

DELOCALISATION OF INDUSTRIES: THREATS AND OPPORTUNITIES FOR ESTONIA

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Abstract

Enterprises operate increasingly more in international networks and value chains. They locate procurement, production, distribution, marketing, sales and servicing in different countries across the world. They perform every operation where the price-quality ratio is the best.

Estonia has not yet perceived all the sharpness of delocalisation, as more productions (jobs) are still coming in here than are going out. But many low-technology, labour-intensive, low capital-intensive productions that came to Estonia in the early 1990s have by now moved on directly, or through other Baltic states, to CIS and Asia.

It is costly both to close down an existing enterprise as well as to set up a new one in another country. However, if this investment will pay back within a normal period of time, then they undertake to relocate the enterprise in another country. Local workforce, territory, facilities etc. in Estonia will be hopefully used by entrepreneurs who have a better business plan. Faster structural changes are not only a threat to Estonia but also an opportunity.

JEL Classification numbers: F15; F42; H70; J40.

Keywords: industry, delocalisation, deindustrialisation, public governance.

1. Introduction

Enterprises operate increasingly more in international networks and value chains. They locate procurement, production, distribution, marketing, sales and servicing in different countries across the world. They perform every operation where the price-quality ratio is the best.

The delocalisation of industries – international relocation; the shifting of work to low-cost (low-wage) countries, including the closing of domestic sites or scaling down their activities – is a difficult problem for developed states. Increasingly more people (with low educational level and qualifications) in developed countries „tend to become redundant”. In the CIS and Asia there are

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tens of millions of such labour force and they are willing (ready) to work for much lower wages than the spoilt Europeans.

The situation became even more complicated after the EU enlargement in 2004, particularly so because the EU enlargement process took place at the time when global competition became much fiercer due to the integration of China and India into the world economy.

For Western European companies the choice was not between producing at home or abroad. It was between cutting costs or losing market shares. European firms go abroad because they cannot stay competitive in the costly economic business environment, but also very often because they want to gain access to emerging markets. Production with higher and higher technological level are leaving developed countries.

The following paper seeks to cover delocalisation of industries. The general situation and tendencies in the world economy influencing delocalisation are discussed. The main goal of this paper is to summarise the objectives and experiences of knowledge applied by different agents and to study threats and opportunities for Estonia in this process.

2. Types of delocalisation

Delocalisation is a term referring to the spatial restructuring of industry at a national, regional or global scale. Delocalisation is difficult to quantify statistically since it takes different forms. Its primary elements are FDI and outsourcing, although it also refers to all other types of cross-border business interactions: subcontracting; firms that traditionally have bought the intermediate product (i.e. never produced it in-house and therefore never stopped producing it) and are now outsourcing it; horizontal FDI, which is very often not considered a component of delocalisation, since it involves the movement of production abroad.

Foreign Direct Investment (FDI) is a category of international investment made by a resident entity in one country (direct investor) with the objective of establishing a lasting interest in an enterprise resident in another country (direct investment enterprise). "Lasting interest" implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the direct investor on the management of the direct investment enterprise. This involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.

Conventionally, a FDI enterprise is an incorporated enterprise in which a foreign investor owns 10% or more of the ordinary shares or voting power, or an unincorporated enterprise in which a foreign investor has equivalent ownership. Financial FDI data may be geographically based on the extent that MNE-s use

strategically located holding companies to intermediate their investments (Nicoletti et al. 2003: 12).

Delocalisation with capital contributions, i.e. creation of a subsidiary company or fusion-acquisition is very important. The company acquires a factory in other state and that factory starts to produce all or part of its production. The delocalisation with capital contributions is the riskiest by far.

Outsourcing is delegation of tasks or jobs from internal production to an external entity (such as subcontractor). Most recently, it has come to mean the elimination of native staff to staff overseas (offshore outsourcing) where salaries are markedly lower. This is despite the fact that the majority of outsourcing that occurs today still occurs within country boundaries.

Subcontracting is defined as the manufacture of goods by one firm (the subcontractor) for another (the lead firm) based on the specifications of the latter. Often there can be several layers of firms or intermediaries mediating the relationship between the actual production workers and the end product market. The lead firms normally exercise considerable control over their subcontractors in terms of price, quality and timing of the products they supply.

Companies are driven to subcontract to take advantage of national, regional or international differences in factor costs, notably low wages or materials. For developed countries, production or purchasing abroad is in many countries cheaper than domestic production or domestic buying. Ultimately, this enables companies to reduce the cost of final product and thereby to offer competitive prices (UNIDO 2003: 8).

There are two main types of subcontracting (UNIDO 2003: 4-5):

- Capacity subcontracting. The main reason causing the subcontracting relationship to take place is the fact that the main contractor does not have enough capacity to undertake the fabrication of the specific component, part or material (Cuny and de Crombrughe 2000: 16). In other words, the main contractor has reached a capacity limit in its production process and in order to meet market demand for its product is required to refer to a subcontracting specialist at least for a temporary period of time. This usually represents a complementary horizontal disintegration of production (Taymaz and Kilicaslan 2002: 2–3).
- Specialist subcontracting. The main contractor relies upon the services of a subcontractor or set of subcontractors who has specialised equipment or machinery and skilled labour to undertake complex and precision tasks (Cuny and de Crombrughe 2000: 16). This may involve either finished products or specialised components or supplies that require a higher level of technical expertise, which the main contractor does not possess or cannot meet. In such a situation, both firms have vertically related complementary assets and / or technologies (Taymaz, and Kilicaslan 2002: 3).

Subcontracting is classified also as follows (Johnson 1997: 4):

- They find the most practical, productive and favourable subcontractor for performing the task, production or development of an idea (subcontracting).
- Product of one producer is input for another producer (industrial subcontracting).
- Subcontractor makes the whole product; the contractor's tasks are mostly marketing, logistics and sale of the product (commercial subcontracting).

Offshoring can be defined as relocation of business processes (including production / manufacturing) to an overseas lower cost location.

Offshore outsourcing is the practice of hiring an external organisation to perform some or all business functions in a country other than the one where the product will be sold or consumed.

3. Delocalisation as a result of globalisation

The turbulent transformation of economy and society looks set to continue. The main trends are internationalisation, multinationalisation and globalisation. Economic, technological, political etc. processes change the world into an integral whole. Processes of globalisation are increasingly making diverse and distant places, processes and people more interdependent. Geographical identities are becoming blurred and competitiveness is taking a global dimension.

The economic unions, countries, regions, enterprises and actually also individuals have lost any kind of true option whether to participate in globalisation or evade it. There are increasingly less real possibilities for isolated existence and development in the contemporary world. Global economic integration, international competition and technological development are key drivers of structural change. Delocalisation of industries is by-product of a process of longer-term structural change.

The physical separation of different parts of a production process (fragmentation) allows production in different countries to be formed into cross-border production networks that can be within or between firms (Gereffi et al. 2005). Space is not homogenous. Different economic activities take place in different locations. The type of business that dominates today's global economic system operates on the basis of finding the cheapest production (in particular labour) cost.

4. Convergence and agglomeration, core and periphery

Extremely popular in recent decades have been convergence theories that tell of the harmonisation of development levels of different countries and regions. As the movement of goods, services, capital and labour across countries and regions

is growing freer and freer, the law of connected vessels should at least theoretically work here. Differences between rich and poor countries and regions should kind of decrease (Sachs 2000; Kilvits 2004). Removal of trade barriers will make the world more equal (Brakman and Garretsen 2005: ix).

However, contrary to the expectations, differences between rich and poor countries are often increasing. Recent years' statistics indicate that technological convergence between countries and regions has not been very successful and rapid in EU, either. The situation became even more complicated after the EU enlargement in 2004.

The opponents of the theory of convergence follow Myrdal's (1957) thesis, which is based on the understanding that growth is a process which leads to cumulating spatial economic differences. They suggested a reconsideration of conclusions for convergence processes in the EU because they were formulated without including countries from EU South, mainly less developed countries (LDCs) for which the convergence process is not typical (Armstrong 1995).

Many economists (Totev and Sariiski 2007) share the understanding of the dualistic nature of the development of the EU (differences in the economic development of the core and the periphery). Mack and Jacobson (1996) sustain the vision that these processes depend on the spatial specialisation, which concerns the degree of technological processing – the centrally located EU regions (core regions) have a tendency to specialise and export to the periphery highly technologically processed manufactured goods, while the periphery specialises in the production of low technology goods. Going further it is maintained that the location of the industries with constant return of scale (mainly low technological processing industries, labour intensive industries) is a result of the distribution of those which have an increasing return of scale (high technology processing industries). The location of the labour-intensive industries finds its expression mainly through the delocalisation process.

An effect of agglomeration is dominating in the world economy. Economic activities of a common kind show a strong tendency to agglomerate in certain locations, giving rise to patterns of national and regional specialisation. Such agglomerations owe their self-perpetuation in large part to social and economic factors. The growing cluster attracts sellers, merchant intermediaries, and labour from afar. Firms of different types will cluster together in an urban region and will form an inter-reliance as the size of the region becomes large.

The economic effect created with territorial concentration of capital is much bigger than in the case of its dispersed location. In the former case it is cheaper for enterprises to organise subcontracting, buy services, strengthen infrastructure, exchange knowledge. It is also easier for enterprises in larger and more compact economies to specialise. It is difficult if not quite impossible in small and dispersed economies to organise high-technology enterprises that require larger fixed costs. High-technology enterprises in large and compact economies have clear competitive advantages (Sachs 2000; Kilvits 2004).

The world can be perceived as a core / periphery / semiperiphery dichotomy where core countries are characterised by high levels of development and a capacity of innovation. High value-added, high-technology and science-intensive production has been concentrated into the core, and low value-added, low-technology, labour- and land-intensive production into periphery. The core has a level of dominance over the periphery.

Advantages of the core (clusters) are very important for the location decisions. But if advantages of a new region are bigger (low production cost, good future prospects, etc), the firm will relocate to “new growth periphery”. High-technology enterprises in the core try to take up mainly R&D, product development, logistics and marketing that enable higher profit (however involving higher risks). Production processes are transferred to periphery (“cheap countries”).

The advantage of the old industrialised economies is currently shifting from the factory to the office, distribution network and trading desk. The result would be a Nike-style industry, designing, importing and distributing the goods that are no longer manufacturer's (Boulhol and Fontagne 2006; CEPII 2004). Firms reorganise themselves on a global level to take advantage of international cost differentials, specialising their overseas subsidiaries in different segments of the production process.

Economic performance of such offices („producers without factories”) is often quite excellent. But such few workplaces are usually highly investment intensive and provide employment only to top specialists and qualified professionals in (major) towns. Not all people are fit for such manufacturing. Therefore the financial and regional stratification of people is increasing in the developed countries. A wide-spread opinion is that it is not socially acceptable. We need also low-technology production for uneducated and not so highly skilled people.

Economic effect of capital concentrated into core would be remarkably higher if the same capital were dispersed. Owing to this, the developed industrial countries can levy higher tax rates on enterprises and physical persons than in developing countries. And they needn't be afraid that most of the high-technology production would escape from the country. Such production is ineffective if not impossible (despite the low wages, taxes, prices) to organise in periphery. Periphery lacks a suitable economic environment for that – no skilled labour, difficult to organise subcontracting, buy services, guarantee security of production, etc. Only low-technology production can operate in periphery, which the core is not interested in and wishes to get rid of.

Due to high taxes and enormous tax revenue collected from large income-turnover-property, the core countries can mitigate their social problems and thereby keep the society stable and sustainable. A core country also can sufficiently finance R & D and education (incl. advanced training) and in this way reinforce even more its position as a core.

Fast economic restructuring in periphery (where state tax revenue and internal accumulation is low) is possible only with sufficient FDI. Peripheral countries therefore try to be attractive and draw mobile production resources. The periphery fighting for FDI usually does anything to keep taxes and wages low. However, it is hard therefore to mitigate social problems and finance R & D and product development. The worst is that FDI tends to bring in mainly low-technology (primarily interested in low wages and taxes) production.

Estonia as a semiperiphery acts in respect to periphery as a core and is at the same time exploited by the core countries. During the economic depressions, economic crises and in the periods of fast changes in general, it is just semiperiphery that by way of delocalisation of industries might sharply improve the structure of economy and achieve fast economic growth.

5. Possible incoming delocalisation promotion policy in Estonia

Delocalisation and globalisation in general can be a threat or an opportunity, depending on the country's trade mix and its economic and regulatory structure (Rae and Sollie 2007). Regardless of how exposed they are, countries differ widely in their ability to cope with globalisation. The ability to manage change depends on many factors, including flexibility of labour and product markets, the innovation framework, the educational system and the support available to workers who lose their jobs as a result of globalisation. Economic benefits are evident for the country to which economic activity is relocated, notably through job creation, investment spillovers, and technological transfers. But a relocating country can in principle benefit from relocation too through betterment of economic structure. Estonia has not yet perceived all the sharpness of delocalisation, as more productions (jobs) are still coming in here than are going out.

5.1. Estonian economy under change

Estonia had received by the end of 2006 more than 9.6 billion euros worth of FDI (Bank of Estonia 2008). Nearly two thirds of these FDI originated from Sweden (39.5%) and Finland (26.4%), followed by Great Britain (3.8%), Netherlands (3.4%) and Norway (3.3%). 17.5% of the total amount of FDI was made directly in manufacturing; however, based on expert estimates, quite large FDI reached Estonian manufacturing also through financial intermediation (28.1% of all FDI) and other fields of activity. In many, even in most of the cases these involved with the help of FDI delocalisation of manufacturing industries from the donor countries to Estonia. Moreover, manufacturing industries of the same donor countries have been relocated to Estonia by way of ordering various subcontracting works. In some commodity groups (in particular manufacture of metals, machinery, equipment and apparatus)

importation for inward processing and re-exportation after inward processing account for 50-90% of all Estonian imports and exports (Statistics Estonia 2008).

At the same time, several industries with historical traditions (cotton industry etc.) have already disappeared or are disappearing in Estonia. Many low-technology, labour-intensive and low capital-intensive productions that came to Estonia in the early 1990s have by now moved on directly or through other Baltic states to CIS and Asia. Entrepreneurs whose principal business idea was to profit from low wages (and taxes) in Estonia face now big difficulties and are desperately looking for new „hunting grounds”.

Also FDI made by Estonia (mostly foreign capital owned enterprises located in Estonia) into other countries have increased. By the end of 2006, the amount of such FDI reached beyond 2.7 billion euros (Bank of Estonia 2008). Two thirds of such FDI were made in other Baltic states – Latvia 34.3% and Lithuania 32.3%, followed by Russia (8.9%), Finland (4.8%), Ukraine (2.4%) and Belarus 81.9%). Only 3.8% of the FDI outflow from Estonia went into manufacturing. However, based on expert estimates, FDI reached manufacturing and hence caused its delocation from Estonia to other countries also through financial intermediation (38.0% of all FDI) and other fields of activity. Moreover, Estonian enterprises are increasingly ordering subcontracting from foreign countries.

As a result of transnational delocations, the structure of Estonian manufacturing somewhat improved over 1995–2006. The share of people employed in labour intensive manufacture of textiles and wearing apparel dropped from 4.5% to 3.6%, and in relatively high technology and great value-added manufacture of metals, machinery, equipment and apparatus rose from 5.3% to 5.9% (Statistics Estonia 2008). However, the structure of Estonian economy has not improved as fast as we wish it.

In China and India one can get a subcontract at a better price-quality ratio than in Estonia. We are lucky that these countries are far away from the Western large firms. Those who order subcontracts do not like the big time difference, long air travel, inadequate infrastructure, different culture and food. Therefore they have so far preferred closer Estonia where the infrastructure is satisfactory according to contractors. Our competitive advantage has been accepting of small quantities, operative and flexible production. It has been easier to deal with Estonian subcontractors and the fulfilment of orders has been faster. However, time does not work in favour of Estonia. The price-quality ratio is growing to be more significant.

Many Estonian enterprises have already adapted to the world developments. However, many Estonian entrepreneurs unfortunately cannot change and are only complaining. They do not understand the transformation of economic environment, are not ready for changes, clearly panic, feel insulted by

the objective development in the world and blame everybody else but themselves for their troubles.

Enterprises' success depends on what they produce, how it is produced and how sold. Attempts have to be made by product, technology and sales development to move upwards in the value chain, increase value added and profitability.

In case an enterprise cannot succeed in moving upwards in the value chain, increase value added and profitability for some reason, it has to terminate production or relocate to a region where production costs (labour costs) are lower. One must terminate business and leave the market in time. There are the following main possibilities to do that: selling the enterprise or part of it; reprofilation; liquidation or bankruptcy; "clean-up" strategy. In the latter case, enterprise shall be exploited to depreciation, seeking to use as completely as possible all the available production potential. The profit will not be invested in the enterprise but somewhere else. Costs are kept on a minimal requisite level. Fixed assets are not renewed unless it is absolutely necessary; they try to extend the lifespan of the existing ones. The units dealing with the issues of perspectives are liquidated, training of the personnel has quitted.

It is costly both to close down an existing enterprise as well as to set up a new one in another country. However, if this investment will pay back within a normal period of time, then they undertake to relocate the enterprise in another country. Local workforce, territory, facilities etc. in Estonia will be hopefully used by entrepreneurs who have a better business plan.

One of the key issues in keeping up Estonia's competitiveness and growth is the labour market flexibility. This should, whenever necessary, facilitate fast relocation of labour from less productive enterprises to more competitive ones. And this by all means together with relevant training (retraining). Many international comparisons, however, confirm that the current legislation that regulates the Estonian labour market is quite rigid compared with other European Union member states. Therefore the European Union recommends Estonia to make the labour market regulation more flexible. It is relevant for the labour force to move fast enough from loss bearing enterprises to profitable enterprises. Most of the economists are of the opinion that high dismissal costs to be covered by enterprises due to the current legislation do not facilitate creation of permanent jobs and timely re-organisation. And a long agony of unprofitable enterprises is useful for nobody.

Faster structural changes in the European Union are not only a threat to Estonia but also an opportunity. Most benefitting from openness are the countries where capital and labour are moving at smallest possible costs and influenced by free market prices from vanishing industries to more advanced spheres. Hence, Estonia's economic policy should in every way promote flexibility and openness of economy.

The Estonian economy has been growing since 2000. GDP increased more than 2.5 times from 2000 to 2007 (Statistics Estonia 2008). Recently, some signs have become visible that imply potential threats to sustainable development and of economic growth slowing down because of the depletion of previous growth sources (cheap labour in particular). Short-term developments in Estonia are the results of natural cyclical development of the economy, which is partly amplified by the rising loan costs and contraction of the too optimistic domestic consumption as well as the deceleration of wage growth. The business sector and individuals are therefore forced to change.

An essential precondition for economic growth in Estonia as a small country is, due to its narrow domestic market, to be successful in selling in the world market. On the micro level, entrepreneurs are rivals offering their products and services. On the macro level, countries (governments) are competing for mobile production factors (labour force, capital). Competitiveness of a branch of economy is a coeffect of the activity of government and entrepreneurs.

Estonia's GDP per capita on the purchasing power parity (PPP) basis was 67.9% of the European Union 27 countries' average in 2006, whereas the labour productivity indices were much lower (Eurostat 2008). Labour productivity (added value produced per worker) in Estonia is in all branches of economy much lower than in the more developed member states of the European Union. The labour productivity backwardness is the biggest in manufacturing and extractive industry, power engineering and construction. Productivity in manufacturing is only 6.6–17.9% of the level of higher income member states of the European Union (Eurostat 2008). Previous experiences from other world exhibit that a high income level has been reached through the stadium where manufacturing industry turns into a high-productivity sector and works closely together with providers of science-intensive services.

Low productivity is largely caused by the unfavourable structure of the Estonian economy. If to assume that all manufacturing branches in Estonia will achieve equal productivity with the respective manufacturing branch of most developed EU countries but the division of Estonian workforce between the branches remains the same, the productivity in Estonia would reach only 56% of the Irish level, 78% of the German level, 80% of the Finnish and 90% of the Danish level (Arengufond 2008: 22). Hence, only by raising the technological level of enterprises and increasing so-called technical productivity it is not possible for Estonia to catch up in terms of productivity with the developed industrial countries. It is absolutely necessary to change the structure of manufacturing industry by increasing the share of high-productivity branches. In Estonia there are a number of problematic branches where the outputs will be contracting remarkably in the future (textile industry; wearing apparel industry).

A reason for low productivity in Estonia is largely insufficient capital investments. Fixed assets per employee in Estonia amounted only to 22% of the average eurozone level in 2004. Estonia fully acknowledges the need to make a

decisive shift from the cost-based competitiveness towards the knowledge-based economy.

5.2. Supporting inflow of high-technology FDI and subcontracting

To promote entrepreneurship, Estonia has developed a national business support system. All enterprises engaged in business activities in Estonia may apply for state support for the creation of infrastructure necessary for their operations, training of personnel, participation in fairs etc.

Estonian Development Fund is a public law entity founded by the Estonian Parliament law of 2006; its objective is to initiate and support changes in the Estonian economy and society to help updating the economic structure, ensuring the export growth, and creating new jobs requiring high qualification (Estonian Development Fund 2008).

A very important institution within the national support system is also **Enterprise Estonia**, which provides financing for products, advice, partnership opportunities and training for entrepreneurs, for research and development institutions and the public and third sector.

In 2004, foreign capital controlled 19.3% of Estonian enterprises, while these enterprises created 40% of value added. Value added per employee in enterprises under the control of foreign capital in 2004 was 255,000 kroons against 185,000 kroons in domestic enterprises (Saks 2008).

Attracting FDI has become a central component of industrial policy in most countries. Investment promotion can be divided into the following areas (Loewendahl 2001; IFC 1997; Christodoulou 1996; Young et al. 1994): 1) strategy and organisation (includes setting the national policy context, objectives, structure of investment promotion, competitive positioning, sector targeting strategy); 2) lead activities (marketing; company targeting); 3) facilitation (project handling); 4) investment services (after-care and product improvement; monitoring and evaluation).

The Estonian Development Fund invests into small and medium sized companies registered in Estonia that are targeted at innovation, are creative and use up-to-date technology and develop new products, whereas they have a considerable growth and export potential and a perspective to achieve a remarkable position at the international target market, but which are incapable of satisfying its capital requirements through other instruments operating at the market. A wider objective of the Development Fund is to motivate risk capitalists and business angels invest into starting technology companies favouring thereby the creation and growth of technology companies and influencing the updating of the economic structure (Estonian Development Fund 2008).

Foreign investors are given information and assistance with partner search and communication with state and local government agencies.

While so far foreign investments were attracted mainly based on the stable macroeconomic environment and cheap production resources of Estonia, then in addition to that more focus should be laid in the future on creating direct contacts with potential investors. Preferred are technology- and capital-intensive, export-oriented and modern-jobs-creating investment projects. The activity of *Enterprise Estonia* in attracting foreign investments includes the following activities:

- Image creation is aimed at the development of general reputation of Estonia. For that they advertise in business and sector-specific publications, participate in international investment fairs and seminars, organise seminars to introduce investment possibilities in Estonia, general investment missions and disseminate information materials for investors. For advertising they use promotional texts about Estonia and adds in newspapers, journals, TV, radio, internet etc.
- Direct marketing. They generate new investment projects and present Estonia as a host country for foreign investment.
- Investor service is a service for investors in the phase of executing investments and in the post-investment phase.

Enterprise Estonia provides the following complimentary services to potential foreign investors (Enterprise Estonia 2008): 1) general and specific industrial information pertaining to Estonia and its investment opportunities; 2) partner search (subcontractors and joint venture partners); 3) useful contacts in the public and private sector (utilities, law firms, consultants, executive recruitment, and more); 4) legal matters (establishing a company, queries regarding visas and residence permits, etc); 5) organisation of company visits; 6) assistance in locating industrial property.

Foreign investors may also apply for support through the following programmes, upon registration of their company in Estonia (Enterprise Estonia 2008): 1) Start-up programme; 2) Business Infrastructure Development Programme; 3) Training Programme; 4) Consultation Programme; 5) R&D Financing Programme.

However, Estonia should be judicious while developing the high-technology sectors, because this may not have a notable effect on the standard of living. Such a high-technology sector might work as a part of a major international cluster with value added moving away from Estonia. It is very important that the know-how and skills brought by foreign investments would be conveyed to the traditional sectors dominating in economic development.

Supporting inflow of high-technology subcontracting is an important tool of Estonian economic policy for using opportunities of delocalisation of industries. The state on its part does everything to promote it (importation for inward processing, re-exportation after inward processing, etc.). Branch associations are mainly busy with finding companies that are suitable for

ordering high-technology subcontracting. Particularly successful in this respect is the Federation of Estonian Engineering Industry. Largely thanks to the activity of this branch association more than half of the turnover of the Estonian machine building and metal working industry derives from subcontracting and its technological level and value added is growing well.

6. Conclusions

The above analysis allows drawing the following conclusions:

1. Delocalisation of industries and globalisation in general can be a threat or an opportunity, depending on the country's trade mix and its economic and regulatory structure.
2. Economic benefits are evident for the country to which economic activity is relocated, notably through job creation, investment spillovers, and technological transfers. But a relocating country can in principle benefit from relocation too through betterment of economic structure.
3. Estonia as a semiperiphery acts in respect to periphery as a core and is at the same time exploited by the core countries.
4. Estonia has not yet perceived all the sharpness of delocalisation, as more productions (jobs) are still coming in here than are going out. But several industries with historical traditions (cotton industry etc.) have already disappeared or are disappearing in Estonia. Many low-technology, labour-intensive and low capital-intensive productions that came to Estonia in the early 1990s have by now moved on directly or through other Baltic states to CIS and Asia. Entrepreneurs whose principal business idea was to profit from low wages (and taxes) in Estonia face now big difficulties and are desperately looking for new „hunting grounds”.
5. As a result of transnational delocalisation, the structure of Estonian manufacturing somewhat improved in 1995–2006. The share of people employed in labour-intensive manufacture of textiles and wearing apparel dropped from 4.5% to 3.6%, and in relatively high technology and great value-added manufacture of metals, machinery, equipment and apparatus rose from 5.3% to 5.9%. However, the structure of Estonian economy has not improved as fast as we wish it.
6. The Estonian economy has been growing since 2000. GDP increased more than 2.5 times from 2000 to 2007. Recently, some signs have become visible that imply potential threats to sustainable development and of economic growth slowing down because of the depletion of previous growth sources (cheap labour in particular).
7. Low productivity is largely caused by the unfavourable structure of the Estonian economy. Only by raising the technological level of enterprises

and increasing so-called technical productivity it is not possible for Estonia to catch up in terms of productivity with the developed industrial countries. It is absolutely necessary to change the structure of manufacturing industry by increasing the share of high-productivity branches.

8. Faster structural changes in the European Union are not only a threat to Estonia but also an opportunity. To promote entrepreneurship, Estonia has developed a national business support system (Estonian Development Fund, Enterprise Estonia, branch associations).
9. The main goal of Estonian economic policy is to promote flexibility and openness of economy, support inflow of high-technology FDI and subcontracting.
10. One of the key issues in keeping up Estonia's competitiveness and growth is the labour market flexibility. This should, whenever necessary, facilitate fast relocation of labour from less productive enterprises to more competitive ones.

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