

EVOLUTION OF FOREIGN INVESTMENTS IN COMMUNIST ROMANIAN ECONOMY

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Abstract: At the end of the Second World War, Romania was occupied by the Red Army, this leading to the adoption of Soviet economic model. The old policies "By ourselves" and "The open gates" turned into a hostile policy to foreign investments. However, there were throughout the communist era periods of openness towards foreign investors. This paper aims to analyse these periods of openness to investors, but also the investment structure and the amounts invested in the Romanian communist economy.

Keywords: *foreign investments, Communist era, Soviet model, investment policy, investment structure*

The communist period is considered today a period of economic rebound for Romania, despite numerous economic achievements. The failed agrarian reform, nationalization and the imposition of five-year plans overshadowed the processes of industrialization and infrastructure investments. Also, closing the national economy to foreign investors, so-called "capitalists" is considered a constant of the Romanian economic life in the period 1948-1989, being a peculiarity of the regime. However, there were foreign investments throughout the period, often taking such forms as intake of technology or foreign loans. This paper aims to analyse the opening times of the communist regime for foreign investments, with special a focus on the forms of these investments, the amounts invested, as well as the status of the latter.

Regarding the methodological approach of the study, it focuses on combining qualitative analysis with the quantitative one. The qualitative analysis "focuses on the meanings offered by the context, requiring a data collection instrument able to point out meanings in the collection process and interpretation of data"¹. From the qualitative research methods, the present paper will use primarily the document analysis and the case study. This will perform an exhaustive analysis of policy documents related to foreign investment, their structure and form, and ways of penetration.

Quantitative research refers to empirical investigation of the phenomena studied by statistical, mathematical or numerical methods. What distinguishes the two types of methods is that "quantitative methods of collecting data allow us to test hypotheses derived from the theories of the issues investigated"², while qualitative methods are more oriented towards verifying theories. Moreover, in the field of history, researchers argue that quantitative methods are useful because "with the quantitative methods of collecting data, precise descriptions and interpretative complexity of quantitative history can fix a dual deficit,

¹ Sharan B. Merriam, *Qualitative Research. A Guide to Design and Implementation*, Jossey-Bass, USA, 2009, p. 2.

² John Kuada, *Research Methodology: A Project Guide for University Students*, 1st edition, Samfunds Litteratur, 2012, p. 103.

namely the lack of a temporal perspective in the social sciences and the lack of generality in history"³. Through qualitative research we can observe the evolution of foreign investments in the communist economy from a numerical point of view, complementing in this way the qualitative inquiry.

At the end of the Second World War, Romania was occupied by the Red Army, considered "liberator", which favoured the imposition of the communist regime by the Soviet Union. Power was gradually taken over, starting in 1944 with the arrest of Marshal Ion Antonescu. The following year, on March 6, the USSR imposed a communist government headed by Petru Groza, the moment being considered outstanding for the Sovietisation of the country and the establishment of the communist regime in power.

On December 30, 1947, King Michael was forced to abdicate and from this moment the power was taken over entirely by the communists and Romania was declared a republic. The first prominent leader was Gheorghe Gheorghiu-Dej. He was replaced after his death in 1965 by Nicolae Ceaușescu, who led the country until the collapse of the regime in 1989. Also in 1965, with the coming to power of Ceaușescu, the People's Republic of Romania became the Socialist Republic of Romania.

An important moment is also the year 1948, when it was adopted the first constitution of communist origin. Through it, it began the implementation of the socialist theory. In the socio-economic plan, the 1948 Constitution is especially important as it started the nationalization measures.

Thus, Article 5 states that "the means of production belong either to the state as property of the whole people, or cooperative organizations, or to people as individuals or legal persons", followed by Article 6 which stipulates that "wealth of every kind of the subsoil, mining deposits, forests, waters, natural energy sources, communication routes by rail, road, sea and air, post, telegraph, telephone and radio belong to the State, as common property of the people"⁴. In order to carry out the nationalization according to the Soviet theory, the Constitution provides in Article 11, antagonistically to Article 5, that "when public interest requires, means of production, banks and insurance companies, which are private property of individuals or legal entities, may become state property, i.e. goods of the people, under the conditions specified by law"⁵. These three articles would be the basis for adopting nationalization laws, until 1952, when a new constitution was adopted. At the same time, those articles contained in the constitution provided a clear path to the nationalization processes, which was to take place by the will of the Communists.

The first law adopted in this regard was the Law. 119 of June 11, 1948 for the nationalization of industrial enterprises, banking, insurance, mining and transport ones⁶. According to it, "were nationalized all underground resources which were not in state ownership after the entry into force of the Constitution of the Romanian People's Republic, but also the individual enterprises, companies by any kind and particular industrial

³ Konrad Hugo Jarausch, Kenneth A. Hardy, *Quantitative Methods for Historians: A Guide to Research, Data, and Statistics*, The University of North Carolina Press, 1991, p. 3.

⁴ Constitution of The Romanian People's Republic, 1948, available at [<http://www.comunismulinromania.ro/1948-constitutia-republicii-populare-romane-2/>]. Last access: 2 May 2015.

⁵ *Idem*.

⁶ For full text, see Law no. 119 of June 11, 1948, available at [<http://www.comunismulinromania.ro/1948-legea-119-legea-nationalizarii/>]. Last access: 2 May 2015.

associations, banking, insurance, mining, transport and telecommunications ones"⁷, after which the nationalization process was to be described and listed over the course of 75 criteria.

What is noteworthy is the fact that, in the case of foreign investments, the law made the following remark "in the case of companies established by a special convention by a foreign state with the Romanian state, it is nationalized everything that does not belong to the two states", whilst Article 5 stated that "the provisions of the present law do not apply and there will not be nationalization in the case of the companies or any part of their capital, which are owned by a state part of the United Nations, which acquired the assets following the execution of the Peace Treaty, or by paying compensation bonds, emerging from the state of war"⁸. Thus, the share of foreign-owned enterprises, which reached them through conventions with the Romanian state or following the execution of the peace treaties after the war, remained in the possession of foreigners. However, companies that benefited from foreign capital, which had foreign capitalists in the shareholding structure or which were wholly owned by them and did not fit in the circumstances described by the law were confiscated and nationalized. Indeed, there were set compensations for foreigners, which were regulated "for each case, through negotiations conducted by our state with corresponding foreign states, within the framework of normalization of relations between countries with different social and economic systems, establishing lump amounts"⁹.

A brief review of the process of nationalization, since October 1948, shows that in Romania there were a total number of "138 665 enterprises with a total of 1,162,709 people, 193 Sovrom enterprises with 32,616 employees, 15 private companies with state participation and 744 employees, 347 enterprises of the Romanian state with the participation of foreign countries or foreign citizens and C.S.A.B.I.¹⁰ totalizing 39,659 people"¹¹. It can therefore be seen that the rule was that state owned the enterprises and very few of them remained in the possession of foreign investors. Even in these cases, the state also owned a part of the enterprise. However, until 1954, state ownership was achieved by means of special agreements concluded to take over C.S.A.B.I. companies, and later the Soviet Sovrom shares.

The process of nationalization was seen as an important achievement of the regime, considering that it stopped the domination of foreign capital and international monopolies. It was believed that only in this way could Romania's economic interests genuinely be defended and that the economy would be able to take the path of industrialization.

With regard to foreign trade and economic relations, "in 1949, it was established the state monopoly on foreign trade by Decree of 28 July 1949 on the regulation of import, export and transit. As for facilitating and coordinating the external economic relations of Romania, in December 1949 it was established the Chamber of Foreign Trade of Romania"¹².

The forced industrialization process started in 1951 with the first Five-Year Plan (1951-1955). Gheorghe Gheorghiu-Dej wanted to develop heavy industry, despite the

⁷ *Idem.*

⁸ *Idem.*

⁹ Ioan V. Totu (coord.), *Progresul economic în România 1877-1977*, Politics Publishing House, Bucharest, 1977, p. 387.

¹⁰ House for administration and supervision of enemy property, which managed, based on the Armistice Convention of September 12, 1944, enemy property (former properties of Nazi Germany, fascist Hungary or their citizens).

¹¹ Ioan V. Totu (coord.), *op. cit.*, p. 388.

¹² Presidential Commission for the Analysis of the Communist Dictatorship in Romania, *Raport final*, Bucharest, 2006, p. 414.

insistence of the Soviet Union over the idea that Romania should remain an agrarian country. But industrialization gathered momentum in 1964, when the USSR proposed the Valev Plan, one that involved "creating an integrated Danube region, composed of more than 40% of Romania, one third of Bulgaria and much of Ukraine"¹³ and proposing that their economies should specialize in certain branches of production - namely agricultural output. This was refused by Gheorghiu-Dej, who considered it to be an interference in internal affairs. However, the Valev Plan prompted the communist leader to initiate a dynamic process of industrialization, which would be continued by his successor. Thereby, there began a process of distancing from Moscow, Romania being seen as a dissident state.

The process of forced industrialization was in the centre of socialist economic development. In Romania, the regime tried to support this process by directing an increasing part of resources to investments. This is exemplified by Constantin Ionete - "The control lever to the full exercise of the power of decision in all sectors of economic and social life was constituted by the mobilization in a unitary fund of the resources for development through investment, known as the accumulation fund"¹⁴. This fund basically represented an accumulation of all financial resources of the state, being at the same time a way to control the economy and target investments.

The death of Gheorghe Gheorghiu-Dej in 1965 brought Nicolae Ceaușescu to power, who would give a new face to the industrialization process and choose to move to a multilaterally developed society. In his opinion, industrialization should be directed not only to heavy industry but also to machinery building (especially for agriculture) and to the petrochemical industry. Moreover, Ceaușescu pursued "an improvement in the territorial division of industry", which would ensure "the rational use of natural resources and labour"¹⁵.

This industrial development exceeded the capacity of the Romanian economy. Firstly, building factories and plants requires massive investments, both in their proper construction and infrastructure development. Afterwards, we are referring to investments in technology with which these factories or plants are to be equipped, technology which at that time Romania did not possess.

The period 1971-1980 was marked by Nicolae Ceausescu's decision to increase "in assault" the economy, which led to a similar increase in the accumulation fund¹⁶. Soon, however, the growth rate of the accumulation fund was not enough to support industrial investment. On this background there appeared foreign investments.

Ceaușescu continued Dej's policy of distancing from Moscow, while attempting to approach the Western states. In 1967, "Romania established diplomatic relations the West Germany (but also with Spain) and refused to follow the example of its partners in the Warsaw Treaty Organisation, which broke relations with Israel during the Six-Day War".

¹³ Ivan T. Berend, *Central and Eastern Europe, 1944-1993: Detour from the periphery to the Periphery*, Cambridge University Press, 1999, p. 130.

¹⁴ Constantin Ionete, *Criza de sistem a economiei de comandă și etapa sa explozivă*, Expert Publishing House, Bucharest, 1993, p. 33.

¹⁵ Nicolae Marcu (coord.), *Istorie economică*, Didactic and Pedagogical Publishing House, Bucharest, 1979, p. 463.

¹⁶ Bogdan Murgescu, *România și Europa: acumularea decalajelor economice (1500-2010)*, Polirom Publishing House, Iași, 2010, p. 337.

Later, at the beginning of 1968, Romania received the visit of President Charles de Gaulle¹⁷. These visits brought an addition to the economy, opening the door to foreign investment. Thus, relations with Israel were materialized by trade advantages that only in the period 1966-1968 increased by almost five times¹⁸, while the French brought technology. It began in this way the domestic production of cars, by debuting in 1968 with the production of Dacia 1100 after the license of Renault and in 1969 Dacia 1300, in the light of the same license¹⁹.

The Romanian communist leader began to be more sympathized by the West after denouncing the invasion of Czechoslovakia by Warsaw Pact troops. Prague Spring brought a touch of unexpected image among Western heads of state. They perceived the Romanian leader as a dissident of the communist bloc, a way to get behind the Iron Curtain, which would eventually lead to a split in the block.

On this background, there were conducted a series of special visits, of Western leaders to Romania and Ceaușescu's in Western states. In this way, Ceaușescu received in 1969 the visit of US President Richard Nixon, in 1970 he was received by Georges Pompidou, "in 1973, he is visiting Italy, on which occasion is received by Pope Paul VI, the FRG and the USA, and Romania is not at all avoided by Westerners"²⁰. Throughout the '70s, Romania was seen as a serious interlocutor in the West, fact followed, throughout the period, by Ceaușescu making more visits to the US and Britain, France, culminating with the signing, in 1980, of a trade agreement with the EEC and the setup of a Joint Committee. There were also conducted visits to some states in the Middle East and Latin America.

Furthermore, all these visits brought economic benefits to Romania. For example, from the US, Romania received the Most Favoured Nation clause in 1975, which would bring a number of advantages in trade with the US. This clause was kept until 1988. During the visit of Ceaușescu to the US in 1978, President Jimmy Carter pointed out, moreover, that „Trade between our two countries in the last 10 years has been multiplied 10 times over. And because of the rapidly improving relations that still exist, we expect the volume of trade to more than double in the next 3 years”²¹.

Therewith, on the background of this economic opening, in 1971, the Grand National Assembly voted a law regarding foreign trade, according to which there could be created joint ventures, foreign-Romanian, on condition that the Romanians should hold 51% of the share capital. Under this law, there were created in only two years 20 enterprises of this kind²².

Also, the political line led by Ceausescu brought into the economic field Romania's accession to GATT (General Agreement on Tariffs and Trade) in 1971, the World Bank and the International Monetary Fund in the following year. This occurred especially due to discrete US interventions, which promoted Romania on the international stage²³.

¹⁷ Ministry Of Foreign Affairs, *Politica externă a României în perioada 1965-1989*, available at [<http://www.mae.ro/node/15028?page=5>]. Last access: 3 May 2015.

¹⁸ Adam Burakowski, *Dictatura lui Nicolae Ceaușescu 1965-1989*, Polirom Publishing House, Iași, 2011, digital format, p. 175.

¹⁹ Bogdan Murgescu, *op. cit.*, p. 382.

²⁰ Ministry Of Foreign Affairs, *op. cit.*

²¹ Jimmy Carter, *Visit of President Nicolae Ceausescu of Romania Remarks at the Welcoming Ceremony*, 12 April 1978, available at [<http://www.presidency.ucsb.edu/ws/?pid=30655>]. Last access: 4 May 2015.

²² Vlad Georgescu, *Istoria românilor. De la origini până în zilele noastre*, Humanitas Publishing House, Bucharest, 1992, p. 280.

²³ Adam Burakowski, *op. cit.*, p. 293.

These agreements and the accession to the global economic organizations led to an increase in foreign trade, which, besides providing a market for Romanian products, ensured "the necessary resources for the modernization of the Romanian economy, especially in industry, transport and the population's consumption"²⁴. We are referring in this case to imports of technology for Romanian factories, but also to the purchase of raw materials. Overdevelopment of heavy industry led to a shortage of natural resources, so they had to be imported. The same thing happened with the oil industry, which is why Ceaușescu tried to approach the Middle East countries and obtain favourable prices for imports.

Up to this point, we can see that foreign investments in the communist economy were attained more in the form of transfer of technology, know-how and granting cost-effective prices for the import of raw materials. The major part of foreign investments came, however, as foreign loans, which Romania contracted for sustaining the development of industry.

Since 1975, over a four-year period, Romania concluded two stand-by arrangements with the IMF, so that in this period, debt towards the Fund reached \$330 million²⁵. Furthermore, Romania contracted credits from Western banks (it was estimated to have debts to a total of 300 Western banks²⁶), but also from Moscow and the Middle East.

All these loans were used for continuing the development of industry, and afterwards to purchase raw materials for building giant enterprises. The other aspects of economic life were neglected, most of the money going towards the heavy industry. This led to high and sustained growth rates over the period, and Ceaușescu believed that the export of goods manufactured by these enterprises would make the country able to pay its external debt. The IMF warned Romania, besides, that the economy was growing too quickly and that it was "overheating", as well as that investments should be directed to other areas, such as agriculture. This was for Ceaușescu the equivalent of the Valev Plan proposed by the Russians, so he refused to direct the sums obtained from credits to other fields.

Foreign credits continued to the point that, at the end of 1981, foreign debt cumulated 11.4 billion dollars²⁷. At the time, Romania, whose exports were not running as desired by the Communist leader, asked to postpone debt payments to Western creditors. This was achieved, but with consequences on foreign companies operating in Romania. They withdrew, and "according to information from the Embassy of the Polish People's Republic, of the 62 representatives of the companies operating in Bucharest, 40 had been liquidated by March 1982"²⁸.

In the context of the impossibility of paying its debts, the Romanian authorities started implementing an intensive program of savings as of 1982. This led to a decrease in debt, Romania reducing its indebtedness to 10.1 billion dollars. Moreover, at the end of 1982, appropriations were reduced to 9.77 billion dollars, considering that foreign debt was

²⁴ Bogdan Murgescu, *op. cit.*, p. 359.

²⁵ James M. Boughton, *Silent Revolution. International Monetary Fund 1979-1989*, International Monetary Fund, Washington, 2001, p. 322.

²⁶ *Ibidem*, p. 323.

²⁷ Adam Burakowski, *op. cit.*, p. 518.

²⁸ *Ibidem*, p. 519.

structured at the moment in this way: "the vast majority of credits originated by commercial banks (about \$ 5.4 billion) and the IMF - about \$ 1.5 billion"²⁹.

However, at the end of the year, Ceaușescu took the decision of fully repaying the foreign debt, over a period of four to five years. In these circumstances, foreign investments were completely stopped, either as loans or as technology. The leader's desire was to free himself completely of so-called "foreign influences".

Moreover, Ceaușescu was no longer appreciated by Western leaders due to frequent violations of human rights and the expansion of his personality cult. His decisions to lower the standard of living by introducing food rations and reducing energy consumption were seen both by the population and the West as extreme measures. Indeed, Ceaușescu managed to pay the entire foreign debt until 1989. This success did not matter, though, for the starving population and, at the end of that year, Ceaușescu was removed through a revolution and executed.

Conclusions

The communist era was a period of economic centralism in which the Romanian economy was directed by imposing five-year plans and forced industrialization. Economic legislation and decisions varied according to the leader that was ruling and the economic interests of the country.

Thus, during Gheorghe Gheorghiu-Dej's regime, it was conducted an extensive nationalization process in which were confiscated foreign-owned companies and passed into state administration. Until 1965, at the death of Dej, foreign investments lacked in the Romanian economy, given the fact that even the legislation was unfriendly towards them.

The ruling period of Nicolae Ceaușescu (1965-1989) proved to be considerably more permissive toward foreign capitalists. To support the high development rates, Ceaușescu improved relations with Western countries and the Middle East, obtaining from them massive economic concessions and loans. We can see that these investments came amid the openness of the regime to the west and a better image that the communist leader acquired among Western leaders.

Foreign investments in the communist period are characterized by the fact that they represented, most often, foreign loans, import of technology and know-how and imports of raw materials at preferential prices. We only encountered to a very small extent in this period foreign investments in their classic form - joint Romanian-foreign companies.

It is also worth mentioning that in the last decade of the regime, foreign investments were restricted and even stopped, Ceaușescu refusing any foreign influence.

Therefore, the evolution of foreign investments in the communist Romanian economy had an upward trajectory (since 1965), attaining its zenith during the 1970s. Then, in the 80s, when Romania was no longer able to pay its foreign debt, and Ceaușescu broke off relations with the West, foreign investments were stopped, the economy entering a state of autarky.

²⁹*Ibidem.*

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