

INNOVATION
LAB
ASIA

ESTONIA

A CASE STORY

INDUSTRIENS
FOND FREMME
DANSK
KONKURRENCEVNE
The Danish Industry Foundation



TECHBBQ

PREFACE

In 2003, a pan-Nordic founding team launched Skype in Tallinn, the capital of Estonia. Since then, three other Estonian startups have attained unicorn status, making Estonia the country in the world with the highest number of unicorns per capita.

This report investigates another remarkable Estonian achievement: the establishment of a strong and fruitful relationship with the Japanese innovation ecosystem, and Japanese investors in particular.

Based on research and interviews conducted with the most relevant and important stakeholders, this report tracks the story behind Estonia's success with the Japanese, beginning with initial contacts being made in 2009 until today.

How did a small Baltic country make its mark in Japan? What have they achieved? And what can Danish ecosystem players learn from this story, in relation to accessing both Japan and Asia in a broader context?

The publication has been developed by Asia House and TechBBQ as part of a series of guides to innovation ecosystems in China and Taiwan, India, Japan, Korea, and Singapore.

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BARUTO THE SUMO WRESTLER

Baruto Kaito is one of the few foreign sumo wrestlers to reach the highest division in the sport. He's Estonian, speaks fluent Japanese, and is famous all over Japan. Baruto has been key to promoting Estonia in Japan, working as an ice breaker at official delegations and promoting Estonian companies in the Japanese market. Baruto is the secret sauce of Estonia.

CONNECTING WITH JAPAN

The Japanese innovation ecosystem is currently experiencing an increase in startup investments, especially from corporate VCs. Many Japanese investors are looking abroad for opportunities to add to their portfolios. The Japanese startup ecosystem is still relatively underdeveloped, and by investing in foreign technologies with a proven product-market fit, the Japanese VCs reduce their risk.

Japanese venture capital is also more open to speculative industries like Robotics, AI, and Quantum computing - areas where the Nordics lack heavy upfront investment. Unlike local VCs who prefer quicker turnarounds and proven business models, Japanese investors provide more patient capital, looking to long-term outcomes.

Nordic markets are also relatively small, which limits startups' ability to develop their technology enough to be feasible to deploy at a global scale. Markets like Japan give companies the opportunity to, for example, stress-test, iterate, and deploy at a sophisticated level.

Estonia has proven extremely adept in connecting with the Japanese ecosystem. In 2015, the Japanese E-commerce giant Rakuten acquired Estonian startup Fits.me, a virtual fitting room. Japanese investments in other startups followed, including Lingvist, LeapIn, Lift99, Jobbatical, Transferwise, Funderbeam, Realeyes, and most recently Bolt, in July 2019.

Furthermore, Estonian VCs such as Maki.vc and Tera Ventures, have Japanese investors as Limited Partners in their funds. Having this international presence from the beginning helps startups and investors internationalize earlier and creates more diversified opportunities to scale and find partners.

In 2018, the Japanese connection was taken to a new level when the NordicNinja VC fund was launched as a joint venture between the Japan Bank for International Cooperation (JBIC) and the Baltic VC BaltCap. Headquartered in Helsinki, partly due to the availability of direct flights to Tokyo, NordicNinja is the first Nordic/Baltic fund with a focus on Japan. The USD 110 million fund is backed by three large Japanese tech corporates: Honda, Panasonic, and Omron.

NordicNinja's stated focus is to match new Nordic ideas with Japanese industrial powerhouses. Since 2019, the VC fund has invested in two Finnish and one Estonian startup: MaaS Global (May 19), Flexound (June 19) and Bolt (July 19).

The collaboration between Japan and Estonia goes beyond investments. Many Japanese startups view Estonia as an ideal gateway to the EU and Estonia's largest startup conference, Latitude59, sees a solid Japanese participation. With 131 delegates registered in 2019, Japan was the third largest country represented at the conference, after Estonia and Finland.

Though Tokyo remains the main entry point to Japan for Estonian startups – most often facilitated by the national business promotion agency Enterprise Estonia – the southern Japanese city of Fukuoka is a growing launchpad for Estonian entrepreneurs. Fukuoka is already home to two Japanese-Estonian startups, Planetway, and Blockhive, and the government program "Startup Fukuoka" has engaged in several Estonian partnerships.

The past few years, Startup Fukuoka has hosted a pitch competition at Latitude59, where winners receive a trip to Fukuoka to help scale their companies into Japan. Coffee Pixels, the Latvian startup who won the pitch in 2017, has now seen a successful expansion into the Japanese market via Fukuoka.



SMART ESTONIA

- Estonia is roughly the size of Denmark, but their population is only 1.3 million people.
- Estonia has produced four unicorns: Skype, Playtech, Taxify, and TransferWise. This means that Estonia has produced the highest number of unicorns per capita in the world.
- Estonia is a world leader in digital governance and was the first nation to hold legally binding general elections over the Internet in 2005.
- The Estonian drive towards digitization started with the launch of the Tiger Leap program (Tiigrihüpe) in 1997, where the government invested heavily in computer and network infrastructure, especially for education. In 2000, Estonia became the first nation to make internet access a human right.

INVESTMENT TIMELINE

July 2015

Startup: Fits.me
Investor: Rakuten

Fits.me developed a “virtual fitting room” for online shoppers. The startup was acquired by Rakuten, Japan’s largest e-commerce site and internet bank, and number one credit card company by transaction value.

November 2015

Startup: Lingvist
Investor: Rakuten

Lingvist is an Edtech startup that develops innovative language-learning technology by utilizing artificial intelligence. Lingvist received around USD 8 million in funding in a Series A investment led by Rakuten.

March 2017

Startup: Funderbeam
Investor: Mistletoe

Funderbeam is a funding and trading platform that incorporates Blockchain technology. The startup received an early USD 2 million investment from Japanese investor and incubator Mistletoe. In June 2019, they raised a USD 4.5 million series A round that included Mistletoe and other Asian investors.

September 2017

Startup: Jobbatical
Investor: Mistletoe

Jobbatical connects people looking for international jobs in the tech and creative sector with companies that hire remotely working employees. Jobbatical received USD 4 million in a series A round of funding led by Mistletoe.

October 2017

Startup: Xolo
Investor: Mistletoe

Xolo (formerly known as LeapIn) raised an initial USD 1.5 million in Equity Crowdfunding from Mistletoe and Thorgate. They have since grown rapidly, raising a USD 7.5 million series A round in 2019.

November 2017

Startup: Transferwise
Investor: Mitsui & Co, World Innovation Lab

Transferwise is an Estonian Fintech unicorn that specializes in international money transfers. Transferwise raised a whopping USD 280 Series E round in May 2019 that included Japanese investors Mitsui & Co. and World Innovation Lab.

June 2018

Startup: Lift99
Investor: Taizo Son

Lift99 is an international community of startup founders that provides skill-sharing software for entrepreneurs worldwide. Lift99 raised USD 2.3 million in an international investment round led by Taizo Son, the founder of Mistletoe.

June 2019

Startup: Realeyes
Investor: NTT Docomo

Realeyes is an Estonian-founded, UK-based startup that enables any mobile or desktop webcams to measure the emotions and attention levels of consumers as they watch content. Realeyes raised USD 12.4 million in a round led by Japanese mobile operator NTT Docomo.

July 2019

Startup: Bolt
Investor: NordicNinja

Bolt (formerly known as Taxify) is a transportation network company that operates a ridesharing platform in 50 cities across more than 30 countries. It’s also NordicNinja’s latest portfolio company. According to Techcrunch, the total sum invested amounts to USD 67 million.



PAVING THE WAY

In 2009, Estonia's Chief Information Officer Taavi Kotka travelled to Tokyo to figure out why Estonian companies were having difficulty accessing the Japanese market. Enterprise Estonia had been present in Tokyo for years but hadn't achieved any real breakthroughs.

While in Japan, Taavi realized that even though Japan was a highly advanced society, its public sector was lagging in digitization. Taavi had the savvy insight to put e-governance front and center in dialogue with Japanese stakeholders. While Estonia never actually managed to sell any e-government solutions to Japan, the ensuing dialogue paved the way for regular, high-level meetings between the two countries over a sustained period of time. As Taavi Kotka later concluded: "You cannot sell from a distance - that is the basics of any business".

While Taavi Kotka was promoting Estonian e-governance in Japan, Anne Sulling - then special advisor to the Estonian PM - launched a plan for selling CO2 quotas to foreign countries and companies. Anne Sulling learned that the Japanese had a high demand for these quotas, and that the actual trading was handled by the large Japanese corporations like Mitsubishi, Sumitomo, Marubeni, the very same companies that Taavi Kotka was in dialogue with regarding e-governance. Together, they established the foundations of a strong relationship between Estonia and key decision-makers in Japan.

In 2014, Anne Sulling became Estonia's Minister for Foreign Trade and Entrepreneurship. Her first major challenge was the Russian trade sanctions imposed on the EU in August 2014, which had a strong negative impact on Estonia's agricultural sector. The Japanese connection saved the day when Japanese companies bought up massive quantities of Estonian dairy products.

As Anne Sulling tells Innovation Lab Asia: "It takes a long time to establish a deep level of trust with the Japanese and secure the first deal, but once this happens, you find yourself with an all-weather friend, and other deals follow".





ENTER E-ESTONIA

In December 2014, Estonia launched its e-Residency scheme, providing online access to Estonia's public services for both Estonians and foreigners alike. Estonian citizens could pay taxes, sign documents and access doctor's prescriptions online, while foreign entrepreneurs could establish a company and open a bank account in Estonia with a minimum of red tape.

The e-Residency further strengthened Estonia's image as a cutting-edge digital nation and frontrunner within e-Governance. A few months later, in 2015, Japanese Prime Minister Shinzō Abe became the first high ranking foreign official to acquire an Estonian e-Residency. The e-Residency card was presented to Abe in a well-publicized on-stage event by Taavi Kotka, who initially launched the e-government drive towards Japan in 2009. Now, obtaining an Estonian e-Residency has become a cool thing to do for Japanese startups.

Furthermore, the e-Residency program and the Estonian Startup Visa-program, have made it relatively easy for foreign entrepreneurs to physically locate to Estonia, turning the country into a launchpad for startups looking to scale to the EU. Presently, more than 50,000 people from over 150 countries have established 7,000 new companies in Estonia.

The e-Residency program has played an important role in the success of the Estonian startup ecosystem, both by acting as a driver for innovation and by creating a strong narrative internationally. Additionally, the Estonian government has made a concerted effort to grow their startup ecosystem for the past decade by supporting community driven startup-support initiatives and ensuring startup-friendly legislation. These initiatives are now paying off. Today, Estonia has a vibrant innovation ecosystem with the highest number of unicorns, and the third highest number of startups per capita. In 2018, investments reached a record high at USD 360 million, and startup employment is increasing by 30% annually.

Japanese companies have been particularly keen to collaborate with local digital entrepreneurs and are inspired by Estonia's success given its small size and relative geographic isolation. For a new generation of Japanese entrepreneurs, Estonia has become a point of pilgrimage to learn about the "world's most digital society".

Hikaru Kusaka, a Japanese serial entrepreneur and co-founder of Blockhive, an Estonian startup with Japanese founders, says they chose Estonia as their base because they believed Estonia represented the future of society. "We have a clear reason why we are here in Estonia. No other country but Estonia has done more to use Blockchain in their e-government system which dramatically changes citizens' daily lives," says Kusaka in an interview with Invest in Estonia.

This attitude is shared by many of his peers. Public sector agencies host hundreds of Japanese visitors in delegations each year, and private travel agencies in Japan have made a booming business in providing tailored trips that focus on new innovations in Estonia. Last year, close to 150 delegations from Japan visited the e-government showroom in Estonia, and 40% of all visitors to the Estonian e-showroom are Japanese.



Photo credits: Karel Zova



THE NEW NORDIC WAY

Estonia is a model example of how to establish commercial relations in far away markets on a shoestring budget. The drive towards Japan wasn't backed up by a multitude of large organizations, numerous employees and elaborate export promotion programs. Estonia's success was created by a strong narrative, a vibrant and closely-knit startup community, and few dedicated individuals working together towards the same end. In addition, Estonia successfully branded themselves as New Nordic, leveraging on the generally strong Nordic image in Asia.

Perhaps the single most important factor behind Estonian success was the ability to establish long-term, trust-based relationships with Japanese decisionmakers. All Estonian stakeholders interviewed for this report emphasized patience as a key ingredient. Recalling the early years, Anne Sulling states: "It was very time consuming to get the first deal done ...but once trust was established everything went smoothly.... The first deal also served as a reference of our trustworthiness to others".

Both Anne Sulling and Taavi Kotka maintained continuous relationships with Japanese stakeholders, gradually gaining access to higher-level decision-makers. Taavi Kotka remarks: "I went to Japan about 8 times, and every time I met the manager at the next level. That's how I climbed, and that's how I ended up having dinner with the Prime Minister, twice. But I started from the ground. You must have this patience to work yourself up to the top".

Describing the Japanese perspective, one high ranking official stated that "once you establish a relationship with the Japanese, it does not change even if you change your position".

When delegations from Estonia and Japan visit each others' countries, Estonian startups were always selected to fit Japanese requirements and for their readiness to engage in long-term collaborations. As one delegation organizer stated, "...[Japanese delegations] may have an idea of what companies they want to meet, but if in reality there is no potential match between them, I will try to match them with a company that has more potential". For instance, the Estonians - understanding

the Japanese desire to learn English - introduced the startup Lingvist to a Japanese delegation. In November 2015, Japanese investor Rakuten invested USD 8 million in this startup.

These high-level developments were supplemented by continuous activities on the grassroots level. The Estonian startup ecosystem is a close-knit community, and entrepreneurs introduce Japanese contacts to relevant stakeholders on a personal basis. This personalized approach fits well with the Japanese business mindset.

"Often, these delegations are difficult to understand, because the delegates do not always speak English... Often they don't know what they're looking for, and nothing further comes from the meetings. However, sometimes high-level people in these delegations get inspired, and things start happening. Thus, welcoming Japanese delegations should be viewed as a long term investment," says Raul Allikivi from the startup Planetway, an Estonian-Japanese startup that regularly helps Japanese delegations visiting Estonia.

Startup events such as Latitude59 has also been useful in promoting Estonia as a world capital for digital innovation to influential Japanese stakeholders. When the editor of Wired Japan visited the event, he was inspired by the myriad of Blockchain use cases presented on stage by the startup Funderbeam, and subsequently highlighted Estonian Blockchain companies in a special issue of the magazine. Japanese investor Taizo Son from Mistletoe read this article, and eventually invested in Funderbeam. Since then, Mistletoe has invested in several Estonian companies and makes frequent trips to the country. Recently, the Baltic VCA Summit had a subtheme on Japan, and invited Japanese investors to attend.

Some stakeholders interviewed for this report mention a cultural affinity between Japan and Estonia, a similarity in temperament and approach that makes it easy for the cultures to connect. As one Estonian investor says: "It's perfectly okay to have long pauses or be silent during a meeting".

JAPANESE - ESTONIAN STARTUPS

Planetway (July 2015)

Investor: Mistletoe, Tokusui, Sakura Internet

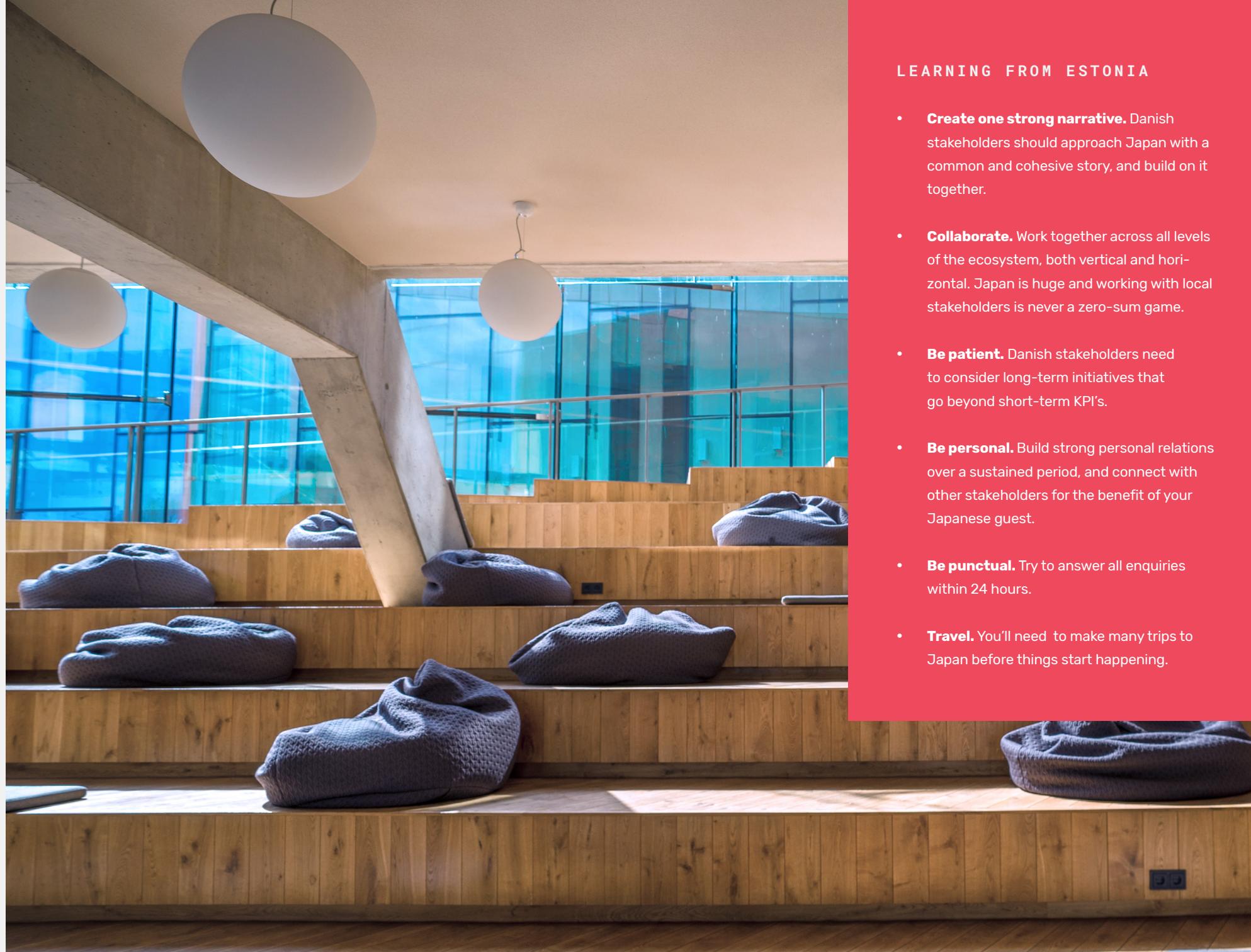
Planetway helps Japanese corporates to integrate Estonian digital society technologies. The startup is backed by Japanese investments and its founding team includes Estonian IT specialists and a Japanese entrepreneur. The board is also a joint collaboration, including Taavi Kotka and a former senior manager of Softbank Mobile.

Blockhive (April 2017)

Investor: ILP, a borderless legally binding token agreement

Blockhive help companies unlock new markets using Blockchain. Its four core businesses includes a digital smart wallet. Blockhive is an Estonia-based company founded by Japanese entrepreneurs, including Hikaru Kusaka.

The close relationship between Japan and Estonia has moved beyond corporate boardrooms and startup coworking spaces. Japanese tourism to Estonia is skyrocketing, and young Japanese people seek financing on popular crowdfunding sites for trips to Tallinn to learn about the “world’s most digital society”. In June 2019, an 84-year old Japanese woman named Masako Wakamiya, the world’s oldest living programmer went on a well-publicized crowdfunded trip to Estonia because she considered it a “tech giant”. Estonia has truly gone viral.



LEARNING FROM ESTONIA

- **Create one strong narrative.** Danish stakeholders should approach Japan with a common and cohesive story, and build on it together.
- **Collaborate.** Work together across all levels of the ecosystem, both vertical and horizontal. Japan is huge and working with local stakeholders is never a zero-sum game.
- **Be patient.** Danish stakeholders need to consider long-term initiatives that go beyond short-term KPI's.
- **Be personal.** Build strong personal relations over a sustained period, and connect with other stakeholders for the benefit of your Japanese guest.
- **Be punctual.** Try to answer all enquiries within 24 hours.
- **Travel.** You'll need to make many trips to Japan before things start happening.

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