

The Study on Republic of Estonia

The way to liberal economic structure

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Preface

Estonia is a small but very old nation. Culturaly, Estonia is closet to its Nordic neighbours Finland and Sweden. Because of Estonia's strategic location at the center of Northern Europe; it has always been on the trade crossroad between North and South, East and West.

In 1918, Estonia declared independence from the Russian Empire and became a democratic quickly, moderatry prosperous European nation.

For Estonia, World War 2 ended with restoration of independence from the Soviet Union in 1991 and withdrawal of Russian troops in 1994.

Estonia has been accepted quickly by the international community along with other European post communist nations.

Nowadays Estonia has Free Trade Agreement and an Association Agreement with the European Union. The application for becoming a full member of the EU was submitted at the end of 1995.

Political and macroeconomic stability have been a basis for 4-6% growth since 1994. Estonia's economic policy are;

- 1 stable currency and balanced budget;
- 2 rapid privatization;
- 3 the promotion of foreign investment;
- 4 liberal foreign policy;
- 5 export promotion;

Finally, radical economic reforms were supported by the World Bank, the IMF, the OECD and many other countries. For instance, friendly nation such as Finland, Sweden, Denmark, UK, Germany, and the USA.

In Japan, they are not so much known country, therefore, I wish to report, especially, as a economic management.

Estonian Economy

1 Introduction

The Estonia government has adopted very liberal economic policies, in which the governments, role in economic management has been reduced to a minimum. So, the parliament has passed over 3000 legal acts in four years, thereby creating a function legal framework for economic reform.

The government, main objective is to implement economic reform as quickly and effectively as possible. Currently, the highest priority is the privatization of state property, and to facilitate this, the Estonian Privatization Agency was created in June 1993.

2 Stable currency and Budget

In June 1992, Estonia underwent a radical currency reform and adopted a currency board system.

The Currency Board pegged the Estonia national currency, the Kroon, to the Deutsche Mark at a rate of 8:1. All kroons in circulation are fully backed by the gold and hard currency reserves of the bank of Estonia.

These reserves have stabilised at the level of approximately 680 million DEM. There is no danger of a devaluation of the kroon.

The most important characteristic of the Estonia Government budget is that it is in balance. The 1995 state budget was the first one based on the budget law adopted in 1993 and the first one to apply to a term longer than one year. In 1995, budgetary revenues amounted to 9,043 million kroons, of which state taxes and other duties constituted 8,947.3 million. The main sources of revenue were income, corporate, sales and excise taxes, accounting for 89.7% of revenues. The size of the 1996 budget is 13,185 million kroons. In 1997, 15 billion kroons.

GDP is expected to be 51,250 million in 1996 and 60,150 million in 1997.

3 Privatization

The privatisation is very interesting subject to our, In that case of reform from under communism to liberal economy.

How to success to a privatization, in this report, I wish to discuss its framework for privatization.

By Investment Guide for Estonia, first occupation is to adopted the law on privatization. It was adopted by the Parliament in June, 1993.

The law covers the privatization of all assets of state — owned and municipal enterprise.

The law on privatization defines the term [organiser of privatization], which means the Estonia Privatization Agency. And EPA is responsible for the privatization of property and other issues related to the process of ownership-reform.

What to do EPA?

- 1 compiles the list of state property subject to privatization;
- 2 holds, uses, and disposes of the property on privatization list,
- 3 fulfils function of the owner of the enrolled property in compliance with procedures and to the extent provided by legal acts;
- 4 determines and manages reorganisation, restructuring, stabilization and liquidation of the enterprises;
- 5 negotiates with entities to participate in privatization;
- 6 organises denationalisation of state property;
- 7 organises disposition of state property on the privatisation list in to economic activities, including allocation of state property into= initial capital of enterprises with foreign capital participation, and leasing of state property;
- 8 exercises control over the concluded sales contracts.

4 Privatization programme

Privatization programmes compiles in cooperation with the minister and the cabinet, and determined as next;

- 1 priorities of privatization;
- 2 privatization methods in different spheres of economic activity;
- 3 restructuring, reorganisation and stabilization principles;
- 4 the extent to which privatization securities will be used in privatization;
- 5 sectors where restriction may be applied;
- 6 principles of applying additional requirement;
- 7 privatization principles for agricultural co-operatives.

5 As a others, important law.

- 1 Law on the Bank of Estonia
- 2 Law on the Estonia Currency
- 3 Law on Backing the Estonia Kroon
- 4 Law on Credit Institutions
- 5 Law on the Securities Market
- 6 Law on the State Budget
- 7 Law on Collective Contracts
- 8 Law on Individual Contracts
- 9 Law on Vacation
- 10 Law on Wages and Salaries
- 11 Law on Working Hours and Breaks
- 12 Law on Land
- 13 Law on Natural Resources
- 14 Law on Taxation
- 15 etc,

6 The promotion foreign investment

Estonia is an attractive destination for foreign direct investment [FDI]. At the end of 1994, FDI in Estonia totalled US DOLLER 340 Million.

In team of FDI per capital from 1992 through 1994, Estonia ranked third in Eastern Europe after Hungary and the Czech Republic.

Companise from more than 100 countries have already invested in Estonia, with over 8700 Estonia firms wholly of patty based on foreign capital. Among the well known names to have established production or distribution based in Estonia area ABB, COCA-COLA, NOKIA, SIEMENS, SHELL, and TOYOTA.

Initially, most investments came from Estonia,s Nordic neighbours in Finland and Sweden, however, increasingly, North America and East Asia have been attracted to Estonia by its geographical location, high skill and low costs.

7 The benefit of investment

Among the many benefits of operating in Estonia, explained in more detail in other factsheets, are:

- 1 a highly-educated, western-minded people with excellent language skills.
- 2 a ready supply of raw materials, including locally generated electricity.
- 3 a rapidly developing international telecommunication network.
- 4 convenient air, sea, and road connections to major rapital cities.

8 The Estonian Investment Agency [EIA]

The EIA is a governmental agency, established in May 1994 to assist and prmote foreign direct investment into Estonia. The Agency,s main activities are;

- 1 promotion world-wide to increase awareness of business opportunities in Estonia.
- 2 creating contacts with both the public and private sectors in Estonia.
- 3 supplying information and providing various kinds of assistant in the establishing foreign investment throughout Estonia.

Activities of the EIA are financed by the Estonia Government and the European Union's PHARE Programme.

9 The Figure for reference

- 1 Ethnic structure of the Estonia Population
- 2 Structure of Estonia industry in 1994
- 3 Estonia import in 1994
- 4 Foreign direct investment by sector
- 5 Number of enterprise with foreign participation by country of origin.

Summarize

Estonia is most effected by Finland in the three Baltic state [Estonia, Latvia, Lithuania] . Estonia gained independence from the Soviet Union in 1991, and adopted liberal economic reform.

However, this small country made rapid progress, because it had some couses. It was coped with privatization of government rapidly, and for expansion of GDP, Estonia considered government system, tax system, administer a personal property, foreign exchange, receive foreign investment easily.

As to the monetary policy, Estonia was connected with a Deutsch Mark and gained foreign confidence so succeeded stabilization of exchange rates in particular. and

Distribution, communicationsmedia, completed with airport and Estonia Central Bank activities were essential for good trade with foreign countries.

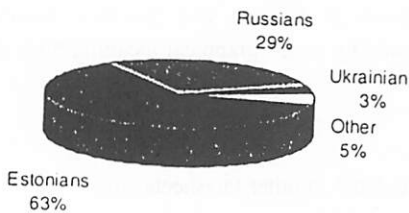
This sort of change that Estonian pride, high level education and communication had made it possible. and 70% people can speak English, not to mention Estonian.

They are a hard -working and diligent people, a desire to improve themselves make main energy.

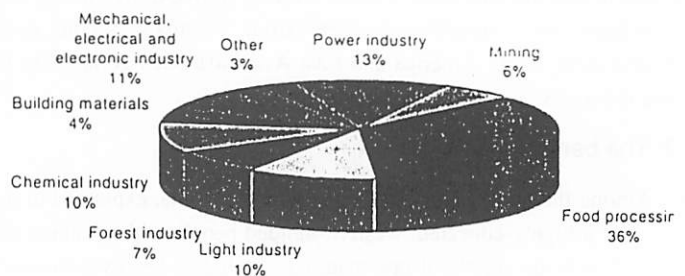
Estonia is just one to confirm of North Europe that succeed to the liberal economic policies.

The Figure for reference (Source: The Bank of Estonia.)

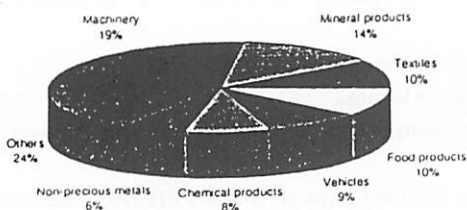
1 Estonian Population



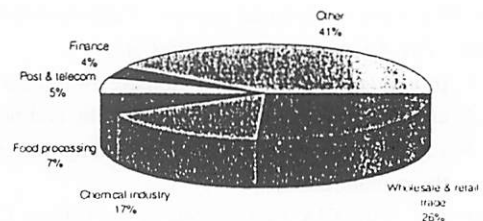
2 Estonia industry in 1994



3 Estonia imports in 1994



4 Foreign direct investment by sector



5 Number of enterprises with foreign participation by country of origin

