## Doing Business in the Baltic States

With fewer than 7 million people combined, the Baltic States might not rank highly in most investors' eyes, but if a smart investor looks at a map, he should start thinking. Historically, the three Baltic States – Lithuania, Latvia and Estonia – have suffered from their location between the mighty and ambitious nations of Russia and Germany and the rest of the Europe.

Today, the Baltic States are in the European Union and their location has clear economic advantages for investors looking for a safe and productive working environment while doing business between West and East. Lithuania, Latvia and Estonia, the EU members since 2005, are closest to Russia's growing consumer market.

The Baltic States also offer the best business conditions of all the countries in the territory of the former Soviet Union. A developed infrastructure, a highly educated, multilingual workforce, as well as relatively low wage and office rental costs are all signs that make the Baltics a very attractive place at the heart of Europe to open operations. An example of Lithuania leads Eastern Europe in its mobile telephone penetration rate at an eye-catching 148.4%.

Though often considered almost as one country, each of the Baltic States is distinctive. This has historically been a problem for the countries, as it makes them very insignificant in comparison to the big European countries.  Estonia, a two hour ferry ride from Finland, prefers to brand itself as a Scandinavian country rather than a Baltic one. And it's true that the Scandinavians do have a lot of business with Estonia. Latvia has the largest Russian minority and the most Russian investment.

Lithuania, with a population equal to the other two countries', has the strongest domestic businesses, especially in retail and logistics. It also has the honour of having one of the most multi-lingual populations in the world, with large proportions of the population speaking as many as four languages – Lithuanian, Russian, English and Polish.

Many of the very largest companies in the world are looking at the Baltics as a hub for parts of their business. The European shops of IT giant Microsoft may soon be furnished exclusively by Latvians, since Latvian trade equipment producer SIA Kompanija Vitrum has become the authorized equipment and furniture provider for Microsoft stores in the EU and US. Italian drivers may be following Latvian-made road signs soon, since Metalplast, an Italian producer of road signs, has moved that business to Latvia and plans to bring others as well. Also a large logo of Barclays can be found at one of the busiest intersections of Lithuania's capital city, Vilnius, after the global bank signed a deal with the Lithuanian government to open a large IT center in Vilnius.

And while Estonia has barely a million people, it is the birthplace of Skype, alone worth a few billion euros, as well as several other internet giants. The country received massive praise from "The New York times"  which called Estonia the "Silicon Valley on the Baltic Sea". Estonia promotes itself as 'E-stonia', and, with so many government meetings and services now online, the 'e-stonians' can be said to have an 'e-President' and 'e-Parliament'. They are also at the forefront of technology of allowing voting in elections over the internet, which will undoubtedly open more business opportunities for the small country.

The Baltic States have been hit especially hard by the economic crisis. After an unprecedented boom earlier in the decade, the overheated economies suffered a very painful crash in the aftermath of the crisis sparked by Lehmann's default in September 2008. Latvia was hit especially hard, with its annual GDP contracting by a massive 18%. However Estonia and Lithuania also suffered terrible, with contractions of 14.5% and 15% respectively. The economic crisis resulted in a collapse of the real estate market, as well as a sharp decline in consumer demand and government revenues, a rise in credit problems, budget deficits and unemployment.

The global economic crisis affected each country differently too. Local statistics show that Lithuania's recession lasted only three quarters compared to six quarters in Latvia and Estonia. Though Moody's takes a dim view of Lithuania's budget deficits, it looks like the Baltic States are coming out of the recession faster than many of their richer EU counterparts.

The crash has also resulted in many opportunities for investors. The countries have a highly educated, highly skilled workforce looking for jobs, there are many new, modern business offices looking for tenants and the government is willing to offer investors good tax incentives. Indeed the region has won praise recently from German ministers for its self –discipline, when discussing the crisis of Greece and the Euro.