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## ESTONIA, REGIONAL CHALLENGES AND STATE BRAND

*This research paper illustrates the study of Brand Estonia and the means used by Estonia to tackle its regional challenges. By analyzing the national Operation Programme for the EU Cohesion Policy Funds, Regional Development Strategy 2020, Estonia 2020 Action Plan and projects Brand Estonia & Enterprise Estonia, research identifies main regional challenges of Estonia, the ways Estonia uses political marketing strategy, and role of cohesion funds in order to successfully implement project Brand Estonia.*

*The main aim of the European Cohesion Policy is to increase the competitiveness of the countries and regions. Political marketing represents a market-oriented approach in the theory of international relations and is based on the brand strategy in order to increase the competitiveness of the nations. Using two main approaches, technical-economic and political, nation-states are seen to operate in a global competitive context. The paper shows direct connection how Estonia is using Cohesion Funds to sponsor its political marketing strategy with a purpose to increase competitiveness and gain economic and political power within the region.*

### INTRODUCTION

Taking into consideration the great economic and social disparities within the European Union, the European Cohesion Policy aims to increase the competitiveness of the regions and therefore, the union as a whole. This is accomplished by being “the single largest source of financial support at the EU level for investment in growth and jobs, designed to enable all regions to compete effectively in the internal market” [CEC, 2009]. Investment in growth and competitiveness can be interpreted in a different manner based on the region, country or the government in charge of the money distribution. This paper illustrates the Estonian strategy of closing these gaps in disparities and answers the research questions of: how Estonia tackles regional policy challenges, what does nation branding mean, and how does Estonia plan to gain economic and political competitive advantage by using national branding as a strategy. By analyzing the national Operation Programme for the EU Cohesion Policy Funds, Regional Development Strategy 2020, Estonia 2020 Action Plan and projects Brand Estonia & Enterprise Estonia, the research shows the clear use of political marketing tools within the regional policy framework of the county.

Estonia, being a successfully converging economy within the EU, represents one of the smallest members of the Union (in terms of size, population, and GDP). After the Restoration of Independence, Estonian regional policy has undergone major changes and development. The EU has played a major role in advancing institutional reforms and progress of the country. The first

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regional policy document of Estonia was adopted in March 1991, and aimed to achieve a “balanced development of all the regions of the country” [Raagmaa, Kalvet, & Kasesalu, 2014]. Since 2004, EU structural funds were received and aimed at developing the local social-economic and infrastructural environment. As discussed in the paper *Europeanization and De-Europeanization of Estonian Regional Policy*, the authors outline the common pattern of regional policy fund redistribution during the different time frames. The majority of the funds were spent on: developing early educational institutions (schools and kindergartens); advancing local public services; and in order to improve regional competitiveness, a high amount of investments were made in tourism development. No significant funding for the manufacturing industry deepened the gap between the center and rural regions. Economic development in Tallinn was booming. However, growing regional differences led to massive outmigration from industrial regions [Kalvet, 2011]. Only Tartu and Central South Estonia could go above the national average GDP per capita [Raagmaa, Kalvet, & Kasesalu, 2014].

The initial position of Estonia, to stress developmental funds on the center, rebuilding the infrastructure and touristic spots, in order to increase the attractiveness and therefore competitiveness of the nation, is the pattern that interests this paper. The following subchapters explain the regional challenges of Estonia, patterns of state branding in order to tackle discussed problems, technical-economic and political approaches to political marketing strategy, and the early steps of Estonia in the state brand building process.

## REGIONAL CHALLENGES - ESTONIA

According to URBACT key challenges of Estonia are the following: Weak development potential of regions and small urban municipalities - the main reason is a high concentration of people and economic activities into largest urban areas (not sufficient administrative and financial capacity for economic integration process). Resulting in a high level of unemployment, low socio-economic development and lack of sufficient infrastructure. Out-migration is caused by lack of job opportunities and weak urban-rural connection.

Above mentioned challenge is tackled within the framework of national regional policy. Regional Development Strategy 2020 is the most important policy document and focuses on: increasing international economic competitiveness of the five Estonian larger urban areas in a manner to benefit regions and create an attractive living environment. The purpose is to balance the population and economic parity between the regions and create sufficient environment for growth potential (Estonia's regional development strategy for 2014-2020).

Before Estonia's administrative reform, in the national regional development strategy guidelines, the functional urban regions (FURs) were assumed as potential growth areas in Estonia [Ministry of the Interior, 2005]. Three-quarters of the national population, an absolute majority (92%) of the top 500, and a significant amount of people with higher education degrees were located in 12 FURs. [OU EUREG, 2002]. In the paper; *Demographic, employment and administrative challenges for urban policy in Estonia*, Jauhiainen discusses flows of above-mentioned FUR system. In order to achieve international competition, it was necessary to have larger size FUR within the country, limited human resources were not allowing future growth and development. The high disparity of size and talent was another obstacle for advancement, as, during the

mid-2000s, only seven FUR had over 10,000 employed residents, and only one-third of FUR had more than 10,000 employees with a higher education degree [Jauhiainen, 2006].

Another challenge for Estonia, as for the whole Europe generally is aging society. The country is in a critical need for major immigration, workers with education and qualification. As Jauhiainen discusses, the share of elderly will rise significantly from 2009 and the group entering higher education age will be half that of the mid-1990s [Statistical Office of Estonia, 2005]. “there will be fewer highly educated and trained young people and pressure on taxation will increase.” [Jauhiainen, 2006].

Following Estonia’s administrative reform, by voluntary or forced mergers and litigation, the number of municipalities in Estonia has decreased from 213 to just 79, 15 of which are towns or cities. Prior to the reform, the average number of residents per municipality was 6,349 and the median number of residents 1,887. Since 2017 administrative reform, these numbers increased to 17,118 and 7,865, respectively [Statistics Estonia, 2017].

In accordance with the Article 7 of the Cohesion Policy Funds regulation, national Operation Programme for the EU Cohesion Policy Funds of Estonia, designed special measures for “Integrated and sustainable urban development”. Priority areas cover: developing public urban space and integrated/sustainable mobility systems; advancing child care services in urban sprawl areas; and physical, social and economic revitalizing of disadvantaged urban neighborhoods (special focus for North-Eastern parts). Above discussed initiations are covered by the OP measures and targets areas of Tallinn, Tartu, and Pärnu, and North-Eastern region (Narva and Kohtla-Järve/Jõhvi).

With an aim to improve the linkages and collaboration between towns and their larger hinterlands - “Enhancement the competitiveness of regions” was launched. The project includes activities to enhance business infrastructures; develop regional centers of competitiveness and their related business clusters, and planning and implementing local incentives for improving the employment and business activity; —Developing transportation linkages between county centers and their hinterland [URBACT, 2014] [Estonia’s regional development strategy for 2014-2020].

## **POLITICAL MARKETING STRATEGY – STATE BRAND BUILDING**

Political marketing represents a market-oriented approach in the theory of international relations and is based on the brand strategy in order to increase the competitiveness of the nations. In other words, it is a tool to increase awareness and favorability of the states with a purpose to gain economic and political power. Using two main approaches to political marketing, technical-economic and political, nation-states are seen to operate in a global competitive context. Assuming that reputation of the states can strategically advance their interests in the international arena. Sharing instrumentalist orientation, considering nation branding as tools for gaining a competitive advantage, regardless of whether the processes are defined in economic or political terms. State brand building is an essential part of political marketing. And currently, researchers observe increasing tendency from different nation-states investing their resources to create a positive brand image and relevant representation for their countries. However, it is important to outline, state brand building can only be successfully implemented by strategy, substance and consistent actions from the state. It represents the long-term oriented goal rather than a set of steps aiming for immediate results.

Technical-economic approaches to political marketing include studies from disciplines that concern themselves with conditions for economic growth, efficiency, and capital accumulation. These include marketing, management, and tourism studies. Political approaches include studies primarily interested in the impact of national images on nation-states participation in a global system of international relations. These studies come from the fields of international relations, public relations, and international communication [Kaneva, 2011]. Of course, states are more complex and need more comprehensive strategy than products but there are similarities too and according to Olins, people can be “motivated and inspired and manipulated” with the use of the same techniques that companies use to brand products [Olins W. , 2002].

Different scholars share three main assumptions about the current state of nationhood, all of which are firmly rooted in a marketing and management orientation. According to Kaneva, “First, they assume the hegemony of global markets and global competition among nations. Second, within this context, national wellbeing is defined primarily in terms of securing an economic competitive advantage, and nation branding is expected to contribute to this by attracting investments, tourists, human capital, or trade. Third, based on the previous two assumptions, this approach asserts that a parallel between nations and brands is warranted and necessary” [Kaneva, 2011].

Similar to technical-economic approach in political approach nation-states are seen to operate in a global competitive context. Assuming that reputation of the states can strategically advance their interests in the international arena. In other words, both approaches share an instrumentalist orientation and see public diplomacy or nation branding as tools for gaining a competitive advantage, regardless of whether the processes are defined in economic or political terms [Kaneva, 2011].

In an increasingly global competition, where states seek international credibility and political influence, branding experts managed to persuade politicians that nations could be viewed as branded products. Moreover, by neglecting to act so, states face compelling negative consequences [Varga, 2013]. It is undeniable that nations need high complex organizational and conceptual approach, however, the majority of leading researchers agree that – nations do behave like brands [Papadopoulos & Heslop, 2002] [Olins W. , 1999]. The brand represents immaterial value, a commodity which is not tangible and acts as capital for its owner to maximize gain and maintain favorable relations with customers. Currently, nation branding became an essential element in the economic, political, and cultural dimensions of any state [Varga, 2013]. In certain cases, right brands started to surpass actual product.

In his article, *The Rise of the Brand State*, Peter van Ham discusses multiple examples of state brand building. One of the essential aspects of brand creation is to link your name with specific positive emotion. Ham identifies “America” and “Made in the U.S.A.” with individual freedom and prosperity, France with *art de Vivre*, Germany with efficiency and reliability, from his point of view states without personality become outcasts on the international arena [Van Ham, *The Rise of the Brand State*, 2001]. The hiring of image-makers by Guy Verhofstadt to rebuild the reputation of Belgium, to emerge as a fresh and significant actor of world politics or continuous attempts of Estonia to get rid of the label of “post-Soviet state” and even “Baltic”, represent another example of state brand building. Countries in Europe know the high amount of similarities they share. The almost same system of governance, education level of society, territorial and infrastructural patterns. In order to stand out, like in 60s commercial marketing, one has to own distinctive brand image [Van Ham, *The Rise of the Brand State*, 2001].

To be successful in political marketing - like in commercial marketing and public relations you need to identify target audience in each country or in the region, create a strategy and its implementation tools to reach them in a variety of different ways. Strategy setting with a brand image and reputation has to be carefully crafted and delivered. According to Peter Van Ham, state branding is not a static game, but in contrary. Countries and politicians need to find its niche for their state, create a credible brand, ensure customer satisfaction and most importantly manufacture the brand loyalty. This logic is true for all economic and political actors, without exceptions. It becomes essential to build personal and institutional relationships with foreign citizens by focusing on values and emotions, giving the clear understanding of the difference in respect to issue-oriented classical diplomacy. [Van Ham, 2008]

In order to understand the brand concept of the states, one must differentiate identity and image of the state. Identity is inwards looking, natural habitude of the state (could be changed, reshaped and rebuilt with time), and Image represents how the state is perceived by the target audience. In the majority of the cases, there is a wide gap between identity and image, on some occasion, it's a negative factor, however, very rarely, could play a positive role under the supervision. Nation branding transforms national identity into intellectual property [Van Ham, 2002]. Historically shaped stereotypes dominate the perception of some countries, even when the identity of the nation changes, the image might stay the same for a long period of time. Not being adequately perceived becomes one of the biggest challenges for the states on its way to achieving economic and political power [Belloso, 2010]. Supported by public policy and funding, state brand building intervenes in this process, and with overall strategy, works on reshaping the image of the state. Major international institutions and trade organizations, such as the United Nations, World Bank, and WTO show the encouraging patterns of state brand building. [Jansen, 2008]. The Institute of Public Relations estimates that annual impact of public relations results in \$130-\$230 billion, and the largest public relation investors are nations and international institution, such as the European Union or World Bank, rather than predicted private entities [Falconi, 2006]. Branding of the state is not a responsibility of one department, ministry or even government solely. It represents the joint effort of public authorities with the private industry and citizens - living up to the brand. To act and think in ways that are well suited to the general contours of the national brand, carrying the brand identity and spreading it with whom they come into contact. "Nation Branding primarily intends to stimulate citizens to 'live the brand' and to become 'playmakers' that will eventually create a matching form of society." [Varga, 2013].

## ENTERPRISE ESTONIA

Estonia was the first former Soviet state to launch a comprehensive branding campaign [Jansen, 2008]. *"In Estonia, clean and untouched nature co-exists with the world's most digitally advanced society. It is a place for independent minds where bright ideas meet a can-do spirit."* A project of Brand Estonia is an effort from a small country of 1.4 million people to present itself to the wider audience, with a dedication to attract potential investors and tourists. Brand Estonia operates under the monitoring of Enterprise Estonia (EAS), the agency created in 2000 by Ministry of Economic Affairs. In early stages of statehood, Estonia faced multiple challenges, including lack of visibility and recognisability. Interbrand's research made obvious that foreigners did not know where Estonia was located and frequently confused the country with its neighbors. With

targeted marketing campaign, promotion of the country, involving lobby groups and branding initiations, the initial challenge for EAS was to target: tourists, foreign investors, and export markets. [Jansen, 2008]

The character of Brand Estonia has three main pillars, Nordic, Surprising and Smart. Targeting appropriate audience with different core messages, such as independent minds, clean environment, and digital society. Brand Estonia offers “est” and “e” oriented, positive wording for communication with the wider audience. Using positive and progressive words starting with “e” or including “est” enables to create linkages and associations of above-mentioned words for Estonia. Both “e” and “est” should be emphasized in bold, with color or outlined while being used during campaigns, presentations, web pages and etc... Brand Estonia offers resources, design and inspirational examples free of charge, including strictly structured layout, wordmark, use of color patterns, and even typeface especially created for Estonia. [Enterprise Estonia] [The Place Brand Observer, 2018] [Kentie, 2016].

Brand Estonia is one of the projects of Enterprise Estonia. EAS promotes business and regional policy in Estonia and is one of the largest institutions within the national support system for entrepreneurship by providing financial assistance, counseling, cooperation opportunities and training for entrepreneurs, research institutions, the public and non-profit sectors. Having 16 representative offices, in 13 countries EAS is dedicated to brand and develop a contact network by investment seminars and branding events on target markets and in Estonia. According to the strategy report of EAS, organizations long-term goal is to help Estonia become one of the most competitive countries in the world. According to data, provided by EAS, only in 2011-2014, more than 3,450 jobs were created and 352 million euros worth of investments were made in Estonia with a help of EAS. As EAS strategy plan claims, tourism marketing targeted citizens of; Finland, Russia, Latvia, Sweden, Norway, Germany, United Kingdom, China, Japan, and the US [EAS, 2015]. Enterprise Estonia also focuses on developing better living conditions within a country, as discussed in previous chapters, one of the challenges Estonia faces is lack of educated professional young workforce, and making country attractive for high-quality immigration is one of the key contemporary issues. In 2014-2020, in order to increase the attractiveness of local spaces and develop living environment, 140 million euros were allocated, additional 3,1 million euros for the promotion of local developments. Two major projects, supporting business environment and developing visiting environments, outside the urban areas of Tartu and Tallinn, were implemented. All in all having budget of 111 million euros. Additional projects were executed in cooperation with Latvia and Russia, in order to develop joint entrepreneurship, cooperation in the sector, joint tourism and cultural programs, and simplifying cross-border employment. [EAS, 2015]

According to Estonia 2020, Action Plan on how to manage cohesion funds, multiple projects are implemented for EAS in order to strengthen Brand Estonia. Under the framework: “To create an environment for bringing more foreign direct investments to Estonia aimed sectors with a greater export potential and higher added value” is funded by Enterprise Estonia. Aimed to increase awareness of the country as the target destination for FDI (Invest in Estonia), tourist destination (Visit Estonia), trading partner (Trade in Estonia) and Estonia as an attractive place to live, work or study (Work in Estonia, Study in Estonia). Action plan 2020, cites “The brand of Estonia has been developed and is being used for these purposes. Attempts are being made towards engaging ambassadors and economic diplomats to a greater extent”. [Estonia 2020 Action Plan 2017-2020, 2017]

Additionally, projects are implemented to ensure availability of labor market for foreign job seekers and provide work-related information in foreign languages. To simplify the discovery, recruitment immigration, employment and acclimation of foreign talents. According to Action Plan 2020, planned activities include; development of e-environment, information, and materials related to starting work in Estonia, consultations, and encouragement of private sector to engage more foreign specialists, campaigning to become destination country for IT workforce, working on adaptation services for foreign specialists and their families. Plus, developing portal, Estonia.eu to introduce Estonia as an attractive country. [Estonia 2020 Action Plan 2017-2020, 2017]

Under the framework of educated people and cohesive society, Action plan 2020 aims to “Facilitate the internationalization of research and higher education”. Including „Study in Estonia” and „Research in Estonia” promote the internationalization of research grants and scholarships.

In order to increase the competitiveness of Estonian Business environment, 57 projects were supported (63.4 million Euros), 16 tourism-related projects, 110 heart of the city projects. Within a framework to “improving regional competitiveness” and “development of regional competence centers” – under strengthening regional competitiveness agenda (PKT). High importance is given to cross-border collaborations with neighboring countries, 29 cooperation with Latvia, Sweden, and Finland, supported by Estonian-Latvian, and Central Baltic programs. The support to Estonian partners’ amounts 8, 5 million Euros, Aim of the project is to develop joint services and goods and market them on third foreign markets. [EAS, 2015]

To increase growth and export capacity, Action Plan 2020 includes “Continuing promoting development and marketing cooperation among companies, in particular in growth areas and directed to more remote markets” boosting project “made in Estonia”.

A project of e-estonia aims to create digital society. Started with the creation of e-Governance in 1997, which made 99% of public services available to citizens as e-services, reducing the need to physically attend and making communication time and cost efficient. Continued with e-Tax, X-Road, Digital ID, i-Voting, Public safety (e-Police, rescue board, emergency centers), Block-chain, e-Health and latter one introduced in 2014, e-Residency.

e-Residency is a new digital nation for global citizens, offered only by Estonia, to anyone in the world. By the help of e-residency, you can establish EU based company and run a business online. Currently, there are 35,000 e-residents registered from 143 countries around the world. One year ago the e-Residency program started cooperation with United Nations Conference on Trade and Development with a purpose to launch eTrade For All, by making e-commerce easy assessable for everyone to help boost global growth. E-Residency aims to have 150,200 e-residents at the end of 2021, resulting in 20,000 new companies created for 2020. In upcoming three years, Estonia plans to market e-residency in Ukraine, Turkey, Bangladesh, UK, India, and South Korea. According to Monika Kallas, head of consultants Deloitte Advisory, by 2025 e-residents will bring 340 million euros in net financial revenue to Estonia. Additionally, estimated the indirect socioeconomic gain in following decade has to add 1.5 billion euros to Estonian economy. [Pau, 2017]

## CONCLUSION

„Today’s community of nations is open, transparent and substantially democratic -- in many ways, like a marketplace ... The state’s reputation is therefore of critical importance.” [Anholt, Branding Nations , 2005]

In its 2005 “Year in Ideas” issue, The New York Times magazine listed the nation branding among the year’s most notable ideas. The article featured British brand consultant Simon Anholt. In his book, „Brand America: The Mother of All Brands,” he predicted that the days when countries will essentially open their own in-house marketing shops are right around the corner. To sum up his position in one sentence “Just as companies have learned to ‘live the brand,’ countries should consider their reputations carefully—because . . . in the interconnected world, that’s what statecraft is all about” [Risen, 2005]. In Anholts’ good country index, Estonia is ranked as 28<sup>th</sup>, having the highest performance in global contribution to culture [The Good Country Index, 2017]. The Place Brand Observer discusses brand Estonia and outlines favoring evaluations from the World Bank “Ease of Doing Business index”, ranking Estonia 12th out of 190 countries. Digital Country index is another one where Estonia scored highest results. When it comes to the 2018 competitiveness index by the World Economic Forum, Estonia only lacks market size, however, in the rest of the components performs relatively high [The Place Brand Observer, 2018]. Brand Finance - independent branded business valuation and strategy consultancy, recently published the report of 10 best performing nation brands. Estonia was ranked as 8<sup>th</sup>, however, when it comes to the valuable nation brand, despite the advancement in ranking (Estonia improved its position from 90<sup>th</sup> in 2016 to 87 in 2017), country brand lacks credibility [Brand Finance, 2017].

Innovative and complex techniques of marketing and communication are being used by the countries with an aim to gain attention and influence in the international political marketplace. This trend outlines the importance of understanding the process from both a theoretical and an empirical point of view. It is essential for a country to possess physical, cultural, economic and technological means in order to project an necessary image to the outside world [Simons, 2015]. While nation branding is purely rational, evidence-based strategy, aiming to have both qualitative and quantitative results, marketers use emotional appeals to create favourability in foreign citizens and to evoke a sense of solidarity among domestic populations. One of the biggest challenges in this process is to formulate national values and identities that are attractive, credible and can be communicated. Another one is reputation management and reducing the risks of possible damage. The image in an abstract phenomenon and represents the perception of others. In contemporary economy, 70% to 80% of the market value comes from intangible assets such as brand equity, intellectual capital, and goodwill. Since reputation is perception, it is a perception that must be measured. [Eccles, Newquist, & Schatz, 2007]. Media analysis, focus groups, public opinion polls surveys of field experts could be used in order to have an adequate understanding of brand reputation.

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