



**ESTONIAN MINISTRY
OF FOREIGN AFFAIRS**

SIXTY-THIRD SESSION OF THE ECONOMIC COMMISSION FOR EUROPE

**PANEL TWO – PROMOTING COMPETITIVE KNOWLEDGE BASED INNOVATIVE
ECONOMIES**

Knowledge-based economy as a way forward

Mrs. Marina Kaljurand

Undersecretary for Economic and Development Affairs

Mr. Chairman,

Excellencies,

Distinguished Delegates,

Dear Executive Secretary,

I'm very pleased to be able to address you here in Geneva at the Sixty-third Session of the United Nations Economic Commission for Europe (UNECE). UNECE with its special focus on catching-up countries is an excellent platform for high-level policy dialogue and exchange of best practices. I am particularly glad that as a result of the (UNECE) Reform a new Committee on Economic Cooperation and Integration (CECI) was created which within its main thematic areas also deals with innovation. UNECE's role in field economic cooperation and integration becomes even more important in the period of crises which calls for coordinated actions at international level.

Getting the real economy back on track, shifting it from a slowdown to growth is a challenge we are all facing today. Given the crises, we have to alter our mindsets. It has become clearer than ever that further development of our economies can only come from innovation which is an engine for growth. The capability to innovate and to bring innovation successfully to market is a crucial determinant of the knowledge-based economy.

In developing an innovative economy, the state must be seen as a provider of role model and a competent innovation consumer, whose procurements significantly encourage innovativeness.



Or as Estonian Internet “guru” and eGovernance “ambassador” Linnar Viik put it, paraphrasing William Shakespeare's best-known quotation from “Hamlet” - the ultimate question for the Governments in 21st century is to e- or not to e.

Estonia set itself the goal of employing modern ICT (information and communications technology) in the service of the state many years ago. We have understood that the state and the information system of the state must be developed as a whole, that ICT must support the everyday functioning of the state in the best possible manner and to provide better public services to citizens and businesses. We have experience of creating and implementing many society-wide e-solutions for instance e-TaxOffice (several countries have created an electronic tax board but in Estonian case, most of the information is already electronically available in a pre-completed form, so users do not have to enter their data twice and submitting your declaration takes only a few minutes. Estonia also stands out among other countries for the fact that a total of 86% of all tax-payers submit their tax declaration online.) More than 80% of Estonian residents have an ID-card and many of them have used it for giving digital signatures or for e-voting. We have High-speed wireless Internet (WiFi) available at over 1000 public places. As a public (internet) service the expenditures made in state budget can be followed on the Internet in real-time.

These solutions have made the provision of public services and the communication between the state and the citizens as well as enterprises easier and more efficient. Innovations providing electronic solutions to activities, that would otherwise consume precious resources, have to pave way for a whole pattern of new creativity. This creativity, supported by these modern solutions, will lead to new quality in economic activity and also entrepreneurship.

Estonian economic success has largely been based on the advantages of a transitional economy over a more mature one. Advantages of catching-up economy like low labour costs are temporary by their very nature and in Estonia's case have reached to their limits already. While it might be true that for latecomers the imitation is easier and less costly than innovation, in current global crisis we are forced to find more sustainable solutions to upgrade towards the knowledge-based economy. Estonia values incoming foreign investments which are not using the disappearing cost advantage, but rather focus on developing innovative products and services. Yet, we are aware of the fact that sustainability of economic development could not be achieved relying only on the innovation activities of foreign investors and their global networks.

Today, the competition is no longer the only driving force behind development and innovation – cooperation and networking have become almost as important. Cooperation gives an access to knowledge and facilitates risk sharing. Therefore, the central principle of the knowledge-based economy is creation of cooperation networks that encourage innovativeness. Often good results have been achieved in cooperation between local and international ICT enterprises.

For example Skype, the internet telephony service that now has more than 30 million daily users around the world. It represents an ideal of what innovation activity should be - a small group of people come together and come up with a really brilliant idea that becomes famous world-wide. Skype founders are Scandinavian but it was programmed by a team of



four Estonian software engineers based in Tallinn. Estonians remain proud of the role they played in developing Skype. Its success proved that in today's dynamic globalised world, the size matters less and ideas and knowledge matter more than ever before. A small country like Estonia could have a major impact on the cutting edge of technology.

Innovative entrepreneurship and business projects that require R&D activities are long-term and it is very difficult to forecast their profitability. Economic downturn already has begun to undercut innovation in the private sector, threatening long-term economic and social goals. Once again, the role of the state as a smart consumer and a demanding user of research and development is crucial to restore the innovative activities of private sector. There are many ways how the state can act as a facilitator: encouraging partnership between business and research, or introducing ICT infrastructure projects which will stimulate the demand on short run and facilitate the economic growth in longer perspective.

Due to changed economic conditions, Estonian government had to introduce negative supplementary budget with upon a 8 billion kroons cutback last month. The great proportion of the cutback did not affect the investments in Innovation - the expenditure planned for research and development activities remained untouched. The programs launched include supporting research and technology parks and measures to encourage product and technology development in private companies.

Estonia has been improving its position in the European Innovation Scoreboard and has advanced to the so-called moderate innovators group. Among the 38 countries, Estonia occupies a significantly high 18th position. We are the second best among the new European Union Member States.

In the Global Information Technology Report 2008-2009 which also underlines the importance of innovation and ICT to overcome the current economic Crisis, Estonia is ranked at top 20.

Ladies and Gentlemen,

Let's all keep thinking openly and creatively. Thank you for your attention.