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Oct 28th, 8:00 AM - Oct 29th, 6:00 PM

### Agriculture Development Strategy in the Republic of North Macedonia: Between Subsidies, EU Support and Pressure From Liberalization

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#### Recommended Citation

Matoshi, Ruzhdi, "Agriculture Development Strategy in the Republic of North Macedonia: Between Subsidies, EU Support and Pressure From Liberalization" (2023). *UBT International Conference*. 42. <https://knowledgecenter.ubt-uni.net/conference/IC/MBE/42>

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# **AGRICULTURE DEVELOPMENT STRATEGY IN THE REPUBLIC OF NORTH MACEDONIA: BETWEEN SUBSIDIES, EU SUPPORT AND PRESSURE FROM LIBERALIZATION**

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**Abstract.** Agriculture development differs a lot from the rest of economic sectors. While in a market economy the fate of businesses in each sector is decided by competition leading to the entries, survival and growth of the fittest, in agriculture as a whole there are some exceptions as a result of support from the government with subsidies. The main reasoning behind this direct support with the state funds is made on the grounds that food is necessity and there is no alternative to it. Even in global scale, efforts to support agricultural development in various forms . However, contradictions arise between the states about inequalities and dilemmas that arise in the market, mainly between industrially developed countries and emerging economies. A greater pressure falls on developing countries where a large part of the population deals with agriculture to generate employment and incomes that are less worth to buy more expensive industrial goods from developed countries. Trade liberalization of food continues to be criticized not in its essence, but in a part that someone is benefitting at the expense of another depending on how much agricultural products are subsidized. The Republic of North Macedonia in the 21<sup>st</sup> century as a developing country, is in transition to transform the agricultural sector from a half-open in international trade, to a more open and liberal sector by a support from inside and outside. As where it is in this process and perspective, the aim of this paper is to make a critical assessment of these supporting measures and find out what would be a better option for agricultural development.

**JEL:** F53, O24, Q18.

**Keywords:** Republic of North Macedonia, agriculture strategy, subsidies, CAP, trade liberalization.

## Introduction

Subsidies in agriculture are a form of government funding given to support farmers and agribusinesses to promote the production and delivery of products in this sector. The producers intended to increase their opportunities and reduce costs. Such a support to the extent of being increased, is becoming more diversified in many countries of the world. It is estimated that the European Union (EU) as a whole in 2010 spent round €57 billion in support of agriculture, of which 39 billion were subsidies. Most of these subsidies were given to farmers.<sup>1</sup> Large amounts of subsidies were also delivered in other major industrialist developed countries as the U.S. and Japan. In 2009, Japan had \$46.5 billion subsidies given to the farmers.<sup>2</sup> Japan is a highly developed industrial country, but has small area and large number of inhabitants.

The justifications for agriculture support in developed countries with a market economy, which in principle seems to be in contradiction with the rules of the market due to greater state intervention, are various (Matoshi and Veseli, 2017). Currently, the main reason which is being used, is the increase in prices of agricultural products that forces the population to spend more of their income on food alone. By helping with subsidies, food prices may be kept lower or at least for the difference of subsidies, thus the products can be made more affordable for the consumers. But lower prices have a direct impact on producers who may need funds for reinvestment, and that may come from two sources; either as additional subsidies or loans of more favorable terms and conditions than for other economic activities.

The policy of subsidies remains a controversial issue in international trade. If developed countries continue increasing the subsidies to agriculture, then this situation creates inequalities in the market, where poor countries cannot compete with subsidized agricultural products from developed countries. There are also many cases with the so-called hyper production agriculture in some parts of the world, while in some others there is a shortage of food. In the first case, the markets may easily be exposed to dumping prices or selling the products below market prices, thus gaining competitive advantage. According to mainstream economic wisdom, for a company to operate, remain in business and make profit, the revenues must be higher than the costs. If the opposite happens, then the company may become insolvent. However, the goal dumping prices is strategic. For the same products, the consumers obviously will choose those with lower prices. In this way dumping

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<sup>1</sup> EUR-Lex (2010), ‘2010 General budget’, available at: [http://eur-lex.europa.eu/budget/data/D2010\\_VOL4/EN/nmc-titleN123A5/index.html](http://eur-lex.europa.eu/budget/data/D2010_VOL4/EN/nmc-titleN123A5/index.html), ‘Title 05 – Agriculture and Rural Development’, accessed on 20 August 2013.

<sup>2</sup> Harada, Youtaka (2012), Can the Japanese Farming Survive Liberalization?, available at <http://www.tokyofoundation.org/en/articles/2011/farming-survive-liberalization>, Accessed on 20 August 2013.

prices face many other companies out of business. Once the dumping company has gained a monopoly in the market, it starts raising the prices and is now able to compensate the losses it had made when selling the products below market prices. Dumping pricing policy is contradictory and often the subject of disputes between states. In agriculture, dumping prices are often imposed not because the company wants to play this game, but sell certain perishable goods faster at any price rather than throw them as a waste.

Subsidies have their supporters and opponents. The supporters are of opinion that, as stated above, subsidies affect the prices in consumption, and that such a policy of greater reliance should be followed in poor countries by international funds or from developed countries. While this is difficult to come into being, a number of scholars criticize subsidies for causing distortions in the market, and with them putting at a disadvantageous position developing countries which are recommended to follow the policies of economic liberalization and free trade.<sup>3</sup> Free trade in unequal conditions benefits more those who are stronger with a likelihood of weakening the weaker. In this kind of neoliberal doctrine crossroad and need for protectionism, the dilemma arises as how to support agriculture and agribusiness to a more balanced development. Loans are a good alternative to subsidies that would encourage farmers and agribusinesses to work harder and with more wisdom, but there is also greater risk. Why? Agriculture is a sector that is subject to external influences, especially climatic conditions more than any other sector. Farmers cannot afford the interest rates like other sectors where the return on investment and income generation is faster. Banks generally do not prefer of making large differences in interest rates among businesses. Their goal is to deliver the loans to those capable of paying higher rate of interest. Governments and foundations in turn make efforts and establish agricultural banks, with special emphasis on supporting agriculture loans on favorable terms, most notable by covering the difference of interest rate, or at least paying a percentage of it to the lender.

### **1. The strategy for agriculture development of the Republic of North Macedonia**

The Government of the Republic of North Macedonia since the beginning of the XXI century has intensified efforts and commitment to agriculture and rural development. This is confirmed by a number of medium term strategies prepared and implemented from 2003 onwards. Despite the plans in the national strategy, the orientation of the government is the

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<sup>3</sup> See among others, Alston, Julian M. and Jennifer S. James (2002), "The Incidence of Agricultural Policy", Chapter 33 in B. L. Gardner and G. C. Rausser, eds., *Handbook of Agricultural Economics*. Vol. 2., pp. 1689–1749; Anderson, Kim and Will Martin (2005), "Agriculture Trade Reform and the Doha Agreement Agenda", *The World Economy*, Vol. 28, No. 9, pp. 1301-1327; Atilieri, Miguel (2009), "Agroecology, small farms, and food sovereignty", *Monthly Review*, Vol. 61, No. 3, pp. 102-113.

transformation of agricultural development according to the EU principles, so in the future to be able withstand in the European common market as a competitor and partner. It is clear that North Macedonia cannot be competitive in the automotive and aircraft industry, and that is why it paying more attention and importance to agriculture and agribusiness development. Anyone can emphasize the importance of this commitment, but its materialization is not so simple without going into details on how to find better opportunities for growth and development.

The Ministry of Agriculture, Forestry and Water Management (MAFWM) and relevant institutions of the Republic of North Macedonia in charge of supporting agriculture and rural development, in their strategies have envisaged, among others, increasing of cooperation with international organizations and institutions to boost opportunities. In 1994, North Macedonia applied for membership in the GATT (General Agreement on Tariffs and Trade), a process which was finished in February 2003 when the Parliament ratified the agreement and officially became member. In 2001 it signed the Association-Stabilization Agreement (SAA) with the EU. Part of the SAA is the measures for agriculture specified in the standards and rules of Common Agricultural Policy (CAP), as one of the components in the journey towards the EU integration.<sup>4</sup> The reforms implemented focused on three main segments: agricultural policy, institutional reform, and legislation. All these are done in the spirit and guidance for agricultural and rural development by adapting the reforms to the needs to mitigate the negative effects when North Macedonia will face the EU standards.

In January 2007, the Government adopted the Law on Agriculture and Rural Development (Official Gazette no. 134/07). The adoption of this law, as the highest legal act in agriculture began in the reform and development of not only this sector, but also with the impact on the economy as a whole. The Law on Agriculture and Rural Development of 2010 is an improvement of the 2007 Law to provide opportunities for intervention in the market with alternative measures. The National Strategy for Agriculture and Rural Development 2007-2013 sets out six key priorities for growth and development of the agricultural sector: 1) increasing competitiveness, 2) improving the quality and safety of food, 3) better management of resources, 4) improving living conditions in rural areas, 5) reforming the regulatory and institutional framework, and 6) implementation of institutional reforms in the MAFWM.<sup>5</sup> The Strategy for 2013-2017 has set the objectives and measures to be taken for their implementation, but lacks a concrete conjunction with the agribusiness sector. This means that although agribusiness dependent on agricultural development requires an exclusive strategy for the development of agribusiness. World Bank continues to help strengthen the capacity of the Ministry of Agriculture and supports agriculture in line with the EU-CAP. This includes improving the ability of the ministry to formulate and

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<sup>4</sup> Министерството за земјоделство, шумарство и водостопанство – МЗШВ (2003), ‘Годишен земјоделството извештај 2003’, Скопје: МЗШВ.

<sup>5</sup> МЗШВ (2007), ‘Националната стратегија за земјоделство и рурален развој за периодот 2007-2013’, Скопје: МЗШВ.

implement effective policies and increase the effectiveness of public spending on agriculture.

The policy measures for agriculture and rural development, according to the National Development Plan 2008-2013, envisage a number of strategic objectives: increasing the competitiveness of North Macedonian agriculture in regional markets and the EU, increase the efficiency of agricultural production, agro processing and sale, provide customers easier access to safe and healthier food. The Plan also contains the measures for more reasonable use of natural resources, building sustainable rural communities through integrated urban-rural development to reduce the development disparities, reforming institutions, public and private effective implementation of agriculture and rural development.<sup>6</sup>

The National Program for Agriculture and Rural Development for the period 2013-2017 reflected the continuity of the state interest for sustainable agriculture and rural development through improved policies in order to increase efficiency. Support policies also focus on creating a favorable climate for investment in the agricultural sector as a link to improve the competitiveness of North Macedonian agricultural production, providing equal access to potential customers without preferential treatment. Most of the funds to support agriculture and rural development (around 90 %) are allocated for direct payments, while the rest of rural development measures used to co-finance investment, increasing the volume of production and modernization of agricultural farms. As measures of especial importance are the supporting of farmers and government efforts to promote the establishment of cooperatives, enforcing contracts for the production and implementation of relevant policies for the consolidation of agricultural land. In the past two years, the government has also started to pay special attention to the improvement of marketing infrastructure by providing conditions for investment, logistics, and assist in the marketing of agricultural products. As a result of the introduction of new measures to facilitate access to policy support, the number of beneficiaries has increased from 13,000 in 2005 to 110,000 households in 2011.<sup>7</sup> The policies of rural development have outlined four priorities to be supported: i) Increasing the competitiveness of the agricultural and forestry sector aimed at promoting knowledge and improving human potential in rural areas, restructuring and developing physical potential to promote innovative practices of agricultural products through economic support of farmers' associations; ii) Protecting and improving the environment and rural areas, aimed at promoting agricultural production practices for sustainable use of agricultural land, protecting the environment in order to preserve plant and animal diversity and improve the quality soil, water and air; iii) Improving the quality of life in rural areas and encouraging diversification of economic activities. Capital investments include the support for the creation and strengthening of micro and small

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<sup>6</sup> МЗШВ (2012а), 'Годишен извештај за земјоделство и рурален развој 2011', Скопје: МЗШВ.

<sup>7</sup> МЗШВ (2012b), 'Национална програма за развој на земјоделството и рурален развој за периодот 2013-2017', МЗШВ на Република Македонија, Скопје.

enterprises, investment in rural infrastructure to improve the quality of life, providing support for training and information for individuals and legal entities operating in rural areas; and iv) Promote local rural development implemented through the measures designed to support the implementation of local development strategies in accordance with the law, and working with local groups of residents in rural areas.<sup>8</sup>

The Strategy for Agriculture and Rural Development 2013-2017 has well-defined objectives and measures to be undertaken for implementation, but lacks specific links to the agribusiness sector. This means that, although agribusiness depends on the development of agriculture, it requires an exclusive strategy on its own. An agribusiness development strategy and its implementation is a greater challenge than for agriculture. Agribusiness may be found between the alternative to secure agricultural products from home market, or import them. While the government's determination is support the rise of output in agriculture, agribusinesses will continue to rely on market prices of raw material, irrespective of the origin from home or foreign market.

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<sup>8</sup> M3III B (2012a), *ibid.* стр.8.

## 2. EU supporting programs

Faced with economic and financial crisis of 2008-2009, as well as to determine the strategic framework for development in the period 2010 to 2020, the European Commission has prepared a document, "Europe 2020: a strategy for smart, sustainable and inclusive growth" that was adopted by the European Council 17.06.2010. The strategy explicitly states the same importance for the candidate countries of the EU, as a roadmap for accelerating the reform process in future member states. In North Macedonia, the institutional structure for these reforms include the MAFWM as the competent authority for the creation and maintenance of basic infrastructure, the Farm Register, the Agency for Financial Support of Agriculture and Rural Development, national programs of financial support for agriculture and rural development (including IPARD funds as pre instrument), and the Food and Veterinary Agency responsible for maintaining the database, identification and registration of animals. The system identification of parcels of land in 2012 is used for control of agricultural land plots suitable for areas with limited features (parcels that are located at altitudes above 700 meters). By the end of March 2013, most farms had their parcels digitized. The new Law on Agriculture and Rural Development in 2010 provides a basis for the policies to support agricultural policies adopted widely in the EU-CAP, and includes provisions for public policy management, organization of the markets in agricultural products, programming and implementation of direct support measures for agriculture and rural development.<sup>9</sup>

The government has established a separate agency in charge of coordinating agriculture and rural development as an integral part of coordinating the activities with IPARD (Instrument for Pre-Accession Assistance for Rural Development).<sup>10</sup> The IPARD has been approved by the European Commission for the Republic of North Macedonia as a result of meeting all the basic legal rights of state compatibility with the EU. North Macedonia had financial support from the EU in cooperation with other home agencies, involving many NGOs who were stakeholders in the agricultural and economic area. The IPARD program implemented support measures in all branches of agriculture and rural areas of the Republic of North Macedonia in the period 2007 – 2013, to improve technological and market infrastructure where necessary, to comply with the EU standards in the value of agricultural products quality, health safety, and environmental protection. Another objective of the program is to improve the lives of rural communities, where the population of the area would be able to generate employment opportunities for the rural population through the development of agricultural. The priority orientation of IPARD program in accordance with

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<sup>9</sup> Министерство за труд и социјална политика МТСП (2013), 'Национална стратегија за намалување на сиромаштијата и социјалната исклученост во Република Македонија (Ревидирана 2010-2020)', Скопје: МТСП.

<sup>10</sup> More details about this agency can be found at its official site [http://www.ipardpa.gov.mk/Root/mak/default\\_mak.asp](http://www.ipardpa.gov.mk/Root/mak/default_mak.asp), accessed on 10 September 2013.



the National Strategy for Agriculture and Rural Development 2007 -2013, is to have a common agricultural policy with the CAP as a prerequisite for the membership EU. To use the IPARD funds, the first public call for applications was published on 23.12.2009, for a total value of investment amounting to €4,782,400, of which 15 requests or 26 % of the applications for cattle breeding rejection were approved. For the measure in the processing and marketing of agriculture and fishery products a fund of €9,697,900 was allocated. In total, €1,180,500 were approved as EU funds. The second call for submitting the applications for the funds from the IPARD program was announced on 30.12.2010, with a deadline of 60 days to apply. A total of 112 applications were received and went to processing.<sup>11</sup>

The EU agrarian policy represents the common interests of individual and group entities of the countries. This makes the agricultural policy of the EU very complex, because it has formed 46 committees of Agriculture, holding frequent meetings (once a week for wheat and sugar, once in two weeks for meat and fruit, every month for agribusiness dealing with chicken and wine, once in three or six months for tobacco, and so on), and many other procedures.<sup>12</sup> With these large differences, the CPA is far from functioning as a common policy until member states want something in common, but it recognizes that different levels of their development currently does not bring balanced benefits. Certainly, criticisms of this policy are evident. The current criticism is related to the provision of excess supply, keeping the prices artificially high (contrary to the economic concept of supply and demand in relation to price). The impact on small farmers, inequalities between the countries and disagreements about the subsidies are also the target of criticism. How the CAP policies are helping or impeding agribusiness in general within the EU, it is difficult to find with accuracy because of the difference in the development of member states.

The strategic national interest of North Macedonia is to have efficient and well implemented agricultural policies. The role of agriculture and agribusiness strategy allows to achieve the goals such as: generating new jobs, exports to the EU region and third countries, the development of rural areas, production that meets the EU standards, and legal reform to implement agricultural policies harmonized with the EU directives to measure the progress of the Republic of North Macedonia for EU accession. As a priority intervention was recognized the need for gradual and clearer dynamics adjustment to the CAP, primarily because of structural and natural disparities between the various agricultural regions that should implement the policies for quality and safety of agricultural products, adoption of common rules in competition, and constant coordination of different national organized market. Initially, all five goals set by the EU-CAP and reforms were an integral part of this strategy and the development of agro industrial complex of North Macedonia as early as

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<sup>11</sup> МЗШВ (2010), 'Годишен извештај за рурален и земјоделски развој 2010', Скопје, МЗШВ.

<sup>12</sup> Erjavec, Emil и Dragi Dimitrievski (2006), 'Заедничка земјоделска политика на ЕЗ', Економска Факултета: Универза в Ljubljani, paper presented at Ohrid Conference held on 14-19 September 2006.

2001. The five goals, were: i) become more competitive through lower prices of agricultural products; ii) offering agricultural products quality and healthy food; iii) providing a stable income and living conditions of farmers; iv) implementing production methods to preserve the environment; and v) creating opportunities to increase the employment of younger farmers.<sup>13</sup>

The five measures aim to make the agrarian sector more efficient, competitive and profitable to operate in the open market. The evaluation of what is happening in North Macedonia in terms of EU integration, range of support for EU accession, financial benefits and so on, have raised some concerns stemming from the policies and their instruments which were also observed in other post-communist countries. Transition from communism to a market based economy was associated with difficulties in the agricultural sector from 1990 to 2004, requiring deep structural changes not only in agriculture, but also in the entire economic environment. The subsequent losses of agriculture restructuring were inherited from the difficult early years of 1990s where, agriculture output declined, investment fell, growing pressure from foreign competition, and inconsistent agricultural policies.<sup>14</sup> Dealing with and overcoming these challenges was a difficult task for all countries aspiring to implement the EU-CAP in the agricultural sector. Step by step, the countries, including North Macedonia, are going through to the target. Eliminating the trade barriers and implementing the CAP directives opens a clear perspective for agriculture development in North Macedonia in the long-run. Accession to the EU is giving many opportunities and benefits for agriculture to obtain funds as a support. This assistance is designed primarily as one of the measures to facilitate the journey of North Macedonia towards the EU integration, and implement the EU standards in agriculture and food production.

In addition to the EU programs, the Republic of North Macedonia receives support from various development agencies and international organizations for agriculture development. The most notable supporters and donors include the World Bank, American USAID, Swedish SIDA, and German GTZ, among others. Commitment to the development of agriculture and increase competitiveness on the one hand, and orientation for WTO membership in the EU and on the other hand, presents a major challenge for agribusiness in North Macedonia. A study by Ericsson *et al* highlights that agricultural policy of North Macedonia will face not easy challenges when it joins these two international organizations. North Macedonia will be forced to remove some restrictions or barriers which would endanger the domestic market by the flood of imports. When becoming a union member, the European common market is not merely the customs free zone. The preferential treatment of North Macedonia so far by the EU can fall after accession, and the effects or consequences for agriculture and agribusiness sector can reduce North Macedonia's trade

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<sup>13</sup> Македонска Академија на науките и Уметности (2001) 'Стратегија на Развој на Земјоделство во Р. Македонија до 2005', Скопје: Македонска Академија на науките и Уметности, стр.133.

<sup>14</sup> Jerzy, Wilkin (2007), *Agriculture in new member states: expectations and lessons learned*, Warsaw: Warsaw University.

competitiveness versus other countries of the EU.<sup>15</sup> The reason is that most other countries already members of the EU have developed the technology from which modern agriculture and agribusiness depends on. The advanced technology enables production with lower costs (Dauti and Elezi, 2022). If North Macedonia is unable to retain competitiveness in agribusiness, then this may lead her to deal more with the export of raw materials and agricultural products for processing abroad.

### **3. The issue of subsidies**

In section two, among others, we referred to the criticisms of subsidizing agriculture and highlighted the specific circumstances why farmers and agribusinesses in many cases cannot survive in the market. Businesses in other sectors are freely allowed to go bankrupt or redirect their activities whenever it suits them to make profit. But food is a necessity to the population, a strategic sector in which the government steps in by incentive measures and subsidies. If agriculture will be wholly left to the mercy of competition in business activities, it may led to structural deformations in the economy by picking up certain businesses that are less friendly to the environment, e.g. chemical industry, construction to occupy the agricultural land, and other man made premises. Subsidizing agriculture is justified on multiple grounds, the primary one of which to increase agriculture output and provide food. The Republic of North Macedonia has gradually increased the funding as subsidies, though their size remains comparably much than smaller in most European countries.

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<sup>15</sup> Ericson, Tina, Erik Pelling, and Yves Surry (2009). *Support to agriculture in FYR North Macedonia: an exploratory assessment (1999-2004)*, Uppsala: Institutionen för ekonomi, Sveriges lantbruksuniversitet.

Table 1: Basic indicators of agriculture in North Macedonia

	2008	2009	2010
Total agriculture land (in ha)	1,064,000	1,014,000	1,121,000
Arable land (in ha)	261,032	266,475	250,016
Employed in agriculture	107,717	116,668	121,521
Share of agriculture to GDP in %	10,0	9,7	10,1
Export	228 331	228 325	268 387
Import	147,701	126,353	164,259
Index of export	100	99.9	114.9
Index of import	100	83.1	118.8
Government subsidies in mil. €	45	70	100

Source: State Statistical Office of the Republic of North Macedonia (2012), *North Macedonia in figures 2012*, Skopje: State Statistical Office of the Republic of North Macedonia.

As of 2010, about 39 percent of the total area or 1,121,000 hectares, is agricultural land, where almost half of it land is arable, and the other half used for cultivation of different crops (orchards, vineyards and meadows) and permanent pastures. The structure of the agricultural sector is characterized by small farms, mostly family owned. About 80 percent of all farms are estimated to be kind, and are fragmented into small parcels, whose average size is 2.5-2.8 hectares. Nearly half the population lives in rural areas, where its main agricultural activity.<sup>16</sup> The share of agriculture in GDP by 10 percent is much higher than in the EU member states, but lower than in the neighboring Kosovo, Albania, and Serbia (Matoshi and Mulaj, 2019). The overall trade balance remains negative with a large trade deficit. The only sector with a positive trade balance is agriculture, with an increase from 35.3 percent in 2008, to 44.7 percent in 2010, which suggest what a role and perspective this sector can have in the economy if supported. Despite this, agriculture subsidies, although with an increasing trend, are relatively small. The national strategy for agriculture

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<sup>16</sup> European Commission (2011), The former Yugoslav Republic of North Macedonia- Agriculture and Enlargement, European Commission, Brussels, available at: [http://ec.europa.eu/agriculture/enlargement/countries/fyrom/profile\\_en.pdf](http://ec.europa.eu/agriculture/enlargement/countries/fyrom/profile_en.pdf), accessed on 12 September 2013.

and rural development 2013 – 2017, among the primary measures undertaken to boost competitiveness in this sector, envisaged an increase in subsidies (apart from the figures shown in Table 1) from €130 million in 2012 to €140 million for 2014, and €150 million for the period 2015-2017. Around 60 percent of the subsidies are to be allocated for making the agricultural products more competitive and encourage their export, mainly for tobacco, vegetables, wine, rice and organic food. The rest of the funds will be allocated to increasing of capacities as technical assistance and trainings as part of the measures in response to the changes in IPARD program by 2015, and to manage the funds of other international organizations more effectively. Only a small part, which is not indicated how much, of the subsidies are expected to remain for alleviating potential market failures where, intervention is required only in emergency cases and will be implemented pursuant to the CAP directives.<sup>17</sup> The government has the reasons to support agriculture and rural development as it is faced with the challenged of increased trend of migration from villages to the cities. The small support has continued by increasing the funds as subsidies to the farmers during 2010-2011, despite financial crisis and debts.<sup>18</sup>

The so far discussion still cannot tell the real place, importance and impact of subsidies in agriculture of North Macedonia. Their better picture and relative importance may be understood if compared to the subsidies in the neighboring countries, both in size and as a share to GDP. The figure in Table 1 of €100 million in 2010 represented around 4 percent of GDP. In the same year, the corresponding figure disbursed in Serbia was €170 million, or 2.6 of the state budget.<sup>19</sup> It was a much smaller share to GDP than in North Macedonia. Kosovo government in 2010 allocated only €5.18 million in the form of subsidies and grants to agriculture.<sup>20</sup> This amount was less than 0.2 percent of GDP. Albania's amount of agriculture subsidies in that year was €375 million.<sup>21</sup> Albania's commitment to agriculture from North Macedonia, Serbia, and Kosovo is distinguished by larger funding as subsidies. The subsidies are provided not only to provide food at home market, but also to encourage agribusinesses towards exporting. The government measures to encourage exporting of agricultural products first of all aim at reducing the overall trade

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<sup>17</sup> M3IIB (2012b), *ibid.*

<sup>18</sup> Angelova, Biljana and Bojnec, Štefan (2011), "Developments in the Agricultural and Rural

Capital Market of the Former Yugoslav Republic of North Macedonia", Center for European Policy Studies, Working Paper No. 9, Brussels.

<sup>19</sup> Maslac, Tatjana (2011), 'Serbian Farmers Protesting over new Government Measures', Global Agricultural Information Network, Belgrade: GAIN Report Number: RB1112, 6/3/2011.

<sup>20</sup> Office of the Auditor General (2011), 'Performance Audit: System of Subsidies and Grants in Agriculture', Doc. No: 21.10.9-2009/2010-08, Pristina: Office of the Auditor General of the Republic of Kosovo.

<sup>21</sup> Bernet, Thomas and Kazazi Idris S. (2012), 'Organic Agriculture in Albania: Sector Study 2011', Tirana: Ministry of Agriculture, Food, and Consumer Production of Albania.

deficit and improve the balance. Apart from Value-Added Tax (VAT) in certain agriculture products, exporting is free of charge across borders with a tendency of further liberalization after CEFTA (Central European Free Trade Agreement) which North Macedonia joined in 2006.<sup>22</sup> The next section explores into more details North Macedonia's trade under this agreement.

#### 4. Foreign trade and liberalization

For North Macedonia, the first major trade liberalization came in 2006 with the signing of CEFTA. Albania, Kosovo, Serbia, Montenegro, Bosnia and Herzegovina, and Moldova joined the following. The aim of CEFTA, as stipulated in its Article 4 and 5, is to abolish customs duties between the countries in Southeastern Europe.<sup>23</sup> The overall objective of CEFTA, which has superseded earlier free trade agreements of North Macedonia with the Western Balkans countries, is to prepare potential candidate countries aspiring to join in the future EU enlargements, thus they would be more suited to do business in the European common market. Its guidelines are prepared to comply with the WTO requirements, in which North Macedonia wants to become a member of. According to the provisions contained in Annex III of CEFTA, agricultural products may further enjoy preferential treatment and concessions in trade between the signing parties in order to fully liberalize the trading of products in this sector. How much this has helped North Macedonia so far in terms of agriculture?

According to the classification in three main sectors of the economy (industry, agriculture, and services), the structure of import of goods in 2008 was dominated by industry sector with 92.3 percent, and this share has remained approximately unchanged in the years following. However, the volume of total exports in this sector grew by over \$3,684,743,000 in 2008 to \$4,109,591,000 in 2011, which means an increase of 10.3 percent. The share of agriculture in total exports increased from 5.7 to 6.0 per cent when compared with the same years (2008 and 2011). In 2010 the share of agriculture in export was even higher reaching to 6.8 percent. If the rate of export growth from this sector is taken into account, then its share increased by nearly 15 percent which, as already stated when referring to the figures in Table 1, implies the highest growth rate than in any other sector and service. The other side in foreign trade or imports, is also dominated by industry with a share of 95 to 96 percent, with agriculture having a share of by 2.3 percent.<sup>24</sup> The dynamics

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<sup>22</sup> The standard VAT rate in North Macedonia is 18 percent. Much of agriculture inputs are released from VAT or have it a much differentiated lower rate.

<sup>23</sup> The official site and the text of CEFTA can be found at: <http://www.cefta.int/>.

<sup>24</sup> State Statistical Office of the Republic of North Macedonia (2012), *ibid.*, p. 51 and Auhtor's own calculations.

of growth in agricultural exports is smaller than the growth of imports. It appears that CEFTA has brought positive changes in agriculture development and trading for North Macedonia. Eliminating the trade barriers under CEFTA enabled North Macedonia to have easier access in the regional market to sell its agricultural products. North Macedonia is a relatively small market, thus the development and growth of its agriculture sector will depend heavily to capabilities in penetrating into foreign markets. Though CEFTA requires that subsidies to agriculture should also be eliminated to enable fuller liberalization, they cannot be removed at this stage of development. Agribusinesses would also like to lower the VAT rate, or even removed completely, and that would bring about faster liberalization by which they raw materials through import at lower prices could be provided. However, the release from taxes in food industry for easier penetration in foreign markets and offering the consumers cheaper food, is not possible as the state needs budget revenues. In principle, this would be a great opportunity for consumers to buy cheaper food and make agribusinesses more competitive in the market with abundant products. In practice, however, the immediate consequences would not bring an excess supply of food with cheaper prices and available to everyone. An uncontrolled liberalization may significantly encourage smuggling and food of lower qualities that may endanger the health of the population. Given the small market and limited competitiveness, in the medium term such liberalization would swallow competition at home and force many agribusinesses out of business, which in turn reduces the opportunities for employment and income generation.

Bu the government of the Republic of North Macedonia despite getting much of the measures to support agriculture and agribusiness on the right track for the strategic aim of regional and EU economic integration, it sometimes does not comply with the rules of friendly relations with the neighboring countries regarding trade. Just recently, on July 2013, it banned importing of wheat from Kosovo, a measure that was to last some two months until mid-September for alleged protection of domestic wheat output. The government of Kosovo in turn sought to retaliate 10 days before this ban was to expire by blocking any export of goods and services from North Macedonia into Kosovo. North Macedonia's main exporting destination after Germany, is Kosovo. Exports to Kosovo in monetary value are nearly ten times higher than imports (Yzeiri *et al*, 2020). The government in Skopje was not aware how much dearly it could and may cost in the future the adventures in trade discrimination with its main market where it exports. Today, production is not a problem; the problem is the market and selling of products. During the Kosovo blockade, the authorities in Skopje began charging Kosovo citizens and vehicles with a fee for entering North Macedonia. Thus the dispute in the movement of goods and services was furthered by limiting the movement of people, where North Macedonia announced that it can impose visas for Kosovo citizens. Meanwhile, the European Commission called upon the parties to resolve the dispute, and the European Parliament on September 12 voted in favor of a mechanism to cancel the free visa regime, where the Western Balkan countries (where North Macedonia and Kosovo are part of) can be mostly affected. The Kosovo-North Macedonian dispute ended on September 2013, but its main lesson is that protectionism, imposing of quotas, and blocking the movement of goods,

services and setting the barriers for travelling of the people, brings only losses to North Macedonia, especially to its most promising sector – agriculture and agribusiness. North Macedonia had suffered during the mid-1990s from the Greek embargo, therefore, it should view and handle the issues of both protectionism and liberalism from the perspective of mutual benefits.

### **Conclusions**

Agriculture and agribusiness development in the Republic of North Macedonia after a hard transition from socialism to a full market economy during the 1990s, is making another transition in the 21<sup>st</sup> century, i.e. to regional and EU economic integration. The current agriculture development is seen as a preparatory phase in making this more competitive in the process and journey towards membership in the EU. The place and importance of agriculture in the economy has been recognized by the Republic of North Macedonia through national development strategies, using of EU support, and increasing the volume of subsidies. In itself, agriculture and agribusiness development appears as the most perspective sector in terms of growth and export. Agriculture policies implemented are in line with the CAP and guidelines WTO requirements, which require further liberalization. CEFTA has further opened a door to increase the volume of trade with SEE countries, though there are still some difficulties and disputes that can be overcome before membership in the EU. After membership in the EU, agriculture and agro processing sector of North Macedonia may face stronger competition. To maintain competition and increase presence in foreign markets, North Macedonia will need to diversify the agro processing industry. The current trend of subsidies should continue, as should also greater gradual liberalization. Trade incidents with the neighboring countries and the perception that protectionism may defend home market, is wrong and can be counterproductive. Moreover, it runs counter to the strategic objective of membership in the EU and the WTO, in other words, it is a step back towards that aim. The experience in the last years has shown the degree in trade liberalization of agriculture products has helped this sector to further improve its positive trade balance. By not underestimating the role of other sectors in exporting, we can conclude that agriculture and agribusiness development in the Republic of North Macedonia, should be managed with a greater care with respect to trade relations with other countries, because this is the sector experiencing faster growth and with more opportunities yet to be exploited.



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