

## AGRICULTURE AND ECONOMIC GROWTH IN AN OPEN ECONOMY-THE CASE OF ROMANIA

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### Abstract

*The present paper aims to analyze the economic growth in terms of agriculture, its influence in Romania's economic development. A higher standard of living cannot be achieved only by a superior production of goods and services. Economic growth is precisely to increase business results at the macroeconomic level. Economic growth is expressed by the growth of macroeconomic indicators (GDP, GNP, VN).*

*Economic growth benefits businesses. It includes: improved living standards, increasing the volume of final goods and services in a country is equivalent, usually with the change in the favorable consumption. Economic growth in the long term brings an increase not only the quantity but also the quality of goods and services consumed; alleviating poverty. Increase production capacity generates more jobs and therefore more numerous sources of income for households; changes in the consumption structure, economic growth has led in recent decades in countries with mature market economy designed to meet the lower revenue to decline in favor of addressing the needs of education.*

**Keywords:** agriculture, economic growth, GDP, economic development.

### INTRODUCTION

For decades, agriculture has been associated with production of essential food crops. At present, agriculture above and beyond farming includes forestry, dairy, fruit cultivation, poultry, bee keeping, mushroom, arbitrary, etc. Today, processing, marketing and distribution of crops and livestock products etc. are all acknowledged as part of current agriculture. Thus, agriculture could be referred to as the production, processing, promotion and distribution agricultural products. (Moldovan Ioana-Andrada, 2012).

Agriculture plays a critical role in the entire life of a given economy. Agriculture is the backbone of economic system of a given country. In addition to providing food and raw material, agriculture also provides employment opportunities to very large percentage of population. Below are the importances of agriculture:

**Source of Livelihood-**The main source livelihood of many people is agriculture. Approximately 70 % of the people directly rely on agriculture as a mean of living. This high percentage in agriculture is as a result of none development of non-agricultural activities to absorb the fast growing

population. However, most people in developed countries do not engage in agriculture.(Penson J.,2015)

**Contribution to National revenue-**Agriculture is the main source of national income for most developing countries. However, for the developed countries, agriculture contributes a smaller per cent age to their national income.

**Supply of Food as well as Fodder-**Agricultural sector provides fodder for domestic animals .Cow provides people with milk which is a form of protective food. Moreover, livestock also meets people's food requirements.

**Significance to the International Trade-**Agricultural products like sugar, tea, rice, spices, tobacco, coffee etc. constitute the major items of exports of countries that rely on agriculture. If there is smooth development practice of agriculture, imports are reduced while export increases considerably. This helps to reduce countries unfavorable balance of payments as well as saving foreign exchange. This amount may be well used to import other essential inputs, machinery, raw-material, and other infrastructure that is helpful for the support of country's economic development.(Reed M.,2000)

**Marketable Surplus-**The growth of agricultural sector contributes to marketable surplus. Many people engage in manufacturing, mining as well as other non- agricultural sector as the nation develops. All these individuals rely on food production that they might meet from the nation's marketable surplus. As agricultural sector development takes place, production increases and this leads to expansion of marketable surplus. This may be exported to other nations.

**Source of Raw Material-**The main source of raw materials to major industries such as cotton and jute fabric, sugar, tobacco, edible as well as non-edible oils is agriculture. Moreover, many other industries such as processing of fruits as well as vegetables and rice husking get their raw material mainly from agriculture.(Drummond H.,2013)

**Significance in Transport-**Bulks of agricultural products are transported by railways and roadways from farm to factories. Mostly, internal trade is in agricultural products. Moreover, the revenue of the government, to a larger extent, relies on the success of agricultural sector.

**Foreign Exchange Resources-**The nation's export trade depends largely on agricultural sector. For example, agricultural commodities such as jute, tobacco, spices, oilseeds, raw cotton, tea as well as coffee accounts for approximately 18 % of the entire value of exports of a country. This demonstrates that agriculture products also continue to be important source of earning a country foreign exchange.

**Great Employment Opportunities**-Construction of irrigation schemes, drainage system as well as other such activities in the agricultural sector is important as it provides larger employment opportunities. Agriculture sector provides more employment opportunities to the labor force that reduce the high rate of unemployment in developing countries caused by the fast growing population.

**Economic Development**-Since agriculture employs many people it contributes to economic development. As a result, the national income level as well as people's standard of living is improved. The fast rate of development in agriculture sector offers progressive outlook as well as increased motivation for development. Hence, it aids to create good atmosphere for overall economic development of a country. Therefore, economic development relies on the agricultural growth rate.

**Source of Saving**-Development in agriculture may also increase savings. The rich farmers we see today started saving particularly after green revolution. This surplus quantity may be invested further in the agriculture sector to develop the sector.

**Food Security**-A stable agricultural sector ensures a nation of food security. The main requirement of any country is food security. Food security prevents malnourishment that has traditionally been believed to be one of the major problems faced by the developing countries. Most countries rely on agricultural products as well as associated industries for their main source of income.(Dona I.,2000)

Agriculture represents one of the branches of the Romanian national economy with high importance, designed to contribute overwhelmingly to restore economic growth of our country. It is necessary to spend fundamental changes in agrarian structure, based on the organization of farms, to ensure the practice of modern agriculture and its inclusion in the overall strategy of crossing entire Romanian economy to market economy. Agriculture enjoys special attention today in all countries, regardless of economic development. In the contemporary world most developed countries in terms economic are the biggest producer and exporter of agricultural products.(Ward F.,2005)

As a basic branch of our national economy, agriculture stands out as a field of very complex and complicated work.

The complexity of agriculture as a branch of material production, the economy is determined by the role of agriculture in economic development and its technical peculiarities, economic and social, general economic laws that prints a specific manifestation in agriculture.(Zahiu Letitia,2010)

A phenomenon is the characteristic of all countries in the contemporary economy, increasing the role of agriculture, although the share of agriculture's contribution to the formation of GDP decreases and the number of active population in agriculture is reduced. This phenomenon is explainable once the place of agriculture in the general economy gear is addressed not only after some weights in the structure of some macroeconomic indicators, but also an analysis of the functions of agriculture in the overall economic growth. (Istudor N.,2006)

## **MATERIAL AND METHODS**

Romania has the second lowest GDP per inhabitant in Europe and this reflects the low productivity of its economy. Out of 28 member states, Romania holds the 23rd position in the Competitiveness Index made by the World Economic Forum<sup>1</sup>. The low competitiveness of the country compared with the Euro area is due to a very low productivity of agriculture. One way to evaluate the performance of agriculture involves dividing the output to input factors. Standard output (SO) is a measure of the production or the business size of an agricultural holding. It is based on the separate activities or 'enterprises' of a farm and their relative contribution to overall revenue. This indicator reflects the performance of a country's agriculture in absolute terms. In 2010 in the European Union, the countries with the highest standard output were France (51 bill. Euro), Italy (49 bill. Euro), Germany (41 bill. Euro), Spain (34 bill. Euro), UK (20 bill. Euro), Poland (19 bill. Euro), the Netherlands (19 bill. Euro) and Romania (10 bill. Euro). But these numbers show the whole production of a country, which uses a specific set of inputs to generate this output. Therefore, to properly reflect the agricultural performance of a country the national output must be divided by the inputs in agriculture. The labor input is measured using annual working units (AWU), an indicator which takes account of part-time and seasonal work. One AWU corresponds to the input, measured in working time, of one person engaged in agricultural activities in an farm on a full-time basis over an entire year. Thus labor productivity is measured by the standard output (SO) divided by the annual working units (AWU).

## **RESULTS AND DISCUSSIONS**

The Romanian economy continues its growth, but statistical data raise a number of worrying signals. Annual growth remains solid in the first half, 3.7%, but fundamentals show growth vulnerabilities Romanian economy. If the quarters last year showed increases from one period to another, the first

two quarters of this year indicate a growth rate decreased. The most eloquent figure is even increasing only 0.1% in the second quarter 2015 compared to the first quarter of this year. Equally clear are the data showing the contribution of industry in the economy and, moreover, their contribution to economic growth in the first half. Regarding branches contribution to gross domestic product no surprises. Industry remains the main driver, with a 22% share of the total economy. It also confirms the rise of information technology and communications industry who come to have a share of about 7 percent of GDP. Notably, easy revival of the construction sector and, despite the interest to agriculture, should be mentioned the reduced rate of this sector in GDP of just 2.1%. It is interesting and worrying at the same time, the role of agriculture to economic growth is in the first half of this year, zero. It is very likely that this situation will occur as a result of lower agricultural production, but it is certainly the effect of poor performance that we recorded further agriculture. Trade, information and communications technology industry had the largest contributions to growth. Data on the first semester, get a confirmation. The economy is growing based on consumption, investments have a modest contribution to growth, while imports came to lead to a negative effect of foreign trade to GDP. In figures, consumption contributes 3.8% to GDP growth, which means more than half, while investments contributed only 1.6 percent.

The economic growth forecasts for 2015 have been reduced by macroeconomists, the prolonged drought anticipating a bad agricultural year in Romania. Thus, economists lowered economic growth forecast from 4.5% to 3.7%. Agriculture declined in the second quarter of 2015 by 2% compared to Q2 2014 and by 7.5% against the first quarter of this year, while in H1 2015, agriculture had a zero contribution to GDP growth. In 2013, agriculture had an increase of 29%, thanks to a year less fast in 2012 and in 2014 increased by 3.6%. This year, the sector will fall by 3%, but these percentages will recover in 2016 and even easier to evolve in future years National Prognosis Commission show.

Economic growth slowed in the second quarter to 0.1% from the previous quarter and 3.3% compared to the same quarter last year, from 1.4% and 4.3% in the first three months of the year. Worsening the second quarter was driven mainly by net exports, inventories and state spending. Bank revised the estimates of economic growth for 2016 from 4.3% to 3.8%, while the forecast for 2017 increased from 2.7% to 4.1%, following the decision of Parliament on a gradual implementation of the fiscal stimulus, and the remaining half 2016 2017.

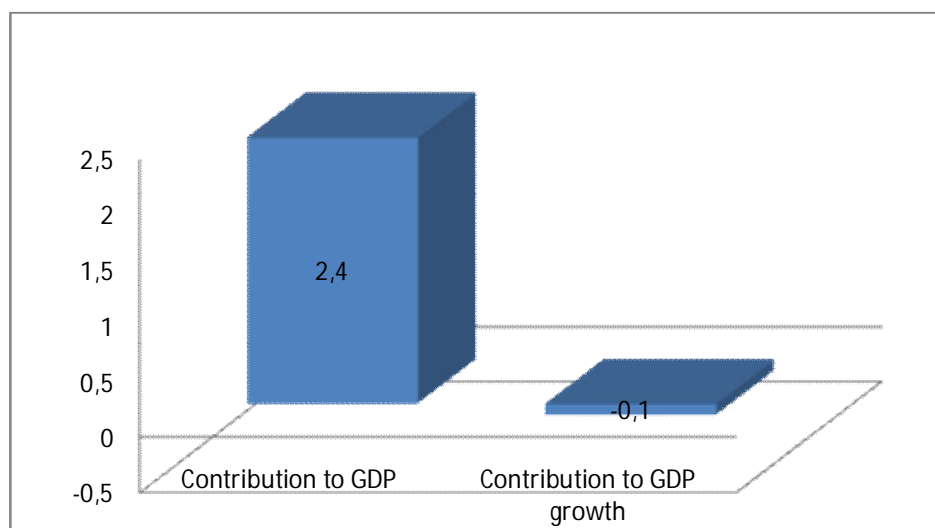


Fig. 1. Agriculture contribution of the and gross domestic product formation, in the second quarter of 2015

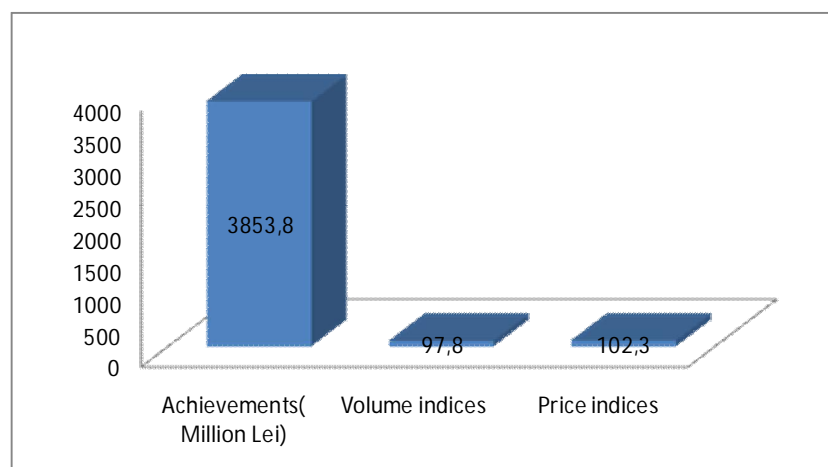


Fig. 2. Gross domestic product by category of agriculture resources and uses in the second quarter of 2015

Table 1

Average annual GDP growth in the period 2010-2015

	UE 28	Romania
Real increase	0,0	-0,1
Deflator	1,1	4,1
Nominal increase	1,1	4,1
GDP increase per capita	0,5	3,0

GDP from agriculture in Romania decreased to 2671.30 Million Ron in the second quarter of 2015 from 2886.80 Million Ron in the first quarter of 2015.

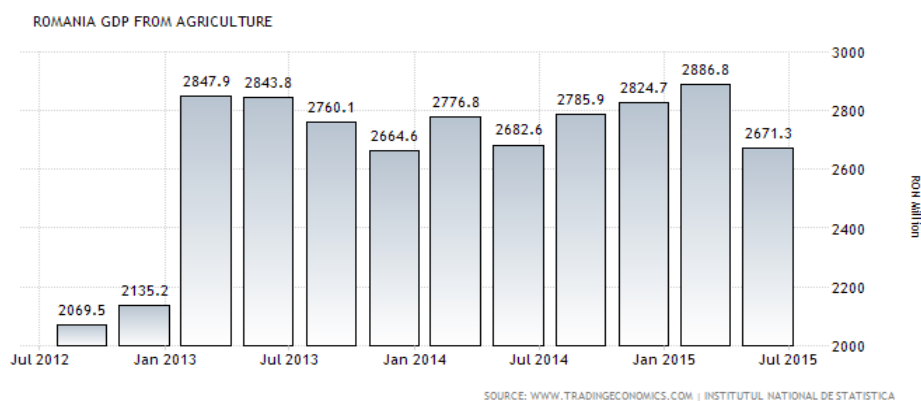


Fig.3 Romania GDP from agriculture for 2012-2015



Fig 4. Romania GDP from agriculture for 2016

## CONCLUSIONS

It is estimated that in order to increase the efficient national economy necessary incentives by combining policy instruments monetary and fiscal support in order to improve agriculture and businesses in the agricultural sector. The national economy is compatible and complementary to the EU economy, with adjustments to implement economic policy measures raising the standard of living and quality of life. Analysis brings into question the of the influence main economic phenomena, the GDP.(Lup A.,2011)

On the Romanian economy in the last 23 years reveals that its structure has changed, influenced by a number of factors, from the transition, planned economy to market economy, joining the European Union - which required institutional changes and adoption European legislation gradual and generated new opportunities in terms of trade, key sales markets, and increase competitiveness, changes in social, technological change and changes in the global financial system.(Stanef Mihaela Roberta,2010)

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