



CRS Report for Congress

Romania: Background and Current Issues

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Summary

On January 1, 2007, Romania was formally admitted into the European Union. The accession marked a major milestone for the country, which has been struggling through a difficult, lengthy transition from communism and the 24-year era of oppressive rule under Nicolae Ceausescu. In 2004 national elections, the center-right captured a majority in parliament along with the presidency. Over the past two years, however, there has been a great deal of infighting among the governing coalition partners. Observers believe that the parties have held together out of a common desire to achieve EU membership. Now that EU entry is an accomplished fact, some believe Romania's governing coalition may unravel, prompting early elections. Relations between Romania and the United States have been close. Bucharest has cooperated with the Bush Administration in the war on terrorism, and is providing troops in both Afghanistan and Iraq. In December 2005, the two countries signed an agreement granting the United States permission to establish military bases in Romania. This report will not be updated.

Political Situation¹

The former communist-dominated Party of Social Democracy of Romania (since renamed the Social Democratic Party, or PSD) ruled Romania from the country's bloody revolution in late 1989 until 1996, and from 2000-2004. Its leading figure, Ion Iliescu, served as president during the same two periods. Romanian voters ousted the PSD in parliamentary and presidential elections in the late fall of 2004. In an upset victory, Democratic Party (PD) presidential candidate Traian Basescu, an oil tanker captain before becoming the popular mayor of Bucharest, defeated PSD Prime Minister Adrian Nastase (Iliescu was term-limited). President Basescu tapped as premier Liberal Party (PNL) leader Calin Popescu-Tariceanu, who formed an alliance consisting of the PNL and the

¹ Research assistance for this report was provided by Mari-Jana Oboroceanu, Knowledge Services Group, CRS. Background information and economic data are drawn from U.S. Department of State. *Background Note: Romania*. September 2006; recent issues of *Economist Intelligence Unit*; and articles from various newspapers and wire services.

PD, supported by the Democratic Union of Hungarians in Romania (UDMR) and the tiny Conservative Party.

The PNL-PD alliance has been an uneasy one at times, in part reflecting the fact that no single party won a majority in the parliamentary elections. Since taking office, the governing coalition has suffered from continual infighting. In addition to a reported personal animus between Basescu and Tariceanu, tensions have arisen as a result of differences over social and fiscal policy. Generally, the center-right PNL is more oriented toward free markets and smaller government, while the center-left PD favors a traditional European social democratic “social model.” In addition, the two leaders crossed swords over the issue of Iraq. Citing “human and financial costs,” Tariceanu on June 29, 2006 called for Romania to withdraw its troops from Iraq. The government’s Supreme Council on National Defense, which must approve such a move, denied the proposal the following day. Observers speculate that the plan for withdrawal, put forward shortly before Basescu’s July 2006 trip to Washington, D.C., may have been intended to embarrass the Romanian president during his visit.²

Some believe that the coalition will not hold together until the next elections, scheduled for late 2008. In the fall of 2006, Basescu called for a snap ballot in the hope of capitalizing on his party’s rising popularity. Until recently, the PNL argued that early elections would only divert attention and energies from efforts to institute reforms directed at joining the EU in January 2007; the hope of accession had been the glue holding the coalition together. However, now that Romania is in the European Union (EU — see below), the government may be more susceptible to collapse. The likelihood increased on December 3, 2006, when the small Conservative Party, citing disagreements over tax policy, withdrew its members of the Chamber of Deputies from the coalition and joined the opposition PSD. The defection leaves the coalition in a minority position in parliament. A few days later, several members of the PNL, expressing dissatisfaction with Tariceanu’s leadership, split off to form another political grouping — but remained a part of the coalition. The PSD also favors an early vote, and has suggested that one might occur soon after Romania’s first European Parliament elections on May 18, 2007. National elections, however, might not result in a realignment of the parties. A recent survey gave the PD 31% support, as opposed to 15% for the PNL and 20% for the PSD; another poll gave Basescu a 49% approval rating.³ In addition, public opinion polls show dwindling support for the minor political parties, leading some analysts to believe that Romania may be evolving toward a system of two political groupings, likely dominated by the PSD on one side, and the PNL and PD on the other.

Economic Conditions

Romania’s post-1989 stop-and-go approach to economic reform resulted in a decade of economic stagnation, while the economies of other post-communist neighboring states grew rapidly. Key indicators for the current decade have shown signs of improvement, however. GDP, which declined sharply during 1997-1999, began to rebound in 2000.

² “Romania: Iraq Debacle Highlights Government Failings.” *Oxford Analytica*. July 19, 2006.

³ “Romania Democrats Well Ahead of Liberals — Poll.” *Reuters*. Nov. 19, 2006. “Romania Politics: The End Of the Road?” *Economist Intelligence Unit*. Dec. 4, 2006. “President Basescu Has the Approval Of 49% Of Romanians.” *Rompres*. Dec. 6, 2006.

The economy grew at a robust 8.3% in 2004, but only by half that in 2005 when the agricultural sector was ravaged by record flooding. Economic growth is forecast to recover to the 6%-7% range in 2006 and beyond. Inflation, which averaged 45% in 1999 — 2000, stood at 4.7% in November 2006, the lowest level in 16 years. Average incomes have risen rapidly, but remain among the lowest in Europe. In 2005, the government introduced a 16% flat tax on incomes and profits. About two-thirds of the economy is in private hands. Romania is rich in natural resources; analysts believe that it will prosper if the government can improve transparency, permit the growth of private financial institutions, and ease barriers to foreign investors.

Corruption, pervasive in both public and private sectors, continues to be one of Romania's most serious problems. Transparency International's most recent Corruption Perceptions Index ranked Romania 84th out of 163 rankings worldwide. For more than a decade, officials from the International Monetary Fund, NATO, the U.S. government, and others have urged Romania to root out corruption, especially in the upper reaches of government.

Romania does appear to be making much progress in this key area. Significant changes have been made in the judicial system; for example, cases are now assigned randomly, rather than being directed toward specific judges and prosecutors, and training programs and infrastructure have been improved with World Bank assistance. In addition, several high-profile corruption cases finally emerged in 2005 when the National Prosecution Office launched investigations of a number of prominent politicians, including former Prime Minister — and then-head of the opposition PSD — Adrian Nastase. Popular attention has focused on the one million euros worth of real estate and other assets that Nastase claimed he had acquired using an inheritance his wife had received from a 97 year-old aunt — who had lived in a small Bucharest apartment. Nastase, who asserts that he is the victim of a political vendetta, nevertheless stepped down as the head of his party in January 2006. He was charged with corruption in February 2006, and his accounts were frozen. Preliminary Supreme Court hearings on the case are set to begin in January 2007. Others under investigation include a deputy prime minister and former ministers of trade and industry. There has been some serious resistance in parliament to the probes.⁴

Romania has a diversified energy base; it has significant oil and coal reserves, and also utilizes nuclear energy. The *Economist Intelligence Unit* has noted that “Romania is closer to energy self-sufficiency than any other country in the region, with the exception of Russia.” Like other European countries, Romania has been looking for ways to broaden its sources of natural gas after Russia's January 2006 temporary cutoff of supplies to Ukraine, which disrupted deliveries to Europe. In November 2006, Basescu stated that “Romania ... will orient its energy policy toward developing alternative energy sources, including coal, hydroelectric and nuclear energy, Basescu said.”⁵

⁴ “Netting the Untouchables.” *The Economist*. Feb. 4, 2006. “PSD Wants Graft-Busters Back Under Control.” *Oxford Analytica*. Feb. 22, 2006. “Romania Ex-PM Denies Corruption Charges, Has Accts Frozen.” *Dow Jones International News*. Nov. 15, 2006.

⁵ “Romania Risk: Infrastructure Risk.” *EIU*. Nov. 20, 2006. “Romania Calls On EU To Cut Dependence on Russian Energy.” *Agence France-Presse*. Nov. 11, 2006.

Foreign and Security Policy Issues

Romania's foreign policy was dominated for years by its efforts to become a member of NATO and the EU. In March 2004, Romania achieved the first goal when it was formally admitted into the Atlantic alliance. Romania has been restructuring and modernizing its military, and has consistently met or exceeded NATO's recommended defense expenditure guideline of 2% of GDP — it is one of only seven allies that spend this amount or more on defense. It has significantly reduced the size of its armed forces (currently around 100,000), and ended military conscription in October 2006. Romania also has been developing “niche capabilities” to offer NATO, including airlift, minesweeping, UAVs, counter-NBC warfare, mountain combat troops, and special forces. There are nearly 2,000 Romanian troops serving in international peacekeeping and peace support missions in Iraq, Afghanistan, the Balkans, and several African countries. Romania is reportedly the fifth largest contributor of troops to NATO missions.⁶ The United States has endorsed Romania's offer to host the 2008 NATO summit.

Romania's other main foreign policy priority was to join the EU. In April 2005, Romania, along with Bulgaria, signed an accession treaty to join the EU. Although the two countries were set to join on January 1, 2007, the treaty contained “safeguard clauses” that would delay entry for one year if they did not make sufficient progress in completing reforms in certain areas, including competition, border security, corruption, administration, and judicial reform. In September 2006, the European Commission issued its assessment of the preparedness of the two countries. While it gave a qualified green light for admittance, it also identified several areas of concern in Romania, including food safety, industrial pollution, and the effective use of EU structural funds.⁷ Romania and Bulgaria were formally admitted on January 1, 2007, but will be required to report to the EU at six-month intervals on progress in such matters as the judiciary, food safety and the management of EU subsidies. Failure to meet commitments could result in some loss of EU assistance funds. As with the EU's previous enlargement in 2004, several members have placed temporary restrictions on laborers from the two acceding countries. EU membership will likely entail further difficult adjustments, as Romanian firms will be pitted in competition with much more efficient EU-25 industries.⁸

Another issue involving Romania and the EU — and Romania and the United States — was that of international adoptions. At the urging of the EU to improve child welfare and curtail abuses and corruption in the adoption system, the Romanian government imposed a partial moratorium on international adoptions of Romanian children in 2001, pending approval of the legislature. In June 2004, parliament passed a child welfare law that went into effect on January 1, 2005. Among other provisions, the statute bans — with the exception of grandparents — international adoptions. The law left in limbo hundreds of pending cases — adoptions that were being processed but were halted when the law went into effect. At a September 2005 hearing of the U.S. Helsinki Commission,

⁶ *The Military Balance*. International Institute for Strategic Studies. London. May 2006.

⁷ Monitoring Report On the State of Preparedness For EU Membership Of Bulgaria and Romania. website of the European Commission. Sept. 29, 2006. [http://ec.europa.eu/enlargement/pdf/key_documents/2006/sept/report_bg_ro_2006_en.pdf]

⁸ “Romania Under Pressure To Reform.” *Financial Times*. Dec. 14, 2006.

several Members of Congress argued that the new policy was contrary to the best interests of Romania's thousands of abandoned children, and criticized Bucharest for bowing to pressure from the EU. However, in December 2005, Tariceanu stated that Romanian law was "perfectly suited to European requirements," and that "[t]hose who made applications after the moratorium came into effect should have known they were taking a risk." Nevertheless, in January 2006, U.S. Ambassador to Romania Nicholas Taubman addressed the pending cases, saying that "Bucharest has made promises on the adoption of Romanian children by American families." Many Romanians have expressed frustration by the continuing — and sometimes contradictory — international pressure on the issue.⁹

Relations with the United States

In recent years, Romania has cooperated closely with the United States in a number of areas. In one of his first speeches after taking office, President Basescu declared that he wanted to maintain a special relationship with the United States. In March 2005 and July 2006 he made official visits to Washington, DC, where he met with President Bush and cabinet officials. Issues under discussion included military cooperation in Iraq, Afghanistan, the status of Moldova, the Black Sea region, and U.S. visa policy.¹⁰

Romania has participated actively in the global war on terrorism. Among other actions, it contributed transport aircraft and troops to the war in Afghanistan, where 850 Romanian soldiers are now serving in the NATO ISAF mission. In April 2006, a Romanian contingent assumed command of the Kabul airport. Bucharest answered NATO's recent call for more troops by pledging to send an additional battalion. In addition, Romania permitted the use of its territory — land, airspace and seaports — for the U.S.-led military action against Iraq, and U.S. troops were stationed at a base near Constanța, which acted as an "air bridge" to the Gulf. Romania currently has 605 troops in Iraq. In December 2006, Romania's defense minister pledged to keep Romanian soldiers in Iraq and Afghanistan in 2007.¹¹

In December 2005, Secretary of State Condoleezza Rice traveled to Bucharest, where she and Romanian Foreign Minister Razvan Ungureanu signed a 10-year agreement permitting the United States to establish military bases in the country. The move is part of a global realignment of U.S. military forces. The bases will not be large-scale facilities with the usual amenities, such as housing for dependents, but rather will be "flexible" or "lily pad" bases, intended for a relatively small number of crisis-response troops to be stationed temporarily, with regular rotations. The first of 1,500 soldiers are scheduled to

⁹ "‘Good Impulses’ Strand Romanian Orphans." *International Herald Tribune*. June 21, 2005. "Helsinki Commission Members Blast Romanian Adoption Policies." *Helsinki Commission News*. Sept. 14, 2005. "Romania Hails Orphanage Success Story: Controversial Adoption Ban Ends Baby-Trafficking But Angers US Lobbyists." *The Guardian*. Dec. 3, 2005. "US Repeats Demand For Romanian Child Adoptions." *Agence France-Presse*. Jan. 17, 2006.

¹⁰ "Romanian President ... Wants ‘Special Relations’ With United States...." *RFE/RL Newswire*. Jan. 19, 2005. "Bush, Romanian Leader Discuss Iraq, Visas." *Associated Press*. July 27, 2006.

¹¹ "NATO Brass Struggle To Find Afghan Reinforcements." *Agence France-Presse*. Sept. 13, 2006. "Romania To Maintain Its troops In Iraq, Afghanistan In 2007." *Agence France-Presse*. Dec. 17, 2006.

be deployed there in April 2007. Also, more than a dozen U.S. fighter aircraft reportedly will be stationed in Romania. Analysts say that Romania was chosen for its strategic location, in close proximity to the Balkans, the Caucasus, the Middle East, and the Black Sea region. Russia apparently does not view the announced deployment favorably.¹²

In September 2006, President Bush publicly acknowledged the existence of a secret CIA program to detain international terror suspects worldwide. Earlier media reports alleged that Poland and Romania were among the countries that had hosted secret CIA prisons, although officials of both governments have denied these allegations. A European Parliament probe conducted throughout 2006 cited no clear proof of prison sites in Europe, but could not rule out the possibility that Romania had hosted detention operations by U.S. secret services.¹³

The United States has been providing various forms of assistance to Romania since the overthrow of communism in 1989. The largest share by far of U.S. aid has been provided through the Support for East European Democracy (SEED) program. However, SEED aid diminished as Romania progressed in its transition to democracy. Other forms of U.S. assistance include the Peace Corps; International Military Education and Training (IMET); Foreign Military Financing (FMF); and two accounts under Nonproliferation, Anti-Terrorism, De-mining, and Related Programs. In addition, Romania in FY2005 became eligible to receive U.S. Department of Defense grants of Excess Defense Articles (EDA). Total aid to Romania was \$49.124 million in FY2005 and is estimated at \$37.189 million in FY2006. The Bush Administration has requested \$19.530 million for FY2007. On March 6, 2006, Ambassador Taubman announced that the United States would provide \$1.25 million to Romania to help it cope with avian influenza. Bird flu was first detected in Romania in September 2005; the region is considered a high-risk area because of wild bird migratory patterns. The United States is also planning to provide funds for hospital and school reconstruction in the area where U.S. troops are to be deployed, and would spend \$34 million renovating barracks.¹⁴

¹² "US Signs Deal For First Permanent Military Base In Ex-Soviet Bloc." *Agence France-Presse*. Dec. 6, 2006. "Deployment Of American Military Bases On the Territory Of Romania Is Not Beneficial For Russia." *WPS*. Russian Media Monitoring Agency. Dec. 18, 2006.

¹³ "Reports of Secret U.S. Prisons In Europe Draw Ire and Otherwise Red Faces." *New York Times*. Dec. 1, 2005. "European Parliament Presses Romania On CIA Transfers." *Agence France-Presse*. Oct. 19, 2006.

¹⁴ U.S. State Department. *FY 2007 Congressional Budget Justification for Foreign Operations*. Feb. 13, 2006. "US Sending Romania \$1.25 Million To Help Battle Bird Flu." *Agence France-Presse*. Mar. 6, 2006. "US To Finance Two Hospitals and School In Romania." *Rompres*. Dec. 11, 2006.