Doing Well Today, Worried about Tomorrow

Observations from the 2016 State of the Region-Report

Christian Ketels, Harvard Business School
• Current economic performance

• The Baltic Sea Region in the Global Economy

• Competitiveness

• What lies ahead...
Prosperity Performance Pre- and Post Crisis

GDP per capita (PPP adjusted) in US-Dollar

- NAFTA (2000 - 2007): +1.4%
- EU-28 (2000 - 2007): +2.1%
- Baltic Sea Region (2000 - 2007): +3.5%
- CAGR (2011 - 2016): +1.1%
Labour Productivity Growth across BSR Countries

GDP per Hour Worked, Rate of annual change

Finland: 2002-2006, 2012-2016
Russia: 2002-2006, 2012-2016
Poland: 2002-2006, 2012-2016

2002-2006
2012-2016
FDI Stocks Over Time: Change in Market Shares

Relative change in world market share, 2015 - 2013

-20%  -15%  -10%  -5%  0%  5%  10%  15%

BSR

EU

IN  OUT
Global Competitiveness Rankings over Time

Leading

Following

Catching-Up

Global Rank

Germany, Sweden, Finland, Norway, Denmark, Iceland, Estonia, Lithuania, Poland, Russia, Latvia
Innovation Performance of European Regions

Number of Baltic Sea Regions by Innovation Performance

For Comparison: All European Regions - Number by Innovation Performance

<table>
<thead>
<tr>
<th>Country</th>
<th>Leaders</th>
<th>Strong</th>
<th>Moderate</th>
<th>Modest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>7</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>1</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Lithuania</td>
<td>1</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>1</td>
<td>4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sweden: 36, Denmark: 65, Finland: 83, Norway: 30
Private Sector R&D Spending by Top BSR Firms

57% of total spending is done by the top 4 companies.
Clusters across Europe

Share of Strong Clusters among all Traded Industries, 2014

BSR:
- Employment: 10%
- Payroll: 15%

EU - west:
- Employment: 79%
- Payroll: 78%

EU - east:
- Employment: 11%
- Payroll: 7%
Cluster Portfolios in BSR Regions

Specialisation
- 150% above BSR average
- 50% above BSR average
Cluster Value Chains across the Baltic Sea Region
Anxiety

• How can the Region deal with the next macroeconomic downturn?

• Is there a way out of permanently lower productivity growth?

• What is the future of Europe? Of globalization?

• How many more political shocks await us?
• National policy makers need to prepare the Baltic Sea Region’s economies for a future that is likely to be fragile; few of them do so today

• The Baltic Sea Region has a big stake in the future of Europe beyond Brexit; it needs to do more than staking out short-term national interests

• The Baltic Sea Region has been a major beneficiary of globalization; it needs a broad dialogue on how the region should position itself in a context of falling trade dynamism and growing economic nationalism

• Macro-regions have the potential to become more important in the global economy; the Baltic Sea Region has much to build on but needs to regain momentum in specific common actions