Livestock Sectors in the Economies of Eastern Europe and the Former Soviet Union

Transition from Plan to Market and the Road Ahead

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Introduction

During the years since the collapse of Communism in Eastern Europe and the advent of the Newly Independent States (NIS), much attention has been focused on the livestock sectors of these countries. The early years of the transition were marked by drastic declines in livestock inventories and meat output. The consequence to the United States has been a decline in exports of grain and oilseed products to the region, but an increase in exports of meat and other animal products.

In the early 1990s, experts on the region were projecting a rapid turnaround and eventual expansion of the livestock sectors. These forecasts have proven far too optimistic. The declines were deeper and more protracted than expected. Ten years later, livestock numbers are just beginning to stabilize in Russia and some of the East European countries. Inventories of all species continue their decline in Ukraine and Romania.

Clearly, the restructuring process has been slower and more difficult than was anticipated a decade ago. It is precisely for this reason that many of the earliest projections published by experts on the transition economies have not proven true. The institutions essential for fully functioning private markets remain undeveloped in many of the countries. Lingering problems include lagging 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 (including the sanctity of contracts), clearly defined property rights, land markets, a system of rural credit, and market information.

However, removal of market bottlenecks alone is unlikely to return livestock inventories to pre-transition levels. During the Communist period, state subsidies held consumption and production of animal products at artificially high levels. On the demand side, present consumer incomes, and those forecast for the medium to long term, are insufficient to support consumption of animal products at pre-transition levels. On the supply side, animal products produced in the transition economies will compete, with difficulty, in both domestic and international markets, with products of low-cost producers like North America and Western Europe. 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 a country's comparative advantage lies elsewhere.

The study focuses on five countries—Poland, Hungary, Romania, Ukraine, and Russia. This particular set of countries was chosen to represent the range of progress made by the former Communist economies toward market-based economies. Poland and Hungary represent countries that have progressed rapidly in their transition. In contrast, Romania, Russia, and Ukraine are among those that continue to struggle through transition to market economies.

In the first part of this study, we argue that for each country, reform has progressed to the point where prices do function to allocate resources in livestock/poultry markets to varying degrees. We point out the different ways that producers and consumers have altered their behavior in response to changes in relative prices. However, significant barriers to price transmission remain. These barriers include underdeveloped land, labor, and capital markets, and a lack of institutions essential to support a free market.

Of the five countries under consideration, Poland and Hungary have emerged as relative success stories. Poultry in particular has rebounded, and both countries have regained their former positions as net meat exporters. To some extent their success is due to different starting conditions—both countries had a strong entrepreneurial tradition even during the Communist period, and both had significant private sectors. But also, these two countries have been able to attract impressive amounts of foreign direct investment (FDI), which has helped bring processing plants up to Western standards. A final important factor is these countries' preparations for EU accession. Both are expected to join the EU in the next 5 or 6 years, and they are under strong pressure to upgrade their livestock industries to meet strict EU standards. Imminent EU membership also makes these countries more attractive to investors.

In the other three countries, and to some extent in Poland and Hungary as well, incomplete reform has led to a fracturing of production and processing into very small, mainly subsistence units and large, quasi-state-owned enterprises, with an absence of medium-sized units. Small producers lack the financial resources and the institutional support they need to expand; loss-making former state enterprises continue to tie up resources that could be used more efficiently elsewhere. These same barriers inhibit foreign investment, which has been key to the success in Hungary and Poland.

In the second half of the study, we present the results of a model developed to simulate a market environment in the absence of these barriers. The scenarios analyzed in this study are the following:

- increased availability of credit;
- capital investment at different stages of the production chain;
- reduced marketing costs;
- rise in land prices that would result from a better functioning land market;
- creation of off-farm employment to draw labor out of agriculture.

Model results suggest that the removal of these barriers can, to varying extents, promote growth and development of animal product markets in transition economies. However, this report emphasizes that the realization of this potential depends critically on successful implementation of institutional and policy reforms. If reform is completed, the region, with its rich resource endowments, extensive land bases, and relatively low population densities, will be an obvious site for modern, integrated animal products production systems. Potential for such development is even more promising in Poland and Hungary, which are preparing to join the EU. Growth of animal product production in the region also carries a potential for growth in import demand for oilseeds and protein meals. Such positive developments are by no means guaranteed, however. The reform process could very well remain stalled in many of these countries, with the result that their livestock sectors might remain indefinitely in a state of low-level equilibrium.