

# TRANSITION TO A MARKET ECONOMY IN ROMANIA AND JAPANESE CONTRIBUTION

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## I . INTRODUCTION: ECONOMIC REFORM PROGRAMMES

The new Romanian government has embarked on a new and hard task of transition of Romanian economy from strictly planned socialist economy under the Ceausescu period to a market economy based on democracy since the "Romanian Revolution" in December 1989. But the task has become more and more difficult because of a lot of problems found out after embarking on it: market economies are unknown to the Romanian people who have been steeped in the socialist economy for forty years; the macroeconomic performance has been aggravated since the last years of the Ceausescu period; the production and industrial structures are a few decades behind and overemphasized to petrochemical and heavy industries in comparison with western economies; keen requests of the Romanian people must take precedence that they want to eat their bellyful and stay hot in cold winter.

Just after the "1989 revolution", the new government adopted several measures for the transition: suspension of Sistematzare; approval of small family plots in state and cooperative farms; approval of establishment of private companies; revision of the 1971 joint ven-

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ture act making it possible to establish joint venture companies of 100 per cent foreign capital.

For the election campaign in the spring of 1990, the National Salvation Front, the leading political group, and Ion Iliescu, a candidate for the next Presidency, began to make their economic reform strategy clear. It was not the shock therapy strategy adopted in Poland but the gradual transition strategy. An effort to summarize it into a programme was made, though, in fact, two programmes were drawn up.

The first programme named "Outline Strategy of Market Economy Implementation in Romania" was drawn up in May 1990 by the National Institute of Economic Research with the President of Dr. Tudorel Postolache. This programme noted that the legacy inherited from the old regime was so big that Romania could not escape the economic crisis without transition to a market economy.<sup>1</sup> And it opted not for the transition of the so-called "shock therapy" nor "long-term gradual transition", but for the compromise variant, i. e., a gradual transition effected at a fast pace in two or three years at the most.<sup>2</sup> Though the

first programme was drafted in accordance with a decision of the government, it was not adopted as the formal economic reform programme.

Instead of the first programme, the second one named "Program of Coordination of Projects of Economic and Social Reform" was adopted as the formal economic reform programme of the Government of Romania in August 1990. The second programme aimed at more rapid transition to be implemented in 22 months from September 1990 to June 1992, and suggested sectoral time schedules to build up a new economic and juridical system. These 11 sectoral time schedules are summarized in Figure 1.

Meanwhile, after the May 1990 election, the movement requesting more liberal political atmosphere was suppressed by miners who were said to be brought to Bucharest by conservative political leaders. As the countermeasure to this suppression the advanced countries' group G-24 suspended economic aid to Romania. The new Prime Minister Petre Roman, hoping resumption of aid from advanced countries and recovery of Romanian economy, embarked on implementation of the transition measures based on the second programme, and began to promulgate laws necessary for it.

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1 Postolache (1990), p.6.

2 Postolache (1990), p.10.

After the lift of the suspension on January 31, 1991, Roman delivered an speech at the Parliament and showed his intent to accelerate the economic reform in line with the International Monetary Fund (IMF) strategy.

The difference of his stance from President Iliescu's grew, and, at last, forced him to resign his post at the end of September 1991. After his resignation, a new technocrat cabinet was organized with the head of the new Prime Minister Theodor Stolojan who had worked for the Ministry of Finance since 1972 and hold a post of Minister of Finance in the first Roman's cabinet. Though the reason of Roman's resignation was his radical stance to the transition, Stolojan carried out the transitional policy with much more rapid pace than before, because of his good connection with IMF and the World Bank, and his good ability for coping with difficult economic and political issues.

Stolojan was rated very high at home and abroad because of his sincere attitude to execution of the policy. But huge price increases (the price at June 1992 was 8.04 times high as October 1990, the month just before the first price liberalization) and aggravation of unemployment (the unemployment rate

reached 7 per cent level in September 1992) brought a vast of Romanian people a severe disappointment with the transition to a market economy and a request for enlargement of the social safety net. Therefore, the result of the parliament and presidential elections in the autumn of 1992 was the victory of the advocates of slowdown of the transition and expansion of the social safety net.

Though the newly nominated Prime Minister Nicolae Vacaroiu, having been also a bureaucrat of the Ministry of Finance, appears to carry out the IMF and World Bank strategy as well as Stolojan, he has no choice but to slow down the pace of the transition in conformity with the result of the elections.

## II . MACROECONOMIC STABILIZATION POLICY

When the former socialist countries go through the process of the transition to a market economy, the new governments have to cope with macroeconomic stabilization problems. First, most of them inherited the repressed inflation from the old regimes. Second, the transition process itself would cause a fall in output and increase in prices as the "costs of transition".<sup>3</sup>

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3 Winiecki (1991), p.669.

## 1. Price Policy

Liberalisation of prices is one of main factors of the transition, creating a system where supply and demand decide prices which in turn affect the behavior of economic agents. Liberalization of prices in Romania originated in liberalization of agricultural products in free markets on January 31, 1990 accompanied with the agricultural restructuring, and in permission to determine prices freely by newly created private firms and firms with foreign equity participation.<sup>4</sup> But the portion of liberalized prices remained very low until November 1, 1990 when the first round of the overall price liberalization took place. It allowed liberalization of prices of goods and services produced by three or more producers. As the result of the first round, about half of prices in the economy were freed in terms of the number of items.<sup>5</sup>

The second round of price liberalization was accomplished on April 1, 1991. In the second round, the system of price controls on goods produced by fewer than three producers was abandoned, prices of controlled domestic and imported raw materials were increased

again, prices of household energy products were kept under control but were increased, and controls on basic food items were abolished. About 80 per cent of prices in Romania were freed.<sup>6</sup>

Thereafter, the number of subsidized goods and services was reduced to 14, including home heating fuels, electricity, bread, sugar and school things. Moreover, in 1992 a decision to reduce the subsidies by 25 per cent in every quarter and to eliminate them finally was adopted. This decision was enforced on May and September 1992, and the subsidies of 7 items have already been eliminated. In addition to this, prices of fuels and energy were to be decided by the government but to be revised on occasion in accordance with the world prices.<sup>7</sup>

Owing to price liberalizations, Romania has become to suffer from serious inflation problems since November 1990. The price index of food is more than ten times higher than October 1990.

The macroeconomic stabilization policy through austere monetary and fiscal policies since April 1992, which will be discussed below, almost enables monthly rise of consumer prices to be reduced below 10 percent. But the possibility of

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4 *EIU Country Report*, No.1, 1990, p.19.

5 Demekas and Khan (1991), p.20.

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6 Demekas and Khan (1991), p.21.

7 Government of Romania (1992), *Adevanul*, October 20, 1992.

home-made inflation by the subsidy reduction and import inflation by sharp devaluation of the exchange rate after June 1992 remains, so that the future of inflation is still unpredictable.

## 2. Exchange Rate Policy

For the transition to a market economy, the exchange rate policy has two objectives:

- 1) revision of the exchange rate from the overappreciated one under the former system to the real one;
- 2) internal and external convertibility of the currency.

The exchange rates under the former socialist system consisted of the commercial rate (14.2 lei per US dollar) and the tourist rate (8.7 lei per US dollar). These two different rates were unified to one official exchange rate of 21 lei per US dollar in February 1990. The official exchange rate was devaluated to 35 lei on November 1, 1990, and 60 lei on April 1, 1991, both accompanied by price liberalizations. But both devaluation were not enough to bring the exchange rate to the real one, resulting the real (black market) rate to drop still lower.

In order to create internal convertibility with hard currencies, for juridical persons the interbanking auction was set

up in February 1991, and for physical persons exchange offices in August 1991. Thereafter, three kinds of exchange rates, i. e., the official exchange rate, the interbanking auction rate and exchange office rates existed together with all of three still overvaluated than the real one. In November 1991 when the government prohibited enterprises from having foreign currency accounts and tried to grasp hard currencies corresponding to 700 million US dollars, the official exchange rate was devaluated to 180 lei per US dollar so that the unification of the official rate and the interbanking auction rate could be accomplished in the first place. This unification was said to be enforced to create partial internal convertibility of the currency. As the measure practically prohibited enterprises from holding hard currencies in the Romanian territory, Romania began to suffer from the lack of hard currencies.

After enforcement of a new hard currency regulation in May 1992 that readmitted enterprises to open hard currency accounts, the interbanking auction rate (the official rate) was gradually devaluated and reached to 350 lei per US dollar which was nearly equal to exchange office rates. As exchange office

rates had already been devaluated to the real one, the object of unifying three exchange rates to the real exchange rate was achieved.<sup>8</sup>

Although the internal convertibility was partially achieved, the external convertibility is still difficult to be achieved immediately because of shortage of the hard currency reserves. As loans from IMF and so on are directed to multiply the hard currency reserves, it might be achieved in the future.

### 3. Fiscal Policy

In order to curb the inflationary pressure caused by price liberalization and devaluation of the exchange rate, it is necessary to execute macroeconomic stabilization policy through tightening the budget and finance. Concerning the fiscal policy, the Romanian government subjects to IMF's counsel and restrict the budgetary deficit to less than 2 per cent of GDP, which is more strict than the other central and eastern european countries. The budgetary deficit in 1991 was 37.3 billion lei (1.9 per cent of GDP). In 1992 the same policy was pursued, and the deficit of the 1992 original budget was restricted to 89 billion lei (2

per cent of GDP). Moreover, austere execution of the budget reduced the budgetary deficit to 41.1 billion lei in 1991 which was smaller than the deficit of the revised budget, 65.4 billion lei.<sup>9</sup> The first government bonds whose amount was 56.85 million lei were issued on December 9, 1992.<sup>10</sup>

Another key of the fiscal policy is modernization of the budgetary structure. The central government budget and local government budgets have been divided since 1991, and the taxation reform is being carried out. Concerning the turnover tax which yielded 45 per cent of the revenue, the base was expanded to cover all goods and services, and the tax structure was simplified, with the number of the tax rate division reduced from 20 to 5 in 1992. Concerning the direct tax the corporation tax system was changed from the payments out of profits system to the profit tax system. And the progressive personal income tax was also introduced. Moreover, value-added tax (VAT) and general income tax are scheduled to be introduced.<sup>11</sup>

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9 Government of Romania (1992), *Adevarul*, October 20, 1992.

10 *Adevarul*, December 11, 1992.

11 Just before the initially scheduled date of introduction of VAT, January 1, 1993, introduction was postponed until 1994. (*Adevarul*, February 16, 1993)

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8 As, thereafter, inflation has progressed, lei was devaluated repeatedly and reached to 500 lei per US dollar in February 1993.

#### 4. Banking and Financial Policy

According to the Law on Banking Activity and the Law concerning the Statute of the National Bank of Romania adopted in March 1991, the two-tiered banking system is operating in Romania. The National Bank of Romania (NBR) as the central bank came to concentrate on activities of issuing banknotes, and formulating and conducting monetary and credit policy. Other commercial banks—the banks which were under the control of NBR under the former system,<sup>12</sup> the Bank for Deposits and Savings (CEC), and private banks created after the 1989 revolution are operating as commercial banks.

The monetary policy is in general conducted on the tightened basis for pursuing macroeconomic stabilization. NBR is mainly conducting the monetary policy by deciding the refinancing credit rate by NBR to commercial banks. In April 1992, the refinancing credit rate was raised up to 80 per cent in order that the real interest rate could be positive (and in December 1992 the refinancing rate lowered to 70 per cent for stimulating the economy).

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<sup>12</sup> the Romanian Commercial Bank (former commercial department of NBR), the Romanian Bank of Foreign Trade, the Romanian Development Bank (former Romanian Investment Bank) and the Romanian Agricultural Bank.

#### 5. Income Policy

Wages of enterprise workers are decided by negotiations between trade unions, the government and the enterprise management in view of compensating a part of the price increase expectation resulting from the price liberalization and the subsidy elimination. But 100 per cent compensation has never been made as the government fears a outbreak of spiral inflation triggered by the wage increase. Between October 1991 and August 1992, while the price increase was 143.2 per cent, the average wage increase was 101.6 per cent, so that the average compensation rate was 82.9 per cent.<sup>13</sup> For pensioners, however, 100 per cent compensation has been made.

These austere fiscal, monetary and income policies contributed to macroeconomic stabilization, especially price stabilization, in Romania. The monthly price increase has dropped below 10 per cent in almost every month since July 1992. But as the possibility of imported inflation by a large devaluation of the exchange rate occurred in June and July 1992 and of home-made inflation by the second-round subsidy cut in September

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<sup>13</sup> Government of Romania (1992), *Adevanul*, October 20.

1992 remains, price increase must be observed closely as well as before.

The industrial production in 1992, however, dropped by 22 per cent in comparison with 1991, though it showed signs of the recovery between August and November. As it has already dropped down to 46 per cent of the 1989 level, it might be necessary to ease a little the austere macroeconomic policies to stimulate the economy.

### III. ECONOMIC STRUCTURAL REFORM

Former socialist countries have to accomplish the transition to market economies on the basis of the result of macroeconomic stabilization policies. Liberalizing prices and creating convertible currencies discussed above are in essential among the objects of the economic structural reform.<sup>14</sup> In this part, we will concentrate on privatization problems in Romania because of their vast significance.

#### 1. Privatization of Agricultural Land

Just after the 1989 revolution (on January 26, 1990), the Sistematizare policy (urbanization of rural villages

policy) was abrogated, followed by the further laws on the restructuring of agriculture on January 31. These laws permitted small private plots in state and cooperative (collective) farms, and also permitted cooperative and state farms to allocate up to 0.5 hectares of land to their members, though the conditions are different between cooperative farms and state farms. And Farmers were allowed to sell their produce from private property on free markets. These permissions and their broad application practically led to private ownership of farm lands. In the first quarter of 1990 one third of arabil lands of 9 million hectares were handed to the private hands.<sup>15</sup>

A legal assurance of privatization of agricultural lands was given by the Land Law adopted in February 1991. The main idea of the Land Law is to relinquish agricultural land of cooperative farms to the members who brought land to the cooperative farm or from whom land was taken by it in any form as well as in compliance with the civil law (article 8). The entitled cooperative farmers can get the right of ownership of land ranging from at least 0.5 hectares for every person to ten hectares equivalent

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14 Lipton and Sachs (1990), p.99.

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15 *EIU Country Profile*, 1990-91, p.16.



arable land per household (article 8), and after the return acquire land up to 100 hectares per family through transactions (article 46).

According to the disposition of the Land Law, the establishment of the title to property shall be made within 90 days since the publication of the law (Article 10). As the process of establishing all the title was, in fact, strikingly delayed, of 9.3 million hectares deemed to be relinquished only 84.2 per cent (7.85 million hectares) has been returned by the end of September 1992, and 1.1 million of 5 million persons who have the right to get the right of ownership of land has not yet acquire the land.<sup>16</sup>

Land other than agricultural land, e.g., land for residence in urban areas, has not yet been relinquished nor privatized. But privatization of residences itself has been progressed. By January 1992, 6 million residences corresponding to 78.3 per cent of all residences in Romania have been in the personal hands.<sup>17</sup>

## 2. Establishment of New Enterprises

On 6 February, 1990, the National

Salvation Front issued a decree permitting the introduction of free enterprises with a maximum of 20 employees.<sup>18</sup> Based on this decree about 100 thousand private enterprises were established by the end of 1990, the majority of which were very small, i.e., 52 per cent were on individual bases and 20 per cent on family bases. Furthermore, they were inclined toward non-productive sectors including taxi drivers, canteens, and individual trading. On the other hand, establishment of private enterprises in productive sectors has been very rare.

Thereafter, although establishment of private enterprises in productive sectors has been increasing, establishment in non-productive sectors still remains the majority. But as the Company Law adopted in November 1990 lifted the limitation of the number of employees, large-scale private enterprises have been established in banking, trading sectors and so on. The government encourages establishment of private enterprises, for example, by creating the 5 billion lei foundation to allow credit to those who wish to establish private enterprises. By September 1992, the number of private enterprises has already increased to 360

16 Government of Romania(1992), *Adevarul*, October 20, 1992.

17 Government of Romania(1992), *Adevarul*, October 20, 1992.

18 *EIU Country Report*, No.1, 1990, p.20.

thousand.<sup>19</sup>

In the domain of establishing private enterprises by foreign capital, at first, the decree-law regarding the Promotion of Foreign Capital Investment in Romania adopted in March 1990 permitted establishment of enterprises of 100 per cent foreign capital. The Foreign Investment Law adopted in March 1991 expanded preferential treatment to foreign capital, including the right to transfer abroad the profit in freely convertible currency and tax exemption on profit. By September 1992 the number of enterprises established according to the Foreign Investment Law was 16,223, and the total capital was 530 million US dollars.<sup>20</sup>

### 3. Privatization of State Enterprises

Privatization of state enterprises in Romania could be classified under "large-scale privatization" to privatize practically all state enterprises, "fast privatization" to privatize selected state enterprises as model cases before large-scale privatization, and "small-scale privatization" to sell off a part of assets of state enterprises.

#### (1) Large-scale Privatization

"Large-scale privatization" to privatize practically all state enterprises is composed of two stages. In the first stage, all state enterprises are divided into companies to be privatized and companies not to be privatized. Next in the second stage, shares of companies to be privatized are sold to public, though a portion of them are freely distributed to public in order that all citizens could be assets holders.

The legislation which stipulates the first stage is the Law concerning Restructuring of State Economic Units as Self-Sufficient Administrations and Commercial Companies adopted in August 1990. According to this law, all state enterprises have been divided into "Self-Sufficient Administrations (regies Autonome)" and "Commercial Companies". The former are state enterprises in the economy's strategical branches — armament industry, power industry, mining and natural gas exploitation industry, mail system and railway transport industries and other fields of activity established by the government (Article 2). They have been transformed into self-supporting state companies (Article 3) and their privatization will not be conducted. All other state companies have been trans-

19 Government of Romania(1992), *Adevarul*, October 20, 1992.

20 Government of Romania (1992), *Adevarul*, October 20, 1992.

formed into joint stock companies ("Commercial Companies") whose capital will be eventually sold to public, although the capital will be at first in the hands of the government (Articles 16, 20 and 21). From the autumn of 1990 to the spring of 1991 all former state enterprises were transformed, with 137 "Regies Autonomes" and 6,445 "commercial companies" established.<sup>21</sup>

The legislation which stipulates the second stage of privatization of state enterprises are the "Commercial Companies Privatization Law" adopted in August 1991. The law also stipulates "fast privatization" and "small-scale privatization", which will be discussed below, as well as "large-scale privatization".

The second stage of "large-scale privatization" could be summarized as follows.

**i) establishment of funds**

Five "Private Ownership Funds (POFs)" and one "State Ownership Fund (SOF)" will be established by the government (Articles 4 and 23). 30 per cent of the nominal share capital of commercial companies will be transferred to POFs and the remaining 70 per cent to SOF (Articles 5 and 24).

**ii) distribution of Certificates of Ownership**

Each POF will issue "Certificates of Ownership" secured by the transferred capital (Article 7). Certificates of Ownership are securitised freely distributed by the National Agency for Privatization (NAP) to all the eligible citizens living in Romania, over the age of 18 on December 31, 1990 (16.5 million citizens) and will be exchanged with shares of commercial companies when they are sold to public (Articles 15 and 20).

**iii) privatization of commercial companies**

POFs will sell stocks of commercial companies to public, seeking to maximize profits accruing to holders of Certificates of Ownership (Article 7). On the other hand, SOF will draw up a plan for the forthcoming year for privatization of at least 10 per cent of the shares initially held by SOF, and sell the shares according to the plan (Articles 25 and 28).

**iv) rights of holders of Certificates of Ownership**

Those who hold Certificates of Ownership will be able to exchange them with shares of commercial companies to be privatized, or to sell them to other citizens (Article 3). When they continue to hold Certificates of Ownership, they

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21 NCSR, *Statistical Bulletin*, May 1991.

will receive annual dividends of POFs (Article 21).

#### v) completion of privatization

POFs will be reorganized into regular joint stock companies of the mutual fund type after five years from the effective date of the privatization law. Those who still own Certificates of Ownership at the date of the POFs' reorganization will become shareholders of such companies (Article 14). SOF will cease its activities after seven years from the beginning of SOF, when SOF will sell out all the shares held by SOF (Article 28). At this moment, the privatization process completes.

Concerning these processes several points must be noted.

First, Certificates of Ownership were freely distributed from June 1, 1992 to December 31, 1992.<sup>22</sup> In the draft of the privatization law, the face value of Certificates of Ownership was proposed to be 5,000 lei. But as aggravation of the inflation made the face value of 5,000 lei meaningless, the article concerning the face value was excluded from the adopted law. Instead, each Certificate of Ownership has 25,000 value units

(5,000 value units from each of 5 POFs), and the actual value of each value unit will be decided and revised according to how enforcement of privatization, reevaluation of enterprise assets, and inflation progress. Consequently Certificates of Ownership, coupons for privatization in Romania, are inflation-free different from fixed amount coupons used in other countries.

Second, the fact that both POFs and SOF are established by the hand of the government should be noted. The SOF shall be managed by a 17 member board of directors which consists of (Article 30):

- a) five members appointed by the President of Romania;
- b) three members appointed by the Senate;
- c) three members appointed by the National Assembly;
- d) five members appointed by the government;
- e) the State Secretary of NAP.

And the plan for privatization for the forthcoming year drawn up by the SOF must be submitted to the government for its information and to the Parliament for its approval (Article 28). On the other hand, the first board of directors of each POF consisting of seven members must

<sup>22</sup> Initially Certificates of Ownership were scheduled to be distributed from June 1, 1992 to November 27, 1992. (*Monitorul Oficial al Romaniei*, December 8, 1992)

be nominated by the government, and approved by the two Chambers of Parliament, for a five-year period, i. e., for the entire period POFs are intended to operate (Article 8). These facts support that the initiative of POFs and SOF is quite limited by the government.

Third, it could be said that large-scale privatization process is still in the preparing process after having distributed Certificates of Ownership. There has been no "commercial companies" which have been privatized according to large-scale privatization. Also, substantial activities of POFs and SOF have not yet been made, though the appointment of their boards of directors has been made. But it can be summarized that the Romanian attempt of privatizing all state enterprises in a very short period would be most ambitious one in central and eastern european countries and the republics of the former Soviet Union, if it could be succeeded.

## (2) Fast Privatization

"Fast privatization" was devised as model cases for large-scale privatization, prior to issuing Certificates of Ownership and the establishment of POFs and SOF (Article 42). About 200 state enterprises stood as candidates for fast pri-

vatzation, of which NAP selected 30 enterprises as the enterprises to be fast privatized. Because of lack of knowledge of market economies and privatization, these fast privatized enterprises concluded consultant contracts with western consultant companies with taking advantage of financial aid from PHARE program of EEC, Know-How Fund of United Kingdom, and US AID. These consultant companies reevaluate the assets of fast privatized enterprises, and draw up the articles of association and the procedure of selling out the shares. The knowledge accumulated through fast privatization process will be utilized also in large-scale privatization process. Fast privatization has also been just under way. Only two enterprises (URSUS: beer brewer enterprise in Cluj-Napoca, and Vranco: textile enterprise in Focsani) have sold their shares to public, and several enterprises are seeking to be privatized by the MEBO (Management Employment Buy Out) process.<sup>23</sup>

## (3) Small-scale Privatization

"Small-scale privatization" is a process of privatizing state enterprises including *regie autonome* by way of

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<sup>23</sup> *Adevarul*, January 14, 1993.

selling their own assets that represent units that can be organized and function independently (Article 53). The situation of selling out these assets by October 10, 1992 is as follows.<sup>24</sup>

the number of assets planned	
to be sold	5,642
out of which,	
the number of assets which have	
been sold	1,025
of which,	
book value	921 million lei
reevaluated value	
	6,067 million lei
contracted value through bid	
	8,565 million lei

#### IV. JAPANESE CONTRIBUTION

As we have discussed, the Romanian economy has been facing a lot of difficulties in the process of the transition to a market economy, and the living condition has been getting worse and worse. Of course, the Romanians have to resolve these difficulties by themselves. But assistance from advanced countries and international organizations can ease the difficulties. IMF has allowed the standby credit since 1991, and the World

Bank has given the structural adjustment loan in 1992. Advanced countries as well, especially western european countries, have given a variety of assistance to Romania. It includes financial assistance, technical assistance, and even assistance for printing banknotes. Then, what Japan can do and what has Japan done for helping Romania?

Romania as well as other central and eastern european countries has intense aspirations toward assistance from Japan, because of Japanese super economic power and high level of technology. And what Romania hopes Japan ranges over wide fields: to teach the Japanese economic management model; to assist in financial deficits of the economy; to create joint venture companies; to transfer the environmental protection technique and so on.

Turning to the other side, why Japan must assist Romania, and in what way Japanese assistance could be most useful for the transition of Romania into a market economy? The reason why Japan must assist Romania or other central and eastern european countries must be considered from the point that more rapid transition of these countries would be one of important factors for establishing the international economic stabil-

<sup>24</sup> Government of Romania(1992), Adevarul, October 20, 1992.

ity, and that Japan has to contribute to this process as the second biggest economic power in the world.

At first, the best way to teach what is a market economy or Japanese economy is to give Romanians chances to see it for themselves as much as possible. In this respect, receiving trainees to Japan and sending specialists to Romania through technical assistance can play an important role. In 1991, 28 trainees were received and 3 specialists were sent, and in 1992, 20 trainees were received and 1 specialist was sent. Also in 1993, the number of trainees to be received and specialists to be sent is intended to be increased. But when we think of the size of population in Romania and the level of needs for Japanese assistance, we cannot help saying that the number is not quite enough.

Though technical assistance has been the core of Japanese assistance to Romania, we cannot forget other kinds of assistance. Among these the co-finance of the Japanese Export and Import Bank with the 1991 Structural Adjustment Loan of the World Bank is most useful. The loan agreement was concluded in December 1992 and will be used to support deficits of Romanian balance of payment. But in 1992 the Structural Adjust-

ment Loan was not given to Romania, the co-finance will not be concluded in the near future.

As a whole, we can conclude that, in considering the geographical features of central and eastern european countries and their economic potentialities, the emphasis of Japanese assistance to these countries must be laid on diffusing the Japanese economic management model, including the know-how on industrial policies on the governmental level to Just In Time Production system on the enterprise level. From this point of view, there is much room for Japanese assistance's increasing its size and deepening its level.

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Fig. 1 The Transitional Programme of the Government of Romania

	Sep.—Oct. 1990	Nov.—Dec. 1990	Jan.—Mar. 1991	Apr.—Jun. 1991	Jul.—Dec. 1991	Jan.—Jun. 1992
Reorganizing Economic Activities and the Privatization Process	<p>Finalizing the organization of ministries</p> <p>The National Agency for Privatization</p> <p>Law on organizing state economic units on a commercial basis</p>	<p>Organizing state economic units as autonomous companies and commercial societies</p> <p>Law of Commercial Societies</p>	<p>Privatization Law</p>			
	<p>Re-evaluating the equipment of state enterprises</p> <p>State commercial societies cede 30% of their social capital to the National Agency for Privatization</p>	<p>Issuing and distributing of securities</p> <p>Shares are issued and sold for the remaining state property, for an increase of capital, for private and mixed enterprises</p>			<p>Shares are sold for freely distributed securities</p>	
The Agricultural Reform	<p>The land law</p> <p>Agriculture reform scenarios</p>		<p>Reform programme (privatization, creation of cooperative, state, mixed, private commercial societies)</p>			
	<p>← Rural development programme →</p>					
The Price Reform and the Monetary Reform	<p>Govt. adopts price reform programme</p>					
		<p>← Price liberalization →</p>				
		<p>First liberalization stage</p> <p>Measures to reduce subsidies for state enterprises</p>	<p>Second liberalization stage</p> <p>Redefining the monetary unit on a 1:10 basis</p>	<p>Eliminating subsidies for Public enterprises</p> <p>Preparation for a money replacement and its achievement</p>	<p>Third and last stage</p>	
		<p>Setting the exchange rate of the leu on the basis of its real purchasing power through periodic devaluations and a daily computation of the exchange rate</p>				
			<p>The hard currency law</p>			
			<p>Liberalizing payment in lei at one real exchange rate</p>			
			<p>For non-residents</p>	<p>For residents (limited amount)</p>		<p>For residents (unlimited)</p>
Reforming the Financial Sector	<p>The public finance law</p> <p>The accounting law</p> <p>The law on profit taxation for commercial companies</p>	<p>The 1991 budget law</p> <p>Law on farming incomes and salary taxation</p>	<p>Customs duty law</p>	<p>the VAT law</p>	<p>The 1992 budget law</p> <p>Law on the natural person's overall revenue</p>	
Reforming the Banking System	<p>The bank law</p> <p>Organizing the National Bank as an issuing bank</p> <p>Creating the Romanian Commercial Bank, the Commercial Bank for Agriculture, Cooperative Commercial banks, the Romanian Bank for Foreign Trade as commercial banks</p> <p>Organizing a development bank</p>	<p>Reorganizing the Savings Bank</p>	<p>Feasibility studies for new public, mixed, private commercial banks with domestic and foreign capital based in the country and abroad</p>			