Summary

Economic reform in the transition economies of Central and Eastern Europe and the Newly Independent States (NIS) of the former USSR has transformed the volume and mix of these countries' agricultural production, consumption, and trade. The main development has been the drop in output, ranging in most countries from 25 to 50 percent, the livestock sector being hit particularly hard.

The fall in agricultural production, along with the accompanying decline in food consumption, affects U.S. agricultural and policy interests vis-à-vis the transition economies in three areas: policy-advising/technical assistance, food security and aid, and agricultural trade. A conceptual framework based on supply and demand analysis is used to examine how reform has changed agricultural production, consumption, and trade in the transition economies, with an emphasis on explaining the decline in output. Conclusions are then drawn concerning the above areas of U.S. policy interest. Key findings include:

The drop in agricultural production has been an inevitable part of market reform. Most government officials and agricultural interests in the transition region argue that the downsizing of agriculture during reform has had a devastating effect on the region. They contend that the main goal of government policy and Western technical assistance in agriculture should be to revive production. Western press accounts also tend to assess the reform-driven drop in output in negative terms. This report shows that large direct and indirect subsidies in the pre-reform period helped to maintain artificially high levels of production and consumption. Reduction of the subsidies inevitably reduced these bloated volumes.

The absence of a decline in output in a country more likely reflects failure to reform, rather than reform success. The countries that have experienced the lowest declines in agricultural output, such as Uzbekistan and Turkmenistan, have also been the least reformist.

The food security problem in transition economies is not inadequate availability of food supplies, but insufficient access to food by segments of the population and regions within countries. Before reform, the transition economies had high per capita levels of consumption of most foodstuffs, compared even with wealthy Western countries. Although consumption of high-value livestock products has fallen during reform, consumption of staple foods, such as bread and potatoes, has remained steady or even increased. This shows that overall food supplies have been adequate. Food insecurity has increased because the growth in poverty during transition has expanded the size of the population that cannot afford a healthy diet, and because impediments to the internal flow of foodstuffs within certain countries have prevented deficit-producing regions from obtaining food supplies.

The main goal of agricultural reform should not be to increase output but rather to raise productivity and reduce production costs. By lowering production costs, productivity growth will make domestic output more price competitive on the world market. Productivity growth not only raises a country's productive capacity, but also provides flexibility as to how the country uses the increased capacity. In many transition economies, productivity growth in agriculture will benefit the economy most not by expanding the output of agricultural goods, but rather by allowing

resources to be shifted to producing other goods that either are more desired by consumers or are more competitive on the world market.

The loss of the former USSR as a large market for U.S. animal feed is a permanent consequence of reform. The contraction of the region's livestock sector has eliminated the need for large imports of feed grain, soybeans, and soybean meal from the United States and other Western countries. On the other hand, the NIS region has become a big importer of meat, particularly poultry from the United States. The shift from importing animal feed to maintain a large livestock sector to importing meat and other livestock products is consistent with the region's comparative advantage in agricultural goods—that is, the region produces livestock goods at a relatively higher cost than it produces animal feed.