

## THE INFLUENCE OF GLOBALIZATION ON ECONOMIC GROWTH IN ROMANIA

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### **Abstract:**

*In this paper we propose to emphasize the structural changes involved by globalization process who generate a semnificative influence on the economic growth in Romania. Thus, on this background it is important to point out that even though the phenomenon of globalization represents many opportunities for Romanian economic growth, nevertheless, our country must regard at the same time all the systemic risks that are involved in this process. From this perspective, an important role has the activity of romanian small and medium sized enterprises that through its specific creates jobs and contributes substantially to growth in Romania. In terms of risks, for our country is necessary to develop effective mechanisms of self-defense against involved economic dangers. Also, should not be ignored that the quality of European Union member offers for Romania a strong base and in the same time the chance to benefit from the positive effects of the single market and the opportunities offered by the global market. In this framework, Romanian economy is not exempted from stiff competition in the field of trade in goods and services from countries like China or India who succeed through competition, to "break down trade barriers" of economic blocs. More than that, Romanian high tech industry can take advantage for themselves from the positive effects of globalization process by penetrating on third country markets.*

**Keywords:** globalization, competition, economic growth, small and medium sized enterprises

**Classification JEL:** F15, F60, F62, F63

### **1. Introduction**

In the recent economic theory and practice, the process of globalization is judiciously appreciated as being a dynamic progression of increased interdependences between national states, as a result of enlargement and deepening links between them and the various spheres of economic life, political, social and cultural. According to economic and financial approach globalization can be defined as the widening and strengthening links between national economies on the global market of goods, services and especially capital.

On this background, the term globalization is used in suggestive manner to play the ties links become closer between national economies through trade, financial flows and foreign direct investment (FDI) of multinational companies [2]. It is also important to note that globalization is a dynamic process of liberalization, openness and international integration on a wide range of markets from labor to goods and services to capital and technology [1].

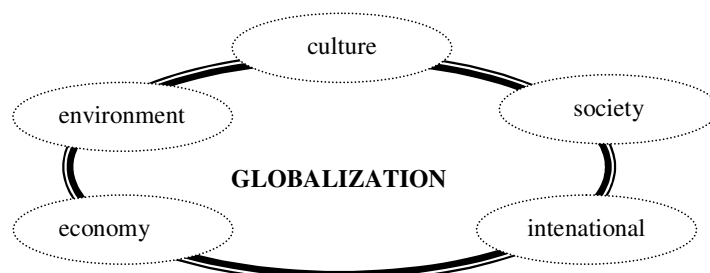
On the other hand, it is necessary to note that principal agents of globalization are great multinational corporations, both financial and non-financial established in most countries which are to increase trade and capital movement between regions and integrating markets on a global basis. In this context, we can add that globalization is an irreversible reality and any country who thoroughly prepares the future has to interfere with this process of increasing the connectivity and interdependence of the world's markets and businesses. In the current context we can observe that globalization has become an objective and implacable process which takes place in an often stunning pace that includes in its sphere almost all world member states [4].

### **2. The influence of globalization on small and medium-sized enterprises - as engine of economic growth**

In the contemporary context of economic globalization it is widely sustained the thesis according to which the activity of small and medium enterprises serves as the engine of economic growth. After the ascent from recent decades, it is estimated that Small and Medium-Sized enterprised is the main vector of economic progress both in

developed and developing countries. The processes of globalization have created favorable conditions for the expansion for Small and Medium business creating a new configuration of the world economy. Sustainable economic growth depends increasingly more on the ability national and regional economies to change and innovate. In other words, it is necessary that our country to make more efforts to create a favorable environment for small and medium sized enterprises in order to encourage innovation, research and development. In the figure below we shall present the sixth dimensions of globalization which inevitably influence the development of small and medium-sized enterprises.

Figure No 1. The main dimensions of globalization



Source: Figure elaborated by author

Given these considerations, the sustainability of SMEs is based on the following arguments:

- environment: by using the resources without endangering their future subsistence;
- economic: through the implementation of efficiency and growth parameters based on advanced technologies;
- social: by ensuring the implementation of equity, wealth and age;
- cultural through strategies that identify the identity, traditions, practices and techniques used by different communities national level
- international: by establishing partnerships at regional and international level.

In addition to previously arguments we can add that the activity of small and medium - sized enterprises determines the sustainable economic growth of national economy which means implementing advanced technologies, environment protection and saving resources without sacrificing future generations activity.

### 3. The impact of globalization on Romania's economic growth

The context of Romania economy has changed much in recent years and will continue to make especially now, under the economic globalization. Liberalization and globalization have brought a greater mobility of production factors, a fragmentary and higher specialization of the activities. International competitiveness is dynamic and competitive advantages are more volatile and less sustainable [6].

In the current process of globalization the economic performances of our country are appreciated by European Commission in the Country Report Romania 2015. Thus, European Commission considers that in the case of our country, after a sharp contraction during the crisis, growth recovered quickly and is back in positive territory since 2011. In these conditions, it is important to note that Romanian has registered an economic growth which reached at 2.9 % in 2014 and the expectations are positive for remaining robust. Also, European Commission emphasizes that the Unemployment remained at around 7 % while inflation recently decreased significantly. Further it is shown that the current-account deficit of more than 10 % in 2006-08 was largely corrected to around 1 % of GDP in 2013 on the back of strong exports and only temporarily reduced imports. This correction contributed to improving the (negative) net international investment position to 60 % of GDP. [8] In the economic theory it is widely sustained the thesis according to which the activity of small and medium enterprises serves as the engine of economic growth.

On this background, it is important to emphasize the main factors of globalization which influence obviously the Romanian economic reality factors such as: low costs of transport and policy liberalization within EU and in other third countries, have led to the intensification of trade and movements of capitals between countries. In the context of globalization, the challenges to the macroeconomic stability are much more numerous, being generated by the increase of opening economies, the liberalization and the enhancement of financial and products markets complexity.

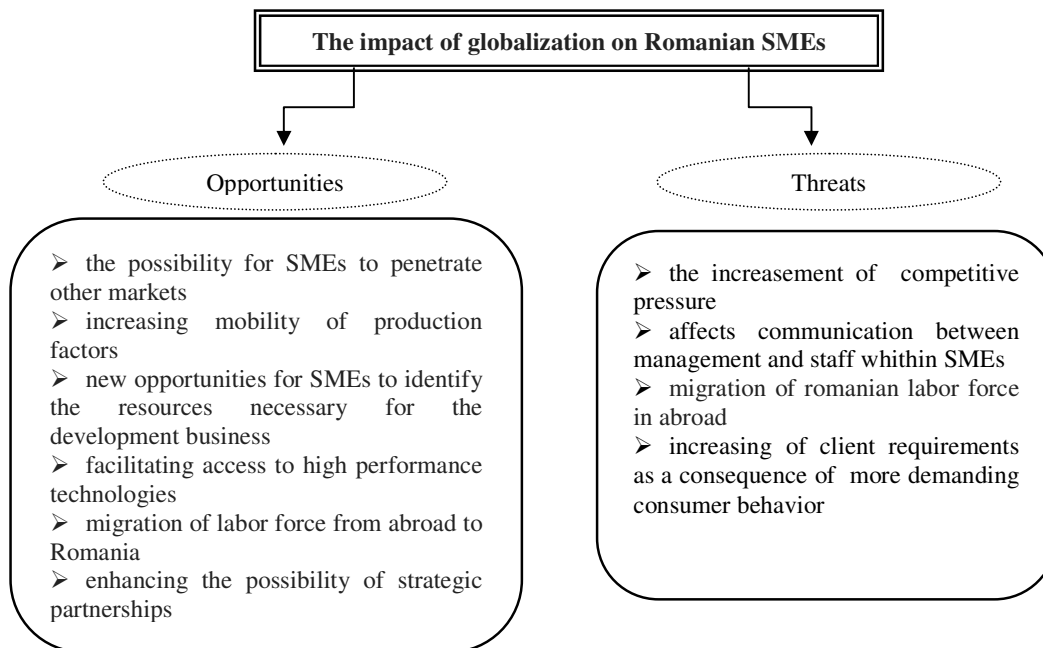
Although the phenomenon of globalization represents a source of great benefits and opportunities, implies that Romania economy has to face strong competition both from the low-cost economies like those of China and India, and from the innovative economies such as the United States. Also, globalization generates new challenges in preparing

strategies for development because globalization threatens to exacerbate environmental pollution and natural resource degradation. On the other side, the phenomenon of globalization represents obviously an advantage for rich nations of European Union however this process weakens Romanian economy which has to compete directly with the imports of developing countries from Asia. This threat mostly appears in the case of our country economy on the segment of export with textile, clothing and leather products, where there is a harsh competition exerted by emerging economies from the Asian continent.

At the same time, should be noted that full liberalization of imports from EU and in third countries from the perspective globalization could affect Romanian SMEs which are not yet sufficiently prepared to withstand increased competition in this context, because, among others, the level of their low productivity, their lack of managerial skills abilities, competitiveness the difficult access to financing, are not yet at the various rules and international standards of quality. [7]

In the figure below we shall present in a suggestive manner the major influence of globalization process on the business environment. Also, in this figure we propose to identify main opportunities and threats faced by Romanian small and medium-sized enterprises.

Figure no. 2. The influence of globalization on small and medium sized enterprises in Romania



Source: Figure elaborated by author

Also, it must not forget that, Romania is one of the most vulnerable countries of the European Union to globalization because she produces economic goods with low added value and has a poorly skilled labor force. Thus, European Commission considers that these two characteristics of the Romanian economy generate serious difficulties both in attracting investment and in creating and maintaining employment. The increase of economic integration at international level, phenomenon generally known called globalization offers many opportunities for Romanian enterprises which acquire an easier access to new expanding markets, to financial resources and technological resources.

In these conditions Romanian consumers can enjoy a wider variety of goods at lower prices, aspect that offers for our country the prospect of obtaining significant gains in terms of productivity growth and real wages. On this background, Romanian economy must be going through the process of adaptation that involves the transition of production factors as well as capital investment from the enterprises that can not defy the pressure of strong competition to the companies that know how to take advantage of economic globalization opportunities.

The globalization process creates several problems due to the slowness in the development of rules - this is not as fast as the spread of globalization processes. Therefore globalization processes involve a lot of conflicts and discrepancy, which generates contradictory expectations. It is assumed that globalization may not only follow different paths but those paths might even contradict each other [3]. Although it has been demonstrated that globalization is associated with the general phenomenon of unemployment, the adjustment of economic structures involves a variety

of costs which result from the transfer of resources between companies and activities. From this perspective we can say that if the markets of labour, capital and products are inflexible, than the structural adjustment becomes more expensive and more difficult to achieve phenomenon that is strongly felt, at least in the short term in certain sectors and regions where they are concentrated.

The effects of globalization for the Romanian economy can be both beneficial and devastating. Among the benefits of globalization for Romanian economy can be included: free movement of persons, goods, services, capital and scientific and technical knowledge, unrestricted participation of the circuit world values; the possibility of solving the problem of better conditions which transcend national borders (insufficient resources, international trade, international economic cooperation and financial assistance, pollution, security of critical infrastructure, poverty, underdevelopment, illiteracy, peace, including by defense against terrorism, migrations; natural disasters and emergencies, and human health, climate issues etc.) and not least cost reduction due to economies of scale achieved by mass production for export over extended areas. At the same time, the negative consequences, or presumed risks of globalization are not at all neglected. In the last 20 years, the globalization process has had negative consequences for Romanian economy like as: poverty, alienation of resources demographic decreases, migration [5].

Finally, we can note that, in the current period of post-EU accession, our country's economy remains deeply dependent on foreign capital investment for development, because domestic capital resources allocated in this direction have proved insufficient. Although it has the profile of a country which offers multiple economic opportunities, from tourism and agriculture to the oil and metallurgical industry, Romania can become attractive for foreign capital if provides for the foreign investments, a favorable internal institutional framework.

Thus, rapid movement of capital presumed by globalisation - in which companies lose their national identity – can become advantageous for Romania in conditions of high skilled labor force but cheap compared with the employment from developed countries. In addition, on future, some Romanian economic organizations can gradually begin to play a regional and international role in the global economic landscape. Transnational companies have a positive effect regarding the development of management, marketing, staff training techniques, in the improvement of infrastructure and dissemination technology in many fields. Also, the increase of FDI in Romania determines the competitiveness of Romanian economy, in terms of labor productivity growth.

#### **4. Concluding remarks**

Thus, on the globalization fund, a country like Romania - as an integral part of EU, for adjustment existing economic discrepancies with developed capitalist states will intensify efforts in the following lines of action: accelerating economic development and more efficient use of the production factors ; creating new structures of production to allow the manufacture of more competitive finished products, with higher value-added and quality of the European standards; developing new economics resulted from the big production; improving the standard of people's living; etc.

Referring to Romanian economy is important to note that in the context of economy globalization, our country participating more to the world exchange of material and spiritual values which generate profits in several intercorrelate plans which consist mainly in:

- opportunities increased exports as a result of broadening access Romanian companies on foreign markets;
- increase the efficiency of the Romanian economy, as a result of a better allocation of domestic resources;
- the potential for increased by a modern equipment, the advanced technology and know-how organizational; aspect which acquires a relevant and more for services, whose supply takes place frequently through FDI.

In consequence for Romania as well as for the other national states it is true that currently who do not enter in the globalization process is lost because in a global economy survives only the most powerful, effective and rapid decision – making.

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