

Foresight Centre

REGIONAL ECONOMIC DEVELOPMENTS

Terms of reference of the line of study

2019

Regional economic developments

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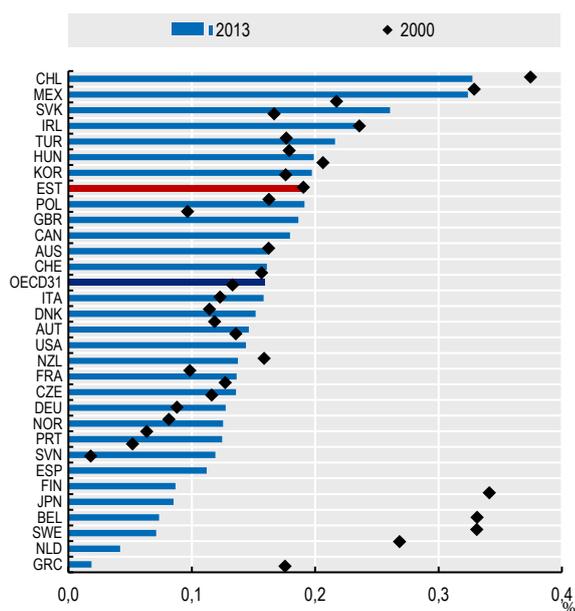
18.03.2019

The Foresight Centre is a think tank at the Estonian parliament. Its tasks include analysing long-term developments in the society, identifying new trends and development avenues, and drafting development scenarios.

1. Background and structure of the analysis

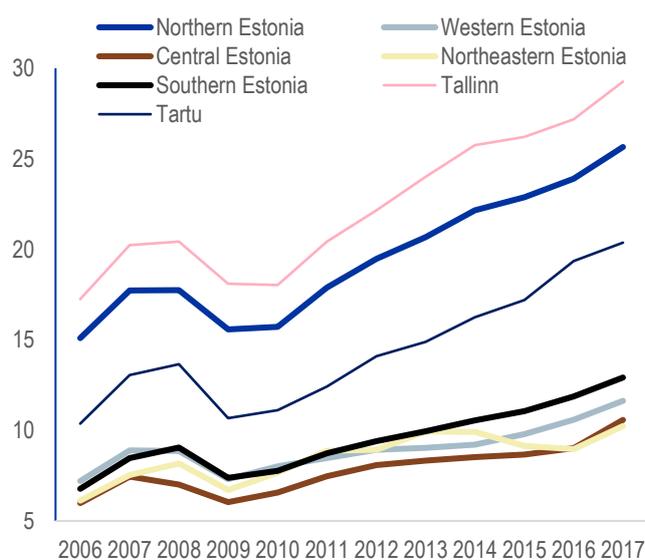
Urbanisation, or the increase in the number of cities and the proportion of people living in cities, and the concentration of people into limited areas, is a relatively universal process that goes hand in hand with economic development. In most cases, this is accompanied by an accelerating economic growth in urban settlements. Indeed, for a long time, the pace of growth in the urban areas of Tallinn and Tartu has exceeded the growth rate of other Estonian regions, and the regional socio-economic gap has been constantly widening. Although differentiated urbanisation or the advanced growth of the capital region in comparison to other regions is a common phenomenon, the regional development disparities in Estonia are among the biggest in Europe. Recently, this was also pointed out by the OECD¹ and the European Commission².

Figure 1. Regional Gini index



Source: OECD Regions at a Glance 2016

Figure 2. Regional GDP per capita in NUTS3 regions in Estonia (EUR thousand)



Source: Statistics Estonia

Restructuring of the economy, loss of jobs in agriculture and processing industry, concentration of foreign investments and structural funds into the capital region, and so on, are some of the

¹ OECD Regions and Cities at a Glance 2018 – ESTONIA. <https://www.oecd.org/cfe/ESTONIA-Regions-and-Cities-2018.pdf>

² 2019 European Semester: Country Report – Estonia https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-estonia_en.pdf

reasons behind the regional disparities in Estonia. This results in higher unemployment figures outside urban regions, intense internal migration, and acceleration of urbanisation.

In this situation, it is a massive challenge to ensure the basic services in all the regions, and to make sure that the local resources – labour force, arable and forest land, infrastructure, green energy, and cultural values – are not neglected but put to the best possible use. How can we direct the development of regional economy to reduce the negative impact on the increase of social costs and the general economic development of the country? Is ensuring an even population density across Estonia and preserving or increasing population in marginal regions a sine qua non for a successful future, or not? In light of this complicated chain of factors, the central objective of the line of study of regional economy is to explain the scenarios of regional economy in Estonia.

The following questions have been set to achieve this objective:

- what are the external trends that affect Estonia's regional economy the most, and what is their impact on different regions;
- what are the regional value chains and cooperation networks;
- what could be the alternatives to regional specialisation in Estonia?

The research should produce alternative scenarios for regional economy in Estonia by 2035. The results of the study will describe various possible outcomes but will not rank them in order of viability. However, possible mechanisms are described under relevant scenarios, and possible decision points are highlighted to further enhance the possible positive impacts of the scenarios.

Four preliminary studies are conducted in the framework of the regional economy scenarios line of study; this will be followed by the process of drafting scenarios.

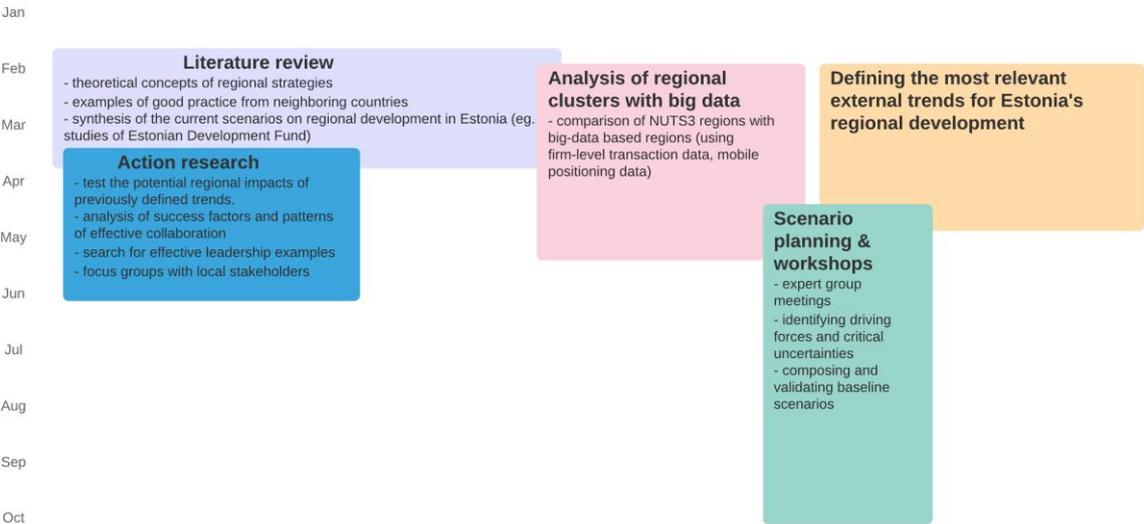
The first, background research stage, is meant for carrying out a synthesis of the studies that have looked at the future perspectives of Estonia's regional development, theoretic analyses of regional development, and examples of good experiences in neighbouring states comparable to Estonia; this is used to outline the possible scenario narratives.

In the second study, the external trends (technology, demand, geo-economy) are sifted through to determine those that could have the strongest impact on regional development in Estonia. The possible effects of the selected trends are endorsed through expert interviews.

The purpose of the third preliminary study is to use the actual transaction data of businesses to identify regional value chains and clusters, and receive an insight into the regional concentration of sectors and product groups.

The fourth preliminary study involves an action research in regions with the objective of determining the possible impact of the chosen trends on regional economy perspectives, illustrate the good examples of local innovation systems and leadership, and collect inputs on alternatives of specialisation.

Figure 3. Action plan for the line of study



Information collected for previous subunits is used when developing the scenarios. According to the preliminary plan, the objective is to draft so-called aggregate scenarios, and regions will be viewed separately under each scenario.

The study involves representatives of the Ministry of Finance, Ministry of Economic Affairs and Communications, Ministry of Rural Affairs, Government Office, county development centres, local government associations, and other important structures, as well as university researchers. The line of study of regional economy is strongly linked to the other lines of study of the Foresight Centre, particularly those of human resources, but also productivity, future of work, and governance.

2. References

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