

## RURAL DEVELOPMENT – A BASIC CONDITION FOR NARROWING REGIONAL DISPARITIES IN ROMANIA<sup>1</sup>

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**Biographical note.** Anca Dachin, PhD in economics, Full Professor in the Department of Economics and Economic Policies. The areas of interest are economics, economics of development, rural development, European integration. During the last five years she was author or co-author of 4 academic textbooks and workouts in Economics, co-author of 4 books in the field of sustainable development, European integration and Common Agricultural Policy, she published over 25 articles and participated in 7 research programmes.

### Abstract

Rural community development may be described as a territorial development approach. In Romania the territorial disparities have historical, cultural and economic roots. Also the industrialisation process in the period before 1989 and later the structural changes during the transition to market economy had a long run impact on the rural areas. The rural space covers over 87% of the territory and 45% of the population, these shares being significantly higher than in other EU countries. The high dependence of rural population on subsistence agriculture and the low level of income and living standards have made the regions dominated by rural areas less attractive. As a result, in the last decade, the emigration of the economically active population to urban areas and to EU countries has increased. The paper focuses on a multi-criteria analysis of rural-urban disparities in Romania and on the strategic role of multifunctional and sustainable rural development for the reduction of regional disparities and of labour force deficit.

**Key words:** regional disparities, rural/urban disparities, poverty, development strategies

**JEL classification:** O18, O15

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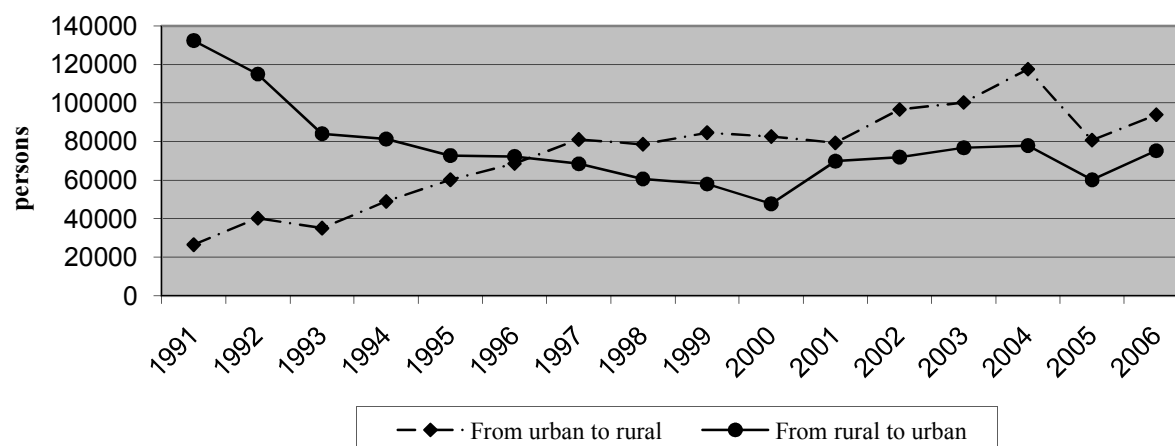
## **1. Introduction**

Regional disparities have many forms, which include differentials in income levels per capita, unemployment rates, productivity, consumption level and structures, quality of life, as well as in the demographic characteristics and the pattern of migration. The narrowing of regional disparities is a structural adjustment that needs the identification of the main regional problems. In Romania 45% of the population lives in the rural area, while the rural space, as it is defined by the territorial component and the main characteristics of land use and population density, covers over 87% of the national territory (NRDP, 2008, p.10). Considering this dimension and the economic characteristics of the rural area, which deviate very much from the average EU values, rural development is a major economic and social development issue. Since rural development may be described as a territorial development approach, it is strongly connected to regional development. The regional dimension has been neglected for many years in Romania and it became a component of the development strategy after 1995, when Romania began the preparations for the accession to the EU (Constantin, 2002, p.198). The paper presents a multi-criteria analysis of the rural area, relevant rural/urban development gaps and their role in shaping territorial disparities.

## **2. Regional labour force distribution and development disparities**

In Romania the territorial disparities have historical, cultural and economic roots. The industrialisation process in the period after the Second World War determined a long run trend of population transfer from rural to urban areas. After 1990, during the transition to market economy, the restructuring of employment was accompanied by poverty increase and also by a certain inverse trend, migration of urban population to the rural area (fig.1). The economic decline of many small and medium-sized urban centers generated negative social effects. Many people who lost their jobs used the alternative to move to the informal sector of the economy. The main survival strategy of people moving to villages was to produce food on their own land. The urban-rural population net flows in the last decade have not significantly changed the share of rural population, because migration is in both directions, but elderly domestic migrants replace progressively the younger population

**Fig.1: Internal urban-rural migration in Romania, 1990-2006**



According to the Nomenclature of Territorial Units for Statistics at second level (NUTS II), eight development regions have been identified in Romania, which have an average population of 2.8 million inhabitants. The unequal distribution of rural population by region is correlated with the development disparities by region (table 1).

**Table 1: Employment and income distribution in Romania, by region**

Development regions	Rural population 2006 %	Employment rate (age 15-64) 2006 %	Employment in agriculture 2006 %	GDP per capita 2005 PPS
<b>Romania</b>	<b>44.8</b>	<b>58.8</b>	<b>30.5</b>	<b>8100.0</b>
Region 1, North-East (NE)	56.4	60.1	47.7	5429.6
Region 2, South-East (SE)	44.6	56.4	32.5	6920.6
Region 3, South – Muntenia (S)	58.4	59.6	35.4	6526.5
Region 4, South-West Oltenia (SW)	52.4	60.1	46.4	6293.3
Region 5, West (W)	36.5	58.7	18.7	8916.7
Region 6, North-West (NW)	46.9	57.1	29.4	7542.0
Region 7, Center (C)	40.2	56.0	16.8	8066.3
Region 8, Bucharest-Ilfov	7.5	62.9	2.1	16760.1

Source: Economic and Social Regional References: Territorial Statistics 2008, National Institute of Statistics (NIS) Romania and Eurostat

In Romania, the ranking of the least developed regions is: Region 1 - North-East, Region 4 – South-West-Oltenia and Region 3 – South-Muntenia. These regions have a high degree of ruralization compared to the average level in Romania. In 2006, the three regions have covered together 54.2% of

the total rural population. They present a relative abundant endowment of land and low-skilled labour force.

The high number of workers released from industry after 1990 and the net migration to the rural area resulted in the increase of labour force employed in agriculture, hunting and fishery, which reached the peak of 42.7% of the total employment in 2000 in Romania. This process extended the subsistence economy. After 2000, the sustained economic growth created favourable conditions for the development of non-agricultural activities and determined the reduction of employment in agriculture to 30.5% in 2006. But this share is still much higher than the average of 6.4% in EU27, while the highest values in some Member States do not exceed 20% (in 2006, Bulgaria 20.6%, Poland 19.2%, Lithuania 12.4% and in 2005, Greece 14.4%) (European Commission, 2007). It is obvious that a decrease of 12 percentage points of employment in agriculture in only six years was possible because behind the acceptable level of employment rates (table 1) are the presence of hidden unemployment related to the subsistence agriculture.

Ageing of the labour force is another phenomenon in the rural area, where employment of people over 65 years was 23.4% in 2006, compared to only 2.2% in urban areas. Most of these old people work in agriculture, which is the dominant economic activity. Labour productivity of these persons is low, but the costs of a mass retirement cannot be sustained. In the least developed regions ageing is higher than the average: 34.5% of employment in agriculture represents persons over 55 years in the North-East, 35.8% in South-Muntenia and 38.5% in South-West –Oltenia.

Important educational disparities are also present. In the urban area there is a concentration of higher education level. The most relevant structural difference refers to the share of employed persons who have graduated the primary and secondary school or have not graduated school (table 2). However for the age group 15-55 years the structural differences are narrower, which shows a higher quality of the younger labour force and gives a better chance for further development.

All the development regions (in Romania have a GDP per capita lower than 75% of the average level in EU27. However within the country there are important differences, due to the excess employment in activities with low productivity in rural areas, concentrated in certain regions (table 1). Region 8 – Bucharest-Ilfov has the highest GDP per capita, especially due to its high value added activities and high education level of the population. This leads to a congestion process of the capital city.

**Table 2: Educational level of employed persons in Romania in 2006, by area of residence**

	Employed persons - total		Employed persons of age 15-55 years	
	Urban	Rural	Urban	Rural
Total (thou persons), of which (in %):	5115	4198	4721.1	3194.7
Tertiary education	22.1	2.9	21.6	3.7
Medium (high school, post high school, vocational)	69.9	51.7	71.2	62.1
Low (primary or secondary school or without graduated school)	8.0	45.4	7.2	34.2

Source: Calculations based on data from NIS, Romania

The regional unbalance of the population and labour force, as well as the gap regarding GDP per capita, productivity and attractivity for investment show that the historical regional unbalance between, on one side, the East and South, and on the other side, Central and Western part of the country, has been restored. After 1995 there has been a divergent regional development, since the dispersion of regional GDP per inhabitant increased from 12.8% in 1995 to 28.7% in 2000 and reached 31.9% in 2005 (Eurostat).

### 3. Rural-urban disparities regarding household income and expenditures

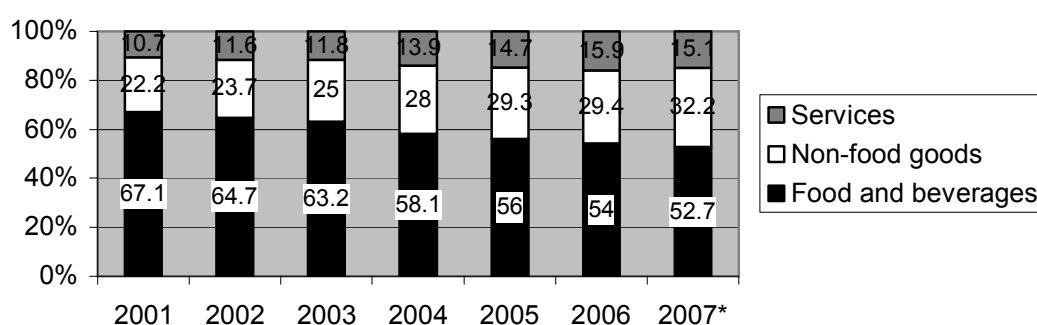
The economic and social status of the rural population is determined by strong structural unbalances in the agricultural sector, generated by excessive parcelling of land and by the large number of subsistence and semi-subsistence households (Zahiu, 2006, p.77). In the rural area almost all households supplement their income with the equivalent value of consumption of agricultural products from own resources. Agricultural production is for the majority of households a niche for survival and not a way to profit maximization. The result of this situation is the low competitiveness level of the agricultural production and consequently the average household income in rural areas is inferior to that received by households in urban areas.

People are discouraged by the low income received from agriculture and by the lack of alternative activities. However the initiative to develop viable commercial activities is rather incipient. The rural population, which is ageing and is less educated, has an inertial behaviour regarding entrepreneurial activities. Many of the self-employed in agriculture are members of subsistence households, while part of these households have a pensioner as head of household.

In the rural area, finding a workplace that allows to earn a wage is a very important way to increase the household's welfare. If at least one of the family members becomes an employee, the income level increases significantly. In many cases the chance to earn a salary will determine a person to give up self-employment (in both agricultural and non-agricultural activities). During the period 2001-2007 the share of wages in the average household income in the rural area increased from 20.1% to 27%. The social transfer payments also increased their share, especially pensions. More than half of the rural population over 18 years thinks that they will not be able to get more profit in agriculture and 85% of them do not intend to develop a commercial farm or own business in the next two years (Rural Barometer 2007).

The level of household consumption expenditures is close to the income level. The consumption pattern is relevant for the valuation of the living standard. In Romania more than half of the total consumption expenditures of the rural population are expenditures for food and beverages (fig.2). Total consumption expenditures include money spending for food and beverages and consumption from own production (self-consumption). The share of this component decreased in the rural area from 67.1% in 2001 to about 52.7% in 2007. This trend confirms the positive impact of high rates of economic growth during this period.

**Fig.2: Structure of the total consumption expenditures in the rural area, 2001-2007**



\*fourth quarter 2007

Source: Calculations based on data from the NIS, Romania

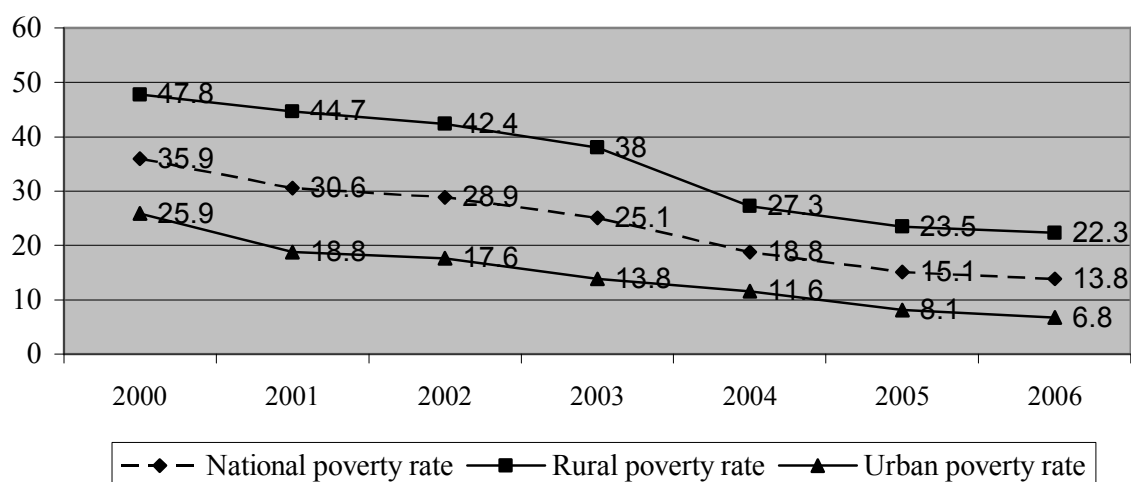
In connection to the consumption level and structure, a persistent problem in Romania is poverty. The poverty rate increased after 1996, reaching its peak in 2000. Economic growth has stabilized poverty. Moreover, according to a recent study, during the period 2000-2006 the cumulative average

consumption in Romania increased by 44%, while in the rural area it increased by 35% (Poverty Assessment, 2007, p.36). As a result, the absolute poverty has decreased strongly in both areas of residence (Fig.3).

The differences in employment rates and labour productivity create deep pockets of poverty and social exclusion. Based on the household survey data, there is significant regional and demographic disparity in living standards. More than 70 % of the poor are living in rural areas and the poverty risk of rural population is 3 times higher than the risk of urban population. Although the gap between urban and rural seemed to start narrowing during 2002-2004 (mainly due to increases in social protection benefits for farmers and good years for agriculture), beginning with 2005 the trend is in the opposite direction.

Poverty is concentrated especially in the North-East, South-East and South. In 2006, the poorest region of Romania (North-East) was over four times poorer than Bucharest. It is obvious that the majority of investment and value added are concentrated in industry and services, which are under-developed in the rural area. Consequently, considering the economic criteria of consumption expenditures, the key problem of poverty in Romania is rural poverty.

**Fig.3: Absolute poverty rates\* for urban/rural areas in Romania, 2000-2006**



\*Absolute poverty rate is calculated according the national poverty line, which includes a food component and an allowance for essential non-food goods and services

Source: Poverty Assessment (2007), IBRD, The World Bank, NIS Romania

Poverty is not just a problem of changes in the level of consumption expenditures. The „new poverty” presented in recent studies (Stănculescu and Berevoescu, 2004) is a deep and multi-dimensional poverty, which cannot be solved by economic growth. This type of poverty is associated with the weakening of family relations and social cohesion, social marginalization, concentration of groups at the territorial limit of the community, increase of the number of homeless people etc. In the rural areas however this type of poverty is not frequent. In communities with low degree of modernization the “traditional” poverty connected to income and consumption is dominant.

Despite all this general rural/urban data showing development gaps, both areas of residence in Romania are rather heterogeneous. In many cases a large village situated close to a developed urban centre or a state highway is more developed than a small town dependent on an industry in decline. In addition, the regional disparities are significant, no matter the area of residence. The economic decoupling of traditionally under-developed areas from the North-East and along the Danube in the South makes also the difference. The peripheral geographic position of these regions and within the regions of the villages close to the border in the East and South has a long-term influence on the development path.

#### **4. Interaction with the international environment**

After the enlargement of the European Union in 2004 and 2007, the regional disparities within EU27 have increased dramatically. The most recent data show that in 2005 the extreme regional values in terms of GDP per inhabitant are not comparable (table 3). It is also obvious that the most developed EU regions are around powerful urban centers, while the least developed are highly ruralised. To the 15 lowest positions belong six of the eight regions from Romania.

These huge income differentials are important drivers for the migration flows. In Romania the first important wave of emigration was in the transition period 1990-2008. After 2002 the negative net international migration increased again but did not reach the annual levels of the first wave. This second wave was stimulated by more freedom for labour mobility before the accession to the EU. Despite the general perception, the total number of population lost after 1990 by Romania as a negative net migration (considering the change of permanent residence) is not spectacular, since it does not exceed 1% of the total population.

High emigration flows are not likely to be sustainable in a longer term, since Romania expects a severe decline in population due to a natural population decrease. The main problem is not the level of

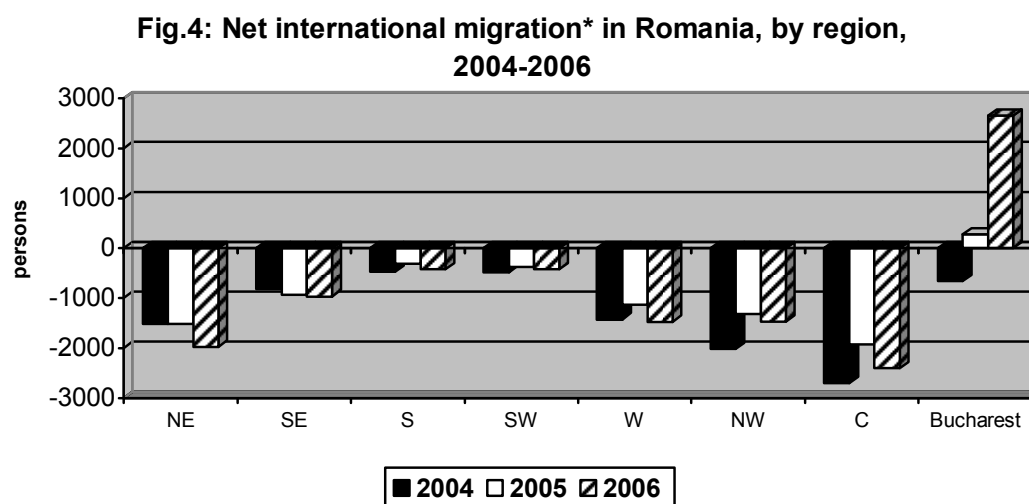


emigration flow, but the profile of the emigrants and the migration-sending region. In the period 2004-2006, when the emigration accelerated again, the emigrants were mainly leaving the regions Center, North-West and West, which are geographically closer to the EU countries and have traditional links to them (fig.4). In addition there is a growing emigration flow from the region North-East, which is experiencing an economic stagnation.

**Table 3: Regional GDP per inhabitant in the EU27 in 2005 (in PPS, EU27 = 100)**

The 15 highest			The 15 lowest		
1	Inner London (UK)	303	1	<b>Nord-Est (RO)</b>	<b>24</b>
2	Luxembourg (LU)	264	2	Severozapaden (BG)	27
3	Bruxelles-Cap. / Brussels Hfdst. (BE)	241	3	Yuzhen tsentralen (BG)	27
4	Hamburg (DE)	202	4	Severen tsentralen (BG)	28
5	Wien (AT)	178	5	<b>Sud-Vest Oltenia (RO)</b>	<b>28</b>
6	Île de France (FR)	173	6	<b>Sud-Muntenia (RO)</b>	<b>29</b>
7	Stockholm (SE)	172	7	Severoiztochen (BG)	31
8	Berkshire, Buckinghamshire & Oxfordshire (UK)	168	8	<b>Sud-Est (RO)</b>	31
9	Oberbayern (DE)	166	9	Yugoiztochen (BG)	33
10	Groningen (NL)	164	10	<b>Nord-Vest (RO)</b>	<b>34</b>
11	Hovedstaden (DK)	161	11	Lubelskie (PL)	35
12	12 Praha (CZ)	160	12	Podkarpackie (PL)	35
13	Utrecht (NL)	158	13	<b>Centru (RO)</b>	<b>36</b>
14	Southern & Eastern (IE)	158	14	Podlaskie (PL)	38
15	Darmstadt (DE)	158	15	Swietokrzyskie (PL)	38

Source: Eurostat, News Release 19/2008



\* Change of permanent residence

Source: Economic and Social Regional References: Territorial Statistics 2008, NIS, pg.76-79

The economic factor in the migration decision is the key factor. The region Bucharest-Ilfov is the only one which registered positive net international migration. This pole of development has attracted foreign population in a combination with foreign capital. From the total foreign direct investment stock of 34.5 billion euro at the end of 2006 in Romania, 64.3% (22.2 billion euro from the total) were concentrated in the region Bucharest-Ilfov, compared to only 2.7% in the region South-West and 1.2% in the region North-East.

Even if income differentials between Romania and developed countries exist, the linkages to the family and also the post-accession economic expectations are arguments for return migration. In fact there is a development of the circular migration, meaning that migrants return home for short periods before migrating again. In addition there is the temporary migration of labour force for a limited period every year (2-3 month). The migration of skilled labour force has generated an increasing labour force deficit in all regions.

## **5. Strategies for regional and rural development in Romania**

The regional policy relies on the principle that convergence in the level of development among different regions is not a self-sustaining process (Jovanović, 2005, p.612). The support for structural changes in Romania comply with the EU guidelines regarding regional and rural development and will be implemented during the period 2007-2013 by means of the National Rural Development Programme and the Regional Operational Programme. In addition there are several other operational programmes that will indirectly contribute to the fulfilment of the objectives of these two programmes.

The global objective set out by the Regional Operational Programme is the support of the regions that remained behind from the point of view of development. The main way to reach this objective is the differentiated allocation of the funds, in accordance with the general development level of the Regions, which is inversely proportional to the GDP/capita level. The priority axes show the high importance given to urban growth poles, followed by improvement of regional and local transport infrastructure, the social infrastructure of the regions, strengthening the regional and local business, environment, development of regional and local tourism (ROP).

The National Rural Development Programme 2007-2013 set priorities referring to improving the competitiveness of agricultural and forestry sector, the environment and the countryside, and

quality of life in rural areas and the diversification of the rural economy (NRDP). However the first pillar of the Common Agricultural Policy plays also a major role for restructuring agriculture.

These ambitious programmes of high complexity, mainly financed by the EU, aim at stimulating the development and the territorial cohesion. Referring to the least developed regions in Romania, it will be rather an effort to stop the potential growth of disparities. New activities and the revitalisation of traditional ones is possible in the medium-term only if we build on the existing expertise and specialisation. The support for economic and social convergence at national level will be efficient only if agriculture becomes a modern base for the rural economy. The decline of population, emigration and changing attitudes are uncontrollable factors. These programmes address people who have a certain knowledge regarding gathering information and establishing contacts to institutional structures, by having also the mentality of profit seeking and acceptance of responsibility and risk associated with a market oriented activity. The success in the long term will be visible if this process will apply in the first place as an economic project and only secondary as a social project. If the economic performance increases, the social projects for the improvement of the quality of life will be sustainable.

## 6. Conclusions

Considering the dimensions and the economic characteristics of the rural area, which deviate very much from the average EU values, rural development is a major economic and social development issue. The unequal distribution of rural population by region is correlated with the development disparities by region. Hidden unemployment related to the subsistence agriculture and ageing of labour force, as well as the concentration of low education in the least developed regions are factors that keep the GDP per capita low and cause poverty. Sustained economic growth after 2000 reduced poverty, but this improvement is fragile. Major development opportunities can arise from restructuring the agriculture and from revitalising the rural economy, while rural development could have a significant positive impact on the reduction of regional disparities. The post-accession development programmes give a chance to regional and rural development may prevent the mass emigration of skilled labour force, but the success in the long term will be visible if this process will apply in the first place as an economic project and only secondary as a social project. If the economic performance increases, the social projects for the improvement of the quality of life will be sustainable.

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