

Privatization and crisis in Romania at the intersection of global and local forces

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A few words about the research project:

- Study of urban transformations in 8 second and third tier cities of Romania: Cluj-Napoca, Braşov, Craiova, Iaşi, Bârlad, Târgu-Jiu, Reşita and Bragadiru
- Focus on the transformation of former industrial platforms into sites of real estate development
- Data sources:
 - Interviews with a variety of local and national actors
 - Urban planning documents
 - Statistical data
 - Industrial and city monographs
 - National and local legislation
 - Press statements of public authorities and developers
 - Government, regional and municipal development strategies

What crisis?

- **How the postsocialist crisis was defined:**

“Between 1989 and 1993, the economy contracted by 32 percent-industrial output declined by 54 percent-as a result of the collapse of the Council for Mutual Economic Assistance (CMEA), the Gulf crisis, and the turmoil in (ex) Yugoslavia. Romania's initial attempts at stabilizing the economy in 1991 and 1992 were not successful. Inflation remained high. Implementation problems and fiscal and credit policies, **including insufficient financial discipline in state-owned enterprises (SOEs), played a major role in creating macro-imbalances**” (World Bank Report on the implementation of FESAL – Financial and Enterprise Adjustment Loan 1996-1998)

- **How the postsocialist crisis was answered:**

- Pressures to cut and control public spending; supra-national lending institutions pushed for fast and thorough privatization, liberalization of prices, elimination of state subsidies to enterprises; these reflected the view that:

“privatization must take place quickly, taking advantage of limited reform “windows,” to prevent the possibility of reversals, including the return of the communists, and that new private owners would restructure the enterprises, provide adequate corporate governance, and lobby for further liberalizing reforms and supporting institution” (World Bank, Economies in Transition, 2004, p.18)

-Ideological and political struggle during the 1990s between neoliberalism (via lending institutions) and neodevelopmentalist/ mixed economy ideas aimed at protecting employment and the country's industrial base (Ban 2014, 2016)

- Initial resistance was overcome towards the end of the '90s with renewed commitment to tackle the privatization of large enterprises and eliminate state subsidies
- The national/supra-national dynamics (lack of political commitment to structural adjustment, the popular/workers' resistance, the stop and go market reforms) help explain the rhythm of privatization, respectively the late privatization, in 2007, of two of the big size enterprises that make our case studies: Tractorul Brasov and Electroputere Craiova

Placing Romania in international context. The specifics and consequences of the structural reforms from the '90s on

- Neoliberalism in a mature stage; global diffusion and dominance of neoliberal ideas
 - Financialized & globalized world economy requiring enhancement of local competitiveness
- A more comprehensive structural adjustment via IMF in CEE in the '90s than in other countries during the '80s (Pop-Eleches 2009)
- Cross-conditionalities between WB, IMF and European Commission and EU's export of a more 'market-radical' variant of neoliberalism to the CEE states (Ban 2016)
- as the privatization targets agreed upon with borrowing institutions were not met and the process was dragging behind, the eventual sales of state assets were made for undervalued prices: e.g. Law 137/2002 stipulated the possibility for symbolic 1 euro sales of enterprises

Landmarks in state-led privatization

The privatization process entailed the construction of a complex legal and institutional landscape, by which the state facilitated the transformation of state socialism into neoliberal capitalism.

1990: Privatization of housing – the right to buy for tenants

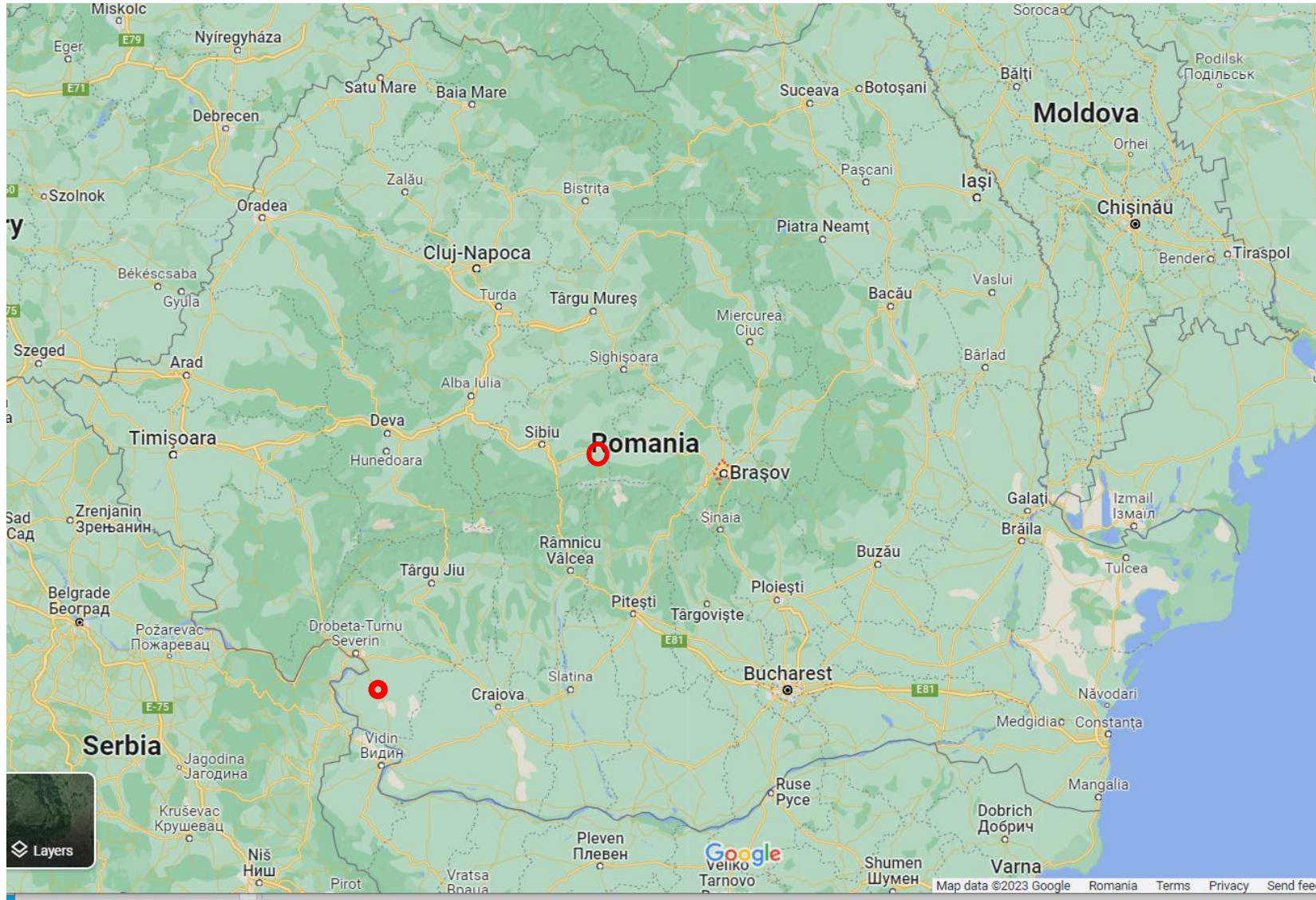
1991: Privatization of land – restitution of the land of farming cooperatives

1990 on: Privatization of industry

- Enterprise restructuring as commercial societies
- Sale of state's shares in the commercial societies through: MEBO (employee buyouts), voucher privatization, direct sale
- Construction of the institutional frame for privatization: State Ownership Fund, Private Ownership Fund, National Agency for Privatization, Romanian Development Agency (attracting foreign investments), Competition Council (control and limit state subsidies for enterprises)

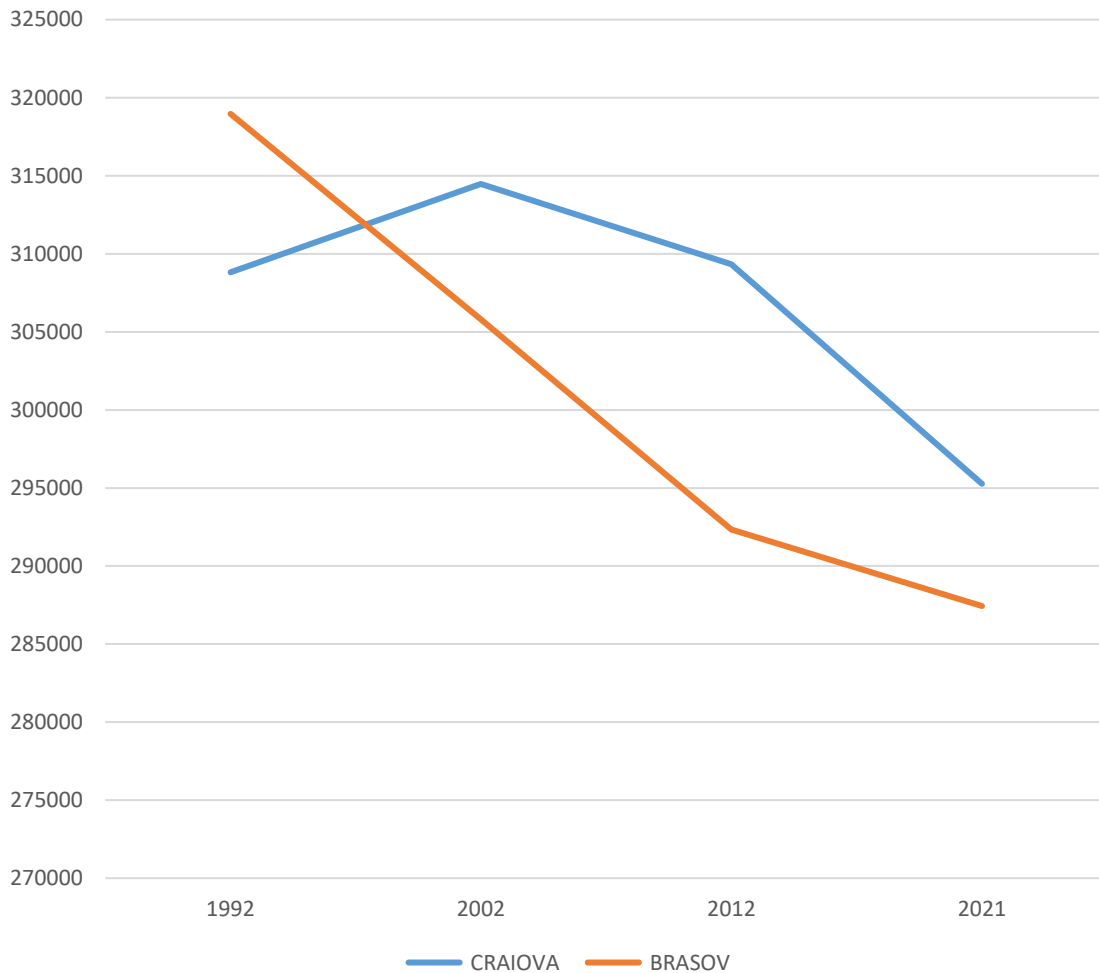
How do these processes translate to the city level?

The case of Braşov and Craiova

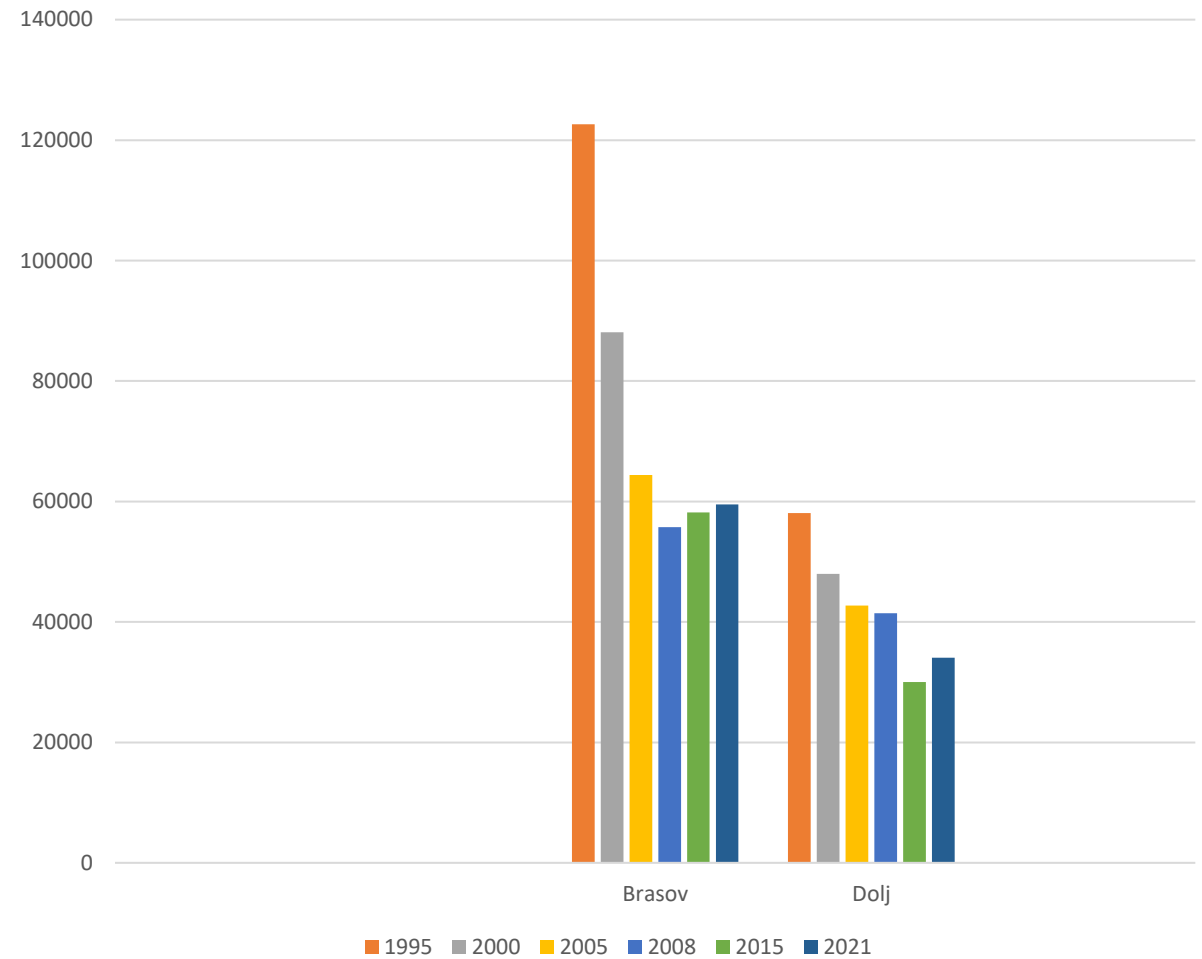


Local transformations: both heavily industrialized in the socialist period; after 1990: experiencing population decline and drop in industry employment - rise of unemployment and migration

Population decline

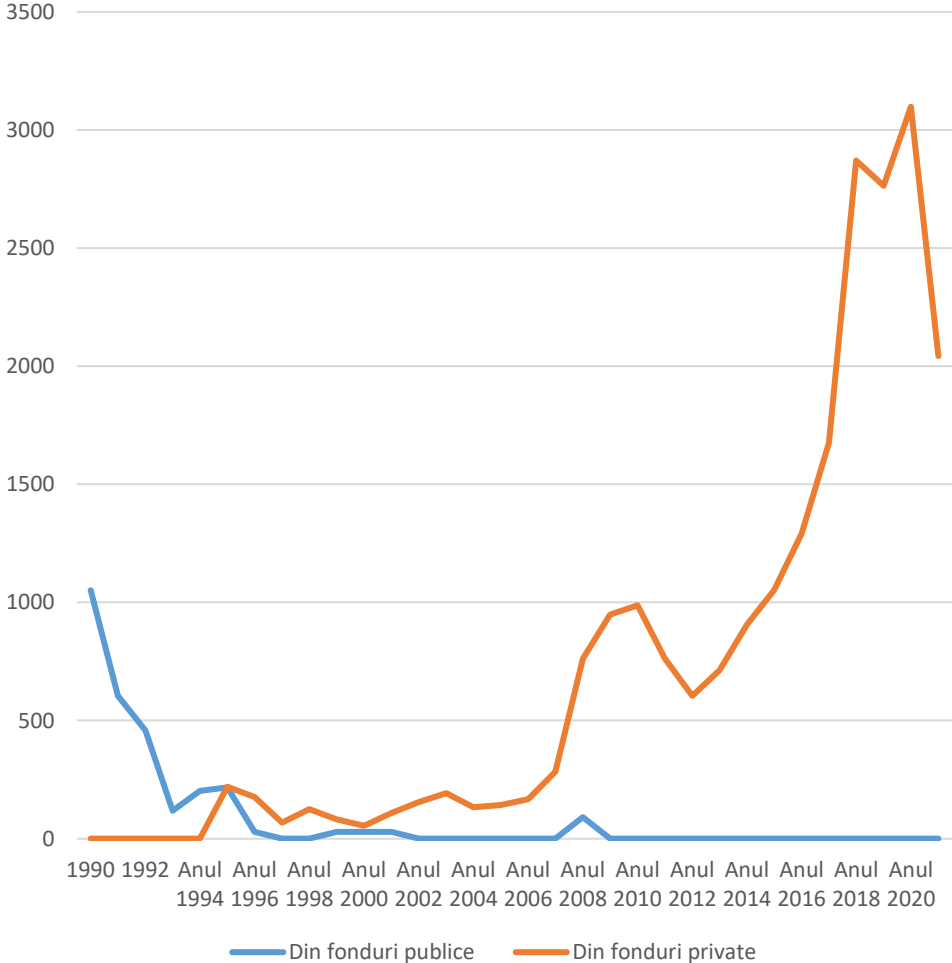


Drop in industry employment

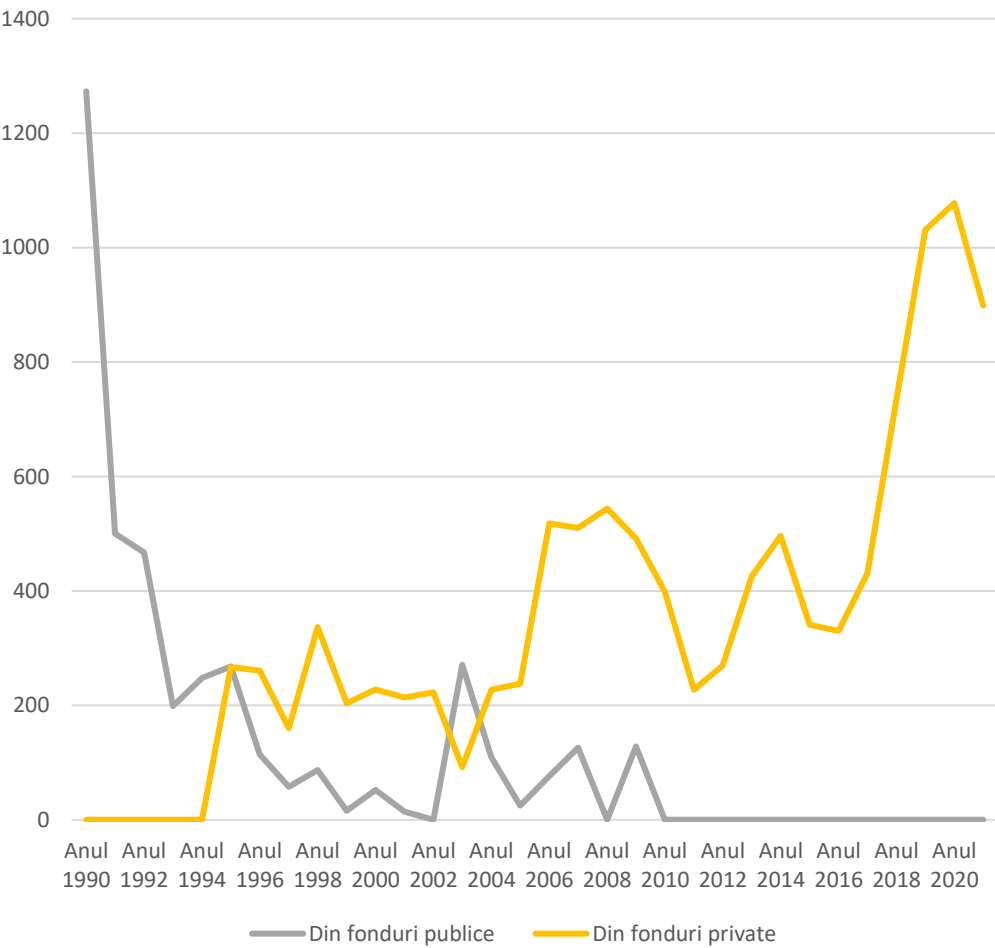


The state's retreat from the housing sector and the financialization of housing and real estate are central aspects of the redevelopment of former industrial spaces: they became more valuable for commercial or residential development than for production

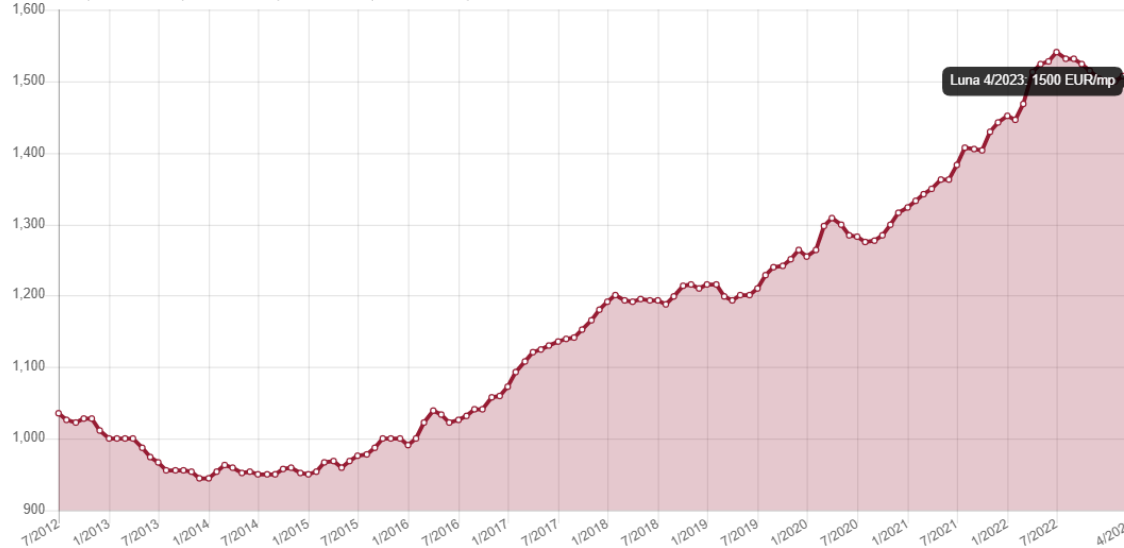
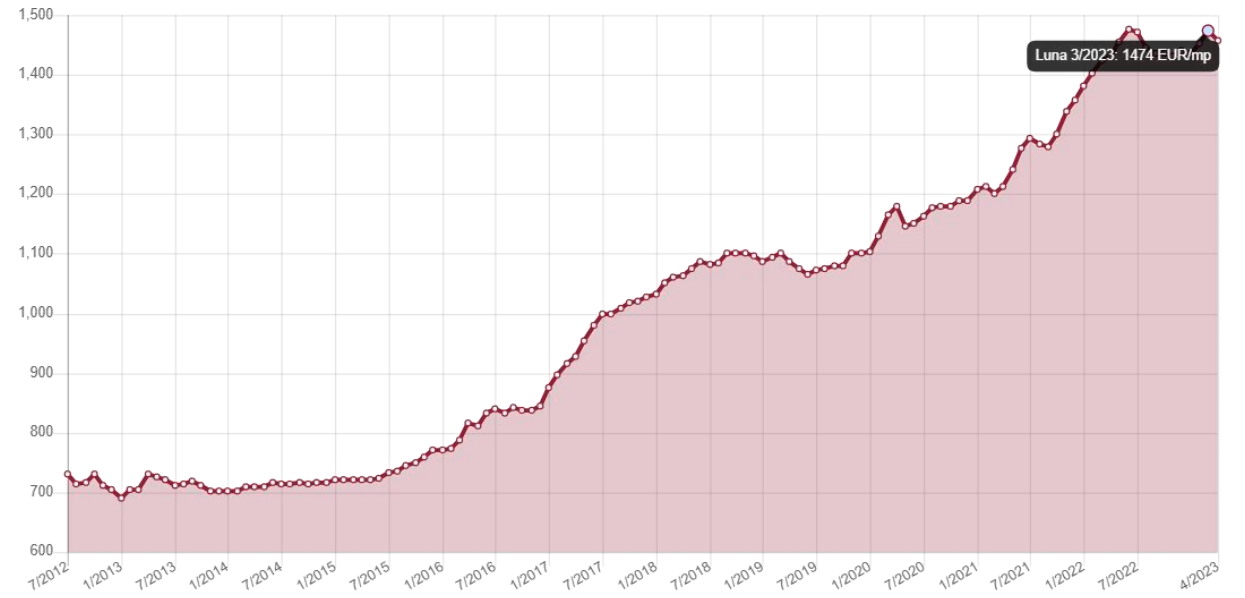
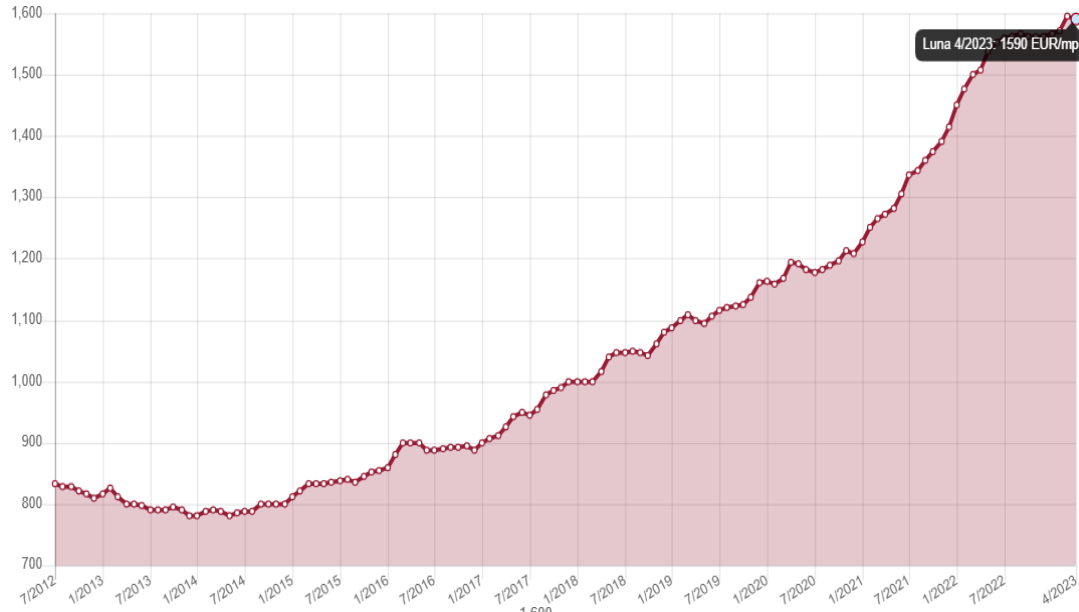
Delivered housing units in Brasov



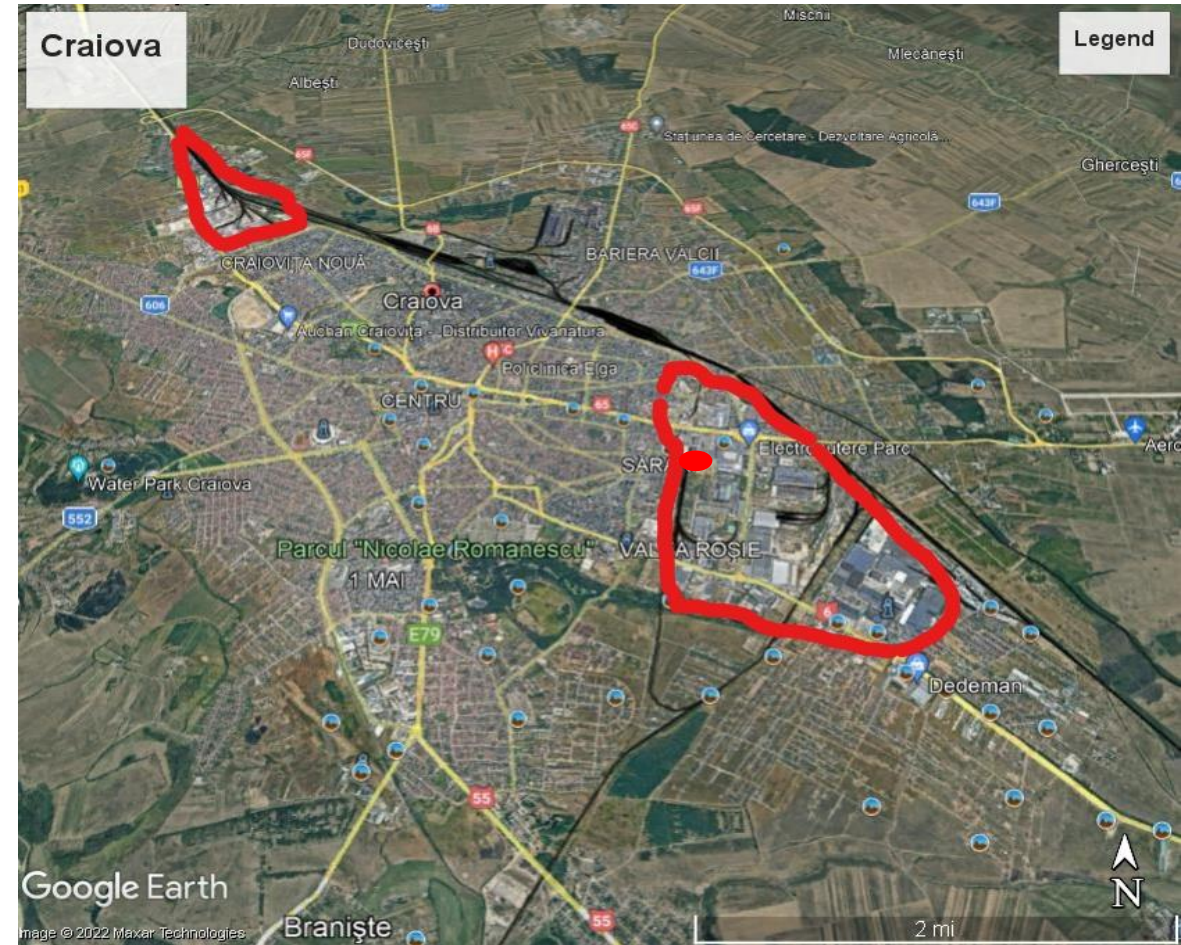
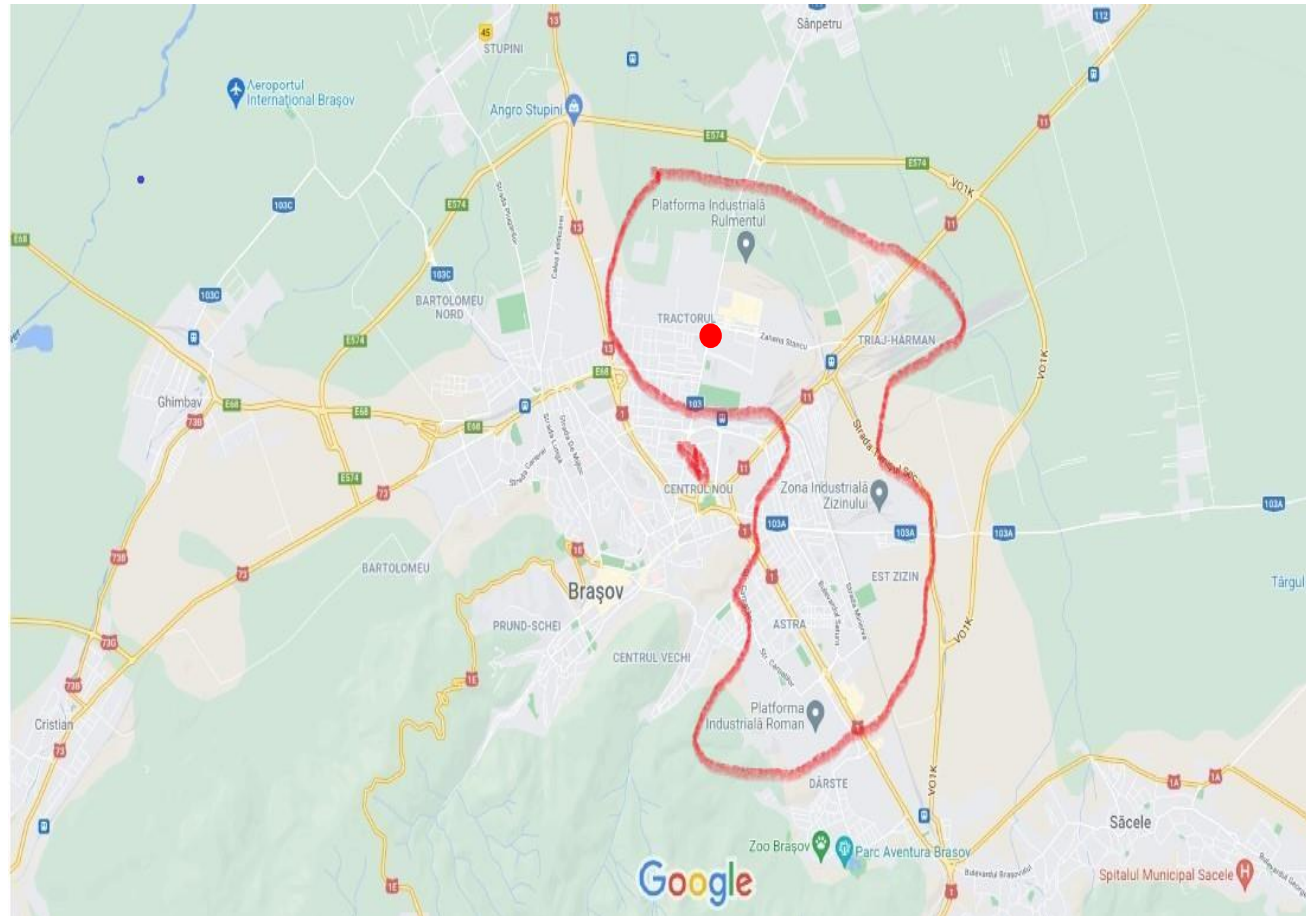
Delivered housing units in Craiova



Housing price index in Braşov and Craiova: doubling of the price per square meter in the past 10 years, growing faster in second tier cities than the capital city



The main former industrial areas in Braşov and Craiova



Two former industrial symbols become urban redevelopment symbols:

Electroputere Craiova: production of engines, transformers, generators that contributed to the electrification of city and railway transport and of the energy production process; in 1990 it had more than 10.000 employees, 60 hectares and its own reproductive infrastructure; privatized in 2007 to a Saudi company which progressively sold it.

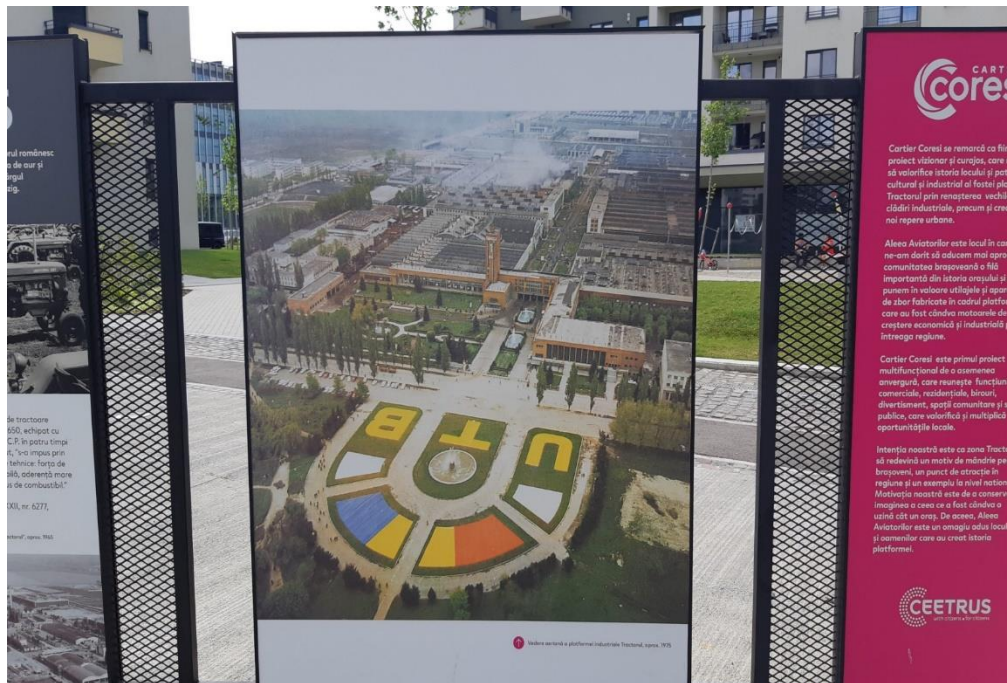


Electroputere Mall in Craiova, built in 2011 on the former electric equipment factory of the industrial platform
Development of office buildings (2018-present)



Tractorul Brasov: production of tractors, in 1990 it had 23.000 employees and 120 hectares
 Privatized in 2007 to a British investment fund, sold further in 2012 to the French Immochan/ Ceetrus; ongoing development of residential, retail, office and hotel real estate

- ▶ Coresi shopping center (2015)/ Immochan
- ▶ Coresi Avantgarden residential (2017-present)/ Immochan-Ceetrus and local developer Kasper Development
- ▶ Coresi Business Campus (2017)/ Immochan and local developer Ascenta



Public exhibition about the industrial past of Tractorul factory in Brasov, in the middle of the residential neighborhood that replaced the former industrial platform



Urban regeneration and entrepreneurialism

- Disinvestment of privatized former industrial spaces: the land is used as collateral for bank loans, the owner waits for the best time on the market to sell it entirely or piece by piece
- Results in spatial reconfiguration across cities: with relocation of production activities on the outskirts or outside of cities, the former industrial land has its value increased by the growing proximity to the city center
- The commercial/residential redevelopment of such disinvested industrial spaces is welcomed and facilitated by local authorities looking to make the city more attractive to investors, tourists and festivals that contribute to the local budget
- The municipalities support private urbanism and privatization of public space
- Making the cities competitive is the top agenda of local governments
- Municipalities consider the revitalization of the urban brownfield as generators of positive outcomes, ex., increase in the housing stock, the development of the business environment and pushing polluting industrial areas outside the city

Concluding remarks

- Privatization was defined as a solution to crisis in Romania from the 1980s, but eventually, by contributing to the creation of market economy, it exposed the country to the further cyclical crisis of capitalism
- Privatization was supposed to increase the efficiency of production, nevertheless it resulted in the dismantlement of socialist industries creating societal turbulences and provided opportunities for reindustrialization by the private sector following its own interests of capital accumulation
- Privatization was a fundamental constituent of neoliberalization in CEE, it happened under the pressure of IMF and WB conditionality politics, nevertheless, it was led by the Romanian state that dismantled public property by political means
- Privatization entailed a process of accumulation by dispossession, through private appropriation of devalued state property by local and foreign businessmen:
 - Fire sales of public property in the quest to fulfil the privatization targets agreed upon with the lending institutions
 - Deindustrialization (by drop of industry's share in GDP and industry employment)
 - Rising unemployment
 - Rising housing costs due to state's retrenchment from the housing sector
 - Rising social and spatial polarization and growing uneven development