



## PRODUCTION ACTIVITY - IMPORTANT RANK OF THE STATE ECONOMY

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### Abstract

*Production activity continues to have the most significant weight on gross domestic product growth within a state. In Romania, the industry has undergone several positive and negative developments. However, this activity creates the most jobs. The industry is at the basis of other economic sectors because production adds added value to the raw material and, as a consequence, it has its final product. Based on these considerations, we have proposed that in this paper we should deal with the evolution of the industry and the importance of the production activity in the economy of a country.*

**Keyword:** secondary sector, industry, production activity, SWOT analysis.

**JEL Classification:** M00

### I. Introduction

The secondary sector, also called the production sector, has a particular importance in the economy of a country, with the highest added value coming from production, not from other fields of activity. According to Antonescu & Popa (2013), "industry covers the activities of exploitation of natural resources and their transformation into means of production and consumer goods". Also, Anghelache. et al. (2018) state that "industrial production as primary energy resources are very important elements in ensuring the development of activity in this field". Although our country still has a lot of work to do to develop the way top European countries did, this sector has offered, offers and will continue to offer jobs. Economists say metallurgy is the "Cinderella" of the

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Romanian economy. For example, in 2017 industrial turnover grew by about +11.7% compared to 2016. At the same time, orders in the manufacturing sector also grew by + 11.5% in 2017 compared to the previous year. Making a comparison between 2017 and 2016 on large industrial groups, there is an increase as follows: in the energy industry of about + 22.5%, in the capital goods industry of about + 16.2%, in the intermediate goods of + 10.2%, in the durable goods industry + 8.2% and last but not least in the current use goods industry of +5.5%.

## **II. Industry from past to present**

Specialty literature has always “highlighted industry as the key sector of economic development, an idea that in many countries, including Romania, has obsessively dominated economic thinking for more than a century” (Chiutacu & Chivu, 2015: 209-210). Industry is seen as an indispensable condition for adding value through intelligent processing to the resources provided by nature and to harness the spirit of knowledge and creativity of human capital. This helps to achieve and continuously improve the know-how.

Arguments are always centered on “increasing the added value, the productivity of production factors, including labor productivity” (Chiutacu & Chivu, 2015: 210).

All of this is because, in addition to the important contribution to the development of other economies brought by activities such as transport, construction, education and scientific research, and no less important than all these, the industry has fulfilled its social function to provide jobs to a huge number of people, being a prerequisite for a better standard of living.

The economic development of states around the world has gone through a series of stages, ranging from the Stone Age, the Bronze Age and the Iron Age, to what is now called the Industrial Revolution.

History speaks of three such industrial revolutions, each of which is distinguished by the type of energy and the technologies used, which have evolved from the worker's physical effort to his mechanical, electrical, electro technical, chemical, biological and cybernetic effort.

Throughout the evolutionary course of human civilization, the last two centuries have been characterized by the theory of industrialization. After 1990, a new reality gave rise to the opposite term: deindustrialization.



The latest industrial revolutions experienced by humankind, particularly deindustrialization, have been marked by the emergence of new materials and new communication and data processing technologies.

The main driving force in the evolution of industry in the twentieth century and especially in the third stage is the production of metal, especially steel. Steel production and metalworking is the backbone of economic growth in developed countries. It was necessary to ensure the appropriate space and competitive framework for economic development that led to the establishment of the European Coal and Steel Community, which was based on steel and coal production.

The existence of steel production, along with the import and export of scrap iron, results from the inertia of the system, and the issue deserves wider debates to see to what extent such practices can be such economically and socially argued and how they coincide with the principles sustainable development. In 2013, for example, the export of scrap metal “exceeded domestic steel production by 117% in Bulgaria, 118.7% in Hungary, 65.2% in Romania, 63.8% in Slovenia, 62.5% in the Netherlands, 58.6% in the UK and 45.3% in Belgium” (Ciutacu & Chivu, 2015:214).

### **III. Positioning of production activity in the economy**

If we think of added value and at the level of employees, an important sector for our society and economy is production because it offers a high added value to G.D.P. (Gross Domestic Product) and also provides a large number of jobs at European and national level (Popa, 2015).

The manufacturing and industry sector known as the secondary sector, sometimes as the manufacturing sector, includes all branches of human activities that transform raw materials into products or goods. The secondary sector includes secondary processing of raw materials, food industry, textile industry and industry.

At the same time, other sectors of the economy are listed as follows:

- the primary sector (raw materials);
- the tertiary sector (service sector);
- quaternary sector (research, development).

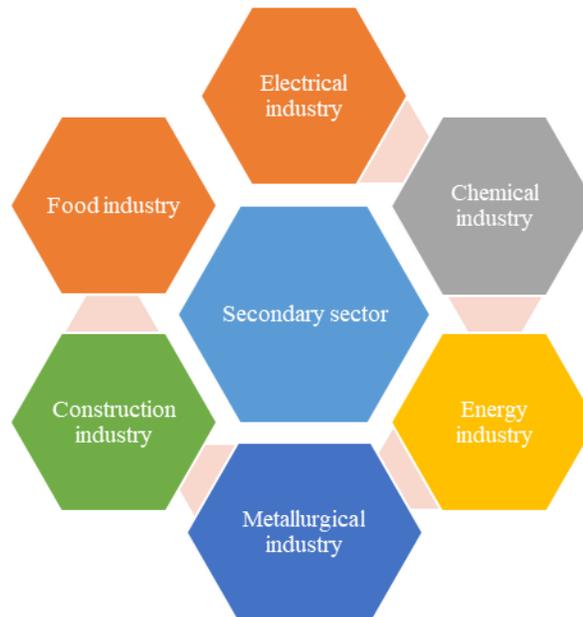
The secondary sector is often divided into heavy industry and light industry. The secondary sector forms a “substantial part of G.D.P., creates values (goods) and is the engine of economic growth; this is essential for all developed economies, although the



trend in most developed countries is predominant in the tertiary sector” (<https://managementmania.com/en/manufacturing-and-industry-secondary-sector>).

The basic list of the production and industry sector or the secondary sector is as follows (see Figure 1):

**Figure 1-** Main activities in the secondary sector



Source: adaptation after: <https://managementmania.com/en/manufacturing-and-industry-secondary-sector>, [accessed January 15, 2018]

We can say that production plays an important role both at European level and in the Romanian economy with important levels of contribution to G.D.P. and employment that surpass other individual sectors. The European Commission reports that this sector offers 20% of the jobs in Europe. The production sector includes 24 subsectors and, for example, food, base metals, computers, machinery and equipment, rubber and plastic products, machinery and equipment repairs and installations are manufactured.

As reported by the EU, the largest EU-28 sub-sectors in 2013 in terms of added value and employment were: food production, metal products manufacture, and machinery and equipment manufacturing. All 24 subsectors are very diverse.



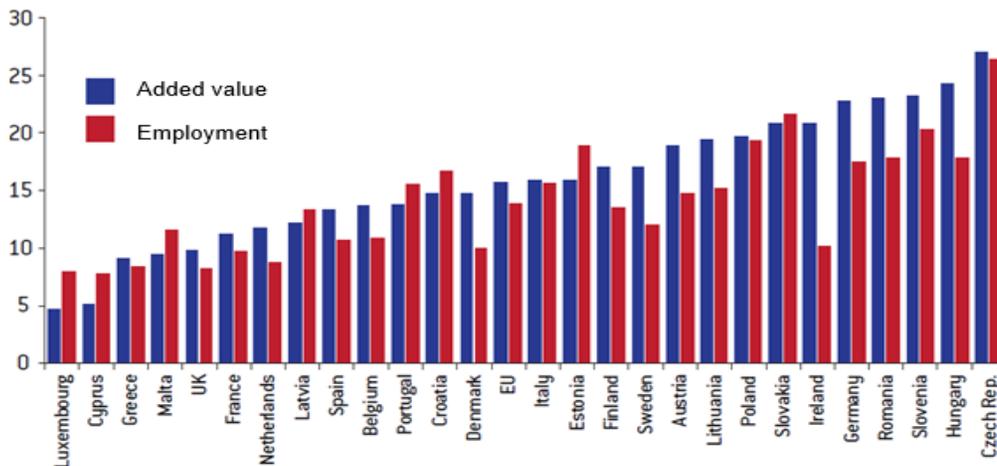
#### IV. Production activity at European and national level

##### IV.1 Production sector at European level

The added value share of production in European Union has been in a continuous decline for several years. The production sector is now about 15% of the total EU added value and 15% of the total employment. This decline in production activities is associated with a steady decline in demand for processed goods since the 1970s. The decline is, in part, a result of the fact that the relative fall in the price of manufactured goods was not offset by an increase in demand for these goods. This decline persists despite the fact that the European Commission set in 2012 a plan to reindustrialize Europe and increase the share in G.D.P. of the industry, from 2017 levels of about 16% to a maximum of 20% in 2020. Production will count for the EU economy, not because of the high volume of activities and jobs it involves, but because of the nature of the activities and jobs they represent.

Production contribution to global economic performance in EU varies significantly as it can be seen in the following figure:

**Figure 2-** Shares of added value in production and jobs in EU countries 2015 (%)



Source: Adaptation by [http://bruegel.org/wp-content/uploads/2017/09/Remaking\\_Europe\\_blueprint.pdf](http://bruegel.org/wp-content/uploads/2017/09/Remaking_Europe_blueprint.pdf), [accessed February 5, 2018]

According to Veugelers (2017) in “Central and Eastern Europe, Germany and Ireland, the added value from production is over 20% of total added value, while in



Luxembourg, Cyprus, Greece and the UK, added value is below 10%; production jobs have a higher share in Central and Eastern European countries, especially in Estonia and Croatia; in Ireland and, to a lesser extent, in the Nordic countries, the difference between employment quotas in production and added value is significant, indicating a higher concentration of production in the most productive activities in these countries” (Veugelers, 2017: 37).

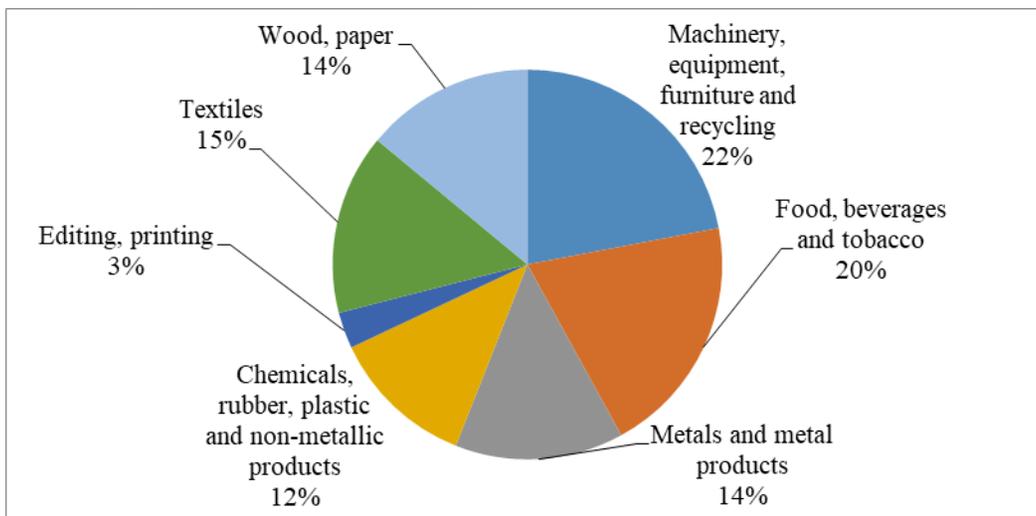
#### IV.2 Production sector at national level

In Romania, the production sector includes 102,072 active enterprises from small to very large. Of the total quantity of active enterprises in Romania, this sector accounts for 8.83% of the total.

In our country, most businesses have fewer than 50 employees and only 1,526 active entities with more than 250 employees nationwide have been registered.

If we have an overview of the production sector through a small analysis, we find that the subsectors of the machinery, equipment, furniture and recycling industry are the largest of all, with 22% of the enterprises in this sector in Romania, followed by food, beverages and tobacco with 20%, and the smallest industry is editing and printing with only 3% of total manufacturing enterprises, as you can see in figure 3 below.

**Figure 3-** Distribution of enterprises in the production sector in Romania, 2014



Source: <http://www.bvdinfo.com/en-gb/our-products/companyinformation/international-products/orbis>, [accessed January 18, 2018]



The sector benefits from prerequisites for future development, consisting of considerable modernization requirements of the economic branches and industrial sectors (agriculture, construction, food industry, etc.). The further development of the sector will, however, be driven by the market demand for the specific product, as well as the ability of companies to significantly improve the quality of their products (Russu, 2013).

Manufacturing is an important laboratory for innovation, positively stimulating the rest of the economy. Many companies operating in the manufacturing industry use the services as part of their business process. Connections between the secondary (industry) and tertiary (services) sectors are on the rise. Entities use product and sales development services. In terms of production, the use of services is motivated by increased productivity and cost reduction (Trascajméno & Aceleanu, 2015).

To show how important the manufacturing sector is, in particular, the manufacturing sector, at national level, I will continue to present a brief SWOT analysis of the manufacturing industry in Romania, which can be seen in Table 1 below:

**Table 1-** SWOT analysis of the manufacturing industry in Romania

Strengths	Weaknesses
<ul style="list-style-type: none"><li><input type="checkbox"/> Macroeconomic stability</li><li><input type="checkbox"/> Large labor force with low costs and an acceptable level of initial education</li><li><input type="checkbox"/> Natural resources</li><li><input type="checkbox"/> Energy resources</li><li><input type="checkbox"/> A large number of IT specialists</li></ul>	<ul style="list-style-type: none"><li><input type="checkbox"/> Low level of research, development and innovation and poor relationship with the economy</li><li><input type="checkbox"/> Underdeveloped entrepreneurial culture</li><li><input type="checkbox"/> Difficult access to finance and business information</li><li><input type="checkbox"/> Low education of consumers</li><li><input type="checkbox"/> Intensive energy</li><li><input type="checkbox"/> Outdated technologies / high production costs (other than labor)</li><li><input type="checkbox"/> Degraded infrastructure and insufficient / difficult access inside and outside the country</li><li><input type="checkbox"/> Inappropriate environmental management</li><li><input type="checkbox"/> Poor tourist infrastructure and inadequate marketing</li><li><input type="checkbox"/> Reduced adaptability of the workforce and low levels of continuous professional development</li><li><input type="checkbox"/> Significant share of the population affected by poverty and social exclusion</li></ul>



Table 1- Cont.

Opportunities	Threats
<input type="checkbox"/> Population size	<input type="checkbox"/> Emigration of higher education workers
<input type="checkbox"/> New sources of investment	<input type="checkbox"/> Increase exposure to competition on the global market
<input type="checkbox"/> Foreign direct investment	<input type="checkbox"/> Long periods of economic stagnation / decline at European and global level
<input type="checkbox"/> Full access to public sector contracts	<input type="checkbox"/> Migration of certain industrial sectors to lower external cost locations
<input type="checkbox"/> Market liberalization and modernization of business models	<input type="checkbox"/> It is perceived more and more as an economy focused on sectors with low added value
<input type="checkbox"/> Development of business infrastructure	<input type="checkbox"/> Climate change / environmental damage
<input type="checkbox"/> Modernization of the capital city and other key cities	
<input type="checkbox"/> Necessity / acceptance of the need for change	

Source: Hornianschi, N. (2015: 255)

All these strengths, weaknesses, opportunities and threats show that the production sector has great prospects in the future. Over time, Romania is trying to stabilize from an economic point of view.

A major threat to the industrial sector, but not only, is that higher-education workers have begun to immigrate to countries with better paid jobs. At the same time, another threat is that the companies in the manufacturing industry face each day with a new competitor with more satisfactory prices. In some cases, nature is a major factor in the business.

## V. Conclusion

Industry, irrespective of country, is the main sector in economic development. This underpins the development of service activities, but not only. At the same time, by value, by the goods obtained and by offering jobs, production offers the conditions for a good living. In the economy we also identify the primary, tertiary and quaternary sectors. Yet, of all, production contributes the most to the formation of gross domestic product and to the provision of jobs. At European level, production jobs are in large numbers in the eastern and central parts of the continent. At national level, production is the one that drives other areas. Without production, trade would be non-existent.

Therefore, the state should give this sector more attention and allow companies in the sector to benefit from tax. At the same time, it would not be bad if some regulations were to be implemented to help production.



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