

Romania

Status Index (Democracy: 4.0 / Market Economy: 3.3)		7.3	Management Index		5.7
System of government	Parliamentary-presidential Democracy		Population		22.4 Mio.
Voter turnout	57.5 %		GDP p. c. (\$, PPP)		5,830
Women in Parliament	10.7 % (2003)		Unemployment rate		8.8 %
Population growth	0.2 %		HDI		0.773
Largest ethnic minority	6.6 % (2002)		UN-Education Index		0.88
			Gini-Index		30.3 (2000)
<small>Figures for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. Source f. ex.: UNDP: Human Development Report 2003.</small>					

1. Introduction

Paradoxically, although Romania was the only country in Eastern Europe to witness a violent end of communism, the net outcome was generally rated as more of a “palace revolution” within the nomenclature than a clear break with the past. When the democratic opposition finally won the presidential and parliamentary elections in 1996, the expectations were correspondingly high. The EU eventually decided to open accession negotiations with Romania in 1999 because of its stabilizing role in the Balkans and as it reportedly fulfilled the basic criteria of political democratization, while failing to meet the criteria of transition to a market economy.

The new regime of president Constantinescu and the Democratic Convention of Romania, however, failed to make inroads in economic transformation and their strategic management was generally rated as poor. In 2000, they lost the presidency and the parliamentary majority to Ion Iliescu and a minority government of the Social Democratic Party led by Adrian Nastase with the support of the opposition Democratic Union of Hungarians in Romania. Thus, those who had taken over power after Ceausescu’s ouster in the December 1989 revolution are back in office.

Although Romania remains the slowest of the accession states, having closed only 16 chapters of the *acquis* so far (out of 30 opened, December 2002) and aiming for membership by 2007, overall the new leftist government has done better than most analysts expected.

The following report assesses progress made in transition between 1998 and 2003 and the management of the Nastase government over the past 2,5 years.

2. History and characteristics of transformation

Historically, Romania is characterized by the modernization deficits in the Southern and Northeastern regions, under Ottoman domination until 1878, and the more modern, urbanized economy of the Western and Northwestern parts, until 1918 under Habsburg rule. The modernization of the unified Romanian state in the interwar period was typically a political and economic modernization in dependency, a process that continued the trend initiated in the mid-nineteenth century. Western models of statehood, democracy, and market-economy were grafted on a Romanian society rooted in qualitative different traditions. The result was a quasi-democracy dominated by a small political and economic elite neither representing wider societal interest nor having internalized the concept of people's sovereignty. National mobilization became a substitute for modernization and an integrative strategy.

Despite a breakthrough strategy after communist takeover in 1945-1947, in retrospect the regime only perpetuated some of the deficits of the pre-war period, especially during the last decade of Ceausescu reign. 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 policy instrument, resulting 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 and ended in nationalist mobilization and economic decay.

Lacking a outspoken and influential opposition – partly because the Ceausescu clan monopolized national mobilization and repressed any organized dissent or independent voice within the party – the revolution of 1989 was in many respects a “palace revolution”, a power struggle among different segments of the nomenclature rather than the promising beginning of *political transformation*.

Being highly distrustful of market-economics and pluralist democracy, Romania – facing some distinct disadvantages in comparison to most of the other East European EU accession states, increasingly fell behind in the reform process. The amateurish politics of the 1996-2000 tenure of president Constantinescu and the center-right Democratic Convention created among the electorate a sense of reform fatigue and political disillusionment, as well as a broad impression of policy failure, only partially justified.

Whereas many politicians from the first and second Iliescu presidency (1990-1996) returned to power in 2000, “sadder and wiser” after four years in opposition, most political parties now feature a younger management for the first time since the revolution of December 1989. The stability of the political system, however, is deceptive and based on shrewd control and clientelism rather than a

culture of constructive policy-making. Simulated reforms, etatism, nationalist rhetoric, and blurred distinctions between state, party, and private still run high in Romania.

The Romanian *economic transformation* process of the past 13 years has suffered from some disadvantageous initial conditions, erratic management, and wavering popular support for economic and political transformation. The size of the national economy with the predominance of poorly mechanized agriculture, on the one hand, and run-down obsolete industrial complexes, on the other hand, have made transformation particularly challenging.

Specifically, Ceausescu did his country a very bad service by striving for autarky by paying off foreign debt at the expense of domestic consumption and investment in capital goods.

Governments' reluctance to implement reforms that would make them unpopular because of transition hardships, price liberalization and labor reduction has produced legacies of bad credits, backlogs in large privatization and pseudo-employed workforces. The changes of government and the absence of a coherent concept with enough public and political backing has resulted in erratic transformation policies, especially in privatization with ever-changing laws and institutional set-ups, that made both the Romanian population and international investors extremely wary. Overall, the hesitation in thorough transformation has been self-defeating by losing the initial momentum domestically, not being competitive for most Western investment decisions for the former Eastern Block and thus depleting the critical resources for constructive policies. Despite some progress in the last two years, economically Romania still has a long way to travel – with one third of the economy in state hands and almost half the population living in poverty.

3. Examination of criteria for democracy and market

3.1 Democracy

(1) *Stateness*: The last major challenges to the state monopoly on violence occurred with the marches of the miners from the Jiu Valley to the capital in 1990-1991. As smaller outbreaks of violence in 1997 and 1999 indicated, the Jiu miners still constitute a potential veto power of some kind. Indirectly, the successor organizations to the notorious *Securitate* seem to be reticent to political control and public accountability. Conversely, the army is no longer a potential veto power, despite deficits in civil-military control. By historical tradition, the Romanian concept of the nation is strongly ethnically defined. A civic concept including the strong Hungarian and Roma minorities has thus far failed to find acceptance beyond formal legal texts.

The fact that in the last elections 19.5 % of the voters chose the xenophobic and nationalist-extremist Party of Great Romania and that 28.3 % chose its leader, Corneliu Vadim Tudor, in the first round of the presidential elections – even though a substantial part of these votes are considered “protest votes” – indicates that public perceptions of citizenship may not be in sync with the constitutional stipulations. However, the state’s constitution and the official citizenship are not directly challenged.

Romania has no law on religions, but apart from the “national” Orthodox Church, fifteen churches have been recognized as “official” religious associations. Since the end of communism, the Orthodox Church is again independent from politics and conversely religious dogma has no impact on state policy-making. The introduction, during the previous center-right administration, of mandatory religious education in primary and secondary schools has not been subject to much debate, nor has it made much difference in reality since compliance is mostly formal.

Partly on the basis of the existing communist administrative structures, Romania has reformed state institutions over the past decade: The administrative structures and resource allocation cover the entire country.

(2) *Political participation*: Rulers are determined by free and fair elections: Romania has seen four series of presidential and parliamentary elections since the end of the Ceausescu regime, generally rated “free and fair”. No groups are barred from exercising their passive or active electoral rights. Policemen and military are not allowed to be active in a political organization and, more controversial, persons with dual citizenship cannot hold a public office or a position in public administration.

In 1996 and in 2000 power shifted to the then-opposition parties twice without irregularities. Minor reservations might involve the fact that the PSD minority government rules with the support, but without the government participation of the Hungarian UDMR as well as the fact that elected officials tend to gravitate towards the centre of power, e.g. by switching their party allegiance to the currently predominant PSD.

Actual participation in elections, however, has gone down from 86 % in 1990 to 57 % and 57 %-50 % in 2000 for the parliamentary and the first/second round of the presidential elections respectively. Parties of ethnic minorities can send representatives in parliament by passing a much lower electoral threshold than the others; currently eighteen such minorities (apart from Hungarians) have a representative in the lower chamber under this quota system.

Democratically elected rulers do have the effective power to govern. As such, no political enclaves exist, although some interest groups and stakeholders have demonstrated disproportionate political influence and may be considered to some extent veto powers. Both managers from state and private corporations, on the one hand, and trade unions, on the other hand, have the power to block reform processes. Thus, Romania ranks high in indices on state capture.

The Romanian 1991 Constitution provides the usual political and civil liberties, including freedom of expression, association and assembly. The government has demonstrated some inclination to curtail these freedoms beyond the formal rules by a variety of direct and indirect instruments. Since early 2002, various government measures, decrees and draft laws originating in parliament have come to form a consistent pattern of action aimed at curtailing freedom of speech and association, individual rights and personal privacy. Moreover, the global pro-security environment after September 11th has played into the hand of domestic hardliners, who have been legitimized by their acceptance as partners in the war against terrorism by Western governments. As a result, former Securitate officers became more outspoken in the Parliament, intelligence community or other government agencies, and practically blocked the functioning of CNSAS – the independent body set up during the previous administration to screen the former secret police archive and enforce the lustration law.

In Romania, the privatization and liberalization of the media landscape started early, but Romania's Freedom House rating for independent media indicates structural deficits. The plethora of media outlets, especially newspapers, of early post-communist years has been drastically reduced by competition for funding, advertising, etc. Due to increasing prices the cumulative circulation of major newspapers has decreased significantly after the early '90s boom. Nevertheless, in newspaper and even in radio and TV broadcasting a competitive landscape has emerged, but the government keeps strict control over audiovisual media, e.g. directly via state-owned TVR or media-regulation bodies, but also indirectly via hidden subsidies or private media's tax debts. Consequently, political partisanship is a common phenomenon and criticism of state policies is muted or confined to niche-market channels. Beyond the constitutionally defined freedom of expression and press freedom, government has been inclined to curb media freedom by threatening with a press law or via generous and arbitrary application of the laws on libel (of public officials) and the distribution of false information (provisions in the Penal Code). Local media has been particularly under pressure in the last years by local party bosses who formally or informally control much of the local administration, law enforcement agencies, and influence courts.

Conversely, press (and public) access to non-classified information has been structurally problematic, frequently rated as insufficient by the EU Progress Reports. Fixing this problem requires a change of culture and systematic effort to implement the 2001 Law on Public Information. Overall, the main threat to the independence of the media is not state or party interests, but rather (intransparent) corporate financing for media outlets without the necessary culture of non-interference in professional journalism. In sum, neither party nor corporate actors have demonstrated fundamental qualms about the freedom of the press in cases where the results contravened their interests. Despite persistent international pressure and critique, legal stipulations continue to exist that can be abused easily to curtail the freedom of the press in practice.

(3) *Rule of law*: State powers in Romania are independent and provide checks and balances in political power by Constitution. The government, however, has demonstrated a tendency to consider the protracted and partly redundant legislative procedures of the two chambers of parliament “obsolete.” Consequently, Romania’s scoring under Freedom House democracy-related indices in 2002 is poor: 3.00 for democratization (on a scale of 7 to max. 1) Thus, the tendency to rule by (emergency) ordinances that have to be approved by the legislative only in retrospect is substantial: In the previous government’s mandate only half of the legislation passed through the normal parliamentary procedures. Typically, Romania’s rating in the Freedom House index for good governance has improved over the past five years (from 4.25 to 3.75) without achieving any high marks, whereas the rating for rule of law has not improved at all (4.25 in 1997 and in 2002).

An independent judiciary exists in Romania, but the annual EU Progress Reports repeatedly pointed to structural weaknesses of the judiciary. In Romania, the public identifies customs officers, the police and MPs as the occupational groups most likely to be involved in corruption. The public reputation of the judiciary as politicized and corruptible is partly substantiated by the number of penal cases brought against judges and by the selection procedure by the minister.

Politicians have been tempted at several occasions to violate the judiciary’s separation from political interference and paternalism, e.g. by making public statements on legal cases prior to the court’s verdict. In a recent series of public declarations the president of the Supreme Court has stressed again that political influence is still strong and its effects are damaging. Political interference in judiciary is facilitated institutionally by the broad powers of the Ministry of Justice in appointing top magistrates, the bodies that supervise the functioning of judiciary, the daily management of courts and the total control over the office of prosecutor. Thus, the institutional separation of the judiciary is still incomplete – and where it exists, it only partly reflects political reality.

Norms concerning incompatible positions and transparency for public officials were recently brought closer to Western standards in formal terms. Efforts have been made to improve the anti-corruption institutional framework by the creation of a special Anti-Corruption Prosecutor Office, with territorial branches (2002). The legislation dealing with conflict of interest, declaration of personal assets and civil service issues passed in 2003 may be regarded as a step forward. However, it contains a few “strategic loopholes” that allow dignitaries and civil servants to avoid real transparency in personal finance. Moreover, proper and consistent enforcement of such laws is always a problem in Romania. Scandals uncovered by the media are indicative of conflicts of interest involving politicians and private businesses, e.g. in connection with public procurement.

Romanian legislation on “conflict of interest” is ambiguous and leaves many loopholes to abuse public office for private ends. In recent years, efforts have been made to improve anti-corruption legislation and institution with a special department in the General Prosecutor’s Office (2000) and regional affiliates at the county courts. In sum, Romania’s ranking in anti-corruption is a minimal 4.75 according to Freedom House and rank 77 (2.6 on a 0 to 10 scale) in the Transparency International 2002 Corruption Perception Index.

Civil liberties have been consolidated into legislation and violations can be brought before a court of law. In recent years, efforts have been made to initiate anti-discrimination laws. Cases of insufficient child protection, police brutality and discrimination against the Roman minority in particular are more than incidents. Even in fundamental cases involving human rights or discriminations, however, some incidents have demonstrated political unwillingness to implement court rulings promptly and unconditionally.

3.1.1 Patterns of political behavior and attitudes

(1) *Institutional stability*: In spite of the EU-style Civil Service Law passed in 1999 (a condition for having Romania included in the enlargement process at Helsinki) the practice has continued to politicize the state administration by hiring obedient staffers and clients, to the detriment of political neutrality and administrative functionality. In civil service the rule of the game is still personal loyalty, not performance. The very size of the state administration and the high fragmentation and volatility of public institutions in Romania have produced counterproductive frictions. These and a lack of functional co-operation between central ministries and agencies continue and are directly related to the hegemonic attitude of the executive.

Currently, the traditional inclination of the ruling party or coalition to monopolize institutions and decision-making while excluding opposition parties is aggravated by the dramatic weakness and fragmentation of the opposition: The second-largest

democratic (i.e. non-extremist) party in the 2000 elections – the Democratic Party – took only 7 % of the votes (compare: 36.6 % for the ruling party). The nationalist-extremist wing of the political spectrum is not fundamentally committed to the democratic institutions. External and domestic constraints exclude a fundamental reversal of democratic order, but political attitudes and public opinion point to a authoritarian style of governance.

(2) *Political and social integration*: As a legacy from the early transition period with low electoral thresholds and other disincentives to an uncontrolled proliferation of political parties, Romanian national elections have seen up to 80 parties competing. Overall, however, the list of sustainable parties has been rather stable: The National Liberal Party and the National Peasants' Party (dominating the Democratic Convention of Romania), the Hungarian Democratic Alliance of Romania (UMDR), the Democratic Party and the ruling Democratic Social Party of Romania (now Social-Democratic Party), plus one or two nationalist-radical groups (currently PRM – Greater Romania Party). Currently, seven party caucuses are formed in parliament, out of which five are politically relevant, and the new rules (10,000 founding members evenly spread in territory and a 5 % threshold) are bound to reduce the number of parties dramatically and to discourage purely local groups.

Party membership is correspondingly low, with the social-democratic PSD by far the largest party with estimated 700,000 members out of an 18 million electorate. Overall, the social roots of the political parties are shallow. The relative stability of the party landscape has prevented too much of an leader-dependent party system. Clientelism rather than aggregation of societal interests characterizes many of the larger parties.

Polarization within the political spectrum is high as (unlike in Central Europe) the dichotomy between “former-communists” and “democratic opposition” largely perpetuates itself, despite the rise of a nationalistic right. Whereas the SDP is particularly strong in the countryside and the poorer regions of Northeast and South, the constituency of the democratic opposition is concentrated in the cities and the more affluent provinces. Despite regular splits and mergers, the main parties are stable, voter volatility notwithstanding.

Civil society is equally fragmented and feebly rooted in society, as it is often perceived as elitist. Proposals for direct election of MPs and other representatives are highly controversial at the moment. Romania's rating in the Freedom House index for civil society is 3.0, an increase from 3.75 in 1997, but comparatively low in East Central Europe. Nevertheless, the impact of NGOs is growing. The estimated number of over 25,000 NGOs is of hardly any relevance, but a number of well-placed (i.e. in relation to the international community) NGOs have been able to exert substantial and beneficial influence on government policy-making in recent years. A few of them have established themselves as reasonably functional

think tanks or human-rights organizations. Some have managed to block the passing of a restrictive classified information act in 2001 and press the government into adopting a Freedom of Information Act first.

A 2001 law regulates the status of NGOs “of public utility” as well as tax exemptions and reductions for them, but in an attempt at over-regulation the law prescribes government approval for their registration. A subsequent law passed in 2003 extended this restrictive procedure of registration to all civil associations, public utility or not. The government has been compliant to the desires of particular interest groups representing their clientele, e.g. especially trade unions, state industry, or a few well-connected business groups. A number of nationalistic, xenophobic, and extremist organizations have found mass appeal undermining civil integrity and democracy. Conversely, the Hungarian minority has demonstrated a high degree of ethnic organization and their civil organizations have largely been constructive actors.

Trust in most democratic institutions is low: According to a 2002 poll, 80 % distrust political parties, 77 % parliament and 70 % government. Even the presidency (36 % trust, 54 % distrust) fails to anchor political legitimacy. Similarly, even for the most popular politicians distrust outweighs trust: 52 %-43 % for PM Nastase and 54 %-41 % for president Iliescu. Other survey indicate that the general public subscribes to democracy as an abstract system, but is inclined to compromise on democratic control for the sake of a authoritarian government implementing “the right strategies” for the future of the country. Only 20 % wanted to abolish Parliament in a recent survey, 30 % favored a strong leader without democratic control and almost 60 % opted for a non-elected experts’ government of national unity. However, the fact that elected local governments score consistently better in polls than national government shows that the direct experience of democracy and “closeness to citizens” may improve things in the long run.

Lacking a strong civic tradition, both NGOs and voluntary non-profit organizations are still largely an urban phenomenon. In 2001 a special law was adopted to promote voluntarism and social self-organization. Network density and participation remain rather weak, however. The most recent major (1996) survey indicated that only 6 % of the adults belongs to a civic association other than a trade union (59 % of workers are TU members).

3.2 Market economy

3.2.1 Level of socioeconomic development

Social exclusions in Romania are a dominant rather than a marginal phenomenon. As education covers most of the population (illiteracy 1.9 % and basic school enrolment 98.9 % for 2000), the key factors of exclusion are poverty and gender. In UNDP's gender-related development index (GDI) Romania ranks 55 (0.773 for 2002), the ratio of estimated female to male earned income is 0.58 for 2000 and the Gini coefficient for earnings inequality is 40.6 (2000).

Especially rural poverty linked to subsistence agriculture is a negative factor in socio-economic cohesion: The mismatch in the sectoral distribution of GDP and labor force, however, is telling: Agriculture accounts for almost 15 % of GDP and employs some 40 % of the labor force; industry 30 % and 25 %; services 55 % and 35 % (2000). The proportion of the population below \$4 a day income (1990 PPP USD) for 1996-1999 reached 23 % and according to the EBRD, 44.5 % of the population lives in poverty.

3.2.2 Market structures and competition

A functioning market economy in Romania is hampered by a substantial gray economy, on the one hand, and by a still substantial state role in the national economy, on the other hand. In sum, however, the market institutions are in place – freedom of trade, currency convertibility, etc.

Formal regulations against monopolies do exist, but in praxis, their implementation has failed to prevent quasi-monopolies (partly by state-owned companies) in key sectors of the economy, e.g. in energy and banking. Moreover, some early entrants on the market at the beginning of the '90s have secured preferential treatment and tend to oppose today the complete liberalization and transparency of markets and state allocations.

The state trading monopoly was abolished in mid-1992 when price liberalization started. In 1995, WTO membership was granted and most prices were liberalized. Despite the fact that no recent data are available (1997: administered prices as share of CPI 7 % and as number of goods in EBRD-15 basket: 2 %), the EBRD index of forex and trade liberalization has risen from 3.0 in the early 1990s to 4.0 in 2001. Meanwhile, the EU-15 have become the main trading partner of Romania: In 2001, the EU-15 accounted for 68 % of total Romanian exports, and 57 % of imports – with an upward tendency. Overall, non-transition countries account for 83.2 % of foreign trade (2001) and the share of tariff revenue in imports is down to 2.2 %.

Two thirds of the 33 banks are by now foreign owned, but state-owned banks still account for almost half of the assets. Indicative of the consolidation process of the banking system and the financial sector are the tortuous privatization of the state-owned Banca Commerciala Romana and the fall of the FNI Investment Fund in 2000. As a positive trend, bad loans have been radically reduced over the past few years and the financial sector has consolidated while stock market capitalization and domestic credit are beginning to grow. Nevertheless, the EBRD indices for banking sector reform and other financial institutions are at the same level as five years ago, 2.7 and 2.0, resp.). Typically, bank assets are at a mere 29 % of GDP (compared to average 68 % in East Central Europe, 2001). Stricter laws initiated in 2001 strengthen the National Bank's control over the commercial banking sector and make it more difficult for banks crippled by soft loans to avoid bankruptcy. Typically, the independence of the National Bank from politics is occasionally jeopardized.

3.2.3 Stability of currency and prices

Prices continue to rise rapidly, although a steady disinflation trend is visible. The annual average consumer prices rose 59.1 % in 1998 and "only" 34.5 % in 2001. The respective figure for producer prices were 33.2 % and 40.9 % resp. Inflation sank from a staggering 45 % in 2000 to 17.8 % in 2002. Nevertheless, real GDP per capita in PPP has grown consistently in recent years. The Romanian Leu continuously lost in foreign exchange rate (managed float), from a little more than 7,000 Lei per USD in 1997 to 33,500 in April 2003. The relative stability in recent years is largely due to the projected influx of pre-accession assistance from the EU (increasing as of 2004) and an estimated 1,000 million USD in private remittances annually.

The government pursues a prudent policy of macro-economic stability in fiscal and debt policy. Structurally, foreign debt and the current account deficit remain relatively high: 5.0 % and 30 % of GDP resp.

3.2.4 Private property

Small-scale privatization began in 1990 in a rather restrictive mode, followed by two waves of mass privatization through vouchers in subsequent years and large-scale privatization in March 1997, but the trade in land is still limited in praxis. The private sector meanwhile accounts for 65 % of GDP (2001), 55 % in 1996) and 75 % of employment (2000, 52 % in 1996). Correspondingly, the EBRD ratings for small- and large-scale privatization are not impressive; 3.7 and 3.3 resp. The management of privatization, however, has been highly erratic. Small-scale privatization was initiated in 1991/1992 with a voucher system, followed by a new law and a second voucher round in 1995, large-scale privatization in 1997

and yet another privatization law in 1999. In 2001 the Nastase government has upgraded the State Ownership Fund to ministry status (Authority for Privatization and Administration of State Assets, APAPS) with a corresponding new privatization law (April 2002), which is bad omens for the quick liquidation of the remaining portfolio of assets. In agriculture the protracted process of land restitution, structural regional differences and a multitude of decentralized privatization regimes have further complicated the consolidation of private-sector production.

Privatization of major state-owned companies in the energy, banking and steel industry (e.g. Banca Commerciala Romana, Termoelectrica power company or Petrom oil and gas company) continued to trouble the state in the early 2000s. The most important success story – the privatization in 2001 of Sidex Galati, the largest steel mill in Romania – was actually only the finalization of a process initiated by previous cabinets. Investment funds that partly emerged from voucher privatization, moreover, own a quarter of Romanian industry without producing any positive effects on corporate governance. In sum, in 2001 the state was left with less than 10 % of the original stock of companies for privatization. The net value of the remaining companies is low, but their importance in terms of employment is high and seems to make politicians shy away from restructuring and/or privatization. Overall, property rights are protected but not guaranteed by the Constitution (amendments are due in 2003) and occasionally the government has made inroads into private property, e.g. in its restitution policies.

3.2.5 Welfare regime

Social security is state-organized and covers all relevant risks in principle. As the almost 50 % poverty rate indicates, social security functions throughout the country, but on a subsistence level. Similarly, healthcare is available for all citizens throughout the state territory, but an insufficient level, especially in rural settlements.

Romanian society retains elements of heterogeneity and discriminatory access. Education and basic social security and healthcare offer limited compensation for social differences. 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 gradual depletion of assets due to poor policies, lack of analytic and feedback capacity in government, indecision to apply painful remedies when necessary and periodical outbursts of populist commitments. For example, the state pension fund is in chronic deficit, having to sustain a surging ratio of beneficiaries-to-contributors (1.1 in 2002). Other measures such as universal two-year maternal leave with 80 % of salary are obviously unsustainable given the available resources, in spite of the declining birth ratio.

3.2.6 Strength of the economy

Key economic performance indicators are positive, but strongly related to uncontrollable (external) factors such as foreign remittances and the USD-Euro exchange rate. Trade balance, budget deficit, and foreign debt are negative factors outweighing the positive trends in terms of sustainable economic performance.

3.2.7 Sustainability

To some extent, environmental hazards have been reduced by de-industrialization, but air pollution due to industry is still significant in some cities and in Northwest. The Danube delta wetlands are under threat from water contamination.

In order to reduce brain drain, some efforts have been made recently in R&D and higher education in the IT sector. Overall, state funding for higher education and research investment is far below the European or ECE average. The extensive growth of private institutes for higher education without the necessary regulatory framework has worsened the situation. Thus, R&D account for 0.8 % of GDP (1990-2000) and education for 2.2 % (1995-1997).

4. Trend

Stateness, political participation and the rule of law have overall remained at the same level. Whereas the rule of law improved under the adoption of the EU acquis, the rise of the right-extremist nationalists may be considered a setback for stateness.

The past five years did not witness an overall consolidation of democracy in terms of institutional stability, political and social integration: Poverty remains a key factor of social exclusion and the enrichment of the executive upon other democratic institutions has weakened the checks and balances of democracy. In the same time, subjective poverty / or impoverishment / emerges as the strongest predictor for anti-democratic attitudes and extremist vote: losers of transition (urban lower middle classes, middle aged people with uncertain skills) may be better off in absolute terms than they were in 1990, but they feel they lost the competition in comparative terms.

The minimal increase in the HDI index – 0.772 in 1995 and 0.775 in 2000 – reflects Romania's role as laggard in East European, post-communist transition.

The institutional framework for a market economy has improved over the past five years, albeit more in formal regulations than in practice.

Overall, economic performance by macro-economic indicators has improved substantially (albeit measured against a rather low starting position). The sustainability of the economic growth that is strongly linked to external and conjectural factors remains a matter of concern. The economic growth of over 5 % in 2001 and 2002 is thus of a quantitative rather than a qualitative nature.

5. Transformation management

5.1 Level of difficulty

GNI per capita in USD in 2000 was 1,743 USD and 6,360 USD at PPP. UN education index reached 0.88 in 2000.

Although the main ethnic minority of the Hungarians involved in each government since 1996, ethnic conflict is potentially high, but currently subdued despite the electoral strength of extremist-nationalistic parties. Ethnic splits do not predetermine politics. Whereas religious antagonisms play an insignificant role, the potential for social conflict is much higher due to the high poverty rate despite outstanding restructuring, privatization and increases in utility prices (with a current collection rate of 62 % for electricity bills). Further income disparities are bound to aggravate these social tensions.

Civil-society traditions are weak, with a small number of active and sustainable NGOs and a much-reduced 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.

5.2 Reliable pursuit of goals

The current government has demonstrated reasonable reliability and capability as a reform actor, but regularly backtracked on strategic priorities for reasons of political expediency and interest-group pressure. The one-party government does a better job than previous center-right cabinets in projecting a better image abroad as a competent team although real change may be lagging behind.

Overall, a substantial part of the strategic reform drive in terms of consistency and prioritization is externally induced by IFIs and the EU. Typically, the government has shunted the short-term costs of restructuring, privatization and utilities price increases. Thus, some reforms have been implemented only partially and other measures necessary for a coherent policy have been omitted.

Whereas macro-economic conditions have stabilized recently, beyond basic safety and subsistence trust in government management capabilities and strategic

orientations is low. Confidence in economic prospects is on the rise, unlike trust in government capabilities to steer economic policies.

5.3 Effective use of resources

Effective use of state resources for political and economic modernization is hampered by the intransparent influence of interest groups and the politicization of state positions. Both lead to misuse of human and financial resources as well as reduced strategic consistency and reliability. Two telling indicators are Romania's 79th rank (out of 102) in the 2002 TI Global Corruption Index and the frequent habit of staff replacement by party-political motives in neutral state institutions including the reinvention of entire institutions – with the corresponding loss of institutional memory and efficiency.

The government carries out some of its announced reform projects, but backtracks on some other electoral promises and strategic priorities or the implementation of passed legislation

Government funding for strategic priorities, e.g. developing human resources in higher education has been below average structurally. The healthcare system is not functioning properly because of misallocations in funding the basic healthcare for all citizens, related to the existence of powerful rent-seeking groups. Deficits in the state budget and tight IFI conditionality have prevented massive investment in transformation-relevant services. An overly controlling state has provided disincentives to foreign direct investment by creating bureaucratic hurdles. As an example of ineffective and inconsistent implementation, the erratic policies concerning SMEs come to mind: Tax privileges are granted to stimulate SMEs and revoked again to spare the state budget.

The TI ranking cited above, with a score of 2.6 on a scale from 0 to 10 is corroborated by other studies: The legal framework for the fight against corruption, conflicts of interest has been insufficient until very recently, and implementation is still deficient. State capture is a key negative factor in Romania's transition to a market economy. As noted in the introduction, some of the combined traditions of the interwar and communist periods have been exacerbated by post-communist transition: etatism, nationalist mobilization as a substitute for reform strategies, economic autarky as an alternative to global integration, etc. The government has instrumentalized some of these negative traditions for political gain, while making only partial inroads in other stubborn legacies. European identities and positive traditions or lessons learnt in economic and democratic reform from the interwar period are in use for legitimization purposes rather rhetorically and uncritically.

5.4 Governance capability

Overall, complex learning and flexibility in political decision-making or implementation seem to be related to the potential influence and resistance of stakeholders instead of to a rational evaluation of the results and merits of a particular policy. Staying in power and ideologically ingrained preferences tend to waylay reform processes.

The executive has the constitutional rights and political dominance needed for a reform strategy within the democratic system. The blockades of state capture, incompetence of the political class and bureaucracy, and the volatility of the electorate, however, seriously limit political authority.

The allocative impact of the government's policies points to a key deficit in Romania's transition: Delayed privatization, restructuring, and price liberalization has resulted in a massive burden of bad loans, arrears, and pseudo-employment. The ratio of pensioners to workers is 60 % to 40 % (until pension age was raised from 57 to 60 for women and from 60 to 65 for men in 2001), and the arrears accumulated in the economy amount to about 40-50 % of GDP.

The traditions of etatism and deeply ingrained "state capture" have limited the leeway and options of politicians today. The dynamics of early transition has been replaced by expectations of transition without hardships and a passive coalition of stakeholders against purposive reforms. Evidently, it is hard to argue whether a more determined effort by the current leadership to reduce the state's role in the national economy or to invigorate civil society and involve the democratic opposition would stand a chance in these circumstances. In sum, the reform discourse is generally correct, but its follow up in policies lack astuteness or vigor.

5.5 Consensus-building

Despite some rhetoric to the contrary, even from within the ruling party, the political establishment has fundamentally accepted the market-economy objective. Nevertheless, a strong sub-current of etatism remains. Coalitions with stakeholders in a lead role of the state in the economy or authoritarian-style governance have reduced the purposiveness and dynamics of the reform process.

Reformers have limited control over actors with veto powers (e.g. state capture), who can delay or derail the reform process.

The government plays a positive role by involving the influential Hungarian party in government policies; conversely, the rest of the democratic opposition is

systematically excluded from policy responsibility, thus perpetuating the rift within the political landscape.

By upholding the key role of the state (albeit on a basic level) in most policy fields, the government promotes continued reliance on the state rather than societal engagement.

Due to the incomplete break with the Ceausescu past and the continued relevance of nationalist mobilization, reconciliation and remains controversial even more than a decade after the revolution of 1989. The political elite has not completed the process of reconciliation, as the initiatives in this direction were hijacked by party politics.

5.6 International cooperation

Political actors have used resources and advice offered by IFIs and international organizations, most prominently the European Union, to invigorate the transformation process and to overcome some of the blockages. Conversely, unwelcome policies suggested by external guidance have not been implemented, e.g. in privatization or the fight against organized crime or state policies on reforming the public administration.

Despite the fact that the general framework of the EU accession process has reduced the scope for alternative policies, Romania remains a relatively difficult partner for international donors and NGOs in an ECE comparison. A reluctance to implement certain reforms and an inclination to sidetrack the actual implementation of unwelcome policies has been a recurring phenomenon. State capture and the high level of corruption have added to these risks.

In the process of NATO and EU integration, Romania has demonstrated increasing readiness to co-operate with Hungary, Bulgaria, even Ukraine and Moldova. In many respects, especially in the case of Moldova, Ukraine and Bulgaria, however, regional co-operation is an area of political declarations rather than an optimization of regional resources and synergies. Domestic resistance therefore easily halts co-operative initiatives on a multilateral and bilateral basis.

6. Overall evaluation

Paradoxically, the failure of the Constantinescu/DCR regime in the years 1996-2000 and their subsequent rout at the elections (aggravated by the fielding of four center-right presidential candidates and a dozen parties for parliament) created some possibilities for the successor regime to finally address the transformation management with more determination and vigor.

Irrespective of the social costs and frustrations, the populace seemed to have no credible political alternative with a choice between bizarre nationalists and a feeble, bickering democratic opposition. The etatism and control tendencies, however, are deeply ingrained in the state apparatus as well as in public mentalities. Although transformation strategies and their implementation are improving, transformation progress has been substantially due to external factors, including the EU perspective and growing export to EU markets. The dominance of low value added products in exports and the burden of arrears and state deficit constrain government policies. In sum, although Romania did face some particularly disadvantageous initial and framework conditions, the backlog in transformation and deficits in its management compared to other East Central European countries are mainly due to a lack of a consensus on transformation strategies and a political inclination to suggest a transformation without social costs and hardships.

7. Outlook

The self-defined objective of EU accession in the year 2007 may dominate the policy agenda in Romania, but domestically a number of structural reform challenges remain, more than a decade after the revolution of December 1989.

After a statistical 40 % drop in living standards and years of continuous recession since 2000 Romania has shown impressive economic growth, but from a very low starting position and anti-cyclical to world economic trends. Growth seems to depend largely on exports to the EU (favored by external factors such as the USD-Euro exchange rate) and on the export of labor resulting in large private remittances. Structural problems such as high inflation, public deficit, and unemployment as well as incomplete reforms of market regulation, company restructuring and privatization put a break on sustainable growth. Political reluctance to cope with the social and political costs of determined restructuring and privatization is at the core of the mixed economic outlook.

Politically, the prospects are less promising: The divide between “former communists” and “democratic opposition” has failed to dissolve in political praxis over a decade, despite the emergence of a xenophobic, nationalistic alternative on the right wing. After this government’s term of office, due to public discontent and voters’ volatility the political pendulum could go either way. As a tendency towards etatism and authoritarianism is shared by a substantial part of both the political elite and the electorate, a repetition of 2000 with a fall from grace of SPD seems unlikely. Only sustained economic growth and public optimism in the cast shadow of upcoming EU accession might create the preconditions for a determined catch-up process in comparison to East Central Europe.