

CONSUMPTION-BASED ECONOMY. THE CASE OF ROMANIA IN THE LAST TWO DECADES

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Abstract

Romania has entered an era of consumption and its stimulation remains one of the solutions always initiated to support the national economy, especially given that exports are declining due to euro-market problems - the main market for Romanian products.

In this context, this paper aims to make a foray in time, starting with the issue of de-industrialization of Romania and subsequently with the transformation of Romanian economy into a tertiary one, accompanied by the simultaneous development of the economy based on consumption. In other words, the role of this paper is to present (using statistical data), the causes of de-industrialization of Romania, elements on the evolution of the tertiary industry, and some features and pitfalls of consumer-based economy. Also, the content of this article does not hesitate to emphasize the author's personal views about the studied phenomenon.

Key words: de-industrialization, consumption-based economy, commerce, retail market.

JEL Classification: E01, E21, E24, F16.

I. DE-INDUSTRIALISATION OF ROMANIA

Since the twentieth century, Romania has developed an industry that has performed especially during the communist regime. The role of industrialization was to transform Romania from a country with agrarian profile in a country with industrial profile.

The communist period was marked by a forced industrialization, which created even industrial tradition that characterized the country's centralized economy. The emphasis on heavy industry is reflected in the dynamics of industrial production. In the period between 1950-1989 the total national industrial output increased by 44 times, with an average annual rate of 10.2%. The growth rate was faster until 1980, after which it decreased to 3.3% per year between 1981-1989 (Transilvaniareporter.ro). In 1989 the number of industrial enterprises reached 2102 units, with 444 more than in 1965 (the year of the coming to power of Nicolae Ceaușescu) and almost double compared to 1945, demonstrating ample concerns for the country's industrial development (Barbieru, 2015). The number of employed population increased over the same period from 4.69 million to 8 million and the number of people employed in industry increased from 1.8 million (36%) to 3.74 million employees (Transilvaniareporter.ro).

After the fall of the communist regime, in the context of transition from a centralized economy to a market economy, the number of large factories began to decline gradually, leaving „free space” for other economic activities. Today, we can count on the fingers factories that still have activity.

One example is the case of Tractorul Brasov factory which had to produce a new tractor at every nine minutes, the number of employees rising in the heyday to 25,000 (TV Documentary, Digi24 Television from Romania). Immediately after the revolution, while reducing the workload and, following an extensive process of privatization, the number of employees decreased to approximately 1,900 in 2007. Today, in this place we can find the largest mall in Transylvania.

We can find similar examples in the case of the following factories: Rulmentul and Hidromecanica in Brașov, Hitrom Vaslui, Mecanica Vaslui, Movas Vaslui or former giant Sidex Galați, which had more than 30,000 employees until to privatization in 1999. Today, there are less than 8000 employees. Interesting to note is that before 1989, factories in Romania worth approx. 3.300 billion lei, or around 250 billion USD, accounting only fixed assets held by these companies (Ziarul Financiar, zf.ro).

The process started in 1990, by which Romania lost especially heavy industry is called de-industrialization. According to the Explanatory Dictionary of the Romanian Language, de-industrialization means a lower share of industry in the economy of a country. Tregenna (2009) defines de-industrialization as a decline in the industry through the declining share of the workforce employed in this sector. Rowthorn and Ramaswamy (1997) argues that the decreasing number of employees in industry reflects the decrease of the percentage of industry in the GDP.

Gradual closing and tightening of the activity of most of Romania's factories led to the loss of hundreds of thousands of jobs and, consequently, to the increase of depopulation of the country. Data provided by the National Statistics Institute shows that cities that have experienced the greatest declines in population are actually those that have faced steep decline of the industry.

Besides de-industrialization that Romania has faced in the last quarter century, another cause of population decline is migration. The estimates show that there are about 3 million romanians who left the country to work abroad, and statistics show that most of those who have emigrated come from the North-East region of the country. The situation is justified, given that GDP per capita in this region is the lowest in the country. A resident of the North-East region earns almost 3,900 euros per year, while a resident of Bucharest earns almost four times more, and a resident of West nearly twice more (Figure 1).

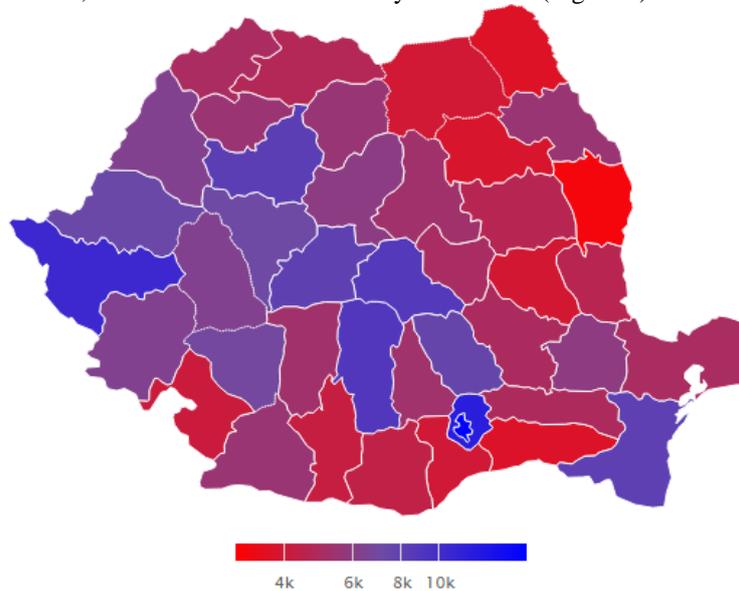


Figure 1 – GDP per capita by counties in 2008-2013

Source: National Statistics Institute, graphic by Economic Zoom (www.economiczoom.ro)

There are other causes of deindustrialisation, including:

- a decrease in the proportion that industrial products hold in foreign trade, especially in exports;
- a deficit of trade balance, resulting in a deterioration of the economy's capacity to support industrial production;
- orientation towards service sector – hypothesis launched by Rowthorn and Ramaswamy (1997) which states that a decrease in the proportion hold by the industry in the GDP is determined by an increase in services.

The lack of reindustrialization and creation of new jobs, capable of growing confidence in the future, will amplify the phenomenon of migration and the low birth rate. These two results, combined with an aging population, mean that in Romania, approximately 4.3 million employees to support through taxes and contributions, the payment of more than 5 million romanians.

II. TRANSITION TO THE TERTIARY SECTOR

The market economy is conceived as a highly dynamic system that is in a continuous process of restructuring determined by social, institutional, technical and economic changes. In the last twenty-three years there have been structural changes in the case of several economies, from the primary sector - agriculture and mining to the secondary sector - industry and, further, to the tertiary sector - services. Currently, we are witnessing worldwide transition to a new type of society characterized by specialists with different names such as:

- post-industrial society (Daniel Bell – Harvard);
- neo-industrial society (Jonathan Gershuny);
- third wave (Alvin Toffler);
- Information Society;
- knowledge society etc.

The evolution of the Romanian economy in the last ten years shows an emerging economy that went through a phase of overheating and now is recovering, with service sector still below the EU average, but a change of structure from branches with low added value such as agriculture to industries with high added value (Ziarul Financiar, zf.ro).

Romanian economy structure has changed and is influenced by a number of factors, starting from the transition from planned economy to market economy. Entry into the European Union has required institutional changes and the gradual adoption of European legislation and generated new opportunities in terms of trade. The entry in the EU has led to an increased competitiveness and several changes in social and technological

environment and also in the global financial system. An important element in the national economy adjust to the needs of our accession to the European Union is the development of services (Anghelache et al., 2012). In the absence of a synthetic indicator, capable of expressing the activity of this sector and to ensure comparability with other sectors or countries, we can use the contribution approach from different angles, respectively, the level of employment services in the global effort of economic development. In this context, it could be considered, on the one hand, the proportion of human resources and material funds employed in this sector and, on the other hand, its contribution to GDP creation.

In Figure 2 we can see the structure and the sectoral economic development of Romania for a period of time between 1990 and 2013, with estimates for the 2014. The graph takes into account the evolution of the Gross Domestic Product (GDP) and its structure, based on data provided by the Statistical Yearbooks of the National Institute of Statistics (INS). The evolution was deflated using the GDP deflator, so data are comparable between years.

We can see that, since 1990, Romania underwent an extensive process of de-industrialization, industry decreased from 46.7% in 1990 to only 26.6% in 1999. Since 2000, there is an increasing trend of industry and, at the level of 2013, industrial sector exceeded the level recorded in 1990 (48.5% in 2013). However, the growth trend of the industrial sector no longer rely so much on human resource, especially with the advent and development of new technologies. Therefore, the impact on the employed population is not as high as in the period before 1989.

Another trend is the development registered by service sector: from 40.1% in 1990 to 44.4% in 1999 (despite the recession of 1996-1999) and then to 71.8% in 2013 – a real growth in added value of 79.3% in 24 years ($179,3\% = 71,8\%/40,1\%$). It should be noted that all percentages in the figure below are fixed and are relative to the structure from base year 1999.

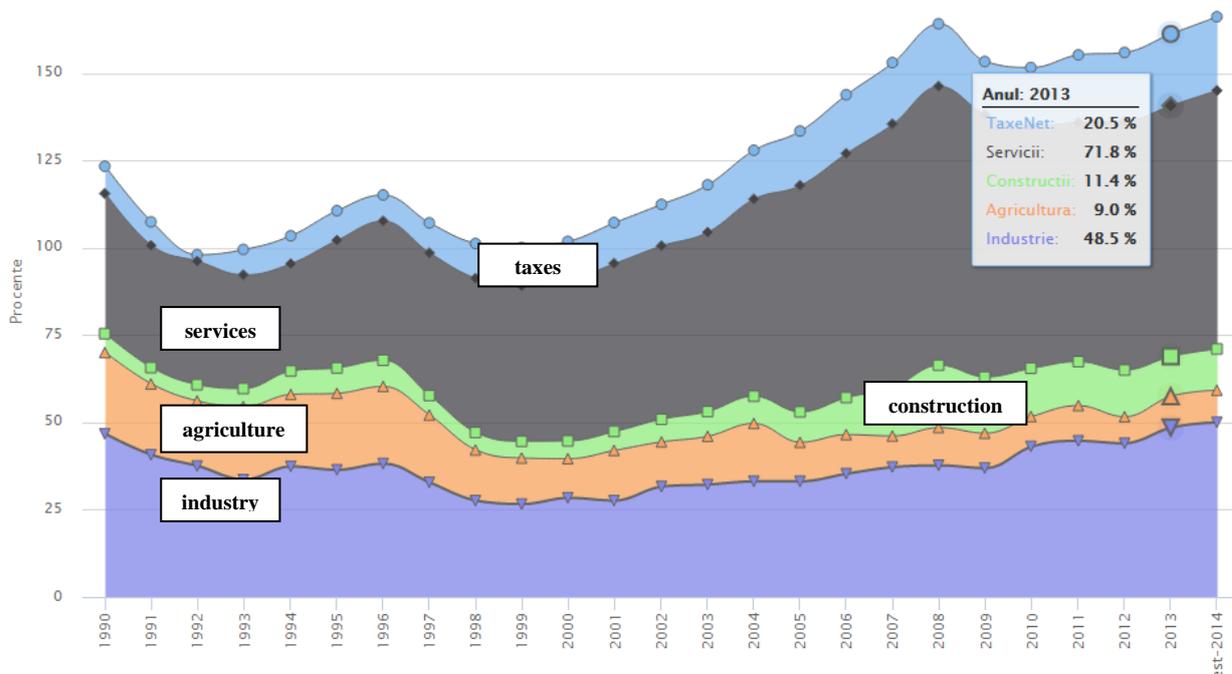


Figure 2 – Structure and evolution of Romania's GDP during 1990-2014

Source: National Institute of Statistics, graphic by Economic Zoom (www.economiczoom.ro)

We find that Romania follows the trend registered in the European Union, where the service sector plays a central role, reaching over 70% of EU GDP.

Some of the most expressive indicators characterizing the size and evolution of the service sector is the employed population (percentage of total) and its over time evolution. In the European Union two of three existing jobs and 9 of 10 new jobs are in services. Statistical data on the world economy shows that if a country has a higher level of development, the tertiary sector (services) has the most significant part of the total workforce. Thus, in developed countries, more than 2/3 of the working population is employed in service sector.

In Romania we find that during the centralized economy, only 26-27% of the workforce was engaged in service sector (Figura 3). Immediately after the fall of communism and return to the market economy, the share of labor in the industrial sector followed a descending trend, and since the years 1998-1999, the number of employees in the services sector overtook that of employees in the industry.

In Eastern European countries, which are in the process of transition, lower level of services is determined beyond the stage of economic development, by the difficulties faced by these countries and the pace of transition.

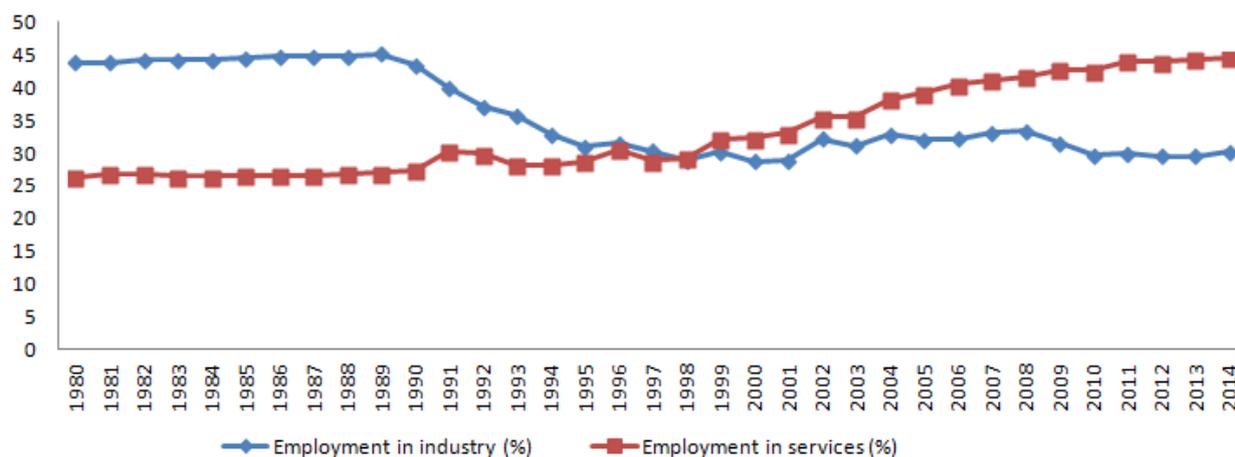


Figure 3 – The share of employment in industry and in service sector, 1980 – 2014

Source: author, based on data provided by the World Bank

Commerce is an important branch of the service sector, with a large number of employees, and according to this indicator, with a high share in the national economy. Commerce activity in Romania has grown enormously since the 1997-1998, when many retailers in the food and non-food segment have decided to enter the local market (Dabija and Băbuț, 2014). Retail is a field of commerce that includes all the functions of selling goods and services directly to the final consumer for use for personal purposes (Dobre-Baron, 2015).

Commerce was further intensified with the accession of Romania to the European Union in 2007, when the market was matured and consumers have begun to familiarize themselves with the format of new stores and with the concept of mall, hypermarket, supermarket (Biemans, Brencic and Malshe, 2012).

If we analyze the data published by the National Statistics Institute (INS) in monthly bulletins for 2015, we see that from the 4.463 million employees in the economy, a number of 713 000 work in commerce.

In Romania, services and commerce, which have the largest share in GDP, decreased their contribution during the crisis, with the contraction of domestic demand. Speculative bubble in real estate and consumption boom were "deflated" by the crisis and the effects were visible in the construction and commerce sector.

III. ROMANIA: FROM PRODUCER TO CONSUMER STATUS. ABOUT CONSUMPTION-BASED SOCIETY

According to the Explanatory Dictionary of the Romanian language, the consumer society means that specific situation in which "economic system creates consumer needs in sectors which are profitable" (dexonline.ro).

Jean Baudrillard (2008) says that in today's economy (the work was published in 1970) the emphasis is on consumption as a substitute for the need, especially in Western societies or the "civilized world". Today we can say that Romania joined the ranks of civilized countries, and what Jean Baudrillard said in 1970 came to be fully true for Romania of 2016. About need were formed misperceptions and attention was turned from its coverage to consumption. So we can talk increasingly more about a society that consumes instead of one that produces. In the author's view, consumption is leading in capitalist society, rather than production. Baudrillard's conclusion is that "this kind of consumerism leads to alienation. Although abundant and highly varied, the market no longer gives the sense of value".

Consumer society is not just about desire that directs man to those goods which give satisfaction, but also about a complex phenomenon in which producers control consumption behavior of individuals, their social needs and attitudes. Production is no longer correlated with consumer needs but it is adjusted to meet the needs and interests of the manufacturer. In consumption-based society, needs are just to increase consumption levels. In other words, consumption-based society creates false needs, it intervenes on the hierarchy of values, cultivating hedonism. We buy different goods in order to feel better and we become unhappy when the good purchased not long ago, turns out not to be "trendy". Baudrillard points out that the emphasis on possession of goods does not lead to anything other than the promotion of materialistic attitudes of individuals and educate them in the spirit consumption.

Romania has become such a consumer society. With the de-industrialization of the country, and later, after joining the European Union, the country's economic growth was articulated mainly around consumption. Bloomberg reports that in a survey conducted in 2015 among economists found that Romania is one of the largest consumers in the EU (Bloomberg.com). This phenomenon has been accentuated by fiscal relaxation policies adopted by the government, which stimulated consumption, the big players in the retail market in Romania reporting large increases in sales volume.

National Institute of Statistics reported a 8.9% increase in retail sales in 2015 compared to 2014 due to increased sales of food, beverages and tobacco (+19.1%), retail trade of automotive fuel in specialized stores (+5.8%) and sales of non-food products (+2.8%) (insse.ro).

The trend of transforming Romania into a major consumer market is very suggestive shown graphically in Figure 4. We can see that in the last five years (between January 2010 and December 2015), both retail trade of food and non-food goods have been on an upward trend.

According to data from the National Institute of Statistics for the first quarter of 2016, Romanians spent on food, drink and cigarettes by nearly 30% more than the same period of last year. One explanation could be the right moment for consumption due to reduction in VAT and increase of the minimum wage. Retail sales increased by 19% due to increased sales of food, beverages and tobacco (+27.9%), sales of non-food products (+16.1%) and retail trade of automotive fuel in specialized stores (+9.9%).

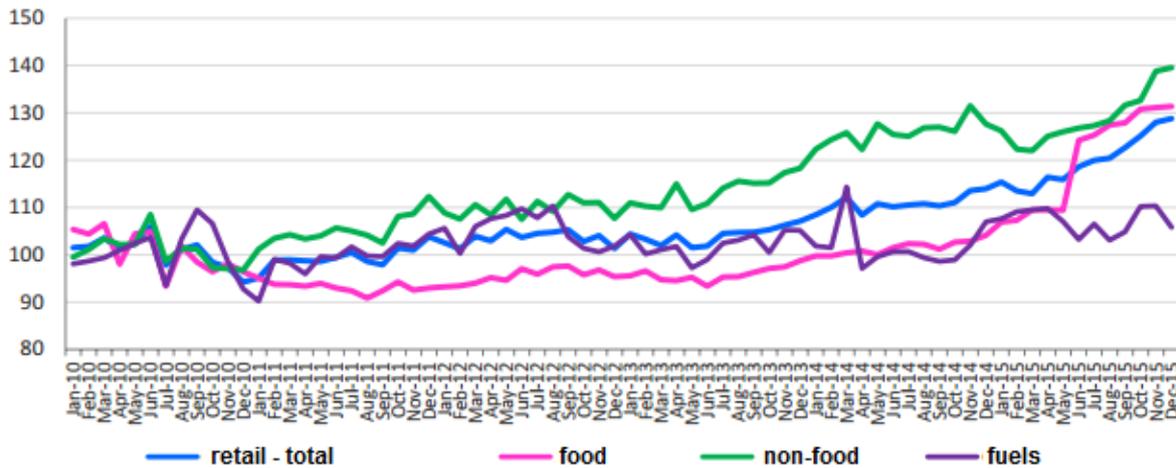


Figure 4 - Monthly evolution of turnover in retail trade, January 2010 - December 2015

Source: National Institute of Statistics

When referring to expenditures made by households in Romania, we can see that their main destinations are the consumption of food and non-food products, services and transfers to the public or private administration, to the social insurance budgets (in the form of taxes, fees and contributions), and coverage of needs related to household production (poultry and animal feed, work payment for the household production, seeds, veterinary services). The structure of expenditures includes investment expenditure, consisting of the purchase or construction of houses, purchase of lands, equipment required by the household production and shares. What is worth mentioning is that the main destination of household expenditure - consumption - held an average of 72.4% of total expenditure (Figure 5).

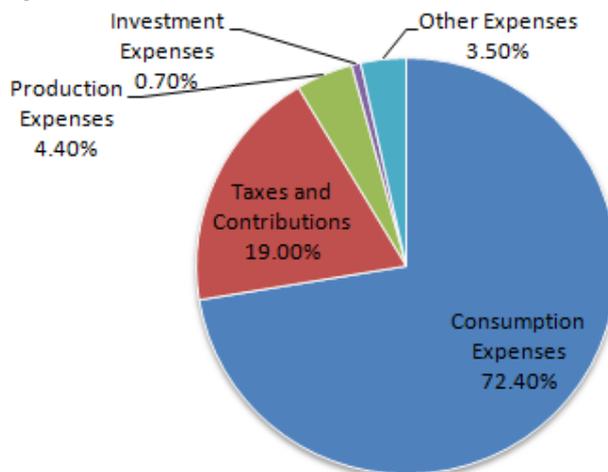


Figure 5 – Structure of total household expenditure in 2015

Source: Author’s adaptation according data from the National Institute of Statistics

According to the standard classification of consumer spending on destinations (COICOP), food and non-alcoholic beverages have, on average, 38.2% of household consumption in 2015, down from the previous year (2014) by 1.8%. Expenses related to housing represents 22.1% of consumer spending, the biggest part of them (17.9%) being absorbed by the utilities consumption necessary for the maintenance of the house, costs that are mandatory (water, electricity, thermal energy, natural gas and other fuels) (Figure 6).

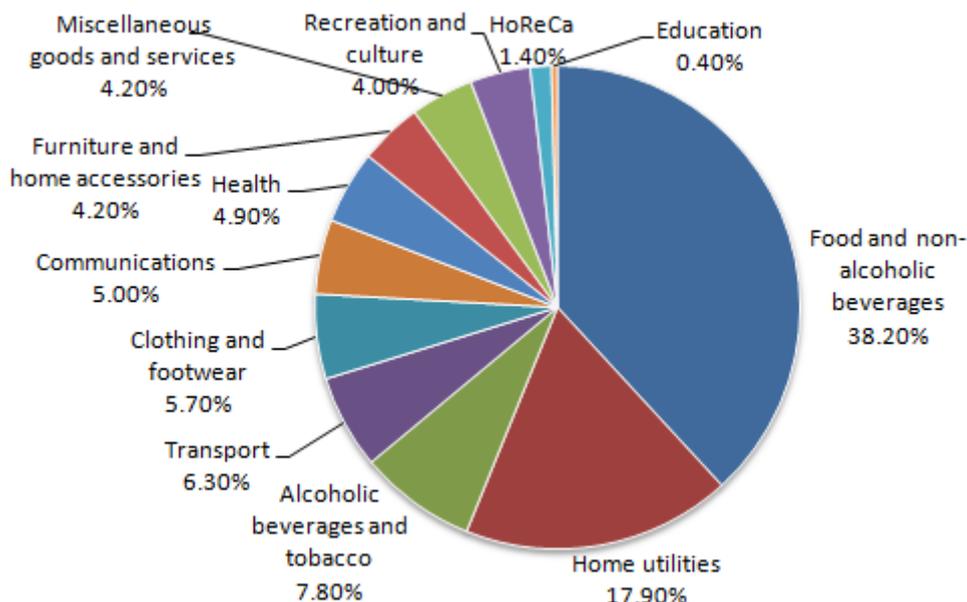


Figure 6 – Structure of total consumption expenditure, by destination, 2015

Source: Author’s adaptation according data from the National Institute of Statistics

Raluca Răschip, Consumer Goods & Retail Director GfK România, says that the Romanians were more relaxed with decreasing economic pressure. The first quarter of 2016 meant a new beginning for players in FMCG (Fast Moving Consumer Goods), with wage and purchasing power increases due to lower VAT on food and non-alcoholic drinks. Hypermarkets recorded the highest growth rate of all channels. Romanian modern retail reach a new record: 60% market share (data for the first quarter of 2016). The findings come from GfK Consumer Panel Services, which monitors household consumption for all categories of consumer goods, in 3000 households (gfk.com).

In Romania, the desire to purchase is at the maximum level since September 2008, according to the results of the GfK Consumer Climate Europe for the first quarter of 2016. Most probably, the government's decision to reduce VAT by 4 percentage points from 1 January 2016 has contributed to this result. GfK study results are based on a consumer survey conducted at the request of the European Commission in all EU countries. Almost 40,000 people from 28 countries are surveyed monthly. These people are representative of the adult population in the EU (retail-fmcg.ro).

It should be noted that over half of Romania's retail market is controlled by four major companies, which together hold 60% of the entire market, shows an analysis recently conducted by ICAP Romania, provider of integrated business solutions (icap.ro). The study traces the evolution of the most important 11 hypermarkets and supermarkets chains in Romania in the last three years. The general trend of the retail market is growing steadily from year to year. For example, in 2014 the total turnover of the 11 companies increased by 10%, to 34.6 billion lei. Meanwhile, retail remains a dynamic field in terms of employment. The number of employees of the companies analyzed increased by 33% from December 2012 to December 2014 (to 64.000 people) (retail-fmcg.ro).

The biggest player in the retail market remains Kaufland Romania, with a market share of 23%, followed by Carrefour Romania and Metro 13%, Auchan 11%, Selgros and Mega Image 8%, Rewe Romania 7%, Profi 5%, Romania Hypermarket (Cora) 5%, 4% Billa, Artima 3% (Figure 7). A similar analysis is conducted by Coca, Dobrea and Vasiliu (2013) and follows the over time evolution of performance of the main players on the Romanian retail market in the period between 2007 and 2011 (Coca, Dobrea and Vasiliu, 2013).

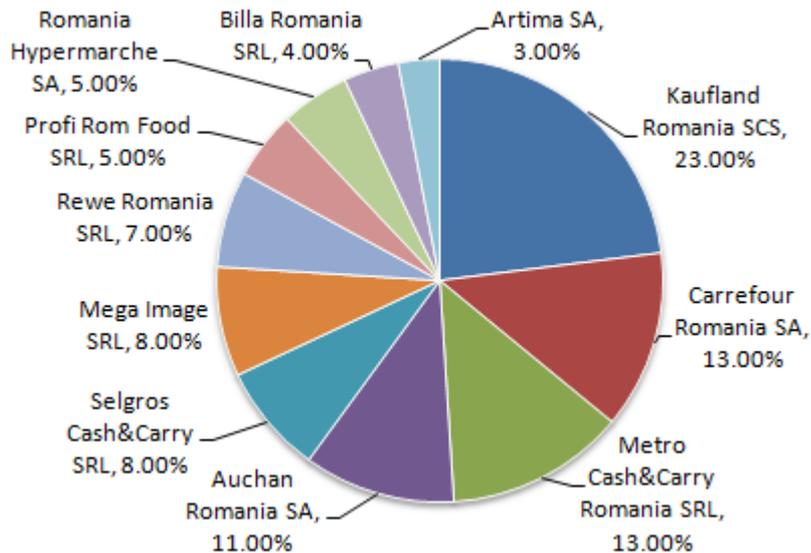


Figure 7 – The market share of the biggest players in the retail market in Romania, 2015

Source: Author’s adaptation according data from icap.ro

In recent years, Romania's economic growth was mainly based on consumption. Consumption stimulation has remained one of the proposed solutions to support the national economy, especially given that exports are declining due to euro-market problems - the main market for Romanian products. Data provided by CBRE, an important company on real estate market, will complete those stated above (Figure 8).

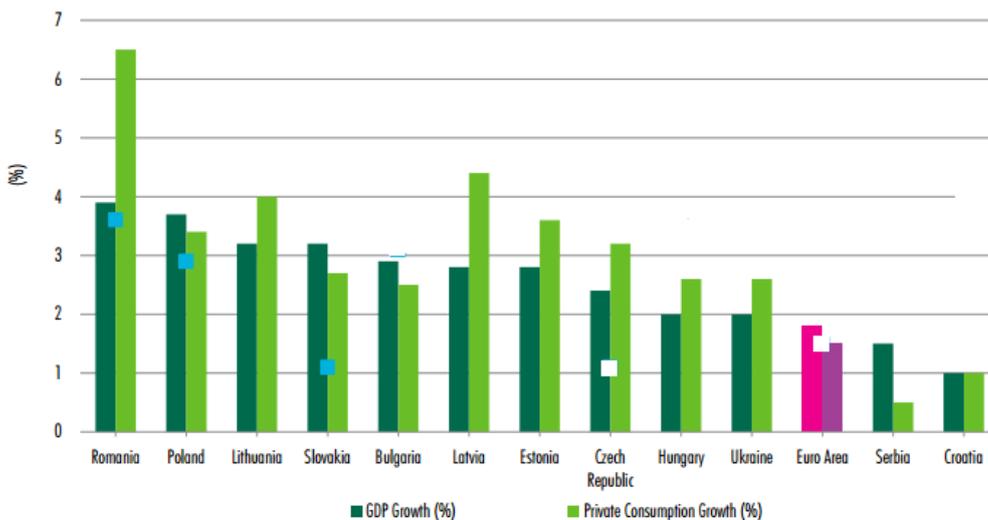


Figure 8 – GDP growth (%) compared with private consumption

Source: CBRE Research, <https://researchgateway.cbre.com/Layouts/GKCSearch/DownloadHelper.aspx>

As consumption has increased, imports grew at an accelerated pace, twice higher than that of exports, which inevitably can be translated into a trade deficit, as happened in the boom years before the economic crisis. A consumption-led growth can not be sustainable without structural adjustments and investments in the public sector. In other words, it is necessary to approach the phenomenon of economic growth not only through the quantitative side, but should be considered qualitative side, one that ensures sustainable economic growth.

Ionut Dumitru, Raiffeisen Bank chief economist, says that Romania needs growth in both senses of consumption and investment. Thus, consumption growth must be anchored in domestic supply, not anchored in imports (Ziarul Financiar, zf.ro). The explanation is simple: if Romania's domestic production capacity can not meet an increased consumer demand, then, obviously, the growth will be anchored in imports and, consequently, the external debt will grow. Moreover, money spent in stores does not necessarily create jobs in the country or a higher local production.

An economic growth based on consumption can cause a drop in the so-called average income trap (or middle income trap), a specific situation for countries where incomes per capita have advanced from a low level to a higher level and, therefore, induces a relaxation of the population and an attraction to consumption (Kharas and Kohli, 2011).

IV. CONCLUSIONS

After the fall of the communist regime in the context of transition from a centralized economy to a market economy, the number of large factories began to decline gradually, to leave space for other economic activities, a phenomenon known as de-industrialization.

It is clear that the structure of the Romanian economy has changed, influenced by a number of factors, starting from the transition from planned economy to market economy, European Union accession - which required institutional changes and the gradual adoption of European legislation and generated new opportunities in terms of commercial activities, sales markets, competitiveness, social changes and technological transformations.

A trend recorded after the transition to a market economy was that the progressive development of the tertiary sector. Romania followed the trend registered in the European Union, where the service sector plays a central role, reaching over 70% of GDP.

With the development of commerce, especially since 1997-1998 when many retailers in the food and non-food segment have decided to enter the local market, Romania has become a consumer society and the country's economic growth was mainly articulated around consumption.

Therefore, Romania should seek to enhance production in order to be able to ensure a sustainable economic growth, otherwise, consumption-based growth might prove to be a false model. It is true that recent wage increases lead to economic growth, but as we mentioned already, there are associated risks such as falling into the trap of average/middle income, or the deterioration of the trade balance.

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