

**MACROECONOMIC FACTORS OF DEVELOPMENT (AGRO) INDUSTRY
REPUBLIC OF SRPSKA**

Adriana RADOSAVAC^{1*}, Radovan PEJANOVIC²

¹Eko Hemija, Brod, Republic of Srpska, Bosnia and Herzegovina

²Faculty of Agriculture, University of Novi Sad, Serbia

(Corresponding author: adrianaradosavac@gmail.com)

Abstract

The possibilities Republic of Srpska agricultural development based on natural and human resources (agricultural land for organic food production, forests, electrical energy potential, climatic conditions, employed in agricultural production). Analysis of macroeconomic trends shows that the Republic of Srpska in the period 2005 - 2011 year achieved significant growth in economic activity with high gross domestic product growth (in the area of agriculture, trade, manufacturing industry). The pace of economic growth is dependent on the successful mastery of developmental constraints (insufficient level of investment, low productivity, technological obsolescence and low competition). The functioning and operation of the economy in 2011 was influenced by the negative effects of economic crisis and this trend continued in 2012. In foreign trade in 2011. the export is recorded, a higher rate than imports, and there was an increase of import coverage by exports, which shows a smaller deficit in foreign trade. Countries that participate the most in the export structure of Republic of Srpska are: Italy (16.3%), Serbia (16.1%), Croatia (13.8%), while the structure of imports leads Russia (23.1%), Serbian (17%) countries that belong to the category of other (10%). During the research the authors came to the conclusion that in order to maintain macroeconomic stability and economic growth, economic policy will be aimed at reducing the deficit by slowing the growth of domestic demand for imported goods, and increase the competitiveness of exports, investment promotion and enterprise development and opening of Small and Medium Enterprises.

Keywords: *macroeconomic factors, gross domestic product, foreign trade of goods, deficit.*

Introduction

Republic of Srpska is economically designed as a region with strong industry and export-oriented economy. Finished goods of heavy industry were exported (electrical assemblies, military program), energy sources, raw materials of (metal ores and non-metallic ores). Textile industry was developed but even though agriculture sector was lagged behind, it was significant to overall development. However, agriculture sector is facing with high limited factors on the market with raw materials and finished products (low prices of finished products, limited degree of financing with acceptable prices) which leads to the reducing productivity degree and competitiveness. Republic of Srpska have resources for food manufacturing that are not used enough, so food must be imported to satisfy the needs of the population. Yearly import of agriculture and food products is estimated over 2 billion KM and export about 400 million KM.

Analysis and scope of foreign trade of Republic of Srpska

When analysing the trends in trade exchange, it is possible to see global trends where the most of the revenue from international trade goes to highly developed countries that have products and services that are competitive on world market. Global trade exchange has become a very important factor for world's gross domestic product, so that today the trade exchange is 1/4 gross domestic product.

The highest growth rate have countries with highest export growth. Economic and technologic globalization force countries to stimulate creation of international competitive products or companies and create good conditions that will attract international competitive subjects and industrial branches with purpose to increase economic growth and development.

One of the biggest problem of Republic of Srpska is very high foreign trade deficit, because of the low economy competitiveness on international market, bad protection and stimulation of domestic production, high dependency of export-import, discrepancies in Customs Tariff (customs duties on intermediate goods and raw materials that are not manufacturing in Bosnia and Hercegovina and Republic of Srpska).

Majority of countries in transition like Republic of Srpska have highlighted foreign trade deficit and low level of international competitiveness, hence foreign trade deficit is unavoidable syndrome that doesn't bypasses neither country in transition like Republic of Srpska. Institution in Republic of Srpska have an obligation to cope for better company position on foreign trade exchange and appropriate use of funds and measures on the BiH level as making institution approachable for users in Republic of Srpska.

Economy uncompetitiveness complicates macroeconomic stability of Republic of Srpska, which is quite distinct, and high foreign trade deficit negatively impacts on payment balance of Republic of Srpska and like BiH they are facing with numerous custom and non-custom barriers in the countries where they are exporting, so they need help with that. Market of Republic of Srpska and BiH is small and doesn't provide enough space for development of economic subjects. Foreign investment is necessary for economy growth, which will encourage export and direct foreign investments for solving foreign trade deficit and economy development. It is also necessary to encourage export in the region through free trade agreement CEFTA. Initiative has to be started for suspension of custom on raw materials that are not manufacturing in the country, direct influence on export companies, help in development and adjusting products to international standards, support for market development, promotion of export offer, stronger support of various of institution (Government of Republic of Srpska) to the export companies.

It is very important to increase exports, because that is a prerequisite for macroeconomic stability and economy growth. High growth of economy activity in Republic of Srpska in year 2005 has been influence on total growth of foreign trade for 19,8%, which contributed import growth for 11%. In year 2004 total value of the export was 50% bigger than in the year 2003 but it was still on very low level. In the year 2005 value of the export was significantly increased which allows Republic of Srpska to leave the group of countries with smallest export per capita, whose overall participation was 39,5%. Foreign trade growth in the year 2005 was made with successful market restructuring and with products with higher competitiveness for some economic subjects on European market. Negative trend of foreign trade exchange is reduced a little so that the coverage rate of import with export at the end of the year 2005 was increased for 9.6% but it was still at very low level with 39,1%.

Total volume of products exchange of Republic of Srpska in relation to the world, was in the growing trend so that in the year 2007 was about 5 billion KM, and represent and

increase for 14% compared to the last year(3,35 bilion KM is relate to the import products and 1.67% on the export products).

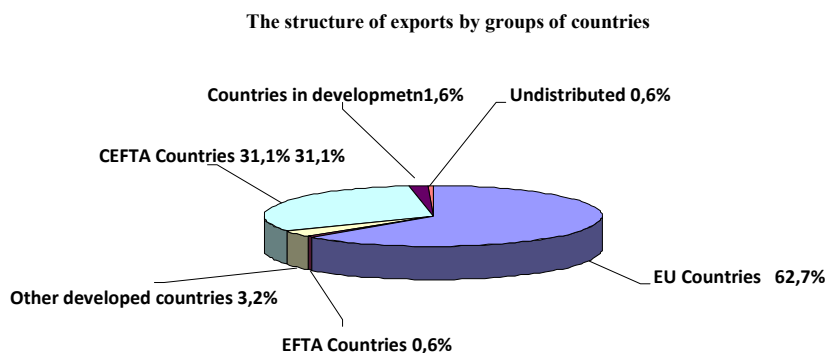
Table 1. Foreign trade exchange RS and BIH (in milion KM)

Year	Export		Import		Balance		Coverage import with export			
	RS	B&H	RS	B&H	RS	B&H	RS	B&H	RS	B&H
2003	611	2428	2278	8365	2888	10793	-1667	-5937	26,80%	29%
2004	843	3013	2703	9423	3546	12436	-1860	-6410	31,20%	32%
2005	1131	3783	2953	11180	4084	14963	-18230	-7397	38,30%	34%
2006	1540	5164	2760	11389	4300	16553	-1220	-6225	55,80%	45%
2007	1672	5937	3348	13899	5020	19836	-1676	-7962	49,90%	43%

Source: Republic institute of Republic of Srpska

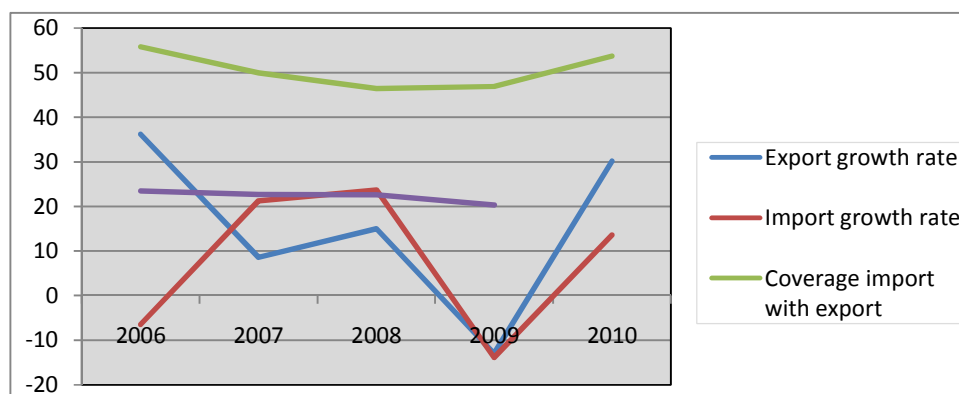
Further growth of a foreign trade exchange volume is to be expected due to increased activity of domestic economy subject, increased demand for equipment and half products and increased offer of domestic products.

CEFTA is contributing to the increasing of foreign trade exchange volume, supplementing existing agreement of free trade with some countries from the region. Goals of CEFTA agreement are synchronization for development of the economic relationship between countries with CEFTA agreement, increase productivity, achieving financial stability in relationship with acts of General agreement for tariffs and trade (GATT, 1994) and contract of foundation of World trade organization (WTO).



Export was in the constant high growth rate, while in the year 2007 growth was at 8,5% rate. Value of the import was also increasing until the year 2005, in the year 2006 import was reduced, while in the year 2007 was increased for 21.3%. What is noticeable is that the foreign trade deficit was growing at most and it was at 37,4%, which was reduced in the year 2006, but again reached a value of 1,6 bilion KM. Volume of foreign trade exchange of Republic of Srpska and foreign countries in the period from 2006-2010 was at average growth rate at 9,6%.

Low level of coverage import with export brings to the high foreign trade deficit. Reasons for deficit are low competitiveness of domestic products that are related with quality and price and low protection for domestic productions. Macroeconomic flow in Republic of Srpska in a first half of 2011 year, was in a moderate recovery, trend of economy growth in year 2010 was in the first and the second half of the same year. Economy growth was in a various economic activity, due to the increase of foreign demand. In a second half of the year 2011, growth was in the slowing rate, which have negative impact on foreign trade exchange. Unfavorable trend were continued through the year 2012.



Graph 1. Growth rate of foreign traded exchange of RS

According to the statistic data, total volume of products exchange of Republic of Srpska with foreign countries for period from January-May 2012, was 2,72 billion KM, which means that was higher for 2,5%, then in the same period of the year 2011. Realized export was in the value of 965,856 billion KM which was lower than in the same period of the year 2011 for 3,5%. Foreign trade deficit is 796,75 million KM and it is higher for 20% compared to the same period in the year 2011. Coverage import with export is 54,8% compared to the same period of last year which was 60,3%.

Table 2. Foreign trade exchange of RS in the year 2012.

Month	2012. year			
	Export in 000 KM	Import in 000 KM	Balance in 000 KM	Coverage export with import in %
January	158.330	290.628	-132.297	54,5
February	161.327	242.652	-81.325	66,5
March	214.153	474.051	-259.898	45,2
April	204.803	372.405	-167.602	55,0
May	227.243	382.867	-155.624	59,4
Total (I - V)	965.856	1.762.603	-796.747	54,8

Source: Republic institute of Republic of Srpska

Export structure should be from the products with appropriate standards that will satisfy the needs of customers in other countries. Because the size of the market, Republic of Srpska and BiH will be forced to take liberal foreign trade policy. Prerequisite for further development would be their openness to the world.

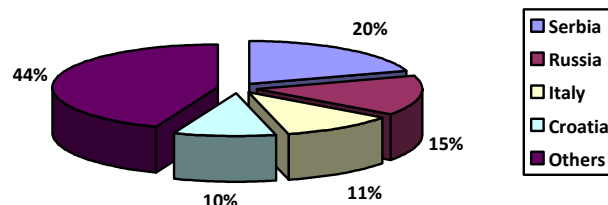
The highest value of achieved export from Republic of Srpska is in the sector of base metals (iron ore and their products, with participation of 20% in total export), wood and wood products, half-products of low degree treatment (alumina, paper production), electric energy and products from metals, leather and footwear. Republic of Srpska competes on the world market with export goods with low treatment level and low added value. In food production

Republic of Srpska is on a very high place on the regional market and broader, because of the low competitiveness in this sector. The structure of imported goods is much wider, from energy sources, through high-tech products to the consumer goods and food products, often with quality that does not satisfy the standards in regulated market.

Three most imported foreign trade partners of Republic of Srpska are EU, Serbia and Croatia. Serbia is the country that participates the most in total export of Republic of Srpska with 20,4%, then comes Italy with 18,2%, Croatia 13,0%, Germany 8,6%, Slovenia 6,9%, Austria 6,2%.

Serbia is also a country that participates the most in import with 22,3% then comes Russia with 17,8%, Italy 10,3%, Germany 7,0%, Croatia 6,5%, Slovenia 4,7%, China 4,2%, Austria 3,6% and Hungary 2,5%.

Leading partners of Republic of Srpska according to the goods exchange for the year 2010



Electric energy participates the most in export structure of industrial products with 12,9%, then processed wood 5,4%, petrol oil 5,1%. White sugar is the highest exported goods for agriculture products with 0,59%, then comes milk and sour cream with 0,44%.

Petrol and oil are the highest participants in import structure with 17%, then drugs 3,7% (sugar, coffee, natural gas, fruits, vegetables)..

In the year 2010, the highest deficit in goods exchange for agriculture products were: drinks, alcohol and vinegar 13,74%, grains 9,01%, remains of the food industry and litter 6,99%, sugar and sugar products 6,87%, grains based products and milk 6,11%, meat and meat products 4,94%, feed 4,71%.

Conclusion

For sustainable development of Republic of Srpska it must be activated faster and efficient progress of agriculture, improved environment management, development of infrastructure, potential energy source, updated infrastructure and telecommunications. Macro stability is sustainable with stronger export activity, participation in regional and global integration which will lead to the higher income in relation to the public expenditure. Increased competitiveness will be achieved with stronger research and development activities with educated work force, support and infrastructure development, strengthening export function. Coverage import with export is increasing every year, which indicates to the lesser deficit in foreign trade exchange Republic of Srpska with the world.

References

- Pejanović, R., Njegovan, Z., Entrepreneurship i (agro) economy, monograph Faculty of Agriculture, Novi Sad, 2009
- Pejanović, R., Transition reforms and the crisis of agricultural economy (1) Economic policy
- Pejanović, R., Developmental issue of Serbian agriculture (2) Business policy, Belgrade, Study: Bosnia and Hercegovina, economic Trends, 2008
- Project: Republic Agency for development of small and medium enterprises – RARS, 2004, Study: Development Programme of the Republic of Srpska 2007-2010, Government RS, Export Promotion Strategy Republic of Srpska 2009-2012., Government RS, Banjaluka, Economic policy for 2008 Government RS,
- Study : Development Strategy of Republic of Srpska to the year 2015,
- Study: Strategy of small and medium-sized enterprises in the Republic of Srpska for the period from 2006-2010,
- Study: Analysis of the economic burden of Republic of Srpska,

Study: Analysis of foreign trade BiH for the year 2010.

www.rzs.rs.ba

www.stat.gov.rs

www.minpolj.gov.rs