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# **Door Half Open: Opportunities and Challenges for Potential Investors in Romania**

by Dragos C. Popa  
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# Country Study

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## ► Executive Summary

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A new member state of the European Union (EU) and the North Atlantic Treaty Organization (NATO), Romania is undergoing a vibrant process of transformation. Over the past two decades, it has emerged as one of the most stable political systems and most dynamic market economies in Central and Eastern Europe (CEE), as well as being a country that is increasingly active in European and Euro-Atlantic affairs. Accompanying these positive developments, Romania suffers from frequently changing policy priorities, significant levels of corruption, and poor infrastructure, many of which are legacies of the country's pre-1989 Communist experience.

The analysis in this paper indicates that Romania has been very successful in finding peaceful solutions to its post-Communist political challenges. At the same time, it has a highly fragmented political scene, which translates into a significant level of inconsistency in the production and application of economic laws, regulations, policies and procedures. Romania's economy is built on market principles, yet the Romanian Government continues to exercise substantial influence over the business climate and to control the development of various economic sectors (e.g., energy and natural resources). From a security standpoint, the country benefits from a stable domestic and regional environment, and from security guarantees provided by the United States, NATO and the EU.

The assessment of these areas indicates the existence of real prospects for foreign investors to pursue business opportunities in Romania. Investment projects in this country, particularly in the mining sector, however, require detailed planning and engagement strategies to mitigate the risk of political opposition.





Source: Encyclopaedia Britannica, <http://www.britannica.com/EBchecked/media/62195/>

**A**nation of 21.5 million people, covering an area of 240,000km<sup>2</sup>, Romania is one of the largest countries in Central and Eastern Europe (CEE). It is a member of the European Union (EU) and the North Atlantic Treaty Organization (NATO), and enjoys peaceful relations with its neighbours.<sup>1</sup> Over the past two decades, Romania has managed to evolve from a closed society, dominated by an authoritarian political regime and based on a centralized economic system, to a full-fledged, respected member of the international community.

This paper will investigate Romania's political, economic and security-related transformation since the end of the Cold War and will highlight the current state of affairs in these areas. Based on their individual assessments, the paper will offer an analysis of opportunities and challenges for potential investors in Romania, with an emphasis on the country's revitalized mining sector.

## POLITICAL SCENE

The uprising of December 1989 marked a new beginning for Romania: the country left behind an authoritarian political system, a planned economy and a Communist identity. It engaged in a complex and painful transition process toward democracy, capitalism and integration into

<sup>1</sup> Romania has a strategic partnership with Hungary, close relations with Bulgaria built on constructive rivalry, and kinship links with the Romanian-speaking Republic of Moldova. Its relations with Serbia are positive but not very substantive, while the Romania-Ukraine relationship is affected by minor territorial disputes at the Black Sea.



Western structures, which fundamentally adjusted, along the way, the country's social fabric, its national identity, its institutional architecture and its relations with the rest of the world. 1989 represented a radical break with the country's Communist past and, as Romanians saw it, an opportunity for reintegration within "Europe" and the West.

In less than two decades following that annus mirabilis of global affairs, Romania managed to accede to the European Union and to become a member of the North Atlantic Treaty Organization. Understanding the necessity of its integration into Western structures – primarily the EU and NATO – Romania promoted policies whose aim was to meet their requirements. Among such measures, reforming the country's legal frameworks and regulating the activity in various fields according to Western principles were a very important elements.

The events of September 11, 2001 (9/11), presented Romania with an opportunity to prove that the country was willing to share the burden of responding forcefully to multifaceted international security challenges and that its armed forces were capable of taking part in complex multinational operations. At the same time, 9/11 offered Romania the chance to strengthen relations with the Euro-Atlantic community, most notably with the United States and the United Kingdom. The country joined multinational coalitions in military interventions in Afghanistan and Iraq and became a strategic partner of the USA in Central and Eastern Europe.

## **Domestic Political Situation**

From December 1989 until 1996, the country's main political figure was President Ion Iliescu, a left-of-centre former Communist functionary who, behind the scenes, had led the uprising against dictator Nicolae Ceausescu's regime. Prime Ministers Petre Roman (1989-1991), Teodor Stolojan (1991-1992) and Nicolae Vacaroiu (1992-1996) – representing the National Salvation Front (FSN) and, later, the Social Democracy Party of Romania (PDSR) – were secondary political figures in a country still approving of a strong head of state. Romania initiated decisive steps in its transition towards liberal democracy and market economy, but progress was shoddy during those first years.

The elections of 1996 brought about the first major political change in post-Communist Romania. Driving the levers of power was a right-of-centre political coalition made up of the Democratic Convention of Romania (CDR), the Democratic Party (PD) and the Democratic Union of Hungarians in Romania (UDMR). It was led by President Emil Constantinescu, who complained repeatedly toward the end of his mandate (1997-2000) that forces linked to the former Communist regime undermined his efforts toward systemic transformation of the Romanian society. While this statement is accurate, the quarrels within the coalition that supported President Constantinescu's drive to power played an equally negative role during those four years.

The Government of Prime Minister Victor Ciorbea (1996-1998) did not regard NATO and EU accession as a major foreign policy priority.<sup>2</sup> It was mostly under Prime Ministers Radu Vasile (1998-2000) and Mugur Isarescu (2000) that reform processes were implemented in an integrated, targeted and sustained manner, and began to be noticed in Brussels and Washington, DC.

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<sup>2</sup> Given its laggardness in implementing systemic reforms, including security and defence-related measures, as compared with some of its neighbours in Central and Eastern Europe, Romania was not invited to join NATO at the Alliance's 1997 "enlargement summit" in Madrid, Spain.



2001 marked the return to power of PDSR (now called the Social Democratic Party or PSD) and President Ion Iliescu, and with him a new impetus for political, economic and social transformation. Stronger democratic credentials, improved civilian control over the armed forces and the country's active participation in the US-led "war on terror" were key contributing factors to NATO extending a membership invitation to Romania in 2004. Prime Minister Adrian Nastase's (2000-2004) pro-Western political orientation contributed significantly to this achievement.

The fourth political regime during Romania's post-Communist era was led by President Traian Basescu (inaugurated in 2004 and re-elected for a second five-year term in 2009). Mr. Basescu was voted into office on a right-of-centre electoral platform promoting a more business-friendly environment, reduction of red tape, anti-corruption measures and access to the former secret police's files. Prime Minister Calin Popescu-Tariceanu's (2004-2008) main objectives were the improvement of Romania's economic climate and the country's accession to the EU, which was achieved in 2007.

The current Government, led by Prime Minister Emil Boc (inaugurated in 2008), is a coalition of the Democratic Liberal Party (PDL), the National Union for Romania's Progress (UNPR), UDMR and independent parliamentarians. Its main strategic priority is to manage Romania's recovery in the aftermath of the global financial and economic crisis.

## **Regional Political Situation**

While several options were assessed in the early 1990s (including neutrality and the creation of regional political, economic and security arrangements), the Central and Eastern European countries opted forcefully for integration into Western organizations such as NATO and the EU. These institutions were seen in the former Warsaw Pact countries as not only being able to meet the latter's needs in a changing international environment, but also offering the models and means for Central and Eastern Europe's transformation into a prosperous and stable economic and political area.

The CEE countries' desire to join European and Euro-Atlantic organizations, combined with the latter's requirements for membership, have led, over the past two decades, to a dynamic transformation of Central and Eastern European societies. CEE countries saw the North Atlantic Treaty Organization as much more than a defence alliance: NATO membership was regarded as validation of their irreversible integration into the West. The European Union would play an even bigger role in steering these societies towards a market economy, democratic governance, and respect for the rule of law and human rights.

While the countries of the Western Balkans are currently on the path to full integration into the European Union, Romania's northern and eastern neighbours (Ukraine and the Republic of Moldova) remain in a grey geopolitical area. Their prospect of joining Euro-Atlantic clubs such as the EU is virtually non-existent, which makes half of Romania's borders a political fault line in Europe, separating the West from the East.<sup>3</sup> If not a new "Iron Curtain," the EU's eastern border is becoming a "Rio Grande," separating two sides of the continent with different ideological underpinnings and governance visions. Border countries such as Romania will need

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<sup>3</sup> This arrangement becomes even more complex given the existence of hundreds of thousands of holders of Romanian citizenship in the Republic of Moldova.



to carefully manage relations with fellow NATO and EU member states, candidates to membership in these organizations, and countries with no prospect or interest in joining Euro-Atlantic structures.

## Relations with Canada

Romania's relations with Canada are good, but have not yet reached their full potential. At a political level, there is regular contact between government officials and strong political representation in both countries. Economically, Romania and Canada have collaborated on a range of significant projects, mainly in the energy and natural resources sectors, starting decades ago. In the area of security and defence, the two countries share similar views and common values, and have coordinated their military actions in several theatres of operations around the globe.

Canada supported Romania's bid for accession to NATO and provided assistance in its efforts to join the EU.<sup>4</sup> As members of the International Organization of La Francophonie Romania and Canada collaborated closely in organizing two successive international summits – in Bucharest in 2006 and in Quebec City in 2008. Both countries have contributed to the multinational military effort in Afghanistan since 2002, particularly through the International Security Assistance Force (ISAF).

The level of academic and cultural exchanges between Romania and Canada is not significant, but they are becoming more structured and strategic in recent years. Seven Romanian universities have opened Centres for Canadian Studies, which is an area "of significant interest in the Romanian academic environment."<sup>5</sup> Equally, Romanian academics and other cultural figures visit Canada and collaborate with their peers on a regular basis.

A basic legal framework establishing formal relations between the two countries includes economic, visa-related and various agreements in other areas. Some of the most important ones relate to economic matters such as foreign investment promotion and protection (2009), double taxation avoidance (2004) and cooperation in the development and use of nuclear energy (1977).

Romania is Canada's largest trading partner in South-East Europe.<sup>6</sup> The most significant project developed by the two countries was the construction of Romania's first two nuclear reactors at Cernavoda, based on the Canadian CANDU design. While the first reactor has been in operation since 1996, work had been initiated by the Romanian Government and Atomic

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<sup>4</sup> Canada's technical cooperation program in Romania, promoted between 1991 and 2006, disbursed CDN\$ 42 million, supported 177 projects and helped to "build an enabling environment for reform and economic development." Some of the key sectors in which the program contributed, mainly by transferring knowledge and expertise, were: finance, agriculture, health and nuclear safety. Source: Canadian International Development Agency, *Canada and Romania: Partners in Transition*, <http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/En/JUD-516142815-PNQ>, July 2005, accessed October 1, 2011.

<sup>5</sup> Government of Canada, *Canada - Romania Relations*, [http://www.canadainternational.gc.ca/romania-roumanie/bilateral\\_relations\\_bilaterales/canada\\_romania-roumanie.aspx?lang=eng](http://www.canadainternational.gc.ca/romania-roumanie/bilateral_relations_bilaterales/canada_romania-roumanie.aspx?lang=eng), July 2008, accessed October 1, 2011.

<sup>6</sup> *Ibid.*



Energy of Canada Limited (AECL) in the late 1970s. The launch of the second reactor took place in 2007 and Canada expressed interest in building reactors 3 and 4.<sup>7</sup>

Trade exchanges between Romania and Canada were US\$348m in 2008, but dropped to USD\$145m in 2009, after the onset of the global financial crisis, which affected Romania significantly. Romania had a trade deficit with Canada of USD\$219m in 2008 and USD\$83m in 2009.<sup>8</sup> A recent study indicates that "Canadian exports to Romania have generally grown since 2000, while imports from Romania grew in the first half of the decade before beginning to decline in 2006."<sup>9</sup>

While Canada exported mainly chemical products to Romania (but also machinery, equipment, and electrical and electronic products), the largest Canadian imports from Romania in 2009 were clothing, apparel and footwear (as well as metal, mining and energy products).<sup>10</sup>

Limited data on Canadian direct investment in Romania is available, yet a study indicates that it was around CDN\$240m in 2009, "a significantly higher amount than the 2004 level of CDN\$7 million."<sup>11</sup> A number of Canadian companies invested in mining projects in recent years, some of which have already been initiated, while others are awaiting formal approval from state authorities.

In 2009, Canada launched negotiations with the European Union on a Comprehensive Economic and Trade Agreement (CETA). Both parties expressed their commitment to complete negotiations on the free trade agreement in 2012. As a EU member state, Romania would be covered by the provisions of this legal arrangement and would see existing barriers in its trade relations with Canada removed.

## CURRENT ECONOMIC SITUATION

The global financial crisis that started in 2008 affected the Romanian economy considerably. High annual rates of economic growth (e.g., 7-8% in 2008) were reduced to negative levels in following years, while the Romanian Government enacted widespread austerity measures in an attempt to tackle the country's budget deficit. The national GDP contracted by a staggering 7% in 2009 and the economic contraction continued in 2010, although at a lower rate (1.2%).<sup>12</sup>

2011 marked the beginning of Romania's economic recovery. The International Monetary Fund (IMF) estimates that the Romanian economy will return to positive territory in upcoming years, driven by both an increase in exports and domestic demand. For 2012, IMF projects an

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<sup>7</sup> The nuclear division of Canadian company SNC LAVALIN is part of an international consortium that has submitted a proposal to build the two new reactors, at an estimated total investment of EURO 4 billion (CDN\$5.6b). Source: "Bechtel, Lavalin Nuclear submit offers to build Romania's Cernavoda 3 and 4 nuclear reactors," *Romania Business Insider*, January 19, 2011.

<sup>8</sup> Embassy of Romania in Ottawa, *Economic Relations*, <http://ottawa.mae.ro/index.php?lang=en&id=11362>, October 2011, accessed October 1, 2011.

<sup>9</sup> Simon Lapointe, *Canadian Trade and Investment Activity: Canada-Romania*, Library of Parliament, November 2, 2010, p. 2.

<sup>10</sup> *Ibid.*, p. 3.

<sup>11</sup> *Ibid.*, p. 4.

<sup>12</sup> Index Mundi, "Romania GDP - real growth rate," [http://www.indexmundi.com/romania/gdp\\_real\\_growth\\_rate.html](http://www.indexmundi.com/romania/gdp_real_growth_rate.html), 2011, accessed October 2, 2011.



economic growth of only 2% – slashed from an initial estimate of 3-4%, "as the risk of contagion from EU markets becomes more prominent."<sup>13</sup>

Romania's national GDP (2009 est.) is USD\$161.5B and its GDP per capita is USD\$7,500.<sup>14</sup> Its sectoral value-added as a share of GDP is as follows: agriculture 7%, manufacturing industry 21%, non-manufacturing industry 4% and services 68% (2009 figures).<sup>15</sup> Some of the most dynamic areas of the Romanian economy are sectors such as motor vehicle production and information technology (IT), along with machinery and equipment, chemical products, textiles and footwear, and the country's large service sector.<sup>16</sup>

Overregulation, ongoing legislative changes, inconsistency in the application of laws and corruption are but a few irritants for foreign investors in Romania. In a 2011 address, Philippe Beaulne, Canada's Ambassador to Romania, highlighted the need for Romania to "keep procedures simple and have laws and regulations that encourage economic activity and investment. Transparency, predictability as well as due process in due time can only benefit all."<sup>17</sup>

A 2010 report by the World Economic Forum (WEF) ranks Romania 67 out of 139 countries on the basis of its overall economic competitiveness, among the least competitive countries in the European Union.<sup>18</sup> WEF indicates that the most problematic aspects of doing business in Romania are (from most to less frequently noted): access to financing, inadequate supply of infrastructure, inefficient government bureaucracy, tax rates and tax regulations (over 10% of responses), policy instability, corruption and restrictive labour relations (over 5% of responses).<sup>19</sup> However, in a WEF Global Competitiveness Index, several categories place Romania in the upper half group of countries: market size (rank 43 out of 139), higher education and training (54), technological readiness (58) and health and primary education (63).<sup>20</sup>

## State of Infrastructure

Romania's infrastructure is largely old and in dire need of improvement. In particular, the transportation infrastructure suffers from chronic underfunding and inefficiency in administering available funds. Out of a total road network of about 200,000 km, only 60,000 are paved – of which, a meagre 0.5% (about 300 km) are highways. Although the construction of a highway network has been a priority for the Romanian government for almost a decade, the progress has been disappointing and the process mired in accusations of incompetence, red tape

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<sup>13</sup> Ovidiu Posirca, "Romania's economic growth expectations for 2012 under pressure," *Business Review*, October 7, 2011.

<sup>14</sup> World Economic Forum, *The Global Competitiveness Report 2010–2011*, [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2010-11.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf), 2010, accessed October

<sup>15</sup> *Ibid.*, p. 63.

<sup>16</sup> In 2009, Romania imported and exported in almost equal measure machinery and equipment (26% of total output), textiles and products (7% and 10% respectively), and minerals and fuels (10% and 6%). It exported 10% of basic metals and products (as a share of total exports) and imported 11% of chemical products (share of total). Source: Economist Intelligence Unit, *Country Report: Romania*, April 2011, p. 21.

<sup>17</sup> Nine O'Clock, "Canada, Romania share common goal to protect democracy and human rights," <http://www.nineoclock.ro/canada-romania-share-common-goal-to-protect-democracy-and-human-rights/>, June 30, 2011, accessed October 2, 2011.

<sup>18</sup> World Economic Forum, *ibid.*, p. 284.

<sup>19</sup> *Ibid.*

<sup>20</sup> *Ibid.*



and corruption. A 2010 report by the World Economic Forum ranks Romania 136th out of 139 countries on the quality of its overall infrastructure.

The WEF report highlights, however, some important differences between the quality of Romania's transport infrastructure on the one hand and its electricity and telephony infrastructure on the other hand. While its roads, ports and air transport infrastructure rank among the worst of the 139 countries surveyed (ranks: 134, 122 and 102 respectively), Romania's electricity supply, fixed telephone lines and mobile telephone subscriptions are in a much better position (ranks: 77, 52 and 36 respectively).<sup>21</sup> The country also benefits from extensive access to broadband Internet networks and has some of the fastest Internet services in the world.<sup>22</sup> Banking, insurance, stock market and business services are also highly developed.

The quality of Romania's railroad infrastructure ranks 70th out of 139 countries surveyed by WEF, given the existence of an extensive rail network across the country, which is, however, suffering from decades of underinvestment. Nonetheless, Romania has rail links with all its neighbours and 54 airports (2010 est.).<sup>23</sup> In addition, Romania has five main ports and terminals at the Danube River and the Black Sea and 1,700 km of navigable waterways.<sup>24</sup>

Romania plans to construct several hundred additional kilometres of highways by 2013, hoping to tap into billions of Euros in European Union funding for transport infrastructure. Analysts are sceptical that Romania will be able to absorb entirely the available funds, given its unenviable record of accomplishment in recent years. A 2010 study by EU agency JASPERS (Joint Assistance to Support Projects in European Regions) estimated that "cost overruns were more likely in Romania than in eight other central and eastern European countries [...] largely due to weak public administration."<sup>25</sup>

Observers have noted that several multinational companies have not pursued, or have scaled back, their proposed investments in Romania due to a lack of adequate infrastructure, some of the most notable examples being that of US carmaker Ford<sup>26</sup> and German carmaker Daimler AG.<sup>27</sup> However, there is renewed interest, from not only European, but also American and Chinese companies, in investing in major infrastructure projects in Romania over the next decade.

## Trends in Mining

The past two decades have seen significant changes in the Romanian mining industry. A privileged sector that used to be at the core of former Communist Romania's centralized

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<sup>21</sup> *Ibid.*, p. 285. Given the country's old and poorly maintained land line system, most Romanians use mobile phones instead.

<sup>22</sup> Josh Catone, "Which Country Has the World's Fastest Internet?," <http://mashable.com/2011/09/21/fastest-download-speeds-infographic/>, September 21, 2011, accessed October 3, 2011.

<sup>23</sup> Economy Watch, *Romania Airport Statistics*, [http://www.economywatch.com/economic-statistics/Romania/Airport\\_Statistics/](http://www.economywatch.com/economic-statistics/Romania/Airport_Statistics/), August 1, 2011, accessed October 3, 2011.

<sup>24</sup> *Ibid.*

<sup>25</sup> Luiza Ilie, "Special report: Romania's roads to nowhere," <http://uk.reuters.com/article/2011/05/26/uk-romania-infrastructure-idUKTRE74PoYP20110526>, May 26, 2011, accessed October 3, 2011.

<sup>26</sup> *Ibid.*

<sup>27</sup> Government of Hungary, *Daimler AG choose Hungary to build its new plant*, [http://www.mfa.gov.hu/kulkepviselet/NL/en/news\\_events/Deimler.htm?printable=true](http://www.mfa.gov.hu/kulkepviselet/NL/en/news_events/Deimler.htm?printable=true), 2008, accessed October 3, 2011.



economy, mining has undergone a significant process of transformation since 1989. It has been dramatically scaled down in terms of employment numbers and active projects, and also in terms of economic and political influence.

During the second half of the 1990s, particularly after 1997, the Government of Romania initiated measures to close unprofitable mines and lay off a majority of Romanian miners. Between 1997 and 2006 the number of miners employed in the field was drastically reduced: from around 170,000 to less than 50,000.<sup>28</sup> More cuts in personnel were made after the beginning of the global economic crisis in 2008-2009, which affected the mining industry as a whole. Further cuts are expected following the 2010 EU's decision to shut down state subsidized coal mines by 2014, which could affect thousands of jobs in Romania's Jiu Valley (south-western Romania).<sup>29</sup>

There were six episodes ("mineriade") during the first decade of Romania's democratic transition in which coal miners from the Jiu Valley region engaged in violent protests.<sup>30</sup> As recently as 2007, Business Monitor International (BMI) indicated that the "close-knit relationship between the miners and the Romanian government continues to influence current relationships, making reforms more challenging."<sup>31</sup> A further complicating factor is the emergence of civil society political and environmental groups opposed to existing and future mining projects. The Rosia Montana gold project, initiated by Canadian-based resource company Gabriel Resources, has become a lightning rod for a variegated collection of individuals and organizations opposed to the exploitation of Romania's natural resources, particularly by foreign investors.

This follows, however, a major cyanide spill near Baia Mare (north-western Romania) in 2000, which released over 100,000 cubic meters of cyanide-contaminated water into major river systems in Romania, Hungary and Yugoslavia. The incident was called the worst environmental disaster in Europe since the Chernobyl nuclear leak in 1986.<sup>32</sup> At the time, the Romanian government appealed for international help in addressing unsafe practices and unreliable technology at 40 other mines and factories.<sup>33</sup>

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<sup>28</sup> Business Monitor International, *Romania Mining Report 2009*, <http://www.marketresearch.com/Business-Monitor-International-v304/Romania-Mining-2385195/>, July 17, 2009, accessed October 3, 2011.

<sup>29</sup> Nikki Tait, "EU clamps down on loss-making coalmines," *Financial Times*, July 20, 2010.

<sup>30</sup> In 1990 thousands of miners descended upon the Romanian capital, attacked democratic opposition supporters camped in downtown Bucharest and vandalized buildings. Several people died and hundreds were injured in confrontations between the pro-government miners and civil society activists. The 1991 episode led to the resignation of Prime Minister Petre Roman's Cabinet. Two similar incidents in 1999 involved, in addition to miners from the Jiu Valley, workers from other mining regions (Oltenia, Banat). Although they were unable to reach Bucharest, they used paramilitary tactics, fought with police constables ("jandarmi"), took hundreds of people hostage and forced the resignation of Minister of the Interior Gavril Dejeu. The nature of their 1999 demands was motivated less by political considerations and primarily by social and economic demands. The miners' leader, Miron Cosma, would spend years behind bars (1999-2007) for his role in the six "mineriade."

<sup>31</sup> Business Monitor International, *Romania Mining Report 2007*, <http://www.marketresearch.com/Business-Monitor-International-v304/Romania-Mining-1686225/>, May 4, 2007, accessed October 4, 2011.

<sup>32</sup> BBC News, "Death of a river," <http://news.bbc.co.uk/2/hi/europe/642880.stm>, February 15, 2000, accessed October 4, 2011.

<sup>33</sup> BBC News, "Second cyanide spill blights Romania," <http://news.bbc.co.uk/2/hi/europe/1137460.stm>, January 26, 2001, accessed October 4, 2011. The mine operator (gold mining company Aurul), a joint-venture of Australia-based Esmeralda Exploration and the Romanian government, denied responsibility although a European Union report on the disaster blamed "design faults at the mine alongside other factors."



According to Business Monitor International, mining "reserves suffer from lack of maintenance and investment"<sup>34</sup> yet "it is unlikely that the gold deposits will remain untouched in the long run."<sup>35</sup> Two other gold mining projects initiated by Canada-based companies in western Romania – at Certej by European Goldfields and at Rovina by Carpathian Gold – have received less scrutiny. A number of Chinese companies expressed in 2011 their interest in investing in coal and nuclear projects in Romania.

BMI estimated that, after having gone through a period of contraction in 2009 and 2010, Romania's mining sector would pick up in 2011, while steady growth is projected through 2015. It is expected that by the middle of the decade the mining sector will break the USD\$1B mark, partly due to "promising reserves – particularly in gold – which will help firm investment in the industry."<sup>36</sup> Secretary of State in the Ministry of Economy, Trade and Business Environment of Romania Tudor Serban also indicated 2015 as a "reasonable timeline to talk about modern mining in Romania."<sup>37</sup> In this context, it is foreign direct investment that would have a critical role in ensuring sustainable growth in this sector.

Romania continues to boast significant mining resources. According to the Government of Romania, the country's unexplored resources are estimated to be upwards of 20 billion tonnes (non-ferrous and ferrous metal ores, salt, non-metal ores, sand and gravel, and construction and ornamental rock).<sup>38</sup> Up to 20 million tonnes of mineral resources could be produced annually in Romania, which would cover 15% of the European Union's needs.<sup>39</sup>

## GENERAL SECURITY SITUATION

Post-Cold War analyses by Romanian officials and independent experts have revealed the increasingly complex nature of domestic and international threats, their close interrelatedness and the need for states' joint efforts in counteracting these novel challenges. Prior to September 11, 2001, Romania listed among its top security concerns disintegrative phenomena – including state failure – in its near abroad (inter alia, the break-up of the Soviet Union, Yugoslavia, Czechoslovakia and, de facto, the Republic of Moldova) and their possible spill-over effect on Romania.

Following the terrorist attacks of September 11, 2001, the Romanian Government's attention has been drawn to unconventional, asymmetrical threats, such as terrorism and the proliferation of weapons of mass destruction (WMD). The regional component of Romania's security concerns has not disappeared; on the contrary, regional risks and vulnerabilities have re-emerged as security anxieties in the post-9/11 context, given possible interconnections with the new

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<sup>34</sup> Business Monitor International, *Romania Mining Report 2008*, <http://www.marketresearch.com/Business-Monitor-International-v304/Romania-Mining-2015746/>, June 25, 2008, accessed October 4, 2011.

<sup>35</sup> Business Monitor International, *Romania Mining Report 2009*.

<sup>36</sup> Business Monitor International, *Romania Mining Report 2011*, <http://www.marketresearch.com/Business-Monitor-International-v304/Romania-Mining-6481241/>, July 29, 2011, accessed October 4, 2011.

<sup>37</sup> Stela Irizan, "Tudor Serban: Minerit modern in Romania, in 2015," <http://www.capitalul.ro/macro-economie/tudor-serban-minerit-modern-in-romania-in-2015.html>, April 23, 2010, accessed October 4, 2011.

<sup>38</sup> Government of Romania, *National Sustainable Development Strategy: Romania 2013-2020-2030*, [http://www.un.org/esa/dsd/dsd\\_aofw\\_ni/ni\\_pdfs/NationalReports/romania/Romania.pdf](http://www.un.org/esa/dsd/dsd_aofw_ni/ni_pdfs/NationalReports/romania/Romania.pdf), 2008, accessed October 4, 2011.

<sup>39</sup> Alexandru Moldovan, "Saracii inca bogati ai Europei," *Saptamana financiara*, October 24, 2008.



asymmetrical threats. However, the number of analysts and officials that still place conventional military threats at the top of their assessments and policy agendas has decreased considerably.

Terrorism and WMD proliferation are superimposed on other, equally significant, areas of concern that the Romanian state considers important to tackle: organized crime, corruption, illegal migration and interethnic conflicts. To back up its threat assessments, the Romanian Intelligence Service (SRI) pointed to a growing number of organized crime cells and terrorist groups that operate in Romania's immediate neighbourhood, including on Romanian territory. Some of them were alleged to be involved in illegal transactions with components of nuclear and biological weapons, originating in Ukraine and other former Soviet republics.<sup>40</sup>

All of Romania's post-9/11 policy documents underscored the country's determination to address domestic, regional and global security challenges. Implicitly or explicitly, they also made clear the Government's recognition that the new threat environment offered Romania the chance of strengthening relations with its strategic international partners, by being on the same side in the fight against these new threats. However, beyond political rhetoric and the instrumental use of armed forces as instruments of international diplomacy, Romania has no major and immediate security concerns, either internally or externally. From a security standpoint, Central and Eastern Europe is a safe region for investors, benefiting from stable societies, relatively strong governments and security guarantees provided by NATO, the EU and the United States.

## Internal Security

Romania's Supreme Council of National Defence (CSAT) listed, in early 2005, five key directions of the country's national security strategy in the post-9/11 context. According to CSAT, the main threat to national security in the new global environment is international terrorism, followed by WMD proliferation and "totalitarian regimes that sponsor terrorism." The fourth and fifth places are held by crisis situations in Romania's strategic neighbourhood ("frozen conflicts or situations of political instability") and, at the domestic level, poor governance (associated with relatively high levels of corruption among state officials and civil servants).<sup>41</sup>

Romanian officials repeatedly underlined the transnational nature of the new terrorist threat: while originating from abroad in the vast majority of cases, terrorism tends to affect Western countries at the domestic level. A domino effect in terms of threat assessments and overall societal responses can be noticed throughout the West every time one or several countries are suffering from terrorist incidents. Nonetheless, several assessments by SRI indicate that the post-9/11 threat level for terrorist attacks on Romanian territory was low to moderate.<sup>42</sup>

Despite significant efforts to address potential security threats at the domestic level – in both institutional and policy terms – there is little evidence to suggest that the country has been threatened by terrorism or WMD proliferation. No terrorist incidents have occurred in Romania

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<sup>40</sup> Radu Tudor, "Brigada Antiterorista din Romania isi extinde cooperarea in lupta impotriva terorismului," <http://www.sri.ro>, January 2002, accessed June 26, 2005.

<sup>41</sup> Romanian Presidency, "Comunicat de presa," <http://www.presidency.ro>, February 28, 2005, accessed February 28, 2005.

<sup>42</sup> Romanian Intelligence Service (SRI), "Centrul de Coordonare Operativa Antiterorista. Informare de presa. Evaluare pe trimestrul I/2004," <http://www.sri.ro/>, 2004, accessed December 7, 2004.



since 2001 and no publicly available information suggests that Romanian nationals were involved in terrorism-related activities abroad.<sup>43</sup>

## Regional Security

Similar to the international system as a whole, Romania's immediate neighbourhood and the broader region in which the country is positioned has changed dramatically since the fall of the Iron Curtain. Past or present conflicts in the separatist region of Transdniestria (the Republic of Moldova)<sup>44</sup> and in the former Yugoslav space (Kosovo, among others), but also in further away territories such as South Osetia and Abkhazia (Georgia), Nagorno-Karabach (Azerbaijan), Chechnya (Russia) and Kurdistan (covering parts of Turkey, Iraq, Iran, Armenia and Syria), heightened Romania's sense of insecurity in a volatile part of the world, particularly in the 1990s.

Most of these conflicts emerged following the disintegration of the Soviet Union and, according to Gheorghe Fulga, former Director of Romania's Foreign Intelligence Service (SIE), "they affected the political and economic development of countries in the region, contributing to more radical patterns in their political life and increased instability, an ideal environment for the proliferation of phenomena such as organized crime and terrorism."<sup>45</sup>

Col. Mihail Ciuperceanu, Director General for Military Intelligence at Romania's Ministry of National Defence (MApN), pointed out that several terrorist groups had operatives or interests in Romania's neighbourhood: "they are involved in organized crime, drug trafficking, human trafficking and illegal migration. [But these] terrorist cells can also act as intermediary for possible attacks" in the region.<sup>46</sup> South East Europe and the larger Black Sea region are, according to the Romanian Government, areas in which inter-linkages between various categories of threats become visible and pose a danger to countries' security and stability.

In 2011, Romania and the United States signed an agreement allowing the USA to build, maintain, and operate a land-based Aegis Ballistic Missile Defense (BMD) System on Romanian territory.<sup>47</sup> The BMD system will help protect Romania and its NATO neighbours from the threat of incoming missiles and will act as a deterrent against other types of traditional military action directed at NATO Allies. The United States also operates military bases in Romania, at

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<sup>43</sup> The only significant incident occurred in June 2006, when counter-terrorism forces arrested a Romanian citizen converted to Islam, Florin Lesch (a.k.a. Ayhah Hassan Abger), allegedly attempting to detonate a home-made bomb in downtown Timisoara, Romania's fourth largest city and home of a sizable Muslim community. It is alleged that he had links to Islamic fundamentalist operatives abroad, and his actions were meant to determine the Romanian Government to withdraw its troops from Iraq. Source: O. Marascu *et al.*, "Arestarea teroristului-butelie," *ZIUA*, June 28, 2006.

<sup>44</sup> Transdniestria, a narrow strip of land at the Republic of Moldova's eastern border, is of particular concern to Romania, given not only the large proportion of Romanian citizens living in Moldova, but also the separatist region's proximity to Romania. The breakaway republic of Transdniestria is widely seen as a very convenient transit spot for smuggling rings and possibly terrorist networks and as a genuine threat to world security, as the territory is used as a reliable source of weapons, possibly including WMD. Source: Romanian Intelligence Service (SRI), "Interviu acordat de directorul SIE, dr. Gheorghe Fulga, reporterului cotidianului ZIUA, Radu Tudor, la 26 noiembrie 2004," <http://www.sie.ro>, November 26, 2004, accessed July 2, 2005.

<sup>45</sup> Gheorghe Fulga, "Climatul de securitate in regiunea Marii Negre extinse dupa 11 septembrie 2001," <http://www.sie.ro>, 2005, accessed June 26, 2005.

<sup>46</sup> Mihai Diac, "Pe teritoriul Romaniei sunt prezente zece grupari teroriste," *Gandul*, May 27, 2005.

<sup>47</sup> Voice of America, "U.S. - Romania Sign Ballistic Missile Defense Agreement," <http://www.voanews.com/policy/editorials/europe/US--Romania-Sign-Ballistic-Missile-Defense--130173568.html>, September 19, 2011, accessed October 4, 2011.



the Black Sea, and has developed strong programs of defence cooperation with other CEE countries. Combined with these nations' own efforts to counteract potential threats, this part of Europe is well positioned to respond to current and future security challenges. Moreover, despite granular analysis of potential security threats materializing in the region, CEE countries are among the most secure in the world – a situation that is unlikely to change in the foreseeable future.

## CONCLUSIONS

Romania presents a substantial number of opportunities for companies considering investing in the region. There are no major security concerns and the probability of hypothetical domestic or external threats materializing continues to be very low for the foreseeable future. There are industries and sectors of the Romanian economy that are yet to be privatized and the country generally welcomes foreign direct investment as a solution for economic renewal. The country has a functional democratic environment, allowing for the free exchange of ideas and the peaceful mediation of political differences.

On the negative side, however, post-Communist Romania continues to suffer from several systemic ailments. Corruption is a major source of concern for investors and existing businesses, affecting economic transactions and the interaction with state institutions. A legal framework in flux creates confusion and uncertainty, and is not conducive to effective economic planning and business development. The existence of a large number of political actors represented in Parliament and the Cabinet, as well as in county and municipal governments, makes dealings with Romanian officials difficult and leads to high unpredictability in state decisions.

Overall, Romania is a country in need of foreign direct investment and seeking the development of new economic projects with external partners, particularly in the aftermath of the global financial and economic crisis (2008-2009). Over the past two decades, Romanian Governments have traditionally been supportive of foreign companies pursuing business opportunities in the country.

Investing in some specific sectors (e.g., energy and mineral resources) requires more careful preparation than in other areas of the Romanian economy. This is due to sensitivities about the way those sectors have been (ab)used in Romania's history; the impact on local communities and individuals employed in those industries; and the extent to which successive Governments have perceived them as strategic assets of the Romanian state. Developing a comprehensive strategy to engage key decision makers and stakeholders from the initial stages of a proposed investment project is a strategy that may mitigate some of these concerns.

The recommended approach for potential investors in Romania, particularly in the mining sector, is to conduct comprehensive feasibility studies and to seek the services of local public relations and lobbying firms. The next few years will constitute a critical phase in Romania's economic recovery and an opportunity for investors to extract favourable terms in their negotiations with the Romanian state and private entities. At the same time, they need to design their investment strategies based on detailed analyses of local conditions and proceed in a cautious manner in order to lessen the risks of organized opposition to their initiatives, particularly from civil society groups.



The second option is to delay investment projects in Romania until the economy shows signs of consistent growth and some of the systemic problems (e.g., corruption and unclear policy direction at the governmental level) have been addressed. The risk is higher than with the first option that valuable investment opportunities will be missed. This course of action will probably yield fewer positive outcomes than the approach recommended above.

The third option is to avoid investing in Romania indefinitely, given existing irritants in relation to initiating and running a business in this CEE country, and the uncertainty of overcoming formal and informal obstacles, which range from obtaining official approvals to engaging local communities and variegated interest groups. This option is the least recommended – despite a multitude of issues affecting Romania’s business environment, the country is still rich with unexplored and potentially highly profitable investment opportunities.

An overall analysis of all the areas assessed in this paper indicated that Romania is “open for business,” yet it suffers from a set of systemic conditions affecting business processes. It is expected that existing concerns will be addressed over time by Romanian authorities, and companies will get the expected return on investment based on purely economic considerations. Romania’s current, “door half open” policy presents more opportunities than risks for foreign investors; the latter should explore all potential sectors and areas of interest, and make informed decisions on a case by case basis.

## ► About the Author

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