

## Foreign Trade of Agro-industrial Products between Republic of Serbia and Republic of Moldova within the CEFTA Agreement

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### Abstract

*Foreign trade of agro-industrial products and the liberalization of trade evince, beside a number of benefits, a series of aggravating circumstances and risks. For food producers in Serbia the process of trade liberalization represents a tough competition. This implies the necessity of raising the technological level of production, productivity and efficiency, as well as application of marketing management. Stronger competition in the national market should contribute to better quality and supply of goods. It is realistic to expect a decline in product prices, which in perspective could be a problem to domestic producers, reducing their income. However, this process allows the consumers the possibility for wider choice of cheaper goods.*

*The subject of this paper is the foreign trade of agro-industrial products between the Republic of Serbia and the Republic of Moldova within the framework of the CEFTA agreement signed in accordance to the free trade agreement. It contributes to the Western Balkan process of becoming an economically integrated area for goods and services. It should also be a distinctive destination for foreign investments. The main goal of the research is reconsideration of possibilities for improving and expanding foreign trade of agro-industrial products of the Republic of Serbia, as well as the decrease of import of mentioned products from the Republic of Moldova. The task is, besides all, to quantify incurred changes in order to gain better insight in actual trends, as well as to determine the mutual conditionality of the factors that dominantly influenced the manifested tendencies.*

**Key words:** CEFTA, food, Republic of Serbia, Republic of Moldova, trade, competition

**JEL Classification:** F15; Q13

### Introduction

Export of agro-industrial products represents the basis of agricultural development, and therefore the economy as a whole. Each country tends to increase export of agricultural and food products. It also wants to minimize the import, or to achieve a positive foreign exchange balance. In order to achieve better foreign trade results with a certain country, it is necessary to explore the market and to adapt products to the requirements and needs of foreign consumers.

The subject of this paper is the foreign trade of agro-industrial products of the Republic of Serbia with the Republic of Moldova within the CEFTA agreement, in compliance to free trade agreement. CEFTA agreement includes agro-industrial and primary agricultural products, where at industrial products, as a rule, is the greater level of liberalization. Agricultural products are under the trade privileges of limited scope, considering the particular sensitivity of agricultural sector. The main goal of the research is reconsideration of possibilities for improving and expanding foreign trade. The task is, primarily quantification of all changes, in order to achieve better insight in current trends, as well as to determine the mutual conditionality of factors that dominantly affected expressed tendencies.

## **Data Sources and Methodology**

Basic data sources are represented by foreign trade statistics and materials of the Ministry of Agriculture. Export analysis was done by commodity groups according to the Standard International Trade Classification (SITC). Research covered the period from 2000 to 2009. Standard statistical-mathematical method was applied. The intensity of the movement of changes is quantified by calculation of change rate after using of functions that had most suitable trend lines to original data. The export and import stability was calculated by usage of the coefficient of variation. Also, it was used deeper analysis of all established documents, as well as results of previous researches of this issue.

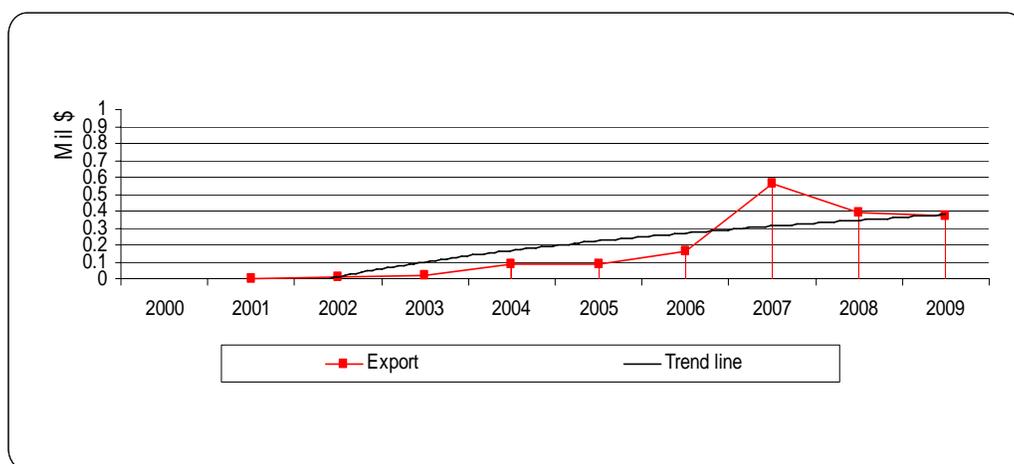
## **Research Results**

### **Export of Agro-Industrial Products into the Republic of Moldova**

After the collapse of the Soviet Union, Moldova, because of total dependence to common market was fell into a deep economic and socio-economic crisis, where it was exposed to influence of inflation, decrease of agricultural and industrial production, as well as decrease of living standard. Up to end of 1995 privatization and transformation of enterprises were formally completed in Moldova (privatization of public and cooperative properties). Agriculture is one of the most important economy sectors in Moldova. Over 24% of GDP is gained in agriculture and in it work more than 47% of the active population (EU Taric data Base, 2007). Reconsidering all mentioned resources available to Moldova it can be concluded that this is a country with extraordinary natural resources within the agriculture. Furthermore, Republic of Moldova disposes of significant processing capacities in food production. The most important sectors in agriculture are wine growing and wine production.

Republic of Serbia did not have serious foreign trade with Moldova until 2001. Low level of external trade was significantly influenced by two factors: the custom limitations and spatial distance. A whole set of barriers that have burdened the exchange of these two countries practically disappeared by establishment of the CEFTA agreement. However, even after the signing of free trade agreement, foreign trade exchange between Serbia and Moldova did not experience full affirmation. Republic of Serbia began with export to the Moldavian market in 2001 and total value of exported agro-food products in mentioned year amounted little more than \$200.

Within the analyzed period (2000 to 2009) export from the Republic of Serbia was characterized by slight increase, before all disproportionate to the import from the Republic of Moldova. Certain exports' jump was achieved in 2007, but the next year it had a declining trend (Chart 1).

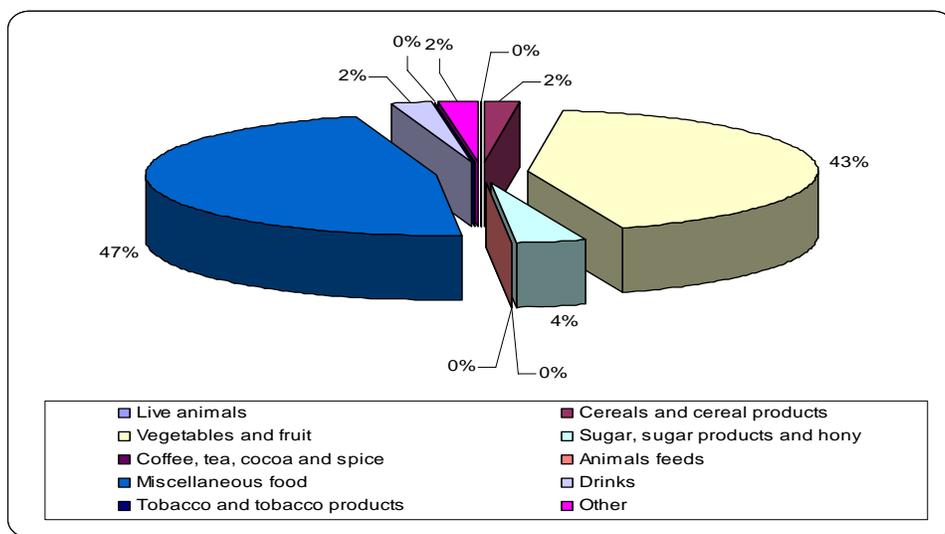


**Chart 1.** Export trend of agro-industrial products from the Republic of Serbia Republic to the Republic of Moldova (period 2000-2009), (in mil \$)

Source: Statistical Office of the Republic of Serbia

The Republic of Serbia has exported in the analyzed period to the market of Moldova agro-food products in value of \$1.6 million. In average, Serbian export annually has not exceeded the amount of \$160,000. The rate of export change from the Republic of Serbia is 127.4% with increased value of variation coefficient (108.6%), what unequivocally indicates the high level of export oscillations of Serbia to Moldova.

In analyzed period Serbia mostly exported edible and processed food products (47%) that were followed by fresh and dried fruits and fresh or frozen vegetables (43%), (Figure 1).



**Fig. 1.** Export structure of agro-industrial products from the Republic of Serbia to the Republic of Moldova (period 2000-2009)

Source: Authors calculation

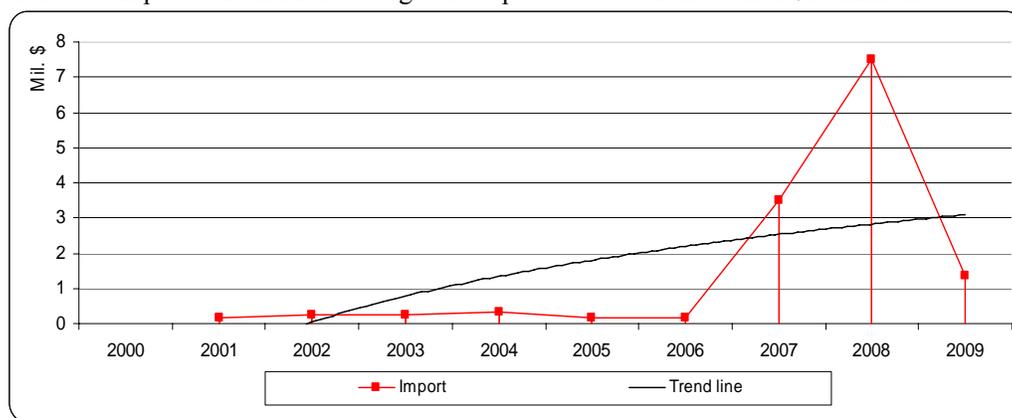
Export from the Republic of Serbia into Republic of Moldova, according to aspect of the SITC classification, determined five product groups. In the first year of foreign trade relations between mentioned countries (2001) Serbia mostly exported corn (in grain) and in period 2002-2004 it realized before all edible and processed products (canned, salted and dried meat

products, dairy and confectionary products), more than 83% of total export and eggs, around 16%. In 2005 the export share of edible food products increased to 88%, while its value was only around \$78,000. Next years were characterized by increase of export of fresh (plums, peaches, apples, apricots) and dried fruits (prunes, raisins, apricots and figs), so the export of this products group within the period 2006-2007 was over 50% of total export to the Moldavian market. However, the nominal value of exported fresh and dried fruit were modest \$330,000. Besides the mentioned group of products, certain quantity of eggs (\$17,000) and corn grain (\$33,000) were realized. During 2008, there was a slight decline in export, in nominal value, while in export structure came to raise of edible food products (they take more than 63%, or barely \$230,000). In the last observed year (2009) export still recorded a slight decrease. In export structure dominates edible food products (51%) and fresh or dried fruit (36%), where nominal value of exported fresh and dried fruits was \$134,000 and edible food products around \$193,000. Through the complete observed period export structure was very homogeneous and it was made of five groups of products, where the most important were: fresh and dried fruits, corn and edible food products (canned meat products, dairy products and eggs).

Observing the rate of change of commodity groups that were exported to the Republic of Moldova, two groups of products attracted the most attention, vegetables and fruits and miscellaneous food products, with rates of 21.8% and 55.7%. Although the change rates of these product groups have an increase tendency, the variation coefficients higher than 70% indicate the significant oscillations in their realization. By reconsideration of variation coefficient, unambiguously is led to the conclusion that realization of products in perspective is very uncertain, as well as it has not be overlooked the fact that the sale of vegetables, fruits and some miscellaneous food products take around 90% of Serbian export to the Republic of Moldova. It has been indicative an export decrease of cereals, their preparations and beverages since 2008. It is very evincive that the mentioned market is totally uncertain for the realization of these product groups.

### Import of Agro-Industrial products from the Republic of Moldova

Import analysis of agro-food products from the Republic of Moldova points out the import decline until 2006. However, in 2007 import recorded a significant growth. Expressed trend continues in 2008, while in 2009 total import decreased for more than \$6 million (Chart 2). The growth rate of import from the Republic of Moldova was in average around 48.6%, while the variation coefficient in observed period was around 164.8% (in complete period, in average, Serbia was imported from Moldova agro-food products worth more than \$13 million).

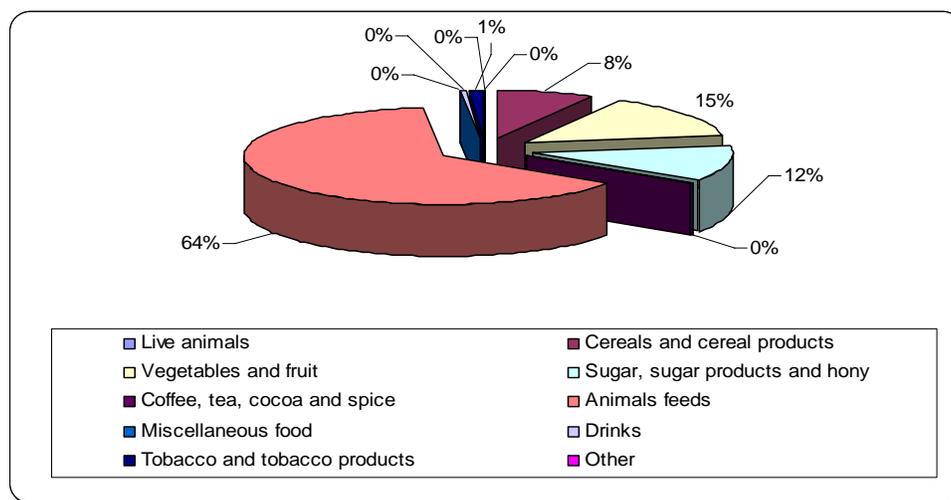


**Chart 2.** Import trend of agro-industrial products in the Republic of Serbia from the Republic of Moldova (period 2000-2009), (in mil \$)

Source: Statistical Office of the Republic of Serbia

Serbia has mostly imported animal feed (64% of total import), then fresh and frozen vegetables, 15% of total import, sugar and molasses, 12% or more than \$1 million and cereals, 8% or little less than \$1 million (Figure 2).

Structure of import of agro-food products from the Republic of Moldova is very heterogeneous. Specifically, in 2001 Serbia imported vegetable and fruit juices in symbolic value of \$149,000, and next year import structure was changed in favor to fresh, frozen and processed vegetables (fresh and frozen pulses, canned and fresh tomato and non-carbonated fruit and vegetable juices). Import of fresh, frozen and processed vegetables made 97% of total import from the Republic of Moldova in 2002. Import structure in next few years (2003-2005) was mostly based on vegetables, so that group of products takes almost 100% of import, in total value of more than \$700,000. In 2006 import of agro-food products was recorded a slight decrease. The dominant group of products (more than 90%) was still represented by fresh, frozen and processed vegetables, as well as fruit and vegetable juices.



**Fig. 2.** Import structure of agro-industrial products in the Republic of Serbia from the Republic of Moldova (period 2000-2009)

Source: Authors calculation

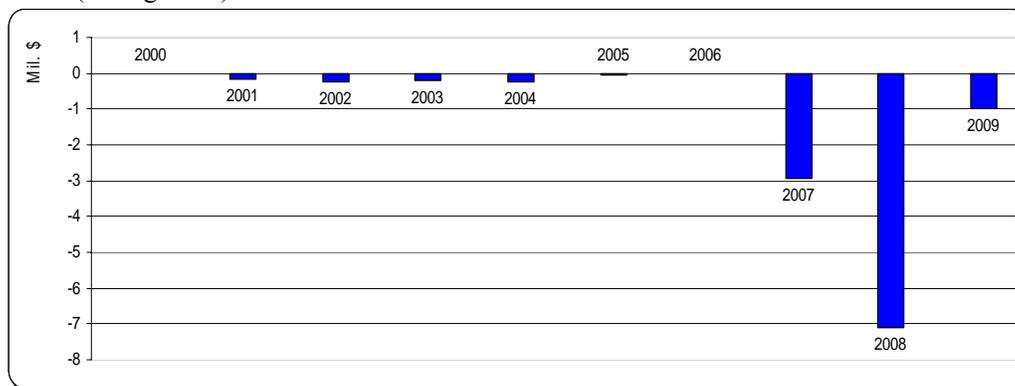
In 2007 it was an obvious rapid increase of import and the most significant products were fodder, sugar and molasses. Serbia imported in mentioned year animal feed for \$1.8 million, or 52% of total import, as well as sugar and molasses for more than \$1 million (45% of total import). This trend was continued in 2008, but the import of animal feed took 81% of total import of agro-industrial products from the Republic of Moldova. During 2009, the import structure was still dominated by animal feed (over 50% of total import), but its import was reduced from \$6 million to \$770,000. Barley and fruit and vegetable juices are equally involved in import structure with value of \$275,000 each, or 20% of total import.

From the aspect of the SITC classification of goods, in analyzed period (2000-2009) Serbia imported from Moldova four product groups, where significantly dominated import of animal feed. By the rate change analysis of the most important commodity group that was imported from the Republic of Moldova (feed with 64% of total import) there is an evident decrease in import activity in 2009 which involves a negative rate of -34.8%. After import observation of this commodity group, very indicative is that this was a speculative business that achieved its culmination in 2008. So due to significant oscillations in import, gained variation coefficient was 97.2%. Same is for import of commodity group that covers sugar, sugar products and honey, which expressed the change rate of -99.1% and enormous variation coefficient of 139.1%. Import of mentioned commodity group reached its peak in 2007 (more than \$1.5

million), but in next year it decreased to only \$12,000. The only one commodity group for which the Republic of Serbia had a real demand in analyzed ten years period is vegetables and fruits. The exchange rate of 22.7%, as well as variation coefficient of 71.1% clearly indicates that Serbia continually imports this product group (in average of \$200,000 per year).

## Foreign Exchange Balance

In analyzed period Serbia gained foreign trade deficit in average value of \$1.2 million with the change rate of 36.5% and variation coefficient of 177.5%. During the first year of bilateral commodity exchange (agro-industrial products) with Moldova, Serbia recorded a deficit of \$140,000. Negative trend has been continued during the next ten years period. Foreign trade deficit had significant oscillations, what is confirmed by high value of variation coefficients. The lowest deficit Serbia achieved in 2006, around \$3,000, but in 2007 deficit exceeded \$2 million. Growth trend of foreign trade deficit has continued in 2008, when it achieved a maximum value of \$7 million. In last year of observed period (2009) it was reduced to \$1 million (Histogram 1).



**Histogram 1.** Foreign trade exchange balance of agro-industrial products between the Republic of Serbia and the Republic of Moldova (period 2000-2009)

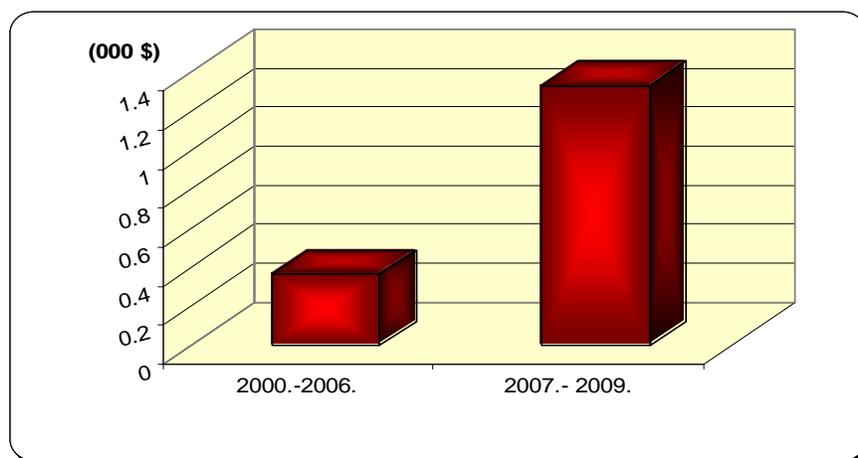
Source: Authors calculations

Although foreign trade exchange between the Republic of Serbia and the Republic of Moldova makes only 0.43% of total Serbian trade with countries within the CEFTA Agreement, it could be concluded that Moldova is a country that will (in the context of the CEFTA Agreement), in perspective, significantly participate in the future trade. During the observed period (2000-2009), Republic of Serbia has never achieved surplus in agro-industrial products exchange with the Republic of Moldova.

By analysis of change rates it could be concluded that negative change rates presented in animal feed commodity groups (-34.8%), as well as in commodity group of sugar, sugar products and honey (-39.1%) point to presence of speculative activities. The mentioned conclusion is confirmed by high variation coefficients of 109.0% for the commodity group (06) and 97.2% for the commodity group (08). Only the commodity group that had surplus is the group of various products for human consumption, around \$79,000. The change rate of 55.7% and variation coefficient of 80.3% at the commodity group (09) indicate significant oscillations in foreign exchange, but also a certain dose of business consistency. The Republic of Serbia had a negative trade balance in the exchange of vegetables and fruits with the change rate of -5.1% and variation coefficient of 48.4%. Other commodity groups are with marginal position within the foreign trade balance. Coverage of import from the Republic of Moldova by the Serbian export is insufficient. Trade with all commodity groups in analyzed period recorded negative export coverage, around -99.2%. Foreign trade imbalance that occurred in commodity group fruit and

vegetable is greater than \$1 million. Expressed imbalance of import coverage by export is mostly a product of homogeneous structure of Serbian export and heterogeneity of Moldavian agro-industrial products realization on the Serbian market.

Due to expressed negative foreign trade balance, there is an objective question concerning the establishment and application of the CEFTA agreement between Serbia and Moldova. After the first year of implementation of the CEFTA agreement (2007), Serbia exported agro-food products in amount that was for \$400,000 higher than in 2006. Positive consequences of the Agreement are reflected through the realized export in last three years (2007-2009), which is higher for \$950,000 than the export achieved during the first six years. Change rate after establishment of CEFTA agreement was 18.4%, while the variation coefficient was only 23.6%. Before Agreement signing, the same parameter had the value of 101.5%.



**Histogram 2.** Comparison of export before and after the establishment of CEFTA Agreement (period 2000-2009)

Source: Authors calculation

It could be concluded that after the establishment of CEFTA Agreement it was reached higher level of export, for 73% than before its signing (Histogram 2). Presented data clearly shows advantages of CEFTA Agreement, as well as increase of absorptive power of the Moldavian market.

## Conclusion

Import of agro-food products from the Republic of Moldova into the Republic of Serbia represents only 1.01% of total import from member states that were signed the CEFTA agreement. In the period under focus (2000-2009) Serbia realized agro-industrial products in the Republic of Moldova in amount of 0.04% of total export at the CEFTA market. Such a low volume of foreign trade exchange does not have greater perspective. In the near future, Serbia has to significantly extend the assortment of agricultural and food products that could be realized on the Moldavian market. Also, Moldova should be observed as a respectable competitor in the market that is defined by the CEFTA agreement. Agro-industrial complex that is on disposal to the Republic of Moldova, in the perspective, could be one of the most competitive within the common CEFTA market. The fact that despite far distance and very low purchasing power of Serbian market, Moldova evinces a surplus of nearly \$12 million, should be a strong signal to the agro-industrial complex of the Republic of Serbia. On the other hand, growth of consumers' purchase power in the region defined by CEFTA, as well as better supply

logistic of CEFTA market, may bring Moldova on a more significant position within this market in the future.

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## Comerțul exterior cu produse agro-industriale între Republica Serbia și Republica Moldova în cadrul acordului CEFTA

### Rezumat

*Comerțul extern cu produse agro-industriale și liberalizarea comerțului prezintă, dincolo de un număr de beneficii, o serie de circumstanțe și riscuri agravante. Pentru producătorii de alimente din Serbia, procesul liberalizării comerțului implică o competiție acerbă. Aceasta presupune necesitatea creșterii nivelului tehnologic al producției, productivității și eficacității, precum și aplicarea strategiilor de management al marketingului. Competiția mai strânsă de pe piața națională ar trebui să contribuie la o mai bună calitate și aprovizionare. Este realist să ne așteptăm la o descreștere a prețurilor, ceea ce în perspectivă ar putea constitui o problemă pentru producătorii interni, reducându-le veniturile. Totuși, procesul permite consumatorilor posibilitatea de a alege dintr-o gamă mai largă de produse mai ieftine.*

*Tema lucrării de față este comerțul exterior cu produse agro-industriale între Republica Serbia și Republica Moldova în cadrul acordului CEFTA, semnat conform acordului de comerț liber, ceea ce contribuie la procesul de transformare a zonei vest-Balcanice într-o zonă de produse și servicii integrate economic. Ar trebui de asemenea să constituie și o zonă de interes pentru investitorii străini. Scopul principal al lucrării îl constituie reconsiderarea posibilităților de remediere și extindere a comerțului exterior cu produse agro-industriale din cadrul Republicii Serbia, precum și descreșterea importului acestor produse din Republica Moldova. Ne propunem ca, dincolo de alte sarcini, să cuantificăm schimbările produse în vederea obținerii unei mai clare viziuni asupra tendințelor actuale, precum și determinarea factorilor de dependență reciprocă ce au influențat în mod predominant tendințele manifestate.*