

# **EARLY WARNING REPORT ROMANIA**

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## **UNDP - ROMANIAN ACADEMIC SOCIETY (SAR)**

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## EVOLUTION OF SELECTED INDICATORS

INDICATORS	General trend	Recent trend	Oct 2001	Sep 2001	Aug 2001	Jul 2001	Jun 2001	May 2001	Apr 2001	Mar 2001	Feb 2001	Jan 2001
GDP growth (quarterly, annualized), %							5.1			4.8		
Devaluation of the Leu, %			1.40	1.42	1.42	1.59	1.41	1.91	2.35	1.87	2.06	2.26
Inflation, %			2.4	2.2	2.2	1.3	1.6	1.7	2.7	2	2.3	3.7
Industrial output, % change			-0.5	-1.7	0.2	0.2	-5.3	7.6	-3.4	11.4	4.1	4.9
Trade deficit, FOB/CIF (million USD)			145.4	198.1	272	272	294	484	447	228	334	260
Unemployment rate, %			7.8	8.1	8.4	8.4	8.8	9.3	9.9	10.4	10.8	10.8
Employed (000)				4,546	4,542	4,542	4,530	4,521	4,485	4,467	4,448	4,414
Net salary, % change (Jan 2001 = 104 USD)	-	-0.3	0.4	0.4	2.6	0.6	0.6	-5.7	5.1	6.7	-7.2	
Foreign companies increasing their business in Romania (KPMG quarterly poll), %		*		65*		60				55		
Distrust in the outside world (Agreed to: 'No international organization should tell Romanians how to run their country'), %			53.3							56		
The current Government can improve things (CURS poll), %			47.4	48**		46				57		
Pessimism, % (Country heading in the wrong direction)	-	-	42.8	44**	54			52		54		53
Subjective welfare, % (Better off than last year)	-	-	18.7**					19	16	18		17

\* forecast

\*\* urban population only

**ABSTRACT**

Over the latest months, most of the country performance indicators have shown signs of stagnation. The already perceivable “fatigue” of economic growth – as compared to the first half of this year, when growth was impressive – may become a trend in the near future, and already casts doubts on the Government’s optimistic forecast for next year.

Equally, the latest developments at the global level call for a change of approach to policy-making (as highlighted in the newly introduced *Regional* section of this Report).

The Politics, Legal and Social Sections focus on some of the most stringent problems in advancing Romania’s EU and NATO accession processes. The *Politics* section highlights that the fight against terrorism has to shift from diplomacy to the more practical administrative and law enforcement fields. In this respect, the issue of properly securing the borders demands an immediate solution, whilst the long due anti-corruption reform of the judicial has reached the point of “now or never”. The *Politics* section also signals the rise in the popularity of the Prime Minister, which for the first time exceeds that of the President.

The *Legal* section reminds that there is still a lot to do in fostering a proper civilian control over the Army – an important pre-condition in joining both NATO and the EU.

The *Social* section warns against an inefficient tackling of the Roma issue in the current Governmental strategy; a lack of progress in this issue could lead to serious unwanted effects once the Schengen visa requirement for Romania is lifted.

Finally, the *Economy* section of the Report focuses on the recently issued draft of the Public Budget for next year. It is highlighted, in this context, that the Government should pay more attention to the worsening of the international climate in designing its economic policy and setting economic targets for next year. Equally, it is suggested that the Government should also think of an alternative scenario, with GDP growth next year lower than that officially forecasted. As good news, however, the *Economy* section highlights that this year’s economic growth cannot be explained through a rise in stocks of finished goods, which somehow contradicts the widespread belief that the growth has been “artificial”.

# REGIONAL

## Effects of September 11<sup>th</sup> terrorist attacks on South Eastern Europe

The dramatic events of September 11th have indirectly taken the Balkans off from the top of the international agenda. However, in this context there is a serious risk that the historic opportunity, to achieve sustainable development in the Balkans, may be squandered as a result of the international focus on its fight against terror, combined with the defensive war inside United States against various threats.

A score of issues will be affected by this change in international political priorities, and Balkan governments should consider these when adjusting their regional and domestic policy to the new political realities. There are also some lessons for the international policy-makers to be drawn out of the revelation that Muslim terrorist groups have become major political actors. Here is just a brief review of the impact on the two major regional issues, which are likely to be amongst those most affected, namely the effects on NATO expansion and the effects on European Enlargement, specially on the process of accession to the EU.

### Effects on NATO Expansion

Before September 11<sup>th</sup> there were two main driving forces behind NATO expansion: first, pressure from the East European countries, notably Slovakia, Slovenia and the Baltic States, who had long championed to be let in, for security as well as for symbolic reasons; second, the need of the new Bush Administration to gain credibility by showing that enlargement would be pursued regardless of Russia's reservations. The symbolism attached to the issue was basically linked to a need to show that Russian influence in Eastern

Europe was over and that no obstacle could now hinder the East European states from pursuing the path of their choice: in other words that there was no need for the US to consider Russia as a significant actor in Eastern Europe anymore on military grounds, as was the case for decades during the Cold War.

Neither of these two needs reflected *strategic* concerns for the Alliance, but just *political* concerns, - indeed a *strategic* need was not readily apparent prior to September 11<sup>th</sup>. The Alliance was envisaged as expanding only to keep its promise with applicants and show that Eastern Europe was no longer a bargaining chip with Russia, but for no other deeper, security-related reasons. Therefore, it looked as if countries representing minimal potential costs for enlargement due to their good economic standing, in almost total disregard to any *strategic* concerns, stood the best chance of receiving an invitation to join. This outlook has changed now – and it may actually change again before the Prague Summit next year. Strategic concerns now tend to once again override political ones, *and in view of this, there is not much that the Alliance could achieve by bringing the Baltic States in, especially since Russia's support in the anti-terror campaign has become of crucial importance.*

At the same time, it is clear that the relationship with Russia has undergone a profound shift and that the previously inconceivable idea of having Russia as a closer ally of NATO, in a form yet to be disclosed, has become more likely. In view of this, the expansion of NATO is likely to become a secondary concern for the US, and to be more closely linked to a vision of the role that Russia would play in a global security design from now on. *Under these circumstances, some of the South East European countries aspiring to join NATO, (i.e. Romania and Bulgaria, but specially the former) must renounce their tendency to ignore Russia in an effort to deal only with the West, and should instead try to become an active part in designing this new vision of regional security, which includes Russia.*

The Romanian Minister of Foreign Affairs had already moved to conclude the long-delayed Romania - Russia Bilateral Treaty. Such a move is not only proper, but it should be followed by other steps in order for Romania to become an active player in search of this new security vision. The danger comes, however, from the need of the feeble Romanian opposition to score points by opposing this policy, and the Government should make considerable efforts and embark on a substantial public awareness campaign to highlight this new context and the necessities arising from it. To move from a vision of Russia as the historical threat and imperial actor in Eastern Europe to Russia as a partner country sharing similar security concerns, will require a long and strenuous process. But delaying its start has become costly for would-be NATO members in South-Eastern Europe and the Baltic States.

## Effects on European Enlargement

Despite its renewed commitment to keep aid for Serbia at the same level as before the war on terror, it is now clear that the US will become less and less involved in the Balkans area and Europe will have to assume its long overdue role in leading both the security as well as the development of regional strategies. The outcome is therefore less “bullish”, almost “bearish”, in a context when, despite the optimistic statement by the European Central Bank’s (ECB) President, Wim Duisenberg, that Europe is not experiencing a recession, it becomes increasingly clear that the main driving force behind Europe, the German economy, is slowing down. The ECB was compelled to fall in line with requests from member states such as France and Germany and cut interest rates after some initial resistance. It is far from obvious, however, whether these cuts have had the potential to boost the European economy, which was dragging in some European countries even before the September 11<sup>th</sup> attacks. There was already serious concern in Europe that enlargement was too costly and needed a reform of budgetary spending, which EU member states were not willing to undertake.

**Fig. 1. Budgeted EU spending on the applicants (€ million, 1999 price)<sup>1</sup>**

	2000	2001	2002	2003	2004	2005	2006
Pre-accession funds	3,120	3,120	3,120	3,120	3,120	3,120	3,120
Transfers to new members (assuming six new members in 2002)	-	-	4,140	6,710	8,890	11,440	14,210
Total (maximum) pre-accession & enlargement spending	3,120	3,120	7,260	9,830	12,010	14,560	17,330
Total EU budget (ceiling on payments)	89,590	91,070	98,270	101,450	100,610	101,350	103,530

The evaluation last October of the EU Commission on the progress made by candidate states reached the unsurprising conclusion that Bulgaria and Romania’s development was still lagging behind other Central European countries. The generous plea of the Swedish presidency last June, that Romania and Bulgaria’s chronic underdevelopment required a different strategy than the simple negotiation process going on with Central European countries, seems to fade in this new environment. However, for enlargement to progress in the Eastern Balkan countries, and reconstruction to succeed in Yugoslavia, a different approach, adjusted to both the new and the chronic challenges, is needed.

<sup>1</sup> See Grabbe, Heather, *Profiting from EU Enlargement*. Working paper, London: Center for European Reform, June 2001

### Need to shifting emphasis from the adoption of the *acquis* to development

The type of assistance these countries need is of a different type than the assistance for adoption of the *acquis* that went on in the historically more developed and less constrained Central Europe. Romania, Bulgaria, Serbia and Croatia need a strategy designed to make development a priority, even if this means postponing other parts of the *acquis*, such as the social *acquis*, which is clearly not sustainable in the near future.

In order for enlargement to take in the full panel of current applicants and to include in the future other former Yugoslav states, Europe needs to move beyond the mechanical strategy of transferring the *acquis*. The *acquis* is not in itself a development strategy, and wherever it is implemented as such, it will not bring about constructive institutional development, and moreover, it will simply provoke the formal multiplication of unenforceable rules and regulations.

Some intermediate strategies should be devised to help the less developed countries to catch up, and these should be innovative strategies, patterned, for instance, on US policies encouraging – and guaranteeing – *private investment* in neighboring Mexico. Where public money is short, a strategy must be devised to make private money come in to indirectly finance the development of institutions necessary to business. The treatment in the development phase for some of the applicants or potential applicants should be different from the treatment that states receive after becoming members. This would imply an active policy to encourage Western private investors to bring their capital, and building partnerships with them and with other domestic allies against corruption, organized crime and illegal border activities. This would also mean giving up formal strictly governmental assistance, in an effort to create far-reaching coalitions, with innovative ways of funding programs. Looking again at the Balkans, Greece is there as an example of funds wasted on formal, Government-run structural aid programs, which did not succeed in changing informal institutions. Instead of such programs, the Balkan Stability Pact should propose innovative approaches based on broad coalitions of governments, businesses and NGOs.

The one-size-fits-all enlargement policy worked well with countries that were small enough, committed enough, and which received a high level of foreign direct investment. However, the *acquis* may prove a burden rather than an aid in places where there is serious institutional underdevelopment and where informal institutions prevail over formal ones. This is merely to say that different cases (or countries) require different approaches; more problems require more support if there is political will to bring the task to a successful end for each and every applicant country; the *acquis* must be understood as an end, not an instrument. Therefore, policies should be devised to help

integrate it within domestic institutions rather than expect it to radically shape new ones, which in turn means changing some of the rigid strategies pursued with such little success so far and their instruments (the PHARE program in its current form), and associating with other actors and donors (such as the World Bank, UNDP, NGOs) in a more problem-centered approach.

### **A growing emphasis on border-related security issues.**

Due to the new security priorities, the EU's Extraordinary European Council on September 21 reached a number of decisions on long delayed internal security issues – the EU-wide Search and Arrest Warrant, the cooperation on data sharing, the boosting of Europol to a larger role and the new extradition procedures. The November meeting of Home and Internal Affairs EU ministers focuses on the implementation of these political decisions, but it is already clear that even if some positive signal will be given to Romania, the last EU applicant to be removed from the black list of Schengen visas, what follows is anything but the liberalization of the border régime. Tensions are likely to arise between Bulgaria and Romania on one hand and Serbia, Macedonia, Moldova and Ukraine on the other, as Romania and Bulgaria must assume a larger role in guarding what is likely to become the South-Eastern border of an enlarged Europe. However, serious institutional underdevelopment of both countries is likely to jeopardize their ability to successfully fulfill such a role. The removal from the black list of Bulgaria earlier this year and possibly of Romania, in the near future, has had a positive role in inducing some political relaxation, but it is already burdening the fragile law enforcement institutions of these countries.

*The assignment of a special border role to EU applicant South-East European countries should be combined with joining forces with NATO in preventing risks and potential danger of instability in the region. It was obvious all along that the East Balkan countries were not ready to join the EU and that their accession process would be lengthy. All the more logical, as border enforcement becomes a priority even before they join, is that they should become NATO members. This can be realistically done next year, before their becoming EU members. The tremendous difference NATO membership would make for border infrastructure – e.g. in modernizing airports, highways or bridges, as it did in Turkey or more recently in the Czech Republic, and the training of specialized staff – is not at issue. NATO membership should be extended in 2002 to at least the countries on the Southeastern flank of the future enlarged Europe. It is only realistic to assume that some borders will remain more difficult than others, sometimes even between regions at peace (Bulgaria) and regions at war (Macedonia). While struggling to develop civilian border guards, as EU requires, one must also admit that some challenges will not wait until these countries are ready to satisfy this requirement and that the cooperation of NATO and EU in home and justice affairs in South Eastern Europe is necessary.*

### Dealing with armed groups

There is much unfinished businesses in the Balkans, which will be affected by the September 11 events. For one thing, the West in general and the US in particular may revise its willingness to negotiate or push for negotiation with armed groups, even if they stand for valid political causes. Such groups have a high potential to stir up trouble, but a much less developed one to ease trouble, since, unlike state actors, they have poor control over the loose parts of their organizations and can always resort to laying the blame on uncontrollable elements. The West was hesitant to fully endorse the political champions of Albanian rights in both Kosovo and Macedonia against the military factions, and this prompted the military groups to becoming the main problem. European integration provides many levers to bring states in line on their treatment of minorities, but no lever is there to disarm groups, once they have learned the lesson that arms can push them as negotiation partners with equal rights.

### Conclusions

The recent events in the aftermath of the September 11<sup>th</sup> terrorist attacks are likely to bring Russia back as a significant actor on the world scene, and East European NATO applicants have little time left to reconsider their policies in light of these new circumstances.

Equally, the West should critically assess the results of its assistance to the less developed EU and NATO applicants, such as Romania and Bulgaria, and should design new strategies in this respect. More specifically, the EU should move from its standard approach based on the adoption of the *acquis*, to more innovative, problem-centered assistance strategies to stimulate economic and institutional development – and could benefit in this respect from the experience gained by other donor organizations. In the meantime, however, NATO expansion in Southeastern Europe is opportune and feasible, and it would also help countries such as Romania and Bulgaria to better cope with the requirements for EU accession, specially in security terms.

# POLITICS

## One More Push for NATO

**Romania has moved fast to take advantage of the change in the international environment. But more needs to be done to secure a national long-term gain out the latest international developments.**

The dramatic attack on the US and the consequent international campaign against terror occurred at a moment when Romania's perspectives to be invited to join NATO in 2002 had become quite feeble. This outlook has now changed. However, as stagnation in a discouraging situation was replaced by sheer uncertainty, the opportunity may well exist for an improved outlook of Romania, if it plays its cards soundly. Granting swiftly to NATO the right to use the Romanian air space was about all that could have been done in the first days next to the attack. To score in the months to come, however, Romania needs to carefully consider the changes in the security environment, and shape its policies accordingly.

There are at least two major areas that were affected by the September 11 events:

### **1. Border security and law enforcement agencies reform**

Romania's request to have the Schengen visas lifted was already facing opposition from some EU member states. With the new emphasis on borders security, Romania must prove itself able to secure its borders, which are likely to become those of the enlarged Europe. This is easier said than done, however, as it needs upgrading the overall capacity of the border police and imposing a tighter control on foreign residents or immigrants to Romania. The good part is that the EU is not merely formulating this requirement, but is also sponsoring its implementation. An action plan for increasing the capacity of the task force involved, in order to turn it into a professional body, is needed without delay. For years such a strategy was hindered by the

use of conscripts and the hesitation to move towards the demilitarization of the Ministry of Internal Affairs. It is to be noted, in this context, that the new anti-corruption strategy does not place enough emphasis on curbing corruption within law enforcement agencies – this phenomenon is actually poorly researched, and tends to be understated by authorities and exaggerated by the media. In all logic, however, it is the cleaning of these agencies, which should precede any anti-corruption campaign.

## **2. The stress on transparency of the international financial markets, national banks and businesses as a weapon against money laundering and money making by terrorist groups.**

The situation of Romania is at least awkward at this chapter, as transparency of the banking sector is notoriously absent and led to many scandals in the past decade. An exercise of demanding information on the banking accounts of public officials suspected of corruption did not return any answers at all<sup>2</sup>. Romanian newspapers were keen to report that many Arab-owned businesses in Romania had failed to pay any taxes, while having important profits. The impunity of many such firms, some suspected of harboring convicted criminals who cannot be expelled due to a generous interpretation of the Constitution, is attributed to their alleged connections with high-ranking officials in precisely the fields of Home and Justice Affairs<sup>3</sup>. These connections date back to 1989 and there are grounds to suspect that a network of former Securitate businessmen are deeply entangled with Middle Eastern businesses based in Romania, some close to Palestinian organizations<sup>4</sup>. While depriving Vadim Tudor of his parliamentary immunity for his public statement on Romania having trained Hamas fighters after 1989, the Romanian authorities should not regard lightly the warning underlying this spectacular statement. Vadim may be wrong on details, but Ceausescu's policy of closeness to the Palestinian régime and other Middle Eastern not-quite-so democratic countries, seen amongst others in the large numbers of citizens of those countries studying in Romania on grants of the Romanian Government, is certain to have left a legacy. Instead of denouncing press reports on this situation, the Government would better come clean on each and every alleged case. Smuggling and tax evasion may be common practice among small Arab investors in Bucharest, but alleged dirty practices involving important characters of the Government party should be proved wrong with more than words. It is high time to give up the Arab connection, which produced notorious characters such as Youssef Nassar, Zaher Iskandarani or Omar Hayssam, proved to have befriended frontline Romanian politicians or military. We have no electoral campaign in sight and no political competition to speak of, so the need for electoral dirty money is less acute than it was in other past circumstances. This is one more good reason for the Prime Minister to investigate all alleged ties of Romanian

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<sup>2</sup> Report by Valerian Stan, Romanian Helsinki Committee.

<sup>3</sup> Such as the former secret service of the Ministry of Internal Affairs.

<sup>4</sup> See both Adevarul, and Romania Libera, Friday, October 19, 2001

politicians with such characters and practices and to prevent them in the future. The elimination of Vadim Tudor, the stout supporter of Saddam Hussein, from Romanian politics is a necessary step and has been long due. But it is far from being the only step needed.

Romania has an important opportunity, not only to survive unscathed the war on terror, as its economy is still relatively isolated and tied more with Europe than the US, but also to prove to NATO that it is no longer the country which harbored Carlos, trained terrorists and linked its business fortune to dubious Middle-East companies. This must be done while protecting the law-abiding Arab businessmen in Romania, who may benefit themselves by such a cleaning operation. How to attack, however, a group with old ties to former Securitate and dignitaries of Communist times, of which many still have friends within the administration or had managed to remain themselves part of the power establishment? The answer is plain: it is highly unlikely that such groups have the potential to create serious internal trouble now, so it becomes a matter of political will to eliminate old cronies turned into liabilities or check if any of the Ceausescu's times characters who still play a role in politics and business today do not still hang out with rogue states businesses<sup>5</sup>. Between NATO and the Romanian public opinion, the Government has only allies to support such a cleansing operation. Dismantling the networks involved in smuggling goods, people and profits is a long due operation, stated in the numerous anti-crime and anti-corruption programs never carried out so far. Most of the gangs involved have also a political connection, which is a legacy of Ceausescu's foreign policy. For the first time Romania has a serious incentive in getting itself rid of all traces of this dubious past and it should move swiftly to appoint a new generation of law enforcement executives, able to clean their organizations, and with a clear mandate to this effect<sup>6</sup>.

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<sup>5</sup> Ministers of Foreign Affairs have been giving them up since 1996, but in many cases ministers were not even aware such characters still exist.

<sup>6</sup> Internal Affairs Minister Ioan Rus did start on this path dismissing hundreds of law enforcement officers. It is however the key positions which matter. Romania badly needs to train on spot or by means of intensive courses abroad a young generation of law enforcement top executives.

## Trend analysis: Business as Usual in Romanian Politics

Despite a slow decrease in the trust in Government, Romanians remain overall confident in the ability of this Government and the Prime Minister to run the country. The main opposition institution, and most times practically the only one, is Bucharest Mayor Traian Basescu, who still enjoys the only challenging position in polls. The Government Party is completely unchallenged, however, as the latest polls show it to still have half of the popular support, with democratic parliamentary opposition parties below 10% and Greater Romania in a temporary setback.

**Fig. 2. Political preferences**

<b>Political parties</b>	<b>%</b>
PSD	52
PRM	14
PNL	9
PD	9
UDMR	7
PNTCD	3
ApR	2
PUR	1
UFD	1
Other party	2
Undecided	42

Although the report between the Government and the political opposition has remained unchanged for the past six months, the pattern of trust in public institutions suffered slight changes. The Church and the Army continue to enjoy most of the public trust, and the hierarchy of the political institutions shows the political parties in the lowest position, with the Parliament performing only slightly better. **The novelty is that the Prime Minister is for the first time doing better than the President.**

The hierarchy of public trust also shows the television as the main influential political actor. Antena 1 dominates in the hierarchy of TV networks, despite not enjoying full national coverage, followed by TVR, which is the only national network, and PROTV, once the best preferred station but which is now ranking only the third in the top. Despite television being so popular in general, the TV stations, which came under attack lately by the print press for their alleged uncritical behavior towards the Government, are not doing as well as they did a couple of years ago.

**Fig. 3. Public mood regarding life and Government**

<b>Romania headed in the good direction</b>	<b>%</b>
Agree	43.2
Disagree	42.8
<b>Current Government able to improve social and economical situation</b>	<b>%</b>
Agree	47.4
Disagree	37.5
<b>Life after nine months the Government changed is...</b>	<b>%</b>
Better	13.1
Same	47.2
Worse	37.4

**Fig. 4. Trust in public institutions**

<b>Institution</b>	<b>Mean (Standard Deviation)</b>	<b>Institution</b>	<b>Mean (Standard Deviation)</b>
Churches	5.83 (1.65)	Newspapers	3.32 (1.73)
Army	4.82 (1.80)	Police	3.22 (1.76)
Television	4.22 (1.67)	Trade Unions	2.97 (1.92)
The Prime Minister	3.95 (1.96)	Members of Parliament	2.50 (1.57)
The President	3.87 (2.07)	Political parties	2.38 (1.49)

**Fig. 5. Favorite TV Station**

<b>Network</b>	<b>%</b>
Antena1	20.7
TVR1	15.9
PROTV	14.5
Prima	5.4
Acasă	3.6
OTV	0.6
Duna	0.6
TVR2	0.4
TV Internațional	0.1
Tele7abc	0.1
Total	100.0

**Basic nationalism high, conflict potential moderate to low**

Romanians tend to understate the situation of the Roma, which is objectively extremely poor (see Social section of this EWR). A majority believes the Roma are not discriminated against. Bucharest residents are the least likely to admit that Roma are discriminated, but no other correlation can be found between personal wealth or occupational status and the sympathy for the Roma. Previous studies have shown that a considerable segment of

Romanians believe the Roma to be quite rich<sup>7</sup>. Such a perception, based on the neighborhoods of prosperous Rromani, which sprouted in the last decade, is hindering the acknowledgement of the poor social condition of the majority of ethnic Roma.

<sup>7</sup> Ethno-Barometer Romania, Cluj, 2001.

A majority of the Romanians do not believe that there is a conflict between Romanians and Hungarians, despite recent front-page coverage of the Status bill dispute between Romania and Hungary. The figure is remarkably stable compared to previous evaluations<sup>8</sup>. Also in line with previous reports, the perception of a conflict is higher in non-mixed areas such as Moldova, compared to Transylvania and Banat where it is remarkably low<sup>9</sup>.

The evolution of our nationalism items shows moderate improvement at the two identically measured items in EWR 1<sup>10</sup> and EWR 6, cultural nationalism and opinions on the international organizations. The percentage of people believing that only those who know the official language should vote decreased considerably from 45 to 38 %, while those defending Romania's sovereign economic policy against the IMF and the EU decreased by almost 3%.

**Fig. 6. Public perceptions of ethnic issues**

	<b>Some people believe the Rroma are discriminated compared to Romanians in our country. What do you personally believe? (%)</b>	<b>Some people believe there is a conflict going on between Romanians and Hungarians. What do you think? (%)</b>
Agree	8.8	42.9
Agree in part	29.3	
Disagree	57.7	47.7

Territorial and ethnic nationalism remain, however, considerably high. Around 57 % of Romanians strongly or moderately agree that Romania should fight to recuperate territories lost to neighboring countries. Fight does not mean necessarily going to war, but the figure is nevertheless high. Also 44% of Romanians consider that ethnic groups pose a threat by their disloyal behavior, which is rather high, although in line with previously reported results<sup>11</sup>. Basic nationalist attitudes remain high.

The explanatory models of subjective ethnic conflict validate two classic hypotheses: a. the role of nationalist leaders and b. the role of a genuine nationalist predisposition, which complement each other. Nationalism is a more powerful factor than trust in political leaders when tested separately, however. Equally, regions matter more than leaders, but differently than we would expect them to. Transylvania and Crisana-Maramures, with the largest proportion of Hungarian population, behave very similarly to Wallachia and Bucharest, that is, they are more likely to perceive a conflict than not when adequate controls are active. Banat has a cosmopolitan pattern of cohabitation, confirmed by a negative correlation with subjective conflict.

<sup>8</sup> Mungiu-Pippidi, Alina. *Transilvania subiectiva*, Bucuresti: Humanitas, 1999.

<sup>9</sup> Abraham, Dumitru, Chelcea, Septimiu and Badescu, Ion. *Interethnic Relations in Romania*, Cluj-Napoca: Carpatica, 1995

<sup>10</sup> Which quoted a March 2000 CURS poll.

<sup>11</sup> See Alina Mungiu Pippidi, De la identitate nationala la nationalism. *Sfera Politicii* 98-99.

Fig. 8. Subjective ethnic conflict by region

Region	There is a conflict going on between Romanians and Hungarians	
	Agree %	Disagree %
Moldova	55.2	39.6
Muntenia	42.4	47.6
Dobrogea	65.9	18.1
Oltenia	49.1	26.8
Banat	29.8	59.6
Transilvania	29.3	66.7
Crisana-Maramures	13.0	52.2
Bucuresti	37.9	53.6

Fig. 9. Varieties of nationalism

On nationalism...	Agree %	Disagree %
Romania is a country both rich and beautiful but its proper development is prevented by its enemies	59.0	17.6
Only people who speak the official language should vote (cultural nationalism)	38.6	35.3
No international organization such as the EU or the IMF should tell Romanians how to run their own country	53.3	17.4
There are ethnic groups within Romania which act regularly against our national interest	44.4	21.0
There are parts of other countries which really belong to us and we should fight to get them back	56.7	21.3

Perception of ethnic conflict is indeed highly subjective. We found no relation between exposure to the media and conflict perception. Since individuals in our sample overwhelmingly use television as a source of information, it seems that people react to coverage of the Romanian-Hungarian relation differently and along the lines of their predispositions. People who hold basic nationalistic attitudes are not democrats. *Individuals who believe democracy is not the best system of Government are more likely to perceive a conflict between Romanians and Hungarians.*

## Path Model

The path model confirmed these findings (see the “Path Model” diagram in Annex 1 at the end of this Report), and brought additional confirmation for some of our hypotheses. The index of regional development, which replaced the regions from the OLS regression models described above, revealed national identity and trust in the outside world as significant predictors. **The lower the development in a region, the greater the xenophobia and the parochialism of its inhabitants, and the lesser the identification with the nation as a whole.** Furthermore, ‘non-ideologues’, the people who find political ideology *irrelevant* are more likely to be ‘parochial’ than ‘national’. National identity in turn does not predict nationalism.

Trust in the outside world is also determined by political competence (reading political reports in newspapers) and subjective well-being. Frustration with one’s life and low political competence, therefore, determine distrust in the outside world. In turn, distrust in the outside world triggers trust in nationalist leaders and nationalism. Low political sophistication, high frustration, high political assertiveness and low trust in the outside world determine nationalist attitudes. At the same time, nationalism and lack of democratic orientation are strong predictors of subjective ethnic conflict.

# LEGAL

## **Warning: Civilian Control over the Armed Forces Still an Unfinished Business**

Civilian control over armed forces is a part of the essential preconditions of a democracy. It is clearly outlined as such in the Copenhagen criteria specifying political conditions for EU accession, and therefore it was fully endorsed by Romania on several occasions. However, the recent background of civil-military relations is not a fortunate one. Despite enjoying a history with few to none pure military coups, Romania was unable in 1990 to fully liberate the military from the Ceausescu era power establishment. Even before passing a new Constitution, the first post-Communist Romanian Parliament was careful to pass a law of National Security sealing the archives of Ceausescu's secret service. Despite being made redundant both by reality and by the 1999 law on the former Securitate Archives, the law was never canceled and still allows military institutional actors to resist attempts at being controlled by civilian agencies. The latest scandal concerning the Council for Screening the Securitate Files (CNSAS) is only the last example in a long series. Other examples are the stalling of the prosecution of the military in the 1989 Cluj files, a file completed by the military prosecutors in the early nineties and put on hold by all Governments since then<sup>12</sup>, and the attempt in 2001 to reverse a final judgment of the Supreme Court of Justice condemning Generals Victor Stanculescu and Mihai Chitac for the armed 1989 repression of dissent in Timisoara. Less covered by the media, due to its more technical nature, the struggle to demilitarize the Romanian police is far from over as well.

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<sup>12</sup> Including the government of Emil Constantinescu, probably due to the presence in the high ranks of command of General Constantin Degeratu, who was Chief of Staff of the Transylvania Army when it shot on the protest demonstrators in December 1989.

## The legacy of the Ceausescu's Securitate

The 187/1999 Law on screening the former Securitate files seemed for a while to represent a breakthrough in the net protecting the military from any meaningful civilian control. Like in other former Socialist countries, such as the Czech Republic or East Germany, the Council in charge of enforcing the law should have been made solely by persons with a clear history of opposing the Communist regime and the Securitate. Based on the model of other post-Communist laws, however, the Council was elected as to represent an algorithm of the parliamentary parties, including a handful of dissidents only besides political representatives. This led to the delay of its election on one hand, and it leaves room now to an attempt to replace members in order to fit the new composition of the two Chambers after the 2000 elections.

The recent scandal was provoked precisely by the former anti-Ceausescu opponents who are Members of the Council - the people enjoying most credibility, both in Romania and abroad, such as Mircea Dinescu, Andrei Plesu (also a former Minister of Foreign Affairs) and H.R. Patapievici. They have denounced precisely the subordinate relation of the Council with its military counterparts – secret services and the Army. The patronizing of the Council, which by law is entitled to take the upper hand in all matters concerning the Archives of the former Securitate, by the Romanian Intelligence Service, and the total lack of cooperation from the Army, is jeopardizing not only the ability of the Council to implement the law, but also Romania's credibility as a future NATO member.

The 1999 law clearly specified in Article 20 that:

**The College of the Council receives under its management all the documents needed to enforce the rights specified in the current law, which are currently stored by the national security agencies with the exception of those touching national security.**

**The documents referred to in the first paragraph as well as every other copy of any of them are preserved for study until the takeover by the College at the headquarters of the agencies, members of the Council enjoying unlimited access.**

Despite the clear provisions that the Council should enjoy full access even prior to total transfer of the former Securitate archives to its premises, the Army did not put forward any file so far, whilst the Ministry of Internal Affairs and the Service for Foreign Intelligence (SIE) have only selectively provided upon request some information, despite bilateral agreements concluded by the Council with each agency. The main bone of contention lies however with the Romanian Intelligence Service (SRI), the owner of the bulk of the archive. SRI is reluctant to pass the archive to CNSAS, on two grounds: one of them is that CNSAS does not have appropriate storage facilities for the archives (notwithstanding the possibility to transfer the warehouse where the archives are currently stored); the other is that ordinary files are mixed with files including classified information, which may impact

on national safety, and that until their separation SRI prefers to keep the archives in custody.

However, the law specifies that classification of the files is not the sole business of the SRI, and that a joint committee of the two institutions should decide which files are to be classified. Any possible conflicts are to be settled by the Supreme Defense Council, but a citizen who is dissatisfied with the handling of his or her file may also sue in any Court. Equally, CNSAS has the right to sue SRI itself for failure to comply with the requirements of the law, but it has not resorted to this procedure so far.

Since March 28, 2001, CNSAS has received upon request from SRI, 2,069 files, of which 1,450 files were of persons under Securitate surveillance and 552 files were of Securitate informants. A few other files include persons who were subjected to criminal prosecution as a means to hide political repression, and some documentary files. However, many of these files were incomplete or the queries regarding them returned the wrong answers. This affected seriously the credibility of CNSAS and also suggested that SRI was guarding not the national security, but the Securitate's dark past.

In the investigation on the media, for instance, CNSAS did not have direct access, but received only files selected by the SRI. The newspaper which had asked for the screening is heavily campaigning against CNSAS' inability to produce an accurate picture of the collaboration of Romanian journalists with the Securitate, and the CNSAS itself is reluctant to publish results as there are strong suspicions that SRI had passed along only selected files<sup>13</sup>. Other files, such as those related to the Iron Guard, were wrongly classified years ago as touching national security, despite the Guard being outlawed since January 1941.

Equally, SRI first passed to CNSAS only one file on Radio Free Europe, then three more after intense pressure, whilst there is evidence there are many other files related to the topic. The same goes for the files on the clergy, SRI having passed to CNSAS only two files on Patriarch Teoctist, whilst a private writer enjoying a good relationship with SRI had already published data based on the consultation of eight files on the same topic<sup>14</sup>. None of these files touches the interests of nowadays politicians or businessmen with alleged ties to the former Securitate, but access to them has nevertheless been seriously hindered.

In view of Romania's accession to NATO, it is however clear that covering up for the Securitate can no longer be the game of secret services in Romania. These agencies must become fully accountable to civilian agencies such as the CNSAS and must be prepared to open everything to future NATO allies.

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<sup>13</sup> The notorious infiltration of the Romanian media by the Securitate has made the object of many foreign analyses. One of the best is Richard Hall's dissertation, summarized in the 1998 Patrick O'Neill's book *Post-communism and the Media in Eastern Europe*. London: Frank Cass. Mr Hall has meanwhile been employed by the Romanian desk of the Central Intelligence Agency. His paper examines the impact of Securitate ties to publishers in the current Romanian media.

<sup>14</sup> Mihai Pelin.

Even in the more limited framework of the Partnership for Peace, the sharing of information among allies is the first step towards integration of the military in a joint force. Gaining credibility for Romania's secret services in the eyes of future allies is of primary concern, and this should override the concern to control the CNSAS even before it started to function properly. The various proposals to change the 187 Law are transparent attempts by a handful of MPs to protect the former Securitate informal networks of influence, and as such have a high potential of hindering the Government's efforts to obtain an invitation for joining NATO, at the Prague summit. On the other hand, CNSAS itself has lost ground due to a poor communication strategy. CNSAS complains of lack of transparency from SRI, but it was unable itself to create an accessible and user-friendly system for citizens to consult their files.

**In light of the above considerations, there are obvious recommendations to be made:**

1. **CNSAS should publicize all the procedures for a citizen to consult his or her file** and the status of requests to SRI (if the procedure remains as lengthy as it currently is) better than it has done so far. Despite being a new institution, CNSAS invested more in protecting alleged secrets in order to reassure SRI, than in promoting transparency, its real mission. The Council still does not have even a web site, the simplest and cheapest way of publicizing the basic conditions for citizens to request access to their files<sup>15</sup>. For making the public opinion its ally, CNSAS must solve its own failures while more self-assertively tackling the relationship with the military agencies. CNSAS should seriously consider the possibility of suing if no other way to enforce the law works, and it should do so before the pro-Securitate lobby in the Parliament is able to halt the whole process of screening the files by modifications of the law or other obstruction strategies. CNSAS should also actively pursue a strategy of recuperating the Communist Party's files from the Army, as most of these include files on 'voluntary agents', the Party's equivalents of Securitate informants. It is only by accident that the military had obtained control over the Communist Party's archives in 1990, and passing it under civilian control is long due. No other country in the world has entrusted the archives of a political party to the military, except for Latin American military dictatorships for limited periods of time.
2. SRI should get rid of all the legacy of the former Securitate and pass it over to CNSAS with everything related to it. This would on one hand boost its credibility in the eyes of NATO agencies, and on the other it would let it free to reorganize, as the agency is not yet competitive enough to meet NATO standards. There is nothing to gain for SRI if it continues to feature in the public opinion as the heir of the Securitate. No secret is important enough to be denied to CNSAS,

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<sup>15</sup> According to Transparency International Romania.

considering that in light of the new anti-terror campaign Romania will be required to share top-secret intelligence on terror groups and their connections with Romanian institutions or groups. Compared to that, the stake of files of Radio Free Europe is not worth jeopardizing SRI's credibility.

3. The Government should push all military agencies to pass the Securitate files to CNSAS, prior to the adoption of a law of classified information. Under the new Freedom of Information Act, which has just been promulgated by the President end October, any NGO or private citizen can now sue the Army or any Government agency that denies access to information. The Courts are compelled by law to give emergency treatment to any such law suit, and the judge is allowed to decide if the information required is indeed of concern to 'national security' and can decide to de-classify it. The law will be enacted starting with January 1<sup>st</sup> and human rights groups are certain to instrument at least one high profile public law suit to make certain that the law will be enforced. All the more grounds for military agencies to protect real secrets with an impact on current national security, by getting rid of the Securitate's legacy.

## Concluding remarks

The recent scandal regarding the Securitate's files is only the top of the iceberg in the still not fully solved matter of civilian control over the military. Less spectacular, but running even deeper is the problem of demilitarization of Internal Affairs, object of repeated demands and interventions of the European Commission, and which now reached the deadline, as Romania is negotiating the Home Affairs and Justice *acquis*.

For instance, military judges and prosecutors perform in a system of justice, which is parallel to the civilian one. Through their military status, the executive controls their judicial functions. In accordance with the law<sup>16</sup>, only active military officers may be appointed to serve as military judges. They have military grades and enjoy all rights of military status, including promotion in accordance with the military grading rules. If military judges violate military rules, they are subject to the disciplinary statutes of the military. The Ministry of Defence pays military judges, and their salaries are higher than the salaries of their civilian counterparts. Both the Ministry of Justice and the Ministry of Defence conduct the selection and training of military judges. Thus, military judges have a dual status: members of the judiciary, and members of the military. The dual status clearly hampers the independence and impartiality of the military judges. Moreover, some observers see the pay disparity between the civilian and military judges as a reward for reliably serving the Government's interests. The low number of indictments and convictions in

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<sup>16</sup> Law 54/1993 on the Military Courts and Military Prosecutors' Offices.

police abuse cases (in comparison with the number of allegations)<sup>17</sup> raises suspicions that granting the military jurisdiction over police abuse has had a devastating effect on the protection of individual rights. With regard to this issue, the Council of Europe has stated that "*Although many assurances were given that the police were under civilian control, the problem remains that complaints against police officers can be brought only before military prosecutors who alone can decide to bring charges. Given the apparent reluctance to bring charges in a number of cases, as stated above, this situation, too, gives rise to legitimate concern.*"<sup>18</sup> The 2000 US State Department's report on Romania also criticized the military jurisdiction on allegations of police mistreatment.<sup>19</sup>

The matter is addressed by the draft of the statute of policemen, which has been lingering for months in the Parliament. The draft represents a progress from the current situation, as it does prompt at least formal demilitarisation, leaving in place, however, a strict hierarchical structure going upscale to the Minister. Human rights groups<sup>20</sup> are critical towards the draft on grounds of its failing to subordinate local police to local governments. However, some positive steps, such as the passing of the population registers under civilian management, were attempted recently. In view of its stated objective of finalising the challenging Home and Justice Affairs negotiations sometimes next year, the Government must follow more decisively on this path.

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<sup>17</sup> See 1993-2000 APADOR-CH reports; [www.apador.org](http://www.apador.org)

<sup>18</sup> Frederick Konig, rapporteur for the Committee of the Political Affairs of the Council of Europe, "Preliminary Draft Report on the Application by the Republic of Romania for membership of the Council of Europe", Doc.AS/pol(44)62, Strasbourg, 7 May 1993, p.9. The same issue was raised in the 1995 Report on Romania, adopted in May 1995 by the Committee on Legal Affairs and Human Rights of the Council of Europe.

<sup>19</sup> US Department of State, Country Reports on Human Rights Practices-2000, Romania; February 2001.

<sup>20</sup> Such as the Romanian Helsinki Committee- APADOR-CH.

# SOCIAL

## Focus: Roma

The Government has created a comprehensive wish list for the social integration of the Roma population. Its structure is arcane and its implementation sluggish. With real results far away in the future at best, the emigration potential of the Roma people looks set to create problems when the visa restrictions for Romanian nationals will be lifted. The introduction of compulsory checks for minimal travel funds when exiting Romania may ease the problem, but also prompt illegal border crossing.

### Tackling a terrible heritage

Social integration of the Roma is a problem confounding many CEE Governments. It is however especially acute in Romania. According to estimates used by the World Bank, Romania has the second highest percentage of Roma in the whole region, and by far the largest Roma community in absolute terms – see Fig. 1. The treatment of the Roma minority is one of the two failures (together with the issue of institutionalized children) that compromise Romania's fulfillment of the political criteria for EU accession.

Similarly to the situation in neighboring countries, Romanian Roma lag far behind the average population in education attainment. The illiteracy rate is high, whilst there are practically no Roma graduates (Fig. 2). Their access to primary health services is also hampered and they are more likely to use emergency services (Fig. 3). The life expectancy is substantially shorter than for the rest of the population, and the infant mortality rate is higher.

Fig. 1. Roma population (thousands), 1991 – 1994

Country	Roma population	Total population	Share of Roma in total population (%)
Albania	95	3,421	2.8
Bosnia	45	4,383	1.0
Bulgaria	750	8,459	8.9
Croatia	35	4,788	0.7
Czech Republic	275	10,323	2.7
Hungary	575	10,280	5.6
FYR Macedonia	240	2,191	10.9
Poland	45	38,446	0.1
Romania	2,150	22,761	9.4
Slovak Republic	480	5,345	9.4
Slovenia	10	1,993	0.4
Turkey	400	59,461	0.7
FR Yugoslavia	425	10,675	4.0

Fig. 2. Highest level of education attained (percent of population group)

	1994		1997	
	Roma	Total	Roma	Total
No education	36	11	42	12
Basic (grades 1-8)	57	48	49	43
Secondary	7	36	9	37
Tertiary	0	5	0.1	8

Fig. 3. Location of treatment or illness 1998 (percent of individuals who were sick during the previous month)

	Nowhere	Private practice	Public primary health unit	Hospital	Other
Romanian	36.3	11.3	45.0	6.7	0.7
Hungarian	38.1	10.3	44.5	6.1	1.0
Rroma	52.5	2.2	38.1	7.2	0.0
German	43.8	6.7	48.3	1.1	0.0
Other	51.4	11.0	37.6	0.0	0.0
Total	36.9	11.1	44.9	6.5	0.7

Poor education and health result in lower participation in the labor force, and a higher unemployment rate. Poverty is widespread – a Roma is three times more likely to live below the poverty line than the average Romanian – see Fig. 4. This situation is compounded by the high birth rate of Roma: they have the highest number of children of all Romanian families, which strongly correlates with living in poverty – see table 5. For a taste of the quality of living conditions, have also a look at Fig. 5 and 6.

**Fig. 4. Poverty by ethnicity, (1995, 1997, % of population)**

	<b>1995 (%)*</b>	<b>Share</b>	<b>1997 (%)</b>	<b>Share</b>
Romanian	24.5	87.4	29.7	86.6
Hungarian	22.8	6.1	28.4	6.0
Roma	76.4	5.4	78.8	6.3
Other	23.5	1.1	32.6	1.1
Romania	25.3	100	30.8	100

\* Census data are based on self-identification. Data in Fig. 1 were estimates of the actual number.

**Fig. 5. Household and family size (1998 figures, average membership) versus potable water facilities (% relative to total group size).**

	<b>House- hold size</b>	<b>Family size</b>	<b>Public system</b>	<b>Own system</b>	<b>Inside building</b>	<b>Outside building</b>	<b>River</b>	<b>Other</b>
Romanian	2.8	2.7	45.3	2.4	3.2	48.8	0.0	0.3
Hungarian	2.6	2.5	54.8	7.2	4.1	33.7	0.2	0.1
Roma	4.4	4.2	23.5	1.0	10.1	63.4	0.6	1.4
German	2.2	2.1	60.7	2.5	12.3	24.6	0.0	0.0
Other	2.7	2.6	49.6	13.0	5.9	31.1	0.0	0.4

**Fig 6. Location of toilet facilities (percent of households)**

	<b>Inside</b>	<b>Outside</b>	<b>None</b>
Romanian	42.9	27.4	29.7
Hungarian	47.3	36.0	16.8
Roma	18.6	46.6	34.8
German	52.5	34.4	13.1
Other	38.2	51.5	10.4
Total	42.9	28.6	28.6

## **Adequacy of the Government strategy**

For dealing with these problems, the Government has created a twofold strategy: reducing poverty and eliminating discrimination, supported by a new institutional infrastructure. The strategy is comprehensive: it comprises ten areas of action, from health care, education, social security, child welfare, and housing to justice and public order. The strategy has been transformed into a detailed work plan, with a timetable and clear responsibilities.

One direction of action is to help the Roma enjoy the same benefits as the rest of the Romanian population - e.g. improve their access to social insurance, by providing identity cards. Another type of actions covers special support for Roma – e.g. fiscal facilities for companies hiring Roma, or preferential hiring for Roma in the public sector.

## **New Government agencies**

The institutional infrastructure created for the implementation of the strategy involves both central and local Government. At the central level, ministerial committees dealing with Roma issues were established in 14 departments, each chaired by a junior minister. A joint committee was also established, which brings together the heads of the ministerial committees and representatives of Roma NGOs. The junior Minister for Minorities chairs the joint committee, while its secretary is the Undersecretary of State for Roma issues.

Similarly, Roma offices were established at county level, in the structure of the prefect offices – the highest central Government representative in a county. These offices have to be led by an ethnic Roma. In addition, there are Roma experts at the municipality level, mayoral public servants with double subordination: to the mayor and to the prefect.

Public non-profit foundations are to be established in each county to manage the budget for Roma programs. The total budget of the strategy is estimated at 104,589,000 Euro for 2002, about 70% (71,588,759 Euro) coming from the European Union, and 30 % (33,009,241 Euro) from the Romanian Government.

Worth mentioning is that, in addition to this large administrative structure, individual departments have established their own structures dealing with Roma affairs. The Ministry of Education and Research has created the position of county inspector for Roma issues.

## **Administrative feasibility**

There are serious question marks concerning the feasibility of this approach. The strategy requires the creation of new administrative bodies. It remains to be seen how well these new departments will be integrated within the rest of

the bureaucracy. In addition, while the line of command is pretty clear in the central Government, the co-operation of local administration in the implementation of the strategy is less clear. The local experts are supposed to report both to the prefect and the mayor. But they are mayoral employees, which gives the mayor a special leverage on them. However, mayors are more sensitive to public opinion – that is generally hostile to Rroma population. An example of possible developments is the proposal of the mayor of Piatra Neamt to create a ghetto-like neighborhood for Rroma. Mayors are also likely to mainly focus on the public's priorities, and, therefore, they might object to resources being channeled towards Rroma projects, instead of more popular items. A parallel can be drawn with the case of institutionalized children: there have been reported cases when money destined to children shelters were channeled to road construction.

Moreover, manning the new offices with appropriate staff is already proving tenuous. Some of the new positions are reserved for Rroma ethnics. Given the low number of Rroma graduates, this requires accepting lower qualified staff. There have even been cases when finding Rroma people for the job has proven impossible. The Government has launched a large training program for the staff of the Rroma offices, provided by an experienced NGO. It is an open question how much a training program can be a substitute for adequately experienced and educated staff. Even the provider of the training has doubts: the chairperson of the organization is quoted as stating that if the strategy will reach 20% of its objectives this would be a good result.

Equally, the strategy for improving the condition of Rroma has tight deadlines, requires good inter-departmental co-ordination, and requires the public administration to perform highly discriminative acts (the so-called "positive discrimination"). Given the low administrative capacity of Romanian bureaucracy, the accurate implementation of this plan is rather unlikely.

Finally, the document is not really a strategy: there are very few measurable targets. Hence, there is no way to say whether the objectives will have been met. The whole exercise risks becoming yet another smart way of spoiling Brussels money. Part of the cause for this failure is the lack of sufficient data on the current situation of the Rroma. Adequate research should have preceded the policy formulation exercise.

This problem is compounded by the difficulty of determining who is a Rroma, and of assessing their number. While most estimates put the number of Romanian Rroma at 1.5 – 2 million, the 1992 census has recorded only 0.4 million who have identified themselves as such. This uncertainty, and specially the legal impossibility of determining who is a Rroma, may seriously hinder the implementation of the policy.

## Poverty alleviation

The instruments most likely to achieve a sizeable impact upon the Roma community are the non-discriminatory social benefits. Because of their extreme poverty, Roma are entitled to benefit most from the minimum income guarantee, due to be implemented next year (Law 416/2001). The most important question mark here is the financial affordability of the whole scheme in certain municipalities.

In addition, the larger than average and younger families of the Roma will also make them important beneficiaries of the increased child allowance, and of the newly introduced school supplies support for poorer children (Government Ordinance 337/2001).

## Affirmative action

The measures targeted at the Roma are the core of the strategy, and they are likely to be the most troublesome.

Most of them are sensible decisions, such as to increase the registration of Roma with health funds by providing them with identity cards. The Government strategy also aims to reserve certain positions for Roma and to provide special facilities for them. However, this approach faces the risk of political and legal challenges. Given the existing hostility of large sections of the society towards the Roma minority, and coming after years of resistance to positive discrimination in favor of the Hungarian minority, it is likely that many Romanians will react negatively to this policy. In addition, measures such as fiscal facilities for companies hiring at least 10% of employees from the Roma community will have to provide a legally valid criterion to decide as to why a certain individual, who claims to be a Roma, is actually no such thing.

There is also a disparity between the scale of the problem and the solutions envisaged. In the few cases where there are quantifiable targets set, the numbers are rather meager: e.g. the Ministry of Labor expects to help 3,725 Roma finding a job in 2001, and 3,150 Roma have received identity cards.

## High risks of failure

The intentions of the Government are commendable. It is however questionable whether the Romanian administration has the capacity to put them in practice. Moreover, the crucial connection between the central Government and local administration is not very well defined, and the quality of staff hired at the local level raises concerns. Even if these issues are addressed, the effects of the strategy will take time to filter through.

The plight of the Romanian Roma is terrible. With little hope of marked improvements in the short term, they are likely to be the first to take

advantage of the lifting of travel restrictions to Schengen countries, which is expected soon. This poses a serious political risk for the Government.

The Government should prioritize those measures, which are simpler to perform and can deliver quick results. Unfortunately, the Government is channeling its energy foremost in creating a new bureaucratic structure – its set-up makes up practically the whole first year of the implementation of the strategy. In addition, the strategy includes a host of positive discrimination measures that are likely to arouse political opposition and might prove to be unenforceable.

#### **Recommendations on the short term**

- The policies with the highest impact are those that improve the access of Roma population to social services, like social benefits, health care and education.
- In this respect, registration of the Roma with proper authorities (police, school authority, health fund) will play a crucial role.
- Due to the shift to payroll based social security, people who are neither employed, nor registered as seeking work would fall through the social safety net – they are not eligible for either health care or pension contributions. This is the case with many Roma who work in the informal economy. Such situations will need to be addressed first.
- The issue of *de facto* statelessness needs to be urgently addressed, as also highlighted during a Seminar on Roma, organized by the UN Agencies in Bucharest, at the beginning of November. This refers to the situation of those Roma who are actually not registered as Romanian citizens – mainly because of many Roma not registering their children at birth, and the 3,150 Roma who have recently received identity cards represent just a drop in the bucket. The Government should primarily focus on this kind of concrete measures.

#### **Recommendations on the medium term**

- Institution building and staff training have their role, but they cannot be the sole or even the prime product of the strategy.
- The implementation of the strategy will require close monitoring, in order to make sure that it is properly applied, and specially that funds allocated to local authorities are not channeled towards other programs.
- More research is needed in order to assess the exact scale of the problem and therefore to allow the quantification of objectives.
- Finally, half baked ideas on positive discrimination that rely on a potentially very problematic legal definition of a Roma should be rethought – e.g. conditioning fiscal facilities for companies according to the number of Roma employees.

# ECONOMY

## **The Public Budget Draft for the Year 2002. Ambitions and Limitations**

In a context of economic recovery and of the signing of a new *stand by* agreement with the International Monetary Fund, the Romanian Government sent the consolidated draft budget for next year to the Parliament, last October. This very early submission is a remarkable event in itself; it was also *a sine qua non-prior action* required by the IMF. What stands out in this budget and to what extent does it support the main targets of economic policy for next year? The comments underneath try to address these questions.

### **Features of the budget draft**

Several issues can be raised concerning the structure and level of revenues and expenditure in the consolidated draft budget. The most obvious one is the simultaneous reduction of revenues and expenditures, which makes the proposed budget a restrictive one. Revenues are forecast to decrease to 31.8% of GDP, from 32.7% this year; and expenditures to 34.8% of GDP as against 36.2% this year (Fig. 1 and Fig. 2). This brings question as to the implications the budget retrenchment on economic activity.

The cause of the decrease in revenues is to be sought in changes occurred in tax regulations (such as the introduction of the global income tax and trade/fiscal facilities granted to small and medium sized firms early this year) and in the disappearance of some “special funds” (linked with social security contributions), both of which are not offset by better tax collection. As a matter of fact, and despite the commitments made at the beginning of this year, tax collection continues to be the Achille’s heel of the budget.

Fig. 1. Consolidated budget revenues and expenditure (% of GDP)				Fig. 2. Budget revenues in more detail (% of GDP)		
	2000	2001*	2002**		2001*	2002**
Revenues	31.5	32.7	31.8	Fiscal revenues	32.7	31.8
- fiscal	29.5	30.5	30.0	- direct taxes:		
- non-fiscal	1.9	2.1	1.8	profit taxes	18.7	18.3
				income taxes	2.3	2.3
				contributions	3.4	3.1
				other	11.9	12.1
				- indirect taxes	1.1	0.8
				VAT	11.9	11.7
				custom duties	6.5	6.5
				excises	0.8	0.7
				other	2.6	2.7
Expenditure	35.5	36.2	34.8	Non-fiscal revenues	1.9	1.9
					2.1	1.8

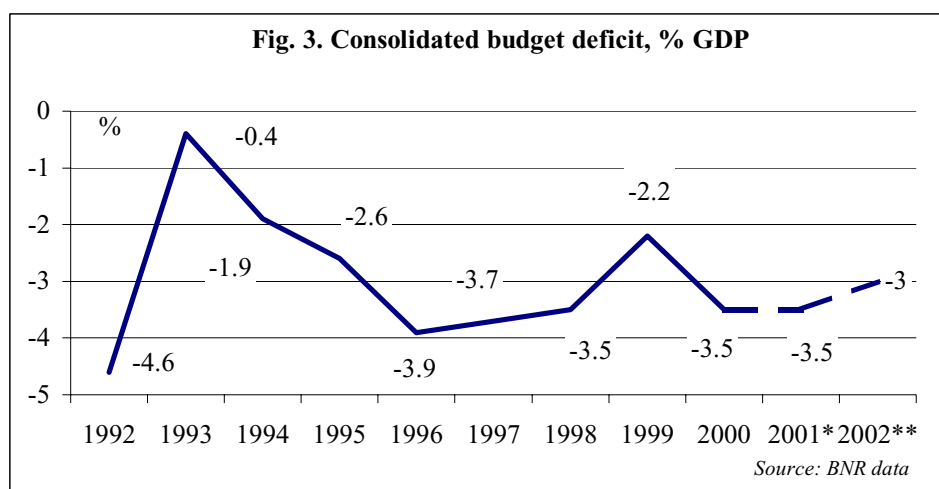
\* estimated

\*\* forecast

Furthermore, the decrease in budget revenues should be considered in conjunction with the lower budget deficit target – of 3% of GDP<sup>21</sup>, down from 3.5% this year (Fig. 3). The 3% target is set in order to control domestic absorption and, consequently, reduce the current account deficit of the balance of payments. The lower budget deficit, therefore, would arguably accentuate the restrictive nature of next year's budget. But is there anything that could mitigate this restrictive impact?

One hypothesis is that less state expenditure is the outcome of public administration reform and better use of funds, which is an undeniable part of the story. Likewise, it can be argued that less taxation and less expenditure by the government leaves more resources for the non-government sector – which would be a compensating factor. But, one can hardly deny that, all things unchanged, the budget would be less supportive of overall economic activity. Equally, the budget is restrictive on the funds assigned to priority sectors, such as education and health – each will receive around 4 % of GDP, similarly to this year – or agriculture, for which funding will actually decrease (Fig. 4).

<sup>21</sup> It is not accurate, as some official documents assert, that next year's budget would be the first to comply with the EU convergence criterion for the budget deficit. It should be noted that in 1999, when an exceptional fiscal and balance of payments adjustment took place (the current account deficit went down from over 7.5% to 3.8% of GDP), the budget deficit – with privatization revenues included – went below 3% of GDP.



\* estimate, \*\* target

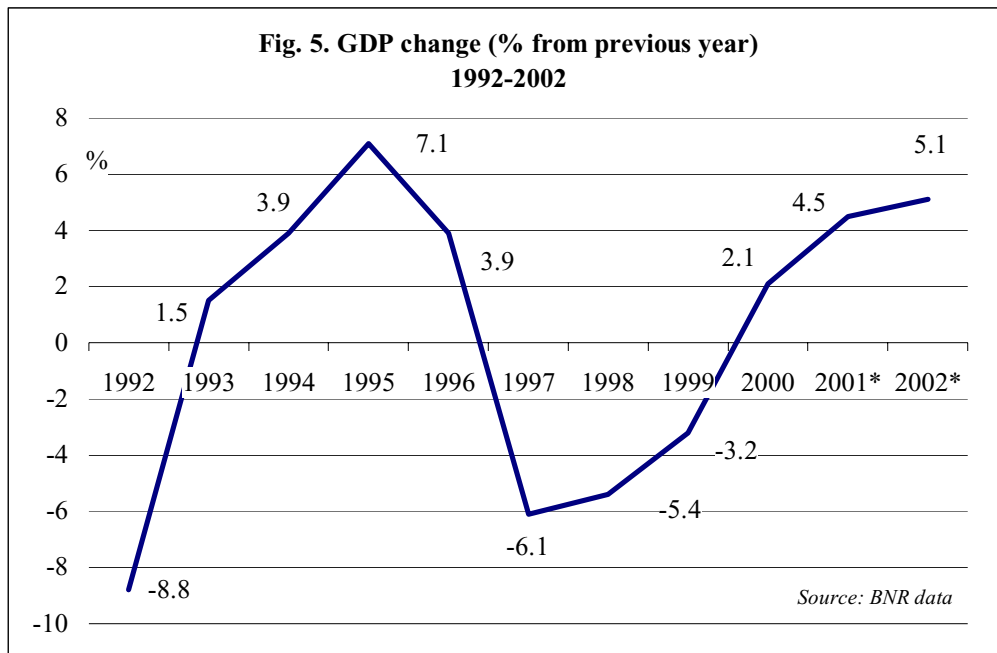
**Fig. 4. Consolidated budget expenditure – functional structure (% of GDP)**

	2001*	2002**
Total expenditure	36.2	34.8
-public administration	1.8	1.5
-defence	1.5	1.5
-internal security and public order	1.9	1.8
-education	4.0	4.1
-health care	4.0	3.9
-social security	10.4	11
-public works and services	2.1	1.5
-environment	0.3	0.2
-culture and sports	0.5	0.6
-industry	0.9	0.8
-agriculture and forestry	1.1	0.9
-transportation and communication	2.8	2.7
-scientific research	0.2	0.2
-debt service	3.7	3.3

Note: not all items are showed in the above structure, which explains why the numbers do not add up to the total expenditure.

\* estimated

\*\* forecast



\* projected

There is an attempt to increase the focus of budget expenditures on projects, but this effort has still a long way to go. The basic configuration of the budget does not bring substantial changes, which is not surprising, since its structural inertia is huge. On the other hand, one has to look more into detail, in order to assess the quality of budgetary efforts. Some changes in revenues (taxation) may have a positive impact on saving, particularly in a period of disinflation. This is the case with the faster reduction of direct taxes (-0.4% of GDP) as compared to indirect taxes (-0.2% of GDP) – Fig. 2. Equally, the cut in public administration expenditures (-0.3% of GDP) would mirror the reform under way in this field, which is also related to the drive for fiscal decentralization.

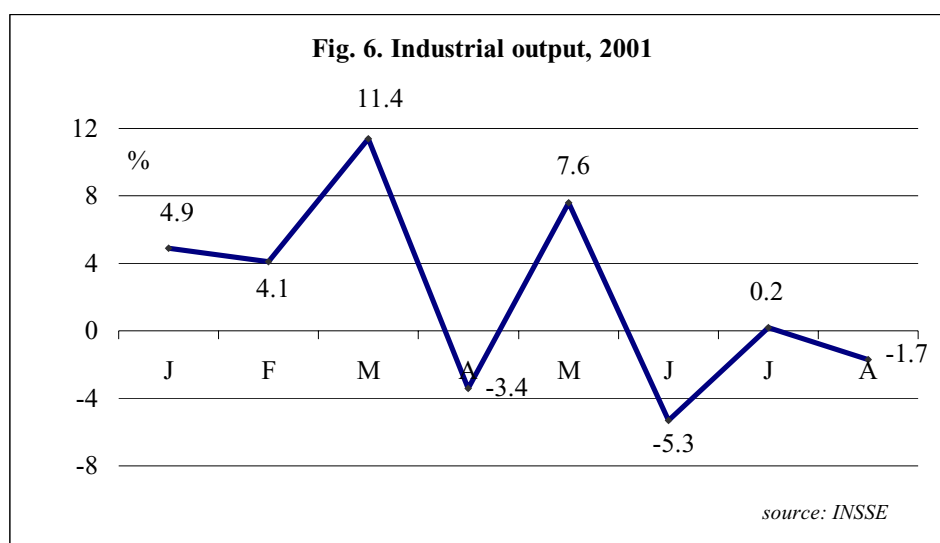
### The draft budget and main goals of economic policy

Some of the comments above refer to the restrictive nature of the budget and its impact on economic activity (economic growth). It is suggested as well that the lower budget deficit would help disinflation and would also help reducing the trade imbalance and the current account deficit of the balance of payments.

In a previous report<sup>22</sup>, a puzzle was highlighted: what is the rationale for forecasting a higher growth rate of the GDP in 2002 (5.1%, as compared to 4.5% this year), given the worsening international environment, the slowdown of domestic industrial output in recent months, and the need for

<sup>22</sup> EWR no.5, which dealt with official forecasts for 2002

corrective measures to deal with financial indiscipline<sup>23</sup> and the external disequilibrium? The budget figures do not clarify this puzzle.



For one thing, exports cannot be expected to be the primary driving engine for the economy in 2002, as they were in 2000, given the worsening international outlook. Equally, capital expenditures in the draft budget amount to 3.5% of GDP, which is comparable to what has been estimated for this year. What can then make a difference for GDP growth? Maybe higher investment?

Could loans from multilateral creditors (IFIs, including the European Investment Bank) play a more important role in supporting investment? Definitely yes, but this role would have to be factored in the structure of the budget. In addition, such loans would have to be complemented by domestic resources (co-financing), which would imply either cutting other provisioned expenditure, in order to maintain the same deficit, or a higher budget deficit – which seems to be out of question.

What is then left for filling in “the slot”? Naturally, investment undertaken by the non-government sector should be considered. However, official figures anticipate gross fixed capital formation (which refers to both public and private investment) to reach 19.7% of GDP next year – which implies only a modest rise in the volume of investment, compared to this year. There is also the possibility of substantial productivity gains, which have operated in several industrial sectors this year; such gains could make up for a slower rise in investment. But productivity gains are hard to anticipate, and to rely on them in constructing a budget, is quite risky.

*For reasons such as those mentioned above, the forecast of a 5.1% GDP growth seems too optimistic, under current and foreseeable circumstances.*

<sup>23</sup> Arrears have grown to 40% of GDP (asa against 35% at the end of 2001)

## Vulnerabilities

Wage pressures can become of much nuisance on the expenditure side unless the criteria for their advance are well spelled out and an effective dialogue is carried on with trade unions. Recently, the Government promised a wage increase for state employees starting with next January; but this increase is not enshrined in the current draft budget. Where would the resources for this increase (over 7,000 Billion ROL) come from? Obviously, demands by trade unions can be substantiated by hard data, and it is no secret, that many people live below the poverty line, but there are limits to what the Government can do without jeopardizing the stability of the economy and the sustainability of its growth.

On the revenues side, a precarious tax collection can easily backfire. For instance, this year's poor results in tax collection will very likely force the Government to freeze some expenditure items in order not to miss the 3.5% deficit target. According to recent statements made by Ministry of Finance officials, a prime candidate for such cuts is capital expenditure, which runs counter to the objective of spurring growth next year.

Finally, one should be more cautious about the prospects for increasing the revenues from social security contributions – from 11.9% this year to 12.1% next year. It may be that the new rules on the employment of individuals with civil contracts would broaden the scope of the underground sector. In the end, revenues may, instead, come down. As a matter of fact, social security contributions (SSC) represent the most worrisome aspects of fiscal policy in Romania. The SSC ratio<sup>24</sup> is above 60% in Romania, whereas in none of the Central European countries does it go beyond 50%. At the same time, the share of these taxes in the GDP is the lowest in Romania: 11.1%.<sup>25</sup> Obviously, something is amiss here, and fiscal policy has to address this situation, which increases the propensity of firms and individuals to operate in the underground economy.

## Policy recommendations

Although Romania's economy is less connected with the outer environment, both trade- and financial markets-wise, the growing uncertainties in the world economy and the worldwide economic slowdown will take their toll; this impact seems to be underestimated by current official forecasts. In any case, nonetheless, the Romanian economy is poised to continue its growth next year.

In view of domestic and external constraints, however, investment should increase substantially in order to sustain rapid growth, which is a questionable

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<sup>24</sup> Which is defined in relation to the total wage bill of a company and what individuals pay out of their wages.

<sup>25</sup> I thank Valentin Lazea, from the NBR, for these data.

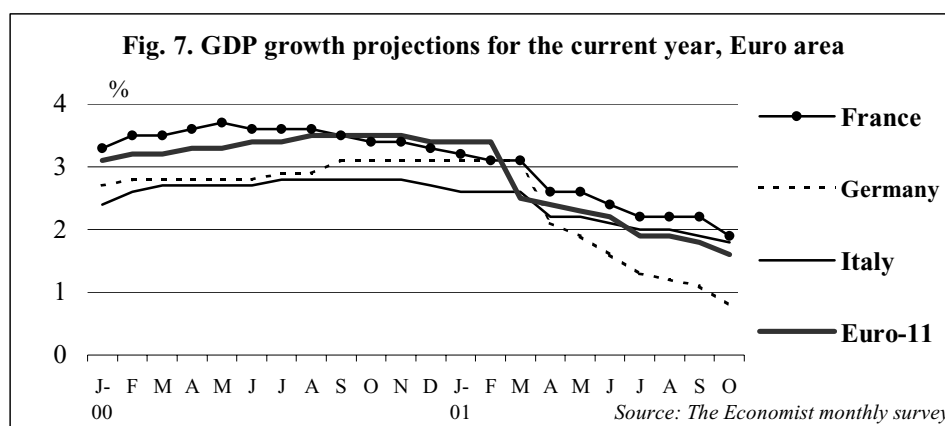
premise of the budget. There are also vulnerabilities in the budget construction which cast further doubts on some of its premises.

Assuming that it sticks to its current forecasts, the Government should also consider an alternative scenario for its economic program and the public budget; these should assume a slower GDP growth rate (4%), and a smaller increase in exports next year. At the same time, the Government should watch closely the vulnerable links in the budget **(which may imply fewer revenues, or higher expenditure)** and be ready with back-up solutions. With regard to the external financing of the budget deficit, and in view of a possibly severe fallout from an Argentinian financial debacle, the Government should consider an early external bond issue following the agreement with the IMF.

The Government equally needs to explain better its goals and constraints at a time of extreme uncertainty in the world economy and growing domestic wage pressures; this exercise in public persuasion is badly needed in order to avert major policy slippages.

## International Economic Climate

Most of the commentators cut down substantially their growth forecasts in the aftermath of the terrorist attacks in the USA in early September. The biggest downgrade is for America, where GDP is now expected to grow by only 1%, rather than the 2.6% forecasted before the attacks. More important for Romania, our main trading partners' economies are also likely to slow down, even more than previously expected. **Italy** and **France** are likely to fall below 2% GDP growth, according to the monthly panel survey published by *The Economist* (Fig. 7). **Germany**, the largest European economy, and target of a sizable portion of the Romanian exports, has come close to a halt, with only 0.8% forecasted growth this year.

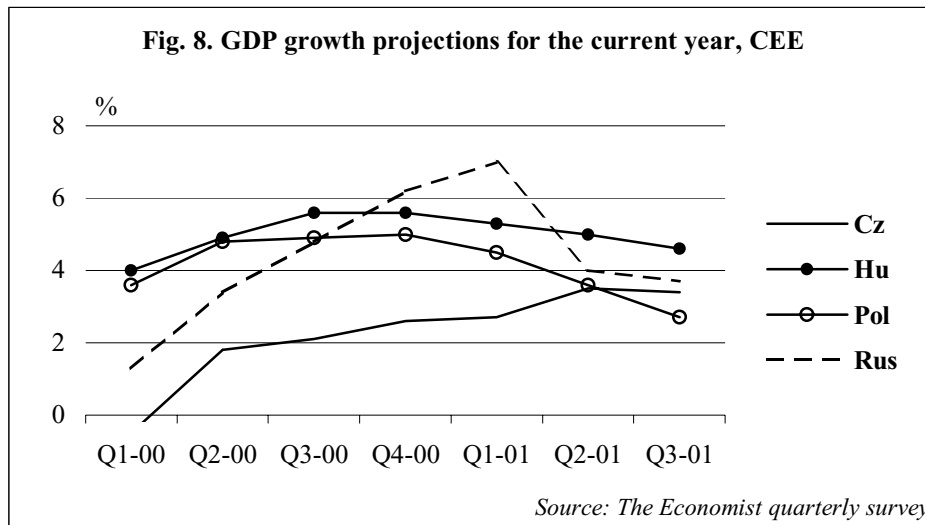


Moreover, this is not just a short-term adjustment, as many people had hoped until recently: with the exception of Germany, the EU zone is expected to grow even less in 2002. The only question seems now to be if the current downturn is V-shaped or U-shaped – that is, if the recovery will be fast or sluggish. Morgan Stanley, an investment bank, believes that the thrust will be reached during the 4<sup>th</sup> quarter of 2001, when the European economies will contract, and that we shall see growth again at the beginning of 2002.

The **non-EU** trading partners of Romania have also seen their growth forecasts slashed for this year and the next (Fig. 8). Poland is falling below 2% – which in the post-communist countries, where the need to grow fast in order to catch up with the EU is stringent, equals almost to a recession. The delays in restructuring and privatizing the heavy industry take their toll now, and show that nobody can remain a star performer in Central and Eastern Europe unless the adjustment effort is a long-term commitment. This is a lesson that the Romanian Government should not forget, especially this year when Romania is likely to be the top performer in the region in terms of GDP growth. Russia's economy remains as volatile as ever, relying too much on the totally unpredictable price of commodities. Only Hungary looks a bit more resilient, which is a good thing for Romania, since our western neighbor

is also our main regional trading partner, and hence a source of stability for our own economy.

Not all signs are bad, however. The latest *Outlook* of the IMF, published after the terrorist attacks, noted that the Fund does not expect a world recession, in spite of the recent turbulence. Unlike in the case of national economies, where recession means a period of time with negative growth (usually two successive quarters), at the world level there has been no negative growth since the '30s. Therefore, world recession is defined as global growth below 2%. Even by these high standards, as the IMF analysts pointed out, a recession is unlikely this year, while for the next they expect a slight recovery.



## Focus: Is This Year's Growth Explained by a Rise in Stocks of Finished Goods?

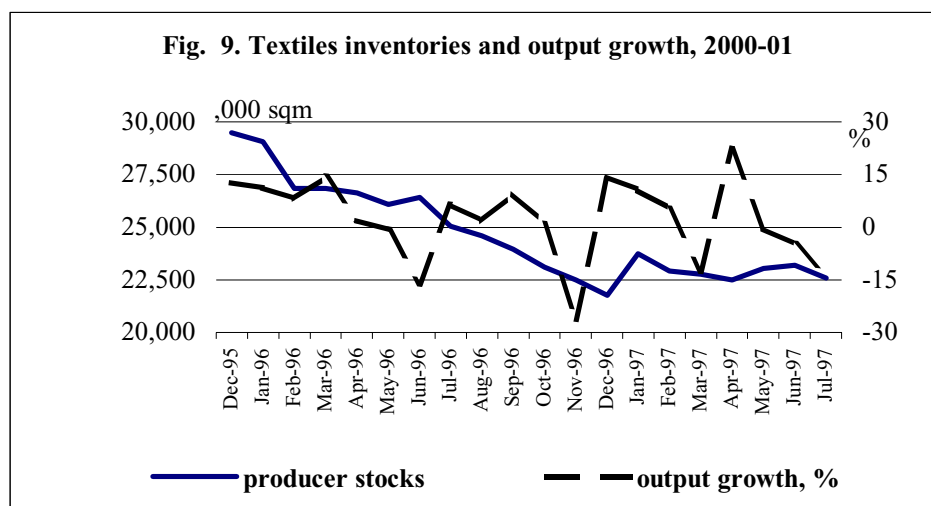
Since last spring, when it became clear that the industrial output was going to increase this year above the most optimistic forecasts ten months ago, a heated discussion has been going on about the sources of this growth. On the one hand, the Government says that the growth is real and healthy – and admits tacitly that it is at least in part due to the supply side policies implemented in 2000 by the previous Isarescu cabinet. On the other hand, the independent analysts fear that the surge of the industrial output was achieved mostly by artificially stimulating the economy with state acquisitions, cheap energy and soft budget constraints. As a result, the stocks of finished goods that the producers are not able to sell may be on the rise.

In order to see who is right and who is wrong, we took a closer look at the output and inventories data available, by industry. **Overall, we found little support for the skeptics' position: with a few exceptions, the stocks of**

**finished goods have not risen in the fastest growing industries in 2001.** However, since the Romanian economy is still full of distortions, this only means that the problem may be hidden somewhere else. The paradoxical accumulation of stocks in sluggish industries is a case in point.

The sectors that grew most rapidly in the first eight months of 2001 were the **consumer goods** (18.7% against the same period of the last year) and the **manufacturing industry** (10.7%). But in consumer goods there is no single case of increased stocks to producers – on the contrary, they decreased in absolute terms for many products or remained constant (which means they decreased relative to production).

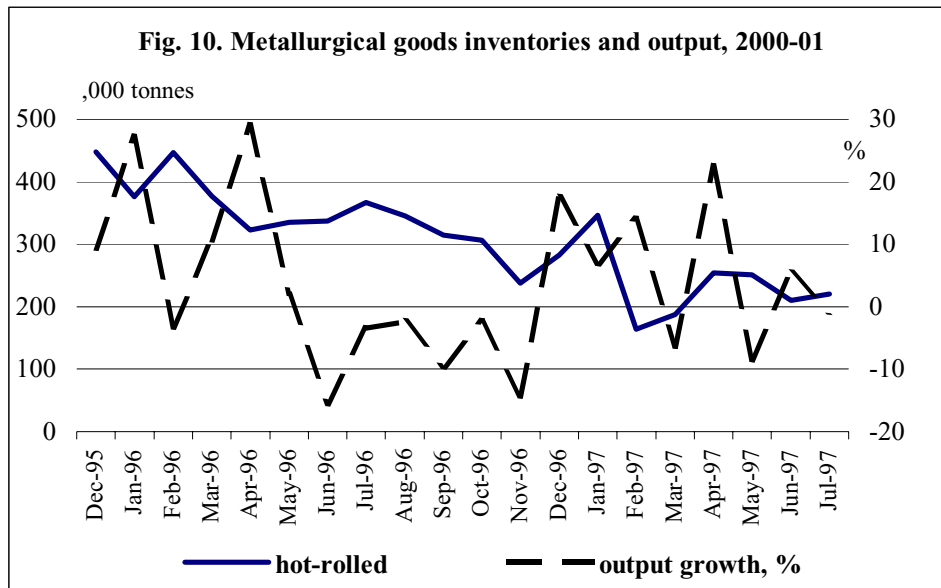
In the manufacturing sector, the textile industry, one of the main Romanian exporters and a growth performer this year, has actually maintained a two-year trend of decreasing inventories (Fig. 9). Metallurgy, an industry that traditionally creates problems and where an artificial stimulation is felt very quickly, has also seen a steady reduction of stocks over the last two years, in spite of the fluctuations of output (Fig. 10). The only substantial accumulation of stocks in the manufacturing sector is in the paper industry (Fig. 11), and we do not yet have an explanation of why this happened. But whatever the reason, it is unlikely that one single industry can reverse the positive trend of the rest of the intermediate products sector. Moreover, the paper industry's output is going down, and therefore it does not contribute to growth this year.



Another sector that, like the paper industry, went against the general trend this year and decreased its output is **durable goods** (-3.6% on the first eight months of 2001, compared with the similar period of 2000): household goods, TV sets and other house appliances. Paradoxically, it is exactly in this sector that most stocks of finished goods are recorded (Fig. 12). Since most of these producers are private and no state intervention in this sector was reported, the most likely explanation for the accumulation of unsold goods is

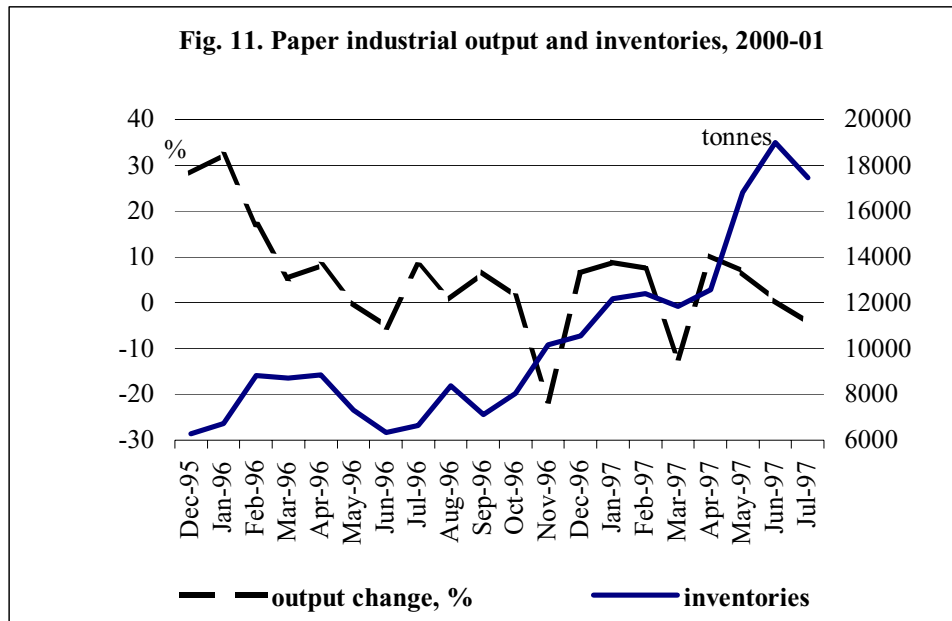
a miscalculation of the producers or a drop in demand – or both. Another, more subtle explanation might be that the domestic durable goods producers, especially in the refrigerators and washing machines industry, bought on soft credit cold-rolled steel sheets from Sidex Galati, which otherwise would have appeared on the books of the steel plant as unsold inventories. In other words, the stocks were transferred from metallurgy to the durable goods sector. In this particular case, however, the explanation is unconvincing: the steel sheets of the kind used in house appliances represent just a small fraction of the metallurgical output in Romania, so they wouldn't have been able to contribute much to the general reduction of stocks showed in Fig. 10. However, the soft inter-industry commercial credits (actually, arrears of payments) represent a real problem, which makes the interpretation of data regarding industrial output and inventories more difficult.

The stocks of **fossil fuels** have increased even though the sector grew below the average over the first eight months of this year (Fig. 13). In these state-owned industries it is notoriously difficult to correlate production with the market demand – which is one more reason why their restructuring and privatization should be speeded up. This is specially the case with the national company Petrom, the main oil producer, who last year spent exuberantly on sponsoring, advertising and investments, encouraged by the high price of oil. This year brought a harsh correction in the world price for oil (from 32 USD last autumn to 22 USD currently), and, as a consequence, Petrom's profits have already been cut in half and the company has come recently under attack in the Romanian Parliament.

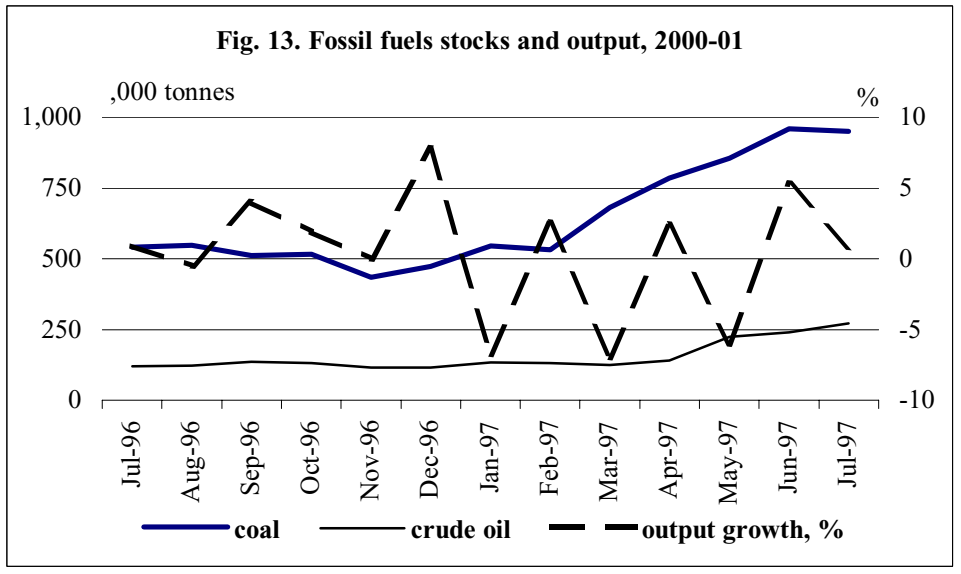
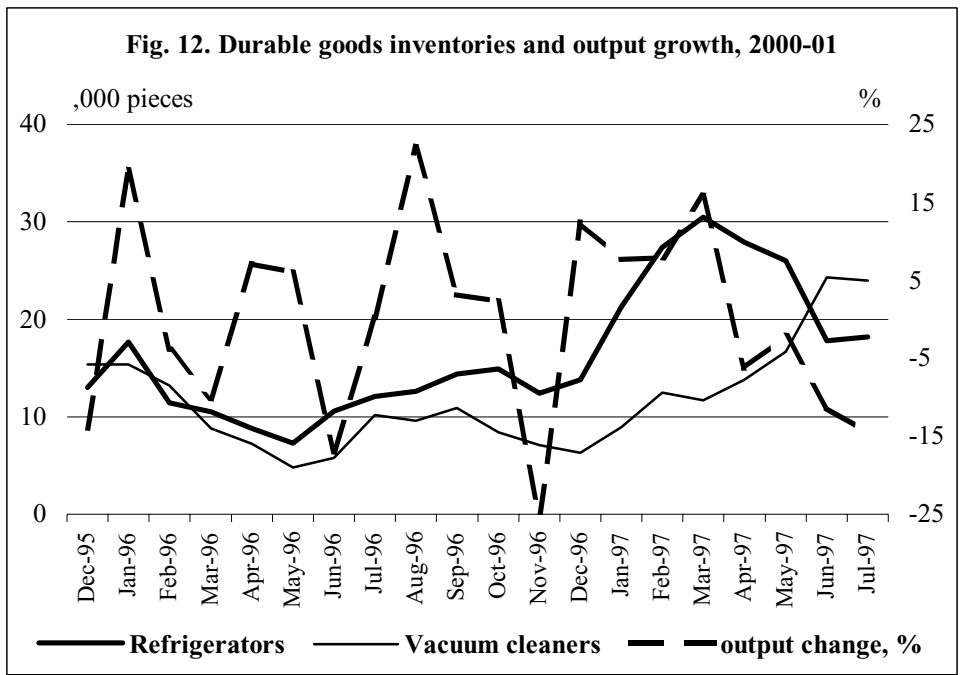


The lesson here is that the good times should be used for implementing difficult but necessary reforms, like the selling of Petrom to a foreign strategic investor. Otherwise a minor regional player Petrom will not be able to protect itself against the volatility of the world commodities market. Coal industry is

still far from being turned around, too. Fig 13 shows that this year it has been unable to sell what it produced, even at a slower pace. While the Government has no business in meddling into the durable goods industry, where the private companies should deal themselves with the piles of finished products, it has every reason to be concerned about the stocks of energy goods produced in the public sector, which, although subsidized, still cannot be sold.



The real problem in this respect is Romania’s muddled **energy policy** – or the lack of it. (See also our previous issue, EWR 5, for a discussion of this topic.) On the one hand, since the world price for oil has decreased, an increase in domestic consumption is all but natural. The question here for the Government is: how come that Romania’s imports of fuels have increased over the first eight months of 2001, while the stocks of oil and coal to domestic producers have also risen? Is it something wrong with the price or quality of these goods, since domestic consumers prefer to buy them from abroad? On the other hand, the irrational subsidization of the price of electricity to industrial users (the price has decreased in real terms this year – see also EWR 5) is anything but natural and makes for a poor preparation of the Romanian firms for the EU open market.



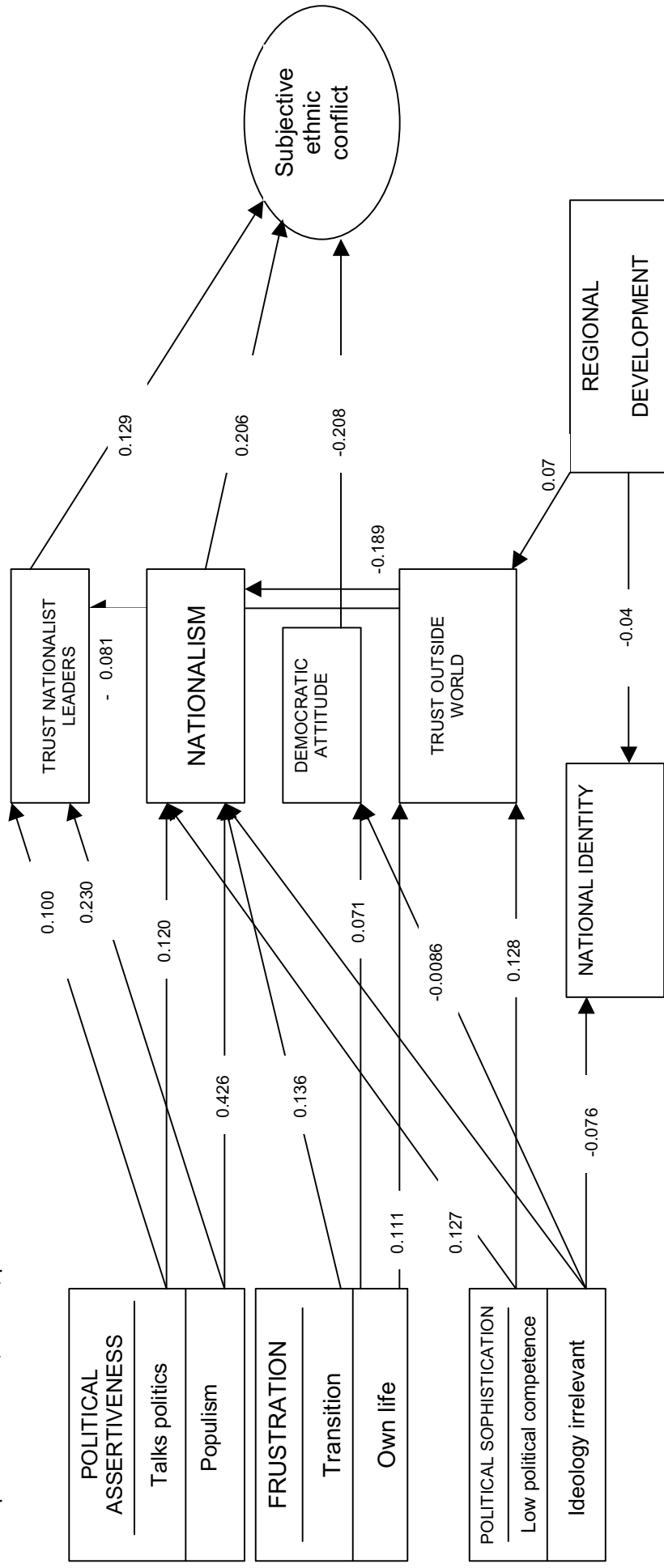
## Conclusion

The widespread belief that all of the industrial growth in 2001 was artificial and that we are now awashed in finished goods that cannot be sold, does not seem to be supported by the data available. The economic growth looks real and healthy, provided the information coming from INSSE is accurate. This does not mean there are no increases of stocks, like those in the durable goods of paper industries. But these are no reason for public concern.

More important and threatening is the distinct possibility that many goods and services would not have been sold if their producers and buyers had not faced soft financial constraints. The **arrears** both inter-enterprise and to the public budget, have risen from 30 to 40% of GDP since 2000. They represent indeed the equivalent of a huge quantity of stocks immobilized on the books of producers – and one of the most urgent problems on the agenda of the Romanian Government. The next issue of the EWR will explore this matter more in detail.

**ANNEX 1- Determinants of subjective ethnic conflict; path model**

Chi-square= 172.158; df= 43; p= 0



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*EWR Public Opinion Surveys are designed and analyzed by Alina Mungiu Pippidi, and executed by the Center for Urban Sociology (CURS), under the direction of Dorel Abraham.*