

THE IMPACT OF SERBIAN AGRICULTURE EXPORTS ON ITS TRADE DEFICIT

Jelena PETROVIC^{1*}, Dusko JOVANOVIĆ¹, Dusan PETROVIC¹, Sinisa BERJAN²

¹Business Economics Academy, Cacak, Serbia

²Faculty of Agriculture, University of East Sarajevo, Bosnia and Herzegovina

*(Corresponding author: jelena1809976@gmail.com)

Abstract

Exports of agricultural and food products is the consequence of high and efficient domestic production and favorable agro-ecological conditions, but also the proper implementation of agricultural and food policy. There are significant restrictions on trade in agricultural and food products. In recent decades the agricultural protectionism comes to the fore; that has emerged for the protection of agricultural production in developed countries from the extreme competition in the international market. Strong technological progress in many countries encouraged agriculture production that has resulted with the surplus in agricultural products, after long period of recorded deficit. At the same time, exporting countries are trying to increase productivity in order to retain their existing positions in the international market. For these reasons, there is the instability of the world market of agricultural and food products, which particularly affects the economically undeveloped countries.

Serbian agriculture is gradually losing its leading position in the region. From the fact that the agriculture and food industry, with still unused possible resources, have significant impact on the reduction of the current account deficit and because of the necessary adjustments to future European integration, it is expected that they, therefore, have better support from the government. Unfortunately, this is not the case, and as a consequence of this attitude of the state towards agriculture, it achieves significantly lower results in the export than possible. Agriculture budget should be development oriented, to the improvement of agriculture and increase agricultural exports, and not be so often misused as a purely social category.

Key words: agriculture policy, Serbia, trade deficit, exports

Introduction

Modern economies are more or less open to the world market. The degree of openness varies from one country to another. The rate of economic openness (the share of exports and imports in Gross Domestic Product-GDP) is very different. Public finance policy, foreign trade policy and development policy are interdependent segments of macroeconomic policy (Johannes & Wetzel, 1988). Interaction is established through the real exchange rate, foreign exchange reserves management, external debt, the budget deficit management and the policy of liberalization of foreign trade. Contemporary countries react quite differently to external shocks. Countries with a relatively stable exchange rate, with rational tax operations (tax pressure) and the liberalization of foreign trade have more easily overcome the economic crisis and relatively quickly stimulated economic activity and development. Any mismanagement of fiscal deficit is often the cause of overvalued exchange rates and all that because the deficit is the additional requirement of an established government offer of goods in the economy, which is purely inflationary method (Stiglitz, 2002). By increasing the budget deficit the state is putting further pressure on domestic demand, which leads to an increase in

prices, interest rates and wages. Each oversized reclining on the creation of base money to finance public deficit, further encourages the growth of domestic products' prices, which compared to the prices of foreign goods, creates the overvaluation of the real exchange rate. The overvaluation of the exchange rate, on the other hand now, favors the production for the domestic market, thereby drastically affects the loss of competitiveness in international markets. Therefore, export is limited, import is increased and all that worsens country's balance of payments position. In modern, industrialized countries, public expenditure policy (level and composition of public spending) is an important determinant of economic growth and foreign trade. Public expenditures of the state through public investments influence economic development, and consequently, the foreign trade (Ram, 1986). Public investment in the agricultural sector, road, water, and energy infrastructure, research and innovation services are reasonable examples of supporting the production of goods for foreign trade. Efficient allocation of public expenditure can ensure the increase in production intended for foreign trade, in order to mitigate impacts of external shocks and to encourage private investment in the changing of economic structure and diversification of export activities.

Agriculture and food industry of Serbia is the backbone of economic activity and is the only area beyond the defense industry, which generates a surplus in foreign trade. Agricultural and food sector in Serbia are export-oriented and in 2011 the total trade exchange in these sectors amounted to about 4 billion dollars. Total exports of agri-food products to the world market amounted to 2.7 billion dollars in the same period. All other economic sectors recorded trade deficit and raised the debt level. From the fact that the agriculture and food industry, beside the food security of the country and the impact on the reduction of the current account deficit with foreign countries, have untapped resources and because of the necessary adjustments to future European integration, it is expected that they, therefore, have better support from the government. Unfortunately, this is not the case, and as a consequence of this attitude of the state towards agriculture, it achieves significantly lower results in the export than possible.

Serbian trade deficit has grown considerably in recent years, so that in 2009 was close to 18 % of GDP, which is one of the largest deficits in the region. What is disturbing, however, is the fact that the growing external deficit is not a result of the expansion of private sector investment that could pay off in an improved supply and export growth, but is outcome of high level of consumption. Long-term overrated value of the dinar was stimulating imports, increasing the trade deficit and external debt, so that the achievement of sustainable relations with other countries (as measured by the balance of payments) was unsatisfactory. So, it is understandable why there are fears regarding macroeconomic stability of the country in the coming years unless export is increased and rapidly borrowing as well as domestic consumption are stopped.

Materials and methods

In order to analyze properly the issue of increasing exports of agriculture as one of the necessary prerequisite for the stabilization of the Serbian economy, the role of the state as a key factor in terms of funding and subsidies to agriculture, secondary sources of information that provide relevant statistical data, such as the World Bank, Serbian Chamber of Commerce, Statistical Office of the Republic of Serbia, were used. The survey is also based on professional literature, that contains the facts about the topic, as well as other types of publications, which in some way discuss the above issues. Methodological principles and tools that are adopted in the work are the statistical methods, SWOT analysis, induction and deduction, as well as the technique of comparative analysis.

Results and discussion

Serbian agriculture is gradually losing its leading position in the region as evidenced by the fact that exports per hectare of arable land is less than double than the agriculture export of Macedonia (FYROM) and even more than the agricultural export of Croatia. Measured by the export per hectare, Serbia is still better than Romania and Bosnia and Herzegovina, which are working very hard to change this situation. The transition of agriculture to market conditions is accompanied by significant development of foreign trade. While in the 90s and in the first half of 21st century there was permanent trade deficit (except for a small surplus in 2000), from 2008 to 2012 a significant surplus has been recorded. However, this information should not be accepted as a fact that there has been some kind of improvement in the agricultural sector, but it is due to the bilateral agreements with countries in the region (Central European Free Trade Agreement - CEFTA), the transformation of the Montenegro market into a foreign one, the free trade agreement with Russia and quotas for the preferential export to the European Union (EU).

Today's state of Serbian agriculture, its potentials and limitations, still have the same trend - that in agriculture are less inputs than are really needed, and therefore the results are lower than desired. In the process of planning and directing state aid has not been established yet a system of coordination between many institutions and actors involved in all aspects of rural development. The issue of state subsidies, precisely to whom should be given and to whom not, always brings strong reactions by the public. Agriculture budget should be development oriented, to the improvement of agriculture and increase agricultural exports, and not be so often misused as a purely social category. It is enough to look for appropriate arguments to support this claim with the practice of countries where the agriculture is far more developed than in Serbia, and even in neighboring countries. Their leading producers receive enormous subsidies that could be millions of euros, what place agrarian systems in Serbia in an inferior position, when competing in the international market. These countries do not insist at all costs on liberalism. Agricultural policy, which gives priority to safe, quality food, and at the same time takes care of environmental protection, is the only acceptable policy. In order to achieve this, significant financial funds are allocated to subsidize agricultural production. But the essence is in more effective redistribution of funds from the general budget and in much better allocation of resources. Thanks to such a way of running the agricultural policy, in market oriented economies, a sufficient quantity of food is provided to cover their own needs and for export as well. Therefore, from the direct support to agriculture in the form of increasing the level of subsidies, the whole society will benefit indirectly. In developed countries, the state intervenes in four ways: a) determines the appropriate pricing policy of agricultural products, b) determines the measures of accelerated inputs for different types of costs, c) determines the appropriate financing models for agricultural production and inventory, and d) subsidizes the export of agricultural products (Pejanovic *et al.*, 2003)

In Serbia, 2.43% of the total state budget was allocated for agriculture in 2012. It's a very small amount considering the benefits that can be obtained by increasing agricultural production with higher subsidies. The disbalance between the importance of agriculture to the economy as a whole and of its participation in the state budget can be illustrated by the fact that during 2001 the agriculture production rose by 20%, leading to an increase in GDP of 5%.

Table 1: Total subsidies from the budget in period 2006-2011 (in thousands of dinars)

Year	Budget Expenditures	Agriculture Subsidies	% of total Expenditures
2006	529,707,500	11,180,700	2.11
2007	617,625,300	12,754,300	2.06
2008	702,068,300	25,309,900	3.60
2009	746,454,700	16,694,300	2.24
2010	820,240,800	22,863,900	2.79
2011	877,295,100	18,020,100	2.05

Source: Serbian Chamber of Commerce and author's elaboration

Agriculture has a constant need of financial support. The funds must be invested in agricultural production at a time and on a large scale, according to the nature of production, long holding time commitments, and low profit of the primary agricultural production, which prevents the creation of its own accumulation and its own sources of funding. An agricultural policy known for a longer period than one year is imperative to Serbia, in order to create an environment characterized by stability, predictability and attractiveness for both domestic market participants and foreign investors.

Development can no longer rely on small producers, in a fragmented agricultural property, but above all Serbia needs large agrarian systems that are able to implement on their property modern technology and thus be in a position to properly counter the international competition and stabilize its position in the market. In developed agricultures the average property is more than 30 hectares, and in Serbia 10 times less. Serbia can easily slip into a situation where it starts to import more food in the coming years when, because of the Stabilisation and Association Agreement (SAA) and the accession to the World Trade Organization (WTO), the level of protection will be lowered. Exports will be increased, but not as fast as imports. Simply, it happened to all the other countries, so it will happen to Serbia as well. The European Commission itself has criticized the fact that the measures in agriculture have been ad hoc so far and often changed two or even three times a year.

It's hard to find a good reason why Serbia as an agricultural country, where the farmers have always been proud of their full barns and dryers, millions and millions of euros are spent on imports of fruits, vegetables, meat. It is very disturbing knowing that Serbia spent about 5 million dollars on imports of apples in 2009, although this fruit is produced in sufficient quantity. Apples had a good harvest, but much of the fruit remained on the branches, because the producers due to low prices didn't want to collect and to sell them. In addition, Serbian farmers still don't have a quality storage technology, so the traders choose to buy these fruits abroad, because it is more profitable. Apples are not the only problem, but beans as well, which will be unfortunately imported for a long time mostly from Kazakhstan, since one ton per hectare is low and insufficient, then tomatoes, peppers from Macedonia and Greece, onions from the Netherlands and Belgium, garlic from China. All this drastically affect the financial picture of the Serbia's balance of payments position. However, Serbian companies in the agri-food sector have great opportunities to increase exports of local products to Germany, Italy, France, since those countries are the largest importers of agricultural products from developing countries, including Serbia. Agriculture in Serbia contribute to national wealth with significant participation in the creation of GDP. The share of agriculture in GDP of Serbia in the period from 2001-2010 was in the range 24.6 - 9.7%. Such a high percentage is even more important considering that the value of primary agricultural products is significantly lower than the value in the food-processing industry, and points to the crucial importance of this industry to the overall national economy. The average

annual growth rate of net agricultural production in Serbia in the last 10 years was 1.3%, and the gross value 1.9%. The last 10 years, agriculture is going through a transition phase, and the entire Serbian economy as well, which involved privatization process that has been proceeded without adequate and clearly defined measures of agricultural development policy.

Currently only competitive advantages of Serbia are the natural resources, low labor costs, low land prices (Tomic, 2011). However, available resources (favorable natural and climatic conditions) are not sufficient for the survival of agriculture and sustainable rural development. It is necessary to support the development of agricultural and rural policy with adequate and intensive budget allocation. Some of the measures to increase the competitiveness of Serbian agriculture could be divided into the following categories:

- The participation of big commodity producers should be increased in the structure of agriculture, as currently dominated by small commodity producers. The big commodity producers would increase the productivity.

- Reorganization of the market of agricultural products in order to reduce the monopoly on the demand side, as well as to price stability and competitiveness in order to place products outside of Serbia.

- Increasing agricultural budget with a bigger participation of subsidies.

Table 2: SWOT analysis of agriculture in Serbia

Strength	Opportunities
<ul style="list-style-type: none"> - Natural resources - Unpolluted resources - Educational institutions - Manufacturing facilities 	<ul style="list-style-type: none"> - Merging of land properties - Improvement of production - Multifunctional production - More efficient utilization of land - The larger volume of organic production and products with protected geographic origin - Development of cooperatives - Education of the local population
Weaknesses	Threats
<ul style="list-style-type: none"> - Fragmentation of property - Elderly households - Problems in irrigation 	<ul style="list-style-type: none"> - Restrictions on exports - Lack of state support - Insufficient impact of institutions on development

Source: Author's elaboration

In the past few years Serbia had stable growth, the average GDP growth rate for 2006/2007/2008 was around 6% (Table 3). In 2009, however, mainly due to global economic crisis and its effect on Serbian exports and investments in the country, a negative growth and contraction of GDP was recorded (-3%). The largest influence on the GDP contraction had the fall in agricultural production of 20% due to the severe summer drought. In table 3 we can see that the share of agriculture in the total import and in the export as well, still has fluctuations and indicates the instability of the agricultural sector, as a result of absence of a stable agricultural policy. The data in the table also show the instability in spending on subsidies in agriculture and although there is some small increase (2006/2007/2008), this increase does not

correspond to the relative trend and the need for development of small farms and the preservation of rural areas. Therefore, in reality the downward trend and from 2009 the sharp decline of the agricultural budget in the national budget has been evident. How the share of the agricultural budget in total government budget was reducing, at the same time the share of agriculture in GDP was decreasing, and thus influenced the issue of financing the trade deficit. Decrease in the share of agriculture in GDP has been affected also by the development of other sectors of the economy, which however do not have such a positive performance in reducing the negative trade balance as agriculture has. Serbia did not set a hard line on the need of continued spending on subsidies, as well as setting the pace and terms of assistance to agriculture and farmers. The very fact that the agriculture in Serbia accounts for about 9% of gross domestic product, and the agriculture budget with approximately 2.48% in the overall budget (data for 2010) – presents itself the state's attitude towards agriculture. Given the still low profitability of agriculture in the Republic of Serbia, the main source of funding and support for agriculture is still in the hands of the state. No agricultural producers can survive without protection and subsidies, regulated by the state, and yet the same have recorded a tendency to a steady decline.

Table 3: Trade balance; Agriculture trade balance; GDP - Serbia (in mil.USD)

	2006	2007	2008	2009	2010	2011
Total export	6,431	8,823	10,974	8,345	9,794	11,780
Total import	13,174	19,165	24,332	15,808	16,471	19,862
Trade balance	-6,743	-10,342	-13,358	-7,463	-6,677	-8,082
Agriculture – export	1,265	1,686	1,957	1,945	2,241	2,700
Agriculture – import	905	1,116	1,468	1,308	1,036	1,400
Agriculture – trade balance	360	570	489	637	1,205	1,300
Agriculture - % of total export	19.7	19.1	17.8	23.3	22.9	22.9
Agriculture - % of total import	6.9	6.1	6.0	8.3	6.2	7.0
Agricultural budget - % of total budget	4.70	3.60	4.00	2.20	2.48	2.45
GDP growth rate	5.2	6.9	5.5	- 3.0	2.0	1.6
Agriculture - % of GDP	11	10	11	10	9	9
Trade balance - % of GDP	-21	-24	-27	-18	-17	-16

Sources: Statistical Office of the Republic of Serbia, The World Bank, Author's elaboration

Conclusion

International trade today depends on many factors and is restrained by the effects of various types of barriers, which are constantly adopted and implemented by highly developed world economies. As a result there are some difficulties in the flow of goods between regions and groups of countries, affecting international flows of agricultural products. In this way, the traffic of goods directed to less economically developed countries and to those who are not members of a certain economic group is transparently discriminated. In addition, beside this type of agricultural protectionism, in the international market operates a number of

multinational companies, the agricultural clusters, with which it is difficult to establish a fair competitive battle in the market.

Favorable global financial conditions prior to the global financial crisis allowed the smooth financing of the deficit of Serbia's current account using foreign sources of funding. At the same time, the external debt of the private sector has been also increased, which is why the economy has become vulnerable to sudden reduction of capital inflows, which greatly influenced the increase in the budget deficit. One of the most significant sources of inflows in the Serbian economy certainly can be and proceeds from the export of agricultural and food products. As in recent years, the funds in the agricultural budget have recorded a relative and absolute decrease. It is suggested that in 2013 the agricultural budget should be 5% of the total national budget, and in the coming years this share should reach 10 %. The priority of the Serbian agriculture is to increase the general level of competitiveness, find new markets, adapt to the rules and standards of the EU and the WTO, acquire new skills and technologies that will change the structure of agriculture and be ready for the competition in the domestic and international markets. One of the prerequisites for establishing the long-term macroeconomic stability in Serbia, which is characterized by a sustainable level of public debt, price stability, reduced trade deficit and unemployment, is certainly the formulation of the development concept for agriculture, the development of institutions, legislation, subsidies and investments in agricultural resources.

References

- Johannes L.& Wetzell D. (1988). Public Finance, Trade and Development, What have we learned? International Institute of Public Finance, 44th Congress, Istanbul, pages 2-4.
- Pejanovi R., Tica N. & Tomašević D. (2003). Faktori konkurentnosti agroprivrede u procesu tranzicije (*Factors of competitiveness of agribusiness in transition*), Compatibility of Serbian and Montenegrin agrarian policy and the Common Agricultural Policy, Institute of Agricultural Economics, Belgrade.
- Ram, R. (1986). Government Size and Economics Growth, American Economic Review, pages 191-203.
- Stiglitz, J. (2002). Study "Suprotnost globalizacije,, (*The opposite of globalization*), Belgrade, pages 182-202.
- Tomi , R., Tomi , D. (2011). Proizvodni potencijali agroprivrede Srbije – faktor unapredjenja konkurentnosti (*Production potential of agrarian sector in Serbia – a factor of improvement of competitiveness*), School of Business 3/2011, page 3, Belgrade.
- Statistical Office of the Republic of Serbia, Foreign Trade: <http://webrzs.stat.gov.rs/WebSite/Public/PageView.aspx?pKey=235>. Accessed on 20/06/2013.
- The World Bank: <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS/countries>. Accessed on 25.06.2013.
- Serbian Chamber of Commerce: <http://www.pks.rs/PrivredaSrbije.aspx?id=13&p=2&>. Accessed on 28.06.2013.