

IV. What Are the Keys to Successful Restructuring?

It is evident that Poland and Hungary have gone further in the restructuring process than the other three countries analyzed in this study. Some of the reasons include differing historical traditions, a friendlier policy environment, and greater foreign investment. However, the process is not complete even in these two countries. We still observe in all five countries the absence of some fundamental institutional market requirements. Underdeveloped markets for land, labor, and capital hinder the free movement of these factors to their most efficient uses and slow down the restructuring process.

The restructuring of the livestock production and processing sectors has proceeded the furthest in Poland and Hungary, and has been slower in the other three countries analyzed here. At various points in the preceding sections, we have alluded to some of the institutional and policy bottlenecks that have slowed down the process. These include the lagging pace of privatization, excessive government intervention in the production and marketing of livestock products, and the lack of such fundamental institutional market requirements as an enforceable commercial code, land markets, a system of rural credit, and market information. These deficiencies are particularly evident in Romania, Russia, and Ukraine, but some unfinished business remains in Poland and Hungary as well.

What Accounts for the Success of Poland and Hungary?

Several key factors explain the relative success of Hungary and Poland in the restructuring of their slaughter/processing and distribution sectors. Some of these factors will be analyzed in detail in later sections of this report. Briefly, key factors for transition success are:

Initial conditions. Both Poland and Hungary have a long and rich history of cultural, legal, and entrepreneurial traditions. Traditions of wealth creation, respect for laws, and recognition of private property rights had evolved over centuries, and they were easier to resurrect after the relatively short-lived Communist system collapsed. Moreover, both countries maintained a significant private sector and an active religious system throughout the Communist period. Polish and Hungarian citizens were also freer to

travel to Western countries than were citizens of the USSR and Romania. In the other countries, activities of the private sector were much more circumscribed.

Privatization procedures. There is no doubt that privatization is key to providing the necessary environment for economic growth to take place. Privatization efforts have been most successful in countries where governments have exhibited maximum flexibility in negotiating the terms of sales of state assets. State firms that were privatized quickly in Hungary are doing well. Semi-privatized firms, where the state still holds majority ownership, are not growing as quickly as privatized firms. The majority-state-owned firms that remain in Poland are among the weaker firms in that country. The Polish meat industry as a whole is moving forward because the majority of the industry is privately owned.

Policy environment. Government policies can either encourage or inhibit the development of an industry. Poland and Hungary moved aggressively to liberalize prices and trade, forcing firms to compete in a free market or go out of business. Other governments continued to protect weak firms through soft credit, high border protection, and other measures. Policy in Poland and Hungary is also heavily oriented toward preparing for EU accession.

Foreign investment. The development of a modern animal products industry that can compete in global markets requires large quantities of investment capital. Where this investment has occurred, the principal source of capital has been foreign. Foreign investors are attracted to countries whose governments have created a stable policy and institutional environment.

But Unfinished Business Remains

Even the more advanced transition economies are characterized by a “missing middle.” Even in Poland and Hungary, both production and slaughter/processing are nearly evenly divided between large modern firms and very small firms. At the farm level in Poland, even the commercial producers are still small—they may have 10 hectares and 20 pigs instead of 2 hectares and one pig. Hungary’s farm sector is also split almost evenly between large-scale former cooperatives and small, mainly subsistence, farms. Nearly half of Poland’s meat output and 40 percent of Hungary’s comes from small plants, many of which do not meet export standards and operate in the “gray” (semi-legal) economy. There are very few medium-sized plants in either country and almost none in Russia, Ukraine, or Romania.

Small-scale entrepreneurs throughout the region encounter a number of institutional obstacles to expansion. Entrepreneurs themselves identify the absence of reasonably priced credit as their biggest obstacle. But there are others, including poor market infrastructure, absence of land markets, labor immobility, and a generally high-risk business environment. Most of all, the development of a modern, competitive livestock sector requires huge amounts of capital. Domestic and foreign investors alike will be reluctant to invest in these industries as long as such obstacles are in place.

Much of the reform process involves restructuring government institutions so that they better serve the needs of private producers. A major impediment to the complete restructuring of the region’s livestock sectors is the lack of the institutional infrastructure needed to support the development of markets. The necessary institutions include clearly defined property rights, bankruptcy procedures,

enforcement of contracts, a credit system, and market infrastructure. These institutions are better developed in Poland and Hungary than in the other countries, but are not fully developed even there. The lack of such institutions greatly inhibits the free movement of factors of production and slows the transition from a sector dominated by subsistence farming to a truly commercial livestock sector. Even where relative prices might favor expansion of a given species, producers are often unable to respond to those signals because of a lack of institutional support.

As stated in the introduction, early expectations of a quick turnaround in the livestock sectors and consequent rise in demand for imported feeds in the transition economies have not been borne out. The restructuring process proved to be much more difficult than anticipated, and Russia, Ukraine, and Romania have a long way to go before the transition process is completed.

But it does not automatically follow that if these bottlenecks are removed and the reform process is completed, the result will be an expansion of these countries’ livestock sectors. Removal of these bottlenecks will enable markets to function and prices to allocate resources to their most efficient uses. That will not automatically lead to an expansion of the livestock sector if the country’s comparative advantage lies elsewhere.

In the remaining sections of this report, we present results from a simulation model developed in cooperation with Purdue University in an attempt to analyze the impacts of those bottlenecks. We will analyze in further detail some of the institutional bottlenecks listed above, and we attempt to quantify the impacts of these bottlenecks and to project the changes in livestock production and trade that could come about with the removal of these obstacles.