

Baltic Baby Boomers

Small Countries for Small U.S. Exporters

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With Latvia's strong "yes" vote in September in the EU accession referendum, the three Baltic nations, Estonia, Latvia, and Lithuania, are set to join the European Union next May. The "back door" to the European Union will soon include another multi-country area without internal borders.

U.S. companies that have set up business in the Baltic region by then will have several advantages. The relatively small local markets and lower labor costs of the region provide advantages of appropriate scale to small and medium-sized U.S. businesses. The amount of upfront capital at risk can be substantially smaller than that in larger markets. Learning to operate in the EU market for small, new-to-export firms can be less daunting in a small region than in a large one. In addition, Baltic markets are less saturated with global players and thus can provide a more benign environment for entry into the European Union.

As EU accession approaches, awareness among small and medium-sized U.S. firms of the strategic value of this region is growing. The Nordic-Baltic region is increasingly being integrated into Western Europe. The U.S. Department of Commerce assigned its first commercial officer to the Baltic



states in 2001 in response to these very positive trends.

WHEN BALTIC EYES ARE SHINING

The Baltic states have experienced more rapid economic growth in the last three years than almost any other part of Europe. Their governments are committed to building a "knowledge economy," and Ireland is often cited as the model for how the Baltic countries would like to develop. In order to match the economic miracle of Ireland, however, the three Baltic countries need to expand the pool of English speakers, increase the use of Western management practices, and encourage entrepreneurship in order to attract foreign direct investment. The Baltic states also need to continue to combat corruption, which is one of the legacies of the breakup of the Soviet Union.

Government support for small and medium-sized enterprise is minimal

in these countries, and capital formation and enterprise development are consequently behind the curve. There is a widespread need to encourage risk-taking and reduce the stigmatization of commercial failure. Nevertheless, small niche technical companies have done well in attracting Western trading partners and investors. A good example is the software outsourcing industry. The Baltic states are said to be a competitor to India in high-end software development, and they have successfully attracted American investment.

LOW TECH MEETS HIGH TECH

Other promising high-tech businesses in the Baltic states include laser technologies and biotechnology. Mobile telephony has leapfrogged the fixed-line business, and computer use is widespread—although more in the workplace than at home. Local high-tech education is quite good. It is increasingly common for young people

from the Baltic states to pursue at least some of their college education abroad. The fact that these students return home to apply their newly acquired skills is a testament to their high level of optimism and expectations.

Small and medium-sized U.S. firms would be well advised to consider the Baltic region as a low-cost way to enter the European Union. Interestingly, Latvia will share the southernmost common border between the European Union and Russia in May of next year. This strategic location provides access to large developing markets in the east as well as to developed markets to the west, north, and south. East-West transit trade has always been important to Baltic economies. Baltic businesspeople are uniquely qualified to develop markets in Russia, Belarus, Ukraine, and elsewhere in the former Soviet Union, because a large part of the population to the east speaks Russian as well as various national languages and English. For many American firms, the Baltic states are a good match for trade.

LITHUANIA'S ITT SECTOR AT A GLANCE

Lithuania, once called the Silicon Valley of the Soviet Union, today serves as a cost-effective, efficient regional hub for foreign companies operating in European information technology and telecommunications (ITT) markets. Lithuania's economy continues to grow at a robust 6-percent rate, in contrast with the general European economic slowdown. The International Monetary Fund recently gave Lithuania high marks for economic performance and called it a success story. The Economist Intelligence Unit singled out Lithuania as having one of the best growth outlooks in Central and Eastern Europe. Foreign direct investment showed substantial gains in 2002 and is expected to continue to grow, further stimulated by Lithuania's anticipated EU membership in May 2004.

The Lithuanian ITT sector is currently experiencing rapid annual growth at

an all-time high of 25 to 30 percent (compared with only a 2.8-percent forecast for global ITT growth). The estimated market value of the sector is 1.5 billion euros. IT companies have been very successful in exporting software products and software development services.

Scandinavian and U.S. investors dominate the telecommunications sector in Lithuania. Telecommunications has been attracting an increasing amount of public and private investment, which has translated into new technology and overall modernization.

In fact, over the past five years, the mobile telecommunications market in Lithuania has grown more than 60 times (from 15,000 mobile phone users in 1996 to more than a million in 2002), and service providers say demand is still accelerating. The ITT sector employs more than 10,000 highly qualified specialists, with 700 fresh university graduates every year, allowing active and efficient development of information technology and telecommunications. High-tech fields of study are currently among the top choices for students in Lithuanian universities. Major Lithuanian ITT companies cooperate closely with leading technological universities, and such businesses even offer their own specialized internal training programs to students. Companies are thus able to attract a large number of qualified ITT specialists both for local and international projects.

Most international customers already working with Lithuanian ITT companies praise the expertise, quality, flexibility, realistic pricing, and professional services available in the Lithuanian market. Bentley Systems, Inc. (USA), British Telecom, the Danish Ministry of Finance, Ericsson Erisoft (Sweden), Merkantidata (Denmark), Nordic Telecom Company, and WM-data (Sweden) all do business in Lithuania. U.S. software company Oracle sees Lithuania as the fastest-growing market in the Baltic states. ■

NEW CE MARK GUIDE ON-LINE

The Trade Information Center and the Office of European Union and Regional Affairs have collaborated to produce a Web-enabled guide to help U.S. exporters comply with the requirements of the European Union's CE mark. The CE mark shows that a company has met the health and safety requirements needed for a product to be sold in much of Europe. The CE mark affects about half of U.S. exports to the European Union, or approximately \$80 billion worth of merchandise.

The CE mark guide provides step-by-step instructions for U.S. manufacturers and exporters to navigate the CE mark certification process. The European Union lists 21 CE mark directives covering areas such as machinery, electromagnetic compatibility, low-voltage electrical safety, medical devices, radio and telecommunications terminal equipment, toys, equipment for use in potentially explosive atmospheres, pressure equipment, and others. The guide contains the directives, a list of standards for each directive, and procedures that need to be followed in order for a particular product to be CE mark-certified and sold in the European Union.

The initial version of the on-line guide gives complete instructions for self-certification under the directives regarding electromagnetic compatibility, low voltage, and safety of machinery. These three directives cover the vast majority of products requiring a CE mark. The guide also helps to clarify the other directives, including how to determine if a directive applies to a product and how to approach certification. More comprehensive instructions for these directives will be added to the Web site in the next several months.

Besides providing instructions on certification, the guide offers other useful information for companies complying with CE mark requirements, such as a sample declaration of conformity, technical file procedures, a list of testing and certification laboratories, and sources for ordering standards.

The CE mark guide is available at www.export.gov/tic.