

<b>ESTONIA FUTURE SCENARIOS FOR YEAR 2010</b>
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**Abstract**

By the group of experts from the Estonian Institute for Futures Studies are built three of Estonia's development scenarios. First of all Estonia's future depends on which geoeconomic and -political integration ties Estonia will eventually be involved on. The other key factor is Estonia's ability to accept the challenge of the high-information technology revolution. On the bases of these two variables three scenarios are composed. Each of them have consequences in terms of labor market as well as in terms of social structure and environment.


A certain stabilisation in the sphere of economy has taken place in Estonia by the beginning of the late 1990s, after the rapid and cardinal change of the economic structure. But the transition processes in the social sense are going on, social and regional problems have become more acute primarily due to the very liberal development in economy. A necessity has become apparent to explain Estonia's general and wider prospects in the ever more globalising world, which is centering around information and knowledge. The latter are necessary for a discussion on possible general development prospects as well as for the preparation of strategic decisions and the determination of policy in a number of spheres, primarily those of economy, education and regional development.

The aim of scenarios project "Estonia 2010" is to create a vision of possible development alternatives for the Estonian economy and society and provide the basis for the development of various national (regional, industrial, education etc.) policies. We are dealing with scenarios, which describe the different worlds as possible states by the year 2010. The aim is not so much the judgment of the desirability, feasibility etc. of any of the scenarios, but rather the extending of awareness of possible alternative developments.

Key factors determining the development of the country were chosen as follows: 1) the type of geopolitical and geo-economical integration and 2) Estonia's success in meeting the challenge of (information) technology evolution and to mobilise own internal resources. The four basic premises were considered in the formulation of scenarios according to their key factors.

1. The Estonian geo-economic integration will be of the "Bridge" main type, in which case Estonia will be open towards the East as well as West and Estonia will be able to exploit the much-discussed role of a transit country. This will presumably be extremely favorable for Estonian foreign political and economic developments (enlargement of the EU, observation of a liberal market economy model by Russia, stabilization of Russia's political relations with Estonia, etc.).
2. Estonia has closely integrated in the EU, but there will be no active trade and economic integration towards the East and Estonia will inevitably become Europe's periphery.
3. Estonia will rely on the development of the information society structures and will determinedly concentrate its economy on the development of the high technology spheres with the best premises, resulting in Estonia becoming a leading high technology nation in certain niches.
4. Social structures develop spontaneously, but considering the inertia of the old economic and industrial spheres, the developing structures cannot be of the highest international standards as to the used technologies or added value. Estonia will consume highest level products, but will not develop them nor will it share the profits made in the implementation of innovations. The "Co-traveller" is an evolutionary development direction, which will be caused primarily by the absence of determined and supportive policies in education, technologies, transit, trade, etc.

Scenarios by main conditions of their creation

<b>The developments based on information / high technology (the type of meeting IT challenge)</b>	<b>1. Type of geo-economical integration (effects of combined political, economic, cultural factors)</b>					
	<b>1. GATEWAY</b> “East-West” type of geoeconomic integration	<b>2. CORDON SANITAIRE</b> “West-West” type of geoeconomic integration				
<b>1. LEADER</b> As one of leaders in the development of information technology and society	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td data-bbox="630 913 1066 1079" style="width: 50%; vertical-align: top;"> <b>1. INTERFACE (innovative)</b> </td> <td data-bbox="1066 913 1503 1079" style="width: 50%; vertical-align: top;"> -- </td> </tr> <tr> <td data-bbox="630 1079 1066 1254" style="width: 50%; vertical-align: top;"> <b>2. FERRYMAN (service)</b> </td> <td data-bbox="1066 1079 1503 1254" style="width: 50%; vertical-align: top;"> <b>3. FINLAND`S PERIPHERY</b> </td> </tr> </table>		<b>1. INTERFACE (innovative)</b>	--	<b>2. FERRYMAN (service)</b>	<b>3. FINLAND`S PERIPHERY</b>
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<b>2. FELLOW TRAVELLER</b> Following the development of information technologies						

Three alternative scenarios by the group of experts\* from different fields were created.

1. (Interface) - innovative information society to be built according to an national agreement

*Estonia will be a member of the EU, having closely integrated in the Western political and social-economic structures. Relations between Estonia and Russia/CIS will also be goodneighbourly and enabling normal economic and other relations. Estonia has been able to accept the global high and information technological challenge and has found its place in certain niches of modern high technologies key branches of the world*

Estonia's economy will be highly open, innovative, highly communicative and mobile. A system of relations typical of the information society will develop. The leading branches of

economy will be connected with transit, services, and information and high technology sectors. Some traditional branches of industry will be maintained in the first half of the period and will even expand their production primarily for the Eastern market, but will lose their competitive edge in the second half of the period; some of them, by employing new technologies, will survive the international competition (timber industry, part of engineering, food industry). The share of transit, services, incl. financial and business services, high technology and information sectors will increase significantly. The branches connected with certain types of engineering, based on biological and material technologies, will also develop at a high rate. Estonia has involved new strategic economic partners and investors, serving as a testing site for various new solutions. Estonia will also find a place in high technology global service and service networks. The education system has been widely reorganized and turned into the key for the realization of that development. A continuous study system has been launched. High-standard and generally available basic and secondary education is the premise for the development of a flexible system of adult education and retraining. The share of university education will increase and the prestige of education in the society is high.

The people's traditional country-identity has been replaced by new identities - success, professionalism, which will to some degree join both the poor and the rich, as well as the Estonians and non-Estonians. This in its turn will provide a potential for the implementation of the Russians' potential in Estonia.

Despite the improving living standards as a result of a general economic growth, the rapid liberal development will lead to an aggravated stratification, which could be partly compensated by the high economic growth rate. Employment will quite likely polarize. Unemployment will become a problem for the very lowly qualified people; at the same time there will be a lack of very highly qualified specialists in certain narrow fields. Differences in working conditions, wages, prestige will emerge between those having high-level jobs in the information and high technology sectors and the others. This will be alleviated by the variety of employment - the number of jobs in the transit and services sectors will grow parallel to the information sector and some of the traditional branches of industry will modernize their technologies, providing more new jobs. But problems will be posed by the re-training of less-educated population and their

ability to learn quickly new technologies and practices - this will be a problem concerning all education levels. The flexibility of the education system is vital, since the change of the market system will be rapid.

A necessary prerequisite for the realization of this rapid and dynamic development will be the combined influence of the application of several efficient state policies. This will particularly concern the spheres of education and scientific development, since the role of the human resource will be of vital importance. The launching of this scenario resumes that Estonia will literally become a learning society.

2. (Ferryman) - An industrial society based on traditional technologies with dominating transit and services economy.

*Market economic development in Russia will continue. Relations between Russia and the EU as well as between Estonia and Russia/CIS will be friendly. There will be no serious discussion on the directions of Estonia's development and no definite policies will be implemented regarding the development of the state: the liberal passive line in economy will persist. Consequently, no development programs will be formed and the technological standards and the produced added value will remain low. Traditional branches of economy will dominate and there will be no high technology transfer.*

Thanks to the improved relations with the East and the opening of its markets, it will become possible to expand significantly the production in the existing traditional branches. Estonia will become the redistributor of products in the trade between Russia and Europe, especially the Baltic Sea countries.

Within this scenario, primarily the transit cluster branches will develop. The share of transport, trade, financial and business services will increase. Such traditional branches of industry as food and textile industries etc. will also have some development prospects. Simple services sector will develop as well as investments may come in from abroad into low-technology production. The working free trade will support the economic growth. This economic model will enable in the initial period to raise the employment and living standards, which declined in the transition

period. But the continuation of the low-added value branches will be no longer likely in the later period and the GDP growth rate will decline. The society will not become innovative and this brings along a threat of a general economic crisis by the end of the period.

The unemployment rate will be low with many relatively low qualification jobs (the transit cluster, primary services, traditional industries). The employment market is more "flat", with few highly qualified jobs and there will be a threat of more talented and very highly qualified specialists leaving Estonia due to the lack of opportunities. Stratification and inequality will be significantly lower than in case of the (two) previous scenarios, but in a shorter run. The consumption of information technology products will be relatively high, but there will be no wide transfer of information and high technologies and the low-level economic structure will lose its competition edge in the long run, enterprises will go bankrupt, unemployment will grow and stratification will increase.

Education will lose its central role as compared to the previous scenario and will not be considered a basic value. Demand for education will be oriented at traditional branches and services, but will nevertheless produce more highly qualified specialists than the market requires. The role of vocational training will increase.

### 3. "Periphery of Finland" - 20th century society with an extensive Nordic (Finnish) integration

*Estonia's admission to the EU has been delayed long, but Estonia has eventually become a part of the EU economic structure. Relations between Russia and the West are either neutral or less than friendly. The Eastern border will be relatively closed - Russia is either entangled in its domestic problems or its market economic development has been delayed. Cooperation with Finland and other Nordic countries has priority in Estonian politics. There are no ambitions to direct Estonia's development on our own.*

The Baltic Sea integration will grow. The absence of business opportunities in the East and the low competitiveness of the industry will result in a low economic growth and a materially poor society. The loss of the bridgehead position has resulted in a lower interest of foreign investors than in case of the former scenarios. Due to the absence of an active economic and investments

policy, Estonia will effectively become a satellite state of the Scandinavian countries and primarily Finland, gradually obtaining the signs of a high technology peripheral economy (uses high technology, but does not produce it) and inherits outdated Nordic technologies. Several traditional branches of economy will expire. Estonia's role will largely be to provide the cheaper jobs in the international division of labor - assembly work and subcontracts. Considering Finland's leading role in the world in information and high technologies, Estonia will reach the average European level in these fields. Economic growth will be lower in case of that scenario than in the former two scenarios. The social structure models of the Nordic countries will gradually reach Estonia and the redistribution via the budget will increase. Estonia will become a relatively poor but expensive country.

There will be large problems with employment. The labour market in peripheral economy (using Nordic/Finnish technologies, subcontracts, part of the Nordic transit) does not offer many opportunities for the lowly-qualified or the elderly, but also for those having too high qualification. The absence of opportunities in the domestic market will force the better-qualified specialists and the young to seek for employment in the other markets, especially in the Nordic countries, but also elsewhere: Europe and America. The development is Tallinn-centered and will result in the aggravation of problems (especially unemployment) in the rural areas. The resulting inequality and differences will be attempted to alleviate with state (social, regional) policies according to the Nordic models, but the low economic growth will limit their effectiveness. Living standards will generally decline, the redistribution of the limited means will prove insufficient to compensate for the dropping living standards of several high-risk groups.

Education and learning will remain popular despite the limited circumstances in the open jobs market. The state-financed comprehensive education system has been exhausted and partly operated only thanks to enthusiasts. Peripheral schools will be unable to provide education able to compete with the one available in Tallinn. Combined with unemployment, the bad situation in education will redouble the difficulties of several rural areas. On the other hand, this system, oriented at foreign labour markets, will become self-destructive - the pedagogical staff will not be reproduced.

This is the scenario, whose realization will require the least effort and the implementation of special policies. National identity, language and culture will be preserved without major difficulties. The basic body of the Estonians will accept the situation, with constant complaints about the unemployment and low living standard. Russians in Estonia may Finlandize more rapidly than the Estonians.

The above scenarios confirmed the estimations concerning the determining role of the geopolitical factors and innovative domestic environment in the future development of Estonia. The scenarios also enable to make conclusions and/or to confirm estimations on vital, strategic issues for Estonia's future development. As a matter of fact, the provided scenarios show that, besides the Western relations, also the development of Eastern relations, education, innovation, structural changes (the development of network structures), institutional development and the strengthening of integrative processes in the society will be of strategic importance

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*\* The scenarios were commissioned by the Estonian Ministry of Environment and they have been compiled by the Estonian Institute for Futures Studies by the following group of experts: Mati Heidmets, Kaido Jaanson, Marju Lauristin, Krista Loogma, Tõnu Oja, Toomas Pallo, Iris Pettai, Alari Purju, Garri Raagmaa, Anne Randmer, Kersten Saar, Boris Tamm, Raivo Tamkivi, Erik Terk, Raivo Vilu*

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