



In a recession-free world, tensions exist between East and West. Competitive pressures rise all over the world, bilateral relations become predominant. Europe struggles to remain important in multipolar world economic arena, despite continued EU integration. Russia and Germany build a strong alliance but Nordic cooperation falters.

- Global economic growth returns fast, stemming from new business areas and especially the green economy's rapid growth that is based on intensifying use of ICT and other technologies.
- Due to the rising power of emerging countries, competitive pressures increase all over the world and this leads to regular tensions and protectionist policies. These also take precedence in the Nordic region, leading to fall in regional cooperation.
- However, globalization continues from advancing global debundling of value chain activities, outsourcing and offshoring.
- International cooperation enlivens but mostly through bilateral relations as these are considered by major countries the most efficient way of ensuring own interests.
- Russia warms relations with rapidly emerging China and starts challenging the NATO alliance politically, in addition to building a strong alliance axis with Germany.
- EU faces a challenge for staying important as an actor in the global marketplace, although crisis is overcome and new small-country members enter the union, driving the integration forward to a degree.



Estonia actively seeks new partners and advances bilateral relations with more distant (large) states. After proactive economic policy and ambitious education rearrangements are introduced, Estonia becomes a globally considerable hub of innovation and entrepreneurs - especially in ICT.

- In this environment, Estonia seeks to build new partnerships and alliances, reinforcing economic and political ties with afar large countries (e.g. US, China, Brazil) and small progressive states (e.g. Singapore and Israel).
- The state assumes in fragmented geopolitical environment an active role in setting the new sights in economy and in rearranging the educational system, in particular.
- Actions are focused on supporting the joining of global networks and the government launches a wide-scale technology-based FDI attraction programme. Selected gifted Estonian youth is sent to study in world's best schools with conditional return clauses.
- In parallel, the inflow of talents is incentivized. Foreign students are attracted by emergence of competitive ICT and business schools, following the reforms in education.
- Private equity and venture capital flow into the country due to fast growth in skilled work-force pool and government-promoted advances in business environment. This facilitates the flourishing of high value-added sectors and boom of start-up companies, especially in ICT field.
- Estonia leapfrogs with its externally astute policy-making. Same time, structural unemployment and social tensions grow in face of rapid changes. Yet, the fruits of economic success allow to easily mitigate unrest.

STRONG RECOVERY FROM CRISIS AND FAVORABLE EXPORT CONDITIONS



Regionalisation increases in the world, fast recovery and further growth are led by traditional and new business areas together. Within Europe, Northern and Southern countries distance from each other. Cooperation around the Baltic Sea develops strongly with Germany and Russia participating actively.

- The political fallouts from financial crisis and changed power balances induce focusing the international cooperation and economic interactions into regions. Growing relations between regions still carry continuing of globalization at the same time.
- Post-crisis recovery is strong and quite fast, both in traditional business areas (based on growing investments, especially into infrastructure) as well as new business areas (e.g. green economy) based on advances in technological breakthroughs. Nordic countries are among champion innovators and lead markets in many of the new areas.
- China, Brazil and India have risen to important players in global arena. Europe has not waned in influence next to them, despite the interim critical moments in euro-zone, and acts as an important collaboration and trading partner for the new economic powers.
- North-south polarization and distancing occurs within EU. Germany values fiscal discipline and finds similarly thinking partners in Baltic Sea region, adding momentum to already ongoing integration.
- Russia then joins closely the cooperation network around the Baltic Sea, having become stable, prosperous and West-ward looking due to rise of Asia.



In midst of deepening integration of Baltic Sea countries, Estonian companies thrive with nimble business models and especially in new business areas. Estonia becomes a prime investment destination in the region. In 2018, Estonia is an open, lively and cosmopolitan nation rich for skilled individuals.

- Favourable external economic climate and the tightening cooperation around the Baltic Sea offer large markets to Estonian companies that have nimble business models, especially in technological and new business fields.
- The making use of new opportunities is strongly supported by post-crisis generational change of state and business leaders, which sparks wide-scale structural reforms.
- The educational reform and wisely selective immigration policy ensure fast growth of skilled labour-force. Estonian universities make a strong contribution to this after becoming regionally competitive through reforms.
- Based on this and owing additionally to dashing development of cross-border technological clusters, Estonia becomes a prime destination for regional investments (including R&D centres).
- Although income inequality grows and creates some unrest, general welfare advancements create a good platform for keeping the tensions at bay.
- Estonia successfully carves itself niches in the Baltic Rim, benefiting substantially from region's political stability, close economic integration and talent mobility.

FRAGMENTED, WEAK



DEGREE OF BALTIC RIM



REGIONAL COOPERATION



HARMONIOUS, STRONG



Economic growth stutters in the developed world and swells in developing world. As a result, new global order and balance-of-power emerge, igniting competitive tensions and protectionism. The neighbourly relations along the Baltic Rim and within EU are also not what they used to be - everybody is acting primarily out for their own interests.

- Afterwaves of global financial crisis continue to ripple the world economy through 2016. The economic recovery of 2010-11 turns out to be short-lived, with the exception of big emerging markets. Capital shortages create an obstacle to finding new sources of growth and making technological breakthroughs.
- The remaking in economic balance-of-power lines speeds up to the disadvantage of Western countries. They react in populist manner due to high unemployment and dissatisfaction levels, adopting more and more protectionist measures.
- Bilateral relations are advancing according to own-interest hopes but multilateral relations come to a standstill. It takes the Western countries and wider economic cooperation into a vicious circle that becomes ever harder to break.
- The Baltic Sea region and EU take a back-seat in the world as investors strongly turn to East. Economic self-preservation instincts prevail in Nordic countries with attempts to protect own companies and markets. Regional integration is reversed.
- After Vladimir Putin is again elected as president, Russia starts turning more attention to achieving control over weakened neighbours.



Estonia finds it difficult to carve a place for itself. The economic model is not modernised and remains inward-oriented, cost- and resource-based. In order to maintain employment, the state has to start 'grounding' enterprises to own control. Estonia's development outlook remain meager even once external conditions start improving.

- Estonia has a hard time carving a place for itself in this harsh environment. Unemployment persists at high level, foreign investors have lukewarm interest at best for investing into Estonia and business opportunities are lacking. Very many talented and experienced people emigrate.
- The government tries to direct the economic life and decisions more centrally in the name of survival, regulating and interfering more. The little remaining state finances available for investments are used to develop low-cost and local resources based manufacturing.
- In doing so, the economic model remains cost- and resource-based. The hardships of getting access to foreign markets leave us still dependent on meagerly growing internal market. The capacity for investment has fallen even further by 2016, while Estonian-Russian tensions have grown.
- In order to maintain stability and employment, the state decides to "ground" key enterprises by buying up their assets or taking over management control. Yet, the government has neither resources nor capabilities to turn these enterprises around.
- The economy stagnates. Even when finally the global conditions start to improve near the end of decade, the Estonian outlook remains poor - it takes a while to be able to progress from such a situation.

ECONOMIC CLIMATE IN ESTONIA'S



PAINFUL RECOVERY FROM CRISIS AND TENSE EXPORT CONDITIONS



In a global slow-growth environment, large countries are mostly interacting with each other and wider cooperation is left for regional blocs. These emerge also within EU and one of them strengthens in the Baltic Sea area, although without Germany and Russia participating.

- Global economy recovers slowly from crisis. Growth remains slow but stable, except in fast-growing emerging markets. The sources of recovery are public investments together with slow-paced innovations in traditional business.
- The big countries US, China, Russia, etc. interact with each other closely, realizing that mutual cooperation is beneficial to ensuring post-crisis stability.
- The role of wider cooperation is diminished and globalization slows down. Regional interaction and economic cooperation take off instead (especially in Asia and Latin America).
- Although there are new countries joining the euro-zone (including other Baltic states and Poland), EU members recognize the limitations of intertwined economic policies. Further integration decelerates and European economic growth falls behind the rest of world's.
- Such internal weaknesses leave EU out of interactions of the 'big' and to back-stage in world, inducing more progressive states to form intra-EU regional cooperation alliances.
- One such bloc develops in the Baltic Sea region, where the Nordic countries try to restore their growth by integrating lower-cost neighbours into their value-chains. Germany does not participate in regional cooperation and Russia is a trading partner but not more.



Scandinavian capital continues to dominate in Estonia, the economic model remains static and brain drain grows. Cheap price of labour gives work in the less valuable parts of regional value-chains, but growth is sluggish and development has a clear ceiling.

- The initially strengthening business opportunities in Nordic value-chains and also in Russia create a sense of escaping from crisis. This leads to continuation of hitherto economic policy, larger reforms are not introduced and economic model remains the same.
- New credit financing is impossible to get from Scandinavian banks, because Estonian outlook is not trusted and money is needed in home markets. Inflow of EU Structural Funds offer some refreshment though.
- The postponement of policy changes prevents a larger wave of FDI inflow, beyond the initial transfer of production and support services from Nordic countries in immediate aftermath of crisis. Finnish and Swedish capital only buy up the last successful companies remaining in hands of Estonian owners.
- Cost-based economic model, small pace of development and lack of capital alienate talented entrepreneurs, innovators and college applicants. Emigration of best talents and skilled workers speeds up.
- Estonia gets by somehow and the situation is quite stable for some time. Yet, there is clear ceiling in productivity and the economy is destined to run out of steam - the cost advantages that were restored during crisis time do not last for long.