

Profiling Horizons

December 2005

The Newsletter of



Horizon Development Baltics

In this issue:

<i>Profiling Horizons</i>	<i>p.1</i>
<i>Innovation in the Baltics</i>	<i>p.1-2</i>
<i>Finding the right person in the Baltics</i>	<i>p.3</i>
<i>HDB Promotes Diplomatic Services</i>	<i>p.3</i>
<i>HDB Riding the Via Hanseatica</i>	<i>p.4</i>
<i>Innovation in Corporate Entertainment</i>	<i>p.4</i>



Pierre Blime presenting marketing objectives to the Via Hanseatica Partners in Jelgava, Dec 1st

Profiling Horizons...

Horizon Development Baltics (HDB) is emerging as a specialized advisory organization in the areas of commercial development, tourism, environment, tourism infrastructure and innovative process developments in the Baltic States. Thanks to strong partnership affiliations, HDB is currently the only private organization contracted by the Estonian-Latvian-Lithuanian Interreg IIIB program for tourism and economic development along the Via Hanseatica, the developing transportation and tourism intensive zone that spans 866 km from Narva in Estonia to Taurage in Lithuania.

HDB is also contracting with several private Baltic and Foreign organizations for commercial development inside and outside the Baltic States realm and involved in two international environmental assessment programmes. With a network of professionals across the 3 Baltic States and in several other countries (USA, Sweden, UK, France), HDB's mission is to promote new opportunities for growth in the 3 Baltic States and in Eastern Europe. HDB is a division of Horizon Development OÜ with office in the Old Town of Tallinn, Estonia.

Innovative Sectors in the Baltic States: Growth, Challenges and the Role of Foreign Enterprises

Growth in the post-Soviet states of Estonia, Latvia and Lithuania has been mainly supported by appropriate reforms of the economy, a rationalization of the production, the export of resources benefiting from a labor cost competitive advantage (wood, wood processing, food, metal), unprecedented inflow of foreign capital and the governance of foreign firms.

The high added-value high-tech sector (ICT, electronics, telecommunications, etc.) is lagging behind its EU-15 counterparts and facing critical qualified labor shortage challenges. But the Baltic high-tech sector has nevertheless managed to develop rapidly (especially in Estonia) thanks to Foreign Direct Investments (FDI) and a good number of contracts from foreign companies, mostly Swedish, Finnish and German.

Foreign Direct Investment (FDI)

The role of FDI in promoting high-tech sectors has been successful in Estonia because it benefited from high-tech investments from Finland and Sweden, while the other two countries have seen a fairly small share of FDI going into high-tech sectors (with telecommunications the main exception). As a result, Latvia and Lithuania's high-tech exports still make up a negligible share of total exports suggesting they have a long way to go in terms of creating knowledge-based economies similar to Finland or Estonia.

(Continues page 2)



Horizon Development Baltics

(from page 1)

Foreign Governance

The pervasive understanding in theoretical literature is that the enterprises in foreign ownership have proved themselves, at least in post-socialist countries, more successful than the others. There are several aspects, which explain the role of Foreign Direct Investments (FDIs) in enterprise restructuring. These aspects are following:

- Capital transfers take place with FDIs, including investments and infrastructure.
- Foreign investors can establish effective corporate governance.
- FDIs create transfer of knowledge in the form of management, know-how and technology.
- Foreign investors bring international network opportunities to domestically owned enterprises.
- FDI rearrange the industry structure and thus the specialisation patterns of a country.

The Estonian Exception

In case of Estonian enterprises it is difficult to argue that domestically owned enterprises are more engaged with re-active restructuring and foreign investment enterprises with strategic restructuring. That is because of many signs about strategic restructuring side by side with re-active restructuring. For instance, Estonian domestic enterprises have decreased their labor costs, but at the same time the capital productivity and net sales have increased. Also their assets turnover is better than in foreign investment enterprises and their export share to net sales is equal with the same foreign investment enterprise ratio. Remarkable is that Estonian domestically owned enterprises have developed further compared to other countries. The development concerns mostly their higher investment activity. Their investments to assets have increased significantly. It indicates that Estonian domestically owned enterprises start moving from re-active restructuring phase to strategic restructuring phase. How may such an economic behavior be substantiated? In the first place, the Estonian economy has been open since the beginning of transition. Liberal economic policy has been quite strong, pressure for local enterprises to leave or restructure. The hard budget constraint, which was created in Estonian economy, was carried into effect. The interruption of subsidies caused pressure to decrease costs and act more efficiently. Certainly, not insignificant was the real revaluation of Estonian Kroon, which has also increased the pressure to cost decreasing.

Prospects

Looking ahead, growth in the Baltic countries is likely to slow down somewhat from recent very high rates toward a 5-6% annual growth on average for the region. Over the short-medium term, the adjustment is likely to be mainly of a cyclical nature, with some slowdown in rapid credit growth, and reduction in current account deficits. Over the medium term, the main risk arises from demographic prospects and a likely reduction in labor supply. Over the long term, the main risk arises from the sustainability of high rates of Direct Foreign Investments in the innovative sectors of the economy.

The Labor Challenge

While unemployment remains sizeable, bottlenecks are already occurring in labor markets and shortages of skilled labor are emerging, including because of significant emigration. Further down the road, demographic changes will reduce working age populations (e.g. in Latvia by about 13% over the next 20 years), and prospects for raising labor force participation rates are uncertain. Also, strengthening the quality of human capital is a long-term process. Investment shares in the Baltic countries are high and may come down somewhat as capacity is built in the services sector. Nevertheless, current investment ratios are below the 30% of GDP levels assumed under favorable conditions in many growth studies of transition economies. Sustaining recent high growth rates hinges mainly on maintaining or even increasing further TFP growth.

The Innovation Challenge

In any event, sustaining relatively high output growth rates in the Baltic countries in the face of increasing competition from not only other new EU member countries but also countries further East will require continued strong reform momentum. Enhancing further the flexibility of labor markets, privatizing remaining state-owned enterprises and enhancing competition (notably in the energy sector), developing further financial markets (including easier access to finance for SMEs), and enhancing the legal environment for businesses are key priorities in this regard. In the longer run, improving further the quality of education and innovation will be crucial to move toward knowledge economies and move up the technology ladder in production and exports. Foreign enterprises present in the Baltic States look as if they will in fact have a prominent role to play in the upcoming transitional period, by attracting both qualified labor and investments and guaranteeing a certain momentum to the growth of innovative sectors.

Finding the RIGHT persons for your business in the Baltics?

Estonian economy is booming and GDP grows every year but the biggest challenge for investors and foreign companies in Estonia is the question "How to find right persons?"

Estonian unemployment rate is only 2, 8 % (22710 unemployed persons) in 2005. This means that companies simply lack people whom to hire. Due to EU regulations, skilled Estonian labor is moving to Western Europe for better salaries and people from other EU countries don't come to Estonia because of lower salaries and language restrictions. There is an opportunity to import labor from CIS countries but it is very bureaucratic. Businesses therefore faces 3 challenges to deal with:

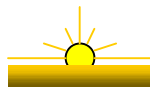
- (1) Changes caused by EU legislation
- (2) EU free labor movement possibilities and threats;
- (3) Review company's HR strategy based on market situation



Both foreign and local companies have difficulties to find the right people. The typical approach for foreign companies is to place an expensive job advertisement. Results are limited, due to low job demand from skilled employees. The method that is emerging as the best and most cost effective one in the Baltics is a widespread search or headhunting executed by local professionals who have access to professional networks and databases.



info@righthead.ee
Tel: (+372) 6411540/42
Mob: (+372) 5103484
Fax: (+372) 6411541
Viru 19, 10140 Tallinn, Estonia
www.righthead.ee
Your contact:
Anu Kink, Consultant



Horizon Development

Viru 19, 10140 Tallinn, Estonia
Tel: +372-646-0634
GSM: +372-55910-588
Horizondev@hotmail.com
Your contact:
Pierre Blime, Managing Director



EAST EXPRESS
EXPERIENCE LOCAL FLAVOUR

Viru 19, 10140 Tallinn, Estonia
Tel: +372-646-0634
GSM: +372-510 7010
Olavi.andla@eastexpress.ee
www.eastexpress.ee
Your contact:
Olavi Andla, Managing Director

Horizon Development Baltics Promotes Diplomatic Services

Unlike many of its competitors trying to duplicate the services offered by a number of diplomatic delegations and embassies commercial sections, Horizon Development Baltics is reversing the tide to direct private businesses back to the doors of embassies to receive qualified support. Horizon Development Baltics has decided to refer some of its clients to a number of services that diplomatic delegations have been successfully offering for years.

This approach is currently tested for West European firms entering the Baltic States markets, but also for Baltic States firms willing to export to West Europe. Pierre Blime, Horizon Development Baltics's Managing Director well engaged in evaluating and promoting embassy services to private sector clients is quoted saying: "I am a believer of specialization in business. Some diplomatic commercial services have an excellent track record in finding the right commercial partners to their client. In guaranteeing our client the best market development effort in a specific country, we'd rather use those services than re-invent the wheel".

The approach is simple and embassies have been very interested in Horizon Development Baltics's offer to promote their services. Horizon Development Baltics has now been engaged in meticulously evaluating embassy and trade delegation services. Those greatly vary from one embassy to another. "We are suspicious about some of the services those embassies offer and their rate of success. On the other hand there are a number of those services, partners' selection for example, that seem to be working very well" comments Mr. Blime.



Horizon Development Baltics

Horizon Development Baltics Riding the Via Hanseatica...

Horizon Development Baltics (HDB) has emerged as the main private contractor with the EU sponsored pan-Baltic InterregIIIB programme Via Hanseatica (VH). The Via Hanseatica programme aims at developing rural districts and counties of Eastern Estonia, Central Latvia and South-Western Lithuania via the development of transportation and tourism.

Pierre Blime, Managing Director at HDB, is the author of the Via Hanseatica Basic Research Study 1 (Situation Analysis) conducted over the summer 2005. The study includes an audit of more than 1,800 tourism sites, the development of a scoring and selection system, the definition of the geographic boundaries of the VH development zone and the creation of a final database for the 741 sites meticulously selected to win the "Via Hanseatica" label of quality. This study also provided basic development and investment recommendations to the Via Hanseatica Partner organizations.

Today, HDB has been contracted to develop a Market Monitoring System, to identify the VH Identity Concept and to write the VH Marketing Development Plan due in mid Spring 2006. The Via Hanseatica programme presents a special interest for HDB which has been able to develop a cost-effective model for site selection and common identity definition leading to a long-term strategic development plan.



The challenge for HDB is now to identify cost-effective and highly communicative ways to attract visitors beyond the Baltic capitals of Tallinn, Riga and Vilnius and provide them with the incentives to discover the true beauty and originality of the Baltic countryside and the Baltic culture with places like Jurbaka and Šiauliai in Lithuania, Sigulda, Ēsis and Valmiera in Latvia, Otepää, Tartu, the shores of Lake Peipsi and Ida-Virumaa in Estonia, which still remain beyond reach for visitors interested by nature and culture. In order to fulfill this difficult task, HDB has contracted Emeritus Professor T. Travis, from Birmingham University in the United Kingdom. Prof. Travis is a veteran of rural tourism development in Croatia, Slovenia, and Poland and is very enthusiastic about now working with the Baltic States.

Innovation in Corporate Entertainment!



Tallinn attracts international companies to organise events, conferences and incentive programs due to good geographical location, excellent price/quality ratio and innovative ideas offered by local incentive agencies. What few business professionals know is that Tallinn is one the best places in Europe to organise corporate "histotainment" services - a combination of live history and entertainment. Beyond the typical corporate evening in a good restaurant with some uneventful tour guiding throughout the Old City, "histotainment" offers live and exciting theatrical sightseeing tours and "once a lifetime" events to conference participants on the cobble stones and in landmark places throughout Medieval Tallinn. Sword play, Muppet show, artistic demos, folklore dances or even lining up to volunteer for the Soviet Army can help to relieve the tension and immobility common to serious corporate meetings, seminars or professional convention.

These sightseeing tours are based on historical facts and are brought to life by professional guides, actors and musicians. The tours are entertaining, informative and highly suitable to group cohesion. Special interest tours or role plays are even more interactive as they are tailored to the theme of the conference or convention. Participants usually interacting among themselves to solve manufacturing, R&D, sales or marketing problems are now making sculptures, sampling historical drinks, getting acquainted with mediaeval medicine or solving some medieval mysteries.

Combining different special tours, events and conference breaks, local incentive agencies provide tailor made programs in order to experience local flavour!