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Recent Trends in Slovene-Croatian exchange of Agricultural and Food Products

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Abstract

The characteristics of exchange of agricultural and food products between Slovenia and Croatia in period 2002-2007 are presented in the paper. Although traditionally Slovenia performed with positive agro-food trade balance vis-à-vis Croatia, in years after preferential trade regimes’ abolishment, this surplus is substantially decreasing (and reaches only 2 mio € in 2007). More than half of exchanged agri-food products (in terms of value) can be characterized as two-way trade, within which the commerce with products, competitive in price, prevails. In terms of quality, Slovenia lacks of products, competitive in this segment, the structural problems’ area (unsuccessful quality competitiveness) is stabile after 2004 with the share around 10%, indicating that the attention is needed in problematic sectors (e.g. vegetables) for Slovene agro-food traders on Croatian market.

Key words: Slovenia, Croatia, exchange of agricultural and food products, price and quality competitiveness, IIT

Introduction

Croatian international agro-food trade was studied recently by Buturac and Rajh (2006) who show that the high quality exports are experienced for tobacco and fish products, while the majority of agro-food products (edible products and preparations, cereal, flour or starch preparations of fruits or vegetables) are characterized by low export quality. The loss of comparative advantages for the Croatian food industry in the last few years is due to the higher level of liberalization in domestic markets and significant growth of imports of food products, while the exports are stagnating. Škufljić (2005) in the overall trade analysis argues that in case of Croatia the integration process negatively influences on the level of intra-industry trade (IIT) due to the low competitiveness and associated high adjustment costs. Among trading partners with high level of intra-industry trade Poland and Slovenia are emphasized. Trade with agricultural and food products between neighbouring Slovenia and Croatia was recently analysed by Majković and Turk (2007). Their focus is mainly on the period immediately before and after the EU enlargement and thus captures so far existing effect of changing trading regime. The decline in price and quality competitiveness of Slovene agri-food products in Croatian market is observed, which is reflected also in the worsening of trade balance in year 2005 compared to 2003. As for the prevailing trade types, for Croatia the prevalence of intra-industry trade is observed, while the trade with European trading partners is determined by inter-industry trade.
Data and methodological background

As the main data source for the empirical analysis of agri-food trade, the data on exports and imports of Slovenia to Croatia was gathered from Slovene statistical office. The dataset comprises 2513 observations over the period from 2002-2007. Main trade indices for agro-food products have been calculated at the 6-digit of Combined Nomenclature (CN) level, covering Chapters from 1 to 24. In the analysed period, the important factors influenced the trade performance between the two countries, namely the most important stone mile represents the abolishment of preferential trade agreement between Slovenia and Croatia due to the Slovenian adoption of acquis communautaire (for the assessment of latter changes, present in pre-accession period and how they have influenced trade of new member agri-food trade with EU, see Chevassus-Lozza et al., 2008).

When performing in-depth trade analysis, common question is whether exchange can be characterised as inter-industry trade (trade between the industry groups) or whether we are dealing with intra-industry trade (IIT) with simultaneous exports (X) and imports (M) within the same industry group. Moreover, the research question is also what kind of IIT we are dealing with. An approach, used by Fontagné et al. (1997), disentangles trade into one-way (inter-industry) and two-way (intra-industry) trade type, with the latter further disaggregated into different types of IIT (for latter dissagregation see Majkovič et al., 2007). When the minority flow represents at least 10 per cent of majority flow, that overlap is considered as IIT (two-way trade). Below that threshold, the trade overlap is not significant and is defined as inter-industry type (one-way trade). Two way trade analysis is then subjected to the methodology by Aiginger (1997), who further proposes differentiation of trade flows by the use of unit value indicator (UV) according to whether it is accompanied by trade surplus or deficit. This approach enables distinction between the markets where the quantity traded is determined more with price competition and those with non-price (quality) competitiveness. The results are presented in a four-quadrant scheme when:

- The home country has a high unit value (UV_X>UV_M) and trade deficit indicating unsuccessful price competition. Industries in such sector have lost price competitiveness in a market in which prices are important, with the trade deficit caused by high production costs and thus lack in price competitiveness (in results, Figure 2 denoted as C-).

- The home country has a low unit value (UV_X<UV_M) and trade surplus indicating successful price competition (in results, Figure 2, denoted as C+).

- The high unit value (UV_X>UV_M) and the exported quantity exceed imported quantity indicating successful quality competition. This consequence is attributed to the quality lead, reflected by demand or it is a sign of successful specialization in respective market segment. Such trade performance is aimed by advanced countries reflecting successful quality competition and sector’s excellence (in results, Figure 2, denoted as K+).

- The low unit value (UV_X<UV_M) and trade deficit despite low export prices. This points out an unattractive sector due to structural problems (in results, Figure 2, denoted as K-).

Results and discussion

Slovenia’s international trade in agro-food products totaled 2,105 mio Eur in 2007, 78.9% more than in 2003. The growth of trade was underpinned by higher values for both imports and exports, but imports rose more (by 89.0%) than exports (by 59.6%). The coverage of imports by exports in these goods deteriorated from 52% to 44% and traditional negative international trade balance from 370 mio Eur to 817 mio Eur.
The trade in agro-food products between Slovenia and Croatia totaled 11.8 mio Eur in 2007, 12.1% more than in 2003. This meant 7.4% of total Slovenian agro-food products trade (in 2003 11.8%). While imports from Croatia to Slovenia in this period increased by 29.3%, exports from Slovenia to Croatia reduced by 0.7%. Slovenian traditional positive international trade balance in these goods deteriorated from 20 mio Eur in 2003 to only 2 mio Eur in 2007 (see Table 1).

Table 1: Trade in agro-food products, Slovenia total and Slovenia - Croatia

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>07/05</th>
<th>07/03</th>
</tr>
</thead>
<tbody>
<tr>
<td>SLOVENIA - WORLD, in mio Eur</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Imports</td>
<td>773</td>
<td>1,023</td>
<td>1,461</td>
<td>42.8</td>
<td>89.0</td>
<td>54.7</td>
<td>59.6</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>403</td>
<td>416</td>
<td>644</td>
<td>54.7</td>
<td>59.6</td>
<td>54.7</td>
<td>59.6</td>
<td></td>
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<tr>
<td>Trade (imports + exports)</td>
<td>1,176</td>
<td>1,439</td>
<td>2,105</td>
<td>46.3</td>
<td>78.9</td>
<td></td>
<td></td>
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<tr>
<td>Balance (exports - imports)</td>
<td>-370</td>
<td>-607</td>
<td>-817</td>
<td>34.7</td>
<td>121.1</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Coverage, exports / imports, in %</td>
<td>52</td>
<td>41</td>
<td>44</td>
<td></td>
<td></td>
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</table>

SLOVENIA - CROATIA, in mio Eur

|                          |       |       |       |       |       |       |       |       |
| Imports from Croatia to Slovenia | 60    | 55    | 77    | 7.7   | 5.4   | 5.3   | 39.6  | 29.3  |
| Exports from Slovenia to Croatia | 80    | 73    | 79    | 19.7  | 17.6  | 12.3  | 8.1   | -0.7  |
| Trade (imports + exports) | 139   | 128   | 156   | 11.8  | 8.9   | 7.4   | 21.7  | 12.1  |
| Balance (exports - imports) | 20    | 18    | 2     | -5.4  | -2.9  | -0.2  | -89.8 | -90.8 |
| Coverage, exports / imports, in % | 133   | 132   | 102   |       |       |       |       |       |

Source: SORS, own calculations

A closer inspection of the structure of trade shows that the most important groups in exports from Slovenia to Croatia are beverages (22% of total agro-food products in 2007), cereal and flour products (12%), meat products (11%) dairy products (8%) and vegetable and fruit products (7%). The most important groups in imports from Croatia to Slovenia are sugar and products (16% of total agro-food products in 2007), cereal and flour products (14%), fats and oils (7%), beverages (6%), meat products (6%) and cocoa and cocoa products (6%). In this trade Slovenia has the most positive balance in beverages (11.2 mio Eur in 2007), meat products (3.6 mio Eur) and dairy products and eggs 3.5 mio Eur); the most negative balance has in sugar and sugar products (10.5 mio Eur) and cocoa and cocoa products (3.6 mio Eur; see Figure 1).

Figure 1: Trade balance in main agricultural and food products between Slovenia and Croatia
Before the Slovenian membership in the EU, when Slovenia enjoyed preferences from the free trade agreements in the ex-Yugoslav (including the Croatian) markets, Slovenia experienced a trade surplus on these markets mainly due to the successful quality performance and to a smaller extent because of the successful price competition. In the year 2005, after Slovenia joined the EU, whereas the former Yugoslav republics for Slovenia became the third countries in trade regimes, the situation started to change (Majkovič et al., 2007). The division of trade on the Croatian market according to price competition and quality dominance development patterns (within two-way trade) and share of one-way trade of Slovenia vis-à-vis Croatia is presented in period 2002-2007 in Figure 2. As the meaning of one-way trade increased in 2007, the prevailing importance of segment of products, competitive in price, is visible, whereas the segment of successful quality competition is deteriorating immediately after the abolishment of preferential trade agreements in 2004. At the same time, the structural problems’ area (unsuccessful quality competitiveness) is stable after 2004 with the share around 10%, indicating that the attention is needed in problematic sectors (e.g. vegetables) for Slovene agro-food traders on Croatian market.

Conclusions

The balance of international trade in agri-food products between Slovenia and Croatia is positive for Slovenia. Nevertheless, the level of international trade has decreased from 20 mio Eur to only 2 mio Eur in the last five years. From the Slovenian perspective, the abolishment of preferential trade agreements between Slovenia and Croatia clearly has a negative impact on agri-food trade performance between the two countries. Before Slovenia joined the EU, its surplus was mainly due to successful quality performance and price competitiveness. After accession, the trade surplus has decreased due to the changing nature of trade in terms of shares of one- and two-way trade as well as quality and price competitiveness. Competitiveness in terms of prices is becoming more important than competitiveness in terms of quality.
It can be thus concluded that Slovenian exporters to Croatia face a major challenge of gaining and maintaining the competitive edge or they will be able neither to increase nor retain agri-food product sale on the increasingly demanding Croatian market.

**Literature**


