Chapter 1 Socioeconomic Conditions

1.1 Socioeconomic Condition of Romania

1.1.1 General Description of Romaina

(1) History

Romania was occupied by the Soviets after World War II, which led to the formation of a communist "peoples republic" in 1947 and the abdication of the king. After Stalin's death in 1953, "Nationalist" Communists headed by Gheorghe Gheorghiu-Dej assumed leading roles and by the mid 1950s signs began to appear that Romanians were becoming uncomfortable with their Soviet suzerain. After the death of Gheorghiu-Dej in 1965, the decades-long rule of President Nicolae CEAUSESCU became increasingly draconian through the 1980s. His regime was overthrown in late 1989. Former executives of the Communist party dominated the government until 1996 when new leaders were empowered in accordance with the will of the people. Much economic restructuring remains to be carried out before Romania can achieve its hope of joining the EU.

(2) Geography and Topography

Romania with a total area of 237,500 km^2 in total (land: 230,340 km^2, water: 7,160 km^2) is located in Southeastern Europe (43 degrees 37'07" and 48 degrees 15'06" North latitude; 20 degrees 15'44" and 29 degrees 41'24" East longitude), bordering the Black Sea, between Bulgaria and Ukraine. The total length of the border 2,508 km: Bulgaria 608 km, Hungary 443km, Moldova 450km, Yugoslavia 476km, Ukraine (north) 362km, Ukraine (east) 169km. The shape of the country resembles an ellipse stretching approximately 514 km North to South and 720 km East to West.

The central Transylvanian Basin is separated from the Plain of Moldavia on the east by the Carpathian Mountains and separated from the Romanian Plain on the south by the Transylvanian Alps, where the main agricultural zone of the Lower Danube Plain is found. The arable land is 41%, permanent crops 3%, permanent pastures 21%, forests and woodland 29%, and other 6% (1993 est.).

Danube River flows for the last 1,075 km of its 2,850 km total length bordering between Bulgaria, Yugoslavia and Ukraine or crossing the Southern part of Romanian territory. Danube Delta is located in the Northern part of the Dobrogea Plateau, the youngest physical feature of the land, stretches on 4,340 km^2, out of which 78% are submerged. Through its three main branches, Chilia, Sulina and Sf. Gheorghe, the Danube flows into the Black Sea.

(3) Climate

Romania has a four-season temperate continental climate. Summers are hot, up to 35 degrees Celsius, although lack of humidity makes the high temperature easier to endure. Winters are cold, down to -15 degrees Celsius, with large quantities of snow. Autumn is the season when rain is likely to fall. The average annual temperature is 8 degrees Celsius in the North and 11 degrees

Celsius in the South. Average rainfall per year is 640 mm, however it is unevenly distributed.

1.1.2 Political and Economic Situations

(1) Overview During Past Transition Period

The transition to a market economy was much more difficult in Romania than in other ex-socialist Central European countries. The economy was almost fully state-owned; the private sector contribution to gross domestic product formation represented barely 12.8% in 1989. The hyper-centralized management system conflicting with rational criteria had stopped reacting to any real stimulus. The existence of oversized productive capacities had rendered the economy highly rigid. Its inefficiency increased during the 80s due to the excessive investment in energy-intensive industries and the discontinuing inflows of western technology caused by the forced policy; urgent repayments of foreign debt. The competitiveness of national production was stifled by the weak motivation to work combined with an unrealistic "full employment" policy. The cumulative effects of these factors brought in declining living standards in Romania, economic recession, and the menace of losing the chance to get connected to the new evolutions of civilization.

An analysis of macroeconomic indicators between 1990-1999 shows the existence of significant economic and social changes, but also that of delays in promoting market mechanisms and in paving the way for ensuring a long-lasting development of Romanian society. The essential change over the past decade was the opening-up of the former autarchic social and economic system towards the rest of the world and the move towards adopting the recent trends in Europe and across the world. The European Union became Romania's main trade partner in terms of both exports and imports of goods and services and inflows of foreign investment. The persistence of a high inflation rate was one of the main reasons behind the fall in investment rate, due to the higher risk attached to the Romanian business environment (plagued by difficulties arising from legislative and institutional inconsistency, widespread bureaucracy, and the expansion of the black market). At the end of 1999, the stock of foreign direct investment amounted to around EUR 240 per capita in Romania, compared with EUR 1,900 per capita in Hungary and EUR 1,518 in the Czech Republic.

Other characteristics of the Romanian economy during the transition period were the emergence of the twin deficits (fiscal and current account) and the liberalization policies pursued against the backdrop of a weakly structured economic system. With industrial restructuring well under way, the competitiveness of the Romanian exports entered an upward drift based on the structural changes and the real depreciation of the domestic currency. The sustained upward trend in competitiveness and the prospective favorable effects on the Romanian economy brought larger inflows of foreign direct investment. For budget deficit, on the other hand, the authorities pursued tight fiscal policies, aiming at control of the budget deficit. The process of bringing these policies in line with the requirements set by EU and international bodies was initiated. Romania's foreign debt accumulated during the transition period is still low compared with other applicants, which helps the promotion of more active policies meant to attract foreign capital to the real sector, based on a higher indebtedness ratio.

The labor market was affected by imbalances in terms of the ratio between the working population and job opportunities. There was a decline in employment rate, particularly in the industrial sector. Moreover, the agricultural sector employs a large share of the total working population (38%). The poverty coverage rate hit 33.8% of the total population (28.2 % in urban area, 40.5 % in rural areas, respectively)

A basic outcome of the transition period is the private sector development whose contribution to GDP formation reached 61.5 percent in 1999 versus 16.4 percent in 1990. The share of the agricultural sector in the creation of gross value added dropped from 20 percent in the early 1990s to 15.4 percent in 1999; the share of the industrial sector dropped below 31 percent, while the services and construction sector accounted for 53.6 percent of the gross value added, 20 percentage points more than at the beginning of the decade.

(2) Major Problems of Current Economic Condition
The following major issues are identified in the National Strategy of Economic Development.

1) Romanian economy is still weakly structured from the institutional standpoint.
For most national assets, ownership rights are not clearly defined such as real estate, which is still state-owned, to be privatized by means of sale or restitution; State-owned companies for which the distribution of ownership rights is not specified or is not clear; Assets subject to trade disputes and whose volume has risen considerably. Market economy mechanisms are not fully institutionalized, and their efficiency is low due to inconsistencies in the legal framework. The authorities' discretionary intervention is still widespread, often contradictory and subject to circumstantial political interests.

2) The influence of many factors has affected the functioning the economy, with the behavioral one being the most important.
The objective function of companies with majority state-owned capital or that have recently been privatized is mainly the preservation of jobs and the limitation of the erosion of wages under the impact of inflation. The poorly structured economy is characterized by low expected stability, which entails overly high transaction costs. The reverse of this phenomenon is the sharp depreciation of fixed and human capital, and high interest rates. The predominance of short-time horizon in allocation decisions limits investment even further, thus impeding economic growth in the medium and long run.

The economy is undermonetized. The ratio of broad money (M2) to GDP (20-22%) is far below that required for the normal functioning of the economy. From the behavioral standpoint, the poorly structured economy is characterized by a very steep deterioration of the border between the official economy and the informal sector. This relative demarcation renders macroeconomic management more difficult.

(3) EU Accession

1) Outline of EU Enlargement

After 1990, the European Council discussed the possibility of the European Union’s enlargement by the joining of new members from the ex-Communist countries. The initiative of EU enlargement materialized at the Copenhagen European Council in 1993, when this possibility was officially discussed and analyzed. It was decided that the European Union could accept new members from the ex-Communist countries as soon as these countries have met the political and economic criteria required by the European Union. In 1997 this initiative was materialized by the European Council meeting in Luxembourg as a result of the European Commission's Opinions, that decided the launching of the process of EU enlargement through the accession of all the associated states, based on each state's individual performances.

The membership requirement excerpted from the Copenhagen Presidency Conclusions is; the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union."

2) Romanian’s Accession

The European Agreement represents the legal framework of the relationships between Romania and the European Union. This document was signed on February 1, 1993, and was promulgated by the President of Romania on April 5, 1993. The European Agreement came into force on 1 February 1995, and set up the association of Romania to the European Union and established the forms of permanent political dialogue. The general principles of the Agreement and the objectives of the association process are:

a) The creation of the institutional framework in order to establish an intense political dialogue;

b) The support of Romania’s efforts towards the achievement of a functioning market economy and the strengthening of democracy;

c) The free movement of goods, services, capitals and persons;

d) The creation of the necessary framework in order to develop the economic, financial, cultural and social co-operation.

On March 25, 1998, the European Commission approved the Accession Partnerships for all the 10 candidate countries from Central and Eastern Europe, as central elements of the reinforced pre-accession strategy. The Accession Partnership supports Romania in the preparation for accession, by establishing the priority objectives of EU integration, as they were identified in the Commission’s Reports, as well as by directing the financial assistance granted by the European Union in order to fulfill these priorities. The Accession Partnership concentrates on preparing Romania for the full meeting of the accession criteria established by the European Council in Copenhagen.

3) EU Regular Report 2000 on Romania

The Commission's Report of November 8, 2000 concluded that Romania continues to fulfill the Copenhagen political criteria. Major comments are as follows.

Romania's democratic institutions are well established, but the decision- making process remains weak. Despite the initiatives taken over the last year the government has continued to rely on legislating by ordinances and consultation on draft legislation should be substantially improved. In terms of administrative capacity, Romania has met short-term Accession Partnership priorities by adopting a law on the civil service and has set up a civil service agency. These developments should be built upon through the development of a comprehensive, public administration reform program. Particular care needs to be taken to ensure that decentralized responsibilities are matched by sufficient financial and human resources at the local level. Little progress has been made in reducing the levels of corruption and improved co-ordination is needed between the various anti-corruption initiatives that have been launched.

Romania cannot be regarded as a functioning market economy and is not able to cope with competitive pressure and market forces within the Union in the medium term. It has not substantially improved its future economic prospects. Romania has made some progress on macroeconomic stabilization; growth has resumed and exports have increased. Romania has adopted economic programs and strategies, in agreement with the international financial institutions and the EU. The wide political consensus on the Medium Term Economic Strategy shows that there is a clear awareness of the need for economic reforms.

Insufficient reforms and a growing black economy have undermined progress made on macroeconomic stabilization. The absence of a sound and well functioning financial system hampers economic activity. A very large part of the enterprise sector has yet to start restructuring or is still in the process of doing so. Investment has continued to fall, delaying the required modernization of the supply side of the economy. Priority should be given to improving financial discipline, and creating a more transparent and business-friendly environment. The acceleration of large enterprise privatization and restructuring as well as the implementation of social security and health care reforms are urgently needed to ensure stability of public finances.

Romania has also made significant progress with the transposition and implementation of *transport acquis* during the last year (although the questions of fiscal harmonization in road transport and maritime safety still need to be addressed). Advances have been made with the transposition of the *statistics acquis* although statistical coverage for a number of areas still needs substantial improvement.

In the case of *agriculture*, major structural reform of the sector is needed. The conditions that would allow the implementation of much of the EC agricultural *acquis* do not yet exist. The lack of administrative capacity is acute and the Ministry of Agriculture is not able to either develop the necessary reforms, or to effectively implement those items of legislation that have been adopted.

In the *environmental sector*, in contrast to previous years, Romania has made progress with preparing strategies for transposing the *acquis* but the status of approximation is still very low. Specific cost assessments and the corresponding financial plans for implementing the environmental *acquis* need to be developed.

Romania's approach to *industry policy* is not yet either market-based or predictable and Romania still has to develop an official industrial policy at both the national and sector level. With *telecommunications,* there has been no substantial progress with the transposition of the *acquis* and further efforts are required to develop the regulatory framework.

A related concern is the ability of Romanian institutions to effectively manage the increased levels of EC funding. A program-oriented budgeting system needs to be developed and the overall budget execution process strengthened. Romania should also take measures to strengthen public financial control functions through the provision of adequate staff, training and equipment.

1.1.3 Economic Indicators

(1) GDP, Exchange Rate and Consumption Price

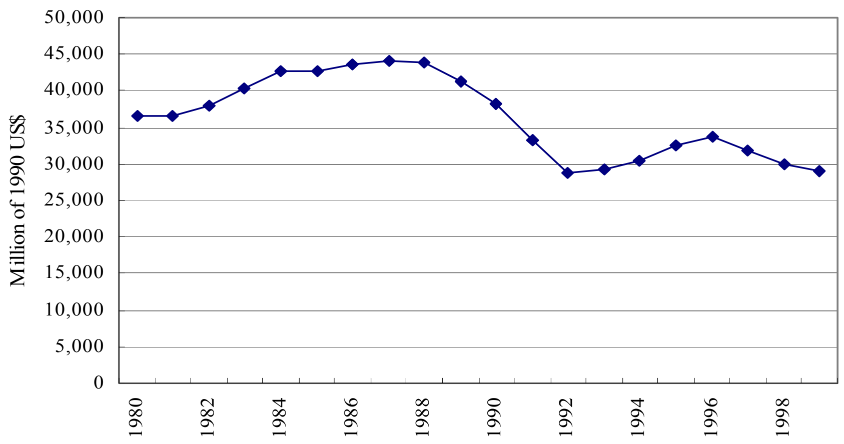
Since 1989 Romania has been striving to develop a market economy. In the initial stage (from 1989 to 1992), Romania economy faced deep recession and the GDP in 1992 was less than 70% of the GDP in 1988.

The GDP trend changed in 1993 with positive growth rate, and economic growth rate reached 7.1% in 1995. The high growth rates from 1994 to 1996, however, reflect the Government policy mainly depending on heavy industry without considering required economic restructuring. The upturn economic trend was based on an overheating of the economy characterized by several bottlenecks of capital and foreign exchange markets. The high domestic demand, private as well as public, was financed by an overshooting domestic credit demand, agriculture and state-owned industry even receiving preferred treatment.

The economic policy introduced by the new Government from 1997 was designed with the support of international financial institutes (IMF, World Bank) and focuses on stabilizing the macro-economy and intensifying economic structural change. This economic restructuring policy led to a negative GDP growth rate and the growth rate in 1999 announced by Romanian Government was still –3.2%. However due to macro-economic restructuring over past 3 years and European Commission's approval for the Accession Partnerships for all the 10 candidate countries including Romania in 1998, GDP growth recovered in 2000. The growth rate estimated by the Government at the beginning of the year 2000 was 1.3 % and the figure was 1.6% in the end.

The exchange rate of the Romanian Lei against the USD in September 2000 reached 24,168 Lei, that is +32.4% compared to the end of December 1999. The inflation rate was 45.3%, while the Government proposed rate in 2000 was around 27%.

Fig. 1.1.1 GDP in 1990 Market Price (1980 – 1999)



Source : EIA & EU Regular Report 2000

Table 1.1.1 GDP Change and its Composition

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Real GDP Annual Change Rate (%)	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.1	-5.4	-3.2
Private Sector's Share in GDP (%)	16.4	23.6	26.4	34.8	38.9	45.3	54.9	60.6	61.0	
GDP by Sectors (Percentage share)										
Agriculture (%)	21.8	18.9	19.0	21.0	19.8	20.7	20.1	19.5	16.1	15.5
Industry (%)	40.5	37.9	38.3	33.8	35.6	34.5	34.8	33.4	30.4	30.9
Construction (%)	5.4	4.4	4.8	5.2	6.4	6.9	6.8	5.7	5.9	5.4
Trade (%)	6.2	13.5	14.3	10.3	9.9	10.2	11.7	11.4	13.7	
Transport & Communication (%)	6.3	6.7	8.5	10.1	7.9	7.6	9.0	6.8	6.1	

Source: various

(2) Demography

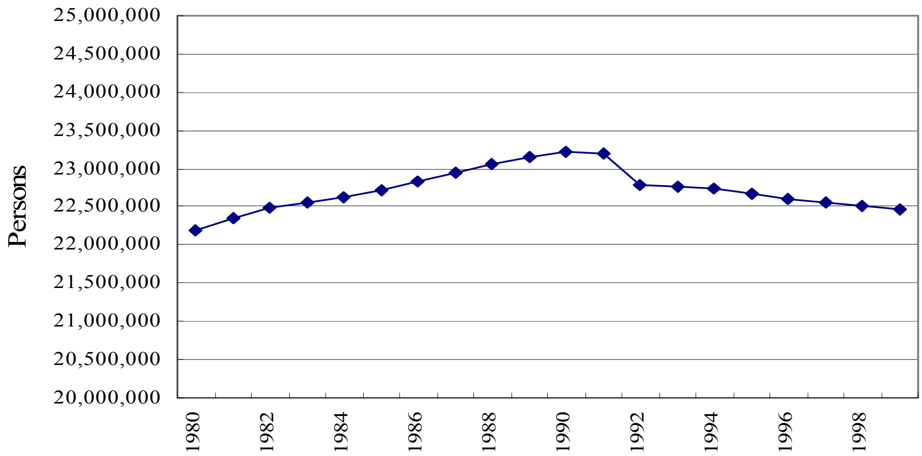
1) Population

The population of Romania in 1999 is estimated to be about 22,458,000. Until 1989, the annual population growth rate was around 0.4%. After 1989, this trend changed downward and the annual growth rate has been around –0.2% for the past 10 years. (See Fig. 1.2.2)

The mortality rate has steadily been increasing for the past 40 years, otherwise the increase ratio is very small. On the other hand, birth rate shows a downward trend, except in the year 1967 when the Government made abortions illegal. At the beginning of the transition period, from 1989 to

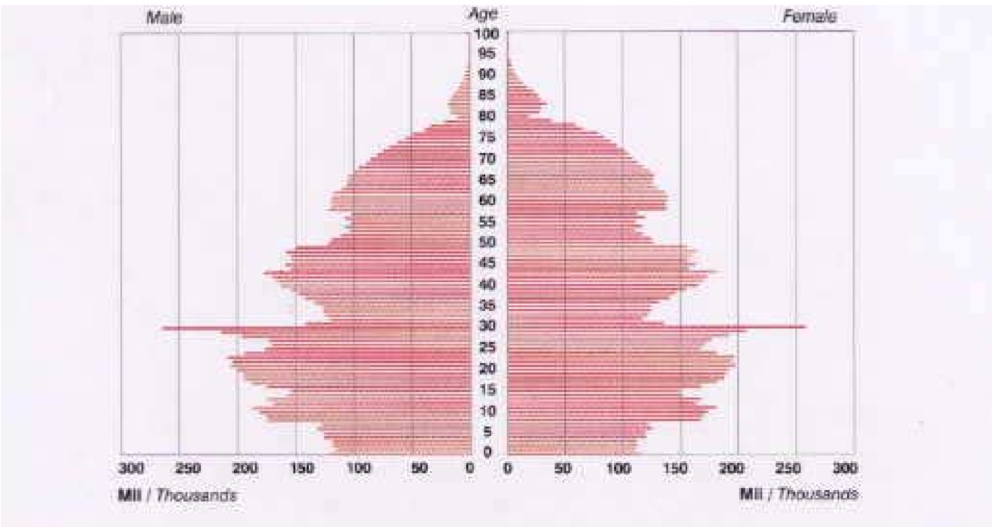
1992, the annual change of natality was about -0.5% and is about –0.1% these days.

Fig. 1.1.2 Population (1980 - 1999)



Source : EIA & EU Regular Report 2000

Fig. 1.1.3 Population by Age and Gender on July 1st 1998



Source : National Commission for Statistics

2) Labor Force

The number of employed decreased about 1.2 million persons from 1993 to 1998. In this period the share of Agriculture & Forestry sector increased from 36% to 38%, on the other hand that of manufacturing sector decreased from 25.9% to 22.3%. In 1996 unemployment rate recovered to 6.6%.

Table 1.1.2 Employment by Activities and Unemployment Rate

(Unit : thousand persona)

	1993	1994	1995	1996	1997	1998
Employment Total	10,062	10,011	9,493	9,379	9,023	8,813
Agriculture & Forestry	3,614	3,647	3,265	3,320	3,384	3,349
Mining & Quarrying	259	256	250	250	184	169
Manufacturing	2,606	2,456	2,293	2,302	2,079	1,964
Electricity, Gas & Water	165	170	171	189	187	184
Building & Construction	574	563	479	475	439	391
Commerce	715	772	988	888	932	933
Transport & Storage	594	596	556	547	505	461
Money & Insurance	66	59	711	71	73	76
Community & Social Service	857	885	901	903	871	877
Other Activities	613	637	519	434	369	409
Unemployment Rate(%)	10.4	10.9	9.5	6.6	8.9	10.4

Source : National Commission for Statistics

(3) Foreign Trade

The trading block of communist countries (Comecon) was in operation from the late 1980’s to 1991. In this period, Romania also had bilateral trade agreements with other communist countries such as China. Until 1989 Romania's trade balance was a large surplus (some billion US dollars). The Comecon and bilateral trade agreement countries are major import partners, which covers around 80%, while the export market was well balanced in three areas; EU, Central and East Europe (Comecon), and Others (Bilateral agreement). Trade between former member countries is now settled in hard currency at world market prices. This has stressed the need to maintain a balanced trading position. In 1990, the first year after the revolution, imports rose whereas exports decreased in an attempt to immediately improve the living standards of the population. The minus trade balance continues from 1990 to today with both imports and exports increasing slightly each year.

In 1994, Romania experienced a major upturn in exports. The restoration of the Most Favored Nation trading status by USA, EU and the CEFTA trade concessions, the recovery in the West as well as discontinuing of the embargo against Yugoslavia, contributed to a great extent to set an upward trend for Romanian exports. (See Fig.1.1.4 – 1.1.6)

Some of the most important factors affecting the trade balance were:

- Continued shortages of hard currency before 1994. Supply generally covered 2% to 5% of demand at the inter-bank currency auctions. This restricted imports. The situation has improved since 1994.

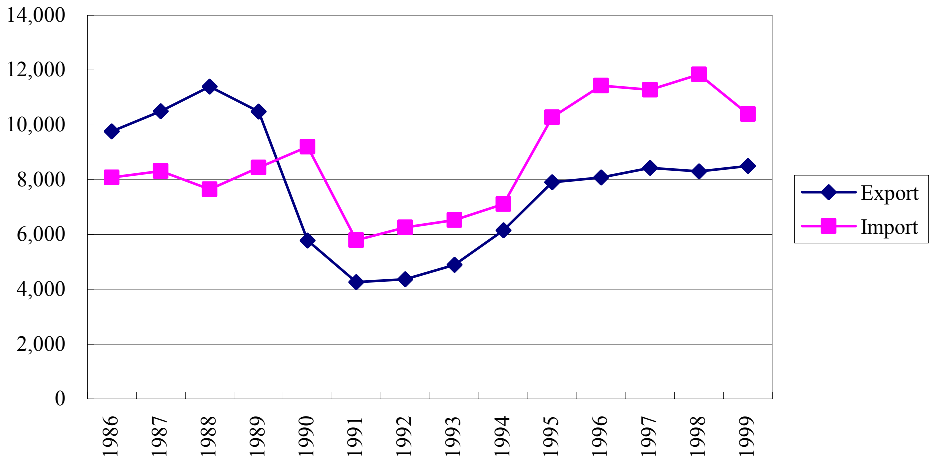
- The removal of most import control quotas. There are now few controls on trade other than customs and excise systems. This has increasingly exposed domestic producers to Western quality goods and products.
- In 1993, Romania was accepted as an associate of the European Union, and since 1997 it has become a full member of the Central European Free Trade Association (CEFTA).

From 1994, more than 50% of Romania's trade was conducted with the EU. In 1998, 78% of exports and 81% of imports in value, and 50% of exports and 48% of imports in volume involved EU and EU transition countries. These facts indicated that high value goods mainly came from/went to European Countries. (See Fig.1.1.7 and 1.1.8)

Sixty six percent of total export and 74% of total import in value were transported by railway and road, while 63% of export and 55% of import in volume were transported by sea. (See Fig.1.1.9 and 1.1.10)
In terms of trade between European countries and Romania the shares of railway and road were 82% in value and 63% in volume for export, and 87% in value and 63% in volume for import in 1998. (See Fig.1.1.11 and 1.1.12)
Considering the past trend and Romania's EU accession process, it could be presumed that the share in trade between European Countries will increase and the road and railway transport mode will be further essential.

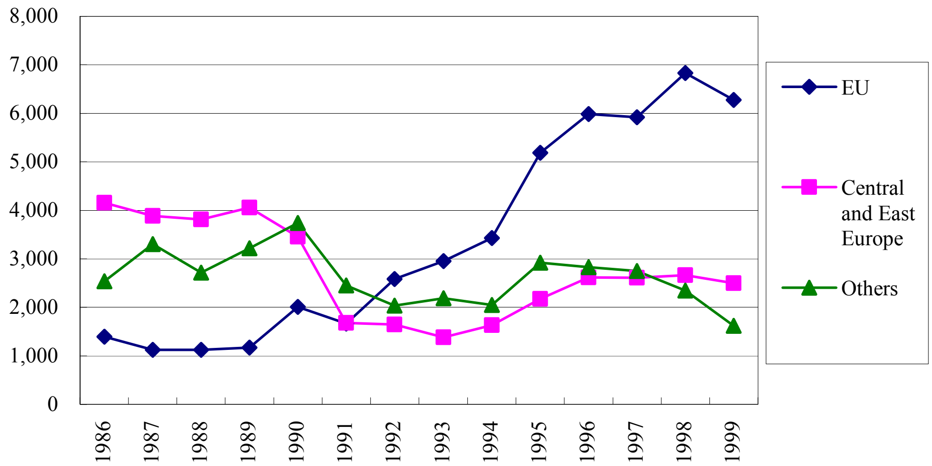
In terms of export, the value of manufactures goods such as textiles, footwear and furniture highly increased in the past 10 years, and that of basic metals, mineral products, and machinery and appliances also increased steadily. On the other hand, the value of chemical and its derivatives decreased. The imports of machinery and appliances, textiles, mineral and chemical products increased. The value of imported mineral fuels fluctuated due to changes in international crude oil prices. (See Fig. 1.1.13 and 1.1.14)

Increased percentages of foreign trade value according to Combined Nomenclature (CN) from 1998 to 1999 were vegetable products 28%, wood and its articles 29%, footwear headgear and similar 11%, machine and electrical equipment 23%, and vehicles and associated transport equipment 9% in export; and textiles and textile articles 6% in import.
Export growth has been concentrated on items in which Romania can be expected to be competitive in the long run, such as textiles, clothing, shoes and furniture.



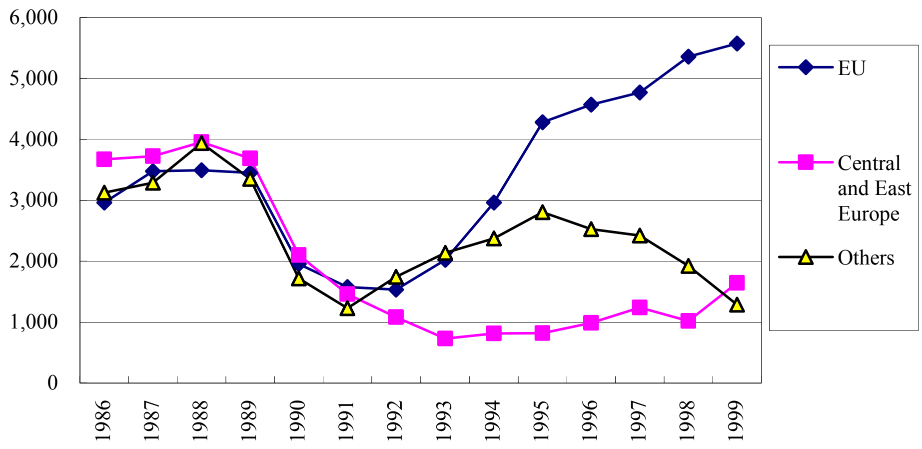
Source: National Commission for Statistics

Fig.1.1.4　Foreign Trade Value (Million US$)



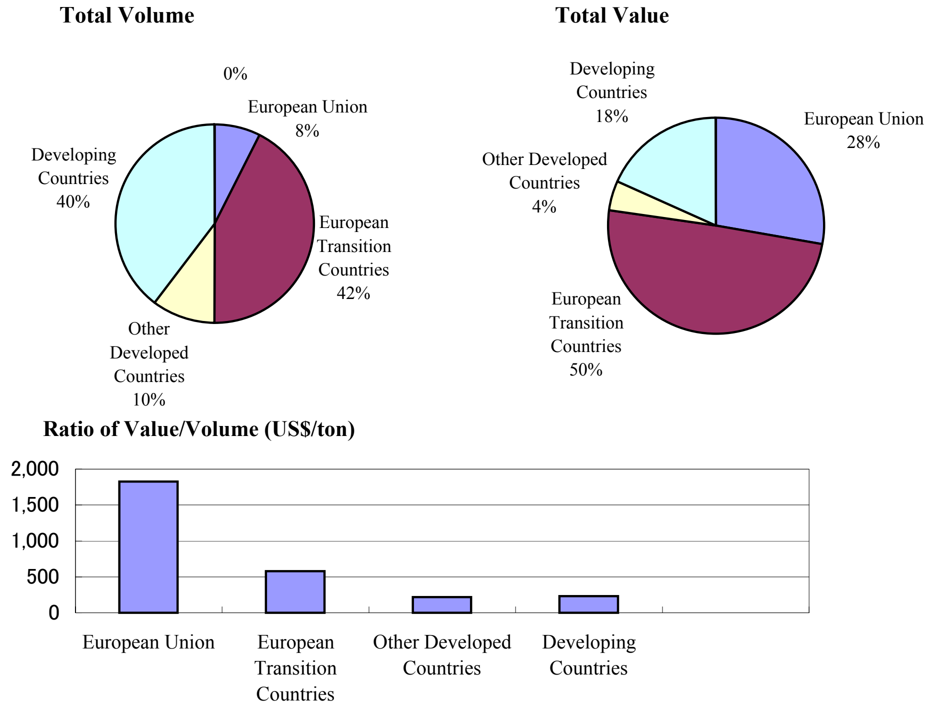
Source: National Commission for Statistics

Fig.1.1.5　Export Value (Million US$)



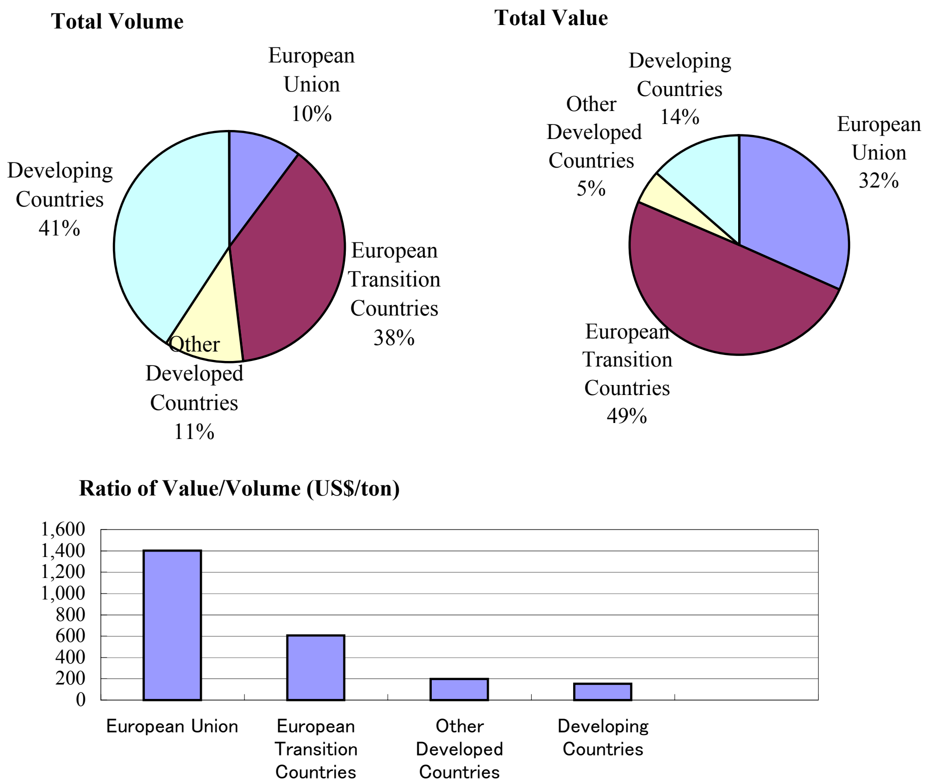
Source: National Commission for Statistics

Fig.1.1.6　Import Value (Million US$)



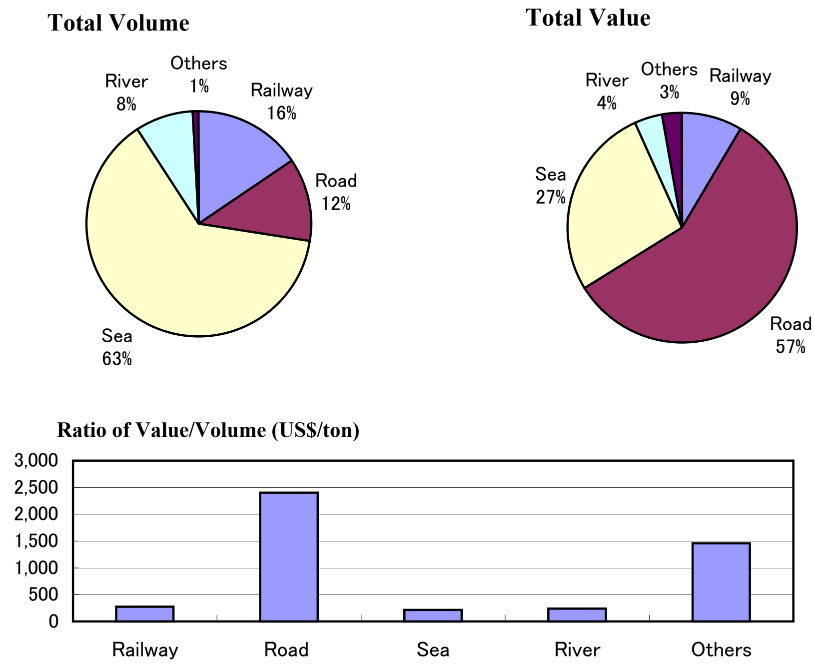
Source:Romanian Foreign Trade Yearbook 1999

Fig.1.1.7 Trade Partners of Romania in 1998 (Export)



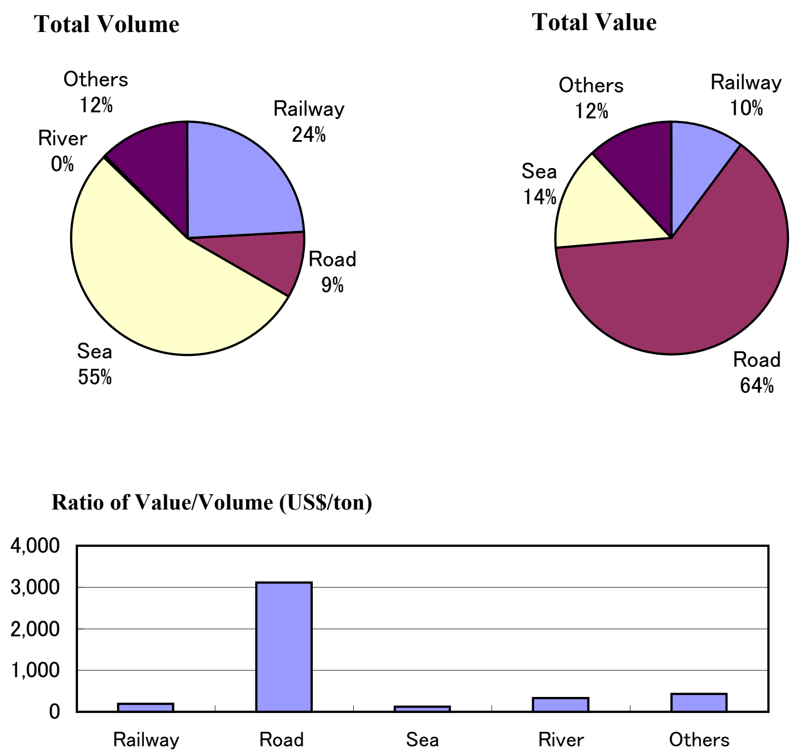
Source:Romanian Foreign Trade Yearbook 1999

Fig.1.1.8 Trade Partners of Romania in 1998 (Import)



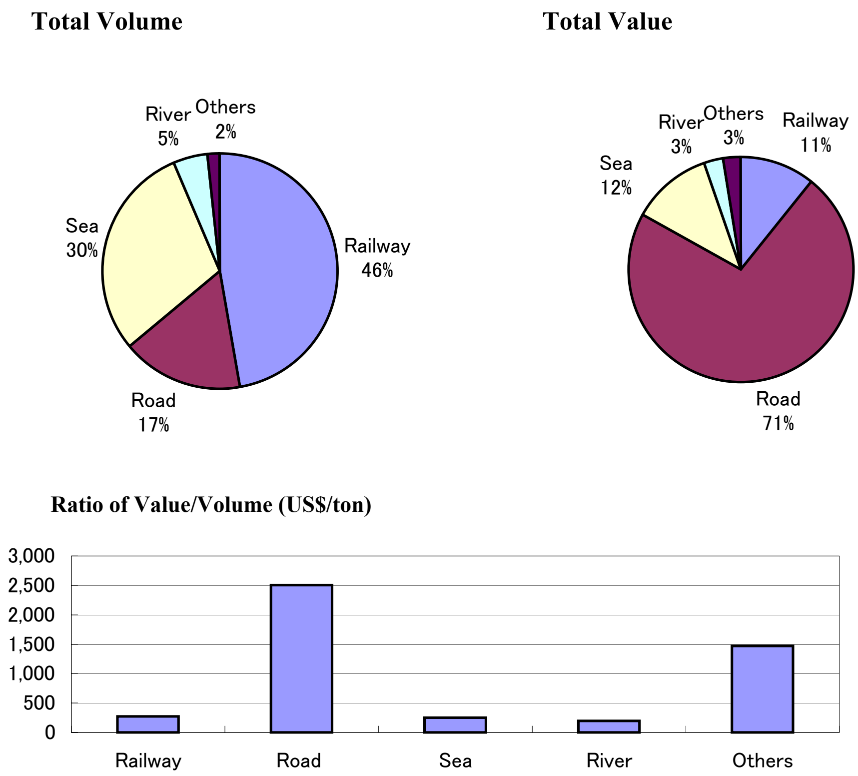
Source:Romanian Foreign Trade Yearbook 1999

Fig.1.1.9 Export of Romania by Mode in 1998



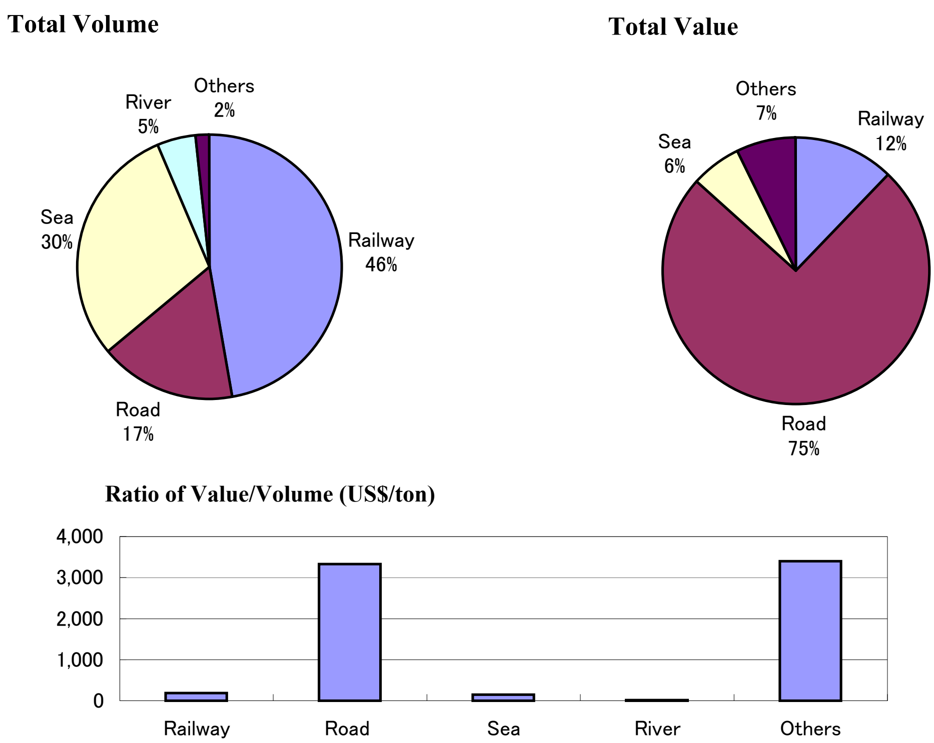
Source:Romanian Foreign Trade Yearbook 1999

Fig.1.1.10 Import of Romania by Mode in 1998



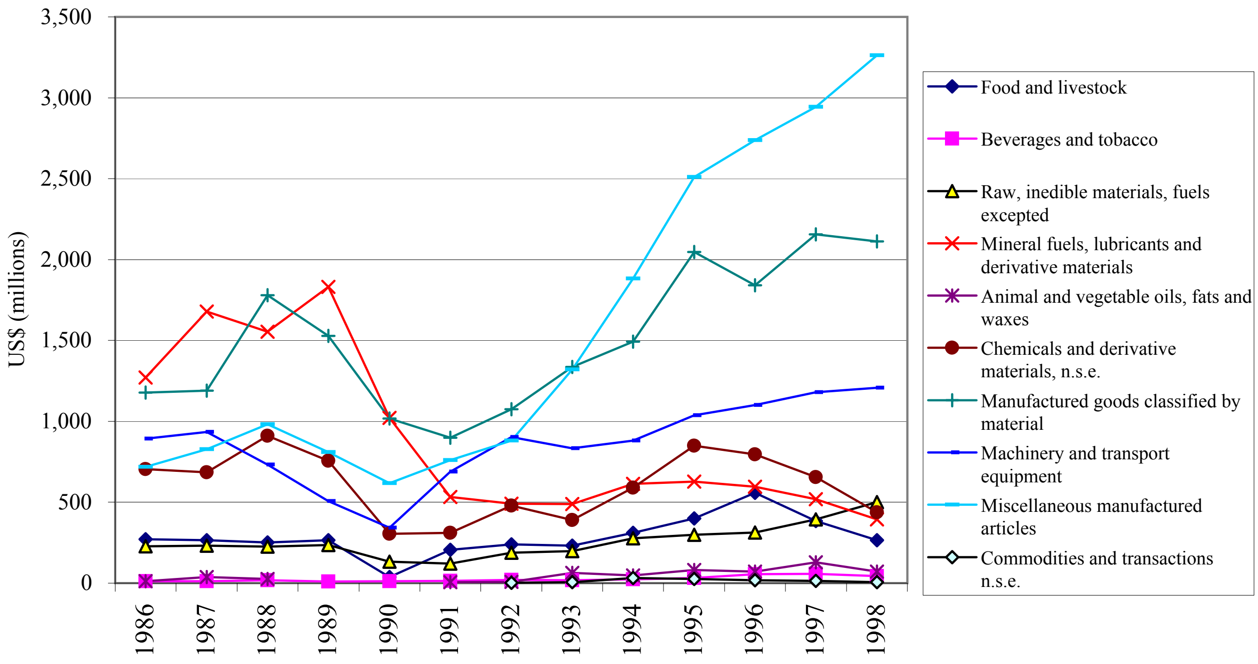
Source:Romanian Foreign Trade Yearbook 1999

Fig.1.1.11 Export to European Countries in 1998



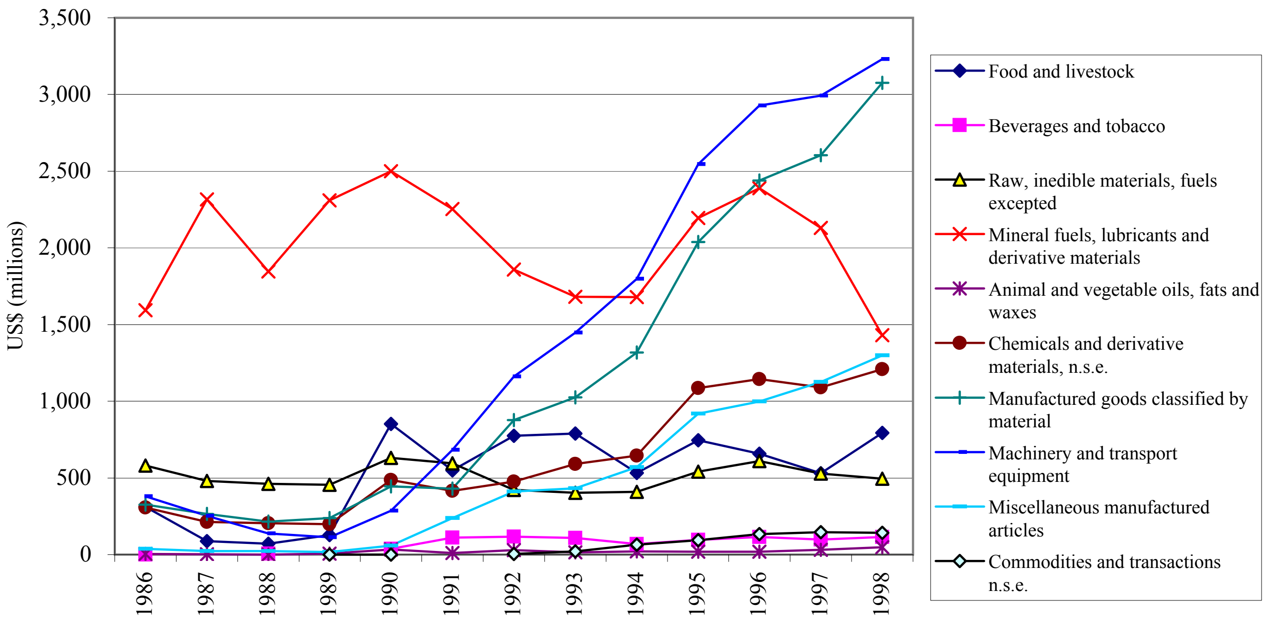
Source:Romanian Foreign Trade Yearbook 1999

Fig.1.1.12 Import from European Countries in 1998



Source: National Commission for Statistics

Fig.1.1.13 Export (FOB) by SITC REV.3 Sections



Note: For 1986-1990 import FOB, starting with 1991 import CIF
Source: National Commission for Statistics

Fig.1.1.14 Import by SITC REV.3 Sections

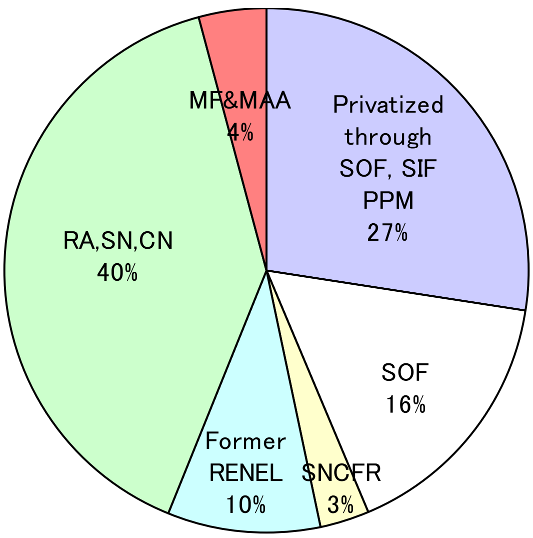
1.1.4 Privatization and Foreign Investment

(1) Privatization

The privatization process started based on *the LAW no. 15/August 8, 1990 on restructuring state owned enterprise into commercial companies and regies autonomous*. A pilot program involving 30 commercial companies was launched in 1992-1993.

The State Ownership Fund (SOF) was set up in the middle of 1992 in order to transfer state properties to the private sector. Around one half of state properties (5,937 companies) in the beginning, and finally 9,202 companies were held by SOF
Between 1992 and 1996, 2,725 companies were privatized (ROL 3,570 billion share capital sold) in the SOF portfolio according to Law 58/1991. Eleven (11) share sale-purchases were concluded with foreign investors. Law 55/1995 known as "Mass Privatization Law", was adopted to accelerate the privatization process, in which eligible Romanian citizens were entitled to subscribe their nominative privatization coupons to around 4,000 companies, corresponding to the share capital value of up to 60%. The rest of the share capital quotas managed by SOF in these companies were offered for sale through auction with pre-selected bidders or direct negotiation.

Until 30th September 2000, 6,872 companies were fully privatized, 328 companies were partially privatized, 730 companies were transferred to Ministry of Agriculture and Food, and Ministry of Finance, and 1,600 companies are still held by SOF. Only 45% of total share capital was, however, privatized, which means most of large size companies are not yet privatized. For example the largest share capital company is SIDEX-Galati and its total capital is ROL 6,307 billion, which is 6.7% of total share capital of SOF portfolio. Only 27.51% of State Patrimony was privatized through SOF, Financial Investment Companies (SIF) and Free of Charge Transfer Program (PPM).



Legend
RA : Regies Autonomus
SN,CN : National Corp/Company
SNCFR : National Railway Company
SIF : Financial Investment Company
PPM : Free of Charge Transfer Program
MAA : Ministry of Agri. & Food
MF : Ministry of Finance

Source : SOF Portfolio of Companies (30th September 2000)

Fig. 1.1.15 Status of State Patrimony at 30th September 2000

(2) Direct Foreign Investment

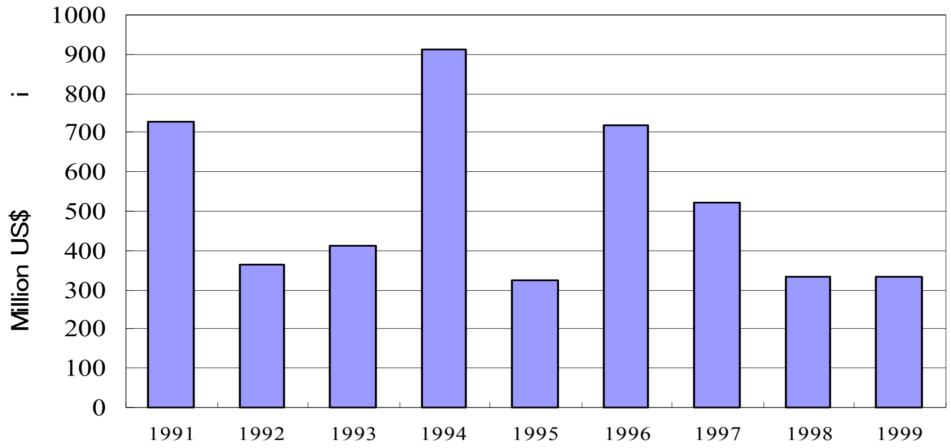
In the process of restructuring and reforming the Romanian economy, a significant volume of direct foreign investment (DFI) is required to facilitate private activities and introduce the latest technology and know-how to Romania.

The Romanian Development Agency (RDA) was established in March 1991, as a specialized body within the Government, to promote development and attract foreign investment. To stimulate the appetite of foreign and local direct investors, the legal framework was changed several times to find the most suitable incentives for investment.

While DFI amounted to only US$ 414 million in 1993, the situation improved in 1994 as investment reached US$ 914 million. From 1995 to today, however, the annual inflow of DFI was around US$300 million (except 1n 1996 and 1997), and did not meet expectations. This figure, moreover, included both the amount of direct capital investments and that of currency capital resulting from privatization carried out by the State Ownership Fund.

DFI was distributed depending on the privatization strategy used at the level of each national economy and the specialization on industrial sectors. As a result, countries such Czech Republic, Poland and Hungary, that created a stimulating and flexible legal framework for foreign investment, absorbed 80% of the total DFI in the area, of which about 60% came from EU countries.

The main obstacles to foreign investment during these years were: severe shortages of hard currency, continued economic instability; poor infrastructure; and the lack of fiscal and economic reforms. At the end of 1997, direct foreign investment had been regulated by the Government Ordinance No. 92/30.12.1997 that was later approved through Law No. 241/14.12.1998 and ordinance's application norms that were approved through Government Ordinance No. 94/1998. The new element as compared to the previous regulations is the fact that for the first time, the Romanian and foreign investors benefit from equal treatment as regarding fiscal and customs facilities.



Source: National Commission for Statistics Monthly Statistical Bulletin 2000 No.7

Fig.1.1.16 Direct Foreign Investment in Romania

1.1.5 Medium Term National Strategy of Economic Development

(1) General

The National Strategy of Economic Development was prepared from the beginning of the year 2000 and the result was transmitted to the European Commission in Brussels, March 2000. The specific objectives are defined in the Preparatory Guideline of the Strategy; The development, restructuring and modernization of the sectors over the period 2000-2004, in view of completing the transition to the market economy and accession to EU by 2007; The harmonization with the major trends in the EU.

The Strategy is based on rigorous assessment of social costs of transition and reform as well as of accession to EU; it is firmly believed that neither the reform nor integration are reasons for the difficulties of the national economy, they are rather the solution to these difficulties. Through sustained efforts and a genuine solidarity of social forces, prerequisites are created for Romania to meet by 2007 the basic requirements for accession
Romania's Medium Term Economic Strategy is the outcome of a free, in-depth and constructive exchange of ideas among Government officials, experts appointed by ruling-coalition parties, opposition parties, trade unions, employers federations and by the Group for economic assessment of the Romanian Academy and other experts participating in the Ad-hoc Preparatory Commission.

Medium Term National Strategy particularly emphasizes the strategic options to:

1) Resume economic growth based on higher investment rates and an increased participation of domestic capital and foreign resources, attracted mainly as direct investments, against a background of complete transparency, so that annual GDP growth rates average between 4 and 6 percent after 2001;
2) Notably enhance the credibility of institutions and economic policies; carry on macroeconomic stabilization measures; maintain fiscal deficit within tolerable limits, of around 3 percent of GDP; narrow the quasi-fiscal deficit; adequately manage public debt and current account deficit so as to ensure the gradual reduction of inflation to single digit rates by 2004;
3) Promote coherent policies in line with EU mechanisms and aimed at structural adjustment of the economy; develop and upgrade the physical, scientific and social infrastructure; revitalize potentially competitive industries; encourage development of optimal-size farms; support IT businesses and create a friendly environment conducive to the development of tourism, diversification of financial services and the service sector;
4) Modernize the utilities so as to better meet the needs of the public and of the national economy and gradually approximate the standards prevailing in EU countries;
5) Prepare and carry out a long-term program to eliminate the risks of ecological accidents and continue to reduce environmental pollution;

6) Develop a friendly business environment, based on a coherent and stable legal framework, fostering market competition, lower transaction costs and tax burden; promote specific measures aimed at encouraging development of small - and medium - sized businesses;
7) Ensure a clear-cut definition of property rights and adequate administrative and judiciary structures, able to guarantee law enforcement and observance of contractual obligations.

Implementation of these programs will lead to a rise in real incomes and visible progress in fighting poverty. Unemployment rates, estimated to reach 13 percent in 2000, will fall to about 8 percent in 2004. Per capita GDP on a Purchasing Power is expected to reach to about US$ 7,250 in 2005, compared with about US$ 6,000 in 1999.

(2) Industry Development Policy

Structural Adjustment policies are aimed at stopping the decline of the economy, creating the prerequisites for economic recovery and preparing Romania for EU accession. Industrial sector adjustment will be consistent with the objective of increasing external competitiveness and domestic productivity in terms of all production factors. In this respect, the following directions will be pursued:

a. Extending the process of redesigning industrial capacity and structure
b. Sequencing the process of selection and rescaling of the economic agents
c. Completing the privatization of industrial companies
d. Restructuring of the energy- and material-intensive sectors, as well as of those with under-utilized capacities
e. Revival and efficient deployment of the national research and technological development potential, including the microeconomic R&D
f. Increasing competitiveness by promoting strategic alliances, holdings, and group companies
g. Rapid development, outsourcing and specializing of production-related services
h. Accelerated growth in the volume and efficiency of exports by encouraging exports of high value-added manufactured products
i. Taking advantage of Romania's geographic position by directing exports also to neighboring areas that may become strategic markets for EU.

A more effective exploitation of the tourism potential represents a primary objective for medium-term development. Development of a country-wide IT network by promoting actions aimed at developing information technology and communications, linking Romania to information flows, especially to those of the EU member states. In view of exploiting the substantial economic growth and job-creation potential of the SME (Small- and Medium-sized Enterprise) sector. The Government will focus on providing incentive facilities, organising Government-assisted business incubation and supporting SMEs' participation in projects based on public investment or on foreign borrowing.

(3) Agriculture Development Policy

The results of reform measures implemented in the agricultural sector need to be consolidated in the coming years, taking into account the issue of food security and the necessity of rural development.

a. The development of optimal sized, efficient farms shall be stimulated. The policy in this field will be aimed at increasing plot size, by association, exchange and acquisition, discouraging property division below a certain limit.
b. Structural reforms will be deepened, the emphasis lying on farm development and privatisation of rural companies where the state is the major shareholder. The Government will improve the legal and institutional framework for the functioning of essential agrarian and rural markets. The Government will also support the improvement of the infrastructure necessary for the functioning of these markets.
c. Product-based policies to spur the increase in economic effectiveness over the entire agricultural activity chain, starting with production and ending with trading on the domestic and foreign markets, will be promoted.
d. The rural development policy, based mainly on the financial support under the EU SAPARD Programme is aimed primarily at: the modernisation and co-ordination of production and trade sectors in line with EU norms and quality standards; the consolidation of optimal sized farms and diversification of complementary non-agrarian activities; the development of social infrastructure; providing advisory and training services to farmers, to land and forest owners.

(4) Infrastructure Development Policy

The development of infrastructure, by taking into account both the National Programme for Territorial Planning and the connections with the European infrastructure system, will play a major part in economic recovery and the creation of new work opportunities.

In the context of increased EU financial support (through the pre-accession instrument ISPA) and by attracting private resources, the modernisation, rehabilitation, and development of transport infrastructures are envisaged. In this field, the priorities are the following:

a. The start of highway building, in accordance with the provisions of the TINA Final Report, in order to integrate the Romanian transport infrastructure into the Pan-European Transport Network;
b. The modernisation of railway and road infrastructure, the building of bridges and beltways around cities along the pan-European transport corridors No. IV and IX, in order to ensure an increase in the mobility of population, goods and services;
c. Changing the current tax and tariff systems regarding railway and road transport, in order to increase service accessibility, and achieve harmonisation with European Union standards;

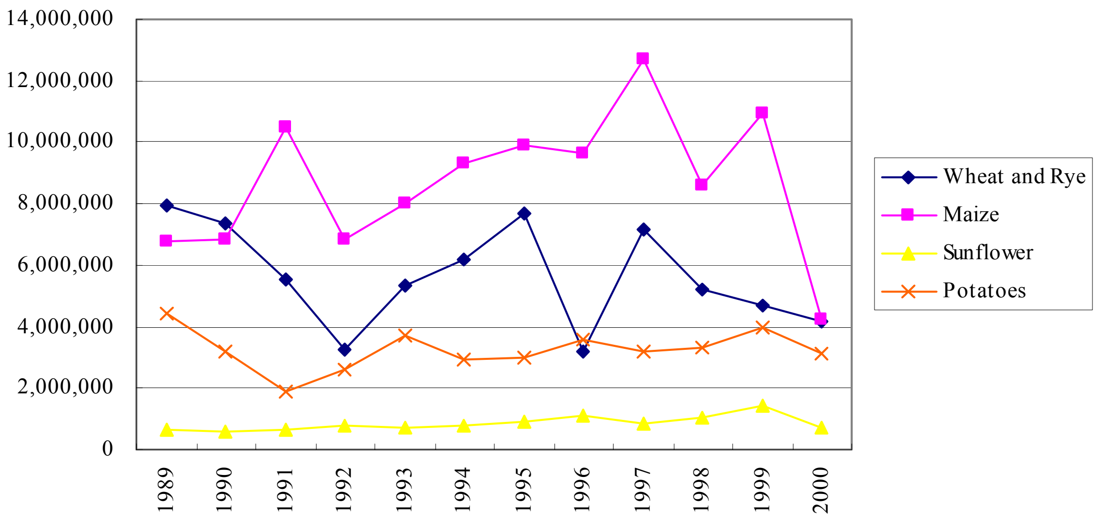
1.1.6 Agriculture

(1) Agriculture Activities

Romania was one of biggest agricultural producing countries in European Continent until middle of 20th Century, but various problems now hinder production levels. Once these problems, such as land restitution, availability of working and long-term capital, and trading system restructuring, are resolved, there could be a resurgence of the agriculture sector within several years. The restructuring of the agriculture sector is the first priority for the Government in order to secure the national food supply and the necessity of rural development.
The arable land is around 9.4 million ha. The total agricultural area is 14.8 million ha. The number of peasant farmers is around 3.5 million and the average individual holding area is about 2.3 ha and other 1 million small landowners live in towns and cities. Large-scale agriculture sector privatization program had started under the guidelines based on the Land Law of 1991, according to which 4.9 million Romanians are entitled to reclaim small plots from state holdings, up to 10 ha per one family.

Romania's main crops are wheat, maize, barley, fruit and wine grapes. In1997, the total volume of the three major crops products (Wheat, Maize and Potatoes) was more than 23 million ton, which is the largest volume since 1989. But the production volume fell in 1998 and in 2000, mainly because of bad weather: flooding in spring and drought in summer. The production volumes of wheat and maize have greatly fluctuated, while the volumes of potatoes and sunflowers have steadily increased in past years.

The export volume of crops has declined in the past 10 years. In particular, wheat and rye exports have dropped substantially since 1996.



Source : National Commission for Statistics

Fig. 1.1.17 Production Volume of Major Crops

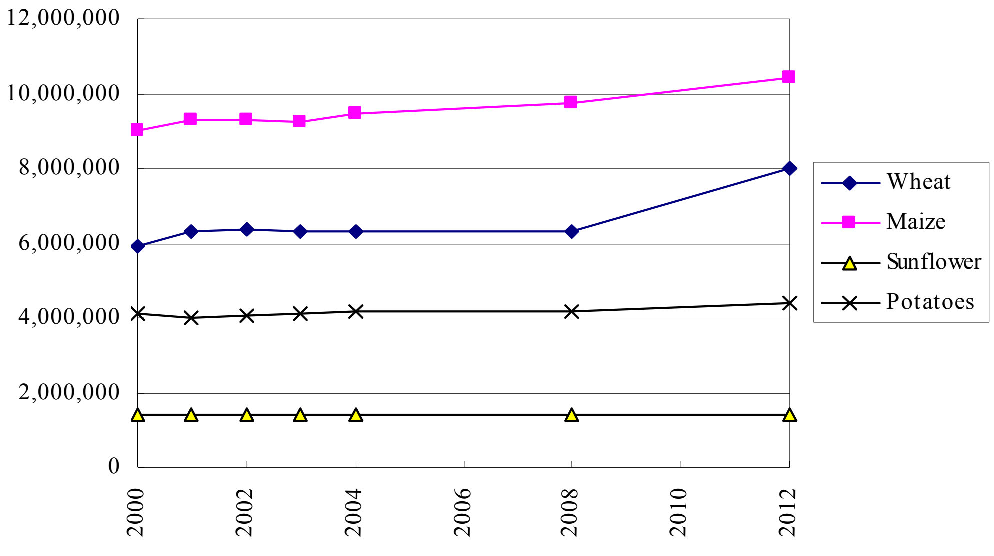
(2) Action Plan by the Ministry of Agriculture and Food

The following action plan from 2000 to 2004 was prepared by the Ministry of Agriculture and Food to not only improve the qualitative and quantitative condition of agriculture products but also diminish disparity in the country.

a. Finalization of the land legislation application granting 85% of the agricultural area to private ownership.
b. Increasing of the agricultural production area (target size is 20-40 ha.)
c. Development of land improvement policies
d. National genetic patrimony protection and connecting the national networks
e. Improving a neutral character of the agricultural policy
f. Finalizing the privatization of the State farms and also of the food industry units
g. Development of the supplying markets
h. Supporting the small agricultural landowners in introducing a primary account system

(3) Projection of Agriculture Products Volume

The Ministry of Agriculture and Food has projected optimum production volume up to 2012 based on the abovementioned action plans.



Source: Ministry of Agriculture and

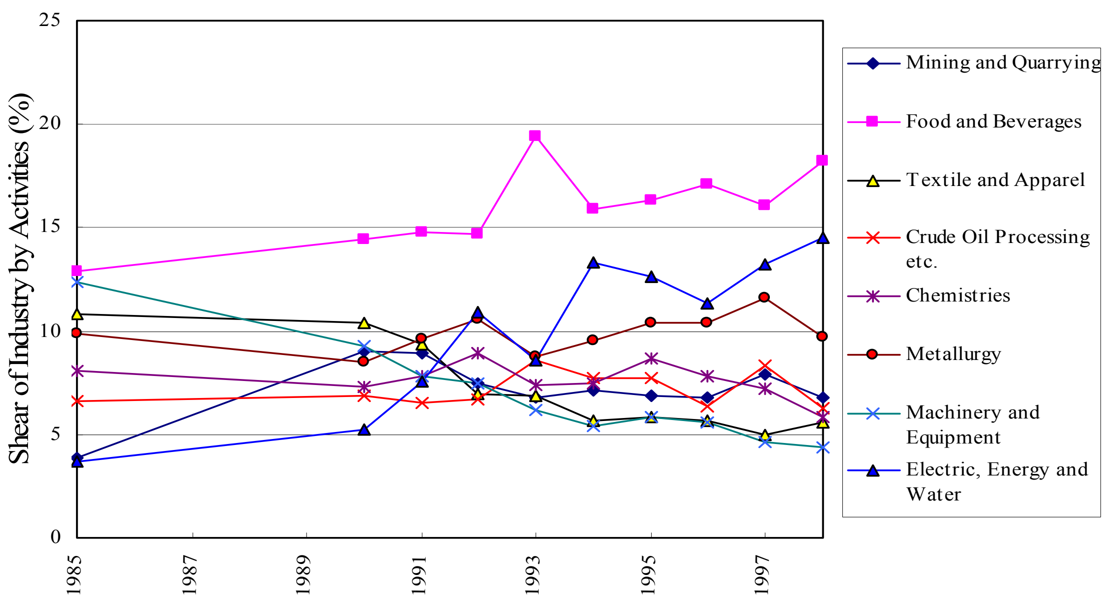
Fig. 1.1.18 Projected Volume of Food Crop Products by MAA

1.1.7 Industry

(1) General

The industrial sector share of GDP was 27.4% in 1998 (final) and 27.8% in 1999 (provisional) and the export share was 94-95% in 1998 and 1999. The investment share to industrial sector was about 41% in 1999 and the sector-wise distribution was; mining and quarrying 3.0%; manufacturing 73.9%; and electric, thermal energy and water 23.1%. Industry employed about 1.9 million people or about 43% of the total workforce as of March 31st 2000.

In 1999, mining and quarrying is estimated to have a share of 6.9%; manufacturing 80.6%; and electric and thermal energy, gas and water 12.5%. The shares of food and beverages, and electric and thermal energy, gas and water have been increasing in past years and have respective share of 18.4% and 12.5%. On the other hand, the share of textile and apparel has fallen to 6.5%, that of machinery and equipment to 4.5% and that of chemical products to 5.6%.



Source: Romanian Statistical Yearbook

Fig. 1.1.19 Structure Share of Industries by Major Activities

The private sector share in GDP was about 61% in 1998 and 61.5% in1999, while that in the gross value added by industry was 45.6% and 48.7 %.

According to the latest statistical data (the end of 1998), the total number of companies in industry was 39,327, of which 4,269 companies were medium and large size (more than 50 employees). Major shareholder of 1,070 medium and large size companies was the State-owned Capital and that of 3,199 companies was private capital. 92.4% of gross value added by industry was gained by medium and large size companies and 62.2% was by majority State-owned Capital companies.

(2) Activity of Major Industry Sectors

1) Automobile Sector

SC Automobile DACIA SA was the largest car producer in Romania manufacturing around 100,000 cars per year or 75% of domestic productions. Renault had a production agreement with the company in the communist era and Renault 12 was provided as the basic design for Dacia during the 1970s and 1980s. Renault is obliged to invest about US$ 220 million within 5 years to upgrade the existing plant and introduce new machinery. A new car will be launched probably in 2002 and the Company aims to produce 200,000 cars a year by the year 2010, out of which about 80,000 will be exported to emerging markets. Before the Dacia and Renault agreement, Daewoo was the largest investor in car industry through its Rodea. Rodea plans to produce 75,000 vehicles a year, with a further increase if market conditions allow, but the current financial condition of Daewoo Company could certainly affect this plan.

The number of cars and rovers assembled from Jan. 2000 to Aug. 2000 was 41,343 and 549, respectively. These numbers were smaller than in previous years.

Table 1.1.3 Number of Assembled Cars and Land Rovers (Units: thousand units)

Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Cars	120	123	85	74	64	61	51	65	93	106	103
Rovers	21	21	15	10	10	6	5	5	4	3	1

Source: Romanian Statistical Yearbook

2) Cement Sector

There are four cement companies and nine production plants in total operating at present. Three foreign companies, namely Lafarge (3 plants), Holderbank (3 plants) and Heidelberger (2 plants), already hold 8 of the plants and only one plant is operated by Romanian capital. Romcim was the largest cement company in Romania and had four plants across Romania with some 60% of nation-wide production capacity (19 million tons) and almost 90% of export capacity. Lafarge Company (France) acquired a 60% share of Romcim in 1997 and holds a 95% share (US$ 260 million in total) at present and invested US$ 30 million to upgrade and modernize the facilities. Now they have three plants in Medgidia, Turunu Severin and Brasov. The Medgidia plant with 2 million tons per annum faced the Black Sea Danube River Canal and is one of the most competitive plants for exporting cement by sea.

Table 1.1.4 Production and Export Volume of Cement (Units: thousand tons)

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Produce	12,225	9,468	6,692	6,271	6,158	5,998	6,842	6,956	6,553	7,300
Export									3,036	2,797

Source: Romanian Statistical Yearbook and Romanian Foreign Trade Yearbook 1999

The major export market of cement in 1998 is Egypt (50%), Austria (14%), Hungary (7.5%) and Senegal (4.6%). This shows that major export markets by sea are Euro-Med and West Africa Areas where Asian companies are formidable competitors.

3) Steel Sector

There are thirty-three steel companies in Romania, of which twenty-one were already privatized and six companies are included in the PSAL program. The three biggest steel companies are Sidex Galatzi, Siderugica Hunedoara and Sidermet Calan.
A restructuring program started in 1994 with the ultimate aim of reducing iron making capacity from 17.5 million tons to 6 million tons in Romania. The current share of Sidex Galatzi, which is the only blast furnace plant in Romania, is around 75% and Siderugica Hunedoara is in the second position with electro steel.

Table 1.1.5 Produced Volume of Crude Steels (Units: thousand tons)

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Converter	7,459	5,267	3,875	2,827	2,938	3,276	4,086	3,847	4,551	4,690
Electric	3,451	2,378	1,960	1,658	1,552	1,515	1,503	1,299	1,189	974
Martin	3,501	2,116	1,295	890	956	1,009	968	937	935	672
Total	14,411	9,761	7,130	5,376	5,446	5,800	6.557	6,083	6.675	6,336

Source: Romanian Statistical Yearbook

Sidex's has a 95-98% share of the domestic market in steel flat production, 30-45% of the semi-finished products (billets) share for long products; 10% and 20% of the total share of pipes and welded pipes, respectively. Heavy plate, hot rolled coil and re-rolling billets, as well as the products resulting from the processing of billets (rebar, wire rod, profile) were mainly exported directly and indirectly.
Recent production volume of crude iron and company's future plan is shown Table 1.1.6. The nominal capacity of the plant is 10 million tons per annum and the past maximum volume of actual product was 8.5 million tons. Recent production volume has been less than 50% of actual capacity. Pig/Crude iron ratio is around 80%.

Table 1..1.6 Recent Product Volume of Crude Iron and Company's Future Plan

(Unit: million tons)

Year	1989	1990	1993	1995	1996	1997	1998	1999
Product Volume	7.2	3.5	2.9	4.1	3.9	4.6	4.6	3.2
Year	2000	2001	2002	2003	2004	2005	2006	2007
Future Plan	3.4	4.3				6.0		

Source: Sidex SA

The total export volume of steel products in 1999 was 1.4 million tons and involved more than 40 countries, such as US (9% of total), Italy (8%), Turkey (7%), Spain (2%) and so on. About 80% of the export volume was transited through the Constantza port. Considering the intense competition in export market, the company has adopted a domestic market oriented policy for its future plan.

The raw material procurement plan for 2001 is shown Table 1.1.7. Forty five percent of coal will come from Australia, US and Canada through Constantza port (barge 80%, rail 20%), and the balance will come from Russian Federation by rail (wide gauge). About 75% of iron ore will come from Brazil, India, Venezuela and Australia through Constantza port, and the balance will come from Russian Federation and Ukraine by rail. Scrap will be procured on the domestic market.

Table 1.1.7 Raw Material Procurement Plan for 2001

(Unit: tons, otherwise specified)

Year	Coal	Coke	Iron Ore	Scrap
Volume	3,000,000	300,000	6,600,000	200kg/ton

Source: Sidex SA

4) Aluminum Sector

The Romanian aluminum industry emerged between 1965 and 1980 based on the bauxite ore from the Bihor Mountains. The industry was not set up in only one company (although vertical integration is a standard in this industry) yet, the three main stages in aluminum producing value chain are performed by different companies: ALOR Oradea and ALUM Tulcea on the bauxite refinery side, ALRO Slatina on the smelting side and ALPROM Slatina and ELCARO Slatina on the processing side. The industry undergoes major transformations aimed at increasing the value added and at reducing costs by improving technologies. The investments over the last 5 years have been of US$ 50 million on the smelting side and of US$ 10 million on the processing side. As there is still value reserve in the current structure of the industry, investments will continue at least in the same pace.

Table 1.1.8 Production Volume of Aluminum and Raw Bauxite

(Units: thousand tons)

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Aluminum	282	178	167	120	116	122	144	145	164	175
Processed Aluminum	36	44	34	24	25	25	26	24	24	22
Aluminum oxide	611	440	310	280	293	302	323	261	280	250
Raw Bauxite	345	247	200	175	186	184	175	175	127	162

Source: Romanian Statistical Yearbook

ALRO Slatina, the biggest primary aluminum supplier operating in the region, has 174,000 tons per year primary aluminum capacity and 67,500 tons per year processing capacity. ALPROM is the sole Romanian aluminum processor with the capacity of 67,500 tons per year. Fifty percent of the output is exported especially through intermediaries on a commission basis. Currently, Romania exports about 134,000 tons per year (of which about 122,000 tons of primary and 12,000 tons of processed aluminum), the main destinations being Italy (35%), Greece (25%), Austria (15%) and France (14%).

5) Petrochemical and Crude Oil Processing Sector

There are Six petrochemical complexes for the chemical processing of oil products and methane gas: Carom Onesti, Solventul Timisoara, Oltchim Rm. Valcea, Doljchim Craiova, Viromet Victoria, Romacril Rasnov. Oltchim Rm is the largest company and sold over 120,000 tons of PVC on the domestic and external markets in 1999.
The petrochemical sector was heavily affected by imports and low capacity utilization indexes from the refining sector. As a result, during 1999, most of the integrated petrochemical plants were shut down or operated intermittently (RAFO and Petromidia). This has generated further disruptions in the downstream industries.

There are five refineries and petrochemical complexes that process domestic and imported crude oil; Arpechim Pitesti (oils and engine oils production (out of unselected crude oil)); Petrobrazi Ploiesti, Petromidia Constanta, Petrotel Ploiesti (oils and engine oils production (out of paraffinous oil)); RAFO Onesti. There are also five small refineries that process domestic crude oil (non-sulphurous).
In 1997 the Oil National Company (Petrom) was set up, according to the vertical integration principle, from extraction, crude oil processing, transportation, including the distribution network (Peco), a system that will lead to increased economic performance for the entire "chain". Two of the largest refineries - petrochemical complexes, Arpechim Pitesti and Petrobrazi Ploiesti, have been included in the Petrom.

Table 1.1.9 Production Volume of Petrochemical and Crude Oil Processing

(Units: thousand tons)

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Crude Oil Processing	30,615	23,664	15,191	13,191	13,191	14,744	15,259	13,426	12,429	12,520
Basic Macromolecular	640	474	350	272	256	304	331	322	339	320
Synthetic Rubber	149	102	55	36	30	27	41	37	29	23
Ethylene	332	243	162	127	126	143	161	159	147	153
Propylene	260	181	110	85	85	121	137	130	150	138

Source: Romanian Statistical Yearbook

Domestic demand for petrochemicals is the only one expected to increase, reflecting the trends of Romanian consumers to come up to the developed countries' consumption of plastics (polyethylene and polypropylene, PVC) and rubber. As international prices for petrochemicals have started to move up, while the domestic currency has strongly devalued, exports have become attractive.

6) Shipbuilding Sector

There are eight major shipyards in Romania, of which six were already privatized. The two biggest shipyards located in Constantza and Mangalia. Mangalia Shipbuilding Company was invested by Daewoo (Korea) in 1996 and has plans to renovate the shipbuilding yard and other facilities. Santierul Naval Constanta will be privatized under the PSAL program. The shipyard is the largest Romanian shipyard (total land: 72.4 ha of which land used in the production process: 43.2 ha) and is the only domestic shipyard manufacturing large ships (exceeding 125,000DWT, production capacity: 515,000DWT). Ninety seven percent of products was exported such as 3,600 m^3 LPG/ammonia/VCM carrier, 5600 m^3 LPG carrier, Container vessel (1,078 TEU), Cape-size Vessel 165,000 -173,000 DWT and Ferryboats 12,000 DWT.

(3) Export/Import Volume through Constantza Port Estimated by MIC

Based on the Study Team's request, the Ministry of Industry and Commerce of Romania forecast the cargo volume through Constantza Port.

Table 1.1.10 Export Volume through Constantza Port Forecasted by MIC (Units: tons)

	Name of Cargo	Medium Term	Long Term
1	Steel Plates and Tubes	2,300,000	3,300,000
2	Scrap	1,500,000	1,500,000
3	Aluminum	70,000	100,000
4	Nonferrous metals (Zn, Pb, Cu)	30,000	50,000
5	Calcined Alumina	150,000	200,000
6	Other Export	30,000	50,000
7	Cement	1,800,000	1,000,000
8	Stones and its Products	20,000	30,000
9	Construction Material Ceramic	20,000	20,000
10	Other Material	160,000	250,000

Source: Ministry of Industry and Commerce of Romania

Table 1.1.11 Import Volume through Constantza Port Forecasted by MIC (Units: tons)

	Name of Cargo	Medium Term	Long Term
1	Copper Concentrate	150,000	500,000
2	Bauxite	800,000	1,000,000
3	Zinc Concentrate	100,000	180,000
4	Lead Concentrate	70,000	120,000
5	Semi fabricated Steel	150,000	150,000
6	Iron Ore	4,000,000	5,000,000
7	Coking Coal	2,000,000	3,000,000
8	Other Import	100,000	200,000

Note: Certain volume from automobile industry will be realized but such volume is not included in this Table

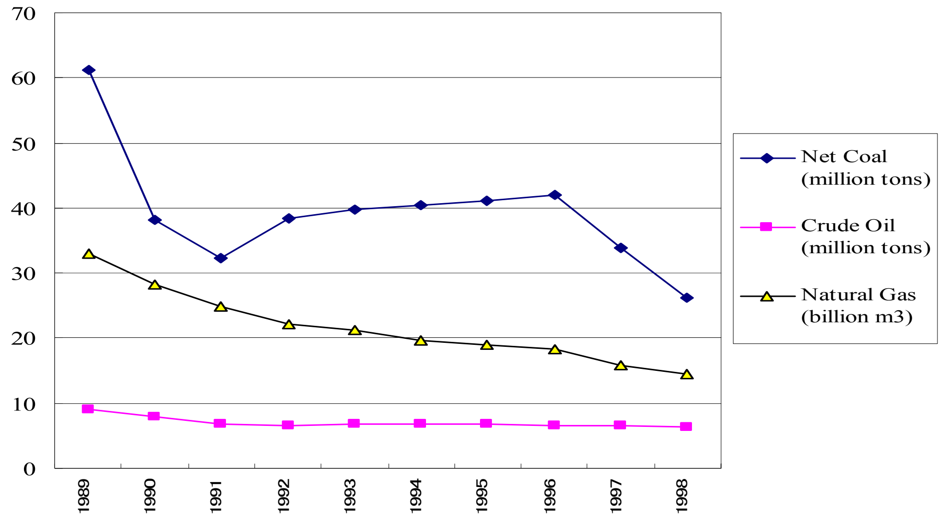
Source: Ministry of Industry and Commerce of Romania

1.1.8 Primary Energy Supply

(1) Domestic Production

1) Domestic Production Volume

The domestic production of coal, crude oil and natural gas is shown in Fig. 1.1.20.



Source: National Commission for Statistics

Fig. 1.1.20 Domestic Production of Coal, Crude Oil and Natural Gas

2) Coal

Romania has very large reserves of hard coal and soft coal, and the coal is mainly used for electricity generation. The hard coal is extracted from underground mines while the soft coal is produced from open-cast mines. The underground coal mining runs at low efficiency due to obsolete equipment and technology and lack of investment. The coal mines are located far away from power plants, the effect being increased transport cost of coal. Peak of production was in 1989 and then the production decreased to 40 million tons in 1990 and stayed more or less stable until 1995. After the Government decided to close underground mining, the production volume has been decreasing.

3) Crude Oil

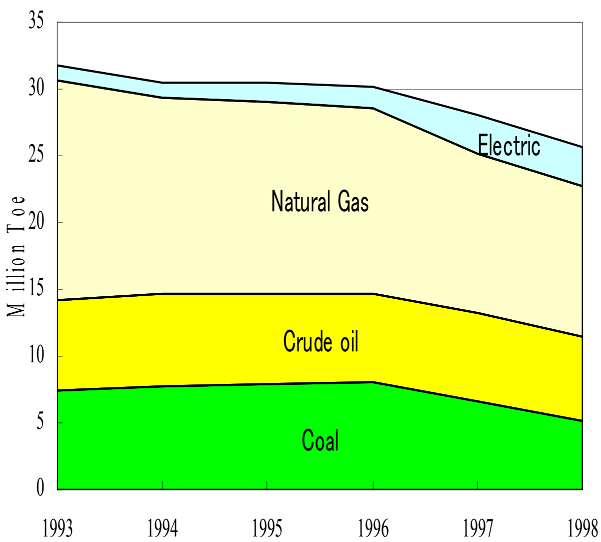
Romania has long history of oil production and was one of the major oil producer in Europe. With the depletion of the shallow oil reservoirs, the production declined and Romania has become a net oil importer. The major oil fields are located in the southern central part of Romania from Craiova to Ploiesti City. About 90% of oil is produced in land area. The offshore production is delivered from fixed platforms at about 50 m water depth in the Lebada fields. Due to a lack of funds, the Government has not been able to conduct by exploration or new field development even though production continues to decline. The oil production in Romania was peaked in 1976. After that Oil production volume continuously decreased, registering 5.87 million tons in 1999 according to MIC. Oil product prices are no longer regulated, but ex-refinery prices are often higher than imports, due to relative inefficiency.

4) Natural Gas

Romania is one of the biggest producers and consumers of natural gas. In 1995 with consumption around 23 billion m^3, Romania accounted for 64% of the Balkan region natural gas consumption. Gas production dropped from 37 billion m^3 in 1985 to 19 billion m^3 in 1995 and to 14.4 billion m^3 in 1998. The two major gas fields are located in the northern central part of Romania; around Mures and Bacau County. 95% of the gas is produced on-shore. In 1998 Romania imported about 4.7 billion m^3 of natural gas from Russia.

(2) Energy Independence

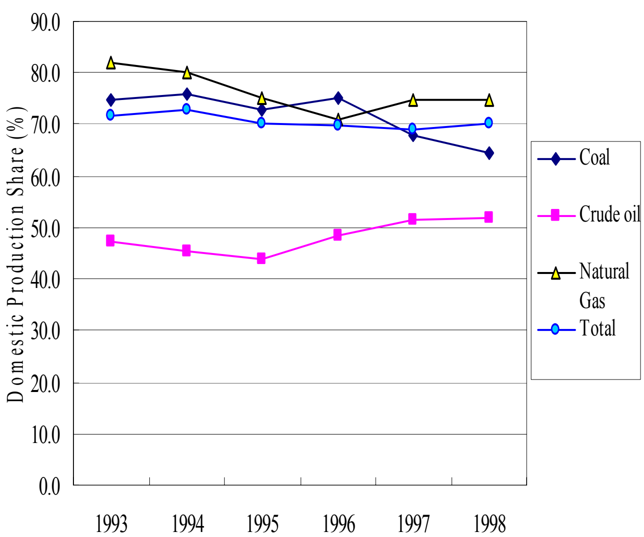
The share of domestic products of coal and natural gas in each energy production were constant at around 75-80%, but total energy production decreased 13% from 1993 to 1998 and production of coal and natural gas decreased more than 30%. Since last decade due to the decline in gas production, Romania started to import gas from the Russian federation using a long-distance gas pipeline, which continues to Bulgaria, Greece and Turkey. According to MIC, the share of domestic natural gas production in 2000 was estimated around 70%. The production of crude was around 6.5 billion Toe from 1993 to 1998. The shares of coal, crude oil and natural gas in primary energy resource consumption in Toe in 1998 were 18%, 22% and 39%, respectively, and the import dependence of primary energy resource consumption was 28.8%. But this figure does not include the import volume of liquid fuels, such as gasoline, ethane and so on.



Note: Gasoline and ethane are not included

Source: Romanian Statistical Yearbook 1999

Fig. 1.1.21 Primary Energy Production



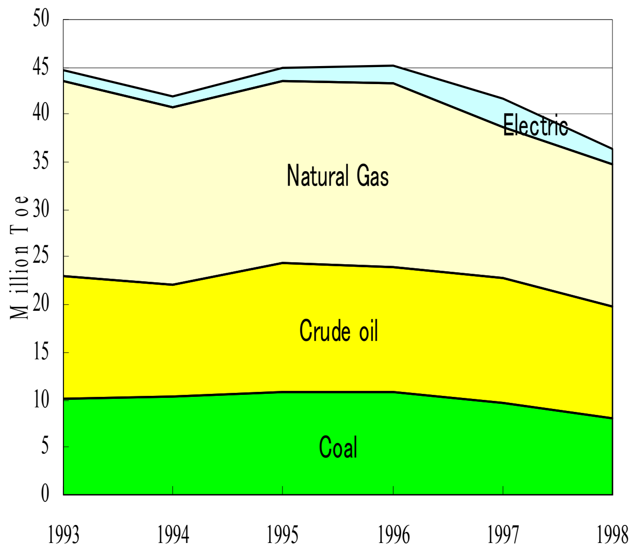
Note: Gasoline and ethane are not included

Source: Romanian Statistical Yearbook 1999

Fig. 1.1.22 Energy Independence Degree

(3) Energy Consumption

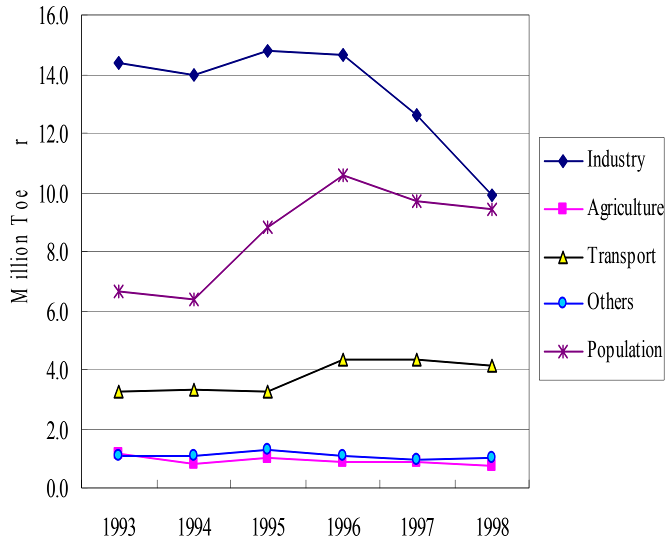
The ratio of (Domestic energy consumption)/(Primary energy production) was more than 1.3 in past years but it was 1.26 in 1998.
The volume of final energy consumption by industry decreased; 14.7 million Toe in 1996 and 9.9 million Toe in 1998, while that by population was jumped from 6.4 million Toe in 1994 to 10.6 million Toe in 1996. The volume of natural gas distributed by pipeline decreased 30.9 billion m^3 in 1990 to 12.0 billion m^3 in 1998, while that of households increased 2.7 billion m^3 in 1990 to 6.2 billion m^3 in 1998.



Note: Gasoline and ethane are not included

Source: Romanian Statistical Yearbook 1999

Fig. 1.1.23 Domestic Energy Consumption



Source: Romanian Statistical Yearbook 1999

Fig. 1.1.24 Final Energy Consumption

(4) Energy Future Plan

In 1995 the Romanian MIC of Romania prepared the National Energy Development Strategy, which was revised in 1997.
The Strategy analyzed the energy sector development in the next 20 to 25 years, based on the possible scenarios of the Romanian economy and estimated the possible options for energy sector development. The Energy Development Strategy was again revised by MIC in 2000 and now awaits the Government approval.

The strategy envisages increasing the use of natural gas; reducing the weight of coal-based electricity and heat production; promotion of energy saving; diversification of the energy supply sources and supply of energy sources; expansion of international co-operation in the energy sector; liberalization of the energy sector; elimination of subsidies; harmonization of the energy related legislation to the EU standards and to the Energy Charter Treaty; promotion of private investments; and promoting environmental protection.

For crude oil, by the improving energy efficiency, there will be a decrease in the oil and petroleum products demand in short term. The domestic oil production is expected to be more or less stable around 7 million tons per year and then a steady fall is forecasted.
As for gas demand, consumption is expected to decline slightly in the short term, reflecting the reduction in energy intensity and a displacement of heavy industry by lighter industry and services, then it is expected to remain fairly stable. The new gas pipelines plan connecting Romania with Moldova and Ukraine, of which the source is located in Russia, and Hungary, of which the source is located in North Sea area, were prepared in order to diversify the import gas resource, and to interconnect the Trans-European Energy Networks. The Ukraine pipeline became operational in 1999, and Moldova and Hungary pipeline are in progress.
The plan for construction of LNG terminal in Constantza port was also examined in the Energy Development Strategy 1997 and however terminal development plan required too large amount of investment to realize. Instead of the LNG terminal development plan, Black Sea LPG Romania (Romanian–US joint venture) has a plan to build a LPG import terminal in Constantza port, which includes a 210 km pipeline to Bucharest.
For Coal, the energy development strategy envisages reducing the weight of coal -based electricity and heat production for environmental reason. Based on the Government restructuring plan of coal industry, the inefficient mines will be closed.

Upon the request by the Study Team, the Ministry of Industry and Commerce of Romania made the following projection of primary energy supply.

Table 1.1.12 Primary Energy Supply Projection by MIC

Year	2000	2001	2002	2003	2004	2005
Crude Oil						(Units : million tons)
Domestic	6.5	6.5	6.5	6.5	n.a.	n.a.
Import	4.3	4.7	5.3	6.0	n.a.	n.a.
Natural Gas						(Units : billion m^3)
Domestic	13.8	n.a.	n.a.	n.a.	11.7	n.a.
Import	5.9	n.a.	n.a.	n.a.	7.0	n.a.

Note: Import volume of crude oil does not include the volume form Caucasus.
n.a means not available
Source: MIC of Romania

1.1.9 Regional Development Plan

(1) Economic Activities in Constantza County

1) Present Condition of Constantza County

Constantza County lies in the southeast part of Romania, having as neighbors to the north Tulcea County, to the east the Black Sea, to the south Bulgaria and to the west the Danube River. The population was of 746,700 on July 1st, 1997, and the population density was 105.6 persons/km2. The main geographical form is low height plateau with natural lakes and river meadows, seashores and lagoons. The Constantza City (348,136 persons) is the capital of the County and the second largest populated City after Bucharest. The major cities and towns in the County are Mangalia City (43,832 persons), Medgidia County (47,606 persons), Cernavoda town (20,734 persons), Navodari town (33,702 persons). From the viewpoint of urbanization, Constantza County is on the third place in Romania; 73.5% of the population concentrates in the eleven urbanized areas compared that the nationwide average is 55%.

2) Economic Activities in Constantza County

a) General

The major industries in Constantza County are agriculture, tourism, port activity and maritime transport, automobile, chemistry and petrochemical, thermal and electrical energy, wood processing and paper production. In terms of the number of the economic entities, Constantza County was the second place in the country on December 31st 1999, 32,800 companies were registered with the Constantza Trade Registry of Industry and Navigation of which 2,940 are companies with foreign registered capital. With regard to the capital, 96.8% of the commercial companies are private, 0.1% state owned, 1.5% joint capital (private and state owned) and 1.6% are branches/subsidiaries. The industrial activities in the county supply more than 100,000 job opportunities.

b) Tourism

Constantza County is one of the most developed and well-balanced counties in tourism: 41% of the accommodations are located in the County, and 41 resorts and sea recreational places with 740 accommodations, treatment and leisure facilities are facing the Black Sea coast. The number of tourists that arrived from 1st of January to the end of September in 2000 was 725,000 people. The occupancy rate was 51.1% during this period up from 46.6% of the previous year.

c) Industries

The major industrial sectors of the County are: ship building, petrochemical, constructions and its materials, food industry, and wood processing.

Shipyards in Constantza, Midia and Mangalia can build new ships up to 250,000

DWT. *Petrochemical and Chemical* processed over 3.5 million crude oil and its derivatives annually and used for obtaining oil products, domestic fuel, flavored hydro-carburets, petrochemical products, coke and oil sulfur. SC Petromar SA is operating the drilling and production (crude oil and natural gases extraction) *Construction Materials* such as cement, gravel and sand pit, prefabricated components, composite stone made of silicates and polyester resins, asphalt products. *Wood Processing* produces a large amount of furniture and the products are exported to France, Netherlands, Canada, Germany and Italy.

d) Agriculture and Food Industry

Depending on tradition and experiences, the county belongs to the favored area for cereals and technical plants cultivation. The main products are wheat, rye, barley, corn, peas, beans, sunflower, soybeans, flax, potatoes, vegetables, grapes and fruits.
Due to its agricultural potential and its tradition, the food industry is important for the economy of the county: milling and bread making, wine and other alcoholic beverages, milk and other products of diary, meat and other products of meat, edible oil, natural juices and cans of vegetables and fruits, fish and tins of fish. Around 274 companies processing agricultural products are operating in the County.

e) Trade and Services

There are a lot of trade companies including transport and storage with total area of 1,200,000 square meters. The banking and the insurance are well represented all around the county. Constantza Chamber of Trade, Industry, Navigation and Agriculture are cooperating with the existing commercial companies. For the past few years the development of certain services meant to support the economic development has started, such as business council services agencies, technological attendance, advertising, fairs and exhibitions network, business facilitating service agencies promoted both by private companies and the state-owned ones.

3) Land Use of Constantza City

The prefecture and City hall, which is the commercial center of the city, are situated near the Gate no.1 and no.2 of the port. Although the traffic of Gate no.1 is restricted only for small car and the vehicles for construction of North Breakwater and Gate no.2 is only for pedestrian, the traffic congestion of the road around this areas is major concern of City Planning.
The Old oil Storage area located almost center of the City neighboring commercial and residential area, while new oil storage area located southern end of urbanized area and oil pipe lines are connecting the two area. According to the Study team interview, the City said that the present location of old storage area is inappropriate considering secure living of citizen, and has an intention to relocate to southern side of new terminal where reserved for industrial activities.

4) Land Transport Network around Constantza Port

a) Road Connection

Corridor no. IV, which is prioritized among the road projects, is now developing. The first phase of construction, between Bucharest and Cernavoda, already stared and will open by the year 2003. After completion of this phase, the second phase, between Cernavoda and Constantza will start and is planned to grand open by the year 2010. The preliminary route plan of second phase is shown in Fig.1.1.1 with three alternatives; stopping at outside of Constantza City; connecting to Constantza South port passing along Danube-Black Sea Canal; and connecting to Mamaia. Referring to the plan of stopping at outside of Constantza City, City Government prepared a preliminary study on road network around the City including the port area.

b) Railway Connection

National railway connects Bucharest and Constantza, and this line will be a part of Corridor no.IV. The line is under rehabilitation (between Bucharest and Constantza). Railway from Constantza port connects to this railway Corridor near Constantza station; three dual lines with Constantza north port (near Gate no.6, no.9 and no.10) and one single line with Constantza south port.

(2) Industrial Activity in South Constantza Free Zone

1) Free Zone Area

The Free Zone area is 134.6 ha in total and consists of three separated. Eighty percent of Enclosure No.1 and 30% of Enclosure No.2 are already utilized, and infrastructure is now being prepared in Enclosure No.2. Enclosure No.3 is reserved for future development and a project is already addressed in Enclosure No.3.

The use of each area is as follows.

Enclosure No.1: (20.5ha) Sorting activities on Covered and uncovered space, Processing and Distribution (Six Warehouses for rent, Railway connection)

Enclosure No.2: (10.3ha) Industrial Production, Commercial banking and Stock exchanging Activities (Railway connection)

Enclosure No.3: (97.6ha) Industrial development Area with port facilities (Future Extension)

Berth 119, 129, 130 and 131-137 are within the jurisdiction of the Administration, of which berth 119 located along the north side of Enclosure No.1, 129 and 130 located the north side of Enclosure No.3 are in operation. Berth 129 and 130 is preliminarily allocated to the future expansion area of new container terminal.

2) Activity of Companies in Free Zone

The companies established in the Free Zone by activities are shown in Table 1.1.13. The major activities are processing/production, forwarding/stevedore, storage/ showroom, and banking/exchange. The major market of processing/production companies is EU countries and some materials are transported from Turkey, Mongolia and EU countries.

3) Future Development Plan of the Free Zone

The Government endowed the Administration with the Eastern part for Constantza Port South area from the boarder of Ro-Ro terminal when the Administration established. The conceptual development plan in this area was prepared.

Container terminal phase 1 development is in progress under the control of CPA with JBIC loan agreement. Industrial & Storage area development is also in progress under an agreement with KRONOSPAN Company. Grain terminal development plan was to be financed by IBRD, but the project was canceled due to Government finance condition.

The Free Zone Administration has the following development strategy.

- *Short Term*

  Inviting Processing industries in existing area.

- *Middle Term*

  Developing infrastructure and industries with private investor in east water area. (A partner was not been found at present)

Table 1.1.13 Companies by Activities in Constantza Free Zone

Proccessing and Factory	
1) A.G.C. SRL. Constantza	Meat processing materials from EU, products to EU
2) EUROPININVEST CENTER	(Chicken processing (MAC)) materials from EU, products to EU
3) S.C VIFRANA SA	Working wear and Warehouse, materials from Romania, products to EU
4) EUROTEX Industries (Turkey)	Textile, material from Mongolia, products to EU
5) F.LLI AGUZZI (Italy)	Steel building material factory, materials from Romania, products to Romania
6) HANNAH STEEL	Steel products, materials from Romania, products to EU
7) SOFEMA	Garment (Shirt), materials from Turkey, products to EU
8) KRONOSPAN (Germany)	Glue and others, (New investor on Enclosure No.3
Forwarder and Stevedore	
9) SOCEP Constantza 10) ROMTRANS S.A. (Mother Company)	
Storage and Showroom	
11) LARIMAR Constantza (Rental Cool Warehouse) 12) ROMNED (Warehouse) 13) AURAMAR SRL (Rental Warehouse) 14) ROMFAST PROMOTION IMPORT-EXPORT (Warehouse) 15) TRANSPORT TRADE SERVICES (Warehouse) (Danube river transport) 16) MARCHAND BUCURESRI (Cool Warehousing) Destination (EU) 17) IUS Brasov (Hand Tools) 18) Romned Techirghiol (Warehouse and Show Room) 19) HEIRING (Show Room (shipbuilding)	
Banking and Exchange	
20) BANCA ROANA DE DEZVOLTARE SA (Bank) 21) BANCA TURCO-ROMANA S.A (Bank) 22) BURSA MARITIMA SI DE MARFURI (Black Sea Oil and Grain Exchange)	
No Investment at present	
23) ANA ELECTRONIC SRL (no plan), 24) IRIDE SRL (no plan), 25) Comvex Constantza (Steel Processing), 26) MEARSK Container Handling and Storing, 27) Van Gulik International B.V., 28) Rompac International S.A. 29) Invest Consult Service SRL	

Source: Free Zone Administration of Constantza South and Basarabi

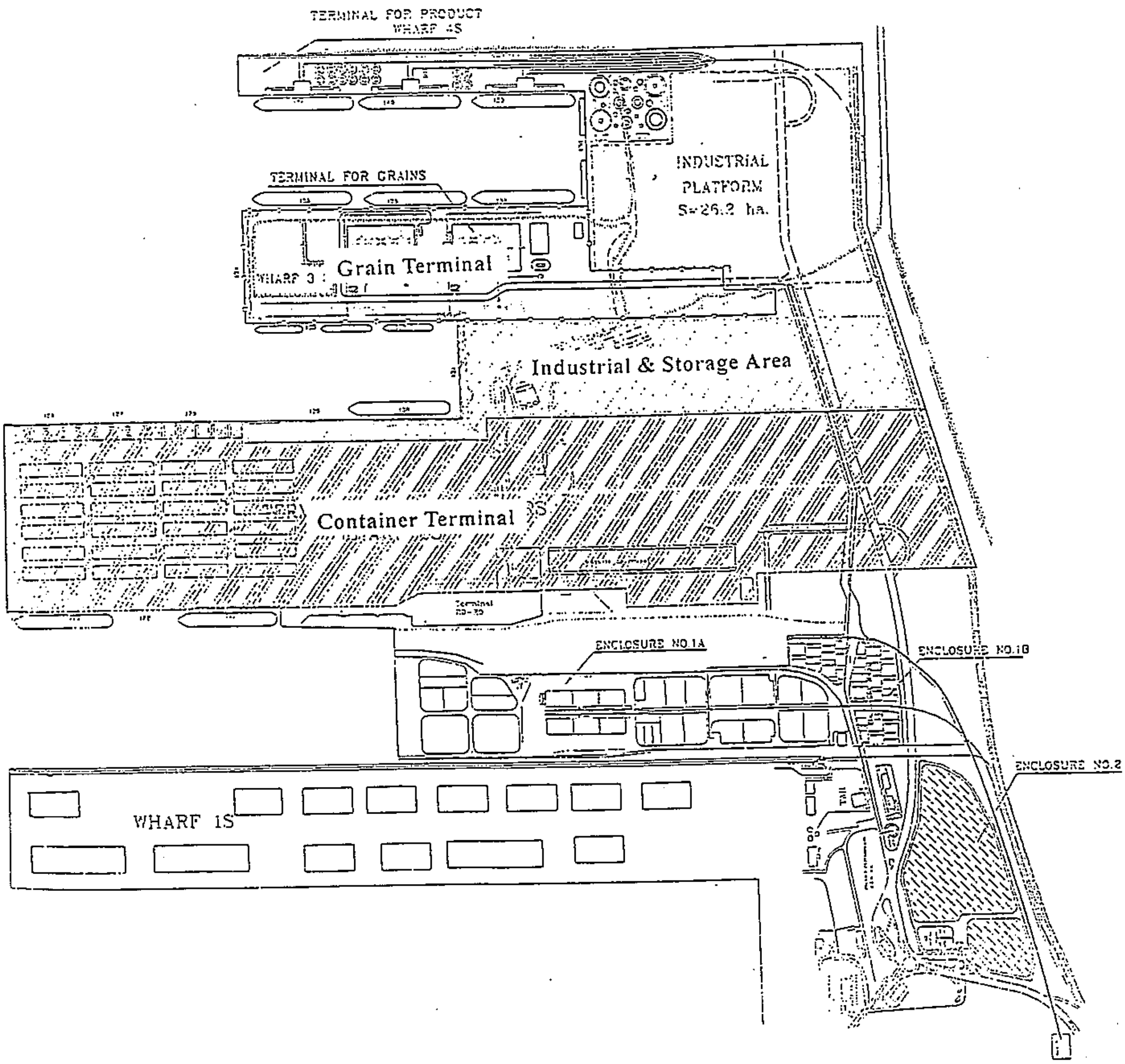


Fig. 1.1.25 Conceptual Development Plan of Constantza Free Zone

1.2 Socioeconomic Conditions of the Surrounding Countries

1.2.1 Introduction

Countries surrounding Romania which affect activities of the Port of Constantsa can be divided into three groups; Central and Eastern European Countries, Black Sea Countries and Caucasian and Central Asian Countries.

(1) Central and Eastern European Countries (CEEC)

Countries considered to be within the hinterlands of Constantza Port include four (First Group) of the CETE-5* countries (Hungary, Czech Republic, Slovakia and Poland) and three countries (Second Group) of the SETE-7* countries (Bulgaria, Yugoslavia, and Bosnia Herzegovina). In addition, Austria – a EU country - can be also included in the hinterlands in consideration of iron ore and other bulk cargoes. The orbit has therefore eight countries if we include Austria.

*Note: CETE-5: Central European Transition Economies including Hungary, Czech Republic, Slovakia, Poland, and Slovenia
SETE-7: South European Transition Economies including Bulgaria, Yugoslavia, Bosnia Herzegovina, Romania, Croatia, Albania and Macedonia

(2) Black Sea Countries

Countries located on the coast of the Black Sea are considered to be forelands of Constantza Port and include three former CIS countries, namely Ukraine, and the Russian Federation; Georgia, a Caucasus country; the Republic of Turkey, and Bulgaria. As we will discuss Georgia and Bulgaria in another group, the Black Sea countries we discuss here include Ukraine, the Russian Federation, and the Republic of Turkey.

(3) Caucasus and Central Asian countries

Caucasus and Central Asian countries considered to be forelands of Constantza Port include three Caucasus countries, namely, Georgia, Azerbaijan and Armenia, and five Central Asian countries considered to be hinterlands of the three Caucasus countries, namely, Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan and Kyrgyz Republic. Whether or not the Central Asian countries can be forelands of Constantza Port, this could be a rather wide-open issue.

1.2.2 Outline of Political and Economic Situations

(1) Central and Eastern European Countries (CEE)

The rigid Cold War geopolitical order shattered in 1989 with the disintegration of the communist regimes in Central and Eastern Europe (CEE). One of the first and most important economic consequences for CEE countries have been the dismantling of the Council for Mutual Economic Assistance (CMEA). The abrupt loss of trading partners, the dismantling of the "clearing trade" arrangements between former CMEA countries, with centrally planned economies, and the Newly Independent States (NIS) of the former Soviet Union, are responsible for the ensuing dramatic fall of economic output and the rise in unemployment in these countries. According to World Bank estimates, GDP fell, on average, by about 16 percent in five CEE countries between 1989 and 1994. The new free trading regime of these countries is characterized by a switch to trade on a hard-currency basis and a decline in the demand by Russia and the NIS for manufactured products from the CEE countries, this resulting in a re-orientation of the foreign trade of these countries towards Western Europe countries, the only source of foreign exchange necessary for purchasing the intermediate inputs which are necessary for domestic production.

Geographically speaking, the Balkans is a well-defined geographic area, including Romania, Bulgaria, the former Yugoslav Republics, Albania, and Greece. Its northern boundary is the Carpathian Mountains. Sometimes Turkey is also included because of its close political connections to the region. From historical aspects, the Balkans were traditionally under the range of influence of the great powers, such as the Austro-Hungarian Empire, Russia, Italy, and the Ottoman Empire. The broad geographic area in question has been a crossroads of population movements since time immemorial, and the number of religions, cultures, nation-states, and political systems found there is very wide. Countries in the Balkan region, most of them former communist countries before 1990, have remained after the collapse of communism with industrial economies, however lacking a real market economy in the early nineties. The period after the liberation brought about radical economic changes as well as transformations in the political and social spheres. For people in most of these countries, life conditions deteriorated significantly with the introduction of the free market. Governments have generally adopted severe austerity programs to address unsustainable budget and current account deficits. The economic restructuring was an enormous challenge for the Balkan countries, such as for the CEE countries in general, being only the economic progress after 1995 that the GDP recovered the 1989 levels.

CEE countries are currently undergoing fundamental economic and social changes. Important steps ahead have been made over the last decade in developing their market economy structures, along with establishing stable legal and institutional framework conditions that made room for private initiative and an important flow of foreign investments. The contribution of the private economy in the CEE countries' GDP, an important indicator for ascertaining the progress of reform, already exceeds an average of 60%, with higher figures in the Czech Republic, Hungary, the Slovak Republic and Slovenia. In the majority of the reforming countries in Central and Eastern Europe, it is generally expected that the growth rate will continue to rise in the next years. There is a strong link between successful reform and stability in the CEE countries and the intensification of economic relations with countries in Western Europe. As the transformation process in CEE countries is consolidated, it will continue to exert a considerable growth-stimulating effect on the whole internal European market.

(2) Black Sea Countries

The economic interaction of the countries located in the Black Sea region is to be analyzed along with the important institutional and economic developments that are occurring in adjacent areas. The Black Sea Basin countries emerged as critical geopolitical players in the post Cold War landscape.

In the past several years, the Black Sea region countries, most of them having transition economies, saw a reduction of the transportation activities. One of the reasons for the decline, has been the collapse of the previously existing working relations between the countries of the Black Sea states. These countries still feel the lingering aftershocks of the 1998 Russian financial crisis. Inflation levels rose over the past years as a result of the devaluation of national currencies, lack of investor confidence, and in some cases looser monetary policies to cover fiscal deficits. Growth levels suffered, as the initial decline in the Russian economy hurt neighboring economies as well. A second shock that hit the region in the last few years was the Kosovo crisis. Despite initial fears that it could have devastating consequences for the fragile macroeconomic stability achieved by certain BSEC (Black Sea Economic Cooperation) member countries, the quick resolution of the conflict, and the initiation of the Stability Pact for South-eastern Europe mitigated the fears and created a climate of guarded optimism for the region. These states have committed to sustaining macroeconomic stability and expanding and deepening structural reforms in their economies, and bilateral and multilateral donors have pledged to make considerable amounts of official aid available to support these efforts. Nevertheless, the crisis did create certain difficulties, including a lingering crisis of confidence among private investors, and it perpetuated the region's geographic isolation from potential markets in Western Europe, as the most direct routes through Serbia and along the Danube continues to be blocked. This extensive region is currently experiencing radical shifts in its social, economic, and cultural dynamics, and in its relationship with the surrounding Eurasian and Southeast European states.

(3) Caucasus and Central Asian Countries

The Caucasus and Central Asian countries are currently trying to overcome a difficult transitional period, the economic conditions in these countries being even harder than those in other member countries of the Independent States Community (CIS). Transition from the communist system to new political, economic and social models is no easy task for these countries. Still in the phase of consolidating their independence, establishing their nation-states and moving forward towards democracy and market economy, these countries are facing serious economic problems, such as a declining industrial output and an ever-increasing unemployment and inflation. These countries have also suffered the byproducts of radical transition: economic disruption, widespread scarcity, mistrust and at-convenience disregard of newly written laws, and corruption.

With oil and gas industry tremendously promising, the major obstacles in the way of foreign investment in these countries are the lack of legal framework and limited access to export markets. The dependence on Russia's pipeline system has impeded development and foreign investment in the sector.

After seven decades of Soviet rule, the three Caucasus states of Georgia, Armenia, and Azerbaijan are well down the road to a market-oriented economy, surviving along the way extreme socio-economic and cultural changes.

Each Caucasus state has passed or drafted a Constitution, Civil Code, and Tax Code. Each has created its own framework of written laws regulating domestic and international flows of goods and services, and each participates in a range of bilateral and multilateral agreements and organizations. New laws in each country regulate a host of commercial activities such as the formation of commercial entities and contracts, banking and currency, pledge, leasing, insurance, natural resources development, and real, movable, and intellectual property rights. Tax laws essential to the state treasuries have been passed, aiming at setting forth the guidelines and establishing the consistency required by firms engaged in international commerce, creating conditions for foreign investment, which is greatly needed to jump start their development engines, and defining and regulating the taxes that must now generate public revenue.

1.2.3 Economic Indicators

(1) Central and Eastern European Countries

Table 1.2.1 and Fig.1.2.1 show population, economic scale and the evolution of GDP growth rate for these groups of countries.

After falling about 25 percent between 1989 and 1993, the CEE region's real gross domestic product grew at a steady pace, especially after 1995. Structural reforms and stabilization policies began to show results in economic terms after several years of falling production and difficult economic restructuring. The average inflation rate in the Central and Eastern European countries dropped from 84 percent in 1992 to about 9 percent in 1995. Economic output in most countries has started to grow. There were a number of exceptions, however. Albania, Bulgaria, and Romania began growing three to five years into the transition period but suffered reversals during 1996–97 because they failed to undertake some important structural reforms. For most of the CEE countries, some problems featured the entire transition period. Issues such as bureaucracy, lagging privatization of large companies, the banking systems still lacking the needs of market economies, inflation rates still high, and the poor infrastructure are issues difficult to deal with. The reform of the public enterprise sector has often been patchy and inconsistent in the transition economies, and, as a result, unprofitable enterprises have continued to operate and generate losses.

Private sectors in the major CEE economies now account for half or more of economic production, most prices are free of regulation, and most economies are on the rise. Some of the countries in CEE now register the highest growth rates in Europe. For example, the Polish economy, largest in the region, has seen an accelerating economic growth. Poland's real GDP grew at a steady pace since. Industrial production is growing at an annual rate of over 6 percent, among the fastest in Europe.

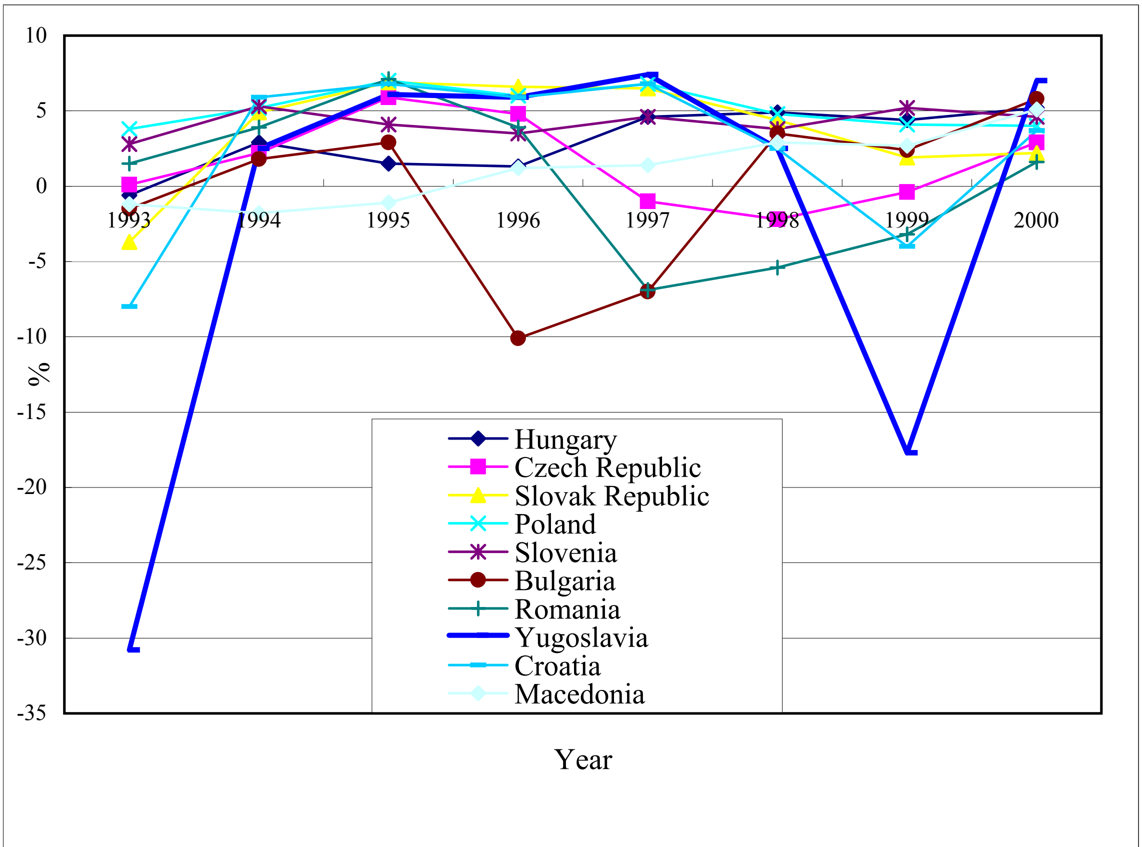
According to recent figures, year 2000 was a very good one for the CEE countries in transition. The region, interpreted as a whole, seems to expand faster than the world economy average. However, the favorable external climate has started to deteriorate rapidly and mainly the current pronounced weakening of the EU economy is a matter of concern. The transition economies, especially those aspiring for EU membership, may be seriously

Table 1.2.1 Size of Economy (Central and Eastern European Countries)

	Populatior	Surface area	Population density	GNP		GNP per capita	GDP	GDP per capita
					Average annual growth			per capita
	million	thousand sq. km	people per sq. km	$ billions	%	$	$ million	$
	1998	1998	1998	1998	1997-98	1998	1998	1998
Poland	39	323	127	151.3	4.4	3,910	158,574	4,101
Czech Republic	10	79	133	53.0	-2.2	5,150	56,379	5,476
Slovak Republic	5	49	112	19.9	4.2	3,700	20,362	3,777
Hungary	10	93	110	45.7	4.2	4,510	47,807	4,727
Slovenia	2	20	99	19.4	3.9	9,780	19,524	9,851
Sub Total	**66**	**564**	**118**	**289.3**		**4,354**	**302,646**	**4,555**
Bulgaria	8	111	75	10.1	3.5	1,220	12,258	1,485
Romania	23	238	98	30.6	-5.4	1,360	38,158	1,696
Sub Total	**31**	**349**	**88**	**40.7**		**1,323**	**50,415**	**1,639**
Croatia	5	57	80	20.8	1.8	4,620	21,752	4,833
Bosnia and Herzegovina	4	51	74	..	..	..	..	..
Macedonia, FYR	2	26	79	2.6	3.1	1,290	2,492	1,240
Yugoslavia, FR (Serb./Mont	11	102	104	..	..	..	..	..
Sub Total	**21**	**236**	**89**	**23.4**		**3,589**	**24,244**	**3,724**

World Development Indicators (World bank:2000)

Fig. 1.2.1 Evolution of Gross Domestic Product (Central and Eastern European Cou



affected by this decline. However, it will not be their economic growth that would suffer most, but the climate for enlargement in the EU, and this just at the time when accession negotiations are entering their final and most difficult phase.

(2) Black Sea Countries

Table 1.2.2 and Fig. 1.2.3 show population, economic scale and evolution of the growth rate for these groups of countries.

After the revolution in 1989, in the first part of the decade, until 1995, the Black Sea countries under study, Russia and Ukraine, have seen a significant GDP decline, which has been further on attenuated until 1999, mainly due to increasing import demand from Western countries and the improvement of the domestic industry's output.

Table 1.2.2 Size of Economy (Black Sea and former CIS Countries)

	Population	Surface area	Population density	GNP		GNP per capita	GDP	GDP per capita
	million	thousand sq. km	people per sq. km	$ billions	Average annual growth %	$	$ million	per capita $
	1998	**1998**	**1998**	**1998**	**1997-98**	**1998**	**1998**	**1998**
Russian Federation	147	17,075	9	331.8	-6.6	2,260	276,611	1,883
Ukraine	50	604	87	49.2	-2.4	980	43,615	867
Belarus	10	208	49	22.3	10.5	2,180	22,555	2,203
Sub Total	**207**	**17,887**	**12**	**403.3**		**1,944**	**342,781**	**1,652**
Georgia	5	70	78	5.3	2.7	970	5,129	942
Azerbaijan	8	87	91	3.8	9.9	480	3,926	496
Armenia	4	30	135	1.7	3.4	460	1,900	501
CAUCASUS	**17**	**186**	**92**	**10.8**		**632**	**10,955**	**639**
Kazakhstan	16	2,717	6	20.9	-2.2	1,340	21,979	1,409
Uzbekistan	24	447	58	22.9	5.2	950	20,384	848
Tajikistan	6	143	43	2.3	15.2	370	2,164	354
Turkmenistan	5	488	10	..	..	..	2,367	502
Kyrgyz Republic	5	199	24	1.8	4.2	380	1,704	363
Central Asia	**55**	**3,994**	**14**	**47.8**		**947**	**48,598**	**881**

World Development Indicators (World bank:2000)

The reasons behind this abrupt economy drop after 1989 is to be found in the heavy legacy of the Soviet era and the slow pace of economic reform over the last decade. The transition to the market economy seems to have been difficult for these countries while their traditional markets vanished along with the dismantling of the Council for Mutual Economic Assistance. The decline in the Russian economy hurt neighboring economies as well. The ability of Russia and Ukraine to service their foreign debt, given the very low level of international reserves, also had a negative impact over their economic output.

For Ukraine, the continuous downtrend in output and GDP growth since independence is mainly due to the country's loss of prominence in agricultural and industrial production, as well as to the economic problems being experienced by its largest trading partner, Russia. Low industrial restructuring in general, poor infrastructure, lack of funds and the slow and uneven pace of privatization lie at the core of these countries' economic problems.

As for Turkey, the earthquake in 1999 seriously affected the country's economic growth, which has bean relatively steady over the last decade. It is expected that the GDP will continue to drop in the aftermath of the earthquake for several years.

(3) Caucasus and Central Asian Countries

Table 1.2.2 and Fig. 1.2.2 show population, economic scale and evolution of the growth rate for these groups of countries during past seven years.

Central Asia and the Caucasus countries have experienced, after separating from the former USSR, economic difficulties, similar to those that have affected most of the newly-established CIS states, including loss of markets and subsidies from the Soviet Union, major disruptions in trading and payments, hyperinflation, corruption, and declining output. This lasted almost all along the last decade, the state controlling the economy with subsidies and tight controls on production and prices.

The economic chaos that ensued following the dismantling of the former USSR resulted in negative growth rates, for most of these countries, until 1995. Obviously, the turning years of the last decade for these countries were 1997 and 1998, since when it can be generally admitted that the Caucasus countries started to regain ground in terms of economic output. But the lack of institutional reform and continuing political instability has meant little sign of significant foreign investment apart from the raw material industries. The healthiest recovery after 1997 is to be observed for Azerbaijan, for which year 1998 was the most performing of the decade. The lowest growth rate is that of Kazakhstan. However, for most of these countries, the GDP growth rate slowed dramatically in 1998 largely due to the debt crisis in Russia.

Fig.1.2.2 Growth of GDP in the Caucasian and Central Asian Countries

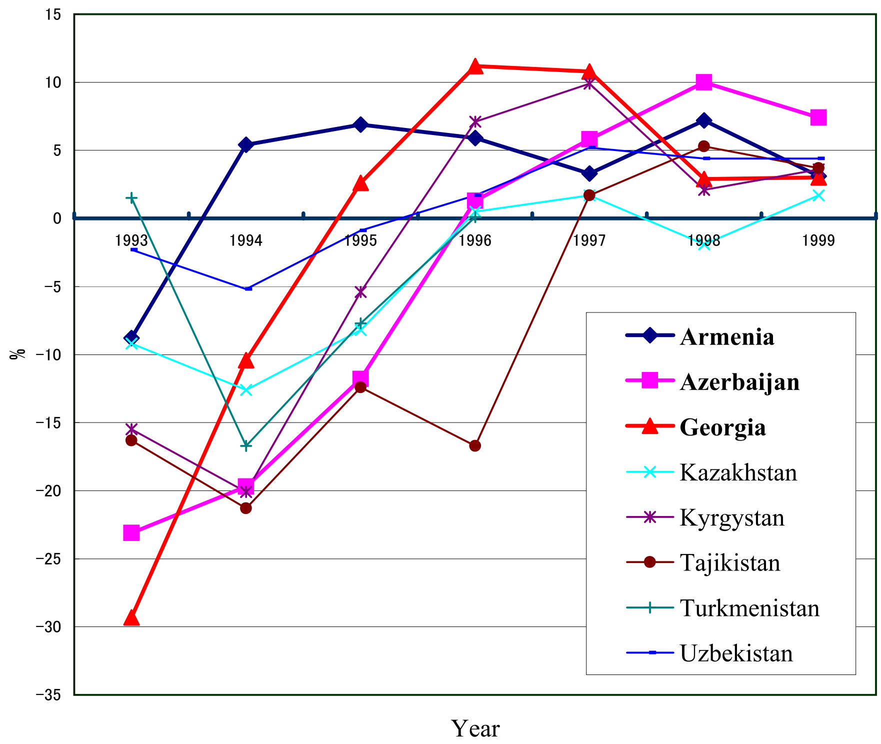
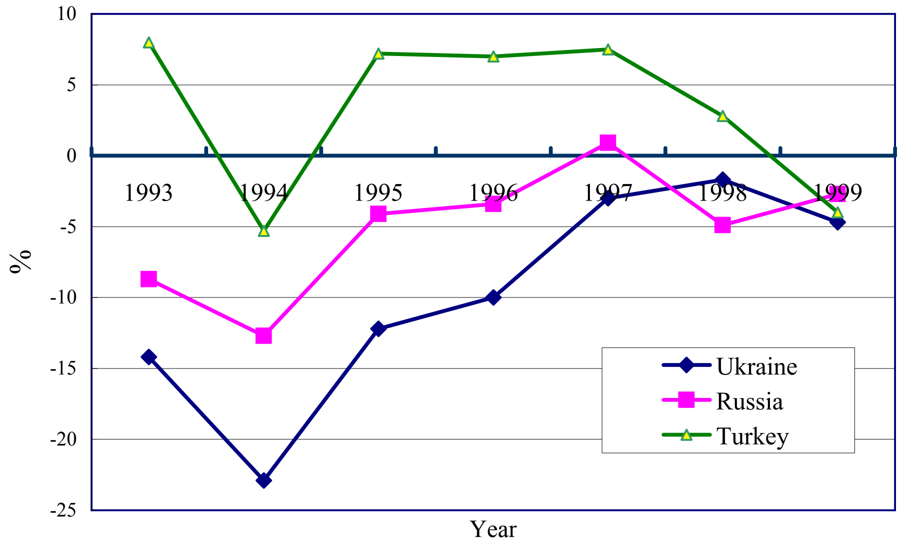


Fig 1.2.3 Growth of GDP of Ukraine, Russia and Turkey



1.2.4 Trade Outlook

(1) Trade Volume

Table 1.2.3 shows the trade volume of these countries. Because of the limited availability of data capable of comparison in list form including the Caucasus and Central Asian countries, data is cited from World Development Indicators (World Bank, 2000) in the present survey.

Table 1.2.3 Trade Volume

	Gross Domestic product	Population	1996		1997		1998	
			Export	Import	Export	Import	Export	Import
	$ million 1998	million 1998	$ million		$ million		$ million	
Poland	158,574	39	24,440	*37,137*	25,751	42,308	28,229	47,054
Czech Republic	56,379	10	21,907	22,716	22,778	27,167	26,349	28,716
Slovak Republic	20,362	5	8,889	11,087	9,693	11,622	10,722	12,892
Hungary	47,807	10	15,704	18,144	19,100	21,234	23,006	25,706
Slovenia	19,524	2	8,312	9,429	8,369	9,366	9,061	10,111
CEEC-5	**302,646**	**66**	**79,252**	**98,513**	**85,691**	**111,697**	**97,367**	**124,479**
Bulgaria	12,258	8	4,833	5,015	5,322	5,223	4,298	4,983
Romania	38,158	23	8,085	11,435	8,431	11,280	8,300	11,821
CEEC-7	# **50,415**	**31**	**12,918**	**16,450**	**13,753**	**16,503**	**12,598**	**16,804**
Croatia	21,752	5	4,512	7,787	4,171	9,104	4,541	8,383
Bosnia and Herzegovina	4,080	4	336	1,882	575	2,333	817	2,573
Macedonia, FYR	2,492	2	1,147	1,464	1,237	1,623	1,322	1,722
Yugoslavia, FR (Serb./Mont.)	14,000	11	1,842	4,102	2,368	4,799	2,604	4,622
Sub Total	**42,324**	**21**	**7,837**	**15,235**	**8,351**	**17,859**	**9,284**	**17,300**
Russian Federation	276,611	147	89,110	62,278	88,326	73,613	74,157	58,935
Ukraine	43,615	50	14,441	18,639	14,232	17,128	12,637	14,679
Belarus	22,555	10	5,652	6,939	7,301	8,689	7,070	8,549
Sub Total	**342,781**	**207**	**109,203**	**87,856**	**109,859**	**99,430**	**93,864**	**82,163**
Georgia	5,129	5	na	na	na	na	192	887
Azerbaijan	3,926	8	789	1,338	808	1,375	678	1,724
Armenia	1,900	4	na	na	na	na	223	896
CAUCASUS	**10,955**	**17**	**na**	**na**	**na**	**na**	**1,093**	**3,507**
Kazakhstan	21,979	16	5,991	4,241	6,497	4,301	5,404	4,257
Uzbekistan	20,384	24	4,590	4,721	4,388	4,523	3,528	3,289
Tajikistan	2,164	6	651	763	631	646	554	705
Turkmenistan	2,367	5	1,691	1,532	759	1,104	614	1,137
Kyrgyz Republic	1,704	5	531	783	631	646	554	705
Central Asia	**48,598**	**55**	**13,454**	**12,040**	**12,906**	**11,220**	**10,654**	**10,093**
Turkey	198,844	63	23,224	43,627	26,261	48,559	26,974	45,935

(2) Trade Volume of CEE Countries by Regions

It is obviously that the foreign trade of the CEE countries in transition after 1989 was, step by step, shifted towards the developed EU countries in Western Europe. The free market that emerged in the CEE countries after the fall of the Iron Curtain meant, for these countries, a reorientation of their exports towards the developed economies of the West. CEE countries' foreign trade in general was, until 1989, under the control of the Council for Mutual Economic Assistance, in which member countries were each granted a monopoly position in the production of certain goods, which resulted in centrally planned imports and exports. (See Table 1.2.4)

Exports of the CEE countries to the West are the only source of foreign exchange, which is necessary for purchasing the intermediate inputs that are necessary for domestic production and import activities. The privatization process in the CEE countries that followed after 1989 also meant the boost of significant foreign investment, mainly coming from the developed Western countries. The newly-established companies have orientated a big part of their production output in the CEE countries towards their origin countries, this accounting for a significant share of these exports towards Western European countries.

According to the data, from 1993 to 1999, countries such as Germany, Italy and Austria were the main target for the CEE countries' exports to the West. In terms of volume, Hungary and Poland account for the biggest part of the export volume. Trade between CEE countries remains very low if compared with that with the Western countries. For all CEE countries under analysis, the export volume had an ascending trend between 1993 and 1999. The imports structure has also been affected by the change of the economic relationships after 1989. Countries like Germany and Italy are the most important sources for the CEE countries imports. However, these countries are largely dependent to Russia and the former CIS countries in terms of energy and raw materials. Hungary and Poland are accounting for the highest volume of imports among CEE countries. Imports from EU countries are dominant, while those between CEE countries increased at a slower pace from 1993 to 1999.

(3) Main Import and Export Cargoes

For all analyzed CEE countries, the manufactured goods cargo group accounts for the biggest share of their exports, followed by machinery and transportation equipment, this proving the development of the processing and manufacturing industry over the last decade in this countries. The machinery and transport exports were on a downward trade during the analyzed period while exports of manufactured goods in general is on the rise. Chemical products group of cargoes ranks third in terms of exports share, their percentage in the overall export volume declining year after year. (See Table 1.2.5)

In terms of exports, mineral fuels cargoes account for the biggest share of the total imports, this share declining from 1993 to 1999. Except for the manufactured goods and machinery and transportation groups of cargo, a general decline in imports is to be observed over this period, mainly due to the lack of financial resources for imports.

Table 1.2.4 Foreign Trade CEE Countries 1993 versus 1999

Million USD

				Hungary		Poland		Czech Republic		Slovakia		Bulgaria		Romania	
				1993	1999	1993	1999	1993	1999	1993	1999	1993	1999	1993	1999
Export	Trade Volume	Developed Countries	(a)=(b)+(c)	6,024	20,979	10,626	20,914	7,168	20,056	1,783	n.a.	1,606	2,642	2,383	6,137
		(%)		68%	83%	75%	76%	54%	75%	33%		43%	67%	49%	72%
		EU(15)	(b)	5,179	19,074	9,787	19,309	6,520	18,595	1,609	6,082	1,115	2,085	2,023	5,571
		(%)		**58%**	**76%**	**69%**	**70%**	**49%**	**69%**	**30%**		**30%**	**53%**	**41%**	**66%**
		Other Developed Countri	(c)	845	1,904	839	1,605	649	1,461	174	n.a.	492	557	360	565
		(%)		9%	8%	6%	6%	5%	5%	3%		13%	14%	7%	7%
		CEEC	(d)	669	1,692	747	2,139	3,580	4,388	2,757	2,962	164	133	256	554
		(%)		8%	7%	5%	8%	27%	16%	51%		4%	3%	5%	7%
		Russia, Other Countries	(e)	2,215	2,553	2,770	4,354	2,456	2,434	907	n.a.	1,951	1,192	2,254	1,812
		(%)		**25%**	**10%**	**20%**	**16%**	**19%**	**9%**	**17%**		**52%**	**30%**	**46%**	**21%**
		Total Export	(b)+(c)+(d)+(e)	8,908	25,224	14,143	27,407	13,205	26,879	5,447	9,043	3,721	3,967	4,892	8,503
		(%)		100%	100%	100%	100%	100%	100%	100%		100%	100%	100%	100%
	Top Five Countries			**Germany**	**Germany**	**Germany**	**Germany**	**Germany**	**Germany**	**Czech R.**	**Germany**	**Russia**	**Italy**	**Germany**	**Italy**
				Austria	Austria	Nederland	Italy	Slovakia	Slovakia	Germany	Czech. R	Turkey	Germany	Italy	Germany
				Russia	Italy	Italy	Nederland	Austria	Austria	Austria	Italy	Germany	Greece	Turkey	France
				Italy	USA	Russia	France	Italy	Poland	Russia	Austria	Greece	Turkey	France	Turkey
				USA	Nederland	UK	UK	France	Italy	Hungary	Poland	Ukraine	Russia	UK	UK
Import		Developed Countries	(a)=(b)+(c)	8,198	20,889	14,348	33,998	7,802	21,231	2,109	n.a.	1,965	3,163	2,383	6,137
		(%)		65%	75%	76%	74%	61%	74%	33%		41%	58%	49%	72%
		EU(15)	(b)	6,868	18,034	12,190	29,808	6,728	18,462	1,769	5,859	1,561	2,659	2,023	5,571
		(%)		**54%**	**64%**	**65%**	**65%**	**52%**	**64%**	**28%**		**33%**	**49%**	**41%**	**66%**
		Other Developed Countrie	(c)	1,330	2,855	2,157	4,190	1,074	2,769	340	n.a.	404	504	360	565
		(%)		11%	10%	11%	9%	8%	10%	5%		8%	9%	7%	7%
		CEEC	(d)	762.3	1858.8	724	2,861	2,769	3,284	2,500	2,498	215	326	256	554
		(%)		6%	7%	4%	6%	22%	11%	39%		5%	6%	5%	7%
		Russia, Other Countries	(e)	3,670	5,256	3,763	9,052	2,288	4,334	1,726	n.a.	2,577	1,980	2,254	1,812
		(%)		**29%**	**19%**	**20%**	**20%**	**18%**	**15%**	**27%**		**54%**	**36%**	**46%**	**21%**
		Total Import	(b)+(c)+(d)+(e)	12,630	28,004	18,834	45,911	12,859	28,849	6,334	8,358	4,757	5,469	4,892	8,503
		(%)		100%	100%	100%	100%	100%	100%	100%		100%	100%	100%	100%
	Top Five Countries			**Germany**	**Germany**	**Germany**	**Germany**	**Germany**	**Germany**	**Russia**	**Russia**	**Russia**	**Russia**	**Germany**	**Italy**
				Russia	Austria	Italy	Italy	Slovakia	Slovakia	Germany	Germany	Germany	Germany	Russia	Germany
				Austria	Italy	Russia	France	Russia	Austria	Italy	Italy	Ukraine	Italy	Italy	Russia
				Italy	Russia	UK	Russia	Austria	France	USA	Greece	Italy	Greece	France	France
				USA	France	Nederland	UK	Italy	Italy	Greece	France	USA	France	USA	UK

Source:Countries in Transition 2000 (WIIW

Table 1.2.5 Export and Import by Commodity of CEE Countries

	Cargo category	Hungary			Poland			Czech Republic			Slovakia			Bulgaria			Romania		
		1993	1999		1993	1999		1993	1999		1993	1999		1993	1999		1993	1999	
		(a)	(b)	(b)-(a)	(a)	(b)	(b)-(a)	(a)	(b)	(b)-(a)	(a)	(b)	(b)-(a)	(a)	(b)	(b)-(a)	(a)	(b)	ɔ)-(a)
Export	Food and live animals	8.6	8.2	-0.40	10.2	8.5	-1.7	6.5	2.8	-3.7	5.5	3.0	-2.5	8.6	8.2	-0.4	4.8	3.4	##
	Beverages and tobacco	9.5	4.9	-4.61	1.0	0.4	-0.6	1.2	0.8	-0.4	0.9	0.5	-0.4	9.5	4.9	-4.6	0.3	0.3	##
	Crude materials, inedible, except fuels	5.7	7.0	1.33	5.5	3.1	-2.5	6.1	3.7	-2.4	4.9	3.8	-1.1	5.7	7.0	1.3	4.0	8.6	##
	Mineral fuels, lubricants, etc.	8.7	8.6	-0.12	9.7	5.0	**-4.7**	6.2	2.8	-3.4	4.9	4.8	-0.2	8.7	8.6	-0.1	10.0	4.9	**##**
	Animal and vegetable oils, fats, waxes	0.8	0.6	-0.25	0.1	0.2	0.0	0.2	0.1	-0.1	0.1	0.1	0.0	0.8	0.6	-0.2	1.3	0.6	##
	Chemicals and related products, n.e.s.	14.8	10.6	-4.21	6.8	6.2	-0.6	9.5	7.2	-2.3	12.0	7.9	-4.1	14.8	10.6	-4.2	8.0	4.9	##
	Manufactured goods class. by materials	25.1	23.8	-1.36	26.4	25.5	-0.9	29.9	25.5	**-4.4**	38.8	27.5	**-11.3**	25.1	23.8	-1.4	27.4	20.5	**##**
	Machinery and transport equipment	17.2	11.3	**-5.96**	20.9	30.3	**9.4**	27.6	43.2	**15.6**	19.4	39.4	**20.0**	17.2	11.3	**-6.0**	17.1	16.8	##
	Miscellaneous manufactured articles	9.5	21.7	**12.17**	19.4	20.9	1.5	12.7	13.7	1.0	13.4	12.9	-0.5	9.5	21.7	**12.2**	27.0	39.9	**##**
	Commodities not classified by kind	0.0	3.4	3.42	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	3.4	3.4	0.1	0.1	##
Import	Food and live animals	6.3	4.6	-1.7	9.7	5.5	-4.2	6.3	4.6	-1.6	7.3	5.1	-2.2	6.3	4.6	-1.7	12.1	5.8	##
	Beverages and tobacco	2.5	0.9	-1.6	0.8	0.8	0.0	1.1	0.8	-0.3	1.5	1.1	-0.4	2.5	0.9	-1.6	1.7	1.3	##
	Crude materials, inedible, except fuels	4.4	5.1	0.7	4.6	3.1	-1.5	5.0	3.1	-1.9	5.2	3.8	-1.3	4.4	5.1	0.7	6.2	3.7	##
	Mineral fuels, lubricants, etc.	37.3	21.5	**-15.9**	12.5	7.2	**-5.4**	11.1	6.5	**-4.5**	20.9	12.9	**-8.0**	37.3	21.5	**-15.9**	25.8	10.1	**##**
	Animal and vegetable oils, fats, waxes	0.3	0.3	0.0	0.6	0.4	-0.2	0.4	0.3	-0.1	0.2	0.2	-0.1	0.3	0.3	0.0	0.2	0.2	##
	Chemicals and related products, n.e.s.	10.1	10.2	0.0	13.3	14.3	1.0	12.1	12.0	-0.1	11.4	11.3	-0.1	10.1	10.2	0.0	9.0	11.2	##
	Manufactured goods class. by materials	13.2	18.2	5.1	18.5	20.7	2.2	15.9	20.6	**4.7**	15.1	18.3	3.2	13.2	18.2	5.1	15.7	29.0	**##**
	Machinery and transport equipment	19.6	29.1	**9.6**	29.4	38.2	**8.8**	36.1	40.3	4.2	29.3	37.7	**8.5**	19.6	29.1	**9.6**	22.3	26.4	##
	Miscellaneous manufactured articles	5.9	8.4	2.6	10.2	9.5	-0.6	11.7	11.7	0.0	9.0	9.5	0.5	5.9	8.4	2.6	6.6	12.2	##
	Commodities not classified by kind	0.4	1.7	1.2	0.3	0.2	-0.1	0.4	0.0	-0.4	0.2	0.0	-0.2	0.4	1.7	1.2	0.3	0.1	##

Source:Countries in Transition 2000 (WIIW)