

EBS REVIEW

RESEARCH

- Saving, Consumption and Economic Growth
- The Necessity for the Pension Reform
- Money Laundering as a Financial Crime
- The Development of Capital Markets in the Baltic Transition Economies

ESTONIA IN TRANSITION

- Some Reflections on Trade Between Sweden and Estonia
- Estonia - An Economic Success Story without Considerable German Participation?
- Estonia in Transition Applying for European Union Membership



Dear EBS professors and students,

Most of you are frequent users of the Estonian National Library. We share information in two ways - in a rapidly changing information-oriented society we are all teachers and students at the same time. The world's most influential information flows have plugged into the most powerful means of communication.

We are on our way to a society, in which the main product is information and the main resources are knowledge. We came from a production-oriented society, where the key resources are capital and the main products ready-made goods. Time will show, whether the information society, based on innovation and knowledge, not on production, will succeed.

The Estonian Business School is one of the leaders on Estonian's path to Europe. It builds confidence towards tomorrow and provides the basis for being a market-winner in the information society.



Ivi Eenmaa

The Director of the Estonian National Library
Member of the Advisory Board of EBS

EBS REVIEW

ESTONIA IN TRANSITION

CONTENTS

RESEARCH

Kaire Põder Saving, Consumption and Economic Growth The Chair of Economics	3
The Necessity for the Pension Reform Ott Moorlat	8
Basic Facts about Estonian Trade Marks	11

ESTONIA IN TRANSITION

Toomas Käbin Some Reflections on Trade Between Sweden and Estonia	15
Algis Piebalgs Baltic Co-operation - A Key for Development Dr. Ralph-Georg Tischer	17
Estonia - An Economic Success Story without Considerable German Participation? Halina Kobeckaité	19
Lithuania - One of the Most Rapidly Growing Economies in Central Europe Michael Larsen	22
William S. Shogren Estonia in Transition Applying for European Union Membership	23

STUDENT RESEARCH

Leon Jankelevitš Money Laundering as a Financial Crime Rein Ojaver	28
New Zeland Hits Hard Alo Kullamaa	34
The Development of Capital Markets in the Baltic Transition Economies	37



Mr. Mike Moody, Vice-President of AT&T (world leading company of telecommunications) lectured on sales techniques and customer service at EBS, in April 1997

SCHOOL CHRONICLE

BBA Graduates December 1996	
MBA Graduates December 1996	41
Ruth Alas Balls are not just for Dancing	42
Kairi Kallaste EBS Total Quality Management Seminar in Pärnu	43
Hardo Pajula The Wednesday Guests in 1996	44
Kristel Töldsepp EBS Alumni Association Started its Activities	45
Tiia Karing The Export of Education	47
Tiia Karing Accreditation Has Begun	49
Espe Valdgraf For the Second Time at the Youth Information Fair	50
Tiia Karing The Estonian Business School in 1996	51

EDITORIAL BOARD: Tiia Karing – Editor-in-Chief,
Ester Eomoi – Managing Editor; Avo Meerits, Espe Valdgraf
TRANSLATOR: Ene Joon
LANGUAGE EDITOR: Scott Levey
DESIGN AND LAYOUT: DuoGraaf
ISSN - 1406 - 0264

ESTONIAN BUSINESS SCHOOL, LAUTERI 3, EE-0001, TALLINN

Phone: 372 6 466 336, Fax: 372 6 313 959,

E-mail: madis@ebs.ee, Internet homepage <http://www.ebs.ee/>

To the reader



Ester Eomois

Managing Editor

On behalf of Editorial Board of *EBS Review*,

You hold in your hands the fifth issue of *EBS Review*. On behalf of the editorial board of EBS magazine, I dare to suggest, that one of EBS traditions has been founded.

The first issue of *EBS Review* was published in the spring of 1995. By that time, an organiser of specialised courses had become first higher educational institution for management studies – Estonian Business School (EBS). During the process of growing and developing, the need to collect EBS research papers between covers continually increased. In the first issue Madis Habakuk, the President of EBS, said in his opening remarks: "... our magazine is not oriented to a wide audience. From its contents, this magazine should cover subjects taught at EBS. It should become a discussion field, where specialists can debate relevant topics..." As two years ago, so, too, today, our authors are EBS professors, lectures, students and alumni. The editorial board acting as the judges, cast its vote for analytic and informative articles. Authors freedom of speech and ideas have not hindered any article's publication.

EBS Review is published twice a year. Collection of EBS research papers and EBS school chronicle reach the read-

ers for EBS anniversary, in December and for "open house days" in May.

Judging from its contents, this magazine is not just reading for fun. By nature, research articles require concentration and thought. In our magazine, one finds articles which can be used as home reading materials for EBS students. Tired of serious reading, one can turn to the end, where students, alumni and lecturers write about what's actually going on at EBS.

The first issue focused on accreditation of institutions of higher education in Estonia. Relevant topics such as capital markets and investment funds, were discussed. Erik Terk's vision on "playing fields" and future scenarios for the Estonian economy, and Urmas Arumäe discussion on legal regulation of economic relationships, provided interesting reading material.

Winter '95 issue focused on the scientific conference, organized by EBS, "Entrepreneurship in Education: Its Problems and Trends". Good reading was provided by a doctoral student of EBS Ülle Pihlak "Development of Industries in Estonia and the Role of Information on Decision-Making". Kaire Põder, currently employed as EBS lecturer, reviewed her Bachelor thesis on "Import Demand and Export Supply in Estonia. An econometric analysis for 1992 - 1994".

From the third issue on, *EBS Review* has covered one main topic from different angles. Themes are selected on the basis of EBS fields of study and general interest in Estonian business environment. A year ago, Spring '96 the central topic was "Banking and Finance". Among others, *gurus* of Estonian's banking and finance world such as Uno Mereste, Hardo Pajula and Aavo Kokk presented their ideas and concepts.

EBS Review Winter '96 focused on development trends in accounting and finance in Estonia in its way to EC. In

addition to EBS professors Jaan and Lehte Alver, Mart Habakuk and George Hachey (USA), a group research work "On Reform of Accounting from EC Prospective" led by professor emeritus, Derek Bailey (UK) was presented. Traditionally, the EBS scientific conference "On Integration of Private and Public Education was" echoed.

And now, about the current issue of *EBS Review*. For the first time in its history, *EBS Review* is being published only in English instead of a bilingual (Estonian-English) version. We believe that in two and a half years English has become more commonly used by our non-English readers. Being only in English, we can publish more interesting articles.

Spring '97 of EBS issue focuses on development trends and changes in Estonia during last couple of years. On the following pages, foreign representatives to Estonia such as Algis Piebalgs, Halina Kobeckaitė and local specialists analyze Estonia's growth and development in comparison with our neighbouring countries.

EBS Review will reach its readers through EBS sales outlet and the library. Our magazine will be distributed to foreign representatives and international organizations resided in Estonia, the libraries of all Estonian universities and our partner university libraries abroad, as well to the laureates of the entrepreneurship TOP 50 competition.

The next *EBS Review* will be published in December, 1997 with a focus on privatisation problems in Estonia. Subscriptions from EBS students, alumni and professors and outside specialist are welcome.

If you have any ideas or comments concerning *EBS Review*, please turn to the Editorial Board, EBS Research and Development Department.

May, 1997

Saving, Consumption and Economic Growth



Kaire Pöder

Graduated from Bachelor of Business Administration of EBS in spring 1995. From spring 1995 the assistant of economics and from 1996 the lecturer of economics in EBS.

Is there some action a government of India could take that would lead the Indian economy to grow like Indonesia's or Egypt's? If so, what exactly? If not, what is it about the "nature of India" that makes it so? The consequences for human welfare involved in questions like these are simply staggering: Once one starts to think about them, it is hard to think about anything else. (Lucas 1988)

Economists have, in some sense, always known that growth is important, beginning with Ricardo and ending with Solow, Swan and Mathew. Today, economic growth is central to the study of macroeconomics. Economists have come to understand that long-run growth is as important perhaps even more important than short-run fluctuations. The new growth theory has highlighted ideas that played only a small role in the growth theory inherited from the past. The main idea of this article is to introduce the neoclassical growth theory based on the Solow-Swan model to Estonian readers.

Economic growth means greater consumption in the future. The individual can consume or save his/her income,

shifting consumption to the future. The savings rate (marginal or average) is regarded as a key performance indicator by development economists, increase their savings ratio as a primary condition for achieving a satisfactory rate of economic growth. However, not only have question been risen regarding the significance of the savings effort as an independent determinant of economic progress, but the formulation of policies designed to increase the savings propensity has suffered from a dearth of knowledge regarding the nature of the savings function in developing countries. The purpose of this article is: 1) to review theoretical savings functions; 2) introduce Solow-Swan (1950) economic growth model; 3) to summarise the state of our knowledge about theoretical base, we can use the assessment of individuals savings and consumption behaviour.

Saving versus consumption

When talking about economic growth we are interested in the real purchasing power of our income; how much we can consume according to our income. Gross domestic product (GDP) grew in Estonia 1,4 % in 1994, 1,8% in 1995 and 2,1% in 1996 (unofficial data) calculated on 1994's prices. Per capita GDP growth rate was 2,3% in 1996. We cannot compare the growth rates of South Korea (above 5% per year), Singapore (6,3%), Hong Kong (6,2 %). These countries increased their levels of real per capita GDP by a multiple of at least 5 over a single generation (30 years). If we want to understand why countries differ dramatically in standards of living, then we have to understand why countries experience such sharp divergence in long-term growth rates? Even small differences in these growth rates, when cumulated over a generation or more, have much greater consequences for standards of living than the kinds of short-term business

fluctuations that have typically occupied most of the attention of macroeconomists.

Classical economists like Adam Smith (1776), David Ricardo (1817) and Thomas Robert Malthus (1798), and, much later, Frank Ramsey (1928) provided many of the basic ingredients that appear modern theories of economic growth. These ideas include basic approaches of competitive behaviour and equilibrium dynamics, the role of diminishing returns and its relation to the accumulation of physical and human capital, the interplay between per capita income and the growth rate of the population, the effects of ethnological progress in the forms of increased specialisation of labor.

Still the economists cant find a proper and common solution, what factors cause economic growth. Many economist argue that they can answer this question by making their growth models more complex. Others, however, believe that simplicity is the key.

The main aspect of the Neoclassical model is capital accumulation and the neoclassical form of production function. Savings (in a closed economy equal to investment) increase capital and increase labor marginal product and national income. Neoclassical model relates saving and economic growth. Individuals saving today shift their consumption to the future. The simple Keynesian savings functions shows the relation between income and savings

$$S = a + bY, \quad (1)$$

where S is savings, Y income and $0 < b < 1$ marginal propensity to save. Keynesians estimated that the marginal propensity to save is between 0.2 and 0.3, what is not always empirically true. We deal with a simple one-period model, in which no time conception included. In fact Keynesian savings function is empirically easy to control, but achieved results are not often significant enough. One of these results is the constant saving ratio out of current income (disposable income).

All neoclassical savings functions consider also time conception, based on consumers intertemporal saving and consumption behaviour. The simplest neoclassical intertemporal model is based upon a simple optimisation principle, where individuals maximise their utility knowing their income and interest rate. The current theory is developed further by Milton Friedman in his permanent income theory. The theory assumes that individuals don't consume the certain percentage of his/her current income but out of his/her average permanent income. Then individuals life time wealth (W) is

$$Y_p + \frac{Y_p}{1+r} + \dots + \frac{Y_p}{(1+r)^{T-1}} =$$

$$Q_1 + \frac{Q_2}{1+r} + \dots + \frac{Q_T}{(1+r)^{T-1}} = W, \quad (2)$$

where Y_p is permanent income, r interest rate and Q_i ($i=1, 2, \dots, T$) current period income.

Similar result are derived by Modigliani in his life-cycle model, where individual is interested in constant consumption over his/her lifetime, which is only indirectly related to his current income. (Figure 1). If consumption C is constant over the life time, r shows interest rate and Q_i is income (or production) in current period, then

$$C + \frac{C}{1+r} + \dots + \frac{C}{(1+r)^{T-1}} =$$

$$Q_1 + \frac{Q_2}{1+r} + \dots + \frac{Q_T}{(1+r)^{T-1}} = W, \quad (3)$$

In figure 1 C is consumption and Y income. Savings depend mostly on the life time's expected income. According to Modigliani's model individuals tend to save when they are young and dissave when they are old. If we use the Keynesian approach about constant saving ratio instead of current income individuals permanent income this is no longer realistic. What should be optimal savings and consumption ratios is the subject of next chapter.

Neoclassical growth theory

From a chronological viewpoint, the starting point for modern growth theory is the classic article of Ramsey (1928), a work that was several decades ahead of its time. Ramsey's treatment of household intertemporal optimisation over time is far beyond its application to growth theory. The economists profession did not, however, accept or widely use Ramsey's approach until the 1960s. The next important contributions were those of Solow (1956) and Swan (1956). The key aspect of Solow-Swan model is the neoclassical form of the production function, a specification that assumes constant returns to scale, diminishing returns to each input, and some positive and smooth elasticity of substitution between the inputs. This production function in combined with a constant saving-rate rule to generate an extremely simple general-equilibrium model of the economy.

One prediction from these models, which has been exploited seriously as an empirical hypothesis only in recent years is conditional convergence. The lower the starting level of per capita GDP, relative to the long-run steady-state position, the faster is the growth rate. This is property is derived from the assumption of diminishing returns to capital; economies that have less capital per worker (relative to their long run capital per worker) tend to have higher rates of return and higher growth

rates. The convergence is conditional because the steady-state levels of capital and output per worker depend, in the Solow-Swan model, on the saving rate, the growth rate of the population, and the position of the production function characteristics that may vary across economies. Recent empirical studies indicate that we should include additional sources of cross-country variation, especially differences in government policies and in initial stocks of human capital. The main result of the Solow-Swan model is a conditional convergence, which helps to explain why economic growth ratios differ across economies.

The second important property according to the Solow-Swan model per capita growth will decline if technological improvements stop. This characteristic, similar to Malthus and Ricardian theories, is based on the conception of declining returns. There is also empirical proof despite of positive per capita growth rates, lasting a century or more, they show the tendency to decline.

Neoclassical economic growth theorists saw in 1950 and 1960 that technological improvements were the main obstacles of the whole neoclassical model and assumed that technological improvement is an exogenous variable. This formulation of the neoclassical model gave the opportunity to imply positive or constant growth rates in the long run. The main weakness of the model is the reason of economic growth technological progress which is totally exogenous. (The long run per

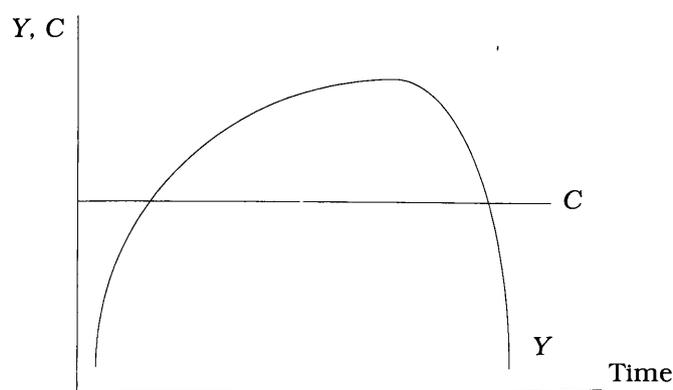


Figure 1. Modigliani life cycle theory

capita output growth depends also on population growth rates, which is also exogenous variable).

The Solow-Swan growth model

All the models of growth have the same basic general-equilibrium structure. First, households (or families) own the inputs and assets of the economy, including ownership rights in firms, and choose the fractions of their income to consume and save. Each household determines how many children to have, whether to join the labor force, and how much to work. Second, firms hire inputs, such as capital and labor, and use these inputs to produce goods that they sell to household or other firms. Firms have access to a technology that may evolve over time that allows them to transform inputs into outputs. Third, markets exist where firms sell goods to households or other firms and where households sell the inputs to the firms. The quantities demanded and supplied determine the relative prices of the inputs and the produced goods. There are only two inputs, physical capital, $K(t)$ and labor $L(t)$. The production function takes the form

$$Y(t) = F[K(t), L(t), t],$$

where $Y(t)$ is a flow of output produced at time t . The production function depends on time t , to reflect the effects of technological progress: the same amount of capital and labor yields a larger quantity of output in 1997 than in 1897 provided the technology employed in 1997 is superior.

We assume a one-sector production technology in which output is a homogeneous good that can be consumed, $C(t)$, or invested, $I(t)$, to create new units of physical capital, $K(t)$. We assume that economy is closed: households cannot buy foreign goods or assets and cannot sell home goods or assets abroad. In a closed economy, output equals income, and the amount invested equals the amount saved. Let $s(\cdot)$ be the fraction of output that is saved that is, the *saving rate* so that $1 - s(\cdot)$ is the fraction of output that

is consumed. Rational households choose the saving rate by comparing the cost and benefits of consuming today rather than tomorrow; this comparison involves preference parameters and variables that describe the state of the economy, such as the level of the wealth and the interest rate. Solow and Swan assume that saving ratio is constant and positive, because this brings out a large number of results in a clear way.

We assume that capital depreciates at the constant rate $\delta > 0$; that is, at each point in time, a constant fraction of the capital stock wears out and, hence, can no longer be used for production. The net increase in the stock of physical capital at a point in time equals gross investment less depreciation

$$\dot{K} = I - \delta K = s \cdot F(K, L, t) - \delta K, \quad (4)$$

where a dot over variable denotes differentiation with respect of time, and $0 \leq s \leq 1$. Equation (4) determines the dynamics of K for a given technology and labor force. The labor force, L , varies over time because population growth, changes in participation rates, and shifts in the amount of time worked by the typical worker. The growth of population reflects, in turn, the behaviour of fertility, morality and migration. We simplify our analysis by assuming that population grows at a constant, exogenous rate, $\dot{L}/L = n \geq 0$, and that everyone works at a given intensity. We have to make certain assumptions about the properties of production function. In fact, apparently minor differences in assumptions about production function can generate radically different theories of economic growth.

We say that production function is neoclassical if the following three properties are satisfied. First, for all $K > 0$ and $L > 0$, $F(\bullet)$ exhibits positive and diminishing marginal products with respect to each input:

$$\begin{aligned} \frac{\partial F}{\partial K} > 0, & \quad \frac{\partial^2 F}{\partial K^2} < 0 \\ \frac{\partial F}{\partial L} > 0, & \quad \frac{\partial^2 F}{\partial L^2} < 0 \end{aligned} \quad (5)$$

Second, $F(\bullet)$ exhibits constant returns to scale:

$$F(\lambda K, \lambda L) = \lambda \cdot F(K, L) \text{ if } \lambda > 0 \quad (6)$$

Third, the marginal product of capital (or labor) approaches infinity as capital (or labor) goes to 0 and approaches 0 as capital (or labor) goes to infinity:

$$\begin{aligned} \lim_{K \rightarrow 0} (F_K) = \lim_{L \rightarrow 0} (F_L) = \infty \\ \lim_{K \rightarrow \infty} (F_K) = \lim_{L \rightarrow \infty} (F_L) = 0 \end{aligned} \quad (7)$$

These last properties are called *Inada conditions*, following Inada (1963).

The condition of constant returns to scale implies that output can be written as

$$Y = F(K, L) = L \cdot K(K/L, 1) = L \cdot f(k) \quad (8)$$

where $k \equiv K/L$ is the capital-labor ratio, $y \equiv Y/L$ is per capita output, and the function $f(k)$ is defined to equal $F(k, 1)$. This result means that the production function can be expressed in intensive form as

$$y = f(k)$$

We can use condition $Y = L \cdot f(k)$ and differentiate with respect to K , for fixed L , and then with respect to L , for fixed K , to verify that the marginal products of the factor inputs are given by:

$$\begin{aligned} \partial Y / \partial K = f'(k), \\ \partial Y / \partial L = [f(k) - k \cdot f'(k)]. \end{aligned} \quad (9)$$

We now analyse the dynamics behaviour of the economy described by the neoclassical production function.

The change of capital stock over time is given by equation (4), if we divide both sides of the equation by L , then we get

$$\dot{K}/L = s \cdot f(k) - \delta k. \quad (10)$$

The right-hand side contains per capita variables only, but the left-hand side does not. We can write equation (10) as a function of k by using the condition

$$\dot{k} \equiv \frac{d(K/L)}{dt} = \dot{K}/L - nk, \quad (11)$$

Substituting the condition (11) into the expression (10) then we can rearrange terms to get

$$\dot{k} = s \cdot f(k) - (n + \delta) \cdot k \quad (12)$$

Equation (12) is the fundamental differential equation of the Solow-Swan model. This nonlinear equation depends only on k .

The term $n + \delta$ on the right side of equation (12) can be thought of as the effective depreciation rate for the capital/labor ratio. If the saving rate, s , were 0, then k would decline partly due to depreciation if K at the rate δ and partly due to growth of L at the rate n . Figure 2 shows the workings of equation (12). The upper curve is the production function, $f(k)$. The term $s \cdot f(k)$, which appears in equation (12) looks like the production function except for the multiplication by the positive fraction s . The curve $(n + \delta) \cdot k$ starts from the origin, has positive slope, and gets flatter as k increases. Consider an economy with the initial capital stock per person $k(0) > 0$. Figure 2 shows that gross investment per person equals the height of the $s \cdot f(k)$ curve at this point. Consumption per person equals the vertical difference at this point between the $f(k)$ and $s \cdot f(k)$ curves. We define a *steady state* as a situation in which the various quantities grow at constant rates. In the Solow-Swan model the steady state corresponds to $\dot{k} = 0$. The corresponding value of k

is denoted k^* . Algebraically, k^* satisfies the condition

$$s \cdot f(k^*) = (n + \delta) \cdot k^*. \quad (13)$$

Since k is constant in the steady state, y and c are also constant at the values $y^* = f(k^*)$ and $c^* = (1 - s) \cdot f(k^*)$, respectively. Hence, in the neoclassical model, the per capita quantities k , y and c do not grow in the steady state. The constancy of the per capita magnitudes mean that the levels of variables K , Y and C grow in the steady state at the rate of population growth, n . Changes in the level of technology, represented by shifts of the production function; in the saving rate; in the rate of population growth; and in the depreciation ratio; all have effects on the per capita levels of the various quantities in the steady state. It is important to note that changes in the level of technology, the saving rate, the rate of population growth, and the depreciation rate do not affect the steady state growth rates of per capita output, capital and consumption, all which are equal to 0. For this reason, the model as presently specified will not provide explanations of the determinants of long-run per capita growth..

For a given function and given values of population and depreciation growth rates, there is a unique steady state value $k^* > 0$ for each value of the saving rate, s . Denote this relation by $k^*(s)$, with $dk^*(s)/ds > 0$. The steady state level of per capita consumption is $c^* = (1 - s)f[k^*(s)]$. We know from equation (13)

$$c^*(s) = f[k^*(s)] - (n + \delta) \cdot k^*(s) \quad (14)$$

Figure 3 shows the relation between c^* and s . The quantity c^* is increasing in s for low levels and decreasing in s for high values of s . The quantity c^* attains its maximum when the derivative vanishes, that is when

$$\left[f'(k^*) - (n + \delta) \right] \cdot dk^*/ds = 0 \text{ and } dk^*/ds > 0$$

If we denote the value of k^* by k_{kuld}

that corresponds to the maximum of c^* , then the condition that determines k_{kuld} is

$$f'(k_{kuld}) = n + \delta. \quad (15)$$

The corresponding savings rate can be denoted as s_{kuld} , and associated level of steady state per capita consumption is given by

$$c_{kuld} = f(k_{kuld}) - (n + \delta)k_{kuld}.$$

Condition (15) is called the *golden rule of capital accumulation* (Phelps 1966). The source of this name is the biblical golden rule of conduct, which states, "do unto others as you would have others do unto you". In economic terms, the golden rule results can be interpreted as "if we provide the same amount of consumption to members of each current and future generations that is, if we do not provide less to future generations than to ourselves then the maximum amount of per capita consumption is c_{kuld} .

Summarising remarks

The dynamic Solow-Swan growth model is an introduction into neoclassical growth theories. Unfortunately in the current article there is not enough length for Ramsey and the endogenous growth models.

This simple Solow-Swan model gives us a short overview of the relation between savings, consumption and economic growth. The same time there are enough shortages in the neoclassical approach: first, the model gives us conclusions that are not proved by empirical facts. For example, in real life growth rates between countries vary considerably more, than we can assume according to those countries saving rates. One result of the model is the economic growth dependence of technological improvement, the same time neoclassical theory is not suitable for modelling technological change.

Despite the several shortages there is a belief that the neoclassical model is

the best theory for explaining economic growth. The main object of growth theory should be the explanation why economic growth rates vary between countries rather than the explanation of the growth phenomenon. Ideas are floating freely across countries, so everybody must have equal possibilities to access new technology or methods that transform labour and capital (or other inputs) into output. Poor countries may produce using nonoptimal labor/capital combination because the lack of capital goods. Usually the capital investment also means human investment, because new technologies need improved labor qualities.

In Estonia it is easy to increase our future consumption, because currently we use less than the optimal (steady state k^*) amount of capital. Each investment increases our labour marginal production and thus per capita income. Our per capita capital increases over time, but unfortunately because of intensive investments schedules capital also depreciates. One day (we are not even trying to predict when) we will be at a level of capital goods k^* , where capital depreciation plus population growth rate equals per capita saving ratio. This is the so called steady state situation, where per capita investments grow and depreciate at the same rate. Of course steady state capital k^* depends upon the level of savings or saving ratio. For each saving ratio only one optimal level of capital k^* exists. Changing capital saving ratio we also change our consumption. There exists only one savings ratio s_{kuld} that maximises our consumption and also does not decrease future consumption, because we are the *steady state* capital level k^* .

The main disadvantage of the current model is the exogenous and constant saving rate. The problem is solved by Ramsey (1960) where individuals choose consumption and savings ratios maximising their utility, according to intertemporal budget constraint. Unfortunately the Ramsey model will have to wait until the next article.

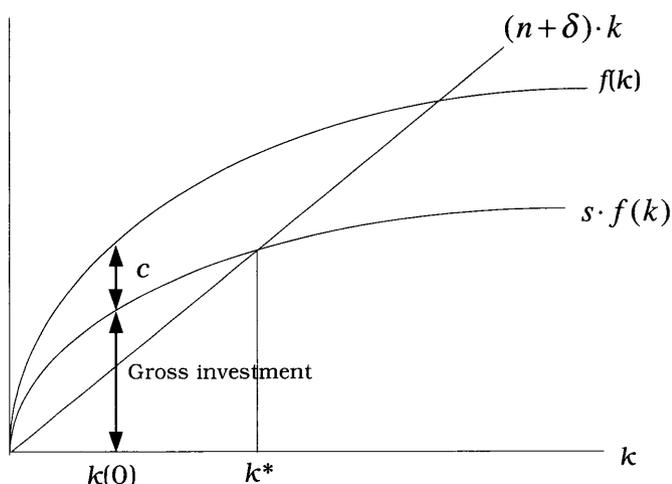


Figure 2. Solow-Swan model

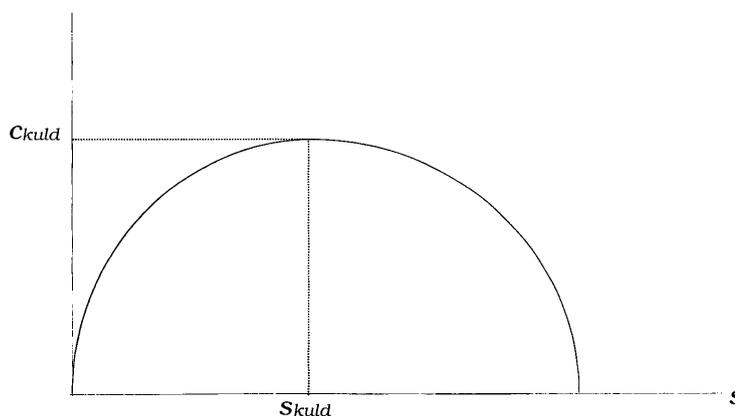


Figure 3. The golden rule of capital accumulation.

References

- Lloyd G. Reynolds *The Spread of Economic Growth to the Third World: 1850-1980*. Journal of Economic Literature Vol. XXI (September 1983)
- Raymond F. Mikesell, James E. Zinser *The Nature of the Savings Function in Developing Countries: A Survey of the Theoretical and Empirical Literature*; Journal of Economic Literature
- Ronald Britto *Some Recent Developments in the Theory of Economic Growth: An Interpretation*; Journal of Economic Literature
- Robert J. Barro, Xavier Sala-i-Martin *Economic Growth* 1995
- How Does Your Economy Grow?* The Economist September 1995

The Necessity for the Pension Reform

Ideas and Thoughts of the Seminar

The Chair of Economics of the Estonian Business School
March, 1997

The necessity for pension reform has been talked about in Estonia from the present and future pensioners' point of view. The proposals have mainly been of cosmetic nature. Their main purpose of linking the pensions to the salaries is an essential part in making the pension system more effective but will comfort neither the citizens who will retire in 30-40 years nor future taxpayers who will have to put up with lower pensions or higher tax rates correspondingly.

The truth that the today's pension system may collapse one day is difficult to ignore. Take heed of the fact that tying pensions to salaries may not give the expected results (the disappearance of so-called "envelope salaries") because employees may find it more useful to invest their salaries into the future than to give it to the state for future pensions. The present article brings out the weak points of the working system without thoroughly analysing the problems accompanying the possible pension reforms and their possible solutions.

As with the traditions prevailing throughout the world, the pension system of Estonia belongs to the state and is financed via social security taxes (known as *payroll taxes*) on the basis of so-called *pay-as-you-go* (from now on PAYG)- today's workers support today's pensioners. The mentioned system is claimed to be brought about by populism, coming from the politicians' natural wish to promise the highest possible profits as soon as possible. Whereas such an approach was justified in the past when we could talk about the fast growth of populations all over the world, now the decrease in birth rates endangers

the PAYG systems, not only in developed countries, but everywhere. The risk lies in the inequality rather than in the weakness of the PAYG system - as a result of the changes in the demographic situation the representatives of some generations may receive much smaller amounts of money as their pensions in the PAYG system than they had contributed before and vice versa.

Take heed of the fact that tying pensions to salaries may not give the expected results because employees may find it more useful to invest their salaries into the future than to give it to the state for future pensions.

Unfortunately we have to admit that it will be difficult to give up the PAYG system and to reform the social sphere as a whole for the same political reasons.

The vitality of the PAYG system is determined to a great extent by the demographic situation - the workers/pensioners ratio. In most developed countries the demographic trends of the population ageing cannot favor the PAYG system. In the OECD countries in 1990 over 60-year old people accounted for 18% of the population, but it is forecast that by 2030 this age group will have grown to 30% of the population. The sharp rise in the age of the population is forecasted for the second decade of the next century. The

more concrete indicator to evaluate the PAYG system is the so-called *dependency ratio* which reflects the ratio of over 65 years old citizens to 15-64 years old people. For example in Germany, Italy and Holland the dependency ratio will rise from 20% in 1990 to over 45% in 2030. Attention should be paid to the increase in the part of the older pensioners among the aged which will result in greater expenses- these being first and foremost treatment expenses. Thus our efforts to make our lifetimes longer are contradictory to any social systems operating at present.

The increase in the pensioners' part will partly be compensated by the decrease in the young dependants' part but this will not cover the increase in the part of aged people. In Germany the so-called *total dependency ratio* : workers/pensioners + under 15 years old ratio) will grow to 70% in 2030. Exactly what such ageing of the population will bring about in the working system needs thorough calculations (the growth of pensions will be determined by the growth of the productivity) - the calculations made on the basis of OECD states refer to the increase of tax burden in different European countries by two to five (in Italy!) times (the period has not been mentioned) by which the annual 1.5% rise of the productivity was taken into account (The hole in your future. The Economist. September 9, 1995).

It is known that the indirect obligations of OECD countries concerning future pensions (amounts of money promised by the state to the present pensioners and employees for future) make up over 200% of the current GNP of OECD countries. The social taxes in force are considerably smaller than the taxes which could cover the mentioned obligation in the future. Fully financed PAYG schemes (formations similar to the pension systems functioning in Estonia where the paid-out pensions are

directly dependent on the received social security taxes - the so-called *fully funded system*) can be found in very few countries - for example Malaysia, Singapore, the Quebec province in Canada and the Swedish ATP system (full supplementary old-age pension system).

What will the demographic situation be like in Estonia in 30-40 years? At first attention should be paid to the sad fact that there is no official prognoses on demographic trends in Estonia; different departments - including the Ministry of Social Affairs - make use of the approximate prognosis. *The Estonian Inter-university Centre for Demographic Research* operates on the basis of the prognosis made by the UNO which offers three different scenarios for Estonia in 2000 - 2050. The medium-variant projections offers the dependancy ratio 29.1 in 2030 and 35.5 in 2050. In 1995, the dependancy rate in Estonia according to the UNO data was 19.2. The total dependancy rate is predicted at 55.5 and 65.8 in the years 2030 and 2050 accordingly (it was 50.2 in 1995). As we know not all people of working age are involved in work, and thus are not paying social security taxes. The statistical surveys carried out at the beginning of 1995 revealed that only 66 % of 16-75 year old citizens were active in the economy. Comparing the UNO prognoses with the data of the Ministry of Social Affairs we can find quite substantial differences. The dependancy rate in Estonia will be 23 in 2010 and 25 in 2020 according to the data of the Ministry (some differences may come from the different aggregation stages of the data); thus the prognoses of the Ministry could be considered more positive.

As people have the right to old-age pensions earlier than at the age of 65 (during the next two decades the pension age will be raised to 63 years according to the the *National Bill of pensions*), the dependancy rate cannot be considered the best indicator to reflect the burden of the social security system. If we survey the ratio of the retired citizens to those of working age (taking into account the gradual rise of the pension age) the following picture

will appear according to the data of the Ministry of Social Affairs. Last year (1996) the ratio of pensioners to the citizens of working age was 37% . In 2000 it will have decreased to about 30% , beginning to rise again from 2015-2020.

Comparing the part of government pensions in the GNP in the OECD countries the above mentioned ratio is forecast to be from 5.0% in England in 2040 (compared with 4.5% in 1995) up to 21.4% in Italy (1995 - 13.3%). In 1996 the part of pensions in the GNP is about 8-9% (only pensions are taken into account from different social security

In 1996 the part of pensions in the GNP is about 8-9%. Although the given indicators predict the slower aggregation of problems in the PAYG system in Estonia compared with Germany for example, Estonia is likely to face the necessity to make cardinal changes in the social security system.

forms in Estonia). Although the given indicators predict the slower aggregation of problems in the PAYG system in Estonia compared with Germany for example, (in addition the Estonian state does not have indirect obligations to present and future pensioners), Estonia is likely to face the necessity to make cardinal changes in the social security system.

A question could be raised, whether the statement about the Estonian state not having any indirect obligations to today's workers paying the social security tax, could make questionable the rationality of payment of social security taxes in general because the state bill on pensions will not guarantee any definite sum of money for present taxpayers in the future. People also tend

to forget that despite several positive features of the Estonian pension system (social security funds are separated from the state budget and the so-called full financing) that system does not mean that the funds are used effectively. There are some opportunity costs to Estonia expenses of using the social security funds, since the money collected as social security taxes and paid out as pensions could be directed into the more effective spheres - for example into infrastructural objects or education.

It is obvious that the increasing demographic split means lower pensions for today's 25-45 years old people or a larger tax burden for today's young and unborn. Higher social security taxes in turn mean as a rule lower salaries and higher unemployment. The 20% part of the social security tax in the so-called pension fund tax in Estonia can already be considered high enough not to increase it. For example the World Bank distinguishes even the countries who have exceeded the threshold of 25% which is not so far from Estonia, as having high social security taxes (Brazil, Hungary, Italy, Egypt, Russia and Kyrzikstan).

At first, from a theoretical point of view the potential labor market distortions caused by the PAYG system should be taken into consideration, coming from (i) decreasing salaries due to the PAYG and (ii) a relatively weak relation between salaries and the future pension (in both cases the result could be a smaller number of served work hours and/or shifting to informal labor markets including the 'envelope salary' phenomenon.

What are the alternatives to PAYG? One of the possible solution has been offered (also by the World Bank) - the so-called combined system based on three so-called pillars:

(i) obligatory insurance taxes administered by private pension funds (fully funded scheme), which would pay out pensions according to everyone's own contribution - to be called the individual responsibility system from now on; (ii) the state system based on social security taxes which would protect only

the weakest;

(iii) the voluntary social security system.

It is obvious that the system based on individual responsibility would play the most important role. The obligatory state system is first and foremost directed to those who are short-sighted towards their future (the so-called myopics) or who simply count on charity. The fact that all people do not have sufficient lifetime salaries to put aside for future is also taken into account in the redistribution of incomes based on the state system. The column which is based on individual responsibility would relate pensions directly to the amounts of money earned by individuals independent of the age structure of the population.

The contents of the Estonian pension reform is to make the pension dependent upon an individual's salary apart from the number of served years, reducing the effect of the redistribution of earnings operating through the present system and increasing the personal interest to pay social taxes. According to the law the forms of the old-age pension would be the earnings-related pension and the pension based on pensionable years, whilst the earnings-related pension would be dependent upon the base part determined by the Riigikogu; the pensionable served years and the amount of the part of the social tax paid to the pension insurance, and the pension on the pensionable years consisting of the base part determined by the Riigikogu and pensionable served years. It may be admitted that the state bill wants to add some elements to the present state system which could belong to the competence of the system based on individual responsibility, (the pension is dependent upon earnings) and reduce the part (the distribution of earnings) which should remain the task of the state system in the course of the unavoidable reform. Simple logics says that the main problem of the PAYG system - the weakness (or more precisely inequality accompanying the growing older population) - cannot possibly be settled with the suggested proposals.

What would be the meaning of the PAYG system reform and why should it be the right time to start with the reforms? Three factors speak on behalf of the possible fast change of the system: (i) the fast growth of productivity which enables a smaller number of employees to support greater number of pensioners; (ii) the rise of the pension-age which decreases the dependancy ratio; (iii) the rise of the pensioners' ratio in the future which will, however, complicate later reforms. One of the most important problems of the transition of the PAYG system into the self-financing system will be that

It is obvious that the increasing demographic split means lower pensions for today's 25-45 years old people or a larger tax burden for today's young and unborn. Higher social security taxes in turn mean as a rule lower salaries and higher unemployment.

it will bring about a double burden for the present workers who should support present pensioners and at the same time save money for their old age years. Without a longer survey of the Chilean pension reforms (where the transition from one system to other took place in a relatively radical way during the Pinochet regime) it could be mentioned that the state compensated people with the special securities for the social taxes paid according to the previous (PAYG) system to avoid double tax burden and to enable income for the workers when they retired. On the basis of the Chilean experience we can state today that neither the structure of the system which will function tomorrow nor the transition expenses but the technical details of the transi-

tion from one system to another will seem insurmountable.

Knowing that at the Ministry of Finances they are working out a Bill of State on Pension Funds in which individuals can invest their resources to get profit after retiring, there still remains a doubt as to whether the creation of pension funds without the reform of the state system would have a considerable positive effect on saving. There's no ground to believe that employees would invest into the future pension funds apart from the 20% social tax.

The social security system should encourage economic growth (or at least not hinder it) apart from the protection of the poor. A widespread viewpoint is that the PAYG system does not favor saving. It is sooner contradictory - knowing that the state takes care of the citizens at their old age the PAYG may lead to a decrease in savings. On the contrary we could state that the obligatory directing of savings into pension funds may draw the savings out of other spheres. The Chilean (and other Latin-American states following it) example shows the positive influence of the reforms on savings. For example the individuals' savings increased from 1% in the GNP during the years before the reforms to 13% in 1992. The total level of savings accounted for 20% in the economy of Chile in 1992.

Basic Facts About Estonian Trade Marks



Ott Moorlat

Graduated from Tallinn Technical University in 1970 and in 1972 Central Institute for Patent Information, Moscow. In 1993 Master Thesis at TPU. 1992 - 1994 Head of the Department in Estonian Patent Office, Patent Attorney. 1995, Patent Bureau Moorlat & Co. Lectures at EBS on "Protection of Intellectual Property Rights".

The introduction of new technology and innovative manufacturing techniques spawned a whole range of mass-produced consumer durables and personal products.

The consumer has to be able to identify the different products.

About 40% of the Estonian businessmen think that having a trade mark on your clothes is a form of decoration and nothing more. The idea that the trade marks denote a certain quality and are among a company's more important assets are alien to them.

What is a trade mark?

Registration of a trade mark is governed by the provisions of the Estonian Trade Mark Act which came into force on

October 1, 1992. The Act was the first act on intellectual property to be passed in the Republic of Estonia since the country had regained its independence.

The trade mark and service mark (hereinafter; trade mark) is a sign used or intended to be used by legal persons in the course of economic and commercial activities to distinguish their goods or services of the same or similar kind from other legal persons.

Proceeding from this definition the total effect of the features of a trade mark can be expressed in the form of the following formula:

$$KM = E * T * I * K$$

where:

- KM stands for registered trade mark;
- E stands for distinctiveness;
- T stands for sign
- I stands for ownership
- K stands for use (obligation to use)

If at least one of these features (factors) is equal to zero, we shall get a zero-solution and there is no trade mark at all.

A service mark is the same as a trade mark except that it identifies and distinguishes the source of a service rather than a product.

Function of a Trade Mark

A trade mark acquires a character of its own and represents a bundle of messages to the consumer, conveying quality, reliability, security and a host of other characteristics.

Traditionally trade marks have been regarded as the indicators of the origin of goods and services on the market. In addition to this they have the func-

tion of guaranteeing the identity and quality of the products under the trade mark. Therefore, trade marks can be described as a function with several variables:

$$KM = f(I, Q, P, E, R, H)$$

where:

- KM stands for registered trade mark;
- I stands for identity of goods or services;
- Q stands for quality of goods;
- P stands for origin;
- E stands for function of selectivity;
- R stands for function of advertising;
- H stands for cultural and educational function.

The messages which trade marks convey can be very different.

The psychology of trade marks is complex and should not be underestimated. For the most part trade marks are the key to success for any company.

A trade mark is "creative silent salesman", simulating sales by creating goodwill and assuring customers that all goods bearing the same trade mark are of the same quality.

According to Article 6 of the Estonian Trade Mark Act:

"Literal, verbal, numerical, figural and special signs or their combinations can be registered as trade marks."

The word "sign" is often used in the draft to encompass all the different types of trade marks.

Examples of registered trademarks include (Fig.1 - Fig.3):

- 1) existing words;
- 2) names (company names or names of real property);
- 3) letters and numerals;
- 4) letters;
- 5) arbitrary or fanciful designations;

- 6) pictures or symbols;
- 7) pictures and designs of the shape;
- 8) equipment or packaging of the goods;
- 9) including slogans.

Different kinds of Estonian trade marks

		Registration Number	Word Elements	Int. Classes
The parts of combined trademarks are:	Local trade marks	17450	TULIKA TAKSO	12, 16, 35, 37, 39, 41, 42
a - a word, words;	marks	21414	ESTONIA TALVEAED	41
b - a letter, letters;		6607	VOLTA	7, 11, 21
c - a number, numbers;	National trade marks	7091	ARS	14, 16, 18, 20, 21, 24-27, 35, 37, 40, 42
d - a device, devices.		8613	TARTU MODELS	16
The most wide-spread combined trade marks may form the following variants:		19936	EESTI KUNSTIMUUSEUM	14, 16, 18, 20, 21, 24-26
KM = a + b		6599	Baltika	16, 35, 37, 42
KM = a + c	Multinational trade marks	8000	NORMA	9, 12, 16, 21, 26, 28
KM = a + d		10660	KALEV	30
KM = c + d		16530	MicroLink	9, 35, 37, 42
KM = b + d				
KM = a + b + d				
KM = a + c + d				
KM = a + b + c + d				
KM = a + b + c + d + medals				
The differences between the trade marks of e.g. US Universities and Estonian Universities can be notified and compared according to the given examples (Fig.1 - Fig.3)	Slogans	17408	EELISTA EESTIMAIST	25, 29, 36
The trade marks of all universities are especially refined and carefully designed, containing the intellect of their authors.		6741	MERCEDES BENZ	2-4, 6-8, 11, 12
		6798	Coca - Cola	32
	Well-known trade marks	7100	McDonald's	29-32, 35, 37, 41, 42
		7856	Kelloggs	30
		7907	LEVI'S	25
		9569	NESCAFE	5, 29-32
The following words cannot be recommended as trade marks:	Collective trade marks		Estonian Forest	35, 42

- which are not distinctive;
- which may mislead the public as to the nature, quality or geographical origin of the goods or services;
- which are generally used to designate certain type of goods or services;
- which consist exclusively of letters, numerals or signs and contain only data about type, quality, quantity, properties, price and other characteristics of the goods and services;
- which contradict public order or morality.

Many businesses operate within a restricted geographical area - a region, a town or a street. All of these use a name by which their customers identify them but their owners are most likely concerned only with the competition within their local area.

Multinational trade marks are trade marks used by companies which sell their products or services in more than one country. Well-known trade marks have reached such a high level of recognition throughout the world that they are accorded special rights and

privileges throughout the world. A collective mark is a mark adopted by an association for use by its members to denote that a particular product or service has reached a standard or quality set by the association.

How does one apply for a trade mark?

A written application for a registered trade mark is filed with a local registration office. In Estonia the registration

office is the Estonian Patent Office. The application has to contain the following details:

- the trade mark;
- the name and address of the applicant(s);
- a specification of the goods and services;

How long is a trade mark valid?

The validity of a trademark rights shall commence from the date of the application and continue for a period of ten years from the date of its entry into the State Register of Trade and Service Marks. The registration can be renewed for ten years at a time from the expiry date of the previous registration. The number of renewals is unlimited.

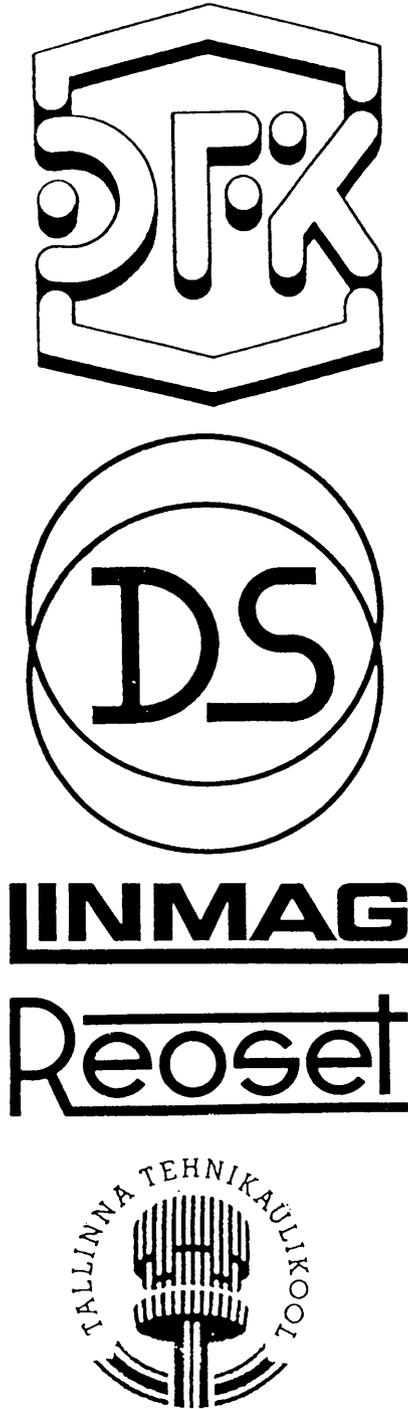
Protection of a trade mark exclusive proprietor's rights.

About 40% of the Estonian businessmen think that having a trade mark on your clothes is a form of decoration and nothing more. The idea that the trade marks denote a certain quality and are among a company's more important assets are alien to them.

A trade mark proprietor's rights are protected through administrative channels and in court.

The following is considered as an infringement of a trade mark proprietor's exclusive rights:

- the use of a trade mark by legal persons for designating goods or services a sign which is confusingly similar to the proprietor's trade mark for designating similar goods or services without the proprietor's consent, or perpetrating other deeds detrimental to the proprietor's exclusive rights;
- the violation of licence agreement provisions by the licensee.



Tallinna Tehnika-
ülikool Tallinn
Technical
University

Fig.1

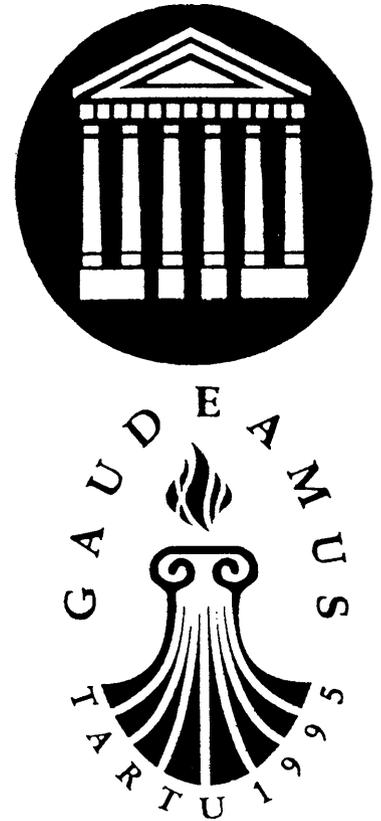


Fig.2



Fig.3

Statistics

Division of trade mark applications and registered trade marks entering the Estonian market in the years 1992 - 1996

	1992	1993	1994	1995	1996
TRADE MARKS					
1.1. Applications	1365	11 932	2733	2830	2624
- from Estonian applicants	384	1521	543	583	513
1.2. Accepted trade marks	-	3680	5380	4431	4000
1.3. Registered trade marks	-	299	7500	3745	3726

A trade mark acquires a character of its own and represents a bundle of messages to the consumer, conveying quality, reliability, security and a host of other characteristics.

Fees (in Estonian crowns, EEK)

	Government fee	Attorney fee	Total
Filing			
One mark in one class	2200	4000	6200
Each additional class	700	700	1400
Collective trade mark in one class	3000	5000	8000
Each additional class	700	700	1400
Filing in the State Register of Trade and Service Marks	500	1000	1500
Notice of opposition with the Board of Appeal	1900	3000	4900

A trade mark is "creative silent salesman", simulating sales by creating goodwill and assuring customers that all goods bearing the same trade mark are of the same quality.

Some Reflections on Trade Between Sweden and Estonia



Toomas Kabin

Graduated with Bachelor Degree of Business Administration, University of Lund, 1976 MA in Economics, Washington State University, Pullman, USA, 1978. Since 1992 the first Secretary (Commercial) at Swedish Embassy, Tallinn.

The reflections below are based on practical experience from trade promotion between Sweden and Estonia since 1988. They only cover a small section of an innumerable number of questions occurring in trade. If criticism is voiced, this is not done for the sake of criticism, but rather in order to eliminate present shortcomings.

Estonia has emerged as a very attractive market for Sweden. Whereas there was no trade between the countries before the regained independence in 1991, Swedish exports to Estonia amounted to over SEK 1.7 billion in 1996 and imports to approximately SEK 2.5 billion (Swedish statistics). In order to understand the figures a comparison should be made regarding Sweden's trade with other countries in Central and Eastern Europe. This shows that Estonia holds fifth position after Poland, Russia, The Czech Republic and Hungary. If we take into account the size at Estonia, you arrive at position number one regarding trade figures per capita.

All in all, Estonia holds position fortieth to fiftieth amongst Swedens export markets, which is quite an impressive ranking.

If we take a look at the composition of trade between Sweden and Estonia we discard some interesting facts. Both countries have by tradition a competitive edge in forestry, woodworking and furniture production, metal working and machine building, food production, and the textiles and clothing sectors. Within these sectors we also find most of the trade and cooperation. The main differences between the countries is that the technological level in Sweden is at world standards, whereas Estonia for many years to come in many cases has to rely on obsolete technology. It is important to note that a substantial part of the trade is made up by investment goods.

If we take a look at the companies from Sweden who are active in Estonia you find the classical large players, such as ABB, Cementa, Ericsson etc, but in addition to these there are a large number of small and medium sized Swedish companies. Do not forget that the bulk of the Swedish economy is made up of small actors.

Unfortunately investments from small and medium size companies, especially in production, have slowed down. This decrease can be explained by the factors to be presented later in the text.

Why is Estonia so attractive ?

The attraction of for Estonia for Sweden can be explained by many underlying factors.

Estonia is a neighbouring country to Sweden with strong historical and ethnic links. Sweden has a strategic interest in developing trade with Estonia, which is in line with the pronounced official support to develop cooperation within politics, economics and other sectors. No doubt Sweden will be much better off, if there is political and social

stability in combination with thriving economies next doors. Another reason for Sweden's interest in Estonia is explained by the strong group of Swedes of Estonian descent. These people are fully integrated into Swedish society, be it business, culture, sciences, politics or any other field but act, deliberately or not, as a strong and influential Estonian lobby group in order to promote contacts between Sweden and Estonia.

However, the most crucial and important reason for the large interest are the successful Estonian reforms that have taken place after the regained independence. The "trade-not-aid" policy and its implementation are no doubt the most appealing factor in raising interest in Estonia, and thus contribute to a large degree of confidence and trust.

The nations of Central and Eastern Europe could be compared to athletes, all competing for the gold medal, but also for attention, be it political or economical or for other reasons. As in sports, or any other competition, you are only attractive if you are number one. In this comparison Estonia is by far the number one athlete if we consider the former Soviet republics. In comparison with other ex-communist countries, Estonia does very well if the country is given a somewhat higher "handicap score" like in golf, than the Czech Republic or Poland.

The above mentioned reforms which have led to the opening up of free trade and thus equal competition for domestic and foreign actors and a total restructuring of the economy have been the prime engine for success and attraction.

This has been noted in Sweden as well as in other countries that are ardent believers in the principles of free trade.

Bad relations with Russia promote restructuring

In recent times there have been demands from Estonian business circles that relations with Russia must be normalised, which of course is an important step for the further development in the region. Two neighbours at peace are always better off than if the opposite situation prevails.

In my opinion however, the discriminatory tariffs imposed from the Russian side, and the hassle with bureaucracy, licences etc. have considerably contributed to the fast reorientation of the Estonian economy from East to West. Thus Estonia has been forced to adjust to Western quality standards and has done so far faster than Latvia and Lithuania. The share of Estonia's trade with the West is higher than the equivalent of the other Baltic republics. This achievement is noticeable and gives Estonia credit in comparisons with other countries.

It seems that the most ardent supporters of better trade relations with Russia generally represent managers of previous state owned companies who have had difficulties in adjusting to Western standards and markets. They lack the necessary business experience. Further more, they have often inherited factories in need of substantial investment.

What are the problems?

According to the thorough investigations that the Swedish Trade Council in Tallinn has conducted, most Swedish companies are quite content with the business climate in Estonia and complaints are relatively few.

The main problems as perceived are to be found in the legal system, the slow privatisation of land, residence and work permits and the commercial code. These shortcomings happen to coincide with the conclusions drawn in a

study conducted and recently presented by The International Finance Corporation and The World Bank. The shortcomings should be relatively easy to eliminate, provided there is a willingness and readiness from the law making bodies and the Parliament in Estonia. In theory Estonia would be one of the most attractive countries in the world for investors, should all the recommendations be implemented.

It is relatively easy to register a company in Estonia, be it based on domestic or foreign capital. However problems occur, when investors demand

Among Swedes Estonia has a very special meaning and most likely few people will remain indifferent upon hearing the name. Estonia brings associations with common history, economic reform, success and a great deal of admiration, but also to crime, poverty, social injustice, political scandals, corruption and the grief of the "Estonia" catastrophe.

land for operations, a quite natural and modest requirement!

Further more, it is difficult to obtain residence and work permits for foreigners. Perhaps it would be possible to introduce a special quota for foreigners holding specialist functions.

The present situation prevents needed specialists to come here. It is no secret that many foreign company representatives work in Estonia with a tourist visa and leave for Helsinki for the shortest possible period when the visa expires, in order to come back with the next ferry.

How stay competitive in Estonian markets?

Foreign investors very often ask, how can they possibly stay competitive in Estonia, keeping in mind the fixed rate between the German Mark and the Estonian Kroon in combination with high inflation in Estonia.

According to studies conducted by The Swedish Trade Council in Tallinn, so far Swedish companies have managed to stay competitive thanks to continuously increased productivity. But for how long will this last?

No doubt, there is considerable room for cost reductions in the Estonian economy. They have scarcely started yet, nor is there a debate on the necessity to stay competitive with other countries, which brings us to the topic of exports, be it goods or services. Instead you hear requests for protective measures by imposing various barriers.

Unfortunately the export and sales departments of Estonian companies have not developed as fast as necessary. My experience is that it is much more difficult to find co-operative partners with previous state enterprises than with altogether new business entities.

When travelling between Sweden and Estonia, I rarely meet Estonian sales managers on the plane. The bulk of passengers is made up by their Swedish colleagues coming here in order to sell and to sign export contracts for Estonian companies. In recent times it seems that Estonian sales promotion has picked up considerably especially in Latvia, Lithuania and the Ukraine. Companies are eager to invest in luxurious cars but do not find money for export promotion!

Bureaucracy and behavioural differences

In comparison with many countries bureaucracy in Estonia is considered

to be at a rather acceptable level, however it is still a burden. The most irritating fact is that similar problems are often given totally different interpretations and thus solved in a different way. The underlying reasons for this can be explained by the fact that the civil servant class according to a traditional definition has not been fully developed yet.

When the first commercial contacts between Sweden and Estonia had been established, quite a few Swedes and Estonians all of a sudden realised that they did not understand each other.

The following example should illustrate the situation. In Sweden most people carry cats-eyes at night, especially when walking in the dark. The reason is simply that, they want to be seen! In Estonia cats-eyes are rare, I have heard comments "wearing a cats-eye, I will be visible"! In my mind this is an example that very well signifies differences in attitudes and behaviour. Both parties act fully in line with the type of society that they live in. As we all know,

in a Soviet society you were not supposed to be noticed. Analogous confusions can be found in business contacts. The conclusion is that we cannot eliminate this but have to acknowledge the differences for quite some time.

The image of Estonia in Swedish mind

Among Swedes Estonia has a very special meaning and most likely few people will remain indifferent upon hearing the name. Estonia brings associations with common history, economic reform, success and a great deal of admiration, but also to crime, poverty, social injustice, political scandals, corruption and the grief of the "Estonia" catastrophe.

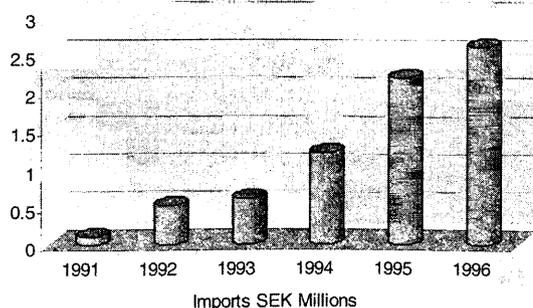
It is especially important that the image of Estonia in Sweden (and for that part also in Finland) remains positive. These are our closest Western neigh-

bours and will always play a significant role in the development of Estonia. Thus from the Estonian side lots of efforts needs to be made in order to promote Estonia as an attractive country, not only in the field of business but also in all other fields of life. The necessity to create an image is often forgotten in order to further raise the attractiveness of Estonia.

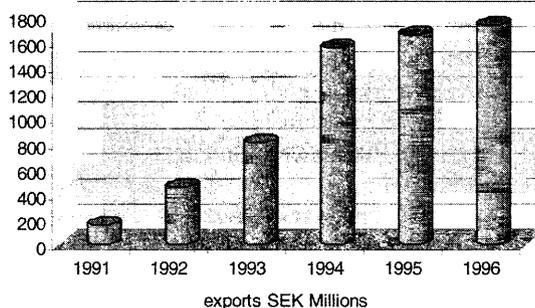
In general the cooperation between Sweden and Estonia is very good, Estonia has gained great respect in Swedish business circles and is looked upon as a serious and respected partner. Trade and business contacts will continue to grow considerably in line with Estonia's integration with the EU.

So far we have only seen the beginning, and we have just got off the ground.

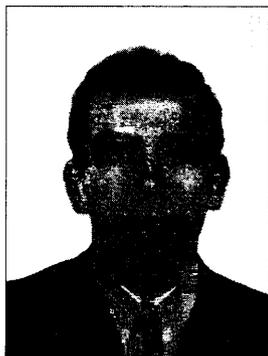
Swedish imports from Estonia



Swedish exports to Estonia



Baltic Co-operation - A Key for Development



Algis Piebalgs
Ambassador of Latvia to Estonia

1996 was a good year for Latvia and Estonia. GDP grew at a rate close to the Central and Eastern Europe average (4%), inflation kept falling. The Bank of Latvia has estimated Latvia's 1996 inflation rate at 13.5%. Latvia's inflation is expected to reach 10.5% in 1997. Estonia's inflation for 1996 is predicted to be 16%. Comparable predictions for Central European countries are Hungary, where inflation is forecasted to be 19% and Poland, where it will reach 18%. Latvia passed its first balanced budget. Mac-

roeconomics indicators in both Latvia and Estonia improved in 1996.

With an optimistic eye on the future, the governments in both countries laid out a prognosis for economic growth, lowered inflation and continued to push for inclusion in the first round of EU hopefuls. Possible implementations to stimulate additional growth include the attraction of more foreign investment, an increase in the level of technological innovation, and the expansion of trade in foreign markets, most notably

with Russia. Opening the market eastward is important not only for the apparent benefits of increased trade, but also for the development of countries assuming the role of "gateway to the East".

In the longer run, the Baltics are promising opportunities for investors, the best indicator of which is the continued inflow of foreign money during 1996. After a strong presence in Estonia in the early years of economic reform, foreign investment now tends to be spread throughout the whole region. When it comes to laying the base to attract investment, Estonia is the trendsetter. Land sales to foreigners, already available in Estonia, were introduced in Latvia only last year. Privatisation as a tool to tempt external investors, another Estonian success formula, was in 1996 increasingly implemented in Latvia. Now both countries are focusing upon the privatisation of state owned companies. It is interesting to note that Finnish companies have started expansion in the south, making them the most active investors in Latvia. Enso, the Finnish forestry giant, has established a packaging plant in Riga, Neste, together with Statoil, has started to construct an oil terminal in the port of Riga. Telecom Finland is upgrading the telecom networks in both Estonia and Latvia. Finnish investors have also heavily invested in the sawmill industry.

If we examine the industries most attractive to investors, the manufacturing sector, and transport and communications are in both Estonia and Latvia, where the majority foreign investments can be found. In Latvia the forestry industry is one of the most promising. An indication of this is the current 25% share of total Latvian exports that wood products hold. There are many ambitious pulp mill construction projects in Latvia. Building materials are another booming business, which shows no sign of abating.

As consumer markets are saturated, the new investment trend involving foreign money concerns the ailing infrastructure, which naturally will take longer to put back on its feet. So far, Estonia's and Latvia's largest investment projects have both been telecom

ventures. In 1996, energy in particular has been on the agenda. The American NRS Energy company has signed a memorandum of intent to invest in Estonian Energy. In Latvia, the Latvenergo energy monopoly is at the same time being carefully scrutinised by Swedish Vatenfall and Finnish IVO. Latvian Venstpils Nafta oil terminal will also be sold into private hands, and is a good example of the potential offered by Baltic ports. The trend of 1996 has also been to create free economic zones. By creating tax incentives for development, hopes are high that investment will be drawn to the ports, all in need of

With an optimistic eye on the future, the governments in both countries laid out a prognosis for economic growth, lowered inflation and continued to push for inclusion in the first round of EU hopefuls.

upgrading. The Riga port was the first to be endowed with the special free economic zone legislation.

However, the Baltic three governments still face a number of obstacles if they wish to continue to attract foreign investors. The legal infrastructure must be stabilised, annoying red tape in connection with various licences and permits must be cut down to a realistic level, unacceptable customs problems need to be more efficiently addressed and unsettled property issues must be rectified out. The main challenge, however, is Baltic Cupertino.

It is very important to create a common Baltic economic space and establish the Baltic Customs Union. The creation of the Baltic Customs Union is parallel

with the integration process with the European Union. The governments have already decided that the Customs Union shall be established gradually. The first step is the full implementation of the Free Trade Agreement between Latvia, Lithuania and Estonia. By the end of 1997 agreements on the abolition of non-tariff barriers to Baltic trade shall be signed. A trilateral expert group is studying the possibility and implications of the free movement of services between Latvia, Lithuania and Estonia. Baltic states are co-ordinating their efforts to bring national legislation in line with the European legal system. The governments are working to establish a common Baltic transit area and to work out and implement joint border and customs control check points on the borders. By 1 July, 1997 shall the principles of a common trilateral transit cargo guarantee system be established. The realisation of these projects will clearly increase investment in the Baltic countries and the amount of trade between them.

Estonia - An Economic Success Story without Considerable German Participation?



Dr. Ralph-Georg Tischer, representative of German Industry and Trade in Estonia.

In German newspapers Estonia has become one of the brilliant examples for a successful and competent economic transition. In fact, the reorientation of foreign trade towards western markets, the almost completed process of privatisation mainly by international tenders (the last step will be the privatisation of the big infrastructure facilities) and a monetary policy that assures a stable currency are important chapters in the economic success story that has been written in the northernmost Baltic State over the last years.

Furthermore, one should mention the excellent transportation links to western and eastern countries, significant tax concessions for foreign investors and trouble-free telecommunication facilities due to the nordic mobile phone system. If we finally add the low cost of well-educated labour to this list, a lot of companies located in economies with high wage costs are going to draw their attention to a country like Estonia.

All these factors can and will contrib-

ute to the overall economic goal: the attraction of foreign capital and investment including the corresponding know-how. The result of the strong Estonian policy of attracting foreign investment is remarkable: In January 1997 there were over 10,000 enterprises with foreign capital participation in Estonia. Most of the direct foreign capital has been invested into manufacturing and trade. Portfolio investment has flowed into banking. On a cumulative basis, the lion's share of investment is from neighbouring Finland (3,152 million kroons) and Sweden (2,000 million kroons), but also from Russia (542 million kroons).

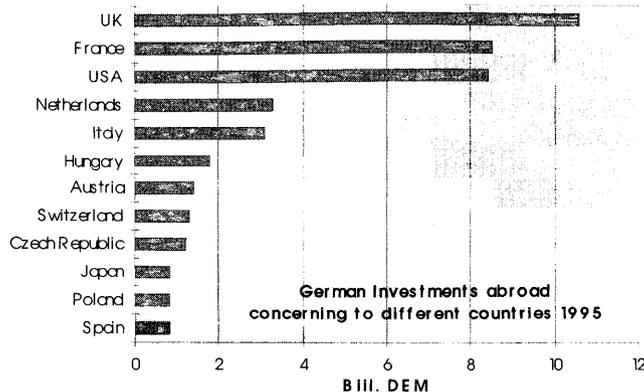
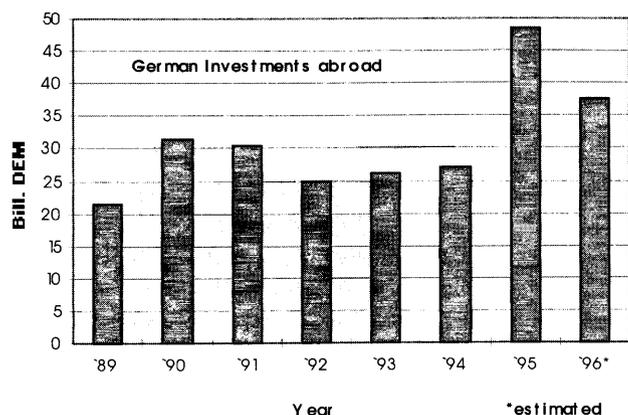
But despite the headlines in German newspapers one can find only a insignificant number of German investment. Only about 2% (126.5 million kroons) of all foreign investment activities in Estonia are of German origin. On the other hand in the last two years the German industry has invested over 80 billion DEM abroad, approximately 10% in the Eastern European countries. In a general line German companies are investing in these countries to have labour-intensive primary products manufactured. But along with the growing prosperity the establishment of sales agencies to supply the regional markets are of greater importance for an investment decision. 1997 will bring a continuation of the steady upward trend of German investment abroad. The production environment abroad is in many cases more favourable than in Germany. At the same time, however, overseas investment also reflects a liberalization of international capital transfer which is conducive to the globalization of investment decisions.

The German trade interest in the whole Baltic region is constantly growing. In 1996 Germany ranked fifth after Finland, Sweden, Russia and Latvia in recipients of Estonian export with 7.1% and came third after Finland and Russia in imports with 10%. Exports, in particu-

lar, are going to be the German economy's standard bearer this year. With continuing stagnation at home German managers are stepping up their activities abroad. They are making greater efforts to tap new foreign markets, not only in the Far East, but in Eastern Europe too. They are improving their marketing and distribution networks, and they are banking on new products and better customer service. Against this background some studies already estimate that in 2010 Germany will close up to Finland as Estonia's leading trade partner. Only one development is to be viewed with concern: the growing foreign trade deficit. The bilateral trade balance between Estonia and Germany revealed a record deficit of over 2 billion kroons for the year 1996 (over all countries the deficit is about 13,5 Billion Kroons). Estonia's own export industry is obviously not developing in a way that it could balance the foreign trade deficit. This is not a problem in the short term, as a high number of capital goods are still imported and capital flows in.

While bilateral trade will keep on rising constantly only a few mostly medium-sized German companies are set to invest in Estonia. So far Ruhrgas is the only German company in the TOP 10-list of foreign investors. This year Dynamite Nobel will follow with an investment of about 155 million kroons into the building of a dynamite plant near Kohtla-Järve. Over all about 600 German-Estonian joint-ventures are registered in the official register of enterprises. This list is led by over 6600 Finnish-Estonian enterprises.

Three main factors have influenced the restrained investment planning of German companies in Estonia. Firstly, there has been an impact of investments in Eastern Germany in the beginning of the 90's. A lot of West-German companies concentrated their financial resources on investments in the New Federal States. Secondly, a number of



Source: Dresdner Bank

industrial companies made considerable investment in other Eastern European countries, which obviously have a larger domestic market than Estonia and are geographically closer to Germany: mainly Poland, Hungary and the Czech Republic. Meanwhile the companies from Finland and Sweden took the change and established strong trade and investment relations with Estonia. In this context it is important to note that nearly every country in the world have their the strongest economic links with their neighbours. Thirdly, according to the historical links only in the north part of Germany have the companies become aware of Estonia itself and the attractive climate for foreign investment. In southern Germany one has to realise a growing lack of information about the investment opportunities in Estonia. Connected with this some German companies interested in establishing business contacts in the Baltic region are still choosing Riga as the capital of „das Baltikum“ for their business location. It is one simple task of the already developed institutional framework in Estonia (e.g. The Estonian Investment Agency, The Estonian Chamber of Commerce and Industry) to spread more detailed economic and country-specific background information in Germany and that in co-operation with the official bodies on the German side, who are responsible for promoting trade and investment, such as the representative office of German Industry and Commerce in Estonia or the 83 local Chambers of Commerce and Industry in Germany.

But despite the headlines in German newspapers one can find only a insignificant number of German investment. Only about 2% (126.5 million kroons) of all foreign investment activities in Estonia are of German origin.

The domestic market of Estonia is small and in spite of the business-friendly environment one important unchangeable competitive disadvantage. Due to its small size, the structure of the Estonian economy depends very much on its integration into the world economy and so far some enterprises have already reached a competitive level. On the other hand the Estonian market provides an excellent first step into the Russian markets. German companies are nervous of trading with and investing directly in Russia because of the economic and political instability. German investors would like to use Estonia as a base for production for the large Russian market. But the frosty and unstable political relationship with Russia prevents at present the devel-

opment of a normal commercial relationship with on the largest neighbour. A general improvement in Estonia's position as a transit country would certainly lead to a significant increase in investment. However Estonia will have to face a number of strong competitors: Finland, Latvia, Lithuania and Poland.

In addition we have to consider that the relatively low cost base is one of the main comparative advantages of Estonia. While other European economies in transition are going to improve their cost situation, in Estonia the costs of energy, labour etc. are rising constantly so that in the medium run the companies cost structures will come under pressure. The current inflation level of 23% in 1996, when compared to other countries, is relatively high. In view of the pegged exchange rate with the DEM it is obvious that the inflation rate of the Kroon has a direct effect on the foreign investors budget (export of inflation). In accordance with the current rate of the Kroon inflation has to soon come closer to the inflation level of Germany (1,5% in 1996). Otherwise Estonia is going to weaken one deciding part of its cost competitiveness.

How can the Estonian economic success story continue? The answer is fairly simple: by maintaining the liberal, consequent and courageous economic policy. Due to the unavoidable social hardness unleashed by the reform policy the government will come increasingly under pressure. Here the State undoubtedly has to find a bal-

Top Ten Foreign Investments in Estonia (by share capital)

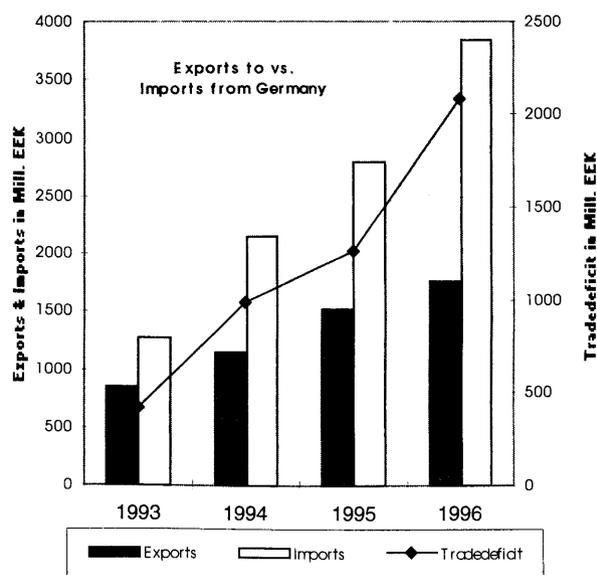
Investor company (country)	Estonian Company	Industry	Share capital million EEK (percent of total)
1) Baltic Tele AB (Sweden/Finland)	Eesti Telefon AS	Telecommunications	327 (49%)
2) Birac Holding (Yugoslavia)	Ceosil	Washing materials	210 (38%)
3) Svenska Tobaks (Sweden)	Eesti Tubakas AS	Tobacco	204 (58%)
4) Agrohinvest (Russia)	Ceosil	Washing materials	196 (36%)
5) Coca-Cola (Austria)	Eesto Coca Cola Joogid	Soft drinks	172 (86%)
6) Anc (Finland)	Kunda-Nordic Tsement AB	Cement products	136 (30%)
7) Leeman Ltd. (UK)	Parnu Dairy	Dairy Products	93 (100%)
8) HTM Sport SpA (Italy)	HTM Sport	Sporting goods	71 (91%)
9) Gazprom (Russia)	Nitrofert AS	Industrial/medical gas	68 (100%)
10) Ruhrgas AG (Germany)	Eesti Gas AS	Gas distribution	63 (15%)

Source: Estonian Investment Agency

ance between the improvement of the investment climate in Estonia and the providing of a social security net. This does not mean subsidizing all non-competitive industries which would in the long run sure in weaken the Estonian economy. In Germany tremendously high amounts of money have been wasted over the last four decades by subsidizing for political reasons, with the logical result that non-competitive industries sooner or later had to close their doors anyway. As this money has not been invested in future technology or in the retraining of people the German economy lost to a large extent its competitive advantages and is actually facing a lot of problems.

Estonia is still in a stage of economic development where these errors of financial means can be avoided. The balancing act between economic expertise and political constraints in this country even more difficult with the governments efforts to join EU and NATO as soon as possible. Also foreign investors would appreciate membership in the EU as an additional factor of economic stability and geo-political security. But facing this goals means a continuing rocky relationship with Russia. Also regional co-operation with the neighbouring Baltic States has to be improved. Intensive economic co-operation between the Baltic States would open the way to the single Baltic market, which is still the vision of many potential foreign investors.

A general improvement in Estonia's position as a transit country would certainly lead to a significant increase in investment. However Estonia will have to face a number of strong competitors: Finland, Latvia, Lithuania and Poland.



Lithuania - One of the Most Rapidly Growing Economies in Central Europe



Halina Kobeckaitė
Ambassador of Lithuania to
Estonia

To refresh your memory:

Lithuania is situated on the eastern coast of the Baltic Sea and covers 65.300 sq km. In 1996 the population totalled 3.75 million. The capital of Lithuania is Vilnius. The country is bordered to the north by Latvia, to the east and south by Belarus and Poland, and to the Southwest by the Kaliningrad region of the Russian Federation.

Seven years ago, on 11 March, 1990 Lithuania was the first among the Baltic states to restore its independence. Since then, which is such a short life for a state, Lithuania has become a member of many international organisations, for example as The United Nations, The Council of Europe, OSCE, UNESCO. Lithuania ratified Association Agreement with The European Union and is actively seeking full membership of the EU and NATO. In Lithuania the last seven years has been marked by fundamental economic reforms. Since the commencement of reforms in 1991, the process of full integration into the world economy on the basis of market economy principles, chosen by Lithuania, has led to enormous changes.

Lithuania enjoys excellent relations with its neighbours. Internal stability and guaranteed minority rights enable

Lithuania to conduct a regional policy based upon the principles of a positive relation with neighbouring states and mutually beneficial economic links. Lithuania has further expanded its links and, alongside, the traditional well developed dialogue with the Baltic States, it is also working intensively towards joining CEFTA which is good practi-

In 1994, for the first time during the last five years, the increase of Lithuania's GDP was registered- the country's economy grew by 1 %. According to the preliminary estimates in 1996 Lithuania's GDP has grown by 3.5 %

cal preparation for membership in the EU.

During the last seven years two election of Seimas (Parliament) and one presidential election have been held. The post election period after the recent general elections of 1996 is proof of the fact that democratic structures in Lithuania are now well entrenched. Despite the considerable shift of balance in the political spectrum, a swift and smooth transfer of power has occurred, the new Parliament and coalition Government being involved in constructive co-operation with the President of the country.

The new Lithuanian Government's program emphasises the significance of preparing for EU membership. At an

institutional level the Special Mission for EU membership negotiations was set up within the Ministry of Foreign Affairs, and the Ministry of European Affairs was established which will assist ministries dealing with economic and legal affairs to prepare for accession to the EU.

The consolidation of the legal system with the requirements of the White Paper is a priority. In this regard, the Government has attached particular attention to ensuring the credibility of the banks, the creation of a favourable climate which will attract foreign investments (into the banking sector, in particular) New laws or amendments thereof are under preparation and are designed to promote the protection of the environment, sustainable development, intellectual property rights, personal data protection and public procurement

Economic reforms will continue and fuelled by determination speed up. Lithuania is committed to the furthering of free trade, the strengthening of the Central Bank and the development of the country's infrastructure. The Energy supply system is to be restructured, the infrastructure of the financial market enhanced and the country's administration system reformed. Land and tax administration reforms are to be implemented.

In 1994, for the first time during the last five years, the increase of Lithuania's GDP was registered- the country's economy grew by 1 %. This upward trend continued in 1995 with a GDP increase of 3 %. According to the preliminary estimates in 1996 Lithuania's GDP has grown by 3.5 %

The Lithuanian Government seeks to attract foreign capital, not only by improving its credibility with the investors, but also by offering new opportunities for the latter. In this respect the year 1996 was marked by a number of important developments.

Seimas approved an amendment to the country's Constitution permitting for-

eign ownership of non-agricultural land, which earlier was limited only to long term lease.

In the summer of 1995 the Law on Fundamentals of Free Economic zones in the Republic of Lithuania was adopted. It defined the order of the creation of zones and investments, the sphere of activity and privileges and guarantees. Individual laws on three Free Economic zones (Kaunas, Klaipėda and Diauliai) have also cleared Seimas.

The second stage of privatisation which will comprise of enterprises belonging to such sectors as energy, transport and communications will soon be accomplished. On February 5, 1997, The Lithuanian Government took the decision to privatise a number of major companies, including "Lithuanian Airlines", "Lithuanian Telecom", "Oil of Lithuania" and "The Lithuanian Shipping Company".

These measures will contribute towards

the achievement at macroeconomics stability. Public debt should not exceed 2% of the GDP in 1997, the inflation rate is likely to continue to go down and in 1998 it should not exceed 10%. GDP growth is expected to be 5% in 1997 and 8% in 1998.

Lithuania maintains a rather liberal foreign trade regime. There are no quantitative import restrictions and the import duties are amongst the lowest in Central Europe. By the end of 1996 Free trade agreements with the EU, EFTA, neighbouring Latvia and Estonia, a number of Central European Free Trade Agreement countries (CEFTA), and The Ukraine were signed. The foreign trade turnover of Lithuania is increasing. While in 1991 Lithuania's trade with the countries of the EU accounted for only 2% of the total foreign trade turnover, today its share is already 36 percent and rising.

Lithuania's export growth rate is among

the highest in the region. Germany and the United Kingdom are Lithuania's most important trading partners within the European Union. In 1996 Lithuania imported from Estonia 1.3 percent (56 mln USD) of its total imports and exported to it 2.5 percent (82 mln USD) of its total exports.

A remarkable example of the growth in foreign financial institutions' confidence in the Lithuanian economy is the relatively favourable country credit ratings awarded by Moody's in September 1996 (Ba2 - the first country credit rating in the Baltics) and IBCA in January 1997 (BB+).

All these figures indicate, that Lithuania, during the last seven years of independence, has the most rapidly growing economy in Central Europe.

Estonia in Transition Applying for European Union Membership



Michael Larsen

Graduated from Copenhagen University, B. SC., 1992, Political Science. Worked in Royal Danish Embassy, Project Assistant; the Baltic Review, Editor; TPU, Lecturer Course for EBS: Global Integration



William S. Shogren (co-author)

University of Wisconsin, B.A., M.A. He is experienced in regional development and management with two Fortune 500 Companies. He is an experienced author in both scholarly research and technical and business information. Course for EBS: Advertising and General English

Introduction

The subject of this article is the security of Estonia, and the role of Estonia vis a' vis the European Union. The article is based on the theory of integration, the theory of conflict, and the history of Estonia with its neighbors. Finally, the question is asked whether or not the emerging democracy of Estonia will fit into the European Union, and maintain its sovereign independence.

The development of Interest Organizations* in Estonia

Basic integration theory advances the concept that there is always one common criteria. That is the development of Interest Organizations. These or-

ganizations, representing specialized interests, generate a measurable parameter of peace and integration. Their importance is to provide continuing cooperation and deepening integration between these organizations and the government of an individual country; to increase cooperation between the organizations and governments of different countries, and to generate inter-cooperation between various federal or sovereign governments and their various subdivisions. The Interest Organizations also tend to increase cooperation between various parliamentarians of various countries with each other.

When one examines Estonia, it is not difficult to find Interest Organizations, but it is difficult to identify their mission, progress and success. It is if they are not aware of their role in increasing cooperation and thus promoting the peaceful integration of Estonia into a common Europe. On the other hand, when one thinks of the history of the past several decades, there appears a rather good reason why the history of the Interest Organizations has not flourished, and perhaps that history may be why they seem moribund at this time. However, the various interests of the Estonian People need to be heard throughout Europe and the world in a clear and vigorous voice, and this is the role of active, purposeful Interest Organizations that operate with a clear mission and vigorous leadership.

Solving the problem of war

The Theory of Functionalism presents two aspects that may be particularly useful in solving the problem of war. These include the changing attitude of the people involved in the Interest Organizations and experiencing the benefits derived from their operations from their increasingly intercooperative operations. The second reason is the development between states in economics, technical cooperation, and common welfare. The intertwining of these in-

creasingly common interests lead to a widening range of interdependencies which are seen to enmesh governments. This produces a public will that views the severance cost of these common interests is simply and unacceptably too high. The process of functional integration is therefore seen as changing human attitudes, creating intercooperative dependencies, and escalating the costs of disruption which makes the concept of war increasingly less likely.

The main goal of inter-cooperation is to increase the welfare level through

The importance of special interest organization is to provide continuing cooperation and deepening integration between these organizations and the government of an individual country.

increased international cooperation. This will result in a change of attitudes into a socio-psychological community reflecting a cooperative ethos. This will create a 'push' towards further international organization and advance the concept of 'form follows function' across national frontiers. This is the key idea behind the functionalistic theory.

The neo-functionalism also suggest that the Interest Organizations are more important than the (political) parties. They are the dynamic element of the political process in advanced pluralistic democracies. This is especially true of the groups which operate in the economic

sector. Haas (the founder of the neo-functionalism) says 'almost universally economic groups seem to be in the forefront of those who clamor for the recognition of common needs'. If groups can be caught up in the integration process, they could advance the process and overcome even the resistance of national governments.

The neo-functionalism adds that, "the demands for task-expansion expressed by pressure groups and parties would be felt originally at the national level. However, as regional central institutions are given more power and functions in response to pressures, the theory is that the demands, the expectations and the loyalties of groups and parties will gradually shift to the new center of decision-making... Central institutions will respond and become, thereby, the driving force or 'motor' of the process of community development. ...the process of community formation is dominated by nationally constituted groups with specific interest and aims, willing and able to adjust their aspirations by turning to supranational means when this course appears profitable.

Interest Organizations and the EU

The plan of the European Union in maturity leads to the creation of a new national state with a new capital, Brussels. All decision making groups and interest organizations have now or will soon have senior representation in Brussels. This is where the important decisions are being made today concerning economics, business, agriculture, politics, the social agenda, and other issues.

What are these international groups and organizations one maybe ask. These groups include the large multinational corporations like Coca Cola, IBM, Nestle, ABB etc. It includes the intergovernmental organizations like The United Nations with all of its de-

* Interest Organizations are defined to include Federal or Sovereign Governments and their various departments and agencies; Intergovernmental Organizations (IGO's) including the UN and the EU; and Non-Governmental Organizations (NGO's), including multinational and national corporation, and a variety of private not-for-profit organizations such as the International Red Cross, and many others.



partments and agencies involved with welfare and peace throughout the world. It also includes the OSCE, the OECD, the ILO the EU, the Nordic Council, the European Council for Human Rights, and many others. Most of these organizations have been formed since WW II. For example, the United Nations was organized as a successor to the League of Nations to secure peace, political stabilization, advance the concept of human rights and to protect those rights, and to promote economic development. Estonia has become a member of several of these inter-governmental organizations. And the multinational companies that are already sited in Estonia are members of many other organizations, including specialized trade groups, the International Chamber of Commerce, and others.

Does theory speak correctly that membership in these organizations helps Estonia to be an integrated part of the developed world? Yes, but for this to happen in its fullest and most permanent extent, it requires the participation of the Estonian people in these same organizations. The Estonians must not rely that others will care for either the structural problems of the country, or the various legitimate interests of the people. If they do it will be that the interests of a nationalistic state of Estonia and its peoples will be subservient to the interests of other sovereign governments, for example The United States, Denmark, Germany, and so forth, or to those Interest Organizations, which will include the interests of large multinational corporations. This scenario, however, is neither what the Estonians need nor is this scenario what the Europeans and the EU need. Every interest is best served by an Estonian government and an Estonian people clearly voicing to other interests, the concerns and problems unique to Estonia. Moreover, the Estonian government and parliament need a thorough knowledge of Estonian society to properly represent the public will. That will only happen when there is a web of well organized organizations representing as many interest groups as possible.

In summary, these Interest Organizations are, according to the theories of Functionalism and Neo-functionalism, the keystone for the peaceful development of international relationships among national or sovereign states. By extension, these theories will aid the development of the European Union. Therefore it is very important for a transitional Estonian society to develop this dimension of political and economic security, to create and develop a successful web of national organizations with strong links forged to international sister-organizations.

It is very important for a transitional Estonian society to develop this dimension of political and economic security, to create and develop a successful web of national organizations with strong links forged to international sister-organizations.

What can Estonia give to the European Union?

What can Estonia give the European Union, and what can the European Union give to Estonia? Of course the EU can give a lot to Estonia - in the beginning - by economic aid, political aid and political security, but in the long run it is not certain that the money will continue to flow into Estonia. In fact, one day the flow of funds will more or less cease, and then Estonia will have to be economically independent.

If one examines the budget problems of the EU and the priorities for aid, Es-

tonia must admit that she is not of crucial importance. There is some likelihood that Estonia will be one of the first to feel the shortage of funds in the EU system. Historically, small states do not have much say in the larger system. Denmark, for example, has decreased its agricultural support over the last 5 years generating benefits to other countries and areas, to accede to agricultural subsidization parity demanded by the EU.

Further it appears in reality that Estonia has little to give to the EU other than the fulfillment of the philosophical mission of the EU. The problems with the eastern border may be construed as a political play by Russia to keep Estonia off balance and creating difficulties in connection with the EU and other organizations. Therefore, the perceived factor of political risk for Estonia remains quite high.

The future of the EU

In what community or union is Estonia going to apply for membership? One must look to the EU of today, and next, to what it may become in the near future. This seems to be a French oriented centrist system where the main policy is conducted from Brussels. This may not be by either the European Parliament or the European Commission, but more likely by the representative council of state governments. Since it will be required to centralize all vital economic policy in Brussels when the EMU comes into force, the member states only will be able to take care of their own monetary needs, and not look to nor be concerned with the financial and security needs of developing neighbors.

For example, it has been suggested that a uniform social security policy should be established and administered from Brussels. Thus, the EU will provide the standards for an social equality in all the member countries. But the question arises, which state or region should provide the standard? Denmark / Scandinavia with high standards, or Spain and the Mediterranean area with low

standards?

There is also the question of how much power will be delegated to small states like Estonia, Denmark or Ireland as the number of member countries in the EU is now more than 20. It has already been suggested that the commission should have fewer members and that the small states will be required to give up their places. If this occurs, the influence of small states will deteriorate and they will tend to be governed by the great powers of Europe.

The security of Estonia

For the Estonian politician, the EU is the only way for Estonia to solve her security problem. Officials of the Estonian Government always mention the EU as the only security umbrella for Estonia since membership in NATO, at least in the near future, is not possible. This will also provide the means to be recognized as a completely European state. But will the EU be that security umbrella the Estonian politicians and the people believe?

Russia and her future intentions are, of course, the principal question for Estonia, the other Baltic countries, and the rest of Europe. It is obvious that Estonia has fear, with good cause, of her gargantuan neighbor. Can Russia and her political leadership be counted on not to violate the peace and security of Estonia and the other Baltics? One would not think this will be an entirely safe option. We can review the statements Barry Buzan, the conflict theoretical scientist, in his conclusions in *People, State and Fear*.

The main conclusion is that a state does not tend to aggression if it is not threatened by an inside conflict. An example might be the Soviet attack on Afghanistan in 1979. This was interpreted by one Estonian scientist as the end of the Soviet empire, and the beginning of the end of the Soviet occupation of Estonia. What, then, could be the reason for an attack on the Baltic countries by Russia, the dismantling

of the Russian federation? An offset, of course, is that the Russian population, if they are given a democratic choice, will not allow their sons to be killed in a new war.

Will the EU protect Estonia?

First of all, Russia must still be considered as a multinational society, similar to other societies in Europe since 1989. Examples include Bosnia - Herzegovina, Rumania, Bulgaria, etc. It has been impossible for communism to

The question arises, which state or region should provide the standard for an social equality? Denmark / Scandinavia with high standards, or Spain and the Mediterranean area with low standards?

estrane nationalism. That is true even in the former Soviet Union itself. Nationalism has again showed its face, and we must consider that if Russia attacks a neighbor the reason is internal conflict, and a possible further breakdown of the Russian federation, as was demonstrated in Chechnia.

On the other hand it is also a question if the EU will or can help Estonia if the Russians attack the Baltic countries. The facts seem to indicate that Estonia will not be a NATO member in the foreseeable future. The first reason is that Russia is against Estonia's NATO membership, and secondly, all of the Western World would have to defend Estonia in a crises with Russia, which may not be in their respective interests.

What is the Baltic future?

It is also a question if the Western European Countries would help Estonia if Russia tries to return Estonia and/or the Baltics. For example, the British Ambassador has indicated that they would not. History indicates that the only reasons the British had to help Estonia in the 1918 - 1920 liberation war was to use Estonia and the Estonians to fight against the Bolsheviks and use Estonia as an easy gateway and bridgehead to St. Petersburg. Also, Estonia did not receive any promises from the White Russians that she could keep her independence in the eventuality of a White Russian victory. Thereby, the Estonian military leader Johannes Laidoner refused to help them.

The British only helped Estonia to further her own interests. The British are more likely to avoid creating conflict with Russia in support of Estonia, and to maintain good diplomatic relations with them. This seems especially true now as communism has died and is no longer a threat to the west. Would it be possible then, for Estonia to request the help of France or Germany? France has tradition of long standing good relations with Russia.

This is true in partly since 1870 Germany has represented a military threat to both countries. France still has some fear of Germany, and particularly a reunified Germany. German re-unification would not have taken place on mostly Western conditions without Russian endorsement, which reflected established relations between Russia and Germany,

If Estonia is an EU member, it may be easier to avoid larger problems with Russia. For example, it may be only the Eastern periphery that will be lost if the Russians attack. It seems in the best interests of the Scandinavian countries and Poland to keep Estonia and the other Baltic countries independent. Other questions arise.

They include the following: In a sim-

ple cost-benefit analyses, what will the EU win or lose? Is there more to gain for the UK, France and Germany by maintaining diplomatic relations with Russia? Or would they fight to protect the freedom and independence of Estonian and the other Baltic states with the danger of damaging relations with Russia?

The Scandinavia countries, or at least Denmark, will be the only countries, it seems, that would diplomatically support Estonian independence. As we have seen in the recent past, during and after the Visby meeting, one of the biggest questions and biggest disappointments for the Baltic countries was the Swedish - Finnish security umbrella. The Baltic countries did not participate much in this, even though the EU, United States and Russia had agreed to it.

Sweden has maintained neutrality in foreign policy. For example in 1940 the Germans were permitted to enter Swedish territory at the expense of Norway. In the Cold War, Sweden declared themselves neutral, even though they had firm connections to NATO. Might Sweden protect the Baltics in this eventuality? Reality seems to indicate a policy of neutrality thus avoiding conflict, and the maintenance of diplomatic relations with Russia.

Is there any alternative to the European Union?

There are two future possibilities for Estonia to be the eastern periphery of the European Union. One is to become a European Hong Kong, that is, as a banking and service center for all of Europe, and to become a transit country for both Russia and the EU. It would then be a competitor to Switzerland, the Isle of Man, Madeira, Liechtenstein etc. but with certain geographical advantages. To be a European Hong Kong demands a highly developed infrastructure, a highly educated population and a high service level. Estonia has the possibility to develop and maintain

these standards and demands; the government is aware of them; and the government is open to providing the necessary investments in these areas.

The role of education

The future of youth in Estonia is crucial to become a successful and independent state, and to function as a European Hong Kong. However, it seems that the educational policy of the Estonian Government is weak. Teachers salaries are ridiculously low. Although there are still good teachers at the schools and universities, and there are private schools that can afford to pay better salaries for presumably better teaching faculty, one must question the future education of the children. Who will be the teachers? Where will superior teachers be trained? How will this effect Estonian society? There are four possibilities:

1. The better teachers will be available only at private schools. Therefore, only the children of wealthier families will have the opportunity for a superior education.
2. Estonian society may develop two strata, those who have a superior private education and those public school graduates with lesser qualifications.
3. The wide spread availability of good teachers may not exist.
4. Importation will be required for top leaders, specially educated people and technology. The Estonians will be chosen only for intermediate and lower responsibilities, and will thus be recognized only as secondary people in their own country.

In the latter situation the Estonians will re-create the role that they have had for generations under the Danish, Swedish, Russian, German, and Soviet rulers. The idea of a European Hong Kong will be impossible, and the Estonian people will again be the servants of others. What has Estonia then gained by becoming independent?

Europe in transition

When one discusses the transition period in Estonia and the Baltics, it must not be forgotten that the Western European countries are also in a transition period. First of all there are the qualifications for the EMU that have generated high costs for the civil populations in Europe. Secondly, all of European industry and production is facing a post fordistic time. This will result in a new industrial structure with new industrial centers and new means of production.

Therefore, entering the EU is not as easy for both the post-communist countries as well as the EU countries. All must consider development in a new direction. It can be questioned if the post-communist countries are aware of the new directions. However, for the post communist countries the circumstances may be easier to accomplish, as they have to change their system anyway. They do not have to change from a formerly efficient fordistic system but from a totally inefficient planned economy. Therefore, they are in a position to take up more easily the new economic and organizational trends that are beginning to take place in the world of today when compared to their western neighbors.

The post-communist countries have other comparative advantages with their western neighbors. They do not have to struggle with a well functioning but very expensive and bureaucratic welfare state as the Western European states. They do not have to struggle with the high cost of government be competitive in the world economy. They do not have structural change problems with labor unions and retain flexibility in the labor market. And, finally, the Western Nations must struggle with their high deficit and substantial government debt as a percent of GDP.

In conclusion

There are many reasons to be pessimistic about the future of Estonia and the Baltic States vis a' vis their Russian neighbor. There are also some good reasons to retain optimism for the future of Estonia and her Baltic sisters. The people of Estonia must focus all of

their energies towards forging strong links with a variety of Interest Organizations. They must generate a clear voice in the world, and particular with the Western Community of Nations. They must express will to generate a comprehensive policy of superior educational opportunities for youth. And Estonia, its leaders, and its peoples

must develop a comprehensive mission and the public will to fulfill that mission to become a strong and recognized member of the free and independent Community of Nations.

Money Laundering as a Financial Crime



Leon Jankelevitš

Received his BBA degree from EBS in 1996 and was the best graduate of the course. Leon is employed by Price Waterhouse as assistant manager responsible for audit and consulting activity. His bachelor thesis "Money Laundering as a Financial Crime" was presented to the contest of best student research, and he received the first place at the Estonian Academy of Sciences and the second place from the Estonian Ministry of Education.

This article will try to give a brief overview of the problems of money laundering, on their different aspects. It will also attempt to answer the questions "What is money laundering and how is it done?" and "What measures have the developed countries adopted to keep the risks of being involved in money laundering to a minimum?"

We will also analyze the situation concerning with money laundering in Es-

tonia and will try to come up with a list of the most pressing things which need to be done in this field.

You can find them in every large town. There is the jewellery store that never seems to have any customers but stays open year after year. And there's the pizza place that grosses \$300 to \$400 daily but manages to deposit \$5,000 every day.

There is no great secret about what is going on: money laundering - the conversion of the monetary proceeds of a criminal activity into funds with an apparently legal source.

Money laundering was born in the 1920s in Chicago, during Prohibition. Gangsters received the biggest part of their profits from illegal alcohol and drug sales, and from prostitution. They were usually paid with metal coins. In order to be able to put this money into their bank account without questions from tax agents, the gangsters bought laundries. The machines were coin operated. So during the night the "dirty money" was turned into "clean money".

Money laundering is not a new phenomenon. But the problems it now posed at an international level, which reflects the growing internationalization of organized crime, are now much more acute than ever before.

The unchecked use of the financial system by criminal organisations risks undermines individual financial institu-

tions, and ultimately the entire financial system. Countries, which are just developing modern financial systems (Estonia is obviously among them), and where technical financial expertise may be spread very thin can seem very attractive to those seeking to launder criminal proceeds. And the criminal acts can seem to be plausible, especially where financial institutions are short of capital. But when the source of that money is criminal in nature, it can pose a threat to the stability of the entire system.

Despite this, many people try to argue that money laundering is not a problem except in the bigger industrialised economies. They say, that money is money whether it comes from legitimate or from criminal sources.

This is simply not true, that money is the same whatever its source. Money does "smell". Criminal money responds not to economic or financial signals, but to opportunities for further crime - and the threat of being caught.

The harmful effects of money laundering

The activities and transactions associated with laundering produce detrimental effects upon the state, its citizens, and its institutions.

Some may feel that it is preferable for organized crime to concern itself with

long-term frauds and commodity futures trading abuses rather than the trafficking of drugs and death. This is a simplistic and dangerous view. Economic crime directly undermines the stability of society. It can lead to political and social instability and in extreme cases dissatisfaction with, and within a society that permits such activities to continue.

A country that facilitates money laundering, by whatever means, provides economic and political power for its criminal elements. Public officials once compromised are virtually owned by those who compromised them. Thus the corruption of a single public official has a ripple effect that reaches far beyond that single politician. Corrupt officials may attempt to enact legislation favourable to businesses taken over by criminal elements. Criminal cartels, using their economic power, may monopolize certain industries or economic sectors within the country. While this may appear to enhance short term economic growth, the enhancement of businesses controlled by criminal elements is never beneficial. Society loses proportionally to the degree which criminal element prevails.

The diversion of economic resources to inefficient areas of activity or their employment in essentially anti-social activity may be a significant strain on the resources of society. Obviously this is a greater problem for the less developed economies than for those in a healthier condition.

Organized crime will use traditional businesses, and in particular banking systems, to move and launder its money. Bankers' interest in fighting against money laundering is not a motherhood issue for banks but boils down to self-interest. There are several reasons for this.

Firstly, fighting with the money laundering is fighting for the protection of society's confidence in the integrity of its banking system. Every time a criminal succeeds in washing money through the banking system, bankers become victims. They become a part of

the machinery of criminal activity.

Secondly, bankers are fighting against perception. If customers think the bank is in bed with crooks and drug lords - whatever the reality - the bank will suffer.

Finally, banks are fighting because the viability and continued health of the banks depends entirely upon the viability and continued health of the communities they serve and the society they operate in.

Fighting with the money laundering is fighting for the protection of society's confidence in the integrity of its banking system. Every time a criminal succeeds in washing money through the banking system, bankers become victims. They become a part of the machinery of criminal activity.

The phases of money laundering

The phases of money laundering can go through bank and non-bank financial institutions and through non-financial institutions, or all three in the same scheme. The main phases are commonly called placement, layering and integration. These can be seen in continuum or alone (from the placement to the integration) - proceeds of crime may be laundered only through one of these phases. Now let us turn to the main features of the above mentioned phases.

Placement

The physical disposal of bulk cash proceeds. Recognizing that large volumes of cash may draw immediate attention to their illegal source, and carry a continuous risk of theft, embezzlement, robbery or seizure, criminals are motivated to dispose of bulk cash promptly after its acquisition. Disposing of bulk cash would likely draw law enforcement or other unwelcome attention. Thus, criminal organizations are driven to dispose these proceeds in a manner in which they are more easily disguised or misrepresented, and less easily recognized for what they actually are. Asset purchases with cash, and currency smuggling are examples of common methods use in this stage of the money laundering process.

Layering

The next step after the initial placement of the bulk cash. This means separating illicit proceeds from their source by creating one or more layers of financial transactions designed to disguise the audit trail. If the placement of the bulk cash has been successful (i.e. undetected), the money launderers' activities become increasingly more difficult to uncover. The confusing and complicated ways in which layer after layer of activities of transactions can be piled on to one another are intended to make the traceability of the proceeds extremely difficult. Laundering operations range from the most simple manipulation of accounts to structures involving hundreds of companies, with thousands of bank accounts. Creation of a false trail of paper and electronic funds transfer may serve as examples of the second stage of money laundering.

Integration

The third phase of money laundering process. Integration means the introduction of criminally derived wealth into the legitimate economy without arousing suspicion and with some apparent legitimacy for its source. Once the layering process has been accomplished, the money launderer needs to provide a legitimate looking explanation for his wealth. Integration schemes

place laundered proceeds into an economy so that they can appear as normal investments, loan or reinvestment of earnings. Unless the illicit proceeds can be somehow identified during the bulk cash placement or layering stages, it becomes extremely difficult to distinguish between legitimate and illegitimate wealth. The establishment of front companies, issuing sham loans and the false export/import invoices are among the methods commonly used during the integration process.

Examples of laundering schemes

There is a huge number of different money laundering techniques. One example, which demonstrates that secured loans are common procedure employed by money launderers is presented in Figure 1.

In this example, a London bank received \$15m from a US bank with instructions to convert the funds to sterling. This generated in the region of £10m. The US bank subsequently gave instructions to the London bank to use the £10m for the purchase of a portfolio of fixed interest securities to be held on behalf of the client. About one month later, the bank received a request from the majority shareholder of a UK company for a short term loan to be secured on the fixed interest securities held on behalf of the US client. The London bank received the appropriate authorities from the US bank on behalf of its client and the loan was drawn into the London current account of the UK client.

What were the opportunities to be suspicious in this case? Firstly, the true client had not been properly identified by the London bank when it started dealing with the US bank. At first it thought its client was the US bank in the inter-bank market, only subsequently to discover that funds were remitted on behalf of a US client who wanted private banking services. Secondly, what started out as a simple treasury activity (buying £ for \$) sub-

sequently changed to the purchase and management of an investment portfolio, which finally changed to a lending activity. This is another example of the so-called "creeping change" where the activity on an account departs from the originally stated business.

Finally, the pricing of the deal should have been the real give away to the account executive. The cost of borrowing on secured loan exceeded the yield on the fixed interest securities. At first, it was explained by the fact that the borrowing was to only be a short term action, and the US client did not want to disrupt or liquidate the investment portfolio. However, after 14 months the loan was still outstanding and it was only at this stage that the US client (via the US bank) instructed that the borrowing should be extinguished by the London bank selling the fixed interest securities.

What was the real story behind this particular example? The \$15m had been obtained by deception from a US investor by the chief executive and principal shareholder of the UK company who was also the disguised beneficial holder of the US company. The techniques of money laundering are not abstract theoretical points but are widely used in "washing" money throughout the world.

John Zdanowicz and Simon Pak, professors at Miami International University's school of business, spent three years designing a computer program that enabled them to compare every

trade between the US and 235 foreign countries in more than 23,000 items over a period of three years. First they calculated the average price at which each of these trades took place, then they went back through the list to identify specific transactions that varied widely from the average price. What they came up astonished even them.

They found imports of untrimmed pillowcases from France at \$909.29 apiece, raw sugar from England for \$640 a pound, kitchen sinks from Venezuela for \$8,911 each. There was no adequate rational explanations for any of those trades. Except, of course, the obvious one that they were used to cover the shipment of large sums of money from the US to foreign bank accounts. In some cases, in fact, it's likely that no merchandise was even shipped - just false invoices.

The common measures to combat money laundering at a regional level

Internationally, the 1988 UN Drug Convention was the turning point of anti-money laundering policies. Previously limited to a few countries, such as Australia and the United States, after the Vienna Convention many countries have introduced in their internal system a complete or partial set of criminal and regulatory policies. These policies have two main goals: attacking criminal activities and defending the trans-

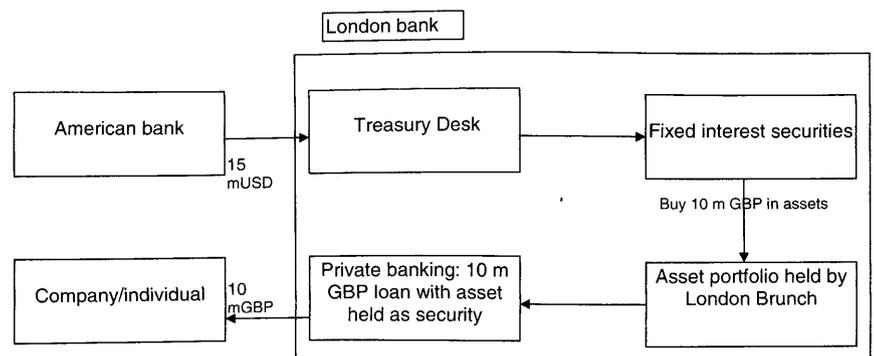


Figure 1 Source: McNamara J. (21.03.1995), Model cases on money laundering, The Money Laundering Bulletin

parency of the economic / financial systems.

The first goal, an active one, seeks to discourage organizations from pursuing criminal activities by increasing "law enforcement risk". This means the overall risk of being identified, arrested and convicted.

The second goal is defensive, the protection of the transparency and integrity of the domestic and international economic and financial systems. Criminal money pollutes these market places and unfairly competes with legitimate money on which taxes are paid and which has been earned at a lower profit margin than is possible in illegal enterprises.

In order to obtain a clearer understanding concerning the concrete content of the Act, supposed to prevent money laundering the main provisions of the Acts of two countries, Germany and Slovenia, are presented in Table 1. These two countries are quite different in size, in length of existence and in international weight. However, they have at least one common feature: both countries have money laundering on the agenda of every day problems. Furthermore, we have the possibility to compare the preventive measures of a big and influential state to a smaller and younger state. The latter is probably even more in our focus because the words young and small are also applicable to Estonia.

As can be seen from brief regional analyses both preventive and control measures contribute to the efficient combating of money laundering. It can be generalized, that at least the following points could and should be the focus of country which has set the purpose to work out a comprehensive policy of fighting against money laundering and to decrease the seriousness of that problem in society:

- The criminalization of a money laundering offence

- The limitation of financial secrecy

An absolutely crucial element of emerg-

ing anti - money laundering policies is the limitation of financial secrecy. Virtually all of the emerging regimes , in order to combat money laundering recognize the need for the reasonable limitation of financial and professional privacy.

- "Know your customer"

Anonymous accounts are the purest expression of a money laundering service and need to be universally recognized and rejected as the equivalent to an invitation to money launderers.

- The identification and reporting of suspicious transactions

A bank, business or professional, asked to participate in a currency transaction which raises suspicion of money laundering, is in a number of countries required to inform the appropriate authority. Other less effective regulations merely permit such reporting but do not require it, although it is difficult to understand why a government would not want to know of a transaction considered suspicious by a professional banker. A serious impediment to the effective implementation of suspicious reporting is the absence of protection for the banker against complaint or legal action by a customer or third party for the effects of reporting. Such protection, variously called indemnity, immunity or safe harbour provisions, needs to be legally declared.

- Improving the regulation of businesses/professionals who conduct financial operations

When regulatory anti - money laundering policies first began to take effect, non - bank financial institutions were used for money laundering. Therefore, it should be ensured that the provisions of money laundering legislation are extended to include those professions and undertakings whose activities are particularly likely to be used for money laundering purposes.

- Developing asset forfeiture

The necessary complement of anti - money laundering regulation and pe-

nalization is the forfeiture of assets. Some laws provide for asset forfeiture only in criminal proceedings, while other countries include civil and administrative actions. Some countries cooperate with foreign asset forfeiture requests only when they are based upon penal action. Some countries apply these laws only to the proceeds and instrumentalities of crimes, while other countries have laws which are more comprehensive, i.e. permitting a judgement against any of the assets of the criminal.

The situation in Estonia

The International Scientific and Professional Advisory Council of the United Nations performed in 1994 a global study of money laundering issues in different countries. Finally, it came up with the ranking of countries according to the major concern for money laundering problem. The countries or territories were ranked as high-medium-low concern.

Low concern countries are those, where there is only a moderate amount of money laundering and the situation is not expected to deteriorate in the immediate future. Together with, for example, The Czech Republic, Finland, Norway, Latvia and Lithuania, Estonia also belongs to this group.

Apparently, foreign observers believe that the situation as regards money laundering in Estonia is not problematic. Let us view this issue from within. What is the situation really, and what should be done?

There are at least two reasons as to why Estonia is at risk of becoming a money laundering country to a larger extent is high. Firstly, the huge criminal activity in Russia may easily be transferred to Estonia. The second factor is, that Estonia is changing so rapidly, that it attracts new investors, who are trying to operate here with big profits. These investors might be honest but then again might be not.

The advantages of Estonia in effectively sustaining money laundering are an open economy, the insignificant level of protectionism, the fixed exchange rate with the DEM and other liberal achievements of the last few years.

One of the main differences between the situation in Estonia and the rest of the world is that drug trafficking is not such a significant cause of money laundering. One of the main causes of money laundering is considered to be the evasion of taxes.

The prevention of money laundering in Estonia is regulated in the only chapter of Law on Credit Institutions, which came into force on 1 January 1995. The 7th chapter of this Law is wholly dedicated to preventive measures. Let us review the key points of this chapter, and since we have generalized the legislation in other countries we shall identify the fields regarding money laundering which are not currently regulated in Estonia.

Article 54 defines money laundering as "the placement of illegally acquired money into legal business or investments." The Law does not limit the offences to drug sales but to all illegally acquired money.

It is said in the Law, that it is the obligation of a credit institutions to prevent the usage of the banking system for the purposes of money laundering. In order to do that, credit institutions, in reality considered as banks, have to perform several duties.

The identification of clients

According to Article 55 a credit institution is not allowed to enter into contractual relations or carry out transactions with anonymous persons or front operators. A credit institution shall identify all the persons who carry out transactions which exceed 15,000 XEU (~ 220,000 EEK) or cash transactions which exceed 7,500 XEU (~ 110,000 EEK).

Preserving documents

The credit institution is obliged to preserve all documents that serve as the basis of transactions exceeding threshold limits as well as the written results of the identification of persons related to them for seven years after the date the transaction was performed.

Disclosure of information

Information concerning money laundering can be disclosed only in certain cases in the following instances: to a court on the basis of a court decree or verdict, or to an investigative establishment on the basis of a written resolution. A credit institution shall not inform the clients concerned about the activities of courts and investigating bodies, or that information has been transmitted to such institutions.

Working procedures

In order to perform all the above mentioned requirements concerning the prevention of money laundering, credit institutions are obliged to provide working places with necessary technical equipment and to establish instructions for the employees in addition to internal controls to check how these instructions are followed.

Penal provisions

The Law foresees that if an executive or another employee of a credit institution fails to follow the regulations on the prevention of money laundering, they shall be punished in accordance with the Law on Disciplinary Responsibility or as a criminal offence with a fine of up to 200 times daily wage with or without cancelling his/her right to be employed at a certain position or in a certain field.

The current legislation still has many serious loopholes. These loopholes are summarized in the following points.

1. Money laundering itself is not established as a criminal offence. As we saw, only the employees of the credit institutions are committing a criminal offence if they fail to apply preventive

measures towards money laundering.

2. The Law on Credit Institutions is applicable only to banks.

All other sectors, which represent the same risk for being approached by money launderers are not covered. Illicit funds, however, might be placed not only in banks, but, as we mentioned before, also in investment funds, insurance companies, jewellery and car dealers etc. These sectors cannot be mentioned in the law applying to banks only. At the same time they do not represent a less significant threat from the point of view of preventive procedures.

3. The banks according to current law are not obliged to report on their own initiative, when they suspect money laundering.

The reporting in cases, other than those two mentioned in the Law on Credit Institutions, would mean the breaking of bank secrecy requirements. At the moment Banks should only accumulate information, but a great deal of that information is not used. This means that the current legislation which requires the collection and preservation of information is but a half-measure. Efficiency of combating money laundering depends on how thoroughly the information submitted by financial and other institutions is analysed. At the moment this information is analyzed only in a few cases.

4. The forfeiture of illegal funds and property acquired for them is not established.

On an international level forfeiture of illegal funds is one of the most fundamental principles in combating money laundering.

5. There is no entity established by the law which would be appointed to deal with money laundering.

There is a lack of state authority, which would oversee how money moves in the financial sector and related areas. Similar entities established in other countries serve as "filters" between financial institutions and prosecution

authorities.

6. The institutions and its employees do not have legal immunity if they report their suspicions.

The international experience shows, that when organizations and their employees report suspected cases of money laundering they are free from any legal responsibility provided that reports are concluded properly. This issue is also an obstacle to banks reporting on their own initiative and these

points should be solved together.

The need for a Money Laundering Law

It is clear, that the obvious drawbacks described above exist and that the fight against money laundering is extremely inefficient as long as these issues remain unresolved.

They can not be solved in the Law on Credit Institutions, otherwise the legal requirements would be limited only to

the banking industry. If we are seeking to efficiently prosecute and punish those involved in laundering illegally gained money we must be fully aware of two aspects: the system of accumulation of data must be established and co-ordinated (this also includes how and by whom). In addition to this, the responsibilities of all parties in the fight against money laundering should be clearly defined and divided. These issues cannot be resolved by applying indirect measures. The independent Law on Money Laundering represents an urgent necessity.

Table 1

The comparative analysis of the German and Slovenian Money Laundering Acts

Provision of the law	Germany	Slovenia
Title of the law	Money Laundering Act adopted on 25 October 1993	Law on the Prevention of Money Laundering adopted on 8 June 1994
The addressed parties	To banking and non-banking financial institutions and to German Federal Post	To banking and non-banking financial institutions, to privatisation, travel and real estate organizations and to dealers of precious metal and stones
Definition of money laundering	No definition provided	Concealment of the origin of money or property, acquired by organised illegal drug trafficking, illegal arms trading or by unlawful activities
Identification obligations	The person should be identified before accepting cash, securities or precious metals worth over 20,000 DM	The client should be identified before accepting transactions worth over 2,200,000 SIT (~ 23,000 DM)
Identification of other enterprises and persons	A person, who administers another persons assets and intends to pay cash worth over 20,000 DM should identify his client	The institutions should identify the final beneficiary.
Identification of insurance clients	The insurance client should be identified if premiums over 1 year exceed 2,000 DM or a single premium is higher than 5,000 DM	The insurance client should be identified if a single premium exceeds 145,000 SIT (~1,500 DM)
Preservation of documents	The records obtained during the identification should be stored for six years	The records obtained during the identification should be stored for six years
Reporting obligations	In case of suspicion an institution should report to the prosecution authorities	Data for all transactions exceeding 3,600,000 (~ 23,000 DM) should be forwarded to the Office for the Prevention of Money Laundering
Disclosure to the party ordering transactions	According to both acts the institution may not disclose to a client or a third person that information about them has been reported	
The "filter" role of report authorities	In both states, when the report receiving authority finds on the basis of data, receiving that for a certain transactions there exists reason for suspicion of money laundering, it shall inform the competent bodies	
Penal provisions	A person who fails to fulfil requirements the set by the Act is committing an administrative offence and may be punished by a fine of up to 200,000 DM	A legal person who fails to fulfil requirements set by the Law shall be fined a minimum of SIT 1,000,000 (~ 10,000 DM).

New Zealand Hits Hard



Rein Ojaverre

Student of EBS since 1995
 Finished Secondary School in Põltsamaa.
 Studied at the Institute of Law.
 Been employed in the wood export and car dealership firms.

Estonia has passed the first essential steps in the reform process but the work is still incomplete. New Zealand is probably the best place to look for a good example.

Brief historical overview

New Zealand was an early pioneer of social legislation on a wider scale. Following its first general election based on the one-man-one-vote in 1890 it passed the Old Age Pension Act in 1898. The history of the economic autarky in New Zealand reaches back as far as 1935 when the local parliament-The House of Representatives, led by the Labor Party accepted The Social Act which opened wide perspectives for the extensive public sector expenditure. In addition the principles of the welfare state were defined. The succeeding government debt crisis, culminating in 1939 forced the introduction of intense capital export and controls upon the import of commodities. In retrospect in the era between The World War, it is the overall grumbling of international trade system which was preva-

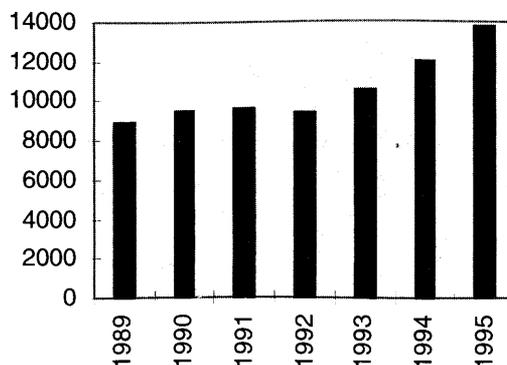
lent, along with procedures to re-establish the gold standard and develop trade links between the nations which were about to falter as the backlash to the political situation after World War I and the Great Depression. After the financial crisis in 1931 the float of administrative regulation exploded open, a great number of governments introduced control measures over exchange rates and foreign trade that made the integration of capital markets unfeasible (a good example of this is the Hawley-Smoot Tariff Act in the USA which instituted restrictive trade barriers and forced also many other states into the measures). The past-war period introduced temporary alleviation, and import restrictions were abolished in 1955. The Falling prices of meat and dairy products led to an adverse trade balance and an alarming depletion of the countries overseas reserves. Subsequently the Government reimposed import licensing and exchange control.

The traditional theory of regulation in practice

The traditional theory of regulation, which influenced public policy for much of the twentieth century, was aimed at advancing the public interest by correcting market failures. The fun-

damental concept of the administrative approach is the public interest theory of regulation which states that government intervention will improve welfare in many instances. It assumes that the regulators are perfectly informed agents who act in the best interest of the community to correct market failure and an uncritical application of the concept spread around the world, including to New Zealand. The critical notes rose from the modern scholars of the field including *von Hayek* who emphasized the importance of the price system in generating and communicating information. He also stressed the importance of competition as a discovery process for the generation and the transmission of knowledge that none of the participants in an economic system possessed individually. *Stigler and Friedland* found through empirical research that very often regulation was either having no effect on the behaviour of firms or it was creating rather than eliminating inefficiencies. *Coase and Demsetz* argued that comparisons between real world outcomes and the predictions of the perfectly competitive model provided an inappropriate basis for the formulation of public policy. Public choice theory, which emerged in the 1950s and 1960s, used economic principles to explain the political process, the main representatives being *Buchanan* and *Becker* . The public choice theory highlighted the possibil-

New Zealand total exports (millions USD)





ity of government failure being analogous to market failure and possibly more serious in its consequences.

Some problems New Zealand faced in 1960-s and 1970-s

Recognition of the stagnating policy started emerged in the sixties. At the beginning of the post-war era the growth of New Zealand's economy was comparable to the other OECD states. In the mid-sixties a deep deterioration in the *terms of trade* occurred. (according to the surveys even as grave as 25%) as the world price of its main exports (wool, red meat, and dairy products) fell. The New Zealand volume GDP grew by about 1 per cent a year slower than the OECD. Agricultural exports, the source of most overseas earnings, were affected by the closing of the EC market, the dumping of EC surpluses, and by the decline in wool's competitive position against synthetics. The government's response to external shocks consisted of controls and regulations on imports, prices and wages, interest rates and foreign exchange. In order to stabilize employment, the government moved into large subsidies for the private-sector companies. Higher world energy prices, following the oil-price hikes of the 1970s, stimulated local energy supply. The National government led by Robert Muldoon conducted the energy-oriented industrialization program

dubbed "Think Big" (but ironically relabeled by the opposition as "Sink Big"), which meant huge support for the involved industries. The export sector obtained innumerable different state supports and tax subsidies, violating the rules of GATT. The exchange rate was still administered and the interest rates under governmental control. Entrepreneurship was tied up with restrictions, which resulted in stingier choice in goods and services and often also inferior quality. Import controls, together with the small population, meant that in many industries only one or two firms served the entire market. The lack of competition meant that firms had little incentive to be innovative.

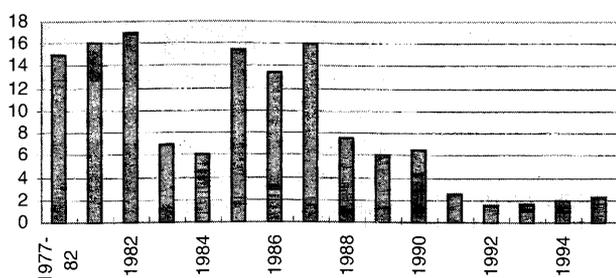
As early as 1962, Sir Frank Holmes had to admit, of the period 1949 to 1961, "The New Zealand economy has earned the unfortunate distinction of having one of the slowest annual rates of growth of productivity among all the advanced countries of the world." Low factor productivity growth was the cause: total factor productivity grew by 0.3 per cent per year from 1965-84 by one estimate, or 0.6 per cent by another. By the larger of these estimates, this was half of the productivity growth of the United States, Britain and Australia and a fifth of Japan's. In the late 1970s the per capita GDP growth numbers increased slightly. Persistent refusals to face the chronic productivity problem resulted in a large government deficit (7 per cent of GDP in 1987) and higher foreign debt. The private and public foreign debt rose from 11 per cent in 1974 to 95 per cent of GDP in

1984. Excessive budget deficits from the late 1970s were primarily funded by inflation, devaluing the value of government bonds, which institutions were compelled to buy at a controlled interest rate. Low productivity growth led to the welfare reductions of the entire country. New Zealand had the world's fifth-highest income per head in 1955, by 1984 it had dropped to 19th. Like the reforming former Soviet-bloc countries, New Zealand had a two-pronged problem, microeconomic and macroeconomic.

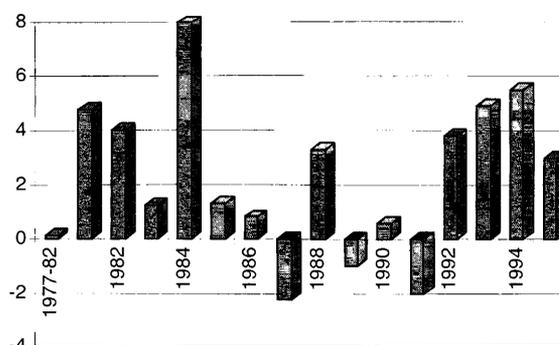
The revolution in 1980-s

Since the late-seventies the positive approach of the market economy started to win wider support. New Zealand's reforms were motivated partly by orthodox economics and the desire to apply its precepts to government. However, they were also influenced by the political "New Right", which, on philosophical grounds, sought a smaller role for the public sector. The snap elections in 1984 brought the Labor Party into office, which received 43 per cent of the total votes and secured 56 of the 95 seats in the House of Representatives. Accordingly the new leader of labor, David Lange, became Prime Minister. The high turn-out of eligible voters (86%) indicated deep public dissatisfaction with the Muldoon administration. The new gov-

Consumer price increase (%)



Real GDP growth (%)



ernment took over the country, which was dubbed as an “economic museum”. The key concept was regulative reform. Other goals included the solving of the grave inflation problem and the improvement of the ever worsening current account deficit. The day after the election in June 1984 the Reserve Bank felt obliged to announce that it was ceasing to convert NZ dollars into foreign currencies. The newly elected government, however, began by devaluing the dollar by 20 per cent and later floated it.

Major public sector reforms started with the State-Owned Enterprises Act in 1986.

Program, introduced by Labour, differed radically from conventional Labor ideology. The program included many controversial actions as the introduction of value-added tax, instead of the former complicated sales-tax system and the streamlining of the state structures. It may sound surprising that such propositions came from the left-wing Labor Party, not the conservative National Party. *Roger Douglas*, the long-time Minister of Finance, who is known as the main figure of the reforms front, “the Founder” of ‘rogeromics,’ enumerated the goals of every Labor government in society:

- A reasonable standard of living for everyone.
- Access to a good education and good health services, regardless of income
- A social welfare system that allows people to reach the level they can and want to achieve, and where the assistance provided does not make those who receive it dependent on but it but instead opens the way to self-support.
- A society which gives people opportunities for self-fulfillment.

Lessons from reform

- Trade liberalization does give an outward focus.
- Flexible labor markets are important.
- Extensive privatisation is possible and can offer large rewards
- Fiscal consolidation is a necessary part of reducing debt.
- Tax reform is important.
- The sequencing is important.
- The politics of reform are crucial.

Roger Douglas writes in his memoirs: “*The more I looked at how they were working, and at the distortions that had crept in over the years, and how those distortions had produced the results never envisaged by the original architects, the more change seemed necessary.*” The subsequent gradual liquidation of market distortions encompassed over twenty subjects, beginning from the monetary system and finishing with the restructuring of the state educational sector. In the first stages the labor markets were left out of consideration. That flaw brought with it some considerable

New Zealand’s reforms were motivated partly by orthodox economics and the desire to apply its precepts to government. However, they were also influenced by the political “New Right”, which, on philosophical ground, sought a smaller role for the public sector.

drawbacks and is the main reason for the long time-lags between the reforms and the first positive results which became politically fatal for the Labor party in future elections (Labor regained the office in the 1987 elections, but lost 1990). The new Employment Law was presented in 1990 by the National Government. The vital question was the redistribution of resources which would result from the abandonment of the restrictions concerning goods and capital movement. Roger Douglas presents an argument: “*For instance, import restrictions were meant to protect the average New Zealander, ensure jobs that might not exist otherwise, and regulate the supply of goods. The down side of import controls was that we paid way over the odds for*

items as diverse as cars, television sets and shoes. Having paid more than we should for those items, we had less to spend on other goods, thereby costing jobs elsewhere in the economy.” The initiation of the free movement of goods began with the introduction of CER (Closer Economic Relationships) agreement with Australia as early as 1982, but the final liberalization took place in 1990. Import licenses were sold on the open market, increasing quotas at the same time, the restrictions became unchaining. Tariffs were noticeably also diminished.

The most famous result is however. the Reserve Bank Act which gave to the bank only one ultimate goal (low inflation) and freed the measures for its achievement. Compared to the Estonian currency board system, where the Central Bank is restricted in its measures and the fulfilment of monetary policy is practically impossible, the New Zealand Reserve Bank has every tool at hand to compete inflation. The financial system of New Zealand is labeled as the most liberal one in the world. The obligatory reserve requirements and deposit insurance schemes are abolished, larger capital inflow means improved competitiveness and compelled efficiency. Estonian banking is comparatively more restricted. Reserves are required and control over the financial structures is far more stricter.

Happy Happy Joy Joy – what does this mean?

According to some statistical surveys the transition has been quite painful. For example while the real incomes of the upper 20% have increased in the 1981-91 period by 8 per cent, then other groups have suffered a loss with the lowest 20 per cent becoming 7% less. Unemployment rose to over 10% before beginning to fall in 1993. In the meantime inflation is practically dead and the budget deficit is approximately 1% of GDP. Although it took seven years for the economy to begin to grow, important gains have been achieved.

Firms have reorganized themselves to be more efficient and have been successful in this- exports are rising by 15% a year. In 1996 the unemployment rate fell to under 6% compared to the OECD 8% average. A balanced current account was achieved 1992 and has been positive thereafter. Foreign debt stays high, although The Reserve Bank President Donald Brash considered the problem to be exaggerated in the interview given in 1995. He proclaimed that the lion's share of it represent private sector settlements that are expressed as debts due to taxation reasons. Today the radicalism has diminished. The Labor Party has lost its initial momentum to the National Party who is now seen as a moderate reformer and was victorious at the last general elections.

What can Estonia learn from the New Zealand experience?

First it should teach us patience, even the most radical reforms take time to succeed. Every reformist decision made in world history has been political. The initiators are often bound to lose popu-

larity due to excessive time-lags between the harvest and suffering. Therefore the tremendous popularity loss of The Isamaa party in the last elections is by no means extraordinary. Government should show more courage in freeing the factor markets. In the contemporary situation this means wider liberalization of the Estonian labor sector and the faster implementation of land reform. New Zealand made its reformist decision by the majority-led parliament, elected with a first-past-the-post system. The Estonian proportional system may not have the essential momentum for a consolidated parliament. Does this mean that proportional representation is inefficient *per se*? Maybe. Nevertheless, radicalism has shown its claws.

References:

- Alesina, Alberto; Summers, Lawrence H.: "Central Bank Independence and Macroeconomic Performance." *Journal of Money, Credit and Banking*. Vol.25, No2. May 1993
- Douglas, Roger: "Unfinished Business." Random House, Auckland 1994

Evans.L.;Grimes A.; Wilkinson B.;Truce D.: "Economic Reform in New Zealand 1984-95. The Pursuit of Efficiency." *Journal of Economic Literature* vol. XXXIV. Dec. 1996

Easton, Brian: "Economic and Other Ideas Behind the New Zealand Reforms." *Oxford Review of Economic Policy*, Vol.10, No 3

"Heads Will Roll", July 13,1995

Hickman, Addison C.: "The Breakdown of International Trade" *Economic Policy: Readings in Political Economy*, Irwin 1953.

"Jekyll and Hyde." *Far Eastern Economic Review*, July 13,1995

"Kiwis turn sour." *The Economist* October 19th 1996

McMillan, John: "Kiwis Can Fly: Reforming New Zealand's Economy." *Far Eastern Economic Review*, January/February 1994

"Moving into the Fast Lane" *New Zealand Business Roundtable*, Wellington 1996

Purju, Alari : "Eesti Väliskaubanduse Liberaalsusest ja Võimalikkusest Tulevikus."

"Southern Crossroads." *The Economist*, June 15th 1996

Trade Statistics Yearbook, IMF Washington 1996

The Development of Capital Markets in the Baltic Transition Economies



Alo Kullamaa

Graduated from Estonian Business School, BBA in Banking and Finances 1996. Been employed 1995-1996 Head of PR, investment banking company Talinvest. Since 1996, Portfolio manager, Forex Securities, Securities market specialist licenced by State Securities Inspection.

This is an updated summary of Alo Kullamaa's Bachelor Thesis "The Role and Development of Capital Markets in the Transition Economies of Baltic states" (Defended in Spring 1996)

It is most likely that in five years a textbook will be published with the title "The Transition from a Centrally Planned to a Market Economy", or, in other words, "How to Build Capitalism on the Ruins of Socialism". So far, a reference book of this kind is not available, since economic theory does not say very much about it, and there are differing experiences in each countries in transition which cover just couple of years.

It is also due to these reasons that Central and Eastern Europe, including The Baltic States, still reveals contradictions. On the one hand, the rapid development of the countries in this region towards a market economy is obvious. On the other hand, a drastic and speedy transformation of their economic pattern, lacking well-examined schemes, inevitably leads to negative effects and problems, both due to external conditions and as a result of internal reasons and failures.

Built from scratch

During the five years since they regained their independence, the financial markets in The Baltic states have

been created from scratch. Properly functioning financial markets are a sign of an advanced economy; in Soviet times, under a centrally planned economy such a system for allocation of resources did not exist. Since the cornerstone of the market economy is private property which can be fairly priced only through functioning markets, the development of capital markets should be considered as of utmost importance for The Baltic States, as it provides shareholders with a specific price for their holdings and enables the effective allocation of resources.

International investment companies usually take an inclusive "regional" viewpoint in their relations with Baltic states. This is justified by many features they share - small size, a heritage of 50 years of Soviet hegemony, the trend towards integration with European structures etc. But at the same time there are serious differences between the three countries, too. Which in my opinion, almost exceed that which they share in common - first of all linguistic, then historical and perhaps most important - economical differences. The development of capital markets in Baltic countries has been different in principle and has brought out particularly well the differences in the economic level which these countries have managed to achieve during the ongoing transition period. The biggest similarity is probably central depositories in all three countries where dematerialised securities are held in an electronic form.

Tallinn Stock Exchange: trading based on market-makers

The Estonian government involvement in the development of the capital market has been minimal (this is connected with the lack of need to issue T-bills to cover budget deficit), the securities market has developed by itself, due to the interest of market participants and with limited regulations. Tallinn Stock Exchange (TSE) which only started its activities in June 1996 has outper-

formed both of its older southern neighbours. Using the Anglo-American trading model which is based on market-makers and continuous trading, TSE has led Estonian securities market to a relatively good position among other transition economies if we compare liquidity (turnover divided by market capitalisation) and relative size (market capitalisation divided by GDP) ratios. The market maker is always ready to quote the price of the security he is "making market" for and carry out deals. This gives the market continuity and liquidity, but there is always a gap between buying and selling quotations and

The average daily turnover in Tallinn Stock Exchange is currently 50-60 million kroons compared to 2-3 million kroons in Riga and 20-25 million kroons in Vilnius. In 1996 the total turnover of TALSE was 191.2 million dollars, while the same figures were 12.4 million dollars and 142.4 dollars for RSE and NSEL, respectively.

therefore the price investor gets; for example while selling is normally not equal to the price this investor who wants to buy must pay, but lower. The Average daily turnover in Tallinn Stock Exchange is currently 50-60 million kroons compared to 2-3 million kroons in Riga and 20-25 million kroons in Vilnius. In 1996 the total turnover of TALSE was 191.2 million dollars, while the same figures were 12.4 million dollars and 142.4 dollars for RSE and NSEL, respectively.

Riga Stock Exchange and National Stock Exchange of Lithuania: order - driven model in use

Latvia and Lithuania have chosen clearly different path to achieve functioning securities markets. The main characteristic of their way is bigger government involvement in markets. This is due to the need of governments to issue T-bills to cover budget deficit and secondly, to privatise state-owned companies by selling their shares publicly on the stock exchange. Both Latvia and Lithuania received for the establishment of their stock exchange support from The Paris Stock Exchange and Central Depository of France. Differing from Estonia, most investments for developing the infrastructure (depositories etc.) have been organised by the State, and are thus not so well economically motivated. It seems to that the Continental European order-driven trading model is not the most appropriate model for post-socialist economies like Latvia or Lithuania to adopt. In such systems the price is not determined continually when the stock exchange is open but only one "right" price is determined for one trading session. The aim of the stock exchange is to gather as many orders as possible and then find a price which satisfies the maximum amount of orders. All transactions with this security will be settled with this price. The maximum possibility of how much a price may change from previous trading session is also limited (the NSEL 10-20%, on the RSE 15%). The advantage of this system is that the price the buyer pays is absolutely equal to the amount that the seller gets - the right price. The big disadvantage of a fixed price system is low liquidity. Despite the big number of shares tradeable, activity remains very small and this scares especially small investors, thus making this system investor-unfriendly.

As it was already pointed out above, the role that the capital markets has to



perform is to enable the flow of funds to projects which could generate profit and thereby contribute to the economy's overall growth. Among Baltic countries Estonia seems to be closest to having this resource allocation mechanism functioning, properly as since the beginning of 1997 over 30 large and middle-size private companies from various sectors have announced their plans to become public and list their shares on the Tallinn Stock Exchange. Latvia and Lithuania are not hopelessly far behind, but they obviously have to make some rearrangements in their trading systems and legislation. One factor that makes rapid development of the capital markets in Lithuania and Latvia questionable is the lower macroeconomical stability than in Estonia. Banking crises have heavily influenced investors' confidence into the financial markets and this is hard to rebuild.

Money flows In

In all transition economies including the Baltic states, where the investment needs exceed domestic long-term money supply, the gap is covered by taking foreign loans and encouraging foreign investments. The experience of other countries in transition shows that direct foreign investments are followed by portfolio investments. The Baltic countries have received relatively large amounts of foreign direct investments in recent years. They are now in the middle of a sustained economic recovery, the speedy developments in securities markets' infrastructure and regulations are expected to increase the inflow of foreign capital in the form of portfolio investments as well. The Baltic states are relatively small among the emerging economies, with a total population of only 8 million, and therefore even on a world's scale, small amounts of additional capital may have considerable positive impact on the development of their economies. However this is only true if it is wisely invested and not consumed wastefully.

If the year 1995 can be characterised as the year of economic consolidation for

Central and Eastern Europe countries, 1996 should be called the year of investor acceptance. Spurred on by the increased credibility, investors other than regional specialists were about to act. The Baltic States have a certain advantage in comparison to other countries in CEE. This advantage is based on their strict monetary policy and low level of foreign debt. Surprisingly most of the foreign investors have not used the benefits of diversification and portfolio optimisation, as they do in other emerging markets, while investing in The Baltic States. Instead they have looked for a large single deal in a

If the year 1995 can be characterised as the year of economic consolidation for Central and Eastern Europe countries, 1996 should be called the year of investor acceptance. Spurred on by the increased credibility, investors other than regional specialists were about to act.

country in order to obtain the exposure to the whole country's economic growth.

This policy can be explained by the shortage of attractive and big enough projects, and the relatively high research costs per one investment. The differences which exist between the Baltic States make investment process even more complicated. For these reasons foreign portfolio investments to the Baltics have been made so far mainly through regional funds, but as influential financial institutions are becoming more interested in The Baltic investment markets, and analysts in research institutes check out undervalued shares of large enough companies

with strong potential, this strategy should change.

The Estonian, Latvian and Lithuanian securities markets are not significantly correlated with each other and the international markets, despite clear trend towards closer integration. Although the amount of securities available in the Baltic markets has greatly increased and trading volumes are on the rise as well, markets are still small in absolute terms, and prices will remain sensitive to any sustained buying or selling by institutional investors. While on The Tallinn Stock Exchange local interest is clearly prevailing, in Riga and Vilnius foreign investors are dominating and influence or sometimes even determine the prices. Political or macroeconomical news has not had so far any considerable direct influence on share prices on the TSE, unless these have very important impact on shaping the general investment climate.

Closer integration complicated

Due to the small size in relation to the world an obvious need for closer integration exists between the Baltic if they are countries to remain attractive competitively with other emerging markets. Estonian securities market officials, understanding the need, have been pioneers and promoters of this process, but our southern neighbours do not seem to be too excited about this idea at the moment. The main reason behind such behaviour is probably that Latvian and Lithuanian securities market participants are afraid of the increasing competition when it becomes possible to make direct transactions with all Baltic securities using only one broker company and the need for several mediator is thus removed. Therefore the signing of co-operation agreements and the opening of correspondence accounts between central depositories has not gone smoothly and at a much slower pace than would have been expected although adjusting legislation to make trading rules similar naturally takes some time. Latvian and Lithuanian brokers are very likely to

lose a significant portion of their market share to Estonian brokers, as the Estonian financial sector including investment banking is very strong and has working relationship with many Western institutional investors.

The leading Estonian financial groups, such as Hansabank, achieved virtually all their objectives in the Estonian market, and have now rapidly expanding their activities to neighbouring countries. Using their past experience and know-how Estonian financial structures hope to benefit from the anticipated growth of the Latvian and Lithuanian economies by entering the commercial banking, insurance, leasing and securities markets of these countries. One of the best examples is a member of another strong Estonian financial group investment banking company, Talinvest, who became a member of The Riga Stock Exchange and also took over one of the leading Lithuanian broker companies, Suprema, thereby becoming a truly pan-Baltic investment group covering simultaneously all three republics. Estonian financial groups are getting more and more influential in Latvia and Lithuania.

Banks increasingly active in securities markets

The banking sector, which almost did not exist in a planned economy, has played a crucial role in the process of shaping capital markets. First of all, similarly to other emerging markets, the shares of top leading banks (Hansapank in Estonia, Unibanka in Latvia, Vilnius Bankas in Lithuania) have become highly sought after and reliable instruments due to their large market capitalisation and excellent financial performance. The rapid growth of banks profits has lead to an impressive increase in share prices which is very likely to continue since the ratio of banking assets to GDP is still much lower than in industrialised countries. Latvia and especially Lithuania are remarkably "underbanked" compared to Estonia. Secondly, commercial banks,

whether directly, or via subsidiaries, are becoming increasingly active in the securities markets and are paying more and more attention to so-called off-balance sheet banking activities, which include securities trading, corporate finance, and asset management. Together with the development of information technology, the importance of traditional commercial banking has started to diminish worldwide, because clients can make transactions via the Internet and companies can issue bonds or shares instead of taking a loan from a bank. All in all, strong commercial banks in Baltic states, especially in

Although the amount of securities available in the Baltic markets has greatly increased and trading volumes are on the rise as well, markets are still small in absolute terms, and prices will remain sensitive to any sustained buying or selling by institutional investors. (While on The Tallinn Stock Exchange local interest is clearly prevailing, in Riga and Vilnius foreign investors are dominating and influence or sometimes even determine the prices.)

Estonia have played an important role, not only in promoting securities market, but also in restructuring process which includes privatisation and attracting foreign investments.

In Soviet times overexpanded industry sector is still subject to some shrinkage and restructuring in all Baltic coun-

tries and therefore it is generally not so attractive to many investors. On the other hand there lays big unrealised potential and many private-owned companies with modern technologies and know-how are seeking ways to become a public companies. When these companies will be listed on stock exchanges this may in some extent decrease investors' interest in banking sector, but demand in blue chips will remain always strong.

In the process of creating conditions conducive to evolution of financial markets there are problems in all Baltic countries that are difficult to solve short-term. For the availability of external financing depends generally on both track records and collateral, as things stand now there are difficulties on either count. Since most enterprises have existed for a few years - at least under their present owners -, track records are necessarily short. As far as collateral is concerned, it requires clear definition of status and enforcement mechanisms of the property rights. In the presence of contradictory claims and uncertain obligations this will also take time. The same applies to the development of effective securities market supervision and regulation. The sophisticated legal and regulatory systems for proper and efficient functioning of modern capital markets have yet to be developed in Baltic states, although there has been significant progress in developing these in recent years.



BBA Graduates - December 1996

NAME	TOPIC OF THESIS
Triin Kullamaa	Theory and Practice of Sales Promotion. Project "Ostustopp"
Katrin Weiss	Appraising a Real Estate



BBA graduation ceremony in December, 1996. At front, EBS president congratulates Triin Kullamaa, BBA graduate.

MBA Graduates - December 1996

NAME	TOPIC OF THESIS
Kalev Salupuu	Market for Estonia Grand Pianos in Europe
Märt Volmer	Estonia and the World Trade Organization: Perspectives on the Development of Estonian Trade in Services in the Framework of the General Agreement on Trade in Services

Graduate Diploma in International Business

Aune Aru
Meelis Aru
Ilona Eskelinen
Enn Jaama
Jaanus Kasema
Lea Kroonmann
Ilona Lott
Georg Luzkov
Lee Murrand
Olev Nilisk

Viljar Nurme
Neeme Nõmme
Kaidi Pajula
Peep Pihotalo
Priit Piile
Jüri Piiper
Tõnu Pobul
Toomas Põld
Margus Pärn
Ardi Püssa
Urmas Rahnel

Kersti Renzer
Katrin Saaret
Mati Sarevet
Albert Sibrik
Karin Sonntak
Teet Soorm
Tiina Soorm
Raivo Spatar
Tarmo Tamm
Eva Truuverk
Margus Üürrike

Balls are not just for Dancing

On December 7 a ball celebrating the eighth anniversary of the Estonian Business School was held in the Chandelier Hall of the Sakala Centre. The hostess of the ball was Maie Jõgar, a student of the Estonian Business School and Miss Estonia 1996, and the host was Karel Loide. Horre Zeiger's big band played the music. Apart from the students and the staff of the school, Dr. Halina Kobeckaitė, the Am-

bassador for Lithuania and Fredrik Wetterqvist, the Second Secretary for the Swedish Embassy were present at the ball, representing the diplomatic corps in Estonia. Business sphere was represented by Hannes Tamjärv who was elected the Best Businessman of Estonia 1995 by the Estonian Business School. The alumni present included Peep Aaviksoo, the General Director of Norma Ltd, Arle Mölder, the Director

of the Hüvitusfond and Urmas Arumäe, an attorney, who is also the Head of the Business Law Chair at our school, and many others.

Educational institutions were represented by Rein Loik, the Minister of Education and Mati Kask, Head of Department. Professor Marshall Fitzgerald, one of the owners of the school, came from the USA.

Madis Habakuk, President of the Estonian Business School, recollected in his opening speech to the ball how he had listened to the empirical truth expressed by a Russian academician-astrophysicist that seven out of nine fundamental physics laws had been annulled. M.Habakuk predicted that a similar process will also take place in management: the total pursuit of rationality is becoming questionable, a balanced man is more effective. Sports, parties and other similar events balance work.

M.Habakuk :” Balls are a quite new phenomenon in Estonian society. Formerly only artists had bigger parties, but these were not true balls. Ball culture is developing a year after year. A ball is not only about dancing, it's something more - it's a great occasion. People need to be 'at full stretch', not making concessions in appearance or behaviour. The professional presentation of the opening waltz by Miss Estonia and her companion to the music of the big band in the representative ballrooms of the Sakala Centre made such a huge impression upon the guests. Personally I never miss balls, at the end of every year I go to four or five balls.”

Professor Marshall Fitzgerald: “The party was an excellent opportunity for students, EBS's staff, public figures and statesmen. The band and the rooms suited the purpose well. We are not used to holding such grand parties in America.”

I asked **Estelle Arnaud-Battandier**, a French lady teaching in the Estonian Business School, about the impres-



EBS 8-th anniversary ball was officially opened by M. Habakuk, the president of EBS, and EBS students Maie Jõgar and Karel Loide.

sions of the ball. She amazed the ball guests with her professional dancing skills coloured by her genuine French temperament.

"It was the first time for me to be at a ball in Estonia. I didn't know what to wear and what the music would be. I was pleasantly surprised when I saw a real band!", she said with particular stress and delight. The atmosphere of the ball was a little quiet for her Latin temperament but it was pleasant to see that the guests' attitudes to the party were serious and respectful.

Estelle Arnaud-Battandier: "I liked the music because it was possible to tango, waltz and dance in many other styles. I had been told that Estonian men couldn't dance but I saw that this was simply not true. It was pleasant to see the students' gorgeous clothes. The party was well organised, the intervals between the dances were filled with performances. The rooms for holding the party were fantastic: a lot of space and cosy atmosphere. In a relaxed friendly atmosphere I could talk to a lot of people: both the students, school staff and the people from outside. They didn't think about their work so much and were in an excellent mood, open and relaxed. I really enjoyed the evening."

One of the students - **Arvo Eller**, the Service Manager of ESS Security Equipment Ltd., shared his impressions



EBS 8-th anniversary ball. At front, EBS student Kristiina Heidmets and her partner set a good example for others. Since March 97, Kristiina is Miss Estonia '97.

of the ball with us: "Our study group is very active and often organises extra-curricular activities. We have more or less similar interests, all of us are ambitious. There were about twenty of us at the ball. We have a tradition that we usually have a festive dinner before the ball. This time we had it at the Merineitsi (Mermaid) restaurant in the "Hotel Viru". The ladies had been made up at beauty saloons and were well suited to the festive atmosphere of the ball. Last year we had rehearsed ball room dancing on the eve of the ball. Our group member's wife who has also been elected Miss Estonia taught us dancing last year. This year we didn't

have a rehearsal and consequently were not so good on the dance floor. At the same time we had a chance to get acquainted with our school-fellows and our casual conversation with our lecturers extended into real disputes. It was a very pleasant change as we usually go out to bars and restaurants. "There should be more opportunities of this kind to relax because there's little time left for ourselves as we go to work daily and then study in the evening."

Ruth Alas
EBS lecturer

EBS Total Quality Management Seminar in Pärnu

During two beautiful cold winter days from January 15 - 17 a group of Estonian Business School staff and faculty members attended a seminar in Pärnu, a town in South-Estonia. The winter seminar has become one of traditional activities of EBS's management, and the innovation process during which a set of topical problems is usually discussed bears the important purpose to share information between the university's rapidly growing departments in addition to having a broader view on several specific problems and achieving consensus in the solutions. The wider objective of these kind of activi-

ties has always been the integration of the numerous staff in larger institutions, and making them more aware of each others problems, and brainstorming of the more important complex problems.

There was a lot of preparatory work done by two of our study departments - The Evening and Distance studies department, and the Full-time study department. A set of documents on the organization of the study process, advice for writing a good case lecturing plan for all the departments etc. were compiled and handed to seminar par-

ticipants beforehand. All the faculty members had made their contribution several weeks before the seminar by participating in discussion meetings and the preparation of the initial viewpoints.

Now a little about our seminar. The seminar was planned to be held in seven discussion sessions each lasting for one and half hours. The actual situation turned out to be different from this and, in speaking of the evaluation, much more positive that was predicted. The BBA and MBA problems, study process organization, personnel moti-

vation and qualifications were discussed and brainstormed. Some of the work was done in teams during the short breaks between the sessions. The active methods of finding solutions were used during meals at the table, relaxation time in the swimming pool and night club, and finished with the conversation between room-mates late at night. This is one of the primary advantages of this form of work when everyone can feel to put forward their ideas in an informal atmosphere.

I would rather not deal with all the problems one by one but try to summarize the most burning points that were brought up and the possible solutions to them.

One of the major key words on the seminar was standardization. This is the essential point caused by the rapid growth of the Estonian Business School during last few years. The number of students has grown from 500 to 1200, the number of employees from 15 to approximately 60. We have several new study programs which means that the number of faculty members coming to our university has grown dramatically since 1994. All this means that the problems of students, and faculty members, as well as staff members cannot be dealt with one by one, case by case. Serious moves have to be made for preparing clear rules and instructions for all of EBS's members.

Another key issue that was emphasized on these two days was the problem of writing, publishing, buying and distributing textbooks. EBS faculty members

have written many lecture notes, and textbooks are now being written with the support of the Open Estonian Foundation. The process of editing and publishing them has become very important for the university. The pressure of competition here in Estonia as well as in the whole world forces us to maintain and distribute better textbooks to the students, this requires additional financial planning and contributions from all faculty members in finding the most suitable textbook from the numerous lists of publishers. We also plan to start with a reading course for our future EMBA students as the level of applicants differs dramatically and is thus it is quite problematic to find a common starting point for them.

A very important key problem in structuring the BBA program curriculum was discussed for a longer time and participants drew several schemes of building up the curriculum on the basis of specialization areas. The second issue in structuring the curriculum was how to reorganize summer internships or whether to continue with them at all. The discussion led to the formation of three working groups dealing with curriculum, textbooks and internship programs.

The next two discussion panels were dedicated to our personnel - qualification and motivation issues. One can imagine that everyone had his or her own ideas and concepts. The material gathered as a result of these discussions is now the basis of renewing our personnel strategy. I shall stop at only the most important points. It is ex-

tremely difficult to find qualified faculty to teach economic and business subjects in Estonia. Young people are only now beginning to obtain their degrees in modern economic sciences in several Western universities, and they subsequently find employment in successful financial organizations and multinational organizations where remuneration is even more attractive than private universities can possibly afford. Therefore an intensive faculty searching program has to be launched.

To conclude the work done during the seminar I would like to cite the basic idea of an MBA program. One can learn through out life and participate in many courses and seminars, even receive several bachelor degrees; general knowledge consists of many discrete particles. The main objective of an MBA program is to help the person in integrating the knowledge gained, and to arrange all the obtained information within one general framework. This is the main requirement for managers. We can draw a parallel from here with the results of the Pärnu winter seminar: until then many have known much within their narrow area of specialization in the organization. The seminar helped people to come away with a much improved overview of the problems and arrange the information about EBS very much like the MBA program does. So the final conclusion reflects this statement: EBS faculty and staff members received their MBA in knowing themselves.

Kairi Kallaste
Secretary of President of EBS

The Wednesday Guests in 1996

The purpose of open seminars of a specialised university is to enable students and also the so-called 'citizens' to become familiar with other subject fields and international perspectives. The seminars of the autumn term could be classified under the common term 'policy'. The question whether policy is educational has to be answered by the participants Siim Kallas (Ex-Minister

of Foreign Relations); Charles de Chasseron (the British Ambassador); Basil Zavoico (IMF representative in Estonia); Toomas Vilosius (Ex-Minister of Social Affairs); Ardo Hansson (Economic Adviser to the Government) and Heiki Kranich (the General Secretary of the Reformation Party) on their own.

In the spring term '97 the topics were

entirely different - "Science, religion and culture". So far there have been two speakers: Enn Kasak, Astrophysicist and lecturer at the Tallinn Pedagogical University and Toomas Paul, pastor of Jaani congregation. In the near future we are expecting the culture guru Linnart Priimägi to come and link the triangle - science, religion and arts.

First of all, I would like to thank all those attending our Wednesday seminars who have continuously realised the principle according to which it is necessary to have continuous discussions/debates in the society.

Siim Kallas's speech at EBS happened to take place at a very interesting time. Two days before Kallas came here (i.e. September 16) Anvar Samost's article "Ungrounded worry about the national capital" was published in "Eesti Päevaleht" in which the author revealed a prevalent feeling among Estonia's entrepreneurs: "The state reinforces our positions against our (foreign H.P.) competitors, because we want to rest on our laurels or haven't achieved anything at all." On the same day as Siim Kallas's speech, an extremely angry response by Rein Lang, who is considered the main ideologist of the Reformist Party, was published, the tone of which was almost identically similar to the ideas of the Maaliit representatives.

As just before that the president of the Estonian Bank had demanded export subsidies and a member of the Board of Hansapank had demanded import tariffs, it gave the impression to the author that there are no longer any supporters of the liberal market economy left in Estonia except Samost. The impression was not especially pleasing.

* non-profit EBS student organization with emphasis on student off-school activities

It was a great personal relief to me that Kallas withdrew from Lang's statement most clearly that evening.

Secondly, I undoubtedly remember his memorable fireplace story.

Compared to other guests I know **Basil Zavoico** the best. I acquainted with him as we first started during our work on the IMF economic policy. As he is a thorough 'economist' it is easy to reach an agreement with him. I think the English word 'sharp' characterizes him best. He is smart and his good sense of humour makes him a good and interesting companion to talk to.

Toomas Vilosius is undoubtedly one of the most charismatic ministers of the former government, and surely all those who have met him are convinced in this. In my opinion, his field of activities is the largest time bomb in the Estonian society after our educational system. The point is that long-term economic growth can possibly continue only if 1) domestic savings will expand; 2) the general level of education will improve. The situation is relatively catastrophic in both fields (for the reason that an average Estonian doesn't want to hear that he should start settling his bills himself). As pension reform is a principal measure to encourage saving, I hope that the participants in the seminar left with the general idea of the basic problems which underlie it.

Ardo Hansson is indisputably the best and most famous economist of Estonian origin and, with the exception of Basil, it is him that I've had the closest contacts.

Hansson is one of the first who led me to the idea that the Estonian 'economic miracle' is only a great myth at which the most regrettable thing is that we have started to believe in ourselves and for some reason think that an up-to-date economic environment is the only possible option. I think that up to now I have surpassed Ardo in terms of pessimism about the future prospects of the Estonian economy.

Charles de Chassiron and I were school-fellows and joint founders of the Estonian-Cambridge Association. He's a most pleasant and intelligent man.

Heiki Kranich: The idea from Wednesday seminars to be remembered "No one from our generation lives until the age of retirement."

Hardo Pajula
EBS lecturer

Open seminars directed by Hardo Pajula and the Oil Club* have taken place at EBS since the autumn semester of 96.

EBS Alumni Association Started its Activities

On November 1, 1996 the first meeting of the initiative group of the EBS Alumni Association took place. All the participants in the meeting supported Madis Habakuk's (the President of EBS) viewpoint that as the business school already has several hundreds of graduates it's time to start initiate alumni activities which could be useful to both the alumni and the school.

As a result of the meeting the Alumni Association of the Estonian Business School was established. All the alumni

of EBS who recognise the Statute of the Alumni Association and wish to take an active part in its activities may apply for membership.

The main objectives of the Alumni Association of the Estonian Business School are as follows:

1. To promote the mutual co-operation of EBS, the Alumni Association and, all students in the field of education, research and practice.

2. To assist in the development of EBS, to promote, evaluate and advise EBS.

3. To draw together EBS's alumni.

4. To pass on the practical experience of EBS's alumni to EBS's students.

5. To participate in the formation processes of economic and business management education and research in Estonia.

6. To develop co-operation between corresponding associations in Estonia and abroad.

The implementation of these main objectives is envisaged as follows:

For the students - EBS's alumni are to assist its students in finding work, planning their careers through "speciality days", as well as advising diploma theses and arranging traineeship, optional and single lectures by alumni and grants offered by the alumni.

For the alumni - to promote connections within EBS's alumni via the EBS alumni day, the general meeting, a ball on the first Saturday of December and the EBS Summer Days together with the students, periodical courses and training programs for the graduates.

For the Estonian Business School - lobby work carried out by the alumni advising EBS and assisting in arranging lecturers and consultants to give lectures.

The highest body of the Alumni Association is its members' General Meeting which elects a 15-member Board. The Board arranges the practical work of the Alumni Association fulfilling its statutory tasks. The Board meetings of the EBS Alumni Association are held from 4 p.m. until 5 p.m. on the second Wednesday of each month.

The main tasks of the Board of the EBS Alumni Association in the short-term perspective are - the creation of a data base for the alumni, the establishment of the alumni column on the EBS home page on the Internet, universal assistance in making the EBS Alumni and Summer Days a tradition, and initiating different foundations to support the students of EBS.

Kristel Tõldsepp
graduated from EBS in 1996

THE MEMBERS OF THE EBS ALUMNI ASSOCIATION;

ARLE MÖLDER Director of the Hüvitusfond (Compensation Fund)

TOIVO KÜLAVIIR Liiva Keskus P&K Ltd., Managing Director, the representative of the Master's Club

MERLE RIHMA The EBS's study consultant, the representative of the Students' Body

REET SÕNAJALG The assistant to the EBS's Vice President, the secretary of the Alumni Association

AVO MEERITS The Vice President of EBS, the representative of EBS

PIIA SANDLA The Managing Director of Artmiks Ltd.

URVE MARGUS Dow Jones Telerate, Baltics, Customer attendant

KRISTEL TÕLDSEPP A-Film Eesti Ltd
Managing Director

MARGUS TINITS EMI-EWT Ltd.
Finance Director

GEORG LUZKOV Ekelin Ehitus Ltd
consultant (Ekelin Construction)

OLLE TISCHLER Eesti Kindlustus,
PR manager (Estonian Insurance)

MART EINPALU Hansapanga Kindlustusaktisasetls, the chairman of the board (Hansa Bank Insurance Ltd.)

JOHANN SULLING ESTIP

MART MEERITS Hansapank,
Stock Market Manger

AVE VOLMER Hotel "Olympia"
Ltd., Sales Manager



Arle Mölder, director of Hüvitusfond, was elected the President of Alumni Association in November, 1996



A group of successful EBS alumni at EBS 8-th anniversary ball

The Export of Education

EBS Participates in International Fairs

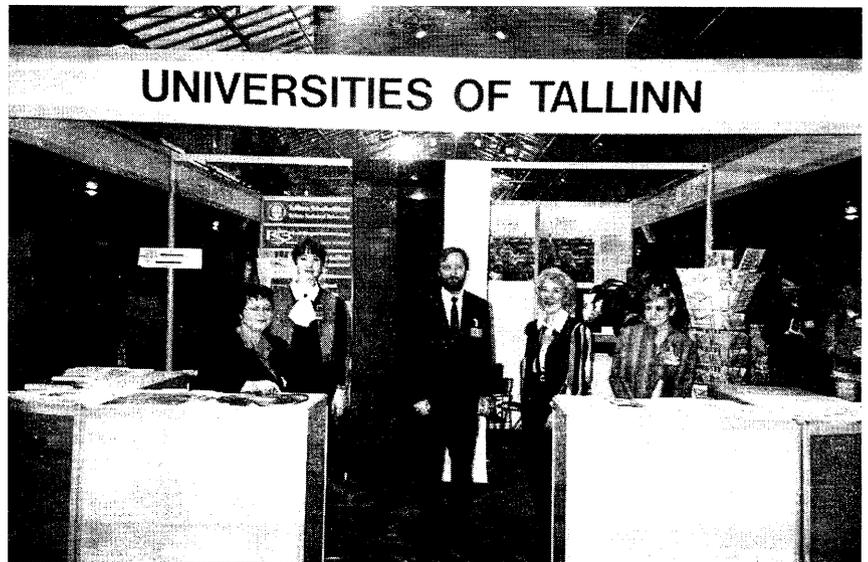
Participation in international educational fairs to introduce educational possibilities of Estonia has become more widespread over the last couple of years.

Apart from the export of goods it is also possible for Estonia to export services, among tourist, communication and transport services. Estonia can offer educational services, i.e. students from abroad are offered the possibility to study one term of their studies or the full program in Estonia.

In opinion of EBS, education is one of the most promising export articles of Estonia. Firstly, every student brings along into Estonia ca 100,000 kroons a year and spends it on tuition and accommodation. The amount of export services of the Estonian Business School with the students' accommodation expenses in Estonia may reach about twenty million kroons a year in a couple of years from now on. This would be a specific contribution of our university to balance the Estonian balance of payments.

The second important fact brought along with the export educational services is internationalisation. This means to use lecturers from abroad to a significantly greater extent and the study organisation corresponding to organise the international level, and to wider co-operation with foreign universities. All this should contribute to a situation where interest in going to study abroad would decrease at diploma and bachelor level. Estonia could cope with that level of tuition successfully and at a high level enough. This in turn should create more resources and offer additional opportunities for people to study abroad at a Master and Doctor level. Eventually it would mean the optimum use of our national resources. The internationalisation of universities would cause wider interest among foreigners to study at Estonian universities at a Master and Doctor degree level.

The third factor accompanying the export of education is the rise of the prestige of Estonia among the international



Joint exhibition stand of four universities from Tallinn at STUDIA '96 in Helsinki

public. If Estonia is capable of offering competitive educational services on the educational market of developed neighbouring countries it will mean recognition of Estonian's potential of mental power. Educational services which are competitive on the international market are like high-technology goods which can only be produced by highly developed countries. This should assist in the growth in respect for Estonia in the eyes of potential investors.

The Estonian Business School has set the target for the active export of educational services.

Last year an international English-based study group in a four-year program started studying in our university, with a sizeable group of Finnish students. Next year we are planning to form a larger study group. According to our prediction, about a couple of hundred students from other countries will study at our university in the next four years.

The experience of taking part in the educational fair in Finland last year shows that it is necessary for Estonian universities to introduce local study possibilities and fields of study in the neighbouring countries as for example the Finnish youth goes to a larger extent to study abroad for one term or for the whole study period.

Several educational fairs for different target groups are held in Finland. There were three educational fairs in Finland at the end of the last year. On Nov. 15-16 the educational fair CREO '96 was held where mainly teachers and lecturers were expected to participate in order to introduce the newest study aids and textbooks to attendees.

There were special seminars where experts presented educational methods from Finland and abroad.

On Dec. 18-19 there was an international educational fair NEXT STEP '96 which has gained popularity among Finnish students of all levels and where possibilities to study in vocational schools, high schools and universities in Finland and abroad are introduced. In addition to the possibilities for studies, different occupational associations offer jobs to students, advise the unemployed, offer training facilities etc.

This time the fair took place in Helsinki in a huge convention centre. The Estonian Business School took part in the fair for the second time already sharing the exhibition stand with Tartu University and Tallinn Technical University.

The Finnish Students' Association and the Fair centre IXPO Ltd arranged an international educational fair, STUDIA '96 on Nov. 22-24 which was first and

foremost meant for high school graduates who want to continue their studies at universities. Universities from Finland and several foreign countries were represented at this exhibition. We only received an invitation to participate in that fair at the beginning of September. As taking part in fairs is expensive, several of Tallinn's universities decided to go to STUDIA '96 fair together with a joint stand.

The Estonian Business School has signed co-operation agreements on the exchange of students and lecturers with Tallinn Pedagogical University and the Institute of Law and joint study programs will be worked out together. Also we are involved in close co-operation with the Tallinn Technical University.

Therefore we decided to use the common exhibition space together with the above-mentioned Tallinn universities to introduce the study programs and study possibilities at the different schools of Tallinn.

All the above-mentioned universities of Tallinn introduced their study programs where foreign students are expected to apply, and information was given concerning student life in Tallinn in general. In the lecture room the representatives of the universities made their presentations.

This common display of four Tallinn universities is one of the first educational co-operation projects of its kind, allowing Finns to become familiar with the possibilities to obtain different

higher educational programs in Tallinn. Participation in an international educational fair is an important step in the internationalisation of Estonian education and the development of the export of higher education and hopefully also the increasing number of foreign students in Estonian schools.

It is wonderful that the Estonian Export Aid Commission has evaluated the introduction of the new export article of Estonia and supported it from its resources within the bounds of its financial means.

Tii Karing
Director of the Research and
Development Department, EBS

EBS Student Research -

Acknowledgement by the Academy of Sciences and the Ministry of Education

The main objective of EBS is to become a university in a sense of an educational, development and research institution where educational and development activities are tightly connected with research work. In connection with this we made the decision to try our hand in all of 1996's student research and creative work competition. The Academy of Sciences competition began in the spring of 1996, whilst the competition organized by the Ministry of Education started in the autumn. The purpose of submitting the student research papers to the competition is to make our capable youth take more interest in research and creative activities. The bachelor and diploma theses of all the universities and further educational establishments could participate in the competition and in addition the Master's theses in the competition organised by the Academy of Sciences.

A hundred research papers were submitted to the competition organised by the Academy of Sciences and apart from the Commission of Student Research Fund they were assessed by:

Pavel Bogovski, Priit Järve, Georg Liidja, Udo Margna, Jaan Penjam and Anto Raukas; and also by experts such as Raimund Hagelberg, Juhan Kahk, Merike Kelve, Valdek Kulbach, Enn Kundla, Arno Kõörna, Toomas Liiv, Tõnis Pehk, Heiki Pisuke, Loit Reintam, Kristiina Ross, Karl Siilivask, Inge Unt and Asta Õim.

The Commission for the competition organised by the Ministry of Education was the following: Hiie Hindrikus, Professor of Tallinn Technical University, Jaan Ross, Professor of Tartu University, Jüri Orn - Tallinn Pedagogical University, Krista Kodres - the Vice Rector of the Estonian Academy of Arts, Kaie Kerem - Professor of Tallinn Technical University, Kalle Merusk - Professor of Tartu University, Mairo Ajaots - Professor of Tallinn Technical University, Henn Elmet - Vice Rector of Research at the Estonian Agricultural Academy, and Anto Raukas - Academician at the Academy of Sciences.

The following EBS Research papers participated in the competitions:

Leon Jankelevitš "Money Laundering as a Financial Crime"

Johann Sulling "Feasibility Study on a Venture Capital Fund"

Tõnis Kulm "The Development and Establishment Process of a Client Card in Lithuania"

Marko Tammsaar "Legal Aspects of Mergers and Takeovers"

Lauri Maaring "Estonian Bankruptcy Laws, Collision Problems and the Comparison of Some Aspects with the Bankruptcy Laws of Other Countries"

Marge Anijärv "Development of Entrepreneurship and Local Initiatives"

Ulla Ilisson "Marketing Insurance Products in Estonia"

Out of private universities which have not operated long we were the only participants and the result was most pleasing, we won two prizes from the competition of the Academy of Sciences: the 1st prize (2,500 kroons) - Leon Jankeleviř "Money Laundering as a Financial Crime" and the 2nd prize (1,500 kroons) - Marge Anijärv "Development of Entrepreneurship and Local Initiatives".

At the competition of the Ministry of Education we received the 2nd prize with a diploma (750 kroons) among papers on economics - Leon Jankeleviř "Money Laundering as Financial Crime".

Success to all the participants!

Leon Jankeleviř who is remembered with a smile at least by the present BBA 2nd course as an eager and competent lecturer, works now in Price Waterhouse as an expert. EBS students, lecturers and staff had the chance to watch the awarding the diploma of the Academy to him at the public ceremony celebrating the anniversary of the school on December 7, 1996.

The other winners had to wait until December 18 when they were awarded at a public ceremony during the ses-

sion of the General Meeting of the Academy of Sciences. The prize, along with the relevant diploma was also given to Marge Anijärv who is currently employed by Balti Kindlustuse AS (the Baltic Insurance Ltd) as a Marketing Manager.

On behalf of all the students, lecturers and staff we wish them good luck. Now it is only to be hoped that there will be more and more amongst us who will be in the first ranks of Estonia's premier researchers.

Terje Tiiman
Program Manager, EBS

Accreditation Has Begun

Accreditation is the principal method of ensuring the high quality of higher education in Estonia. After long and thorough preparations the assessment of the economic study curricula was started as they are the newest and an important field in the economy in Estonia.

Universities and their study programmes are accredited by the Higher Education Quality Assessment Council of Estonia (HEQAC) which operates under the Ministry of Education. The basis for accreditation is the self-analysis report compiled by the university itself, the accordance to the standards of which is evaluated by the international accreditation commission in the course of two-days' expert visit to the school. The members of commission talk to students, lecturers and the administration at the school, and become acquainted with the administration of studies, study facilities, library and reading-room. Thus the standard of higher education together with its tens of substandards is the criterion according to which the commission of experts gives its assessment and presents it to the HEQAC. The latter in turn submits the final report of the final decision to the corresponding school for it to study.

The school has the right to present its own viewpoints and specifications which are in turn examined by the work group formed by HEQAC where the



International Commission of Accreditation visited EBS on December 10-11, 96.

proposal is drawn up for the final decision of accreditation. Different expert groups have already visited the economics departments of the University of Social Sciences Lex, the Tallinn Technical University, the Estonian-American Business College, Concordia University, Tartu University and the Estonian Agricultural Academy before.

The international commission of experts (Dr. Robertas Jucevicius (Lithuania), Dr. Charles Kroncke (USA), Professor Peter Manning (USA) and Professor Maksim Saat (Tallinn Technical University) visited EBS on Dec. 10-11. The Commission gave a positive assessment and suggested accrediting

the Bachelor and Master programs. A decree of the Ministry of Education is given out on the final decision. The assessment process of economic study programs should finish in April 1997. According to the Law on Universities only those higher educational institutions which have already been accredited, can apply for government projects. The decision of accreditation is expected to be made by the end of April.

Tiia Karing
Director of Research and Development
Department, EBS

For the Second Time at the Youth Information Fair

The third information fair "Teeviit '97" took place in the premises of the Estonian Exhibition Centre in Tallinn on March 6-8, 1997. The popularity of the fair has increased year by year which is proved by the increasing number of visitors and the number of participating exhibitors. All in all there were 17,000 visitors and 145 exhibitors of which 23 were universities.

Specialised high schools, vocational schools, high schools and grammar schools, study centres, hobby centres, information centres and youth clubs, as well as different organisations and companies participated and for the first time students' companies were involved.

Herewith it is pleasant to admit that EBS had the chance to make a special introduction to more than a hundred young people taking part in the fair of Estonian students' companies. The guests were invited to the Estonian Business School at 8 p.m. on Friday evening, March 7 for the presentation of the university in the hall. Madis Habakuk, President of the EBS, and Avo Meerits, Vice-president of the EBS, took the floor and a video on our university was shown. Then the guests were taken around the university and for conclusion there was a *Fourchette*-table set in the Students' restaurant where the guests could meet EBS students.

Now, back to Teeviit '97.

Also book fair was organised which had already aroused great interest last year. To make the event more special, there was an entertainment program for the visitors of the fair. The stage was



EBS exhibition stand was visited by hundreds of high school students.

set up for that purpose where different schools, and youth organisations and centres made their performances. The whole event took part in the hall, the main part of which - the Blue Pavillion is two-storeyed.

In short, it was a great informative event for anyone eager to learn with the aim to introduce young people to the many possible ways at spending their study, work and leisure time.

The Estonian Business School was out with its stand for the second time. It is pleasant to admit that interest in our university was even greater than last year. In addition to the study consultants there were students present in exhibition stand who in contrast to the academic atmosphere were lively and warm.

The students organised different competition games and distributed gifts

with the logo of the university as rewards. Questionnaires on our university were distributed and every full hour a prize was raffled between those who had given the right answers. Or for example playing darts where it was necessary to hit the 8 to get a reward (as our university is eight years old). Such capturing games caused excitement around the stand of our university and attracted a lot of publicity. The participation of students in the fair contributed much to the success of the endeavour.

In conclusion, it could be said that we achieved our objectives at the fair and hope that the same level of interest in our university is present in the summer, during entrance examinations, as well.

Espe Valdgraf
BBA 3rd year student

The Estonian Business School in 1996

January

The discussion of the EBS development strategy until the year 2000

The traditional meeting at the beginning of the year and the teamwork training of the EBS's staff and management took place from January 3-5 on the premises of the health resort "Tervis" ("Health") in Pärnu.

Internet courses

for the staff and the lecturers since January 8. All staff, lecturers and students have their own e-mail address. E-mail plays a substantial role in mutual communication, a part of lecture materials is transmitted by E-mail.

For the first time at the international education fair "Next Step"

in Kuopio and Turku on January 18-19, the presentation of a new program for foreign students starting in autumn.

February

The speech day of the management game

took place on February 16 after the staff of the school and the management had used the logic of the search game for the strategic planning of the SWOT analysis.

President Madis Habakuk in the USA interviewing potential foreign lecturers and negotiating with partner schools from February 20 to March 9.

Training and consultancy department started training program for guides and tour guides, and also multi-stage courses for accountants and finance managers.

March

Our first time at the information fair "Teeviit '96" ('Road sign') on March 1 - 5 at the Exhibitions Centre of Eesti Näitused.



The discussion of the EBS development strategy until the year 2000

The basketball championship between the study groups of the EBS in the sports hall of "Norma" in March.

Professors Jaan and Lehte Alver make reports

at the annual National Conference of the British Accounting Association, March 27-29, in Cardiff in Great Britain.

All-Estonian competition in business for high school students

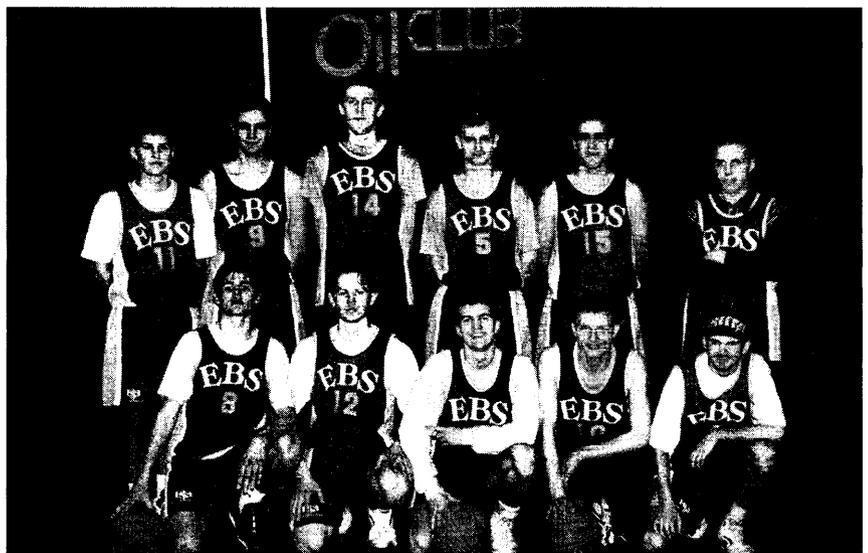
was organised by EBS, supported by the Ministry of Education on March 30-31. The best contestants were given the chance to start their studies in EBS with a grant and were awarded by trip to Sweden and some study materials.

April

The annual meeting of the Estonian Association of Private Education was held on the premises of EBS on April 3.

The 'open door days' for new students took place on April 4. By that time EBS Journal no. 3 was published, a special issue on money and banking.

The 'businessman of the year' was elected. Hannes Tamjärv, the Chairman of the Board of Hansapank, was given a bronze bulldog, a challenge prize, by Hans H. Luik, the businessman of the year '95



EBS basketball team

Formation of the chairs and election of professors.

On April 24 the EBS Senate formed six chairs: Business Accounting, Economics, Management, Mathematics for Business and Informatics, Business Law, Social Sciences and the heads of the chairs, professors and associate professors were elected according to the results of the competition.

Aet Toots, head of the English language chair, was in Switzerland within the frames of the teachers' exchange program to learn more about teaching methods of foreign languages applied in Europe.

Raimo Nurmi, an internationally recognised and well-known professor from **Turku School of Business Administration** read a series of lectures to the doctor degree students. Doctor's degree students from Tallinn Technical University and Tallinn Pedagogical University also attended the lectures.

May

Lehte and Jaan Alver, professors of the Business Accounting and Finance chair made reports at the **Annual Congress of the European Accounting Association in Bergen** on May 2.

A scientific conference organised by EBS "The integration problems of private and public higher education in Estonia" was on May 8 where among others Jaak Aaviksoo, the Minister of Education, Professors Olav Aarna, Mati Heidmets, Madis Habakuk, Hanno Sillamaa, Mart Susi, Väino Rajangu, Jüri Sepp, Tõnis Lukas delivered speeches.

The defending of Bachelor's theses started on May 13-15. 39 graduates were "under fire" and were awarded bachelor's degree in international business administration with different specializations in banking, marketing, service and business law.

The chamber choir of EBS gathered for the first time on May 16 to surprise the school staff with their songs at the public ceremony in spring.

The first scientific conference "An evaluation of research done upon EBS's students and their study programmes." took place.

On May 22 the scientific-methodical conference on research and the methods of our university was held where the lecturers and researchers gave the reports introducing the results of the

research work in 1995/96. Summaries of eight reports were published in the collection of reports.

The 20-member delegation of our partner school the Turku School of Economics visited our school on May 23-24.



The chamber choir of EBS gathered for the first time in may 1996



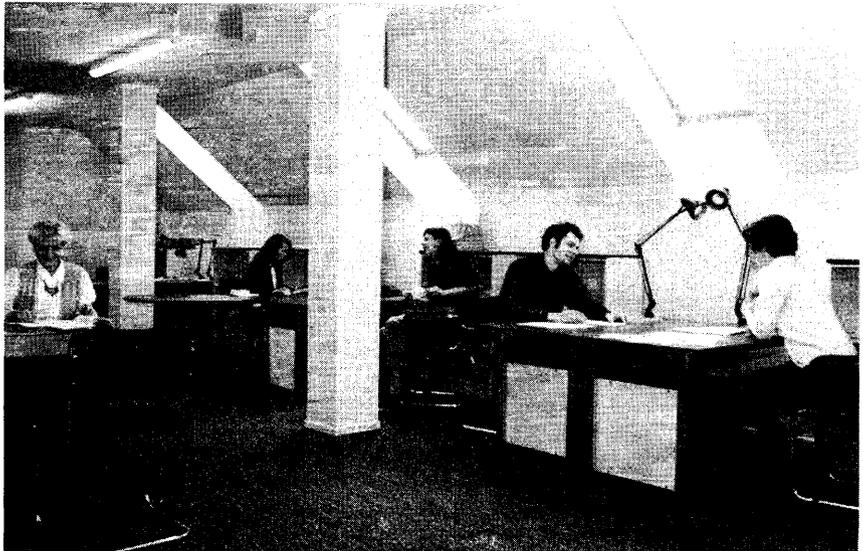
EBS businessman of the year is awarded with a bronze bulldog

The principals of the two schools signed co-operation agreement.

The closing ceremony of the BBA 2nd year of graduates

on May 25. 30 full-time BBA students from EBS graduated, after having defended their bachelor's theses and received the right to wear graduation gowns & caps at the public ceremony, and be photographed with them on.

The new roof was constructed that provided for EBS facilities extra space and interior renovation began.



June

The 'open house days' of EBS

on May 20 the rooms of the school were full of secondary school graduates wanting to apply to the school.

A new tradition was born

the first 'summer days' of EBS were held at picturesque Kurtna lakes where almost 200 of the most active students, lecturers and representatives of the staff gathered.

In June partner agreement was signed between the EBS, the Institute of Law and Tallinn Pedagogical University, provide modern university education in social, economic and legal sciences. According to the agreement the parties of the agreement will accept their lecturers working for another party as visiting lecturers and free movement between schools. The graduates are awarded a degree which is accepted by all the three schools.

EBS joined the PHARE project on the development of distant education together with Tartu University, Tallinn Pedagogical University and Tallinn Technical University.

July and August

Entrance examinations and interviews with the candidates for the Bachelor's and Master's programs were held in July and August.



EBS new lecture rooms & library were opened in September

Madis Habakuk attended the Annual Conference of the European Council of Business Education (ECBE) in Nikosia, Cyprus, July 5-7.

Professors Lehte and Jaan Alver attended the Annual Conference of the American Accounting Association in Chicago on August 14-17.

An agreement was signed between the Ministry of Education and EBS.

Research paper "Foundations of formulating the national economic strategy for the years 1997-2007." 1st part, was compiled by P.Lõhmus and co-authors K.Põder, H.Pajula and U.Riiel.

On August 30 J.Allik, Minister of Education opened a new larger reading-room, the lecturers' rooms on the fifth

floor and new lecture rooms, altogether 1000 square meters of extra space for EBS facilities.

The meeting of the lecturers and management before the beginning of the school year was held on August 30.

September

The opening ceremony took place on September 1.

The school now holds more than 1,200 undergraduate and post-graduate students. This year there were 518 new students eager to begin their studies, a noticeable increase compared to 1995.

New programs were introduced - the International Bachelor's Program in Business Administration (Int.BBA) -

all the studies are carried out in English for 20 students from Finland, Russia and Estonia; Diploma Studies in Entrepreneurship and Business Administration - 78 students; and a new study group for students coming to EBS from other universities - 37 students.

The elections of the new Students' Body were held, which in turn elected the Editorial Board of the Tudengileht (Student Paper) with a new image and a new name.

The VIP lectures in the Assembly Hall traditionally took place on Wednesdays. In the autumn term Siim Kallas, Basil Zavoico, Toomas Vilosius, Ardo Hanson, Charles de Chassiron and Heiki Kranich took the floor.

In September and October our lecturers made reports at scientific conferences.

Jaan and Lehte Alver - at the International Conferences in Portsmouth, September 12-13 and Geneva, September 20-21;

Ludmilla Podolski - at the 7th International Conference of Functional Grammar in Cordoba, Spain, September 23-27;

Peter Löhmus - at the Conference organised by Friedrich Naumann Fund "The Economy, Liberalism and the State - A Reappraisal of an Old Liberal Question", in Lauenbur, Germany, September 26-29;

Madis Habakuk at the CEEMAN Annual Conference in Prague, Czech Republic, October 17-19.

The export of education - was expanded by the participation of our school in two international educational fairs in Helsinki. The first of them, STUDIA'96 was a joint project between Tallinn universities where the universities of Tallinn - Tallinn Technical University, Tallinn Pedagogical University, the Institute of Law and EBS all introduced their study facilities and programs. The fair took place in an old historic fair centre in the Old Port on September 19-21. In December EBS participated in

another fair "Next Step", in the Pasila Fair Centre together with Tartu University, the Ministry of Education and Tallinn Technical University.

October

Alumni movement

was represented by the Master's Club for some years. As there are already two BBA courses graduated, Alumni Association was formed and its statute was reviewed.

Student research

For the first time six of the bachelor's theses were sent to the all-Estonian competition of student research and creative work and to the competition of student research organised by the Ministry of Education. Out of all private schools we were the only participants and the results were most pleasing - three prizes altogether, one 1st prize and two 2nd prizes.

December

The 8th anniversary of our school was celebrated on December 7 with a festive annual ball in the Sakala Centre. The closing ceremony of the Master's program took place on the same day.

The international accreditation commission visited our school on Dec. 10-11, assessed the level of programs in

economics, study facilities and talked to the students. The commission gave a positive assessment and suggested accrediting the Bachelor and Master programs. The decision of accreditation is expected to be made by the end of April.

Christmas party with Santa Claus, gifts, food, drinks and dancing was held on December 21.

Foreign lecturers in EBS In 1996

Peter A. Manning - Strategic Management, BBA 4, MBA 2

Michael Larsen - European Integration, BBA 4, (elective course)

Sousan Urroz-Korori - European Integration - finance problems, (elective course)

Estelle Arnaud-Battandier - How to do business in Germany and France (elective course)

Karen Kilty - Entrepreneurship and business plan, BBA 3

Raimo Nurmi - International Management, Ph.D

Scott Levey - English

Chris Lemke - German, English

John Rodriguez - English



EBS Anniversary Ball



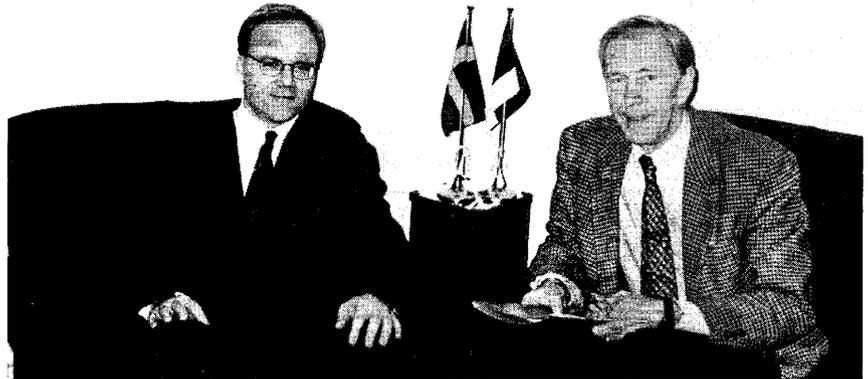
Peter A. Manning - Professor, Strategic Management, BBA 4, MBA 2

Internationalisation of EBS

EBS signed several co-operation agreements with a number of educational institutions abroad. We signed partner agreement with the Turku School of Economics and Business Administration (Turu Kauppakorkeakoulu), the Paris Business School (Ecole Supérieure Libre des Sciences Commerciales Appliquées), Bentley College, the Economics Institute Boulder Colorado, Oulu Polytechnic Institute with its Business School (Oulu Kauppapilaitos), Pohjos-Savo Polytechnic School of Business and Administration, Kuban International Institute of Business and Management and Turku Commercial College (Turun Kauppapilaitos). While the first six agreements involve co-operation at the level of BBA and MBA programs, the last one at the co-operation at the level of diploma studies. The priorities of all agreements are the exchange programs of students, lecturers and research co-operation.

The Norwegian School of Management and Tampere Adult Training Centre are our partners abroad in the field of adult training and consultation.

The principals of the above mentioned educational institutions (Professor Tapio Reponen, Rector of Turku School



Fredrik Wetterqvist the 2-nd Secretary at the Swedish Embassy visited EBS in 1996

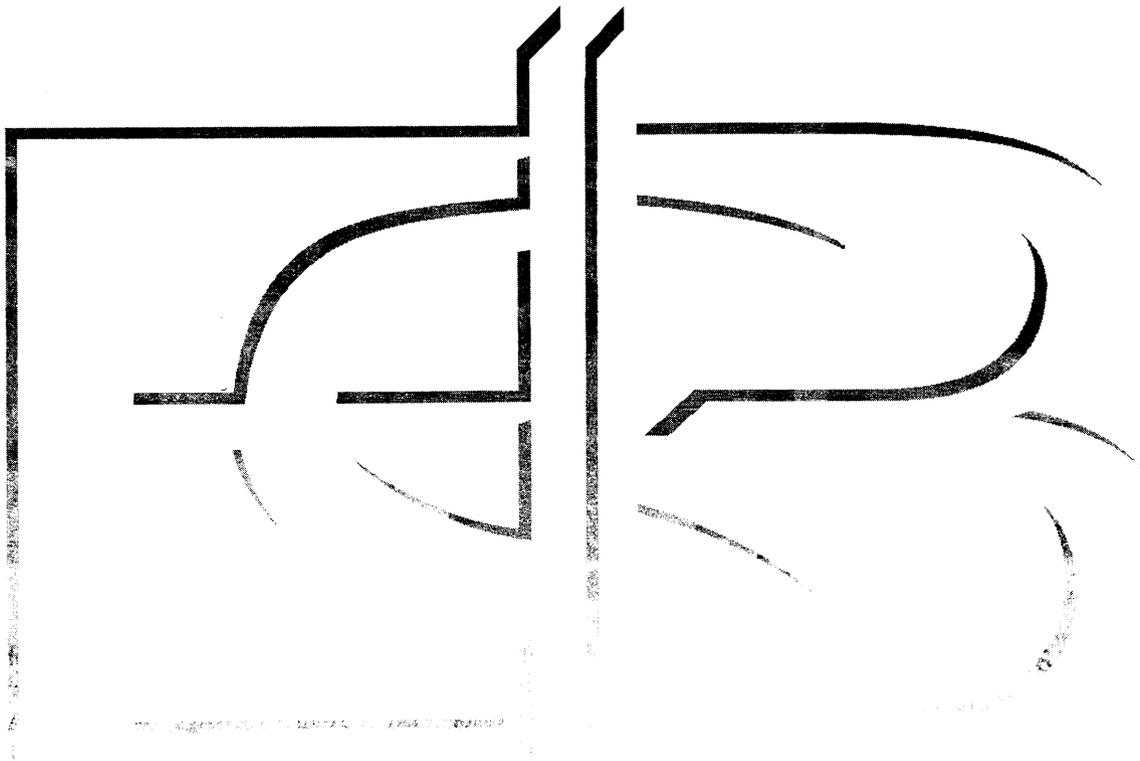
of Economics and Business Administration, Professor Alain Joseph, President of Paris ESLSCA, Professor Erkki Kangas, Rector of Oulu Business School) have visited EBS during 1996. We develop close links with Bentley College. Dr. Jerome B. Bookin-Weiner, Dean of International Education and the Associate Professors George H. Hachey and Peter A. Manning have visited and lectured in our school.

We have received as guests at EBS Mr. Hidero Kawahira, President of the Osaka Institute of Commerce, Associate Professor Jaak Jürisson from Fordham University, US and the most distant guest has come here from Australia - Mr. Jim Jenkins from the Royal Melbourne Institute of Technology. Undoubtedly, the representatives of foreign countries and international organisations with whom we have had regular meetings, have played a significant role in achieving the above - given results. Thus Mr. Lawrence T. Taylor, the US Ambassador to Estonia, Mr. C. R. L. de Chassiron, the British Ambassador to Estonia, Mrs. Catarina Brodin, the Swedish Ambassador to Estonia, Mr. Fredrik Wetterqvist the 2nd Secretary at the Swedish Embassy, Mrs. Halina Kobetckaitė, the Lithuanian Ambassador to Estonia, Mr. Jacques Faure, the French Ambassador to Estonia, Mrs. Catherine Suard, the Culture Attache of the French Embassy and

Mr. Philippe Bravard the Economy Attache of the French Embassy, Mr. Andris Piebalgs, the Latvian Ambassador to Estonia, Mr. Svend Roed Nielsen, the Danish Ambassador to Estonia, Dr. Kai Lie, the Norwegian Ambassador to Estonia, Mr. Seppo Kuusisto, the Press Attache and Mrs. Heidi Haggblom, the Head of the Consular Department of the Finnish Embassy, and Mrs. Annette Priess, the Culture Attache of the German Embassy, have visited us. We have received as our guests here Mrs. Laura Leventis, from the American Chamber of Commerce in Estonia, Dr. Ralf-Georg Tischer, representative of German trade and commerce in Estonia and Mr. Xavier Marchelidou, one of the coordinators of the EU PHARE Programme in Estonia.

We should admit that EBS develops and expands through internationalisation.

Tiiia Karing
Director of Research and Development
Department, EBS



© 1997 EBS, Tallinn

Printed in Europrint, Tallinn
Reproductions: KO Repro, Tallinn



E S T O N I A N B U S I N E S S S C H O O L

International Bachelor of Business Administration

In the fall semester of 1996 the Estonian Business School opened a new program - International Bachelor of Business Administration.

This is a fully English language program. The objective of this program is to give students from other countries an opportunity to pursue a BBA degree at EBS, providing them with a broad understanding of the global business environment and an in-depth understanding of the economies of the Baltic States and north-western Russia.

The 160-credit-point program concentrates on a combination of basic and advanced courses in various business disciplines. The curriculum is designed to enable each student to acquire a foundation in all areas of business administration: accounting, business law, economics, finance and banking, marketing, management, quantitative methods, and statistics.

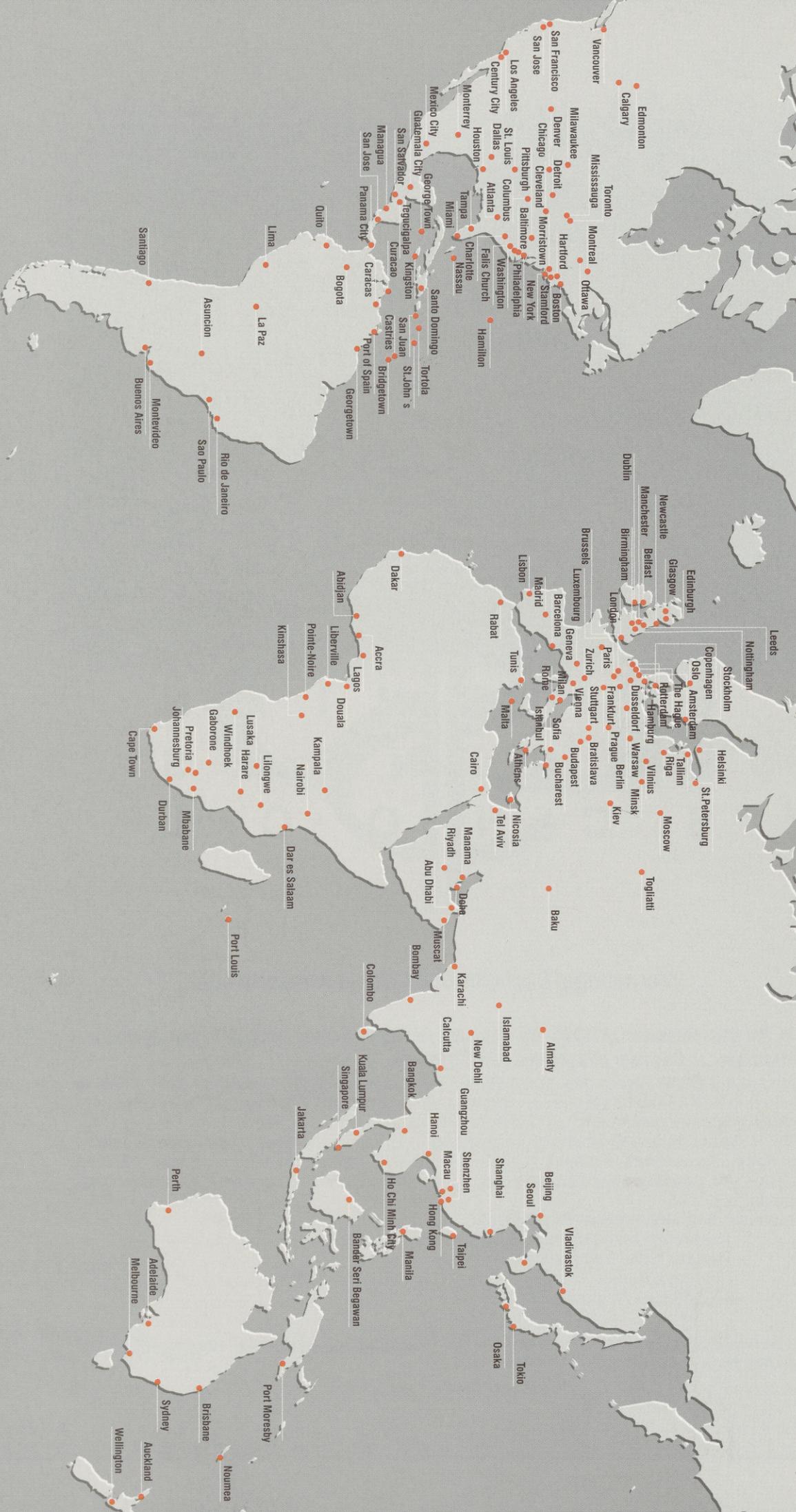
Besides the standard BBA curriculum, the program offers:

- courses on business policy in the Baltics and Russia
- field trips to other Baltic States
- field trips to Russia
- study visits to Estonian companies.

Surely international students at EBS will profit from the very specific geopolitical situation of Estonia - a link between the East and the West. You're welcome at Estonian Business School!



Price Waterhouse



Price Waterhouse Tallinna kontori teenused:

- Audit
- Infosüsteemide audit
- Juhitumiskonsultatsioonid
- Üksikisiku tuludeklaratsioonid
- Juriidilised ja maksukonsultatsioonid