

**The CAP and national priorities  
within the EU budget  
after 2020**





INSTITUTE OF AGRICULTURAL  
AND FOOD ECONOMICS  
NATIONAL RESEARCH INSTITUTE

# The CAP and national priorities within the EU budget after 2020

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CHALLENGES, CHANCES, THREATS, PROPOSALS

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## 21. The impact of globalization on farmers income. Evidence from Poland and Romanian agriculture

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### Abstract

The process of globalization, explained in a variety of dimensions of factors such as capital and production as well as the fiscal problems in the European countries make the debate of tax competition relevant even today. This paper examines how globalization affects financial efficiency, farm income, the rural areas, with emphasis on Poland and Romania. Globalization challenges and opportunities as well as its consequences on the revenues and incomes have been presented for the 2008-2017 period. The research is based first on data extracted from FADN, European Union reports, Eurostat Database and National Statistical Institute of Romania and Poland. On the basis of the analysis of the literature and general statistical reports, strategic pricing equilibria under different indicators such as agricultural factor income, agricultural trade balance and vertically integrated the globalization it was identified and described. It was noted that the efficiency depends not only on a more globalized form but also on the toughness of competition.

**Keywords:** globalization, farmer income, agriculture, small farms, Romania, Poland

**JEL codes:** F02, Q14, O15, R51

### 21.1. Introduction

Through globalization, we have become “a single river”. On this basic and generalizing framework are then added all the other components that make up the postmodern society in which we live: economic, financial, political, cultural and even religious. Nothing of what is happening now in our society remains uncontaminated by the scourge of globalization. Globalization has become the symbol of the times we live in. It is believed that the driving force that directed the evolution of the world to this point is the “mirage” of free market capitalism, with all the ben-

efits that come from it. Integration into the mechanisms of this politico-economic system in order to benefit fully from its effects is a desideratum of all people belonging to European and other European culture. Those who have once known, directly or indirectly, the superiority of free market capitalism in comparison with other types of economic and political societies are irreversibly attracted to it.

Romania enjoys its development potential, but is underutilized. He joined the European Union almost three years later than Poland. According to the National Institute of Statistics, it has an area of 238 thousand km<sup>2</sup>, 6% of the total area of the European Union and a population of 18.5 million inhabitants, representing 4% of the total EU population. Although we are endowed with good land, water resources and why not human resources, the identification of agricultural capacity is limited, without enjoying its natural advantages.

With a remarkable rural occupation, with an area of 87% of the country's population, with a population of 46.2% and 8.54 million, their basic activity is agriculture, giving it a vital and social role. From this distribution of territory we can begin to approach the emergence of globalization and its way to affect both positively and negatively Romanian farmers. Studying the effects of globalization would be meaningless if we did not focus on studying it in the most important sector, namely the agricultural sector.

It is known that over 30% of Romania's population is employed in agriculture. Its contribution to the Gross Domestic Product, however, has not only seen growth periods but also gaps, analysing the past decades. At present, agriculture contributes with 3.9% of Romania's GDP, however, the trade balance is deficient, with more imports than exports.

## **21.2. Literature review**

Since Theodore Levitt mentioned the concept of Globalization in 1983 for the first time, many studies were made in order to define this process that affects all the fields and areas of life and to define the benefits and risks. In 2003, the sociologist and Professor George Ritzer in the paper 'Globalization of nothing' explained the benefits and the risks of the globalization process that is speeding worldwide: Almost all countries and lives of billions people everywhere are transformed, sometimes dramatically, by the globalization phenomena. Its impact, visible at any level, is more pronounced and more obviously in the economic field, in the activity of company's transnational and international organizations. Also, professor mentioned that the local should be preserved.

In 2008, Philip McMichael published a paper "Globalization and the Agrarian World" where the impact of globalization on agriculture and rural areas was studied. Professor McMichael noticed that there was a resistance of the

rural areas and agriculture against the globalization phenomena and that even though it resisted so many centuries today it is difficult to maintain the local in the global sea. According to the German author Tom G. Palmer, professor at CATO University in Washington DC, globalization has brought major benefits to trade and jobs market. The author affirms that there are many myths about the phenomenon of globalization, but he succeeds in highlighting the benefits that would contradict them. It defines globalization as diminishing or eliminating state restrictions on foreign trade. Policies do not necessarily produce changes in the number of jobs, but they affect job types. The author finds the viable link between the prices paid on imports, which defines it as being the price of exports, just as imports are the price paid by foreigners for our exports.

Therefore, if the value of the imported goods is reduced and a tax is applied, the value of the exported goods, which is necessary to pay for those imports, is also diminished. This translates into loss of jobs in exporting industries. Tom G. Palmer also believes it is a myth that globalization directs capital to poorer areas, exploiting the poor and poorly paid. If it were true, all poor countries would have a wealth of foreign investment. By contrast, in the 1990s, 81% of foreign direct investment by the United States turned to Japan, Western Europe and Canada. Developing countries such as Indonesia, Brazil and Thailand accounted for 18%, with only 1% accounting for underdeveloped areas such as Africa.

Even though it's been a few decades since it was first mentioned, a definition that includes all the topics and fields has not been published yet: George Ritzer (2003) in "Globalization of nothing" study defines the globalization phenomena as a phenomena which emphasizes the ability of modern governments and organizations of capitalists to increase their power and influence worldwide; Anthony Giddens, in 2000 in the 'Runaway World' book; offers a definition containing predominantly sociological elements: globalization is changing the fundamental nature of our everyday experiences.

According to the German author Tom G. Palmer<sup>1</sup>, professor at CATO University in Washington DC, globalization has brought major benefits to trade and jobs. In a presentation in front of his students, the author says there are many myths about the phenomenon of globalization, but he succeeds in highlighting the benefits that would contradict them. It defines globalization as diminishing or eliminating state restrictions on foreign trade. Policies do not necessarily produce changes in the number of jobs, but they affect job types.

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<sup>1</sup> Tom Gordon Palmer is a libertarian author and theorist, a Senior Fellow at the Cato Institute and Vice President for International Programs at the Atlas Network.

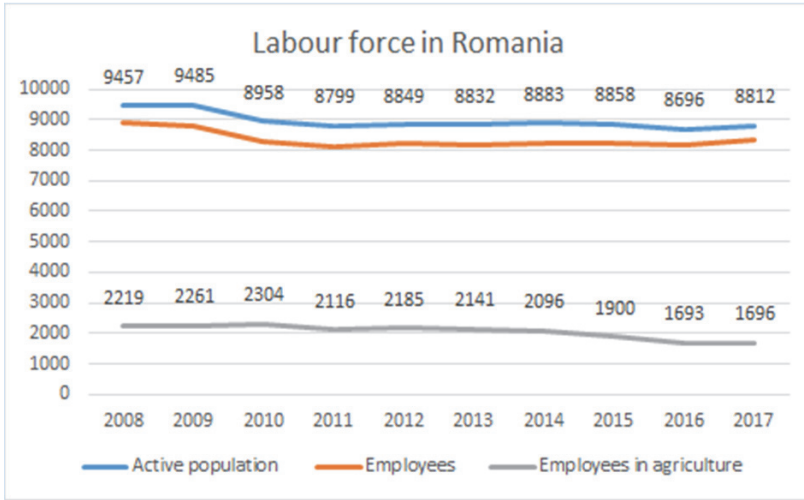
eigners for our exports. Therefore, if the value of the imported goods is reduced and a tax is applied, the value of the exported goods, which is necessary to pay for those imports, is also diminished. This translates into loss of jobs in exporting industries. Tom G. Palmer also believes it is a myth that globalization directs capital to poorer areas, exploiting the poor and poorly paid. If it were true, all poor countries would have a wealth of foreign investment. By contrast, in the 1990s, 81% of foreign direct investment by the United States turned to Japan, Western Europe and Canada. Developing countries such as Indonesia, Brazil, Thailand accounted for 18%, with only 1% accounting for underdeveloped areas such as Africa. Another myth highlighted by author Palmer is that the phenomenon of globalization would lead to negative effects on the environment and labour standards. In fact, jobs in businesses with foreign capital are much more sought-after because they offer both higher salaries and better working conditions. According to the author, the benefits are political, economic and social. Politics, because in peacetime peace is being established by the interconnection of nations. Commercial because trade can bring benefits, each party enjoying the specialty of the other. At the same time, as a result of the disappearance of trade barriers, the number of world governments classified as democratic by Freedom House has increased dramatically.

### **21.3. Globalization impact on rural areas**

Globalization is a current trend being a complex phenomenon and a process of integrating the global economy. It has an influence on all sectors, also on the agricultural one, finding positive aspects and trying to solve the negative ones. Globalization of agriculture means that every country in the world should have free access to markets in other countries. In Romania, according to the Farm Accountancy Data Network (FADN), the labour force situation in agriculture is not very good, as it is confronted with a decrease in the unemployment rate, as shown in the figure below (Figure 1). There are now many people who are at the retirement age but who will leave in a few years while young people do not come to school because there are no schools to train them. We are facing a serious crisis that the authorities do not pay enough attention to. According to the Ministry of Agriculture and Rural Development of Romania, a number of about 40 agricultural high schools will be reactivated, but graduates will only be after finishing a four-year course. Meanwhile, many manufacturers cannot grow due to shortage of qualified staff.

The situation in Poland is similar in terms of labour force in agriculture. Values for the active population and employees (generally) fluctuate constantly over the period 2008-2017, but in the agricultural field, the Farm Accountancy Data Network (FADN) database shows, as in Romania, a visible decrease from approx. 2 million people worked in agriculture in 2008, compared to 1.6 million in 2017.

Figure 1. Labour force in Romania



Source: authors' elaboration with data from the Farm Accountancy Data Network.

Figure 2. Labour force in Poland



Source: authors' elaboration with data from the Farm Accountancy Data Network.

Compared to Romania, Poland has constant values for the active population and generally employed, at a time when the phenomenon of globalization is becoming more and more pronounced. The farmers of both analysed countries face the situation when they have to bring specialized mechanizers from the EU member states, being paid much more than the average of both states.

Table 1. Farms number

	2007	2010	2013	2016
Romania	3 931 350	3 859 040	3 629 660	3 422 030
Poland	2 390 960	1 506 620	1 429 010	1 410 700

Source: Farm Accountancy Data Network.

According to the FADN database, the number of farms in both Poland and Romania has fallen sharply, being a constant change to the adaptability of market demands. The decline of farms does not necessarily manifest itself negatively, which means greater collaboration and cooperativization in order to succeed together in the new conditions created by common policies.

The above table shows that the percentage of the decrease in the number of farms in Romania (13%) is exceeded by that of Poland (41%), due to the large number of small farms in the Romanian state. In Romania, in 2016, the total number of agricultural holdings was 3.422 million (Table 1), 5.7% less compared to the Structural Survey in Agriculture in 2013 and 11.3% against the General Agricultural Census in 2010. Specifically, the number of agricultural holdings without legal personality was 3.396 million, 5.7% lower than in 2013, while the number of agricultural holdings with legal personality was 26 000, 6.4% lower than in 2013.

Table 2. Gross farm income

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Romania	5861	7881	6015	7284	8270	7519	7812	7316	6250	7659
Poland	15548	15173	12073	15913	17018	17160	16685	15635	14868	14651

Source: Farm Accountancy Data Network.

Whenever you talk to a Romanian farmer, they always say the same thing, such as that the selling price of agricultural products is too low, and the revenue obtained by marketing it does not cover the costs incurred. When we go into detail, however, we ask how much it costs a farmer to make, for example, a litter of milk, most of the time he does not know how to respond. Most of them have little or no record of the costs and income of their farm activity. I agree that the cost of using milk is too low, but it influences the profitability of the farm in one direction, i.e. it has an effect on farm incomes. However, gross profit (or economic efficiency) is the result of lower production revenue expenditure. So gross profits depend on production costs to the same extent as income.

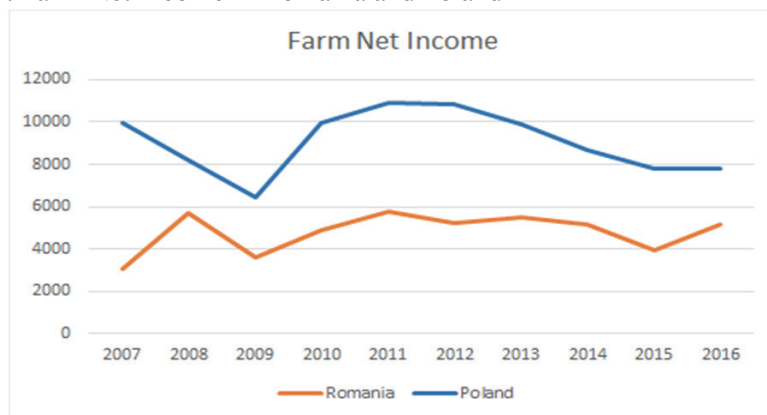


Table 3. Farm Net Income

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Romania	3027	5706	3623	4890	5763	5250	5525	5156	3961	5166
Poland	9979	8197	6445	9985	10887	10873	9867	8706	7808	7777

Source: Farm Accountancy Data Network.

Figure 3. Farm Net Income in Romania and Poland



Source: authors' elaboration with data from the Farm Accountancy Data Network.

Family farms have a key role in the development of the Romanian economy through their share in the production of food, the fuller use of the labour force, the subsistence of the population, the economic diversification and the increase of the activity of the rural areas. The family farm has a historical tradition since the time when everything was done in the house and in the household. It is then passed into the era in which family farms need to exchange as often as possible with the market, consuming goods that they no longer produce in the household, which they cannot buy unless they sell on the market some of the products that the household produces them. Market price and capital need dictate to the farmer what to do, that is, to produce what the market wants, which has a good price.

Table 4. Family farm income

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Romania	1746. 14	2306. 35	2435. 41	3452. 04	3928. 24	3846. 99	4303. 98	4438. 8	3830. 78	4561. 67
Poland	6414. 72	5344. 72	4279. 01	6529. 73	6976. 57	6930. 71	6510. 63	5804. 85	5427. 24	5318. 78

Source: Farm Accountancy Data Network.

In the past, the household was considered to be the economic cell of production, distribution and consumption of goods in relation to the needs of the family or several persons brought together for the same purpose. While the pur-

pose of a farm is to get a net income as high as possible, the goal of a household is to obtain a total income that can meet the needs of family consumption. Therefore, the household differs from the holding by introducing the family factor. However, the peasant farms are dependent on peasant sociology, considering the agricultural household as a closed and autonomous system, the maximum income being obtained only when an optimal unit of land, labour and capital. This was also due to the fact that Romania became a country of small peasant households (74.9% of the total households) in the interwar period, with a strong mass of the average household holding 29.9% of the agricultural area and an important 12 (more than a quarter of the agricultural area was organized in households with more than 100 hectares).

Table 5. Unpaid labour

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Romania	0.97	0.97	1.01	1.06	1.1	1.2	1.19	1.33	1.44	1.68
Poland	1.43	1.43	1.46	1.47	1.49	1.49	1.47	1.47	1.53	1.52

Source: *Farm Accountancy Data Network*.

Using our net farm income and family farm income, considering that only family members are working in the farmhouse, and they, through their work, devote themselves to both the market and the self-consumption, we are able to calculate the average number of people they work on the farms of the states under analysis, who do not receive remuneration for their work. This result is expressed in the Family Work Unit (FWU).

$$FWU = FNI / FFI$$

The results show that the level of unpaid work in households for Poland has been somewhat stable in the analysed years, meaning a close link between net farm income and family farm income. In contrast, in Romania, the number of people in a household who do not receive reward for the work done is steadily increasing.

Table 6. Total Agricultural trade – Romania

	2010	2011	2012	2013	2014	2015	2016
	U.M. mil. \$						
Agricultural Imports	5,200	6,197	6,161	6,579	6,797	6,710	7,512
Agricultural Exports	4,122	5,581	5,193	7,042	7,371	6,572	6,823
Agricultural Trade Deficit/Surplus	-1,078	-615	-967	463	575	-132	-689

Source: *Global Trade Atlas*.

Due to its fertile soil and location, Romania has become a leading exporter among competing European countries. The agricultural sector contributes significantly to national economic performance due to the fact that the products are being exported worldwide. In 2016, total foreign trade in agricultural products, mainly wheat and maize, summed approximately EUR 7 billion, this is more than 9% of total Romanian exports. Thereby, Romania has taken the first place in the European Union to increase agricultural exports.

At the same time, the imports of agricultural products from Romania increased substantially. Demand for agro-food products increased due to tax incentives – reduced VAT on food from 24% to 9%, followed by a general reduction in VAT from 24% to 19%. In 2016, total imports of agricultural products, mainly food and processed food (meat, fruit and sugar), stood at around 119%, generating a trade deficit of EUR 689 million.

Table 7. Total Agricultural trade – Poland

	2014	2015	2016	2017
	U.M. mil. \$			
Agricultural Imports	2,858,761	2,465,127	2,310,513	2,497,933
Agricultural Exports	738,798	889,574	916,612	949,390
Agricultural Trade Deficit/Surplus	-2,119,963	-1,575,553	-1,393,901	-1,548,543

Source: *Global Trade Atlas*.

According to Flanders Investment and Trade, the year 2017 was a triumphant year due to the high level of agricultural figures in regards to the production. However, in order to reduce the gap with other European countries, a greater focus on productivity and efficiency in agriculture is needed. In this respect, the diversification of economic activity in rural areas, the support of local investments through the creation of new jobs and innovation in agriculture sector are necessary.

After the fall of communism, Poland pursued a policy of liberalization of the economy, and today it is one of the examples of the successful transition from an economy led by the state to a market economy. In the field of agriculture, Poland has a large number of private farms, with a potential of becoming the most important food producer country in the European Union.

According to the Economic Complexity Observatory (OEC), Poland is ranked 22<sup>th</sup> in the world in regards to the export economy. Market liberalization favoured increased commodity exchanges with the largest countries in Central

and Eastern Europe. The most important export destinations for Poland are Germany, the United Kingdom, the Czech Republic, France and Italy. The highest imports came from Germany, China, Italy, the Netherlands and the Czech Republic. At the beginning of 2016, the total amount of goods exported abroad increased compared to the same period of the previous years (2014-2015). However, the import dynamics index was much higher than the dynamics of exports.

Following an overall analysis of the two tables above, we note that both communities face a continuing trade deficit, even though Romania recorded a slight surplus during the period 2013-2014.

#### **21.4. Globalization impact on small farmers – foreign investment in Romania and Poland**

Today, the prerequisites of a country's economic development lie in the abundance of capital. Public investments are often limited by the various national interests that tend to gain priority – payment of wages and pensions, control of the budget deficit, etc. In the absence of investment, the economy loses. If public resources are limited, then it should be encouraged private financing.

Since the free movement and free access to European markets, investors have preferred the more accessible markets.

Foreign direct investment (FDI) are a healthy source on which economic growth can be sustained, including in times when economic stability is in danger and growth is under pressure.

With a strategic geographical position, a large market and low cost of the workforce, Romania has a consistent set of attractive factors for FDI capable of doing so turns into a priority destination for foreign capital after economic opening since the early 1990s. At the same time, however, the inert legislative framework, together with the lack of some measures aimed at attracting investors, to which are added the political instability in recent years, is a good part of the causes for which Romania is not a pole of today FDI in the region (Horobeț and Popobici, 2017).

Unlike Romania, Poland has a medium-term vision to attract investments, developed through the 12-year program to support major investments for the period 2011-2023, and is the main basis for granting subsidies. The Polish government has identified seven priority sectors targeted by state aid: the automotive sector, the electronics and electronics sector, aviation, biotechnology, food processing, modern services and Research & Development. In addition, support is also given to companies that make significant productive investments in other sectors.<sup>2</sup>

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<sup>2</sup> U.S. Department of Commerce's International Trade Administration 2017, Poland - Openness to and Restriction on Foreign Investment, <https://www.export.gov/article?id=Poland-Openness-to-Foreign-Investment>, accessed on 6 March 2017.

In regards to the agricultural sector with reference to farmers and their income, there are several things that should be considered when globalization matter is in discuss and then the foreign investors are interested in buying agricultural land. Since this resource is the main one in regards to the production, losing the track of the property exchanges is an attempt to the national food security.

Globalization of agriculture means that every country in the world should have free access to markets and agricultural resources and products in other countries.

Globalization has eroded the cultures of the countries and made life for farmers more difficult. To cope with growing competition, farmers have begun to buy expensive seeds, chemical fertilizers of synthesis and to use large amounts of water. The difference between agriculture and industry is that in industry we can measure the profits, to end or start production, zoom in or out. But in agriculture it depends on rain and natural conditions. Culture is planted in depending on the season and must be harvested at the right time. All products come to the market at the same time, the price is determined by the market, not the farmer. In these conditions, governments around the world are forced to subsidize agricultural products.

In a global agricultural economy, large farms will continue to replace the small farms on the world market. More and more, large farms will be controlled by giant multinational corporations. Romania has one third (33.5%) of the total number of farms in the European Union in 2013, while Poland ranks second (13.2), most of the farms in both states being considered as family farms and semi-subsistence farms<sup>3</sup>. Considering this, a concern arises regarding the fact that this high number of farmers will not be able to maintain their only source of income and they will be bought by the large ones. One solution for them could be association and cooperation so that they can produce and sell as one large farm on order to be able to compete on the market.

The European Union created a fund, The European Globalization Adjustment Fund that provides support for people who lose their jobs due to major changes in world trade patterns with globalization or because of the crisis economic and financial. The maximum annual budget available to the EGF is EUR 150 million for the 2014-2020 period. Funds are earmarked for projects designed to help redundant people find a new job or start their own business. As a rule, the EGF can only be used if a single company has made redundant more than 500 employees or if many employees are dismissed from a specific economic sector in one or more neighbouring regions (European Union, <http://ec.europa.eu/social/main.jsp?catId=326&langId=ro>).

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<sup>3</sup> European Union report, 2017

Other measures of support can be created by the governments in the fiscal area, regarding the taxation. Measures that can support the farmers by reducing the taxation for the small producers and create facilities for them in order to be able to go out on the market.

### **21.5. Summary and conclusions**

Considering the structure of property and households, and also other factors such as deindustrialisation, youth migration, lack of the desire to associate for production, processing and marketing products, amid the aging population and the increase in numbers of pensioners and social assistants, the peasant household is threatened as being, many villages being depopulated. At the same time, the aggressive invasion of imported food considerably reduces the marketing of small-scale agricultural products farmers. In this context, the problem of small property dichotomy arises – the large holding can only be solved by considering complementary to the two forms, according to the specific each economic area, with the historical evolution and the stage in which it was social-economic development.

However, it is obvious that the evolution of the household was totally or partially conditioned by socialist evolution and natural-economic conditions in all European countries. An essential feature of Western countries is continuity the development, merging, endowment and accumulation process capital of households and supply co-operation and production outlets, compared to eastern countries, where the repetition of agrarian reforms (in modern Romania every 25-30 years there was a new agrarian reform, the seventh, since 1991 being the most inefficient) had implications regarding the viability of agrarian structures and households which actually maintained human settlements. This is because peasant households have a great ability to resist and adapt to different economic, social, political situations. This one particularity is favoured by the triple identity of the farmer – as landowner, manager and businessman who runs the activity of the holding by investing capital and labour, increasing its dimensions as the technological process is introduced (continuing to preserve family character in the vast majority of cases).

We hope the development and consolidation of households will be assured by the farms vocation for survival, exercise taken over several generations and succeeded most of the time. Actually, the village has become a synergistic economy in which it has a field of action the principles of competition and free initiative in the effective use of resources, with the role of the farmer.

In an international scenario marked by uncertainty and anticipation after, the European Union pays particular attention to the application of a territory of effective policies in response to increased competition in markets, and repre-

sents an interesting tool for government intervention in development of rural area in a defined area of quality products. In this direction in the last years, the European Union has authorized state aid for implementation supply chain contracts, as well as the sector for the purpose promoting and modernizing agriculture, as well as technological development enterprises.

Because of the big number of young persons with no direct interest in agriculture, we suggest to create more attraction and involvement by creating more agricultural colleges.

Sometimes the household needs help in some work, as those of cultivation where they do not face the quantity of work and they do not find anyone to work with, even if they pay a good value for it. The unemployed prefers to live on social benefits and they do not need more. Also, they prefer to do the same work in agriculture in Italy or Spain, where they have a better salary and as they are used to say, a better life.

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