1. GENERAL INDICATORS OF COMPETITIVENESS

General indicators of competitiveness are the international comparisons put together by institutions like the World Economic Forum and the World Bank, from corporate surveys, terms of trade, the market share of exports in the European Union and the world, and the contribution of goods and services exports to the balance of payments.

We first consider international comparative indicators, looking at the competitiveness index of the World Economic Forum (WEF) and the Ease of Doing Business index of the World Bank. The primary interest is in changes from earlier years.

The changes in the WEF index are minimal, as Estonia maintains its score of 4.8 and moves from 30th place last year to 29th, in between Iceland and Saudi Arabia. There is no essential change as movement of 0.1 point is within the margin of error.

The general picture for the index of key indicators is more or less the same, as the Estonian sub-indexes that got the highest scores were for basic requirements, with the highest marks of six out of a possible seven going to healthcare and basic education in Estonia and the macroeconomic environment. Weaker scores were recorded in the innovation sub-index for business sophistication and innovation, with an average of 4.2, while market size under efficiency enhancers scored only 3.1. The size of the market is an inescapable fact of life, but the total score for market efficiency was only a little above the average at 4.9. There was only one move of more than 0.1 point among the key indicators as technological readiness, meaning the use of technology, primarily ICT, in the economy, improved by 0.5 point over the year and climbed to 5.9.

The problems reported in the WEF survey as hindering business activities were also generally unchanged. Only government instability has become a notably more serious problem, climbing out of the bottom three and into second place in 2017. The other main problems in the top four were the same, with the lack of education of labour, weak innovation and government bureaucracy still problematic.

The Ease of Doing Business index of the World Bank put Estonia in 12th place, where it was last year, behind Macedonia and ahead of Finland. The best results were again for registration of real estate, for which Estonia came eighth, enforcement of contracts in 11th, and starting a business in 12th. The biggest weaknesses were protection of minority investors in 76th place and insolvency proceedings in 44th.

It can be concluded that Estonia’s strength in these indexes is that the basic macroeconomic and legal requirements are met satisfactorily. The biggest problems are in requirements at the higher end of the business environment, through insolvency procedures and protection for minority investors, and innovation. Both the WEF index and the World Bank index show a microscopic improvement over the year.

The next issue to be discussed is the results of corporate surveys by the Estonian Institute of Economic Research. This report uses two time horizons, the long one since accession to the European Union, and the medium-term one since accession to the euro area. Figure 1 summarises the responses of companies about competitiveness looking back three months, and Figure 2 shows the current position on sentiment about demand and amounts of export orders.

---

3 http://www.doingbusiness.org/rankings
4 The WBF scale runs from a minimum of zero to a maximum of seven.
5 The Ease of Doing Business index of the World Bank assesses the categories of: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The ranking positions are published for the components in this list, or the gap to the category leader.
Figure 1 shows the changes in foreign markets from 2011. There is quite a strong correlation of 64% between estimates by companies of their competitiveness in the European Union market and in other foreign markets, which suggests it is probable that the same companies export to both. At its lowest point in 2014–2015, demand was weaker in other foreign markets than in the European Union market, indicating that export markets are more Eurocentric.

The general dynamics of the perceivable state of the economy clearly indicate a rise in the second half of 2016. The next step is to observe changes in the terms of trade in the context of price, looking back over the medium term since accession to the euro area. Terms of trade can be treated as an independent indicator of competitiveness, though this requires sufficient market power. The status of a small economy as a price taker means the terms of trade are more an indicator of the state of the business environment in the economy.
Following the logic of Eurostat, the international competitiveness of countries can be measured using terms of trade, which is the ratio of export prices and import prices (see Figure 3). Terms of trade show in this context how much a country can import for one unit of exports. The price indexes for exports and imports are found using the GDP deflators. The aggregate figure is calculated using five-year changes for the ratio of the deflators of years t and t-5.

Figure 3 confirms that the perceived low point in the economy in the years 2012-2015 is also reflected in the dynamics of prices for exports and imports of goods. Terms of trade for services have been substantially better throughout the whole period, which is partly explained by the quality of services that comes from their knowledge intensity. Export markets for goods and services are not very different in terms of partners, other than for the dominant role Finland has in services exports, of which it takes 26% while taking only 15% of goods exports, which appears to indicate the relative advantage of lower prices and wages in Estonia in services exports.

The next topic is the change in the market share of Estonian exports (see Figure 4). This covers only market share for exports of goods as there are no globally comparable data for the combined market share of goods and services. Figure 4 shows the changes in the market share of Estonian goods exports in 2004-2016 in both absolute and relative terms. Absolute market share is calculated as Estonian gross exports as a ratio to European Union gross exports at current prices, while relative market share is Estonian exports as a ratio to weighted foreign demand at constant prices. Another difference between the indicators alongside different prices is that relative market share is calculated only from Estonia’s main trading partners and is based on the imports of those partners, while absolute market share covers the whole of the European Union and is based only on exports.

Neither indicator shows a very significant change in market share from 2012, with the absolute market share of goods exports at current prices falling some 12% in 2012–2016. If exports of services are added, the fall in market share is smaller at 9%, though the dynamics are the same. The period of the fall in the absolute market share of goods exports coincides with the low period in the global economy in 2012–2015. Market share fell in the European Union and in the whole world. The fall can probably not be explained by the state of foreign markets alone.

The last general indicator of competitiveness is the dynamics of the balance of goods and services over a longer time horizon, so the general external balance over recent years can be estimated.
Figure 5 shows that in the years after the global financial crisis the deficit in the goods account has been offset by the surplus in services. Services account for some 30% of total exports, and the figure is similar for main trading partners. With the usual deficit on the income account that is added to the deficit on the goods account, the current account has been slightly in surplus, suggesting that there is no need to fear a fundamental problem in competitiveness.

To summarise the general indicators for competitiveness, there have been no major changes in the estimates based on international indexes of competitiveness, which are the WEF index from 2013 and the World Bank index of 2016. Looking back over the medium term, the years after accession to the euro area saw modest foreign demand and weak terms of trade in the economy until 2016, when the economic cycle in the euro area turned towards growth.

---

7 Services account on average for 23% of total exports from Estonia’s main foreign partners, having the largest share of 36% in the exports of Sweden, followed by 29% in the exports of Estonia, 28% in the exports of Finland and 27% in those of Latvia. The smallest share of services in total exports is in Russia at 12%.