'Don't call it barter—that's the IMF's term'

by Edith Vitali

Romanians are a very tolerant people, but it would not be advisable for someone like Paul Adolph Volcker to set foot in Bucharest airport. The Romanian government sees in the usurious, monetarist policies of the Federal Reserve and the international financial community the main culprit for its current economic difficulties. Like any other indebted developing country, it was forced to reduce imports and slow down the growth of domestic investments, and thus the increase in the living standard of its people. It is no surprise that Romania, searching for a way out of this dilemma, is strengthening its "traditional affiliations" with Ibero-America, which is facing the same problems. One of the main spokesmen for a debtors' cartel and an integrated, Ibero-American Common Market, SELA head Carlos Alzamora, was in Bucharest in mid-June to discuss the possibilities of expanding trade relations and, one can be sure, a common approach to the debt problem.

A top-ranking official who had met Alzamora was full of praise for Romanian relations with Ibero-American countries. Those with Brazil, Argentina, and Mexico he described as "excellent." We were told that Romania, as a Latin country, feels it has "many affiliations" with Latin America, and "many things in common: common goals, views, common language," which are stronger than geographical distances. Inside the Group of 77, Romania is a member of the Latin American group.

The consequences of the high interest rate policy, which people here say are much more difficult to reverse than the policy itself, have added something else in common, namely the foreign debt burden. While it is definitely not the less-than-$10 billion foreign debt of Romania which threatens to explode the international financial system, the feeling among responsible people here is growing that Romania should look for a solution other than just meeting its payment obligations at the price of domestic austerity.

We were told in the finance ministry that this country fully supports the idea of an informal debtors' club to arrive at a global solution of the debt problem. Reasoning here goes that the high interest rate policy has led to a situation where there are no more financial resources for development—an unbearable situation, which is not the fault of any one country, but the result of usurious banking practices.

"The debt is not the problem of one country. It should be solved globally, maybe even with such a club of debtors. If the creditors have their club, why shouldn't the debtors have theirs?", one highly placed government official said. "Why can't the debtors also impose their conditions through multilateral negotiations?" The official suggested that the reduction of interest rates and the effects of IMF conditionalities should be discussed on the international level.

Interest on foreign debt grew from $375 million in 1978, to $429 million in 1979, then jumped to $836 million in 1980, $1,115 million in 1981, and $871 million in 1982.

"Up to 1980, it was easy for Romania to obtain financial resources in accordance with its high growth rates," the official went on. But then, they had to rely more and more on short-term credits to meet old debt obligations, which had meanwhile doubled and nearly tripled because of Volker's higher interest rates. In 1981, when the convertible financial reserves fell under the level of the short-term debts incurred, the international private banking world sounded the death knell. "After 20 years of partnership," the official stated, "when the bankers noticed that they could plunge Romania into big difficulties, they did not hesitate to do so, by totally cutting short-term credit." The same official noted with some bitterness that Hungary, a country with zero and even negative growth rates and a much higher per capita debt than Romania, was helped by the banks, the IMF, and the BIS to avoid rescheduling.

Romania sat down in 1982 and 1983 with its commercial and government creditors to reschedule its outstanding debt for those years, which of course meant incurring new costs: "The principle of the banks is that when somebody is in difficulty, he has to pay a higher fee than what regular credits cost," the official said. At the same time, the country was forced to implement drastic import cuts—from a current account deficit of $2.4 billion in 1980 to an account surplus of $655 million in 1982—while Romanian exports were shrinking because of the world depression: "Under normal conditions, the surplus in 1982 would have been $2.6 billion." In 1982, the foreign debt declined for the first time by about $400 million; but the actual result of rescheduling is, that not so much the volume, but the structure of the debt has changed: The debt of international organizations (the IMF, BIS, and World Bank) increased by $1 billion, while the commercial and government-owned debt decreased by $1.4 billion! In 1984, Romania wants to avoid rescheduling, and it is relying on a standby arrangement with the IMF and World Bank to prop up its level of international reserves.

"In our view," said another senior official, "everything goes against reason in the world of finance. It is in a state of total confusion. As long as this is the case, Romania will not take additional credits, because it's too big a burden, and a threat to our independence." A moratorium on the debt of the poorest countries—less than $500-$600 per capita income—and a ceiling on interest rates at 5 percent would be reasonable from their standpoint.

Discussion with representatives of different ministries confirmed the idea that Romania considers implementation of a New World Economic Order a key task of its foreign policy—equally important as removing the strategic war danger. "The larger and larger gap between developing countries and developed countries," the senior government official said, "is one of the main contradictions of our epoch. If this is not solved, it will be a direct threat to humanity's survival."

Short of changing the existing economic order, Romania tries to soften the effects of the international financial crisis. This country plays a leading role concerning South-South cooperation. Expansion of such trade without foreign currencies is one key strategy. "Don't call it barter," Alzamora's friend in the government told us. "Barter is the term used by the IMF." But as a matter of fact, while the Ibero-American countries are promoting this type of clearing-trade among themselves, one of the purposes of Alzamora's trip to Bucharest was to step up barter deals between the SELA countries and Romania. Brazil, for example, has become the main soybean supplier to Romania, following the U.S. trade boycott in 1981, and Romania is delivering machine tools in return. It has sold its original tertiary recovery methods for oil wells to Brazil and Argentina. "You see," said the official jokingly, "this is another example of our deep-level cooperation with Latin America."

Romania builds up its industry despite economic warfare

by Konstantin George

Gauged by any yardstick Romania's policy of national development is quite impressive, having scored a 10.2 percent growth rate in both 1981 and 1982, with the 10 percent annual growth rate to be maintained through 1985, the end of the current Five-Year Plan. The country's all-out industrialization policy was proclaimed by President Ceaucescu, Romania's then newly elected leader, in 1965. Since 1965, electrical power production, the infrastructural key to establishing a heavy-industry based economy, increased from 3,258 MW to 16,090 MW in 1980—a fivefold jump. Between 1981 and 1990, a further 17,000 MW capacity will be added, thus doubling the 1980 figure. No less striking was the advance from 3.4 million tons of raw steel in 1965 to 17.3 million in 1980, and projected at 20 million by 1985—an accomplishment achieved over many obstacles, not least of which was a Soviet embargo on iron ore exports to Romania. Romanian production by 1976 was on a par with both France, which produced 23 million tons, and Britain, which produced 22 million tons.

From 1965 to the present as we shall see below, a broad scope of entirely new integrated industries was created in Romania. These include shipbuilding, aircraft, and helicopter construction, tractor and combine production on a large scale, high performance oil drilling equipment and offshore platforms, construction and earth-moving machinery, electrical machinery, and turbines and hydraulic equipment. In all these sectors, the industry is fully integrated, and nearly all critical components for each sector are also produced in Romania. A crucial example is now Romania's nuclear energy program, where the nation is embarked on a major effort to build reactor component plants in conjunction with bringing 10 nuclear power plants on line by the year 2000.

As the current nuclear program and ongoing great infrastructural projects, revolving around the soon-to-be-completed Danube-Black Sea Canal (see below), the most striking feature of Romania today is that growth and progress continue into the 1980s despite the international economic depression. Romania has been affected, as the heavy import cuts and austerity belt-tightening measures of the past two to three years underscore. On the energy front, Romania has an extremely low dependency on the Soviet Union, a rate of dependency that would be the envy of several NATO members. By 1985, it will have no dependency on the Russians.

Development and national transformation

Transformation is the word that describes Romanian postwar history. In 1950, seventy-four percent of the economically active population was employed in agriculture, with only 26 percent outside of agriculture. Today the figures are exactly reversed. By 1990, only 15 percent will be in agriculture. In 1950, only 12 percent of the economically active population was in industry. Today, over 35 percent are employed in industrial production. The 1950-83 yearly average for industrial growth has been 12 percent, and the advanced composition of industry is shown by the fact that already in 1980, 35.2 percent of industry was in the machine-