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



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**DEVELOPMENT PERFORMANCE OF AGRICULTURAL SECTOR  
AND ECONOMIC DEVELOPMENT  
IN SOUTHEAST EUROPEAN COUNTRIES IN TRANSITION**

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**INTRODUCTION**

Transition of the agricultural sector, or its market redefinition, i.e., “transformation” from centrally-planned to market oriented way of production, is rather complex and multidimensional process. The opus of the reforms within the agricultural sector of the transitional countries, which have chosen a path towards a full membership to the European Union, in its essence relates to the following:

- Macroeconomic dimension of the agricultural sector, in other words price and market liberalization, as well as the development of mechanisms that would insure its functioning;
- Land reform that includes reconstruction of the agricultural holdings, yet also privatization of the agricultural land and transformation of the very structure of the agricultural sector itself;
- Increase of the competitiveness of the market of agricultural products as well as that of agricultural inputs. In addition disburdenment of the previously existent monopolies within agro-processing industry, agricultural processing industry and finally industry of agricultural inputs.
- Rural financial system, which is to say the development of a viable financial system that would support market oriented agriculture including also the aspects related to rural economy;
- The development of the institutional framework, which is to say the development of institutions and administrative system that is capable of functioning adequately in case of private agricultural holdings operating within a market oriented economy.

The process of reforms within transitional countries is bound, indeed, by the very differences that existed at the onset of transition, but also by the speed and the scope of the reforms undertaken. The original departing differences relate, in the first place, to differences in the characteristics of the very economic system which by its very nature was a crucial determinant of the entire economies, thus also the

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agricultural sector.<sup>1</sup> However, the speed and the scope of the reforms of the transitional process, as well as the projected goal of institutional alignment with the value of the Union (*Acquis communautaire*) within the process of joining the Union, has played the determining role on path and the status of the reforms of the agricultural sectors of the transitional countries.<sup>2</sup> Thus, within the following lines of this scientific paper shall deal with the problematic areas of the reforms of agricultural sector, in other words of agricultural policy itself within the countries of South East Europe (transitional countries). The chosen context of the presentation of the material initiates with the outset of the transitional process of the agricultural sector and it follow through to the point of final stages of its reconstruction based on the principles of European model of agriculture, which should be in a function of allowing the achievement of the goals related to the economic development of the countries in question.

#### **REFORMS WITHIN THE AGRICULTURAL SECTOR AND PRODUCTION INDICATORS AS A FUNCTION OF ECONOMIC DEVELOPMENT OF THE SOUTH EASTERN EUROPEAN COUNTRIES**

Numerous problems present within the countries of the South East Europe, and particularly within the countries of the Western Balkan, are much more extensive, than was the case with the countries of the Central and Eastern Europe which joined the European Union in 2004. The developmental process, bound by the limited domestic resources, partially followed by the “measured” financial support based on bilateral and multilateral domain, coupled by per capita foreign direct investment, which was significantly smaller than was the case with the countries of Central and Eastern Europe, did not, in the majority of these countries resulted in overcoming of the transitional shock,<sup>3</sup> i.e., it did not result in closing the present gap vis-à-vis the level of development of the EU-15 countries. Indeed, just preceding the joinment of these eight Central and Eastern European countries to the

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<sup>1</sup> The issue relates, for example, to the differences in characteristics of the economic systems of the former SEV, on one hand, and the newly developed countries that gained independence from the former SFRJ, on the other hand. In addition, within these groups of countries there was no starting or developmental uniformity, which if one takes agricultural sector into view can be depicted using Polish situation as an example, which comes from the first group of countries, and using as another example the Republic of Slovenia, which came from the second group of countries.

<sup>2</sup> In that regard, needless to say, it is necessary not to overlook more or less positive or negative influence of the wider scope of international political sphere on certain regions, which is the case with the most of the countries of the Western Balkans.

<sup>3</sup> Destructive consequences of the transitional “shock” were magnified in most of these countries by rather serious consequences of regional wars or war related issues.

European Union, the countries of the Western Balkan have in 2003. Achieved between 7 and 15% (Albania) and between 23 and 41% Croatia of GDP per capita in comparison with the mean of EU-15, if measured in current currency level, or by the parity of buying power respectively (Figure 1). In the following three years the situation did not change significantly in vast majority of these countries. The countries of South Eastern Europe are significantly falling behind even in comparison to the newly joined members from Central Eastern Europe: achieving between 32 (Albania) and 84% (Croatia, measured using index of buying parity power) GDP per capita in comparison with the average with the eight newly elected countries, the countries of the Western Balkans are falling behind just about at the same rate as the newly elected countries are trailing behind the countries of EU-15.

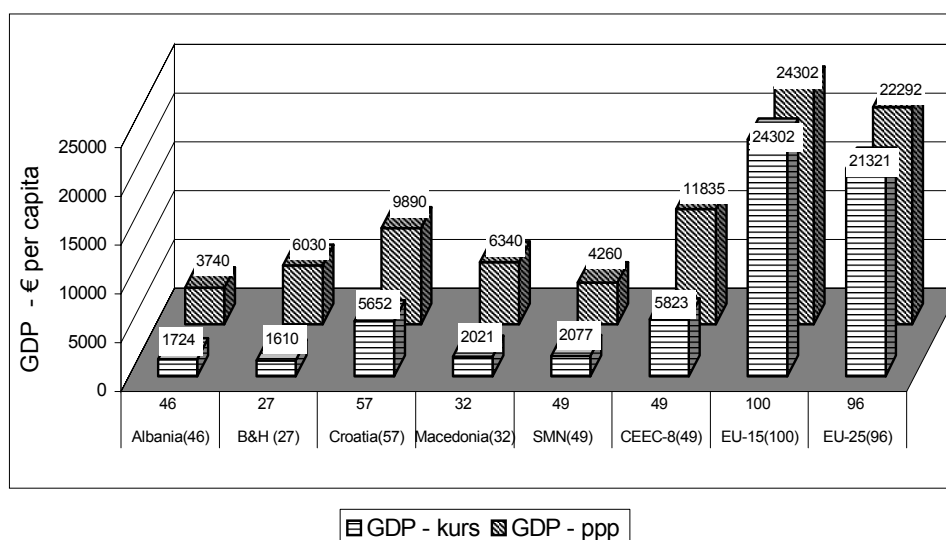


Figure 1 Comparison of development level in 2003

The analysis of the path and status of the agricultural reforms in dynamic, quantitative and qualitative terms doubtlessly indicates the existence of the significant gap among particular countries on one side and groups of countries on the other. According to the achieved level of the reforms within the agricultural sector by the year end 2003, one can differentiate three groups of countries:

- Advance reformers, i.e., the countries that have achieved high level of reforms;
- Medium reformers, i.e., the countries that have achieved partial level of reforms, and,

- Slow reformers, i.e., the countries that have achieved low level of reforms.<sup>1</sup>

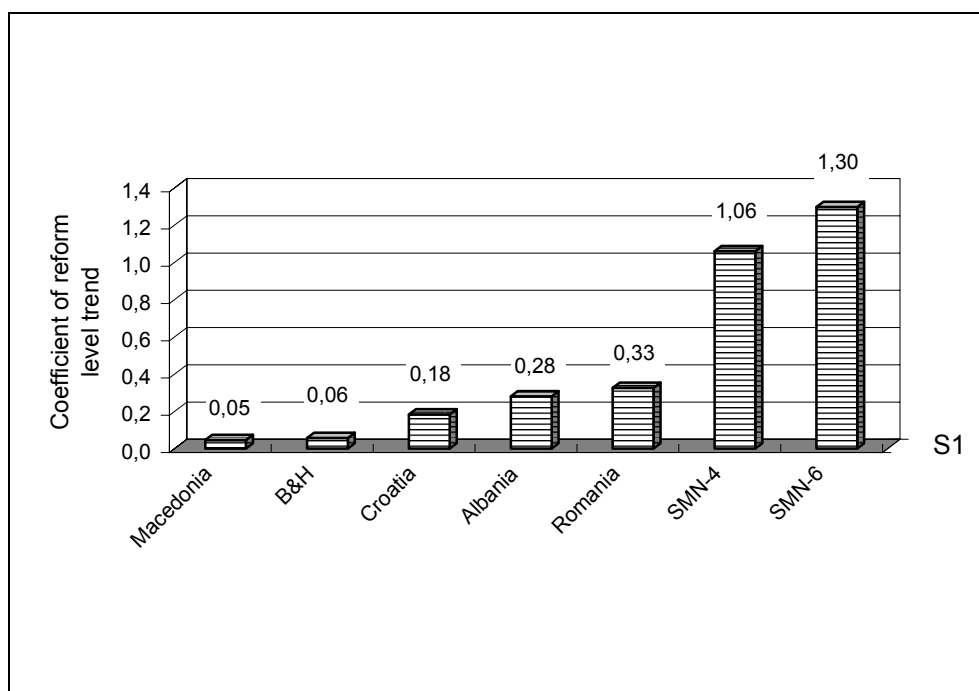


Figure 2 Rate of reforms in agriculture form 1998. to 2003.

- Medium reformers -

The countries of the South Eastern Europe, measured by the achieved level of reforms, are to be found within the group of medium reformers (Figure 2). Within this group of countries the slowest tempo of the reforms show Macedonia and Bosnia and Herzegovina (B&H), with almost identical coefficient of the trend of reforms of 0.05 and 0.06 and with the initial (starting) position that was on first/second and fourth/fifth place, which to say with the starting average score of the reforms of 6.6 and 5.8. Croatia has, with the coefficient of the reform trend of

<sup>1</sup> The limitations inherent in this paper do not allow for more detailed analysis of the reforms according to the formerly mentioned five segments and according to all groups of the mentioned countries. However, in order to enhance the analysis it is necessary to add that Bulgaria based on the level of reforms in the agricultural sector was in a group of advanced reformers, although on the last place in this group with a score of 8.2 which is insignificantly higher from the score of the best ranged country of mediocre reformers, with the starting position number nine i.e., the last place in a group with the coefficient of the reform trend of 0.23 which is almost identical to the tempo of reforms in the agricultural sector of Lithuania and Latvia.

0.18 on the third place within this group, and with the starting position on first/second place and with the starting average score of the reforms of 6.6. On third and fourth place, with the coefficient of the level of reforms of 0.28 and 0.33 are Albania and Romania which have started from the third and forth/fifth starting position, i.e., with the average starting score of reforms of 6.4 and 5.8. Serbia and Montenegro (SMN)<sup>1</sup> has the highest coefficient of the reform trend, yet it should be stated that their reforms have been valued only with the beginning of the year 2000, and that at that time belong within a group of medium reformers those countries had the lowest average reform score, in other words these countries started from the very last place within a group of South Eastern countries that geared towards the full membership to the European Union. Tempo of reforms within agricultural sector of Serbia and Montenegro, nominally of 1.06 for a four year period, and 1.30 for the six year period, even with the supposition about the level of reforms of 1.0 in 1998 and 1999, indicates significantly higher potential level of reforms of the one that was achieved in a period between the years of 2000 and 2003.<sup>2</sup>

Slowing characteristic of economic development within the transitional process of the end of the eighties and the beginning of the decade of nineties of the last century included, necessarily, agricultural sector itself and in essence that meant rather sudden fall of agricultural production within the transitional countries. Although the fall in production in agriculture was less than in non agricultural sector, it is important to stress that not even fifteen years in great majority of the countries of South Eastern Europe in transition did not achieve the level of production that was present immediately preceding pre-transitional period (1989-1991, Figure 3), and even less the productive maximum of the decade of nineteen eighties.

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<sup>1</sup> Although the data analyzed in this paper refer to the year 2006. and the Serbia and Montenegro, they due to the predominant share of Serbia in State Union of Serbia and Montenegro and the changing model of parallel tracks in a process of alignment with the European Union and eventually achieve a goal of European partnership, in a highly significant measure indicate the state and the results of the agricultural sector of the Republic of Serbia.

<sup>2</sup> This indicator is proven by the score made by the international institutions and the European Union based on the character and the level of transitional reforms in the Republic of Serbia in year 2005 and 2006.

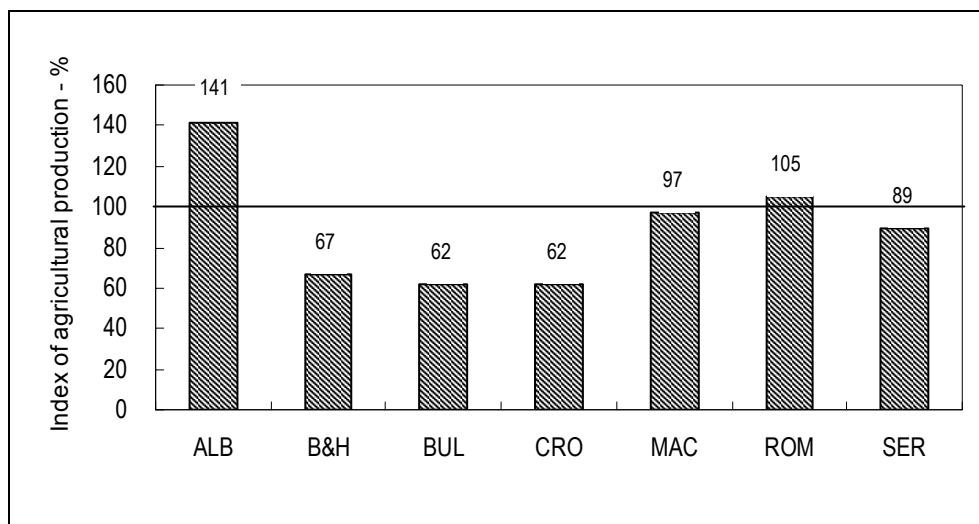


Figure 3 Dynamics of agricultural production  
- 2003-05/1989-91.-

Although the development of agriculture within the countries of South Eastern Europe, from the stand of resource structure indicated by the factorial relation land/labour and the level of partial indicators of productivity and the increase of the productivity of labour, followed the line of economic historical path of agricultures of European developmental type, agriculture of these countries were, even according the resource relationship land/labour and according to both of partial indicators of productivity, in particular productivity of labour well below the average for agriculture of the EU countries (Figure 4). Initial spread in productivity of labour, productivity of land and coverage of labour by land among the agriculture of the countries of South Eastern Europe and the EU – 15 ranged from 1: 5.71, 1:2.45 and 1:2.35, have been increased to the levels of 1:8.36, 1:2.74 and 1:3.07 within the first two decades of the transitional process, only to again fall to the further level of widening of the gap in terms of production performances.

The process of the agricultural development within the countries of South Eastern Europe is, thus, very slow, yet also divergent: on one side, the changes in partial productivities are sliding both ways, while on the other hand, the gap in the intensity of the changes are much accentuated. It is positive, though, that the transitional process within all of the countries of South Eastern Europe, within the scope of overall of agricultural structure, has initiated the change otherwise more or less extensive ownership structure, which has resulted in higher level of supply of labour by land, and it in itself is again in rather significant scope. However, still

supply of labour by land in the countries of South Eastern Europe is significantly lower than the corresponding one of the European Union. Although the intensity of the changes in agricultural structure, on one hand, function of overall economic development, it is necessary to stress that it is, on the other hand, determined by the agricultural policy, in particular by the policy of structural reform of agriculture of the countries of in transition, or by their willingness to base the reform of agricultural policy on European model of agriculture, whose last evolutionary characteristic determines multifunctional of agriculture within the political framework of agricultural and rural development. Of course, the level of support that the European Union offers to the said process influences not only the length of time of the transitional process itself but also to the increase of economic efficiency of the agricultural sector of the transitional countries.

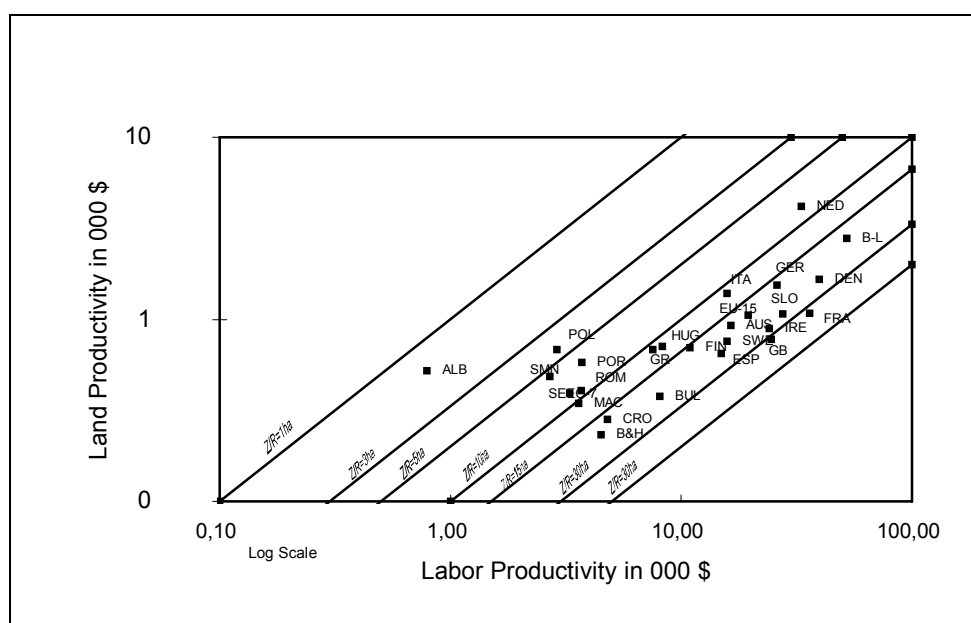


Figure 4 Comparasion of agricultural productivity  
- average 1999-2001 -

In that regard agricultural sector of Serbia, which is at the level of agricultural and agro-processing production determines roughly 25% of GDP, and with the inclusion of the pre-farm sector and post – farm sector outside processing industry “forms” over 40% of the countries GDP, it represents very significant sector of Serbian economy. The achievement of the predetermined level of GDP per capita of almost 8,000\$ by the year 2012 is, on one hand, un significant measure

influenced by the development performances of the agricultural sector itself, while on the other hand that should represent a significant contributing factor for the overall economic situation within the rural demographic segment, which in Serbia reaches the level of 42% of overall population of the country.

### **CONCLUDING REMARKS**

Within the reform process of agricultural and economic instruments the countries of Central and Eastern Europe were more successful, in that those countries that had predetermined goal of joining the European Union and which have, within the overall economic and institutional transitional changes, started sooner with the reform of the agricultural policy and have consistently followed through on principles of common agricultural policy of the European Union, using all of the available agro-political measures and instruments from the arsenal of productive oriented model of agriculture. Within the countries of South Eastern Europe in transition the reform process has been significantly slower and with the significant differences among certain countries.

The analysis of the process of joining of the countries of Central and Eastern Europe in transition to European Union indicates that it has unquestionably positive effects on development performances of agriculture of these countries. The development of their agriculture based on the principles of common agricultural policy has resulted in significantly higher growth of production and in particular income from agriculture in more than two decades period of transition. Thus, for the countries of South Eastern Europe in transition, it becomes an imperative for the development of agriculture the need of developing agricultural policies that are compatible with common agricultural policy of the European Union, or in the words on the principles of European model of agriculture based on multifunctional agriculture within the policy of integral agricultural and rural development. Reform process, at the same time, has to be in accordance with the developmental goals of the stated countries in order to overcome the transitional shock, i.e., it has to insure the increase of productive performances, improvement of food security, as well as the optimization of parity of income for producers and the prices acceptable by the consumers.

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