



FUTURE OUTLOOKS OF THE ESTONIAN ECONOMY (DEVELOPMENT SCENARIOS)

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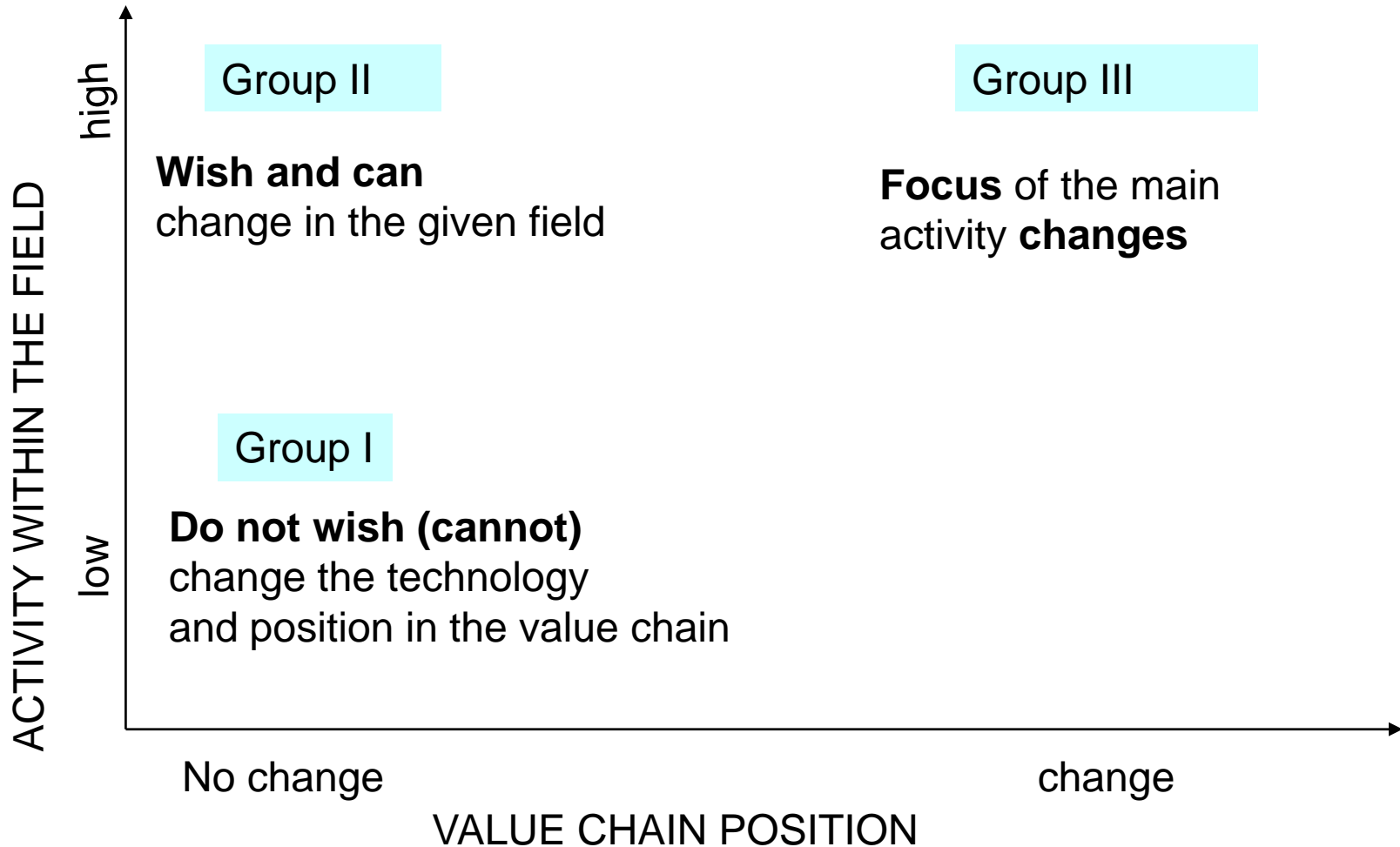
About the preparation of the development scenarios

- We see the further development as a ‘multi-variant’
- we use a scenario approach
- The suggested development scenarios have different probabilities for their occurrence
- The scenarios enable a certain feeling of the future to be obtained
- They help formulate positions for a strategic behaviour

What are the behavioural patterns of Estonian enterprises – how do they manage and interpret the future

- **What are their behavioural patterns in making strategic choices?**
- **How is it possible to classify the choices?**
- **How to assess the choices of enterprises?**

Types of behavioural patterns of enterprises



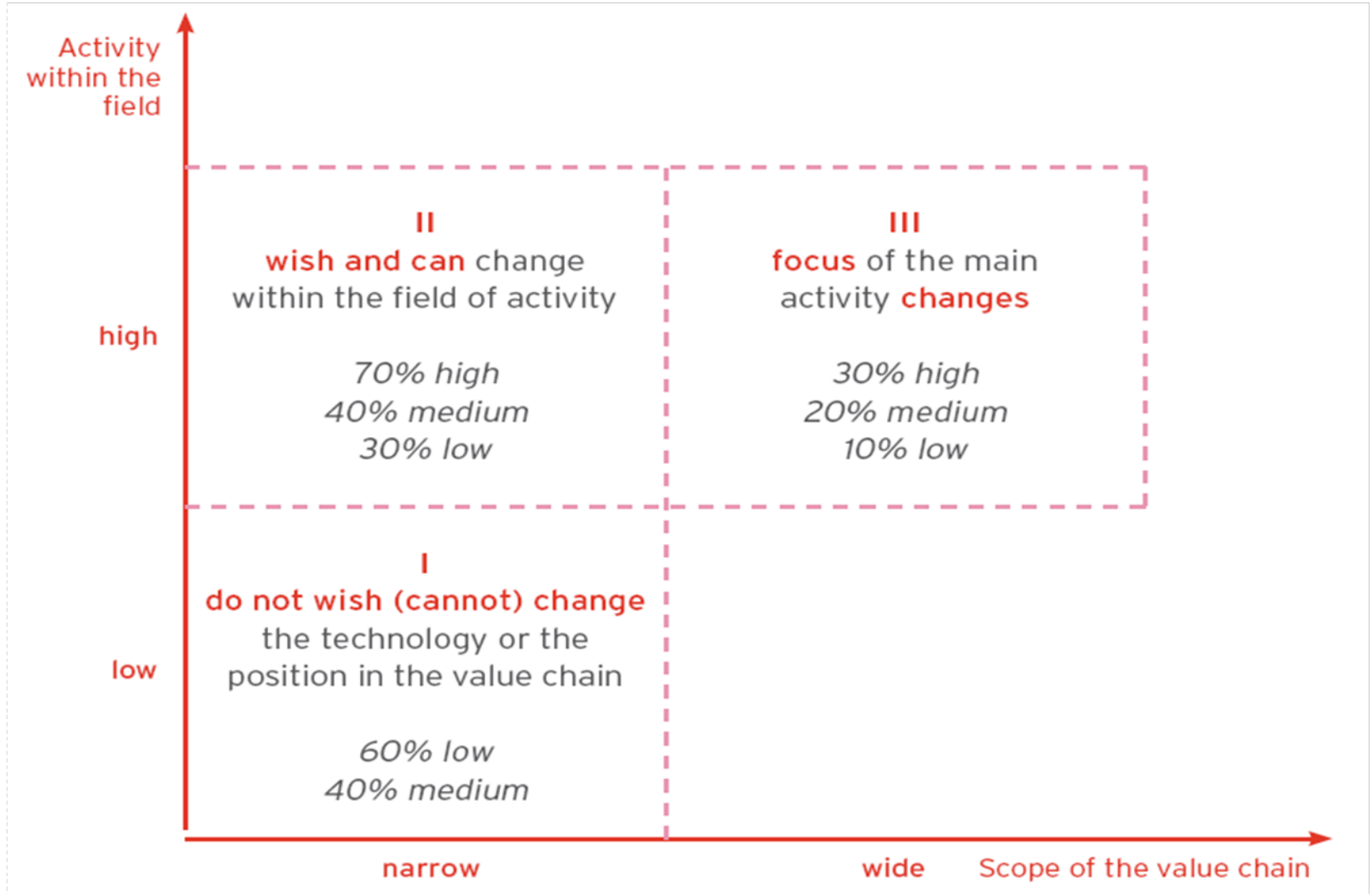
Types of behavioural patterns of enterprises

Type I enterprises **do not wish (cannot)** to change the technology and position in the value chain, apply simple or passive manners in solving problems (hiring labour from abroad, relocating the production into regions with cheaper labour, etc.).

Type II enterprises **wish and can** change within the framework of the particular field of activity. Attention is paid to an active management of benefits and costs and to the improvement of the enterprise's management system.

Type III: the focus of the main activities of the enterprise **changes – new value chain position**. Choosing such a strategy assumes the enterprise having an ability to overcome the barriers in exiting the previous branch of activity and the barriers in entering the new branch. Therefore, the competencies of enterprises should be transferable into another field of activity.

Assessment of value added in relation to the behavioural patterns of enterprises of economic sectors with high, medium, and low productivity (types I, II, III)



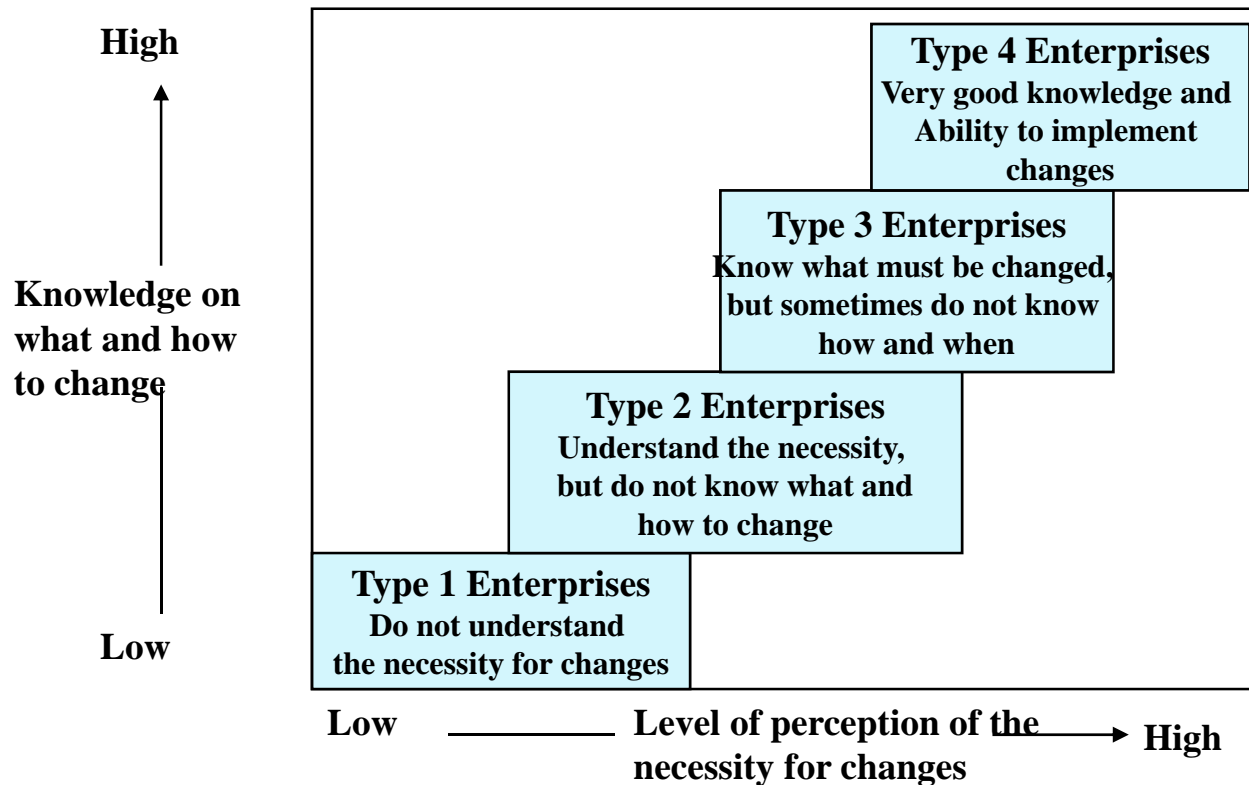
Behavioural patterns of enterprises depending on the level of productivity of those sectors

- High productivity economic sector enterprises do not set forward a low price level, but a higher quality. They try to distinguish.
- In medium productivity economic sector enterprises, they rather think about saving costs than increasing incomes.
- In low productivity economic sector, there are the most such enterprises, which try to manage with fairly simple methods.

Assessment on behavioural patterns of Estonian enterprises

- **Global capture is modest** – how to achieve a better position in the international division of labour
- Unable to assess the extent of the fluctuation of the **external environment**
- Management and organisation is handled as static – **organisation's ability to change is not valued**
- **Creation of cooperation and collective knowledge** and joint use of resources is insufficient
- Enterprises' **willingness for partnership** both with the state and among each other (networking) is modest – the state is perceived as a relatively abstract and distant phenomenon
- **Working culture is not being seen** as a reserve for saving costs and increasing incomes and, therefore, **increasing productivity**

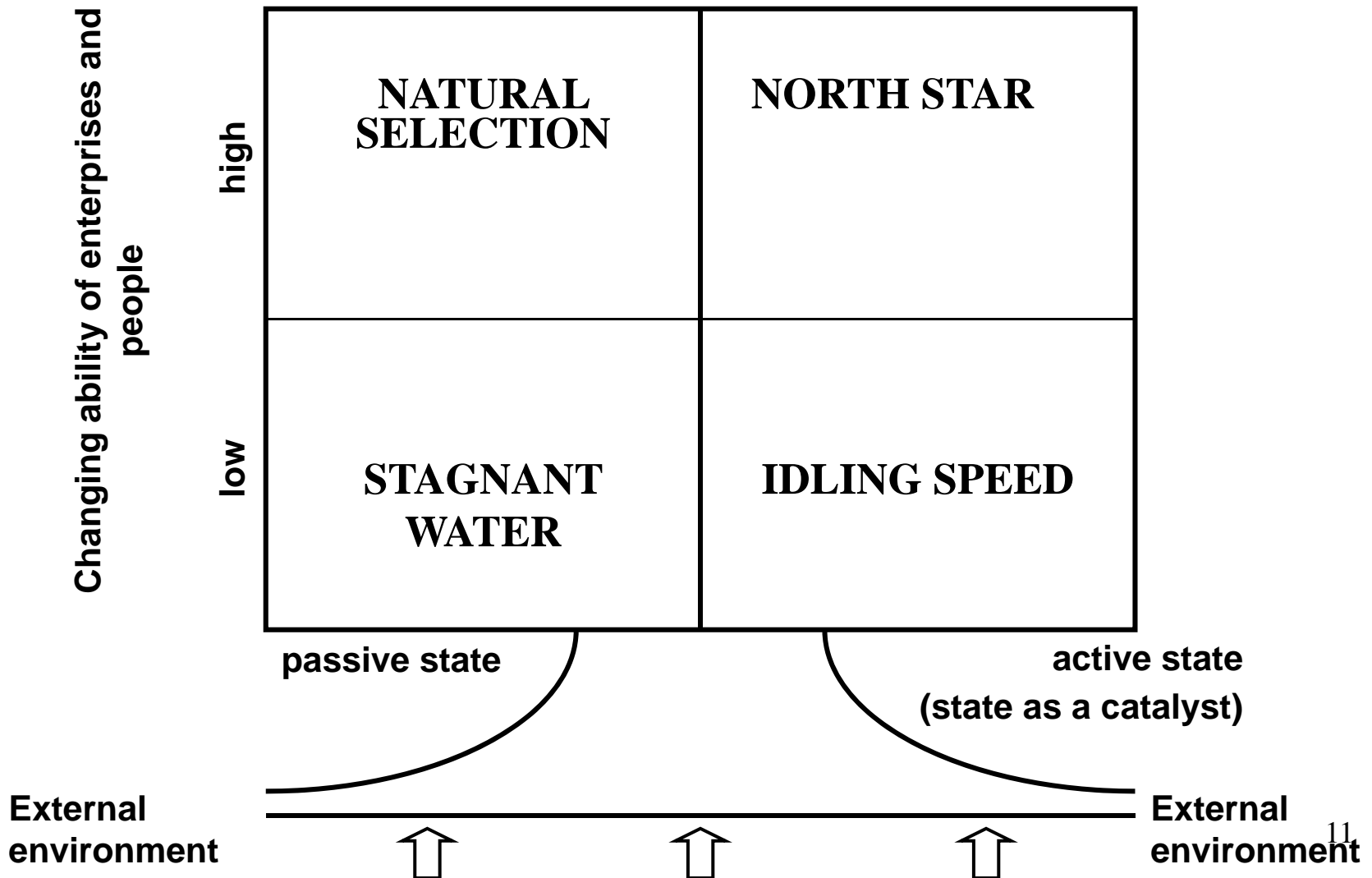
Types of enterprises pursuant to addressing changes (Arnold, 2000)



What did the analysis of competitiveness of the sectors of the economy and behavioural patterns of enterprises give for the preparation of the development scenarios?

- **Main danger** to the sustainability of the economic growth and, at the same time, also an **opportunity** for increasing the further competitiveness of the Estonian economy **originates from the inside or from the economy itself, not from the external environment.**
- in the near future, a decisive role will be played by the **ability to change** of all economic agents, which is based on new **attitudes, knowledge and skills** of all parties
- **cooperation** between partners operating in the economy is **very important**

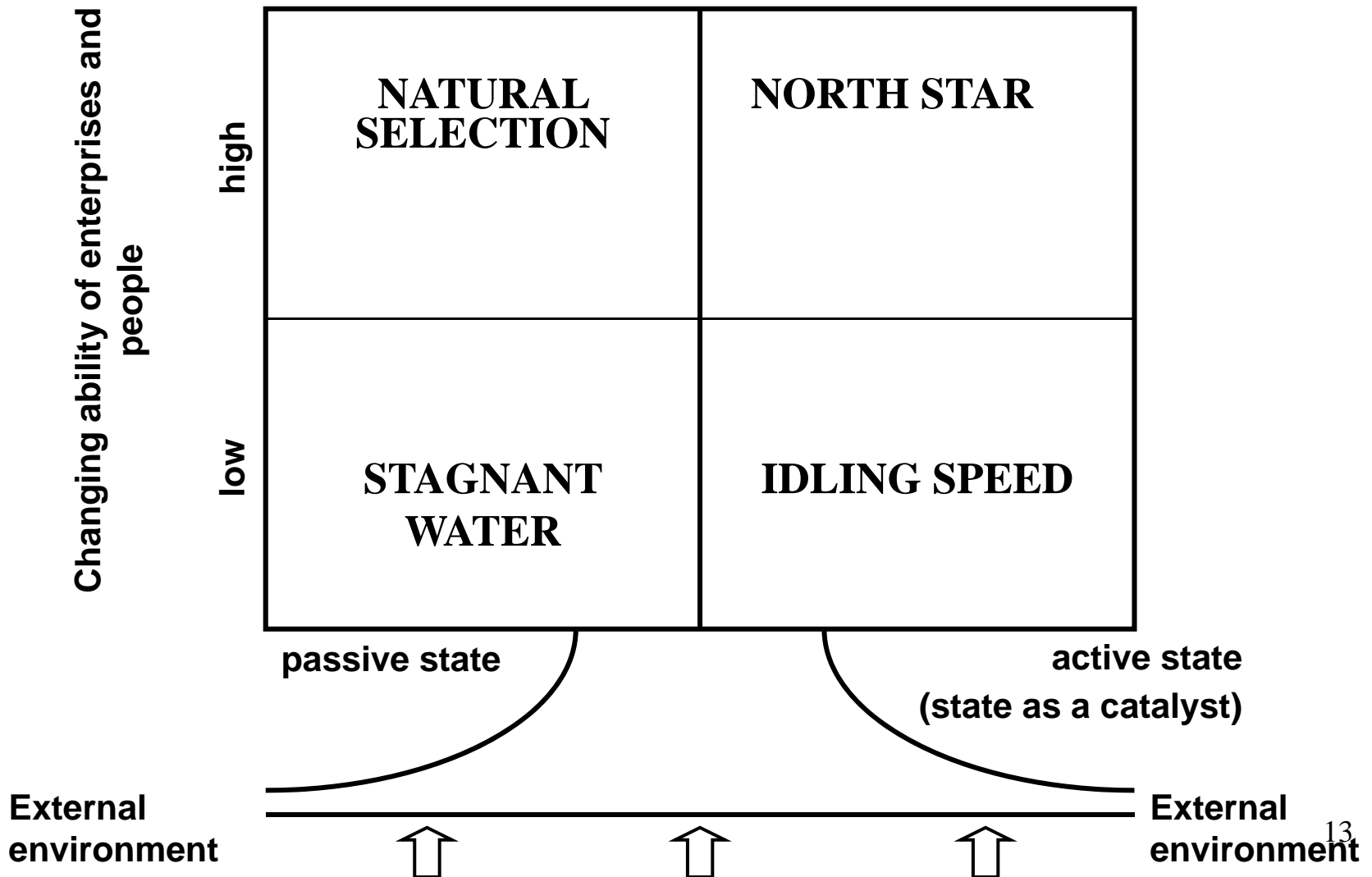
Possible development scenarios for the Estonian economy



Framework of the scenarios

- **Ability to change and cooperate of enterprises and individuals** (readiness for changing the position in the value chain, renewal of the used technologies, innovation of products, services and processes, learning process)
- **Ability of the government sector to support changes**
(various policies in packages with which it is necessary to facilitate changes both in the behaviour of enterprises and individuals, at the same time changing the behaviour of the public sector itself)

Possible development scenarios for the Estonian economy



Short description of the scenarios

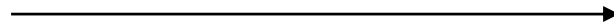
- **“Stagnant water”** – enterprise continues the previous, slow restructuring, people’s ability to change is low and the state (in a wider sense: society) does not consider it necessary or is unable to change its relevant policies to a significant extent and increase their efficiency.
- **“Idling speed** – the state becomes active and tries to make something more significant, but it does not match the wishes, initiative and “willingness to play along” of the enterprise, or it appears inefficient for some other reason
- **“Natural selection”** - enterprises are forced to become active, but their activity is mainly individualistic, and cooperation opportunities with the state, other enterprises and other partners are not used.
- **“North Star”** - a leap in development could be made by connecting the enterprises’ readiness and ability to change (incl. cooperation and networking/clustering) with the supporting activities of the state.

Launching of various scenarios

Development cycle of the economy ends with:

moderate deceleration
(“soft landing”)

Continuation of the current situation



Stagnant Water

strong deceleration
(“hard landing”)

Stagnant Water



- **A sufficient readiness to change does not occur** (enterprise, state, people)
- **Structural problems** of the economy will be **maintained** and deepened
- Country ratings of Estonia start falling
- Inflow of capital decreases
- Production starts leaving Estonia
- Labour intensive sectors slowly shrink
- Increase of state revenue receipts decelerates (is partially compensated by receipts from EU Structural Funds)
- Inflation rate does not enable switching over to the euro

Launching of various scenarios

Development cycle of the economy ends with:

moderate deceleration
(“soft landing”)

Continuation of the current situation

Stagnant Water

The state is active

Idling Speed

North Star

strong deceleration
(“hard landing”)

Enterprises and people are active, the state is not

Natural Selection

Natural Selection



- **Enterprises and people are forced to become active,** the state observes from the side
- **Strong market competition**
- Activity is mainly **individualistic**
- A **sharp decline in production** appears in labour intensive sectors of the economy and in companies oriented towards the domestic market
- redundant **labour goes abroad again**
- Market value of enterprises decreases
- **Buying up of enterprises by aggressive** foreign investors
- Relatively **fast change of the economic structure**
- **costly** both in the **economic** and **social** sense.

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Enterprises and people are active, the state is not

Natural Selection

The state is active, enterprises and people will not come

Idling Speed

Idling Speed



The state becomes active:

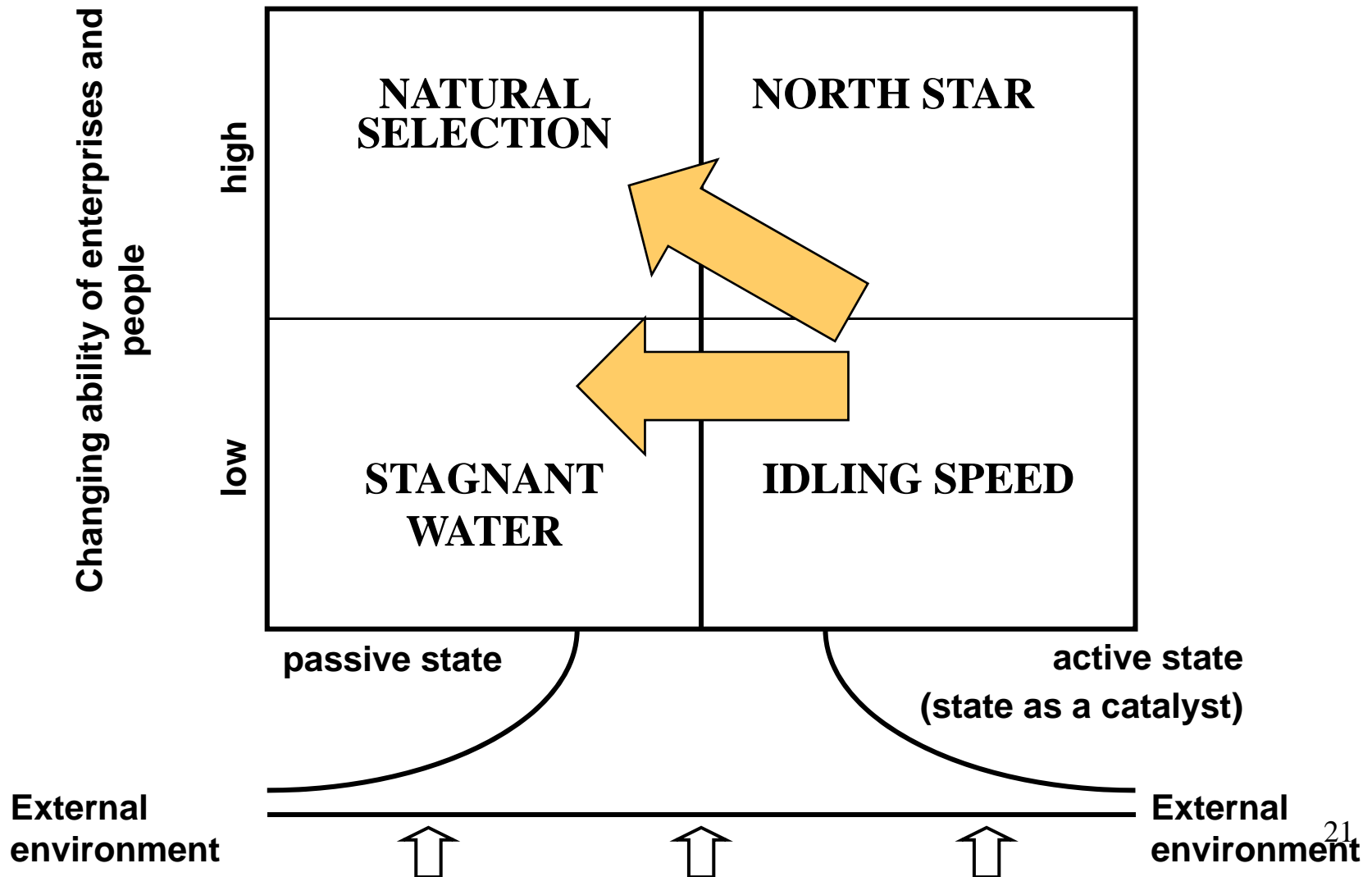
A) Measures unsuitably featured or inefficient – activities implemented in the **wrong order**, no sufficiently suitable **partners** and actual **needs are unmapped**

(reasons, e.g.: political agreements; maladjustment of policies; misuse of corporate interests)

B) The applied measures are correct and necessary – they cannot be administered, administration is too costly and it does not **accompany changes in the behaviour of enterprises and individuals or motivate cooperation**

- The state is not able to play along with the enterprises, do what the enterprises could and would be able to use
- *Learned helplessness syndrome*, after the termination of the assistance, the activity will also end – project economy
- **The Government's costs increase – no significant structural changes occur**

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Enterprises and people are active, the state is not

Natural Selection

State is able to include also people and enterprises by its active operation

North Star

The state is active, enterprises and people will not come

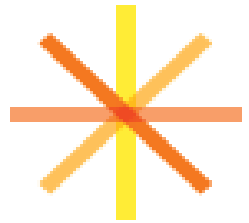
Idling Speed

North Star (1)



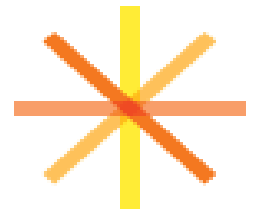
- **The most preferred scenario**
- **assumes exceeding a thought inertia and creating resultant cooperation models**
- **A significant increase in the government sector's ability to define the needs for strategic changes**
- **The state can make a balanced macroeconomic policy (e.g., inflation management)**
- **Policies are bundled into packages having a strong initiating and supporting impact.**
- **Packages targeted at the internationalisation of enterprises, cooperation between enterprises, government sector and branch associations, and putting into use of contemporary production technologies function well.**

North Star (2)



- As a result of the pressure of the external environment and the cooperation among themselves and with the state, **the activity of the enterprises and their adaptation ability will increase**
- Enterprises have considerably **improved their position in the value chain**
- Sufficient amount of enterprises **know the world market, are ambitious and adaptable**
- There are narrow fields where they are strong (e.g., oil shale power industry and chemistry, medical equipment, log houses, etc.).
- They offer **internationally successful sophisticated services** (e.g., health and maintenance; creative tourism/experience tourism, financial intermediation, telecommunication, etc.).
- **The creative industry** (incl. design, digital media and cinematography, fashion) and its outputs into various sectors of the economy has ₂₄ an important role.

North Star (3)



- **Successful labour policy**
- **Migration policy imports a qualified labour**
- **Positive shifts in the education system** (symbiosis of technology fields with enterprise studies)
- Foreign students are prepared to work in Estonia and come to live here.
- **The image of Estonia in the world is positive** and that is constantly being elaborated
- **Predominant positive attitude towards the future and a substantive discussion takes place between the partners**