Balkan Tiger or Balkan Backwater?

Today's Threat to Romania's Economic Future

Why It Matters to America

Patrick Basham

A Democracy Institute Economic Risk Series Paper

Democracy Institute

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Acknowledgements

The author wishes to acknowledge the assistance provided by a myriad of individuals inside and outside of Romania during the research phase of this project. Their goodwill, generosity of spirit, knowledge, and respective insights have been extremely helpful in composing and completing this report. The author is also grateful for the comments of respective anonymous peer reviewers that have improved the paper. All views expressed in this publication, however, are those of the author, not those of the Democracy Institute, its Officers, or Advisors.

The Democracy Institute does not accept project-specific funding and, therefore, has not received any financial support for this piece of work from any of the governments, industries, individuals, or organizations described or discussed in this paper.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This report examines whether Romania's mixed international reputation actually reflects the realities on the ground in this young, fragile, rapidly evolving democracy. The examination is centered upon an overarching question: Is Romania's potential to be a Balkan economic tiger threatened by the policy agendas of respective economic and environmental actors, both global and domestic?

The answer is structured in four parts. First, what does Romania's present and recent past tell us about her future economic potential? Second, what role can and should the global investment community play in growing the Romanian economy? Third, which dark policy clouds threaten to derail Romania's economic advancement and her relations with Western nations, such as the United States? The tangible threat to Romania's national interest is illustrated by examining the current controversy over the economically game-changing gold mining project in the Roşia Montană region of Transylvania.

Fourth, the paper describes the stark choice faced by Romanian policymakers today and in the coming months and years. It is a choice between two distinctive policy paths. The first path is the one to be taken by a country seeking to establish itself as a Balkan tiger. It is a path that leads to a modern, transparent political culture; a prosperous nation built upon environmentally sustainable economic foundations. The second path leads to the status and circumstance of a Balkan backwater: an anachronistic, corrupt political establishment 'leading' an economically impoverished populace.

In macroeconomic terms, Romania has made significant advances. With solid annual GDP growth, low inflation, and a budget deficit that is the envy of much of the EU, Romania's current economic situation is both vastly improved over recent years and, critically, has established an impressive foundation upon which her economic future may rest. It is equally true that, in microeconomic terms, Romania still has a great deal yet to accomplish, as millions of individual lives require the opportunity for tangible, long-term improvement.

Romania's ongoing transition to a more resilient market-oriented economy has also been facilitated by its adherence to maintaining openness to global commerce. Nonetheless, perceived corruption, exacerbated by a relatively inefficient judicial system, undermines the foundations of economic freedom and undercuts the prospects for dynamic long-term economic expansion.

Romania is ahead of the United States and other Western nations in introducing a flat tax on personal and corporate income. The flat tax is one of a number of strengths on which she could capitalize should the external climate improve, including a large domestic market, a diversified economic base, and low levels of debt. In that vein, the privatization of state-owned enterprises is essential to the realization of Romania's economic growth and employment potential.

Due to the low level of direct global investment inflows to the country, the positive impact on Romania's economic performance has been limited. Over the past two decades, the potential advantages for attracting global investment were overshadowed by negative elements, such as mistakes made in conducting reforms, legislative and institutional instability, and bureaucratic corruption, all of which provoked mistrust with the global investment community. The reason for the low level of investment in Romania is the dazzling and contradictory legislative and institutional framework, which has been subject to many changes. Consequently, global investors generally have adopted a wait-and-see approach, especially as property rights have not been well-defined.

As the problem for Romania is less its economic and cultural characteristics and more its political ones, without question Prime Minister Victor Ponta's efforts to increase transparency and to engage in a more effective fight against corruption should increase confidence among global investors in the Romanian business environment.

The most important institutional barriers to investment are uncertainty associated with the approval process for investment projects. Without question, the Roşia Montană mining project in western

Romania is a political test case for future domestic and international projects. The Roşia Montană mine has the potential to add more than $24 billion to Romania's GDP. Perhaps, more important still, the mine will be a standard bearer for a revitalized mining sector, highlighting that Romania is "open for business," encouraging local and other overseas investors to seek opportunities in Romania, and boosting growth in one of the poorest member states of the EU.

In economic and environmental terms, the mining project is clearly a win-win scenario. The project is extremely important to the economy of a country that has struggled to attract investment since the 2009 recession. If the forthcoming parliamentary decision is a thumbs-down on the project, investors will think long and hard before committing large sums to Romania in the future.

The anti-project campaign serves as a timely reminder of the power of emotional appeals and uninformed good intentions to rouse the ire of a minority of a society. The anti-Roşia Montană campaign also demonstrates the astounding ability of the international environmental movement and its external financial underwriters to orchestrate and choreograph domestic opposition to an environmentally sustainable economic development project of certain and considerable value to the people of Romania.

The past year in Romanian politics is a strong piece of evidence in favor of the argument that who occupies the post of prime minister in a country *really* matters. Prime Minister Ponta advocates a model of economic growth based on investment, fewer taxes, less bureaucracy, privatization, balanced budgets, disciplined government spending, and price liberalization. If Romania is to possess a 21st century-style economy, she must embrace the challenge of international competition and attract far greater amounts of global investment. Hence, Ponta is seeking to turn "the Romanian state into a trustworthy partner for potential investors."

The Romanian government has demonstrated an ability to get some important things right. It is in the self-interest of the world's leading industrialized nations, particularly the United States, that the Ponta government continues to proceed along the path of mutually beneficial engagement with the global economic community.

INTRODUCTION

As the day-to-day face of government, a prime minister may serve either to inflate or to deflate a nation's global image and reputation. Whenever new leadership takes office, there is always the opportunity to set the nation on a better course. More often than not, however, a new leader fails to seize his or her precious political moment and they spend much of their term in office as a witness to the drip-by-drip disappearance of their political capital. In the Romanian context, however, political tendency may not always be destiny.

Last year's Romanian parliamentary elections showed an overwhelming victory for Prime Minister Victor Ponta's alliance of social democrats and liberals, which won 59 percent of the seats in the 452-seat legislature. Such a landslide election victory stabilized the domestic political environment and has proven a welcome fillip to the Romanian economy.

The youthful, dynamic Ponta is a reform-minded leader who bears an uncanny political resemblance to former British Prime Minister Tony Blair – an economic modernizer; a pro-market, pro-Western, consensus-seeker; a politician with the charismatic appeal and political nous to establish Romania as a model of rational economic policymaking and constructive international alliances.

Ponta's principal task is to improve his country's international reputation in both political and investment circles. Why does Romania have a bad image? That was the provocative question the BBC posed its global audience earlier this year.[1]

Following four decades of communist misrule, in 1990 an impoverished, illiberal Romania began a quarter-century-long journey headed towards, it was both thought and hoped, democratic governance and market-driven economic development. Yet, Yves G. Van Frausum et al.'s two decade-old observation remains accurate today: "Although Romania abandoned the planned economy model in 1989, the country and its government continue

[1] *BBC Magazine*, "Why has Romania got such a bad public image?" February 25, 2013.

nevertheless to suffer criticism and bad press reports, mainly for an alleged lack of progress in democratic reform and the slow pace of transition towards a market economy."[2]

Clearly, the development journey has taken Romania along an uneven path, both politically and economically. The second poorest country in the European Union, Romania has struggled to overcome a legacy of lawlessness and endemic corruption entrenched during decades of dictatorship under Nicolae Ceausescu.[3] The BBC reports that, "Romania remains one of the most corrupt countries in Europe."[4]

Hence, external critics point to an economy that remains comparatively poor, with living standards among the lowest in the European Union; the average monthly wage in Romania is only €340.[5] Allegedly, a weak economy is the catalyst for the export of vast numbers of jobless migrants. Disappointing economic results have reinforced a political system apparently dominated by partisan – rather than the national – interest. Above all, there is the widespread perception that Romania policymaking is dominated by the largest wallets and best-connected Rolodexes, instead of the best ideas. Therefore, the conditions exist to view Romania's political economy as a glass that is decidedly half-empty.

This report examines whether Romania's mixed international reputation is more stereotype and caricature than a reflection of the realities on the ground in this young, fragile, rapidly evolving Balkan democracy. It is centered around an overarching question: Is Romania's potential to be a Balkan economic tiger threatened by the

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[2] Yves G. Van Frausum, Ulrich Gehmann, and Jürgen Gross, "Market economy and economic reform in Romania: Macroeconomic and microeconomic perspectives," *Europe-Asia Studies* 46 (1994): 735-756.

[3] Dan Bilefsky, "Romania Faces Upheaval as Center-Left Wins Vote," *New York Times*, December 10, 2012. See, too, Avner Ben-Ner and J. Michael Montias, "The Introduction of Markets in a Hypercentralized Economy: The Case of Romania," *Journal of Economic Perspectives* 5 (1991): 163-170, and Ronald H. Linden, "Socialist patrimonialism and the global economy: the case of Romania," *International Organization* 40 (1986): 347-380.

[4] *BBC Magazine*. See, also, BBC News, "EU Commission chides Romania over state corruption," July 18, 2012.

[5] Cited in Palko Karasz, "Romania Changes Course on Renewable Energy," *New York Times*, May 21, 2013.

policy agendas of respective economic and environmental actors, both global and domestic?

The answer is structured in four parts. First, what does Romania's present and recent past tell us about her future economic potential? Second, what role can and should the global investment community play in growing the Romanian economy? Third, which dark policy clouds threaten to derail Romania's economic advancement and her relations with Western nations, such as the United States? The tangible threat to Romania's national interest is illustrated by examining the current controversy over the economically game-changing gold mining project in the Roşia Montană region of Transylvania.

Fourth, the paper describes the stark choice faced by Romanian policymakers today and in the coming months and years. It is a choice between two distinctive policy paths. The first path is the one to be taken by a country seeking to establish itself as a Balkan tiger. It is a path that leads to a modern, transparent political culture; a prosperous nation built upon environmentally sustainable economic foundations. The second path leads to the status and circumstance of a Balkan backwater: an anachronistic, corrupt political establishment 'leading' an economically impoverished populace.

GOOD NEWS IS THE BAD ROMANIAN NEWS IS (MOSTLY) WRONG

In Western nations, the conventional wisdom about Romanians is that they are an impoverished people living in an economically backward nation. However, in macroeconomic terms, Romania has made significant advances, especially in recent years. It is equally true that, in microeconomic terms, Romania still has a great deal yet to accomplish, as millions of individual lives require the opportunity for tangible, long-term improvement.

On July 11, 1997, Bill Clinton made the first visit of an American president to a free and democratic Romania. The largest Balkan country, Romania is located in southeastern Europe, on the western shore of the Black Sea, bordering Bulgaria to the south, Moldova and Ukraine to the northeast, and Hungary and Serbia to the west (see Figure 1 below). She joined NATO in 2004 and became an EU member in 2007. The EU opens its labour market to Romania on January 1st, 2014.[6]

Figure 1. Romania and Her Neighbors.

A decade ago, post-communist Romania was considered to have had two economic transition periods: a gradual transitional phase from 1990 to 1996, followed by shock therapy since 1997.[7] At that time, it was reasonable, even necessary, for former Romanian finance minister, Daniel Daianu, to ask, does Romania have a functioning market economy? In 2003, Daianu posed the questions:

Do basic market institutions exist in Romania, and do free prices, for the most part, allocate resources? Clearly, they do; Romania has a functioning market economy. But major weaknesses are present, including lack of financial discipline, insufficient enforcement of market regulations, low transparency and stability of the regulatory framework, inefficient public administration, an unsatisfactory judiciary, and so on. Thus Romania still has quite a way to go in order to become a highly performing market economy.[8]

Since the time of Diainu's writing, "A vast process of redistribution and redefinition of property rights in Romania has, in just over a decade, led to the emergence of a form of capitalism that preserves some of the aspirations for social justice and equality of the previous era."[9] For example, January

[6] Mircea Geoana, "Romania: Euro-Atlantic integration and economic reform," *Fordham International Law Journal* 21 (1998).

[7] Gamal Ibrahim and Vaughan Galt, "Bye-bye central planning, hello market hiccups: institutional transition in Romania," *Cambridge Journal of Economics* 26 (2002): 105-118.

[8] Daniel Daianu, "Does Romania have a functioning market economy?" *Southeast European Times*, August 25, 2003.

[9] Liliana Pop, *Democratising capitalism? The political economy of post-communist transformations in Romania, 1989-2001*,

2001 saw the Romanian Parliament approve a law aimed at returning to its original owners' property nationalized during the Communist era.

Nevertheless, substantial progress in political and economic reform was achieved, albeit largely in the run-up to the country's accession to NATO and, in particular, the EU. The EU required Romania to meet stringent economic targets, which were the catalyst for a decade of improved policymaking, as free market-oriented reforms propelled the country from an economic also-ran to economically competitive in a remarkably short period of time.

Romania experienced phenomenal GDP growth of an average 6.8 percent from 2004 to 2008. As Heritage Foundation researchers observed, "Geostrategically positioned on the Black Sea, Romania has diverse energy resources and a productive agriculture sector. Macroeconomic improvements…have spurred the growth of the middle-class and helped to reduce poverty."[10] After years of impressive growth, Romania was hit very hard, albeit later than most other countries, by the global financial downturn of 2008.[11] When capital inflows suddenly dried up in 2008, the Romanian economy braced itself for a hard landing. For example, real GDP shrank by 7.1 percent in 2009.[12]

In 2010, she implemented sweeping austerity measures demanded in an International Monetary Fund-led rescue package worth €20 billion. The IMF was particularly concerned about the country's bloated and inefficient state sector. Consequently, the pay of state employees was reduced by 25 per cent and pensions and unemployment benefits were reduced by 15 per cent.[13]

Manchester University Press: Manchester, 2006.

[10] Heritage Foundation, *2013 Index of economic freedom*, Washington D.C., 2013.

[11] See, for example, Andreea Raluca Voicu, Stefan-Alexandru Ionescu, and Ionut Cristian Voicu, "The impact of the international economic crisis on the monetary policy," *Recent Advances in Applied Mathematics* (2010): 4.

[12] Jelena Vukotic, "Romania: Not a favored destination for capital flows," Roubini Global Economics, October 29, 2010.

[13] See, Daniel J. Mitchell, "The next Ronald Reagan?" CATO Institute, May 12, 2010.

The Romanian economy is now dominated by the private sector and open to international competition. Having returned to modest growth, today Romania's economy is growing faster than either the United States or the United Kingdom.[14]

Prior to the global financial crisis, Romania introduced two controversial, yet very important, free-market reforms that have benefited her economy in the short term while establishing a firm foundation for long-term economic prosperity. These reforms are, first, a flat tax on personal and corporate income and, second, private retirement accounts.

Writing in 2007, the CATO Institute's Daniel Mitchell explained that, "Romania's flat tax is generating…huge increases in tax revenue. Income tax collections jumped 44.7 percent in 2005, the year the flat tax was introduced. (Sadly, the increased revenue isn't keeping pace with Romanian government spending; as the country works to meet the various conditions for EU membership, its budget deficit is growing, which has led to complaints from Brussels.)"[15] Mitchell also noted that:

> [T]he high-tax nations that dominate the EU are complaining about Romania's "harmful tax competition." A Hungarian news service reports: EU Monetary Affairs Commissioner Joaquin Almunia said last year that budget revenue as a proportion of GDP was lower than in any EU nation... Economic growth, which the government has estimated at about 8% last year from 4.1% in 2005, also stimulated revenue collection, the finance ministry said…Income tax collection rose 44.7% to 9.8 billion lei ($3.8 billion). Romania has said income tax revenue has consistently increased since January 1, 2005, when it introduced a flat tax of 16% on corporate and personal income, the lowest in Eastern Europe. It replaced a corporate tax rate of 25% and a personal income tax rate of as high as 40%.

Later in 2007, Mitchell discussed the privatization of the retirement system in Romania. As he explained, Romania had then-recently joined a growing club of forward-thinking nations that has decided to address the demographic pressure on state budgets through privatization:

[14] *BBC Magazine*.

[15] Daniel J. Mitchell, "Flat tax in Romania," CATO Institute, February 9, 2007.

> The system eventually will permit workers to put six percent of their income in personal accounts. Under a new system launched last month, more than 3 million Romanian workers under 35-years-old must opt for one of 14 competing private pension funds before January 17th, 2008. Those ages 35 to 45 can also decide to join one of the private funds. Starting in 2008, 2% of every worker's general income will be redirected from the state budget to the chosen private fund. This contribution will gradually increase to 6% by 2015, and the current 9.5% social security contribution to the state system will diminish accordingly.[16]

The Economist recently reported that Romania's 21.4 million population now enjoys a Gross Domestic Product per capita of $8,070, which is a significant increase over the $7,225 GDP per capita of a few years ago.[17] With solid annual GDP growth, low inflation, and a budget deficit that, at 2.7 percent of GDP, is the envy of much of the EU, Romania's current economic situation is both vastly improved over recent years and, critically, has established an impressive foundation upon which her economic future may rest. It is to her considerable economic potential that we now turn our attention.

BALKAN TIGER?

ASSESSING ROMANIA'S ECONOMIC POTENTIAL

Due to the considerable progress made in recent years, Romania's economic outlook is very encouraging, according to Greg Templeton of the Emerging Markets Group. Romania has begun to turn heads by restoring macroeconomic stability. For example, government spending, at 36 percent of GDP, is sound compared with many European and emerging economies. It appears that Romania will surpass the EU's average economic growth in 2013 and her economy is set for even stronger growth in 2014.

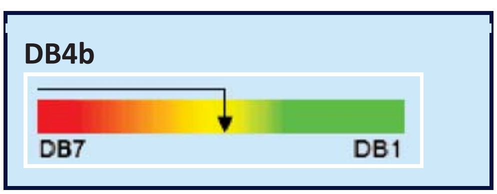
The leading economic analysts at Dun & Bradstreet find that Romania's economic outlook has improved substantially over the course of 2013. At the end of June, the IMF cited Romania's progress in reducing the

[16] Daniel J. Mitchell, "Romania joins the 31-nation private retirement account revolution," CATO Institute, October 18, 2007.

[17] *The Economist*, *The world in 2013*, November 21, 2012.

fiscal deficit, low core inflation, and the stabilization of the economy as their main reasons for concluding a new €3.6 billion loan agreement supplemented by funds from the EU and the World Bank. Dun& Bradstreet recently upgraded Romania's risk rating on very much the same grounds (see Figure 2 below). With industrial production up by 5.4 percent year-on-year and exports up by 6 percent in the first half of 2013, Romania has begun an export-led recovery. Even the construction sector, which has been in a continuous decline since the domestic real estate bubble burst in 2008, is improving.[18]

Figure 2. Dun & Bradstreet's risk analysis for Romania.



Three months ago, Romania's National Economic Projections Board projected Romania's 2013 GDP growth at 1.6 percent.[19] However, in a recent report the Economist Intelligence Unit forecast 2.4 percent growth for the Romanian economy this year, boosted by a bumper harvest and an increase in exports to non-EU member states. Romania's growth rate in the first quarter of 2013 was the third-fastest in the EU. Revealingly, the EIU expects economic growth to speed up to near 4 percent annually in the period from 2014 to 2017.[20]

There are several substantive reasons to conclude that the country's economic future is comparatively bright.[21] Not least among them is the IMF's continuing encouragement of the Romanian government's commitment to reduce the state's role in the domestic economy.[22] This

18 Dun & Bradstreet, *D & B country risk indicator, Romania*, August 2013. Note: The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

19 Data cited in Agerpres.ro, "BNR's Isarescu: Better for Romania's economic growth to be 4 pct per annum if this is its potential," July 24, 2013.

20 Economist Intelligence Unit, "Romania economy: Growth outlook improves," August 1, 2013

21 See, for example, the discussion in Liam Lever, "2013 outlook: Romanian currency strengthening, encouraging economic prospects," www.romania-insider.com, January 21, 2013.

22 Monica Apostol, "Positive changes in Romania's economic outlook," NineOclock.ro, January 21, 2013.

year, a privatization program to transfer notoriously inefficient state-owned enterprises to private ownership and management has been a priority of Ponta's government. For example, the government is currently in the process of privatizing part of the national railway company. Lucian Anghel observes that:

> [T]he sale of minority stakes in several state-controlled entities is finally shifting from words to action. In April 2013, Romania raised over €72m by selling a 15 per cent stake in Transgaz, the high-pressure gas transmission company…Next on the block was a 10 per cent stake in power generator Nuclearelectrica, on offer from September 9. Nuclearelectrica operates the country's sole nuclear power plant, in Cernavoda, south-east Romania, which produces almost 20 per cent of the country's electricity. The Nucelarelectica sale…is to be followed next month by what many see as an even juicier offering, for 15 per cent of Romgaz, the natural gas producer…These offerings mean that strategic state companies are finally opening up to external investors. This will bring in new capital, hopefully helping these entities to become more efficient, which in turn will help Romania as a whole become more competitive.[23]

The economic benefits of these reforms should reverberate throughout the Romanian economy for decades to come.

More immediately, Konieczny notes the, "[n]umbers clearly show that the country's macroeconomic situation is very sound. Romania has low public debt to GDP (33.3 percent) and well below the EU average of 82.5 percent (See Figure 3 below). The country also has large foreign reserves and has managed to keep the budget deficit [which is less than a third of what it was in 2009] and the current account deficit [which had reached 14 percent of GDP] under control."[24]

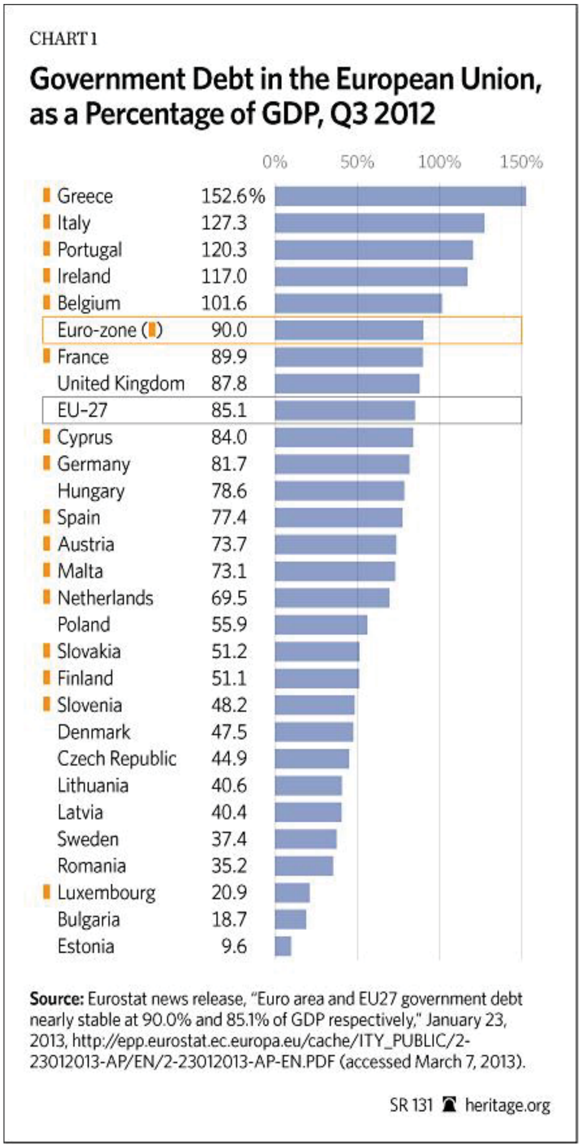
In the first seven months of this year, the budget deficit amounted to just 0.98 per cent of GDP, against the annual target of 2.3 per cent, and the current account was in surplus, an uncharacteristic of the Romania economy.[25]

[23] Lucian Anghel, "Romanian privatisations to boost equity market," *Financial Times*, September 23, 2013.

[24] Quoted in Apostol.

[25] Anghel.

Figure 3. Government Debt (% of GDP)



Source: Heritage Foundation, *2013 Index of Economic Freedom*, Washington D.C., 2013.

Romania also has an advantage over similar countries in the region because of its relatively low (and flat) tax levels, as discussed earlier. Konieczny forecasts that, "If Romania's solid fundamentals are coupled with the government's desire to implement reforms [especially in the key energy and transportation sectors] we believe the country has the potential to end up being among the leaders of economic growth in the European Union." In addition, according to the Central and Eastern Europe Development Institute, annual inflation has stabilized and recently set a new post-communist low.

The Central and Eastern Europe Development Institute's forecasts for GDP growth, annual inflation, the budget deficit, unemployment, and the current account balance are detailed in Table 1 below.

Table 1. Romania's Economic Performance, 2010 to 2014.

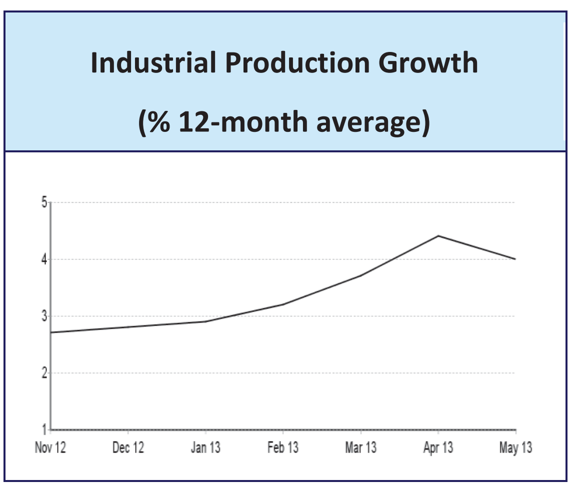
	2010	2011	2012	2013f	2014f
Real GDP growth (%)	-1.1	2.2	0.7	2.7	3.0
Inflation % average	6.1	5.8	3.4	3.8	2.7
Deficit (% of GDP)	-6.8	-5.6	-2.9	-2.4	-1.0
Unemployed (%)	7.3	7.4	7.2	7.0	6.5

Source: Central and Eastern Europe Development Institute.

Noteworthy is the fact that Romania's International Labor Organization-based unemployment rate is significantly lower than the average found among the EU27. Furthermore, Romania's unemployment rate last year was lower than in 20 of the EU 27 countries.[26] Equally impressive is the forecast that unit labor costs will register negative growth in 2014 and 2015, as the projected increase in productivity will be higher than the increase in employee wages.

Figure 4 below documents the growth in Romanian industrial production from late 2012 through mid-2013.

Figure 4. Romanian Industrial Production



Source: Central and Eastern Europe Development Institute.

[26] Source: Eurostat data including ILO definition.

Table 2 below details additional economic indicators, such levels of debt, exports, imports, and direct investment.

Table 2. Romanian Economic Indicators, 2010 to 2013.

Indicators	2010	2011	2012	2013 (forecast)
GDP	-1.7	2,5	0,5	1,7
Gross fixed capital formation (real, year-on-year, %)	-13,1	6,4	3,2	1,8
Industrial output (real, year-on-year, %)	4,1	5,6	0,4	2
Consumer prices (yearly average)	6,1	5,8	3,1	3,8
Unemployment average (yearly average)	7,3	7,4	7,3	7
Merchandise exports (EUR millions)	37,37	45,04	48,08	56,49
Merchandise imports (EUR millions)	44,97	52,56	55,87	64,92
Current account (% of GDP)	-4,4	-4,4	-3,9	-3,8
DGI (Inflow, % of GDP)	1,8	1,4	1,1	1,3
Budget balance (% of GDP)	-4,1	-3	-2,5	-2
Gross foreign debt (% of GDP)	74,5	72,2	73,1	71,6
Average exchange rate: RON/EUR	4,21	4,24	4,39	4,32

Source: UniCredit Bank Austria AG; UniCredit Research.

Although it is one of the poorer countries in the EU, according to Jeffrey Franks, a recent IMF mission chief for Romania, the country "stands a very good chance of being able to grow more quickly than the EU average in the coming years, which will help it catch up with living standards in the richer member countries."[27]

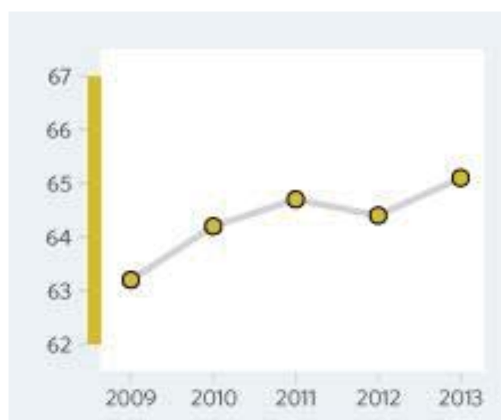
[27] Quoted in *IMF Survey Magazine*, "Romania poised for growth," March 5, 2011.

Romania is increasingly viewed by Western researchers as a better bet for the global investment community than many of her European neighbors. With one of the best performing economies in the EU, Gunter Deuber, the head of Central and Eastern European research at Raiffeisen Bank International, recently noted that Romania is a star performer among its regional peers, and these "positive developments in Romania are turning the country into something of an investor darling."[28]

The 2013 Index of Economic Freedom, published annually by the *Wall Street Journal* and the Heritage Foundation, evaluates countries in four broad areas of economic freedom: rule of law; regulatory efficiency; limited government; and open markets. Based on its aggregate score, each of country graded was classified as "free" (i.e. combined scores of 80 or higher); "mostly free" (70-79.9); "moderately free" (60-69.9); "mostly unfree" (50-59.9); or "repressed" (under 50).

Romania's economic freedom score is 65.1, making its economy the 59th freest in the 2013 Index (see Figure 5 below). Its score is 0.7 point better this year, with improvements in government spending and labor freedom outweighing a modest decline in freedom from corruption. Romania is ranked 28th out of 43 countries in the Europe region, and its overall score is higher than the world average.[29] Comparable progress is similarly documented in the seminal CATO Institute publication, *Economic Freedom of the World 2013*.[30]

Figure 5. Romania's Economic Freedom Score, 2009-2013.



Source: Heritage Foundation.

[28] Gunter Deuber, "Romania – so far, so good but more must be done," *Financial Times*, August 2, 2013.

[29] Heritage Foundation, "Europe narrows gap as No. 2 in economic freedom," Washington, D.C., January 10, 2013.

[30] Cato Institute, *Economic freedom of the world 2013*, Fraser Institute: Vancouver, 2013. http://www.cato.org/pubs/efw/efw2013/efw-2013-chapter-2.pdf

According to the Heritage Foundation:

> The global financial and economic turmoil forced the Romanian economy to endure sharp structural adjustments. Despite the challenging political environment, Romania has undertaken needed reform measures that include spending constraints and labor market reforms. Recovering from the severe shock of the crisis, it continues to place a high priority on restoring fiscal sustainability and strives to enhance overall economic competitiveness.

Romania's ongoing transition to a more resilient market-oriented economy has also been facilitated by its adherence to maintaining openness to global commerce and the efficiency of business regulations that promote entrepreneurial dynamism. Nonetheless, perceived corruption, exacerbated by a relatively inefficient judicial system, undermines the foundations of economic freedom and undercuts the prospects for dynamic long-term economic expansion.

The Heritage Foundation also praises the country's flat tax rates on personal and corporate income and observes that regulatory efficiency is improving, "as the processes for business formation and operation have been streamlined. Launching a business takes six procedures and 10 days, although completing licensing requirements continues to be time-consuming. Efficient bankruptcy procedures and rules have not been fully implemented."

According to the IMF, Romania has a number of strengths on which she could capitalize should the external climate improve, including a large domestic market, a diversified economic base, and low levels of debt.[31] In that vein, the privatization of state-owned enterprises is essential to the realization of Romania's economic growth and employment potential.

However, some influential Western voices have been raised concerning the future of economic reforms. Among them is Jeffrey Franks, who cautions that, "There still are major efforts that are needed to continue the process of structural reform so that Romania can take advantage of its growth potential."[32] Furthermore, domestic investment is simply too low to support

[31] Andrew MacDowall, "Romania's new IMF agreement," *Financial Times*, August 1, 2013.
[32] Quoted in *IMF Survey Magazine*.

long-term growth.[33] Emerging markets are experiencing a surge in capital flows. Yet, Romania is not benefiting as much as its emerging market peers.[34] And, disturbingly, the chances for DGI to grow by 2017 are slim, EIU analysts have claimed.

The EIU's view is echoed by the Heritage Foundation, which warns that global "investment is encouraged officially but discouraged in practice by regulatory inconsistency, unpredictability, and a lack of transparency." Therefore, according to Lucian Anghel, chairman of the Bucharest Stock Exchange, extra focus and thought must also be given to attracting more global investment.[35] The next section of this report focuses upon the vexing, critical question of DGI.

[33] Leyla Cheamil, "Romania's economic prospects," Radio România Internaţional, July 22, 2013.
[34] Vukotic.
[35] Anghel.

ROMANIA'S PLACE AT THE ECONOMIC TABLE – THE INVESTMENT FACTOR

Romania liberalized her investment laws through several pieces of legislation enacted in 1991, 1992, 1997, and 1998, respectively.[36] As Romanian academic Nicolae Marinescu recounts, the expectations about transition economies were extremely high after the fall of the communist regime.[37] However, DGI flows to Central and Eastern European countries turned out to be rather low.

According to the Organization for Economic Cooperation and Development (OECD), annual wages in Central and Eastern European countries remain on average half of those in Germany, France, and the UK. Yet, despite this huge advantage, and despite the large size of the market, access

[36] For the historical background, see R.F. Mikesell, "Foreign investment in the petroleum and mineral industries," *International Executive* 13: (1971) 3-6, and Christopher Costa, "The tie that binds: The story of foreign investment law in Romania," *Journal of International Legal Studies* 105 (1998).
[37] Nicolae Marinescu, "The evolution of foreign direct investment in Romania."

to natural resources, a well-qualified workforce available at low cost with good language skills, industrial diversity, and privatization opportunities, Romania continues to account for only a modest share. To date, Romania's notable comparative advantages have been the least developed by the global investment community among countries in the region. The global financial crisis hit investment in Romania very hard and DGI inflows remain weak.[38] Romania ranks just 10th in Europe and only 4th in Central and Eastern Europe (CEE) as the number of jobs created as a result of foreign investment projects carried out in the country in 2012, according to a study by Ernst & Young. Last year, Romania was home to a mere 7,114 jobs generated by foreign investment. Due to the low level of DGI inflows to the country, the positive impact on Romania's economic performance has been limited.

Over the past two decades, the potential advantages for attracting DGI were overshadowed by negative elements, such as mistakes made in conducting reforms, legislative and institutional instability, and bureaucratic corruption, all of which provoked mistrust with the global investment community.

According to Marinescu's research, the most frequently cited reason for the low level of DGI in Romania is the dazzling and contradictory legislative and institutional framework, which has been subject to many changes. Consequently, global investors generally have adopted a wait-and-see approach, especially as property rights have not been well-defined. Furthermore, until very recently Romania's potential for receiving DGI has been insufficiently promoted at the international level.

GLOBAL INVESTMENT IS GOOD

The first comprehensive analysis of the effects of DGI was published in 1958 regarding the United Kingdom.[39] Since then, similar investigations have been undertaken for

[38] Actmedia.eu, "Romania's economic outlook, subject of debate at *Economist* Conferences on Thursday," November 25, 2011.

[39] John H. Denning, *American investment in British manufacturing industry*, George Allen & Unwin: London, 1958.

almost every country in the world, including Romania.

Researchers have found that there are many ways in which DGI[40] benefits the host country.[41] According to Magnus Blomström, "The possibility of getting access to modern technology is perhaps the most important reason why countries wish to attract foreign investment. By inviting multinational corporations, host countries may get access to technologies that they cannot produce by themselves."[42] He finds that:

> Foreign direct investment can also lead to indirect productivity gains for host country firms through the realization of external economies. Generally these benefits are referred to as "spillovers"…The general picture that emerges from the empirical spillover literature is that such effects exist, and that they may be quite substantial both within and between industries…In sum, there is strong evidence that multinational firms have contributed to a geographical diffusion of technology end that active host countries can get access to modern technology via foreign direct investment.

Some of the other well-documented contributions of different types of DGI to the upgrading of competitiveness of host countries include: natural resource-seeking [provides complementary assets (technology, management and organizational competence); provide access to foreign markets; raises standards of product quality; may foster clusters of resource-based related activities]; stimulates local entrepreneurship; and provide new finance capital.

World Bank researchers have found that many developing countries now actively solicit foreign investment, offering income tax holidays, import duty exemptions, and

[40] DGI is a composite bundle of capital stock, know-how, and technology, and can augment the existing stock of knowledge in the recipient economy through labor training, skill acquisition and diffusion, and the introduction of alternative management practices and organizational arrangement.

[41] For earlier, fuller discussions, see R.D. Robinson, *Direct foreign investment: costs and benefits*, Praeger: New York, 1987; P.M. Artisien, M. Rojec, and M. Svetlicic, *Foreign investment in Eastern and Central Europe*, St. Martin's Press: New York, 1993; and Stephen P. Ferris, G. Rodney Thompson and Calin Valsan, "Foreign direct investment in an emerging market economy: The case of Romania," *Eastern European Economics* 32 (1994): 81-95.

[42] Magnus Blomström, "Host country benefits of foreign investment," National Bureau of Economic Research, Working Paper No. 3615, February 1991.

subsidies to foreign firms.[43] One reason for subsidizing these firms is the positive spillover from transferring technology to domestic firms. The former U.S. deputy assistant secretary of Defense for Asia Pacific Affairs, James Clad, has found that "direct foreign energy participation…can have a win-win impact, delivering economic reinvigoration and employment generation."[44] He argues that, for many countries:

> [T]he inefficiencies of this [state-owned energy giant] approach have simply become too burdensome, all the more so given the chance to replicate the U.S. shale revolution in South Texas and elsewhere in the world…Asian experience shows how a company's national flagship status can be preserved while building up global skills and venturing into international energy markets. Among many examples, Malaysia's Petronas and Vietnam's PetroVietnam have foreign partners in domestic operations; they are now fashioning joint ventures to develop rich shale deposits.

Clad persuasively contends that reaping the 21st century's energy "revolutions requires a liberalized environment, whatever the country. Sovereign concerns can easily coexist within a joint venture environment maximizing imported technologies."

DGI promotes economic growth by increasing the volume of investment and/or its efficiency. Economists Xiaoying Li and Xiaming Liu investigated whether DGI affects economic growth based on a data for 84 countries over the period 1970–99. They found that, over the last two decades, DGI and growth have reinforced each other in the world. They found that DGI not only directly promotes economic growth by itself, but also indirectly does so via its interaction terms. The interaction of DGI with human capital exerts a strong positive effect on economic growth in developing countries.[45]

Critically, DGI has a positive and significant impact on economic growth in both developed and developing countries.

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[43] Mona Haddad and Ann Harrison "Are there positive spillovers from direct foreign investment? Evidence from panel data for Morocco," *Journal of Development Economics* 42 (1993): 51-74.

[44] James Clad, "Mexico's energy market benefits with foreign investment," *Houston Chronicle*, September 19, 2013.

[45] Xiaoying Li and Xiaming Liu, "Foreign direct investment and economic growth: An increasingly endogenous relationship," *World Development* 33 (2005): 393-407.

Prakash Loungani and Assaf Razin find that, "Both economic theory and recent empirical evidence suggest that DGI has a beneficial economic effect on developing host countries." Therefore, they argue that, "Policy recommendations for developing countries should focus on improving the investment climate for all kinds of capital, domestic as well as foreign."[46] David Figlio and Bruce Blonigen's study of investment's impact upon local communities unearthed the important finding that foreign investment raises local real wages much more than does domestic investment.[47]

DGI may promote economic development by helping to improve productivity growth and exports in the multinationals' host countries.[48] For example, DGI appears to have a positive and economically significant effect on the rate of labour productivity growth.[49] The analysis by economist Beata Smarzynska Javorcik, based on firm-level data from Lithuania, also produces evidence consistent with positive productivity spillovers from DGI. The data indicate that spillovers are associated with projects with shared domestic and foreign ownership.[50] Girma et al.'s work indicates that foreign firms do have higher productivity than domestic firms and they pay higher wages.[51] Tellingly, Steven Globerman's research found that labor productivity differences are positively related to the amount of foreign ownership in an industry.[52]

Furthermore, the interaction term of DGI and secondary school attainment has a significant and positive impact on economic

46 Prakash Loungani and Assaf Razin, "How beneficial is foreign direct investment for developing countries?" *Finance & Development* 38 (2001).

47 David N. Figlio and Bruce A. Blonigen, "The effects of foreign direct investment on local communities," *Journal of Urban Economics* 48 (2000): 338-363.

48 Magnus Blomström and Ari Kokko, "How foreign investment affects host countries," World Bank, Policy Research Working Paper No. 1745, Washington D.C., March 1997.

49 M. Ramírez, "Foreign direct investment in Mexico: A cointegration analysis," *Journal of Development Studies* 37 (2000):138-162.

50 Beata Smarzynska Javorcik, "Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages," *American Economic Review* 94 (2004): 605-627.

51 S. Girma, D. Greenaway, and K. Wakelin, "Who benefits from foreign direct investment in the UK?" *Scottish Journal of Political Economy* 48 (2001): 119-133.

52 Steven Globerman, "Foreign direct investment and 'spillover' efficiency benefits in Canadian manufacturing industries," *Canadian Journal of Economics* 12 (1979): 42-56.

growth. DGI also may lead to the establishment of local industrial sectors. These sectors may grow to the point where local production overtakes and forces out DGI plants.[53] Furthermore, DGI is positively impacts energy efficiency in the host country.[54]

Economists Garrick Blalock and Paul Gertlerb find strong evidence of productivity gains, greater competition, and lower prices among local firms in markets that supply foreign entrants,[55] which may constitute a justification for policy intervention to encourage foreign investment. The policy implications of this overview of global investment are clear: more investment in turn will promote further economic growth and enhance Romania's competitiveness.

How does Romania attract more investment? Romania possesses a strong economy; a solid, well-capitalized banking system; a stable currency; is one of the largest information technology producers in Eastern Europe; and is a major commercial market (the 2nd largest in Central and Eastern Europe). Accordingly, the government and the domestic business community should seek to position Romania as a regional investment hub that is both a welcoming and profitable destination for global investment.

As the problem for Romania is less its economic and cultural characteristics and more its political ones, without question the Ponta government's yeoman efforts to increase transparency and to engage in a more effective fight against corruption should increase confidence among global investors in the Romanian business environment.

[53] James R. Markusena and Anthony J. Venables, "Foreign direct investment as a catalyst for industrial development," *European Economic Review* 43 (1999): 335-356.

[54] Allen Blackman and Xun Wu, "Foreign direct investment in china's power sector: trends, benefits and barriers," *Energy Policy* 27 (1999): 695-711.

[55] Garrick Blalock and Paul Gertlerb, "Welfare gains from foreign direct investment through technology transfer to local suppliers," *Journal of International Economics* 74 (2008): 402-421.

DARK CLOUD – TODAY'S THREAT TO ROMANIA'S ECONOMIC FUTURE

"The received wisdom about Romania…is that their admission [to the EU] was premature," recently observed Dimitar Bechev, senior policy fellow at the European Council on Foreign Relations.[56] He was referring, as have many others, to Romania's ongoing reputation for political corruption and influence-peddling.

Since 2007, the European Commission has sharply criticised Romania for failing to root out corruption and political influence in its state institutions. The Commission's own opinion polling in Romania shows a strong majority of the domestic electorate backs the EU drive to improve the conduct of their own state institutions. Implementation of anti-corruption laws has "just started in some areas," the Commission complains. "The process is not yet sustainable and irreversible," it adds.

The Romanian political system is currently nearing the end of a very lengthy process that will inform the rest of the world whether she has sufficiently cleansed her political institutions that major economic development projects, for instance, may be judged solely on their technical merits. As researchers Allen Blackman and Xun Wu have found, the most important institutional barriers to investment are uncertainty associated with the approval process for DGI projects.[57]

The next section of this report is devoted to a real-time case study on the approval process for a state-of-the-art economic development project.

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56 Quoted in Stephen Castle, "As Croatia struggles, some wonder if it won entry to European Union too soon," *New York Times*, July 23, 2013.

57 Allen Blackman and Xun Wu, "Foreign direct investment in china's power sector: trends, benefits and barriers," *Energy Policy* 27 (1999): 695-711.

CASE STUDY –

ROSIA MONTANA

GOLD MINING PROJECT

Without question, the Roşia Montană mining project, located in a very poor village in a naturally wealthy environment in western Romania (see Figure 6 below), is a political test case for future domestic and international projects, such as shale gas exploration in the country.

On the latter, the U.S. Energy Information Administration estimates that Romania has sufficient recoverable reserves of shale gas to meet domestic demand for more than 100 years.[58] Earlier this year, Romania sensibly lifted a moratorium on fracking, the process of extracting shale gas.

[58] See John Aglionby, "Europe split on benefits of drilling for shale gas," *Financial Times*, June 27, 2013, and Christian Lowe and Radu Marinas, "Romania PM says spurning gold project would deter investors," September 25, 2013.

Figure 6. Roşia Montană Project

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Romania also has enormous reserves of gold. To develop them, it needs advanced technology and immense capital expenditure. The synthesis of gold reserves, advanced technology, and capital investment is occurring in Roşia Montană, which has been mined for more than 2,000 years, from the time of Julius Caesar to that of Ceausescu, and is the location of what are believed to be Europe's largest gold deposits.[59]

The mines were closed in 2006 in order for Romania to meet EU accession criteria that forbade state ownership of such projects. Centuries of inadequately regulated mining,

[59] *The Economist*, "Sleeping gold under the red mountain," August 1, 2013.

most recently during the Soviet era, resulted in significant environmental damage. Since the mines closed, over 200,000 jobs have been lost. The subsequent widespread poverty means the region's historic monuments and cultural heritage have been left unprotected and are consequently in a state of serious decay.

Plans to start gold mining in Roşia Montană have been discussed since the 1990s. Canadian mining company Gabriel Resources launched an ambitious plan for the area in conjunction with its domestic partner, Roşia Montană Gold Corporation (RMGC). Gabriel Resources won a mining license 14 years ago but has been waiting ever since for crucial permits to initiate its plans to extract more than 300 tons of gold and 1500 tons of silver from Europe's largest opencast gold mine.

When RMGC began the project, regional unemployment was over 90 percent; today, it is 65 percent. This massive decline in unemployment is a direct result of RMGC's employment of local workers. Prior to construction, more than 600 local businesses currently serve as suppliers and contractors to RMGC. The draft law grants the government a royalty rate of 6 percent and increases its stake in the project to 25 percent over the 16-year lifetime of the project.[60]

The Roşia Montană mine will contribute over $5.2 billion to the Romanian economy:

- $2.4 billion – direct benefits to the Romanian State in the forms of dividends, salary taxes, royalties, and other duties.

- $2.95 billion – spent in Romania on human resources, electricity, transportation, construction, process reagents, spare parts, and other related activities.

Overall, the Roşia Montană mine has the potential to add more than $24 billion to Romania's GDP over a three-year construction period and 16-year mine life.[61]

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[60] *The Economist*, "Romanian politics: Golden profits v environmental concerns," September 6, 2013.

[61] Analysis conducted in 2010 by Oxford Policy Management that applied the standard

Perhaps, more important still, the mine will be a standard bearer for a revitalized mining sector, highlighting that Romania is "open for business," encouraging local and other overseas investors to seek opportunities in Romania, and boosting growth in one of the poorest member states of the EU.

The project is a partnership between Gabriel Resources and the Romanian government. After many years of government inactivity on this file, the political stability that resulted from the Ponta government's electoral majority in 2012 gave new momentum to the project. Gabriel Resources' preparatory work has included the following: employing over 500 locals; opening a regional mining museum; establishing a resettlement village for 125 relocated homeowners; restoring 110, and performing maintenance on an additional 160, houses; and archeological work that has opened underground Roman mining galleries.

economic multiplier effect to calculate downstream benefits.

RMGC so far has succeeded in reaching buy-out agreements with 98 percent of local homeowners.[62] The mining project will create 2,300 jobs during construction and a further 900 once the mine is operational.[63] Also, landmark buildings will be restored for tourism, most historical houses will be renovated, and many of the Roman galleries also will be restored for tourism. In environmental terms, the company has budgeted millions of dollars so that the mining operation will clean the currently acidic waters, while the mining pits will be closed and filled or turned into lakes.

Critics seek to dismiss RMGC's explicit guarantees of the project's environmental sustainability as simply not worth the corporate paper they are written on. However, one may possess a highly jaundiced, even cynical, eye regarding the private sector's commitment to sound environmental management and nonetheless support this project on environmental grounds. The reason is that for this project to have reached this

[62] *The Economist*, "Sleeping gold under the red mountain".

[63] Neil Buckley, "Political protests take the shine off Romanian gold project," *Financial Times*, September 19, 2013.

preliminary stage, then for the mining phase to be initiated, and for the mining operation to run its due course, RMGC must comply fully with stringent EU requirements to safeguard the Roşia Montană environment.

Whatever one's view on Brussels' accumulation of powers and overall regulatory reach, one fact is established: the EU has ensured and shall continue to ensure that RMGC lives up to its explicit environmental commitment. In fact, the regulatory bar has been set so high in environmental terms that an identical project proposed in another jurisdiction renowned for environmental protection, such as Sweden or Finland, for example, would receive rapid approval, such are the guarantees in place.

Given that, in economic and environmental terms, the mining project is clearly a win-win scenario, it is obvious why the project is so popular with the Romanian people, especially those most directly impacted by the project, itself. A local referendum held on Election Day, December 9, 2012, asked residents of the project location whether they supported the Roşia Montană project. The wider local area voted 62.5 percent in favour of the resumption of mining. In the commune of Roşia Montană, itself, support for new mining reached 79 percent. Opinion polls recently conducted for the national government found overwhelming national support for the project.

On August 27, 2013, the national government announced its official support for the project and passed the bill to Parliament for debate and final approval. Parliament subsequently established a special committee to investigate the draft law and "facilitate a decision" by lawmakers. The official parliamentary vote to approve or halt the project will be made in the next few weeks.

The government's August 27 decision prompted protests across the country. The $2 billion project to create Europe's biggest gold mine is being threatened by expertly orchestrated street demonstrations and the country's labyrinthine politics – despite it being the centerpiece of the government's investment program.[64] As Neil Buckley

[64] Buckley.

noted recently in the *Financial Times*, the Roşia Montană project is extremely important to the economy of a country that has struggled to attract investment since the 2009 recession. If the parliamentary decision is a thumbs-down on the project, he warns, investors will think long and hard before committing big sums to Romania in the future.[65]

FACTS BE DAMNED! THE CAMPAIGN TO STOP THE ROSIA MONTANA MINING PROJECT

There are two good reasons – one substantive and one political – why the noisy, determined campaign to halt the Roşia Montană gold-mining project merits analysis. The substantive reason is that the intellectual objections to the project serve as a timely reminder of the power of emotional appeals and uninformed good intentions to rouse the ire of the most (if not necessarily best) educated members of a society. The political reason is that the anti-Roşia Montană campaign demonstrates the astounding ability of the international environmental movement and its external financial underwriters to orchestrate and choreograph domestic opposition to an environmentally sustainable economic development project of certain and considerable value to the people of Romania.

The project to expand and modernize the Roşia Montană mine has been held up for more than a decade by a debate over its environmental impact. Self-described environmentalists claim the mining would spoil mountain peaks and are especially concerned about the use of cyanide in the extraction process that would risk contaminating ground water.

Currently, the Roşia Montană project area is the farthest imaginable from a pristine natural environment. In truth, the region's environmental status quo is very poor. The underpublicized irony is that, rather than damaging it, this project will be very good for the deeply neglected local environment.

[65] Buckley.

In fact, each of the protesters' environmental concerns have already been addressed. For example, a 2010 European Commission report that drew upon independent experts found "cyanide treatment is the chemical method of choice in the gold mining industry all over the world, with more than 90 percent of the 2,500 tons of gold produced each year being extracted with this technology."[66] Such sophisticated modern technology will enable the project to produce waste water with cyanide concentrations lower than those found in an everyday cup of coffee.[67] The cyanide levels around Roşia Montană will be three times lower (3.5 parts per million) than those found in comparable projects in Finland and Sweden (10 parts per million), two countries with peerless records regarding the safe and responsible employment of cyanide and similar toxins.

Unfortunately, the battle over Roşia Montană has never been a competition between competing sets of facts and arguments. Rather, from the very outset this has been "strictly a political fight,"[68] according to Bogdan Chrieac, one of Romania's leading political analysts. He finds no empirical substance to the anti-mining project campaign, as opponents lack either a convincing economic or a technological argument. In contrast, Chrieac persuasively argues that the Roşia Montană project is merely collateral damage incurred as a result of a much larger political battle playing out between the country's political leaders.

Does the Roşia Montană project simply find itself in the wrong political space at the wrong time? Certainly, it is hard otherwise to explain the fact that no more than 25 miles from Roşia Montană there is another project underway that employs the very same technology but has not encountered any serious political opposition.

Within Romania, herself, there are a comparatively small number of dedicated, well-intentioned, and deeply passionate opponents of the Roşia Montană project. Their demonstrated ability to organize

[66] Quoted in Lavinia Serban, "Deputy PM Dragnea would vote for the Roşia Montană project," *Nine O'Clock*, October 3, 2013.
[67] Buckley.

[68] Interview with the author, Bucharest, October 4, 2013.

effective protests, capture domestic and international media attention, and impact the political process to the extent that the mining project has been (at a minimum) delayed, reflects a great deal more than their commitment to the environmental cause.

Rather, their campaign's success to date is the result of a highly coordinated, extremely well-funded campaign between some of the leading international environmental non-governmental organizations (NGOs), such as Greenpeace, Earthworks, and Friends of the Earth, and many members of these NGOs respective professional cadres of activists and agitators. Hence, for example, their ability to produce slick, sophisticated videos and presentations that misinform the public, but do so in an emotive and highly effective fashion.[69]

The key, long-term financial backer of the protest campaign is George Soros, the Hungarian-born billionaire investor, who is well-known to students of American politics for his extensive support of left-wing and liberal political causes. His organizations, including the Soros Foundation Romania, over the years have provided anti-Roşia Montană project groups, such as the Open Society Institute, the CEE Trust, the Foundation for Civil Society Development, and the Foundation for Partnership, with several million dollars in funding.[70]

Travelling around Romania, one cannot avoid open discussion regarding the Soros factor, as residents express their anxieties over one outsider's disproportionate influence upon their own country's political decision-making process. The streets of Bucharest are also awash in rumor concerning not only Soros' role, but that of the Russian government and Prime Minister Ponta's political enemies in encouraging and sustaining the antis and their campaign.

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[69] See, for example, http://www.youtube.com/watch?v=zMvnZnlMzbg

[70] See, for example, the Soros Foundation Romania's 2007 annual report. See, too, *Evenimentul ZIlei*, "Though George Soros' team has fallen apart, he is being served in University Square," September 22, 2013; Obiectiv.info, "3 million from Soros against Roșia Montană, September 21, 2013; and RTV, "George Soros accused to be behind protests against Roşia Montană Project," September 10, 2013.

BALKAN BLAIR?

THE PONTA FACTOR

The political evolution of the Roşia Montană project is a strong piece of evidence in favor of the argument that who occupies the post of prime minister in a country *really* matters.

Prime Minister Ponta currently represents the unwashed majority of the Romanian electorate. That is, his appeal is comparatively limited among Bucharest and Cluj elites, the intelligentsia, and the professional student class. Instead, he finds considerable political support within the great center of Romanian politics, among those ordinary, 'unsophisticated' Romanians focused upon keeping their jobs, paying their bills, raising their families, and observing their faith.

He trumpets his self-described "Romanian model of crisis management and post-crisis rebuilding." Ponta believes:

> Europe needs to establish a new model of society and economy. A model characterised by political stability – based on democratic solutions and safeguarding of the rule of law, social justice – based on the strengthening of the social state, as well as economic stability and growth – based on discipline and sustainability.[71]

What is Ponta's economic approach? His policy vision – his "Plan for Romania" – confidently declares that, "Romania is ready for business!" To that end, he advocates a model of economic growth based on "more jobs, investment, fewer taxes, and less bureaucracy." His model "successfully combines fiscal discipline with wisely stimulating growth, attracting investment and creating jobs, against a backdrop defined by social justice, equity and solidarity."[72]

The shorthand version of his policy vision is long on privatization, balanced budgets, disciplined government spending, and the liberalization of prices. He seeks to continue selling minority stakes in state-owned companies. His rationale is that private investors will improve the management of these companies and provide capital for

[71] Office of the Prime Minister, "Strategic investments to generate tens of thousands of jobs in 2013," Bucharest, January 2013.
[72] Office of the Prime Minister.

upgrades. It is estimated that more efficient energy and transport sector companies, alone, would add an additional one percent to Romania's annual GDP.[73]

Ponta's understanding of contemporary global economics is readily evident in his articulate campaigning for a much higher level of DGI in his country. He appreciates that, if Romania is to possess a 21st century-style economy, she must embrace the challenge of international competition and attract far greater amounts of global investment. He is seeking to turn "the Romanian state into a trustworthy partner for potential investors."[74]

While his predecessors inadvertently sold Romania short on the global investment stage, Ponta continues to be very active in personally promoting the attractiveness of his country as an investment destination. Last fall, for example, he held the first of many meetings with the executives of leading multinational corporations. When he visits other European countries, he usually meets with local business leaders to explain that Romania is a trustworthy investment, both economically and politically.

Shortly, he will be in Washington during which time he will explain Romania's comparative advantages to some of the leading American energy companies. Ponta's is correct when he states that Romania would send a catastrophic message that she is not a trustworthy partner, that the country is not open for investment, if she rejects the Roşia Montană gold mining project.[75]

Outside observers with Romania's best interests in mind should hope that Prime Minister Ponta remains firmly committed to an outward-looking economic policy that keeps Romania open for business.

Going forward, "[i]f Romania's solid fundamentals are coupled with the Government's willingness to implement reform," it will be hard to disagree with Greg Konieczny's assertion that the country "has the potential to become one of the

[73] Ovidiu Posirca, "Romania seeks IMF support," *Business Review*, September 30, 2013.
[74] Office of the Prime Minister.
[75] Christian Lowe and Radu Marinas, "Romania PM says spurning gold project would deter investors," *Reuters*, September 25, 2013.

leaders of economic growth within the European Union."[76]

CONCLUSION – ROMANIA'S CHOICE BETWEEN 2 PATHS

Choices matter, whether in one's personal or one's professional life. The same is no less true of governments. The choices that Romania makes in the coming weeks and months will have very tangible and serious consequences for her domestic economy and her standing in the international economic order.

For example, Romania is currently a candidate for membership of the OECD. The potential benefits for Romania as an OECD member are significant. They include: the reputational value of being a member of a select club of developed economies; the implicit recognition, at a global level, of its status of functional market-based economy and consolidated democracy; the certain positive impact on the country's credit rating; and the tangible impact upon her ability to attract investment from the global community.

Romania's accession to the OECD is a long-term strategic objective of Romanian foreign policy. As such, it was included in the government's 2013-2016 policy program. Last year, Prime-Minister Ponta wrote to the OECD Secretary-General, Angel Gurria, to reaffirm Romania's intention to become a member. Of course, Romania's accession to the OECD depends on various issues, including the existence of a successful market-based economy and a functional democracy.

At the moment, Romania has a general favourable assessment from the OECD. During this past summer, Daniel Daianu and Bogdan Murgescu offered the global community a most timely reminder that, "Romania is at a critical juncture in its post-communist history. It has the building blocks of a market economy and has joined the EU and NATO. In spite of having achieved important economic progress during the past decade, it still…afflicted by

[76] Quoted in Liam Lever, "2013 outlook: Romanian currency strengthening, encouraging economic prospects," www.romania-insider.com, January 21, 2013.

structural institutional weaknesses and less effective public policies."[77]

Under Victor Ponta's leadership, the Romanian government has demonstrated an ability to get some important things right. It is in the self-interest of the world's leading industrialized nations, particularly the United States, that the Ponta government continues to proceed along the path of mutually beneficial engagement with the global economic community.

[77] Daniel Daianu and Bogdan Murgescu, *Which way goes Romanian capitalism? Making a case for reforms, inclusive institutions and a better functioning European Union*, Friedrich-Ebert-Stiftung, Berlin, June 2013. See, too, K. Piech, ed. *Knowledge based economy in central and eastern Europe: Countries and Industries in a Process of Change*, Palgrave: London, 2006.

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