

## THE IMPACT OF TRANSITION ON AGRICULTURE AND RURAL AREAS IN HUNGARY<sup>1</sup>

*Aleksandar Jazić<sup>2</sup>, Miloš Jončić<sup>3</sup>*

### Abstract

*In this paper authors are dealing with the link between processes of transition, liberalization, decentralization and influence of these processes in agriculture and rural areas in Hungary. After the collapse of Warsaw Pact, Hungary entered the process of transition. Some important steps that were made in accordance with this process were territorial decentralisation and market liberalization. In parallel with the process of transition also was the process of privatization. It changed the structure of agricultural farms in the sense that they become too weak to survive in the market. Market liberalization has been the especially negative for agriculture and rural areas. However, in the meantime Hungary joined the European Union. It can be expected in the future that Hungary will stabilize the development of agriculture and rural areas if implements measures in accordance with guidelines that are precondition for using European funds intended for this purpose.*

**Key words:** *transition, privatisation, agriculture, rural development, European Union.*

**JEL:** *Q120, O130*

### Introduction

After the collapse of the Warsaw Pact, Poland, Czech Republic, Slovakia and Hungary entered the transition process which, among other things, demanded decentralization of these countries, in order to resolve emerging issues. The aim of these countries, among

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  - 2 Jazić Aleksandar Ph.D., Research Fellow, Institute of International Politics and Economics, Makedonska street no. 25, 11000 Belgrade, Serbia, Phone: +381 69 411 39 81, E-mail: [jazic@diplomacy.bg.ac.rs](mailto:jazic@diplomacy.bg.ac.rs)
  - 3 Jončić Miloš M.A., Research Associate, Institute of International Politics and Economics, Makedonska street no. 25, 11000 Belgrade, Serbia, Phone: +381 64 985 95 99, E-mail: [mjoncic@diplomacy.bg.ac.rs](mailto:mjoncic@diplomacy.bg.ac.rs)

other things, was to create an organization of local government that can respond to specific challenges, primarily economic, and provide better quality of life to citizens. A serious approach to the problem of the organization of local authorities and insisting on their economic stability has helped these countries to move closer to developed western countries. The result of this approach was the accession of these countries to the European Union (EU). Regional initiatives, at least when it comes to the Visegrad Group, aiming to provide equal development of all member states, which means economic investment in all units of local government, particularly in municipalities, regardless of Member State they belong. The original jurisdiction of the municipalities have a direct impact on the faster, more efficient and easier solving problems in their territory because they can act autonomously.

Cooperation between the countries of the Visegrad Group enable them to cope easier with problems that are emerged during the process of transition and liberalization. The emergence of these problems were especially felt at the local level, because the necessary changes were a major challenge for countries that have just rejected the old form of state organization.

The process of transition and liberalization, as well as a commitment to joining the EU, has been influencing the countries of the Visegrad Group to look up to the models of organization of local self-government that exist in Western Europe. It's also caused some problems, especially in the sector of the economy, because it was necessary to enter strongly in the reform of the economic system. The greatest pressure in this process was felt by municipalities and rural areas, because it was necessary to allocate substantial funds for their modernization. Also, in rural areas it was necessary to farmers quickly adapt to new modes of production, which is especially in the beginning had a major negative impact.

### **The Formation of the Visegrad Group**

The Visegrad Group was founded in 1991 in Visegrad, by Poland, Czechoslovakia and Hungary. Following the dissolution of Czechoslovakia into Czech Republic and Slovakia, the Visegrad Group evolved into the Visegrad Four, also known as V4 (The Visegrad Group, 2017). The formation of the Visegrad Group represented the best way to unite the efforts of the countries located in the same area, with common economic and foreign policy goals. It should be emphasized that all the countries had their individual reasons for joining in and saw the purpose of this regional initiative in a different way. The Hungary's approach to the Visegrad Group as a form of a process, rather than as a political body, has prepared this country to, besides its membership in this regional initiative, use memberships in other initiatives or organisations, such as, for example, the Central European Initiative (CEI), in order to facilitate its path towards the EU (Kolankiewicz, 1994).

### **The Aims of the Formation of the Visegrad Group**

Following the end of the Cold War and the collapse of the Warsaw Pact, a long path of transformation of their political and economic systems stood before Poland, Czech Republic, Slovakia and Hungary. These countries had the task to join the world market and emerge as a competitor to the developed Western European economies. The development of the economic system demanded changes in the domain of political system. Creation of unique and stable form of cooperation enabled them to join efforts in order to achieve their common goals.

The Visegrad Declaration of 1991, whose unofficial title was *The Declaration on Cooperation between the Czech and Slovak Federal Republic, the Republic of Poland and the Republic of Hungary in Striving for European Integration*, defined the common goals of this initiative's member countries. Among others, very important goal was to establish market economy and create a new social order (The Visegrad Group, 1991).

After the collapse of the economic system that existed in the time of communism and the beginning of the economic reconstruction in the Visegrad Group countries, there has been an unequal regional development and change in the organisation of enterprises (Dingsdale, 1999). These are some of the reasons due to which economic relations with the EU were amongst the most important for the Visegrad Group. This is why the opening of the Western European markets for products from Visegrad Group states was the most important. Second, understanding of economic demands the Visegrad Group members should meet in order to ensure successful application for full membership in the EU had important place (Richter, 1996).

### **The Beginning of the Decentralization Process in Hungary**

The debate on the reform of the local self-government system in Hungary, which began officially in 1987, lasted for a several years. This contributed to the fact that the reform of local self-government in Hungary was better prepared and more comprehensive than in any other Visegrad Group country. In the initial post-communist period, economic component of the reforms were characteristic for this country. Self-government at a local and regional level in Hungary was introduced almost simultaneously (Illner, 1998).

The reform of the local self-government system in Hungary after the collapse of the Warsaw Pact had two phases, and was based on the democratic principles and *the European Charter of Local Self-Government*. The first phase began with passing the Law on Local Self-Government in 1990 (LXV 1990). This created legal conditions for democratization and reform of the political system. The new Constitution guaranteed to the local self-government the rights and defined the basic territorial units in Hungary, namely settlements, municipalities and towns. Local authorities existed on each of the aforementioned levels.

By the 1994, due to new legislations regarding decentralization and local authorities, a two-tier local self-government was established, consisting of municipalities and

counties. Local authorities were given greater powers, which was an important step towards decentralization. The most significant change was the establishment of counties as a middle level of authority with directly elected bodies, with extended powers. County government is also called regional (Stančetić, 2012). What is typical for Hungary is that it pays great attention to municipalities, which at the same time applies to the settlements and village households at their territory (Soós, 2002).

### **The Economic System During and After the Transition Process**

The then new Government of Hungary was committed to the reforms aimed at transforming the then economic system into a market economy based on private ownership. Backbone of these reforms was the restrictive monetary policy. Instead of the so-called shock reforms, Hungary chose a policy of gradual change. Monetary and fiscal policies were at the centre of new provisions referring to the planned transformation. One of the goals of fiscal policy was to achieve a balanced budget, which was to contribute to prevention of inflation. In order to achieve this, the state subsidies and investments were reduced, while the taxes were increased. Despite the implemented measures, the budget of Hungary was still in deficit, mostly due to an increase in the number of unemployed persons and servicing of internal and external debt. The Hungarian Government has opted for a gradual achievement of convertibility of the local currency, making it possible to slowly and moderately adjust the exchange rate in accordance with the needs of the economy. Such exchange rate policy prevented inflation growth and made the outflow of capital from the country difficult (Adam, 1995).

The reform strategy consisted of short, medium, and long-term components. The goal of the long-term reforms was to join the EU. The medium-term reform policy consisted of microeconomics and structural changes. The short-term reforms implied the implementation of traditional measures in the macroeconomic sector. The most important areas in which macroeconomic reforms were implemented were privatization, industry policy and labour and capital markets. Many enterprises have managed to survive in the transition process; however, there was a possibility of them facing liquidity issues in new economic relations. On the other hand, some enterprises have been unable to engage in market competition, but have still survived the transition due to substantial subsidies they received from the state in the past (Hare, et al., 1992).

Mass privatization has never been implemented in Hungary, unlike in other former socialist countries. Nevertheless, there was a free distribution of state property, aimed at establishing a stable middle class in the society. There were several methods for free distribution of state property, restitution being the most significant. Some privatization methods were used to sell the state property under favourable conditions. For example, there was the so-called “stable loan”, which was used only for the purchase of state property directly from the government privatization agency. Employees were able to buy shares of the company in which they worked, but it was allowed that they exceed 10%. Over time it became perfectly clear that the main obstacle to privatization was the lack of serious investment opportunities (Voszka, 1999).

### **Hungarian agriculture prior and after fall of Warsaw Pact – period of transition**

Prior to the political and economic transition, agriculture was Hungary's most successful industry. It produced 17% of GDP which includes the processing, trade and other industrial activities of the large farms. Also, there is the same percentage of labour force in agriculture. The share of food exports was 22% of total exports. These proportions have decreased and the current figures are now 3.3%, 4.7% and 7%, respectively. The fall of these shares can be attributed partly to the shrinkage of agricultural production, and partly to the growth of other sectors of economy.

Between 1989 and 2007, agricultural production fell by 25%. Gross agricultural production in 2007 was 31% lower than in 1989. Animal farming has also been struggling, being at a mere 58% of its pre-transition level. The major decrease took place at the beginning of transition period. Same situation was with animal production which fell to 63% and the crop production to 70% counting pre-transition period. Since then, crop production did rise because higher production of cereals, but animal production continue negative trend. The other gainful activities of farms today count only 2.5% of all farm produce. The agricultural trade balance was always positive in Hungary. Although it remains positive, the agricultural surplus has diminished. Prior to the transition, livestock and animal products accounted for about 50% of total agricultural exports, and fresh and processed horticultural products about 25%. Today, cereals make the greatest part of agricultural exports. Also, share of unprocessed produce in total export is higher for 20%.

Causes of above described decline can be divided on external and internal. *The major external causes* are: (1) collapse of the USSR market, (2) decline of production on those farms which were connected to the USSR market, (3) downfall of living standard, (4) import competition, (5) reduction of state subsidies and (6) increase in consumption and price of energy. *The major internal causes* of the decline are: (1) turning to more extensive production, mainly to grain production, by many farms because bad financial situation they were in, (2) bankruptcy of a large number of agricultural enterprises and (3) confusion caused by the privatization of agriculture.

Regarding process of privatization in agriculture, it could be said that in Hungary key role played political factors. In Hungary, process of land restitution becomes main form of privatization in agricultural sector. Hungary was characteristic in this sense because there was some sort of mixed privatization. Process of privatization was realized through restitution, compensation bonds, small redistribution of land for employees of state farms and members of production cooperatives.

At the beginning of the transition, the Hungarian Smallholders' Party decided to get back old system of smallholder agriculture which was dominant before Second World War. The goal was to support individual farming like in the West which would, in the political sense, bring that Party more voters. That was very bad decision for agricultural development because it produced millions of scattered parcels of land, where many of them have no financial capacities to introduce mechanization, so cultivation of land

was not efficient. Thousands of new owners which emerged have no capacities to work on the land. The result was that this new owners did not engage in agriculture and they rented their land to the corporate farms and individual farmers. On the wider scale, this led to more expensive agricultural products. This complication of privatization process resulted in the decline of agricultural sector (Burger, 2009).

### **Measures and target of agriculture policies and programmes**

Key bodies in the area of agriculture in Hungary are The Ministry of Agriculture and Rural Development (MoARD) and the Ministry of Environment and Water (MoEW). MoARD is the government institution which is primarily responsible for agriculture and rural development. These two ministries are conducting policies which goal is to ensure agricultural development and food security.

The main purposes of the measures within policies and programmes to achieve food security and sustainable agriculture are: (1) finding production pattern for each specific area, (2) promoting extensive cultures, like grassland and forage crops, on environmentally sensitive areas, and (3) enhancing the concious farming respecting environment protection and forcing sustainable landscape use. These measures also have purpose to support the continuation of agricultural activities in less favoured areas, as well as to ensure stability of already stable rural communities.

Payments in agricultural sector have significant role in sustainable development of agriculture and future development of this sector. Payments have main purpose to: (1) support the sustainable development of rural areas, (2) preserve and improve environmental conditions, (3) reduce pressure on environment during the cultivation of land, (4) ensure environmental protection services and (5) promote agricultural practice on the basis of sustainable use of natural resources. Second, but not less important targets, refer to the relationship that exists between agriculture and environmental protection. More precisely, agricultural activities should be conducted in accordance with the preservation of biodiversity and protection of nature (United Nations, 2017).

### **Agricultural peasant farms and large scale farms and population**

In 2010 there were 576 790 agricultural peasant farms and large scale farms in Hungary. During the period from 2000 to 2010 about 390 000 farms, or 40.3%, ceased their activities. This tendency was found to be widespread among the all member states of the EU. Also, about 1.5 million people were working on the farms in 2003, whereas only 1.1 million were left in 2010. Positive fact is that agricultural labor force represents 27% of the active population in 2010 which is one of the highest in the EU.

Important indicator of polarization in the area of agriculture is connected with size of peasant farms and large scale farms and share of population which owns them. Hungarian population of agricultural peasant farms and large scale farms is dominated by two size classes in 2010. First are small farms with less than 2 ha of agricultural

area. Second are farms with 50 ha or more of agricultural land. First class of farms covers only 3% of agricultural land. Farms with 50 ha of agricultural land or more represented a marginal 2% of the population of farms but were found to account for 75% of the country's agricultural land.

From 2007 to 2010 calculation shows by summing up the standard output per hectare of crop and per head of livestock of the farms that there is an increase by 12.5%. The highest growth, around 44.2%, was recorded by farms with an economic size of 100 000 euros to 249 999. Value of these farms increased from 377 million euros in 2007 to 544 million in 2010. Agricultural peasant farms and large scale farms with 500 000 euros or more of standard output, which are the biggest ones, was the most important because they produced 43% of the Hungarian standard output in 2010. This output was higher for 3.8% than in 2007. In Hungary there are four most common types of peasant farms and large scale farms. They are: (1) farms specialized in poultry; (2) those that deals with various crops and livestock combined, (3) farms specialized in cereal, oilseed and protein crops and (4) farms dedicated to various granivores combined.

A livestock unit represents very important part of Hungarian agricultural capacities. In 2010, 381 650 peasant farms and large scale farms were keeping about 2.5 million livestock units. Poultry were the most important animal production, counting 976 100 livestock units, which is 39% of the Hungarian farm animal population. From 2000 record shows visible decline in pigs breeding which dropped by 37%. In spite this negative trend they were the second most important production animal in 2010. To be precise, they counted 793 240 livestock units, which is 32% of the country total. Cattle accounted for 21 % of the livestock units, but if we take in account they value of 525 410 livestock units it is visible decrease of 18% since 2000. During the period between 2000 and 2010 farms with livestock almost halved, but they still stand on the 66.2% of the Hungarian population of farms in 2010 (Eurostat, 2012).

### **The impact of European Union accession**

Before political and economic transition and during the era of communism Hungarian agriculture and food industry had no marketing problems. Hungarian agricultural products were wanted in the member countries of the Council for Mutual Economic Assistance (COMECON). What is also very important, half of Hungarian exports were even competitive in Western Europe.

When Hungary joined EU, about 40 000 farms occupied the 50% of all agricultural land. Other 50% was cultivated by over 700 000 individual farms and households. In this other 50%, from 100 000 to 110 000 were commercial farms producing exclusively for market sale, while the rest of farms were mainly producing for personal consumption with occasionally appearance at local markets. Tiny farms and households produced abundant livestock and orchard products without any market coordination. Problem was that privatisation resulted in often incoherent production structure which often led to rapid decline in domestic food processing and retailing. Another problem was

market liberalization were multinational companies had capacities for strong influence which bring to domestic holding strong challenges. For example, between 2004 and 2006, over 200 000 livestock farmers abandoned production. Total changes in agricultural structure and functioning that privatization and market liberalization bring cost Hungary losing its East European markets. Because of appearance of multinational companies, domestic producers suffered great losses in the domestic market. Hungary for a short period of time became a net importer of dairy products, fruit, and pork. This destabilized agricultural and food trade balance and fallen from almost 1.6 billion euros in 2001 to below 1 billion euros in 2006.

The selection process, as a result of privatization and market liberalization, was harsh, unexpected and resulted in loss in market share. Another reasons for this loss was lack of cooperation between agriculture stakeholders and inability of farmers to adapt to the new conditions.

There is no doubt that single market in the EU will still have mayor influence on agricultural sector in Hungary. These trends are already visible and during the time they will become stronger. Key factor in these trends will be the globalisation process which will further accelerate both supply and demand. Across Europe distribution networks will further concentrate food processing. Hungarian agriculture sector, especially commercial farms, had to increase scale of production and tighten mutual cooperation (Udovecz et al., 2008).

### **New strategy targets of Hungarian agricultural policy and support from European Union funds**

The system of investment and development supports in agricultural sector must be converted. First goal is to support competitiveness of agriculture and food processing. Second goal is to ensure retention and make positive ground for extention of the markets. Main focus of these activities is on innovations, development, high quality production, energy and cost saving, environment protection and animal welfare. Technical and technological renewal is basis for increase of competitiveness. Development programs in mentioned areas of agriculture must be harmonized with the strong encourage on competitiveness. It is important that this strategy cover all the measures in general.

High priority of development is incitement of livestock keeping, but with the respect of environmental load. Supporting environmental protection and the new production processes could be essential in the strengthening of competitiveness and the enhanced quality of products.

Support for infrastructural projects is related to the development and modernization of agriculture through promotion of activities that will keep safe and protect water, forests and soil. One of the activities in this sense is to promote the establishment of forest schools and forest information centres. Regarding development of rural areas and employment policy, putting more effort in the development of the horticulture sector have high significance.

It is great chance that crop market tensions increase and change in production and market structure is important in order to keep profit amount of producers and other possibilities for making this profit higher. Crop production for energy purposes is one of the market methods to achieve this. Another possibility for keeping profit on this level is production cereals for energy purposes. This is possible because farms in Hungary are already producing cereals for human consumption and livestock feeding. Only problem here is need for adjustment of production structure. This activity could have further benefits in the sense of making strong basis for developing adequate capacities for the production and utilisation of renewable energy sources.

Opportunities that exist on the market can be best exploited if effort is put to harmonize and strengthen the cooperation between farmers, processors and traders. Farmers must be encouraged to unite their capacities in the form of appearing jointly in the market. Easier and efficient achieving of this form of cooperation could be realized if producer organization is established.

Agricultural producers and forest holders have on their exposal services of different nature that could help them. More specifically, there are advisory, information and farm management services (Čavlin et al., 2017). It seems that agricultural producers and forest holders are not using these services or too rarely. That is why more effort must be put in motivation of mentioned subjects to frequently use these services. There is need in Hungary for further education of farmers and other professionals working in agricultural sector. So, it should be organized variety of trainings regarding environmental issues, spreading economic and legal knowledge animal welfare, alternative energy resources, getting to know with new forms of farm management and improvement of skills in forestry (The Government of Hungary, 2011).

European Commission, on 10 August 2015, adopted The Rural Development Programme (RDP) for Hungary. In RDP Hungarian priorities for using 4.2 billion of euros were defined. This amount of money is allocated for the period from 2014 to 2020. Main focus of priorities which were defined in RDP is on ecosystem safety, social inclusion promotion and reduction of poverty. Also, strong focus is put on economic development in rural areas, promoting food chain organisations and risk management in agriculture. Very important is expectation that Hungary's RDP will contribute to better services to 68% of the rural population.

In this moment, Hungary is still considered as a rural country because 66.3% of its territory is classified as rural and only 0.6% is considered urban. Other 33.1% of territory is defined as intermediate. Regarding the population, about 46% lives in rural areas. In rural areas 57% is agricultural land and forestry covers 21% of the total territory. Hungarian agricultural sector is atypical if compared with average that exist in other EU member states because arable farming in Hungary makes 81% of all agricultural land and low grassland which counts 14.2%. Significant factor for agricultural growth in Hungary are agro-ecological conditions. The contribution of agricultural production to GDP is around 4%, but the total share of overall agricultural industry in GDP is

around 15%. For local economy, especially in rural areas, agriculture and food industry is very important factor of development.

There are some problems in Hungarian agriculture if compared with average in the level of EU. First problem is average farm size in Hungary which is 8.1 ha and this is much below the EU average. Concrete example is that in Hungary farm of less than 5 ha make up 87% of the total number of farms. Another problem is average age of farmers which is 56 years of age. This information requires as soon as possible generational renewal of the agricultural population. Employment in rural areas is low. On the other hand, unemployment rate in rural areas for young people is especially high if compared with the national average.

To solve all the above mentioned and described problems, the Hungarian RDP will finance activities in all six priorities regarding sustainable rural development. These are: (1) Knowledge transfer and innovation in agriculture, forestry and rural areas, (2) The competitiveness of the agriculture and forestry, (3) Organization of the food chain, including food processing and marketing, animal welfare and risk management, (4) Service the ecosystem in agriculture and forestry, (5) Caring for climate and climate change, and (6) Social inclusion and rural development (European Commission, 2015).

### **Conclusion**

Visegrad Group States have passed a long way since the dissolution of the Warsaw Pact. A set of circumstances in international relations during the last decade of past century demanded a fundamental transformation of their political, economic and social system. Four countries are most tasks, namely those related to the organization of society and the state apparatus, successfully conducted. One of the most important aspects of the reform of the state system was decentralization. When we take into account the lack of specific experience, we can say that the creation of a strategy for decentralization and its successful implementation was not an easy process. Members of the Visegrad Group have reached an agreement regarding the realization of the most important common goal, which is to join the EU. That is why it was important that decentralization result in concrete change and operation in practice, and not just exist as a formal process. Still, there is an existing need for economic empowerment and the inflow of significant government subsidies to municipalities and rural areas.

Hungary is the only country which during the Warsaw Pact managed to implement some reforms in system of local government, which was advantage in the coming stages of entering modern standards in this area. However, this solid basis, as seen in the work, did not isolated rural areas in Hungary from the negative impact of the transition process and liberalization.

The disintegration of the Warsaw Pact forced the Visegrad group countries to start the process of building the capacities of local authorities, where they had an important place in rural areas. This is especially important for Hungary, which is predominantly an agricultural country. It can be concluded that the most important place in this process

had delegated powers to local authorities and the right to independently dispose of their property. These powers are directly related to the economic prosperity and improving living conditions in rural areas in Hungary. In this regard, financial autonomy of local governments is key factor, because it enables regular income to the local budget. Independently investment in rural areas is guarantee for the development of all economic segments of the rural areas and their modernization.

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## TRANZICIJA U MAĐARSKOJ I UTICAJ NA POLJOPRIVREDU I RURALNE OBLASTI<sup>4</sup>

*Aleksandar Jazić<sup>5</sup>, Miloš Jončić<sup>6</sup>*

### Sažetak

*U ovom radu autori se bave vezom između procesa tranzicije, liberalizacije, decentralizacije i uticaja ovih procesa na oblast poljoprivrede i ruralna područja u Mađarskoj. Nakon raspada Varšavskog pakta, Mađarska ušla u proces tranzicije. Neki važni koraci koji su načinjeni u skladu sa ovim procesom su decentralizacija teritorije i liberalizacija tržišta. Paralelno sa procesom tranzicije takođe se odvijao proces privatizacije. To je promenilo strukturu poljoprivrednih gazdinstava u smislu da su oni postali suviše slabi da opstanu na tržištu. Liberalizacija tržišta je bila posebno negativna za poljoprivredu i ruralna područja. Međutim, u međuvremenu je Mađarska ušla u Evropsku uniju. Može se očekivati da će u budućnosti Mađarska stabilizovati razvoj poljoprivrede i ruralnih područja ako sprovede mere u skladu sa smernicama koje su preduslov za korišćenje evropskih fondova namenjenih za tu svrhu.*

**Ključne reči:** *tranzicija, privatizacija, poljoprivreda, ruralni razvoj, Evropska unija.*

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4 Rad predstavlja deo naučnog projekta „Srbija u savremenim međunarodnim odnosima: Strateški pravci razvoja i učvršćivanja položaja Srbije u međunarodnim integrativnim procesima – spoljnopolitički, međunarodni ekonomski, pravni i bezbednosni aspekti”, finansiranog od strane Ministarstva nauke i tehnološkog razvoja Vlade Republike Srbije (evidencioni broj: 179029), a realizuje se u Institutu za međunarodnu politiku i privredu u periodu od 2011. do 2014. godine.

5 Dr Aleksandar Jazić, naučni saradnik, Institut za međunarodnu politiku i privredu, Makedonska ulica br. 25, 11000 Beograd, Srbija, Telefon: +381 69 411 39 81, E-mail: [jazic@diplomacy.bg.ac.rs](mailto:jazic@diplomacy.bg.ac.rs)

6 Mr Miloš Jončić, istraživač saradnik, Institut za međunarodnu politiku i privredu, Makedonska ulica br. 25, 11000 Beograd, Srbija, Telefon: +381 64 985 95 99, E-mail: [mjoncic@diplomacy.bg.ac.rs](mailto:mjoncic@diplomacy.bg.ac.rs)

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