

# COMPARATIVE ADVANTAGES OF WINE IN FUNCTION OF TERRITORIAL MARKETING STRATEGY

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## Abstract

*In this paper the analysis is focused on the marketing component as an element of economic cohesion and diversity, whose main purpose is to proclaim priority values for the society that need to be realized. Well-conceived and implemented territorial marketing strategy is the basis for sustainable regional development that resolves in well-being of the actors who live on that territory, economic growth and development of the region, recognisability and interest by non-residents of the territory.*

*In order to present directions for establishing a system for promoting territorial attractiveness and the specifics it offers, a set of methodological tools has been applied in the paper to determine whether the comparative advantage of the country is really directed toward the production of wine or there is a need for change in the strategic approach according to the needs and requirements of the international market. Comparative analysis is presented through quantitative assessment using the Balassa index, while the inductive analysis determines the directions and recommendations for a territorial marketing strategy.*

*Based on the calculated results, several directions for potential marketing affirmation are presented, as well as redesigning or directing the recognition of the territory to the service sector in combination with the agricultural specifics that it possesses. The goal is to raise the potential of the service sector through the activation of potentials in the domain of propulsive ICT service that can shape the future profile of the territory in the direction of products with increased added value.*

**Keywords:** territorial marketing, wine production, comparative advantages, marketing affirmation, recognisability.

**JEL classification:** M3, Q13, O52, O18.

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## Territorial marketing strategy and development

Within the territorial marketing, the entire territory is an economically active entity. Its peculiarities, richness, development opportunities, along with the geographical location and tourist potentials, with its cultural specifics and the development of creative and natural wealth, makes territorial marketing an important promotional tool of the territory and an incentive for development at the same time.

Very often, territorial marketing is seen as an engine whose main goal is to find potential investors and to influence on the take-up of stimulus actions in certain territories that need economic intervention. Nowadays, the marketing component is not analyzed as an intervention measure whose main goal is to influence on the economic development of the region, but on the contrary it is an element of economic cohesion and diversity that proclaims the priority values for society that should be realized. Well-conceived and implemented territorial marketing strategy is the basis for sustainable regional development that resolves in well-being of the actors who live on that territory, economic growth and development of the region, recognisability and interest by non-residents on the territory. (Bencardino & Napoletano, 2003)

As a member country, candidate for European Union accession, the Republic of Macedonia needs to follow the western trends for development of the regions (as individual entities within the state) in order to approach closer to the European and world territories (products) and to succeed in following the fluctuations of the competitive trend of those territories.

According to Kotler (Kotler et al., 1997), the new trends of living that are caused by the increased influence of globalization and competitiveness, lead to the economic development of the modern world not only seen as a political challenge, but primarily seen as a marketing challenge. The Republic of Macedonia is part of that global world, which means that it is necessary to fully focus on strategic planning of marketing activities and to establish a competitive approach in the world. The marketing approach should correspond to market needs, in direction of bottom-up approach, i.e., promotion and branding of the state by presenting the attractive specifics i.e. comparative advantages of its regions/territories and promoting them within the country and abroad. Success will be much greater for the whole territory if the promotion is not implemented nationally, but on the contrary in each territory in accordance with its capabilities and specifics that it offers, to successfully affirm and influence the building of an authentic and recognizable image for the entire country on the international market. If we analyze this through the marketing prism, the territory or region is the product that Republic of Macedonia offers and sells through the specifics it owns (*the comparative advantage of the region*).

In addition to the turbulent period that the country has been facing, constantly trying to “emerge to the surface” and take firm grounds on the international market in order to highlight the specifics it possesses and to promote macroeconomic stability, cultural, tourist and rural characteristics. However, until today, Republic of Macedonia has managed to use the power of marketing and the strategic approach for promoting the country, and began to build up the image and branding as well as. Perhaps the way

of conceiving a strategic marketing approach is the cause of failure that leads to the need to re-examine it and change it if necessary.

All activities undertaken by the Republic of Macedonia in the direction of its affirmation and positioning on the international market are based on a top-down strategic approach, which in literature is defined as an approach that processes the information from the so-called system (state) to its sub-systems (regions, territories) through the full formulation of the system's activities and a general picture of the sub-systems (Isidiho & Sabran, 2016). It is considered that all activities should be processed at the national level and the state itself is the one that should create the strategy for the full functioning of the system and its sub-systems. Precisely, such strategic approach of the Republic of Macedonia could be taken as one of the reasons for the poor results from the well-established structural changes in the system. The state did a lot but the results were not reflected in the same way (proper legislation for easy flow of FDI was developed, changes in the tax system/flat taxation was provided, the strategy for local development was improved, rural development was strongly supported through different programs, farmers were subsidised especially tobacco and wine producers as important export commodities, promotion and branding of the country was done based on "Invest in Macedonia" and "Macedonia Timeless" campaigns etc.). The relevant question is how many authorities from all levels of decision-making (nationally, locally) are involved in the affirmation of the country? How much the promotion so far has emphasized the comparative advantages of the regions, or simply promoted the country by itself without having clear vision what is being presented on the global market?

Traditionally, governments have always shown resistance to re-elaborating policies and making decisions in order to enable participation of contributors from all levels. But many failed top-down planning decisions testify the need for a well-defined balance between top-down and bottom-up strategic approaches. Strategies should define which topics and issues can be solved only at national and central level, and which topics and issues are more under authority of the local instances.

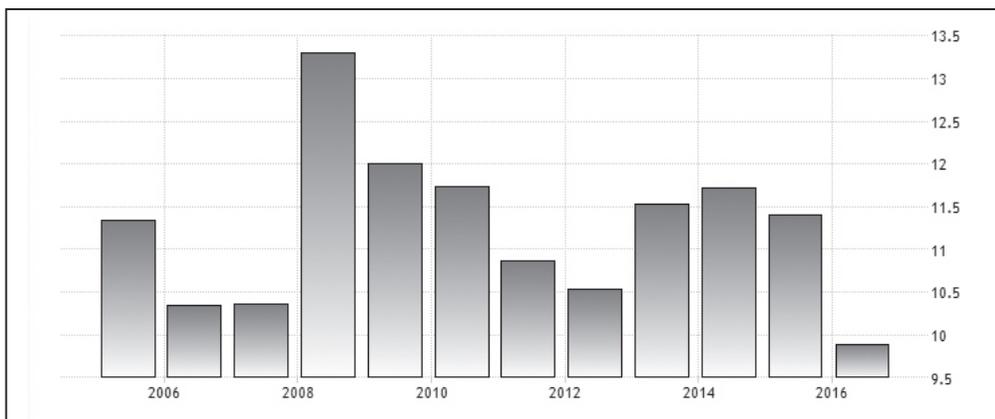
In this regard, we can say that the Republic of Macedonia has built a firm national framework for supporting the regions, but the success will only be visible if the country's approaches balance the strategic decisions, i.e. introduction of a bottom-up approach that will allow each region in Macedonia to independently emphasize its specifics and comparative advantages through which it will affirm the country on the international market (Girard, 1997).

Agriculture plays an important role in Macedonia, as it is the third largest sector after services and industry. In 2016, the contribution of the agricultural sector to GDP was app. 11 percent, adding the agro-processing, it reached up to app. 16 percent (The World Bank, retrieved on July 2018). About one fifth of the population is employed in the agricultural sector. A significant contribution to the GDP represents the crop output in general and the export of agricultural products as well, especially the value-added products such as *wine*, fruits, and vegetables. Agricultural added value (% of GDP) in Macedonia was reported at 9.8883% in 2016, according to the World Bank collection of development indicators (Trading economics, retrieved on June 2018), and it's

relatively stable compared to other neighboring countries as well as EU countries. The agro-food trade shows an upward trend over the years and the Agro-food products made up 12.9% of total exports in 2014. (Volk at al., 2016). Wine is one of the main sub-sectors (production, processing and export), increasingly contributing to the GDP over the past years. Consecutively, the regions in Macedonia where wine is produced are more frequently visited and show potential for even higher frequency of visitors (15% increase for the period 2011-2015 as reported by the State Statistical Office of R. Macedonia). Macedonia's core wine region is the Vardar Region and 80 percent of the country's wineries are located there. The remaining 20 percent are allocated around the other regions all over the country. This very fact could support the assumption that Macedonia could be branded as an agricultural oriented country, a wine producer, a country that as a comparative advantage will emphasize the specifics of the primary sector. Emphasizing the specifics of the wine will provide recognition of the territory where it's produced (country of origin) which will affirm the territory and give additional value added to the international market perception. Herrera (2009) noted that the key for a successful market entry is a strong proactive attitude, long-term commitment to the market, conscientious follow-through of exporting effort, *marketing and promotion*, adaptation to competitive local price points and margins and good customer services and terms of payment. Solely in this manner, the comparative advantages of the wine will be in function of the territorial marketing strategy.

The sole purpose of every country is to create comparative advantages over the others. However, due to the rapid and sharp competitive moves, in order to promote their specifics, the countries need to swiftly move and eliminate the comparative advantages of the rivals. Therefore, it's very important to know the path toward which the country will direct. So, the question is whether it is really possible and whether it has a comparative advantage over the largest wine exporters, or it is still necessary to revise the perception by utilizing the service sector in combination with the wine specifics that it possesses.

**Figure 1.** Macedonia - Agriculture, value added (% of GDP)



Source: Trading Economics (available at <https://tradingeconomics.com/macedonia/agriculture-value-added-percent-of-gdp-wb-data.html>, retrieved on June 2018)

In order to present directions for establishing a system for territorial attractiveness promotion and the specifics it offers, a set of methodological tools has been applied in the paper to determine whether the comparative advantage of the country is really aimed at the production of wine or it is necessary to revise the strategic approach according to the needs and requirements of the international market. Comparative analysis is presented through quantitative assessment using the Balassa index (RCA), comparing the advantages in wines, relative to the wine producing countries, while the inductive analysis builds the directions and recommendations for a territorial marketing strategy.

**Table 1.** Statistical tourist visits by regions (grape growing areas), period 2011-2015

Statistical tourist visits by regions (main wine producing regions)						Grape growing areas (in %)
	2011	2012	2013	2014	2015	
Vardar Region	12.064	15.867	17.196	20.667	24.308	83%
East Region	13.615	18.865	20.747	23.035	25.907	10%
Pelagonija	76.469	72.054	70.312	65.527	62.019	4%
Polog	29.153	29.884	30.823	29.143	30.200	
Southeast Region	108.555	106.976	109.982	124.707	133.328	3%
<b>TOTAL</b>	<b>239 856</b>	<b>243 648</b>	<b>249 060</b>	<b>263 079</b>	<b>275 762</b>	100%

Source: *Tourism in Republic of Macedonia, 2011-2015* (available at <http://www.stat.gov.mk/Publikacii/8.4.16.01.pdf>, retrieved on August 2018)

The concept of comparative advantage was first introduced by David Ricardo, who in 1911, in his book "The Principles of Political Economy and the Taxation" (Koo & Kenedy, 2005), says that if the country has a comparative advantage in producing more goods, it should decide to produce what brings the greatest comparative advantage. The country has a comparative advantage of a certain good compared to another country only if it uses less input to produce a certain output. Input represents the capital and labour needed for the production of goods. Also, Adam Smith in his famous work "The Wealth of Nations", (Husted & Melvin, 2004) speaks about the importance of specifying the production of the state to a small group of goods, which as a result will have a greater benefit. He also adds to this the concept of an absolute advantage, which he defines it as an opportunity for the state to produce goods with much less input than any other state. Nowadays, many economists in the literature give different but complementary definitions of the comparative advantage. Thus, the Heckscher-Ohlin model (Husted & Melvin, 2004) introduces a larger set of variables in defining the comparative advantage and explains that the country will have comparative advantages in producing a certain good only if it uses less borrowing factors (different inputs of production, labour, capital and/or natural resources) from another country. However, it is well known that measuring comparative advantage and testing the Hecksher-Ohlin theory have some difficulties since relative prices under autarky are not observable. Given this fact, it may not be necessary to include all constituents influencing country's comparative advantage (Stiglitz, Monga, & Patel, 2013), but for the comparative advantage to be "revealed" by observable trade patterns, and

in line with the theory, one needs pre-trade relative prices which are not observable. Therefore, nowadays the most often applied indicator for measuring the comparative advantage of the countries is the export. The recent literature has recognized the importance of developing comparative advantages to transform a country to higher income growth, therefore measuring the revealed comparative advantages is crucial for determining the specifics of the country, based on which the direction for territorial marketing strategy should be presented.

## **Wine production and its competitiveness / non-competitiveness**

The Republic of Macedonia is generally perceived as an agricultural oriented country, with traditionally well-bottled and bulk wine and rich wine history. The country with almost 300 sunny days in a year has a very suitable climate for grape-growing. Hence, wine production is part of the country's tradition. This perception builds a picture of the comparative advantage of the country that has been going through the years and is generally accepted. The assumption is that the Republic of Macedonia has a rich wine tradition. Although in the last ten years there has been a downward trend in vineyard areas for nearly 1,400 hectares (Petkov, 2018) however, in the part of exports, the situation is stable with larger quantities of exported bulk wine compared to the exported bottled wine, although the reverse situation would be better. The export of bulk wine does not provide an authenticity of the region and the country, i.e. it does not impact on building a recognizable image of the territory from which the wine originates. Wine product quality has a considerable impact on consumer behaviour. Most of the quality cues are conveyed through the packaging and label. Brand origin is perceived by consumers as a key indicator of quality. (Felzensztein & Dinnie, 2005). The fact that wine consumers respond to region based marketing is widely acknowledged. Therefore, building territorial marketing strategy based on wine recognition regions will bring affirmation and positioning of the country at the international market because as Dimara and Skuras (2005) noted that "...consumers are increasingly anxious to know where products come from..." (p.91).

In order to assess whether wine production has comparative advantage, an analysis of the sub-sector is done using the Balassa Index as an economic indicator of competitiveness. The comparative advantage is the ability of the state to produce goods and services with less opportunity costs than any other country (Costinot, 2009). In this way, an advantage over the others is ensured. On the other hand, if there is no comparative advantage, a strategic change in the perception and strategy re-consideration will only ensure recognition of the territory.

The main goal of the Balassa Index is the analysis of sectors that represent a strong or weak side for the state i.e. represent a comparative advantage or are poor position. The reference value on which this index is based is the analysis of the export of the sector concerned, excluding import. If the Balassa index score is greater than 1, it can be concluded that there is a comparative advantage of the sector in the country. However, the calculation is not recommended to be analyzed in isolation; on the contrary, in order to build a realistic picture of the wine's comparative advantage,

it is compared to the Balassa index of Macedonia with additional two countries of the European Union, primarily with Italy and France as major exporters of wine and countries with a tradition of production and consumption of wine.

The period between 2004 and 2008 was initially analyzed. According to the Balassa Index it turns out that the assumption can be accepted, that is, the production of wine represents a comparative advantage for Macedonia. This means that building an image of a “wine region” is completely justified. The index in 2007 even shows the value with which Macedonia has a comparative advantage over France and Italy.

**Table 2.** Calculation of the comparative advantage of wine production with Balassa index, period 2004-2008

	2004	2005	2006	2007	2008
<b>Macedonia</b>	3.83	3.39	3.67	5.91	3.76
<b>Italy</b>	4.45	4.65	4.66	4.81	5.11
<b>France</b>	5.54	4.72	4.98	5.03	5.27

Source: Author's own calculations with data from United Nations Commodity Trade Statistics Database (available at <https://comtrade.un.org/db/dqQuickQuery.aspx>, retrieved on June 2018)

However, by repeating the same analysis with data for the period 2014-2017, a complete change in the value of the calculated parameters is evident.

**Table 3.** Calculation of the comparative advantage of wine production with Balassa index, period 2014-2017

	2014	2015	2016	2017
<b>Macedonia</b>	0,8	0,6	0,8	0,8
<b>France</b>	1,2	1,6	1,9	4,4
<b>Italy</b>	1,5	1,0	0,8	0,6

Source: Authors own calculations with data from United Nations Commodity Trade Statistics Database (available at <https://comtrade.un.org/db/dqQuickQuery.aspx>, retrieved on June 2018)

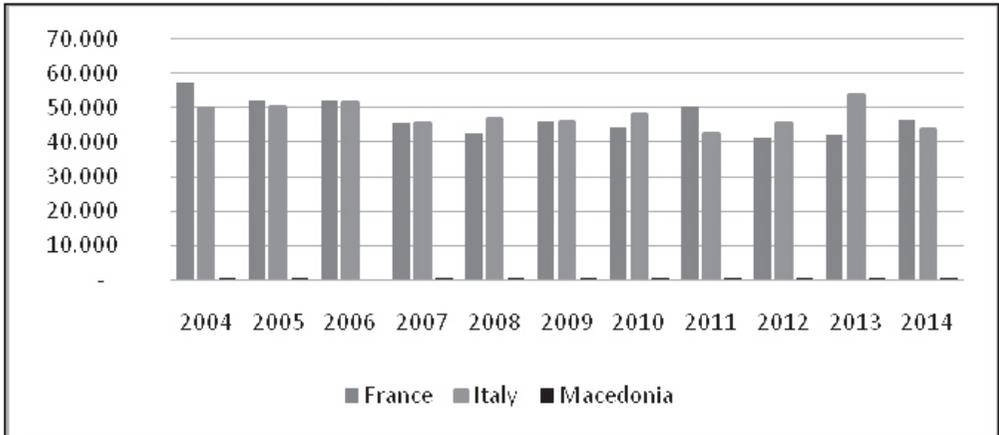
The chart display shows that the perception that the country has a comparative advantage of wine production is wrong, that is, the country does not have a comparative advantage to be perceived as a country with traditionally well-bottled and bulk wine. This means that building a picture of a “wine region” would have a negative effect in the direction of promoting the territory and its positioning on the international market. Hence, defining the territorial marketing strategy (whose main task should be to position the region by highlighting the comparative advantage in the direction of attracting foreign direct investments, tourists and residents) should be focused on the sectors where it can be competitive, or to raise the potential of the service sector through the activation of potentials in the domain of propulsive ICT services that can shape the future profile of the region in the direction of products with increased added value.

After comparing the results of the Balassa Index with the other analysed countries, it is visible that for the calculated period 2014-2017, France and Italy remain to have comparative advantage, i.e. have an index higher or equal to 1. Macedonia does not have comparative advantage for wine production but it is surprising that Italy and Macedonia are at a similar level of comparative advantage over the analyzed years. In regard to the repetition of the results for all countries for period 2014-2017, they all show significant drop in the calculated index, from which subject reasons could be taken into consideration for additional future analysis.

In general, France is still the most competitive country in the wine sector with a high comparative advantage which might be due to the well-established “country of origin” label and concentration on production of bottled wine vs. bulk wine. This is what is missing in Macedonia which opens the need for reconsidering /restructuring of the marketing perception for the territory and focusing on the development of the region and its recognition from one level to the other higher level of equilibrium: shifting from bulk wine production to well positioned branded bottled wine, with support by the local governance of the regions. Such an incentive can occur through modern determinants of economic growth that will build a destination with its own profile. The new opportunities anticipate the region to be profiled in the direction of smart growth, which means development in ICT technologies in the process of wine production and establishment of recognisability. The country should be directed towards exploiting the already built perception as an agricultural country with wine tradition combined with developing and applying innovative ways to use ICTs in a rural domain with a primary focus on agriculture/wine production. ICT in agriculture offers a wide range of solutions for the country and its affirmation abroad. It is seen as an emerging field focusing on the enhancement of agricultural and rural development through improved information and communication processes (Saurabh & Priyanka, 2015). The main objective is to build such competitive advantages that will be able to be turned into compelling sales messages! (Karlheinz et al., 2009)

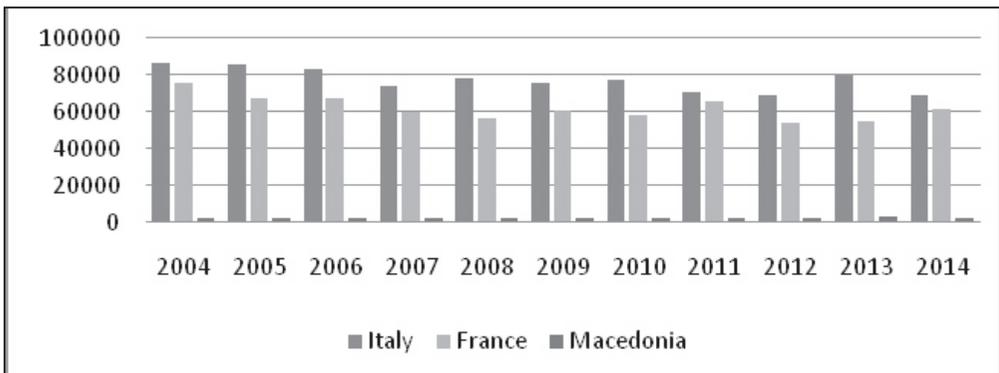
Besides the export data based on which Balassa index is calculated, the data on wine production shows that Macedonia produces far behind Italy and France, however if we take into consideration the sizes of the territories and the total grape surface area and vineyards of each country it could be noted that the quantity produced corresponds to the size of the country and total grape surface area and vineyards. Nevertheless, without adding value to added services in long run it will be very difficult to correspond on the dynamic economic conditions and competitive environment. The market choice is increasing; the consumers prefer well-known countries and brands and don't have time for research and risk exposure.

**Graph 1.** Wine production of France, Italy and Macedonia (in 1000 hl), period 2004-2014



Source: Production of wine, 2004-2014 (available at <http://www.oiv.int/en/databases-and-statistics/statistics>, retrieved on August 2018)

**Graph 2.** Total grape surface area and vineyards of France, Italy and Macedonia, period 2004-2014, (in 1000 ql)



Source: Total grape surface area and vineyards, 2004-2014 (available at <http://www.oiv.int/en/databases-and-statistics/statistics>, retrieved on August 2018)

## Directions for Creation of the Future Marketing Affirmation

In the process of building a marketing affirmation of the territory, the concept of territory is best reflected through the image (how the territory is represented abroad and perceived by the local actors).

The image in the marketing literature is defined as the perception of the product in the public. Hence, the image is one of the existing territorial sub-products that determine

marketing activities. It is a set of beliefs, ideas, impressions that people have for a specific territory and are characterized as personal perception. (Charlotte & Brent Ritchie, 1993) The image is built on the identity of the territory, which is a set of activities that differentiate the territories of similar ones.

Thus, through the specifics of the regions in order to build a competitive image on the global market of territories, the Republic of Macedonia needs to build *an image on the already established identity, where as an activity of differentiation from the other regions, should be the shifting from bulk wine production to well positioned branded bottled wine, with support by the local governance and through well-developed ICT technologies*. The differentiation activity is actually a comparative advantage that allows the region better start up position than other similar territories. A well-positioned image is a starting point in building a region's brand. If one takes the highly skilled low-cost labour force that the country can offer as a lesser opportunity cost combined with the already established recognisability as an agricultural country, the strategic development in the direction of the service sector is where it can be pointed out and affirmed.

Territorial marketing tools are the elements that influence the promotion of the region's development and its affirmation. *Promotion* as one of the basic elements of territorial marketing refers not only to communication with external factors in the direction of attracting new resources but also to the internal communication necessary for efficient realization of territorial marketing as well as finding a wider consensus of the involved actors and interests. The promotion process refers to communication between the territory and the environment, i.e. between the territory and the markets, in the direction of providing information and encouraging to test the region's offer. Promoting the value and image of the territory is a process that makes potential users fully aware of the advantages of the territory compared to other territories. Promotion is the most visible marketing tool therefore is most often used. However, it is not proportionally related to the effects it is achieving. Only a well-defined promotional activity can attract the interest of the target group, regardless of the quantity of the same. However, it is not enough just to attract the interest, a strategic definition of reactive marketing is needed, which means "responding to investors enquires". In today's global economy, it is not enough to know and locate the territory, it must be *recognized* through the specifics it offers and for which it has a comparative advantage. A promotion that has a clearly defined concept and potential for attracting actors and at the same time competing on the international market is the only way for strategic positioning. Thus, the Republic of Macedonia will manage to build its own marketing affirmation profile.

*The price*, as an element of marketing in this case, is not applicable. The territory itself cannot be sold, but its sale is achieved by measuring the interest in the services offered by the territory, the increased living standard of the territory and sustainable economic development. *Thus, the price is an effect of a well-positioned product on the market, the impression that the promotion of the region and the distribution channels of the region is ensured.*

*Distribution* as an element of marketing represents an internal and external approach

to the aspects of the territory and spatial planning, as well as *access to information*. This element is a rather weak thread in the process of designing a territorial marketing strategy as a strategic element of development and needs to change a lot in direction of improving the channels in order to increase the competitiveness of the region. Internet access is an element that is a key distribution point of information nowadays. It can be assessed that the Republic of Macedonia has the potential to develop the comparative advantage through this channel because it is characterized as a country with a highly developed Internet network (as per the Agency for Electronic communication almost 96% of the territory is covered by internet and the internet penetration is app. 80% in 2017). However, in order to expand Macedonian reach, increase its recognisability, build value and marketing affirmation the other aspects of the economic infrastructure need to be improved in order to focus on the needs and demands of the end-users of the territory.

To build proper future marketing affirmation, the country needs to work on improvement of the following determinants:

1. Identify the competition (learn from the more developed countries such as Italy and France);
2. Differentiate the product (the territory specific, country of origin, grape type, services etc.) then the other products (territories specifics) – push the specific type of grapes (for example: vranec) that may influence on recognisability of the country;
3. Determine country of origin (associating the specifics with the country);
4. Target the actors (foreign and domestic, what they want to experience, how they want to perceive it, involve influencers etc.)- the country needs to offer and emphasize the Macedonian tradition and heritage in order to be perceived by the target groups;
5. Develop forward looking territorial marketing strategy (3-5-year strategy) – use the 4ps in a way that will create a story that will cover all the characteristics of the territory;
6. Invest in PR activates (aggressive promotion on international fairs, organisation of local events, online news about the country specifics etc.) – this will bridge the gap how target group perceives the country and how the country would like to be viewed in the future;
7. Build slogan and logo – the message needs to be focused and clearly communicated;
8. Build value (drink local and support the community for local actors or build international recognisability based on the advantages that the territory possesses etc.).
9. Improve the distribution channels (web-based platforms, roads, bridges, cycle highways, rail, water management resources, clean public space etc.);

10. Act on local level not national level, use bottom up approach (the national governance should provide the policies and legislation but the local governance should develop active forward looking territorial marketing strategy).

## Conclusion

According to the analyses and results, it can be concluded that the Republic of Macedonia does not have a clear strategic image for territorial development and emphasizing the comparative advantages that, as a domino effect, is reflected in the weak affirmation and recognition of the country on the international market. According to the results of the comparative advantage analysis, surely competitiveness cannot be sought only in the primary sector (wine production), but also in the combination of this sector with the tertiary sector. It looks like the country image is building in the opposite direction from the comparative advantages that it can offer on the international market. Re-examining the strategic approach and increasing the individual promotion of the regions of the state, as well as defining the comparative advantages in the direction of building a destination with its own profile are the basic elements that through the exploitation of the territorial marketing will result in sustainable economic development and building a recognizable image of the regions within the country and of the country by itself.

In the process of creating the future territorial marketing strategy, it would be desirable to take into consideration the complexity of many factors that would impact the comparative advantages of the state. Based on the statistical data on agriculture and wine production in Macedonia it could be noted that it is an important sector which might transform the country into a higher income growth. However, producing higher quantity of bulk wine instead of bottled wine cannot provide recognisability and cannot be perceived as comparative advantage (which the RCA index confirmed). Therefore, implementing different dimensions of "country of origin" label is important in understanding consumer behaviour, particularly in agribusiness and especially the wine industry. In order wine to be perceived as territorial product that will support the recognisability of the country, the regions through a well-defined bottom-up approach needs to work on improvement of the territorial image, emphasize the specifics and affirm the country locally and globally. The authenticity of the country could be built only through competitive product that will bring diversity and a high value added. Such an incentive can occur through improvement of the marketing determinants that will profile the country and will achieve sustainable and competitive results.

This paper has no intentions to offer an established territorial marketing strategy, but is an initial step towards further analysis and directions on the comparative advantages of the territory.

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