

World in 2020: Key Trends and Their Impact for Estonia

Executive summary

The next European Union (EU) programming period will commence in two years' time. In 2014–2020, Estonia will receive around 4 billion euro from the EU budget to improve its competitiveness, i.e. to develop its economy, people and state. This analysis of future trends in the external environment conducted by the Estonian Development Fund is a part of the planning process of these resources. However, this trend analysis will be also helpful as a tool for all decision makers and interested parties when planning strategies for various policy areas as well as company business strategies.

The report presents the most significant external changes that could influence Estonia in the following decade. Based on them, conclusions have been drawn as points for consideration in the process of establishing objectives, priorities and activities regarding the use of EU resources when making future plans for Estonia, in order to ensure that external opportunities as well as risks are taken into account.

To this end, an outside-in approach has been applied in the analysis, i.e. Estonia-related conclusions have been made by narrowing down the big picture of global trends step-by-step. In the first stage of the analysis, around a hundred global trends influencing Europe and the world were mapped, based on the work of prominent foresight experts and think-tanks all over the world. Around 60 of them were selected as important trends for Estonia, bearing in mind the focal question of the analysis: **“Which factors of the external environment may significantly influence Estonia’s development up to 2020?”**

The trends that are important for Estonia are divided into six clusters. Each cluster’s name is a common denominator for interlinked and interactive trends, summing up a larger pattern of changes that the trends belonging to the cluster either propel, amplify or alleviate. With each cluster some possible shocks are also listed. These are events of little likelihood but serious impact that may significantly change the currently recognised future trends.

Below is a short summary of each trend cluster and the main points for consideration for Estonia.

1. SOCIAL SYSTEMS UNDER PRESSURE

Aging and increasing healthcare costs put pressure on the state's current social systems, especially in developed countries. Inability to initiate changes threatens the sustainability of social systems and the availability and quality of services.

Opportunities and challenges for Estonia:

- the silver and wellness economy offer new business opportunities, especially when domestic development needs are overcome by creating good experiences and new solutions (for example, in information technology)
- transfer of increasing health awareness in the world boosts the innovation of healthcare services, together with the growth in domestic demand
- global technological development can be beneficial (for example, in health technology), although this will put pressure on the local prices of healthcare services to increase
- there is an opportunity in the field of technology to become a testing ground for health-related innovations (including through the creation of a more attractive regulatory environment), e.g. human genome, etc. based applications
- taking over the best practices developed in the world (e.g. in social innovation and policy making) provides an opportunity to resolve own development issues in an influential way.

2. MORE MOBILE LABOUR FORCE AND FLEXIBLE WORK

Due to the shortage of employees with suitable skills and the reduction in the numbers of working age people, the countries face the challenge of obtaining additional labour, especially talents. At the same time, the risk of losing them is increasing because the labour force is globally more mobile and requires greater flexibility among employers.

Opportunities and challenges for Estonia:

- a challenge is coping with the shortening skill-cycle and harmonising the changes in the educational system and employment market
- a challenge is also adjusting to the international labour mobility to ensure talent circulation instead of brain drain and staying in touch with expats

- an opportunity is turning labour force mobility into an advantage by allowing more foreign labour force, and especially talents, into the country
- at the same time, the competition for top employees among countries or the global talent war must be taken into account: it is not sufficient to simply allow talents into the country; we have to attract and retain them
- more attention should be paid to bringing people that have been left out of employment to date (e.g. non-Estonians, aged) into the labour market, including avoiding them leaving Estonia and keeping up competition with other countries
- a challenge is a wider use of various work forms for the more efficient involvement of people in the labour market.

3. SHORTAGE OF NATURAL RESOURCES AND PUSHING GROWTH LIMITS

A shortage of natural resources increases competition for existing resources. Therefore, an active search for technologies and solutions with which to push the resource limits and find economic growth is currently underway in the world.

Opportunities and challenges for Estonia:

- development and utilisation of energy technologies in the world facilitates the adoption of new solutions and offers new, additional business opportunities
- Estonia has a good opportunity to increase its share in the global agricultural business whilst ensuring its own food supply
- a shortage of natural resources is a direct risk to competitiveness: it means an increase in costs for businesses that use resources inefficiently and it also impairs the position of the country in international competition
- a great challenge is the availability of fossil energy sources, especially in transportation and energy production
- spreading renewable energy use and a more sustainable transport development in the world alleviate the situation if there is sufficient capacity to keep up with these trends deteriorating natural environment is a risk, primarily at (macro) regional level
- deterioration of environmental conditions elsewhere in the world may give Estonia unique competitive advantages (e.g. tourism, attracting talents or foreign direct investments).

4. DEVELOPED COUNTRIES CALL FOR NEW GROWTH MODELS

Developed countries have reached a new normal characterised by slow growth, high unemployment rate, public debt concerns, etc. In order to overcome them, new growth sources must be found and reforms to break the current growth barriers must be implemented.

Opportunities and challenges for Estonia:

- the productivity and capability of creating added value in Estonian companies must increase in order to find new markets and retain the old ones, especially through the renewal of business models
- it is important to be able to recognise opportunities in future business areas at the value chain level and to move forward with developing them in Estonia in a timely and focused way
- in addition, it is worth supporting the creation and use of knowledge in a broader base, including in traditional business areas
- at the same time, it is worth paying special attention to the growth of interdisciplinary capabilities in education, research and development activities and in business as the basis for greater breakthroughs and success
- a great challenge is the strengthening international competition for foreign capital, which is why domestic capital should be used to support growth, and greater efforts should be made to attract more foreign investments.

5. EUROPE IS SEARCHING FOR ITS PLACE IN THE WORLD

A multi-polar world is being formed in which the importance of Europe will reduce inevitably. A challenge for Europe is to position itself in the global arena and to grow stronger internally to retain relevance.

Opportunities and challenges for Estonia:

- the country must be able to adjust to the emergence of a multi-polar world, i.e. to go along with the emergence of Asia and to find new opportunities in the process
- when starting developing relations from a low level, the new leading countries in the world should be put in focus throughout different policy areas to achieve an impact with limited resources
- it is beneficial for Estonia to assist Europe in retaining its strengths based on Estonia's interests and capacities, supporting both a more closer EU integration and enlargement, and participating in the development of a common infrastructure

- if a multi-speed EU integration will continue, the challenge is in choosing partners, proactively develop relations with them and having an influence on important decisions.

6. CHANGING FORMS OF GOVERNANCE

The countries are facing complex challenges such as finding new growth models, pressure on social systems, growth limits, etc. For this reason, public governance must be developed further to be able to take influential action in changing conditions.

Opportunities and challenges for Estonia:

- the ongoing search for new governance forms and innovations in the world drives Estonia towards renewing its public governance; therefore, continued implementation of the best public governance practices and lessons is important
- Estonia holds great potential in resolving society's development problems through social innovation, which is why it is worth learning from the effective examples of other countries in the world and also creating own innovative solutions
- it is beneficial for Estonia to go along with the trend of open data, which will support innovation, including the creation of social innovation models
- an important challenge is the growth of unconventional security risks, which requires the establishment of such mechanisms that would help to prevent them or respond to them in the best possible way.

CROSS-CUTTING CONCLUSIONS

Certain common themes come forth from all trend clusters. Based on them, activities can be outlined, the implementation of which enables to respond simultaneously to the different challenges.

The cluster conclusions clearly show that Estonia could gain from possible future developments in the world, especially from new technology or best practices. This will be the case if we are globally well networked or well informed of global developments and also capable (including organisationally) of adopting new technologies.

One of the common denominators of trend clusters is a need for changes. Therefore, to retain one's positions, it is necessary to take action in accordance with the global or regional trends. Otherwise, the risk of gambling away existing competitive advantages and well being or not tapping new opportunities will increase. In contrast, the internal challenges of

Estonia if ignored will be amplified against the backdrop of several trends. If they are not dealt with, the related external beneficial conditions cannot be capitalised on.

Searching for innovative solutions for domestic problems creates an opportunity to offer the recognised effective solutions to others because the issues of concern are similar elsewhere in the world. What it means is a focus for innovation that would help to resolve domestic challenges and also offer alleviation for global concerns. Such potential future export articles derived from different trend clusters include healthcare services, social innovation models, green products and services, and security solutions.

Therefore, several new growth areas for the Estonian economy emerge from different trends and cluster interaction, such as in the green economy, health and wellness products and services, more efficient provision of public services and various e-solutions. Developing strengths in these areas may open up new growth opportunities with the simultaneous provision of solutions for local concern issues. To achieve this, the state is expected to make more precise choices than it has done to date and employ resources across different policy areas, such as paying attention

to new growth sources and throughout enterprise policy, technology development and exploitation or attracting talents.

In each cluster, there are uncertainties that may deviate to one or the other direction. This means that there is a stronger necessity for agility and quick response whenever conditions change as well as a continuous need to monitor and analyse external trends. This is an important conclusion for public governance and also for other areas such as economy, social sphere, environment and the labour market.

Trend clusters are closely intertwined, i.e. many trends influence and permeate different clusters. The clusters also show that they are comprised of trends belonging to different STEEP¹ categories or areas. Consequently, rather than viewing the challenges of different clusters and solutions as separate, they must be dealt with in their whole complexity. Therefore, it is important to have a holistic view when making strategic planning decisions: on the one hand, the potential effects in other domains must be automatically taken into consideration when making decisions in a certain domain; on the other hand, such beneficial interactions between different domains must be pursued.

¹ A trend categorisation method where trends are classified as social, technological, economic, environmental and political trends. STEEP is an acronym for social, technological, economic, environmental, political.

Trendmap: The most important global trends for Estonia form clusters

