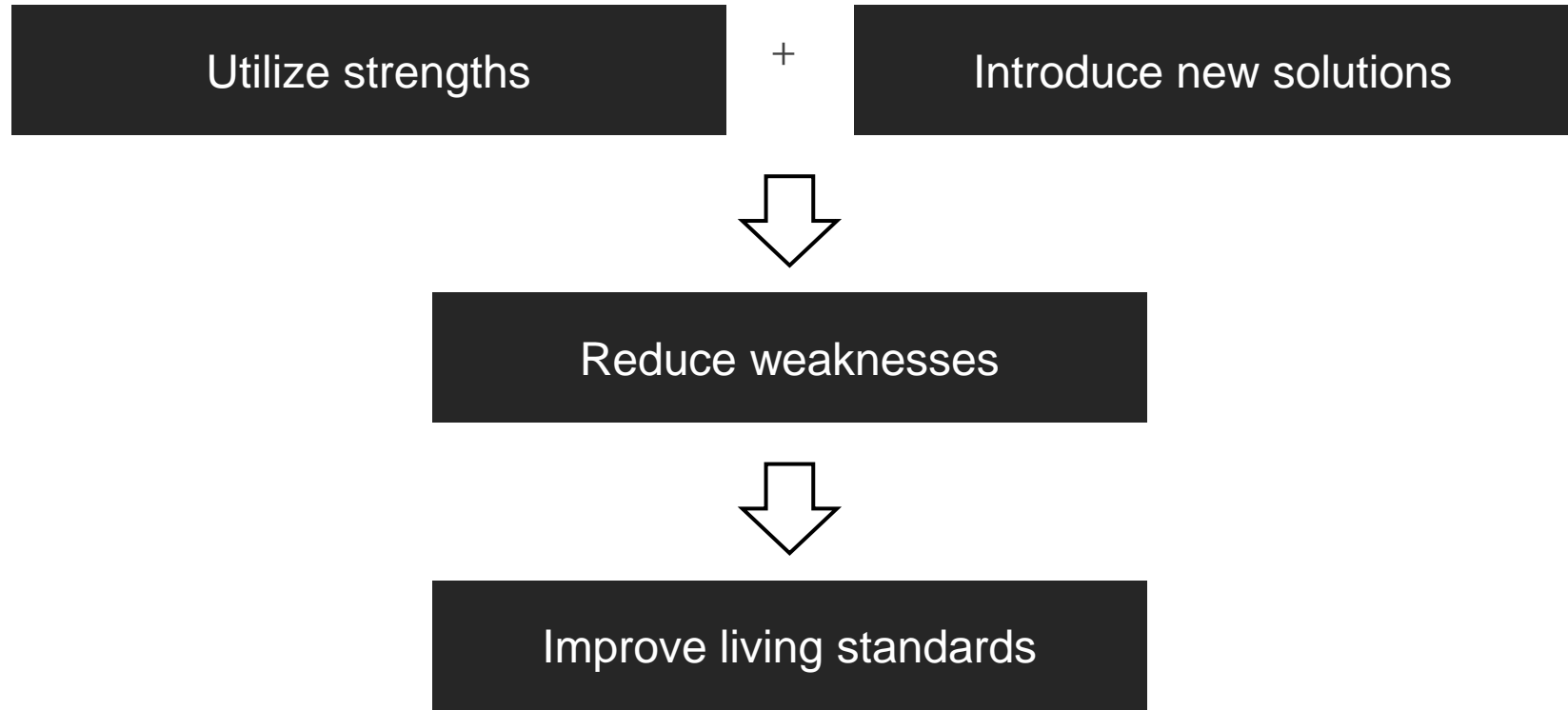


Talsinkifix project: business perspectives from an Estonian point of view

Joakim Helenius



Business Plan Structure



Step 1: Understand weaknesses and strengths

Weaknesses: No Size

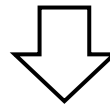


Population size

1.3 million people
=
153th in the world

Market size

GDP of 22 bn USD
=
100th in the world



Estonia is normally an unattractive market unless rest of the world is already covered

Weaknesses: No Cities



LARGE CITY = CENTRE FOR MODERN ECONOMY

Urban environment

Support services

Cooperation clusters

Technological infrastructure

Business scale

Large labour pool



Tallinn not attractive to global ideas and talent flows



Weaknesses: No Capital



Limited Capital

Accumulated physical capital very low due to very short independence

Low physical capital translates into lower efficiency and living standards

Capital market dominated by few banks

Equity market in its infancy

Limited Human Resources

Lack of entrepreneurship

Lack of well qualified specialists

Labour emigration

Limits on importing well qualified specialists

Resources for business expansion are very limited

Weaknesses: No Access



Rail logistics

- Only connection is St. Petersburg
- Low speed connections



Car logistics

- No highway connections
- Geographically far from large countries

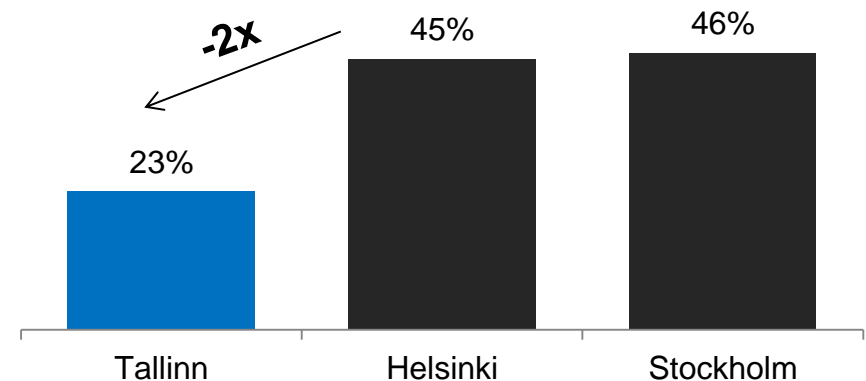


Air logistics

- Infrequent and limited direct flights
- No long-haul destinations

Current travel access is not supportive of business

Business travellers as percentage of foreign visitors



Inaccessibility compounds all the previous problems as the market is already relatively unattractive and foreign capital is needed for the country

Strengths: Business Climate



Corporate tax

- Low tax rate
- Zero tax on reinvested profits highly supportive for business investment

Competitive labour market

- Ranking 12th globally in labour market efficiency
- 3-4x lower labour costs than in Scandinavia

Best business environment among CEE countries

Ease of Doing Business 2012

Rank	Country
11	Finland
13	Sweden
20	Germany
21	Estonia
25	Latvia
27	Lithuania
55	Poland
112	Russia

Global Competitiveness Report 2013

Rank	Country
3	Finland
6	Sweden
28	Ireland
32	Estonia
42	Poland
48	Lithuania
52	Latvia
64	Russia

Strengths: Labour Quality



Education

- Estonia was ranked 9th among rich OECD countries in international PISA basic education levels
- 36% of working population with university education, well above the OECD average of 32%
- Tartu University and Tallinn Technical University among top 500 universities globally

Skills

- Good language skills, especially English and Russian
- Good IT and software proficiency

Work attitude

- Scandinavian mentality – working hard
- Honesty – low corruption (lowest among CEE)

Strengths: Location



Solutions?



Ways of raising living standards	Solution	Effect
Financial capital	Promoting Estonia (e.g. tax exemptions)	Large jump in FDI unlikely, as the Estonian market attractiveness remains low
Human capital	Educational reforms	Improvements accrue over long term
Transport links	Rail Baltika, more direct flights	Gradual improvement, but market attractiveness remains low
Large urban area	Develop and modernize Tallinn	Tallinn will remain minuscule on global scale
Openness to immigration	Reform immigration policy	Tallinn still unlikely to attract significant amounts of foreign talent

What could be the medium term solution with instant effects on Estonian living standards ????

Solution: HEL/TLN Tunnel



High speed rail link between the capital cities:

- Travel time ca 30 min
- Similar to drive from Viru Keskus to Nõmme or Viimsi
- Very little time compared to daily commutes in large cities
- Link would create dynamic integration between cities
- The tunnel would be the longest in the world

Paradigm Shift



Current relationship



Potential relationship with the tunnel

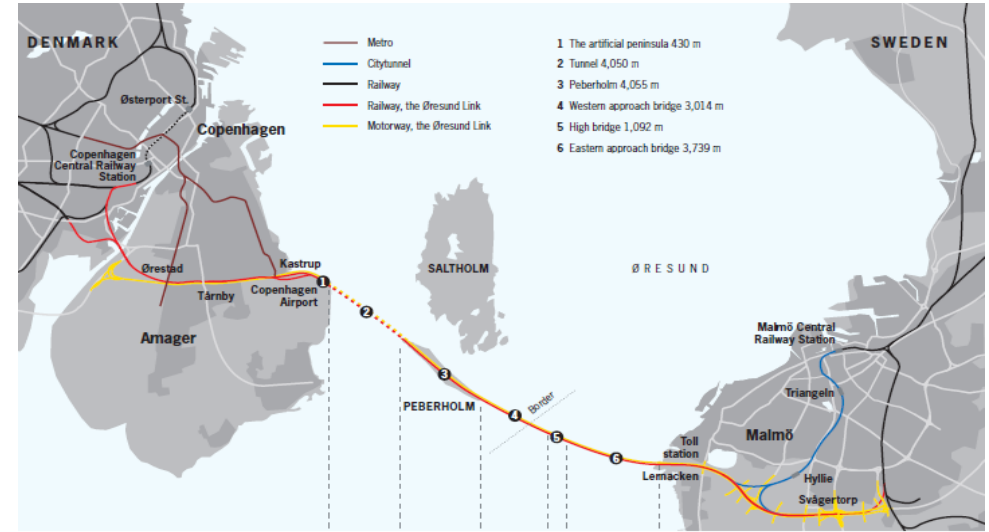


Current cheap alcohol interaction could turn into single market and labour pool integration within the twin city setting

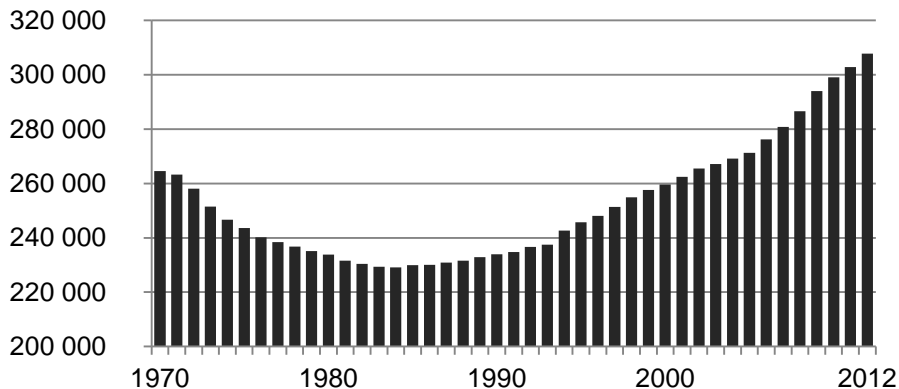
Malmö/Copenhagen Case Study



- Malmö was a declining manufacturing city in the 1980s
- Copenhagen is significantly wealthier region than Malmö
- A bridge between Copenhagen and Malmö was opened in 2000 - 15 minute commute between the cities
- Currently, Malmö is praised as a start-up hub and has shown dynamic economic growth



Malmö population growth +34% since the lows in 1980s



A clear societal change has happened between the cities:

- 25,000 Danes live in Malmö region
- 20,400 commuters cross the bridge every day for work
- 68% of Danes have friends, family or colleagues in Malmö region
- Danish ownership of businesses in Malmö has increased significantly
- Educational markets between the cities have integrated



Labour pool integration

- More Estonians would work in Helsinki for better pay and come back home every day with higher income
- Estonian businesses could attract Finnish specialists

Labour market would integrate without any need for people to change their living arrangements

Business integration

- Finnish entrepreneurs would be opening up companies in Estonia thanks to much more competitive business environment
- Finnish companies could service the Finnish market from an Estonian base
- Estonian service industry could target Helsinki market more easily due to market integration
- Enhanced global integration due to direct flights from Helsinki (including US and Asia)

A significant flow of high value jobs would come to Tallinn


Residential integration

- Finns would move to Tallinn for lower taxes and costs
- Huge purchasing power enters Estonia
- Tallinn would become significantly larger

Estonia would fully utilize its strengths of location, labour and business environment and accrue most of the economic benefits from the tunnel


Foreign Attraction Improves



 No size




Tallinn would become a part of a 2 million person metropolitan area
Increased business scale due to market integration

 No cities




Urban environment with combined attractions (culture, entertainment, dining, services, retail offering) of Helsinki and Tallinn

 No capital



Large group of wealthy individuals in region
Urban environment makes it much easier to attract necessary specialists into Estonia

 No access



One of the best flight connections in Europe from Helsinki (half an hour from airport to Tallinn)

Thank you for the attention!