

Evaluation of Agricultural Products' Quality and Terms of Trade – Empiric Evidences within the Single Market

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Abstract. The terms of trade are significant determinants of the aggregated trade and their quantification helps to explain the global disequilibria at world level. In the double context of disproportions created by the world crisis affecting the economies and of recent integration into the EU common market, the paper investigates Romania's agricultural foreign trade sensitivity during the first three years of accession. The assessments on intra-Community agri-food trade highlighted the existing opportunities of the products with expressed export potential and the areas affected by the net imports respectively, by commodity groups.

Keywords: agri-food trade, intra-Community market, terms of trade, unit value indices

Introduction. The terms of trade are significant determinants of the aggregated trade and their quantification helps to explain the global disequilibria at world level.

In the double context of disproportions created by the world crisis affecting the economies and of recent integration into the EU common market, the paper investigates Romania's agricultural foreign trade sensitivity during the first three years of accession. The assessments on intra-Community agri-food trade highlighted the existing opportunities of the products with expressed export potential and the areas affected by the net imports respectively, by commodity groups.

Aims and objectives. The research focused on foreign agri-food trade evolution subsequent to the recent enlargements of the EU Single Market, investigating the effects upon the quality of agricultural exchanged products and the evolution of their terms of trade. Since the importance of the EU has continuously increased, the assessments comprised the intra-Community agri-food trade flows (Brasili, 2008). The paper examined trends of the agri-food trade that revealed performance or deficiencies facing external competitiveness, including sensitive areas of the food sector which can be particularly exposed to the global crisis.

Materials and methods. The analyses covered the products grouped by sections of the Combined Nomenclature (CN) according to the Common Customs Tariff. The study-case material was based on empiric evidences of Romania's agri-food trade flows within the period 2007-2010, using EUROSTAT and other EC trade statistics database. The assessments have been made on products aggregated by chapters/sections of the CN, resulting in the main evolution and structural trends, the trade balance determinants and changes in relation to the agri-food trade unit value indices.

The method of assessment the quality of agri-food trade flows based on calculation of relative unit value indices, used the analysis of the vertical or horizontal integration of agri-food products (Rusali, 2010). The export and import indices have been used for the calculation of the terms of trade of the agri-food products. Defined as ratio of export prices to import prices, the results that indicate growth reveal an improvement of the terms of trade of the country (Rusali, 2011).

The quality of exports has been evaluated in relation to imports, by the range of the relative unit values within the classification thresholds of $\pm 15\%$ (Hine, 1998). Consequently, when the unit value indices are lower than 0.85 the products are considered as having low quality, while when these are higher than 1.15 the products are considered of high quality, traded at higher average prices. Similarly, when the unit value index ranges from 0.85 to 1.15, it is considered that the products are horizontally integrated (homogenous); the products are vertically differentiated when the unit values of the trade flows do not fall into the $\pm 15\%$ margin.

Results and Discussion. Using the method of assessment the unit value indices, the investigations provided empiric evidences concerning the level of integration of the agricultural trade flows and changes in the evolution of post-accession terms of trade, as well as upon the quality of the agri-food foreign trade.

The applied theory result that the horizontal integration corresponding to the trade with goods having similar qualities as well as other important characteristics for consumers is mainly determined by the economies of scale and by the consumers' preferences. On the other hand, the vertical integration corresponds to the trade with final goods having different qualities and prices or trade with final and intermediary goods produced in the same sector, being determined by the endowment in factors, which creates comparative advantages.

The assessments of the quality of agricultural foreign trade provided empiric results upon the level of integration of the agricultural trade flows and changes in the post-accession evolution of their terms of trade, e.g.: deterioration of the terms of trade was evidenced for fish, vegetables, cocoa and cocoa preparations and miscellaneous edible preparations, while an improvement of the terms of trade was revealed for dairy products, live plants and flower products, cereals, preparations of cereals, beverages, meat and preparations of vegetables and fruits.

Conclusion. The external evolution of Romania's agri-food products indicates trade disadvantage compared to the EU products, dependence on imported processed products and of animal origin, the low competitiveness of the processing sector being the main shortcoming in obtaining higher revenue from exports. The influences on food markets were reflected by attenuated import flows, narrow supply ranges, and also by the reduction of foreign agri-food trade deficit, however through less competitive exports rather than on the basis of imports.

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