

## SWOT ANALYSIS ON ROMANIAN AGRICULTURE IN THE TRANSITION PERIOD TO MARKET ECONOMY

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### Abstract

*Romania is characterized by a high agricultural potential, but underused. In terms of the emergence of world agricultural trade liberalization, increasing the performance of agriculture and food sector as a whole is the most important measure of internal protection. For this, it is necessary to implement a set of four strategies based on SWOT analysis: opportunities- strengths strategies, opportunities-weaknesses strategies, strengths-threats strategies and weaknesses-threats strategies. This set of strategies will lead to increased competitiveness, profitability of the Romanian agricultural sector.*

**Key words:** analysis, strengths, weaknesses, opportunities, threats

### INTRODUCTION

Romania was the first country in Central and Eastern Europe that had connections with the European Union. This collaboration began in 1974 and continued with a series of agreements in order to facilitate trade. On January 1<sup>st</sup> 2007, Bulgaria, along with Romania, joined the EU (<sup>1</sup> [ec.europa.eu](http://ec.europa.eu)).

The negotiations have resulted in conditions that each state was required to fulfill. Chapter 7-Agriculture was the largest and most difficult chapter of negotiation, because of the impact agriculture has on national economy. Regardless of the level of development all countries protect their agriculture. Global U.S.A. and EU accuse each other for unfair protection. The most complex protection system belongs to EU. EU's budget for agricultural policy is 50%.The main areas of negotiation have been referred to the veterinary and phytosanitary legislation, CMO (Common Market Organization), specialized crops and livestock products.(Eurobarometrul 67/ 2007; FAO.org)

Currently, Romania is after 24 years of transition to a market economy. For Romania agriculture has been and remains a very important sector of the economy, though, compared with the other two major sectors (industry and services) its share is steadily declining in the formation of the gross domestic product and in the number of working population.(mapam.ro/cercetare)

All states have been and continue to be involved in the agricultural sector in order to ensure farmers an income comparable to those of other categories of workers, although the success of these actions is still expected to happen. The tools used were always the same: the intervention agencies, controls on imports, export subsidies etc. However, the intensity of their use is different, depending on the conditions of each state.( Petroman, Cornelia, 2007)

The fact is that farming gathers a large part of the working population in Romania, a situation that will remain unchanged for many years. On the other hand, the development of this sector will increase incomes of the rural population, a phenomenon which, in turn,

will have at least two very important effects: increased purchasing power in rural areas and stopping labor drain towards city, a phenomenon that worsens considerably, today, the problem of urbanization in developing countries. But the basic line is that an agriculture that answers the needs of the society is to solve the food issue.( Hubbard, L., Borrel, B., 2000)

In the case of Central and South-Eastern Europe in terms of EU integration can say that reorganisation of agriculture is the main challenge for the group of candidate countries in Central and Eastern Europe (CEEC). Although the situation varies from country to country, the most countries in Central and Eastern Europe fail to be competitive on the market of 15 Member States.

Romania is struggling to be competitive on the EU market, in spite of tariff protection and funding benefiting. This is largely the result of poor investment, fragmented structures and less intensive production methods. Following the transition, agriculture is divided between large farms and semi-subsistence farms. Poor profitability of the sector has further emphasized this. Other obstacles for a qualitative farming community type arise from the fact that agriculture absorbs surplus labor (hidden unemployment). This brings political and social pressures in sectors with high employment jobs as those in the dairy, beef and pork products.

The purpose of this research is the development of a diagnostic analysis on the agricultural sector in Romania. The objectives are to develop a set of strategies that lead to increased competitiveness, profitability of the Romanian agricultural sector.

## MATERIALS AND METHODS

SWOT analysis (alternatively SWOT Matrix) is a structured planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place, industry or person. The technique is credited to Albert Humphrey, who led a convention at the Stanford Research Institute (now SRI International) in the 1960s and 1970s using data from Fortune 500 companies. (Humphrey, Albert, 2012)

Setting the objective should be done after the SWOT analysis has been performed. This would allow achievable goals or objectives to be set for the organization.( Humphrey, 2005)

- **Strengths:** characteristics of the business or project that give it an advantage over others.
- **Weaknesses:** characteristics that place the team at a disadvantage relative to others
- **Opportunities:** elements that the project could exploit to its advantage
- **Threats:** elements in the environment that could cause trouble for the business or project

Identification of SWOTs is important because they can inform later steps in planning to achieve the objective.

## RESULTS AND DISCUSSIONS

Total area of Romania of 23.84 million hectares comprises 62% agricultural land (approx. 14.7 million ha, 66.3% of which being arable land, 29.2% natural meadows and 4.5% orchard plantations and vineyard). Of the total area of the country, approximately 92% belongs to the rural space consisting of agricultural land, forestry and rural localities

(The national strategy for sustainable development of the agro-food sector and rural areas in the period 2014-2020-2030)

Romania is distinguished by a strong rural footprint, the rural population having the highest share in the EU, representing 44.9% of the total population, with a density as low as of 45 people/km<sup>2</sup>. Currently, employment in agriculture in the active population of Romania is 27%.(APIA.ro)

Considering the active human resources, also important for the development strategy of the sector is farmers' distribution by age and especially for young farmers, as table 1 shows.(APIA.ro)

Table 1

Farmers distribution (by age) in 2011

		<30	31-40	41-50	51-60	61-70	>70	total
No farmers	Th.	10.2	74.7	141.3	231.8	292.6	351.4	1101.7
Average holding area	Ha.	9.1	7.0	6.4	5.0	4.0	3.2	4.5

Source: Data APIA, 2010

The share owned by agriculture in the Romanian economy is due to, among other things, the abundance of natural resources, arable land, rich in chernozem, allowing the cultivation of cereals and other crops characteristic of the temperate zone. The climate is also favorable for agriculture. The cereal sector is big enough to support an animal sector too, but of moderate size, specialized in cattle, pigs and poultry. In the last years this sector suffered a restriction due to the imports pressure( Zahiu et al, 2011).

Crop production, a poor harvest away the Romanian manufacturers from foreign markets, while a good agricultural year reconnects it. The absence of stable export markets and a reputation of products exported reduce the export price. Another issue is the lack of a specialized infrastructure to ensure unidirectional flow of agricultural products, which is why the transport and storage costs are higher, which makes the difference between FOB prices and CIF cost to be higher in Romania than in neighboring countries.

In recent years, Romania has become a net importer to a range of basic products such as poultry meat and pork, sugar, some vegetables and fruits, beverages, tobacco, some food based on meat and milk. Romanian food imports, dominated by food, beverages, tobacco, **products with high level of processing** are a characteristic of developing countries and has a negative impact on the trade balance.(Brata, 2013)

The development of networks of supermarkets has led to increased imports of food products and increasing consumption. Productions made in recent years to the main foodstuffs in relation to domestic consumption, excluding own consumption, did not satisfy domestic demand. For example, in the case of poultry or pork, **consumption exceeds domestic production**, demand being ensured, obviously, by imports.(Davidovici, Gavrilescu, 2002)

At the same time, imports are caused by the fact that in Romania there is no chain of storage and preservation of fruits and vegetables yet. What is produced during summer is consumed immediately and over the next nine months we are dependent on imports.(Poladian, Simona, 2001)

Growth of imports has extremely negative influence on the local agriculture, even more so due to the fact that imports include a range of broader types of foodstuffs which may be obtained from domestic production, which is **pressured to restrict** by giving up some cultures, orientation towards monoculture or obtaining of cultures whose productions

are sold at reduced prices, thus decreasing internal renewable resources recovery.( Dumitru, 1997)

Due to the **low level of competitiveness** of agriculture and of the general economic situation, Romania does not face foreign competition. In terms of **low yields, high cost of agricultural products, lack of diversification of the exported food goods and reduced processing**, important markets have been lost. On the other hand, the low level of **exports of agricultural products** (mostly raw) results in a low level of foreign exchange receipts and funds that can be allocated to **modernize** agriculture. Negative balance of agricultural trade balance and food import (and not the import of machines and competitive equipments intended for application of leading edge technologies) affects the long term development of agriculture and increase dependence of domestic consumption on imports for products that have traditionally been provided from its own resources.(Negrut., 2002)

Romanian agriculture has lost significant parts in the transition period some products on the domestic market and current account deficits in the trade balance account. Since 1990, Romania has a negative balance of trade balance with food products. 2013 was the first year since 1989 when Romania registered a trade balance surplus. This is primarily owes a good agricultural year Romania had.

On the other hand, the low level of export of agricultural products (in bulk materials) causes a low level of foreign exchange earnings and in the same time the funds that can be allocated to the modernization of agriculture. The negative balance of trade of agricultural and food imports (and not the importation of machinery and equipment for the application of advanced high technologies) affect the long-term development of agriculture and growing import dependence of domestic consumption for products that have traditionally been provided own resources.

All those listed above require a diagnostic analysis of the agricultural sector. Hence the use of Swot analysis that allows, following the analysis of internal and external factors shaping the four sets of strategies. This is presented in the table no. 2.

Table 2

### Swot analysis of Romanian agriculture

EXTERNAL FACTORS	INTERNAL FACTORS	
OPPORTUNITIES	STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>Expanding access market to EU markets.</li> <li>Expanding organic markets</li> <li>Diversification of activities – tourism, specific products etc.</li> <li>Developing common organizations concerning offer and marketing</li> </ul>	<ul style="list-style-type: none"> <li>Fertile soils/favorable natural conditions</li> <li>Traditions in the practice of agriculture, combined with the diversity of farms</li> <li>Professional knowledge and development potential</li> <li>Developing of organic farms</li> </ul>	<ul style="list-style-type: none"> <li>Highly fragmented character of agricultural property</li> <li>Poor development of the land market</li> <li>Low level of farms' mechanization</li> <li>Low level of labour productivity</li> <li>Lack of investment in agriculture</li> <li>The low level of farmers' education through school</li> </ul>
	SO STRATEGIES	WO STRATEGIES
	<ul style="list-style-type: none"> <li>increasing agricultural production to products required in the EU</li> </ul>	<ul style="list-style-type: none"> <li>Development of professional associations and</li> </ul>

	<ul style="list-style-type: none"> <li>• exporting organic products</li> <li>• promoting Romanian products on EU market</li> <li>• Development of agrotourism and ecotourism</li> <li>• Developing of Romanian brands</li> <li>• Development of cereals exchange</li> <li>• Development of traditions and traditional Romanian crafts (pottery, ceramics, Romanian old motifs brought to modern age, Easter egg decoration)</li> </ul>	<ul style="list-style-type: none"> <li>• consumption cooperatives</li> <li>• Implementing new technology</li> <li>• Knowledge of European legislation</li> <li>• Creating organic farms</li> <li>• Development of agri-food policy which lead to the development of the organic market</li> <li>• Establishing communication between manufacturers and major retailers concerning outlet</li> <li>• Development of rural credit</li> <li>• Courses in agriculture among farmers</li> </ul>
<b>THREATS</b>	<b>ST STRATEGIES</b>	<b>WT STRATEGIES</b>
<ul style="list-style-type: none"> <li>• Increased competition on domestic markets</li> <li>• Loss of qualified rural work force through urban departure</li> <li>• Low level of investments in agriculture</li> <li>• High quality standards of the EU</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing quality of organic products on international markets, resulting in increased competitiveness</li> <li>• Increasing farmers income through the development of small business in rural area (agro-tourism, handicrafts, traditions)</li> <li>• Access to European funds</li> </ul>	<ul style="list-style-type: none"> <li>• Courses in agriculture in rural areas, free of charge, with European funds</li> <li>• Attracting foreign capital</li> <li>• Implementing new technology</li> <li>• Formation of competitive markets</li> <li>• Attracting European funds</li> </ul>

## CONCLUSIONS

In conclusion, agriculture is for Romania one of its most important resources of development, constituting a more important sector than in neighboring countries, with the condition to become competitive and harmoniously integrated in the agro-industrial sector.

Achieving high competitiveness and diversification of food products, with an emphasis on organic farming, access to European funds for new technologies and the development of economic activities which lead to increased incomes for farmers by building on national traditions and resources are essential for maintaining the national agriculture as a vector of economic development and of ensuring food for the Romanian population.

A permanent target for increasing the competitiveness in the agricultural section should be consisting in the extension of the cultures and agricultural products.

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