

# Which Way to Progress? The Impact of International Organizations in Romania

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Focusing on Romania, this chapter explores the roles played by international organizations and the norms and rules they advocate for domestic economic and political development. It begins with an overview of theoretical suggestions concerning the domestic impact of international norms. After a survey of Romania's present situation in section two, the chapter then reviews the projects of four highly relevant international organizations: the European Union, the IMF, the World Bank, and NATO. The fourth section analyzes the combined impact of those organizations on Romanian politics and raises a number of critical questions concerning the legitimacy of the policies pursued as well as the accountability of their instigators to the Romanian electorate. The concluding section develops some implications presented by the Romanian case for international relations theorizing on the domestic impact of international norms.

## 1. What We Might Expect: Theoretical Perspectives on the Domestic Impact of International Norms

International organizations can influence a nation's policies and co-determine its path of development by communicating their norms and rules to domestic decisionmakers and by familiarizing them with the "carrots and sticks" which are

associated with compliance and rejection, respectively, of those norms and rules.<sup>1</sup> In recent years, some considerable progress has been made in the study of just how international norms affect domestic politics. A number of studies have supported the suggestion that international norms do indeed influence state behavior. These works have identified patterns of correlation between such norms and state actions which are apparently guided by them (Krasner 1983, 1991; Stein 1983; Keohane 1984; Donnelly 1986; Wendt 1987; Onuf 1989; Martin 1992). Such, research has, however, been criticized for failing to elucidate the causal links between the existence of international norms and domestic policy choices (Kratowichil and Ruggie 1986; Haggard and Simmons 1987; Milner 1988). The exploration of such causal links requires a closer look at the domestic political arena and at the actions of domestic decisionmakers, who function as the agents of norm transfusion.

International relations scholarship has identified a number of pathways which may lead to the domestic institutionalization of the norms propagated by an international organization. First, such norms can infuse the values and beliefs of domestic decisionmakers (Nye 1987; Nadelmann 1990; Duffield 1992). Second, they may become enshrined in the standard operating procedures of domestic bureaucratic agencies (Nye 1987; Young 1989; Duffield 1992). Third, international norms may be incorporated into domestic laws, a process referred to by Robert Keohane (1994) as "institutional

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<sup>1</sup> Norms can be defined as "standards of behavior defined in terms of rights and obligations," while "rules are specific prescriptions or proscriptions for action" which serve the application of norms (Krasner 1983: 2, 5). Unless otherwise indicated, this text uses the term "norms" to mean both norms and rules.

enmeshment." Fourth, "government officials and societal actors can invoke an international rule to further their own particularistic interests in domestic policy debates" (Cortell and Davis 1996: 453; see also McElroy 1992; Haas 1989; Strang and Chang 1993; Lipson 1983).

In an important exploration of the fourth of the above-sketched pathways in particular, Andrew Cortell and James Davis (1996: 452) have found that "government officials and societal interest groups can appeal to international rules and norms to further their own interest in the domestic political arena" and that "through these appeals, international rules and norms become incorporated into domestic debates, under some conditions influencing national policy choices." Observing that the domestic impact of international norms varies both across countries and across issue areas (see Checkel 1994), Cortell and Davis (1996: 452) identify two conditions "as affecting the extent to which a domestic actor's appropriation of an international norm will influence state behavior: the domestic salience of the norm; and the domestic structural context within which the policy debate transpires."

In a more recent article, Cortell and Davis (2000: 69) further explain that domestic salience "requires a durable set of attitudes towards the norm's legitimacy in the national arena." Salient norms "give rise to feelings of obligation by social actors and, when violated, engender regret or a feeling that the deviation or violation requires justification." (Cortell and Davis 2000: 69) Clearly, the higher the domestic salience of the international norm, the more likely its adoption by domestic actors is, *ceteris paribus*, to affect state behavior.

The two relevant components of domestic structure identified by Cortell and Davis are the organization of decisionmaking authority, which ranges from centralized to decentralized, and the pattern of state-societal relations, which ranges from distant to close. While the domestic structural context, thus defined, is expected to vary across issue areas, it is worthwhile noting at this point that state-society relations in Romania are generally distant, as civil society development is stunted and societal actors and their interests are not effectively integrated into the policy-making process. What is theoretically expected under such conditions is that "state officials serve as the primary means by which international norms and rules affect national policy" and "societal actors' ability to use international rules and norms to their advantage in the national arena is limited" (Cortell and Davis 1996: 455).

With respect to the structure of decisionmaking authority in Romania, the degree of centralization shows more variation across issue areas. It is theoretically expected that in the case of a decentralized structure the success of appeals to an international norm depends more strongly on the domestic salience of that norm. This is simply because in this type of structure a greater degree of consensus is needed to enable individual decisionmakers to achieve their goals. Independent of decisionmaking structure, however, political agents are expected to follow the same basic logic: "By appealing to a salient rule or norm, the official's interests are associated with the rule's domestic legitimacy, making them difficult to challenge." Thus, "a policy maker's appropriation of a salient international rule helps to empower her position in the national arena" (Cortell and Davis 1996: 457).

It is at this point that it becomes necessary to introduce a distinction between norms and rules, as the salience of an international norm should not simply be assumed to be proportional to the salience of the accompanying rules. In the case of Romania, for example, the salience of the norms propagated by major international organizations in the domestic political arena is extremely high. As Cortell and Davis observe, "repeated declarations by authoritative political actors are indicative of the state's commitment" and can lead to the association of international norms "with the advancement of the country's national interest or core values" (Cortell and Davis 1996: 456). Such commitment can, in the words of Caldeira and Gibson (1995: 357) create a "durable set of attitudes toward the legitimacy of the institution." Such a development is clearly apparent in the case of Romania. While the basic norms propagated by the EU, IMF, World Bank, and NATO do generally enjoy the resulting domestic acceptance, the salience of many accompanying rules is, however, contested. During the process of domestic institutionalization of international norms in Romania, problems thus occur primarily at the implementation stage, when the lack of consensus on concrete rules of norm adaptation becomes apparent to policy practitioners.

One result of disassociation between international norms and rules in their transmission to domestic structures can be developmental stagnation. While the putting into practice of reform measures is constantly inhibited by the lack of a genuine consensus about concrete policies which would serve to institutionalize international rules, the development of normative alternatives as well is stunted. As Thomas Risse-Kappen (1995: 10) has explained, "when actors regularly refer to the norm to describe and comment on their own behavior and that of others, the validity claims of the norm are

no longer controversial, even if the actual behavior continues violating the rules." The salience of international norms in the domestic context "puts an extra burden of proof on regime opponents because ... the regime structure serves automatically as frame of reference" in political discourse (Mueller 1993: 383). In the case of Romania, continuous appeals to the norms propagated by those international organizations most relevant to Romania's development have enabled leaders to cling to power whose actual policy preferences have become quite irrelevant. At the same time, the degree of distance in state-society relations has prevented those international norms, even though highly salient for domestic politics, from truly becoming rooted in Romanian society.

The following case study will shed some light on the impact major international organizations have had in Romania through the norms and rules they propagate. Its purpose is thus, in the words of Cortell and Davis (1996: 452), to open up "the black box of domestic politics in an effort to offer a better understanding of how international norms and rules affect state behavior." Section 2 will introduce Romania's present-day political and economic situation in an effort to clarify the conditions under which and against which international organizations operate in this country; section 3 will then provide a survey of the main activities of EU, IMF, World Bank, and NATO in Romania.

## 2. Romania Today: Politics and Economics

Between 1997 and 2000, the government of Romania was reformist, at least in reputation.<sup>2</sup> The new government, headed by president Emil Constantinescu, took office

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<sup>2</sup> The term "reformist" is used for believers in the benefits of rapid economic liberalization in accord with IMF guidelines, while the "gradualists," who were in power

in a climate of hopes for change, after living conditions had failed to improve during the 6-year reign of the *Partidul Democratiei Sociale din Romania* (PDSR) and its former communist leader Ion Iliescu. Yet, more so than most other nations in the region, at election time in the year 2000 Romania found itself still at a critical juncture in its political and economic development. Constant infighting, lack of progress, and accusations of corruption had marred the image of the reformist governing coalition. In July 2000, Constantinescu unexpectedly declared that he would not to run for reelection, professing despair at his failures, especially to beat corruption in the country.

The third prime minister of the reformist government, Mugur Isarescu, an economist who had been head of Romania's Central Bank since 1990, enjoyed the reputation of a politically independent technocrat. Fall 2000 opinion polls granted him an unusually high approval rating of over 50% (Turp 2000). As the last ditch attempt of the governing coalition to achieve performance, the Isarescu government did show some determination to try to effect the positive change voters had waited for for so long. Isarescu's ascent to power generally received cautiously favorable comments from business leaders, who expected him, above all, to take measures to improve the investment climate, and the new cabinet members were widely judged to be more professional than their predecessors ("Business Leaders ..." 1999).

In response to EU demands, the Isarescu government formulated a medium-term economic development strategy which covers the period of 2000-2004, but provides a window for strategic planning until 2010. The strategy focuses on limiting deficits and

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until 1996 and have now returned, prefer more gradual and in some areas less sweeping reform.

inflation and tightening public spending, improving income policy, the business climate, and the functioning of markets. To achieve these goals, it calls for large cuts in government employment and administrative expenses. The overarching economic task faced by the reformist government was to achieve non-inflationary growth, as inflationary growth became unsustainable after 1993, when efforts to close non-profitable companies began. Projected growth for the year 2000 was initially set at 1.3%, with 27% inflation. While the inflation target had to be revised, and inflation stands at 40% at the end of 2000, GDP has surpassed expectations, achieving almost 2% growth after three straight years of contraction.<sup>3</sup> In September, the 2000 state budget was revised in response to new inflation estimates. Additional expenses of some 17 trillion Lei increased the consolidated deficit from initially 3% to the IMF-agreed target of 3.5% ("Budget Revision Approved" 2000). Average gross and net income have gone up slightly in fall 2000, as consumption has been steadily increasing, rising by 1.7% over the January-September period ("Average Net Salary..." 2000; "GDP Up in Real Terms" 2000). Exports have been on the increase as well, apparently driven largely by a rise in industrial output ("Economic Notes" 2000a). Analysts' judgments are summed up by Raluca Nicolescu of Demir Securities as suggesting "no material deterioration in economic fundamentals by the year 2000" (quoted in "Poll" 2000).

Inflation targets for 2001 and 2002 were initially set at 18% and 12% respectively, with one-digit figures hoped for beginning in 2003. The 2001 inflation forecast was subsequently adjusted up to 20-25% ("Economic Notes" 2000a). A Reuters

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<sup>3</sup> Figures according to the National Statistics Board, as quoted in "Economic Notes" 2000b.

poll of analysts conducted in November 2000 projects GDP growth in the year 2001 to nearly 3 %, the target agreed upon with the EU under Romania's medium-term economic strategy.<sup>4</sup> Isarescu predicted during his term that GDP per capita, at \$3,500 in mid-2000, would reach \$10,000 by the year 2010.<sup>5</sup>

The country's financial needs for the year 2000 were estimated at about \$3 billion, including the account deficit of \$1.8 billion plus debt repayment obligations. Credit inflow was expected to reach \$1 billion, with external loans contributing much-needed cash, prominently the 650 million Euro grant for 2000 pledged by the EU to aid Romania in the accession process (Judy 2000a).<sup>6</sup> Romania was at no risk of default on its foreign debt in this year, when the country had to service around \$1.5 billion, as compared to \$2.6 billion in 1999. Central Bank hard currency reserves had increased to reach \$1.69 billion (not including gold) by the end of January 2000.<sup>7</sup> This increase was triggered

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<sup>4</sup> This prediction is supported by rating agencies, which believe that up to 3% GDP growth in 2001 is possible, due to export recovery (Vasiloiu 2000).

<sup>5</sup> The Economist Intelligence Unit recently predicted that it will take 15 years for Romania's GDP to double (Vasiloiu 2000).

<sup>6</sup> The EU also concluded a 200 million Euro loan agreement with the Romanian government. With this money, the Finance Ministry is opening Euro deposit accounts at the Central Bank, from where funds can be transferred into the foreign currency reserve as necessary (Judy 2000a).

<sup>7</sup> Gold reserves, which amount to over \$800 million, cannot be sold or pledged as collateral due to legal clauses on previously made loans, which do not mature until 2001.

mainly by the bank's hard currency purchases from the local inter-bank market and constituted a recovery from low levels in mid-1999, when Romania was forced to repay part of its foreign debt to avoid default.<sup>8</sup>

In order to succeed in its current development strategy, Romania faces a desperate need to attract capital. As pressure to privatize state-owned companies has continued to increase while domestic capital accumulation has remained low, foreign investment becomes ever more important to keep the Romanian economy afloat. Romania's privatization agency, the State Ownership Fund (SOF), announced that it would put on sale the shares of all remaining companies in its portfolio in the year 2000. As of February 2000, there were 3,150 companies, 2,870 of which were to be put on sale, while 280 were expected to be restructured or liquidated. They include over 640 state-owned farms and almost 100 research and development institutes. 64 big state-run companies (the "Fabled 64," including the Romanian airline Tarom and aluminum producer Alro Slatina) are due to be sold or liquidated in the context of a World Bank PSAL program. The head of SOF, Radu Sarbu, reportedly expected that 1,700-1,800 companies would be privatized in the year 2000 alone (Marchidanu 2000a). The SOL also hoped that most state-owned banks would be privatized in 2000, even as some banks protested rapid

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Also, the IMF and World Bank have insisted that the gold not be sold or pledged in order to bolster the Bank's reserves.

<sup>8</sup> The IMF had a part in helping Romania avoid default in May 1999. The Fund made it clear that its decision to step in was not economically but politically motivated.

privatization, asserting their own successes and arguing that their specific responsibilities would not met by private players.<sup>9</sup>

As of February 2000, the SOF held another \$2 billion in share capital, but expected to receive only some \$500 million for it. In the light of such losses, it is impossible not to question the wisdom of continuing the privatization drive under present investment conditions. The main obstacles to investment in Romania in the last few years have been bureaucratic red-tape and corruption, the limited availability of investment finance, constant change in laws and regulations, a lack of respect for contractual obligations,<sup>10</sup> low confidence in the judiciary, restrictions against foreign ownership of land,<sup>11</sup> and excessively high income and social benefits tax rates. Theoretically, Romania could now profit from the fact that the markets of the Eastern European frontrunners have become saturated, and profit margins in those markets have decreased due to increasingly high competition. The country still maintains a huge unmet demand for practically all kind of services and goods. If investment conditions were to be improved, these opportunities would be certain to attract capital, both foreign and domestic, and to invite the competition needed to make privatization more profitable. However, Romania has not seemed to be moving closer either to properly regulating its market or to making it more attractive.

In early 2000, the Isarescu government initiated a set of fiscal reforms which have proved additional cause for worry. A report by the Economic and Social Council (CES)

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<sup>9</sup> An example is the Romanian Savings Bank, headed by Camenco Petrovici.

<sup>10</sup> Business contracts are often not enforceable.

<sup>11</sup> Foreigners may lease, but not own land.

on the economic and social impact of the reform package observed that these new measures favor the export of raw material over technologies and the use of imports instead of domestic products ("CES Report" 2000). The state's attempts to raise money for refinancing the budget deficit have involved prohibitively high added value taxes. In spite of the realization that "a strong and growing medium size and small enterprise sector is essential for stable, sound development" (Foreign Investors Council 1999:3), they have also tended to result in crowding out small and medium enterprises (SMEs) and cutting them off from affordable loans.

In response to the high credit risk in the Romanian banking sector, the Central Bank established a "Banking Risk Center" to better monitor lending practices. New securities and collateral legislation has been passed to enable banks to extend financing to smaller companies (Foreign Investors Council 1999). Legal and institutional progress in the financial sector was, however, offset by a series of scandals, culminating in May 2000, when several anonymous phone calls to investors in the Romanian Commercial Bank (BCR) began a run on the bank that led to the collapse of its partner, the state-run National Investment Fund (FNI). In the illegal and highly precarious position of keeping only 4 percent of its \$164 million worth of assets liquid, the fund collapsed, leaving tens of thousands of small investors stripped of their savings. This scandal, which broke, likely not coincidentally, immediately before local elections, contributed to the shockingly bad performance of the governing *Conventia Democrata Romana* (CDR) and helped the opposition PDSR gain control of a plurality of municipalities, including the mayorship of Bucharest. This placed the PDSR in the strategic position of being able to influence voters at the local, while continuing to expose government corruption at the

national level, thus being able to affect voter sentiment in time for the November general elections. At the time, Stratfor's "Global Intelligence Update" speculated that the May 2000 banking scandal may have cost the Romanian government not only an estimated \$49 million, but also November's general elections (Stratfor 2000).

In countless opinion polls Romanians have expressed support for genuine economic reform. Their majority has shown a willingness to undergo economic shock therapy. Yet they have clearly been running out of patience as their leaders have failed to agree on basic goals, to adopt long-term or even medium-term policies, and to stick by them in spite of possible short-term problems. According to a pre-election poll conducted by the Metro Media Transylvania Institute, 51% of Romanians believed in November 2000 that their families were better off in the period before 1990. 21% judged their standard of living to be highest between 1990 and 1992, as compared to only 9% for the period of 1997 to 2000. Only 1% of the population claim to be very satisfied, 17% to be reasonably satisfied with their lives. In comparison, 45% professed to be "not so" satisfied and 36% to be not satisfied at all. 34% of Romanian apparently expect no improvements for their lives within the next year. 20% expect becoming worse off instead ("More Than Half..." 2000). Given such widespread dissatisfaction and pessimism, Isarescu showed little sensitivity to the social impact of reforms, speaking out against strikes and protests and asking Romanians to continue to accept the inevitable hardships associated with the reform process. In the face of growing disbelief he continued to maintain that, if the government managed tight control of the fiscal deficit and current account, Romanians would begin to feel the positive effects of reform by the end of 2000 ("Romanian Premier..." 2000). They did not.

Before the 2000 elections, the mainstream business media found the government "between a rock and a hard place: Staying the course on reforms, or even quickening them, will only sink their opinion poll scores lower, while stalling in favor of election-year populist measures will ruin the currently-good relations Romania enjoys with the international institutions they desperately need" (Avery 1999: 5). While strongly supportive of the medium-term strategy, President Constantinescu admitted that there had been insufficient government-citizen communication, leaving Romanians at a loss as to why they should have to make the sacrifices demanded by their politicians and inhibiting the growth of social solidarity (Judy 2000a). While, in the words of Steven Roper (2000: 102), "the population was experiencing all of the shock but none of the therapy of reform," the government's strategy towards achieving political consensus was, for example, to subject the medium-term strategy to debates by three working groups, one technical, comprised of economists, one political, including the government, parliament, banks, and privatization agencies, and one comprised of civic NGOs. The latter were expected to create a popular consensus. This approach might well be viewed to constitute a misuse of the NGO sector to help "sell" government policies and clearly failed to bridge the communication gap. Instead, it was merely indicative of the true distance in Romanian state-society relations.

As in other countries of the region, the suffering associated with privatization, restructuring, and the drastic reduction of social services, explains the appeal of political rhetoric which pledges to cushion the effects of reforms. The quasi-egalitarian ethos espoused by many citizens and their expectation to be looked after by a paternalistic state only reinforces this posture. As a consequence, populism has been on the rise in

Romania. It has contributed to developmental stagnation by defending the majority consensus represented by international norms while eschewing any unpopular measures to actually achieve their realization. Determination and integrity have been chronically wanting among the Romanian political elite, as critical decisions needed to be made to pull the country out of economic crisis, yet decisionmakers appeared paralyzed by the threat of popular displeasure with the potential results of their decisions.

Campaigning reformists generally argued that the Iliescu government ran up deficits which drove the country close to bankruptcy and that their own cost-cutting and privatization measures were what could save the day. In spite of a still-widening trade deficit, at the end of the year 2000 it is judged that during Isarescu's time in office the Romanian economy did indeed enjoy a small recovery, and that conditions for foreign investment have improved slightly.<sup>12</sup> However, these developments appeared to amount to "too little too late." According to Isarescu, the two pillars of recovery have been rising

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<sup>12</sup> According to economic data produced by the National Statistics Board, as quoted in "Economic Notes" 2000b. There have been a few positive signals in the area of foreign investment. For example, Hungarian investment interests have been growing significantly, in spite of setbacks from a decision in 1999 to cancel customs facilities with the Central European Free Trade Agreement. Swedish investment, brought to a halt by government-level disputes over a \$3 billion Romanian debt, are poised to pick up as Swiss-Swedish technology giant ABB is proposing a series of projects in the context of an "investment for debt" program. Romania is also enacting a bilateral treaty on investment and business with the United States. After the Helsinki summit, increased foreign capital inflows into Romania are expected especially from the EU.

exports with increased added value, and increasing investment. He admitted, however, that "so far, the recovery isn't felt by the average citizen because we didn't focus on stimulating consumption" (quoted in Marchidanu 2000b: 4). The average voter retaliated. As a technically independent candidate in the presidential elections of November 2000, Isarescu achieved only fourth rank at under 10% of the vote. The reformist governing coalition performed abysmally in parliamentary elections. Centrist and liberal forces all but disappeared from the party spectrum - a shocking development indicative of the lack of consolidation of the Romanian party system.<sup>13</sup>

As had been suggested by pre-election polls, former president Iliescu of the opposition PDSR, took a clear lead in the presidential election, polling 36.35% of the vote.<sup>14</sup> According to the CURS/CSOP exit poll conducted at the request of the Pro Institute and by a study performed by the IMAS marketing and research institute, Iliescu was strongly supported by older voters, particularly by pensioners, and by the rural population. His supporters are found disproportionately among the less educated, in the regions of Moldova and Muntenia, and among the Roma population. Significantly less support for Iliescu came from the group of young voters, from larger towns and cities, from Romanians with an academic background, from Transylvania, and from ethnic Hungarians. Iliescu won in 24 counties, including some former CDR strongholds. The PDSR slate took 36.61% of the vote for the Chamber of Deputies and 37.09% of the vote for the Senate (Topliceanu 2000; Marchidanu 2000c).

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<sup>13</sup> Compare Roper 2000.

<sup>14</sup> Election results presented here are final as announced by the Central Electoral Bureau (BEC) and reported in "Tudor Challenges Iliescu" 2000.

The great shock of the 2000 election was the success of the extreme right populist Corneliu Vadim Tudor and his nationalist *Partidul România Mare* (PRM). Tudor received 28.34% of the presidential vote. His PRM received 19.48% of the vote for the Chamber of Deputies and 21.01% of the vote for the Senate (Topliceanu 2000; "Tudor Challenges Iliescu" 2000). Tudor, director and owner of the publications "Romania Mare" and "Politica," is a former senator and a writer. Known as "the Judge" for tirelessly judging his political opponents' mistakes, he is infamous for his hateful tirades directed against ethnic Hungarians, Jewish Romanians, and Roma. His campaign strategy relied on acrid criticism of his political opponents, appeals to God and nation, attribution of blame to minorities, and promises for tough crackdowns on criminal activity and corruption. By a logic which can only be called mysterious, his voters appear to believe that corruption does not affect the PRM and its leader.

According to IMAS studies, Tudor supporters tend to be male and, surprisingly, young. Tudor beat Iliescu by 5% in Transylvania, a fact which does not bode well for relations between ethnic Hungarians and Romanians in the region. Neither the size of voters' towns nor their educational background seemed to matter with regards to their support for Tudor, who won in 14 counties, some of which were former CDR strongholds. However, his lowest levels of support were found among voters with a university background and among voters over 60 (Marchidanu 2000d).

As none of the twelve candidates in the presidential elections received a simple majority, a run-off election took place on December 10<sup>th</sup> 2000 between the two front runners. Romanians now had the choice between a former communist and a right-wing extremist. Panic was widespread among moderates in Romania, as a few pre-run-off polls

suggested that Tudor might just win the presidency. While official reactions from foreign governments, international organizations, and foreign investors were mostly cautiously moderate, the international media joined in a choir of condemnation of Tudor, and some inter-governmental and non-governmental organizations as well as numerous academics issued explicit warnings to the Romanian electorate. For example, the Romanian-American Chamber of Commerce shed its usual political neutrality, stating that Tudor's "ascendancy would not only terminate the nation's accession plans for the European Union, but drive virtually all foreign investment away from Romania and turn this great European nation into a pariah state" (quoted in Judy 2000c). Allusions to the fate of Yugoslavia were made, and students and other groups organized public protests against extremism.

To the great relief of the majority of the population, Iliescu won the run-off elections with 68% of the vote, Tudor polling a still-worrisome 33%. The PDSR has formed a minority government, and is, at the end of 2000, engaged in talks with centrist liberal, social democratic and the ethnic Hungarians' parties to foster an agreement on basic policies. Up to this point, the PDSR has officially ruled out cooperation with the PRM. The new prime minister is Adrian Nastase, sociologist, foreign minister in the first post-revolutionary government, and president of the House of Deputies during the Iliescu/Vacaroiu government of 1992-96. The new foreign minister is expected to be Mircea Geoana, presently Romania's Ambassador to the US; the new finance minister is expected to be Mihai Tanasescu, presently Romania's representative at the World Bank. Other members of the new cabinet have not yet been identified at the time of writing ("Growing Fears..." 2000).

The resurging popularity of the former president and his party was due in large part to the overall failure of the governing coalition to improve standards of living or achieve significant economic recovery. Polls have consistently identified price controls and unemployment as the most important issues on voters' minds. As observed in 2000, during Constantinescu's term in office, "foreign investment has fallen, unemployment has risen in the wake of a World Bank-induced privatization program, and spending on public services has been severely reduced in a number of austere budgets designed to keep government expenditure to a minimum" (Turp 2000: 11). The average monthly wage has fallen continuously since 1996 and lies now considerably below \$100. Constantinescu also lost ground for his coalition through his support for the NATO bombing of Yugoslavia during the Kosovo war, which was incompatible with majority opinion in the country. Another cause for disappointment for many Romanians were the failure of the anti-corruption crusade he launched at the beginning of his mandate as well as the lack of follow-through on campaign promises to clear up the mysteries still surrounding the Revolution of 1989.

Ion Iliescu argued that the economy took a nose-dive during the beginning of his first term in office as a result of Ceausescu's legacy, but that his regime began turning it around by cutting subsidies and government contracts gradually. He blamed the reformist governing coalition's shock therapy for sending Romania's economy spinning downward again. Iliescu and Nastase now identify as the top priority concerns of their new government the drawing up of an economical yet socially acceptable budget for 2001 as well as far-reaching fiscal and legal reforms aimed at attracting investment. Specifically, the PDSR has identified excessive taxation, unstable and unfair legal codes, and

excessive bureaucracy as the main obstacles to both foreign and domestic investment, and has proposed some specific reforms to address each ("Growing Fears 2000").

Restructuring and privatization are handled with greater hesitancy: "Restructuring and the privatization of state enterprises and utilities must be continued, but we ought to be more careful about how these are handled, not just do things for the sake of having them done."

Iliescu further stated that "restructuring or privatizing doesn't always mean firing hundreds of thousands of people without making sure better economic results will follow" (quoted in "Growing Fears 2000": 12).

The PDSR has made campaign promises to poor Romanians which conflict with the aim to balance (or almost balance) the Romanian budget. The new government now finds itself under pressure from the IMF and the World Bank not to carry out those promises. However, a failure to speedily improve living standards in the country, where 44% of the people now live under the EU poverty line, is likely to further increase the support of extremists, perhaps enabling them to take control in the next term. On the other hand, a failure to achieve drastic structural reform will likely do the same in the medium term, as genuine recovery depends on such reform. In their relations with the newly elected government, IMF and World Bank have adopted a wait-and-see stance for the moment; further support from the EU as well is expected to depend in large part on the development of Romania's relations with the two lenders ("Romania Enters..." 2000).

On its westward quest, Romania has become "tied up" in international obligations, which restrict the range of possible domestic political developments and national policies for better or for worse. It is widely assumed that the pressure applied on Romania by international organizations such as the IMF, the World Bank, the EU, and

NATO aids the country's progress, especially in the economic realm. This fact is reflected in statements by rating agencies, which expressly identify "orthodox economic policies and reform" with "Romania's IMF program and EU accession efforts" (Vasiloiu 2000: 5). Especially "the overriding objective of EU accession ... will put constraints on any new government's policies, and provide both pressure and incentives to move reforms ahead in the medium term" (Vasiloiu 2000: 5). The intervention of international organizations in Romanian politics is thus commonly judged to be beneficial, and only a small minority of Romanians strive for disassociation from those organizations, which have come to symbolize the country's westward orientation. Even the return to power of Iliescu and the PDSR, with their well-known reluctance to apply shock therapy, are unlikely to make Romania swerve of its course of integration into the EU and Euro-Atlantic Alliance structures.<sup>15</sup> Instead, Nastase has promised that his government will give priority to addressing the issues raised by the European Union ("PDSR Pledges..." 2000).

### 3. International Organizations Operating in Romania

#### *The European Union*

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<sup>15</sup> See PDSR 2000. It must be observed, however, that while Iliescu appears keen to publicly discuss the EU accession process, he is less outspoken about his views on NATO.

The number one declared goal of all relevant political players in Romania is full participation in the European Union.<sup>16</sup> A Europe Agreement has been implemented successfully in the interim since March 1993 and in final form since February 1995. In its context, EU-Romanian bilateral trade has increased significantly.<sup>17</sup> An associate member since 1995, Romania was admitted to accession talks at the Helsinki Summit in December 1999. A new Department for European Integration was established in the Foreign Ministry, and on January 5th 2000, the new Foreign and European Affairs Minister, Petre Roman, held his first press conference, identifying as his top policy priority European integration and his country's efforts to fulfill EU criteria for membership. The first five chapters of pre-accession negotiations, from a total of 31, were opened in late March 2000 and have by now been closed.<sup>18</sup> The next round of chapters is presently under negotiation.<sup>19</sup> The outgoing government has been confident

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<sup>16</sup> See Ministry of Foreign Affairs 1999b. Compare also the documents available via the website of the Department of European Affairs, <http://servernt1.exec.gov.ro/die/en/defaulten.htm>.

<sup>17</sup> The second essential element of the pre-accession strategy is a White Paper of May 1995 on the Internal Market.

<sup>18</sup> The first five chapters address education, training and youth development, science and research, SMEs, international economic relations, and the common foreign and security policy.

<sup>19</sup> The current chapters include statistics, consumer protection, transport, customs union, telecommunications, competition, company law, and culture.

that Romania can meet its January 1, 2007 target date for entering the EU, and aspired to close negotiations and sign the Accession Treaty by July 1, 2005 (Ciobanu Dordea 2000).

Established at the Copenhagen European Council of June 1993, the so-called Copenhagen criteria for EU membership lay out political and economic conditions as well as guidelines for alignment with the *acquis communautaire*, the body of law which defines the Union. An "Accession Partnership" functions like a "roadmap" to accession for each applicant country.<sup>20</sup> The Copenhagen political criteria for membership state that an applicant country must achieve "stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities." How does Romania fare? The EU considers Romania to fulfill the Copenhagen political criteria at this time. Improvements have recently been noted with respect to the crisis in Romania's child care institutions, affecting over 100,000 children in institutionalized care. However, having observed past failures to act to ensure adequate funding for the children, the European Commission is keeping a close eye on child care reform in the country (EC 2000).

The EU also remains concerned about the use of executive ordinances and about deficiencies relating to the independence and efficiency of the judiciary, although some progress in judicial reform is noted. Other priority areas include the fight against corruption, where the EU holds that institutional responsibilities and functions must be consolidated (EC 2000). The EU is also monitoring the situation of the Roma and other minorities, pushing for their inclusion in the socio-political system and against racism

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<sup>20</sup> See EC 1999a and EC 1998.

and discrimination.<sup>21</sup> The issue is highlighted in the Accession Partnership, and the EU has provided 2 million Euro to help the Romanian government to develop and implement a strategy to improve the situation of the Roma.

The Copenhagen economic criteria ask for a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union in the medium term. Here Romania clearly fails, lagging far behind Poland, Hungary, the Czech Republic and Estonia, which as of late 2000 have realistic chances of joining the Union. The 2000 "Report on Progress Towards Accession" by the European Commission, which was published on November 8<sup>th</sup>, dealt a severe blow to the Constantinescu/Isarescu government. Placing Romania at the very bottom of the list of aspiring EU members, the report observed little progress towards a functioning market economy, concluding that "Romania is not able to cope with competitive pressure and market forces within the Union in the medium term and has not substantially improved its future economic prospects" (EC 2000: 35). At present, the report states, "Romania cannot be regarded as a functioning market economy," as "the vulnerability of the macroeconomic environment, the uncertain legal and institutional framework and uneven commitment to sustained reforms have hindered the development of economic activity" (EC 2000: 32).

Isarescu reacted promptly, pointing out that the report failed to take into sufficient account progress made in the year 2000, in which the economy indeed showed modest signs of recovery after three years of contraction (Marchidanu 2000b). On the positive side, the EC report does observe a "broad consensus on the need to establish a market-based economy" (EC 2000: 28); improved macroeconomic stability, "largely due to strict

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<sup>21</sup> See the European Commission report "Roma Issues in the Context of Enlargement."

fiscal and monetary policies" (EC 2000: 29); tightened fiscal policy; liberalized prices and trade; an improving financial situation of the largest public banks; and an increase in exports. On the negative side, however, the report criticizes the GDP decline of 3.2% in 1999; little progress on reforms and transparency of public finances; difficulties of business creation stemming from uncertainty about property rights, changes in the legislation and difficulty of access to financing; as well as the weakness or non-existence of institutions which could enforce the existing legal framework.

As the previous report of October 1999 (EC 1999), the 2000 EC progress report singles out macroeconomic imbalances and financing problems, pointing out that instability and legal uncertainty are continuing to deter foreign investment, which is needed to modernize supply. The EU observes that, above and beyond the medium-term strategy, determined and sustained efforts will be necessary to restore growth and improve living standards. It urges financial discipline, the swift restructuring of the large loss-making state enterprises, and the creation of a transparent and business-friendly environment (EC 1999b).

Another set of Copenhagen criteria concerns Romania's progress towards alignment with the *acquis*. Judgment on all three groups of criteria - political, economic, and alignment with the *acquis* - depends also on the capacity of the country's administrative and legal systems to put into effect the principles of democracy and market economy and to apply and enforce the *acquis* in practice. The EU regularly examines progress in applicants' ability to take on the obligations of membership, including adherence to the aims of political, economic, and monetary union. Here, Romania's record is mixed. An area of particular concern is the environment. In general,

the process of alignment is severely hindered by lack of funds and overall weak administrative and judicial capacity (EC 2000).

While Romania has begun to address certain aspects of administrative capacity in regional development and the internal market, adopt measures to restructure the banking sector, reform public procurement, and regulate state aids, other short term priorities of the Accession Partnership have not been met. These include in particular certain aspects of the justice system and home affairs, such as the fight against organized crime and corruption as well as the demilitarization of the police and border control, and environment priorities. At present, the EU considers none of the medium-term priorities of the Accession Partnership to be fully met (EC 2000).

So far, the EU's main instrument for supporting Romania's pre-accession strategy and convergence to the Copenhagen criteria, has been the Phare program. Between 1990 and 1999, Phare allocated 1.203 billion Euro to Romania. Around 30% of Phare allocations are used for "institution building," that is to help improve the country's capacity to implement the *acquis*. The remaining 70% are used for financing investments with the aim of both strengthening the regulatory infrastructure needed to ensure compliance and of reinforcing economic and social cohesion affected by restructuring. Phare has concentrated on transferring know-how, equipment, and financial resources in fields such as industrial restructuring and privatization, SME development, trade and investment promotion, energy, and land registration. Of particular relevance in the Romanian context is Phare support to agriculture and SMEs, which aims to develop sector strategies and initiate essential institutional and financial mechanisms servicing enterprises in these crucial sectors (EC 1999b). Romania has been the second biggest

beneficiary among the central and eastern European states (after Poland) from Phare agricultural aid, receiving 85 million Euro from 1989 through 1998 (Phare 1999).

Following the decision at the Helsinki Summit to begin accession talks with Romania in the spring of 2000, the head of the local EC delegation, Fokion Fotiadis, stressed that “improvement in the investment climate is a priority in the short-term” (Hasegan 1999). The EU now assists Romania in the accession process with financial help of some 640 million Euro in grants per year. This is almost five times more than in previous years. The money is disbursed under three programs: Phare, and the new ISPA (Instrument for Structured Policies for Pre-Accession) and SAPARD (Special Accession Program for Agriculture and Rural Development). The RICOP (Enterprise Restructuring and Employment Conversion Program) grants 100 million Euro for backing reforms with social protection measures. In addition, the European Investment Bank offers loans of up to 500 million Euro per year for infrastructure development (Hasegan 1999).

The crucial criterion on which Romanian qualification for EU membership depends is its capacity to cope with competitive pressures and market forces within the Union. At the present time, no reliable trend towards this end can be observed, as productive capacity and exports have only cautiously picked up (in spite of a real depreciation of the Leu), and purchasing power and living standards continue to decline. The EU warns that a participation of Romania in the third stage of EMU as non-participant to the Euro area could pose serious problems due to its precarious economic situation. Under these conditions no target dates for accession can realistically be established. The EU expects the Romanian government to contribute its own realistic strategies for approaching accession criteria and to create the conditions necessary for

their implementation. This is frequently a problem, as illustrated by the case of the National Development Plan for 2000-2006. After the European Commission had judged the draft document to be neither sufficiently explicit and detailed nor financially realistic, it had to exert considerable pressure to ensure its revision by May, when funding decisions for Phare 2000 were made.<sup>22</sup>

It is in response to EU demands that a medium-term economic development strategy supported by a majority of parties was formulated in 2000. Yet, following EU guidelines creates political problems for Romanian officials inasmuch as the necessary reform efforts force tradeoffs and cause hardship among the population. According to former prime minister Isarescu, the most difficult talks with the EU in the near future will cover the areas of agriculture and the super-sized steel and petrochemical sectors which are the legacy of Ceausescu's industrialization strategy. Romania is pushed to keep its budget deficit at or below 3% of GDP by both EU accession plan demands and by the international financiers. To fulfill this expectation, loss-making companies in the iron and steel industries, agriculture, heavy and chemical industries will have to be shut down rapidly, and there will be next to no money available for social protection measures. In fact, the medium-term strategy has been severely criticized by trade union leaders for not containing social protection measures, and the suffering associated with rising

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<sup>22</sup> In 2000 Phare planned to spend 60-80 million Euro on regional development projects and about 15 million Euro on institutional construction and NDP implementation. Phare support requires a regional development program which targets SMEs (25%), the development of local and regional infrastructure (50%), and human resources development (25%) ("European Commission..." 2000: 3).

unemployment combined with the "fiscal discipline" demanded under accession and financing plans has aided in the return to power of the more "gradualist" opposition.

### *The IMF*

The declared goal of the International Monetary Fund is to act as a monitor of the world's currencies by helping to maintain an orderly system of payments between all countries and to facilitate a multilateral payments system between member countries. The IMF makes loans to all its members to ease their short-term balance-of-payments difficulties and seek full convertibility of their currencies through a flexible exchange rate system in force since 1973. While the World Bank makes loans for both policy reforms and projects, the IMF concerns itself with policies alone.

Romania has been a member of both the IMF and the World Bank since December 1972. Its quota in the Fund amounts to SDR 1,030.2 million or 0.5 percent of total quota.<sup>23</sup> Since 1972, Romania has used IMF resources on eight occasions in support of the government's economic programs by making use of two types of facilities, Stand-by Arrangements and Extended Fund Facility.<sup>24</sup> Total Fund credit and loans outstanding

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<sup>23</sup> The Special Drawing Right (SDR) is the IMF's accounting unit. As of March 31 2000, SDR 1 equaled US\$ 1.34687. On joining the IMF, each member contributes a certain sum of money called "quota subscription". The IMF's Total Quota amounts to SDR 210 billion (almost US\$ 300 billion), following a 45 percent quota increase effective January 22 1999.

<sup>24</sup> Stand-by arrangements are designed to provide short-term balance of payments assistance for deficits of a temporary or cyclical nature, typically for 12 to 18 months.

by the end of June 2000 amounted to SDR 395.4 million (roughly \$530 million). The IMF has provided Romania with technical assistance in a number of areas, including taxes and customs, monetary policy and central bank organization, banking supervision, and statistics. The Fund has also provided training to Romanian officials in financial programming, analysis, and policy, external sector policies, public finance, monetary and exchange operations, and statistics.

In November 1994, the IMF approved a stand-by arrangement for Romania over \$439.9 million. Under this arrangement, the country actually received \$129.4 million. The IMF's involvement in Romania, just like that of the World Bank, picked up after the launch of the Constantinescu government's reform program in February 1997. This program was supported with a new stand-by arrangement over \$413.8 million, of which Romania received \$165.5 million. In August 1999, the IMF observed that Romanian authorities had renewed their efforts to correct severe economic imbalances and long-standing structural weaknesses. In light of this commitment, the Fund reacted to Romania's foreign debt crisis of spring 1999 by approving a new stand-by arrangement in an amount equivalent to SDR 400 million (about \$535 million, or 39 percent of quota) to

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Drawings are phased on a quarterly basis, with their release made conditional on meeting performance criteria and the completion of periodic program reviews. Repurchases are made 3¼ to 5 years after each purchase. The Extended Fund Facility is designed to support medium-term programs that generally run for three years, aiming at overcoming balance of payments difficulties stemming from macroeconomic and structural problems. Performance criteria are applied, similar to those in stand-by arrangements, and repurchases are made in 4½ to 10 years.

support the government's economic stabilization and reform program. The loan was made available in four installments; the first installment was drawn in August 1999 and amounted to SDR 53 million (about \$71 million).

Completion of the first performance review, originally scheduled for October 1999, was delayed considerably, and the second tranche, \$200 million, of the originally scheduled loan was thus never issued. According to the IMF, this was due mainly to slippages in policy formulation and implementation, notwithstanding an acknowledged turnaround in Romania's external position. Given that Fund guidelines hinge on the implementation of a tight fiscal policy, which is expected to lower budget deficits and slow down inflation, the government's decision to raise some public wages became a particular concern to the Fund. IMF negotiator Emanuel Zervoudakis, in town during a wave of strikes in early 2000, professed to be "confused about wage policy in Romania" and expressed concern with several specific features, such as an increase in the salaries of army personnel by 80%, which significantly increased defense spending as a percentage of GDP<sup>25</sup> (quoted in "Government Under Pressure" 2000: 2). A sudden cabinet reshuffle in December 1999 did little to alleviate worries about potential political instability. Moreover, during preparation of Romania's budget for the year 2000, the government's judgment diverged from the Fund's with respect to several key indicator targets. Concerning the targeted level of inflation, the IMF requested that inflation be brought down to 18% while the Government judged 25-30% to be a more realistic expectation (down from 54.8% in 1999). Concerning targeted economic growth, the IMF fixed its expectations at 3% while the Government hoped for 1.3 % (up from -4% in 1999 and -

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<sup>25</sup> Salaries in the Romanian armed forces are still low.

5.4% in 1998). The fiscal reforms initiated by the Isarescu government in early 2000 have also met with some reservations, as the IMF continues to monitor their potentially adverse effects on the budget deficit.

On the positive side, however, the IMF has lauded the large reduction of Romania's current account deficit, which had fallen to under \$1.2 billion by the end of 1999, from \$3 billion in 1998. This decrease came after a significant adjustment of the trade balance, initially driven by a decline in imports of about 15%. More recently, exports have finally begun to increase, supported by an increase in industrial output ("Promising Export Figures" 2000). Another welcome development was an increase in foreign exchange reserves, which totaled \$1.55 billion at the end of 1999. Following the meeting of the IMF Board in June 2000, the Fund stated that Romania had made economic progress and improved its external position since mid-1999 by stabilizing the economy, reducing its current account deficit, increasing exports, boosting reserve levels, and laying the basis for renewed growth and declining inflation. It now judges that the country will not need to restructure its debts in the near future, as was expected in 1999, by "bailing in" the private sector and forcing private lenders to take on part of the burden of international rescue deals.

In early 2000, Romanian authorities designed and began to implement a program for the year which formed the basis for requesting waivers for non-observance of several performance criteria, completion of the first review, and an extension of the \$547 stand-by arrangement, negotiated in 1999 and initially set to end in March 2000, for 11 more months to the end of February 2001. On June 6, 2000 the IMF completed the first review under the current stand-by arrangement and approved the extension of the credit to

February 28, 2001, with an associated rephrasing of purchases. As a result, Romania was able to draw the equivalent of SDR 87 million (about \$116 million). The program had review deadlines of August 15 and November 15, 2000 and provided for performance criteria for end-June, end-September, and end-December, 2000. According to the revised schedule of purchases, the three remaining installments would each amount to the equivalent of SDR 86.75 million, pending completion of the quarterly reviews and observance of performance criteria. The Fund is presently withholding the third tranche of some \$113 million, pending the actions of the newly elected government ("Growing Fears" 2000).

At the end of the year 2000, the most discussed issues in negotiations with the IMF remain public sector wage policies, inter-company arrears and the growth of debt to the state by state companies, as well as privatization and budget policy more generally ("Economic Notes" 2000a). Arrears have become a chronic problem of the Romanian economy, with total arrears estimated to amount to 40-50% of GDP ("Economic Notes" 2000a). There are some indications that relations between Romania and the IMF might become complicated by the change in government, as the PDSR has announced that it would attempt to negotiate a "more flexible" accord with the Fund, which would allow for a budget deficit of 4.5% of GDP, up from the previously agreed-upon 3.5%. Such negotiations will take place in February 2001, when Romania's present \$540 million stand-by accord officially expires ("Growing Fears" 2000: 12).

*The World Bank*

Through its main institution, the International Bank for Reconstruction and Development (IBRD), the World Bank grants loans to member developing countries or those in transition to a market economy both for specific investment projects and to improve policies in certain fields. The World Bank's declared aims are to help borrower countries use their resources more effectively, reduce poverty, and better manage long-term growth.

Romania belongs to the group of World Bank members which are judged able to pay near-market interest rates. It thus qualifies for loans which carry an interest rate of about 6.5 – 7% and have a maturity of 15-20 years with a five year grace period. The first World Bank loan to Romania was approved on June 27, 1974. Eventually, World Bank commitment to Romania reached \$4.9 billion under 56 loan projects. The greater part of that debt was repaid by the Ceausescu regime following a unilateral decision, which caused tremendous suffering to the Romanian people during the 1980s.<sup>26</sup>

Since 1990, when Romania also joined the International Finance Corporation,<sup>27</sup> the country has received four World Bank Structural Adjustment Loans (SALs).<sup>28</sup> The

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<sup>26</sup> On this period in Romanian history see, for example, Gilberg 1990 or Behr 1991.

<sup>27</sup> A World Bank affiliate, the IFC was established to make private sector investments at higher risk and to assist governments in privatizing state-owned enterprises, help to raise private funding for business ventures, and provide legal and regulatory advisory services.

<sup>28</sup> SALs are meant to support the efforts of a member country to achieve structural reforms in the economic and social fields, leading to long term sustainable development.

The financial support is meant to sustain the balance of payments, and the only

first SAL to the amount of \$400 million was made in 1994 for a wide range of economic reforms: macroeconomic stabilization, trade liberalization, privatization, investment, and social protection. After the 1996 elections, the World Bank approved four new structural adjustment loans. One was a \$50 million Social Protection Adjustment Loan; another was a \$280 million Financial and Enterprise Sector Adjustment Loan, of which \$180 million were disbursed; a third was a \$350 million Agricultural Sector Adjustment Loan, of which 300 million have been disbursed by the end of 2000. The last SAL was approved in June 1999, a Private Sector Adjustment Loan of \$300 million dollars, successfully completed in May 2000. A new two-phase structural adjustment loan is being prepared for 2000-2001. A second Private Sector Adjustment Loan, for which negotiations have just begun, builds on the same four areas as PSAL 1: "privatization of banking, privatization of state companies, social security reform and improvement of the business environment" (Judy 2000b: 10). PSAL 2, which is expected to bring new loans amounting to some \$500 million, also supports privatization and monitoring of institutions in the non-banking sector, including unit trusts, insurance firms, and credit cooperatives ("PSAL 2" 2000).

The Bank has built up a portfolio of 29 IBRD-financed projects in Romania, of which 22 are active as of mid-2000, and two Global Environmental Facility (GEF) grants amounting to \$10 million, of which one is currently active. Since 1991, World Bank commitments to Romania total over \$3 billion, of which disbursements stand at \$2 billion to make the World Bank Romania's largest creditor. Many reform objectives pursued by these projects are considered to have been met by the World Bank. They include:

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constraints to spending are the Bank's objection list, including items such as military technology or luxury imports.

transparent subsidization which helped bring inflation down, price liberalization, direct farmer subsidies, social safety measures such as increasing the child allowance, compensation packages for layoffs, and others. Less successful was the drive for privatization and financial discipline, as persistently loss-making state-owned enterprises are still numerous.

Technical assistance is generally part of project implementation. The Bank provides financing for expert advice and staff training projects, and trains individuals from borrower countries to design and implement development programs. The Bank also plays the role of a catalyst in mobilizing grant funding from bilateral donors. Many Bank projects in Romania are co-financed by the EU, the governments of the US, Japan, or others, through special assistance programs. Another significant function of the World Bank is to mobilize additional resources through trust funds for member countries. Major projects are financed with trust fund disbursements: A Romanian example is the Danube Delta Bio-Diversity Project, which is financed through the Global Environmental Facility trust fund, of which the Bank is a repository. Since 1990 the World Bank has mobilized \$10.5 million in grants to Romania which were used to prepare support projects for technical assistance operations and institutional development.

Romania is now included among the pilot group of countries for a new World Bank initiative known as the Comprehensive Development Framework (CDF). The CDF is intended to provide a holistic approach to the challenges of development which attempts to integrate the macroeconomic and financial aspects of development with the structural, social, and human dimensions. The consensus-building process for this initiative is under way in Romania with roughly 500 people consulted by mid-2000, and

further consultations planned. These consultations will inform the articulation of the country's long-term priorities as well as the next Country Assistance Strategy between the Romanian Government and the World Bank.<sup>29</sup>

Whereas the early World Bank projects in Romania largely addressed structural reform issues and problems in the core sectors of the economy, with the passage of time the Bank's assistance strategy has shifted its focus to social issues in response to Government demand to cushion the impact of transition to a market economy. This tendency to balance economic reform and social protection shows in several projects which are new or in various preparatory stages. The World Bank's program for the next three fiscal years focuses, largely in agreement with government priorities, on promoting structural reform and private sector development, fighting poverty and developing human capital, strengthening and rationalizing the role of the state, and protecting and enhancing the environment. Priority is given to advice and financing for EU accession-related programs (World Bank).

## *NATO*

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<sup>29</sup> The Country Assistance Strategy (CAS) is the document which outlines the main areas for which the government seeks assistance and loans from the Bank. It provides the basis for the government to prepare, with or without Bank assistance, Structural Reform Programs or Investment Projects, for whose implementation Structural Adjustment Loans or Investment Loans are then requested. As opposed to SALs, Investment Loans address specific goals.

A member of the NATO Partnership for Peace (PfP) program since its inception in 1994, Romania continues to seek full membership in the alliance. NATO is interested in Romania primarily because of its strategic geographic position: Romania is located close to Caspian and Black Sea oil reserves. It is a friendly neighbor to the crucial NATO outpost and growing multi-regional power Turkey. It borders an unpredictable region full of potential dangers which stretches from Russia to the Middle East.<sup>30</sup> Last not least, it is Yugoslavia's next door neighbor and forms the northeastern edge of the ever troubled Balkans. In the case of continuing NATO expansion, Romania is a probable candidate for the next round. However, no crucial decisions on the subject are likely to be made until a high-level NATO session on the future of expansion, which is scheduled for the year 2002.

According to NATO, the Partnership for Peace program should, in the meantime, help Romania to "facilitate transparency in national defense planning and budgetary processes; ensure democratic control of defense forces; maintain the capability and readiness to contribute, subject to constitutional considerations, to operations under the authority of the UN and/or the responsibility of the OSCE; and develop cooperative military relations with the Alliance for the purpose of joint planning, training, and exercises, in order to strengthen the ability of the participating states to undertake missions in the field of peacekeeping, search and rescue, humanitarian operations and in other areas" (NATO 1999). Cooperative activities in the context of the program benefit NATO and perhaps Romania by "assisting in the development of Partner forces better able to operate with those of the members of the Alliance (NATO 1999). The

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<sup>30</sup> On the Caspian region as a new source of instability see Brill Olcott 1998.

Washington Summit of April 1999 confirmed NATO's assessment of Romania as a serious membership aspirant. It also initiated the Membership Action Plan program, designed to intensify NATO support to aspirant countries by giving advice, assistance, and practical support to and tightening cooperation with countries aspiring to membership.

Romania has clearly demonstrated its commitment to integration in the Euro-Atlantic institutions, by initiating internal reforms, building regional ties, and deepening cooperation with the rest of the Euro-Atlantic community (Solana 1999). By 1996, Romania had participated in 960 activities with NATO members forces and signed 31 bilateral military agreements in the context of the PfP (Roper 2000). The country has since continued to strive for full cooperation under the PfP and has contributed to the Implementation and Stabilization Forces in Bosnia. Cordial relations with the western alliance have received a boost with Romania's cooperation during the war in Kosovo, during which the nation supported NATO both politically and practically. For instance, Romania volunteered to participate in NATO's Operation "Eagle Eye" to help verify the pullout of Yugoslav security forces from Kosovo. After the war broke out, Romania permitted the Alliance to use Romanian airspace. Now, Romania is participating in the KFOR (Solana 1999). The Pentagon in particular also appreciates the fact that Romanians have dutifully striven to transform their military from a large, badly educated force more suited to manual labor than to fighting into a smaller, better-trained force organized along flexible, western command lines. Romania's 1999 Strategy of National Security and Concept on the Restructuring and Upgrading of the Armed Forces are in line with NATO expectations, and the Romanian Defense Ministry envisions transforming the

army's Rapid Reaction Force, which was set up in 1997, into the nucleus of Romania's future modernized army (Solana 1999).<sup>31</sup> In return for this rather costly commitment, the Romanian military continues to receive both flattery and support from the US military, as well as confirmation in its hope for eventual NATO membership (Kaplan 1998).

#### 4. A Sovereign Nation? The Impact of International Organizations in Romania

The types of policies pursued by decisionmakers in Romania are in many cases affected by appeals to international norms and reminders of the "carrots and sticks" held out by the organizations which espouse them. In particular the prospect of joining the EU and NATO in the near future has operated as an "anchor" for reform policy in Romania. Domestic polls and those taken by Eurobarometer and Eurostat indicate the tremendous desire of Romanians to join these two institutions, which are presumed to guarantee economic prosperity and security, respectively. When asked in 1995 whether they would vote for EU membership in a referendum, 97% of Romanians responded "yes," the highest figure in all of Eastern Europe. Similarly, 95% of the population supported membership in NATO (quoted in Roper 2000: 115).

As Romania has continued to strengthen its commitment to pursuing EU and NATO integration and has increased its reliance on IMF and World Bank funding in its quest for this and related ends, compatibility with the associated conditions has emerged as a dominant criterion for political acceptability in mainstream domestic politics. Everyone is a reformist in name in today's Romania. The EU's decision at the Helsinki Summit to open accession negotiations with the country effectively empowered President

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<sup>31</sup> See also Ministry of Foreign Affairs 1999a.

Constantinescu to dismiss his second prime minister Radu Vasile and pull Mugur Isarescu into the government. The fact that Isarescu was on good terms with the IMF and World Bank then benefited his government internationally, especially as he tended to be contrasted with the specter of former communism in the person of Ion Iliescu. However, Iliescu and the PDSR as well are declared supporters of accession to the EU, and their success in the fall 2000 elections seems largely due to voters' hopes that theirs is a more comfortable route towards this goal. After a pre-election meeting with Iliescu, EU enlargement commissioner Gunther Verheugen commented that "the PDSR's view was realistic and compliant with that of the European Commission" (Iliescu... " 2000: 2).

The Helsinki Summit constituted an important moment for Romania, with respect not only to Euro-Atlantic integration but also with respect to its internal development. Before the Summit, Romania perceived itself in a marginal position. Since, a more concrete integration perspective has materialized, interest in Romania has risen, the nation enjoys increased support from the EU, and Romanians are finding themselves engaged in concrete preparation. These developments have an important impact on Romanian domestic affairs. Romanian political analyst Dorel Sandor (2000) observes that "the negotiations are an additional mechanism to stimulate reform [and] modernization" inside the country. As David Dessler (1989: 467) has noted, used as domestic political resources, international norms and rules may be viewed not as "concrete girders constraining action but, instead, are media through which action becomes possible." To be engaged in the integration effort is perceived as positive by many observers for having a disciplining effect on policymakers and government and motivating decisionmakers "to be more effective, efficient, and pragmatic" (Sandor

2000). In turn, their pro-accession course is rewarded by improved prospects for investment, particularly by EU-based companies, which help offer hope for the future to voters and thus lend domestic political support. This support plays part in the fact that Romanian political parties now have for the most part rallied behind the idea of adopting the reform measures necessary for accession.

Together, EU, IMF, and World Bank provide essential means to achieve what they advertise, and membership in Euro-Atlantic security structures both profits from and lends support towards this end. During the Kosovo War, public opinion in Romania did not support NATO attacks on neighboring Yugoslavia. However, following the logic offered by their elites, the majority of Romanians accept their government's pursuit of NATO membership as a necessary part of integration with the west. To be sure, levels of popular sympathy for western nations and the United States in particular are very high. Yet, significantly, Romanians also pursue integration into NATO as a backdoor to economic integration with the west. It is widely expected that Romania will become a member of NATO before it will be able to join the EU, and that participating in NATO will help advance Romania's other, mainly economic objectives. As Steven Roper points out, "while EU membership entailed significant economic reforms that were politically difficult, NATO membership required military modernization and interoperability that were much easier to finance and sustain" (Roper 2000: 121). While the clear priority for Romania is accession to the EU, admission to NATO has been pursued at least partly as a short-cut to this end.

Despite public statements to the contrary, it is highly unlikely that Romania will actually be admitted into the EU anytime soon. Petre Roman's target date of 2007 appears

rather optimistic. Rapid accession may not even be advisable since, while Romania can profit from pre-accession assistance now, as a member it would soon become aware of the associated costs. The country has significant export potential, not least in the agrarian sector. It is an open question whether Romania should be bound by EU norms and regulations when it might find easier markets elsewhere. Such questions would have to be publicly discussed for citizens to be able to make informed judgments on accession strategy. A referendum on membership will be held at the close of negotiations with the EU, but Romanians hardly possess enough information on the subject to make an informed decision. While expressions of optimism serve the purpose of increasing motivation and discipline in the accession process, it is a more basic requirement that Romanians be accurately informed about and encouraged to debate what striving for accession does and EU membership would actually mean for their country.

According to Dorel Sandor (2000) Romanians have "a very paternalistic attitude" towards the EU, as they traditionally would towards their state: "They will come here to help us. They will come here with money, with investment. They will come here to protect us." Basically, "people expect from the EU ... to have similar conditions as in Germany as soon as possible." As they remain unaware of both the difficulties and the real opportunities associated with the nation's present development strategy, the prospect of EU membership remains a "virtual reality" for much of the population. Their support for the necessary reform measures is motivated by the vague hope that things will get better and by the psychological mechanisms of wanting what one cannot have and wanting what others, like Hungary or Poland, do have or are about to get. In the short term, there is public support for EU integration, and the necessary measures can provide

public support for parties and officials, but in the long run these measures are likely to become sources of frustration, as expectations are inevitably disappointed.

It is unclear whether the Romanian government really does have a popular mandate to pursue EU integration. This pursuit appears rather an ambition of the political elite in their search for additional resources to maintain and consolidate their power in the country. In Romania, political capital can be acquired by shaking hands with western leaders, and politicians frequently consider the power gained this way a personal resource, transferable across positions, affiliations, and issue areas. Pursuing integration thus at this level is motivated by "political vanity and ambition" and is played out as a competition between political parties and leaders for recognition and favors from the west (Sandor 2000). This is a picture book example of how, in the words of Cortell and Davis (1996: 457), "international rules can become power resources, helping domestic actors to translate their preferences into policy."

Significantly, increased hopes for EU membership since Helsinki also serve to deflect public pressure from those domestic political elites. The prospect of joining the EU in the near future is an important factor contributing to the remarkable patience and stoicism of the poor in Romania, whose numbers continue to grow. The often illusory hopes associated with the promise of accession create conditions under which Romanian decisionmakers can get away with representing international organizations more effectively than they represent their voters. While Romanians' obvious desire for rapid accession lends a degree of legitimation to the government's quest to establish the necessary conditions, the widespread ignorance of the true circumstances involving integration, combined with the often disastrous consequences of the means with which it

is pursued, at the very least continue to raise doubts concerning the state of democracy in Romania. Moreover, as Strang and Chang (1993: 244) have pointed out, norms are more effective "when they serve as resources that reinforce the purposes domestic actors are already aligned around." Thus, paradoxically, international organizations active in Romania might be better served by the domestic status quo, however questionable, than they would be by the effects of those political reforms they themselves tend to advocate.

International organizations have a strong impact in Romania at least partly because popular sovereignty remains crippled. The norms, principles, and guidelines propagated by those international organizations most relevant for Romanian politics are generally mutually reinforcing, as the European Union, World Bank, and IMF are all encouraging rapid economic liberalization complete with practically identical guidelines on how to achieve it. Romania is pressured to dramatically speed up privatization and restructuring. However, conditions for investment are too poor to allow for lucrative sales, and the state has neither the funds nor the expertise to support those whose livelihoods are threatened and destroyed by the restructuring process. While stamping out the black economy would significantly increase the amount of taxable income, the prevalence of corruption contributes to making this task seem all but unachievable.<sup>32</sup>

Romania desperately needs a sweeping reform of its civil service, which is notorious for both corruption and inefficiency. Yet corruption is sure to persist while civil servants are

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<sup>32</sup> According to a recent Gallup poll on corruption in Bucharest, 91% of the city's population view corruption as a general phenomenon, with 80% reporting that civil servants ask for bribes, and the health care sector pocketing the largest portion, 37.4%, of bribes paid. (Tudorache 2000)

not paid living wages.<sup>33</sup> For higher wages, again, there is no money. Besides, as Isarescu has put it, "the IMF representatives consider that salary progress, even in the public utility entities, is an inflationary factor" (quoted in "IMF to Discuss" 2000: 1). In fact, the strictly anti-inflationary guidelines upheld by the IMF effectively rule out a demand-driven recovery.

According to its Central Bank, Romania has required \$5 billion in foreign financing during the year 2000, of which only about \$2 billion could come from technical assistance and privatization receipts, and thus not generate debt. "Borrowed growth" works only on the condition that funds are used to finance projects which enhance productivity. In the nine years following the revolution, Romania borrowed in excess of \$8.6 billion. The money seems to have for the most part simply disappeared, or perhaps to have bought time for political elites to stay in power. Borrowed funds have also supported the maintenance of an overvalued currency. The results have been cheap imports, expensive exports, a ballooning trade deficit, and an unsustainable current account deficit. According to financial analyst Matei Paun (2000b), after the 2000 elections Romania finds itself between a rock and a hard place: It will either have to accelerate depreciation of the Leu to capitalize on productivity gains and facilitate medium-term productivity recovery, thereby inviting increased inflation. Alternatively, the country will once again experience a widening trade deficit, which must be financed with hard currency. This would only increase Romania's dependency on the international money lenders.

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<sup>33</sup> A promising civil service reform law was passed in 2000 but still needs to be successfully implemented.

The policies encouraged by the international organizations active in Romania are hardly beyond criticism. While the World Bank's as well as EU programs do address issues of social protection, these tend to be treated as side effects of economic management rather than to be incorporated into macroeconomic planning. The IMF's choice of strategy to narrow external imbalances on the basis of domestic demand restraint is at the very least questionable.<sup>34</sup> Another critical issue is the hurried sale of government property under pressure to privatize. In many cases it remains unclear why Romania should accept the concomitant losses. These problems are not specific to Romania, of course, yet they have considerable political relevance in a country where the benefits of economic transition as propagated by the external funds remain elusive to most citizens. Still, the policies which are pursued with the aim of appeasing these international organizations are never seriously debated. Alternatives are not usually taken seriously, and citizens seem to feel that they really have no choice. This is perhaps not too surprising, given Romania's totalitarian legacy. Yet the lingering effects of public disenfranchisement is hardly the only reason for the utter lack of public debate on matters so vital for the nation.

Another reason can be found in the convergence of parties and leaders on a discourse which employs the norms propagated by international organizations towards tactical ends by identifying them with the national interest. Most Romanians continue to accept this logic, yet at the same time they have grown increasingly frustrated with the lack of economic progress and the hardships resulting from reform measures. The international organizations examined, individually as well as through their combined

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<sup>34</sup> See IMF 1999.

impact on policy-making in Romania, have thus unwittingly served to revive the popularity of the "gradualists" in Romanian politics. At the same time, however, they have led the "gradualists" to move ever closer to the "reformists" position. As a result, the outcome of the 2000 general elections is expected to have practically no effect on Romania's development goals and strategies.

Independent of one's judgment of the norms fostered by the main international organizations active in Romania, it is clear that their shared goals and largely overlapping prescriptions introduce a bias into Romanian politics. This bias remains largely unquestioned as a fully democratic civil society has had no chance to develop and political elites have shown little interest in helping to create a democratic political culture. The government's approach to integration with the west, which, significantly, has viewed integration as "a coherent, all inclusive process" which could not proceed on an "issue-by-issue basis" has never been truly publicly debated (Roper 2000: 113-114). At stake in such a debate would have been not only long-term political and economic progress but a people's very identity. A series of political leaders has placed Romania firmly in Central Europe, fearing that a psychological association with the Balkan region might hurt the country's chances for Euro-Atlantic integration. Nationalists have contested some features of this newfound identity, and, as Steven Roper has pointed out, ordinary Romanians may be rather "less clear about which geographic zone Romania belongs to" (Roper 2000: 113).

The shocking success of the extreme nationalists in the 2000 elections may well be partly attributable to the fact that mainstream political forces have avoided all criticism of the norms underlying the intervention of international organizations. This has

left Vadim Tudor and parties like the PRM with a monopoly on the expression of disagreement. Steven Roper puts it bluntly: "Romania does not possess a civil society in which conflict and disagreement can be resolved through negotiation without the threat of violence" (Roper 2000: 84). International organizations have failed to problematize and address this issue and instead relied on the docility of a de facto disenfranchised population in pursuing their agendas. While the lofty goal of supporting the development of democracy in this post-communist country is invoked in countless documents and speeches, sadly, the one norm which is unmistakably communicated to the Romanian people as a result of the joint intervention of the EU, the World Bank, the IMF, and NATO is the norm of compliance.

## 5. Theoretical Implications and Conclusions

According to Cortell and Davis (2000: 70-71), there are three signs for the domestic impact of an international norm or set of norms: their "appearance in the domestic political discourse;" corresponding changes in national institutions; and corresponding changes in state policies. All three criteria clearly point to the impact of the developmental norms propagated by the main international organizations active in Romania on the country's domestic politics.

The introductory section of this chapter identified four ways to the domestic institutionalization of the norms and rules propagated by an international institution. The first pathway, the internalization of international norms by domestic decisionmakers, is sure to play a role in Romanian politics, but the extent of its significance is difficult to determine. The main reason for this difficulty lies in the extent of the structural changes

experienced by the country. It is difficult to compare the values held by today's decisionmakers with those of the members of the Ceausescu regime. To be sure, many formerly important personalities have clung to positions of power. However, since they were not free to pursue their own political agendas in the past, it is difficult to ascertain which values they held at the time. Thus, value change across the two historic periods becomes exceedingly difficult to determine. For ten years after the revolution, Romanian politics witnessed a progressive strengthening of the consensus represented by the values associated with westward development. Judging from official statements, former communists indeed underwent a considerable change of heart. Whether such statements can be believed will become more clear in the near future, as the new government will face considerable pressure from the right.

The second pathway to the domestic institutionalization of international norms suggested in the introduction is of lesser significance in the Romanian context, for the simple reason that bureaucracy in the country has proven practically immune to any efforts of reform. In fact, standard bureaucratic procedures are one of the major obstacles to institutionalizing the norms and rules advocated by the EU and other international organizations, and a complete overhaul of Romanian bureaucracy has become one of the preconditions for the success of the proposed reforms.

The third pathway to the institutionalization of international norms, their incorporation into domestic laws, is presently of greater importance in the Romanian case. In particular the preparation for accession to the EU but also the creation of conditions to safeguard continuing support from the IMF and World Bank as well as the goodwill of NATO in effect forces the Romanian government to push forward the

adoption of the required norms and rules into Romanian law. Clearly, bureaucratic reform will have to follow for this strategy to be successful.

The fourth way for international norms to succeed domestically is of enormous influence in the Romanian context. It is everywhere apparent in Romania how "a domestic actor can use the existence of an international rule to justify her own actions or call into question the legitimacy of another's" (Cortell and Davis 1996: 453). Cortell and Davis (1996) have raised the possibility that, in this way, "government officials ... may appeal to international norms to legitimate unpopular decisions." Indeed, successive Romanian governments have been making such appeals since the year 1990. The third and fourth ways in which international norms become institutionalized domestically presently operate in conjunction as the main road on which Romania is travelling towards membership in the EU.

The case of Romania confirms the need to focus on domestic structure as an intervening variable affecting the domestic impact of international norms. It also delivers some considerable support for Cortell and Davis's (1996) theoretical suggestions concerning the creation of this impact. The nature of the domestic impact of international norms in Romania is observed to be conditioned by two main factors. The first does not come as a surprise: The distance of state-society relations in Romania leads to a situation in which the impact of international norms on domestic policy is determined exclusively by political elites. This calls into question the democratic legitimacy of the government's pursuit of those norms and policies. The second factor which conditions the domestic impact of norms in Romania contributes to this democratic deficit.

While a decentralized decisionmaking structure may seem inherently more democratic than a centralized one, the impact of international norms actually becomes more easily distorted and out of step with popular consent where decisionmaking is decentralized. This is due to the role played by salient international norms in domestic political discourse. Domestic players appeal to international norms to defend their own decisions or to attack those of others. Such appeals only serve to further increase the domestic salience of the norm. As Cortell and Davis (2000: 69) have pointed out, "when a norm is salient in a particular social discourse, its invocation by relevant actors legitimates a particular behavior or action, creating a prima facie obligation, and thereby calling into question or delegitimizing alternative choices." As the level of general acceptance of the norm rises, alternative positions increasingly lose political viability. This can happen without any constructive debate and assessment of different policy options and without the involvement of society in the consensus-building process.

This study clearly confirms Cortell and Davis's (2000: 86) suggestion that, "the effects of an international norm cannot be understood independent of the norm's salience in the domestic political discourse." It remains true that reform policy has become anchored in Romania through the salience of international norms and their tactical use in domestic political debate. It is also indisputable that Romania needs reform. However, the present impact of international organizations in Romania sadly serves less to transmit relevant norms to the population and thus to provide a political-cultural foundation for progress than it does to subvert their own express purpose of true reform by helping to consolidate state-society relations as well as political culture and institutions at levels unfit for a functioning democracy.

A final important observation concerns the effects of the disassociation of international norms and rules within the Romanian domestic context. While all important domestic players profess to supporting the basic norms propagated by the four organizations discussed here, there is much less agreement on the exact rules associated with the pursuit of those norms. The result is developmental stagnation. The relevance of this phenomenon in the Romanian context suggests that the potentially diverse impact of different levels or types of international norms is a fruitful field for further study. While norms may represent a highly salient minimal consensus, rules may be less salient or more contested and may thus require different structural conditions to be successfully put into practice. At the very least, this possibility illustrates the difficulties involved with theorizing about the domestic impact of international norms at a high level of generalization.

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