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Serbian Academy of Sciences and Arts
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Serbian Association
of Agricultural Economists

AGRI-FOOD SECTOR IN SERBIA

STATE AND CHALLENGES

Edited by

Academician Dragan Škorić
Danilo Tomić
Vesna Popović

Belgrade, 2013

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AGRICULTURE OF THE WESTERN BALKAN COUNTRIES IN GLOBALISATION AND LIBERALISATION PROCESSES

Danilo Tomić, Zoran Njegovan

INTRODUCTION

The problems of development of agriculture, its role and significance in globalised and trends of the world economy that have been more significantly liberalised within the last decades, make the subjects of permanent and comprehensive study in a larger number of paper. In that context, it is necessary to point out that standard development theory that is used in the developing countries emphasises, by the rule, the competitiveness as one of the main objectives. Such policy that is imposed by the developed west assumes, in essence, the totality without diversities and variations, the totality without frictions and conflicts that is governed by perfect awareness, which is not the case in practise. That is why there are large qualitative and quantitative differences in global framework. On the one side, they reproduce poverty and low level of development, and, on the other hand, they reproduce wealth and high level of development. In any case, the German economists proved in the 19th century already that such theories represented the quantification of values without quality, workforce without knowledge and capital without knowledge. The American economist Krugman [9] also points out the same stating three important threats in the use of the competitiveness concept: the *first* is reflected in inadequate spending of the state/public money aimed at affecting the development of country's competitiveness; the *second* leads to a specific kind of protectionism, and even trade wars; and the *third*, most important one, results with inadequate national policies related to the most important development problems. Having that in mind, a sort of confusion related to the selection of an efficient development concept in the globalisation and liberalisation conditions in less developed countries and region, such as the region of the Western Balkan as one of the most underdeveloped regions in Europe is not surprising.

When it comes to the developed countries of the world, the fact is that liberal world order experienced its affirmation in the period from after the World War II all until the end of the 1970s. The intervention industrial (IP), trade, and technological policies (ITT) were used for promotion of

infantile industries and agriculture¹. This could be said for the period preceding the accomplishing of a high development level when they became competitive. Only then, those countries turn to liberalisation since they have higher chances to succeed compared to less developed countries. In that sense, the developed countries go even further to press less developed countries up to a significant extent to make steps towards more radical liberalisation and international opening. In Serbia, as well as in other western Balkan countries such a trend resulted with drastic decline in development performances. In concrete political-economic conditions, such a phenomenon resulted with unique development disorientation as an even more important development limitation.

It can be noticed that the belief that globalised market, namely the economic liberalism (economic openness and free trade) will automatically create economic harmony is capable of seducing less developed countries [11]. Therefore, it is believed that warnings of numerous authors², starting from Friedrich List (which he presented in 1840 already) up to Chang, Ha-J, 2003, Reinert, E., 2006, as well as Brunet, A. and Guichard, J. P., 2011 that a country should not give in to free trade before it gets industrialised are to be taken into account even today from the aspect of conceptual designing of overall and agrarian development. The failures to formulate the development and growth strategies at a macro level can be hardly remedied with instruments and measures of national policy.

1. RESULTS OF THE RESEARCH AND DISCUSSION

1.1. General Economic Conditions in Serbia and Western Balkan Countries

The process of transition of (agro) economy of the Western Balkan countries started in 1989. Despite numerous new laws and regulations that have been harmonised in parallel with the EU legislation, as well as creating of new institutions, all these countries have achieved relatively modest results. Significant, and most of all essential reasons for failure can be found in the fact that transformation and transition processes, by the rule, do not happen within a relatively short historical moment where

¹ See more in: [23], [22], [11], [12], [13 and 14].

² Among a truly large number of authors who could be analysed in historical perspective, we listed only some of them who are probably less known in this area.

there are no clear – obvious situations and that accelerated changes in the global framework aggravate and disorient those less developed – require certain preparation period. In those terms, the situation is practically similar to the one in other Western Balkan countries.

The process of privatisation has also been implemented with less success since the enforcement of the Law on privatisation was inadequate in all the countries. The era of the so-called selling of socially owned enterprises started, and with particularly negative results in the sector of agriculture. The funds obtained based on this procedure were not invested in production, investments and new jobs but they were mainly used to resolve the social issues that had piled up. The orientation towards radical liberalisation in the countries that were practically not ready and that were disoriented caused numerous negative consequences in economic, development, and social spheres. The basis of failure consists of drastic increase of the number of unemployed, deepened poverty, enormous growth of external and internal debt, etc. These problems were even more radicalised during the economic crisis after 2009. In the meantime, only the Croatian application for the EU membership has been accepted and it became a Member State with full membership. Other Western Balkan countries have not progressed much and they are mainly in mutually similar positions.

1.2. General Economic Indicators

Competitiveness is promoted as the success crucial factor at domestic and international market. Irrespective if it is based on education, entrepreneurship, innovations, or some other factor. At the age of globalisation and liberalisation, it is imposed as an imperative to the Western Balkan countries. However, the achieved level of their competitiveness is relatively low measured by the Global Competitiveness Index (GCI) (Tab. 1).

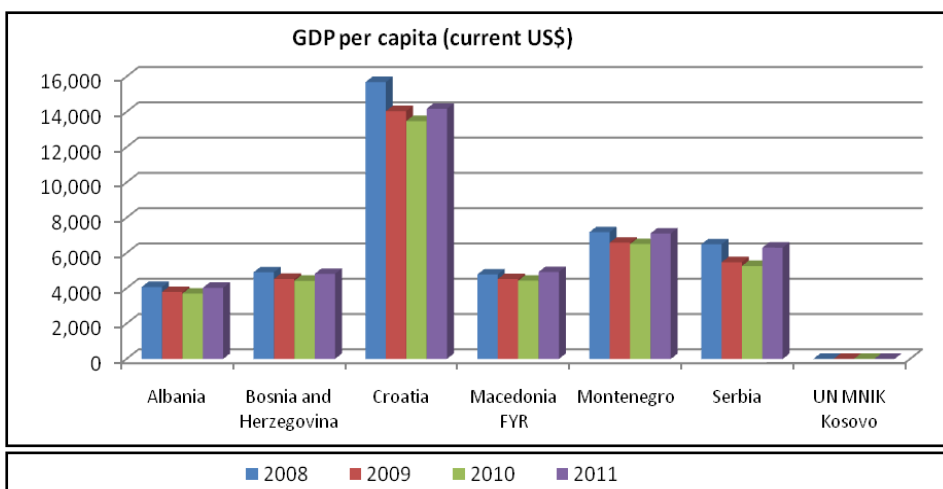
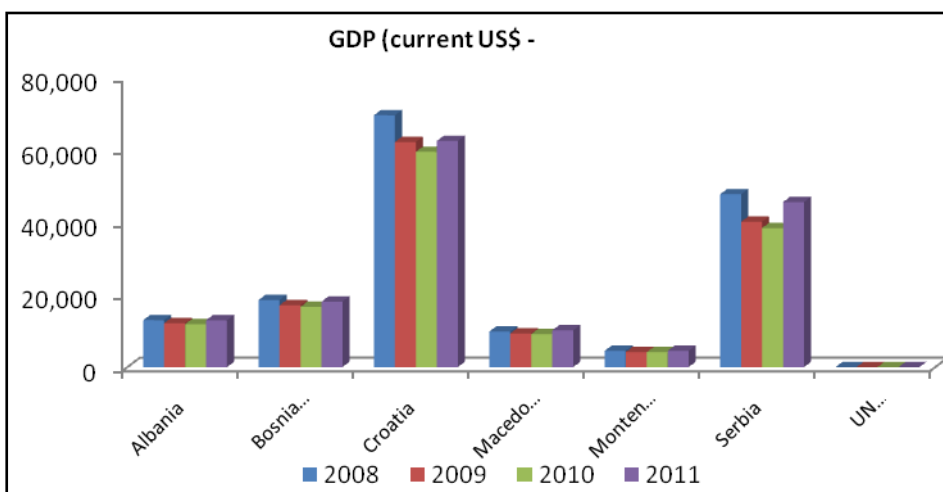
The competitive position of the analysed countries is primarily the consequence of their inadequate growth and development. Gross domestic product, as the most relevant measure of growth, in its overall expression and analysed per capita indicates a relatively narrowed material basis for growth and development, Figures 1 and 2.

<i>Country (out of 142)</i>	<i>Rank (2011-2012)</i>	<i>GCI (2011-2012)</i>	<i>Rank (2010-2011)</i>
-----------------------------	-------------------------	------------------------	-------------------------

Albania	78	4.06	88
Bosnia and Herzegovina	100	3.83	102
Croatia	76	4.08	77
Macedonia FYR	79	4.05	79
Montenegro	60	4.27	49
Serbia	95	3.88	96
UNMIK Kosovo	n.a.	n.a.	n.a.

Table 1: Global Competitiveness Index, 2011-2012, the rank according to 2010-2011

Source: [6]

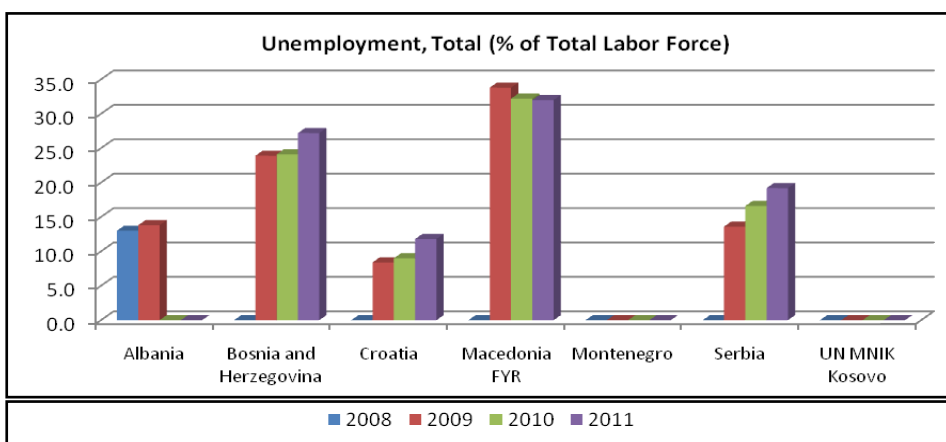
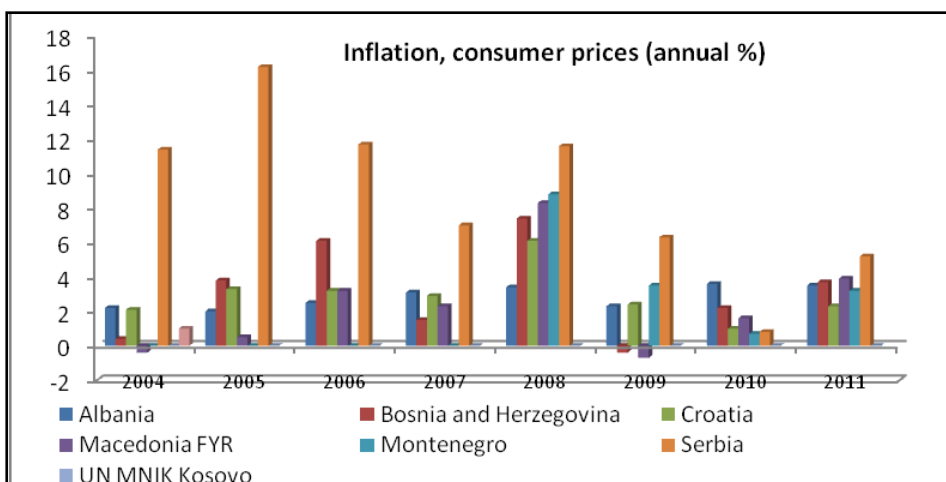


Figures 1-2: Indicators of growth and development of economy of Serbia and Western Balkan countries

Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available.

It comes out that the highest gross domestic product (GDP) is registered in Croatia and Serbia. This is not surprising since they are two largest and until recently most developed countries of the region. At the same time, its distribution analysed per capita, shows that drastic differences are being alleviated to a certain extent. Thus, Montenegro accomplishes proportionally larger GDP per capita compared to Serbia, which points to a relatively extensive character of growth of Serbian economy.

During the analysed period, certain staggering in basic macroeconomic aggregates was registered in all the countries of the region. This refers to the trends in consumer prices and inflation indicator that is based on them, Figures 3 and 4.



Figures 3 and 4: Macroeconomic indicators of the Western Balkan countries

Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available. Slow restructuring and diminishing of a real sector in the analysed countries leads to a significant unemployment level. It can be concluded that the lowest unemployment rate is registered in Croatia, which has come closer to the average unemployment rate in the EU-27, Figure 4. In addition, considering the unfavourable economic structure, the countries of the region are force to import foreign savings indebting themselves or opening themselves for the entering of foreign capital. The trends of inflow of foreign direct investments also point to that, Figure 5.

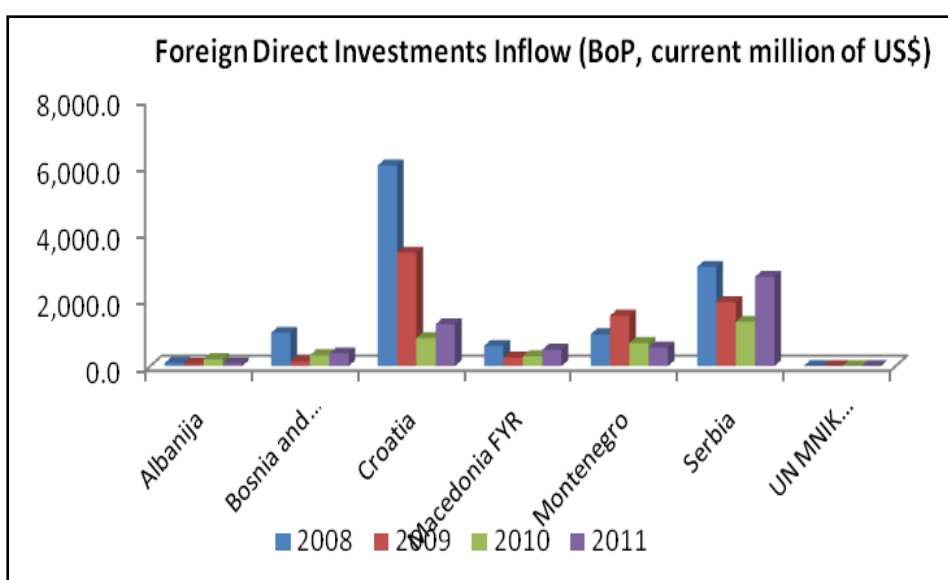
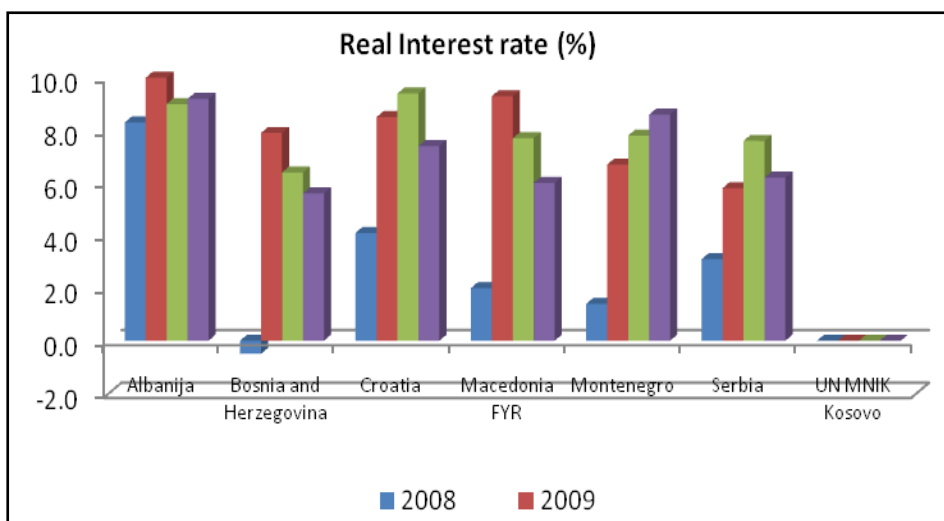
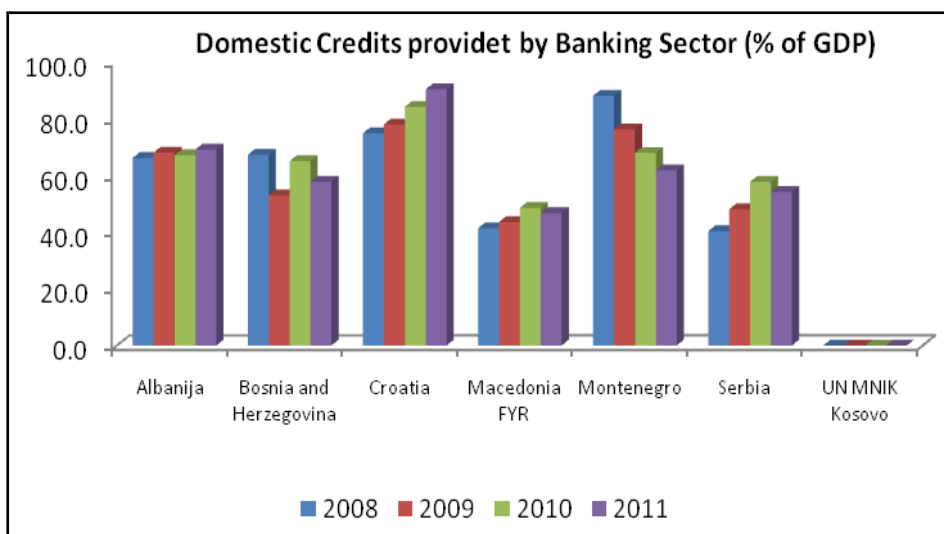


Figure 5: Foreign direct investments of the Western Balkan countries
Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available.

Structure is such that foreign capital is established primarily by widening its own market. Looking from another side, financial power of the Western Balkan countries is such that domestic investors do not invest too much either. The share of domestic loans in the total GDP also indicates

that, Figure 6, as well as the level of real interest rates (prices of capital, Fig. 7).

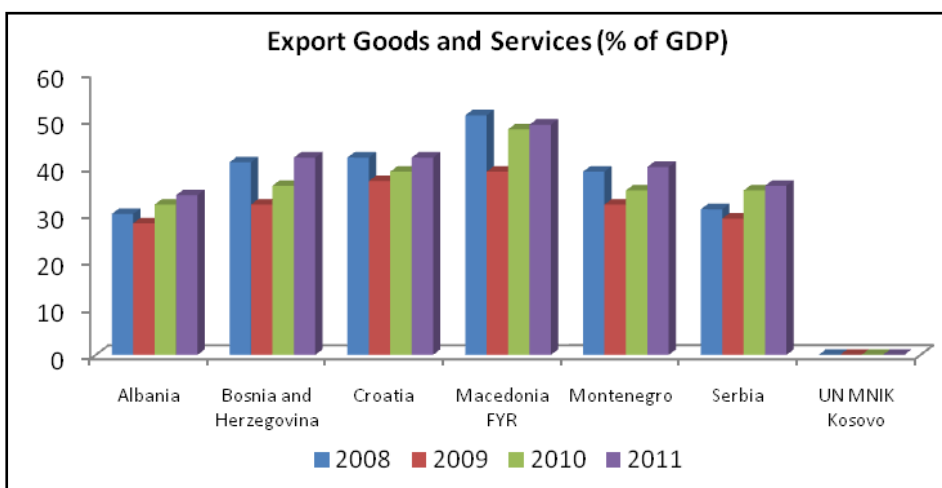
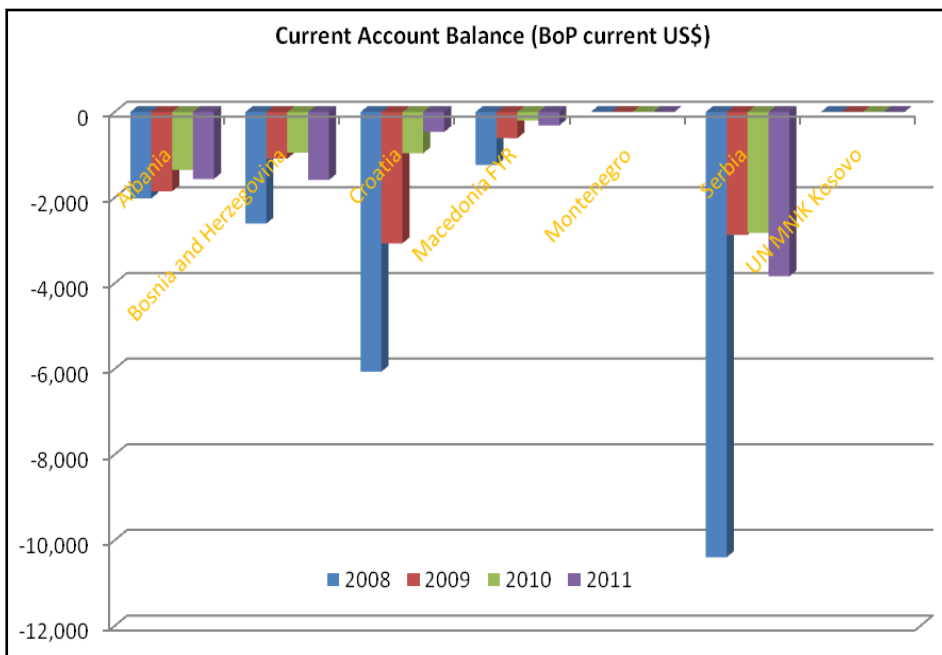


Figures 6 and 7: Amount of share of domestic loans in GDP and trends of real interest rates

Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available.

Due to that, the expressed trend in the balance of payments of the analysed countries is negative, Figure 8. In that sense, it is important to increase export. However, the structure of export analysed according to

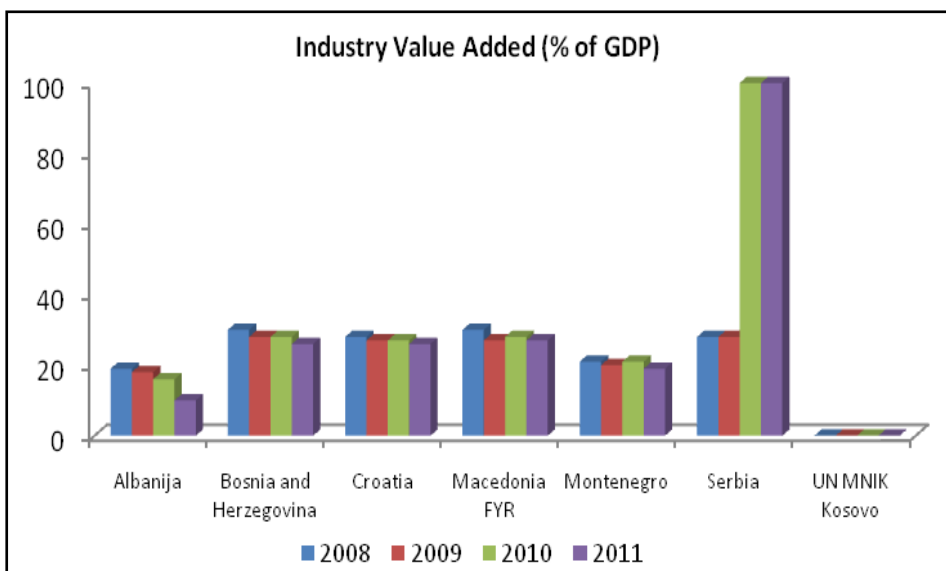
factorial product intensity, shows that the prevailing part of domestic export is based on resource (and primary products) and work-intensive products. That is why the scope of foreign trade exchange is still relatively modest, Figure 9.

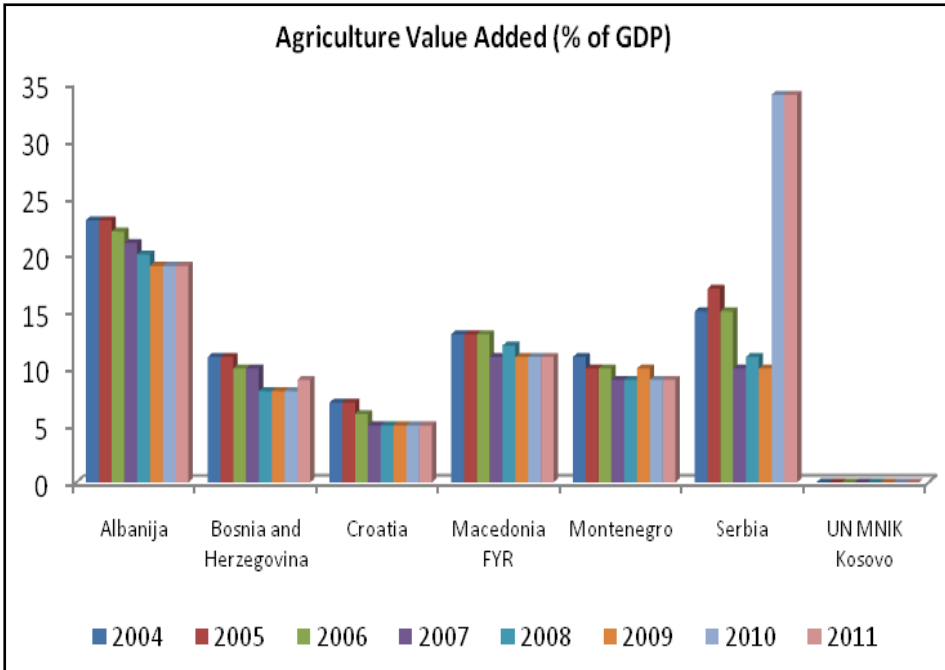


Figures 8 and 9: Balance of payments position and foreign trade exchange level

Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available.

The results of the real sector can be analysed through the value of added production that is accomplished by two most important economic activities, industry and agriculture, Figures 10 and 11.





Figures 10 and 11: Level of value added of industry and agriculture of the countries of the region

Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available. In the developed countries, the main holders of economic are other sectors while, by the rule, the share of agriculture is low, ranging to only several percentages [1]. Figure 12 show that agricultures of the Western Balkan countries confirm this tendency.

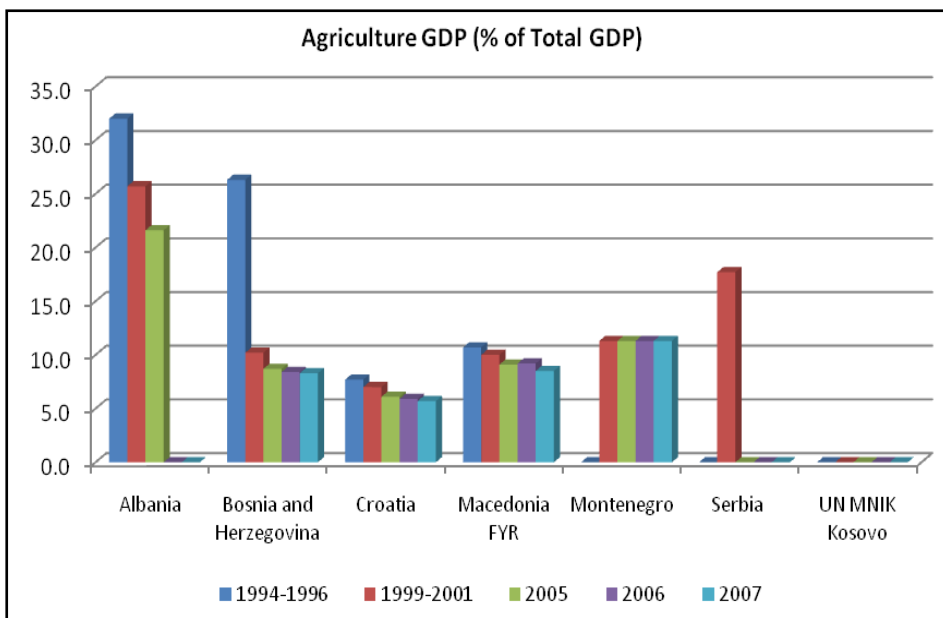


Figure 12: Level of the share of GDP of agriculture in the total GDP
 Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available.

As far as Serbia is concerned, the situation has not changed significantly for years now. That points to the fact that the rest of economy (primarily industry and services) does not manage to accomplish growth that is more dynamic yet, or develop stronger and pull the development of agricultural sector along.

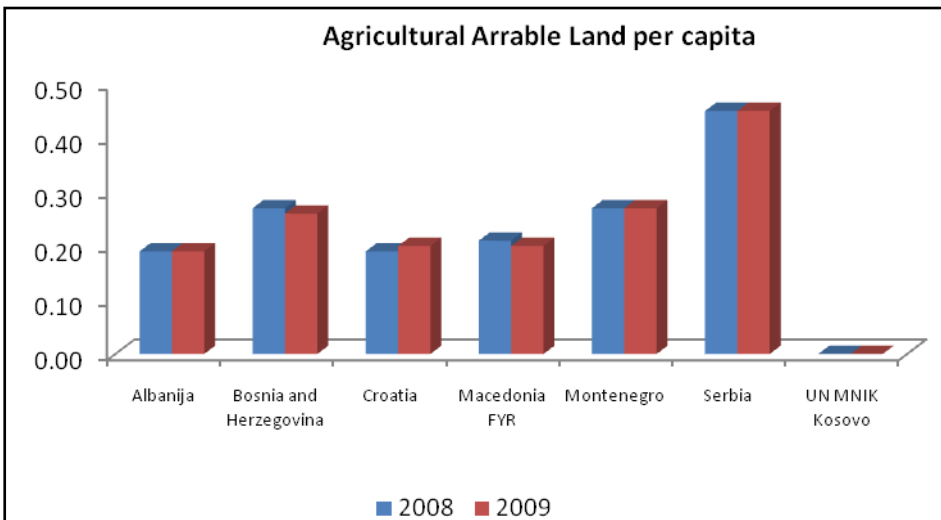
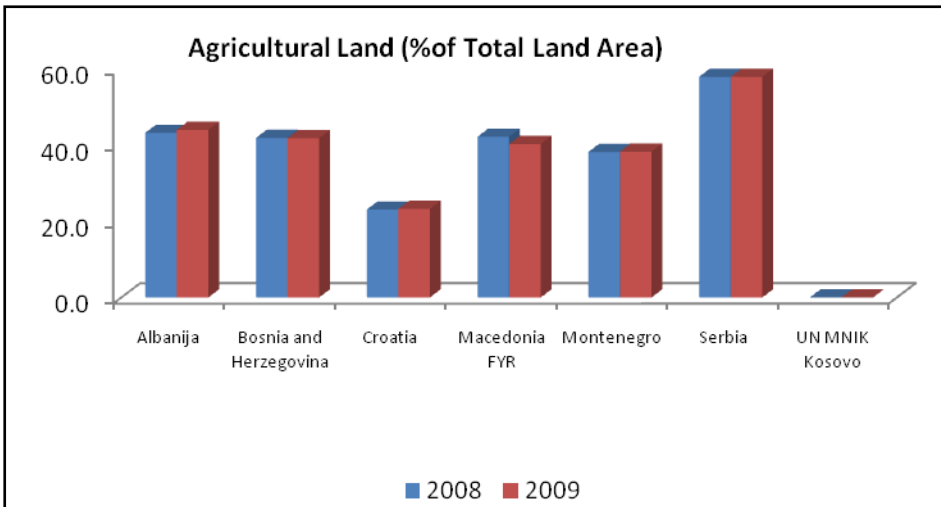
1.3. Resource Indicators

Agriculture of the Western Balkan countries is characterised by several shared indicators that also represent its key limitations. If we start from the land, we should point out that agricultures of the region have not managed to reform the issues related to land and land policy within the processes of privatisation and transition. The land reform is mainly carried out through restitution, land compensation and land distribution, while setting up of the land market is a rare practice. In addition, we should mention still large role of the state in the agro-business sector instead of the state dealing with creating of more favourable and stable environment that will stimulate private initiative. By the rule, this hides numerous problems. Furthermore,

the agrarian policy is often isolated from macro-economic policy, which results with a conflicting character of implementation of instruments and measures.

There is no doubt that the process of privatisation of agrarian sector is one of very important segments in which all Western Balkan countries have made mistakes. Furthermore, in implementation of strategies and policies of agrarian development the states deal much more with healing of consequences, i.e. *ad hoc* measures that were exerted instead of accepting the approach toward orientation to long-term measures that should stabilised and enhance the agro-business sector. There are a number of development strategies without adequate concepts and visions for the future, many politically oriented activities aimed at obtaining confidence of traditionally reliable segment of voters, frequent manipulation with the social status of senilised agrarian population. Social policy is not and it should not be the basis that some Ministry of Economy would use as the foundation for its activities. In such unclarified and undefined approach, the state acts as the manager and entrepreneur, which additionally burden the agrarian reality. Despite all of that, some countries have occasionally made some positive steps forward. However, the fact is that the results of the Western Balkan countries are still highly modest compared to the results of countries recording even some extent of development.

The potential, or as many emphasise, comparative advantages, are in place (although it could be discussed). If one analyses the total amount of agricultural land and the share of arable land in the total (Figures 13 and 14) it could be seen that some countries (primarily Croatia and Serbia) posses relatively high share of agricultural and arable land during the analysed period. In short, that share is close to average values for the EU-12 [4].

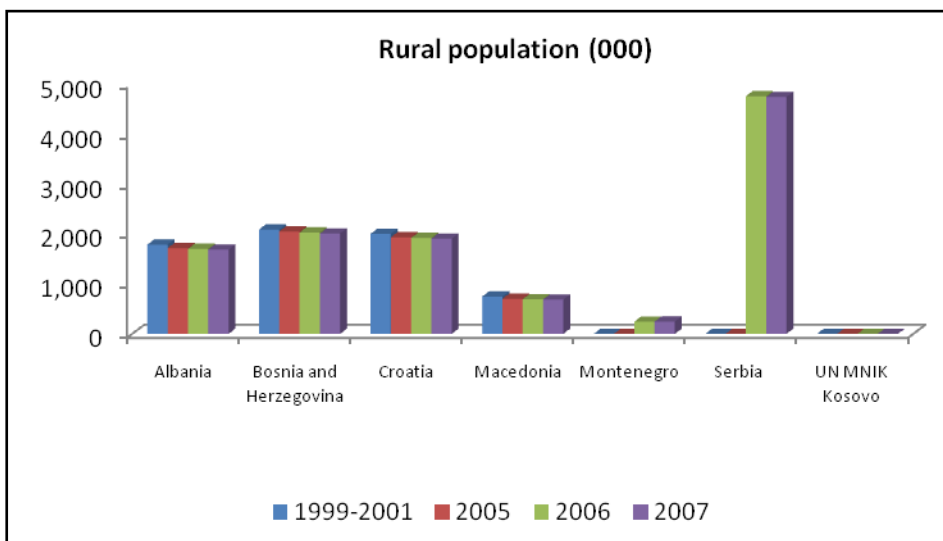
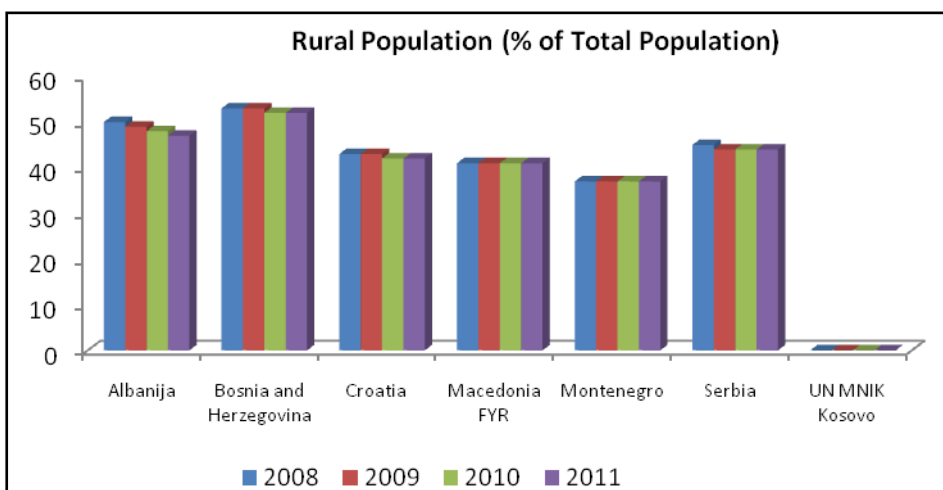


Figures 13 and 14: Agricultural land of the Western Balkan countries
 Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available.

The average size of an estate amounts to only several hectares. It is relatively small and it has not been changed significantly for decades now. In addition, the utilisation method of agricultural land is not adequate either. The implementation of irrigation and drainage is highly modest. Thus, Albania as relatively most underdeveloped countries until recently irrigates from 10 to 17% of agricultural land, while Croatia irrigates only

0.4% and Serbia from 05. to 0.6% (there are mainly no reliable data available for other countries).

In addition to physical resources, another very important factor of development is human capital that creates added value [7], namely human resources, Figures 15 and 16. Their role is to constantly create new or improve the existing technical-technological and management practices in order to increase the level of agricultural production. However, this is also not happening up to a significant extent yet. It remains to a near future to show whether agriculture could reply to such a challenge.



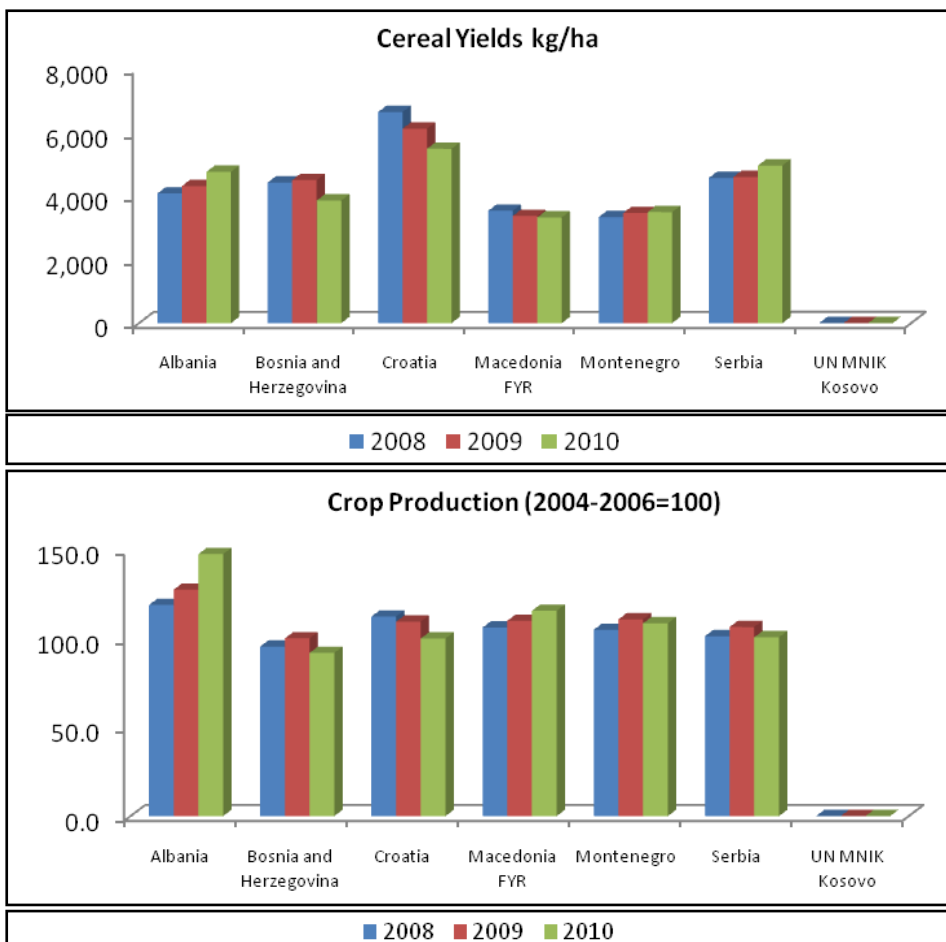
Figures 15 and 16: Rural population of the Western Balkan countries

Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available.

The share of rural population in the overall Western Balkan region has decreased insignificantly in the period from 1999 to 2007. However, it is still relatively high if we compare it with the data from previous studies [4], according to which 34% of population of new EU Member States live in rural areas. In these countries, the quantitative although human capital, which is still the basic indicator for comparison, emphasises the qualitative aspect of the workforce that is more important in contemporary conditions.

1.4. Indicators of Agricultural Production

The fact is that the development of agriculture in the Western Balkan countries is slowing down gradually. In addition, the differences in productivity (yields per unit) that have been expressed between the countries until now are being gradually neutralised. The countries that have been lagging behind until recently are currently recording more significant steps forward in terms of growth of productivity, while Serbia, for example, as traditionally important agricultural producer, has progressed slower in technological terms. The consequence is that other countries, although smaller in surface, and until recently much more underdeveloped, have come closer or even exceeded the productivity level of some agricultural crops of Serbia, Figures 17 and 18. This can be understood as a warning since the increase of production in the future will largely depend on the yield growth. It should be added that yields have been staggering within the last three decades.



Figures 17 and 18: Cereals yields and accomplished plant production
 Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available.

Similar can be said for livestock production. It has been affected even more with unstable conditions for doing business even more, as well as with frequent changes and inadequate measures of agrarian policy that are practised in the Western Balkan countries. This does not provide the conditions for progress to livestock breeding at all since the results of this branch are accomplished within a multi-annual approach, Figure 19.

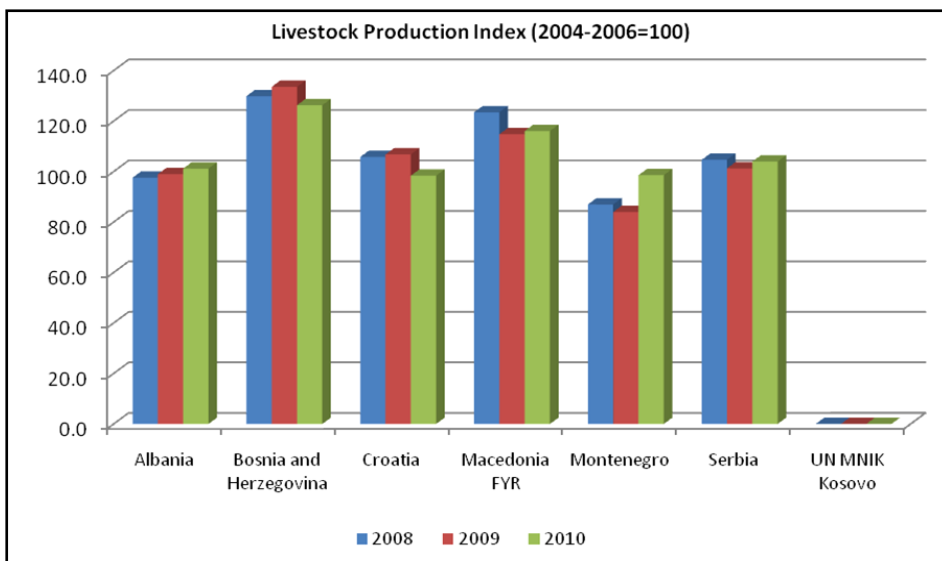


Figure 19: Livestock production in the Western Balkan countries

Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available. That refers in particular to cattle breeding as production where positive results take up to ten years. In connection with that, it can be expected that the development of cattle breeding will be based on production that is more intensive and the so-called industrial methods in the future.

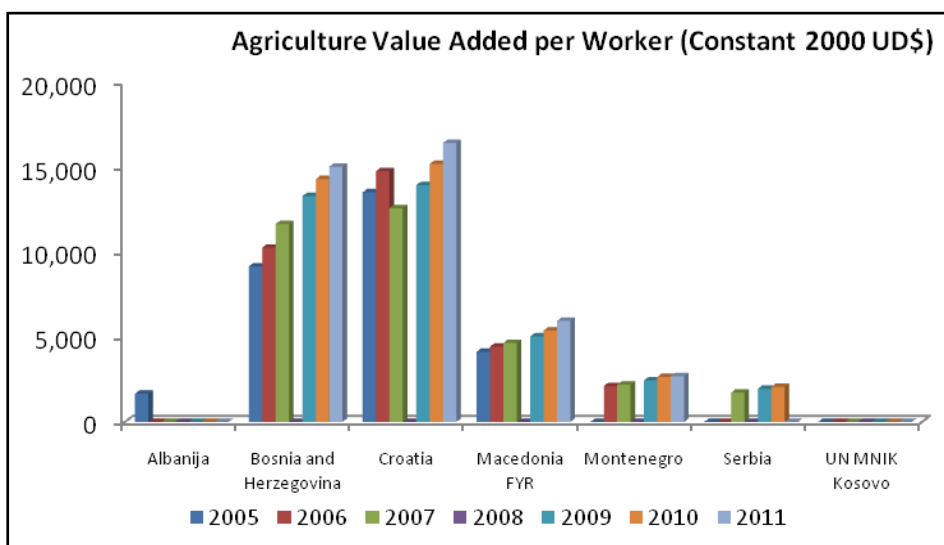
According to the applied concepts in livestock production, it is evaluated that specialised agricultural production units based on industrial and commercial principles will be created largely in the future period instead of production at agricultural holdings. Within the last few years, industrial livestock production has grown twice faster than production in mixed farmers' systems, and even three times faster than production in the system of pasture based breeding method.

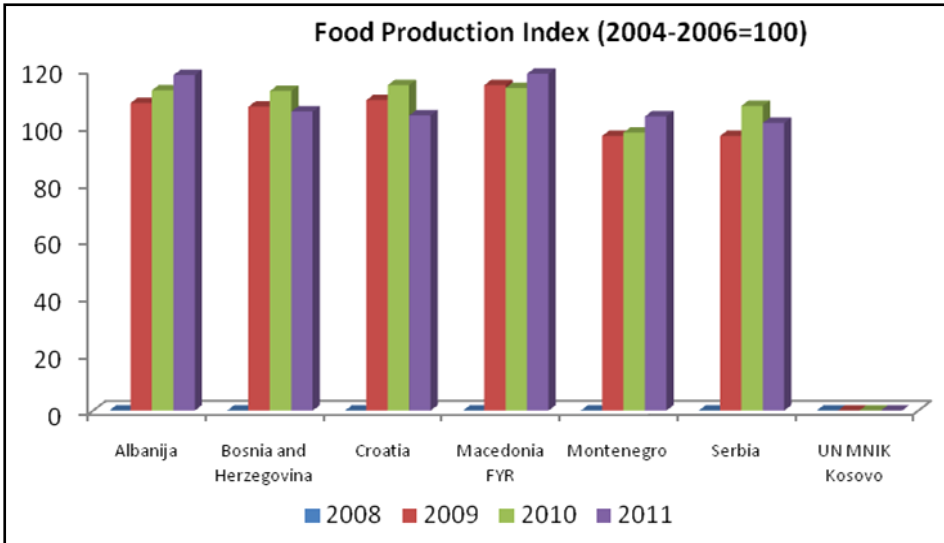
1.5. Value Indicators of Agriculture

Added value of agriculture analysed per employee represents the success indicator of this sector and a good basis for mutual comparisons, Figure 20. The overall picture is also completed by the fact that agricultural production as the support to food production industry in the countries

such as Serbia has not experienced more significant growth lately. Looking via food production index, Figure 21, we can see that Serbia and Montenegro have been lagging behind significantly recently according to the displayed dynamics.

Concerning benchmarking of the total international trade of the countries of the region is indicative. However, their size and agrarian potential should be taken into the account. Thus, the existing differences are not always the consequence of a better level of internationalisation of a certain country but actual needs to substitute the missing products through import (this refers in particular to products typical for the region of analysed countries). At the same time, export is the consequence of the relationship that is established between the scope of the achieved production and one's own needs for the produced commodities, as well as the level of the achieved specialisation in certain agrarian segments.

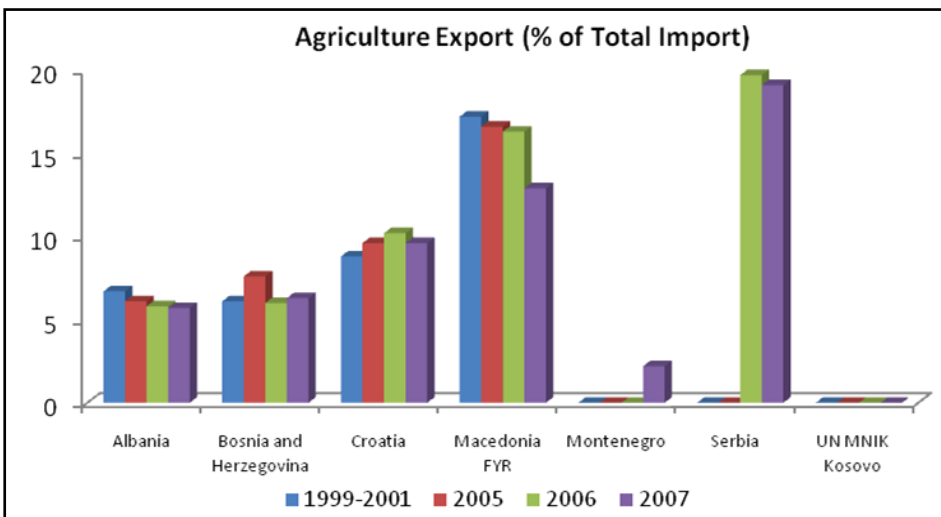
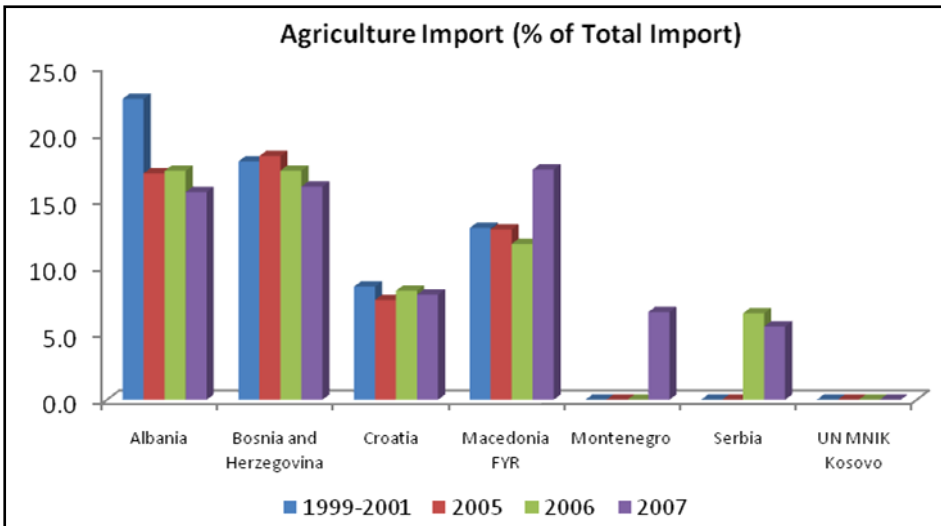




Figures 20 and 21: Value added of agriculture per employee and Food Production Index

Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available.

The CEFTA Agreement, which was signed by the Western Balkan countries, including Moldova, has not been implemented up to a significant extent yet. This has improved the conditions for further fostering of investments, widening of trade of goods and services with clear, stable, and predictable rules. Previous studies of authors from the region [24, 8, 21, 3], indicate that CEFTA Agreement has a positive impact on the structure and scope of foreign trade between the Members States. However, the steps forward are still small and they differ from country to country, Figures 22 and 23.



Figures 22 and 23: Import and export of agriculture of the Western Balkan countries

Source: [25] and author's calculation. Data for UN UNMIK Kosovo are not available. Hence, FRY Macedonia is specialised in export of wine and vegetables and its export is significant compared to other countries. Serbia is the largest exporter and the smallest importer. It exports mainly the products with a low level of value added (corn, raspberry, sour cherry, livestock, wheat, etc.). Import is mainly directed to products that cannot be grown in Serbia (southern and exotic fruit, aquaculture, and marine culture, etc.). Croatia is also interesting. Due to a significant scope of tourist

services it provides, Croatia imports a lot of products in order to supplement domestic demand. On the other hand, it exports less as well because the largest portion of production is placed to foreigners at its own market. However, the fact is that it is still not self-sufficient in a certain number of products and its trade balance of agriculture is somewhat more modest.

CONCLUSIONS

Agriculture is one of the segments of economic system of every country within which it is very important to accomplish a satisfying level of competitiveness whereby one should not forget the fact that success in international proportions cannot be expected without previously achieved high level of competitiveness at the domestic market. When it comes to the Western Balkan countries and Serbia in particular, the achieved competitiveness is relatively low. It is characterised by a high share of products with a low value added level, inadequate quality, insufficient quantity of agricultural products and their high fluctuations year in year out, as well as a low price competitiveness, etc. This is the consequence of numerous factors, primarily of exogenous and endogenous nature.

The previous development of (agrarian)economy in Serbia and the Western Balkan countries is causally and consequently connected with the development flow in the segment of implementation of appropriate industrial policies [12 and 13]. Their absence and/or inadequate implementation, in parallel with the process of destabilisation of economy were the reason because of which the retrograde processes were expressed within the last decades. They have leaded the overall economy, meaning agro-economy as well, from the level of medium developed to the level of underdeveloped and impoverished economy. With respect of that, significant limitations of development occur that are based on the offensive IP, which being latent have now come onto the surface. The level of the accomplished GDP, GDP per capita, inflation and unemployment rate, etc. also point to that.

Limitations at both macro and sector levels occur constantly. First, we should point out the property structure as historically conditioned determinant, which affected significantly the freedom of proprietary decision-making and economic motivation, on the one side, and determined the co-ordination mechanism at a macro and sector level, on the other side. This has resulted with a wrong conceptual designing of

development strategies and their frequent changing without significant results. The relationship toward the markets is still inadequate. The market of goods and services is, by the rule, administered. A similar situation was present at the markets of real estate, workforce, and capital, which caused important deformities so that many stakeholders in agro-business decayed in the transition process. All this was accompanied by the limitation conditioned with the method of legal and institutional organising of the agro-business sector and the main manager in agriculture is the state. In such conditions, the solutions are partial and with significant delay in relation to the current state so that results are modest or annulled. By the rule, the countries deal with the current problems, i.e. in a short-term frame, while setting of the system onto stable foundations does not happen, or it is left for the „better” times. Therefore, based on the conducted studies, several important steps may be suggested for the forthcoming ten-year period:

- Necessity of completion of economic-system reforms in the countries of the region in compliance with the concept of macroeconomic and agrarian (rural) development that should be re-defined based on the system decentralisation and wider participation of interested parties;
- Providing of legal and institutional support to the growth and development processes;
- Establishing of the market of goods and services as well as factors such land, capital, and labour;
- Development of adequate industrial policies based on the selection of priorities of development in each country;
- Investing into human capital and providing for technical-technological development (innovation and transfer processes) supported by information technologies;
- Accelerating of the process of European integrations aimed at accomplishing better effects in the fields of globalisation and liberalisation of development efforts.

They are all the assumptions of more efficient business conducting, raising of the level of economic development and growth that should be accompanied by appropriate instruments and measures that are not in mutual conflict as it is the case when there are no clear orientation and elaborated development concept. This is also the guarantee of successful

integration into the European Union and more efficient positioning in global and largely internationalised and liberalised development trends.

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