

SPECIALIZED MARKET INSTITUTIONS IN THE FUNCTION OF AGRICULTURE DEVELOPMENT¹

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Abstract

Specialised market institutions in historical and modern context represent basic driving force of agriculture development. In ancient times, when markets first emerged, fairs and bazaars were basic trade mechanisms of that era. Development of production forces, traffic and social relations, especially after industrial revolution, the trade on auctions and stock markets makes significant growth. At the end of 21th and in this century, wholesale markets are dominant form of market organisation and wholesale of agriculture products. The aim of this paper is to demonstrate the importance of these market institutions in word's trade and based on that it is Agriculture complex has substantial share in trade and exchange in Serbian economy, so we wish to point out the basic principles of development through specialised market institutions. The main objective of this paper is based on analysis of historical and modern significance of specialised market institutions, which development will lead to trade increase in agriculture. Conclusion is that optimal combination of trade by these institutions within the planned strategy of agriculture development in Serbia, using innovations in agriculture may achieve competitive advantage and profit increase on regional and world markets.

Key words: specialized market institutions, trade, agriculture.

Introduction

Specialised market institutions in agriculture area represent the bases of beginning of the trade, depending on given historical circumstances and production forces and social relations development. Work paper is analysing roles, significance and

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advantages of trades on the fairs, bazaars (wholesale markets), auctions and stock-markets. The objective of this paper is analysis of trade of agriculture products through historical and modern dimensions, and also analysis of competitive advantages that may increase product trader's income in given trade moment.

The subject of analysis implies also particular significance of fairs, wholesale markets, stock markets and auctions in agriculture products trade in agriculture complex. Having in mind the significance of these institutions on agriculture products trade development in developed countries, the wish is to point out that these examples may contribute to the development of these institutions in Serbia, due to agriculture complex development. Adoption of certain laws and development strategies would create necessary assumptions for development of these institutions and increase the production of domestic products.

Having in mind current condition and perspectives of agriculture products selling on regional and world markets it is necessary for Serbia to make needed steps for agriculture product trade development through development of specialised market institution in agriculture complex, as soon as possible.

The basic aim of this work paper is to build such trade conditions that would enable efficiency of agriculture complex trade through specialized market institutions. Model that implies stressing the significance of agriculture products trade, having in mind significant extent of rural areas and their contribution to these areas development, and efficient trade system through specialised market institution should enable development of agriculture on the other side.

Methodology

Methods used in this paper are basically inductive and deductive methods, generalisation and specialisation, as well as desktop research.

Historical aspect of specialised market institutions development

Observing historical aspect of trade, we may say that fairs occurred in middle age, when trade coincided with church ceremonies where a lot of people used to gather, and that enabled trade itself. The most significant middle age fairs during 12th and 13th centuries were in Champagne in France, and later in Antwerp, Bruges, Lyon, Paris and (Veliky) Novgorod. The importance of these fairs has historical trade context that essentially represents the beginning of international trade. Church authorities provided security of trade and transport of merchandise. Fairs were held beside churches and crossroads of main roads. On important

international roads and markets, there were annual fairs independently of the church and church ceremonies. With development of trade, role of fairs also changes and they have different significance in trade of 18th and 19th centuries. A new role in fairs development in capitalist economy created so-called “sample fairs” which enabled trade without presence of goods. The first „fair of samples“ was organised in Leipzig at the end of the 19th century. Traditionally speaking, “wholesalers were closer to the markets they supplied than the source from which they got the products” (Chandler, 1994).

Over the 1,500 years fairs were the primary mechanism of transferring trade goods in money and vice versa. They represent world’s banking system (Chapman, 1995).

During trade and production forces development, especially after The Industrial revolution, fairs are overpowered by auctions and stock markets. This exchange manner was more efficient in given circumstances since it represented permanent market organised as needed. New conditions enabled massive production of different assortments of products, and international trade is performed more safely better conditions of payment. The development of international trade in 16th and 17th centuries, new geographic areas, improvements in credit systems and banking, have contributed to development of auction trade of agriculture products in worlds proportions.

Stock markets in trade are institutions of trade as product markets where represent trade institutions as production markets where agriculture products and industrial merchandise are sold. The most important role of stock markets in trade is achievement of trade effects in certain market moment. This trade effect is an investment that may generate profit in given market conditions. Stock markets trade may be organised as auction type or continual type. Auction trade is actually a stock market that enables the achievement of certain price. Stock market trade is mainly controlled by state laws and special commissions. Regulation by law of trade organising mostly precisely defined trade conditions in agriculture complex.

There are some other specificity of the wholesale markets and specialised market institutions. For instance, wholesalers who trade for cash and without delivery - wholesalers who have a limited range of running goods, such as groceries, toys, home care products, clothing, electrical appliances, office equipment and building materials. They sell the product to retailers and retailers with immediate payment and usually do not deliver.

The significance of specialised market institutions on development of trade and agriculture

Fairs

A fair in modern conditions, based on theoretical and practical knowledge, represents an instrument of marketing communication that meets buyers and it is based on several key elements:

1. Gross market is replaced by direct communication with known and potential buyers on the fair.
2. Buyers do not accept passive role. They want to be active participants of selling process and to participate in product design as well.
3. „A new buyer“ demands to be involved in the process for the whole time, his attitude to be taken seriously and also wants sense of belonging to the enterprise from which he or she buys products.
4. Buyer's satisfaction is not enough. Enterprise has to delight its buyer, and to do that over and over again.
5. Assets invested in fair are dedicated to specific and particular buyers.
6. Process of selling has new dimension, that consists from activities and care for buyer after selling (Prdić, 2018).

Agriculture fairs development contributes to the development of local communities, towns, areas and country. A great benefit from fairs is international character of exhibitors and visitors that contributes to agricultural development and inclusion of domestic fairs and enterprises in international trade and financial flows. Fairs contribute to employment increase among agriculture population and development of rural areas. Effects of development of fair industry contribute to the development of regional infrastructure and full-fill the effects of total product transport. Countries with underlined agriculture politics by trade development using fairs increase macroeconomic indicators as GNP of agriculture population and strengthen economic position of country as international factor in agriculture trade. Novi Sad Fair as institution that organises International Agriculture Fair is geographic, market and institutional place for achievement of goals of fairs, enterprises and visitors. Agriculture fair is a sort of brand that enables the trade and concentration of great market in agriculture. Efficient fair management will enable development of fairs in disputable trade place in agriculture, selling the newest and healthy products. Development of congress activities will enable inclusion of fairs in all global researching institutions and institutions that follow encourage and enable agriculture production and innovations.

Wholesale markets

The wholesale markets in Russian Federation are defined this way: The Russia wholesale markets union (RWFU) is in control of sales and distribution of goods inside Russia as well as the exported goods towards their final destination, including safety control and quality control of goods arriving in main distributive centres (wholesale markets), ports, and other trade centres (www.export.gov, 2017).

The “total market volume is 26 million t/year, and it is approximately 40% of fruit and vegetable supply in Europe (24 million t/year), 10% of fish and fish products supply in Europe (1 million t/year), and 2% of meat and meat products supply in Europe (1 million t/year)”, (WUWM, 2016).

In observation of total product trade on EU market, the conclusion is that wholesale markets in modern business conditions of big cities are irreplaceable. Their basic role of providing is achieved by good supply, great demand and healthy food. Control system of products in Russia is practically complete evidence of products distribution.

Kuzman et al. (2018) noticed that the wholesale markets as specialized market institutions in trade are most efficient place for agriculture products trade, mostly fruit and vegetable but also the other products, depending on place and role of wholesale market on the market.

Investments in wholesale markets represent a good project in modern condition of providing bazaars, discount centres, supermarkets and institutional consumers. They are development incentive of food production, infrastructure and agriculture. If we imply food and efficient management based on knowledge and innovative technologies, the path to consumer is safe, food is secure and profit is expected.

Wholesalers who trade for cash and without delivery are wholesalers who have a limited range of running goods, such as groceries, toys, home care products, clothing, electrical appliances, office equipment, and construction supplies. They sell the product to retailers and retailers with immediate payment and usually do not deliver (Kutsik et al., 2015).

Bazaars

According to data of Serbian Bazaar Association about 410 bazaars in Serbia are traditional, easily reachable and cheap distribution channel for agriculture producers. On approximately 70 thousands selling places on bazaars in Serbia, each day people is offered with fresh vegetables, milk and dairy products, meat and meat products, craftwork products and commodities. In total trade and

purchase of agriculture products on the territory of Serbia, bazaars contributed with 19.5% in the 2012. During the 2012 product trade on bazaars in Serbia was 28 billion RSD, and it is 9.5% higher from previous year result. Each day on bazaars in Serbia work about 80,000 people. Only as additional tax value, bazaar management pays in the Budget of Republic of Serbia about 600 million RSD or nearly 5.5 million EUR.

Stock markets

Stock markets are specialized market institutions of meeting supply and demand, with precisely defined attributes of products that have to fulfil certain quality standards. Quality standards of products mean the same characteristics for small and great amounts of products. Standardization is simpler for raw products and for final products it is necessary make special checks. Product type and standard are basic trade elements since on the stock market the word or trust is base for trading. In trade in modern conditions, trust is objectivized through trade institutions and performed by rules of trade network. The importance of stock markets in global trade is huge, since trade goes on for 24 hours. Agriculture stock markets enable continuous trading through planning approach to market, by investing of assets in certain moment that enables a good investment on acceptable price.

Product stock markets – represent organised markets where standardized i.e. fungible products are sold. Its functioning is based on defined standards related to product characteristics. Fungibility enables trade with products based on signs and there is no need to see merchandise that is object of purchase. Such business manners enable the trade of great quantities of goods without quality control costs (Vlahović, 2013).

Supply and development based on foreseen standards depend on many factors that are present on free market and may influence on the price. The trade of merchandise and portfolios on the market is part of global world's trade. Trading enterprises using stock markets may achieve increased capital value as mean for investment in trade increase. Famous enterprises on stock market have practical experiences and based on that they generate sale or purchase, in order to make profit and preserve their credibility.

There are following methods of stock market trading:

1. Prevailing price method: Delivering and accepting of trading warrant; Auction (determination of prevailing price); Auctions for price determination on Belgrade stock market is made in defined time period (twice a month) based on previously determined calendar of auctions, and then the price is

determined and then announce in public); Trading (conclusion of transaction on prevailing price) and (or); Trading on closing (receiving of warrants and conclusion of transaction by prevailing price).

2. Method of continuous trading (issuing warrants, determination of opening price, continuous trading - matching warrants, determining closing price and trade on closing - conclusion of transaction by closing price).
3. Method of minimum price.
4. The book of supply and demand (Božić, Todorović, 2009).

Achievement of maximum price in stock market trade mostly depends on supply and demand and other economic factors. Achievement of good prices on stock market mainly depends on stability factors on domestic, regional and world's market. Trade methods on stock market based on prevailing price, continuous trading, minimum price, supply and demand on following index prices and basic stock market indexes may be an important indicator of certain economy trends.

Auctions

A theory of auctions implies the ability of a merchant or broker to, in one certain moment of call for bids, according to the communication information they possess, make a right decision on buying merchandise and make a good market position for their company. Auctions are such specialized market institutions whose characteristics are high concentration level of supply and demand of manufactured products, so they represent a realistic third indicator. The investment of paying the maximum price by the buyer entails a satisfied seller for the goods that can bring success to everyone.

The optimum conditions of auctioning imply the minimum price for which the seller is willing to sell their goods. Therefore, the seller must calculate the optimal minimum price for which they are prepared to sell their goods. How much a buyer is willing to pay depends on the competition itself, its market valuations and the sudden moves of competitors. In any case, the importance of a well-organized and standards-based auction gives importance to the sale and purchase price. Depending on the types of auction trading and other market information, buyers plan a trading strategy. Based on the above, we can conclude that auctions that are well organized are efficient markets.

Research results

Agrarian development involves comprehensive measures and activities undertaken by a country in the context of agricultural production and economic development. Countries with a huge amount of rural population, which according to the Market Association of Serbia are over 80%, in Serbia, must align their economic policies in agriculture with the development strategies of the country as a whole. The agricultural complex is characterized by the existence of large enterprises and small family farms. The basic goals of agrarian and rural development must be adapted to the needs of the large European market, the Russian market as well as to enhance the agricultural production competitiveness in the regional market. Investments are a big problem for large companies and small farms without which there is no sale to foreign markets. Knowledge is a major competitive advantage for SMEs to operate in rural and agricultural environments. The distribution of agricultural products must be a fundamental strategic priority of the state, which through trade fairs and stock exchanges should promote trade and through the wholesale markets and marketplaces to realize concrete economic effects of enterprises and agricultural producers.

According to the opinion of 500 companies, almost half, 47% want to participate in one or two fairs in Germany in 2019/2020, 21% in three to four fairs, 19% in five to ten fairs and 9% in eleven or more fairs. 5% could not provide accurate information⁴.

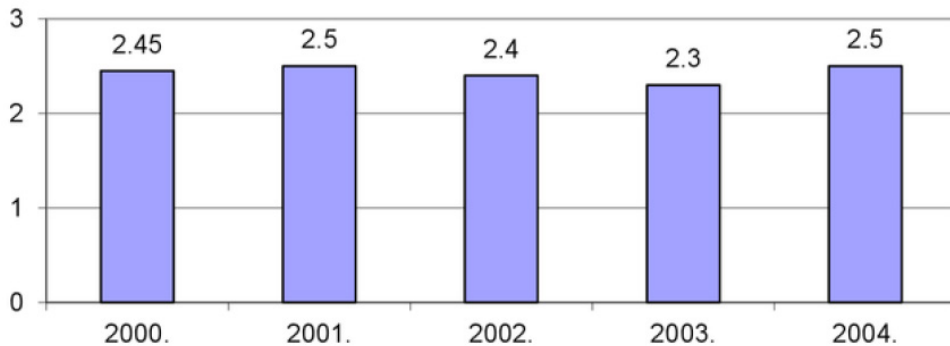
From the above data we can see how much German companies are interested in participating in fairs. The fair industry guarantees them access to the global market, innovative technologies in agriculture, as well as the production and sale of healthy and safe food by EU standards.

At the beginning of this century, in order to successfully research the importance of fairs, the example of Germany's leading country in the turnover of funds in the fair industry was taken. From the AUMA report, the fair industry is the leading branch of the German service industry. Positive demand for investment goods in agriculture, as well as the application of modern technologies and innovations, but also the standard, knowledge and needs of consumers have led to a positive business. The German fair industry must be an example of development for domestic fair institutions.

4 www.auma.de_medien/publikationen_/documents/auma-messtrend_2019/auma-messtrend-2019-pdf

Companies that organize international and regional events; crafts also include foreign fairs, congresses and service jobs. Five out of ten trade companies in terms of worldwide trades are based in Germany. Exhibitors and visitors spend a total of EUR 10 billion annually on trade shows in Germany. The overall economic output is EUR 23 billion; about 250,000 jobs are secured. The fair industry is therefore one of the leading service sectors of the German economy (www.auma.de, 2011).

Graph 1. The turnover of the fair organizers* (in billions of EUR)



Sources: FfH-Institut, info-Institut; AUMA-Messe Trend, 2005

When it comes to trade in agro-industrial products at fairs, wholesale markets or other places of trade, they are specific in terms of: a) Ways of organization; b) Pricing; and c) Standardization of goods and services exhibited or sold (Prdić, Barjaktarević, 2019).

When looking at retail (specifically: markets), they are the most important segment of the marketplace industry in Serbia. Our country has been more than ten years late in the transition to wholesale trade. Only now is the city of Belgrade involved in helping to build a wholesale market by constructing fruit and vegetable storage halls. Wholesale of fruit and vegetables is carried out in “kvantaš” markets, with very poor and inadequate trading conditions. Knowing that wholesale markets are a significant distribution channel for products marketed by marketers, their role in competing with super markets and discount centres are enormous. The wholesale market has the role of supplying small sellers, catering establishments, the public sector and other state institutions with fresh agricultural products. Only organized wholesale can compete with mega-markets. The interconnection of wholesale markets and marketplaces (retail markets) is the most significant market parameter for the movement of agricultural trade in this century.

The Mercase system consists of 23 wholesale markets, 17 wholesale fish markets, 7 meat wholesale markets, 3 flower wholesale markets, 16 manufacturers' wholesale markets and 4 wholesale trade slaughterhouses. There are 3,160 private companies in the system that employ 27,000 thousand workers. Annual turnover is 50% of the total fresh food trade in Spain, 6,822,831 tonnes of fish are sold or 11.8 trillion euros. The total area of the sales space is 7,700,866 m², with roughly 77,000 daily customers and 71,000 daily vehicles passing through the Mercase system⁵.

Also, some 400 hundred wholesale markets exist in Italy. The ownership structure is the following, in the analysis of the Bologna wholesale market, owned by the city. It contains some 80% and the region of Emilia-Romagna, wholesalers, chambers of commerce, etc. with an annual turnover of around one billion EUR. The revenue is mainly invested in the development of new storage capacities for fruits, vegetables, fish and flowers, as well as storage, sorting and packaging chambers (www.caabmercato.it, 2014).

Based on a survey conducted at the Belgrade Wholesale Market on a sample of 30 sellers in the period June 14-15, 2019, the trading conditions are as follows: We are not satisfied with the terms of trade 23%; Conditions are much better now than before 27%; Relations with quantum market and wholesalers not resolved 21%; and Lack of serious investment in the wholesale market of 29%.

In order to promote wholesale and retail (market) agricultural products, especially fruits and vegetables, it is necessary to: 1) To define the interest of trade in the wholesale market and the market by the strategy of agricultural development. 2) To enable organized wholesale trade as equipped and infrastructural regulated premises to consolidate supply and market balance with mega markets and discount centres. 3) Markets (retail markets) must be adapted to modern conditions of trade, enable the sale from wholesale markets, individual domestic producers, traditional food, products of geographical origin, healthy, organic food, etc.

Namely, the concept of development of wholesale trade, mainly fruits and vegetables, has so far failed primarily due to the shortcomings of the national trade strategy in the agro-industrial complex (Prdić, Kuzman, 2019).

In the model of agricultural development, the development of trade through wholesale markets and marketplaces in the domestic market requires:

5 www.spainbusiness.com/icex/cma/contentTypes/common/records/mostravDocumento/?doc=4795852

- To enable domestic producers to produce more valuable products with geographical origin
- Cooperate with wholesale and market management to promote local produce and healthy eating
- Improve the overall trading system in the agrarian complex by innovation and information technologies
- Facilitate faster and easier regional and cross-border trade.

For the successful development of agrarian sector, it is necessary to adopt a development strategy through national and regional wholesale markets. There is also a need for infrastructure and technical and technological equipment of the markets, as well as the provision of modern services. It is also necessary to develop regional wholesale markets, depending on the region with agricultural and agricultural development opportunities. Regional wholesale markets are certainly necessary in cities such as Novi Sad, Niš and Kragujevac. At the regional level, the development of markets is important because of individual farmers, the supply of the population, and the social role in terms of the development of small holdings and poorer sections of the population. An indispensable condition for the development of wholesale markets and retail markets is the infrastructural equipment, the development of traffic through the opening of new markets or adaptation to the existing new market conditions. In addition to the aforementioned conditions of development, it is necessary to examine the attitudes and interest of large institutional customers, caterers, consumers as well as competitors, as well as strict control of the quality and origin of products. In addition, efficient market and wholesale market management has no alternative to invest in the development and development of the agricultural complex.

The most important segment of the trade made by auctioning in the agrarian complex is the ability to plan the investment of expected income. This theory implies a trader or broker as a person who has all the necessary communication information that can help him or her make a purchase decision. Also, it is important for decision making to know the risk neutrality and the consequences of risk. All items must be filled in for the buyer to estimate the maximum price for the goods. When a trader is not risk-averse it is more important for them to win than to pay a smaller price. Auctions have advantages and disadvantages, so from an economic point of view different types of auctions can be combined. Auctions with good organization and trading rules allow the participation of the most important actors in the trade of agricultural products. They allow maximum supply in the agrarian complex as well as create the role of a leading retailer in an individual or group of products. Auctions

are currently most used in the agrarian complex for trade, wheat, cotton, flowers, fruits and vegetables, fish and other products. Auction trading also involves a large investment which, in the case of the purchase of goods, may also entail the role of the principal trader of a commodity in a particular market. However, some studies prove that the smaller the size of the settlement, the harder is to make a good supply chain. i.e. 'efficiency', as revealed by integration of wholesale and retail markets, cannot coexist with a complex and non-competitive market structure at the village level (Basu, 2010).

A good assessment of the auction structure is suggested to increase the likelihood of maximizing business benefits (Camilleri, 2015).

The problem of trading auctions is most important when a particular auction has a high level of rating in the agrarian market. The basic fact of an auction's value comes from knowing its value in the market. The value of an auction on the market is measured by competition, good terms and business rules. The concentration of the market for certain goods produces good supply and demand as well as an overall view of market potentials. When it comes to brokers and traders, their buying decision may be: a) Buying at maximum price; b) Buying at a lower price; and c) Purchases based on the sequence of circumstances that may arise from the auction.

Stock exchanges are the most important markets for agricultural commodity trade, which in a well-organized place, for a specific time, creates a market relationship between supply and demand of agricultural products under known rules by certain and well-known participants in trade. Modern stock exchanges allow trading electronically from anywhere and represent a continuous market. Continuous trading gives the stock market an advantage over other specialized market institutions. Everyday commerce provides the supply and demand at the time and moment that suits them best. Stock markets must be transparent markets where all trading reports, quantity, price and other significant decisions are seen. The supply and demand of commodities on the stock exchange can enable all interested entities to trade based on their estimates.

Belgrade Stock Exchange indices have been formed for the purpose of the public information process, as well as the desire to improve transparency and comparability of data on the market⁶.

These indices create preconditions for trading, but much needs to be done in terms of openness to the regional and international markets to increase overall trade on terms and markets.

6 www.belex.rs/proizvodi_i_usluge/indeksi_opste

A key innovation is the guarantee of all stock exchange transactions that will be concluded through the commodity exchange. This system will operate on the principle of cumulative purpose accounts and guarantee deposits. In addition to the spot market, forward trading will be facilitated through the conclusion of “forward” contracts (www.proberza.co.rs, 2019).

One of the main disadvantages of trade in the domestic agrarian market is the problem of product distribution. As stated above, there are legal solutions that theoretically elaborate this area. The downside is the practical application of the law and the inadequate agricultural trade strategy that leads to seasonal problems in product distribution. The largest example is the distribution of raspberries from individual producers

The stock market is a basic indicator of stability and development of a country (Božić, Todorović, 2009).

We can conclude that the prevalence of trade by individuals, small and medium-sized enterprises, institutions and companies, gives the stock exchanges a great opportunity in the market. The development of stock exchange trading in commodities or securities presupposes the state of the economy on the basis of which investment security enables profit, and development of agriculture and trade in agriculture. Serbia has a real chance of increasing trade in the regional, Russian and EU markets by developing trade through specialized market institutions. The development of rural areas through investments in agriculture would have a positive impact in terms of increasing trade in the markets. Agrarian country must certainly have a vision of development that will contribute to the economic well-being of the country in the overall economic balance. Specialised market institutions in the world are a proven instrument of an optimal market strategy for agricultural development.

Conclusion

The historical and contemporary importance of specialised market institutions in trade has contributed to the development of agriculture and overall trade in the agrarian complex in general. These institutions intertwined with each other during the development of productive forces, traffic, and especially after the industrial revolution, depending on the conditions of trade, but they all have a historical significance for trade in agriculture. Considering the importance of agricultural food products and the standard of the people, the importance of these institutions in modern conditions has only been altered by the development of the information revolution, the application of innovations and the various communication information that enables optimal trade.

The example of German fairs provides a solid basis for concluding that domestic fairs can also increase their role in agricultural development. Novi Sad Agricultural Fair has the reputation of a regional and international trade centre that provides all the conditions for the development of agriculture and the development of congress activities in the agrarian complex. These pre-existing conditions combined with wholesale trade through wholesale markets, auctions and stock exchanges could undoubtedly bring success in the development of a national trading strategy. If we take as an example the experience of economically developed countries and the fact that Serbia is predominantly agrarian country, the effects of agricultural development are positive.

The Belgrade Stock Exchange with its historical role in trade can undoubtedly be the driver of trade development through auctions, and the Belgrade Fair is the venue for selling innovative products and technology. If we know that over 80% of the territory of Serbia is made up of rural areas, markets (marketplaces, retail markets) are undoubtedly efficient places for selling domestic agricultural products. A large number of markets, both in small communities and in urban areas, must in the future be the mainstay of the development of production and trade of domestic farmers.

Wholesale market institutions can only increase the supply of products at the market. With this optimum approach to trade as well as providing other services, markets would be more competitive for Sumer and mega markets. The example of the developed countries of Italy, Spain and Russia show the full advantage of wholesale trade in the supply of markets and the development of quality domestic products. Fairs and wholesale markets can also be trading venues through auctions. By developing and regulating existing specialised market institutions, synergy of supply and demand can be achieved and competitiveness of domestic agricultural products can be increased. By developing rural areas through investment in technology and innovation, in addition to population survival, there would also be an increase in production. The development of production contributes to the rise in the standards of the agricultural population, which in total economic potential means an increase in standards, productivity and national income.

It can be concluded on the basis of the goal of working on the importance of specialised market institutions in the agricultural complex in historical and contemporary context, and especially in economically developed countries on the one hand, the development of these institutions in the Serbia can enable the development of optimal trade in agriculture and increase competitiveness and market development on the other hand.

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