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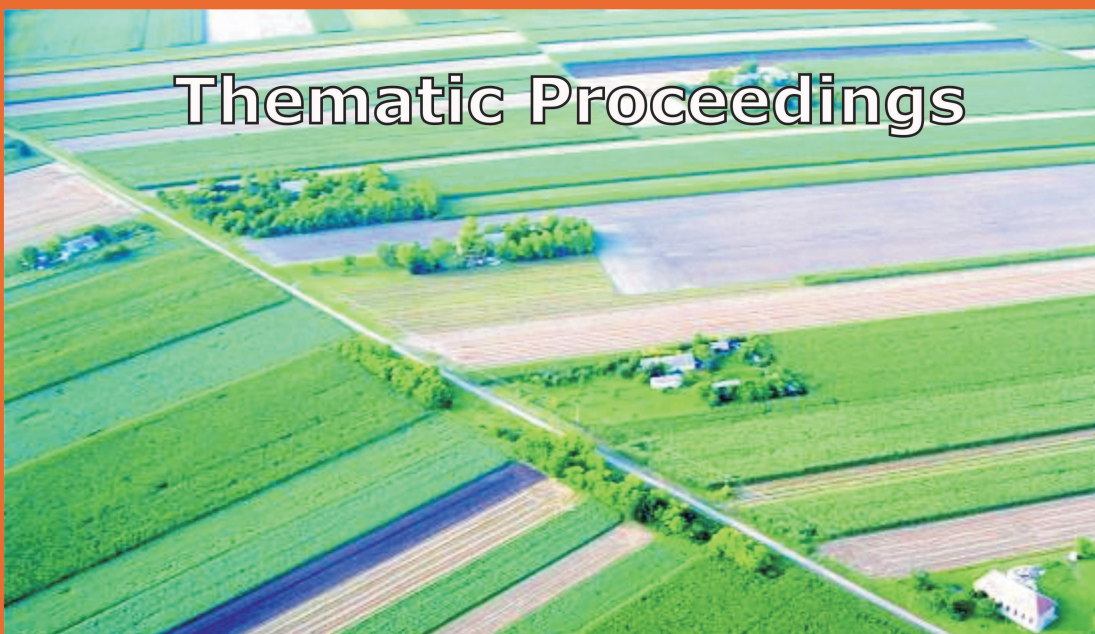
# DEVELOPMENT OF AGRICULTURE AND RURAL AREAS IN CENTRAL AND EASTERN EUROPE




Edited by
Danilo Tomić
Miladin M. Ševarlić

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# CONTRAVERSIES OF THE TRANSITION IN SERBIA AND THE COUNTRIES OF EAST EUROPE

*Simo Stevanović[1], Milutin T. Đorović[1], Milan R. Milanović[2]*

## INTRODUCTION

The fifteen year period of transition has been sufficient for registering certain trends. All countries that have undergone the same path have paid high a huge price reflected in the drop of production, exports, employment and the overall wellbeing of their people. Internationally, the transition has contributed to the increase of world poverty and social differences.

The positive results of the transition can vary extensively, from good in countries that have joined the EU over the past several years, to extremely poor in majority of countries of the former Soviet Union and former Yugoslavia. The countries that were prepared for transition greatly exceeded the pre-transition level of development and are now EU members. On the other hand, some of the countries will not be able to reach the said pre-transition level over the coming several decades.

It is indisputable that the results of the transition differ from the expected, envisaged and desirable results. With the exception of Slovenia, the achievements failed to go in the direction of the development of the social wellbeing. Drastic social differences have exceeded the South American model. It had negative effect to all the areas of social living, particularly the moral. Frequently there are blows to the legal system and the governance of law, and occasionally to the social component of the state.

The political climate created in Serbia beginning of 90-ies of the 20$^{th}$ century was harmful to the country itself and unacceptable to the international community. Full isolation and introduction of sanctions followed. Significant economic and political changes happened at the beginning of the current century. Serbia's position has changed significantly, after which Serbia moved towards complying with the requirements enabling full EU membership. Throughout the years of the current century, Serbia has had a relatively high GDP growth rate of above 5%. The unfavourable fact is that the growth was achieved based on the increase of

[1] Simo Stevanović, Ph.D., Milutin T. Đorović, Ph.D., Faculty of Agriculture, Belgrade, Serbia. simo.stevanovic@agrifaculty.bg.ac.yu

[2] Milan R. Milanović, Ph.D., Megatrend university, Belgrade, Serbia. milanrmilanovic@yahoo.com

domestic spending, growth of commerce, expansion of imports, with the exports and investments into infrastructure falling behind the required. The described model of development is unsustainable on the long run. The most serious strategic task will be the change of the model of economy. Particular attention in the development of macro economic environment will have to be paid to the measures giving the incentive to the mass entrepreneurship. Accelerated accession to EU could reduce some of the existing problems and limitations, even turning them into certain advantages.

## 1. VARIOUS ASPECTS OF TRANSITION IN EAST EUROPEAN COUNTRIES

Beginning of 90-ies of the last century, countries of the eastern, central and southeast Europe faced an enormous challenge of implementing the transformation of their existing economic and social orders towards the market economy. There was consensus over the fact that the market had to be liberalized and state companies privatized. That is why, today, 15 years after the beginning of the transition, we witness huge differences in the results achieved in the path towards the market economy. Recent experience of the transition countries has demonstrated that revolutionary changes in the political domain will not necessarily lead to an efficient ownership system. Unlike the economic political measures (liberalization and macroeconomic stability), that have quickly provided visible results, the ownership transformation has proven to be significantly harder, sometimes even failing to produce the desired economic results.

It has been demonstrated that the results of the transition largely depended on the starting conditions in which the countries of east, central and southeast Europe found themselves at the time. In spite of some common characteristics of all socialist systems in which the said countries had started their way towards the market economy, we can not talk about a monolith block. On the contrary, at the beginning of the transition there were different variations of the socialist system in these countries. The differences originate, among other, from the early reforms in countries like Hungary, Yugoslavia and Poland. On the other hand, we have countries like SSSR, Bulgaria and Czechoslovakia that kept their traditional socialism right up to the start of the transition process. Apart from that, there were certain specifics pertaining to individual countries or regions. Apart from characteristics emerging from the systematic character and different application of the socialist system, individual countries can differ significantly with regard to their cultural and historic specifics that had been evident at the beginning of the transition process. We can add to that the different experiences with the market model of economy, industrialization and the proximity of western developed countries. (Balcerowicz, 1995).

The previous can help establish connection between the initial systemic conditions and the specific route and results of privatization. Regardless of the initial differences, all courtiers were equally affected by the recession, growth of the inflation rate and unemployment in the initial transition phase (1990-1994). The second phase (after 1995) was characterized by stabilization and the increase of macro-economic aggregates. In this phase, the selected concept of transition (shock therapy or gradualism) and ownership transformation had different effect on the efficiencies of the economies. Same models of transition sometimes even had different effect to the economies of individual countries (Havlik, 1996.).

While Hungary was successful in applying the selling method, the initially prized voucher privatization in Czech Republic failed to produce the expected results. And although the free distribution of vouchers in Czech Republic had been conducted swiftly, it didn't influence the restructuring of companies and the influx of foreign capital in the expected way. Insider (Russia) and Management privatizations (some countries of the former Yugoslavia) also proved to be insufficiently successful.

In Hungary, the privatization started as a spontaneous procedure, based on the Law on Companies from 1988 and Law on Transition in 1989. Initially, state companies had been independently converted into capital corporations by forming daughter companies. As of 1990 the privatization was under strict control of the government property agency. Due to high external debt of the country at the beginning of the transition, the privatization was done using the money based on individual decisions (real sales to real owner). Because of the lack of domestic capital, a decision was made to allow foreign investors to participate in the privatization process. Opening of Hungary towards Europe in the privatization process had drawn more than half of the total capital invested into East European countries by 1993. It additionally accelerated the integration of companies into the international distribution of labour (Cvijanović and Kušić, 2002.).

Unlike Hungary, the countries of former Yugoslavia, apart from Slovenia, had faced huge problems with regard to adjusting their economies to the requirements of EU market, and thus increase their competitiveness. The reasons for such situation, apart from dissolution of the country and war conflicts, should be sought in the slow and inefficient privatization of state/social companies. The specifics of the Yugoslav economy compared to the other transition countries pertained to the workers' self-management and social ownership. In the former Yugoslavia, social ownership represented a specific type of collective ownership. Social Ownership ("ownership of companies") was delegated onto workers, and differed from private and state ownership because it failed to clearly define the property title owner (SFRY Constitution from 1974). Due to imprecision in definition of ownership, legal rights were hard to define as well, that should have enabled quality privatization. Social ownership enabled the workers to have control over the production assets and participation in the production process. Companies acted as independent subjects in the market through their self management bodies. Due to the inefficiencies of this type of ownership, by the middle of 80-ies of the previous century, discussions had been conducted on the deficiencies of self-management socialism, with the social capital designated as the key issue and cause of inefficiency[1].

Equally significant is the fact that the incomes from sales and privatization went to the Republic where the company was based, with the management of such company deciding on abolishing "its" rights, which made the blocking of privatization or complete restraint from it understandable. With the amendment of the Law[2] in 1990, mass privatizations started.

After the fallout of the former Yugoslavia, the jurisdiction over privatization was transferred to successor countries. Difficulties in concepts and implementation of privatization were evident in all newly formed countries. In spite of initial advantages in the said countries, like the decentralization and early initialization of reforms, difficult/delayed privatization took place with influences on the selection of specific privatization methods[3], which, joined by the strict control over the privatization by companies' management, resulted in the companies being transferred to the ownership/hands of "insiders". After acquiring ownership in such way, the new owners became uninterested in the presence of foreign investors. The new companies' owners had no motive for co-ownership with foreign investors, thus preventing the foreign investors from participating in privatization in an efficient way. It had a negative effect on restructuring, modernization of companies and the expected dynamics of the economic growth.

After the privatization, if often happened that the new owners could not/would not inject fresh capital, often opting to sell the company by breaking it in peaces, which had huge consequences on the local economy.

According to some authors, the main problem of the transition in Serbia were the two curses originating from the times when the Hungarians and Polish people

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[1] With Constitutional reform in 1988, former Yugoslavia approached market economy. From that moment on, unconditional establishment of private companies was enabled, with the Law on Privatization from 1989 enabling transformation of existing social companies into private (Official Gazette of SFRY, 84/1989.).

[2] The *Insideris* were favorized by the new Law alowing the issuing of „internal" shares and discounts for management and workers, disabling the sale of shares to foreign investors.

[3] Under the influence of management and workers, and as the consequence of self-management heritage, instead of the sale methods, mixture of *management buy-out* – MBO and *worker buy-out* – WBO came into effect.

envied us on self-management and the fact that were not part of the Eastern Block. That is why, when 1990 came, we didn't know which direction to go in. On one hand we had the illusion of living in market economy that just needed to be additionally tuned to start functioning well. The second illusion was that there was no need for shift in the foreign policy. And thus our advantages actually became our curses that caused us to fall into overall confusion. Because of that, our elite – not just the political elite – is still confused and we haven't been able to provide answers to questions that Hungary and Poland answered 15 years ago. (Begović, 2005).

## 2. OVERVIEW OF THE RESULTS OF THE TRANSITION IN SERBIA AND EAST EUROPEAN COUNTRIES

Internationally, great attention is paid to the quantitative (statistic) and qualitative (analytic) monitoring of the transition results in East European countries. Now, from a 15-year old distance, it is possible to provide an assessment of the transition results with high reliability, as well as the assessment of the paths selected by individual countries when they started the subject process. The countries that had been better prepared for transition, i.e. those that had certain market tradition, achieved better results. Those countries found it easier to manage in the reform conditions and overcame the transition recession relatively quickly and started their development.

The results of the transition are reflected in the increase of wellbeing in the transition countries. Generally, all transition countries have achieved certain results. The results vary, both in the level and quality, as well as in the price paid by individual countries. Here too it was demonstrated that the countries with higher reform and market tradition had better results and paid lower price than the others.

Data in Table 1 confirm the above observations. The best results in the transition process in 2003 were achieved by Poland (index GDP 152). Poland is followed by Slovenia with GDP index 129.9, Hungary and Slovakia with 119.3, Czech Republic with 109.5. Unfortunately, Serbia/Serbia and Montenegro with GDP index of just 53.4, falls into the group of countries which failed to reach the pre-transition level of the economic growth in the observed period. Significantly better results were achieved by Macedonia, Bulgaria and Romania, although still below the pre-transition requirements. Slovenia is the only country out of all the countries of the Former Yugoslavia that had a higher development level in 2003 than in 1990. Majority of the countries that were created after the dissolution of the former Soviet Union still have the development levels significantly below those at the beginning of the transition process. These countries still can not overcome the insufficiencies of market tradition from the central planning period.

Table1 Gross domestic product (changes in % according to previous year)

| | Years | | | | | | | Index | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000. | 2001. | 2002. | 2003. | 2004. | 2005.[1] | 2006.[1] | 2003/1990 | 2004/2000 |
| Czech Republic | 3.9 | 2.6 | 1.5 | 3.2 | 4.4 | 4.3 | 4.3 | 109.5 | 112.2 |
| Hungary | 5.2 | 3.8 | 3.5 | 2.9 | 4.2 | 3.4 | 3.7 | 119.3 | 115.3 |
| Poland | 4.0 | 1.0 | 1.4 | 3.8 | 5.4 | 3.0 | 4.0 | 152.0 | 112.0 |
| Slovakia | 2.0 | 3.8 | 4.6 | 4.5 | 5.5 | 5.5 | 6 | 116.6 | 119.7 |
| Slovenia | 3.9 | 2.7 | 3.3 | 2.5 | 4.6 | 3 | 3 | 129.9 | 113.8 |
| NMS-5[2)] | 4.0 | 2.1 | 2.1 | 3.5 | 5.0 | 3.5 | 4.1 | 132.6 | 113.3 |
| Estonia | 7.8 | 6.4 | 7.2 | 5.1 | 6.2 | 6 | 6.2 | 103.6 | 127.4 |
| Latvia | 6.9 | 8.0 | 6.4 | 7.5 | 8.5 | 7.2 | 6.9 | 78.6 | 134.1 |
| Lithuania | 3.9 | 6.4 | 6.8 | 9.7 | 6.7 | 6.4 | 5.9 | 87.0 | 132.9 |
| NMS-8[2)] | 4.1 | 2.4 | 2.5 | 3.9 | 5.1 | 3.8 | 4.3 | 129.6 | 114.7 |
| Albania | 7.3 | 7.6 | 4.7 | 6.0 | 5.9 | 6.5 | 6.5 | - | 126.5 |
| Bosnia and Herzegovina | 5.5 | 4.5 | 5.5 | 3.0 | 5.0 | 5 | 6 | - | 119.2 |
| Bulgaria | 5.4 | 4.1 | 4.9 | 4.5 | 5.6 | 5.5 | 5.3 | 92.4 | 120.6 |
| Croatia | 2.9 | 4.4 | 5.2 | 4.3 | 3.8 | 3 | 3 | 97.7 | 118.9 |
| Macedonia | 4.5 | -4.5 | 0.9 | 2.8 | 2.9 | 4 | 4 | 98.1 | 101.9 |
| Romania | 2.1 | 5.7 | 5.1 | 5.2 | 8.3 | 5.5 | 5.5 | 89.7 | 126.6 |
| Serbia | 5.2 | 5.1 | 4.5 | 2.4 | 8.6 | 4 | 5 | 53.4 | 122.2 |
| Montenegro | - | -0.2 | 1.7 | 2.5 | 3.0 | 5 | 5 | | 107.2 |
| Turkey | 7.4 | -7.5 | 7.9 | 5.8 | 8.0 | 6 | 6 | - | 114.1 |

Notes: [1)] Estimate; [2)] WIIW (The Vienna Institute for International Economic Studies) estimate.

Source: WIIW data base including national statistics:

Leon Podkaminer, Gábor Hunya et al.: “Back from the Peak, Growth in Transition Countries Returns to Standard Rate of Catching-up”, Research Report, No. 320, 2005., p. 2-44.

At the beginning of the transition processes, SFRY was, based on numerous development parameters, far ahead of all the other transitional countries. Today, the level of economic development of the countries created after the fallout of SFRY (except Slovenia) with Albania is comparable with typical undeveloped countries. The level of development of the countries with population of around 29 million is best illustrated by the fact that they together make lower domestic product than Greece with population of 8 million, and which is at the bottom of EU list. Unfortunately, Serbia will need much more time to achieve the desirable level of development for joining the EU[1].

Countries, new EU members notably exceeded the pre-transition level of GDP. Performances of EU candidate countries are significantly weaker. Serbia is still legging behind with regard to the level of pre-transition development (according to the latest data, it is 64.5% of the 1990 level).

## 3. CONCLUSION

Regardless of the still poor results of the economic growth in the transition process and the price paid by certain countries over the past years, the final goal for all is the EU membership and thereby the completion of the started process. Even with the disintegration processes in SFRY and USSR in the past, it is clear that today it

[1] We point out the desirable levels of some economic-quantitative indicators that have to be acheived in order to reach the candidacy for joining the EU: GDP per capita should reach the average EU value (about 9.000 USD annually). Annual minimum should be at the level of 6000 USD; Current account deficit should be under 5% of gross domestic product; Share of foreign direct investments should be about 10% in gross domestic product; Fiscal deficit up to 3% of annual GDP; Share of government consumption in annual GDP up to 40%; Public debt up to 60% of annual GDP; External debt up to 30% of annual GDP; Unemployment rate up to 10%; Annual inflation rate up to 5%; Interest rate in the money market is slightly above the annual inflation rate.

Averages of relevant economic quantitative indicators in Serbia

| Year | 2003. | 2004. |
|---|---|---|
| GDP (in million USD) | 18.984 | 21.643 |
| GDP Per capita USD | 2.531,2 | 2.885,7 |
| Current account deficit, before donations (% BDP) | 10,2 | 13 |
| Foreign direct investments (% GDP) | 7,2 | 4,1 |
| Fiscal deficit (% BDP) | 3,93 | 1,7 |
| Government consumption (% GDP) | 49 | 46 |
| Public debt (% GDP) | 71,9 | 60,8 |
| External debt | 43,7 | 35,6 |
| Unemployment rate | 32 | 32,1 |
| Annual inflation rate (retail prices in %) | 7,8 | 13,7 |
| Interest rate on money market (%)* | 11,05 | 14,85 |

Source: Public finance Bulletins, Ministry of finance, Republic of Serbia, Belgrade, December 2004 and Statistical Bulletins, National Bank of Serbia, December 2004, www.nbs.co.yu

* Weighted Average Interest Rate on Securities issued by National Bank of Serbia

is impossible to build and strengthen the national borders and confine countries to themselves. On the contrary, we need liberalization that is the precondition for faster economic growth. Current organization of the subject geographic region is uninteresting to all. These are the areas that belong to one region and they need to be integrated the best way possible.

The international cooperation will result in faster development of the entire region. We must not forget that all the countries in the region, apart from Albania, used to form one economic entity. In such an entity, the economy used to be inter-dependent.

The recent experience with EU expansion has shown the establishment of certain regional programs through which the candidates tried to approach the standards prior to reaching full membership in the EU. The prospects of success in the said endeavour are now more favourable than they used to be at the end of 90-ies. After 2000, most of the subject countries have shown growth and the EU decided to open its market for export of goods from these countries, practically duty-free (except for some specific products).

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