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Public Sector Governance
Singapore and the Czech Republic

With contributions by

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Editor's Note

Much of the discussion concerning Africa's entry into the global mainstream politically and economically has to do with improved levels of public sector governance, which involves two interrelated requirements. These are, first, the elimination of corruption at all levels of government; and second, an improvement in the capacity of state institutions to make good on their promises to bring about socio-economic development. But there is also another related point. As long as the state in African countries is the primary source of enrichment for individuals, fighting corruption by establishing anti-corruption commissions or trying to cut red tape will come to nothing. Hence, there is a parallel necessity to allocate sufficient thought and resources to opening up other avenues for wealth creation in African countries.

The role that leaders play in this endeavour cannot be underestimated. The report of the Commission for Africa states,[1]

> Improving accountability is the job of African leaders. They can do that by broadening the participation of ordinary people in government processes, in part by strengthening institutions like parliaments, local authorities, trades unions, the justice system and the media... Without progress in governance, all other reforms will have limited impact.

The 2005 Governance Report of the UN Economic Commission for Africa (UNECA), argues that Botswana, Mauritius and South Africa,[2]

> with fairly capable democratic states and good governance, have promoted economic and human development better than countries without these characteristics... Good governance...requires a capable democratic state as well as a vigorous civil society and an innovative private sector. It is not an event but a process. It is the product of

[1] Commission for Africa, *Our Common Interest: Report of the Commission for Africa, March 2005*, p.12.

[2] UNECA, *Striving for Good Governance in Africa: Synopsis of the 2005 African Governance Report*. Prepared for the African Development Forum IV. Addis Ababa: UNECA, 2004, p. 26.

deliberate policy choices, which countries make in managing themselves and creating a vision for the future.

The UNECA document outlines 10 priorities for building 'capable and accountable states'. These range from strengthening the capacity of parliaments to perform their core functions, to deepening legal and judicial reforms and fostering credible and responsible reporting by the media. It also recommends improvement in public sector management by (among other things) reducing red tape, improving the performance of civil servants through incentives, and tapping into the skills possessed by members of that country's diaspora. The report also proposes greater decentralisation to improve delivery of social services.[3] Such decentralisation, however, needs to be carefully managed if it is not to entrench corrupt practices, among other undesirable outcomes.

The ability of a national government to ensure the implementation of government policy all the way through to the local municipal level has been thrown into high relief by the social protests witnessed in many municipalities in South Africa during 2005. All of these were related to the levels of corruption in local administrations, which reflected the politics of patronage, and their inability or unwillingness to meet their obligations to their constituents.

Where a national government is able to deal with corruption and other forms of poor government from the highest level to that of the local community, the prognosis for good and accountable government that fights corruption is positive. This is less so, however, where the government is 'dishonest or too weak to deal with a public apparatus permeated with corruption'.[4]

This report focuses on good public sector governance practices in two countries: Singapore and the Czech Republic. In both cases the authors examine the role that leadership, skills, social and political

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[3] *Ibid*., pp. vi-vii.

[4] See Andvig JC, 'Alternative Perspectives, Perspective Paper 6.1', in Lomberg B (ed.), *Global Crises, Global Solutions*, Cambridge: Cambridge University Press, 2004, p. 348.

infrastructure, macro-economic and financial policies and the external environment play in these countries. They extract lessons from these factors by assessing the extent to which they were significant in ensuring the relative socio-economic and political success of the countries concerned.

The following are some of the most cogent arguments emerging out of these case studies.

- No matter how difficult the external environment, what determines success is whether countries are proactive in identifying the policies and actions necessary to deal with adversity.
- States have to constantly re-invent themselves as they scan the international environment for opportunities that will further the cause of their economic development. This requires a long-term vision of where the country aims to go. For example, it is in this context that Singapore's many free trade agreements with other countries can be understood.
- The absence of natural resources may well make states more resourceful in pursuing growth strategies.
- Good human resources are indispensable. People with skills and those capable of visionary and strategic thinking are essential in both the civil service and the business sector. If the requisite numbers can be attained only through an inflow of foreign skills, then sobeit. If African economies are to become more globalised, then a better-educated population is vital to their success.

Since independence Singapore has been turned from an entrepôt to a hi-tech economy, impelled for the most part by state agencies. This largely state-driven process has been possible because of the implicit trust of the citizens in the government. This confidence has proved well-founded, but the country's motive force now requires re-invention. In her paper, Low emphasises that the next stage of Singapore's growth will have to be activated by the quest for innovation and wealth.

Would state agencies in Africa have the capacity to drive a similar process? The answer would probably depend on the competencies of individual states. The question also feeds into the debate over the role of the state in facilitating the development process in Africa. The South African president, Thabo Mbeki, is fully engaged in this discourse.

Singapore, the world's most globalised country, has a modern, open economy that exists alongside 'tight government control over the media and limited individual liberties'.[5] But unlike those heading many African states, Singapore's political leaders have been responsive to the needs of its citizens, generating growth and improving standards of living by managing the economy in a sound and responsible manner. Under such circumstances, people tend to be more tolerant of authoritarian regimes for longer. Trust in the state as a 'reliable actor' is critical.[6] This would include situations where a state is perceived as able and willing to enforce its own rules impartially, and those rules are regarded as fair.

While good public sector governance has ensured Singapore's success, the lack of it has condemned many African countries to vicious cycles of underdevelopment and poverty. As Rose-Ackerman says, 'poor governance is…one of the reasons that some countries are poor and have low or negative growth rates'.[7]

The other case study concerns the Czech Republic, which was part of the eastern bloc's Council for Mutual Economic Assistance (COMECON) barely 16 years ago. It is now a member of the European Union (EU), and has made tremendous strides towards transforming itself into a market democracy. Like its neighbours in the former Soviet Eastern Europe, the Czech Republic now has a more flexible economic system that is acting as a magnet for investment in sectors such as the auto industry. It is also forcing a dramatic re-think of the social model,

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[5] See *www.atkearney.com/shared_res/pdf/2005G-index.pdf*, p. 59.
[6] Rose-Ackerman S, 'Governance and Corruption', in Lomberg B (ed.), *Global Crises, Global Solutions*, Cambridge: Cambridge University Press, 2004, p.308.
[7] *Ibid.*, p.304.

which many of the more rigid 'old' economies, like Germany and France, should be learning from.[8]

It is probably a tautology, but the ability of the Czech Republic to remake itself from a communist state into an efficient market democracy in little more than 15 years has much to do with the incentive of EU membership. Accession required that each candidate country embark on extensive political and economic transformation, which was closely monitored by the European Commission. The Czech Republic regarded incorporation into the EU as both politically and economically symbolic of the shedding of its communist past and its embarking on a path to prosperity. The EU was seen as the 'guarantor' that the latter would come to pass.

The transformation of the states of Central and Eastern Europe from socialist-type to market economies offers lessons for a number of African countries that have experimented with economic and political reforms over the last two decades. While it is not the purpose of this report to offer a comparative analysis of the manner in which reforms in these two regions were achieved, it highlights areas that would require further investigation.

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[8] For example, workers in the Czech Republic, Slovakia and Poland work about 2,000 hours a year compared with 1,440 in France and Germany, and don't have the expensive overtime requirements that exist in many Western European countries.

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Elizabeth Sidiropoulos
Series editor

Issues and Challenges in Singapore Inc: A Qualified Success Story

Linda Low

Introduction

From the $10 million it had in foreign reserves when the People's Action Party formed a government in Singapore in 1959, the nation's reserves at the end of 2002 had risen to $82.3 billion. This is not insignificant for a small city-state like Singapore, especially when these reserves are compared with the $269.9 billion of China, $161.7 billion of Taiwan, $121.3 billion of Korea, $111.6 billion of Hong Kong or $5.9 billion of South Africa, all of them more populous countries than Singapore, and with greater natural resource endowments. The larger member countries of the Association of Southeast Asian Nations (ASEAN) such as Indonesia, Malaysia and Thailand average between $30–38 billion in official reserves.

There are many aspects to the economic success of Singapore, but the most noteworthy is probably the restructuring of the colonial *entrepôt* economy undertaken by the People's Action Party regime to develop world-competitive industries such as electronics, computer peripherals, telecommunication and office equipment, chemicals and petrochemicals; and services such as finance, communication and logistics. Like Japan and other successful East Asian economies, Singapore is a developing state whose industrial policy is driven by state agencies, principally its Economic Development Board (see details below); and nurtured by fiscal and monetary incentives. These include industrial financing under the Development Bank of Singapore, a government-linked bank. The Jurong Town Corporation provides industrial land and infrastructure.

Singapore Inc comprises Temasek Holding, which owns and controls state-owned enterprises and government-linked companies. These include many corporatised as well as some privatised statutory boards and the Government Investment Corporation of Singapore, which invests public sector surplus funds and official reserves abroad.

These features, combined with 'soft' infrastructure (such as human resources development) provide an integrated package that has enabled Singapore to prove that market-driven development works with supportive state intervention. It has also served to allay the fears of some developing countries concerning foreign direct investment (FDI) and the business practices of multinational companies. Singapore's economic transformation and the manner in which it has leveraged multinational corporations provide lessons for other countries which face the challenges of globalisation, especially in information communication technology, the development of new knowledge-based economies and deregulation in a market-led environment.

Apart from the favourable regional and global factors that assisted Singapore's growth from the 1960s until the Asian crisis in 1997, a number of principles of governance underlie Singapore's success. The country has had its fair share of crises, which are discussed in the next section. Each crisis was managed and resolved, and practices established which helped to create better resilience, reputation, credibility and confidence to meet the next crisis. Making a virtue out of necessity and turning adversity to advantage is a precept that Singapore has taken to heart and applied time and time again.

The external regional and global environment

Before the elements of best practice and good governance principles as found in Singapore are examined, the role and impact of the external environment on the development of an open, trade-oriented economy, has to be acknowledged.

Singapore had its fair share of externally-induced crises, starting in the 1960s. It suffered from the Indonesian Confrontation campaign launched against Malaysia (while Singapore was still a member of the federation). This was followed by Singapore's exit from the Malaysia in 1965 and the devaluation of the pound sterling, which cost the newly independent city-state some 15% of its official reserves. Singapore was also faced with a rise in unemployment after the British pulled out east of Suez when the empire folded in the late 1960s.

The 1970s were no smoother. The first and second oil crisis occurred at the start and end of the decade. The demise of the Bretton Woods fixed exchange rate regime after the US closed the gold window led to floating exchange rate regimes. Singapore floated its dollar in 1973. From that time to the next globally-induced recession in 1985, Singapore rode the capitalistic growth curve as world trade and capital flows increased. FDI and multinational corporations created a global rising tide, raising all boats in the fast-integrating world economy. Transformed from an *entrepôt* to a manufacturing-*cum*-service economy, Singapore took advantage of new opportunities for regional and global trade to introduce industrial restructuring and diversification, upgrading its skills and technology to strengthen its international competitiveness.

The 1990s started with another oil shock. Then, nearer home, the Asian 'flu' began in July 1997, first as a currency crisis, which escalated into a finance and banking emergency affecting Thailand, Malaysia, Philippines, with Indonesia falling deeper into full-fledged economic and socio-political chaos. The new Indochinese ASEAN states were relatively insulated, being less globalised and therefore less exposed to capital flows. China's currency remained non-traded in foreign exchange markets, but the contagion had spread to Hong Kong, Korea and Taiwan by August 1997. Singapore was like a 'good house in a bad neighbourhood', better managed and sufficiently fortified by its reserves to stave off currency speculators. This stood in stark contrast to the corruption, cronyism and nepotism which characterised the corporate and financial sectors of those countries affected by the crisis.

Because of its link with the US through exports and multinational corporations, Singapore was severely affected when the US new dot.com economy crashed in March 2001. It was damaged further by the 11 September 2001 terrorist attacks. As discussed later, this chain of external woes prompted the establishment of various government-appointed committees to reposition the beleaguered economy, dealt yet another blow as the severe acute respiratory syndrome (SARS) broke out in Asia in March 2003. The cumulative effect of this serial downturn and recession cycle has been the worst and most severe in Singapore's history. Cumulative causes and effects plus an inherently high cost structure in a small, resource-lacking urban state have sorely tested its resilience.

On a more positive note, crisis management is not a new art: Singapore has ridden out all setbacks so far, and developed the institutional wherewithal to rise to each occasion. Its containment of SARS, for instance, after a slight delay in recognising its seriousness because of the unprecedented virulent nature of the epidemic, may be contrasted with China's less transparent approach (which was criticised by the World Health Organisation).

A valuable learning point for other countries is Singapore's well-honed institutional framework for financial crisis management, which is geared towards dealing with financial emergencies as a test of strength, rather than as a source of weakness. Precisely because it is more open and exposed to externally-induced shocks, Singapore realises that credible and effective crisis resolution is imperative. It has turned any unavoidable ill wind to its advantage, and has gained by its stoic determination to even the odds.

Towards best practice and principles of good governance

Despite its lack of natural resources, Singapore has notched up many successes. These include trade figures which are more than double its gross domestic product (GDP), its strong development-orientated, efficient and effective leadership, and consistent growth in income, employment and standard of living for its citizens, matching that in the Organisation of Economic Co-operation and Development (OECD) countries.

Singapore's principles of governance include transparency, accountability, reward for merit, pragmatism, eclecticism, an emphasis on results and performance, a corruption-free and honest government, competitiveness, a programme to ready the public sector for globalisation (the Public Service for the 21st Century programme), partnership and social trust. The last of these, social capital — investment in people — is intended to complement the contribution to economic growth made by financial capital. Without human bonding and networking based on social trust, the finest physical infrastructure is insufficient. Thus, countries like Japan and Germany, which emphasise social capital, have an extra edge that is not just nationalism, but a cohesive social culture and behaviour.

Singapore enjoys regular fiscal and balance of payments surpluses, which contribute to its foreign reserves. It controls and commandeers national savings through the Central Provident Fund (to be discussed below). The People's Action Party government has made good use of Singapore's financial resources to transform the industrial structure and increase the national wealth.

The Central Provident Fund is a social security scheme inherited from the British in 1955. Since 1968, savings have to be invested in government securities and bonds in return for a guaranteed minimum interest rate of 4% per annum. The Central Provident Fund is pooled with the rest of the public sector surplus and official reserves, and invested by the Government Investment Corporation of Singapore. That this body can earn a rate of return higher than 4% is tantamount to an implicit taxation of the Central Provident Fund's members. At the same time, the government's 'borrowing' from the Central Provident Fund enabled it to service the domestic public debt, which in turn enabled it to fund public housing and infrastructure in the early years when there was a budget deficit.

In part, the Central Provident Fund–fiscal link enabled Singapore to avoid other, less salubrious, means of deficit financing or borrowing from the international financial institutions. It tapped the World Bank when its one and only development plan for industrialisation was drawn up in 1960–65. The last of such World Bank loans partly funded the relocation of the National University of Singapore in 1979. After the last tranche drawn in 1979, Singapore also relinquished its selfdrawing rights (introduced to help countries with balance of payment problems during the oil crises) on the IMF.

Lee Kuan Yew, the country's first prime minister, is an iconic leader, who played an exemplary role in bringing Singapore from the Third World to the First. His trusted lieutenants include his original associates, Goh Keng Swee (trained at the London School of Economics and dubbed Singapore's economic architect); Toh Chin Chye (founder and chairman of the People's Action Party); and S Rajaratnam, thinker and philosopher. Another of his trusted aides was Hon Sui Sen, who started as a civil servant, served on the Economic Development Board and became the first president of the Development Bank of Singapore before he was persuaded by Lee Kuan Yew to stand for election. He was finance minister when he died in office. Hon epitomised the first generation of a loyal, passionate breed of bureaucrats and politicians. What Lee Kuan Yew has instilled as the ethic of his government is visionary and upright leadership, supported by an equally honest and efficient civil service (even though it has always been politicised rather than apolitical, in the tradition of Whitehall). Singapore's 'badge of honour' is the clean, effective and efficient government and administration that form the backbone of all its activities.

Although Lee Kuan Yew's leadership was not transparent, it was still accountable in terms of fiscal fiduciary and budgetary finance. It may be argued the very opacity of his style and of Singapore Inc also constitute its strength. While a very controlled and disciplined socio-political culture may have been achieved at the cost of neoliberal thinking, Lee and Goh's combined prudence at the helm are responsible for the current budgetary surplus and high official reserves. Besides its tax and non-tax revenue income harvested from Singapore Inc's entrepreneurial activities, the links between the Central Provident Fund and the fiscus is an example of best practice which has funded public flats built by the Housing and Development Board to make Singapore one of the world's finest home-owning nations.

Politically, Singapore is a meritocracy rather than representative of vested interest groups. Unlike most countries, Singapore rewards credentials and capability, which are the key criteria for politicians, bureaucrats and all managers and directors of state-owned companies. This applies from the top to the lowest levels of government. Lee Hsien Loong, the prime minister, who is also finance minister succeeded Goh Chok Tong in August 2004. The prime minister is the eldest son of Lee Kuan Yew. His second son, Lee Hsien Yang, is the chief executive officer of the government-linked company Singapore Telecom. Ho Ching, the wife of Lee Hsien Loong, is the executive director of Temasek Holdings, having moved to this position from being the chief executive officer of another government-linked company, Singapore Technologies. All owe their positions to their credibility in the polls or the support of their management boards rather than to political influence or family links.

Other equally qualified and worthy members of the government include bureaucrats who have become politicians. Tharman Shanmugaratnam was the deputy managing director of the Monetary Authority of Singapore, but is now the Minister of Education. Koh Boon Wan was formerly a permanent secretary in the Ministry of Trade and Industry. These are two recent examples of people elevated to ministerial positions in the tradition of Hon Sui Sen. Another practice reminiscent of Japanese '*amakudari*' (literally, descent from heaven) is the 'retirement' of politicians and senior bureaucrats into government-linked companies, as a form of human resources management and networking. Ministers and senior civil servants often hold more than one portfolio. Such double-hatting reinforces the close network of the 'couple of hundred' people who run Singapore.

Practices which may be considered questionable and suspected of corruption and nepotism elsewhere are completely acceptable in Singapore's developmental state. How enduring and sustainable the maintenance of a clean and honest government will be is an intriguing question. The Corruption Practices Investigation Board, established directly under the Prime Minister's Office by Lee Kuan Yew when he took over, continues to provide various checks and balances, which include the mandatory declaration by public servants of their and families' assets and wealth.

Pragmatism and eclecticism make for flexibility in policy-making. The government has made U-turns when necessary. For instance, its 'stop-at-two' population policy shifted to a 'have-three-or-more based on affordability' criterion when it became apparent that Singapore's population growth was less than zero and that fertility and mortality rates were declining. Also, rather than resorting to xenophobia and nationalism, the government has welcomed qualified foreign personnel to balance Singapore's demography and raise its level of skills, even at a time when structural unemployment has been hitting older, less educated and less skilled Singaporean workers during the current recession. Productivity has been enhanced by result- and performance-oriented policies.

Relatively clean, corruption-free government is Singapore's credo. This encourages foreign investors and multinational corporations to use the country as a regional hub and as a base for their overseas headquarters, in preference to other Asian economies. Singapore's democratisation may not be totally in line with what is deemed desirable by Western standards, although greater consultation and participation is encouraging an Asian version of a civil society to emerge and bring in its wake a better-educated and more politically aware electorate.

More controversial may be the various incentives that are administered selectively to particular industries and sectors by the Economic Development Board and other agencies:[1]

> the opaqueness of the Singapore approach raises … questions about its viability for governments under more public scrutiny. Although the money that Singapore spends on industry-specific training and research programs clearly has benefits, these costs are not published; and whether Singapore taxpayers are the net beneficiaries remains open to question.

While government-linked companies are not explicitly protected by the state, they are in the loop of policymaking. Many of them have

1 McKendrik DG, Doner RF & S Haggard, *From Silicon Valley to Singapore: Location and Competitive Advantage in the High Disk Drive Industry*. Stanford: Stanford University Press, p.273.

been encouraged to move offshore or into the region to tap into global markets and resources rather than crowd out local enterprises. The Public Service for the 21st Century programme was inaugurated in 1999 aiming to turn top regulators into best practice facilitators. The programme encourages bureaucrats to be responsive to new competition, both at home and abroad. Multinational corporations are relocating to cheaper locations, driven by new technology and the new economy. A more entrepreneurial workforce is required to avoid hollowing-out. Similarly, in response to the new economy, Singapore requires less rigid bankruptcy laws and regulators need to facilitate the use of public flats for small, dot.com companies.

Good leadership and policies constitute only one hand clapping instead of two in a developing state if social trust is lacking. However, tripartite partnership involving the state, private sector management and labour has proved to be successful in the National Wages Council. This comprises representatives of the government (both as the largest employer and the economic regulator), the national employers' association and the National Trades Union Congress. Wage recommendations based on productivity and performance at the sectoral, corporate, group and individual levels are recommended annually. Because the public sector follows the National Wages Council's recommendations, it is a *de facto* price leader. The Council's responsibilities also include skills retraining and upgrading for the demands of the new economy, settling retrenchment benefits and managing employment issues.

Singapore takes pride in its harmonious industrial relations. This makes it a magnet for foreign investors weary of labour problems at home and elsewhere. The symbiotic relation between the People's Action Party government and the National Trades Union Congress had its political origins in the 1950s, and employment and labour market conditions are generally good. There is little need for the National Trades Union Congress to take up the cause of workers' rights. Moreover, the government's socialistic distribution of benefits ensures the provision of housing, education and health facilities together with various Central Provident Fund schemes to meet the workers' basic needs.

To a certain extent, the relative absence of the non-governmental organisations which are needed to constitute an active civic society is a source of concern. The developing state also needs to foster deeper levels of entrepreneurship and encourage the growth of the private sector to create greater plurality and participation by society. How the government responds to and manages these challenges in line with its own policies will be illuminating.

Structural challenges — A proposition

The proposition is that Singapore is faced with structural challenges that come from global, regional and technological sources. The government therefore has to deal with trends such as the deepening of domestic capital, the outsourcing and relocation of production and the effects of the economics and politics of other countries. It must realign itself to allow the private sector to drive the new economy. This presents major challenges to the current domestic structure.

At the heart of the proposition are two inter-related hypotheses which must be included in any realistic policy recommendations aimed at sustaining a competitive role in a globalised economy. The first hypothesis is that if a stronger and more active private sector is better suited to the realisation of a new economic order, Singapore Inc or the state-controlled industrial policy driving the old economy has to go, be privatised or reinvent itself in some way.

The second hypothesis takes the form of a question: Whether the political economy of a government-controlled city-state can withstand the restructuring required to loosen Singapore Inc's grip on the economy. Since 1959, the government has used this interventionist strategy to build up both its financial resources and its political legitimacy. In the old economy, the shift from a factor-driven economy to an investment-driven one saw the state invest in infrastructure and human resources to achieve economies of scale and efficiency.

However, the investment-driven stage has reached its limit. Wages are already higher than in other countries at the same industrial level; labour force participation has neared its upper limit; and capital–labour ratios are at, or near, US levels. The next stages, which are innovation and wealth-driven, will need a different strategy, as described in the first hypothesis.

That Singapore's current financial and economic success is the result of the state's efficient diversion of financial resources from private to public coffers for more than four decades is hard to criticise too strongly. Its clean paternalistic government has put Singapore Inc into a position to withstand the negative aspects of globalisation if it makes the right choices. Japan Inc, which suffers from a weak banking system among others, is far more vulnerable. That the same may happen in Singapore is a sobering thought, hence the call to reinvent to avert a similar problem.

The dilemma posed by the second hypothesis is how the economic restructuring of Singapore Inc will affect the state's control of financial resources, which in turn legitimises the People's Action Party government. It has justified its control of the economy on the grounds that given an economy lacking in scale and resources, the state could not rely on pure market or traditional production factors such as land, labour and capital to spur growth. The government needed to create wealth somehow. It has used good economic management of its scarce resources, technology and productivity to produce growth and capital accumulation. These now underpin the country's political economy. The central plank of government's policy comes from fiscal surpluses generated by conservative fiscal and budgetary policies and high yields from non-tax revenue, especially in land sales and other capital investment income. While accountability is not an issue with Singapore's government, it is not strong on transparency.

China has altered the global FDI landscape so profoundly that Singapore now has little or no choice but to gear up to reach the next (innovation-driven) stage as quickly as possible before reaching the final (wealth-driven) stage. The transition to the former has implications for the division of labour between the state and the market.

Macroeconomic policy has to be more pre-emptive, strategic and supportive. The education system needs to be restructured to allow for freer socio-political dialogue and the fostering of innovative and creative elements (intellectual capital). These are not as easily produced in schools and institutions as professional and technical skills. Some 'chaos' has to be injected to create intellectual latitude and a culture of learning. This is better suited to the open discussion and resolution of problems and challenges in a consensual and democratised way that is more open to compromise, than by *fiat* or top-down instruction, as has been customary.

There also needs to be a shift towards greater political participation. Hitherto this has been compromised as a result of the government's emphasis on the economy rather than on democracy. Singapore's government-led industrial policy favours a strong government role in economic growth, aiming at poverty reduction rather than income equality. Gender issues, for instance, are adroitly avoided. For both the innovation and wealth-driven stages, these parameters may have to be redefined to align the political culture more closely with the requirements of participation in a globalised market system. It is not enough to simply be a corruption-free government.

In the sections below, macro and micro dimensions of the structural issues facing Singapore's government are elaborated.

Foreign reserves

The focus in Singapore, both from a policy angle and in terms of mobilisation and accumulation of resources, is on arriving at a fiscal surplus. Such government saving represents a national resource which can be invested domestically or abroad. If public sector funds are invested overseas, they become part of the official reserves, along with overall balance of payments surpluses from the current account (net export earning) and capital accounts (net capital inflows). Generally, balance of payments surpluses denote reserves kept in gold, foreign currency and assets. For a small city-state economy lacking in natural resources, financial resources can and should be used as a substitute for natural endowment. The only proviso is that the efficiency and productivity of resource allocation is not compromised.

While Singapore Inc may be overly anxious about enhancing its reserve levels, it has nevertheless used its surpluses which are not yet part of the official reserves, in projects intended to counter recession and to foster new areas of growth.

Fiscal surplus

The bountiful funds generated by the public sector in Singapore Inc will be affected by any changes involving revenue and surplus-generating capacity. But an economy that is less government-driven and more private sector-led would require more transparent management and the utilisation of surpluses and official reserves. Ultimately, the people as a whole, and not just the government, should decide how the money is used. However, it is important to note that in the management of surpluses and reserves, Singapore is not in the same league as other developed economies, when considering criteria such as economic efficiency, rates of return and even transparency.

As a result of its transition from deficit financing to sustained surplus, the People's Action Party government has used its budgetary surpluses, not its official reserves, to build infrastructure and undertake projects such as a mass rapid transit system, a medifund and education fund and the upgrading of public housing. However, in the run-up to the 2001 election, the government used its financial success to make a 'Singapore shares' pay-out as a form of political dividend based on the country's overall economic health. This tilted the political balance in favour of the People's Action Party. There is no doubt that the process of using government surpluses needs to be subject to independent scrutiny.

The government has not lived up to its undertakings to encourage greater private sector participation in the economy, and it has broken its promises to privatise the government-linked companies. The restructuring of Singapore Inc calls for strong political will and realistic management. However, the government has been consistent in honouring its pledge not to let budget surpluses produced by the public sector crowd out the private sector. It has done this by ploughing money back into private sector-led projects, such as the building of infrastructure. The government has also been careful to use only accumulated reserves and current fiscal surplus for increasing productive capability and building capacity in a sustainable way; it has not used the reserves needed to guard against recession.

Challenges of globalisation for South Africa's new economy

Singapore Inc has taken advantage of globalisation and information communication technology to metamorphose into a virtual state. It is increasingly relocating part of its production abroad to allow for specialisation in higher value-added goods and non-material services, research and development, product design, finance, marketing, transport, insurance and legal services. This trend is reshaping both productive and international relationships, and is an intrinsic part of the shift to a new economy which is based on a mastery of flows of production and purchasing power, not just stocks of physical and human capital and of infrastructure. As a result of its regionalisation policy, introduced in 1993, Singapore has had to negotiate with both domestic and foreign capital and labour to create greater economic space through networking and alliances. The state can no longer control macro variables such as maintaining full employment, and must pay the price in terms of greater volatility and insecurity.

Since 1992, Singapore has become part of the global network: a number of multinationals are now located there. Singapore Inc has become what the Economic Development Board has dubbed Singapore Unlimited, although it and its government-linked companies have yet to complete their move towards globalisation in terms of industrial restructuring and financing. This will allow them to contribute to sustainable growth in the domestic corporate sector. The next step will be privatisation, which will involve the unbundling of Singapore Inc. This represents a quandary for the government.

But Singapore's performance was affected by regional trends and events following the Asian crisis. It slipped from its ranking as the top globalised economy in AT Kearney's *Globalisation Index 2000*, falling into third place in 2001 and fourth in 2002. The index rates global integration by assessing finance, trade, politics and Internet connectivity. The slippage was due in part to regional drag, especially Indonesia's crisis, which affected Singapore's trade and investment prospects. However, Singapore was able to bounce back in 2004 to second place and in 2005 to first again.[2]

Singapore also fell from second in 2001 to fifth in the *World Competitiveness Yearbook* in 2002. However, in 2005 Singapore was third after the US and Hong Kong. In the *Global Competitiveness Report*it went from from ninth in 2001 to 10th in 2002, recovering again by 2004 to seventh place.. While Singapore remains the world's top trading nation, it has struggled to attract FDI and portfolio capital flows, particularly since the Asian crisis.

The wealth and prosperity of nations is based on productivity, both in the value and uniqueness of products, and the quality and efficiency of their production. It is not *what* industries compete in which matters, but *how* the firms in those industries compete. A sufficient condition for development is the microeconomic foundation for business, such as the suitable location of companies. A necessary condition is a sound macroeconomic, political, legal and social context. At one level, Singapore Inc has provided the overall macroeconomic context, but the new economy demands an equal focus on the microeconomic foundation, especially when local enterprises must have competitiveness, productivity and innovative capacity as well as reliable suppliers in order to sustain a viable industrial cluster. Customer needs are becoming more sophisticated and demanding, and there is an increasing call for specialisation. These changes must be

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[2] See *www.atkearney.com/shared_res/pdf/2005G-index.pdf*

anticipated and catered for by companies and countries; otherwise they will lose out to competitors elsewhere.

Privatisation and divestment

The first release of comprehensive information on the public sector took place in 1987, when a report on public sector divestment was issued. Singapore Inc has published little in the way of financial or employment data other than a directory of government-linked companies. Privatisation has been slow, partly owing to issues of timing in terms of the economy, but also because of a lack of political will in the government to let these companies go. The government still considers it to be in Singapore's long-term interests to maintain control over them, believing that it can build successful and vibrant international businesses from its stable of companies and that these will be the economic drivers of the innovation stage of the economy. Given the small market size and saturation of the Singapore market, the favoured strategy seems to be for government-linked companies to move into the regional and international markets rather than to crowd out local companies.

It may be hard to refute the rationale that the government needs to own and control companies. But over time, this will prevent privately-owned enterprises from rising to their full potential.

Privatisation and divestment will occur only in those businesses which Singapore Inc decides are no longer strategic, that is government-linked companies which have no regional or international growth potential.

Singapore's privatisation decree separates businesses into groups. Companies in group A are not up for privatisation. This is based on two criteria. The first relates to companies dealing in commodities considered to be critical resources for the state's security or economic well-being, like water, the power and gas grids, the airport and the seaport. The second criterion covers companies involved in specific public policy objectives. These provide services or ensure control for the public good in areas such as gaming, public broadcasting, subsidised healthcare, education and housing, and various public amenities like the zoo and bird park.

Companies in group A can be downgraded to group B companies when such businesses are no longer considered strategic, or when viable market alternatives or regulatory frameworks, which allow the government to divest or dilute its shareholdings have been established.

How this privatisation policy will succeed is not clear. What constitutes strategic and public policy depends on how actively the government works towards market alternatives and regulatory frameworks. There is nothing to say that because Singapore Inc was successful in the past and has accumulated great wealth, it can successfully transform itself into a new, globalised, knowledge-based economy. It faces a critical test in moving from a sheltered domestic market into an aggressive and competitive global market. It is not financial capability (which Singapore Inc undoubtedly has) that matters, but its ability to progress to privately owned enterprises.

Entrepreneurship

While Singapore stands at 13th place in innovative capacity in the *Global Competitiveness Report*, its main weaknesses are a lack of research scientists and engineers. This weakens efforts in the building of industry linkages and mutually supportive clusters of companies. It was ranked only 19th in the *Global Entrepreneurship Monitor* (GEM) 2000's 21-country survey, which measured the prevalence of entrepreneurial activity. Despite higher-than-average GDP growth, Singapore has one of lowest rates of entrepreneurial activity (2.1%), which is explained by its dependence on the rest of the world. Only around 1% of the adult population invests in new business start-ups, and entrepreneurial activity among women is one-third that of men.

The development of entrepreneurs is hampered by cultural issues; social norms; education and training; government policy; fear of failure; and the consequent preference in most of Singapore's citizens for stable, corporate employment. Ironically, a low unemployment rate and rigid labour market have created a comfort zone but not allowed any depth of entrepreneurial experience, even in the areas of providing finance and implementing support programmes. Yet Singapore has the highest ratio of classic venture capital after Israel, with sophisticated capital markets and generous public investment in information communication technology.

A lack of critical mass and of time for a suitable gestation period to produce home-grown, knowledge-based entrepreneurs and 'technopreneurs' may mean that the process takes too long to contribute to Singapore's new order, despite the establishment of the $1 billion Technopreneurship21 government fund designed to create research and innovation centres.

The shortage in skills has resulted in the importation of foreign personnel to top up Singapore's supply of technically qualified staff. Singapore has always been a migrant nation, and a discretionary selective immigration policy through the decades ensured a sustainable pool of manpower in the past. Recently, however, the recession started to bite, and lower tolerance is being shown for younger, foreign talents. The new breed of well-educated, mobile and cosmopolitan migrant workers may come to feel less allegiance to nation-building than to accumulating wealth and experience unless the government does something to ensure greater socio-political commitment on the part of these workers.

Finance for technopreneurs may also be a problem especially because of the compulsory Central Provident Fund saving schemes. The withdrawal and use of savings before retirement by the Fund's members is under the control of a paternalistic policy, which restricts such use of savings to housing, other approved real housing and stocks, medisave and the local tertiary education scheme. While there has been some liberalisation of the Central Provident Fund investment scheme, the real problem is of a chicken-and-egg type. Less savvy Singaporeans did so badly in the stock market that the government restricted the buying of stocks and shares to approved institutionally managed trust funds.

While many financial schemes tied up with the banks appear to offer an alternative to entrepreneurs seeking start-up funds, the local business culture is chary of showing a company's books and reporting its performance to loan agencies. This is another behavioural issue. In the broader context of Singapore's economic development, this is a typical example of best practice and rules having to change with time. The alteration of a state's economic structure, behaviour and mindset is more difficult, and takes longer to accomplish.

Immigration and global talents

Consistently with Singapore's origin as a colony, the present government views the purpose of immigration as a means to augment the domestic supply of human resources, and particularly, those skills in short supply. In contrast with those of other developed countries, Singapore's immigration policy gives relatively little weight to family reunification. Foreign workers are employed on a short-term basis as an effective safety valve that can be switched on or off, according to macroeconomic conditions.

Following the Asian crisis, Singapore's government revised its immigration policy to be more selective, targeting particular groups such as technopreneurs as desirable. It formed a committee for talent recruitment, to develop and implement strategies to attract and retain well-qualified foreigners. Immigration policy makes a distinction between highly skilled, professional, and tertiary-qualified foreigners according to their monthly income, qualifications and skills.

The recruitment of foreign talent extends to generous scholarships for foreign undergraduate and graduate students at the universities. The government recruits middle-school students from China to continue their education in Singapore. Government-linked companies, including Singapore Airlines, offer undergraduate scholarships in India as part of the national effort to recruit foreign talent, and all foreign students at universities and polytechnics in Singapore qualify for loans to cover tuition and living expenses.

Singapore's first initiative to establish a global 'people network' was a joint undertaking with the private sector. The Singapore International Foundation was established in 1991 with the mission: 'To enable Singaporeans everywhere to think globally, feel Singaporean, be responsible world citizens and foster friendships for Singapore'. Subsequently, the Singapore government established Contact Singapore, an international network of contacts for foreign talent and Singaporeans abroad interested in working or studying in Singapore. Previously undertaken by the Economic Development Board, the outreach role of this organisation includes general overseas marketing and the promotion of opportunities in Singapore. Just as the Economic Development Board provides a one-stop service for foreign investors, Contact Singapore provides a one-stop service for people who require information on immigration, housing, education, taxation, and other aspects of work and life in Singapore. For domestic employers and educational institutions, Contact Singapore provides recruitment and promotion services through its overseas offices. Its larger responsibility (promoting the 'Singaporean overseas network') overlaps with the mission of the Singapore International Foundation.

There is some concern about a 'brain drain' felt in Singapore. In 1999, Prime Minister Goh Chok Tong raised the issue of building 'heartware' by providing more avenues for citizens to participate in the nation's affairs. He expanded on this idea in 2000 by describing a new divide in society between 'cosmopolitans' and 'heartlanders'. Cosmopolitans are English-speaking, skilled and globally mobile. Those of them who emigrate are alluded to as 'quitters'. Heartlanders live in public housing, are domestically grounded and are referred to as 'stayers'. The reality is that while Singapore has to tap global talents, it also has to accept some emigration of its own nationals. This makes the Singapore International Foundation and Contact Singapore all the more important, as helping to keep ex-Singaporeans in the network of contracts.

Institutional changes

In response to globalisation and changing technologies, a certain amount of institutional restructuring, including changes in the names of key institutions, has taken place. However, as is usual when economic problems loom, these actions have been taken by government-appointed committees rather than through consensus.

In December 2001, the Economic Review Committee was established to revisit those government policies that have economic implications. Its terms of reference include taxation, the Central Provident Fund system, land allocation and the wage competitiveness framework. It is also charged with strengthening the spirit of entrepreneurship and innovation, enhancing human capital, upgrading the manufacturing and service sectors, improving the productivity of local, small businesses and ensuring that economic restructuring is consonant with the nation's overall welfare. The committee's general mandate appears to be the building of capacity, enterprise and entrepreneurship in Singapore's corporate sector, both in the public and private realms. There has been a flurry of reconstitution and renaming of agencies in the wake of the committee's establishment. While a large part of the process may be cosmetic, the name changes and reorganisation also reflect an attempt to refocus the mission of these entities. Changes in name include the alteration of the Trade Development Board to International Enterprise; the National Science and Technology Board to the Agency for Science, Technology and Research; and the Productivity and Standards Board to the Standards, Productivity and Innovation Board. The name changes are probably an attempt to gear Singapore for its new role in the knowledge-based economy.

The mission of International Enterprise is to help Singapore-based enterprises to grow and internationalise successfully. This makes a de facto assumption that success is measured by size, going offshore and becoming world-class. The only problem with this is that International Enterprise, as was the case with the Trade Development Board, is geared to taking care of big enterprises only, not small and medium-sized enterprises (SMMEs).

The Standards, Productivity and Innovation Board may be a more appropriate agency for SMMEs. However, they are likely to remain underdeveloped if the government's focus remains on total factor productivity and growth, and by extension on overseas business. The new board aims to have SMMEs clustered in groups to achieve economies of scale and scope. Forming strategic alliances can improve the competitiveness of each member of such an alliance. On the other hand, the culture of family-based SMMEs in Singapore is based on family ownership and control, and the corporate lifestyle of such companies is precisely to remain small and focused. Again, the question whether the government and agencies can afford some plurality in choice and option needs to be asked.

In a shift from the government's micro-management of the economy in earlier times, the Economic Review Committee is attempting to unleash entrepreneurial development by freeing up and redirecting capital. But its final report, released in February 2003, may not be sufficiently bold to succeed in this endeavour, because of the overall political–economic focus. Other than some cost-cutting measures (as in reducing corporate and individual tax rates to 20% within the next three years, and exempting employers from Central Provident Fund contribution rates for the next two years), the report's recommendations have disappointed private analysts. They were hoping for more aggressive, bold and rapid moves to reduce the fiscal surplus and provide incentives for new industries.

The same sentiments apply to the Remaking Singapore Committee, whose area of responsibility is the human element. It works alongside the Economic Review Committee on 'software' or 'heartware'. It resolutely but unconvincingly vetoed the five-day week which has been demanded by public sector employees for decades. Most private sector employers, especially foreign firms, have instituted a five-day week (which would be consistent with the government's social policy promoting family time and bonding). On the other hand, the government appeared proud to have given way on table-top dancing, bungee-jumping and the employment of gays. These are small victories, but they probably represent considerable concessions in a generally conservative state.

Strategy and best practice, old and new

In the final analysis, any strategy to take Singapore into the innovation-driven stage must recognise that competitiveness is not just based on cost; becoming operationally effective by adopting best practices; doing things better, faster, and more cheaply and efficiently; and a situation where all competitors are running in the same race. While this is not wrong, there are other approaches. Competitiveness can also mean being distinctive, and creating a unique and sustainable competitive position. It is not about everyone running in the same race, but about competitors swimming in different pools (that is, having differentiated products and ideas). Group thinking tends to lead to convergence and homogeneity, and a focus on price competitiveness rather than on variety, innovative products and new technology.

In the innovation-driven stage, Singapore must depart from cost competitiveness and focus on non-price differentiation and quality which has a unique value. A proposition based on this criterion can identify for expansion high value market segments such as upmarket tourism, product variety, superior services (such as those offered by Singapore Airlines) or a distinctive chain, as in high technology, research and development-intensive life sciences. Some strategic tradeoffs are necessary in order to pursue product differentiation. For example, product designers must not be tempted to put in all the usual features to meet all possible needs and market segments: some features must be sacrificed to focus on core competencies. The new economy is customer-driven, and therefore a strategic choice of targets, customers and segmented markets is required to provide uniqueness rather than competitive convergence.

Conclusion: The policy implications for Singapore

It is not problematic that the traditional principles underpinning the success of Singapore's economy, such as best practice and proven principles of governance, are no longer enough. They have worked for the country for a long time, and were appropriate in a different global economic and political context. However, both Singapore and the world around it have changed. Now the old economic paradigm requires a rethink. Having previously risen to every occasion, Singapore has the institutional credibility and capability (both in determination and financial resources) to reform if it can raise the political will to follow a new direction.

The three underlying assumptions that previously supported Singapore's political economy were full employment, honest, upright government and transparent and accountable governance. In the new knowledge-based economy, no government can guarantee full employment. Even reskilling and technological upgrading to ensure employability is not a simple solution, given Singapore's ageing labour force and generally rigid mindset.

The incumbent government's concerns about the reliability of future governments has led it to draw up proposals for the elected president to guard the official reserves, with the power to override parliament on this issue if necessary. In this way the People's Action Party government can put safeguards in place in case the country ends up with a profligate government which lacks integrity. However, this approach encounters two problems. The first is that Singapore's current good governance is built on implicit trust rather than explicit practices. The government conducts its management of surpluses and reserves with a fair amount of secrecy, as has been noted. The second is that the 'right' elected president is either one who does his job with due diligence (asking for the details of the official reserves he is elected to protect) or one who may not agree with, but understands the government's reasons for, opacity. The first elected president, ex-minister and stalwart party-member, Ong Teng Cheong, was one of the former, and consequently was considered a 'difficult' president.

Although the government has promised to adopt a more hands-off approach to the economy, which includes privatising the government-linked companies, this flies in the face of everything the government has worked for. This has created a major policy dilemma for the incumbent government. However, to adapt to the new focus of the developmental state is essential to the sustainable accumulation, management and utilisation of government surpluses in a globalised world.

In considering further policy refinements and redefining best practice principles for governance, the political will of the government to loosen its economic control to the private sector and accept corporatism as the new guiding principle, has to be examined.

In other words, what constituted best practice under a different economic model (full employment and sustained prosperity), cannot continue in this form in a scenario where these traditional assumptions no longer hold or are under threat in the more volatile, globalised economy. Unemployment and unemployability may be the new problems Singapore has to deal with as a result.

The relevance of Singapore's experience to South Africa

Best practice and governance may appear portable and adaptable, but given the variation in political economy and national interest between states, some aspects and practices are quintessentially idiosyncratic. However, both South Africa and Singapore face the same challenges: globalisation, information communication technology, the knowledge-based economy and changing trade rules. All of these portend a hyper-competitive economic terrain. Both countries are continually restructuring, upgrading and retooling their processes, institutions and policies, and their focus has to be both strategic and acceptable to the electorate.

South Africa has the comfort of possessing plentiful natural resources which enable it to pursue a dualistic economy based on both comparative and policy-induced competitive advantage. It has size, scale economies and the potential to be more resilient if well managed. Both South Africa and Singapore are English-speaking, and have inherited the British legacy of civil service and administration, no small advantage as leverage in today's competitive era.

Instead of making more absolute comparisons, I conclude this report by offering some suggestions concerning ways in which Singapore and South Africa can share experiences and learn from each other.

- Crises and adversities can be turned into a virtuous advantage. For instance, Singapore has contained SARS (which is contagious, but not an epidemic which can be prevented and averted) with conscious discipline. This parallels the acquired immune deficiency syndrome (Aids) in South Africa. Both countries can establish best practice in the management and resolution of such health crises. They should publicise their efforts and achievements, using commercial marketing and publicity agencies if need be, become allies of the World Health Organisation, organise professional meetings and studies, and stimulate research and development to turn a health crisis into a display of competence and credibility.
- Nelson Mandela is as much of an iconic inspiration to South Africa as Lee Kuan Yew is to Singapore. Both are a national heritage in their own right. Their thoughts on best practice and governance should be tapped and further refined for application in the changing economic, socio-political and technological environment. Exemplary role models like Nelson Mandela and Lee Kuan Yew serve to signal and filter best practice.
- Faced with the same external challenges to their international competitiveness, both countries need to ensure a framework for constant innovation, using institutions, processes and policies in a pragmatic and strategic way. Pivotal institutions like Singapore's Economic Development Board, International Enterprise, the Agency for Science, Technology and Research, the Singapore Productivity and Innovation Board and the Central Provident Board have kept on reinventing and remaking themselves as the

needs of the developing state require. The government-made and led Singapore Inc has the ability to remake itself to allow a more vibrant entrepreneurial private sector to emerge. In rising to meet the challenge of tapping into the potential and dynamism of information communication technology and the knowledge-based economy, the various programmes and incentives of these pivotal agencies work together to offer a holistic approach. South Africa could follow a similar path.

- As a more controlling paternalistic state, Singapore can learn from South Africa's pluralism to instil more diversity and create room for the development of the creative and innovative intellectual capital necessary for a knowledge-based economy. Singapore needs to strike a balance between disciplined social responsibility and neoliberal freedom, just as South Africa has begun to appreciate a new empowerment and socialisation process. Increasingly, social issues and challenges may pose more problems than mere economic ones. A participatory civil society and strong political culture has to be supported by appropriate political and social infrastructure. Civil society in Singapore has some way to go to equal the freedom of civil society in South Africa.
- An open, outward-oriented mentality and structure underpin all best practice and governance principles. From strategies relating to FDI and multinational corporations to global talent and global connections, both South Africa and Singapore can aspire to the standards of the best of OECD economies. New areas like competition policy, investment law, social and labour standards, environmental protection and government procurement are becoming increasingly important. At some point, both South Africa and Singapore must decide whether they stand with the developed industrial economies in the OECD or with the more recalcitrant states in the developing world led by India, Brazil, Egypt, Nigeria and Malaysia; or whether they champion some compromise.

- Both South Africa and Singapore have demonstrated that they can be hubs in their respective regions, even though they live in sometimes difficult neighbourhoods. They have extended their networks beyond their immediate regions. South Asia appears a common ground for both South Africa and Singapore, and examining how to combine Singapore's liaison with India's software skills for instance, may lead to some best practices in processes and products that can be explored involving all three parties. Once a successful demonstrative effect is achieved as with India, South Africa dealing convincingly with the rest of African continent or Singapore in ASEAN based on best practices culled would have far-reaching practical results than deadlock in talks and diplomatic exchanges.

The Czech Republic: Overcoming its Communist Past

Sara Pienaar

This research paper focuses on good public sector governance as a factor in the success of the Czech Republic since the end of the Cold War. By this term I mean the manner in which government encourages and enforces practices and behaviour that conform to globally acceptable standards.

In the 2004 World Economic Forum's *Global Competitiveness Report*, the Czech Republic is ranked 40th and South Africa 41st.[1] Yet both countries have achieved astonishing, though dissimilar, transformations in the last 15 years. The South African case will be familiar to readers of this report, but whereas in 1989 Czechoslovakia was a one-party state, its successor, the Czech Republic, is now a flourishing multiparty democracy. Its economy, virtually 100% nationalised in 1989, is now largely in private hands. Large amounts of foreign direct investment (FDI) have flowed into the country. From having only Soviet satellite status and Warsaw Pact membership in 1989, the Czech Republic is now a member of NATO and the European Union, which it joined in 1999 and 2004, respectively. Its citizens live in a free country, enjoying full human rights and freedom of movement, speech and access to information, which they could hardly have dreamed of less than two decades ago.

Three initial comments must be made. First, although the Czech Republic's transition has indeed been strikingly successful, it is by no means without problems. Second, similar transitions have occurred throughout East and Central Europe. Other countries in the region are equally good candidates to be described as success stories. Each has surpassed the Czech Republic in some ways, while falling short of it in others. Third, there has been a tendency to lump all 'post-Soviet' countries together. While they certainly share a recent past and similar

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1 *Global Competitiveness Report 2004–2005. www.weforum.org.*

challenges, each has its own history, economic strengths, shortcomings and geography.

Good governance in the Czech Republic can be assessed only if the context in which it occurs is made clear, so that the following section provides a brief account of the nature and history of the country.

The background

The Czech Republic lies in the heart of Central Europe, sharing borders with Germany, Austria, Slovakia and Poland. It is a small country covering 78,866 square kilometres, which is divided into 13 regions and has a population of some 10.3 million people. I think it is by and large true, as Roger Scruton puts it, that 'the Czechs...are sceptical, cosmopolitan inheritors of the cultural capital (in both senses) of Central Europe'.[2]

From the 10th to the 16th centuries, the Czech kingdom of Bohemia was one of Central Europe's most important states; but then it was swallowed up in the Austrian Habsburg Empire. After World War I, the Czechs joined the linguistically-related Slovaks to form the independent state of Czechoslovakia. A parliamentary republic, Czechoslovakia was the fourth most industrialised country in Europe and enjoyed a high standard of living. But this did not save it from dismemberment and incorporation, first by the Third Reich and then, after 1945, by the Soviet Union (USSR), one of whose satellites it became.

Czechoslovakia was important to the USSR, both for its relatively advanced manufactures including armaments and for the fact that its western frontier thrust far into capitalist Europe. In 1968, the Czechoslovak Communist Party introduced 'socialism with a human face', but this 'Prague Spring' led to a Warsaw Pact invasion on Moscow's orders. The country languished for the next 20 years under 'normalisation', far less free economically and politically than were

2 Scruton S, 'Of laughter and forgetting'; *New Statesman*, 24 September 2001, p.52.

most of its satellite neighbours. Members of the intelligentsia like Vaclav Havel who stood up for human rights and formed Charter 77, were hounded from their jobs and frequently imprisoned, while the economy remained virtually 100% nationalised.

Czechoslovakia's Velvet Revolution was one of the most remarkable in a series of mostly non-violent regime changes in Central and Eastern Europe in 1989. Between 17–28 November, the debilitated remnants of Communist power were dispersed by huge and peaceful daily demonstrations, co-ordinated by Civic Forum and Public Against Violence, a broad alliance of intellectuals, students and ordinary people. On New Year's Eve 1989/90, Vaclav Havel was elected as the country's president.

The Czech Republic as a success story

While stressing that the success of the Czech Republic is relative rather than absolute, but impressive nonetheless, I shall advance five main reasons for it. The first is not the result of government policy, but rather of fortunate accident. The other four are directly related to government policies since 1990, but are themselves influenced by the first.

Geography and raw materials

Historically, *Mitteleuropa* was a dangerous neighbourhood, lying between Germany and Russia, but this perception may finally have been laid to rest. The Czech Republic's position in the heart of today's Central Europe is certainly in its favour. The fact that the Czech Republic is landlocked has disadvantaged it not at all, and it lies athwart several of Europe's major north–south routes. Its 362 kilometres of border with Austria and 646 with Germany make it extremely accessible for cross-border investment and other business with these countries.

The Czech Republic is not richly endowed with raw materials, though it has deposits of soft and hard coal, kaolin and graphite and plentiful timber. Nor is it a major agricultural exporter. Its economic strength lies in its long industrial tradition, and in the increasingly competitive quality of what it produces — metallurgical products, machinery and equipment, motor vehicles, glass and armaments. In 2001, 35% of its workers were employed in industry and 60% in services.[3] The Czech Republic's economy and the people who work in it seem increasingly similar to those of western European countries — and all this has happened in 15 short years.

At midnight on New Year's Eve 1992/3, the Czech and Slovak Federal Republic split into two separate states. Slovakia inherited a smaller population and more economic and minority problems. The split also helped to emphasise the Czech Republic's 'westernness', since, uniquely among Central European states, it now has no frontier with the Commonwealth of Independent States (CIS).[4]

The political system and leadership

On 1 January 1993, the Czech Republic's new constitution entered into force. It sets out the structures of multiparty democracy under the rule of law. There is a bicameral parliament, chosen by universal adult suffrage, which elects the president, who is head of state. There is an elected upper house, the Senate, and a lower house, or Chamber of Deputies, both elected by popular vote every four years. The president appoints the prime minister, and on the prime minister's advice, also chooses the cabinet. Courts and their judges are to be independent and impartial, and a constitutional court upholds the country's constitution. Appended to this document is a Charter of Fundamental Rights and Freedoms, recalling 'the bitter experience gained at times when human rights and fundamental freedoms had been suppressed in our

3 *CIA World Factbook 2002 — Czech Republic*.

4 Simon J, *Czechoslovakia's 'Velvet Divorce*, McNair Paper No.23, October 1993. Washington DC: Institute for National Strategic Studies, National Defence University, 1993.

country'.[5] Its five chapters cover fundamental human rights and freedoms, political rights, the rights of national and ethnic minorities, economic and social and cultural rights and the right to judicial and other legal protection.

Havel insisted at the outset that one of his government's main tasks was 'the rehabilitation of politics'.[6] That the country is a functioning democracy in which the rule of law is observed is unquestionable, although it has not been without its problems. On the political front, perhaps the greatest of these is that, as elsewhere in the region, a large number of political parties sprang up in 1990. This means that given the system of election by proportional representation, governments have tended to be coalitions, which are potentially unstable governments.

One good reason for the entrenchment of liberal democracy is that access to European institutions depends upon it. In the early 1990s, it was a condition of assistance from Brussels, and of membership of organisations such as the Council of Europe. In the mid-1990s, Brussels instructed EU candidates to ensure 'the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities...'. They should also establish 'a functioning market economy; and the capacity to cope with competitive pressure and market forces in the Union'.[7]

Speaking at the Velvet Revolution's tenth anniversary celebrations, Vaclav Havel warned of the destructive legacy of totalitarianism. 'We have all been deformed by the totalitarian regime: those who supported it, those who stayed silent and those who tried to fight it'.[8] During the early summer of 1990, free elections were held all over East

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[5] Resolution of the Presidium of the Czech National Council 16 December 1992, Charter of Fundamental Rights and Freedoms, p.3

[6] Batt J, *East Central Europe from Reform to Transition*, Chatham House Paper. London: RIIA, 1991, p.47.

[7] Johnson LR, *Central Europe — Enemies, Neighbours, Friends*. Oxford: Oxford University Press, 1996.

[8] *Business Day*, 19 November 1999.

and Central Europe for the first time since before World War II.[9] Contrary to the expectation of some western 'experts' that four decades of one-party rule would have withered the public's capacity for free choice irreparably, no less than 96% of the electorate in Czechoslovakia voted.[10] The outcome was predictably a victory for Civic Forum in the Czech Federal Republic, and Public Against Violence in Slovakia.

Judy Batt pointed out in 1991 that although liberal democracy was the ideology of the 1989 revolutions, its support base was 'dependent on a rather limited segment of the intellectuals and urban professionals'.[11] Perhaps unsurprisingly, the Civic Forum government did not last long, as the appetite of intellectuals for real politics soon dwindled. In 1992, Vaclav Klaus of the opposition ODS (Civic Democratic Party) became prime minister, and his party remained in power until 1997. Under Klaus, the 'sandpaper divorce' with Slovakia was effected, and a radical attempt to privatise the Czech economy was started. Privatisation proved 'untransparent and open to corruption'[12] and Klaus's government fell in 1997, after a string of murky funding scandals and banking failures. In the June 1998 elections, the Social Democrats formed a coalition under Milos Zeman, who had promised to fight corruption and to make 'the school, not the bank, ... our most important institution'.[13] In the July 2002 elections, despite continuing economic problems, the Social Democrats were once again the majority party. Their new leader, Vladimir Spidla, became prime minister, at the head of a coalition of Social Democrats, Christian Democrats and Liberals.

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9 With the exception of Poland, which had largely free elections the previous summer.

10 Anderton N, 'Socio-political developments in Czechoslovakia' in Prinsloo C (ed.), *Social and Political Changes in South Africa and Czechoslovakia*. Pretoria: Centre for Science Development, 1991.

11 Batt J, *op. cit.*, pp.52–33.

12 *Time Magazine*, 15 December 1997.

13 *The Economist*, 13 June 1998.

An unfulfilled prophecy was that Czechs might embrace political extremism if they found the realities of post-communist life too harsh. However, although the social effects of market reforms have been unpleasant for many, few have wanted either to return to the previous dispensation or to opt for right-wing populism. There has been no political violence or terrorism. Communist parties are free to operate and receive some support, gaining 19% of the vote in the 2002 parliamentary elections; but the main alternative to the ODS has turned out to be the Social Democrats.

Since 1990, the chaotic multitude of political parties has been gradually reduced through natural selection to a smaller number. There are only seven parties represented in the present parliament, and roughly the same number are registered but not represented. They are better organised and funded than 10 years ago, and most fall within the usual European spectrum of Christian Democrat, Social Democrat, Conservative or Liberal. There are two Communist parties, but no far right parties of importance.

The existence of democratic institutions is no guarantee of their political honesty and transparency: indeed, questions have been raised on this topic. As early as 1994 the *Prague Post* reported that listening devices had been found on the Ministry of Justice's switchboard, and that a newspaper editor had been fired at the behest of the Civic Democratic Party government. The report also warned that MPs were proving reluctant to list all their outside sources of income.[14] Once again, access to European institutions, while not ensuring the probity and openness of political institutions any more than it does further west, has led to an improvement. So have a free and vociferous media.

The Havel presidency ended on 2 February 2003, after he had served the maximum permitted under the constitution. Although he had suffered increasing ill health and was much less popular at home than abroad, Havel had presided over his country's transition. Ironically, his successor was his old foe, Vaclav Klaus, the only candidate on whom sufficient consensus in parliament could be found.

[14] *Prague Post*, 12–27 September 1994.

Social infrastructure

Experience in many parts of the world, including South Africa, has shown that it is easier radically to transform a political system than it is to change deeply-rooted mindsets and social structures. If, as Havel said, Czech social psychology before 1989 was based on fear,[15] to what extent is it now based on a consensus between government and the governed? We also need to ask how people are dealing with the past. How does it affect their ability to cope with a modern market economy? Do some harbour resentments against the previous system? Are others nostalgic for its certainties? As is the case almost everywhere in the region, there have been few prosecutions for abuses of power before 1989, and no truth and reconciliation commissions. In 1992, this writer was told by one Czech that 'Never have so few been punished so lightly, for so many crimes'. A lustration (cleansing) law removed some officials from their positions, and prevents them from working in politically sensitive jobs. Occasional scandals uncover the murky past of certain politicians, but in the main it seems that memories are short, and public preoccupations today are more concerned with current issues.

An early priority was the right to private property and the restitution of what had been confiscated earlier. In 1990, laws were quickly passed to make this possible for Czech citizens whose property had been commandeered between 25 February 1948 and 1 January 1990. By 1994, private property valued at $4 billion had been restored to its rightful owners. The law excludes both Sudeten Germans, who were expelled en masse in 1945, and Jews despoiled by the Nazi occupation. The former remains an unresolved issue between the Czech and German governments.

How does the public see its relationship with the state and its institutions? Gene Deitch reminds us that in communist days, a popular saying was that 'He who does not steal from the State steals

[15] Havel V, *Dear Dr Husak*. Alfred A Knopf Inc, 1975, p.52.

from his family'.[16] Are attitudes to today's state any more positive? Many Czechs, particularly older ones, will say that their quality of life has deteriorated, and that the government is not doing enough to improve it. While corruption was endemic in communist Czechoslovakia, today's Czech Republic also has significant problems in trying to ensure transparency and clean government. Transparency International's 2004[17] survey places the Czech Republic 51st out of 145 positions. It is below Hungary (42nd) and Slovenia (31st), but above Slovakia (57th). Twenty-five percent of Czech firms surveyed in 1999 admitted that they commonly bribed officials to get things done, which is better than the 50% in Romania, admittedly, but far from satisfactory.[18] It may be significant that in the Czech Republic, as elsewhere, an inexperienced new government had to rely on a bureaucracy, most of whose members had started working in the state apparatus before 1989.

The crime rate in the Czech Republic is also unacceptably high, and reported offences trebled between 1989 and 1994. Longworth suggests that: '[the change of regime] was associated with the collapse of familiar institutions, with widespread anomie, psychological stress and crime'.[19] He further notes that the amnesty granted by Havel immediately after 1989, 'in his eagerness to end political repression', also resulted in the loosing of many common criminals on society.[20]

As occurs everywhere else, people tend to blame government for any perceived fall in their standard of living. There is no doubt that not everyone is doing well in the new Czech Republic. The Gini coefficient for the Czech Republic is now 25, which, although it compares very favourably with that of South Africa (60) and many

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[16] Deitch G, *For the Love of Prague*. Baset Publishers, 1997, p.200.

[17] *Transparency International Corruption Perceptions Index 2004. www.transparency.org.*

[18] *Economist Survey of Finance in Central Europe*, 14 September 2002.

[19] Longworth P, *The Making of Eastern Europe from Prehistory to Post-Communism*. Second edition. Basingstoke: Macmillian, 1997, p.4.

[20] *Ibid.*, p.32.

other countries, indicates that there is more social inequality than there was before 1989. Grimy industrial towns and rural backwaters fall far short of the amenities offered by bustling and prosperous cities like Prague and Brno. Fourteen percent of the population is over the age of 65,[21] and many of the elderly suffer from inadequate pensions and deteriorating public health facilities. Since life expectancy is high (78 for women and 71 for men), government is going to be hard put to it to meet their needs.

Since its divorce from Slovakia, 94% of the Czech Republic's population is either Czech (81%) or Moravian (13%). Legislation enacted in June 2001 confirms that the rights of ethnic minorities are compatible with all EU legislation. Yet there have been problems in relation to the Czech Republic's Roma (gypsy) inhabitants, who comprise roughly 2% of the population. The Roma have been discriminated against for centuries, and in today's harsher economic and social climate, 75% are said to be unemployed. Most live in slums. In 1999 the industrial town of Usti nad Labem erected a 'wall of shame' between the Roma area and the rest of the town, ostensibly to prevent crime. (A public outcry and international protests led to its speedy demolition.) Roma children often fail to integrate into the education system, and are 23 times more likely to be labelled as educationally retarded than the average. Although it is difficult to counter entrenched prejudices, the Czech authorities are acutely aware that this problem must be overcome.

On a more positive note, it must be remembered that before 1989, there was no freedom of association and expression, and dissidents were suppressed. One of the transition's most impressive achievements has been the flowering of freedoms that are taken for granted further west. These are fiercely guarded and valued, not least by thousands of NGOs, 85% of which are funded from domestic sources. All are registered under various government acts.[22] They deal with a huge range of issues, including urban and environmental concerns, human

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[21] *CIA World Factbook, 2002.*

[22] *Survey of Czech Non-Profit Sector in 2003.*

and minority rights, the development of community organisations, women's and children's interests and local and regional affairs.

Where access to information is concerned, Czechs are very much 'on line', with the highest percentage of Internet users in the region and more than 300 Internet service providers.[23] The print and electronic media are extensive for a small country, and their independence is closely watched. In 2000, for instance, there was a strike and walk-out at the two public TV channels because the staff thought that the new director was too close to Vaclav Klaus. Independent television started in 1992 with TV Nova, a joint venture between Vladimir Zelezny and the heir to the Estee Lauder cosmetic empire. It rapidly became Central Europe's most profitable television station, and although Lauder and Zelezny have since fallen out, the station remains very popular, with a 52% market share.

Economic and financial infrastructure

Throughout Central Europe, the transition from a virtually exclusively state-owned economy[24] to a largely privatised one has occurred in less than 15 years, but with considerable difficulty, especially in the first seven years. At that time, foreign visitors were told that if nationalisation was like making fish soup out of fish, its reversal involved making fish out of fish soup. The initial effects on ordinary people were dire. Privatisation of huge state enterprises resulted in shutdowns and unemployment; and the freeing of prices and the cuts in subsidies unleashed inflation, a frightening and unfamiliar phenomenon. In 1991 alone, prices rose by nearly 59%. From being something of an industrial giant in the Council for Mutual Co-operation (COMECON) terms, Czech GDP and per capita consumption declined

[23] *CIA World Factbook 2002 — Czech Republic*.

[24] It is estimated that in 1989 only 2% of business was in private hands in Czechoslovakia, *The Economist*, 22 October 1994.

steadily. By 1993, GDP per capita stood at $2,710, as against $23,650 in neighbouring Germany.[25]

After 1989, it was widely agreed that economic change was almost as important as political reform. In Czechoslovakia as elsewhere in the region, 'quick and dirty' measures were taken to impose the semblance of a market-oriented economy on a ramshackle socialist one. It lacked a work ethic — it was an old joke that 'the state pretends to pay us and we pretend to work.' Moreover, 'legal structures proved inadequate' and 'there were problems with banking systems; markets lacked regulation; the region was innocent of modern accounting practices; its peoples strangers to the culture of risk on which capitalism is based'. There was also virtually no way of ascertaining legal title to property; nor could the real value of an asset be determined easily; and bankruptcy laws were non-existent. And, to give capitalism a thoroughly bad name, it soon became apparent that there was no way 'to tell an investor from an asset-stripper or a criminal entrepreneur'.[26]

Because of its relatively advanced industrial base, Czechoslovakia was initially seen as the region's most promising prospect for economic reform. Government has consistently pursued it, with considerable, if incomplete, success. Prime Minister Vaclav 'Thatcher' Klaus told the *Financial Times* in 1993 that 'I don't think there is a better social policy that a vigorous and functioning market economy'.[27] However, he now concedes that his earlier view that anything more than the minimum of regulation of financial activities could hamper economic growth was mistaken, and led to many abuses. However, the main reason for the Czech Republic's belated success as a promising and efficient market economy has been precisely the last two governments' assumption of responsibility for its regulation and proper functioning.

One of the chief recommendations of western experts was the speedy privatisation of state assets. The government's pioneering voucher privatisation system was intended to give all adult Czechs the

[25] Johnson LR, *op. cit.*, p.285.

[26] Longworth P, *op. cit.*, pp.30–31.

[27] *Financial Times*, Special Supplement on the Czech Republic, 11 January 1993.

chance to own shares. For a sum equivalent to the average weekly wage, six million of them bought books of vouchers which could be used to buy shares in firms which were being privatised. By mid-1993, $5,8 million of state assets had been transferred through this system into private hands, and by the end of 1994 almost as much again had been handed over. Though this sounds impressive, the scheme did not, as Sachs admits, 'unleash the beneficial effects of private ownership', but instead, opened the way to asset-strippers and 'investment fund managers', who persuaded two-thirds of investors to sell their vouchers into 'investment funds' which then mysteriously evaporated. The most notorious of these was Viktor 'the Pirate of Prague' Kozeny, 29 years old in 1993, who founded his considerable fortune by persuading 850,000 naïve Czechs to sell their vouchers into his Harvard Funds, promising a 1,000% return.

The state also sold or auctioned off tens of thousands of businesses to both Czech citizens and foreigners. Many new entrepreneurs have flourished — in some cases excessively. By the end of 1994, 80% of state assets had been transferred into private hands. The remaining 20% are now being privatised under closer scrutiny through the State Revitalisation Agency, established in 1999 to clean up indebted companies and prepare them for sale. Telecommunications and banks are at the front of the queue, but allegations of government corruption have surfaced in the planned privatisation of certain coal mines.[28]

Attracting FDI was essential in order to create jobs and reconstruct dilapidated industries. Initially, Czechoslovakia's proximity to Germany, its skilled, but cheap, workforce and relatively good infrastructure were all in its favour, but the problems outlined earlier and the dilapidation of the industrial sector subsequently caused most investors to look elsewhere. There were nevertheless some early successes, notably the purchase of 70% of Skoda Auto by Volkswagen in 1991. More recently there has been a startling increase in FDI. After recovering from a financial crisis in 1997, the Czech Republic received a total cumulative FDI of $26 billion between 1998 and 2001, the

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[28] *Fleet Sheet's Final Word*, 14 November 2003.

second highest in the region.[29] In 2002 the inflows amounted to more than $8 billion.[30] The tax regime, which favours foreign investment, (although some Czechs are now starting to question its desirability)[31] was certainly one factor in this success. Foreign-owned firms are now responsible for nearly half of Czech exports, and for improved levels of industrial production. CzechInvest, the investment promotion arm of the Ministry of Industry and Trade, has offices throughout the world.

The Czech Republic's determination to join European and global economic organisations is clearly the most important reason for the remarkable improvement in its performance. EU entry requirements have obliged the government to deal with structural problems such as the lack of a modern legal system and inadequate supervision of banking and financial operations and accounting controls. Though initially weak, the Czech Central Bank (CCB) has become a strong and credible institution. Although it must consult government before setting inflation targets or changing the exchange rate regime, it is largely independent. It has achieved a stable exchange rate and reduced inflation to 2.8% in 2004.[32] However, inflation in 2004, compared with the rate in 2003, increased to 3.2% in July, the highest rate since April 2002[33].

An efficient banking system is clearly essential, but the Czech banking sector has had many problems. In the early 1990s, inexperienced banks gave many soft and unsecured loans to unsound businesses. There were numerous failures, and many people lost their life savings. Eight banks failed in 1996 alone, and the state has spent at least $7.5 billion baling them out, while the third largest, Investicni a Postovni Banka, was put into forced administration in 2000. Part of the larger problem has been the CCB's failure until recently to supervise the sector adequately, but this appears to be much improved of late.

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[29] *The Economist*, 25 January, 2003.

[30] '*Trends and Recent Developments in FDI*' in OECD report, June 2003.

[31] *Fleet Sheet's Final Word*, 12 November 2003.

[32] OECD, *OECD Economic Outlook no77, Czech Republic*, 24 May 2005.

[33] '*Czech Republic Country Brief 2004*'. The World Bank Group, September 2004.

The Prague Stock Exchange, beset with insider trading and other problems in its early days, is now run strictly according to international standards, under the supervision of a securities commission modelled on the American one. An anti-trust office has been established to investigate matters such as price collusion. In 1995, the Czech Republic joined the Organisation for Economic Co-operation and Development (OECD) as its first Central European member, and in September 2000 the first International Monetary Fund (IMF) meeting in the region was held in Prague, confirming the country's rehabilitation.

The external environment

Milan Kundera once remarked that Central Europe during the Cold War was 'that part of Europe situated geographically in the centre, culturally in the West and politically in the East'.[34]Another aspect of transformation since 1989 has been its almost complete reorientation. From being the western-most Soviet satellite and taking its international orders from Moscow, the Czech Republic and its neighbours 14 years later became full members of the EU. Early in 1990, the leaders of Czechoslovakia, Poland and Hungary declared their intention of 'returning to Europe', by which they meant Western Europe. They set up a timetable for working together to achieve 'total integration into the European political, economic, security and legislation order', and to dismantle the 'economic and spiritual structures of the totalitarian system'.[35] With COMECON and the Warsaw Pact no longer governing their activities, there was an economic and security as well as a political agenda to this initiative. Although a Central European economic area was initially envisaged, this has taken second place to broader European goals.

Public opinion in the region in 1990 was passionately pro-American, but over the past decade, a much closer identification with European, especially German, attitudes to international issues has developed.

[34] Quoted in Johnson LR, *op. cit.*, p.295.

[35] Simon J, *op. cit.*, p.30.

While actively pursuing good relations across the globe, the Central European countries have focused mainly on Europe. In the early 1990s, the Czech Republic and its neighbours joined pan-European institutions such as the Council of Europe, but a long period of adaptation to European norms and regulations under the *acquis communautaire* was expected before EU membership would be granted. Carrots for compliance and sticks for failure to meet European standards were applied, and a range of assistance programmes set up. Preferential access to EU markets was granted for most products, while Central European markets were protected from EU imports by tariffs, which diminished by stages over 12 years. The EU rapidly became the Czech Republic's largest trading partner and, with its relatively high per capita income and long industrial tradition, the Czech Republic was the EU's favourite candidate for entry in the first tranche of ex-Soviet states.

In 1995 the EU concluded Association Agreements with most Central European states including the Czech Republic, which formally applied for membership in 1996 and started detailed negotiations for access in 1998. The EU's Nice Summit in December 2000 announced that 10 new members, including the Czech Republic and seven other Central and East European states,[36] would be admitted to full membership in 2004.

It has not all been plain sailing, though the Czech Republic has had fewer problems than countries whose economies are more dependent on agriculture, especially Poland. A plethora of laws was passed to harmonise legislation with that of the EU — 181 in the 14 months between July 1999 and September 2000 alone. Public administration, economic structures and the judiciary have also undergone far-reaching changes. The European Commission recently identified three major shortcomings that had to be overcome before 1 May 2004. The Czech Republic was also warned of other deficiencies, including inadequate measures against money laundering and corruption; the lack of a clear set of rules for state aid to companies; and the need for

[36] The others are Slovakia, Poland, Hungary, Slovenia, Lithuania, Latvia and Estonia.

both better environmental protection and more stringent financial controls.[37] The continuation of government subsidies to ailing steel and other industries directly contravened EU policy. As a recent comment puts it:[38]

> Czechs in general want to be good EU citizens and are willing to make considerable sacrifices ... for allowing accession to become a reality. The government, though, isn't keeping its end of the bargain.

A survey of the transformation of the Czech Republic's international position cannot be complete without mentioning its membership of the North Atlantic Treaty Organisation (NATO). From an historical point of view, this is even more extraordinary than EU membership. In March 1999, three ex-Warsaw Pact states, including the Czech Republic, joined NATO, just in time, to the consternation of some, to join in NATO's operations in Kosovo. This has led to a major modernisation and re-equipment of the Czech armed forces to bring them into line with NATO requirements, to the refashioning of command structures and the introduction of 'western ethics'.[39]

Conclusions

Despite its patchy record, the Czech Republic is a 'success story' for a number of reasons, which include the following.

- The Czech Republic has a long, if broken, historical experience of democracy and good governance.
- Its constitution works, not only on paper but also in practice.
- Its democratic institutions function well and, in the main, without government interference.
- Its government is largely clean and transparent.

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[37] Website of the Mission of the Czech Republic to the European Union, 11 November 2003.

[38] *Flat Sheet's Final Word*, 14 November 2003.

[39] *Financial Times*, 8 August 2000.

- Czechs have welcomed democracy and the free market and, despite some hardships, developed social norms similar to those of Western Europe. There has been little political extremism and no terrorism. Elections have been free and fair.
- The lively and independent media react quickly to any perceived abuse of power, inefficiency or corruption in government or business.
- Its relatively high level of industrial development, skilled labour force, strong technical education and geographical position give the Czech Republic many strategic advantages.
- Although there have been numerous difficulties, government has consistently and energetically pursued economic transformation and transparency, and an end to corruption. As Jonathan Oppenheimer puts it: certainty, transparency and predictability are the 'triple bottom-line best practice essentials' for business to flourish in any country.[40]
- The Czech Republic has no external enemies. It is internally stable, has fostered good relations with its neighbours, and has moved quickly to full membership of European institutions.
- Finally, and crucially, membership of European institutions has been a vital incentive to good governance because these institutions have set clear and consistent goals to be met by candidate members.

Some of these factors are peculiar to the Czech Republic and/or to its region, but others are universal. Many, though not all, apply equally to Africa. Amongst these are:

- democratic constitutions which work in practice as well as on paper;
- internal peace and stability, and good relations with neighbours;
- the rule of law;
- independent and active media and NGOs, and clean and transparent government;

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[40] At SAIIA's conference on Nepad, held in Cape Town on 5 November 2003.

- good technical and other education;
- a government that energetically promotes economic efficiency, and is predictable in its policies and transparent in its practices;
- an independent central bank and judiciary; and
- commitment to stamping out corruption at all levels.

These points are largely the responsibility of governments, but another is of especial significance to Nepad. It is that a strong agent or agents is needed in the region to advise on best practice, reward good governance and penalise abuses of power. Whether Nepad has the will and the capacity to take up this role is far from clear, but the need for it should be considered and addressed.

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