

THE COMPETITIVENESS OF THE ROMANIAN ECONOMY IN THE CONTEXT OF EUROPEAN UNION ACCESSION. SPECIAL CONSIDERATIONS REGARDING AGRICULTURE AND RURAL DEVELOPMENT

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Abstract

Member of the European Union, Romania faces huge competitiveness problems which affect the capacity of taking advantage of its new status. This paper aims at identifying Romania's major competitiveness difficulties, with a special focus on the agriculture and rural development in order to find the best solution for improving the current situation. The methodology of our study included both statistical analysis methods and sociologic analysis methods. We had a large survey of economic literature on competitiveness, agriculture and rural development matters, we analyzed the European and Romanian statistics, as well as other studies and strategies concerning Romania's economic situation. We notice that, despite pre-accession funds and some other efforts to improve Romania's competitiveness, our country possess, at this moment, not even a single competitive advantage on the European market and the situation of agriculture and rural economy is particularly difficult. The paper details these problems, the impact of European integration on Romania's competitiveness and especially the impact of the common agricultural policy on Romanian agriculture and rural economy, also trying to offer solution for surpassing these difficulties.

Key words: rural development, competitiveness, European integration

INTRODUCTION

Romania's integration in the European Union raises the sensitive problem of the economic competitiveness and the question of our country's ability to take advantage of the integration's benefits. The competitiveness problem appears even more acute because of the European Union's Lisbon Agenda, whose objective is improving European economy competitiveness performances. For our country this issue is a sensitive one because the planned economy and the transition seriously affected the ability to compete on external markets. Our analysis is motivated by these acute realities, which we try to understand and find the proper solution. Identifying Romania's potential competitive sectors as well as the necessary measures for improving these sectors' performances is not only an up-to-date issue, but also an emergency for Romania's development.

MATERIAL AND METHOD

The specific nature of our analysis has determined the structure of the paper. The paper elaboration has been preceded by the analysis and understanding of the Romanian rural sector through the available statistics. For this reason, the paper presents the facts together with their interpretation and the proposed solutions in the next section. The methodology of our study included both statistical analysis methods and sociologic analysis methods. We had a large survey of economic literature on competitiveness, agriculture and rural development matters, we analyzed the European and Romanian statistics, as well as other studies and strategies concerning Romania's economic situation.

RESULTS AND DISCUSSIONS

The World Economic Forum, a well-known institution specialized in studying competitiveness, has identified three

development stages for an economy: *factor-driven* stage of development (when the main competitive resources of a country are its primarily production factors such as abundant natural resources and cheap, unskilled labor), *efficiency-driven* stage of development (when, as wages are increasing, the economy must stimulate the products quality and complexity, and the competitiveness is driven by higher education and training, efficient good markets and efficient use of existing technologies) and the *innovation-driven* stage (when the competitiveness is based on innovation capacity, on new products and technologies) [4].

There is a logic sequence of these stages and every country must favor the factors with greater contribution at increasing the competitiveness, according to its development stage – for the first stage the institutions, the infrastructure, the macroeconomic stability, health and primary education, for the second stage, higher education and training, market efficiency and the technologies and for the third stage, innovation and business climate.

At the global level, World Economic Forum places Romania on the 68th place (from a total of 134 countries). Among the EU member countries, Romania holds the 26th place, preceding only Bulgaria. The best competitive advantages of our country are the public debt (the 12th place), higher education (the 45th place), technical education (the 12th place), business starting procedures (the 13th place), internal market size (the 39th place). The weak points are related to the governmental decisions' transparency (the 126th place), public expenditure efficiency (the 107th place), the firms' ethical behavior (the 103rd place), roads' quality (the 123rd place), the savings rate (the 101st place), the local competition intensity (the 82nd place), the fiscal burden (the 108th place), the private expenditure for research and development (the 89th place), the last generation technologies (the 93rd place), the link between the universities and business (the 90th place). The most important problems of the business climate are, according to the World Economic Forum, the fiscal burden

and the fiscal legislation. Corruption, underdeveloped infrastructure and political instability are as well important obstacles while inflation didn't appear, last year as a major problem.

Our country's weak competitiveness performances lead to the incapacity of taking advantage of the EU integration benefits. According to the Finance Ministry in the first semester after Romania's integration the commercial deficit was about 7 million euro, increasing with 3.3 million euro (86%) compared to the similar period of the previous year. The most important part of this deficit is coming from EU trading partners, implying that removing the commercial obstacles has favored the European producers, while the Romanian exporters do not have the capacity of exploiting this advantage. Besides the commercial deficit is also caused by the improper structure of exports comparing to the imports – we generally export low added value products (textiles, metal products, inferior steel, furniture, cellulose, paper, wood) and we import high technology products, with high added value. Even if on 2004 there was a small decrease of resource and low technology products exports and an increase in medium technology products exports, from that year on there were no significant evolution in this direction. But Romania imports the most part of the necessary technology and this implies an improper connection between the research and the production sectors. In these circumstances the commercial balance account could be improved if Romania exported not only price competitive products, but also innovation competitive products.

Through its nature, the economic competitiveness concept implies the comparison with the other actors on the market. Romania's situation comparing with the European Union reflected in table 1 should generate quick answers and measures reduce the economic gap. The possibilities of being competitive on a more developed market are extremely low, and the cheap labor is not a long lasting advantage. These difficulties become more evident as we see that the gaps concern not only the GDP per

capita but also the education and research and development activities, which lower even more the possibility of reducing the gaps.

Table 1
 Main structural indicators of Romania for 2004-2006 comparing to EU average [3]

	EU 25	Romania		
		2004	2005	2006
GDP per capita (% of EU average)	100%	32.5%	33%	36.2%
Labour productivity (% of EU average)	100%	33.4%	34.2%	36.8%
Employment rate	64.7%	57.7%	57.6%	58.8%
Research and development expenditure (% of GDP)	1.85%	0.39%	0.41%	0.46%
Educational level(% of population between 20-24 years old which attended secondary schools)	77.7%	74.8%	75.2%	77.2%
GDP growth	3%	8.5%	4.1%	7.7%
Inflation rate	2.2%	11.9%	9.1%	6.6%
Unemployment rate	7.9%	8.1%	7.2%	7.3%

The lack of competitiveness is a major problem of the Romanian economy, even if the *Post accession Strategy 2007-2013* identifies in an optimistic manner a number of sectors which could offer Romania an advantage in European competition: ecological agriculture, IT industry, wine industry, tourism (agrotourism, cultural tourism), textiles, handcraft products, furniture industry, natural pharmaceutical industry [7]. A closer look at these sectors tempers the authorities' optimism.

The IT industry, a sector included by the Romanian authorities in the above mentioned list has a long way until being able to compete with the big, world-known producers. In this sector we only have the human capital, which we export, but we lack the necessary investment. The Ireland case, often reminded, could be relevant for Romania when we look not only at the final results but also at the efforts made for their achievement, meaning the investment in education and in attracting foreign investment.

The textile and clothing industry is not able to offer Romania a long term competitive advantage, because of the increasing Asian competition, the Asian work force being cheaper than the Romanian and the quality constantly improved. Besides, for this sector we could already notice in the last years a slower growth rate.

Some potentially competitive sectors presented in the *Post-accession Strategy* are directly or indirectly related to agriculture and rural development, but the situation of these sectors is not better.

Concerning the *ecological agriculture*, Romania is criticized by the international organization for the lack of the necessary mechanism for controlling the agricultural and food products quality. The European Commission in its report from 2006 regarding Romanian agriculture brings into attention these deficiencies [6]. Although 2006 was the last year for genetically modified organisms culture, Romania does not have a single laboratory meeting the EU standards for controlling the products containing these kinds of organisms. The same lack of control and information is visible in using fertilizers and herbicides in agricultural production or additives in food industry. In these circumstances it is hard to speak about entering the European market of ecological products, both because of the lack of expertise and because of the strict EU standards for these products.

The wine industry, although there are studies suggesting that Romania has a competitive advantage in this sector because of the low costs, is a part of the first stage of development identified by the World Economic Forum because it is based on cheap and abundant resources and, in this context, could not sustain Romanian

competitiveness on long term. We have the same situation with the handcraft products or the furniture industry that are low value added and high consumer of resources sectors. Especially regarding the furniture industry there are studies including it among the loser Romanian industry after EU trade liberalization. The comparative advantage of this sector is reducing together with the share of the furniture exports in the total exports to EU [1]. In these circumstances we can not talk about the furniture industry as about a competitive industry on the European market.

The tourism, although it benefits of special natural resources, continues to be affected by the lack of expertise which would permit the exploitation of these benefits as well as by the poor infrastructure and by the lack of promotion and visibility. For many years we have been spoken about Romania's important tourism potential, but up to now it hasn't become a real competitive advantage and is improbable to become in the close future. We are constantly surpassed even by neighbor countries which know better how to respond to clients' needs and to attract them not only through the natural resources but also through their services. Romania is not any more a preferred destination for Romanians and even less for high income foreigners from West.

The natural pharmaceutical industry although expanding in Romania, is a market hard to penetrate in the western countries. The necessary studies and certificates demand for high financial resources and important efforts that could not be made on short or medium term. The introduction of a new drug in the human consumption needs, in the classical industry, tens of years of tests and studies and that tempers our optimism regarding this sector.

The reality is that, up to now, despite the sectors that could offer Romania a competitive advantage on the European market, our country could not develop even a single competitive advantage regarding the EU 15 countries or even regarding the new member states. The Romanian officials admit the fact that the only competitive advantage is the 16% flat tax.

Coming back to agriculture and rural development, we have to mention that Romania has some advantages that could favor its development, such as:

- the important agricultural potential;
- low industrialization and extensive agriculture that have limited the pollution in this sector;
- the availability of human resources;
- the availability of the resources for rural tourism and ecological agriculture;
- the still well preserved traditions that characterizes the Romanian village and that could represent an opportunity for rural tourism development.

Unfortunately these advantages are accompanied by numerous weak points:

- the climate variability and the recent extreme meteorological phenomena that affect the production and lead to soil erosion. The insufficient financial resources impede the farmers to use soil improvement techniques and that determines a reduction of the production potential. Besides, because of the lack of the financial resources, the Romanian agriculture is four times less secured than the European agriculture and the climate variability determines huge loses for farmers.
- the high share of sustenance farms, with an average area of 2.15 ha, too small to use modern and efficient production methods;
- the lower income in rural sector compared to the urban sector, that discourages the involvement in agricultural production;
- insufficient financial resources for agricultural activities, which are not preferred by the banks in their financing operations because the farmers have not enough guarantees;
- poor infrastructure in the rural areas both physical (roads, utilities) as well as medical and educational;
- the low interest and possibilities of the rural population for secondary and higher education. The low social-economical and educational level of the rural population makes almost impossible the exploitation of the opportunities for rural development.

Taking into account the difficulties faced by our country's agriculture, the government has designed the *National Strategic Plan of Rural Development 2007-2013*, which entitles Romania to receive about 8 million euros from European funds in the above mentioned interval of time. The plan determines four major development axes:[5]

- improving the competitiveness of the agricultural and forestry sectors – 45% of the total funds;

- improving the environment and the countryside – 25% of the total funds;

- improving the quality of life in rural areas and rural economy diversification - 30% of the total funds;

- implementation of the public/private partnership organized as Local Action Groups – 2.5% of the total funds;

The government involvement through proper measures and well designed priorities is essential for avoiding the increase of poorness and unemployment in the rural area after the implementation of the common agricultural policy and the program for the agriculture restructuring. The priorities of the Romanian rural sector are the workforce excess and the fragmentation of the land, which represent the main cause of low competitiveness of this sector, encouraging the subsistence agriculture.

The present situation of agricultural sector, the low income, the high share in GDP, the excess of workforce represents a threat even for Romanian ability to adopt euro, because the success of the Monetary Union depends on the resemblance of the productive structure of the member states.

The structural reform of the Romanian rural sector should, in this context, include, as main measures:

- the reduction of the workforce employed in the agricultural sector. In order to come close to the European agricultural labor force average (about 15%) we need to dismiss about 2 million persons [2]. The retirement of the persons above 60 years old would reduce the employed population with about 1 million, but this implies the involvement of the government in order to raise the pension level, very small at this moment;

- increasing the farms areas, in order to create the conditions for a modern agricultural production and higher productivity;

- creating stimulus and support for the development of alternative economic activities in the rural area. The rural development is not synonymous with agricultural development and the alternative activities such as rural tourism, food industry, forestry activities, handcraft activities could use a part of the agricultural workforce and could represent a source of higher income for rural population. In order to achieve these goals several other measures, presented here would be necessary;

- the development of the infrastructure, an essential condition for the development of alternative activities;

- supplementary investment in agriculture and in the other activities related to the rural sector. This needs access to proper financial resources, hard to get because of the low income in this sector and because of the impossibility to offer the guarantees for bank loan. The government should support, in this case, the finance process in the rural area in order to make possible the development of the agriculture, of the alternative economic activities and the reduction of the workforce employed in agriculture;

- the access to educational and training programs for the rural workforce, essential for their capacity of involvement in the development of the alternative economic activities.

In order to apply all these reforms, Romania can benefit of the financial support from the European Union and must be able to fully benefit of this opportunity.

CONCLUSIONS

Economic globalization has determined the increasing of the competition at the international level, and in this context the competitiveness of an economy is essential for its surviving. Romania's integration in the EU and the removal of the economic obstacles have stressed the competition pressure faced by our country. Romanian

economic performances are behind the European average and our country's economy did not manage, despite its potential, to develop even a single competitive advantage in front of its European partners. In this context, our country's capacity to benefit from the integration advantages is strongly questioned.

The situation of the Romanian rural sector is particularly difficult. This sector is dominated by agriculture, whose key features are the workforce excess, the subsistence farms and the low productivity. The physical and social poor infrastructure, the lack of the financial resources for investment worsen this sector's problems.

Romania's economic stability depends on the agricultural restructuring and on the rural development. In this process our country could also benefit of the financial support of the EU. Among the solution proposed in this paper for Romanian rural development, two might be considered top priorities – the reduction of the agricultural workforce and the increase of the farms' size. These reforms are conditioned by the government involvement in providing a proper level of agricultural pensions, in facilitating the access to financial resources and in encouraging investments, in developing the physical, medical and educational

infrastructure. Together with the European and national public financial resources, there is also necessary the development of public/private partnership for the rural sector.

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