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## SERBIAN AGRICULTURE IN REGIONAL AND EUROPEAN INTEGRATION\*

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**Abstract:** Agriculture is a relatively important economic activity in Serbia. In addition, the importance of agriculture stems from the upcoming full implementation of the Interim Trade Agreement with the EU, and the expected beginning of the negotiation process for full membership in the organization. In this context, the starting point of the analysis is the consideration of the agricultural resource potential as a prerequisite for the elaboration of its production performance. The analysis of export performances of agribusiness, together with the production performance of agriculture provides an accurate insight into the degree of competitiveness of Serbian agribusiness. The comparative approach to the problem provides the position identification of agriculture in Serbia, compared both with the region and the EU. This also considers the development perspective and determination of the role of agriculture in the integration of Serbian economy in regional and European frameworks. The empirical analysis represents the basis for the formulation of future steps in the creation of agricultural policy measures and appropriate strategies in the pre-accession negotiations with the EU. Above all, these measures should improve the competitiveness of agriculture, which, combined with the provision of food security and food safety and adequate incomes of farmers, has to be the imperative during the negotiation process with the EU in the field of agriculture.

**Keywords:** Agriculture, Agricultural policy, Development performances, Export, Integrations.

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\* This paper represents a part of the research on the project of the Ministry of Education and Science, Republic of Serbia, No. 46006, entitled: *Sustainable Agriculture and Rural Development in terms of the Republic of Serbia strategic goals implementation within Danube region.*

## INTRODUCTORY NOTES

Serbia is close to the opening of the pre-accession negotiations for membership in the European Union and in the process, the agriculture will have to be given the special attention. The reason is, of course, the importance of this sector in Serbian economy. Serbian agriculture is in the so-called transformation process i.e. the process of dealing with the problems inherited from the past, and preparation for the process of joining the common European market, which basically imply the agricultural competitiveness improvement. The position of Serbian agriculture is analyzed in regional and European frameworks, i.e. in relation with the countries of the Region<sup>1</sup>, as well as with the European Union (EU) countries. The production performances analyzed through partial productivity and the foreign trade position are taken as guidelines for the positioning of Serbian agricultural production. The comparative approach to these two groups of countries - the Region and the EU, is used in all analyzes.

### 1. SERBIAN AGRICULTURAL POLICY

During the nineties Serbia is a politically and economically isolated country, which experiences the bombing by NATO at the end of the decade. The overall political and economic situation imposes the closed economy model, in which the main objective of agricultural policy is the food security for the population. The agriculture budget of Serbia, established in 1996, mainly targets at supporting livestock and the largest funds are allocated for milk subsidy, reaching in some years almost half of agricultural funds. In crop production, the production of industrial crops is mostly supported, which partially destabilizes the domestic market of wheat and corn.

The market support remains dominant in the first years after 2000, still with the largest share for milk subsidy, although not to the same extent as before. On the other hand, the subsidies for crop production increase. Direct support to farmers is limited to determination of prices protection only for wheat, but to some extent for some other products, too. In the coming years the agricultural budget funds are increased, as well as the funding for structural support measures. From 2004, credit support to farmers is more appreciable, and from 2006, farmers' income supports are also increased. Measures for rural development support are introduced in 2004; however, the support for investment programs of rural regions in Serbia is still very modest, which is caused by severe budget cuts at the macro level. Export subsidies, which are introduced in 2003 for meat, milk,

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<sup>1</sup> The term Region comprises the following countries: Albania, Bosnia and Herzegovina, Montenegro, Croatia and Macedonia. Croatia is classified in this group since it will become a member of EU from 1st July 2013.

fruits, vegetables and the like are very moderate. Besides, price and trade liberalization is characteristic for the period after 2000, so the import protection for agricultural products and extensive consumer subsidies decrease significantly during this period. Individually observed, import tariffs are increased for meat and meat products, as well as but to a lesser extent for milk and dairy products, while for oilseed and fruit, industrial and medicinal herbs, coffee, tea, spices, consumption fruit, etc., they are reduced [1]. From 2007, the payment per unit area for all farms from 05-100 ha is introduced; the amount is later reduced, while the incentives for livestock are increased.

Serbia has stated the permanent commitment to the EU membership, as seen through signing of the Stabilization and Association Agreement in 2008, and efforts made to initiate accession negotiations. The negotiation process, which is about to begin, should be used to increase the competitiveness of Serbian economy. In this context, the agriculture is given special attention due to its importance in the overall economy. On the one hand, there are high expectations of access to European funds designed to support agriculture, and on the other, there exist justified concerns about the strong competitive pressure on the EU common market. Neither expectations nor fears are without foundation.

The production structure of agriculture in Serbia is still very unfavorable, with numerous small farms and co-existence of semi-subsistence farms and commercial agricultural sector. Individual sector with small farms will be the major problem in terms of enhancing competitiveness and achieving European standards, which will be specifically reflected in livestock production. On the other hand, small family farms, representing the significant part of Serbian agriculture, have a very important role in maintaining social stability in rural areas, and, therefore, should not be ignored in future development strategies and the negotiation process.

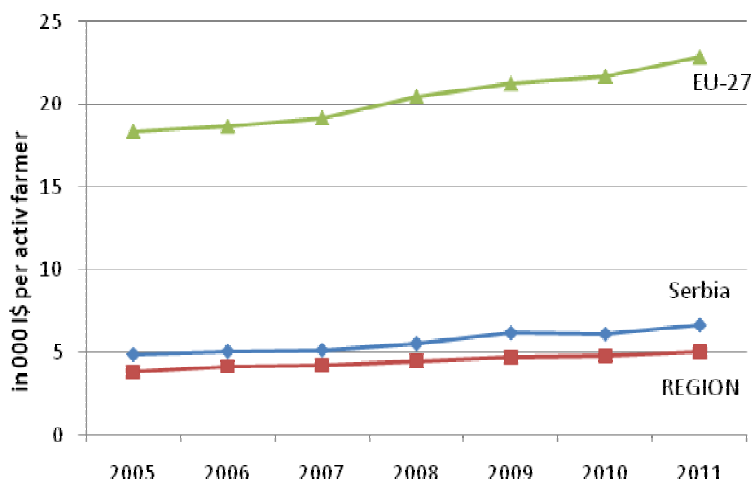
## **2. PARTIAL PRODUCTIVITY OF AGRICULTURE IN SERBIA**

Usage efficiency of primary factors in agricultural production is visible in comparative analysis of partial productivity of agriculture, i.e. labor and land productivity.

Serbia has the higher level of agricultural production per active farmer than the average of other countries in the Region (*Figure 1*), which is primarily the result of very low level of final agricultural production per active farmer in Albania [2], which of course, significantly affects the regional average. The labor productivity ratio between the EU and Serbia is on average, for the analyzed period, 1:3.62, and is caused by the relatively large number of employees in the

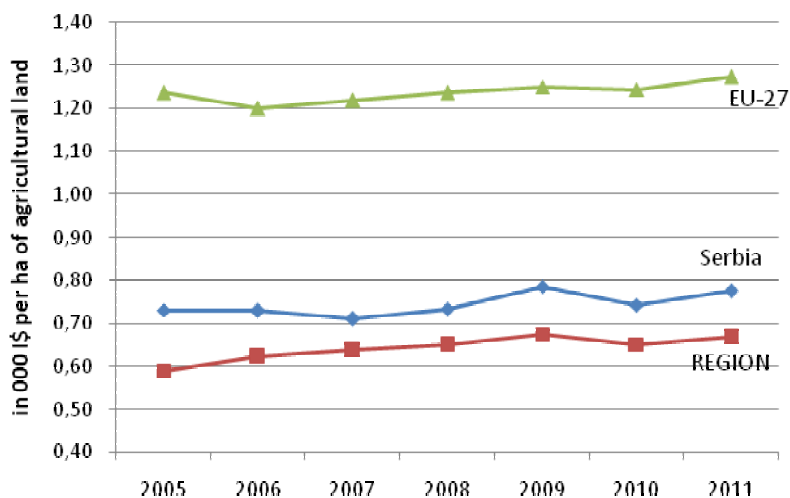
agriculture of Serbia [4], and the extensive production structure in terms of low representation of livestock production in total agricultural production<sup>2</sup>.

Figure 1: Comparison of Labor Productivity



Source: The authors' calculations on the basis of [2].

Figure 2: Comparison of Land Productivity



Source: The authors' calculations on the basis of [2].

<sup>2</sup> The share of livestock production in the final agricultural production is approximately only 30% [2], which is far below the lower threshold of agricultural intensity.

In terms of the land productivity, Serbian agriculture shows somewhat better, but not satisfactory performance, since the ratio in relation to the EU is 1:1.68. As well as the labor productivity, low production per unit area is the consequence of extensive production structure, i.e. under-utilization of livestock as an important factor to intensify agricultural production. In addition, the crop production structure is also extensive with tiny proportion of irrigated land<sup>3</sup>, i.e. there is the dominance of cereals in the system of dry farming. It is true, Serbian agriculture shows better performance here, compared with the average of other countries in the Region, which should not be surprising given the availability and quality of the land potential for agricultural production in Serbia, compared with these countries.

### 3. FOREIGN TRADE POSITION OF SERBIAN AGRICULTURE

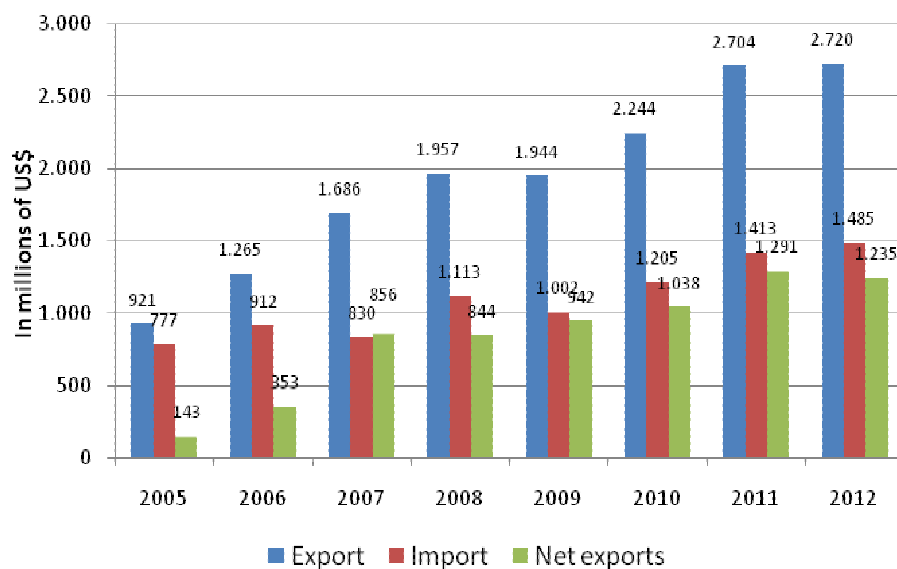
The agricultural sector is very important in foreign trade exchange of Serbia, because in total exports, agri-food products<sup>4</sup> participate with approximately 23-24% [3]. Serbia has got the positive trade balance since 2005, as a result of the improved trade position due to bilateral negotiations with countries of the Region, trade liberalization with the EU in November 2000, but also because of significant increase in exports to the Russian Federation. Since then, Serbia continually increases net export of agricultural products, which last year exceeds US\$ 1.2 billion (*Figure 3*). However, the structure of Serbian agricultural export is not the most favorable, since over 50% of the agricultural exports are represented by plant products, such as whole grains, fruits and vegetables, and sugar. On the other hand, the share of livestock products - meat and meat products, eggs and dairy products is approximately only 10%. Beverages and tobacco products have a slightly higher share, with the common share of about 10% [3].

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<sup>3</sup> In Serbia, within the structure of plant production, corn and wheat take almost 60% of cultivable land [3], whereas the percent of irrigated cultivable land is insignificant [2].

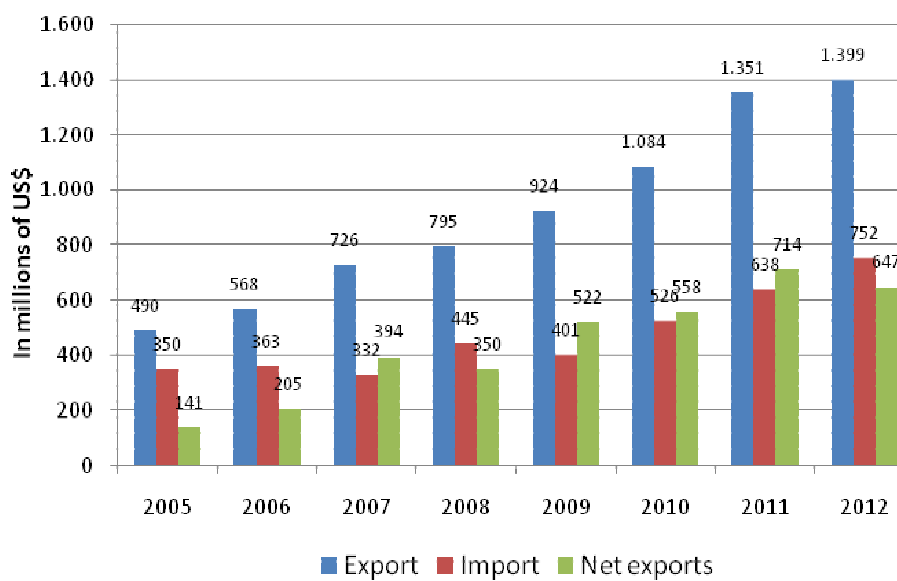
<sup>4</sup> The term *agro-food products* includes the following sections and product groups sorted by methodology of the SITC-Revision 4: 00 - Live animals; 01 - Meat and meat preparations; 02 - Dairy products and eggs; 03 - Fish and fish products; 04 - Cereals and cereal preparations; 05 - Vegetables and fruit; 06 - Sugar, sugar preparations and honey; 07 - Coffee, tea, cocoa, and spices; 08 - Animal feed (not including unmilled cereals) 09 - Miscellaneous edible products and preparations, 11 - Beverages, 12 - Tobacco and tobacco manufactures; 21 - Hides, skins and fur skins, raw; 22 - Oil-seeds and oleaginous fruits; 261 - Silk; 263 - Cotton; 264 - Jute and other bast fibers, 265 - Plant fiber (except cotton, jute), 268 - Wool, other animal hair; 29 - Crude animal and vegetable materials; 41 - Animal oils and fats; 42 - Fixed vegetable fats and oils; 43 - Processed animal and vegetable oils, fats.

Figure 3: Total Foreign Trade of Agricultural and Food Products of Serbia



Source: The authors' calculations on the basis of [3].

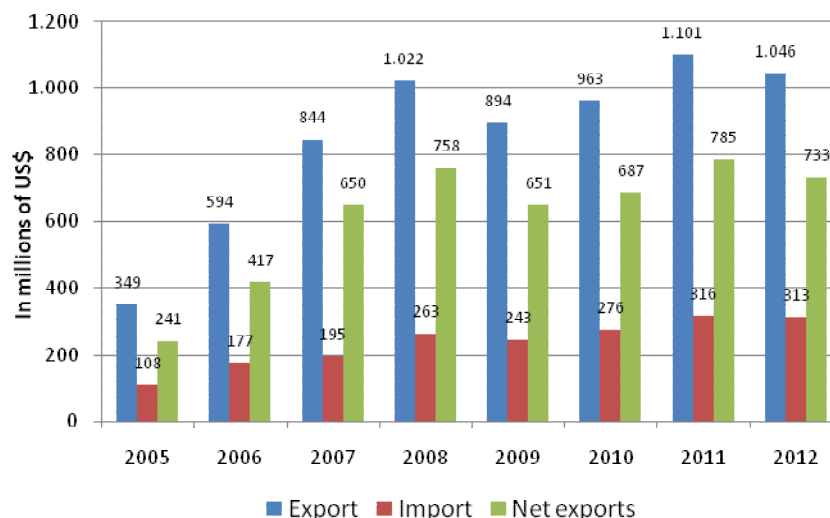
Figure 4: Foreign Trade of Agricultural and Food Products between Serbia and the European Union



Source: The authors' calculations on the basis of [3].

In foreign trade with the EU, Serbia increases net exports of agricultural and food products, and the value of exports is nearly twice the value of imports (*Figure 4*). However, the structure of exports to the EU is very unfavorable, as grains, fruits and vegetables, and sugar represent about 3/4 of the total agricultural exports, while the major concern is low export of livestock products, whose share is barely 2% [3].

*Figure 5: Foreign Trade of Agricultural and Food Products between Serbia and the Region*



*Source: The authors' calculations on the basis of [3].*

Serbia has the dominant regional position in the export of agricultural products, as the value of exports to the five countries of the region exceeds three times the value of the imports from these countries (*Figure 5*). With the exception of Croatia, Serbia realizes net exports of agricultural and food products with all the countries of the Region; in the last two years (2011-2012) the net-export is recorded in trade with Croatia, as well. The largest export markets are: Bosnia and Herzegovina and Montenegro, which make up approximately 3/4 of Serbian regional agricultural export. The structure of exports to the Region is significantly more favorable compared with agricultural exports to the EU, as the above mentioned plant products of lower level of processing (cereals, fruits and vegetables, and sugar) in this case represent only 1/3 of the agricultural exports. On the other hand, products of higher level of processing, for example beverages, in recent analyzed years make approximately 16%, while the share of livestock products is about 20% [3]. It can be expected that Serbian position in the regional market further improves in the second half of 2013, with Croatia joining the EU, as in this market Croatia is the main rival for Serbian exports.



## CONCLUDING REMARKS

The agriculture of Serbia is still in the process of dealing with the problems inherited mainly from the period of socialistic agriculture i.e. centrally planned economic system. The transformation of agriculture that has lasted with variable speed about twenty years now faces the challenge of bringing Serbia closer to the EU membership. Resource capacities and production performances of agriculture show the significant lag of Serbian agriculture in relation to the EU and a slightly better performance with the countries of the Region. The export position of Serbian agriculture is characterized by significant foreign trade surplus both in trade with EU countries and in regional terms, where the net export position is even more expressed. The export structure is not satisfactory, as the dominant export products are of lower levels of processing, mainly of plant origin. This is particularly expressed in trade with the EU countries, which represents the majority of foreign trade with the agrarian products. The position of Serbian agriculture would be significantly improved by improving production potentials, which would be reflected in export performance. In this context, the intensification of production with improved irrigation and livestock developments, and the development of the processing industry, could improve the results.

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