Report on the 1999 Baltic Development Forum summit: Promoting the spirit of co-operation in the Baltic Sea Region

Written by Christian Toksvig

Rapporteurs:
Sir Garry Johnson (stability)
Stefan Widomski (business)
Erkki Toivanen (culture and identity)
Kaj Juul-Pedersen (IT/telecom)

The 1999 summit of Baltic Development Forum marked the first time that the Baltic Sea Region's leading politicians, academics, and business and media executives convened for discussions and networking. The broad theme of the summit was advancing partnership and growth in the Baltic Sea Region, and the concept of partnership was clearly embraced by the more than 250 participants who spent three sunny spring days in Copenhagen building networks across borders.

There are already numerous ties between businesses and organisations in the region. However, most of them lie within close-knit circles of specific industries or political fields. The Baltic Development Forum summit was the first opportunity for intense cross-sector networking between Baltic Sea executives.

32 speakers provided an educating and entertaining background for the discussions, covering such diverse topics as stability, management, investment, culture and identity, energy and IT/telecom. This report summarises and puts into perspective the discussions and messages brought forth at the Baltic Development Forum summit, as seen by the secretariat and the respective rapporteurs on each of the summit's themes.

NATO and EU enlargement the ball is rolling

The accession of the Baltic states and Poland to the European Union and NATO is a recurring theme in every discussion of the Baltic Sea Region, underlining that the security situation in the region remains unresolved, albeit much improved. The opening address by US former security adviser **Zbigniew Brzezinski** reflected the urgency of building long-term, stable relationships between nations in the region, particularly between Russia and its former annexed republics on the east coast of the Baltic.

The European Union and NATO are to be the primary vehicles for building such ties, regardless of the difficulties and protests along the way. Dr Brzezinski noted that both institutions are expanding not because someone is dictating or imposing them on others, but because the peoples of Europe desire their expansion. The principle that “...the expansion of both the European Union and NATO should not be imposed on anyone, but also, no one can be prevented from joining” was Dr Brzezinski’s simple and unequivocal message.

Also, the region’s decision-makers should stop arguing about whether the accession of new countries should be individual or in clusters. Accession should be granted to those states that satisfy the requirements of membership and desire to join, he said, noting that Estonia is furthest on the path to EU membership and Lithuania on the path to NATO membership.

This sentiment was echoed by General **Sir Garry Johnson**, former NATO Commander of Northern Europe, who urged the leaders of the Baltic states to accept that there are differences in their degree of readiness. This means that one will almost certainly become member before the others. And this should in no way be seen as an exclusion but as a reassurance that all three countries will eventually — and inevitably — be members. General Johnson suggested that the summit participants adopt the pragmatic principle put forth by the Latvian Minister of Foreign Affairs, **Valdis Birkavs**: “One good. Two better. Three best.”

NATO: Catalyst for increased Baltic unity or herald of a new cold war?

The partnership and stability elements of the summit were set into a particularly urgent context by current events in the Balkans which served to many as a dire example of how things could have ended up in the Baltic Sea Region. During the session on stability, the Balkans conflict was drawn forth several times, as an example of both regional conflict and of NATO’s new role as a unilateral aggressor.

NATO is going to be a crucial factor in the future stability climate of the region. That is as far as Russia and the western European NATO members can agree. Russia sees NATO’s enlargement process — and its recent campaign in a sovereign country outside its sphere of interest — as a severe security threat. The Russian view was conveyed by **Dr Sergei Karaganov,** Chairman of Russia's influential Council of Foreign and Defense Policy. Dr Karaganov, also a foreign policy adviser to the Minister of Foreign Affairs and President Yeltsin, stated that NATO will become a destabilising force in the Baltic Sea Region because it has now effectively changed from a purely defensive to an offensive organisation. According to Dr Karaganov, by its actions in Kosovo NATO has betrayed its own principles, disregarding the UN Charter as well as the NATO/Russia Founding Act, both of which forbid the use of force by one sovereign state against another.

To say that Dr Karaganov was concerned about NATO’s new role would be an understatement. He called NATO a threat to the security of other nations and saw the alliance’s action against Kosovo as providing the precedent for further attacks on other nations, including possibly Russia. The result, he predicted, was that the cooperative spirit of the Partnership-for-Peace-years would soon come to an end. Russia will be forced to look to other partners for security, to remove the limits set on its own offensive capability and to consider the early use of nuclear weapons in its own defence. “We can no longer cooperate with NATO. There will continue to be some talking, but it will be a different conversation,” he warned.

Among present and aspiring NATO members, the tone was remarkably different. Sir Garry Johnson, while expressing some concern over the long-term effects of NATO’s involvement in the former Yugoslavia, called NATO “the only credible guarantor of peace in the Baltic Sea Region.”

Danish Defence Minister **Hans Hækkerup** praised NATO for its ability to create peace in western Europe after World War II. He said that integration in

NATO has transformed the relationship between Denmark and Germany, than whom Denmark now has no greater ally. He added that the guarantees which have preserved western European security for half a century should now logically be extended to other countries seeking the same degree of protection.

Hækkerup employed both carrot and stick in encouraging stronger Russian ties with the Euro-Atlantic system: He invited Russia to participate actively in the process and even offered Russia eventual membership of the European Union and NATO. At the same time, he noted that whatever reservations the Russians may have at present, "there is no alternative for the future development of Russia than co-operation with the West."

Russia will choose Europe

Despite the presence at the summit of a large Russian contingent, most of the analyses of Russia's current situation and future seemed to come from Western observers. Zbigniew Brzezinski summed up his analysis by saying that "Russia will at some point make a grand choice for Europe."

He assessed that despite Russia's current turmoil and its scepticism towards western Europe and North America, the emerging generation of Russian leaders will reassess the position of Russia in the world and acknowledge the reality of the new geopolitical setting in which Russia finds itself. To the east of Russia there is now a power contiguous to Russia, far more powerful than Russia economically and far more numerous in population. And to the south of Russia there now exists a belt of states susceptible to strong dogmatic religious appeals. Thus, it is in the interest of Russia to become more closely integrated with the European venture, simply because Europe is the most attractive partner Russia can get at present.

Vytautas Dud nas, Chairman of the Foreign Affairs Committee of the Lithuanian Parliament, added that the Russian region of Kaliningrad would also benefit from the integration of its neighbours, Lithuania and Poland, into the Euro-Atlantic institutions.

Estonian President **Lennart Meri**, himself representing one of the "front-line" states, argued that Russia's difficult economic predicament has acted as an impetus for its leaders to show the Russian population that it is still a strong nation. President Meri said he believed that although the Russian government strongly opposes NATO enlargement, there are many Russian politicians who, in the light of potential security threats east and south of Russia, do not. "That would be a great advantage to Russia and I am sure there are politicians in the Duma who see the positive in it for Russia," he said.
He mentioned the success his country has had in approaching the European Union and NATO and expressed the hope that Russia will understand that this also matches her own interests. "In a way we are presenting Russia with a guarantee that its western borders will be absolutely stable and I think that will be a great achievement," he said.

The message: NATO must enlarge as quickly as possible

Despite continued debate, the clear message at the summit was that NATO should admit new members as quickly as possible. The question of NATO enlargement has changed from *if* to *when* and *how*. Applicant countries should not necessarily be considered in clusters but individually, based on transparent evaluation criteria. Countries should be admitted as soon as they fulfill these criteria and not be kept waiting for political or strategic reasons.

Why was stability such a hot topic at the summit? Stability is the underlying precondition for all other types of human activity, including trade, education and cultural exchange. In the words of General Johnson, security is "as much about banks as it is about tanks," meaning that businessmen and other private actors are affected as much as politicians by any unsettled political issues.

The discussions showed that the Baltic Sea is on the way towards — but still far from — being a tranquil ocean uniting friends.

The European Union — provider of co-operation and "soft security"

Enlargement of the European Union is the other major theme on Europe's political agenda today. Enlargement was always a goal of the founding fathers of the European Community. Today, the enlargement process has been initiated in the Baltic Sea Region, despite real and perceived difficulties in accommodating new members in the EU bureaucracy. Critics of the speedy enlargement scenario often say that enlargement will be too costly for the EU, particularly because the Union could not afford to give agricultural subsidies to the new members.

President Meri warned against employing what he called a "Marshall Plan-era philosophy", the notion that more countries in the European Union would mean less resources to each country. The President said that enlargement is a financially viable undertaking which can be carried through without increasing the budget contributions of member states. He promised that Estonia and other applicants would bear the majority of the costs of accession themselves. President Meri pointed to past experiences in admitting new EU members that show a clear tendency for the economies of incumbent and new members to converge.

This opinion was echoed by Germany's former Minister of Foreign Affairs, **Hans-Dietrich Genscher**, who reminded the audience that institutional reform of the European Union — however tedious a process — is but one small step on the ladder towards increased European co-operation, along which Europe has already advanced too far to retreat.
On the contrary, Mr Genscher envisioned enlargement as providing the necessary impetus for a comprehensive overhaul of EU institutions. Such an overhaul should include an ever strengthening co-operation between the member states internally, and between the European Union and other regions externally.

The keyword for Europe's future is interdependence

The overriding logic in today's economic and political environment, said Mr Genscher, is that of interdependence. Political interdependence through cross-border co-operation. Economic interdependence through international trade and investments.

Mr Genscher, himself a veteran of Cold War politics, warned the Baltic Sea countries and Europe against returning to thinking in terms of balance of power. He said that the development in the Baltic Sea Region will be the key to understanding what Europe will look like in the future. The success of the European project depends to a considerable extent on the development of the Baltic states and the Baltic Sea Region in general.

Sadly, the summit could not provide an EU viewpoint to the discussions. Due to the current non-existence of a European Commission, there was no official representation of the European Union. However, the message of the summit participants was so clear that it could be heard all the way to Brussels: Enlargement of the European Union is an opportunity for Europe, for all of us, both in the east and the west.

Business - it's a state of mind

Baltic Development Forum's business theme concentrated on the removal of barriers to trade and investment, but took a novel approach to an otherwise traditional topic. Central to the theme were the barriers inside people's minds — the psychological barriers. Differences in thinking across the Baltic Sea Region will remain long after physical obstacles such as customs barriers are removed.

According to the participants at the summit, the answer to the psychological dilemma is surprisingly simple: give people responsibility. **Kurt Andersen**, Partner in Denmark's AP Møller Group and a long-time investor in the Baltic states and Poland, encouraged foreign investors not to replace one distant authority with another but to let people think for themselves. Mr Andersen acknowledged that there has been and still is a "management gap" between the Western and Eastern countries in the Baltic Sea Region. But he blamed the gap on the conditions under which Eastern managers have previously been forced to operate.

The AP Møller Group has followed a policy of hiring only local managers in their Baltic Sea subsidiaries, delegating full responsibility to them and providing parent company coaching only on demand. The strategy has worked, said Mr Andersen, because the local managers could perform well under better conditions. His maxim was simple: "Without changing the conditions, it would not even help to change people. By changing conditions there will be no need to change people. They change themselves."

Eastern managers replace experience with enthusiasm

Stefan Widomski, Senior Vice President of Nokia Corporation, agreed that the quality of managers in Eastern and Central Europe is rising rapidly as new generations of managers emerge. He said that young managers coming out of Eastern European universities today are as good as — if not better than — Western managers. They make up for their lack of experience with solid enthusiasm.

The challenge of changing the mind set of managers who were used to operating under planned economies has been taken up by the Nordic Leadership Executive Training programme (NORLET). NORLET is a joint effort by seven Nordic companies to train their Russian and Baltic managers. Its director, **Leif Wallinder**, Senior Consultant at ABB Management Consultants, said that the typical Eastern European manager is highly, but narrowly educated. He is used to working "vertically", taking orders from above. NORLET tries to give managers a broader perspective of their own role in the organisation and to prepare them for taking more responsibility.

There was general agreement that although mental barriers persist, they *are* coming down. One sign of this development is that Western companies are expatriating fewer managers to Eastern and Central Europe because good management can increasingly be hired locally. **Ole Steen Andersen**, Executive Vice President of Danish industrial group Danfoss, said that his company used to send out many general managers to new markets. Today, the company expatriates fewer employees, mostly specialists. Danfoss has also promoted several Eastern European managers to positions in other subsidiaries and group management, a further indication that standards are high and rising.

Will Eastern European SMEs be left behind?

While participants were positive towards the development of managerial competences in the countries in transition, there was some concern that the process will take place behind the closed doors of foreign-owned companies. Managing Partner **Monty Åkesson**, Ernst & Young Latvia, asked the question how local small and medium-sized enterprises will develop the necessary competences to compete abroad without a foreign parent company.

Danfoss's Ole Steen Andersen agreed that Eastern Baltic SMEs will suffer from a managerial deficit, at least in the short term. But he expected a "trickle-down" effect of skilled people, trained in foreign-owned companies, who will eventually establish their own operations or be employed by local enterprises. Nokia's Stefan Widomski noted that when a big company like Nokia establishes itself in a new location, clusters of subcontractors follow, thus creating an influx of smaller companies.

Persisting barriers: languages and politics

Some barriers have proven hard to overcome. Several speakers noted that language barriers still obstruct a lot of business activity. Kurt Andersen urged businessmen around the Baltic Sea to train themselves in English and Russian. In a region as linguistically diverse as the Baltic Sea Region, the inability to speak at least one foreign language seriously hampers the potential of society and of the individual. Also, several panellists at the summit's management session noted that ethnic conflicts are prevalent in companies in the Baltic States.

Corruption remains a problem in the countries in transition, but the subject was not given much attention at the summit. Some participants saw it as being part of a tradition of interweaving politics and business that is prevalent in Eastern Europe. And managers do need to be much more politically apt than in Western Europe. Ole Steen Andersen said that managers should actively participate in politics, lobbying and influencing as best they can.

The management and investment sessions at the summit reflected that business in the Baltic Sea Region so far is mostly a one-way street, going from west to east. Estonia's ambassador to the European Union, **Priit Kolbre**, urged the region's politicians to focus on the problems that confront Eastern European companies trying to break into EU and other Western markets.

Regulatory reform coming soon to a country near you

As the countries in transition prepare for EU membership, they have begun a process of sweeping regulatory reforms. These include harmonising trade and investment rules in all the countries in the region. The participants recognised that considerable progress has already been achieved in identifying and removing trade barriers within the framework of business organisations such as the Baltic Sea Chambers of Commerce Association and the Baltic Sea Business Summit. These organisations have worked to identify and remove barriers to growth stemming from inadequate legal, tax and customs systems, infrastructure, organised crime, environmental degradation, etc.

Still, several speakers pointed to unsettled issues. **Peter Wallenberg**, Honorary Chairman of Investor AB, Sweden, and co-founder of Baltic Sea Business Summit, singled out two important preconditions for economic growth in the region: Firstly, the establishment of modernised and harmonised legal systems. This is fundamental for investors to feel safe enough to invest in a country. Secondly, the creation of more domestic capital resources. Today, such resources are lacking, forcing the countries in transition to seek capital inflows from abroad. Mr Wallenberg warned that nationalist sentiments might emerge among the populations of new market economies, because they will oppose seeing their main industrial or service assets owned by foreigners.

Therefore, Mr Wallenberg urged the former planned economies to work for a substantial increase in domestically generated capital resources, noting that an increase of domestic capital means also a long-term generation of balance of payments surpluses, in other words substantial surpluses of exports.

Many barriers of a practical nature continue to make life difficult for entrepreneurs, investors, truck drivers and other people who work across borders. Sweden's Minister for Trade and Baltic Affairs, **Leif Pagrotsky**, argued that not enough has been done in the field of lowering technical barriers to trade. He urged governments around the Baltic Sea to work even harder to eradicate unnecessary and discriminating trade barriers.

Of particular emphasis was the problem of border crossings between the countries in the Baltic Sea Region. Delays are frequent at many crossing points in the Baltic Sea Region. Minister Pagrotsky asked rhetorically whether it is really worth it to invest enormous amounts of money in new expensive roads so that minutes may be gained in transportation time – when drivers are delayed 10, 20 or even more hours at the borders? He pointed out that it shouldn't take more than two hours to cross a border in the region. Privatisation of border controls was one option mentioned by the Minister in order to reach this goal.

Trade, trade and trade

What are the benefits to be gained from regulatory reform? In the words of Minister Pagrotsky: trade, trade and trade. Pagrotsky revelled in the prospects of boosting inter-Baltic trade to the level of the current inter-Scandinavian trade. The thought of equally intense trade relations with the new market economies around the Baltic Sea was simply "dizzying" to the Minister. As an example he mentioned Sweden's trade with Estonia which has increased by 300 per cent in just five years.

The Danish Minister of Business and Industry, **Pia Gjellerup**, agreed, pointing out that the Øresund bridge linking Denmark and Sweden will conclude the circle around the Baltic Sea, land-locking the entire region for the first time. She estimated that the Baltic Sea region would thus become more attractive to global companies due to the complementary conditions offered by the region. In the Baltic Sea Region, companies have access to a wider span of GNP per capita than any other region in the world. This would allow them to place entire value chains within a limited geographic area rather than having to spread their operations far apart.

Investment transferring needs into opportunities

The Russian and Asian crises have spread prospects of slower growth to the region, at least for the time being. The challenge for the Baltic Rim countries is to use the apparent economic hiatus this year to become more competitive, embrace further political reforms and tackle practical barriers to investment.

Like trade, investment within the Baltic Sea Region has boomed since the early 1990s. Between 1989 and 1998 total investment into the Baltic States and Poland came to approximately 35 billion dollars. Investment prospects remain strong for the region, simply because the needs are there. As stated by **Jón Sigurðsson**, President and CEO of the Nordic Investment Bank, that is what transition is all about — transferring needs into opportunities.
Increased investment is absolutely necessary in order to maintain growth in the transition countries, according to **Cezary Stypu»kowski**, President and CEO of Bank Handlówy w Warszawie. Echoing the concerns of Peter Wallenberg, Mr Stypu»kowski said that domestic savings are still too low to finance the required investments in infrastructure and production capacity, thus opening the doors to foreigners with large wallets.

Is foreign investment the answer to the needs of the transition countries?

There has been widespread concern in the Eastern European countries — both among politicians and in public opinion — that the entry of foreign companies into their markets could mean that local actors are crowded out and that much needed sources of revenue pass the transition countries by. The discussions at the summit also reflected the duality of foreign investment.

The answer coming from a panel of bankers at the investment session was, not surprisingly, that increased inward investment is ultimately in the transition countries' own interest. Love them or hate them, foreign investors are the only way to boost the capital base in the transition economies at the moment, said **Joakim Helenius**, Chairman of Hansa Investments, the Estonia-based investment bank. He predicted that within two to three years over 80 per cent of the largest Baltic companies will either be foreign-owned or have foreign strategic partners. Why? Because Baltic companies are simply too small to compete in the global economy. According to Mr Helenius, Baltic companies will find it difficult to survive without a foreign partner due to three factors: Their inexperience in international marketing, their lack of management knowhow and resources, and the limited availability and high cost of capital in the transition countries.

Mr Helenius did not feel that the discussion about national ownership was particularly relevant in an exceedingly global business environment. He urged politicians in the transition countries to focus on the jobs created by foreign investors instead of the transfer of ownership. Jobs are more beneficial to the economy — through personal income taxes — than corporate taxes or other revenues, he asserted.

Securing "quality" foreign investment

The entry of foreign owners into the new market economies has increased the efficiency of business in Eastern Europe. But the structure of business remains the same concentrated on labour intensive production. At present, Eastern Europe is primarily attractive for foreign investors as a low cost production base. Textile, assembly and other labour intensive industries account for some of the largest investments to date in Poland and the Baltic States. Such investment tends to be short term as labour intensive industries are prone to move on to cheaper countries as wage levels go up in the Baltic Sea countries.

Mr Stypu»kowski stated that countries like Poland need investment in more technologically advanced sectors in order to increase their international competitiveness. The transition countries have a lot to offer high tech companies, he promised. Mr Helenius saw a future for the Baltic States as a service centre to Western Europe.

Mr Stypu»kowski also encouraged foreign investors not to be too cautious about seeking opportunities in the countries in transition. Using Poland as an example, he said that from objective risk criteria, the new market economies in the Baltic Sea Region do not constitute a higher risk to investors than Western countries.

The Nordic solution: Public/private partnerships in investment

Between the ultra-liberal and the total nationalisation scenarios, there is a "path less travelled". The region is now preparing for a series of projects to improve energy efficiency, reduce environmental damage and modernise infrastructure. Regarding such projects Mr Sigurðsson suggested that public/private partnerships might be a valid alternative to allowing foreign companies to feast on Baltic businesses. Mr Sigurðsson pointed to past successes in creating a concerted effort between public and private actors for such projects, brokered by the Nordic Investment Bank.

Mr Sigurðsson called for the creation of local bond markets in the transition countries to provide the necessary financing. He also advised that the development of funded pension schemes to replace pay-as-you-go systems could provide a natural source of funding for well-designed public/private projects. Another avenue of capital market development worth pursuing would be to allow highly rated international issuers to issue local currency bonds and to use the funds within the country, or to swap the proceeds into foreign currencies, depending on the circumstances, he said.

The Baltic Sea Region - a world class IT/telecom centre?

Spearheads of the future economy in the region, the information technology (IT) and telecommunications industries are flourishing on both sides of the Baltic Sea. Thus, it is tempting to envision a globally competitive high technology centre in the region, drawing on the experience and clout of the large Nordic companies and on the masses of well educated engineers and scientists in the Baltic States, Poland and Russia.

But at present, the region is a long way from fulfilling such a vision. Whereas the Scandinavian countries and Germany are at a high level of IT maturity, the countries in transition have only recently begun their development.

However, this is not necessarily a disadvantage, as several summit participants pointed out. The IT/telecom sectors in the Baltic States and Poland have been "jump-started" embracing the latest technological standards, and will take bigger leaps in catching up to global levels than most other industries.

Why is it so attractive for the region to host a leading high tech sector? **Carl-Christian Aegidius**, General Manager of IBM Nordic, demonstrated that there is a direct correlation between IT penetration (computers, Internet etc.) and economic growth. At the moment, the IT growth rate is about 11-12% per annum in the Baltic Sea Countries.

Mr Aegidius saw the advent of the Internet as an enormous opportunity for the countries in transition. Through the Internet companies can get instant access to the global market which would have taken years to develop before. The opportunity is to develop solutions within all links of the Internet value chain including access, presence & publishing, collaboration, Intranet solutions, customer services and E-commerce, he said.

According to **Kaj Juul-Pedersen**, President of the Polish subsidiary of Sweden's Telia and a telecom industry veteran, the Baltic Sea Region has a number of distinguishing characteristics that make it a plausible candidate for IT/telecom leadership. The region hosts several development centres such as Stockholm in Internet, Helsinki and Aalborg in mobile telephony, and Copenhagen in multimedia. These development centres, along with new ones emerging in Tallinn, St Petersburg, Gda½sk, Warsaw and other places, will be the backbone of the region's IT/telecom sectors.

Mr Juul-Pedersen outlined three steps towards the Baltic Sea Region becoming a world class IT/telecom centre:

C Building a transparent and stable legal climate. In telecommunications, the upfront investments are extremely large and investors will need reassurance of return on their investment from those issuing licenses. Particularly in connection with the privatisation of telecom in the countries in transition the principle of transparency and long term orientation should be employed.

C Developing the market for IT/telecom products. Companies in these businesses are operating under the principle of increasing returns. They must be willing to accept a long start-up period with little or no profits until the markets suddenly take off. This is how telefax, mobile telephones and e-mail have progressed, and the required infrastructure has to be in place *before* consumers start to embrace the new technologies.

C Empowering people to design, build and use technology. Education is a vital component of industrial success, but continues to be a bottleneck in the development of new technology. Therefore, an increased focus on education is necessary in order to reap the region's potential.

The obstacles: Legal systems, piracy and education

The biggest threat to the development of first-rate technological clusters is inadequate legislation. **Linnar Viik**, Product Development and Marketing Director of Levicom, an Estonian multimedia company, put this statement in perspective by providing a positive example of how legislation can nurture growth. He described how the government in his native Estonia has led the way in placing the country among the most IT mature societies, not only among Eastern European countries but on a global scale. (Today, more than 250,000 people have Internet access, out of a population of just 1.5 million.)

Firstly, the Estonian market is not heavily regulated. It is quite easy for foreign companies to establish themselves on the Estonian market and many IT and telecom companies have done so. Secondly, the government's own communication internally as well as with citizens takes place almost entirely through electronic channels. This has encouraged the diffusion of IT into Estonian society. A law has been passed giving electronic signature the same status as traditional signatures. And the value-added tax on IT/telecom products has been lowered. Thirdly, the government has recognised the importance of access to the Internet for all citizens. To allow people in rural areas to communicate electronically, Internet access points have been established in these areas and along the Estonian highways.

Mr Viik assessed that these initiatives are already paying off today, and vowed that within three years an Estonian software company would have penetrated the global market.

While Estonia is perhaps the foremost example of a transition country using the opportunities offered by new technology, similar processes are under way in Latvia, Lithuania and Poland.

However, threatening the software industry everywhere is the widespread software piracy, which in itself has become a large industry in the countries in transition. **Bo Kruse** is Regional Director for the Baltic States and Bulgaria at Microsoft and his company is among the biggest victims of software pirates. He stated that piracy stifles the development of new software products. He cited a report saying that a 17 per cent reduction in software piracy would lead to 65 per cent growth in the software industry. In Latvia, for example, about 87 per cent of all software in use today is pirated, according to Mr Kruse. Such piracy rates will effectively slow down the development of new software in the transition countries, he said.

Michael Mathiesen, President and CEO of 2M Invest, a Danish venture capital company involved in the IT industry, added that the current shortfall of qualified people constitutes a serious problem. The panellists could not see “masses of unexploited talent” anywhere in Scandinavia today even Poland and transition countries were running dry.

Mr Mathiesen assessed that a completely new look at education would be necessary in order to fill the gaps. Education should be life-long and not just take place during youth. Technological changes will occur too quickly for anyone’s education to last them a lifetime, Mr Mathiesen claimed. And with the availability of modern technology, continuous learning is now easier than ever in school, university and business settings alike.

The panellists concluded by agreeing that open legal structures and education are the two fundamental preconditions to fulfilling the grand vision of the Baltic Sea Region as a leading technological centre.

Energy - the first common market in the Baltic Sea Region

While EU and NATO membership for several countries in the region are still in the pipeline, a common market for energy in the Baltic Sea Region is close to becoming a reality. Concurrently with the process of deregulating and decentralising the energy markets within the European Union, energy companies around the Baltic Sea are uniting their efforts to devise a single market for energy in the region. And the task is a daunting one. The technical obstacles alone are formidable. The region encompasses three disparate energy grids that are not interconnected at present. Add to this the strategic component of energy supply in a region where mutual distrust used to be the norm: Those who supply energy also have the power to shut it off.

These and other issues were debated among a panel of distinguished decision-makers in the region's energy sector. In his keynote speech, **Carl-Erik Nyquist**, President and CEO of the Swedish electricity company Vattenfall, said that a common energy market with free competition would lower the price of energy dramatically, to the benefit of producers as well as consumers.

Lars Bergman, who is Professor at the Stockholm School of Economics and specialises in energy and environmental economics, agreed and added that markets must be truly deregulated in order to function properly. For example, authorities must grant supplier licenses and access to transmission networks on a non-discriminatory basis, to get as many players into the market as possible. Furthermore, governments should commit themselves to long-term taxation schemes regarding energy. Abrupt changes in energy taxation could threaten the viability of the very long-term investments undertaken in energy infrastructure, he claimed. He advised governments to rely mainly on emission-based taxes, since they are the most transparent form of energy taxation.

Private enterprises should bear the environmental and commercial responsibilities

Mr Bergman also said that experience from the United Kingdom and the United States shows that a market with free competition down to the household level will also lead to more environmentally friendly production of energy. When competing directly for end-users companies will become more visible. Consumers will increasingly choose energy suppliers based on their environmental profiles, forcing companies to turn to greener production methods.

Mr Nyquist concurred that the members of BALTREL, the regional association of power companies of which he is the Chairman, will bear the commercial risk of creating the links between the Baltic Sea countries and their neighbours required by a common market. He suggested that a so-called *joint implementation* scheme be used, under which national governments and private enterprises share the costs of creating new infrastructure and modernising old facilities.

Jaakko Ihamuotila, Executive Director of Fortum, the newly-formed Finnish energy company, declared that the Baltic gas sector which he represents would follow suit and seek to establish a trans-Baltic gas pipeline linking the Russian and Nordic gas grids.[1] He said that Sweden holds the key to this gas grid, because Sweden must decide to use natural gas as replacement for nuclear power, which is being phased out, in order for the gas grid to be economically viable.

Mr Ihamuotila and several other speakers at the summit saw a future where natural gas will play an increasingly central role in fulfilling the region's energy needs. The big production facilities in existence today, many of them unsafe, would be replaced by smaller units running on natural gas and producing combined heat and power. Such systems have proven efficient and reliable in the Nordic countries and would be suitable in the transition countries due to the low investments required, he said.

Tighter interconnection between the Baltic Sea countries would also improve the stability and reliability of energy supply, according to **Jerzy Kropiwnicki**, Polish Minister for Spatial Planning. Poland is not self-sufficient in energy and relies on imports, mainly from Russia. Minister Kropiwnicki expressed a desire to spread Poland's energy imports among several suppliers. The Minister was reassured by fellow Pole **Andrzej Olechowski**, Chairman of the Central Europe Trust Fund and former Foreign Minister, who ended the session by concluding that the supply of energy in the Baltic Sea Region lay safer in the hands of private actors in an open market than in the hands of governments.

[1] Subsequent to the summit, the Baltic Sea gas companies have established an organisation similar to BALTREL, called Baltic Gas.

Culture and identity: A common destiny, a common identity

No region in the world can be said to be an entity without some degree of cultural affinity. As the Baltic Rim countries nurture their relationships in all other fields, the question naturally arises whether it is relevant — or even desirable — to speak of a separate cultural identity for the Baltic Sea Region.

The answer from the participants at the Baltic Development Forum summit was a unanimous yes. Two main reasons came up in the presentations and during the debate: Popular consent would be necessary for any future large-scale political and economic common projects and endeavours. Such consent can only be based on an awareness of mutual interdependence and a feeling of solidarity. However, the participants and speakers agreed that it is next to impossible to define a Baltic Sea identity today or what it could be tomorrow.

It was agreed that a regional identity would strengthen the prosperity and security of the Baltic Sea Region because it would provide the popular consent and solidarity necessary for any concerted political and economic action.

Erkki Toivanen, Special Europe Correspondent of the Finnish Broadcasting Corporation and a long-time commentator on Baltic Sea affairs, explained that the Baltic Sea Region is not “an imagined community”. The region fulfills the requirements for a cultural entity, namely shared history, common values and a sense of a common destiny. But a Baltic Community cannot be invented or decreed into existence. It can only be created in people’s minds.

Attention was drawn to the fact that the national identities of some of the states bordering the Baltic Sea are either relatively young or in the process of being re-invented (Estonia, Latvia, Lithuania, Russia). The creation of new multilingual and multicultural identities in countries with large Russian minorities will take time, as was pointed out by **Nils Muiznieks**, Director of the Latvian Centre for Human Rights and Ethnic Studies.

But he cautioned against viewing the presence of large ethnic minorities in the Baltic States as a problem. Minorities hold the best potential for acting as bridge-builders between cultures, simply because they have a greater stake in integration and co-operation than any other groups.

Yuri Deryabin of the North European Centre at Russia’s Institute of Europe admitted that it is only through the emergence of a strong civil society in Russia that deeper awareness of common values and interests could be created. Yet he stressed the importance of economic factors: The Baltic is again Russia’s window and gateway to the West as it has been since the days of Peter the Great. He also emphasised the security aspect of Baltic co-operation and the danger of excluding Russia.

A Baltic Sea identity is a logical result of intensified relations

The security situation in the region is probably the best example of the common destiny of its countries. Any external threat or internal upheaval would affect all countries in the region, separately or together. Environmental problems already tie us together whether we want it or not. Industrial, and especially nuclear, pollution presents problems no country can solve on its own.

Vytautas Dud nas, Chairman of the Foreign Affairs Committee of the Lithuanian Parliament, added that the European Union, OSCE and the Council of Baltic Sea States are major players in strengthening the social and cultural cohesion of the Baltics. As the Baltic States pursue diverging strategies towards integration into the Euro-Atlantic system, the CBSS is a particularly effective instrument in shaping and maintaining a regional identity.

Which identity-building strategy should be pursued?

The participants recognised that, eventually, the countries in the Baltic Sea Region will approach each other culturally as they converge administratively and institutionally. But drawing on the experience of those countries that are already members it is quite evident that although EU members have a lot in common, they remain culturally diverse.

Therefore, the panellists agreed to recommend a Nordic-style approach based on voluntary co-operation in the civil societies. Mr Toivanen noted that in the Nordic countries, citizens' associations and professional societies – encouraged by governments have created a network which is quite unique in Europe. It has helped to build an economic community where passports were abolished and a common labour market created before the European Union saw the light of day or anyone had even heard of Schengen.

The Nordic identity is flexible, said Mr Toivanen. For example, the Nordic countries have each pursued different paths in their policies regarding European economic integration and defence without the Nordic community becoming thereby endangered or even weakened in peoples' minds.

It seems obvious that integrating the other countries in the Baltic Sea Region into the Nordic community's activities as far as possible would open the main door to the creation of a true extended identity. Therefore, the members of the panel thought the surest way to establish an identity for the Baltic Sea Region would be through education and ever closer cultural and economic exchanges, based on the Nordic model.

Mr Muiznieks stressed the importance of education in this respect. If coming generations become aware of the role the Baltic Sea has played in the region's economic, social, and cultural development, such an identity may well ensue. Rather than strengthening national identity through a dissociation from neighbouring countries, emphasis should also be laid on the common cultural basis of our "European-ness" out of which national identities once evolved. There does not seem to be any other way to instil a shared memory and commonly held values into the minds of future generations.

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At the closing of the 20th century, the Baltic Sea Region stands poised for a revival of historic reverberations. The prospects for economic co-operation are as promising as they have ever been since the days of the Hanseatic League. But contrary to the age of the merchants, today's region is not only linked through exclusive trade. It builds its strength on inclusive and multi-faceted co-operation in every walk of life from art to zoology.

The successful conclusion of the 1999 Baltic Development Forum summit demonstrated how much the region has already achieved since the fall of the Iron Curtain. And in a forward-looking and action-oriented way its decision-makers set the course for the region's future development. The ideas presented at the summit have already been passed on to the region's political leaders in the context of the CBSS. Baltic Development Forum's Chairman, Uffe Ellemann-Jensen, submitted the results to the meeting of the CBSS Foreign Ministers in Lithuania on 14-15 June, 1999.

Next summit to be held in Malmö, Sweden on 17-19 September 2000

On behalf of its participants and other constituents, Baltic Development Forum continues to work for partnership and growth in the coming year. The next annual summit will take place in Malmö, Sweden on 17-19 September, 2000.

Participants

The following companies and organisations were represented at the 1999 Baltic Development Forum summit:

- 2M Invest A/S
- A.P. Møller
- Adm. Office of Pomeranian Region, Poland
- Aftenposten
- All-Russian Social/Political movement "Reformy - Novy Kurs"
- Baltic Sea Chambers of Commerce Assn.
- Baltic Academy, Germany
- Bank Handlówy w Warszawie SA
- Bank of Estonia
- Bank of Latvia
- Bank of Lithuania
- Celsius Tech Systems BA
- Center for Strategic & International Studies, USA
- Committee on Culture of St. Petersburg
- Commerzbank AG
- Confederation of Danish Industries
- Confederation of Finnish Industry and Employers
- Copenhagen Airports
- Copenhagen Business School
- Copenhagen Municipality
- Council on Foreign and Defense Policy, Russia
- Council of The Baltic Sea States, Sweden
- County of Funen, Denmark
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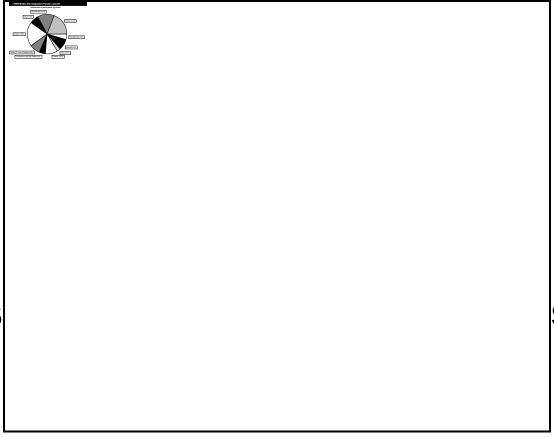

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