

Balkans's Agriculture Value Chain. Current Point of View

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Abstract

The current global situation in agribusiness is characterized by rapid changes and endless challenges under the influence of many factors, some of which compete unidirectional. Many countries are slowly reforming agricultural policies. This has helped to increase trade and the greater role of the private sector in agriculture vis-à-vis the state. The population growth, income and urbanization, changing crop culture, eating crops, declining crops to feed the population have contributed to rising global food prices. At the same time, consumer requirements related to safety, quality, convenience of trading are increasing and the differential between agricultural and commodity prices is constantly increasing due to the differences in the technological provision of the two production processes. The changed paradigm in the diet of produced, processed and, above all, health-safe but higher-priced and differentiated agricultural products has created opportunities for agricultural entrepreneurs to transform the goods into consumer-demanded products. Small, highly mobile family agribusiness has prompted greater private sector involvement in agriculture and focusing on the development and improvement of agricultural value chain chains (AVCs) in terms of quality, productivity, efficiency and depth. The value chains are formalized relationships between producer groups, dealers, processors, service providers and non-governmental organizations that unite to achieve productivity gains and added value to their activities. Individual added value is achieved by bringing together participants in a single value chain, and its participants increase competitiveness and are better able to maintain the level of this competitiveness through a culture of innovation. The limitations of each participant in the value chain are eliminated by establishing synergies and rules for communications along the chain, with the ultimate goal of achieving higher value. The main commercial advantages of stakeholders to engage as part of an effective value chain can be defined as:- The ability to reduce the cost of doing business; increasing revenue increasing market impact; -Enhancing access to technology, information and capital for the process of innovation in manufacturing and marketing in order to gain higher added value and ensure higher quality of customers. These and other important aspects of the functioning of value chains are the subject of research in this work. As a result, some conclusions are drawn about the place of the Balkan countries in the agribusiness development chains as well as the prospects for the development of the process in the whole.

Keywords: Balkan agriculture value chain; Agriculture business.



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1. Introduction

One of the main reasons for the emergence of such an important problem as poverty stems from economic stagnation in rural areas so that the agrarian economy must play an indispensable role in any strategy for the country's economic progress.

This outlook for the development of the economic system differs from Luis' two-sector model, where agriculture plays a passive, secondary role to provide food and labor in the advanced industrial development sector. In Latin America (and some parts of Asia), there is a tendency to concentrate large areas on the hands of small-class landowners while in Africa the availability of unused land leads to other types of farming, a tendency to reduce the size of individual farms in Africa and parts of Asia. Therefore, farm management techniques tend to differ. Agricultural production can further stimulate deforestation and the growth of desert areas. One of these benefits is the creation of genetic engineering of new crops and the adaptation of new techniques and technologies and the training of cadres for which agriculture is a priority.

The well-known economist Michael Porter first introduced and described the value chains in his popular book, "Competitive Advantage: Creating and Maintaining Excellence," in 1985. The value creation chain is a series of activities or processes designed to create and add value to a step article (product) during the production process.

The global economic system is increasingly structured around the construction of "global value chains". A "value chain" can be defined as "the sequence of the full range of activities that companies and workers realize in order to move a product from the concept of its creation to its end use as well as activities related to the realization of this succession" (Gereffi and Fernandez-Stark, 2011). The following activities can be defined as components of the value chain: design, production, marketing, distribution and end-user support. This set of activities can be done through the efforts of the same company but can also be shared between different companies.

The fact that products are increasingly distributed in a group of countries gives the phenomenon the opportunity to view the value chain as "global".

For the model "global chains of value creation" we have been talking since the beginning of 2000 by establishing some regularities in the development of the world economy:

1.1. The Increasing Fragmentation of Production in the Countries

Global value chains provide a link between activities from different parts of the world but working in a single industry, and this makes it possible to establish new patterns of trade and production. Global value chains enable policy implementation but also focus on the importance of increasing export competitiveness based on the provision of efficient resources as well as access to markets and end-users and producers in other countries.

1.2. Specialization of the Parties in the Realization of a Complex of Goals and Business Functions, Not the Provision of Specific Products

Although there is a general consensus that goods and services are produced on the domestic market and compete with products produced in other countries, the analysis of the current situation shows that most goods and a predominant share of services are "manufactured in the world" and that each of the participating countries compete for an economic role within the value chain. One of the most important goals of the Global Cost Pricing Concept is to overcome the gap between politics and business reality.

1.3. The Role of Networks, Global Buyers and Global Suppliers

The analysis of global value creation chains allows for forecasting in support of economic governance and helps to identify companies and actors that control and coordinate activities in production networks. Analysis and research of governance structures is important for policy-making, equally important, to assess how policies can impact companies and the location of production.

Because of all these factors, it is necessary to understand better how they work and which are the global value-creation chains that will form the basis of databases and analyzes of policy makers in the fields of agriculture, trade, industry and innovation. These resources make it possible to explore the growing role of global value chains, but also to develop a methodology of database metrics. Since countries generally form industry policies, research generally focuses on aggregated data and country-specific indicators.

The concept of global value chains has been the subject of research and the late 70's of the 20th century with work on the Commodity chain project (Bair, 2005) continues its development to a transformation looking at the end-use category, describing related sets of processes that result from the position of Hopkins and Wallerstein (1977). This theory for the "world commodity chain" appears to be a follower, Gereffi (1994), describing, for example, the garment chain, starting with the necessary raw materials (such as cotton, wool or combinations thereof).

In the 2000s there was a change in terminology: from the "global commodity chain" to the "global value chain", the latter coming from the analysis of the trade and industrial organization as a chain of value added in international business literature (Porter, 1985). The concept of the value chain is not very different from the commodity chain, but it is more ambitious in the sense that it is trying to capture the determinants of the organization of global industries and their relationship with the markets. (Bair, 2005). Gereffi *et al.* (2005) explore the theoretical aspects of the chain of value chain theory and describe the different types of global value chain management.

Newer research in the field of analysis focuses on the "Network" model rather than the "chain" (Coe and Hess, 2007). This change in terminology highlights the complexity of the interactions between world producers: "economic processes need to be conceptualized into a complex scheme with multiple links and feedback rather than simply" simple "circuits, or even worse, linear flows" (Hudson, 2004) Again, "global production networks" are not really different from "global value chains" or "world commodity chains," and the debates on these issues (and the analysts guiding them forward) are out of the scope of our report. We will refer to "Global Production Networks" and "Global Value Chains" interchangeably.

2. The Benefits of Creating Agriculture Value Chains

The approach to value chains is to take into account the role of the participants in the chains, the parallel actors and the influence of the political environment on the course of the common and connecting the processes. This allows the current challenges in a value chain to be addressed, as well as opportunities to improve the effectiveness of the value chain and benefits for all involved. From a farmer's point of view, a positive effect can bring a part of a well-functioning value chain of higher incomes.

The value chain analysis has the task of identifying their challenges, weaknesses and strengths, and at the same time can help identify new revenue generating opportunities.

Occasionally, participation in a well-functioning value chain leads to higher growth incomes or prices, but also to a more stable and predictable return on an expected future period.

The inclusion in global value creation chains can also have its social cost. Well-functioning markets and value chains can attract young people to farming or persuade them not to leave rural areas by offering a better standard of living. Engaging in value chains can help farmers acquire new skills and improve on practices that have been widely known so far. Instead of collecting vegetables in boxes and transporting them to traders or a market, farmers can achieve greater efficiency by doing their own farm work on their own. Even cleaning and product classification can be considered finishing. Washing and packing vegetables and delivering them to a local grocery store or supermarket can form a higher price. Cleaning and cutting can be an effective way of getting into the growing market for ready-to-eat food products near urban areas and sales of larger batches.

3. The Benefits from Value Chains

Everyone involved in the value chain adds value when the product moves from the beginning of the chain to the end user. In return for adding this value, all participants receive an economic rent or income. This is the main benefit or incentive to participate in a value creation chain.

Participants who are most likely to benefit from value chains are entrepreneurs, are willing to communicate with people in different parts of the value chain, and have a production and financial resource farm and knowledge of the development of new markets or for more effective participation in current markets.

For farmers with small or medium-sized farms which are farther away from markets with fewer assets or with a linguistic barrier that do not water the land they own and which do not participate in efficient farmers' organizations, it can find it difficult to take advantage of the value chain.

4. The Importance of Grouping in the Farm Business

Farmers must be well-organized to compete for the increasingly demanding global markets. Becoming agricultural crop specialists, joining farmers' organizations is a necessary step towards lowering prices for farmers who want to increase their income and gain more value in the value chain.

Unlike individual farmers, farmers' organizations have resources to attract and build a system of relationships with different links in the value chain, both locally and at a distance.

Farmers help individual farmers by combining the harvest of a number of producers, buying raw materials at lower prices on behalf of farmers and providing them with farm support services and access. With its huge size, cooperatives have sufficient market power to raise prices, which farmers' associations can ensure that farmers receive a greater and more secure income. Many groups of farmers also include savings schemes such as crowd funding and lending to their members. These schemes help farmers to manage cash-flow, keep accountability and learn the financial skills that are essential to improving their business.

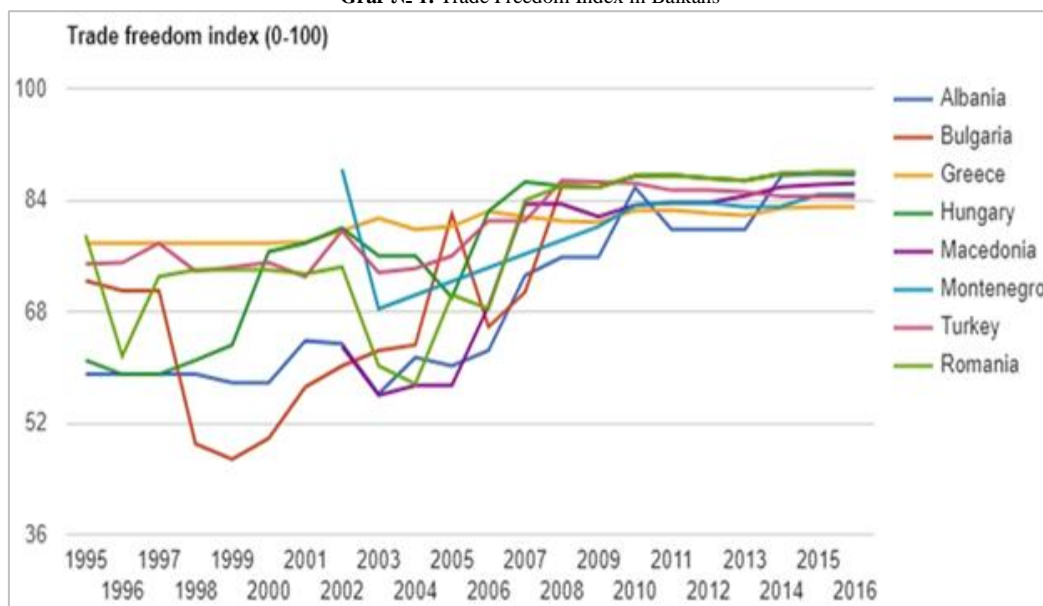
Concerning some current developments in the agribusiness sector in the Balkan region as a condition for inclusion in value chains.

Inclusion in the process of internationalization and globalization of production is a process that is irreversible over time. This condition is a prerequisite for the inclusion of any national business in global value creation chains. The access of domestic goods to foreign markets and vice versa of imported goods on national markets is fundamental for activating the cohesion process and increasing the competitiveness of national production.

If we consider that countries of the former Soviet bloc are included in the group of analyzed countries, where the market was not a leading organizational structure of society, the lessons of the free trade index also show tangible fluctuations in the analyzed period. Graph 1 shows that some of these countries - Bulgaria, Romania, Albania at the beginning of the survey period have relatively lower values of the index, i.e. the economy continues to operate state intervention, protectionist regimes, centrally defined, state-regulated prices, which violates the general principles of market behavior of economic agents.

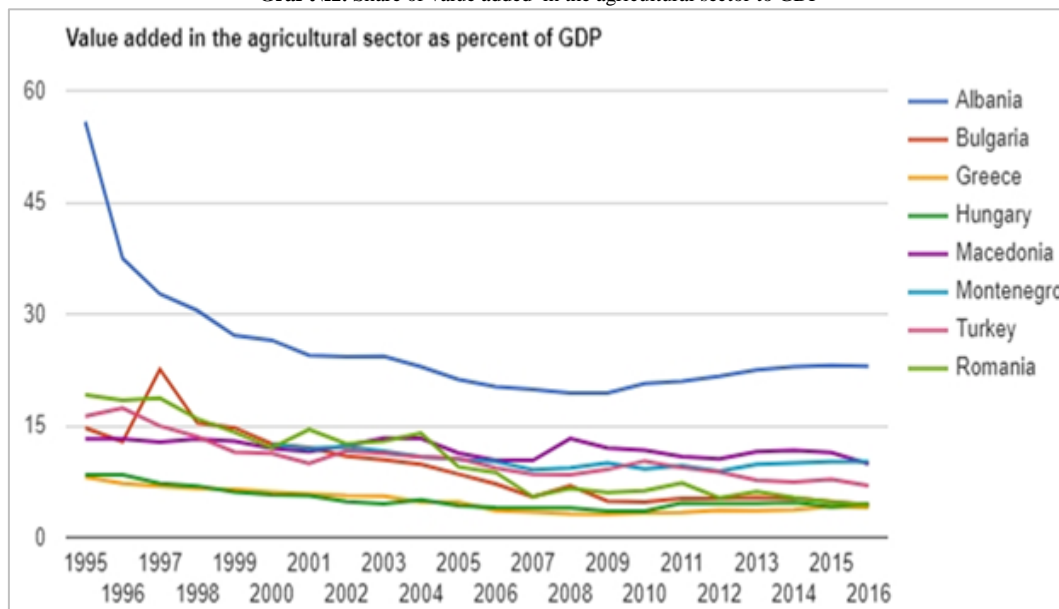
Only at the end of the surveyed period - 2105 - the countries have relatively synchronized indexes of trading freedom in the region, which means that it has become a region with synchronized regulatory and restrictive regimes in terms of admission of goods to the markets.

Graf-№ 1. Trade Freedom Index in Balkans



Source: The global economy.com.world bank

Graf-№2. Share of value added in the agricultural sector to GDP



Source: the global economy.com. world bank

The relationship between the development of the economic system and growth is not new. The main channel through which trade affects income growth is by stimulating labor productivity. There are many ways in which trade can stimulate productivity that has been discussed in many editions. Trading can lead to productivity gains as it stimulates investments that lead to technical improvements and investment stimulation. The trade stimulates productivity gains through exports (eg export incentives) as well as through imports such as import competition, which brings less productive companies / activities out of the market. It is good to understand that trade policies are important, although their effect on growth is difficult to identify in macro data after other policies and characteristics of countries are controlled.

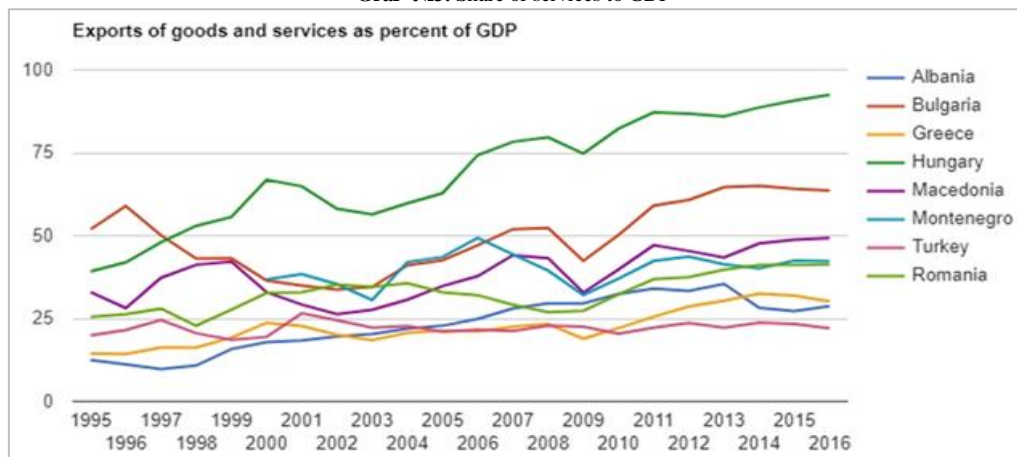
The data shows that higher value exports, part of which is a result of participation in global cost-creation chains, are associated with higher growth rates. In particular, the staff examines the relationship between output growth and value added (exports and imports) and value added (compared to GDP) and compares it with the trade data ratio.^{13, 14} The analysis based on of the WIOD data (covering 40 countries) shows that the growth of a country's output (the part that is not explained by country specificities and events specific to the specific period) is linked to the growth of gross imports. This result can be interpreted as the increase in the cf. It is leading to output growth probably largely to increased productivity generated by competition for imports. The data also show that growth (the part that is not explained by country-specific characteristics and time-specific events) has no bearing on the level of gross exports to GDP. However, the growth of a country is more strongly associated with exports and greater added value. Whilst endogenous problems may still exist, this evidence is consistent with the idea that trade is contributing to growth, possibly by increasing productivity both from export and import competition. In addition, faster growth is associated with higher levels of value added compared to GDP, which increases as the gross value added increases (ie as a country moves along the value chain).

The share of agricultural production in the total mass of produced gross domestic product as a trend is decreasing. (Chart 2) The largest share is the largest decrease for Albania (from 55% to 20%), while the other countries have a relatively synchronous development, namely from around 20 to 16-18%.

As a prerequisite for this development, we can define the limited area of agricultural production as a characteristic feature of the geographical situation and the development of agricultural sectors which are not yet of industrial importance due to the limited investment.

If we analyze the impact of these key factors on agricultural production in the countries of the Balkan region, we can establish the global process of "conditioning" the economy, the growing share of services in the total gross domestic product output of the countries in the region. This is clear from Chart 3, where the best performers are the countries of Hungary, Bulgaria, Macdonald and Montenegro. Greece finds one of the lowest positions in this title as a representative ratio.

Graf. №3. Share of services to GDP



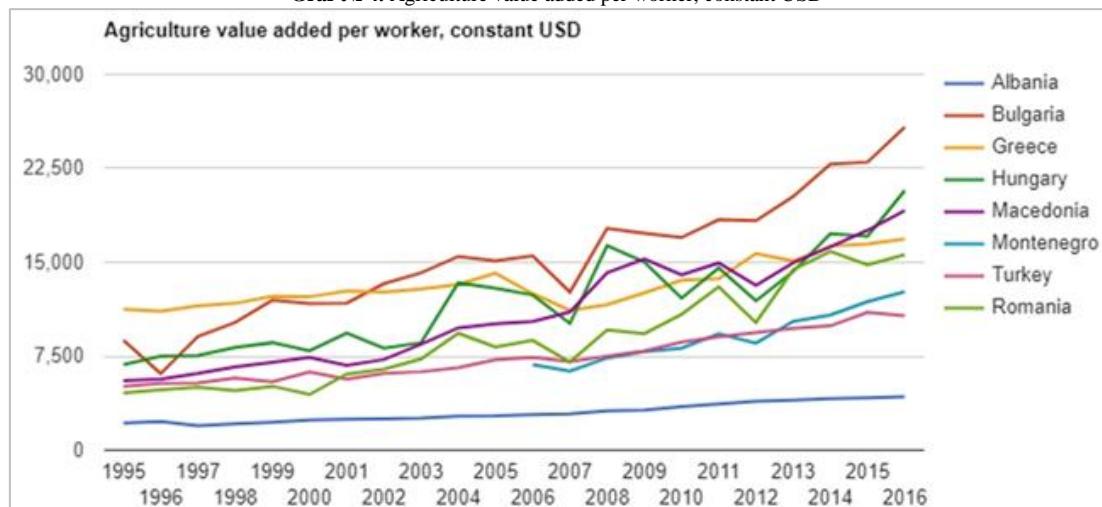
Source: the global economy.com. world bank

Global value chains influence the employment parameters by redistributing productions between countries. This impact on employment is the result of a complex set of channels (Görg, 2011). Firstly - because the increased exchange of stimulus trade, this leads to an increase in the productivity of the agricultural company. Participation in cross-border production channels leads to increased sales, which in turn stimulates an increase in the number of employees. Then, as a result of international commodity transfers, companies can market intermediate and end products at lower prices. This means that employment can grow by expanding the business of other businesses that can acquire cheaper raw materials or by increasing the demand for end-users who see their real income. However, while contributing to higher productivity and employment in the aggregate and in the long run, the emergence of global value chains has contributed to the global redeployment of jobs. Workplaces, especially in East Asia (World Bank, 2012), have moved away from developed economies in developing countries with lower labor costs. In addition, global value creation chains redefine the comparative advantages of countries, encompassing tasks rather than industries, leading to redistribution of jobs in different countries (Grossman and Esteban, 2008).

The European Union has concentrated a significant market of agricultural production consumers, which also forms a market with a good capacity to absorb the production of all consumer groups. The number of people employed in this sector has also been affected. The number of participants in the value added chains in agriculture varies considerably for each country. In the EU, about 11 million farms produce agricultural products for processing from around 300,000 enterprises in the food industry. Food processors sell their products through 2.8 million businesses in the food distribution and food service sector, supplying food to 500 million EU consumers.

On Graf.№ 4 the change, the increase of the added agricultural value of one person in the Balkan region can be established. The conclusions that we can make are that this value has increased several times over the period 1995-2016, with Bulgaria, Greece and Hungary registering the highest growth, and the smallest - Albania, Turkey and Macedonia. The main reason for this may be the financing under various European Union programs for the development of agriculture in the region, as the countries with the least progress in this area also have the lowest growth.

Graf.№ 4. Agriculture value added per worker, constant USD



Source: the global economy.com. world bank

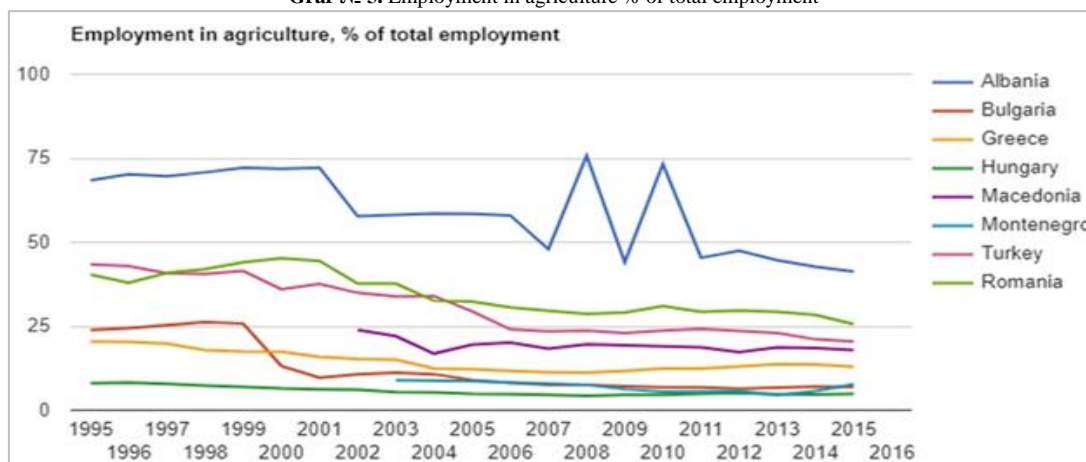
The agriculture has some special features that make it more difficult, compared to other sectors, to identify the exact number of people employed. First of all, in most Balkan countries, agriculture is still represented by a family business where all members contribute at different times of the year. Secondly, given the seasonal character of

agricultural activities, many farmers and farm workers work part time during the year and have other, additional sources of income. Third, the seasonal character of agricultural activities also determines seasonal labor peaks where a large number of workers can be hired for relatively short periods. All these factors also determine the difficult reflection of the real status of the workforce in this important sector.

With the increase in per capita income, the relative share of agricultural employees is also expected to decrease. These changes are in line with already established global models of civilization change in the structure of the social distribution of labor. This decrease is also in line with the higher value added in the industry as a share of GDP. The same effect is realized by the higher direct foreign investments in agriculture. They stimulate technological transfers from developed economies in Europe, which in the long run encourage the development of sectors with larger capital.

If we track the dynamics of employees in the Balkan region in agricultural holdings, we can see the global downward trend, in some countries - more markedly, such as Albania and Turkey, for example, and less significant in Hungary and Romania. Again, countries in the region that are outside the common European market show greater volatility than those who benefit from European funding funds and have secured the conditions of a common and regulated market for the Union.

Graf.№ 5. Employment in agriculture % of total employment

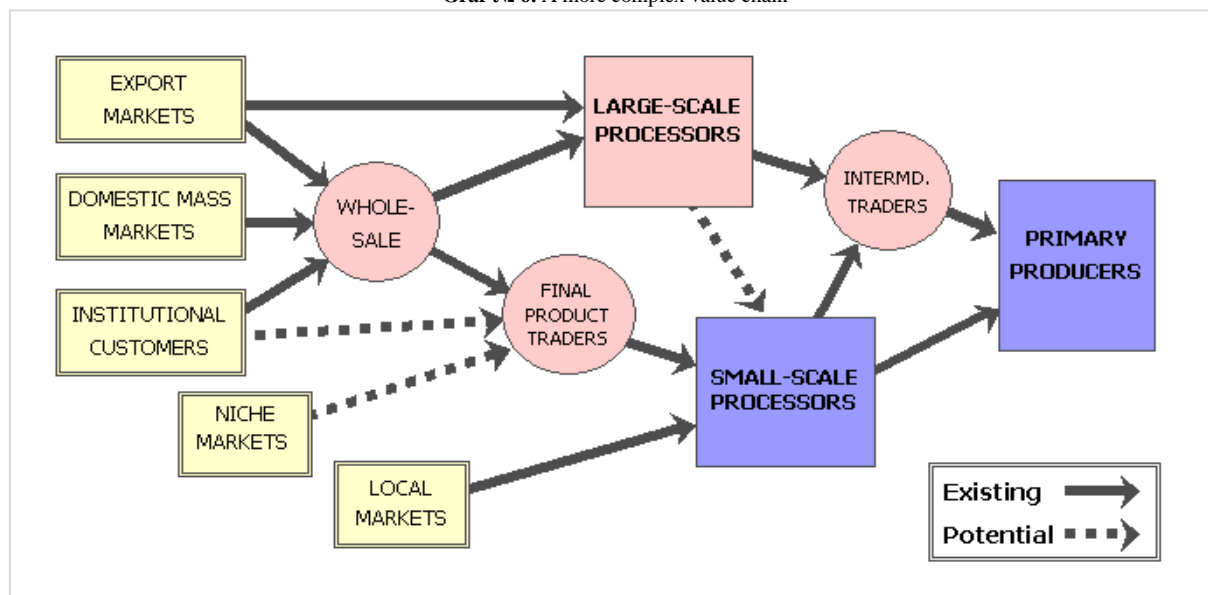


Source: the global economy.com. world bank

5. Conclusion

The growing importance of global value creation chains over the past two decades has significantly changed the structure of the global economy. This implies that they will continue to generate a significant impact on the state of national economies. However, the magnitude and direction of this impact has not yet been fully established, as empirical data on global value chains are insufficient, and yet their impact on national economies cannot be conclusively and sufficiently established. In recent years, we have witnessed an increasing number of cases of global integrated product value chain research, but of course, these analyzes only describe the situation for a particular product (OECD, 2012).

Graf.№ 6. A more complex value chain



Source: Jon Hellin and Madelon Meijer (2006), Guidelines for value chain analysis

For the full audit of value chains in agriculture, extensive OECD and World Trade Organization studies have been developed that have launched an ambitious project to measure the effects of value added trade. The internal input and output tables and the full matrix of bilateral trade flows are used to determine the value-added data trade. Because these data capture the internal value that countries add to goods and services, the results will give a better idea of the integration and position of countries in global value creation chains.

To explore the position of countries within international production networks, policy makers are looking for more and better political evidence. These documents develop a number of indicators that help policymakers appreciate the role of their country in each of these global value creation chains.

A more well-grounded analysis of the role of each economy in global value creation chains is needed for several policy areas:

5.1. Trade Policy

Farm farms dynamically reorganize their production and redirect activities from one country to another; the main challenge is to ensure that trade policy reflects rapid changes in the global trading environment. Given the growing importance of commodity flows within global value chains, the cost of crossing national borders has increased significantly.

Trade policy instruments such as import duties, rules on proof of origin, anti-dumping can directly affect the competitiveness of national industries and, instead of intensive trade, strengthen the protectionist policy. Adequate modeling of value chains enables us to identify where the country is and how to determine the actual costs of implementing specific trade policies, as well as assessing the sensitivity of national economies to protectionist measures.

5.2. Trade and Employment

Understanding global value added networks and countries unique within global value chains highlight how farming in agriculture is linked to international trade and vertical specialization. Although sometimes concerns arise that imports threaten created jobs, the reality shows that employment created by export industries often exists due to the input of resources from outside. In the world characterized by global value chains, imports do not only reflect foreign competition, but also how employment in the national economy is embedded in the global economy.

5.3. National Competitiveness and Growth

Due to the growing interdependence within global value chains in agriculture, participants in international exchanges no longer meet their needs exclusively at the expense of own resources for the production of goods and services. National competitiveness not only reflects the level of technological armaments but also the state's contribution to the production and transfer of intermediate goods. The effects of including the national economy when countries are specialized, for example, in the production of components and raw materials differ from countries that are relatively more specialized in downstream activities where final assembly operations are carried out. Empirical evidence of participation and positioning allows identifying sources of national competitiveness but also the challenges of developing new competitive areas (in terms of industries, products and activities).

5.4. Global Value Chains in Agriculture Are Also Contributing To Growth in Innovation

It is believed that the position of countries in these chains has an impact on the added value with which they are able to get involved in the chains.

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