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# EASTERN EUROPE

## A View From The World Bank

by Csaba Csaki

**T**he transition process underway in the formerly centrally-planned agriculture systems is very difficult. Historically, it is not comparable to any other agricultural reforms. More than 20 percent of the world's agricultural resources are involved. The changes are going to take place in different countries more or less at the same time.

It is important to emphasize that the objectives of the changes are more or less the same in all of the countries and regions or sub-regions concerned. The countries want to develop market-based, private-based agricultural systems. However, quite different approaches to implementing the changes are being used in the regions. These differences are partially attributed to different historical heritages and backgrounds. Therefore, I stress the heterogeneity of the region.

### Heterogeneity

When we deal with the problems of these countries, including their agricultural problems, it's important to understand that they have all experienced controlled systems. However, there are visible differences in the speed of transition, the methods which are used, and the cultural and historical perspectives that influence major and minor decisions.

I distinguish among five major areas in the region. The first group includes Poland, Czechoslovakia, and Hungary. I would also place Croatia and Slovenia in this group. These are the countries where a market has traditions. These countries used to have a developed market economy and a developed political system. Therefore, the transition is relatively fast, and this is the area where the political transition took place most easily. They have democratically elected parliaments and political parties, comparable to those of Western Europe. And they are clearly trying to develop a Western European style of economic and political system as fast as possible.

In the second group of countries, I include Bulgaria, Romania, and the rest of the new Yugoslavia, Serbia, Montenegro and Albania. Their traditions are less strong with respect to a market economy. Politics are more puzzling, and the level of development is lower.

In the third group, I include the western part of the former

USSR, the Baltics, Belarus and Ukraine. They have some traditions with a market economy, but much less than the first group. They are relatively developed countries but, after seventy years of the Communist system, there is strong indoctrination of the population. A relatively unbalanced economic situation exists with high inflation, monetary problems and breakdown of trade much more than in any of the other countries. Still these countries have a developed infrastructure, an educated labor force and good agricultural resources, but much fewer energy resources.

Next is Russia as such. Actually the resources are tremendous. Potentials are tremendous, but instability of the overall economy is very serious. The heritage of the past is a big burden. But still I believe that, from an economic point of view, conditions are good for recovery. Politically, the situation is rather complex. In Russia, you still don't see really what new sort of political system will emerge. In the rural areas, there is not much political structure at all.

Finally, there is a fifth group, which is the rest of the former USSR: Asian and Caucasian countries. One must also distinguish between the Caucasian and the Asian countries. These are the most difficult areas concerning development, resources and political problems. These countries really fall into the category of classical developing countries. They are deserving of all sorts of assistance, as are other developing countries. When we approach these regions, it is good to know that this is an area with a very sizable diversity under a similar umbrella. I believe that the solutions also have to be very much tuned to the concrete conditions.

### Business Opportunities

These classifications have implications for business opportunity and development. They reflect the level of development of markets as well as the legal framework, which is extremely important for doing business in these areas. You can have demonstration farms without a solid legal framework, but it's hard to have a real operating business without a legal framework.

Therefore, the most important transitional measure toward market development is privatization based upon minimal institutional and legal frameworks for working markets. This is essential for doing business on a broader basis. There are already, in most places, the minimum conditions for doing business. However, the risks get higher as you move from the first to the fifth group. But there is also the possibility of doing really very well. Thus, in the latter group, risks are high, but on the other hand, if you are smart, brave, and perhaps lucky, you can actually do much better business than in many other countries. Of course, it's not surprising pioneers sometimes get hurt. However, I believe that minimum conditions are in place everywhere so that the U.S. business community should be encouraged to look for options everywhere in the region. There are definitely a lot of options.

### Export Prospects

There is a need, especially in the former USSR area, for imports of food products or agricultural products. Import needs are much

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less in the other countries. However, the opportunities in the Russian area may be only just a short-term opportunity. Remember the first impact of these transitions to market systems will be, and already you see, a decline in demand for food and a related decline in demand for imports. The first sign of recovery will be seen in the increase of agricultural productivity. It doesn't mean that there will not be a long-term market in these areas for certain agricultural products. But the self-sufficiency rate will likely increase and there will be intense competition from other exporters of raw agri-

cultural products.

The prospects for U.S. bulk agricultural products doesn't mean that each region is not a tremendous opportunity for U.S. agribusiness particularly for seed, breeding stock, processing plants, and related technologies. The processing industries are in very bad shape all over the region. Eventual improvements in incomes will mean changes in their domestic demand for better-quality processed products. Processing and handling technologies will be the key to exports by these countries into world markets. In the medium to longer-term, more sales opportunities on the technology side than on the breeding side of agribusiness are likely. 