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THE EU AGRICULTURAL SECTOR COMPETITIVENESS AND GOVERNMENT EFFECTIVENESS: THE LESSONS FOR SERBIA*

Konkurentnost agrarnog sektora i efektivnost upravljanja u EU: Pouke za Srbiju

Abstract

The analysis covers governance indicators and competitiveness in the EU. It clarifies the main concepts and terminology used in this area and provides an overview of the national level indicators. The government's role in agricultural sector competitiveness is of crucial importance, starting from creating the general business environment to the specific factors that influence agricultural sustainability. The analysis of the governance indicators and competitiveness in this paper was based on the pillar 6 of Global Competitiveness Index (GCI) and Worldwide Governance Indicators (WGI). The best performers in terms of competitiveness have experienced both good governance and policy implementation, while countries with the worst trade performance have faced significant problems in governance structures. However, relative change in governance structures also affects the competitive position of the EU countries. The new Member States are generally in less favourable position than the old Member States. This fact calls for better government performance in order to develop competitive agricultural sector both within the EU market and worldwide.

Key words: *agriculture, CAP, competitiveness, governance indicators*

Sažetak

Analiza je usmerena na konkurentnost i indikatore upravljanja u EU. Objašnjeni su osnovni koncepti i terminologija korišćeni u ovoj oblasti istraživanja, pri čemu je dat prikaz indikatora na nacionalnom nivou. Uloga vlade je od ključnog značaja za konkurentnost agrarnog sektora, počev od generalnih uslova poslovanja do specifičnih faktora koji utiču na agrarnu održivost. Analize indikatora upravljanja i konkurentnosti u ovom radu bazirane su na odeljku 6 Globalnog indeksa konkurentnosti (GCI) i Opštim indikatorima upravljanja (WGI). Zemlje sa najboljim performansama u domenu konkurentnosti se karakterišu i dobrim upravljanjem i vođenjem politike, dok zemlje sa lošim iskustvima u ovom domenu imaju značajne strukturne probleme upravljanja. Ipak, relativne promene u upravljanju takođe utiču na konkurentnost evropskih zemalja. Nove zemlje članice su generalno u lošijoj poziciji od starih zemalja članica. Ova činjenica upućuje na potrebu unapređenja performansi upravljanja u cilju podizanja nivoa konkurentnosti agrarnog sektora, kako unutar evropskog, tako i na svetskom tržištu.

Ključne reči: *poljoprivreda, ZAP, konkurentnost, indikatori upravljanja*

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Introduction

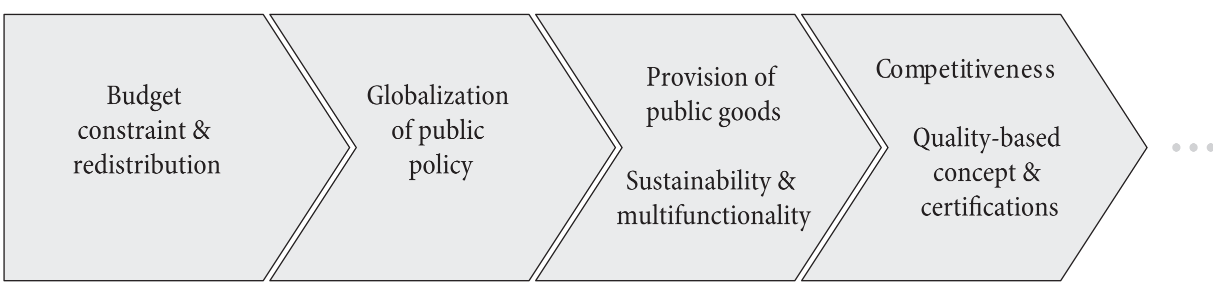
If we observe the period 2007-2011, the EU countries recorded negative relative change in world market share within fresh food sector. The changes are mainly derived from a negative initial effect of geographical specialisation. However, the overall negative relative change in global market share is less distinct in case of the most developed countries (e.g. the Netherlands and Germany), and it is alleviated by positive competitiveness effect. The EU exporters of processed food also dominate the world market with more than 30% in the observed period. However, this group of processed food exporters recorded the decrease of their share in the world market (from 33.2% in 2007 to 30.2% in 2011). The situation calls for redefinition of measures directed toward improving competitiveness within the Common Agricultural Policy.

The Common Agricultural Policy (CAP) is oriented toward the EU 2020 Strategy goals. The policy supports the creation of smart, sustainable and inclusive growth of the EU agricultural sector. Consequently, it includes the negotiation on further reduction in tariffs and liberalization of the agricultural markets, as well as different aspects related to food security and rural prosperity. All things considered, the CAP measures significantly contribute to the sustainability of the farming sector, faced with the challenges of climate change and natural conservation. Thus, the frame for regulation of an increasingly polarised agricultural industry is set – different measures related to post-productivism and rural development are being defined [16].

The bimodal frame has emerged from constant reforms of the CAP. The policy has always been adapted to respond to the contemporary challenges. The reforms are driven both by the changing role of budgetary politics and globalisation of public policy (Figure 1). *Daugbjerg* and *Swinbank* provide three potential explanations of past reforms of the CAP: a budget constraint, pressure from General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) negotiations or commitments, and a paradigm shift emphasising agriculture's provision of public goods [2]. The first is related to changing society commitment to support agricultural producers, while the latter two appeared as the consequences of globalization. However, the first significant change in the CAP was caused both by a budget constraint and pressure from globalization (The MacSharry reform package from 1992). In the literature Agenda 2000 was treated as the reform package further oriented toward the EU enlargement. The 2003 Fischler reform made agricultural sector support more market-oriented. The reform of the CAP in 2007 (the CAP Health check) was initiated as a response to changing global environment under the conditions of world economic crisis as well as budgetary constraint.

Starting from the CAP reforms and experiences, the drivers of policy change are obviously divided into two groups. The first group is related to the internal factors (the EU market – budget constraint and redistribution). The factors from the first group are provoked by the fact that inefficient policies persist when consumers and taxpayers are rationally ignorant due to a rather marginal impact of policies upon them. The second group of factors is essentially external (seen as a result of the WTO multilateral negotiations). This group of factors is connected with the restructuring of power relations with the emergence of new supranational centres of political authority. As a result, both competitiveness and sustainability become the key words commonly used to describe the EU agricultural sector. Having in mind the CAP policy orientation, the governance structures and government effectiveness

Figure 1: The CAP reform drivers in the postproductivism era



play an important role in overall improvement of the agricultural sector competitiveness.

The EU support to the agricultural producers has shown a steady and substantial decline starting from the 1980s. This was in large part due to successive CAP reforms. The similar results are achieved by the market price support analysis. However, agricultural prices and exchange rates may also have an impact on estimated results. The analysis shows that the reduction in direct payments is overcome by sophisticated forms of institutional support aimed at promotion of different quality schemes and value added products (PGO, PGI, TSG, Organic, Non-GMO, etc.). The changes were driven by growing importance of complementary food production dimensions – social, environmental, health and ethical.

Research methods and data

The Governance Indicators (GI) address the economic performance and measurement of government effectiveness. The World Bank defines GI as the ways public officials and public institutions acquire and exercise authority to provide public goods and services including public services, infrastructure, and a sound investment climate. In the broad literature, the governance is treated as the capacity of the government to formulate and implement sound policies [14]. The UNDP uses deeper definition that includes interactions within and among the state, civil society and private sector. The common denominator of different approaches is the state ability to serve the citizens.

In this report we use the Worldwide Governance Indicators (WGI) from the World Competitiveness Yearbook (WCY), annually published by Institute for Management Development (IMD). The WCY methodology is based on over 300 criteria. The national competitiveness is explained by four groups of indicators: economic performance, government efficiency, business efficiency and infrastructure. IMD indicator of competitiveness is based on hard data statistics (2/3) and a business executive opinion survey (1/3). This World Bank's report gives a list of aggregate and individual governance indicators over the period 1996-2011, for six different dimensions of governance: 1. Voice and accountability; 2. Political stability and absence of violence; 3. Government effectiveness; 4. Regulatory quality; 5. Rule of law; 6. Control of corruption. In this paper we cover only one of them – *government effectiveness*.

The correlation between World Economic Forum (WEF) and IMD competitiveness indicators is significant. WEF annually carries out respective computations of the competitiveness index by different indicators. Global Competitiveness Report focuses on economic welfare and increasing standards of living while making computations and rankings of the countries. The 116 lowest level variables are grouped into 12 pillars. These 12 pillars are the sources of national competitiveness which make difference between factor-driven economies, efficiency-driven economies and innovation-driven economies. In order to access agricultural policy effectiveness we use sub-indicators of the Global Competitiveness Index (GCI) – sub index 6 and its components (6.08 – agricultural policy cost, 6.09 – prevalence of trade barriers, 6.10 – trade tariffs).

The research goal is both to map the role of the governance structures in the EU agricultural sector competitiveness and to set the priorities aiming at improvement of business conditions related to the Serbian agricultural sector competitiveness during the EU accession.

Governance indicators: EU perspective

The overall business environment

Doing Business Report is a source of calculating the national competitiveness. Ease of doing business indicator is derived from eleven, ten, or nine areas of business regulation, depending on the year of reporting. The competitiveness evaluation is defined in terms of how difficult or easy is to run a business when complying with the national regulations. Consequently, ease of doing business addresses only the availability of regulatory environment for business.

The number of observed economies has increased from 2004 when the first report was generated. The last edition has covered a number of 185 economies. This publication is designed precisely to evaluate the efficiency of the reforms of business regulations at the country level. The number of undertaken reforms all over the world in the last ten years reached nearly 2,000. Therefore, the

Report has exposed the list of challenges and has identified examples of many countries having a positive experience after implementation of reforms. The list of lessons they have learned during the reform process, as well as warnings of vulnerabilities requiring business regulation reform, could be used by other countries.

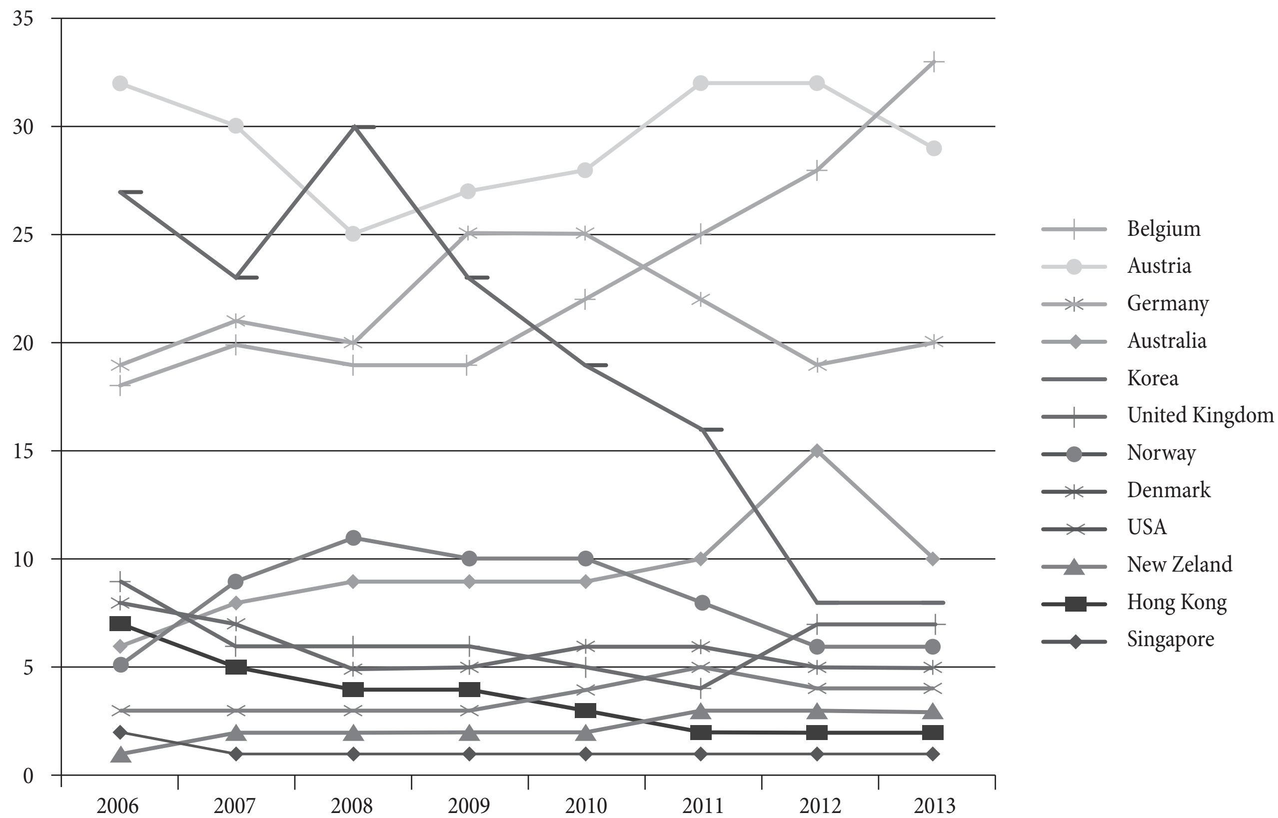
The EU members are most represented on the list of top twenty countries. Especially high rankings are achieved by EU old member countries (EU OMS) from the group EU-15. Except EU countries, high rankings are evident for Australia and New Zealand, Hong Kong, USA, Canada, Korea, Malaysia. Also, EFTA countries achieved high rankings, especially Norway and Iceland. After intensive reforming processes, some developing countries, for example, Georgia, have achieved high rankings, too. On the other hand, BRIC countries (Brazil, Russia, India and China) and Argentina are ranked at the very low level, between 91st and 132nd place.

Among EU countries, the best performers in 2013 are traditionally Nordic countries — Denmark at the fifth place and Finland at the eleventh place. Other EU countries with high rankings are United Kingdom at the seventh place, Ireland at the fifteenth place and Germany at the twentieth place.

Comparing the list from 2004 to 2013, the same group of countries traditionally keep the track without significant change in positioning. Denmark, as the best performer from the EU-15, has improved its position from the twelfth place in 2005 to the fifth place in 2012 and 2013. United Kingdom in the same period has retained the seventh place. Finland has improved its fourteenth place from 2005 to the eleventh place in 2012 and 2013. After an excellent start in 2005 at the ninth place, Sweden had a fall to the eighteenth place in 2010. After that, a period of improvement has come with the thirteenth place in 2013. In 2013, Ireland is at the same, fifteenth place, as in 2005. Germany is also highly ranked at the twentieth place in 2013, as in many other previous years.

Among EU NMS, very high ranking belongs to Estonia at the 21st, Latvia at the 25th and Lithuania at the

Figure 2: Rankings on the ease of doing business 2006-2013 – top countries[1]



Source: [3], [4], [5], [6], [7, p. 6], [8, p. 6], [9], [10, p. 4], [11, p. 6], [12]

1 In order to provide a better visibility, we have used data for top 10 countries, excepting Georgia, and for some other EU countries: Germany, Austria, Belgium.

27th place. Other countries do not have so high rankings and they have recorded great variations of their rankings during last decade. For example, Romania was at the 47th place in 2009 but only a few years after, in 2013, Romania has fallen to the 72nd place. Czech Republic has lost its good position from 2005 at the 41st place. Its position in 2009 and 2010 at the 75th and 74th place was much lower. Some improvements were made in 2011 when Czech Republic took the 63rd place.

Government effectiveness

The good governance is a key factor in achieving economic growth and further development. Monitoring and evaluation of the quality of governance through time and within individual economies is supported by Worldwide Governance Indicators (WGI). The number of observed countries is 215, which gives to the report great comprehensiveness. These aggregate indicators combine the views of enterprise, citizen and expert survey respondents from developed and developing countries on different aspects important for the evaluation of government in each country. One of these six given indicators, i.e. *government effectiveness*, gives valuable insight into the effectiveness of a government. It ranges from -2.5, meaning a weak role of government, to 2.5, meaning strong government. Government effectiveness measures the quality of the civil service and the degree of its independence from the political pressures. Also, it measures the progress in policy implementation by the government and the credibility of the government. A list of variables creating this measure is very heterogeneous: quality of bureaucracy, infrastructure, satisfaction with public transportation system, satisfaction with roads and highways and with the education system. For instance, the quality of bureaucracy is important from the aspect of quick decision-making considered by foreign investors.

Based on the data presented in Table 1 we can conclude that the level of government effectiveness is remarkably high in the case of EU-15 countries. The best performers are Nordics, especially Finland with the level of 2.27 in 2012, Denmark with the level of 1.97, and Sweden with the level of 1.94. Finland is the only one from the EU countries with the level above 2. Some old member countries like Portugal, Spain and Greece also have obtained low levels — Portugal 1.03, Spain 1.11 and especially Greece with the level of 0.31 in 2012. New member countries of the EU (EU 2004 and EU 2007) are barely attaining the level close to 1. Some of them, like Romania, even had a level with a negative sign (-0.31).

Agricultural policy costs, prevalence of trade barriers and tariffs in the EU

GCI Pillar 6 measures market efficiency. Countries with efficient goods markets are well positioned to produce the right mix of products and services given their particular supply-and-demand conditions, as well as to ensure that these goods can be most effectively traded in the economy. This pillar is measured by 16 components related to competitive advantages (8 components: extent and effect of taxation, total tax rate, % profit, number of procedures to start a business, number of days to start a business, prevalence of trade barriers, trade tariffs, % duty, burden of customs procedures, imports as a percentage

Table 1: Government effectiveness in the EU countries

Country / Estimate	2007	2008	2009	2010	2011	2012	Country / Estimate	2007	2008	2009	2010	2011	2012
Austria	1.87	1.77	1.67	1.84	1.61	1.56	Latvia	0.49	0.56	0.63	0.72	0.71	0.83
Belgium	1.61	1.38	1.59	1.58	1.66	1.59	Lithuania	0.71	0.62	0.70	0.76	0.72	0.83
Bulgaria	0.00	-0.05	0.16	0.11	0.11	0.14	Malta	1.22	1.29	1.17	1.20	1.21	1.24
Cyprus	1.43	1.52	1.43	1.53	1.56	1.38	Poland	0.40	0.48	0.52	0.64	0.62	0.66
Czech Republic	0.90	1.01	0.89	0.91	0.93	0.92	Portugal	0.90	1.08	1.16	1.02	0.96	1.03
Denmark	2.36	2.24	2.23	2.09	2.11	1.97	Romania	0.32	0.32	0.36	0.25	0.31	0.31
Finland	1.97	2.04	2.24	2.25	2.26	2.21	Slovak Republic	0.74	0.87	0.86	0.83	0.83	0.83
France	1.48	1.58	1.49	1.45	1.37	1.33	Slovenia	0.94	1.19	1.16	1.03	0.99	1.02
Germany	1.63	1.52	1.59	1.57	1.55	1.57	Spain	1.00	0.92	0.93	0.99	1.03	1.11
Greece	0.57	0.59	0.61	0.55	0.50	0.31	Sweden	2.02	1.94	2.05	2.01	1.97	1.94
Iceland	1.78	1.81	1.65	1.59	1.58	1.49	United Kingdom	1.66	1.64	1.50	1.56	1.55	1.53

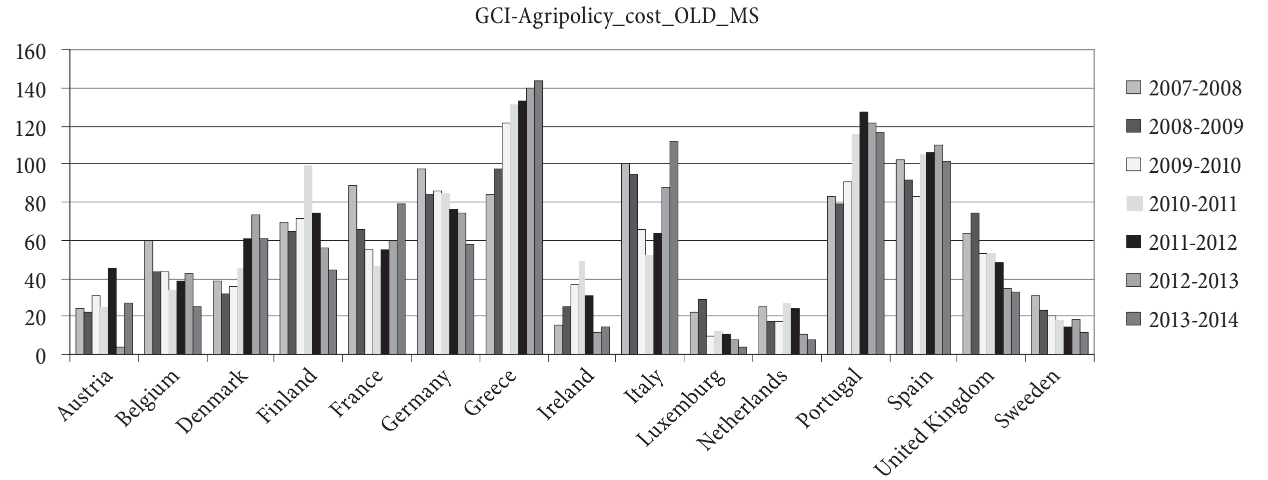
Source: [13]

of GDP) and competitive disadvantages (extent of market dominance, intensity of local competition, effectiveness of anti-monopoly policy, agricultural policy costs, degree of customer orientation, prevalence of foreign ownership, business impact of rules on FDI and buyer sophistication). The analysis covers following components: 6.08 – agricultural policy cost, 6.09 – prevalence of trade barriers, 6.10 – trade tariffs. Additionally, analysis supports conclusion related to differences between the EU old Member States (EU OMS) and the EU new Member States (EU NMS).

The assessment of the agricultural policy cost in the country is based on the 7-point scale (1 = excessively burdensome for the economy; 7 = balances well the interests of taxpayers, consumers, and producers). The agricultural policy in the EU OMS (see Figure 3) is perceived as a well balanced in terms of relationship between costs and stakeholders benefits in Luxemburg, the Netherlands, Sweden and Ireland in 2013-2014. Adversely, the least balanced interests of taxpayers, consumers, and producers are perceived by respondents in following the EU OMS: Italy, Germany, Denmark and France. As far as EU NMS are concerned (see Figure 4), based on the perception of agricultural policy costs, the best positioned are Estonia and Malta, while Croatia, Slovak Republic, Bulgaria and Romania keep the worst positions regarding this issue.

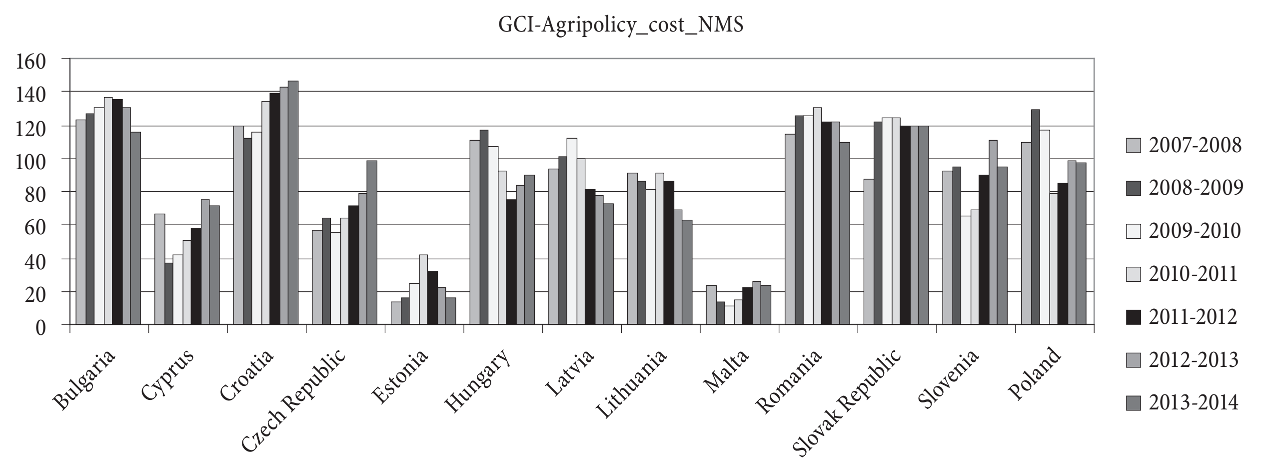
Market competition, both domestic and foreign, is important in driving market efficiency. Therefore government intervention should be oriented toward creating the best possible environment for the exchange of goods. Additionally, market efficiency also depends on demand conditions such as customer orientation and buyer sophistication.

Figure 3: The Global Competitiveness sub index 6.08 – Rank of the EU OMS



Source: [19]

Figure 4: The Global Competitiveness sub index 6.08 – Rank of the EU NMS

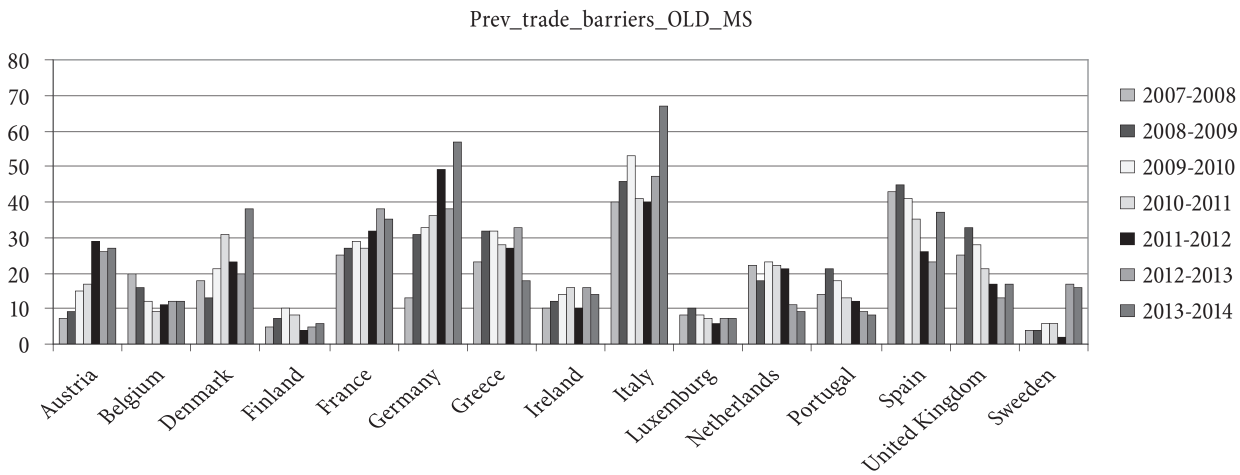


Source: [19]

Specific barriers are related to the food labelling regulations (GMO, organic production, PGO, PGI and TSG). The European Union had authorised GMOs products for animal feed imports or for feed and food processing. There is also a safeguard clause that Member States may invoke to temporarily restrict or prohibit the use and/or sale of a GMO within their territory. The buffer zones and isolation distances between the GM and non-GM crops exist in the form of the specific national regulations. Member States may also designate GM-free zones, effectively allowing them to ban cultivation of GM crops in their territory without invoking a safeguard clause. The number of the EU regions declaring to be GM free is constantly growing. Additionally, the public debate put the light on the importance of the local food concept and quality-based food certifications. Organic and traditional products gain in the importance. Consequently, the EU quality schemes – organic and traditional food production and consumption – become significantly important in promoting sustainable food chain competitiveness.

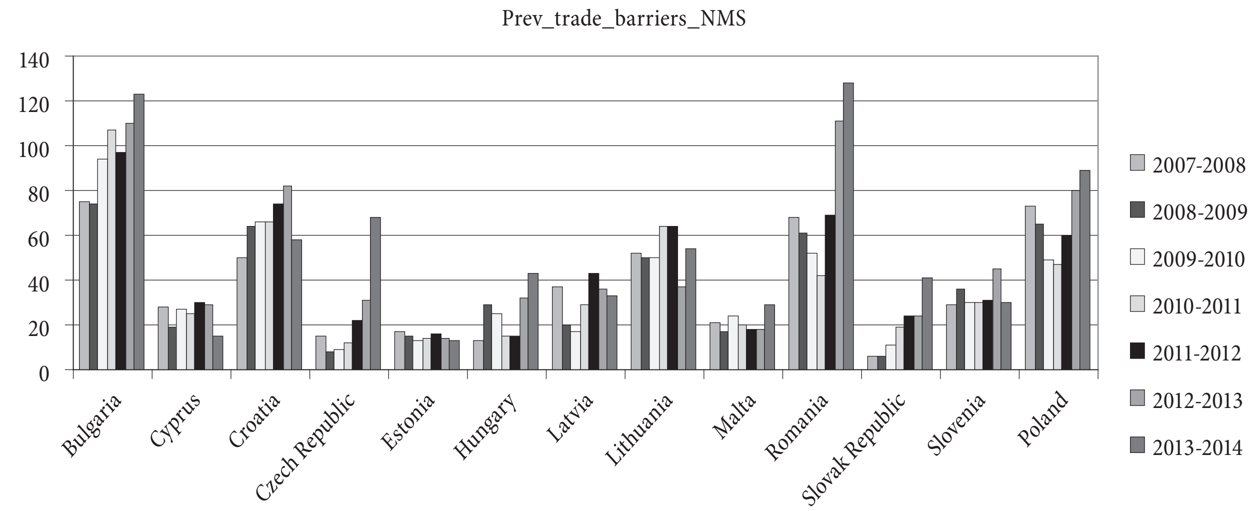
The question related to non-tariff barriers in the country (e.g. health and product standards, technical and labelling requirements, etc.) addresses limitations of the ability of imported goods to compete in the domestic market (see Figure 5 and Figure 6). The answer is measured on 7-point scale (1 = strongly limit; 7 = do not limit at all). The worst positioned EU countries regarding this issue are those which particularly insist on application of the regional food concept in the practice (for OMS – Italy and for NMS – Romania).

Figure 5: The Global Competitiveness sub index 6.09 – Rank of the EU OMS



Source: [19]

Figure 6: The Global Competitiveness sub index 6.09 – Rank of the EU NMS



Source: [19]

Finally, the tariff rates are measured by trade-weighted average tariff rate in 2012 or most recent year available for the country/group of countries. Regarding tariff rates, the EU countries are ranked at the 4th place worldwide.

Conclusion

The most commonly used report regarding competitiveness in Serbia is Doing Business Report. According to the obtained results, Serbia has relatively better position in following pillars: starting a business, getting credit and registering property. On the other hand, it is necessary to enhance the position of different administrative procedures related to: dealing with construction permits, paying taxes and enforcing contracts. However, this report does not provide specific analysis of the sector performance. The further analysis should be more specific and targeted toward agricultural policy measures. The analysis can help the identification of different indicators that can be used in order to define a specific role of the government in the agricultural sector performance.

The CAP is not perceived equally in all countries. In 2013-2014, the highly balanced relationship between costs and stakeholders benefits is perceived in Luxemburg, the Netherlands, Sweden and Ireland. Adversely, the least balanced interests of taxpayers, consumers, and producers are perceived by respondents in following the EU OMS: Italy, Germany, Denmark and France. As far as EU NMS are concerned, based on the perception of agricultural policy costs, the best positioned are Estonia and Malta, while Croatia, Slovak Republic, Bulgaria and Romania keep the worst positions regarding this issue.

The common conclusion is that the best performers in terms of competitiveness have experienced both good governance and policy implementation, while countries with the worst trade performance have faced significant problems in governance structures. Following the obtained results, government role in the sector performance requires deeper analysis. Consequently, the analysis should be based on more informative food-chain approach. It includes specific sector performance analysis, food chain structure and stakeholders influences toward competitive positioning.

Finally, the analysis based on the governance indicators is often criticized (comparisons of governance over time and across countries; some elements of the governance indicators are estimates of governance based on the perceptions of businesspeople, and especially the "elite" among businesspeople which necessarily do not reflect public policy interests; they are heavily influenced by economic performance of the country, etc.). However, there are findings that suggest that even after taking errors into account, governance indicators permit meaningful cross-country and over-time comparisons [14]. To avoid misunderstandings, only comparisons of countries within one period of observation are used, while we capture change over time only within a single country.

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