strategy.

Despite a breakthrough strategy after the communist takeover in 1945 – 1947, the regime has perpetuated some of the deficits of the prewar period, especially during the last decade of Nicolai Ceausescu's rule. Again, an external model of modernization was grafted upon a Romanian reality. Political elites continued to perceive the state and the bureaucratic apparatus as property rather than as a policy instrument. This resulted in rampant nepotism, etatism and simulated reforms, even in the more liberal decade after 1965. By the early 1980s, the combination of an autonomous foreign policy and Stalinist approaches to modernization and domestic control had run its course, resulting in nationalist mobilization and economic decay.

Lacking an outspoken and influential opposition – partly because the Ceausescu clan monopolized national(ist) mobilization and repressed any organized dissent or independent voice within the party – the revolution of 1989 was essentially a power struggle among different segments of the nomenclature rather than the promising beginning of a political transformation. Thus, although Romania was the only country in Eastern Europe to witness a violent end to communism, the net outcome was generally rated as more of a “palace revolution” within the nomenclature than a clear break with the past. Being highly distrustful of market economics and pluralist democracy, and facing some distinct disadvantages in comparison to most of the other eastern European EU-accession states, Romania increasingly fell behind in the reform process.

When the democratic opposition finally won the presidential and parliamentary elections in 1996, the expectations were correspondingly high. The new center-right government of President

Constantinescu and the Democratic Convention of Romania (DCR) initiated the restructuring of heavy industries and the mining sector, liquidated economic black holes, consolidated the banking system, privatized several large state-owned enterprises, liberalized most input prices and established the full convertibility of Romania's currency. As the various DCR-led governments lacked political coordination and failed to settle their internal political differences, they lost the presidency and the parliamentary majority in 2000. Ion Iliescu was elected (again) as president, and a minority government of the Social Democratic Party led by Adrian Nastase entered into office with the support of the Democratic Union of Hungarians in Romania (UDMR). As a result, those who had taken over power after Ceausescu's ouster in the December 1989 revolution were back in office. The amateurish politics of President Constantinescu and the center-right Democratic Convention (1996 – 2000) created a sense of reform fatigue and political disillusionment among the electorate. A broad impression of policy failure, although only partially justified, added to the extreme uncertainty and hardship among reform's losers.

While many politicians from the first and second Iliescu presidency (1990 – 1996) returned to power "sadder and wiser" in 2000 after four years in opposition, most political parties now feature younger management for the first time since the revolution of December 1989. The stability of the political system, however, has been deceptive and based on shrewd control and clientelism rather than on a culture of constructive policy-making. Simulated reforms, etatism, nationalist rhetoric and blurred distinctions between the state, parties and private sector are still very much present in Romania. Overall, the new leftist government has done better than most analysts expected, probably because popular expectations were at an all-time low and because the process of EU integration provided much-needed assistance as well as the basic framework and incentives for reform. The macroeconomic balance management was especially – and somewhat surprisingly – successful under the re-labeled Social Democrats, and good control over public expenditures left the country with very low deficits at the end of 2004. They also managed to conclude all the acquis chapters negotiated with the European Union, albeit with notable red flags concerning the judiciary, the battle against corruption and institutional preparedness for EU funds.

Romania's economic reforms suffered from some disadvantageous framework conditions, including erratic management and wavering popular support for economic and political transformation. The size of the national economy and the predominance of a poorly mechanized agricultural sector, on the one hand, and run-down, obsolete industrial complexes, on the other hand, have made transformation particularly challenging. Ceausescu inflicted much damage by striving for autarky in paying off foreign debt at the expense of domestic consumption and investment in capital goods.

Successive governments have been reluctant to implement reforms that would impose transitional hardships and thereby make themselves unpopular. Price liberalization and employment reduction have produced legacies of bad credit, backlogs in large privatization and pseudo-employed workforces. The changes of government and the absence of a coherent plan with enough public and political backing have resulted in erratic transformational policies, especially regarding privatization and its ever-changing laws and institutional frameworks. This

has made both the Romanian population and international investors extremely wary. Overall, the hesitation to engage in profound transformation has been self-defeating. By losing the initial momentum domestically, and by lacking competitiveness for Western investment within the former Eastern bloc, critical resources for constructive policies have been depleted.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The state's monopoly on the use of force has been uncontested throughout the territory. Autonomist and secessionist rhetoric among some representatives of the Hungarian minority has entered the political debate, but it poses no threat to state sovereignty.

Monopoly on the use of force

By historical tradition, the Romanian concept of the nation-state is defined strongly in terms of ethnicity. The Romanian Constitution defines the nation in ethnic terms ("national sovereignty resides with the Romanian people") and provides the normal guarantees of liberal constitutionalism. A civic concept including the strong Hungarian and Roma minorities has thus far failed to find acceptance beyond formal legal texts. The integration of Roma, in particular, is hindered by widespread stereotypes and discriminatory practices. Support for nationalist-extremist, openly anti-Semitic and xenophobic parties and movements has been declining for some years (e.g., the extremist, xenophobic and anti-Semitic Greater Romania Party received 13% of the vote in the 2004 elections but only 3% and no seats in the 2008 parliamentary elections). Evidence from public life and political rhetoric, however, indicates that societal perceptions of citizenship may be disharmonious with constitutional stipulations guaranteeing civic rights and that entrenched discriminatory attitudes still linger in society.

State identity

Nevertheless, the state's constitution and official citizenship are not directly challenged, and support for outright political extremists seems to be declining. Rather, political rhetoric and everyday practice deviate substantially from inclusivist concepts of the nation and civil rights. It should be noted, however, that the Democratic Union of Hungarians in Romania (UMDR) was part of all government coalitions between 1996 and 2008.

Since the end of communism, the Romanian Orthodox Church has remained independent from politics, and religious dogma has not had an impact on state policy-making. Nevertheless, the church's insistence on being recognized as the

No interference of religious dogmas

privileged denomination blocked a new law on religions for more than five years, which eventually took effect in January 2007. Registration procedures impede smaller denominations, and the government has refused to grant official status to a number of religious confessions since 1990. In general, the government is inclined to favor the Orthodox Church, and it has refused to give properties that were confiscated under communism back to the Greek Catholic Church. In a series of confrontations in court with the country's main anti-discrimination institution, the Romanian National Anti-discrimination Council, the government has yielded to public opinion and made it its mission to protect Romania's Orthodox identity in the new context of a European Union dominated by Catholics and Protestants as well as to ward off the threats of Islam and atheism.

Romania has reformed its state institutions since 1989 with increasing EU assistance and guidance. The administrative structures and resource allocation encompass the entire country.

Basic  
administration

## 2 | Political Participation

The various elections that took place during the period under review (e.g., the November 2007 European elections, the June 2008 local elections and the November 2008 parliamentary elections) were generally regarded as being free and fair, although there were mutual incriminations, allegations of fraud, attacks on political opponents and vote rigging. The Romanian Media Monitoring Agency particularly criticized what it saw as biased radio and TV coverage of the parliamentary elections. Nevertheless, the fact that the elections and subsequent coalition-building processes functioned without any risks being presented to the system of democratic representation shows just how much the Romanian political landscape has been consolidated and how much democratic procedures have been accepted. There are no relevant de jure restrictions on suffrage, and no groups are barred from executing their passive or active electoral rights. Prior to the November 2008 general elections, the electoral system was changed radically from a system of proportional representation to a mixed system centered on a first-past-the-post "uninominal" concept. The stated objective was to have the voters' will represented better at the regional level. But since the ruling coalition was in a position to draw the borders of the electoral districts in its favor, the system is bound to produce populist rhetoric to win votes and political strife.

Free and fair  
elections

Democratically elected rulers do have the effective power to govern. Thus, no political enclaves exist, although some interest groups and stakeholders have demonstrated disproportionate political influence and may be viewed as possessing limited veto powers. Both managers from state and private corporations as well as trade unions have the power to block reform processes. Thus, Romania ranks high in indices reporting on state capture.

Effective power to  
govern

Romania's 1991 constitution guarantees the usual political and civil liberties, including freedom of expression, association and assembly. In practice, civil society's association and assembly rights are hampered by administrative means, and the activities of unwelcome, critical NGOs are obstructed on both the local and national levels. As a relatively new strategy, political parties and government agencies have tried to co-opt or employ particularly critical civil society representatives or NGOs, or they try to discredit them by using smear campaigns in media sources with distinct political leanings. A retroactive law with unclear provisions was passed in 2008 that requires associations and foundations to be dissolved if somebody considers their name objectionable. Although the law was amended in early 2009, this is a sign of the constant pressure that critical groups have to live with in Romania.

Association /  
assembly rights

Freedoms of opinion and the press are generally protected adequately. Although most media outlets continue to have a clear political preference, the culture of political reporting is changing, and overt political interference is declining. In terms of in-depth analyses and public interest in high politics, it may be argued that political reporting has been deteriorating rapidly over the last few years.

Freedom of  
expression

Measures have been taken to increase the transparency of media ownership and income (advertising) structures, but owners still have a stronger voice than those of the professional journalists working for them. A few NGOs actively serve as watchdogs for media independence (e.g., the Romanian Media Monitoring Agency, the Center for Independent Journalism and the Romanian Press Club).

### 3 | Rule of Law

State powers in Romania are independent, and the constitution establishes checks and balances on political power. Events in 2007, however, have severely shaken democratic consolidation and the rule of law. Not only did the prime minister dismiss ministers for being too close to the president, but the parliament also ignored a judgment passed by the Constitutional Court and impeached the president while simultaneously amending the threshold for the subsequent referendum in its favor, the last constitutional step of the impeachment procedure. Although the formal (amended rules) of the impeachment procedure were not violated *de jure*, the process is highly indicative of the political elite's disrespect for the separation of powers. Although parliament's logic for ignoring the ruling of the Constitutional Court was rather self-serving, it can also be argued that the threat of impeachment should suffice to compel a president to resign so as to safeguard the office from further discredit.

Separation of  
powers

Moreover, as expected, the government's bad habit of passing legislation via ordinances and thereby bypassing the parliament has continued even after EU

accession. Although the executive bias and the urgency of accession can no longer serve as valid justifications, the bad practice has become institutionally ingrained. The tug-of-war between the president and the prime minister has added to the disregard for the separation of powers and other fundamental self-constraints on political competition.

The ongoing conflict between the executive and legislative branches, on the one hand, and the judiciary's powers over anti-corruption prosecution, on the other, has threatened the independence of the judiciary and has been detrimental to public trust. Not surprisingly, the reform of the judiciary – which was a key issue in the finalization (and postponement by one year) of EU accession for Romania – remains a focal point of post-accession monitoring. Some have argued that certain proposed amendments to the criminal and civil codes threaten to make it more difficult to prosecute corrupt politicians and civil servants. According to the latest EU Report on Progress in Romania under the Cooperation and Verification Mechanism, the Superior Council of Magistrates' position as an independent guarantor of transparency remains an issue of concern. The council's independence depends on its resources and composition. The commission concluded that the inclusion of procurators by the executive is a drawback for an autonomous body of the magistracy and that reform of the judiciary had been backsliding in recent months.

Independent  
judiciary

The track record during the period under consideration in terms of prosecuting the abuse of office is mixed. For example, the dismissal of the popular and proactive Minister of Justice Monica Macovei in February 2007 demonstrated the unwillingness of the political class to pay more than lip service to anti-corruption objectives. Since then, parliament has amended legislation in order to unduly strengthen the position of politicians and civil servants accused of corruption. Moreover, parliament intervened in a number of cases to influence court proceeding or to achieve a mistrial on procedural grounds in favor of the accused. On the other hand, attempts by Macovei's successor, Tudor Chiuariu, to close down the National Anti-corruption Directorate failed, and with the support of the public and several influential national and international civil society organizations (e.g., Freedom House, the Romanian Academic Society and APADOR-CH), the fights for transparency and against corruption and conflicts of interest have continued. It remains to be seen whether President Basescu's essential support shielding anti-corruption campaigns against defensive retaliation by incriminated politicians is a principled stance or part of this power struggle with elements of the party establishment.

Prosecution of  
office abuse

In line with EU norms, all formal legal guarantees for a fair process when it comes to equal treatment and non-discrimination legislation are in place. However, EU monitors have criticized the arbitrariness of court verdicts and the backlog in court cases. Human rights organizations, such as APADOR-CH, have condemned

Civil rights

loopholes in legislation that would allow the police to violate basic human rights “in exceptional circumstances.” Reports by the same organization continue to draw attention to inhuman and degrading treatment in Romanian penitentiaries. Moreover, there is a long string of decisions against Romania from the European Court of Justice on cases related to the restitution of property confiscated by the communist regime.

#### 4 | Stability of Democratic Institutions

During the period under investigation, the performance of democratic institutions was severely compromised by two developments. Firstly, by the conflicts between President Basescu and Prime Minister Popescu-Tăriceanu in 2007 and, secondly, by the conflicts within the government coalition of the Democratic Party (PD) and the National Liberal Party (PNL). Both the parliament and the president used dubious strategies to come out victorious, for example, by putting pressure on one minister to resign without risking a motion of no confidence against the entire government or with the president’s allegations of government corruption and public statements intentionally contradicting government policies on key political issues, such as the country’s military presence in Iraq. The frequent deadlocks between the main political parties as well as between the president and prime minister increased the populace’s distrust in the political leadership and weariness for politicking.

Performance of democratic institutions

Although political actors do accept the democratic institutions in principle, they are not above bending the democratic principle of the separation of powers or the rules of democratic procedure. However, the president’s use of populism (e.g., derogatory statements against an allegedly self-serving political class) points to deficits in the political culture.

Commitment to democratic institutions

#### 5 | Political and Social Integration

During the period under consideration, the composition and framework for the Romanian party landscape has changed radically. In general, the decision to directly elect the presidents of the county councils is considered a positive step toward more accountability on the local level. The separation of presidential and parliamentary elections as of 2004 (by prolonging the president’s term of office to five years) and, more importantly, the revision of the electoral laws have increased incentives to create broadly based parties rather than political parties dependent on a single or only a few political leaders. Voting reforms changed the electoral procedure from proportional voting to a mixture of proportional and absolute-majority systems. The breakup of the PNL-PD coalition in 2007, moreover, is expected to lead to a consolidation of the party landscape characterized by parties with a stronger profile and social base rather than leader-driven. The paralyzing schism between post-

Party system

communists and the democratic opposition is eroding, and a European-style range of parties is emerging with the liberal PDL, the alliance of the social democratic PSD and the Conservative Party (PC), and the conservative PNL. At the same time, extremist, leader-based and one-issue parties are being marginalized.

Whereas the party system may have gained recently in terms of its responsiveness to societal constituencies (including the populist oversensitivity mentioned in 4.2 Commitment to democratic institutions), the political elite continues to be wary of civil society organizations that channel public interests and act as watchdogs. Correspondingly, the political system lacks incentives for allowing NGOs and societal interest groups to join into the decision-making process as well as points of access that would foster such collaboration. Instead, the Popescu-Tăriceanu government has used state-affiliated media to blacken the public image of critical voices and has attempted to co-opt (and politicize) more moderate civil society representatives by arguing that they are politically polarizing.

Interest groups

As a positive trend, the eroding popularity of anti-democratic, extremist parties demonstrates the consolidation of democratic institutions and a democratic political culture. Nevertheless, polls indicate that the general level of trust in these very institutions is low. Likewise, although there have been some recent improvements, public trust in national institutions remains low. A Eurobarometer report from April 2008 registered an average trust of 22% in political institutions and 45% in state institutions (the range stretched from 28%, for the judiciary, to 70%, for the army). As was expected, the mass media performed very well, with an average of 67%. A never-ending series of corruption scandals and allegations goes a long way toward explaining the ebb in political trust, but it apparently does not translate into support for anti-system parties or movements.

Consent to democratic norms

Civil society organizations tend to be interest-advocacy oriented for specific social groups, whereas larger, internationally connected NGOs tend to be quite isolated from constituencies in Romanian society. Due to the country's long socialist tradition, people are more inclined to resort to state assistance and guidance rather than to societal self-organization groups or – in the case of the winners in the transformation process – to opt for a highly individualistic approach. Advocacy organizations and civil society coalitions tend to focus (with increasing effectiveness and influence) on singular issues, most prominently anti-corruption, the environment or conflict of interest and transparency during the 2008 parliamentary elections. Conversely, the role of broad, general-purpose NGOs with substantial national and/or international funding and expertise seems to have declined along with EU accession.

Associational activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Due to growing urban-rural disparities in the processes of socioeconomic transformation and European integration, social exclusion is structurally ingrained in Romania. Gender is hardly a factor, as the GDI is close to 100% of the HDI, but other UNDP poverty-related indices indicate that poverty, though not extreme, is a serious and substantial problem, with almost 30% of the population living below the national poverty line. FDI and economic growth are strongly focused on the capital, a handful of major cities and the Western regions, whereas rural underemployment persists as a structural problem.

Socioeconomic  
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	75489.4	98913.4	122641.5	<b>165976.3</b>
Growth of GDP	%	8.4	4.2	7.9	<b>6.0</b>
Inflation (CPI)	%	11.9	9.0	6.6	<b>4.8</b>
Unemployment	%	8.0	7.2	7.3	<b>6.4</b>
Foreign direct investment	% of GDP	8.6	6.6	9.3	<b>5.7</b>
Export growth	%	15.9	4.2	10.3	<b>12.0</b>
Import growth	%	18.3	3.7	8.6	<b>12.0</b>
Current account balance	\$ mn.	-6382.0	-8503.5	-12784.8	<b>-23032.0</b>
Public debt	\$ mn.	13661.9	13329.9	14204.5	<b>15238.0</b>
External debt	\$ mn.	29572.9	38861.0	54001.4	<b>85379.6</b>
Total debt service	% of GNI	6.4	7.1	7.2	<b>7.0</b>

		2004	2005	2006	2007
Cash surplus or deficit	% of GDP	-0.9	-1.0	-2.2	<b>-2.4</b>
Tax Revenue	% of GDP	12.3	12.2	11.4	<b>12.0</b>
Government consumption	% of GDP	9.8	9.9	12.9	<b>13.5</b>
Public expnd. on edu.	% of GDP	3.3	3.5	-	-
Public expnd. on health	% of GDP	3.5	3.8	3.5	-
R&D expenditure	% of GDP	0.4	0.4	0.5	<b>0.5</b>
Military expenditure	% of GDP	2.0	2.0	1.8	<b>1.6</b>

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

## 7 | Organization of the Market and Competition

With EU accession, the institutions of a market economy are in place and include the freedom of trade and currency convertibility. Whereas in the first phases of the transformational process, Romania was rightly criticized for reserving too large a role for the state in economic development, since then, overregulation has turned into laissez-faire and excesses of capitalism. Legal and illegal immigrant workers and their remittances contribute substantially to the subsistence of families back home, although not to sustainable macroeconomic development and sustainability.

Market-based competition

While formal regulations prohibiting monopolies do exist, the Competition Council and other market arbiters – though fully in line with the acquis chapters – are still weaker and more timid in reality than they should be. Recently, the number of investigations initiated by the Competition Council, as an autonomous administrative body aimed at protecting and stimulating competition, seems to be on the rise. Competition promotion in the public utilities sector, however, has been delayed. Currently, four of the country's eight regional electricity distributors have been privatized. Privatization of natural-gas distribution companies has also progressed with the sale of the two regional gas distributors, Distrigaz Nord (to E.ON Ruhrgas) and Distrigaz Sud (to Gaz de France). The government has halted further energy-sector privatization.

Anti-monopoly policy

With EU accession, Romania has become a full member of the common market. All restrictions imposed by tariff and non-tariff trade barriers have thus been abolished.

Liberalization of foreign trade

The two-tier Romanian banking system has expanded rapidly in recent years, with some analysts cautioning against excessive risk-taking by commercial banks

Banking system

competing for market share. The privatization of the largest commercial bank (BCR) was completed in 2006. The privatization of the last state-owned bank (CEC) was halted in 2006 and has been indefinitely postponed.

## 8 | Currency and Price Stability

On average, the current foreign currency sovereign ratings for the Romanian lei (RON) – according to S&P, Moody's and Fitch – are BB+, with a negative forecast. Signs of some loss in investor confidence have recently been reflected in the volatility of the national currency. In recent years, although IFIs have praised Romania's budgetary discipline, inflation did not decrease further in the 2007 – 2008 period, at least partly owing to growing budget deficits, expansionary tax policies and unwarranted wage increases in the public sector. The 2009 budget envisions a current account deficit of €14.8 billion, or 10.3% of GDP.

Anti-inflation /  
forex policy

With above-average economic growth since the beginning of the decade, Romania's strict monetary and budgetary policies began to pay off in 2007. Due to improved regulations for investment, EU membership and its relatively low labor costs, Romania is becoming an attractive destination for international investors and has better sovereign ratings and improved access to international capital markets. Improved – albeit vulnerable – macroeconomic stability is bound to be challenged by the global financial crisis. The 2009 budget draft envisioned a deficit of no more than 2% of GDP. Nevertheless, in order to counter the global financial crisis, the government will have to face the challenge of relaxing budgetary discipline and increasing public spending.

Macrostability

## 9 | Private Property

Although Romanian legislation on the acquisition and protection of property rights is generally in line with the EU acquis, the protection of intellectual and industrial property rights continues to demonstrate deficits despite stepped-up efforts to prosecute copyright-related crimes.

Property rights

As an EU member state, the infrastructure facilitating private enterprise is well in place in Romania. The state even offers competitive taxation regimes for foreign investors, and FDI volumes are increasing at a rapid pace. As far as official procedures are concerned, Romania is not improving much, according to the World Bank's Doing Business rankings on the ease of doing business. The country ranked 47th in both 2008 and 2009, though it should be noted that that is not much below the regional average. The overall rank remained unchanged despite improvements in company laws (in order to comply with EU norms) as well as favorable scores for ease of getting credit.

Private enterprise

## 10 | Welfare Regime

Organized by the state, social security covers all relevant risks in principle. As the high poverty rate indicates, social security functions on a subsistence level throughout the country. Similarly, although health care is available for all citizens throughout the state territory, it is inadequate, especially in rural settlements. More importantly, social disparities and inequality in terms of access to health care and basic services are increasing rather than decreasing.

Social safety nets

Romanian society retains elements of heterogeneity and discriminatory access. Education, basic social security and health care offer limited compensation for social inequality. Egalitarian attitudes are widespread in the state-provided services, but a lack of resources is paramount. In the long run, the main threat to state welfare services is represented by a gradual depletion of assets and a decay of infrastructure maintenance. The UNDP Gender Empowerment Measure (rank 80; 0.500 for 2006 against 0.492 for 2004) and other relevant indicators point toward substantial progress. Disparities are first and foremost socioeconomic, and while the existing policies and institutions are consolidated enough to prevent socioeconomic deterioration, they are not powerful enough to compensate for gross social differences and to achieve equality of opportunity. The UNDP Gender Development Index (2006: 0.825; rank 54, high development country) indicates that Romania still banks on past equal-opportunity policies plus some recent transition trends: Women are not disadvantaged in education and are even overrepresented in higher education, but the estimated earned income for women is only 69% of what it is for men, according to the Gender Empowerment Measure of the 2007/2008 Human Development Report.

Equal opportunity

## 11 | Economic Performance

Macroeconomic indicators for 2007 – 2008 demonstrated an upward trend with some risks. GDP growth of 6.0% in 2007 and 9.1% in 2008 placed Romania among Europe's top performers. Official unemployment remained stable, at 4.6-4.7%, with substantial hidden rural unemployment due to low productivity. Inflation, however, increased from less than 5% in 2007 to almost 8% in 2008. The main macroeconomic risks concern the excessive salary growth of more than 20% per annum combined with a trade balance of minus 14-15%. The sectoral unbalance is shown by the fact that services account for 60% of GDP but only 30% of employment. Whereas industry has the same 20% share in both GDP and employment, the underdevelopment of agriculture becomes apparent: One-third of the working population produces only 20% of GDP.

Output strength

## 12 | Sustainability

To some extent, environmental hazards have been reduced by deindustrialization, but industry-related air pollution is still significant in some cities and in the northwestern part of the country. The Danube delta wetlands are threatened by water contamination. Although Romania has managed to close negotiations on the relevant *acquis communautaire* chapter, in practice, the implementation of EU environmental-protection standards remains minimal. The government has clearly become more aware of and more proactive about environmental issue as a result of EU accession negotiations, although many initiatives are still pushed by international organizations (e.g., the UNDP) and civil society organizations. Concerns about a reliable and clean water supply and promoting energy conservation/efficiency are being addressed so as to comply with EU environmental standards and international conventions. In November 2008, the Romanian government also endorsed a comprehensive National Strategy for Sustainable Development.

Environmental  
policy

The main problems in Romania's educational system and with its R&D investments concern not the general level of education, but the uncontrolled mushrooming of nonaccredited institutions of higher education. Likewise, although government spending on education has improved, as in other elitist societies, the allocation of resources is skewed in favor of (public) higher education. Economic competitiveness and closing the urban-rural quality gap require a substantial investment in improving primary education throughout the country. Public spending on R&D remains far below EU and OECD averages. Although there was a spectacular boost in spending in 2007 and 2008, it is hard to tell what its effects might be. In fact, financing is just one of several R&D problems in Romania – and probably not the most intractable one.

Education policy /  
R&D

## Transformation Management

### I. Level of Difficulty

During the period under consideration, several factors in various fields combined to constrain policy options for transition management in Romania. The PSD regime (2000 – 2004), with its strong rural base and connections with the rural nomenclature, has failed to create a more thorough policy of rural transformation. The prominence of subsistence farming in Romania continues to act as a key socioeconomic constraint, as does the sheer size of the country with its relatively low degree of urbanization and strong links between smaller cities and rural areas. Forced industrialization in the 1950s and 1960s and the austerity policies of the 1980s have produced nonviable and run-down heavy industry. Weak infrastructure adds to the structural obstacles to socioeconomic transition in rural areas. The absence of a clear political break from and disavowal of the communist nomenclature in the management of agricultural and industrial enterprises has left an unfortunate legacy. The democratic opposition's interregnum, from 1996 to 2000, did improve agenda setting and reform implementation, but it failed to make up for time lost in the first years of the transitional process, as it faced well-entrenched interest groups. Nevertheless, the foot-dragging in socioeconomic reforms under the next government perpetuated the apparent lack of a viable alternative. A younger urban population reaps the benefits of an uneven, but accelerating transformation process, whereas (part of the) rural population remains ill-equipped for the consequences of market economics and social change. The continuity of a strong xenophobic, nationalist tradition from communism to post-communism has increased conservatism and popular resistance to reforms. Unlike in Bulgaria, for instance, the strength of the nationalist-extremist political wing has distorted the "normal" dynamics of a neo-communist versus democratic-reformist bipolarity. Increased political competition in recent years has been detrimental to transformation management and has increased the risks to the democratic process. At the same time, it may be argued that the weakness of political interference has allowed for substantial economic development and growth. Likewise, due to the weakness of the state's role in sustainability, regional redistribution and social equality continue to be serious threats, not least because of the global financial crisis.

Structural  
constraints

Civil society traditions are weak, and there is a small number of active and sustainable NGOs as well as limited participation in public life and voluntary associations. Despite reforms driven by EU accession, institutional stability and the rule of law still suffer from significant deficits. In contrast to Bulgaria or Serbia, the anti-intellectualism of Romanian communism regarding active, competent NGOs and think tanks was pronounced.

Civil society traditions

Outside polarized political circles, conflict intensity seemed rather low during the period under review. Social conflicts could pose a major risk, but coping strategies have been found largely outside the political elite's transformation management. The position of and discrimination against the Roma minority, however, seems to continue unabated. Ethnic conflict and resentments vis-à-vis the Hungarian minority in Transylvania seem to be declining, as is indicated by the demise of the voraciously anti-Hungarian Greater Romania Party and despite some unwarranted provocations by mainstream politicians in the same period. Both UNICEF and Amnesty International reported on widespread social discrimination related to issues including employment, housing, health (e.g., 70% of Roma households do not have a direct water supply) and education. Hate speech and intolerance by the media and some public authorities have continued. The same applies to sexual minorities, who are socially stigmatized and have few vocal advocates.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

The prospect of EU membership and the process of accession since 1999 have guided, stimulated and assisted reform policies. Nevertheless, Romania continues to be characterized by a deeply ingrained tradition of simulated reforms and state capture, which has tended to be combined with a structural skepticism among the population vis-à-vis state policies and the frequent subversion of their implementation. These obstacles have at times brought the reform process to a virtual standstill. Anti-corruption is a telling example. Obviously a major flaw in the reform process, corruption also became the focal point of EU criticism and very nearly blocked Romania's accession to the European Union. Despite lavish promises to the contrary, the Romanian political elite has failed to sustain the anti-corruption agenda – by cutting resources to erode the independence of the relevant agencies as well as through blunt political interference in high-profile cases.

Prioritization

The government is committed to democracy and a market economy, but it has had only limited success in implementing reforms and overcoming structural obstacles. In many cases, follow-through on reforms has been the main problem. When the correct initial policy choices were made and accepted by the European Union and international financial institutions, the government has failed to pay the same attention to their actual implementation and allowed interest groups to sabotage strategic orientation in party politicking or simulated implementation. External pressure and conditionality (mainly from Brussels) has declined markedly since 1 January 2007, and implementation of policy measures has correspondingly declined. Despite the Cooperation and Verification Mechanism and the EU safeguard clauses, Romania's stance of not giving in to the European Union on issues it feels strongly about (for strategic or other reasons) has obviously increased.

Implementation

The final phase of EU accession has been a key experience in policy learning. The previous government had demonstrated an enhanced awareness of structural dilemmas and responded more consistently and flexibly to policy failures and unintended consequences of previous policies. On the other hand, full EU membership has implied major restrictions on the policy options and deviations available to any government. Typically, however, in relation to some policy areas linked to vested interests, such as anti-corruption or judicial reform, the political elite has opted to withstand pressure from Brussels and continue rather unproductive politicking.

Policy learning

## 15 | Resource Efficiency

In the 2008 local elections, for the first time, not only the delegates in the county councils, but also the presidents of the county councils were elected. The relative weight of local government, however, remains low despite legislation promoting decentralization. Thus, in fiscal terms and in nominating public officials, public administration in Romania remains highly centralized. Further incremental steps in decentralization are expected in 2009.

Efficient use of assets

The unending politicking and competition between political officeholders under President Basescu and former Prime Minister Popescu-Tăriceanu destroyed any long-term attempt at policy coherence and coordination from the beginning, as soon as the strong unifying factor of EU accession no longer applied.

Policy coordination

Adequate anti-corruption and transparency legislation is in place, and the level of visible anti-corruption activity by the National Anti-Corruption Directorate remains high. The frequency of corruption scandals and indictments involving high-ranking politicians, civil servants and businessmen, however, suggest that effectiveness is low and a change of mentality is needed. High-ranking court cases are more likely

Anti-corruption policy

to lead to postponements on procedural grounds rather than convictions. Romania's endemic corruption in public services is indicated by its Transparency International ranking (2008): 70th with a score of 3.8 (on a par with Bulgaria, but otherwise by far the worst score among all EU member states), with no significant upward trend (+0.1 for 2007 – 2008).

## 16 | Consensus-Building

Although the political establishment has, in principle, accepted the goals of a market economy and democracy, an undercurrent of etatism remains, which is largely unaffected by the particular party coalition in power. The previous government, of Popescu-Tăriceanu, tended to invest more in power conflict within the political realm than in broadening societal trust and support for governmental policies. The general atmosphere of political polarization and its effects on society have been detrimental to broader consensus building on long-term objectives and strategies.

Consensus on goals

The shared objective of EU accession has helped to contain potentially antidemocratic actors, such as the xenophobic and racist Greater Romania Party (PRM). Compared to the popularity of the PRM and its presidential candidate, Corneliu Vadim Tudor, in the 2000 presidential elections, the constituency of extremist parties on the right is definitely shrinking in Romania, from nearly 20% in the 2000 parliamentary elections to 13% four years later and a mere 3% – with no seats in the Chambers of Deputies – in the most recent elections.

Anti-democratic  
veto actors

The main cleavage threatening social cohesion and coherence in Romania concerns the growing socioeconomic disparities between urban and rural populations as well as between the winners and losers in the transformation process. The disparities have an increasingly apparent regional dimension: Whereas the Bucharest-Ilfov development region has long reached 75% of the EU average standard of living, predominantly rural regions in the northeastern and southwestern parts of the country have barely reached the 25% mark. Market mechanisms within the EU common market and the so-called four freedoms – rather than targeted governmental policies and strategies – actually manage the growing cleavages and conflict potentials. (Partly illegal) emigration of the labor force and human trafficking combined with the importation of remittances substantially contribute to upholding subsistence and economic consumption for the rural population. For the first time in more than a decade, the Democratic Union of Hungarians in Romania (UDMR) is not part of the government coalition. As a dubious stopgap remedy to counter possible Romanian-Hungarian tensions, the new Boc government has offered to co-opt UDMR representatives as state secretaries without widening the coalition.

Cleavage /  
conflict  
management

By upholding the dominance of the government in most policy fields, albeit at a basic level, politicians promote continued reliance on the state rather than societal engagement. The state engages with think tanks and NGOs only when necessary as a result of Western pressure or the organization's increasing popularity or when the state administration itself lacks the required competence. Overall, the government does not appear to welcome a broader policy dialogue with civil society organizations; at best, there is cooperation with an elite of not necessarily representative think tanks and NGOs. The gradual increase in career permeability between the government bureaucracy and political-representative institutions, on the one hand, and civil society and advocacy organizations, on the other hand, may be considered a positive trend. Unfortunately, some of the few critical voices have been effectively silenced by co-optation into administrative and political responsibilities. Younger politicians with a civil society background, moreover, are usually relegated to relatively unimportant positions.

Civil society  
participation

Due to the quasi-revolution of 1989 and the ensuing continuity of the political and economic elite, violations of human rights under the Gheorgiu-Dej and Ceausescu regimes were not tackled comprehensively and purposively during the first decade of post-communism. Concerns about Romania's international reputation, particularly in response to European pressure, have induced recent governments (with former President Iliescu taking the lead) to address specific issues more seriously. These issues include a collective and historical rethinking of the country's communist history. Initiatives by NGOs and internationally supported academic organizations have played a crucial role in this process.

Reconciliation

In 2004, the National Day of Commemorating the Holocaust commemoration was introduced into the national calendar and the long-taboo subject of the Holocaust in Romania was finally integrated into the school curriculum. Nevertheless, the government has yet to address the injustices of the past authoritarian/fascist and communist regimes by initiating a campaign of reconciliation or anything resembling a truth and justice commission. Revisiting historical injustices seems to have low priority in Romanian society at large, except perhaps with some vocal civil society groups. The protracted process of property restitution, completed long ago in most other post-communist countries, has been repeatedly delayed. The recently set up Restitution Fund poses oblique choices for victims of communism who have waited 60 years for restitution, and financial speculators are expected to reap the main profits. The government has also made little progress and little effort toward mending fences with both neighboring Moldova and the Hungarian minority in Transylvania. In both cases, an assertive Romanian attitude had contributed significantly to a deterioration of relations, and negative key roles have been played by President Basescu, in the Moldovan case, and by PRM leader George Funar, in the Hungarian case.

## 17 | International Cooperation

Overall, Romania has made effective use of international support from the European Union, the European Bank for Reconstruction and Development, the IMF and the World Bank in political and economic transformation. Differences of opinion on economic strategies have not led to major tensions. The implementation of reform legislation, however, remains an issue of concern on both the political and economic levels. Reform programs concerning the judiciary, local administration and corruption have all demonstrated the strong inclination toward following international guidelines and advice on the basic principles of the reform frameworks. At the same time, however, much in the way of resources is invested in contravening details of the implementation, which ultimately subverts the original objectives and intentions of the reforms.

Effective use of support

Despite the drawbacks of corruption and state capture, Romania's international standing has improved, and it was recently awarded with its status as an EU member state. Romania's transformation-management credibility has suffered a severe blow with the virtual disintegration of governmental strategies right after EU accession. Both the political infighting and the apparent loss of a sense of direction and grand objectives after accession have been detrimental to Romania's credibility as an international partner. Romania's involvement in the George W. Bush administration's war on terror and its alleged role in CIA abductions, torture and secret prisons have added to the low tide of Romanian credibility among EU member states.

Credibility

To some degree, the new Romanian government seems to aspire to take a leading role in the region and to accept its responsibilities as a new EU member state and the largest state in Southeastern Europe. The new and more active stance in international and regional cooperation in the security and foreign-policy arenas, which was initiated by President Basescu and some ministers of the Popescu-Tăriceanu government in their first years in power, seems to have ebbed. Examples included Black Sea cooperation and initiatives related to the stalemate conflict in neighboring Moldova. In both cases, however, a dramatic lack of coordination and cooperation between president and government or among cabinet members has been as detrimental as insufficient efforts to synchronize national initiatives with international strategies. Domestic political popularity and profiling were clearly overriding motives that sometimes resulted in promising international initiatives, as in the case of the Black Sea Forum for Partnership and Dialogue. In other cases, a deterioration of bilateral relations with the neighboring states of Moldova and Hungary was the consequence of political populism for domestic consumption.

Regional cooperation

## Strategic Outlook

Romania's post-accession progress is both impressive and fragile. Since 2006, economic growth had been solid but decelerating (6-7% over the past three years with a 2% prognosis for 2009). The global financial crisis is bound to have a mid-term detrimental impact on Romania, too. Thus far, the amount of growth has covered up two underlying structural problems. Firstly, economic growth in Romania is typically concentrated in specific economic sectors and a handful of urban centers. Secondly, Romania's economic growth has been due only to a minimal extent to adequate government policies, implementation and strategic agenda setting. The global financial crisis will put the sustainability of the macroeconomic stability and the new government's ability to serve as a responsible socioeconomic (crisis) manager to the test. It may also exacerbate the unwelcome side effects of the past economic transformation – massive illegal emigration, illegal economic activities and social disparities. The insufficient social security structures and social equality/redistribution mechanisms may be unable to absorb the shock of declining or negative growth.

More importantly, the new PNL-PSD coalition government of Emil Boc will have to devise a mid-term political agenda that reaches beyond the current financial crisis and beyond the formally achieved objectives of EU and NATO membership. The recent consolidation and projected depolarization of the political spectrum offers a window of opportunity for returning to strategic policy-making and the in-depth implementation of existing legislation as well as for moving away from the political infighting of the previous government. Much will depend on the constraints on proactive policy-making posed by the current financial crisis as well as on a grand strategy for social cohesion. On the one hand, supporting private business in the current crisis and maintaining a minimum of stability in the state budget may be taxing enough in the present circumstances. On the other hand, public attitudes may swing toward greater acceptance for the state's role in regulating market mechanisms and providing for socioeconomic inclusiveness and cohesion.