



COMPETITIVENESS AND COMPETITION: THE NEED FOR A PRAGMATIC APPROACH

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Rezumat

Acest articol este inspirat de o dezbatere publică asupra necesității de îmbunătățire a regulilor competiției într-un anumit domeniu, de exemplu piața pentru produse agricole. Accentul pus pe rolul cheie al unei ramuri din întregul economiei, ca punct de plecare pentru regândirea regulamentelor competiției, ridică aspectul condițiilor fundamentale care definesc capacitatea de concurență a unei economii – factorii de producție, competitivitatea bazată pe eficiență sau inovare. Economia română se bazează pe câte puțin din tot ceea ce definește puterea de concurență, ceea ce nu este neapărat un avantaj, ci mai degrabă rezultatul unor politici publice inconsistente de reforme structurale, fiind de aceea nevoie de o reglementare care fie inclusivă, într-un mix corect de politici publice. Numai o bună dezvoltare structurală care să indice prin ce poate o ramură economică să devină ramură cheie, va putea exista o sinergie reală între ceea ce trebuie să fie capacitatea de concurență a țării și puterea de competiție la nivelul firmelor. Acest articol ne dă posibilitatea de a ne referi la un studiu efectuat, începând din 2004, în fiecare an de institutul nostru, „Starea financiară a României”, mai ales partea referitoare la interpretarea performanțelor de dezvoltare

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plecând de la bilanțul firmelor. Sunt prezentate unele concluzii referitoare la capacitatea competițională a agriculturii.

Abstract

This article is inspired by a public debate on the necessity to improve the rules for a competition in a certain area, e.g. the market for agricultural products. The emphasis put on the key role of a branch within a whole economy, as a starting point in rethinking the regulation of competition, rises the issue of the fundamental conditions which are defining the competitiveness capacity of an economy - production factors, competitiveness based on efficiency or on innovation. As we believe the Romanian economy is based a little bit on everything defining the competition power, which is not necessary, an advantage, but rather a result of some inconsistent public policies in carrying on the structural reforms, there is a strong need for a type of regulation which has to be inclusive in a correct mix of public policies. Only a good structural development, pointing out for what may be a key economic branch, is desirable if we want to see a real synergy between what has to be the country's competitiveness capacity and competition power at the level of firms. This article gives us the opportunity to refer ourselves to a specific study worked out by our research centre on annual basis, starting with 2004, called "Financial Stance of Romania", especially the part which is dealing with the interpretation of the development performances starting with balance sheet data of the companies. Some conclusions as to the state of agricultural competition capacity are revealed according to the above mentioned study.

Key words: competitiveness, competition, market economy, regulation, public policy.

JEL Classification: L11, L12, L13, O11, O13, Q10, Q11, Q14

Approaching premises

The subject of a recent professional event, hosted by the Council of Competition, with a broad and, at the same time, specific subject, briefly defined as "Competition and measures of regulation", with stress on a key sector – agriculture, brings into actuality the problem of the competition environment, its role in the economic and social development of a country.

Growing apart from the optimum of such environment, not just theoretically, but in practice too, must be regarded with discernment, particularly when we are living in a reality which mimics competition. If we refer to the large volume of transactions done, for the time being, with the money from the budget or to the fact that the large retail markets such as the hypermarkets are supplied by a single importer, we consider that there still is a lot to be done in matter of competition.

Adding to these aspects is the fact that during periods of recession, when the public policies should be pro-cyclic, we notice an economy which functions mainly on the vertical, between a low number of economic agents and the state budget, the plan of a real competition growing even narrower.

The reality of the crisis in the Romanian economy shows this impediment of progress towards a market of competition, if we take into consideration the number of small and medium size companies which went bankrupt, including because the economy didn't function on the horizontal due to the arrears of the state to the economic agents which gained contracts financed from the state budget.

Not last, even the law for public acquisitions became a hindrance to the development of competition, the possible types of manipulating its implementation having the purpose to eliminate the real competition, and when the competition was present, the repeatability of the operation end in killing the project, which was subject of the tender.

If we take only the example of the highways construction in Romania, the contribution of the state to increasing the international capacity for competition of the national economy through a proper infrastructure of transportation is minimal, under the conditions of a global competition. Likewise, the benefits of the single European market, in which Romania is part, can not be used at the maximum due to the same reasons of a low national capacity for competition induced by the level of work productivity, access to advanced technologies and the slow pace of the actually implemented innovations.

Such reality splits objectively the opinions between two priorities: either achieving the critical weight of the subject of competition, of the market actors or even of the market, or the necessity for a better regulation of an optimal environment for competition, which to develop an authentic competitive capacity.

Such a choice needs objectively some premises for approach, because linking a dynamic phenomenon, such as competition – seen as a way of living for the economic agents within a market economy – with the regulation which should be efficient, doesn't preclude the conditions necessary for competitiveness at the national level.

Therefore, before getting to some measures aiming to improve the regulation of competition, we need first to rememorize some these useful to our approach.

What does the theory say

In Romania, the functional market economy is, first a **gain of transition** initially formalized on the basis of the constitutional provisions and by the start of the systemic reforms. The first country which did this formalization, mainly on political grounds were the United States, from the perspective of negotiating a new trade agreement (1992) and, subsequently by making permanent the clause of the most favoured nation (1997). Second, the competition market economy was a gain of the endeavour for European integration, resistance to competition on the single market, criterion for the accession of Romania the EU structures being the validation of an internal market with competitive capacity **normed** by the regulations of competition and **economic** per se, based on the comparative and competitive advantages.

Theory says that the equality of the participants on the market, where the demand and offer act, is the premises for the manifestation of an ideal competition. The practice, however, shows that there can not be a perfect competition, among the distorting factors being a) the fact that the economy administers rare resources; b) the intervention of the economic subject is behaviourally unpredictable; c) the economic laws address the rational economic agents, or it is exactly the man, with his professional and political functions, who may influence competition.

Furthermore, globalization, as an acknowledged curiosity, deepened the information asymmetry within an era of easy communication, which bonded the free world and made the isolated ones to emerge. The asymmetry of information has major effects in the field of competition, it brings advantages and disadvantages in the field of competition, while the decisions can be dominated by wrong choices, badly affected by the moral hazard or by the so-called "flock

effect”, synthesizing the opinion that if some can risk more, why shouldn’t other do the same?

According to J. Stiglitz, laureate of the Nobel Prize for economy, globalization, also in terms of competition, displayed the tendency to stabilize the wages at the lowest level, the low cost of the work force giving competitive power, while the competition causing the unemployment rate to increase. This is an adverse effect of the economic growth on competitive basis, shown empirically, and which must be taken into consideration exactly for developing a better regulation.

Within the same context, we consider that the relation between competitiveness and competition must be determined correctly in terms of correlations and of the effects of mutual synergy, both at the micro, and at the macro level.

The intrinsic competitiveness of a company usually is the premises for an opportunity to compete on the market, as competition is the process which validates the competitiveness of a company in front of a generic (retail) or specific (tenders) demand. In developing the regulation, this relation may be considered as capital, because the incorrect propensity towards regulating the competition may affect/distort the national competitiveness.

The effects are manifested at the level of the insufficient national offer (in terms of quantity and structure), at the level of prices and inflation, of the pressure on imports and, finally, on the external imbalances, with consequences on the exchange rate. We conclude from here that the competition policy, by its regulation and enforcement, must belong to a much more complicated mix of policies, so that the domestic market is not turned into an exclusive monopoly of the importers, or into a monopoly of some importers, such as it is the case with the food products sold in hypermarkets.

The same competitiveness – competition drive us towards another reflection, the stance of the national economy in terms of its development, in relation with the minimal conditions of competitiveness. We distinguish in the historical evolution (Porter, M.E. and Schwab, K. in „Report of global competitiveness 2008 – 2009”), economies based on production factors, economies based on efficiency and economies based on innovation.

The development of the subject in terms of fundamenting the factors of competitiveness deserves a separate study, but for the

necessities of our study we consider that any type of economy, once its bases are identified, is competitive for different reasons, which for a specific present, must not be eluded or generalized.

Agriculture and competitiveness

In our opinion, the Romanian economy has something from everything, and this is not necessarily a quality or advantage, rather an effect of the public policies, not always focused on areas and priorities, to which add the lack of continuity during periods of consolidation on a specific package of conditions which define a sustainable basis of the national competitiveness. The same judgement is valid for agriculture and for the agri-food products, from the raw materials to the end product.

From the numerous studies conducted by the National Institute for economic Research, we consider that the Romanian economy is getting closer very much to the competition conditions given by the production factors, the competitiveness being given by the lower prices given by the lower technological complexity of the products (let us say, medium technology), with still low added value, work intensive, with badly paid work, undergoing assimilation of modern technologies, particularly through green-field investments.

We can not avoid mentioning that there are problems due to the infrastructure network whose development is delayed, to problems of macrostability, while the entrepreneurs should be more professionally active, the economic policies should be pro-active for the development and consolidation of the entrepreneurial spirit, so that it becomes a real backbone of the economy.

As expected, and partially accomplished, we need economic competition on the horizontal, between independent economic agents, not between them and the state budget, which clearly produces serious price distortions and which sets false levels of the competitiveness on the national market. Under these conditions we witness drainage of social public resources whose efficiency is more than arguable, while generating administrative inflation.

At the same time, we should also notice corporative policies for the development and sales of innovating technologies and products, but in relation to the proportion of the other conditions of the national competitiveness, we must admit that we are still in incipient stages which can be surpassed with the structural funds from the European Union.

An analysis of the place of agriculture within the overall real economy, on the basis of the economic-financial situations reported at the end of 2009, the fiscal agricultural activity reported by the relevant companies, reveals interesting aspects concerning their competitive capacity.

The synthesis of the results which we will present subsequently, relies on a study which started in 2004 within CCFM - „Victor Slăvescu”, entitled the “Financial State of Romania”, now at the 2010 edition. In its microeconomic part, the study processes the balance sheets taken from the Ministry of Public Finances, using secondary indicators developed using own technology, with formulations and definitions of the significance using the CAEN nomenclature.

Several tables are attached to the article, presenting the 2009 performance in the real economy of Romania, which reveals the standing of the main branches of the national economy in relation with the national average. The different annual editions of this study can be browsed at the headquarters of CCFM - „Victor Slăvescu”.

The calculated performance indicators must be regarded either as generators of competitiveness, or as reflection of it on the competition arena. Let us start with the significance of the staff employed in agriculture. According to the economic-financial statements, the staff employed in agriculture represented in 2009, just 4.26% of the total staff employed in the real economy.

As number of companies, the proportion of agriculture is 3.15% of the total number of registered companies. In terms of own capital, agriculture stands for 4.07% of the total capital, while the corporate immobilisations represent 4.19% and the total assets 3.95%.

The expenditure with the staff amounts to 2.42%, and the expenditure with taxes and dues for the staff amount to 2.41%. The turnover represents just 2.58% of the total turnover of the real economy, as measured through the economic-financial statements. The profit from exploitation was 2.54%, while the gross and net profits were of 1.87% and 1.81%, respectively.

The analysis of these indicators shows that the Romanian agriculture is on positions 7-8 within the real economy, showing the level of utilization of the production factors' potential; this has to make us reflect on the competitive capacity.

The competition capacity of the agricultural companies, which may be reflected as mirroring the challenges on the market, has also

been analysed with secondary indicators, such as those expressing different forms of profitability.

Thus, the gross profitability of the income for the companies involved in agriculture, calculated as ratio of the gross profit to the total income, was 66% of the average gross profitability in the national economy. The profitability of the consumed resources (gross profit from exploitation/exploitation expenditure) represents 89% from the same indicator at the national level, but the economic profitability of the total assets (gross profit/total assets) is just 47%. The net margin of exploitation (ratio of the gross profit from exploitation and the turnover) is 98% of the average value of the national economy, while the net economic profitability of the capital (ratio of the gross profit from exploitation and the own capital plus the medium and long-term debts) is 62%, under the conditions in which the average cost of labour per person in agriculture represents just 57% of the average value in the real economy.

Some conclusions

1. An insufficient utilization of the existing potential can be noticed in the tax-paying agriculture, which shows the need to enforce proper policies. As mentioned, agriculture stands on places 7-8 among the branches of the national economy classified according to CAEN 2008.

2. A substantial difference exists from the national economy average in terms of the gross profitability of the incomes from agriculture. This is due either to price distortion due to the dumping of the imported products, or to the profit which is eroded by the cost of bringing the products to the market, caused by the deficient infrastructure of collection and transport.

3. The economic profitability of the assets is low, below 50% of the national economy average, showing high costs of the products generated by the technological level of the assets, and even if they are costly, they are lacking productivity. This indicator is in contradiction with the indicator of the technical endowment of the work (relation of the immobilised assets to the staff number) which actually is at the average level of the national economy, but the average cost of the work per person compared to the national economy average (57%) explains the lack of stimuli by transparent

incomes of the employees, as reflected by the low level of work productivity, which is just 60% of the national economy average.

Within the context of this brief analysis (while the difference from other branches of the national economy is even larger) the question is whether we want to see in agriculture a key branch of the Romanian economy.

If the answer is yes – and this is confirmed permanently only by the appeal to potential, without capitalising on it by consistent public policies – it is necessary to approach in a new way the policies and regulations on competition, within the European context, which to allow agriculture to advance towards a key place, according to its potential. The start of this process of advancement must be seen subsequently as a migration, over a clear time frame, which to strengthen the competitiveness of the agriculture, at least at the level of the average competitiveness of the national economy.

We conclude by saying that the measures of stimulation of a correct national competitive environment, in relation with the necessity of resilience to the foreign competition, must be accompanied by measures supporting the agriculture towards achieving the key position within the national economy, before the “*lawful competition*” on the internal EU market; we are speaking here of the necessity to accomplish a real comparative structure of the cost of the Romanian agricultural products with that of the products challenging the Romanian products on the market.

Table no. 1

**Performance indicators for the activity of the commercial companies in
2009, grouped by branch of the national economy**

- % -

No.	Branch of the national economy	Gross profitability of the incomes	Economic profitability of the assets	Profitability of the consumed resources	Rate of the net exploitation margin	Net economic profitability of the capital
1	Agriculture	4.73	3.13	7.94	8.69	8.47
2	Extractive industry	11.38	5.99	10.34	10.48	8.45
3	Processing industry	4.49	4.44	6.45	6.56	10.93
4	Electrical and thermal energy, gases, water	5.59	3.14	6.40	6.59	5.18
5	Constructions	7.60	7.10	9.84	9.74	19.27
6	Trade, car-motor, personal or household appliances repairing and maintenance	3.30	5.58	4.19	4.18	16.58
7	Hotels and restaurants	5.31	2.92	7.34	7.88	5.90
8	Transport, storage and communications	4.80	2.74	5.76	6.21	5.53
9	Real estate transactions, rents and services to enterprises	26.07	14.70	37.45	30.05	23.23
10	Education	12.02	9.75	13.76	14.09	20.19
11	Health and social assistance	11.49	11.01	14.55	13.62	20.79
12	Other collective social and personal services	7.16	8.95	9.85	10.01	22.25
	Total	7.15	6.60	8.91	8.82	13.72

Table no. 2

**Performance indicators for the activity of the commercial companies in
2009, grouped by branch of the national economy
- continuation -**

No.	Branch of the national economy	Speed of asset rotation - % -	Coefficient of capital rotation - % -	Work productivity - lei/worker -	Average cost of work - lei/worker -	Technical endowment of the work - lei/worker -
1	Agriculture	66.18	97.53	9267172.89	947360.95	10428761.78
2	Extractive industry	52.59	80.65	28519899.90	5975463.25	45056470.34
3	Processing industry	98.96	166.51	14093479.34	1881787.26	8854366.18
4	Electrical and thermal energy, gases, water	56.20	78.57	44639710.47	5011649.62	64234838.69
5	Constructions	93.42	197.89	13721240.09	1639366.91	7174685.87
6	Trade, car-motor, personal or household appliances repairing and maintenance	169.09	396.54	18582500.02	983326.57	4120213.84
7	Hotels and restaurants	55.00	74.90	5480508.33	1060435.54	8527849.06
8	Transport, storage and communications	56.98	89.02	11637626.65	2349090.77	16914409.39
9	Real estate transactions, rents and services to enterprises	56.41	77.32	13495560.49	2039643.99	18780084.32
10	Education	81.07	143.36	2273406.12	588556.32	1876995.38
11	Health and social assistance	95.85	152.61	5380182.38	1393305.26	3834856.95
12	Other collective social and personal services	125.07	222.27	7900857.04	1234398.40	3960671.16
	Total	92.32	155.63	15318185.11	1666677.28	10609141.91

Table no.3

**Performance indicators for the activity of the commercial companies in
2009, grouped by branch of the national economy
- continuation -**

% -

No.	Branch of the national economy	Proportion of staff expenditure within total expenditure	Proportion of amortization expenditure within total expenditure	Financial profitability of the permanent capital	Patrimony solvency	General solvency
1	Agriculture	9.34	5.67	5.41	38.71	107.20
2	Extractive industry	20.67	13.22	10.37	53.16	94.64
3	Processing industry	13.12	5.21	8.06	39.41	98.60
4	Electrical and thermal energy, gases, water	10.90	6.56	4.81	59.47	115.28
5	Constructions	12.07	4.36	16.10	28.46	115.01
6	Trade, car-motor, personal or household appliances repairing and maintenance	5.30	1.94	13.58	23.92	108.07
7	Hotels and restaurants	18.02	7.12	4.34	30.61	66.66
8	Transport, storage and communications	18.72	8.99	4.64	26.38	85.00
9	Real estate transactions, rents and services to enterprises	18.83	10.83	21.82	40.18	97.95
10	Education	25.29	8.63	18.32	28.48	87.25
11	Health and social assistance	27.67	8.85	18.02	23.24	83.14
12	Other collective social and personal services	15.38	5.64	16.91	22.96	90.99
	Total	10.99	4.99	11.88	36.49	102.72

Microeconomics

Table no.4

**Performance indicators for the activity of the commercial companies in
2009, grouped by branch of the national economy
- continuation -**

- % -

No.	Branch of the national economy	Immediate solvency	Global solvency	Rate of self financing	General indebtedness	Rate of financial debts
1	Agriculture	51.62	177.54	35.58	158.30	62.51
2	Extractive industry	53.44	249.14	45.55	88.12	26.68
3	Processing industry	56.71	168.31	38.65	153.73	42.54
4	Electrical and thermal energy, gases, water	66.70	280.38	52.33	68.15	24.81
5	Constructions	71.49	152.98	26.01	251.31	69.65
6	Trade, car-motor, personal or household appliances repairing and maintenance	63.73	131.19	23.97	318.02	71.42
7	Hotels and restaurants	28.50	144.62	30.50	226.67	120.64
8	Transport, storage and communications	35.73	156.43	22.91	279.03	157.55
9	Real estate transactions, rents and services to enterprises	44.34	175.11	38.35	148.91	75.73
10	Education	51.41	146.20	27.24	251.08	95.30
11	Health and social assistance	41.18	128.43	23.57	330.33	159.22
12	Other collective social and personal services	50.09	132.45	22.51	335.48	135.34
	Total	55.86	166.42	34.52	174.05	60.90

Table no. 5

**Performance indicators for the activity of the commercial companies in
2009, grouped by branch of the national economy
- continuation -**

%

No.	Branch of the national economy	Rate of own working balance - % -	Rate of immediate liquidity - % -	Financial stability - % -	Period of paying back debts - days -
1	Agriculture	56.07	9.42	159.97	364.55
2	Extractive industry	61.96	12.83	374.88	314.85
3	Processing industry	67.06	12.41	235.08	236.41
4	Electrical and thermal energy, gases, water	70.86	29.73	402.99	253.64
5	Constructions	56.97	18.07	143.58	273.24
6	Trade, car-motor, personal or household appliances repairing and maintenance	66.35	11.46	140.02	170.77
7	Hotels and restaurants	38.89	14.78	82.89	500.65
8	Transport, storage and communications	30.01	13.71	63.47	444.21
9	Real estate transactions, rents and services to enterprises	52.89	22.74	132.06	400.05
10	Education	43.26	30.39	104.93	327.32
11	Health and social assistance	35.46	35.06	62.80	304.77
12	Other collective social and personal services	38.13	27.28	73.89	234.09
Total		57.66	15.40	164.20	253.69