European Initiative
Liberal Academy Tbilisi

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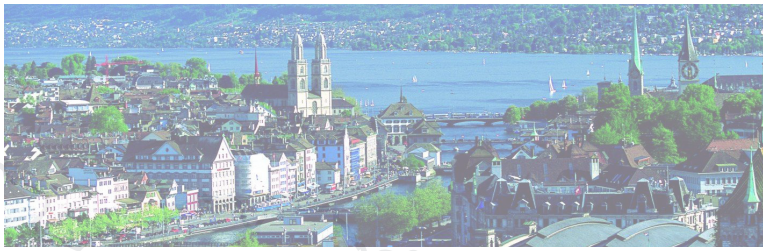
Policy, Advocacy, and Civil Society Development in Georgia (G-PAC)
საჯარო პოლიტიკის, ადვოკატირებისა და სამოქალაქო საზოგადოების განვითარება საქართველოში

SINGAPORE, ESTONIA, SWITZERLAND:

ROLE MODELS FOR GEORGIA'S TRANSFORMATION



SUMMARY
OF THE DISCUSSION PAPER

European Initiative
Liberal Academy Tbilisi

The Foundation "Liberal Academy - Tbilisi" was established in December 2006 as a non-governmental, non-profit organization, committed to promoting core democratic values, supporting peace-building and European and Euro-Atlantic integration and with that fostering the democratic development of Georgia and the whole Southern Caucasus region. The European Initiative - Liberal Academy Tbilisi (EI-LAT) is analytical programme which started in January 2010, builds upon LAT and embarks upon policy research and analysis with the aim to spark much needed debates on the European future of Georgia and the South Caucasus and contribute to policy agenda with its independent expertise.

On the one hand, the EI-LAT focuses upon issues pertaining to Georgia, specifically, and the South Caucasus, generally, and their relationship to the EU. On a larger scale, the EI-LAT aims to translate Europe for local stakeholders which are immediately affected by the Georgia-EU partnership frameworks and the wider public. On the other hand, it aims to reach out to the policy-makers and experts in Brussels and the European capitals in order to help them keep track of the reforms and changes within the countries and encourage a well-informed reciprocity. The EI-LAT, therefore, zooms into different stories of transition which reflect upon the dynamics of development and carry implications for the future. Its research products aim to take a fresh look and critically analyze key aspects of transition and, by that, contribute to crucial policy debates.

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G-PAC is funded by the U.S. Agency for International Development (USAID) and implemented by the East-West Management Institute (EWMI).

The contents of this publication do not necessarily reflect the views of USAID, the United States Government, or EWMI.

EI-LAT elaborated and published the interim report through the project "Modernization Georgian Style: Major Implications" supported by the East-West Management Institute, G-PAC Think Tank Program (USAID).

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CONTENS

EXECUTIVE SUMMARY

The present document is an attempt to analyse the economic and social models of three countries: Singapore, Estonia, and Switzerland, and identify how appropriate it would be to consider these models as benchmarks for the future development of Georgia. The overall situation, policy and economic and political development of these three countries, and specific indicators thereof, are therefore compared to those of Georgia.

The goal of this study is to quantify the above three models in terms of their relevance to Georgia and its economic policy. Both political and socio-economic features of these countries have been taken into account. A standard set of indicators has been assessed in each country: political and historical preconditions, political environment, macroeconomic indicators, fiscal policy, social policy, business climate and its regulation and agriculture.

1. SINGAPORE

Singapore has been governed by the People's Action Party (PAP) since independence (August 9, 1965). The party's philosophy can be described as social democrat, but Singapore nevertheless has a unique political culture which can be described as authoritarian, pragmatic, rational and law abiding. The political structure of Singapore is strongly centralised, characterised by its "top down" model, and government-managed companies dominate its economy. However, despite holding so many levers of power the Government of Singapore is not seen as corrupt. Decisions are made on the basis of consensus, and the style of governance is collective.

Although the President of Singapore has considerable powers, Parliament remains an effective legislative body. The Parliament of Singapore has one chamber but is modelled on the Westminster parliament, as is the system of governance as a whole. The Prime Minister chooses the Ministers from amongst the Members of Parliament and forms the Cabinet.

There is no statutory local government in Singapore. However there are five community development councils, which are responsible for the administration which would be undertaken by local authorities elsewhere.

Singapore's pension system is one of the oldest and the most development components of its wider social security system. Social welfare provision in Singapore is based around one pillar: the Central Provident Fund, which meets most social welfare obligations. Each employed person who is either a citizen or permanent resident of Singapore is obliged to make payments to this Fund. Both employees and employers make monthly payments to this fund of 5 to 20% of salary, based on age and income level.

Singapore's healthcare system includes both private and public facilities. The Ministry of Health is responsible for increasing living standards, providing shelter, education and medical services, providing sanitation and potable water and supporting preventive medicine. It provides primary healthcare, including preventive healthcare and sanitary education, for each citizen. 80% of primary healthcare services are private, the state providing the other 20%.

There are some government programmes designed to assist poor families. These focus on education, healthcare and the provision of state-owned housing.

Singapore's economic model is a unique combination of free market and strict state control. The State and the market play equal roles in this innovative and successful system.

The country regularly tops the global competitiveness index and is amongst the countries with the best investment return potential; it was third in the most recent globalisation index and second in the global competitiveness index of 2011.

Competitiveness is regulated by Competition Commission of Singapore. The fundamental principle of Singapore's tax policy is the maintenance of low corporate and individual tax rates. The country has zero percent import tariffs on all goods other than alcoholic beverages. Some import products require a license which confirms that they meet environmental and food safety standards.

The main plank of Singapore's economic policy is to attract foreign investment and develop high technology industries and a highly qualified workforce.

Table: GDP of Singapore by sector (%)

	1997	2001	2003
Processing industry	23	22	24
Construction	9	6	5
Transactions involving real property, rent and rendering services to clients	16	17	13.5
Financial activities	13	13.5	10
Economic activities	14	15	13
Other services	11	13	12
Transport and communications	11	11.5	13.5
Hotels and restaurants	3.5	3	2

Singapore is called the "City of Trade". Maintaining export dominance and acting as a transit point for cargo shipments are the aims of the country's external trade policy. Long-term development projects are an important element of Singapore's economic policy and one of these is building the "knowledge-based economy". Some of these projects involve both international and local businesses.

Though its territorial waters are of limited size Singapore has a small but significant fishing industry. Singapore is currently the world's busiest port after Rotterdam and Hong Kong. Re-exports make up 47% of its exports.

Industry plays the leading role in Singapore's economy. The government subsidises this sector to facilitate its development. Present government initiatives are directed towards supporting and promoting the bio-chemical and pharmaceutical industries. The second most important sector of the Singapore economy is oil products processing.

2. ESTONIA

Estonia began to develop its presidential state model after declaring its independence in 1991. In that same year Estonia became a member of the UN, along with the other Baltic States. In 1995 it signed an Association Agreement with the EU and in 2000 it became an EU member.

In additional to ceremonial functions the President of Estonia has a range of representative and formal functions. The President has more power to influence everyday politics than the majority of constitutional monarchs in Europe, but does not have the level of power enjoyed by the Presidents of other presidential states. The Government, led by the Prime Minister, is the real political authority in the state and the Prime Minister makes decisions on behalf of the whole executive government. He does not personally run any of the Ministries but under the terms of the Constitution oversees the performance of the Government. The Prime Minister is nominated and recommended by the President and confirmed by the parliament. The Prime Minister is usually the leader of the largest party in the governing coalition or parliament.

Estonia's local government bodies are elected by direct elections. The competencies of local authorities include public services such as schools and social security. Cities and rural communities are divided into municipal districts and have limited self-governing rights.

Estonia is a member of the European Social Charter, which stipulates the minimum level of standards for the protection of human social rights. Estonia has a 'three-pillar' pension system. The first pillar is the state pension scheme, the second a mandatory privately funded pension scheme and the third a voluntary supplementary pension scheme supported by the government through tax deductions. There has been a functioning unemployment insurance system in Estonia since 2002.

One of the key features of Estonia's economy is its flexibility and openness. It is considered to be one of the most liberal economies in the world. Liberal reforms have promoted the establishment of joint ventures and the acquisition of shares in Estonian companies by foreign investors. These moves have increased the role of foreign direct investment in the development of the country's economy, the main driver of Estonia's sharp increase in GDP. At the beginning of 2000 such investments accounted for 30% of GDP, and 30% of total investment in Estonia. 2005 saw the highest level of foreign direct investment yet.

Before 1990, Estonia did not have the indicators of an industrialised country. Processing and agriculture accounted for greater shares of the economy than is usual is developed countries, whilst the trade and services sectors were of rather modest size. Privatisation and the introduction of foreign capital have facilitated the development of new economic activities. The new private sector which emerged as a result of the privatisation of state-owned enterprises proved key to maintaining economic stability. Furthermore, integration with Europe significantly contributed to the formation of different institutions, as it made necessary the introduction of new regulations which obliged specific institutions to control local and foreign monopolies and protect the interests of different economic agents under competitive conditions. The signing of a Free Trade Agreement with the European Union also played a significant role in the development of the Estonian economy, as it outlined an action plan for the development of cooperation between Estonian and international enterprises.

The signing of free trade agreements with other countries, the introduction of a quality control system and establishing relations with new trade partners has facilitated the entry of Estonian goods and products onto the international market. Between 1990 and 2003, as a result of these structural changes, the economy of Estonia began to resemble that of Eurozone states.

Table. GDP structure (%)

Sector	Estonia			Latvia			Lithuania			Other EU countries
	1990	1995	2003	1990	1995	2003	1990	1995	2003	2002
Agriculture	16	9	5	22	10	5	27	12	7	2
Industry	50	29	30	46	33	24	31	35	34	28
Services	34	62	65	32	57	71	42	53	59	70

Despite the 2008 world financial crisis Estonia has managed to achieve controlled increase of public expenditure without incurring additional debt. Estonia's ratio of state debt to GDP is the lowest in Europe. From 2007-2013 it received subsidies from the EU budget worth 4.5 billion EURO, half of which has been dispersed. This financial aid has enabled Estonia to overcome the 2007-2009 recession and enjoy an economic revival.

3. SWITZERLAND

Switzerland is a federal parliamentary republic. Formally, it is a confederation; however, its structure more closely resembles that of a federation. Switzerland consists of 26 cantons, each with their own constitution, government, parliament, courts and legislation not contradicting those of the Confederation. Cantons have administrative freedom and are autonomous in decision making. They can independently control their own education systems, social services and police. Each canton can set tax rates at its own discretion.

This division into cantons, each having their own legislation, has hampered business development for companies wishing to expand the geographical spread of their activities within Switzerland. Hence, in parallel with the Council of Europe's Regionalisation Policy, Switzerland has consolidated the cantons into 7 macro-regions concentrated on specific urban centres.

The Federal Council**,** a seven-member executive council, comprises the federal government of Switzerland. A new Federal President is appointed every year. The Federal Chancellery assists and consults the Council.

The Federal Assembly is bicameral, being composed of the National Council, representing the people directly, and the Council of States, representing the cantons. This structure reflects the desire to balance the interests of the cantons so that relatively small ones are not dominated by the larger ones.

The Swiss people are proud of the country's ability to make decisions based on consensus. The process a draft submitted by the Federal Council must undergo before it is approved is rather long. It must first be heard by one of the Assembly chambers, then a committee of it as an independent body. When a draft is agreed, it is submitted to the other chamber and there subject to the same procedure. The draft is only approved if both chambers of the Federal Assembly assent to it.

Switzerland's social security system is rather complex. Each sphere has its own peculiarities, most probably conditioned by the federal structure of the country and its direct democracy structures, under which, where the jurisdiction of the legislative authority of the Federal Government does not run, a canton takes over and exercises its own.

Switzerland also has a three-pillar pension system. The first pillar is the compulsory insurance provided for everyone, including invalids, elderly and single people. This is a compulsory system, administered by the Federal Government, aimed at presenting the elderly and invalid with a minimum living wage and support for their dependants. The compulsory system covers everyone residing or working in Switzerland, including Swiss working outside the country employed by the Confederation of Switzerland. The second pillar of the pension system is to ensure adequate living standards, and the third pillar is individual pension schemes.

The healthcare system of Switzerland, despite being expensive and costing 4,270 EURO per person, is internationally recognised as providing universal coverage and a high quality of treatment. A wide network of insurance companies fund the services rendered by hospitals, despite their high cost.

Unemployment insurance is compulsory for everyone not of pension age. Unemployment insurance contributions are set at 2% of salary, paid equally by employee and employer.

Agriculture is one of the best-developed sectors in Switzerland. The country's agricultural policy has been gradually changing since 1993. Regulated and fixed prices have been replaced by two forms of direct assistance. The first is direct financial assistance to all farmers meeting specific preconditions, which compensates them for fulfilling constitutionally defined duties such as providing social structures for villages, undertaking environment protection and providing food. The second is direct ecological assistance, provided only to farmers who do more to protect the environment than is required by law or statutory environment management practices.

In 2002 the Swiss Parliament approved a new agricultural policy (AP 2002) which envisaged linking direct assistance to farmers with creating the conditions needed for the production of ecologically pure products.

Ecological standards were defined and farmers receiving this assistance were obliged to observe them (for example, there are conditions for using pesticides and fertilisers and for cattle breeding). The amount of direct environment assistance paid out significantly increased between 1999 and 2002, but it still forms an insignificant share of the total allocated to assist agriculture.

The agricultural policy was again reconsidered in 2007, and some changes were made. The goal of the new policy was to strengthen competitiveness. The direct assistance instruments on offer now included tax concessions for new investments and financial aid for personnel training. The 2007 reform took into account the requirements of the World Trade Organisation (WTO), and quota limitations on meat and dairy products were thus eliminated.

Assistance was also provided in the form of an export production subsidy, 85% of it for dairy products exports and 15% for cattle exports. Milk production is one of the key agriculture sectors, generating 2/3 of total agricultural income. 25% of the milk produced in Switzerland is processed and the cheese thus produced is exported. Under the terms of the 2007 Trade Treaty signed with the EU Switzerland was obliged to abolish its existing subsidies on cheese and other agricultural product exports: consequently, it transformed this subsidy into direct assistance for farmers.

Switzerland tops the list of developed countries which subsidise agriculture, both in terms of proportion of subsidy in agricultural sector income and per capita subsidy. For example, in 2003 aid allocated to farmers accounted for 74% of the revenues generated from agricultural products. In the EU this figure is 32%.

Table. Assistance to producers and consumers by countries (1995-2003)

	1995	2000	2001	2002	2003
Assistance to producers (all products)					
Switzerland (mln. Euro)	5.094	4.910	4.940	5.292	4.941
Share of production (%)	72	72	72	74	74
Per capita (Euro)	724	684	683	732	683
The EU (mln. Euro)	100.795	96.146	99.295	100.577	108.251
Share of production (%)	37	34	34	35	37
Per capita (Euro)	272	256	269	272	293
The USA (mln. Euro)	17.538	53.901	57.170	43.343	34.675
Share of production (%)	11	22	23	19	18
Per capita (Euro)	67	196	203	147	122
OECD countries (mln.Euro)	211.980	262.991	254.534	243.717	229.473
Share of production (%)	32	32	31	31	32
Per capita (Euro)	196	235	226	216	204
Assistance to consumers (all products)					
Switzerland (mln. Euro)	-3.837	-3.644	-3.259	-3.569	-3.383
Share of production (%)	-66	-63	-59	-62	-61
Per capita (Euro)	-545	-507	-459	-493	468
The EU (mln. Euro)	-52.223	-48.585	-47.963	-52.299	-55.450
Share of production (%)	-28	-27	-25	-28	-30
Per capita (Euro)	-141	-129	-130	-141	-150
The USA (mln. Euro)	-6.153	4.703	-642	6.741	7.732
Share of production (%)	-5	3	-0	4	5
Per capita (Euro)	-23	17	-0.5	24	27

OECD countries (mln. Euro)	-142.172	-160.374	-147.178	-148.400	-137.168
Share of production (%)	-26	-25	-23	-24	-24
Per capita (Euro)	-131	-143	-129	-130	-122

In spite of the WTO requirements Switzerland has not fully deregulated its agricultural sector, since the volume of non-commercial services rendered by the agricultural sector would be reduced under conditions of complete deregulation. Examples of such non-commercial services rendered by the agricultural sector are: improving the quality of life of those residing in villages, environment protection, food quality maintenance, improvement of conditions for cattle breeding and provision of insured products.

The economic structure of Switzerland is that of a typical developed country. Switzerland has concluded various bilateral agreements with the EU, and since 2002 gradually abolished trade barriers, thus allowing Swiss companies to enter and act in the European market without impediment.

The Swiss economy has always been based on the principles of free trade, low taxation of imports and practically zero import quotas. It is the most competitive country in the world according to the World Economic Forum index.

However, Switzerland has the most protected agricultural sector in the world. The existence of different tariffs, tariff quotas and subsidy regulations restricts trade in many important products such as wheat, corn and soy. Switzerland also applies a strict regulatory regime to biotechnology products.

Income tax rates in Switzerland are progressive. The maximum federal income tax rate is 11.5%; federal corporation tax is fixed at 8.5%. VAT is imposed on entrepreneurs conducting business activities in Switzerland whose annual turnover exceeds CHF 75,000. Everyone importing goods and services worth more than CHF 10,000 annually must also pay VAT. VAT rates differ in Switzerland: 7.6% is the standard rate, but a 2.4% rate applies to food, medicine, newspapers and books and 3.6% to lodging services.

During the period 1990-2010 Switzerland's GDP increased by 1.4% annually. Phases of stagnation, as well as increase and development, have been observed.

4. SUMMARY

One of the main factors in the rapid economic development of **Singapore** (from a poor agricultural to a rich industrial state) was its geographical location and the advantages this had long given it. Due to that location Singapore had historically been a main trading centre for the United Kingdom in Southeast Asia, as companies founded by wealthy London traders gained the power to secure control of trade in the region between South America and South Africa. When the United Kingdom granted Singapore its independence there were almost no foreign political risks to its development. The party which came to power and has since ruled unchallenged advocated the creation of a free market (through low taxes and encouragement of investors). The cheap but educated labour force (almost 95% of the Singapore population knew English) made it inexpensive for Western companies to produce goods in Singapore; however, the state also strongly interfered in the economy by limiting the activities of opposition-minded interest groups (for example, trade unions). This helped employers retain low salary costs at the expense of violating accepted standards of environmental and employment law.

This is why the Singapore system is conditionally termed "Confucian capitalism" - a system where, as in socialism, a "considerate" government is placed above the individual. The political culture of such a country can be characterised as authoritarian, pragmatic, rational and law abiding. Hence, Singapore's state development has been contradictory: the state recognises the supremacy of the free market, but also regulates the social life of its population rather like countries with a socialist system.

The successful transformation of **Estonia** has been characterised by its government's ability to correctly select strategic approaches and priorities and implement them successfully. The Government of Estonia conducts a social and regional policy which meets the requirements set when it first sought integration into European structures, and this is a product of the high level of management competence displayed during the country's transformation. This transformation initially took place under some favourable conditions: Estonia enjoyed geographic closeness to economically well-developed countries near the Baltic Sea, a small scale economy, a united and stable Government and population who were both committed to adopting a modern democracy and market economy, the country's experience of independence prior to WWII and the national aspiration for integration with the EU and NATO, the possibility of which became clear later. These favourable conditions, and taking the correct strategic decisions at almost each phase of its transformation, have made Estonia one of the world's most successful countries, with one of the world's most open and stable economies, at the present time.

The factors contributing to the success of **Switzerland** should first of all be sought in the country's historical and political context. The federal system of the state, with its elements of direct democracy, has created decentralised governance and, above all, fostered the development of a decentralised economy. Switzerland, comprised of four main ethnic groups and located at the centre of Europe, long ago decided on a policy of neutrality and has managed to develop the idea of a "Swiss identity" despite being bordered by big and hostile states at various times. Its economic policy is based on recognition of free market principles and conducting goal-oriented social and regional policies. Its economy is characterised by a liberal financial sector and a favourable investment environment. At the same time, in order to serve the national interest, the agriculture sector is subsidised and a consensus-based social policy is implemented.

If we compare these three countries with **Georgia**, we can see that Georgia has tendencies inconsistent with theirs. Property, concluded business deals and competitiveness are not protected in Georgia, and this has hindered the rapid growth of its economy. Similarly, the Georgian version of liberal reforms has not demonstrated the advantages of having a liberal economy. In the period since 2004 economic liberalisation has largely consisted of one element, deregulation, and this one-sidedness has failed to establish an economic environment with key advantages, similar to that of Singapore.

Georgian economic policy has traditionally excluded the possibility of the state implementing a goal-oriented policy or being an active economic player in fields such as technological development, which would create a real basis for progress. All the achievements of the three countries analysed have derived from the state

pursuing an active policy. Rather than conducting institutional and consistent state policy, the ruling party in Georgia has exerted a type of control over the economy which serves the political agenda of the government rather than the state. The significant role played by the Government of Georgia in economic processes and finance flows has been used as an instrument of political power.

The three countries studied have well developed social security, pension and healthcare systems, in which the state plays an important role in accumulating the required monetary resources and ensuring the social security of the population. However Georgia's libertarian ideology minimises and even belittles the concept of social responsibility, advocating instead a system based on personal responsibility, at least at this stage.

Unfortunately Georgia, unlike Switzerland, decided to ignore the agricultural sector during its first raft of changes, leaving it subject to market forces. Only after 2008, when the situation in the villages had deteriorated, did the Government, and then only in speeches, start paying attention to agriculture; its verbal declarations have yet to be translated into consistent and planned strategy.

Of the three countries discussed above Estonia is the closest to Georgia, because it is a fellow post-Soviet country and also an EU member – as Georgia has taken steps to become. Estonia has managed to develop a free market-based economy, simplified administrative procedures to the maximum extent possible through implementing an objective-oriented policy and brought its own policy into line with EU requirements. As a result, Estonia has become a role model, the most successful of post-Soviet states.

Georgia's policy has proved less successful in both respects. It has not created a liberal economic environment because property, business deals and competitiveness are not protected. At the same time, despite the avowed liberalisation, the state has remained an important economic player and, in certain areas, its role has even increased. As a result, progress towards EU requirements has been delayed, which in turn has prevented EU integration. Georgia has dragged on for years the process of adopting European regulations on the liberalisation of the economy but failed all this time to actually introduce the fundamental principles of a liberal economy. Estonia has acted differently in both cases.

Based on the above, the conclusion is drawn that the policy of modernisation and transformation adopted by Georgia since 2004 has not only been contradictory but failed to share relevant and positive experience from role models such as Singapore, Estonia and Switzerland which could have played a significant role in creating material and fundamental changes, and could have alleviated the harsh post-Soviet reality the country is experiencing.