



Strategy elements of export improvement in agro-economy of Serbia

Elemente ale strategiei de îmbunătățire a exportului în agro-economia Serbiei

Research Assistant Branko MIHAILOVIĆ, M.A.
Institute of Agricultural Economics, Belgrade, Republic of Serbia
e-mail: office@mail.iep.bg.ac.yu

Research Assistant Jonel SUBIĆ, Ph.D.
Institute of Agricultural Economics, Belgrade, Republic of Serbia
e-mail: jonel_s@mail.iep.bg.ac.yu

Research Assistant Zoran SIMONOVIC, M.A.
Institute of Agricultural Economics, Belgrade, Republic of Serbia
e-mail: office@mail.iep.bg.ac.yu

Abstract

In forthcoming period, export organizations are going to face tougher competition, which will significantly influence on expectable export effects of their products. This factor must be counted on, and the only way to long-term neutralize the negative effects, based on insufficient competitiveness of domestic goods, is in constant efforts for competitiveness level increment of these products. That is to say, all reserves, primarily in the field of larger productivity and decreasing the production costs have to be engaged in this plan. That implies also certainly slower prices increment, as well as solutions regarding adequate export impulse and relief of export - oriented production, which would certainly help to react more efficient and faster to conditions on foreign market. Regarding comparative advantages, Serbia insufficiently uses even realistic natural possibilities for agricultural products production.

Keywords: *agro-economy, strategy, export, cooperation*

Rezumat

În perioada următoare, organizațiile de export vor fi nevoite să facă față unei concurențe aspre, care va influența în mod semnificativ efectele așteptate ale exportului produselor lor. Acest factor trebuie să fie luat în considerare și singura modalitate de a neutraliza pe termen lung efectele negative, bazată pe competitivitatea insuficientă a produselor interne, constă în eforturile constante pentru creșterea nivelului de competitivitate a acestor produse. Altfel spus, toate rezervele, în special din domeniul măririi productivității și reducerii costurilor de producție trebuie să fie implicate în acest plan. Asta presupune de asemenea, cu siguranță, creșterea mai lentă a prețurilor, precum și soluții adecvate în ceea ce privește impulsivitatea exportului și de sprijinire a producției orientate spre export, ceea ce ar ajuta cu siguranță să reacționeze mai eficient și mai rapid

la condițiile de pe piața externă. În ceea ce privește avantajele comparative, Serbia folosește insuficient chiar și posibilitățile reale naturale pentru producția culturilor agricole.

Cuvinte-cheie: *agro-economie, strategie, export, cooperare*

JEL Classification: Q12; Q16; Q17

Introduction

Natural conditions and productive possibilities of the region, within the production realization is planned, should at most use and develop, primarily by measurements which direct influence would be in function of production and which effects would directly influence on its size and quality. Changing the production characteristics, its applicative export – determination, there has been created necessary conditions for its more favourable social treatment and its acceptance as a significant factor of economic stabilization, also evident and potential source of significant foreign exchange inflow. Basic factor that can effect negatively on programmed export of agricultural products is domestic prices' faster growth of these products in relation to the world one and transport too, with assumption that needed production level is going to be achieved. However, if neutralize partially their negative effects by determined measurements, it will be made conditions for free growth of agricultural products' size. All other factors, occurred periodically as limits in this export (except the measurements of agrarian protectionism), primarily were subjective, therefore their removal lies in better preparation and organization of production and export.

The basic changes have to be done on plan of improved package and design, concerning some products even transport organization. More attention has to be given to esthetic presentation of these products and to create design and package, which would be specific, as well as to make cognizable association to specific region and origin of the products. Also is essential a department which would have a task to follow the market courses, do some tests and inquiries of the consumers, be abreast with modern commercial achievements concerning placement and sale improvement, so far as to be abreast with competitiveness and a priori, to drawback the positions we had in period before sanctions. It follows that, economically the most justified would be, if possible, to do the specialization of export and processing organizations and, within this solution, form specialized department for marketing of these products. Regarding transport organization improvement, the base must be on providing the cheapest and the most qualitative possible transport. Connecting with transport organizations with an aim to provide mutual purchase of modern transport vehicles for these products, trucks and ships would be economically justified. Export and processing organizations have to work more on joint accession during transport organization, because thereby can significantly influence on these costs size, with consideration that continuously usage of capacities is provided to certain significant business activities, which is very important for transport organizations.

The competitiveness of the products made in EU-countries, especially on markets in developing countries, is primarily the result of high subventions, given by EU funds for these products export. If also take into consideration that all EU countries have developed

transport, especially air and truck transport, that special attention is paid on quality, processing, packaging, there is obvious advantage which these countries have (before all, Netherlands, Germany and France). More acceptable offer from Central and East-European countries is based on low prices, which are not connected to productivity and profitability of agricultural production in those countries. These countries, especially Hungary and Bulgaria, also have developed truck-transport, which contributes to their products competitiveness.

In Serbia has to be established the market mechanisms, which by technological and productive-economic bond of all participants in production process to final consumption markets, is provided. However, mostly the turnover has a monopoly, more conceived if the agricultural producers are un-organized and if not exist productive organizations – cooperative movements. Thereby, in global strategy of market mechanisms development should provide the unity of production/processing/turnover and final consumption markets (Strategija dugoročnog razvoja poljoprivrede, sela i prehrambene industrije, 1997, p. 36). This should create bigger economic interest, though agricultural producers and all participants in the production would work and produce more quantitative and more qualitative.

Analysis of Serbian agricultural products export

The export of agricultural products presents very important economic activity. Its importance ensues from economic and nutritive significance of agricultural products, but also their relatively significant influence on a level and move of a total foreign trade exchange. The countries in which export dominates primary and semi-processed products have unfavourable export structure and lower level of competitiveness. In such conditions, the primary products prices are lower and unstable, while the significance and participation of these products in international goods traffic constantly decreases. Otherwise, the countries which export qualitative final-industrial products, or higher-level-processed products based on modern technology, with significantly higher added value, have convenient export structure and higher level of competitiveness. At the same time, the countries with such goods structure, successfully place their products alongside on the markets of economic developed countries, which by additionally increase the profit and support more their competitiveness on international market (Đorović, Milanović and Lazić, 2003, p. 6).

The primary products participation in international interchange, after the World War II, was slightly over 50%, while the same participation today decreases to 20%. According to the World Bank and World Trade Organization projections, the prices of primary products on international market will be continuously low in next ten years, along with further collapse of primary and increase of the final-industrial products in the turnover. In observed period, the process of technological development has stopped and work productivity has decreased. It results unfavourable structural changes in foreign trade exchange, as in total economy, as well as in agriculture.

Current state of economic and agricultural base of Serbia is characterized, before all, by technological-economic retrogression of major installed capacities, dominant presence of traditional industrial production (so called – standardized products), pretty dispersive export assortment (without any recognizable product) which additionally up to now was oriented to convertible buyers and placed on limited destinations and moreover represents an aggravation.

If we add it a fact that dominant business practice is based on traditional foreign trade concept (so called, strategy of low intensity), there is a question that has to be put about initial turning encirclement that aims at approach to current trends on world market, based on the new strategy. Likewise, additional limits represent also problems of certain stagnation in privatization process, underdevelopment of economic infrastructure adequate institutions and incompleteness of bank system (Institute of Economic Sciences website: www.ien.bg.ac.yu)

The biggest foreign-trade deficit in trading with agricultural products was registered in 2001 and amounted to 255 million €. During 2006, Serbia had exported the agricultural products and foodstuff to the amount of 1,26 billion dollars, or 18,2 % more than in 2005. Surplus in exchange of agricultural products/foodstuff with foreign countries amounted to 355 million dollars (PIK BECEJ Poljoprivreda AD – Naslovna website: www.pikbecej.co.yu). The export of food and agricultural products composed almost fifth part of total Serbian export. As it was added in the report, mostly maize was exported (170,7 million dollars), than followed sugar (154,3 million dollars), while fruit and vegetable were exported to the amount of 326 million dollars. As for import, the highest participation in import of agricultural products had a tobacco and tobacco products (total value was 99,5 million dollars), than raw coffee (50 million dollars) and bananas (34,8 million dollars). Favourable results of Serbian agriculture in foreign trade were a consequence of preferential status on EU market and liberalism of trade on the Balkan.

Since Preferential Status in trade with EU became valid, Serbia constantly make surplus in interchange of agricultural – food products with this association. The preferential status provides export on EU market for 85% agricultural products, free of all tributes, while baby beef, wine and sugar are in quota regime. In total interchange of Serbia with the world in 2004 concerning agricultural – food products, EU participated with 49,2%. In the same year, percentage of agrarian products export on EU market in total export of agricultural – food products from Serbia was 53%. In trade with EU concerning agriculture there is a constant surplus since 2000. On the other hand, total export of agricultural products from Serbia to EU is just 0,7% of EU15 total import, or 0,2% of EU25 total import, while total import of agricultural products in Serbia from EU15 is 0,5% of its export, i.e. 1,0% of EU25 export. The participation of South-East Europe countries in export-import of agricultural products towards EU is described in Table 1.

Statistical data about size and structure of agricultural products export from Serbia indicates on domestic agro-economy non-competitiveness, from the price and non-price marketing elements point of view. Although officially statistics indicates on positive trends in foreign trade exchange of agricultural-food products from Serbia, started in 2002, it is

important to point out that this is primarily the result of bigger raw-material export (cereals and sugar).

Participation of South-East Europe countries in export and import of agricultural products (WTO definition) to EU in 2003.

Table 1

SEE countries	EU export		EU import	
	EU-15	EU-25	EU-15	EU-25
Albania	0,3	0,2	0,1	0,0
Bosnia and Herzegovina	0,3	2,5	0,1	0,1
Bulgaria	0,5	0,5	0,7	0,6
Croatia	0,9	2,1	0,5	0,7
Macedonia	0,2	0,5	0,1	0,1
Moldova	0,1	0,3	0,1	0,1
Romania	0,9	3,0	0,7	0,5
Serbia&Montenegro	0,5	1,0	0,7	0,2
Total SEE	3,7	10,1	3,0	2,3

Source: www.minpolj.sr.gov.yu

Methods for realization of long-term developmental strategy

Long-term export strategy aims at optimal utilization of disposable productive capacities, increase the size of agricultural production, change productive structure according to demand in favour of more intensive productions, final and high-quality products. There has to adjust to international market when it is about productive structure modifications and production adjustment concerned with quantity, quality and competitiveness. According to our productive capacities and comparative advantages, it is necessary to project the strategy of technological progress, agriculture and rural development, food industry and offensive export orientation. The competitiveness on well organized goods and services market has non-replaceable role of efficient technological development filter, and it is up to a state to direct and support an intensity of technological development in general interest (Mandal, 2004, p. 110).

The methods for realization of long-term development strategy can be separated in four groups (Strategija dugoročnog razvoja poljoprivrede, sela i prehrambene industrije (Strategija dugoročnog razvoja poljoprivrede, sela i prehrambene industrije, 1997, p. 98).

- long macro-programs – developmental politics,
- agrarian politics measurements,
- institutional solutions or coordination and development direction,
- science and staff education, as well as organization of professionally-consultative department.

In *permanent macro-programs* pertain all programs on which should permanently and systematically worked on according to established plans and which are necessary for agricultural production development and providing the industries with raw material etc.

Necessity for defining the permanent macro-programs became as a result of very clear defining of all necessary goals. It is important for changes to extend in 3 ways:

- structure change (producers, property and institutions) which encircles land reform, institutions in agriculture, privatization in agriculture and management of forest and water resources,
- development of market and its mechanisms which encircle: suitable measurements of economic politics in market economy, agricultural markets, price politics and other measurements of agrarian politics for market support, as well as credit market,
- rural development and environment preservation encircles: rural development and questions of agricultural environment.

The measurements of agrarian politics are the most significant for realization of long-term development strategy. Because of its natural characteristics of land, climate and water resources, Serbia has great potential in agricultural sector, which has not been totally used. Along with adequate agrarian politics, the agriculture can give significant contribution to economic development of the country. For its connectivity and influence on other sectors it is extremely important for development of Serbia, considering that employs, directly or indirectly, numerous people, participates significantly in foreign trade, provides food safety for the inhabitants and contributes to rural development and ecological balance. Agriculture in Serbia faces many problems, which are, among other factors, the result of limits ensued in conditions of economic environment and agrarian politics led in period after the World War II till SFRY collapsed, difficulties in adjusting to market economy (Strategija poljoprivrede Srbije, 2004, p. 8). The agriculture in Serbia has been loaded by consequences of central-plan economy concerning property and land utilization. For the development is necessary which can influence on productivity growth by re-structuring and investing, which furthermore implies clear proprietary rights and formation of efficient land market, credits and inputs. Regardless of the fact whether the economy is market oriented, the role of state politics is significant. It also could be said that, if the economy is more market oriented, the role of the state is bigger, i.e. its agrarian politics measurements. The agrarian politics is the most significant in methods for realization of the strategy and developmental aims.

Institutional solutions of agrarian subsystem in market economy have main role in achievement of developmental goals. Their large role is determined by specificities of agricultural production. Large number of institutions in which jobs are being doubled does not contribute to long-term development. The main thing is that Ministry deals with all jobs related to agriculture as specific and the most important field of Serbian economy, including all that is underlined in developmental policy, than agrarian policy: prices, export, import, stockpiles, and to have full insight in work of financial institutions evolved in agriculture (Strategija dugoročnog razvoja poljoprivrede, sela i prehrambene industrije, 1997, p. 128). Structure of the ministry is not entirely adapted to needs of market economy neither its capacities are enough for many authorizations with which it deals. Actually, the ministry deals with larger authorizations than some well based ministry in EU, because it has additional tasks for conducting of agricultural sector through transitional process which involves privatization and development of functional agricultural market. Also, integration into EU and accession to WTO demand additional means and capacities. Unfortunately, the ministry has a lack of analysis capacity and based on it, formulation of the most adequate

policy which would entirely comply with desirable goals. Also, there is a distinguished lack of capacities for adequate implementation and especially conduction of the given policy.

For development of science, staff education and organization of professional-advising department, it is necessary to provide suitable legal basis, especially Law on professional-advising department, quality control and etc. Today, more than ever, development of agriculture leans on science research results and their practice application. Research is under authority of Ministry of Science and Environmental Protection. Researches in the field of agriculture are conducted by large network of public institutions, institutes and universities and are mostly directed toward improvement of production. Economic research, at the level of husbandry, market analysis, or analysis and estimations of economic policy is poorly developed. Profitability of agriculture and food industry should be improved by support of suitable research and application of given results. Research programs should comply with the needs of family commercial husbandry so that results of these researches increase the concurrency of this group of producers and increase their market position. These researches should be oriented toward the user because inapplicable research (research whose results do not come to producer) do not deserve to be invested at, not even one dinar (Strategija poljoprivrede Srbije, 2004, p. 41).

Cooperation of farmers and agrarian competitiveness

In concept of accelerated economic development, beside even faster development and improvement of total agro-industrial productive-business field, basic significance has cooperative organizing and encirclement of the process, as well as reproduction trends. The farmers have always been enforced to mutual help, association, cooperation. However, there is many ways of cooperation in consideration to farmer activities (during utilization of water sources, roads, forests, pastures etc.). Specialized cooperatives (livestock, milk, wine, viticulture etc.) and the farmers were better, tighter connected, so understanding and mutual helping were also better (Mirić, 1994, p. 113).

At the beginning of 90's, parallel with transformation of co-operant's basic organizations into cooperatives, came to forming the new cooperative by the farmers who recognized in cooperative organization - the possibility for obtaining their economic interests. In this region, agricultural cooperatives are often not economic strong organizations, but they are necessary for small and medium agricultural producers, because provide correct conditions of realization and their products charging. At the same time, the cooperatives have great significance also for processors, intercessors in turnover and final consumers, providing them to purchase a specific quantity at one place, directly, which otherwise would purchase from numerous agricultural producers.

Modern cooperative sector of economy is based on closer cooperative principles and values, established on business that contributes to economic and social well-being of majority people of various professions (Zakić-Vujatović, 2000, p. 17). Significant part of agricultural land is in private property that has the biggest participation in agricultural product. In order to realize the aims of strong cooperative economy sector, the cooperatives contribute to well-being of their members through new services providing and new business activities, cooperative based, developing. The lack of clear visions and associations strategies in sector of agriculture has caused agrarian politics which continued leading socialist politics, without important structural changes. Likewise, the existing politics is oriented to giving help and preserving the agricultural land (previously was in public property), beside simultaneously, gradually direction to the most vital part – commercially oriented agricultural producers. Consequentially, the agricultural sector in Serbia is not able

to compete equally with EU countries – competition. It is also very difficult to compete with surrounding countries, facing the problems which refer to (Strategija poljoprivrede Srbije, 2004, pp. 8-9):

- goods exchange for inputs for major agricultural products covers up real costs and products value, so the agricultural producers do not get real signals about prices, but their potential profit “flows over” to the others,
- land market, which should provide adjustment concerning land size, as well as more efficient structure of husbandry, do not function in a proper way. The reasons lie in obsolete land register and cadastral system, impossibility to sell or lease the land of public agricultural husbandries, the lack of long-term crediting for land purchase, unsuccessful use of f Lease Pay Law, uncertainty in general economic sense which discourages the long-term invest,
- rural credits market almost do not exist caused by general lack of crediting, lack of liquidity, knowledge and experience in bank sector for agricultural credits, lack of agricultural profitability, high risk,
- the privatization is slow, with little foreign investments, so the state still represents the main property exponent in many processing fabrics and major combines. In other economies in transition, the foreign investments represent the basic element for industry recovery, what is not practice in Serbia,
- market infrastructure, institutions and organizations develop slowly. The production economy is low, and also misses knowledge of market functioning and product marketing. The productive effect on many husbandries is till very low. Processing capacities, in contrast to the producers, do not have problems concerning small capacities and fragmentized production, but often monopoly position and high subvention level, though cheap credits and writing off debts, contribute to maintaining of ineffective production,
- market functioning is limited by imperfect legal regulatory rules and absence of institutional frame, which especially decelerate the accession of commercial family husbandries into distribution of agricultural-food products,
- the supporting institutions are not adequately technically, organizationally and personally qualified.

In such conditions, the cooperatives should orient, before everything else, on cooperative members – linked business activities. In coming period, it is necessary to base their activities on cooperative principles respect. The cooperatives have to organizationally re-structure, to enlarge their membership, to regulate mutual relations by appropriate standard legal acts and to provide their persistent implementation. It is important that cooperatives and cooperative associations, together with state authorities, enable cooperative revision in order to sanction successfully former and stop future negative manifestations (for example, that only employed workers can be cooperative members and only they can manage the cooperative), to sell out cooperative property etc. Existing cooperatives, with help of cooperative associations, should make concrete programs for their economic and personnel recover. Concerning mentioned, it is necessary to create economic analysis about each cooperative state, contenting current state diagnosis and program of measurements to improve existing condition. The cooperative members themselves have to ensure a part of assets, to take active actions that would bring back former cooperative property, but also to establish cooperation with authorized state organs for ensuring the part of purposeful assets, by introduction of some tax relieves etc. The cooperation must be established also with employment bureaus, faculties, processing and traffic organizations, in order to provide economic and personnel help.

It is necessary to support the association and cooperation among agricultural producers, especially horizontal cooperation (for example, public grants which provide support to make the new cooperatives or productive associations, or training and seminars aiming to improve the culture of cooperation). Horizontal cooperation in agricultural production represents a vital need, though individual producers have no strength neither to negotiate efficiently about prices and other conditions with big distributive companies, nor to invest in innovations and product quality, in order to increase personal competitiveness. Getting the agricultural producers into associations, the synergy in business and critical mass attaining in improving the negotiation aspect would be attained, influencing on improvement of agrarian competitiveness.

Conclusion

In previous period dominated a production orientation which did not respect the market requirements. Agricultural enterprises in Serbia lost the brand and traditional markets. A way out of crisis requires a constitution of market – oriented enterprises, implying a number of structural changes, directed toward improvement of business efficiency and adjustment to market requirements.

Enterprises' inner structural changes base on internal orientation, further based on efficiency improvement, or external orientation focused on effectiveness improvement. Successful positioning on market of agricultural products in Serbia requires appropriate information about environment changes, a priori on the market, in order to diminish a risk and uncertainty. The market risk can not be eliminated, but can be significantly recognized and diminished by market researching.

According to domestic market characteristics and relation of neighbour – countries toward agricultural products from Serbia, it is necessary to work on improvement of quality and products' image. Consequentially, the state should stimulate the promotion of domestic agricultural products abroad, like as to rationalize adequate marketing accession.

Acknowledgement

Paper work is a part of the project research 149007 of the Ministry of Science of Republic of Serbia „Multifunctional agriculture and rural development in function of accession of Republic of Serbia in EU“.

Bibliography

- Djuric I., Cicea, C., Cvijanovic, D. (2008). *Identification of possibilities and priorities in rural development of local communities in Serbia*, Symposium of Agroeconomists, 45th Anniversary of Department of Agricultural Economics, Belgrade, 2008
Institute of Economic Sciences website: www.ien.bg.ac.yu
- Mandal, Š. (2004). *Tehnološki razvoj i politika*. Ekonomski fakultet, Beograd.
- Mirić, S. (1994). *Zadružno-proizvodno udruživanje poljoprivrednika. 100 godina zemljoradničkog zadugarstva Srbije*, Zadružni savez Srbije, Beograd.
- PIK BECEJ Poljoprivreda AD – Naslovna website: www.pikbecej.co.yu
- Strategija poljoprivrede Srbije* (2004). Ministarstvo poljoprivrede, šumarstva i vodoprivrede, Beograd
- Strategija dugoročnog razvoja poljoprivrede, sela i prehrambene industrije* (1997). Ministarstvo poljoprivrede, šumarstva i vodoprivrede, Beograd
- Zakić-Vujatović, Z. (2000). *Koop menadžment*. Dunav Grupa, Dunav Preving, a.d.