

– TANULMÁNYOK –

## RURAL DEVELOPMENT POLICY 2007–2013 AS A FACTOR OF THE COMPETITIVENESS

*Poland and Hungary – Legal aspects*

MARCIN SZEWCZAK\*

associate professor (John Paul II Catholic University of Lublin)

In March 2000, European leaders agreed at the Lisbon Spring Council that the European Union should commit to raising the rate of growth and employment to underpin social cohesion and environmental sustainability. Europe, if it wished to protect its particular social model and continue to offer its citizens opportunity, jobs and quality of life, had to act with determination, particularly in the context of the mounting economic challenge from Asia and the slowdown of European population growth. The European Union set itself a strategic goal for the next decade: to become the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment.<sup>1</sup> The arguments supporting that strategy are no less compelling today indeed more so. Europe needs to innovate on its own behalf. Lisbon Strategy should be understood as a means of transitioning the European economy, from structures in which it essentially caught up with the world's best, establishing economic structures that will allow it to exercise economic leadership.

The guiding principles for the contribution of the Common Agricultural Policy to the Lisbon Strategy were set by the European Council in Göteborg in 2001 and confirmed in the Lisbon Strategy Conclusions in Thessaloniki in June 2003. Economic development is very strongly addicted to development of the agriculture. In 2005 European Commission relaunched the Lisbon Strategy, as a major priorities EC decided higher economic growth and job creation, and better standard of living.

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\* PhD, Associate Professor in the Chair of Administrative Commercial Law, Institute of Administration, Faculty of Law, Canon Law and Administration John Paul II Catholic University of Lublin, M.A. in European Studies and Global Affairs on University of Saint Heart in Milan and Catholic University of Peter Pazmany in Budapest, master of international relations in Department of Politic Sciences on University of Marie Curie-Sclodowska in Lublin, e-mail: szewczak@kul.pl.

<sup>1</sup> *The targets of the Lisbon strategy*, <http://europa.eu.int>.

At the beginning of 2007 Common Agricultural Policy has changed the priorities for making model of competitive agriculture in the world. In many members of European Union agriculture is a major factor of industry (for example in Poland) and this is the answer for question what to do to increase European competitiveness.

The Common Agricultural Policy as a part of aquis communautaire is a part of the national polish law. In Poland two national agencies exist: Agricultural Market Agency and Agricultural Restructurization and Modernization of the Agriculture, which are responsible for realization of this policy in Poland. These agencies are the part of the administrative law, that's way Common Agricultural Policy in polish system of law is between an administrative law, public law, and European law.<sup>2</sup>

In Hungary for realization of the Common Agricultural Policy are responsible Mezőgazdasági és Vidékfejlesztési Hivatal, which was created in 2003.<sup>3</sup> Important aspects about Rural Development Policy for Hungary for 2007–2013 we can find in the rural Development Programme, in which it is said that Hungary is in 50% areas agricultural country.<sup>4</sup>

To understand the major idea of this topic, we have to find answer for following questions: what is international competitiveness?; what is the role of the Lisbon strategy in the European Union?; and what is the role of the structural funds for agriculture in the creation of the Poland's and Hungary's competitiveness?

The concepts of competition and competitiveness belong to the most important and popular in present economic sciences, but simultaneously also very controversial. Traditionally people have identified competitiveness with low prices and low costs of production. Today more and more authors concentrate their attention also on others aspects of competitiveness, like quality. In fact there are also many different definitions of competitiveness.

Relatively simply definition has been proposed by J.Burnewicz, according to whom: the competitiveness is the ability to compete successfully on the market. This competitiveness is possible on both: enterprise and national level.<sup>5</sup> According to another definition competitiveness is: ability to long-term effective growth, consisting with two main elements-effectiveness and dynamism.<sup>6</sup> Sometimes international competitiveness is seen as: the ability of one subject( state or region) to gain advantages from international division of labor bigger than others subjects.<sup>7</sup> According to authors of The World Competitiveness Report, international competitiveness it is the ability of state or enterprise to create, proportionally more riches than other states or enterprises on glonal market. Competitiveness is combination of natural resources,

<sup>2</sup> M. SZEWCZAK: *Administracyjno-prawne aspekty realizacji Wspólnej Polityki Rolnej w Polsce*. Lublin, 2008, 110 and 171.

<sup>3</sup> A Mezőgazdasági és Vidékfejlesztési Hivatalról, 81/2003. (VI. 7.), korm. rendelet.

<sup>4</sup> Új Magyarország Vidékfejlesztési Stratégiai Terv 2007–2013, Budapest 2007, 7.

<sup>5</sup> J. BURNEWICZ: *Ekonomika transportu*. Gdańsk, 1993, 23.

<sup>6</sup> B. BAKIER–K. MEREDYK: *Istota i mechanizm konkurencyjności, {w} Konkurencyjność gospodarki polskiej a rola przed akcesją do Unii Europejskiej*. Białystok, 2000, 38.

<sup>7</sup> J. MISALA: *Mierniki konkurencyjności gospodarki, aspekty teoretyczne i wnioski dla Polski*. Warszawa: SGH, 2001, 10.

processes (transforming economic effects from natural resources) and international trade activity.<sup>8</sup> Competitiveness is the degree to which a nation can, under free and fair market conditions, produce goods and services that will meet the test of international markets, while simultaneously maintaining or expanding the real income of its citizens. The competitiveness presently is one of the most important subjects reflection in economic and political sciences.

One of the most controversial aspects of international competitiveness and debate on competitiveness is the question of level. Almost all economists agree that competitiveness can be discussed on the micro level (corporation and product). More and more often however competitiveness is also being discussed on macro (national, regional, supranational blocks) level and mezzo level (sectors). The economists like J. Dunning and M. Porter accept the concept of the competitiveness of nations, sectors and regions, however for P. Krugman it is inadequate.

According to P. Krugman: debate on competitiveness on macroeconomic level is dangerous obsession.<sup>9</sup> For him competitiveness is characteristic only for enterprises and products. But some authors follow M. Porter and J. Dunning with their acceptance of the second concept which accepts also the reflection about competitiveness on macroeconomic level. Speaking about competitiveness on microeconomic level it is necessary to remember about the costs of production and prices, but on the other hand also about the quality of products and services. We can also distinguish two kind of competition: by costs and by differentiation.<sup>10</sup> The most important factors determining competitive advantages are: resources, area of activity and organization. The competitive advantage is connected with fact that some enterprises are able integrate these three factors. According to one of the main expert in competitiveness theory-M. Porter, we can discuss about “diamond” of competitive advantage with following factors: conditions (a nation’s position and factors of production like skilled labor, infrastructures, raw materials necessary to compete in a given industry), demand conditions (the nature of home market demand for the industry’s product of service), related and supporting industries and firm strategy, structure and rivalry. Particularly important are here: natural resources, supply on antional market, level of competition as well as state activity and friendly circumstances.<sup>11</sup>

Important aspect of reflection about macroeconomic and microeconomic level are innovations as a main factor in economic and competitive development. According to J. Bossak, competitive economy means that fast economic social development is going to create progress bigger than other societies. This is good for creation of positive economic, social and political relations as well as freedom, law and democratic system.<sup>12</sup>

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<sup>8</sup> *The World Competitiveness Yearbook 1994*, IMD, Lausanne, 1994.

<sup>9</sup> P. KRUGMAN: *Competitiveness A Dangerous Obsession*. New York: Foreign Affairs, 1994.

<sup>10</sup> M. PORTER: *The Competitive Advantage of Nations*. New York: The Free Press, 1990.

<sup>11</sup> *Ibid.*

<sup>12</sup> J. BOSSAK: *Międzynarodowa konkurencyjność gospodarki polskiej, {w} Konkurencyjność gospodarki polskiej*. Białystok, 2000.

Some authors present and discuss two concepts: competitive position and competitive ability. The concept of competitive position relates to participation of economy of one country in international market. The concept of competitive ability consist with following standards: level of inflation, number of new work places, the level of Gorss Domestic Product. The international competitive ability of the state relate to all foreign economic relations. Important point is the ability to create the new structure of supplu and demand in conditions of the open economy.<sup>13</sup>

The world's most important and comprehensive annual report on the competitiveness of nations is The World Competitiveness Yearbook. This report analyzes and ranks the ability of nations to create and maintain an environment that sustains the competitiveness of enterprises. A country's competitiveness cannot be reduced only to GDP and productivity because enterprises must also cope with political, social and cultural dimensions. This report is invaluable, dynamic and constantly updated benchmark for decision-makers. The business community uses it as an essential tool in determining investment plans and assessing locations for new operations. Government agencies find important indicators to benchmark their policies againts those of other countries and evaluate performance over time. According to the World Competitiveness Yearbook 2004 we can find new trends in the three most important areas: Asia, United States and Europe. Since this time nothing has changed in the global economy according to competitiveness.

At the end of last decade of XX century many politicians from European Union have realized that economic performances of European Union countries are not strong enough. At the beginning of 90<sup>th</sup> the level GDP of European Union was very close to GDP of United States. From 1990-1995 GDP of United States was increasing by 0,9% faster than GDP of European Union, from 1995–2000 by 1,3%.<sup>14</sup>

According to magazine "Fortune" ranking of the 500 the best corporations, we can observe that for enterprise from European Union creation of one job place is more costly than for enterprise from United States.<sup>15</sup> For economy growth of United States big influence has sector ICT( Information and Communication Technology), it represents about 0,8–1% of GDP, and in European Union only 0,4–0,5%.<sup>16</sup> Looking for this all standards we can observe that economy of European Union does not represent as high level as economy of United States. The focal point of Lisbon strategy is making from Euroepean Union the best competitive economy on the world, dynamic and sustainable knowledge-based economy, enjoying full employment and strengthened economic and social cohesion. Basic aspects of the Lisbon strategy are as follows: education and human capital, new technologies, information society, new employment and mobility policy, productivity of labor, investments in infrastructures,

<sup>13</sup> W. BIENKOWSKI–P. SADZA: *Rola instytucji w poprawie konkurencyjności gospodarki, {w} Konkurencyjność gospodarki polskiej*. Białystok, 2000.

<sup>14</sup> *The European Competitiveness Report 2001*, Luxembourg: European Commission, 2001, 20.

<sup>15</sup> Y. DUCHESNE: An American Lesson for France. *The McKinsey Quarterly* no.2/2000, 107.

<sup>16</sup> R. AGRAWAL–S. FINDLEY–S. GREENE: Why the US leads and why it matters? *The McKinsey Quarterly* no.2/1996, 39.

development of small and medium enterprises, synergy between competition policy, industrial policy and sustainable growth-development policy.<sup>17</sup>

From 1 January 2007 European Union is the community of not only 25 but 257 Member States. These new Member States entering the Union will help to stimulate the European economy, thanks mainly to their potential for growth, productivity and ability to attract investment. The creation of an internal market of approximately 500 million inhabitants (with whom 300 million use one currency) will lead to greater intra-Community trade and provide new opportunities for investments and industrial organization. The Lisbon strategy should give powerful impetus to the convergence and integration elements underpinning enlargement. New Member States need to make up in several areas should not conceal good individuals performances in other areas that are sometimes more better than previous Member States. Ten new Member States together with the rest must commit themselves more firmly to implementing the Lisbon strategy and achieving aims. The most important factors are: public finances, employment and productivity, internal market, environment, education and also agriculture.

Fiscal policies in the European Union must be guided by the Stability and Growth Pact, it helps to sustain growth by stabilizing inflation and reducing public debt. But after enlargement the most important thing is that budgetary and fiscal policy cannot be kept in the same way by all Member States. Thus, due to the weak economy and also as a result of expansionary budgetary policies and average European Union deficit stood at 2.7% GDP in 2003.<sup>18</sup> Another important thing is that national public finances must be viable, in the short and long term to guarantee sustainable development of economy. If immigration rates remain constant, the contraction of the working population coupled with the costs of ageing is likely to bring economic growth down below 2% in the long term.<sup>19</sup>

Despite of the successes of the past decade, the internal market has not so success position. In product market integration European Union is facing a slowdown. Cross-border manufacturing trade was growing by 2.5% in 2001 and then shrinking by 0.3% in 2002. Prices across the European Union have stopped converging in the last five to six years. Too many technical obstacles are still preventing goods from circulating freely. Lack of confidence in cross-border transactions and electronic commerce is undermining the potential of free cross-border competition to increase our competitive edge.<sup>20</sup> Internal market is highly fragmented in the services sector, specially when we are speaking about distribution and retails sales. The services sector accounts for 70% of GDP. Despite of companies and consumers still continue to suffer from restrictions on establishing business and the provision of cross-border services. Opening market in the network industries is not yet implemented and the benefits relating to

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<sup>17</sup> T. DOŁĘGOWSK: *Institutions and international economic competitiveness in the period of globalization*. Warszawa, 2000, 2.

<sup>18</sup> SEC(2003), 1222 final, Autumn Economic Forecasts 2003–2005, <http://europe.eu.int>.

<sup>19</sup> Ibid.

<sup>20</sup> *Implementation Report on the Internal Market strategy 2003–2006*, COM(2004), 22 final.

efficiency, inter connectivity and security of supply in the European Union have not yet been realized. Majority of new Member States have deregulated telecom markets, especially Poland have already opened up more than half electricity markets for competition. Also reforms as the Community patent, recognition of professional qualifications in the European Union enforcement of intellectual property rights and the definition of a consolidated common base for taxing company profits are currently still lacking for internal market development.<sup>21</sup>

Transposition of directives to the internal market over past few months is falling. Ireland and Portugal have made the biggest progress while Belgium's deficit increased. Denmark, Spain, Finland and the United Kingdom have kept still to the transposition target of 98.5% set in Barcelona. Under the Lisbon strategy European Union has adopted over 70 directives, which should make for greater harmonization and a joint regulatory framework that helps reinforce the internal market. Denmark, Spain and Italy have the best records (from 85 to 75% of directives transposed), France, Germany and Greece are the furthest behind (from 42 to 35%).<sup>22</sup> The important issue about the fiscal distortions and their elimination remains a priority so as to improve company competitiveness. Some progress has been made on it. The most important is that the tax package aimed at reducing distortions within the internal market has been adopted and the tax scheme applicable to dividends between parent companies and subsidiaries has been changed so as to eliminate any form of double taxation and fiscal obstacles to cross-border activities. Progress in area of internal market is being made especially in reducing the average level of state aid and in having it redirected towards horizontal objectives.

Development model which makes to increase sustainable manner Europeans living standards and quality of life and virtue of strong economic growth affording a high degree of social cohesion and environmental protection is promoted by rules includes in the Lisbon strategy. The Member States performance is also inadequate in environmental sphere. From the one point of view more efficiently using of natural resources contributes to the economy's productivity at the same time as a reducing environmental degradation, air pollution and noise. Thanks these issues is able to avoid significant impacts on health, reducing transport congestion reduces lost time and therefore costs for both individuals and business. But from the other point of view the more dynamic economy may lead to a better environment, if the faster turnover of the capital stock associated with more rapid growth results in more widespread diffusion of new technologies, which often are more energy efficient and thus less polluting than the equipment they replace. Luxembourg, Germany, the United Kingdom, France and Sweden represent more than 50% EU emission, are now on course to meet their Kyoto burden sharing agreement targets. Austria, Belgium, Italy and the Netherlands still have not turned the corner and have emission above 1990 level.<sup>23</sup>

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<sup>21</sup> Ibid.

<sup>22</sup> *The Member States transposition scoreboard*. <http://europa.eu.int>.

<sup>23</sup> *Total greenhouse gas emission*. COM(2003), 773 final.

It's no doubt that 2005 Spring European Council was trying to revitalize the Lisbon strategy. It was sent a clear message to engage national governments and citizens in it's implementation. The European Union budget should as far as possible be reshaped to reflect the Lisbon priorities. Part of this reshaping should be an analysis of the possibilities to introduce budgetary incentives to encourage Member States achievement of Lisbon targets<sup>24</sup>.

Reactions for the challenges were various, the European employer's association agrees with the basic findings of this report, saying that current situation of the EU's competitiveness was unsatisfactory. Moreover, it supports the report's calls on Member States to draw up national action plan and to make governments accountable for their implementation. The association of European chambers of commerce and industry has welcomed the report, saying that it addressed the key points such as lack of national ownership, the shortcomings of the open method of co-ordination and the need to better communicate the Lisbon strategy to the citizens. However, Euro-chambers criticizes that the report is not clear on how economic, social and environmental welfare are linked.<sup>25</sup>

It is no doubt that we need still to revamp the Lisbon Strategy because the delivery process which has become too complicated and is poorly understood. It generates much paper, but little action. Responsibilities between the national and the European level have become blurred.

The idea of European competitiveness is very close to idea of competitiveness of agriculture. Why? The answer is very easy: rural areas cover ninety percent of the EU's territory and are home to approximately fifty percent of it's population. Agriculture and forestry are the main land users and play a key role in the management of natural resources in rural areas and in determining the rural landscape. Agriculture makes a valuable contribution to the socio-economic development of rural areas and full realization of their growth potential.<sup>26</sup>

Rural Development Programme 2007–2013 is divided on four axis:

- Improving the competitiveness of the agriculture and forestry sector,
- Improvement of the environment and the countryside,
- The quality of life in rural areas and diversification of the rural economy,
- Leader.

The low level of specialization of agricultural holdings and lower production effectiveness are the important factors to provide adequate support instruments as well as to incur expenditure to cover the costs of agricultural holdings adjustment to increasing Community requirements. The improvement of agricultural sector competitiveness will also be implemented through the support for production quality, rural infrastructure improvement and setting-up agricultural producer groups.<sup>27</sup>

According to the modern concept of the agricultural model, which takes that sustainable development is a necessary condition for achieving other economic

<sup>24</sup> Facing the challenge. *Report from the High Level Group*. November 2004, <http://europa.eu.int>.

<sup>25</sup> *Mixed reactions to Kok report among European stakeholders*. November 2004, <http://www.euroactiv.com>.

<sup>26</sup> The Common Agricultural Policy and the Lisbon strategy, <http://europa.eu.int>.

<sup>27</sup> Article 20 of the Council Regulations (EC) No 1698/2005.

development objectives. Preservation and good condition of environment in rural areas including achievement and maintaining of good condition of water and soil depends inter alia on the continuity of land use in these areas and traditional meadow and pasture use.<sup>28</sup>

The instruments available under this third axis are complementary to the priorities defined under the first two axes and may create synergy which positively influences the rural populations. The first group of measures concerns diversification of economic activities. In Poland such measures provide a great chance for rural population, mostly due to large human resource base and high level of unemployment. The second group includes the instruments aimed at improving the quality of life. They concern rural renewal and improvement of cultural and natural heritage.<sup>29</sup>

The main objective of fourth axis is mobilization of rural population through social capital building in rural areas, increase in the potential for acquisition and use of financial resources, as well as improvement in the management of local resources and their valorization.<sup>30</sup>

Speaking about Rural Development Policy according to Poland and Hungary we have to agree that there are certain changes which we need to make. These are four developing challenges which European Commission has identified as Health Check of the CAP: combat and adapt to climate change, manage water better, make goods use for the potential of bioenergy and protect biodiversity.<sup>31</sup> The people in Hungary and Poland want a living countryside. Rural people want to be able to live normal lives there. Governments and legal agencies have to create such good rural policy in these countries to not waste the big potential or rural market economy.

Summing up, we have to admit that European agriculture in close future can be one of the most important part of the European competitiveness. But time for European Union to create the most competitive area in the world is going very fast. European politicians have to decide very fast about the future because without any changes European Union can not be the best partner in the business activity.

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<sup>28</sup> Article 36 of the Council Regulations (EC) No 1698/2005.

<sup>29</sup> Article 52 of the Council Regulation (EC) No 1698/2005.

<sup>30</sup> Article 61 of the Council Regulation (EC) No 1698/2005.

<sup>31</sup> M. F. BOEL: *Prospects for rural development policy*. SPEECH/08/533, Limassol, 16 October 2008.