100th Seminar of the EAAE

DEVELOPMENT OF AGRICULTURE AND RURAL AREAS IN CENTRAL AND EASTERN EUROPE

Thematic Proceedings

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21st – 23rd June 2007
Novi Sad, Serbia
COMPETITIVENESS OF SERBIAN ECONOMY: CENTRAL CHALLENGE FOR MACROECONOMIC MANAGEMENT AND THE WAY OF IMPROVE AGRARIAN SECTOR

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INTRODUCTION

Problems in the area of agriculture primarily refer to: high custom protection of domestic production, inadequate functioning of land market, undeveloped market of rural credits, slow privatization with low foreign investments, unbalanced development of rural and urban areas, poorly developed marketing infrastructure, institutions and marketing organization. However, with adequate agrarian policy, which can influence the growth of production, Serbian agriculture can build competition and give a significant contribution to the economic development of the country. Though it was done quite a lot on the field of systemic reforms there is a key role of the state in the next period for establishing the acceptable and stimulant macroeconomic and business environment, which is the only base for the stimulating agrarian policy, with focus on restructuring, marketing development and increase of investments in the Serbian agriculture

1. THE RESULT OF THE SERBIAN MACROECONOMIC POLICY IN 2001-2006

According the data mentioned in The Memorandum about the budget, fiscal and economic policy for 2007, with estimations for 2008 and 2009 (Ministry of Finance of Rep. of Serbia), the Republic of Serbia realized a significant growth in the period of 2001 to 2005 with basic macroeconomic and structural indicators. During this period a high growth of gross domestic production was realized, macroeconomic stability established and maintained stability of the foreign currency with continual growth of foreign exchange reserves. About 350 systemic lows have been passed which support the reform structure and significant progress has been made concerning the reform conduction, especially within the area of privatisation of enterprises and consolidation and privatization of the banking sector. The positive results of growth of foreign direct investment income have been obtained on the reforms of labour marketing and social sector. Contradictory,

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but closest to the truth is the following Memorandum statement: actual growth of GDP during the last five years of transition was followed by a high inflation, high deficit of current transactions and a high rate of registered unemployment, which shows unfavourably influences macroeconomic stability and decelerate the economic growth.

Macroeconomic policy had numerous positive effects in 2006, above other things on: economic growth, inflation, reduction of grey economy, foreign investment growth and increase of foreign exchange reserves. However, the following facts confirm that all these things are not sufficient enough: unfinished process of privatization, especially with public enterprises, a high rate of unemployment, high public spending, high interest rates, negative balance of foreign trade deficit, growth of external depths, ineffective judiciary, presence generators of inflation. The results of macroeconomic policy are visible in the fact that transfers (money orders from abroad and privatisation income, dominantly determine social and political stability as well as the economical expectations. The marketing of capital is too, shallow and in the process of withdrawing and the financial stock exchange did not become infrastructure for collecting capital, but infrastructure for termination of privatization, so the financial mediators(investment and pension funds above all) did not develop.

From mentioned above, it could be concluded that in front of the creators of macroeconomic policy a numerous challenges are placed, so the process of transition should be conducted properly, and supply the economic development and growth of economy competition. The activities that imply the process of associating to EU will be too, specially significant during the coming period, as well as the indispensable foundation and strengthening of the marketing and financial institutions.

2. HOW THE RESULTS OF SERBIAN MACROECONOMIC POLICY ARE EVALUATED BY THE INTERNATIONAL FINANCIAL ORGANIZATIONS AND INSTITUTIONS

I European Bank for Renewal and Development (EBRD) summarized the progress, by transitional indicators, in the structural institutional reforms for 29 transitional countries (Transition report 2006: Finance in transition, November 2006, EBRD). With nine transitional indicators four main elements of marketing economy have been encircled:

1. Enterprises (3 indicators: privatization of big enterprises, privatization of small enterprises and restructuring of the enterprises);
2. Marketing and Trade (3 indicators: price liberalization, foreign trade system, competition policy);
3. Financial sector (2 indicators: reforms of the banking system, together with liberalization of interest rates and indicators of marketing safety and non-banking financial institutions);
4. Infrastructure (telecommunication, rail, energetic system, roads, water supply);

Each indicator is measured by the standards of developed market economies and performs an estimation of progress obtained in some determined fields. Indicators of transition cover the range from 1 to 4+. Estimation 1 means that there are no changes in regard to socialistic system and number 4+ marks the performances similar to those in the developed economies.

According to the mentioned Report of EBRD in 2006 the worst estimates, Serbia had in the following 6 from the total of 9 indicators (www.ebrd.com):
1. Competition policy (estimate 1.67);  
2. Infrastructural reforms (estimate 2.0);  
3. Marketing safety and non-banking financial institutions (estimate 2.0);  
4. Enterprise restructuring (2.33);  
5. Privatization of big enterprises (estimate 2.67)  
6. Reforms of banking sectors and liberalization of interest rates (estimate 2.67)

From the other side, the best estimate Serbia got only with indicator of price liberalization (4) which is not too big success, having in mind that all countries in the region are estimated with 4 or 4+.

Regarding all the previously mentioned, the new Serbian Government is facing, according to EBRD, numerous challenges, and the greatest are: competition policy (ant monopolistic policy field) infrastructural reforms, enterprises restructuring and privatization of big public enterprises, reform of the financial market, continuation of negotiations about the stabilization and joining with EU, as well as the faster and more effective realization of already adopted laws and specialty implementation of the Law of Bankruptcy.

II According to the global index of competition of the world’s economic forum (The Global Competitiveness report 2006-2007) Serbia has been, among 125 countries in the world ranged in 2006 on the 87th place, and from the ex YU republics B&H is the only one behind. Serbia has worsened its position comparing the previous Forum Report, and observed by 3 sub index of the Global Competition Index(GCI), it is ranged the worst concerning sub index - basic requests (meaning effective institutions, infrastructure, macro economy) where it holds the 99th position.
Ranges’ according the Index of business competition, in the same Forum Report for 2006-2007, Serbia is at the 86th place which unchanged position is regarding the previous year. Far before Serbia are ex YU republics: Slovenia (position no 36) and Croatia (position no 56). It is interesting that Serbia has worsened its ranking by the criteria of sophistication of operations and enterprise strategies (from 87 in 2004 to 110th place in 2006). In the same time, the quality of business environment was evaluated slightly unfavourable than it was during the previous years (fall from the 83rd in 2004 to 85th place in 2006). It could be concluded that the low level of Serbian competition, measured by the index of business competition, is the result of inadequate infrastructure, access to capital, inadequate education system, lacking of branch clusters and extremely low innovative potential. Beside that, Serbian stumbling block for achieving national competition is insufficient sophistication of operations and strategies of domestic companies.

Comparative view with highly competitive countries could be a window for explicit recognize of facts and conditions which are necessary for competition growth of one national economy, and in the scope of it, of agriculture too. For example, the perfect ranging of Switzerland and Scandinavian countries, in the competition report of the World’s Economic Forum 2006-2007, shows that: good institutions and competent and skilled macroeconomic management, together with high level of skills for education and focus on continual and fast productivity growth, technology and innovations – represent the successful strategies for achieving competition in every national economy.

3. MACROECONOMIC MEASURES FOR PROMOTION OF COMPETITION OF SERBIAN AGRICULTURE

The Government has adapted the Strategy of Serbian agriculture in November 2004, which will be implemented in the next period up to 2008/2009. Officially the targets of agrarian policy are fortified and suggested ways of development which should be followed in order to realise appointed goals. In the Strategy for Development of Agriculture, several targets of the agrarian sector are marked and the first one on the list and the only aim of economic policy is the following one (Strategy of Serbian agriculture 2004, page 14):

1. To build up a viable and effective agricultural sector which can compete at the world market, contributing to the growth of the national income.

2. At the same time the main course of agriculture for realization of defined targets are (Serbian Agricultural Strategy 2004, page 14):

3. Restructuring (of producers, ownership, institutions);

4. Marketing development and its mechanism;
5. Rural development and protection of living space;

Key policies of the macroeconomic management for promotion of competition in agriculture are:

1. Macro economy – insurance of the proper policy of foreign currency course, elimination of tax and marketing barrier, non-discrimination tax system, macroeconomic stability and state credibility;
2. Exchange – export facilities, participation in trade negotiations, deduction of protection for imported goods(substitutes) and elimination of non price barriers;
3. Labour force – insurance of the employment in agriculture by the basic working standards;
4. Competition – reconsideration of marketing role, motivation of competition at the input market, cluster initiation;
5. Land – development of land marketing, lease safety, marking and registration of land transaction, land reform for proper distribution of land ownership;
6. Technology – supporting of public research activities and engagement of private sector in research;
7. Prosperity and food safety – establishment of social programmes for marketing regulation in the situation of extreme price changes and national catastrophist.

| Change of the basic elements of the agricultural development strategies |
|---------------------------------|----------------------------------|---------------------------------|
| Growth led by sources and inputs | Changed to | Growth led by knowledge and viable agricultural systems |
| Agricultural production | Changed to | Agricultural chain of production and marketing development |
| Basic agricultural products | Changed to | Higher level products in the chain of additional value in plants production, cattle breeding, fishing |
| Traditional export | Changed to | Non traditional export |
| General approach | Changed to | Based on poverty, focused approach within differentiated types of farms and ecological conditions |

Source: Agriculture Investment Sourcebook (2005), International Bank for Reconstruction and Development/World Bank, Washington;

To achieve agricultural competition, macroeconomic management must first of all change basic elements of agricultural strategy towards creation of viable
agricultural systems, which growth is led by knowledge and innovations as well as toward marketing development and the chain of agricultural products, where products of higher level and validity would be represented.

As for the competition and validity chain the following should be emphasized. Competition is the measure of productivity and efficiency. If the firm is competitive it can invest in development, innovation and adjust with the marketing changes. Competition depends on expense structure and selling prices, which is in the scope of personal performances of the firm with one part, but partly it depends on the public infrastructure and service, as well as of the performances of the other institutions which supply the firm by inputs or/and services. Having in mind that firms are connected with distant inputs or products marketing, respectively that every firm often significantly depends on other firms and public service, competition is increasingly analysed even from the aspect of providence of necessary institutional and infrastructural assumptions (macroeconomic level), as well as from the aspect of the firm cluster existence. In agriculture, many firms and farms, in order to be competitive, must be strongly connected in the chain of offer. For example, to be competitive(respectively to realize sufficient yield for invested money) a fruit producer from Ghana must be connected effectively with purchasers, technology providers, exporters, transporters and retail trade in Great Britain (Agriculture Investment Sourcebook,2005,page 260).Chain of offer provides today offer, quality and safety for agricultural products and performances of the chain depend on quality and efficiency of cooperation and partners’ coordination in the chain, as well as on the quality of macroeconomic and business environment.

CONCLUSION

Creation and insurance of Serbian agricultural competition is the task of the state in the first place. Organized state, developed marketing, financial, institutional and infrastructural base, clear laws and their effective administration-today is the first and basic assumption for competition of economic subjects at the market. To realize agriculture competition macroeconomic management must change basic elements of agricultural developing strategies, at the first place, towards creation of veiled agricultural systems, which growth is conducted by knowledge and innovations, as well as toward development of marketing and agricultural products chain. Key policies of the macroeconomic management, for promotion of competition in agriculture which are mentioned in the paper are: simulative macroeconomic policy, foreign trade regime, stimulation of competition and rivalry among companies, development of land marketing and development of technologic projects.
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