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THE TRADE WITH AGRICULTURAL PRODUCTS IN WTO AND POSSIBLE INFLUENCE ON TOURISM

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Abstract

This paper points out to a necessity of coordination between institutional reforms and efficient economic cooperation. The current state of our economy and tourist activity points out to necessity of needed reform. There are many interactions between agriculture and tourism, i.e. those which stipulate and supplement. There is very significant an attempt that tourism and agricultural production become export activities in every Balkan country, as transitional economies. Among comparative conveniences of agricultural and tourist product for performance at the world market, the agricultural product can also place on internal market, through an accommodation and non-accommodation consumption of foreign tourists on domestic economic space. There is great significance of agricultural products as strategic products, which effected that they were granted by strong subsidies in almost every country. However, by forming WTO has been set up new, quite precise rules in international trade of these products. It imposes a need to force „export“ of agricultural goods through foreign tourist consumption in the country. This paper aim is to show which effects would cause the acceptance of WTO rules in the field of agricultural products trade, as well as how could stimulate the production and consumption through the accommodation and non-accommodation consumption by the tourists. The paper was made by using comparative, analytical method and a method of case analysis.

Key words: *Organization, agricultural products, development, trade, influence, tourism.*

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Introduction

In current situation domestic agrarian sector is in, there ahead, without any dilemma, significant changes to it, in the process of accession to international integrations. Therefore Serbian agrarian sector should radically prepare for that. Globally observed, it imposes the obligation of more dynamic structural adjustment and reform of this sector. The most sensitive issue will be, surely, further liberalization of market, which has to be conducted gradually and carefully. The changes in subsidies regime and increase of home agricultural products competitiveness are also important part of those changes. In such moves belongs also institutional adjustment, because the adjustment of regulatory rules is also unavoidable activity for every country which pretends to join the European Union. In agricultural field should harmonize even 340 various documents and in all other activities, around 170 documents, which regulate the institutional adjustment.

It is well-known that WTO represents an international institution under which regulate relations between countries in trade field, on multilateral basis, in order to achieve as faster and more qualitative development as it can be. In that context is also the trade with agricultural products.⁴ It is important that the protection of internal market from import of agricultural products regulates only by customs. Hereby is more difficult the protection by other non-tariff measures. Therefore exactly the tourism gives a possibility to spend agricultural products on internal market at domestic prices, within the accommodation and non-accommodation tourist consumption. Therefore open new possibilities for utilization of agricultural potentials in tourism.

Participation of agriculture in domestic product

The participation of agriculture in DP, in Serbia, evaluates as very high. It is evaluated that, in transitional years, it has increased to 25% of participation in DP. However, it cannot be assigned to good condition in agriculture, neither to its high effects, but simply to a fact that other parts of the economy (especially industrial production) are in big crisis for many years.

Besides, false image creates total participation of agriculture (with 25%) and agro-industry (10%), with over one third of DP. The key issue is exactly high participation of primary agricultural production and very modest participation of food industry. It practically means that small part of agricultural production goes to processing. Then, there should take into consideration high natural consumption on agricultural husbandries. The following effect, in respect to low market activity, is small surpluses for export. Having all that in mind, should explore the influence of trade regulation of agricultural products on development of tourist activity and vice versa, considering them, in our conditions, not only comparative, but priority activities for further economic development of Serbia, too.

4 One of basic obstacles why GATT did not outgrow earlier in international organization was existence of export subsidies in the field of agricultural products export, as well as other instruments which have limited their free trade.

On the other hand, numerous problems come out from current state of domestic resources and agriculture, in general. The present state of the resources, in major part of productive chain, is unfavourable, which can be measured also by low competitiveness.⁵ However, after the research, should perceive which parts of sector have perspective, potentials, but the problem is also in adjustment period, in which Serbian agriculture would accustom to newly circumstances. There are parts of reproduction chain which should be protected due to potentially great economic and social distortions, as well as there are parts where the competitiveness could not be achieved. In any case, it is necessary to prepare more effective for accession to the European Union.

In comparison with other transitional countries can be perceived the influence of agrarian contract for each of them individually.⁶ There came to increase of agricultural products prices by subsidies cancellation, which has resulted, in combination with decrease of the population real income, with decrease of aggregate demand. On the other hand, foreign trade liberalization has resulted with increase of import. The increase of import was stimulated by:

- a) the consumers are willing to buy agricultural products which are not from domestic sources (e.g. citrus fruits).
- b) the consumers are willing to buy higher-quality products,
- c) foreign products are often cheaper.

Table 1. Participation of agriculture in DP of the following countries

| Country | 1991 | 1998 | 2005 | 2008 |
|------------|------|------|------|------|
| Hungary | 7,8 | 5,8 | 6,4 | 6,0 |
| Poland | 6,8 | 6,6 | 6,6 | 6,2 |
| Czech Rep. | 6,0 | 6,5 | 5,3 | 5,1 |
| Slovakia | - | 6,6 | 5,6 | 5,3 |
| Slovenia | 4,9 | 4,5 | 4,2 | 4,1 |
| Bulgaria | 14,0 | 11,0 | 11,0 | 13,0 |
| Romania | 21,8 | 19,0 | 19,9 | 20,3 |
| Russia | 13,8 | 7,5 | 8,6 | 8,3 |
| Ukraine | 24,4 | 21,5 | 13,6 | 12,7 |
| Macedonia | 13,8 | 15,8 | 17,8 | 18,2 |
| Yugoslavia | 22,3 | 17,0 | 21,7 | 23,1 |

Source: „Transitional report“, 1999, 2009.

5 For example, the research which was done within SCEPP started from point that there should establish in which sectors was Serbia competitive and where the government, in future period, should not undertake some special interventions, while they can conquer the market themselves.

6 Together with change of economic and political regime, all countries have accessed the transformation of agricultural production, and by price liberalization in many countries were abolished or decreased subsidies. The reasons were: a) high budget deficit, b) WTO rules for decreasing subsidies for 20%.

In existing conditions, the only way to make up a loss of domestic aggregate demand is increase of agricultural products export. However, the position of agricultural producers in countries which are still in transition is not good: bad financial situation, obsolete fixed funds etc. cannot provide a competitive export according to WTO rules, which refer to export of agricultural products on internal market in form of tourist consumption.

Institutional regulation

Many assessments show that Serbian agricultural sector institutionally, organizationally and from the aspect of resources is neglected⁷ which has led to the loss of comparative advantages that Serbia had in comparison to other transition countries in the region. The reform, as one of the institutional problem of privatization, is fortunately not as severe as in some other countries, because Serbian agriculture was partly in private ownership during socialist period (however, many of the major farming systems, even after privatization, position very poorly, both in potential and competitive ability).

Then, institutional problems include those related to production and integration within the sector. Serbia has a large number of agricultural cooperatives which don't have the status of legal entity⁸. This is one of the reasons why contracts signed with processors are not being met, especially in terms of disbursement (it's always to the detriment of producers who suffer heavy losses). So, in Serbia do not exist, or do not work, trade associations and institutional reorganization is also awaiting this sector.

This means that the changes are necessary on macro level. Under the influence of market liberalization, much needs to be changed, especially production structure in favor of production which is competitive. Secondly, this includes the introduction of new technologies, also higher standards of quality and health safety of products, leading to more diverse and better offer. However, everything has its price and cost (especially when it comes to meeting standards of quality and construction and accreditation of laboratories). We should bear in mind that in some parts of production chain, especially in primary production, inevitable costs of production linking and organization of producers will interfere⁹. Taking all this into consideration, the most serious problem of agricultural production and the greatest limitation in increasing the competitiveness of domestic products will be the lack of (cheap) capital.

7 The agriculture nowadays suffers the consequences in terms of sanctions, state of war and disintegration of ex-Yugoslavia. It is familiar that this sector, during long-term period, has served as a mean for amortization of social crisis hits.

8 On the other hand, the cooperatives have lost position they had earlier, while the cooperative associations are estranged from the cooperatives and farmers whose interests they represent.

9 According to previous experience in harmonization of relation with the EU, in the field of agriculture, it is necessary approximately 5 years to realize first effects, after introduction of new regimes and policies. The experts of the EU have analyzed what effects it had at the level of land, agriculture, even farmers. On example of Slovenia was seen that its agriculture, due to previous high subsidies, above the EU average, had suffered damage in form of income decrease. In that sense, increased tourist circulation can be effective mechanism for its mitigation

Regulation of agricultural products trade

Agricultural products are, for most countries of strategic importance, and their international traffic is a specific and very sensitive to changes. Ending the Uruguay Round of trade negotiations and establishment of the WTO, set up new and very precise rules of behavior and defined obligations of member states in international trade in the area. An important innovation is to protect domestic markets from import of agricultural products regulated solely through customs regime. To implement this, the tariffication was conducted, ie. converting non-tariff measures into customs, so they consequently have the same effect. It is also prescribed to lower tariff rates in developed countries by 36% within six years period and in developing countries by 24% within 10 years. Reduction of tariff rates is not binding for the LDCs, and the "special treatment" clause allows some of them to maintain quantitative restrictions for certain "sensitive" products.

In many countries, for many years, it was common to subsidize agricultural production, often, very intensely¹⁰. Therefore, by defining "aggregate measure of support", WTO members committed themselves to reduce incentives in that area. Reduction obligations in particular referred to direct subsidization of export. For this purpose, calculations were made for all the products individually, to determine how much each of them was subsidized and how much the intensity of these measures should be reduced. LDCs are exempt from the obligation. Also, reducing domestic support obligation does not apply to those activities that have no greater influence on international trade. These are, primarily, government assistance in the areas of research and development, infrastructure, marketing, structural adjustment, regional development, environmental protection and improvement of disease control and food safety¹¹. Reduction of subsidies of agriculture, and consequently increase of certain product prices, with no doubt places the least developed countries that are net importers of food in difficult position. Therefore, it is envisaged these countries to be provided with assistance and help, free of charge, when needed, especially when it comes to basic foodstuff. The emphasis is also put on need for long-term help to countries in terms of agricultural development, while solutions of current problems sought support of the International Monetary Fund and World Bank, especially through the short-term loans to import food under commercial terms.

Multiple effect of tourism

With tourism development, money spent by foreign tourists represents additional costs, because the national income from abroad overflows into particular country of tourism, without contributing income outflow to the country it came from.

10 It was one of the most serious reasons why negotiations within GATT have realized so long and painful.

11 This element is very important in procedure of accession to the EU, and control of food safety is done in formed system of national laboratories. In Serbia no attention is paid to this issue, and it can jeopardize its negotiating position. The European Agency for Reconstruction has, for many years, the project which concerns exactly institutionalization of laboratories system for food control, but it still was not realized.

This is the main difference between export of goods, ie. visible export and revenues from foreign tourists, ie. invisible export. Achieved turnover (money) from foreign tourists not only circulates in tourist business but also through a sequence of other economic and non- economic activities, and this represents multiplied effect of tourism on the economy.

In respect of agriculture as the sector of economic (for which export is imperative to evaluation of comparative advantage), tourism is not in many ways burdened with transition transformations and can contribute to increasing export. In this sense, we should not, by all means, export agricultural products, but they should be realized on domestic market and offered to foreign tourists in meals consumption included or excluded in the overall price. We should bear in mind three elements:

- a) tourism has a comparative advantage in Serbia,
- b) nutrition is an important item of the tourist product,
- c) ecological and natural environment contributes to the increase of foreign tourists on the basis of rural and ecological tourism;

Table 2. Foreign-trade balance of agricultural products (in million USD)

| Country | Agricultural balance |
|----------------|-----------------------------|
| Slovenia | - 181 |
| Romania | - 731 |
| Albania | - 131 |
| Lithuania | - 114 |
| Poland | - 50 |
| Slovakia | - 55 |
| Czech republic | - 39 |
| Estonia | - 10 |
| Lietuva | 65 |
| Bulgaria | 262 |
| Hungary | 1200 |

Source: FAO and "Restructuring Proces of the Food Production in Central and Eastern Europe", 2009.

In all the countries in transition, expansion of agricultural production will no longer be achieved through subsidies¹², however, the increasing tourist consumption of agricultural products by foreign tourists avoids all the regulations by the WTO, as well as hidden protectionism of the country (from which tourists originate).

This is achieved by:

- 1) improving the unfavorable trade balance of agricultural land;
- 2) improving the balance of payments by improving the trade balance (more agricultural products sold for foreign currency) and the improvement of tourism income (number of foreign tourists in the country);

¹² It is not allowed by WTO and, on the other hand, the quality is often used as hidden protectionism by import-country (e.g. the European Union).

Possible positive effects of this strategy and the necessity of their use are determined by current deficit of trade in agricultural products in countries in transition¹³ as well as negative trends in the tourism balance of Serbia. Mere presence of foreign tourists can reduce the "gap" of these products mostly by effects of foreign exchange currency (the high cost of consumption) and boost domestic agricultural production, stimulated by high prices. In the case of Serbia, the previous theory is valid if there is a positive balance of tourism, which is not the case. This means that the country must previously take measures to increase the inflow of foreign tourists in the Republic of Serbia, and then to use the multiplicative effects of tourism on increasing consumption of agricultural products and improving the trade balance. It imposes more precise operation of the tourism sector to the agricultural sector. Cross-sector analysis of the economy (efficiency of certain economic activities) is carried out through the input-output tables, it establishes connections and interdependence of industries and activities¹⁴. Although, in declarative form, tourism as well as agriculture in Serbia is considered strategic industries, so far cross-sector analysis of the multiplying effects of tourism has not been conducted.

Table 3. Participation of catering industry and tourism DP of Serbia

| Year | Tourism (participation) (%) |
|------|-----------------------------|
| 1990 | 2,77 |
| 1995 | 2,37 |
| 2000 | 1,96 |
| 2001 | 2,11 |
| 2002 | 2,32 |
| 2003 | 2,45 |
| 2004 | 2,44 |
| 2005 | 2,30 |
| 2006 | 2,16 |
| 2007 | 1,93 |
| 2008 | 2,01 |

Source: Čerović, S., (2009), Strategic management of Serbian tourist economy, Želind, Belgrade.

Therefore, the elaborated thesis in this work on incentives to the tourism and agricultural production in Serbia, still has a hypothetical character, which we believe, has good elements, but should be verified by the scientific community.

13 The expectations that increase in prices of agricultural products will lead to decrease of those products import have not realized, because in some of them high coefficient of elasticity is present.

14 It is very complex and difficult activity and is done with support of state statistics; however, for needs of this modest research, it would be very responsible and complicated task, so it must be taken into consideration.

Instead of conclusion

From the point of joining the EU it is very important to renew talks on WTO accession and the central issue of these negotiations, when it comes to agriculture, is the tariff protection and its reduction (by the WTO rules are not defined by the level and range of allowable tariffs, but volume of reduction compared to base period). For Serbia, a very sensitive issue will be the one of subsidies, which hold quite a modest level and lower than in neighboring countries. With regard to export subsidies in the WTO there is a clear view that they should be repealed. As Serbia is not a member of WTO it can keep them for now, but the problem remains how to compensate them in the future. Possible mechanism may be increasing tourist spending for agricultural products.

The interdependence of trade in agricultural products and tourism is particularly evident in domestic front. Tourism provides with an opportunity to use agricultural products on domestic market by domestic protective prices under the meal including or excluding board and extra services of tourist spending. This thesis is based on the fact that in the very root of economic significance of tourism is basically the economic importance of tourism is tourist expenditure in places that tourists visit. Numerous studies confirm that tourism has an indirect and multiplying impact on the economy through effects of tourist spending. The point is to perceive these positive effects in agriculture as a strategic and a competitive activity in Serbia. That means less export of agricultural products, the unfavorable world prices, and spend more of the same, by the foreign tourists visiting tourist spots.

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