



# PROMOTION OF TRADE AND INVESTMENTS IN THE BALTIC SEA REGION

2011

**Report on opportunities for improved cooperation  
between trade and investment promotion agencies**

**- a strategic action of the EU Strategy for the Baltic Sea Region**

[DRAFT]

  
DANISH ENTERPRISE AND CONSTRUCTION AUTHORITY

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## Executive Summary

This report has been commissioned by the *Danish Enterprise and Construction Authority* of the Ministry of Economic and Business Affairs and produced by *Baltic Development Forum* in collaboration with Swedish consultancy *Tendensor AB*.

The purpose of the report is to present recommendations on how cooperation between trade promotion organisations (“TPOs”) and investment promotion agencies (“IPAs”) can be improved in order to promote trade and investments in the EU Members States of the Baltic Sea Region (BSR).

The objective to improve trade and investment ties in the BSR is a so-called strategic action set out in the European Union Strategy for the Baltic Sea Region (EUSBSR). The Danish Enterprise and Construction Authority has been mandated by the European Commission to coordinate the strategic action.

The main recommendations of the report evolve around the following:

- The BSR countries should focus its cooperation efforts in investment and trade promotion where there is critical mass. There should be more opportunities for IPAs and TPOs in the BSR to jointly identify and prioritise sectors and clusters that are strong across the region and have dense networks between them.
- There should be opportunities to engage the TPOs and IPAs deeper in policy advocacy dialog and discussion about branding the BSR, engage the private sector more in the discussions about investment and trade promotion and investigate the potential to credibly position the BSR as global frontrunner in the green sectors.
- There should be opportunities for co-location of foreign offices in some market to achieve information synergies and cost savings, and to explore the possibility of POs in one BSR country to serve firms from the other BSR countries.
- As many of the EU Member States in the BSR is currently modifying their EU funding programmes to better reflect the objectives of the EUSBSR, the Member States should be encouraged to take into account the needs of trade and investment promotion agencies.
- The European Commission should tailor the next generation of funding programmes (maybe especially the Territorial Co-operation programmes (“INTERREG”)) to better suit the needs of trade and investment promotion agencies.
- The Danish Enterprise and Construction Authority is recommended to invite the ministries of the region in charge of trade and investment promotion and/or heads of the investment and trade agencies in the BSR to discuss practical collaboration.

- Collaboration aimed at increasing efficiency of operations could be a way forward to overcome the lack of institutional incentives for collaboration mentioned in the report.
- One concrete way to initiate a practical cooperation on an equal footing between the IPAs/TPOs in the region could be to apply for financial support from the Nordic-Baltic mobility programme for public administration.

## 1. Introduction

This report has been commissioned by the *Danish Enterprise and Construction Authority* of the Ministry of Economic and Business Affairs and produced by *Baltic Development Forum* in collaboration with Swedish consultancy *Tendensor AB*.

The purpose of the report is to put forward recommendations for how cooperation between trade and investment promotion bodies can be improved in order to promote trade and investments in the EU Members States of the Baltic Sea Region (BSR).

This will be done by

- discussing briefly the nature of trade and investment promotion,
- mapping the most important investment and trade promotion bodies and efforts in the BSR,
- providing an overview of current trends in trade and investments in the BSR,
- identifying challenges of regional collaboration in the field and
- suggesting recommendations for future action.

The objective to improve trade and investment ties in the BSR is a so-called strategic action set out in the European Union Strategy for the Baltic Sea Region (EUSBSR). This strategic action envisages better cooperation between trade and investment promotion bodies aiming at further enhancing the tools provided by the Member States in the area in order to promote intra-regional as well as external trade and investments. The Danish Enterprise and Construction Authority has been mandated by the European Commission to coordinate the strategic action.

This report focuses mainly on national public or semi-public trade and investment promotion bodies, even if significant trade or investment promotion efforts of other bodies can be covered, such as private, sub-national and pan-Baltic bodies<sup>1</sup>. The report focuses on both intra-regional as well as extra-regional trade and investments.

The report is based on a review of literature on investment promotion, trade and export promotion, commercial diplomacy, place branding and cooperation in the BSR, as well as 15 interviews with senior executives of trade and investment promotion agencies in the region, researchers and experts. Please find the list of respondents in the “Sources” section.

### 1.1 About the European Union Strategy for the Baltic Sea Region

The European Union Strategy for the Baltic Sea Region consists of a Communication and an Action Plan. The Action Plan comprises 15 priority areas, which represent the main fields where the EU Strategy for the Baltic Sea Region can contribute to improvements, either through tackling the main challenges or through seizing the main opportunities.

Coordination of each priority area is in most cases allocated to a Member State, who in close contact with the Commission is responsible for its implementation and for

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<sup>1</sup> In the case of Germany, the three Baltic Sea littoral Bundesländer will be covered alongside the federal-level bodies.

involving other stakeholders in the process, especially other Member States, but also Regional and Local Authorities and Inter-Governmental and Non-Governmental Bodies.

The priority areas are organised into four thematic “pillars” and one horizontal section. The priority areas are implemented through detailed actions. Some actions are strategic for the Baltic Sea Region as they are designed to address specific and important issues for its regions, citizens and enterprises. Others are cooperative, meaning they are based on the benefits deriving from improving cooperation on issues where Member States and stakeholders are ready to do so.

In addition, a number of flagship projects are appointed for each priority, i.e. projects with a particular significance and potential. These should have a responsible lead partner as well as a deadline for implementation.

The strategic action “Promote trade and attract more investments into the Baltic Sea Region” is a part of priority area 8, labelled “Implementing the Small Business Act: to promote entrepreneurship, strengthen SMEs and increase the efficient use of human resources” (European Commission, 2010).

According to the original principle of the EUSBSR, no new funding is provided for its implementation. Instead, existing funding opportunities need to be utilised better for the purpose of the Strategy. The prioritised actions and Flagship projects of the strategy therefore exclusively relies on these existing sources, which may include Structural and Cohesion Funds, other EU funding (e.g. rural development, fisheries, external action, research and environment funds), national, regional and local funds, banks and International Financial Institutions, NGOs and other private sources. It is, according to the European Commission, therefore of primary importance to raise awareness of those in charge of existing funding possibilities to the added benefits of supporting projects and actions of the Strategy.

Thus, to match the jointly agreed priorities in the Strategy with existing funding instruments is a key objective for a successful implementation process and it is seen as important to make sure that the objectives of the Strategy are reflected in the relevant funding programmes. According to the European Commission, most of the Member States of the BSR either have modified or plan to modify their funding programmes to include a reference to the Strategy (European Commission, 2009).

## **1.2 Investment and trade promotion: definitions, characteristics and actors**

Investment and trade promotion efforts are the result of competition by governments in the efforts to attract foreign direct investments and to promote trade.

### **1.2.1 Investment promotion**

Investment promotion is usually a task conducted by investment promotion agencies (IPAs), which tend to have four different mandates: image building/country branding, investment generation, investor facilitation and investor servicing and policy advocacy.

1. The aim of *image building/country branding* is to create the perception of a country as an attractive site for international investment, including activities

such as focused advertising, public relations events, the generation of favourable news stories by cultivating journalists, etc.

2. *Investment generation* entails targeting specific sectors and companies with a view to creating investment leads, which include activities such as identification of potential sectors and investors, direct mailing, telephone campaigns, investor forums and seminars, and individual presentations to targeted investors. These activities can be done both at home and overseas.
3. *Investor facilitation and investor services* refer to the range of services provided in a host country that can help an investor in analysing investment decisions, establishing a business and maintaining the business, which can include activities such as information provision, “one-stop shop” service aimed at speeding up approval processes and assistance in obtaining sites, utilities, etc.
4. *Policy advocacy* is composed of the activities through which the agency supports initiatives to improve the quality of the investment climate and identifies the views of the private sector on that matter. Policy advocacy can be defined as efforts to affect changes in regulations, laws, and government policies as a way of improving the business climate. Activities can include surveys of the private sector, participation in task forces, policy and legal proposals and lobbying (Morisset and K. Andrews-Johnson, 2004, Szondi, 2007).

Promotion is only one of several tools available to countries striving to attract FDI or promote trade. Other tools include that governments can offer tax incentives and grants, provide industrial estates, create export-processing zones and ease the bureaucratic procedures and negotiate bilateral trade, tax and investment treaties (Wells and Wint, 2000).

The area of investment promotion has been quite well researched, and there is nowadays rather conclusive evidence that investment promotion activities have an effect on FDI (*Ibid.*, Kotler and Gertner, 2002 and Morisset and Andrews-Johnson, 2004). Even so, many investments take place without the involvement of investment promotion agencies. A recent survey done within the context of the Baltic Sea Region come to the conclusion that most investing firms see a small role for governmental investment promotion agencies in the actual investment decision-making process. The role of the IPAs is seen as most important in terms of providing information about a country’s investment climate. It should be underlined though that this survey had a limited sample size and coverage<sup>2</sup> (Kotilainen and Nikula, 2010).

There are generally three main underlying motives for FDI, categorised as either:

- *Resource-seeking FDI* can be aimed at acquiring natural resources such as oil or minerals or to gain access to technological capability, information and management, organisational or marketing skills.
- *Market-seeking FDI*: Access to national or regional markets or free trade areas is a common reason for investments. The decision by transnational

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<sup>2</sup> The sample consisted of firms participating in the annual MIPIM real estate fair and Finnish firms active in the BSR (the “Finpro register”).



corporations (TNCs) to set up in a foreign market can be motivated by market size and growth, trade barriers, demand for locally adapted goods, transport costs or a combination of these factors.

- *Efficiency-seeking FDI*: Commonly described as offshoring, TNC's, especially in labour-intensive sectors, may seek low labour costs in relation to the productivity of the work force (Pearce and Papanastassiou, 1996, UNCTAD, 2009).

There are several potential advantages of FDI for the host countries. First of all, the presence of foreign companies strengthens rivalry on the domestic market, leads to an inflow of knowledge and capital and creates better linkages to foreign locations (Ketels, 2009). This, in turn, strengthens the technological base and the competitiveness of domestic firms and the national economy and could result in more and better employment opportunities and a "virtuous cycle" of FDI and export growth (Duggan, 2000, UNCTAD, 2008).

### **1.2.2 Trade promotion**

Trade (or export) promotion is carried out by trade promotion organisations<sup>3</sup> (TPOs). National TPOs can take many forms. In some countries they are part of government ministries, in others they are statutory agencies created by public law and, in some others, private sector bodies (such as a chamber of commerce). Sometimes they are a combination of a public and private enterprise (e.g. Swedish Trade Council) (ISO/ITC, 2010).

The objective of TPOs is to create the conditions required for a successful export promotion programme by helping potential exporters find markets for their products, providing them with a better understanding of products demanded in different export markets through market research, trade information and competitive intelligence and carrying out promotional and image-building activities abroad through trade fairs and missions.

One can divide the services TPOs tend to offer into four broad categories:

- 1) *Country image building/branding* (advertising, promotional events, but also advocacy);
- 2) *Export support services* (exporter training, technical assistance, capacity building, including regulatory compliance, information on trade finance, logistics, customs, packaging, pricing);
- 3) *Marketing* (trade fairs, exporter and importer missions, follow-up services offered by representatives abroad); and
- 4) *Market research, trade information and competitive intelligence* (general, sector, and firm level information, such as market surveys, on-line information on export markets, publications encouraging firms to export, importer and exporter contact databases)

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<sup>3</sup> Also called export promotion agencies, EPAs.

As with investment promotion, there is evidence that export promotion activities on average have an impact on exports (e.g. Lederman et. al., 2006, Treleven, 2006, ISO/ITC, 2010). It should be underlined, however, that there are many instances in which export promotion have no impact on exports, but it is beyond the scope of this study to discuss this issue (consult Lederman et. al., 2006 for a further discussion on the topic).

### **1.2.3 Why trade and investment promotion?**

The economic justification for government intervention in trade and investment promotion is based on notions of market failure. It has been argued that the public-good character of investment promotion suggests that it should be a government-funded activity. Investment promotion generates social benefits that outweigh the possibility of generating profit from undertaking it, which means that it may not be provided to a sufficient degree by private markets (Wells and Wint, 2000). The same applies to trade promotion. A pioneer exporter, for example, make considerable investments in efforts to open up a foreign market, cultivating contacts and establishing distribution chains and other costly activities that can be used by their competitors (Hausmann and Rodrik, 2003). The theory of asymmetric information is another underlying assumption justifying government involvement: private firms have no incentives to provide foreign market information, as firms hesitate to spend resources on research and marketing that can also benefit competitors (Lederman et. al., 2006). Companies aiming to do business in foreign markets, either through FDI or exports, have large needs for information. Investors need to know about appropriate business partners, costs, taxes and skills etc. and exporters need information about potential importers in foreign markets, quotas, environmental standards etc. Collecting such information is costly, and especially small companies lack the resources to collect such information. A publicly funded IPA or TPO can correct this market failure by acquiring the information and providing it at a low cost or free of charge (UNCTAD, 2009). In addition, the overall image building and marketing of the country as an FDI destination or exporter is assumed to be a public good, which therefore necessitates public intervention (Andersson and Ekman, 2011, Ryan and Zahra, 2005).

The interviews done for this report have revealed that it seems to be more common for TPOs to charge their customers than that the IPAs do so. This suggests that government intervention is needed more in investment promotion than in trade promotion. One example is the Swedish Trade Council, which provides some services, such as market information, free-of-charge, but charge for specific consultancy services. The fact that more TPOs (such as Swedish Trade Council and Finpro, see discussion in chapter 3.1) than IPAs are partly private supports this argument. It is, according to Wells and Wint (2000), difficult to find examples of privately financed IPAs in the world (even though the organisation performing the investment promotion activities do not need to be government owned), which can be explained by the fact that investment promotion to a large extent is a public good, as discussed above.

It is assumed here that the competition between countries for investments and export share can be likened to the competition between firms on a market, and that cooperation between countries in investment and trade promotion is hampered by a

similar market failure that justifies public intervention in investment and trade promotion on a national level. As a consequence, intervention from supra-national institutions may be necessary to induce the national bodies to collaborate in promotional activities.

#### **1.2.4 Motives for combining trade and investment promotion**

One contentious issue in trade and investment promotion is whether the two functions shall be integrated into one agency or be the task of two separate organisations.

According to a UNCTAD study (2009), the main rationale for creating institutions that promote investment as well as trade is that both functions have certain activities in common, most importantly the marketing of a country and its key industries. At the same time, it may be argued that investment promotion differs so much from trade promotion that it is necessary to have separate institutions for the two functions. Mapping trade and investment promotion agencies worldwide, the report shows that a majority (58 per cent) of the institutions promoting foreign investment at the national level do so exclusively, while 42 per cent also promote trade. The report indicates that combined agencies were more common in smaller economies. It concludes that integrating investment and trade promotion in a single agency could be a rational approach for smaller countries, where financial and human resources are often scarce and the need for international marketing is likely to be greater.

The study identifies the main reasons for creating combined agencies, and as many of these reasons are synergies that also could be applicable to why countries could benefit from collaboration in promotional efforts, a brief overview will be presented here.

The reasons can be divided into those that are related to (a) *policy and strategy* and to (b) *operations*.

##### ***Policy and strategy***

- *Policy coherence*: A reason for merging investment and trade promotion is the desire to create a sense of coherent governance and there is an assumption that through a single agency, policy coherence would be more easily achieved.

- *Knowledge-sharing*: Having access to the knowledge and perspectives of trade promotion staff could be beneficial to investment promotion officials. For example, in areas such as cluster development or market intelligence, trade promoters could provide useful inputs to investment promotion strategies. The data and information that each agency possesses could be used to develop shared databases, for example on business sectors and companies in different countries.

Information can also be disseminated through less formalised channels. For example, sharing office space could lead to the informal exchange of valuable knowledge and new perspectives between investment and trade promotion staff. Some IPAs surveyed also emphasised the benefits of bringing together the perspectives of investment and trade promotion practitioners into one agency.

- *Policy advocacy* is an area where IPAs and TPOs can find common ground and where joint efforts could yield better results with policymakers. As the IPAs and TPOs provide services to investors and exporters, they receive detailed knowledge about the problems that their clients face, a knowledge that enables the agencies to be advocates of policy reforms.

- *Investment promotion strategies*: FDI tends to be more integrated with trade in certain industries. This relationship is especially strong for investment driven by the aim to set up local export platforms. As many countries have only a small domestic market, and if they are to encourage manufacturing industry, they need access to export markets to be able to provide the scale necessary for efficient production in most industries. In order to begin manufacture for export, some kind of tie with foreigners is needed, and FDI is usually the most promising one. Therefore, some countries with small domestic markets focus their investment promotion strategies on attracting export-driven FDI.

There are several ways in which trade promotion expertise can be of use in investment promotion strategies aimed at attracting export-oriented FDI. For example, services relevant to foreign TNCs include external business-to-business services, such as matching exporters with buyers and in-market support, such as setting up joint exhibitions in target markets where the TNCs maintain permanent visibility. Once a TNC has invested, based on market access to a regional free trade area, it will typically work with trade promotion experts to ensure that its goods qualify and gain access to regional markets.

- *Linkages*: Export platforms can sometimes create linkages with local suppliers and in some cases, TNCs can act as export intermediaries for small and medium sized enterprises (SMEs). Scotland can serve as an illustration, where Scottish Enterprise has successfully adopted linkage programmes to develop export platforms for local suppliers driven by FDI.

## ***Operations***

- *Efficiency gains and synergies*: Efficiency considerations are mentioned as the main reason for merging trade and investment promotion agencies. Cost reductions can be achieved when agencies are able to cut costs in double staff functions. Activities where overlaps may exist generally include a number of back-office and support functions, such as administrative services, office services, media relations and information and research and analysis. However, also in core services such as investor targeting and aftercare, there could be synergies between investment and trade promotion. For example, when an investment promotion official visits a potential investor abroad, s/he can also acquire information about the TNCs potential as an importer. Along the same lines, when a trade promoter identifies a foreign buyer interested in investing or forming a partnership abroad, s/he can put the investor in touch with investment promotion officials. An illustration is New Zealand Trade and Enterprise (NZTE), which work in multiple skills-based teams based on industry sectors, rather than on an investment and trade basis in order to make use of potential synergies.

In the area of image building, there are potential synergies stemming from collaboration, too. This especially applies to countries where the main focus is on nation branding

aimed at raising awareness about a little-known location or at correcting a negative or stereotypic image. In terms of raising awareness, small countries may need greater promotion efforts than large countries. For example, Enterprise Estonia, which is both an investment and trade promotion agency, mentioned in a survey that the small size of the country required it to mobilise all efforts in country branding.

Finally, because of trade promotion's longer history, TPOs tend to have a wider network of overseas offices than IPAs, which can benefit IPAs looking to expand internationally. It can, however, be difficult to achieve synergies in practice, as the skills sets of investment and trade promoters are different and the people they need to develop relationships with differ (for a further discussion on this, see Wells and Wint, 2000). But it is possible that the overseas network of a TPO can be used as a catalyst in the international expansion of an IPA. This effect can however be achieved without an outright merger of the two organisations. A case in point is Invest Sweden and the Swedish Trade Council, two organisations with separate foreign offices. Nonetheless, the two organisations have overseas collaboration and in some case the Trade Council has represented Invest Sweden because it has a greater geographical coverage.

### **1.2.5 Differences between trade and investment promotion**

There are several important differences between trade and investment promotion. Again, it is beyond the scope of the report to discuss this issue in much detail. Pointing out some of the differences is however deemed necessary to support the overall argumentation of the report.

One of the main differences concern the clients that IPAs and TPOs serve (a fact frequently mentioned as an obstacle to closer collaboration in the cited UNCTAD survey). IPAs work mainly with foreign-based TNCs, and TPOs work mainly with locally based firms. The decision to locate and expand activities or establish partnerships abroad is usually taken at the top management level of a TNC. Consequently, investment promotion includes efforts to reach and convince senior management to establish activities in the country. IPAs usually devote a great amount of time to providing a wide range of information, hosting visits of potential foreign investors, and coordinating sales pitches with high-level government officials, in some cases even including the Head of State.

Conversely, the typical clients of TPOs are domestic small and medium-sized enterprises (SMEs) with little or no experience in doing business abroad. TNCs investing abroad are often well resourced and have the capacity to carry out market research and product distribution so they have less need for TPO services. Trade promoters also work with counterparts abroad, but they usually focus on purchasing agents or retailers overseas – not the top management of TNCs.

Since investment decisions are usually taken at a very high level of management, the IPA's clients will typically work at the company or regional headquarters, which in most cases will be located abroad. By contrast, export-related decisions are generally delegated to lower levels of management, and the TPOs' counterparts typically work in marketing, sales and distribution – functions that are usually located in the host country. Nevertheless, it should be noted that in some cases – most importantly in connection to

attracting export-oriented investors – the IPA and TPO may work with the same client company (UNCTAD, 2009).

### **1.2.6 Investment decision behaviour, investment promotion techniques and place marketing**

What factors that drive investors' choice of locations is a much-discussed and disputed issue. It goes beyond the scope of this report to analyse this issue in depth, but a short overview is deemed necessary in order to be able to suggest recommendations for policy priorities.

According to Kotler and Gertner (2002), investors usually begin the decision-making process by choosing a region in which to invest (e.g. Latin America) and proceed by collection information about the candidate countries within that region. Investment promoters of these countries need to be ready to provide accurate information about factors such as the country's labour market, tax climate, amenities, higher education, access to customer and supplier markets etc. to the potential investor. Referring to the theories about clustering of competing and complementary firms, Kotler and Gertner argue that countries need to define industries that they wish to build and plan sites so that they appeal to investors from the very beginning. Little, however, is said about perceptual factors.

Papadopoulos and Heslop (2002) suggest another starting point. They claim that it is a common misconception in investment promotion that firms always choose between *alternative locations*. In many cases firms choose between *alternative modes of operation*, and the decision about mode-of-entry (MOE) is seen as a far more crucial decision than the decision of where to invest. The MOE choice largely depends on the reason why a firm chose to internationalise in the first place; if is resource-, market- or efficiency-seeking FDI (see chapter 1.2.1 for definitions). A firm such as a mining company may choose international expansion because of access to natural resources, and therefore has a limited choice of locations to choose from, whereas a product manufacturer have a range of MOE options available, from indirect exports via home-based exporters to greenfield FDI<sup>4</sup>. For the latter type of firms, the critical questions is not so much "where should we invest", but "how can we best service this market". Studies show that many firms use a sequential entry mode, starting with exports and gradually moving to investments if the market is deemed interesting. Hence, firms that already operate in the country in a non-investment mode can be very important targets for promotion efforts.

Papadopoulos and Heslop (*ibid.*) also point out that technology-intensive firms may have special needs. These firms tend to cluster less around factors of production, and are more interested in gaining access to effective networks of interconnected organisations including producers, their suppliers and contractors, R&D institutions and skilled labour. Several respondents interviewed for this report echo this stance, saying that it is essential to identify networks and cluster with interconnected firms in the BSR, and present them to potential investors (read more about this in chapter 4.)

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<sup>4</sup> Greenfield FDI is a form of investment where a parent company starts a new venture, such as a factory or store, in a foreign country by constructing new operational facilities from the ground up ([www.investopedia.com](http://www.investopedia.com))

Fabry and Zeghni (2006), cited by Szondi (2007), argue that attractiveness of an investment location "... is a result but also a dynamic process, which reflects both the ability of the host country to build and manage its attractiveness and the multinational firms' involvement in that country. This involvement is mainly due to real business opportunities, risk aversion, and the foreign investors' perception of the host country (*ibid*: 205)." When it comes to perceptions of the host country, empirical research has shown that emotional factors play an important role in FDI decision-making. For example, Jacobsen (2009) cite Van den Laar and de Neubourg (2002), who found that over half of the location decisions of Dutch companies in Central and Eastern European countries (CEE) were affectively driven. Similarly, there are indications that corporate investment decision-makers find it difficult to distinguish between different investment locations; one survey revealed that 65 % of decision-makers claimed this. Jacobsen (2009) therefore concludes that there is a need for locations to work with awareness raising and differentiating place-branding activities. Along the same lines, Papadopoulos and Heslop (2002) claim that national and place images are powerful stereotypes that influence foreign investors when they consider countries for expansion, which is based on evidence from studies of industrial buyers. Even so, they conclude that little is known about the role of "soft", perceptual factors in FDI decision-making.

Yet other observers underline the importance of attracting a skilled workforce as a prerequisite to attract mobile investments (Anholt 2005, Florida 2002).

Young (2005), as cited by Szondi (2007), claims that, in the case of marketing CEE countries to investors, promotional campaigns that seek to raise the investor awareness of localities have had a somewhat limited impact. He suggests that place marketing to investors must become more sophisticated, employ a complex set of strategies and address specific needs of investors. Wells and Wint (2000) have concluded that many investment promotion agencies tend to shift focus from image building to more focused investment generation once an attractive image of the country as an investment location has been established. They also caution that countries should not focus on image building before the "'product' is set right" (*ibid*. 145), as it may be a waste of resources. However, as Szondi (2007) points out, country branding is a quite recent phenomenon in the CEE countries, and many of them have been able to generate FDI without any particular focus on image building.

## **2. Trade and investments in the Baltic Sea Region - current situation and trends**

There are close trade ties between the BSR countries. The Baltic Sea Region is the dominant foreign trade area for the smaller economies, like Estonia and Lithuania (share of the BSR in total trade over 50%). For the three Nordic countries, the share of Baltic Sea Region trade is between 37% for Sweden and 44% for Denmark. These figures are close for Poland, where the share of the BSR trade is 35% of total trade. Only for Germany the share of BSR trade is significantly lower, due to the magnitude of German trade (European Commission, 2010).

In terms of sectors and trade, collaboration between clusters gives an idea about which sectors are strong from a regional perspective. In some clusters, BSR collaboration

between regional clusters across national borders has begun to emerge. One example is the area of life science, but trade patterns indicate that there are also strong linkages between other clusters, for example pulp and paper, furniture, and IT (Ketels, 2008).

There are also close investment ties between the BSR countries. Figures from 2005 show that the proportion of FDI received from other BSR countries is high. For example, in 2002-2004, Estonia received 77 %, Finland 64 %, Latvia 59 %, Lithuania 68 % and Sweden 26 % of inward FDI from other BSR countries (Liuhto, 2005).

When it comes to extra-regional FDI and trade patterns, a few recurrent trends can be discerned. For 2009, the State of the Region report notices that the dramatic fall in exports has been accompanied by a loss of market share, which is seen as a worrying pattern (Ketels, 2010). As the State of the Region report 2009 concludes, the global share of FDI inflows that comes to the Baltic Sea Region is falling, a process that slowly is eroding the Region's share in the global inward FDI stock. This is necessarily not negative for the economies in the Region, as it is primarily reflecting the growth of other parts of the world economy. It is, however, increasing the challenge to market the Region as an attractive FDI destination in an increasingly crowded global market (Ketels, 2009).

As for exports, the Baltic Sea Region has been disproportionately hit by the global economic crisis also when it comes to investments (*ibid.*).

### 3. Investment and trade promotion bodies and efforts in the BSR

#### 3.1 National trade and investment bodies

In **Denmark**, the *Trade Council* carries out the trade promotion and the investment promotion is a responsibility of the *Invest in Denmark* organisation, which formally is a part of the Trade Council, which, in turn, belongs to the *Ministry of Foreign Affairs*. The Trade Council has approximately 300 employees abroad located at more than 100 embassies, consulates general and trade commissions. The Invest in Denmark organisation has 10 overseas offices; in London, Paris, Munich, New York, Silicon Valley, Toronto, Bangalore, Shanghai, Taipei and Tokyo. Invest in Denmark has four overall priority areas: ICT, cleantech, maritime industries and life sciences.

At a federal level in **Germany**, trade and investment promotion is the duty of government agency *Germany Trade and Invest* (GTAI), falling within the responsibility of *Federal Ministry of Economics and Technology*. GTAI has no foreign offices of its own, but benefits from collaboration with Germany's missions abroad, which tend to employ at least one contact person for external trade promotion, and the *German Chambers of Commerce Abroad*, which are present at 120 sites in 80 countries. In **Schleswig-Holstein**, the *Business Development and Technology Transfer Corporation of Schleswig-Holstein* (WTSH) assists both local companies that strive to export to foreign markets and facilitates inward investments. The WTSH operates a network of "Schleswig-Holstein Business Centers" (SHBCs) in São Paulo, Hangzhou (China), New Dehli, Kuala Lumpur and Moscow and a representative office in Copenhagen. These centres offer services such as market research, brokering contacts and office space in joint offices in order to facilitate that companies can gain a foothold in the markets in question. WTSH works with seven focus industries: health, food, renewables, hotels, logistics, ICT and



maritime industries. In **Mecklenburg-Vorpommern**, the semi-public economic development agency *Invest in Mecklenburg-Vorpommern* is in charge of investment and trade promotion. It focuses its operations on ten business sectors, among them mechanical engineering, maritime industry, automotive/aviation, life science, IT/business process outsourcing (BPO), food and tourism. In **Hamburg**, HWF – *Hamburg Business Development Corporation* is responsible for investment promotion. HWF works with a broad range of priority sectors, such as aviation, logistics, media and IT, renewable energy, chemical industry, life science and maritime industries. HWF has a network of foreign representatives in or with connections to 11 countries, for example in/with China (Hong Kong, Guangzhou and Shanghai), Taiwan, India, Japan, Sweden, Finland and Russia.

In **Poland**, the *Polish Information and Foreign Investment Agency* is responsible for investment promotion, and to some extent also for export promotion, as one of its aims is to promote Polish goods and services by creating a positive image of Poland across the world. Prioritised business sectors are automotive, aviation, biotechnology, BPO, domestic appliances, IT, machinery and steel industry and renewable energies.

In **Lithuania**, investment and trade promotion used to be a part of the Lithuanian Development Agency, which in the beginning of 2010 split up into the *Invest Lithuania* and the *Enterprise Lithuania* organisations, which are in charge of investment and export promotion respectively. The two agencies promote the same business sectors, which are ICT, biotech, tourism, real estate and construction, textiles and clothing, transportation and logistics, furniture and paper industry, BPO and laser technology. Invest Lithuania has one representative office in Brussels.

In **Latvia**, the *Latvian Investment and Development Agency* (LIAA) is in charge of both investment and trade promotion. It has a network of foreign offices in London, Berlin, Stockholm, Paris, Amsterdam, Oslo, Copenhagen, Warsaw, Tokyo and Moscow. For trade promotion, prioritised sectors include biotech/life sciences, textile and clothing, ICT, electronics, food and forestry and woodworking. In investment promotion, there are no officially prioritised sectors, even though investment opportunities in the sectors of renewable energies, electronics, IT, industrial real estate and wood processing are mentioned on the webpage of LIAA.

In **Estonia** too, a multifunctional body, *Enterprise Estonia*, is in charge of both functions, in addition to tourism promotion and innovation policy. However, the trade and investment arm, *Estonian Investment and Trade Agency*, has its own organisational structure within Enterprise Estonia. Prioritised business areas are ICT, business services, machinery and metalworking and electronics. It has a network of foreign offices in Kiev, London, Hamburg, Stockholm, Helsinki, Sankt Petersburg, Silicon Valley, Shanghai and Tokyo.

In **Finland**, *Invest in Finland* is responsible for the investment promotion. Invest in Finland maintains foreign offices in Copenhagen, Stockholm, Munich, Shanghai, Stamford (Connecticut) and Silicon Valley. Invest in Finland focuses on two main areas: Industry & Technology and Trade & Services. The former includes industries such as cleantech, ICT, healthcare and wellbeing and mining, while the latter includes retail, real estate, business services, logistics and travel and tourism. Finland has no governmental export promotion organisation, but the *Ministry of Foreign Affairs* has an extensive mandate to facilitate export promotion and internationalisation of Finnish firms.

However, a private, members-based, association, *Finpro*, to a large extent fulfils the role of a national trade council, and it is to 60 % financed by the government. It has a network of 49 trade centres abroad. Finpro works with seven key industry clusters: software and digital media, life sciences, services, forestry, energy and environment, construction and logistics, and machinery.

In **Sweden**, trade promotion is the task of the *Swedish Trade Council*. It has a network of offices in 68 locations abroad. The Trade Council is a semi-public organisation, owned by a joint venture between the Swedish government and the business community, and funded through both government grants and consultancy fees. The agency has two main pillars of activities: commercial consulting activities to support companies individually in their process of internationalization as well as publicly financed assignments to promote Swedish exports and create favourable conditions for Swedish companies. The Trade Council currently has five prioritised business areas: healthcare, automotive, mining, foodstuffs and clean tech, even though the overseas office may have other priority areas. *Invest Sweden* (ISA) is in charge of investment promotion, and it has offices in six locations abroad: Sao Paolo, New York, New Delhi, Shanghai and Tokyo. ISA has special expertise in energy and clean tech, automotive industries, ICT, life science/biotech and material science, but also works with travel and trade, logistics and transportation, retail, business processes and real estate.

### **3.2 Past and current joint trade and investment promotion efforts in the Region**

The most concrete effort to cooperate between national investment promotion agencies in the BSR is the **Baltic Sea Region Investment Promotion Agencies** (BIPA).

BIPA was founded in 1998 and is a network of the investment promotion agencies in the countries and regions in the BSR (Denmark, Estonia, Finland, Norway, Lithuania, Latvia, the northern regions of Germany, Poland, Sweden and St Petersburg). The original goal of BIPA was to promote the BSR throughout the world as a favourable environment for investment. It provided a forum for IPAs in the region to discuss a common platform for the positioning and branding the region, describing it and identifying its attractions. The objective of the annual meetings is for BIPA participants to share information, results and experience from the latest activities in attracting investment in their own countries.

One concrete effort that has its roots in the BIPA collaboration is the *Baltic Sea Region Investment Network*, a collaboration between the IPAs of Estonia, Latvia, Lithuania and Sweden. Invest in Finland and the IPA of Copenhagen, Copenhagen Capacity, representing Denmark, were also originally members. Starting in 2005, the purpose of this collaboration was to attract inward investments to the BSR by organising study visits to and promotion events in India. The reason why India was chosen was that it is a fast-growing economy, yet none of the countries had any major market presence in India, and therefore fewer vested interests than in, for example, the Chinese market. A common budget was used to finance a representative in India who made promotional visits to economic centres like New Delhi and Bangalore. A webpage was set up to support the initiative: [www.balticsearegion.com](http://www.balticsearegion.com) and promotional material was produced. The effort prioritised sectors that were seen as being of common interest in the region, such as life science, ICT and automotive and engineering.

However, the joint promotion activities were suspended in 2008 due to diverging

interests among the participating organisations. One reason for the suspension of the activities, as cited by one government official of one of the participating organisations, was that the participating organisation had reached different stages of development in their activities. In the case of the Nordic countries, who already had established images as interesting destinations for FDI, direct selling to potential investors tended to be a top priority, whereas the three Baltic countries as transitioning countries were more in need of developing their overall image as an investment destination. Another person that the authors talked to cited the fact that disagreements over financing of the activities was the main reason for the suspension of activities. Yet another interviewee for this report said that the collaboration worked very well in marketing terms, but when actual customers from India showed interest in investing in the region, the IPAs had difficulties to collaborate and in many cases did not share leads and information about clients with the other IPAs. This happened despite the fact that the participating IPAs had agreed on a formula for how to divide incoming clients. There were also initial disagreements over the name for the region and several options were discussed, such as *Northern Europe* and the *Nordic-Baltic region*, before an agreement was reached on using the name the Baltic Sea Region.

In 2005, the State of the Region report concluded that positioning the Baltic Sea Region as an attractive location for international investors is a critical test for regional cooperation. However, FDI attraction is a very competitive market and the national and subnational investment attraction agencies in the Region in some cases compete directly against each other. Therefore, the BIPA initiative was seen as an encouraging sign of the will to meet this test (Ketels and Sölvell, 2005).

The BIPA network remains intact even though no meetings have been held in 2009 and 2010. Baltic Development Forum has through its engagement in the BaltMet Promo project established a dialogue with several former BIPA members, and has received indications that the members of the network would be interested in meeting again, if there would be any concrete ideas for new efforts.

Based on the cooperation of Baltic Metropolises Network (BaltMet formed by 11 major cities in the Baltic Sea Region) and the Baltic Development Forum the **BaltMet Promo project** aims to join forces in promoting the Baltic Sea Region on a global scale. The project wants to attract tourists from other continents, talents from the creative sector as well as major international investment projects to the Baltic Sea Region.

Overall aims are to:

- Create a dynamic transnational and multisectoral marketing community to attract tourists, talents, and investors to Baltic Sea Region,
- Map the various branding initiatives in Baltic Sea Region,
- Strengthen the common Baltic Sea Region identity at home and abroad and
- Establish a collaborative regional method for creation of new Baltic Sea Region products which are transferable to other geographic and thematic areas

At the time of writing of this report, the BaltMet Promo project is planning two concrete joint investment promotion activities; one at the MIPIM real estate fair in Cannes in

March 2010 and one at the technology oriented Hannover Messe in April 2010.

A successor to the project, “*BaltMet Brand-ID*”, is planned for 2012-2013. This project also intends to focus on investment promotion, through business delegation visits, alongside talent and tourist attraction. It contains stronger elements of brand-building strategy than its predecessor and will focus on developing a common brand platform for the BSR.

Another pan-Baltic initiative with promising components of joint FDI attraction and marketing of the Baltic Sea Region is the **BSR Stars** programme, which is a flagship project in the EU Strategy of the Baltic Sea Region. The aim of the programme is “to develop a Baltic Sea Region Programme for Innovation, Clusters and SME-Networks”. The lead partners of the flagship project are government agencies in Sweden and Lithuania. The concrete objective is to foster R&D and business-related transnational collaboration, including innovation systems, clusters and SME networks, in order to strengthen economic growth in the whole BSR. The Programme seeks to establish “a new Baltic Sea Region brand”, based on “smartness”, research, innovation and co-operation, leading to capacity building, stronger international competitiveness, and increase in FDI and world-class actors in strategic areas. It also strives to attract talent, businesses and brains to the region.

The project argues that an important part of being a world-class region within different sectors is also that the competitive strengths are well known. This part of the project suggests cooperation between national agencies in order to market the strengths and cooperation of the Baltic Sea Region as a whole to investors and talents (Nygård Skalman and Wise in Ketels, 2009).

**ScanBalt** is a public-private network organisation for the life science community in the Baltic Sea Region, known as the *ScanBalt BioRegion*. It is a network of clusters, universities, companies and public authorities in the life sciences working to promote the Baltic Sea Region as a globally competitive green valley and health region. This is done by promoting:

- projects, business and research
- the visibility and branding of the region
- policy issues, regional innovation and cluster development

The current strategy of ScanBalt, “Innovation on Top of Europe 2008-2011” is aimed at promoting more and better investments at the regional, national and supranational levels in the Baltic Sea Region.

Finally, a recent political initiative, the **UK Nordic Baltic Summit** held on the 19 and 20 January 2011, had many investment and trade promotion elements to it. Invited by the Prime Minister of the UK, David Cameron, Prime Ministers from the five Nordic and three Baltic countries and policy innovators, entrepreneurs and business leaders from the UK and the Nordic-Baltic region participated in the Summit. The summit sought to improve investment and trade ties in the region, with a focus on low carbon and high-tech industries. Several investment and trade agencies participated in the Summit.

For a more comprehensive overview of different place promotion and place marketing activities, please refer to the report “Place branding and place promotion efforts in the Baltic Sea Region – a situation analysis”, written and published by Baltic Development Forum and the BaltMet Promo project.

### **3.3 Notable bilateral, private sector-led or sub-national joint trade and investment efforts**

There are many examples of bilateral, cross-border, private and/or sub-national collaborations in the BSR.

An example of a cross-border project is the **BENCH project – Beneficial business relations between the Central Baltic region and China**, focusing on increasing trade with China as well as inward investments from China for the benefit of the trade and industry in the Central Baltic region.

Funded by the EU’s Central Baltic INTERREG IV A Programme 2007-2013, the project partners focus on developing joint working methods on how the region can take better advantage of already established contacts with China and how the public sector can support the trade and industry in that process, especially SMEs.

The BENCH project maps companies that are interested in doing business in China as well as clusters and investment environments. By carrying out surveys, the project partners can identify opportunities and obstacles for export to China. Workshops and seminars are arranged to improve the knowledge and skills of the involved organisations, and training programmes are being carried out for companies interested in doing business with China.

The project will also jointly identify and package concrete investment opportunities in the BENCH regions, identify potential Chinese investors interested in capital investments and/or establishments, carry out a promotional campaign to increase potential investor’s interest in the Central Baltic region and invite and organise a Chinese investment delegation visit to the BENCH regions.

The project is lead by the County Administrative Board of Östergötland, Sweden, and the project partners are the Center for Environmental Technology (MTC), Östsam Regional Development Council and Linköping University, all in Linköping, Sweden; Aalto University, School of Science and Technology, Lahti Center and Lahti Regional Development Company Ltd, in Finland and Estonian Chamber of Commerce and Industry in Tallinn, University of Tartu and Tartu Science Park in Estonia.

Also financed under the Central Baltic Programme, the **BASAAR – Baltic Sea – Asia Agenda for Regions in a Globalising World** project had as one of its main aims to improve the capacity of Central Baltic Sea regions (CBSR) to use cross-border cooperation as a way to adjust to globalisation.

Active in 2009-2010, its activities included benchmarking, through collecting regional data for assessing the current level of globalisation in the Region, foresight-planning aimed at building longer term scenarios for the Central Baltic Sea Region and its

relations with Asia, and agenda-setting, focusing on proposing a set of common actions to strengthen the capacity to manage the impact of globalisation.

Not an investment promotion effort per se, the project's activities focused on the fact that regional planners need up-to-date information and a coordinated understanding of the opportunities and issues related to the increasing role of Asia, which, among other things, include the potential to attract FDI.

One work package assessed the scope and focus of the presence of Asian business and investment projects in the CBSR as well as trade patterns between Asia and the CBSR. It aimed at creating interest for the CBSR, attracting and retaining Asian investment flows and skills, and improving the success rate of Asian investments in the CBSR.

Among other things, this work package has produced a survey of Chinese investment flows to the Baltic Sea region, which is available at: <http://www.wikivision.fi/basaar/pub/uploads/Project/Pdf/InvestmentFlows2.pdf>

The survey evaluates the BSR's attraction power towards China and concludes that Chinese investments in the BSR are mainly aimed at acquiring knowledge, especially in the ICT sector. It also concludes that, as investment flows usually follow export trends, can be expected to increase over the next years.

Led by the Uusimaa Regional Council in Finland, eleven regional authorities and cities in the Central Baltic Sea Region participated in the Basaar project, among them the cities of Helsinki, Turku, Stockholm, Uppsala, Riga and Tallinn and the regions of Stockholm, Southwest Finland and Harju in Estonia.

**BaltMet Invest – Joint action of Baltic metropolises towards the development of coordinated investment approach in the Baltic Sea Region**, began in September 2004 and ran until February 2007. Part-financed by the INTERREG IIIB for the Baltic Sea Region and co-financed by the four project partners *Riga City Council, Vilnius City Council, Tallinn City Government*, and the *Baltic International Centre of Economic Policy Studies* (BICEPS), project activities were carried out in the three Baltic countries, mainly in the metropolitan areas.

The overall goal of the project was to develop a common investment strategy in the Baltic metropolises, thereby promoting a balanced economic development in the Baltic Sea Region and, as a consequence, increasing its competitiveness in the European and global arena. Concretely, the project wanted to create a coordinated approach to investment planning and management in the metropolitan areas. To this end, the project first designed strategies to improve the investment management processes. Next it put in a lot of effort into strengthening the cooperative attitude of the various stakeholders. Finally, the project tried to increase the availability and accessibility of information to support the implementation of the approach developed.

One of the main activities of the project was the conference “Investment in the Baltic metropolitan regions – Towards a collaborative approach” in 2006 in Riga. The project also resulted in the report “Towards a coordinated investment strategy for Riga, Tallinn and Vilnius”. The report includes survey results of investor perceptions of the Baltic

capitals as potential investment sites, which ought to be interesting reading for any project aiming at marketing the BSR and its cities.

The report also found that the three capitals receive a very high share of their country's incoming foreign direct investments. An important feature that could be observed was that there are many cross investments between the Baltic capitals. A high proportion of Baltic direct investments abroad take place in each of the other Baltic States, indicating increasing economic linkages. Interestingly, the general pattern of investments originating from countries outside the Baltics is that one capital city serves as a gateway for the original investment and at a later stage the investor goes to the other two capitals. The neighbouring Baltic countries are also key trading partners for each other. This gives the residents of each Baltic capital a direct interest in developments in the others.

An example of a public-private, bilateral initiative is the project "**Baltic Tigers**". Active in 1997 to 2001, the *Lithuania Development Agency* together with a range of Swedish partners (*the Municipality of Kristianstad*, *the Chamber of Industry and Commerce of Southern Sweden* and *the University of Kristianstad*) joined forces in establishing working relationships for long-term cooperation in the fields of trade and investment between over 500 small and medium-sized Lithuanian and Swedish businesses.

The *Swedish Trade Council*, commissioned by the Swedish Government, ran the programme "**Marketplace Baltic Region**" during 1999 and 2005. It was primarily directed towards small and medium-sized Swedish companies that wanted to establish a business presence in the Baltic Sea region (Russia, Ukraine, Estonia, Latvia, Lithuania and Poland). One concrete activity was the "Business Opportunities Projects scheme", which included visits to BSR countries that were supposed to help companies to take the first step towards markets in the region. According to the Swedish Trade Council, just over 660 small and medium-sized Swedish companies have had the doors to new business opened as a result of direct participation in the scheme.

Another example of a bilateral, public-private activity is the **Swedish Business Awards**. Four founding partners established it in 2006: the *Swedish Trade Council*, the *Embassy of Sweden in Lithuania*, *Swedbank* and *TeliaSonera*. Coordinated by the Swedish Trade Council, the project aims to provide positive examples for trade, international establishments and business development by highlighting the success of cooperation between Sweden and the three Baltic States. This initiative promotes internationalization of business in the region, and serves as a yearly meeting point to discuss achievements, practices and aims. The culmination of the project is the annual ceremony, which includes presentations, discussions and awards for the most successful international and local companies operating in Lithuania, Latvia and Estonia.

Also a bilateral activity, in 2010 a **Lithuanian-Finnish Forum on Investment Promotion** was organised by *Invest Lithuania*, cluster organisations *Sunrise Valley* (Lithuania) and *Culminatum Innovation* (Finland) and the *Embassy of Lithuania in Finland*. The activities included study visits aimed at business internationalisation opportunities, investment attraction and innovation support.

There are also examples of cross-border activities between sub-national entities. One of

the most prominent ones is between the inward investment agencies of Copenhagen and the Swedish region Skåne, *Copenhagen Capacity* and *Invest in Skåne*. In close collaboration, they promote the **Øresund region** to investors, especially in the field of life science (the Medicon Valley cluster), but also in ICT and logistics.

First held in 2005, the **China Baltic Business Forum** is an annual event consisting of match-making event, a business fair, and seminars on trade and new opportunities in the Baltic Sea Region and in China. The forum is, according to the initiator, the Regional Council in Kalmar County, attended by representatives from companies in a wide range of industries, agents, consultants, and various organisations interested in trade between the Baltic Sea Region and China. The Forum has been held in Kalmar Sweden in 2005, 2006, 2008 and 2009 and in China in 2007 and 2010.

At the 2009 China Baltic Business Forum, a **Technology Transfer Center** was launched, which is a tool aiming at fostering technology transfer and investments between the Baltic Sea Region and the Yangtze River Delta Region in China. It can be used by cluster organisations, municipalities, companies, or incubators who strives to help firms to find venture capital by exposing offerings to wider market of potential investors. Read more about the TTC here: [www.ttcenter.eu](http://www.ttcenter.eu)

### 3.4 Nordic and Baltic bodies and initiatives

There are several efforts coordinated by the **Nordic Council of Minister** that have a trade and/or investment promotion dimension.

Concrete initiatives that can be mentioned are:

- *A common Nordic Energy Expo*, aimed at profiling the region internationally as a forerunner in new environmental and energy technology. The project ran in 2008- 09. Concretely, this was done through the Web portal “Nordic Energy Solutions”, and the physical exhibition, “Nordic Climate Solutions” (NCS).
- The aim of the *Nordic Culture in the World* initiative is to promote Scandinavian culture outside the region and strengthen the Scandinavian culture brand internationally. The initiative, running in 2008-2011, consists of three projects: Nordic films, Nordic architecture, and Nordic literature. These three areas will be promoted at international fairs and exhibitions.
- Initiated in 2008, *KreaNord* is aimed at developing and marketing the Nordic region as a sustainable region at the forefront in the creative industries. The initiative strives to coordinate different actors and initiatives in the respective Nordic countries. One of the four priorities is “profile activities”, aimed at positioning the region as a globally leading region for the creative industries. The long-term objective is to be a meeting place for experience, knowledge and vision that incorporate both the business and the cultural sectors.
- *Culture and Creativity*, initiated in 2010, will focus on linking activities across the culture and business sectors. It will also add two new focus areas: Global marketing and the distribution of Nordic films and the marketing of new Nordic food.

When it comes to three **Baltic States**, there are to the author’s knowledge no formalised investment and trade promotion efforts, but there is, according to many of the



interviewees for this report, much informal contacts and cooperation, especially in the field of information exchange. Several respondents expressed that there should be more scope for collaboration in terms of marketing efforts, the main argument being that as a small country, it is very beneficial to say that the country belongs to a region of 7-8 million inhabitants, than only having a few million inhabitants. One respondent had the pragmatic view that as foreign investors see the Baltic countries as one unity in any case, it is better to present them as such.

#### **4. Opportunities and challenges for regional cooperation in trade and investment promotion**

Several respondents, from the investment promotion point of view, argued that the main benefit of regional collaboration is that as most of the countries in the region are relatively small countries, it is beneficial to convey to prospective investors that the country is part of a larger region with many consumers. We label this argument the “critical mass argument”. Some respondents underlined that this argument is mostly valid on large and/or far away markets, where the individual countries are unknown and seen as small. India, China and Latin America are mostly mentioned in this regard, and to some extent also North America.

There is also an internal aspect to the need of providing critical mass. As Ketels (2009) discuss, research shows that economic activity has a tendency to agglomerate to certain areas. The logic, largely based on Nobel Prize winner Paul Krugman’s work on economic geography, goes that there are economic benefits of proximity across all economic activities, resulting in so-called core-periphery outcomes where some regions will grow and prosper while others fall behind, even if they initially have identical prospects. Initial differences will only exacerbate this process and the larger region will be determined as a “winner” from the very beginning. This effect has enormous disadvantageous implications for the BSR, being a small region of eleven individual markets at the periphery of Europe. As Ketels (*ibid.*) points out, the Baltic Sea Region has a moderate overall size. At 13% of the EU-27 economy, it is comparable to the economy of the Iberian Peninsula and slightly smaller than the Italian economy. The economy of the Region is divided into eleven countries (or parts of countries) with the largest, Sweden, accounting for about 21% of the Region’s aggregate GDP. The region has a relatively low population density, with few metropolitan centres of European, let alone global, reach. The overall share of the population living in metropolitan regions is comparable to the rest of Europe. But most of the metropolitan regions around the Baltic Sea are relatively small.

However, high levels of internal integration can help overcome some of the disadvantages. For example, a policy focus on economic specialisation, knowledge-intensity and cluster policy can help support and reinforce agglomeration and cluster effects. It should therefore, we argue, also be beneficial if the IPAs could collaborate more with a view to prioritise and reinforce the sectors and clusters that have most potential to grow and benefit from specialisation and proximity effects.

Several of the respondents interviewed point out that if the national trade and investment promotion agencies were to cooperate more in investment promotion, the efforts would need to be very focused (i.e. more about investment generation than

image building, in terms of the terminology outlined above). In investment promotion, this means that the agencies should identify business opportunities on a network and firm level. The networks can be comprised of firms linked to each other as well as triple-helix networks of firms, public institutions and research institutions. The networks that could be interesting for investors should be identified based on what expertise and unique competencies they can offer in terms of quantifiable indicators for skilled personnel and researchers, the number of firms in the network and the market potential in the host market etc. As discussed in chapter 1.2.6, this should interest especially technology-intensive firms, as they seem to be more inclined to invest in networks and clusters of interconnected firms and research institutions.

At the same time, several respondents underlined that the region also must create awareness about the BSR as a region and what it can offer, i.e. continue its brand building efforts. Here there should also be an opportunity for more collaboration. As discussed above, some countries have chosen to merge their IPAs and TPOs (and, as in the case of Estonia and Norway, also their national tourism organisations) in order to mobilise efforts in country branding. Especially smaller countries, generally enjoying lower awareness and having fewer resources, have seen the need to pool resources for country branding. Thus, as the BSR is predominantly made up of small countries, there should be a need to pool resources for branding and marketing. In addition, as discussed above, as investment decisions frequently are based on emotional factors, brand building serves an important purpose.

Several of these opportunities are in line with recommendations to the BIPA member organisation described in the State of the Region report 2005. The report recommends the IPAs in the BSR to cooperate on the general marketing of the Region, launch joint efforts in specific clusters with a presence across the Region and continue involvement in regional efforts to upgrade the competitiveness of the Region.

The report identifies the task to strike a balance between cooperation and competition that is acceptable for participating investment attraction agencies in the BSR as a first important step. A feasible option could be for all agencies to add the Baltic Sea Region dimension to the arguments for their respective location, without putting the Baltic Sea Region ahead of national or sub-national locations. That way, each location would become a window to the BSR with easy access to all of its capabilities and assets at the same time as it is providing its individual profile. There would still be competition between the locations in the region, but they would have access to an additional argument in relation to competitors elsewhere. The second task identified by the report is to define what characteristics of the Baltic Sea Region should be promoted and strengthened (Ketels and Sölvell, 2005), which is a need suggested by many of the observers interviewed.

Another argument for increased regional cooperation in investment promotion, put forward by Liuhto (2005, interview 2011), is the high levels of intra-regional FDI and trade taking place in the region, and lower levels of extra-regional trade and investments. As is discussed above, of the Baltic states' trade, more than 50 % take place with other BSR countries and their BSR share of the trade of Finland, Poland, Sweden and Denmark hovers around 40 %. The same applies to FDI, the proportion of FDI received from other BSR countries is high. For example, in 2002-2004, Estonia received

77 % of FDI from the BSR countries, and Finland 64 %, Latvia 59 %, Lithuania 68 % and Sweden 26 %. Liuhto argues that capital is being transferred within the region, but the levels of incoming external FDI are low, so the total amount of capital is not increasing. He therefore makes a case for a *Baltic Sea Investment Agency* that can promote capital inflows from outside the Baltic Sea area.

This argument becomes even more valid against the background of the fact that the Region, as underlined in chapter 2., faces an increasing challenge to market itself as an attractive FDI destination because of rising, global competition.

When it comes to the prospects for trade promotion in foreign markets, some respondents say that in order to be successful, it would be important to find narrow niches based on what the region can offer in terms of strong sectors and identify individual firms to target within these niches. The need to create awareness of the region as such seems to be smaller for trade promotion.

In addition, there should be more opportunities for national TPOs to also assist firms of other BSR countries, especially as many TPOs also act as consultancies charging for their services. The main argument is that it would then be possible to achieve outreach to more markets and that the TPOs in the BSR countries can specialise in servicing a few selected markets. It is also a matter of cost-efficiency, as presence in foreign markets is very costly. An obstacle to this is that many of the national TPOs have in their government approval documents an outspoken mission to only serve companies from their own country. This can, according to some interviewees, sometimes be an arbitrary directive, as it is not always clear-cut what nationality a multinational company has. As a consequence, in order to enable this opportunity, action would need to be taken at the policy level in the BSR countries.

Several respondents interviewed for this report expressed that the institutional incentives for cooperation are low and that the IPAs of the region in many cases feel that they are too much competitors to truly collaborate. There are also political reasons making cooperation difficult. For example, it is argued that national policy makers have nothing to gain opinion wise in their countries for supporting regional cooperation efforts, and they even perceive to lose politically if an investment goes to a neighbouring country instead of their own country. As a result, IPAs are not ready to finance joint efforts that can benefit other countries in the region, which are their competitors. Yet other interviewees underlined that it is difficult to collaborate because of the IPAs and TPOs are in different stages of development, have different priorities and have different levels of know-how. These arguments are in line with the arguments put forward above about why the BIPA collaboration did not work in the long run.

One way of dealing with the notion of competition between the countries is to focus initial collaboration on non-competitive areas in order to increase efficiency of operations, such as resource sharing and benchmarking (Ketels, 2011). Read more about this in the chapter about recommendations (chapter 5.2).

Another opportunity could be to try to engage the IPAs and TPOs in the BSR more directly in the discussions on what steps the BSR needs to take to become more competitive (*Ibid.*) (i.e. so-called policy advocacy activities in line with the terminology described in chapter 1.2.1). These kinds of agencies are used to take part in the national

debate on policy priorities and agencies continuously have a dialogue with their clients on this, and could be asked to share their learnings on what needs be done at a BSR policy level in order to improve the conditions for trade and investments.

Finally, there should be more opportunities to engage the private sector in the discussions about joint investment promotion, which can create an incentive for the IPAs to collaborate more. The argument is that if the governments in the region are approached by businesses that advocate a stronger cooperation in a certain area, it may trigger joint efforts (*ibid.*).

## 5. Final observations and recommendations

This section will put forward a number of policy- and strategy-oriented recommendations as well as more operational recommendations that policy makers and the investment and trade promotion agencies could use when discussing collaboration.

### 5.1 Recommendations – policy and strategy

*The BSR countries should focus its cooperation efforts in investment and trade promotion where there is critical mass:* It should be possible to jointly identify and prioritise sectors and clusters that are strong across the region and have dense networks between them. Being relatively small and comprising diverse countries at the periphery of Europe's main markets, the cooperation efforts need to be focused and build on common denominators in order to harness much-needed synergies and achieve critical mass. This is needed both in the region's internal development work, but also in the external promotion efforts. One opportunity here is to utilise analyses from projects aimed at supporting the creation of transnational clusters in the BSR, such as the BSR Stars project described above. This is mainly an opportunity for the IPAs, but to some extent also the TPOs.

- *Policy advocacy engagement:* the Danish Enterprise and Construction Authority and Baltic Development Forum should jointly try to engage the IPAs and TPOs in the BSR more directly in the discussions on what steps the BSR needs to take to become more competitive. This can be done through regular meetings, where the IPAs and TPOs can share their ideas on policy priorities at the BSR level for them to be more successful in promoting trade and attracting investment to their part of the region.
- *Branding dialogue – engaging the IPAs and TPOs in the dialogue about marketing the BSR globally.* Many initiatives that strive to build a brand for the BSR are active or under way, and the IPAs and TPOs need to be better engaged in these efforts.
- *Engaging the private sector in the discussions about joint investment promotion and trade promotion:* If the governments in the region are approached by businesses that advocate a stronger cooperation in a certain area, it may trigger joint efforts.
- *Identify opportunities to launch joint efforts to position the BSR as global frontrunner in the green sectors:* For example, the Ernst & Young's European

Attractiveness survey (2010) show that more than a third of Europe's business leaders, and fully half of those from Northern Europe, believe that in 2020 Europe will be the global leader in green technology and growth (followed by 18 % ranking "international leader in education" and 12 % ranking "R & D hotspot"). This sentiment is mirrored in the figures; investments into green business projects are in 2010 up 44 % compared to 2008. In 2009, France and the UK attracted most of these investments. However, in terms of perception, the BSR may have a head start: several of the region's countries are perceived to belong to a group of world frontrunners. The Global Green Economy Index, measuring national green reputations, ranks Germany as demonstrating the strongest green leadership, anchored by its dominant market share in clean technology exports, followed by Denmark and Sweden (Tamanini, 2010).

- *Collaborative efforts to support SMEs to invest:* There is also a case for better and more systematic bilateral collaboration between one country's TPO and another country's IPA. As discussed above, the collaboration between trade and investment agencies in the region is usually of an ad-hoc character. This concerns especially when it comes to assisting SMEs, and there are probably opportunities for joint efforts to help SMEs export and invest abroad. According to UNCTAD, a growing number of SMEs are investing abroad, and many small-scale investors are already exporters with some international experience. As has been discussed above, trade is sometimes preceding investments, and firms that are exporters today can become investors tomorrow. SMEs often invest in export-supporting activities and, most importantly in the BSR case, in their geographical vicinities. It is probable that these smaller investors face greater challenges than larger investors as a consequence of limited financial and human resources. Hence, SMEs could particularly benefit from collaboration between trade and investment bodies in the BSR.
- *There should be opportunities for co-location of foreign offices in some market to achieve information synergies and cost-saving:* An example to be inspired by can be the Scandinavian Tourist Board in Asia-Pacific, which has joint offices in Tokyo and Beijing and the Scandinavian Tourist Board in New York, which co-locates offices of the five Nordic countries. Also the co-location of the five Nordic embassies in Berlin is a well-functioning example.
- As many of the EU Member States in the BSR currently is modifying their EU funding programmes to better reflect the objectives of the EUSBSR, the Danish Enterprise and Construction Authority should *encourage the Member States take into account the needs of trade and investment promotion agencies.*
- *TPOs in one BSR country can serve firms from other BSR countries:* As far as trade promotion is concerned, there should be more opportunities for national TPOs to also assist firms of the BSR countries, as discussed above. As many national TPOs sometimes are not allowed to service firms from other countries, changes are needed at the national policy level of the BSR member states.
- *The European Commission should tailor the next generation of funding programmes (maybe especially the Territorial Co-operation programmes*

*("INTERREG") to better suit the needs of trade and investment promotion agencies.* As this report has discussed, investment and trade promotion are so-called public goods and there is in many cases competition between countries' investment and trade promotion agencies, creating little institutional and political incentives for national agencies to cooperate with other countries' agencies. Hence, funding programmes need to be tailored so as to provide a platform on which cooperation can take place. As it has been recorded that many of the agencies in the BSR see each other as competitors and that previous efforts, such as BIPA, has failed because a lack of sustainable financing and competition for clients, there is a need to create a neutral platform that take these obstacles to cooperation into account. EU funded projects employing a mix of both EU and national fund could help alleviate these challenges.

## **5.2 Operational recommendations**

- The Danish Enterprise and Construction Authority is recommended to invite the ministries of the region in charge of trade and investment promotion (usually ministries of foreign affairs or ministries of economy) to a meeting, where practical collaboration can be discussed.
- Along the same lines, the Danish Enterprise and Construction Authority should together with relevant actors, such as Baltic Development Forum, invite the heads of the investment and trade agencies in the BSR to discuss practical collaboration.
- Collaboration to increase efficiency of operations could be a way forward to overcome the lack of institutional incentives for collaboration mentioned above. For example, sharing resources in non-competitive areas of operations, such as benchmarking and jointly developing impact assessment tools could be areas that could benefit the work of the agencies and help them to do their job more effectively, without affecting competition for investors too much.
- One concrete way to initiate a practical cooperation on an equal footing between the IPAs/TPOs in the region could be to apply for financial support from the Nordic-Baltic mobility programme for public administration. The programme gives financial support to civil servants and other staff in the public sector to carry out, for example, study visits, training or networking activities.

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## **About Baltic Development Forum**

Baltic Development Forum (BDF) is an independent non-profit networking organisation with members and partners from governments, major cities, large companies, business associations, institutional investors and research and media institutions in the Baltic Sea Region.

As the leading high-level and agenda-setting networking organisation in Northern Europe with a network of more than 6 000 decision makers, we facilitate and develop new initiatives, partnerships and international links to stimulate growth, innovation and competitiveness in the Baltic Sea Region and its 11 dynamic countries. We seek to develop the Baltic Sea Region as a global centre of excellence and establish the Region internationally as a strong and attractive place brand.

Uffe Ellemann-Jensen, Minister for Foreign Affairs of Denmark 1982-1993, chairs Baltic Development Forum. Mr. Ellemann-Jensen is co-founder of Baltic Development Forum and the Council of the Baltic Sea States.

## **About Tendensor AB**

Tendensor (formerly Geobrands) is a Sweden-based consultancy, specialising in place branding, destination marketing, internationalisation and investment promotion. We focus on helping cities, regions, countries and corporations to clarify the image, develop attractiveness, differentiate and find new markets.

Regarded as the leading place-branding consultancy in Sweden, Tendensor has over the past eight years managed a large number of place-branding projects and processes for cities, regions, tourism destinations and business clusters, measured the image of a multitude of places with our Attractiveness Index, and organised training courses for more than 800 “place managers”. Our innovative research and development projects have received a lot of attention and acclaim both in Sweden and internationally, and they have been presented to policymakers in national, regional and city governments and at international academic conferences.

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