



# The Future of Europe and Globalization: Where is the Voice of the Baltic Sea Region?

By Christian Ketels and David Skilling



## Foreword

Only six months ago the “Vision 2030” report was presented at the 7th Strategy Forum of the EU Strategy for Baltic Sea Region in Stockholm<sup>1</sup>. The aim of the report was to give an input to the discussions on how the future of the Baltic Sea Region could look like in a world of rapid change – and how global challenges and opportunities could be better exploited through a strong and vibrant Baltic Sea Region cooperation.

A lot has happened since then. It is therefore very timely to use the 8th Strategy Forum for the EU Strategy for the Baltic Sea Region in Berlin on 13-14 June 2017 to take stock of the latest developments. To discuss how the countries in the Baltic Sea Region should prepare for the future, and how we can better achieve this region’s growth potential by working closer together to influence our own future, rather than just accepting a changing world.

To inspire these discussions further, we have invited a team of international economists recognized in Baltic Sea affairs to give their views and suggestions on how the Baltic Sea Region could position itself in a globalized and ever-changing world. We would like to thank Dr. Christian Ketels and Dr. David Skilling for their inspiring analysis and valuable suggestions to how the Baltic Sea Region should engage in Europe and meet the challenges facing the region<sup>2</sup>.

We hope that this paper will provide inspiration also looking towards next year’s BDF Summit and Annual Forum in Tallinn in June, 2018.



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<sup>1</sup> Looking towards 2030: Preparing the Baltic Sea Region for the future [https://eu.tillvaxtverket.se/download/18.7c3ce8ba157d264d2e9ccfa2/1479395699425/Info\\_0659\\_webb.pdf](https://eu.tillvaxtverket.se/download/18.7c3ce8ba157d264d2e9ccfa2/1479395699425/Info_0659_webb.pdf)

<sup>2</sup> The views expressed in this publication are not necessarily those of the Baltic Development Forum and the Swedish Agency for Economic and Regional Growth

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## Executive Summary

■ The Baltic Sea Region has as a group of small open economies benefited disproportionately from the opportunities that globalization and European integration provided in the recent past, thanks to making domestic policy choices that enhanced its competitiveness. With trade and the EU integration now politically questioned the Region needs to prepare for a potentially more challenging international environment.

■ The Region is too often a passive observer of the changes in Europe and the global economy, taking the structures that emerge as a given rather than as something that can be influenced. This essay is motivated by our view that countries across the Region could and should do significantly more, both individually and as a group.

■ The dangers of a fragmenting global trading system has led other small open economies to sharpen domestic policies for increasing resilience, to step up efforts towards regional and bilateral trade liberalization, and to actively lobby for the global rules-based trading system in international discussions.

■ While there are positive initiatives along these lines across the Region, the domestic policy changes do not amount to the comprehensive approach needed. And although the rhetoric in support of a liberal trade regime has been stepped up, the Region as a heterogeneous mix of economies could make a stronger contribution in developing a trade regime that provides opportunities for all. Regional integration could also be strengthened more, leveraging the framework of the EU Strategy of the Baltic Sea Region.

■ The Baltic Sea Region has not emerged as a meaningful entity in the discussions about the future of Europe. Countries from the Region have instead largely pursued their short-term transactional interests, particularly with regards to Brexit. The Region could do more for Europe and for itself, not the least because its perspective cuts through the typical political coalitions within the European Union. Finding a common voice will not be easy. But it is a voice that would be listened to if the Region musters the will to use it.

# Introduction

As a European macro-region consisting of largely small, open economies the Baltic Sea Region is heavily influenced by the global trends that shape the world around it. Last year's report 'Looking towards 2030: Preparing the Baltic Sea Region for the future'<sup>1</sup> outlined some key trends in the areas of demographics, the economy, the environment, and the way our democracies work. It went on to discuss how these changes affect where the Region should and must do more together, arguing that the existing structures provide in general a good foundation to meet the new challenges. This year's 'Political State of the Region Report'<sup>2</sup> then looks particularly at the political repercussions of the election of Donald Trump and of Brexit on the Baltic Sea Region.

Within this broader context changes in two specific dimensions could have far-reaching consequences for the Baltic Sea Region: changes in the architecture of the European Union, and changes in the nature of globalization. On both it is yet unclear how the world

will look like only a few years from now – this makes preparing for the future harder, but also opens up the possibility of affecting the path of developments. What we do know, is that the context we have gotten comfortable with might be transformed negatively, potentially even in a substantial way.

This matters because the Baltic Sea Region has been a prime beneficiary of both European integration and globalization. Europe provided access to a large nearby market as well as a trusted regulatory framework that immediately raised the attractiveness of especially the Baltics and Poland as a place to do business in Europe and beyond. Globalization at the same time enabled the countries in the Region, especially the Nordics, to leverage their assets and capabilities on a global scale, overcoming the limitations of small domestic markets and a narrow local resource base.

The Baltic Sea Region was not only riding the wave of European and global integration. The competitive advantages that allowed countries in the Region to do well were the result of investments made over time and by governments from across the political spectrum, working closely with industry, academia, and a range of intermediary organizations. The State

<sup>1</sup> The report is available on the website of the Swedish Agency for Economic and Regional Growth at <https://tillvaxtverket.se/vara-tjanster/publikationer/publikationer-2016/2016-11-17-preparing-the-baltic-sea-region-for-the-future-full-report.html>

<sup>2</sup> See this year's and previous editions of the Political State of the Region-Report on the website of the Baltic Development Forum at <http://www.bdforum.org/publications/publication-category/political-state-of-the-region-reports/>

of the Region-Reports<sup>3</sup> have repeatedly highlighted the Baltic Sea Region's strengths in terms of skills, innovative capacity, open markets, sound institutions, and strong clusters with a core set of globally operating firms. Collaboration within the Baltic Sea Region, since 2009 supported by the EU Strategy for the Baltic Sea Region, has amplified these national choices. It provided the soft linkages to better exploit the potential for trade and investment that the Single European Market offered. And it shared policy approaches and experiences among a group of countries that had sufficiently strong cultural and historical connections to make such an exchange relevant. A less supportive external environment will not fundamentally change the competitive advantages that the Baltic Sea Region has. But it will affect the way the Region can translate these advantages into benefits for its citizens.

How to respond to the potential changes in Europe and the global economy is the subject of this short essay. It is motivated by a sense that countries across the Region could and should do significantly more, both individually and as a group.

■ We see the Region too often as a passive observer of the changes in Europe and the global economy, taken the structures and rules of the game that emerge as a given rather than as something that can be influenced. Partly this is natural given its modest size. But we firmly believe that countries in the Region can and need to do more given the substantial impact the external environment has on their economic health.

■ We also see many parts of the Region lacking a comprehensive approach towards the domestic policy changes that might be needed to deal with these new external circumstances. Short-term policy priorities, largely shaped by the specific current climate from strong growth in Sweden to the final tremors of recession in Finland, dominate. Again, this is understandable but this approach is unlikely to be sufficient if important dimensions of the external environment substantially change.

■ We see instead a mixture of 'business-as-usual' and isolated efforts to gain benefits from specific opportunities that arise, especially in relation to Brexit. Nobody can fault governments for pursuing such opportunities. But they are not a substitute for a broader strategy to deal with the new context, and might even complicate collaboration by focusing on a narrow set of zero-sum policy choices.

As countries in the Baltic Sea Region ponder their choices, we suggest considering the experience of other small, advanced economies around the globe. While this is a diverse group of countries, they all share a deep exposure to the external environment in which they operate. We believe that how other countries in this group are reacting to a changing world holds lessons for the Baltic Sea Region. And there may even be some room for joint action, particularly with regards to the global trading system.

The remainder of this essay is organized into three sections. First, we will take a look at the broader group of small advanced economies, exploring how they are reacting to the changes in the global trading system. Second, we will look at how this discussion is playing out in the Baltic Sea Region, developing recommendations for what countries in the Region might do individual and jointly. And third, we will focus on the future of European integration and its impact on the Baltic Sea Region, again culminating in action recommendations.

<sup>3</sup> See this year's and previous editions of the Political State of the Region-Report on the website of the Baltic Development Forum at <http://www.bdforum.org/publications/publication-category/political-state-of-the-region-reports/>

## Learning from Peers: What Other Small Open Economies are Doing

As the Region ponders its options on how to respond to changes in its European and global environment, it is useful to compare its position with those of other small open economies. The group of small advanced economies clearly differs significantly on many dimensions: they are geographically distributed with exposure to different markets, have different resource endowments and economic structures, and have a variety of different economic models. But despite these differences, there are some deep similarities between the economies in the Baltic Sea Region and the broader group of small advanced economies.

Small advanced economies have performed strongly over the past several decades, and notably over the past 25 years. Small economies have benefited disproportionately from strong global growth, intense globalisation, and a stable international order, over this period. GDP growth has been stronger than in the large advanced economy group, and they have generated stronger social outcomes on, for example, labor markets, income distribution, social progress, and the reported quality of life.

This strong economic performance is grounded in a set of policy choices that have propelled many small advanced economies in the ranks of the most competitive locations in the global economy. Small advanced economies are distinguished by their high spending on R&D and their commitment to human

capital, knowledge and innovation. And small economies are generally also highly open economies, exposing their own markets to foreign competition while developing competitive advantages in specific areas to compete globally.

Small advanced economies tend to make sound policy choices because the costs of poor policies are for them particularly high. The exposure to external conditions has forced many small economies to be much more deliberate about the way in which they are positioned in the global economy than is the case for larger economies. Their high exposure to the global economy means that they are more volatile and need to adapt quickly to a changing world. Small economy policy-makers have much fewer degrees of freedom than large country policy-makers which is why small economies tend to run more conservative fiscal policy, to have current account surpluses, and to ensure that they have a high quality business environment.

But the environment in which small advanced economies have prospered over the past 25 years<sup>1</sup> – characterised by intense globalisation and strong global growth – is weakening.

<sup>1</sup> Small advanced economies are IMF advanced economies with a population of less than 20 million (and above 1 million) and with a per capita income of above USD30,000. This creates a group of 13 small advanced economies.

While globalization remains a powerful driver of overall prosperity gains, concerns have been rising about how the gains are distributed and whether there are not specific groups that might have even lost out. Economists had acknowledged that possibility but saw ample room to compensate losers and enable change that would enable many to benefit. The Brexit vote and the election of Donald Trump as U.S. president are now being interpreted as signs that these mechanisms did not work sufficiently, and that whole parts of countries and segments of society feel left behind. The sense of falling behind economically often went hand in hand with a sense of losing political power to make national decisions in a world that has become much more interlinked and co-dependent. Although small advanced economies have generally performed well in managing the effects of globalisation on society, they are exposed to a backlash in other larger economies that have not managed globalisation as effectively.

How these political trends will translate into changes in policy and then also in the nature of globalization remains to be seen. The U.S. is stepping back as a core underwriter of the global trading system and its rule-based approach to liberalization. The Trump administration has already withdrawn from the Trans-Pacific Partnership, put the negotiations of the Transatlantic Trade and Investment Partnership on ice, and wants to renegotiate the North American Free Trade Agreement. Economic nationalism, bilateral deals, and unilateral interventions could take over. It has markedly changed its tone in G7 and G20 meetings, objecting to language about free trade. The growth of global trade, already much subdued after the global crisis, might slow down more permanently. Global trade and investment linkages might be disrupted, partly at the expense of more regional integration.

That the 'losers of globalization' driving these policy changes will actually benefit from them is unlikely. Protectionist remedies will hurt them as much as others, while it will do little to improve their ability to successfully compete in a world where technological change much more than trade has driven up the premiums for skill and capability. Instead, overall economic activity might be hurt, driving even more political uncertainty.

Small advanced economies around the world are

now responding to these changes in their environment, both by adjusting domestic policies and taking initiatives externally:

■ Many small economies have further strengthened their *domestic policies*: fiscal consolidation and structural reform, to make economies more resilient and flexible; investing heavily in skills and knowledge, to support workers and firms in capturing value from new technologies and business platforms; as well as a greater focus on enterprise policy, particularly supporting high growth firms' entry into international markets. There is also some early stage policy thinking on ways in which to adjust labor market and social insurance policies to deal with some of the disruptive changes to the nature of work that are expected.

■ *Regional integration*, often through regional Free Trade Agreements, has been another response, particularly in Asia. Small countries are also being more prepared to take a lead on regional integration initiatives, often acting in an entrepreneurial way that larger countries cannot (such as the actions of New Zealand on TPP (the Trans Pacific Partnership), both in terms of establishing the precursor agreement to TPP along with Singapore, Chile and Brunei – as well as acting to broker a replacement deal over the past several months since the US withdrawal).

■ There is also growing *bilateral activity* as small countries seek to diversify their portfolio of relationships through, for example, export promotion activity, national branding, tourism promotion, scientific collaborations, and so on. There are Asian examples of this into Europe (Singapore, New Zealand), as well as small European countries undertaking initiatives in Asia.

■ Some small countries are finally also trying to influence the *global trading system*. There is increased interest in working together to develop a coherent small country voices: initiatives at the UN, the OECD and elsewhere provide examples of this small economy policy leadership. And small economies are also increasingly active at the G20: this year, for example, Singapore and the Netherlands have both been invited to par-



ticipate by Germany. This requires an investment, but there is a view that small economies

will be more effective if they can contribute insights in a joined-up manner.



## The Future of Globalization: Implications for the Baltic Sea Region

The changes in the global trading system affecting small advanced economies are naturally also of deep concern to the countries in the Baltic Sea Region. As is also the case for their small economy peers, they are highly reliant on global trading conditions. And with a current account surplus of around 5% of GDP the Baltic Sea Region could get the attention of those that see such imbalances as an indication of ‘unfair’ trading conditions.

### **Changes in Globalization – reactions in the Baltic Sea Region**

The Baltic Sea Region has been a strong proponent of the existing international trading system. Both globally and within the European Union countries from the Region have argued forcefully for more liberal trading rules. It is no coincidence that with Cecilia Malmström a Swedish politician is within the European Commission in charge of the trade portfolio, overseeing the negotiations of trade and investment agreements between the EU and a range of foreign partners, including Canada and the United States. As the political climate has become more difficult for globalization, the main response from the Baltic Sea Region, particularly from the Nordic countries, has been a forceful public defense of the liberal trading system that has emerged over the last few decades. There is wide agreement in the Region that the protectionist alternatives now being proposed are going

to be worse for everyone, and that the legitimate concerns that have emerged about globalization can be addressed within the current system. There are, however, few specific suggestions on how the global system needs to be reformed that go beyond arguing for adopting higher social and environmental standards in line with the domestic policies in the Nordics.

In parallel, trade and investment policies in the Region proceed much as before. Export efforts focus increasingly on SMEs, and there, is especially in the Nordic countries, a discussion on how to best tap into the faster growth in Asian and other emerging markets rather than in Europe. There is also a focus on investment attraction, which in the Baltic Sea Region is seen as a natural complement and enabler rather than an alternative to export promotion. Past State of the Region-Reports have highlighted that internationalization from the Nordic countries has happened more via foreign investment rather than increasing trade. Where German companies have linked lower-cost locations in Eastern Europe and elsewhere with their German operations in global value chains, Nordic companies have been more likely to transfer their knowledge into operations serving foreign markets from foreign production sites. This can reduce the impact of a slowdown in global trade but can raise other challenges in terms of domestic job and value creation.

The Baltic countries have in the meantime pursued their strategy of attracting economic activities from the Nordics and other parts of the EU, offering an attractive combination of robust skills, easy access to advanced markets, and low costs. The export-driven development model that in the past for them was more fiction than fact has become much more of a reality in the post-crisis era.

### **Changes in Globalization – what can, what should the Baltic Sea Region do?**

Given its modest overall size there is a perception that the Baltic Sea Region can do little about the broader changes in the global economy. However, there are steps that can be taken domestically, and there are also some ways in which the Region can influence global trends, often by working through the European Union but in some cases also alone or in other groupings.

Domestically, countries in the Region need to assess their exposure to changes in the global trading environment, and explore how to increase their resilience in managing such external shocks. What matters, is not only the total share of economic activity related to foreign demand, here Estonia and Iceland come out highest in the Region, but also the relative importance of European versus global markets, here Sweden is relatively more exposed to non-EU markets. And it is also capital flows that matter: the Baltic countries had suffered their crises a decade ago specifically because they attracted unsustainably high capital inflows that did not contribute sufficiently to building up productive capacity.

Resilience is a matter of having a fiscal buffer to deal with shocks, the flexibility to move activity into other parts of the economy, and a breadth of capabilities and opportunities to fall back on once a shock hits. The high overall competitiveness of the Baltic Sea Region bodes well for their ability to deal with such situations. And both the Nordics and the Baltics have memories from the past that have underpinned a broad political consensus on the value of being prepared for shocks. Nevertheless, while there are many welcome initiatives on innovation, entrepreneurship, and structural change across the Region, they often seem unconnected and not part of a comprehensive strategy. And the political focus

seems at least in parts of the Region less on enhancing competitiveness and resilience, and more on managing the demands of different interest groups for stronger public support.

Many of the needed policy measures are national in nature. But since these challenges are shared across the Region, collaboration on how to track exposure and enhance resilience could very well be fruitful. And a structured process for learning from other Baltic Sea Region and other small economy peers can help. The European semester process, in which policy priorities and performance of EU member countries are regularly reviewed by the European Commission, could be used as a broader framework in which to make this happen. A further layer of Baltic Sea Region collaboration could focus specifically on those aspects most relevant to the small open economies in this Region.

A particular opportunity for common policy action is the deeper integration of markets, and the development of regional value chains within the Baltic Sea Region. As global value chains become more difficult to sustain, the Region can become a more attractive alternative. The Baltic countries are already moving in this direction, with their economic development agencies as key drivers. But for the Nordic countries, too, it can make sense to analyze how integrating regionally can enhance the competitiveness and local economic activity of their firms.

Influencing the way the global trading system evolves is arguably much harder for the Region. But there is a contribution that the Region can make, providing an interesting example for those that are willing to learn:

First, the Nordic countries have been able to combine open markets and full integration into the global economy with inclusive growth and social progress. They have developed market-based strategies that not only removed barriers but also equipped individuals, firms, and regions with the capabilities to successfully compete in global markets. These strategies do not always work and the challenges they face are a constant feature of policy debates in our Region. Better understanding the model's achievements and weaknesses can help other countries to devise policies that address the perceived costs of

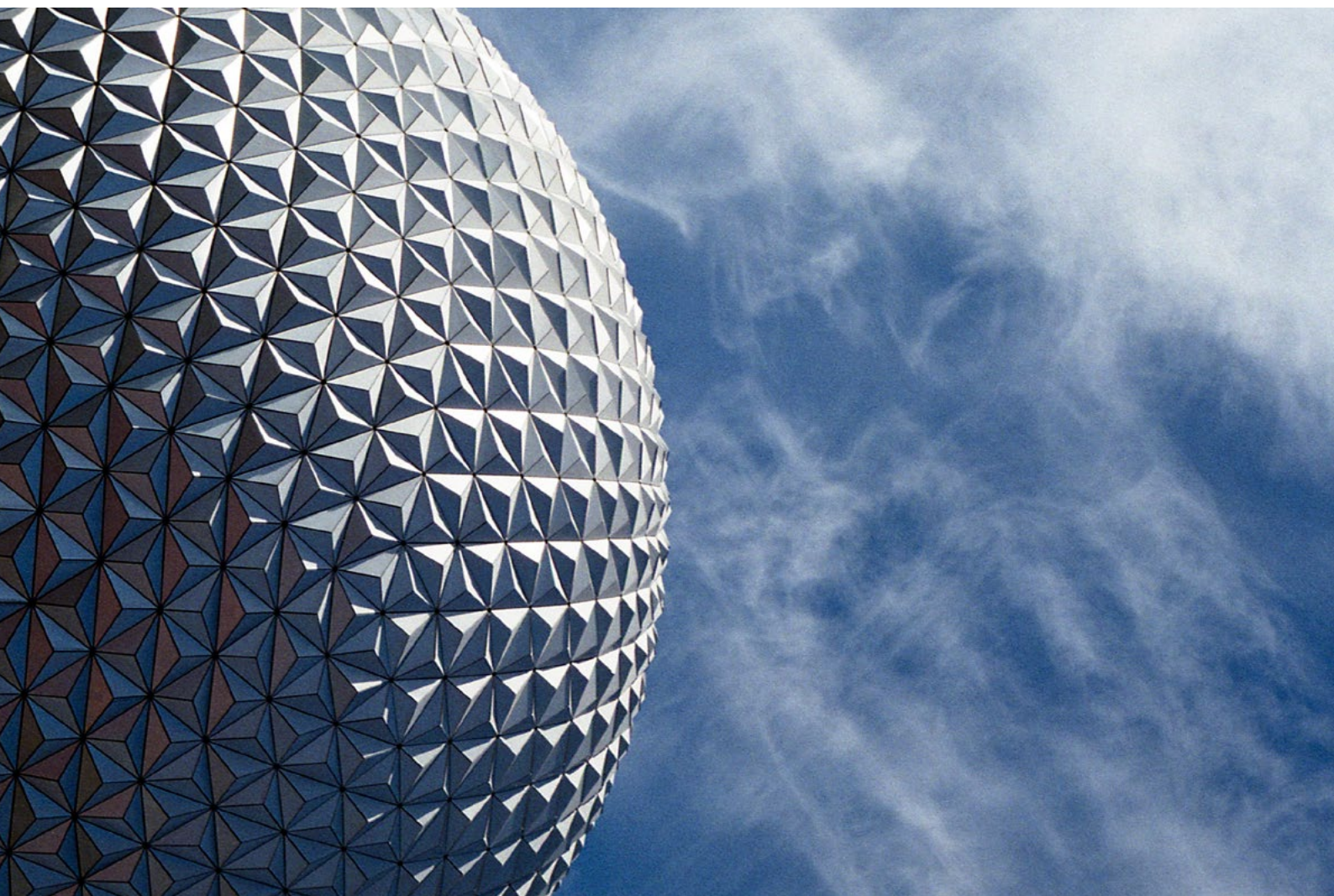


globalization while not falling into the trap of interventionism and economic nationalism.

Second, within the European Union the Nordic countries have been a proponent of international trade agreements that combine better market access with a commitment to inclusion, environmental protection, and social progress. As other countries aim to renegotiate trade agreements or leave them altogether, there is a role to play in developing modern rules and regulations that incorporate all of these different dimensions without creating new barriers. This is difficult; the sometimes bitter debates in Europe about the CETA agreement with Canada was a recent example. But it is necessary condition to retain the sustainability of the global trading system. And it will require thinking anew about mechanisms that are both economically efficient and politically acceptable.

Third, the Baltic Sea Region is as a combination of advanced and emerging economies competing on different sets of advantages a particularly interesting example for others. It can show how this heterogeneity can be translated into a strength that benefits all, rather than a burden that focuses all the attention on who gains and who loses. It is clearly not just a matter of the broader rules of the game, which are set through the Single Market at the European level. Instead, it is achieved through both national and regional efforts that enable all parts of the Region to leverage their particular strengths. The variety of different approaches in the Baltic Sea Region to engaging with the EU is also relevant; countries can engage in different ways while remaining committed to the European project.

Concretely, a policy initiative in this direction could happen in the context of the 2017 German G20 chairmanship. And it might also be opened up to the participation of other small advanced economies from outside the Region.



## The Future of European Integration: Implications for the Baltic Sea Region

A more specific issue for the small advanced economies in the Baltic Sea Region is the future of the European Union, which is providing the core framework for collaboration within the direct neighborhood of the Region as well as the Region's core markets and partners across Europe.

The European Union is facing fundamental questions about its future, just as it is celebrating the 60th anniversary of the Treaty of Rome, its founding document. The result of the UK referendum to leave the EU has been the immediate trigger, and the discussions about the deal to be negotiated with the UK continue to dominate the news. But the concerns about the EU's integration model go much deeper and have grown over years, with the sovereign debt crisis and then the handling of the refugee crisis recent flashpoints. Beyond the immediate questions in specific policy areas there are questions about the overall ambition and structure of the European Union. The European Commission has in its recent White Paper<sup>1</sup> on the Future of Europe outlined five possible scenarios, ranging from more to less Europe, and from a focus on flexibility to one on efficiency. The way Brexit is playing out seems to have increased the willingness of Europeans to make collaboration work, even in countries often critical of Brussels. But how to make it work remains unclear.

The Baltic Sea Region has been a 'late-comer' to the European project, and reflects the variety of positions and integration models that characterizes the EU today. Only Germany was among the founding members, while Denmark joined with the UK in the 1970s, Sweden and Finland then in the 1990s, and the Baltics and Poland in 2004. Denmark has negotiated a number of opt-outs related to defense, justice, and the eventual adoption of the Euro. Sweden and Poland have kept their distance to the Euro but have not included a similar opt-out clause in their EU accession agreements. Norway is part of the Single Market and Schengen but decided in two referenda to stay outside of the EU. Iceland, too, remained outside, despite some movements for EU membership after the country's crisis in 2008. All of these countries are part of the Schengen area for passport-free travel. The Region was in 2009 the first European macro-region to develop a joint strategy under the umbrella of the EU. Russia is outside the EU structures but has linkages through the EU's Northern Initiative.

### **Brexit and the Future of Europe – reactions in the Baltic Sea Region**

Within the EU the Baltic Sea Region countries were often seen as the closest natural allies to the UK, sharing many views on policy and in some cases also strong historical ties. Consequently, disappointment

<sup>1</sup> [https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27\\_en](https://ec.europa.eu/commission/white-paper-future-europe-reflections-and-scenarios-eu27_en)



in the Region was high when Brexit turned from a threat to a reality. But countries in the Region reacted quickly and pragmatically. Danish Prime Minister Lokke quipped that his government was probably better prepared for Brexit than the UK government after launching a cross-ministry task force hours after the Brexit vote. Two themes have dominated the response:

First, the countries in the Region are strongly focused on securing the interests of the EU and their respective country in the negotiations with the UK. When David Davis, the UK Secretary of State for Exiting the European Union, visited the Baltic Sea Region in February 2017 he met a friendly but firm response: The EU member countries in the Region will stand firmly together with the rest of the EU in the negotiations with the UK. The focus is on securing the interests of citizens from the Region living in the UK, and of companies from the Region operating in the UK market. Furthermore, it is on ensuring that there will be no damage to the EU-27 from the exit of the UK. Ultimately, the Region depends much more on a functioning European Union than on the best possible trading relationship with the UK.

Second, there has been a 'transactional' approach towards managing the fall-out from Brexit, focusing on short-term economic opportunities that emerge. Denmark has been lobbying hard to get the European Medicines Agency EMA once it leaves its current in London, competing with Sweden and a total of 20 EU member countries that have also shown their interest. Sweden has in turn tried to position Stockholm as an attractive option for financial services firms but also multinational headquarters and entrepreneurs if they decide to leave London and the UK. Poland has been particularly adamant about the rights of its many citizens that have migrated to work and live in the UK.

The Danish Prime Minister has in April participated in a meeting at The Hague with his Dutch and Irish colleagues, discussing the British exit from the EU in an informal context to develop a common position on Brexit-related issues among like-minded countries. Beyond general support for the position of the EU-27, however, relatively little is said publicly about the position of countries in the Region on how the negotiations with the UK should be conducted.

Similarly, there are few explicit statements from the Region with regards to the future of the European Union. The clear starting point is a strong commitment to the European Union, beyond governments also from key interest groups in society. In Finland, for example, a wide group of Labor Unions and the Employer Associations have given their clear support not only for the EU but also for the Euro and the recent changes in macroeconomic governance.

In terms of more specific input to what the future of the European Union should look like the focus is on trying to ensure that the EU adopts policies that reflect specific national preferences and interests: Sweden, for example, has identified as the three pillars of its EU policies in 2017 a more social Europe through initiatives on labor market policy, a more ambitious climate and environmental policy, and more European solidarity in managing the inflow of refugees. In November, Prime Minister Löfven will host a Summit on Fair Jobs and Growth with the European Commission in Gothenburg.

Poland has made the most direct contribution to the consultation process on the Future of Europe that the European Commission has launched. It has chosen to act together with its partners in the Visegrad-group (including also the Czech Republic, Slovakia, and Hungary), submitting a joint statement "Strong Europe – Union of Action and Trust" as input to the Rome declaration in late March. It combines a strong commitment to the European Union and the Single Market with a clear focus on the sovereignty of member countries.

Estonia will in July resume the Presidency of the European Council, the first time the country plays this role. Estonia has identified priorities on innovation, security, digitalization, and inclusiveness and sustainability. The White Paper process will be a central element in the activities Estonia has to manage; a conference on "Nation States or Member States?" planned for October will focus specifically on the way Europe should organize itself.

### **Brexit and the Future of Europe – what can, what should the Baltic Sea Region do?**

The future relationship between the EU and the UK and, even more importantly, the nature of the Euro-

pean Union going forward are of major importance to the Baltic Sea Region. Economically, the vast majority of the Region's external trade and investment relationships is with the EU. EU rules directly apply across the Region and shape to a significant degree the existing regulatory environment. EU funding programs, from Structural Funds to Horizon 2020 and the Common Agricultural Policy, as well as the activities of European institutions like the European Investment Bank are important sources of financing, particularly in the Baltics and Poland. The Baltic Sea Region needs a dynamic and prosperous Europe to be part of for itself to succeed. And the state of the European economy will to a significant part depend on the EU's ability to find effective mechanisms to enhance Europe's competitiveness. The Baltic Sea Region, then, has a clear stake in a successful outcome of the EU's White Paper process.

Does the Baltic Sea Region have any hope of influencing the way the EU will develop? An often made assumption is that eventually the key decisions will have to be made in Berlin. But Germany appears as an unwilling *primus inter pares*, very much looking for the input of others as Europe is considering its future. The Visegrad group has already shown its willingness to engage actively in the discussion. And after the EU meeting in Rome to celebrate the 60th anniversary of the Union the heads of the Benelux countries invited both the Visegrad and the Baltic countries for meetings to discuss the future of the European Union.

If the Baltic Sea Region, in particular the Nordic and Baltic countries for which this region is the main frame of reference, wants to engage in this process, the door seems open to do so. Its member countries have shown a strong commitment to the European Union, contributing to and abiding by its policies. They also have taken responsibility for domestic policy choices, even when difficult, rather than simply fulfilling their European obligations. And as a group of countries the Nordics and Baltics represent a unique combination of East and West, of net contributor and net receivers of EU funds, and of different depths of engagement models with the EU. This can give the Baltic Sea Region a specific weight in any discussions about the EU's future.

### ***What kind of Europe does the Baltic Sea Region want?***

This is clearly a difficult question given the heterogeneity of the Region in terms of economy, politics, and engagement with EU policies. But there are some elements that seem to be shared:

- A strong commitment to the Single Market with all of its elements
- A commitment to an EU pushing for open trade and investment globally
- A strong role of nation states and national decisions within the European Union
- Support for deeper collaboration among groups of member countries where wanted
- Support for joint EU programs and policies open to member countries.

While this list is nothing more than a place holder, we think that there is enough common ground within the Region to start a serious discussion about what such a list should in the end entail. It will then have to be tested in terms of the implications it has for the future architecture of the European Union. By their nature the Baltic Sea Region will look differently at some of these questions than large continental European countries, even if they share many political convictions. French President-elect Macron's push for a common European fiscal policy is, for example, unlikely to get much support from the Region, despite the agreement with his general pro-European stance. Finnish and Swedish ministers have already voiced their opposition.

### ***How to develop the input from the Baltic Sea Region to the EU's White Paper process?***

The starting point has to be a discussion within each country about the type of Europe that we want to see in the future. Importantly, this is not (just) a question of specific policies a country would like to see adopted but of the type of decision making structures and balance between EU and national responsibilities that it is comfortable with. Translating these national

priorities into a common Baltic Sea Region position requires trade-offs; a common voice will be strong, but it will also require countries to compromise on some of their wishes.

For Baltic Sea Region collaboration such a process will imply a significant re-politicization. In recent

years regional collaboration has become dominated by efforts to implement and deliver actions based on the political guidelines set in the past. That is in itself nothing negative but a sign of normality. However, at a time when decisions with significant importance for the Baltic Sea Region will be taken it is an approach that is not going to be sufficient.



## Conclusion

The Baltic Sea Region is facing changing circumstances in Europe and the global economy that have the potential to negatively impact its future prosperity. We see in this difficult situation an opportunity for the Region and the countries within it to act rather than only adapt. It can influence the future of European Integration, and has an important contribution to make to the discussions happening right now across Europe. It can prepare for changes in the global economy, and maybe even influence the choices that are being made shaping it. In both of these areas much of the action required is national in nature. But collaboration in the Region can accompany these efforts, by providing a platform to learn from each other and by joint action that can affect the context in which the countries from the Region operate.

The Region needs to overcome two competing tendencies that undermines its ability to play these roles: As a group of small countries, it is more accustomed to adjusting to the broader rules of the game rather than to influence them. And as a group of successful countries, especially in the Nordics, it can be perceived as advocating its own policy choices as the solutions for others rather than proposing policies that work for a broader range of countries with different circumstances.

Mobilizing the Region is not easy; it consists of countries with quite different economic circumstances and often also different political leanings. But in many ways that makes the Region also a much more relevant voice in European and global discussions. It can be an example for collaboration that serves different interests, not just one. And with the well-established structures for regional collaboration it has a platform to act jointly. What it now needs, is the political will and courage to do so.

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