

Economic Transition: The Czech Experience and its Relevance for Myanmar

Speech delivered by Deputy Minister of Foreign Affairs Martin Tlapa at UMFCCI, 7th March 2019

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Ladies and gentlemen,

Let me share with you the unique story of our country's economic transition after the fall of Communism back in 1989 that serves as a model to many countries worldwide. The whole process took fifteen years and it was a massive success. The quality of life improved significantly and so did our country's economy. Let me demonstrate this development on several numbers – and I promise that those are the only statistical figures you will hear today – between 1990 and 2005, our GDP per capita tripled from 4 thousands USD to 13 thousand, both in current prices. The life expectancy grew from 71 to 76 years in the same period, while our Human Development Index increased from 0,730 to 0,835. Officially, the transition was completed when joined the EU in 2004.

The story of my country shows, that it is possible to fix a broken economy and transform social values. However, it is a hard and long-lasting process that should be done in the right moment when there is social will to do that. A lot of patience is needed because some reforms have very long-lasting effect, which can be seen and appreciated only after several years. It took us fifteen years to prepare for joining the European Union and thus completing our transition process.

It is necessary to keep in mind that our transition experience can be transferred to other countries only to a limited extent, because the initial conditions, cultures, habits and social systems vary from country to country. There is no universal handbook for a successful economic transition. But after all, some particular examples of reforms and approaches can serve as inspiration to other countries and some lessons we learned can distract the others from repeating the same mistakes.

If we look at our initial conditions at the time when the Communism was overthrown, we were one of the most centralised economies in the former Soviet bloc, with only 1.2 percent of population employed in the private sector. Our economy had many of the problems that were symptomatic for socialist countries, such as inefficiency, wasting of resources, lack of environmental concerns and very limited flexibility of state-owned companies. A specific problem was the isolation of our companies and people from global economy and lack of experiences in dealing with foreign enterprises and standards.

Therefore, the shift from command economy to free market was our crucial priority. The fast pace of reforms that we decided to take was only possible thanks to their widespread acceptance by the population. Vast majority of people did welcome the fall of communism and understood that the country was severely damaged after 40 years of mismanagement, so they were ready to bear the burden of sometimes tough and unpopular reforms as some kind of reconstruction costs.

There were proposals at those days to slow down with the reforms so that people and businesses would have more time to get used to the new conditions. This approach was chosen by some other countries and in turned out, that those countries lost the right momentum. As the time passed, people were willing less and less to accept the unpopular reforms. So, one of the first lessons of our transition – and I believe this is a more general rule that applies for business leadership as well – is to implement changes at the time, when the stakeholders are ready to accept them. And, of course, to do as many changes as possible once there is the right moment.

What we actually did in those first years of transition, was the opening of our economy to global markets, liberalised most of prices, privatised the vast majority of previously state-owned companies and created the financial sector that was able to provide capital for the emerging private businesses. Generally speaking, we created the institutional set-up in which a free market can exist.

The privatisation was probably the most complex change with long persisting effects. There were two waves of transferring the public assets to private owners. In first phase the small businesses, such as shops, restaurants or hotels, were sold through public auctions. The second phase affected bigger companies. Some of them were sold through auctions and tenders to foreign strategic partners who could bring their capital, know-how and contacts to their new assets.

Majority of enterprises were however privatised through “coupons”. In this method, every citizen could buy a coupon book containing investment points. These points could be either changed for shares of privatised companies or they could be entrusted to investment funds, where it was the fund who invested the points into shares of concrete companies.

Lack of experience of these funds managers – and sometimes even their malicious intent – led to mismanagement of the privatisation investment funds, when many of them bankrupted. The legislation regulating trading in shares was only emerging at that time and so, many of the bankrupted funds managers were never prosecuted for their failures. Others avoided prosecution simply due to the fact that the police and state prosecutors lacked experience with economic criminality and were not capable of building a case against those individuals.

That leads us to another lesson taken from our transition process and it is that every substantial change should be implemented along with solid regulation, which contains no loopholes. In addition to that, many stakeholders of the change may be confused by the new conditions and could get easily manipulated. So, a quality mechanism to inforce law or other rules is necessary as well.

Citizens who lost their savings in investment funds felt it was unjust and this could be one of the factors that contributed to gradual decrease of the public to accept other unpopular reforms.

Others were disappointed by the growing unemployment rate. During the communist regime, there was officially no unemployment. Instead, one of the typical inefficiencies of socialist economies was the overemployment. Companies employed more people that they actually needed and these employees performed useless activities or only little work. After the fall of

communism, companies gradually optimised their staff and many people became unemployed.

This problem was solved mainly thank to the opening of our economy not only to foreign trade, but also to the investment. Many foreign companies opened their branches in the Czech Republic, also due to the investment incentives introduced in the later phase of the transition and thanks to opening of large number of industrial zones, where these companies built their facilities.

These companies brought their know-how and high working standards to our market. Some of the Czech business people started their careers as managers in those foreign companies and they later transferred the knowledge and skills they learned to their own enterprises. This pattern – which was since than repeated in many countries – shows that the open economy may bring large benefit to the local companies as well.

It is encouraging to see, that Myanmar has also launched a series of reforms that would make its economy more open and transparent. The new Company Law and Investment Law as well as introduction of the online company register are important steps in the process of economic transition, just as the Sustainable Development Plan. The creation of Special Economic Zones, on the other hand, may attract more FDI's. The Project Bank – once opened – will enable the private sector to take even greater role in transforming the Myanmar economy.

However, our own transition was not just an economic exercise but also a question of driving the equally important and much broader underlying processes of political change and major shift towards the capitalist social system.

One example with important economic consequences is changing the way how people relate to the state and its implications for tax collection. In dictatorships or under foreign occupation, people see the state as an entity that is strange to them, that does not serve them and that does not belong to them. Within such logics, taxes may be seen as a tribute paid to the perceived oppressor and, on the other hand, avoiding taxation may be explained as an act of resistance. But the democratic state is governed by the elected representatives of the people and should serve them rather than oppress them. Taxes are contributions through which people enable the state to maintain its services for the public. In our country, the nature of the state has changed 30 years ago, but the way how people see the state and their will to pay or avoid taxes has changed only gradually.

So, what are the conclusions and the lessons that one can take from those 15 years of our economic, social and political transition? First of all, the transition takes time and it is necessary to be patient. Many effects can be seen only after years after the new law or reform was introduced. Transforming the institutions is only the first step on the way. It is much more difficult to transform mind-sets of people. Some patterns of thinking and behaviour may change even over a time of one or several generations.

Another lesson, that might seem to contradict the first one, is to take action at the right moment. The public opinion changes over the time and if your reforms meet with the mood of the public, you can expect much more acceptance and even cooperation.

Being open to the world is largely beneficial. We were not alone for implementing all the changes. We could rely on advice of foreign experts; we received significant aid from the EU, as well as from USAID and other donors. That expertise and financial contribution was also important in making our transformation happen. In fact, we are an example of a country that started as a recipient of aid and over the time became a donor, now cooperating with others on their own way towards the economic, social and political development.

Foreign companies that set up their businesses in our country were also greatly helpful. They provided jobs for the growing number of unemployed people; they brought with themselves their corporate culture, new technologies and connections to global production chains.

I am pleased to see that many of those greater changes have gradually taken place in Myanmar as well and I am proud to say that the Czech Republic has contributed to making those changes happen. We do it through our transition assistance, humanitarian and development projects. These projects such as technical assistance to independent lawyers; to social and health care institutions; or to communities that are vulnerable to natural disasters, they all aim at building and empowerment of organizations that would provide the best service to the country. Many of these projects were submitted and implemented directly by Myanmar foundations and charities and they also developed their project management skills by cooperating with us.

Since our country recognizes the importance of private companies in the development process, we have recently launched a new development instrument, which should help our enterprises in investing in developing countries such as Myanmar. This instrument is called the Guarantee Programme and its main purpose is to provide a guarantee for B2B operations between Czech companies and their partners in developing countries, including Myanmar. We also have programmes for business matching. This year, we brought a group of Czech geologists and mining engineers to the Tanintharyi Region thank to this programme. Another group of Czech business people will come in late May of this year. They will accompany our minister of trade and industry, who will visit Mandalay.

When I look at our current economic and trade relationship between Czech and Myanmar, I see enormous potential to expand and deepen our business links. Our activities mainly aim to bring people together and create some ground for their cooperation. We believe that cooperation between the Czech Republic and Republic of the Union of Myanmar will be able to further enhance the investment and business opportunities with mutual respect.

Ladies and gentlemen, if you are interested in more information about our economic diplomacy and development cooperation, we can discuss further this issue during the question and answers part that will follow. Thank you for your attention.