

Towards An Economic Strategy for Estonia

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Vision and Strategy: What's the Difference?

VISION

What **type of economy** do we want to be?

- What **goals** do we want to achieve?

- Motivation
- Signal (internal)

STRATEGY

- What is the **value** we want to provide to businesses?
- What are the **critical actions** to get there?

- Trade-offs
- Coordination (internal)
- Signal (external)

Economic Strategy



Value Proposition

Defining a unique overall position

- What roles in the world and regional economy?
- What is the unique value as a business location?
- For what range or types of business activities?

Priority Policies

Developing unique strengths

- What elements of the business environment are critical to the national value proposition?

Best Practices

Maintaining parity on necessary qualities

- What macro/political/legal/social improvements are necessary to maintain parity with peer countries?

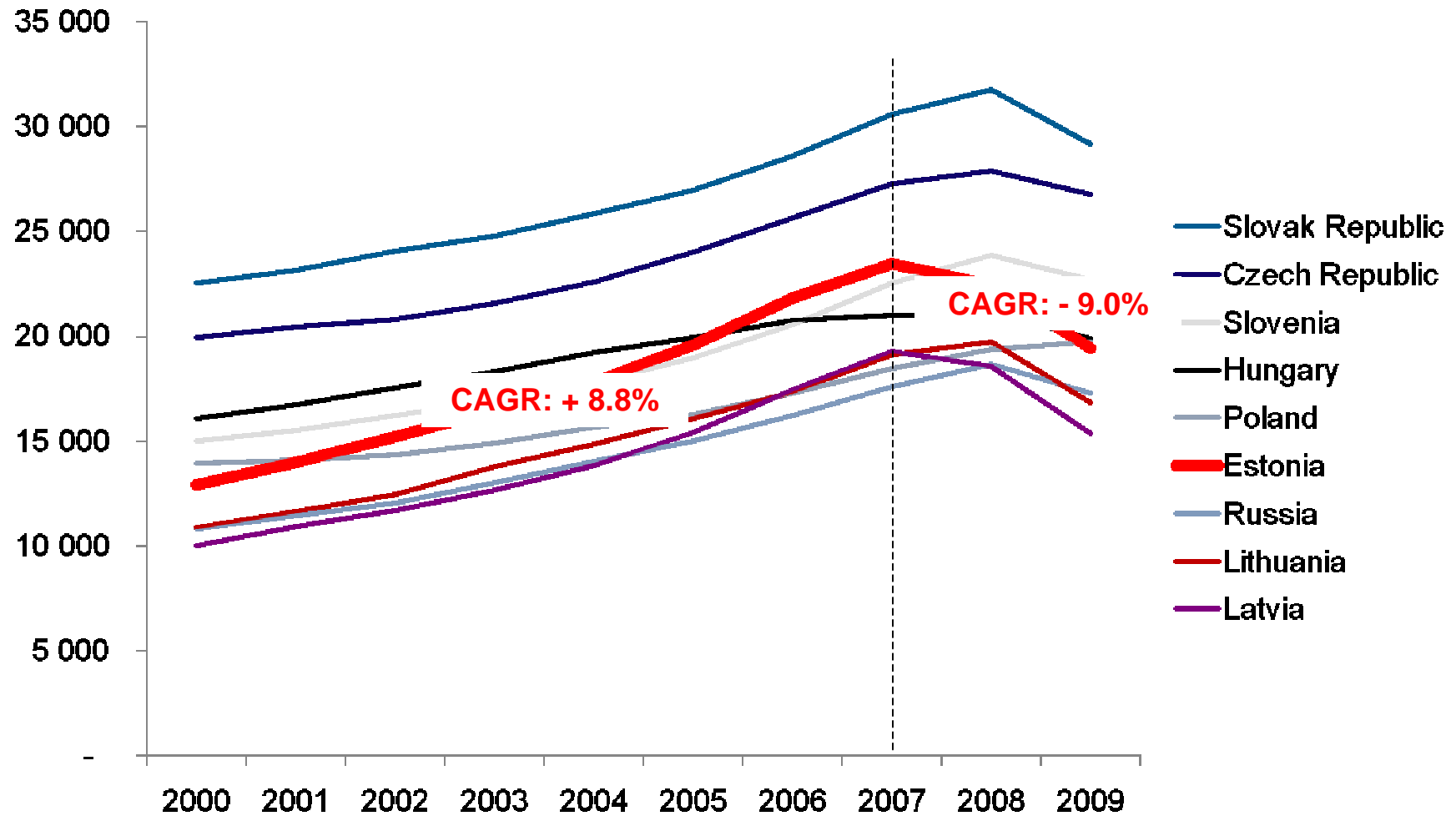
Others

Putting low emphasis on the rest

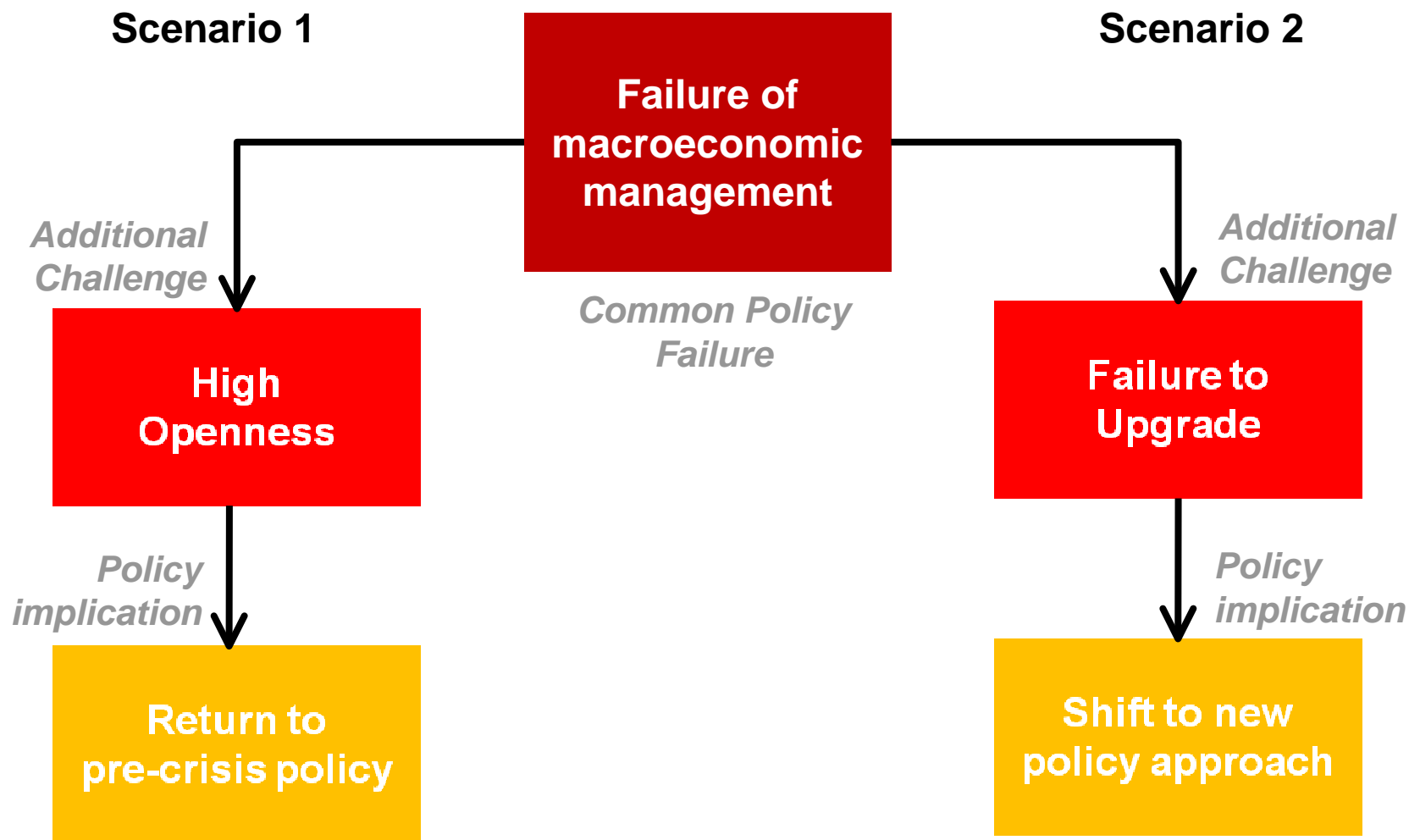
- What aspects of the business environment are currently at sufficient levels?

Prosperity Development Selected Countries

GDP Per Capita, US-Dollar
PPP-adjusted

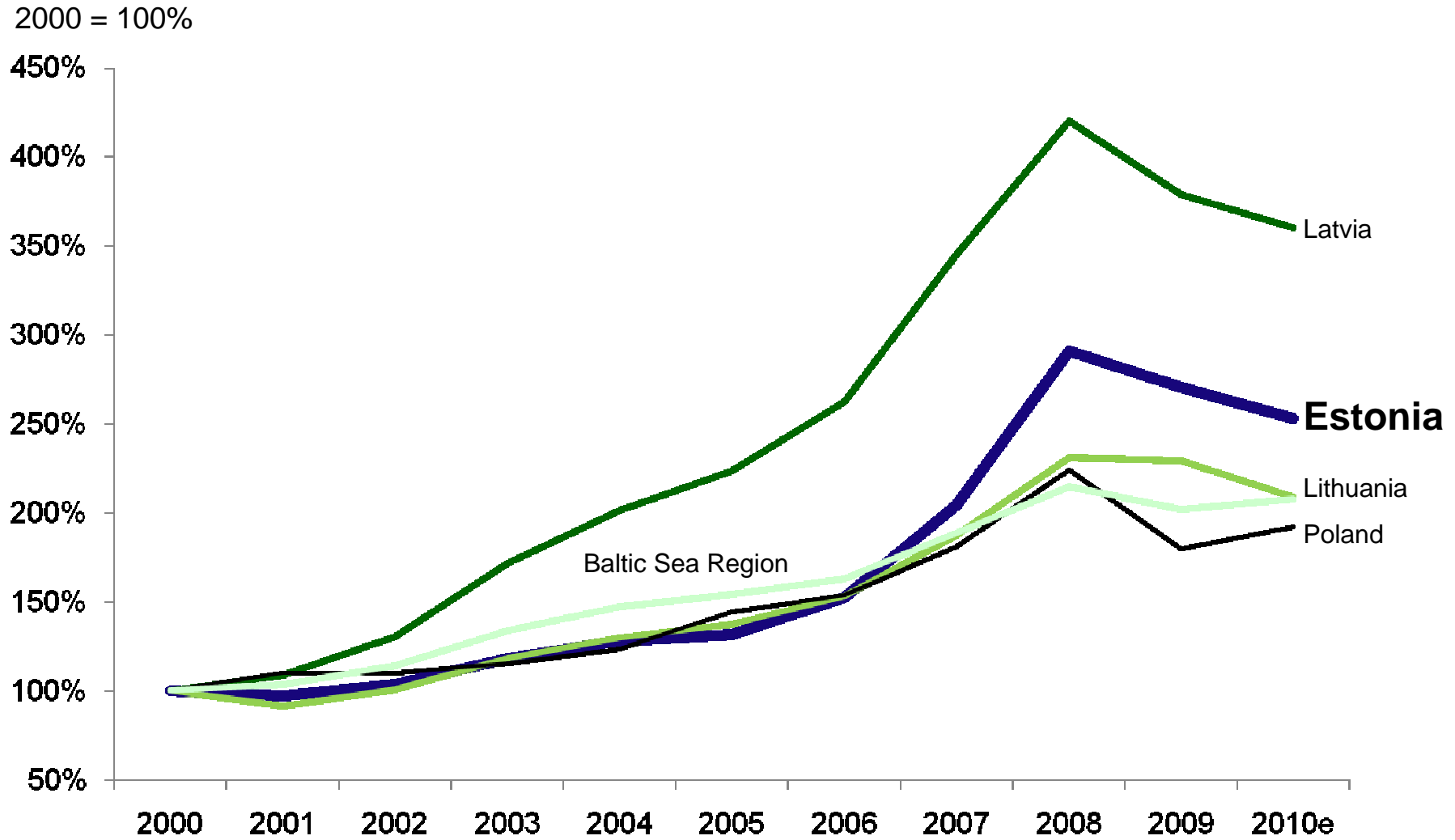


Estonia (and the rest of the Baltics): Lessons from the Crisis



Overheating

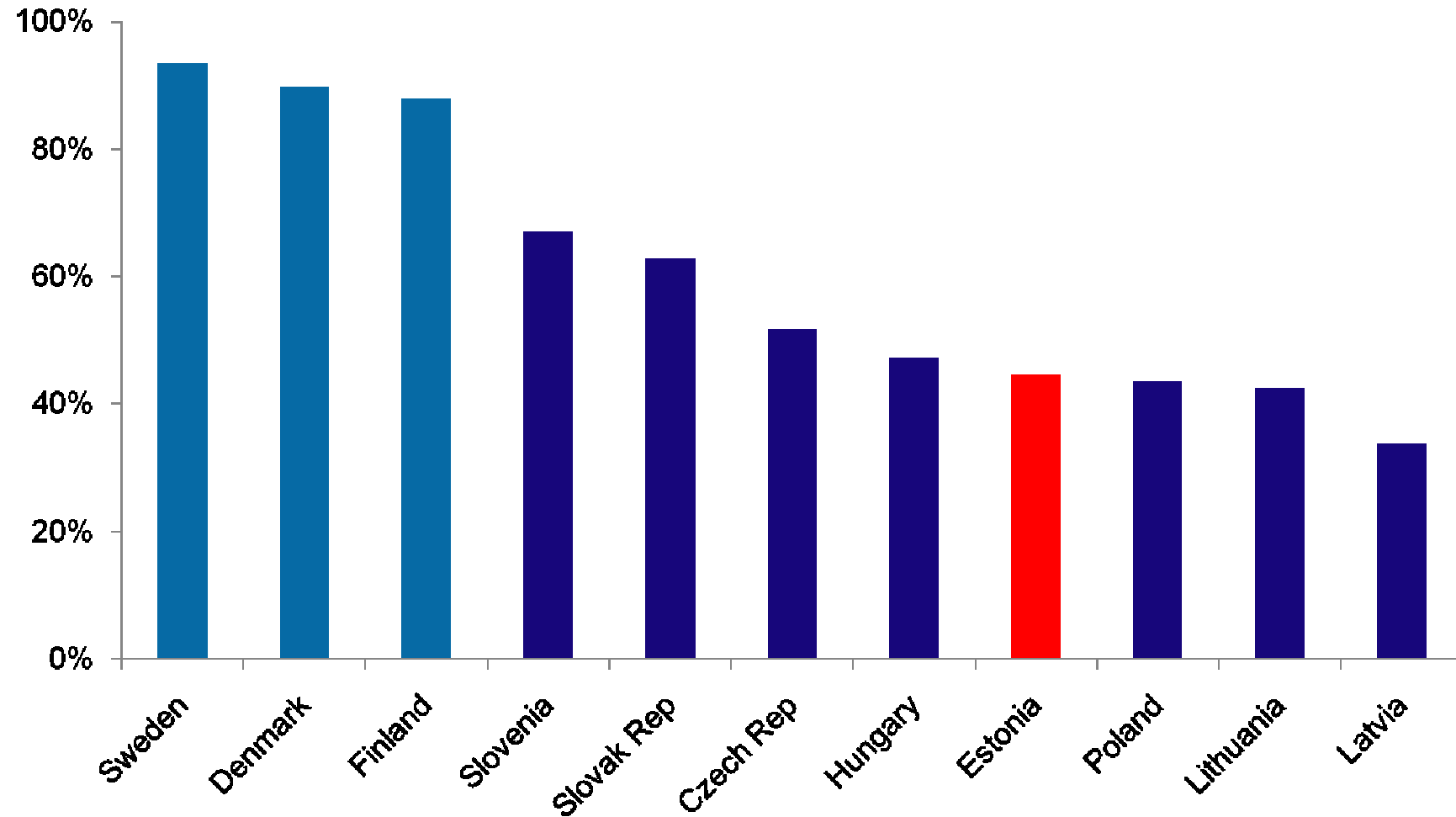
Unit Labor Costs, Baltic Countries and Poland, 2000 – 2010e



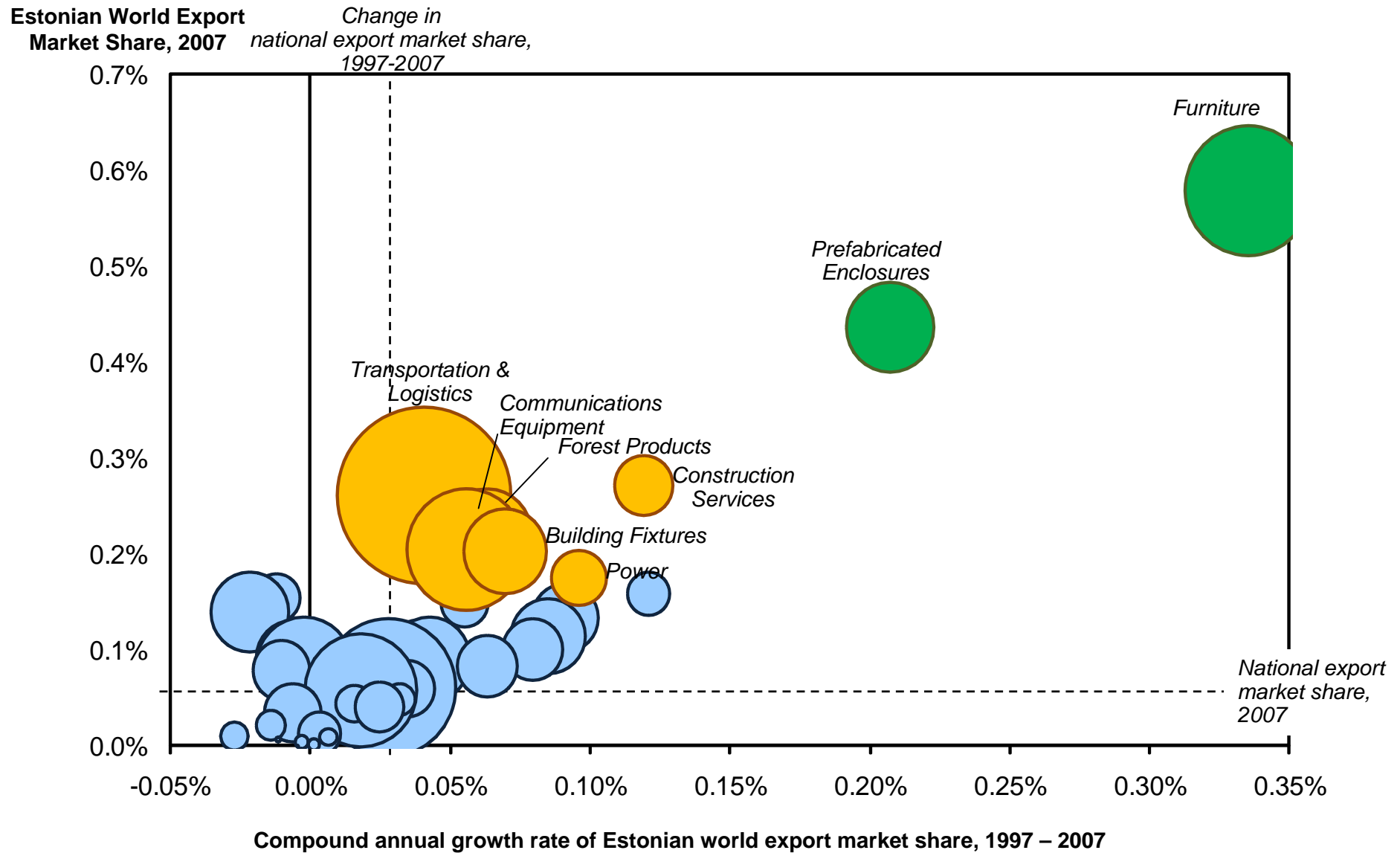
Productivity Levels

Selected Countries

Labor Productivity per hour worked,
2009, Germany = 100%



Estonia's Exports by Clusters

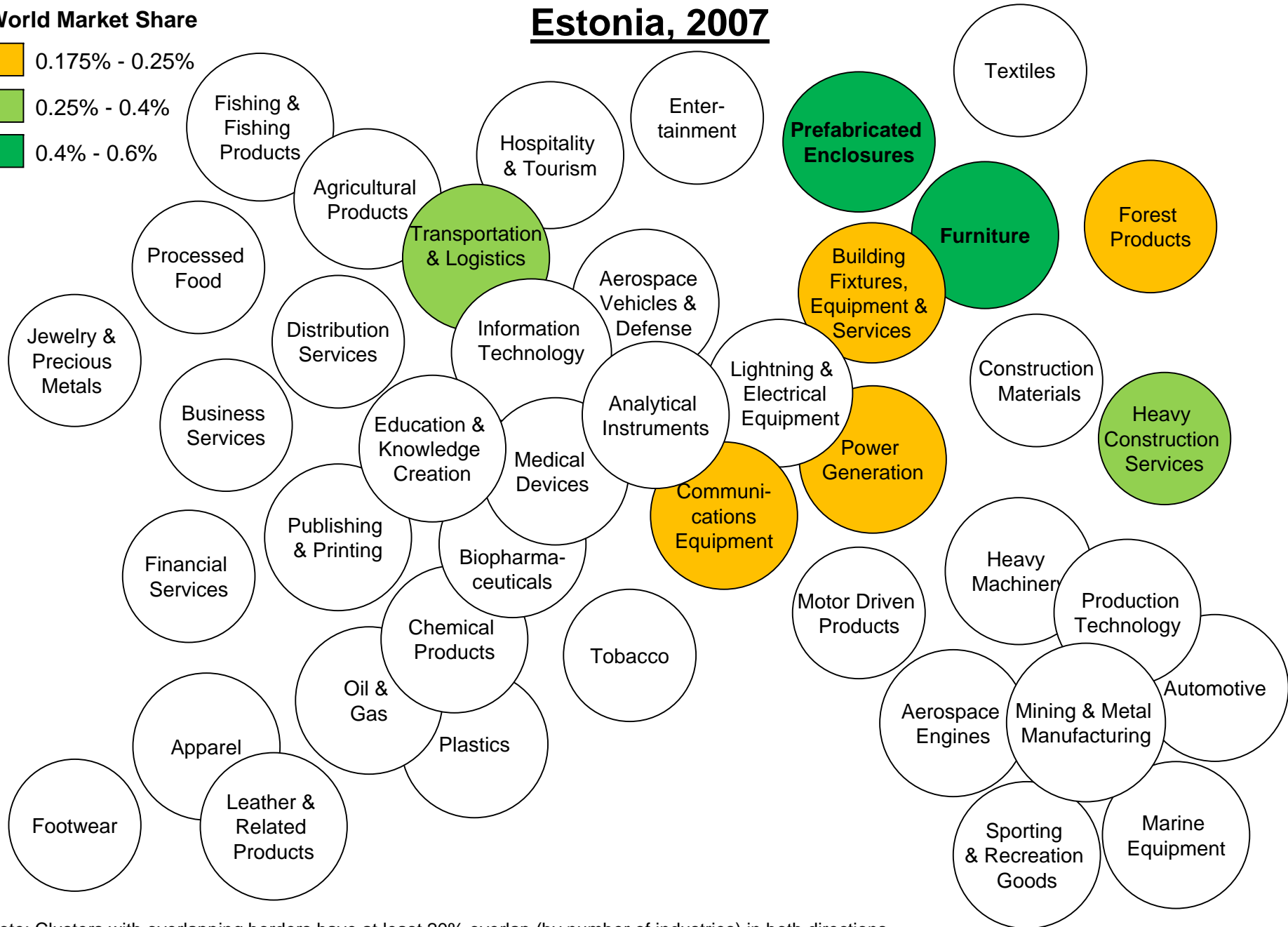
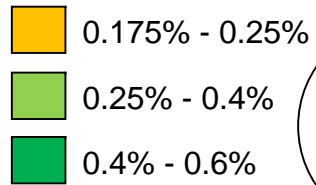


Note: Bubble size is proportional to absolute export value; cluster with RCA > 4 in dark blue, with RCA > 2 in yellow
 Source: UNCTAD Trade Data; International Cluster Competitiveness Project at ISC (HBS)

Share of World Exports by Cluster

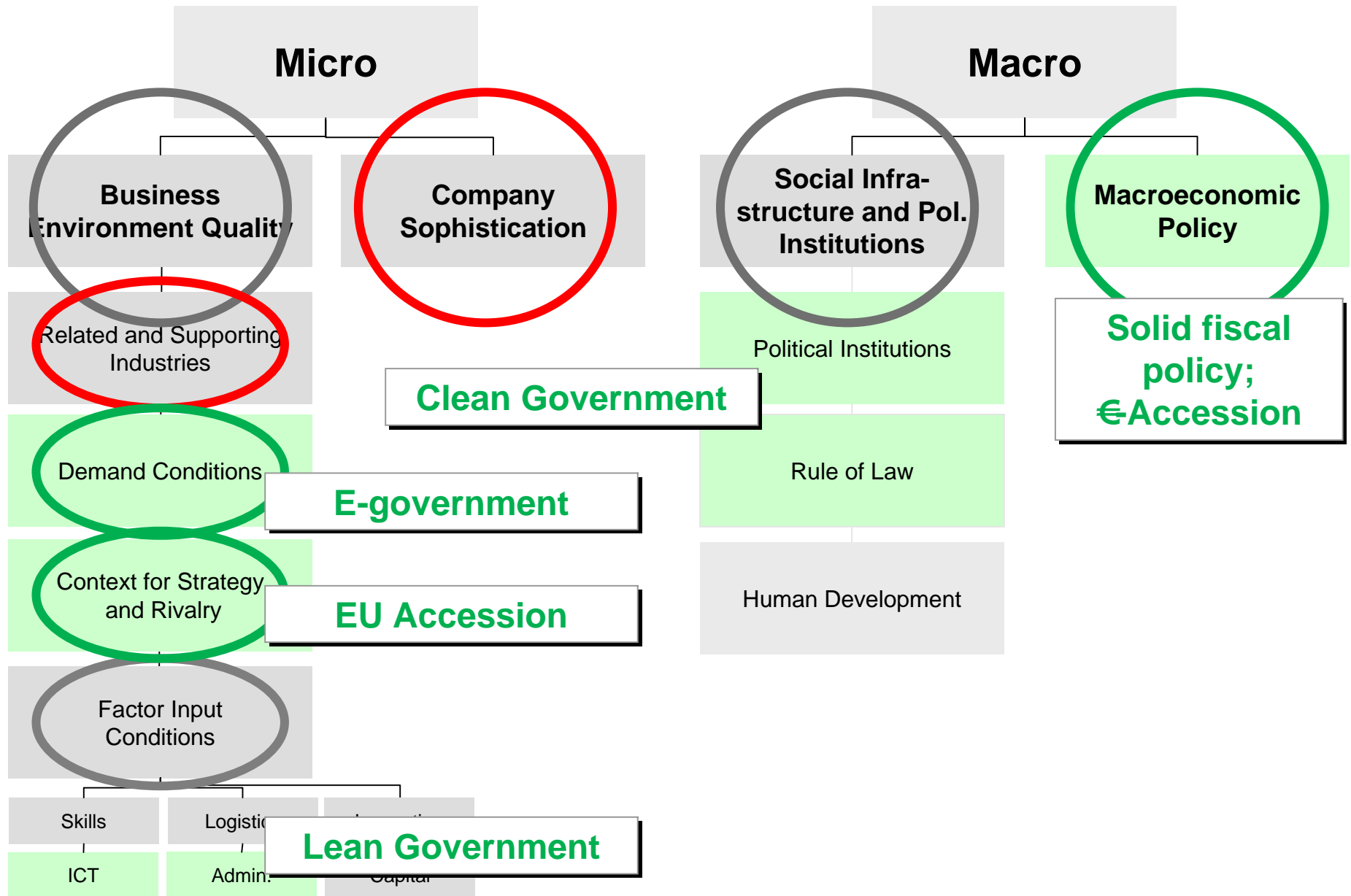
Estonia, 2007

World Market Share



Note: Clusters with overlapping borders have at least 20% overlap (by number of industries) in both directions.

The Profile of Past Policy Reforms



Implications

- Estonia has been significantly more successful than its peers in upgrading **broad framework conditions** for growth
- To reap the full benefits of these reforms, it now needs to focus on the creation of **specific advantages** companies can draw on

Positioning

Developing a national economic strategy

- What unique advantages does the location offer as a place to do business; for what activities?
- How do policy priorities support the strategy?

Private Sector Development

Developing the capacity of local companies

- How do policies facilitate the spreading of best practices across companies?
- How do policies support the upgrading of companies' competitive advantages?

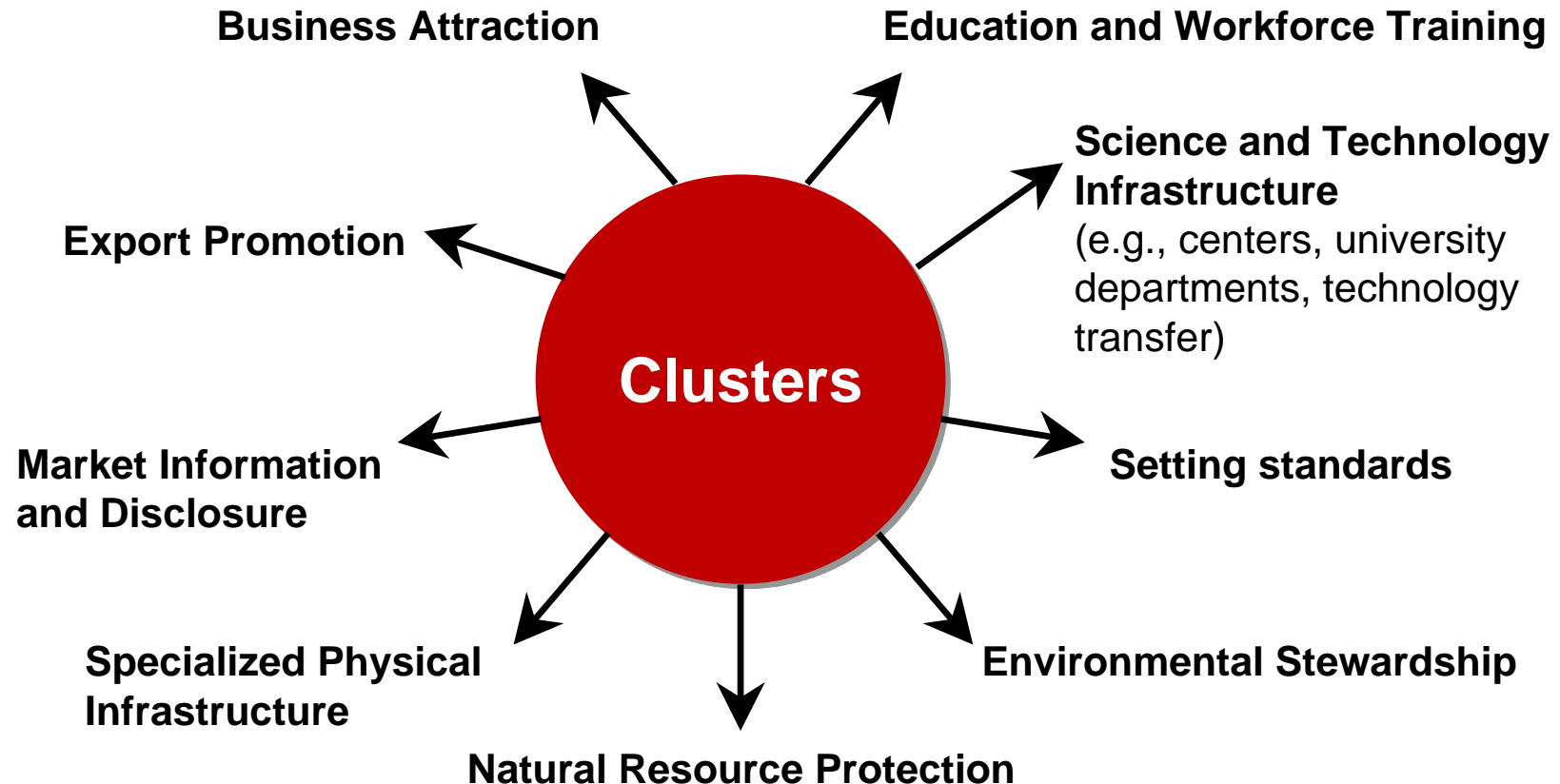
An Example: Information Technology



Outcomes below potential:

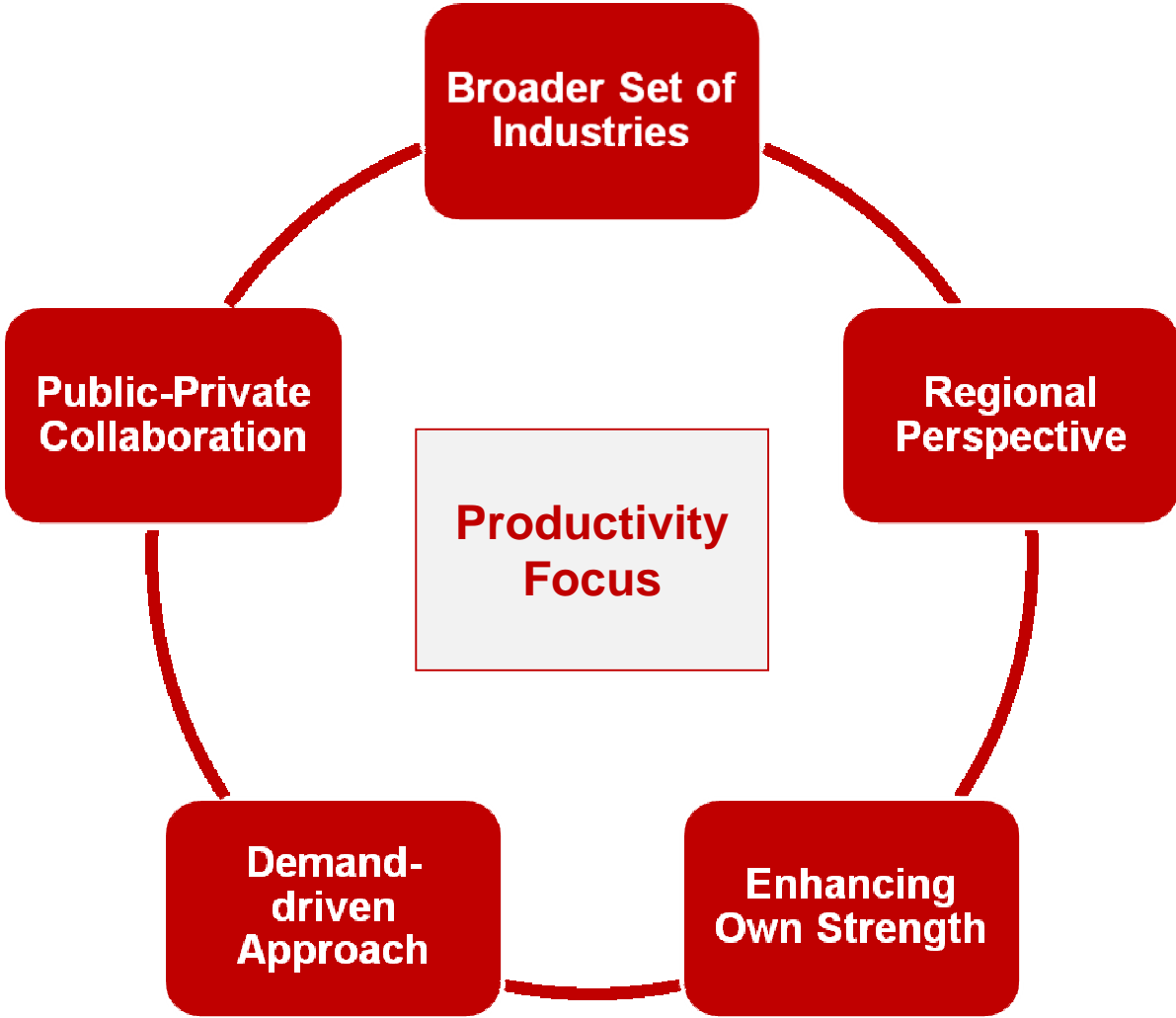
- Employment
- Exports
- Foreign Direct Investment

Target Public Policy at Clusters

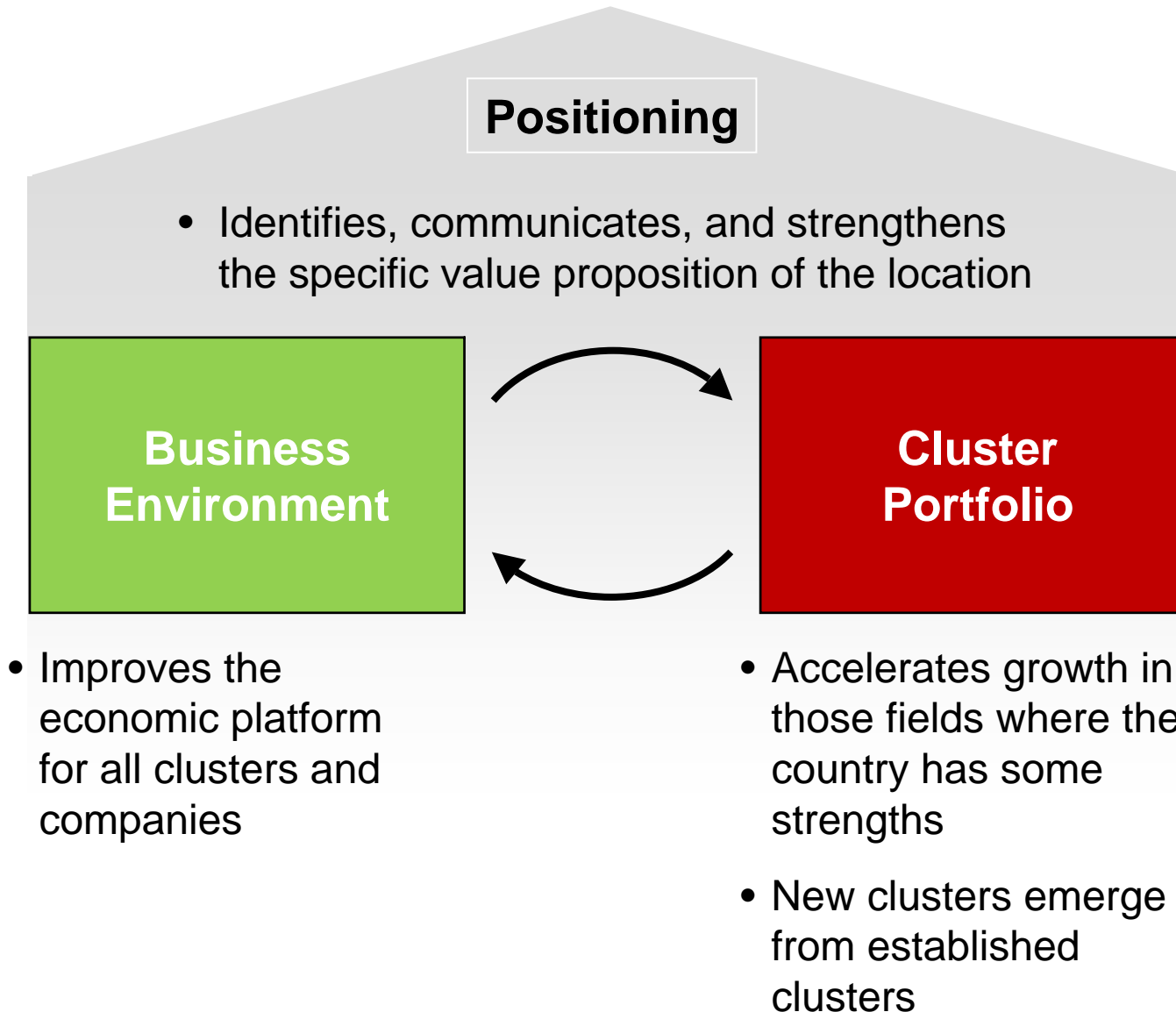


- Clusters provide a framework for **organizing the implementation** of public policy and public investments towards economic development

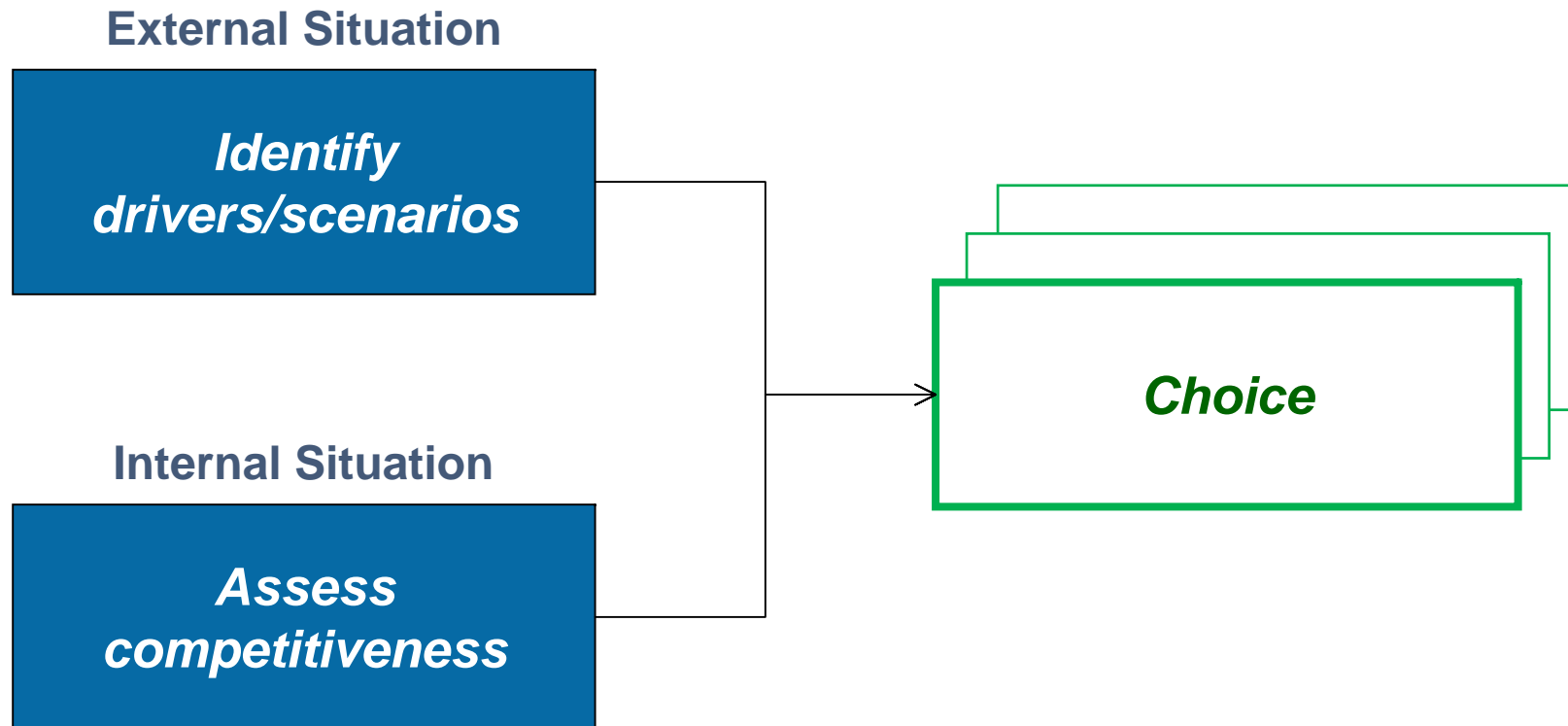
What is Different about Cluster-Based Policy?



Clusters and Economic Strategy

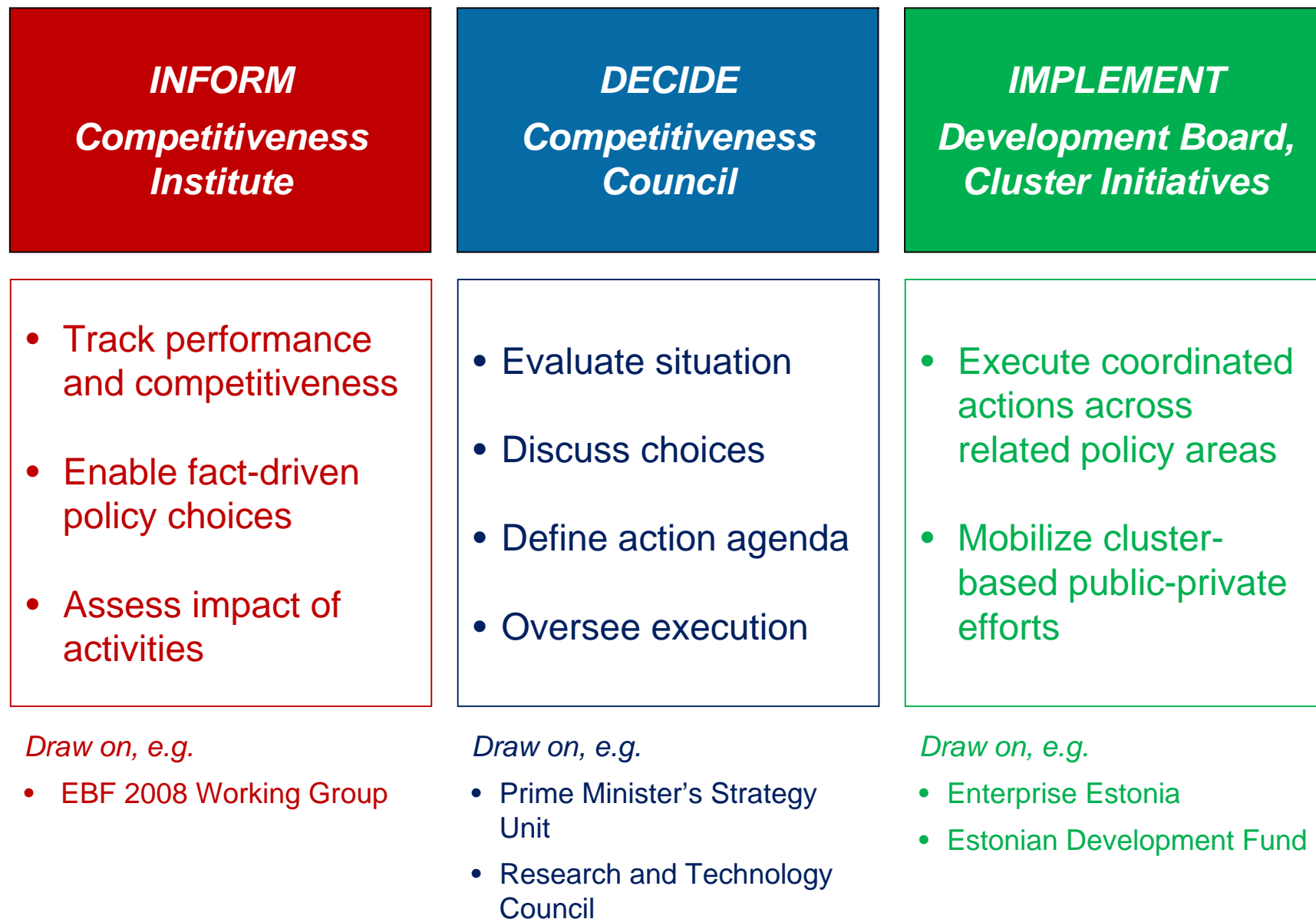


Developing a Strategy



- The process of developing a national economic strategy must be **inclusive** and **integrated**
- There is **no need for full consensus** on all aspects of the strategy, but there needs to be **wide awareness** of the direction it prescribes

Implementing a Strategy



Towards an Economic Strategy for Estonia

What is **Unique** about Estonia?

- Close linkages to Nordic neighbors
- Focus on IT (e-government, Skype)
- Low administrative cost of doing business
- *Others*

What is Estonia's **Value Proposition**?

- Combination of Nordic ethics with emerging economy wages
- Positions in key groups of related clusters (IT/electronics, Wood/furniture/printing)
- Easy access to broader Baltic Sea Region value chains
- *Others*



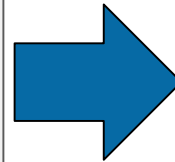
What are the **Action Priorities** that follow?

- Action agenda
- Implementation plan

A Shift in Thinking

“Removing Barriers”

**Government
getting out of the way**



“Building Competitiveness”

**Public and private sector
collaborating**