



# BalticSeaagenda

Road Map to the New Growth Centre

Vol. 5  
October 2003

"The World Is Watching"  
By Uffe Ellemann-Jensen

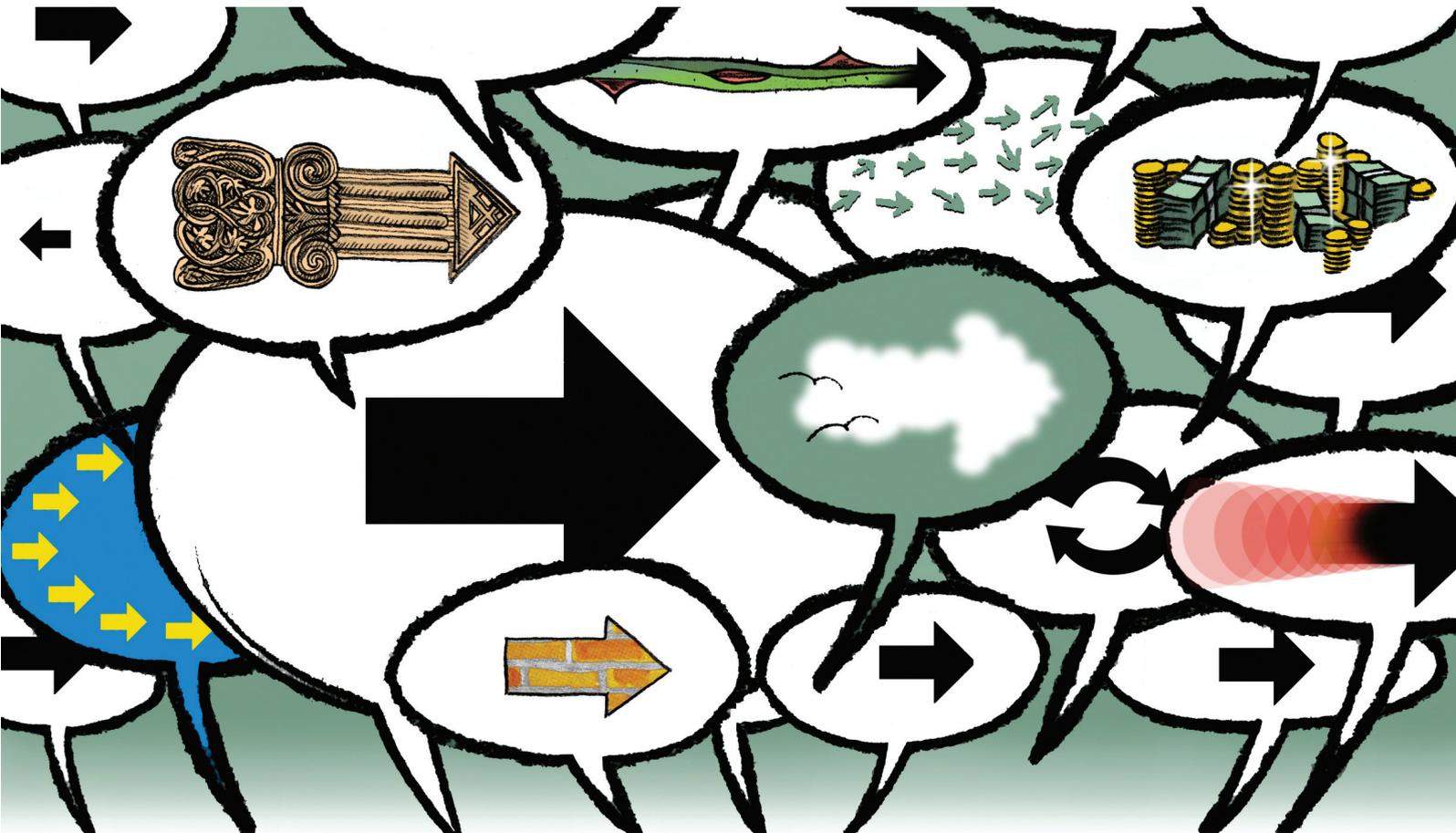
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**Special Summit Edition**

5th Annual Baltic Development Forum Summit  
5-7 October 2003, Riga

## New Europe Meets Old Europe: Which Way Ahead?



**Mondaymorning**  
ThinkTankofNews

Baltic  Development Forum

## The Agenda

# Time for the Visionaries to Step Forward

**By Erik Rasmussen**

CEO and Chief Editor of Monday Morning  
- Think Tank of News



The 5<sup>th</sup> Annual Baltic Development Forum Summit in Riga on 5-7 October takes place at a crucial time for the Baltic Sea region. The EU enlargement has left Baltic Sea co-operation at a crossroads, and now it is time to choose the road ahead.

At present, the Baltic Sea leaders have not agreed upon a common vision or joint strategy for the future of the region. Instead, the special summit analysis in this issue of Baltic Sea Agenda demonstrates how two distinctively different paths for the future of the Baltic Sea region are beginning to emerge:

On one hand, the so-called “minimalists” in the debate want regional co-operation to focus on the fundamentals. They prefer to downplay the grand visions and focus on selected “hard” issues, such as improving economic framework conditions and engaging in dialogue on best practice in trade. This is seen as sufficient – and not least a realistic – scope for future regional co-operation.

On the other hand, the “maximalists” in the debate advocate a much more ambitious agenda. They want Baltic Sea co-operation to include not only fundamental economic issues, but also the “soft” issues related to ideas and values, such as developing a common Baltic Sea brand. To them, the road ahead lies in the pursuit of grand visions that will make the region stand out globally.

Yet the question is whether it is possible to separate “hard” economic issues from “soft” value-oriented ones. As Hans Dalborg and Lars Thalén from Nordea point out in another article in this issue, both “hard” and “soft” factors play important parts in creating a coherent market. Furthermore, it is doubtful whether an entreaty to co-

operate on “hard” issues would lead anywhere in a region as diverse as the Baltic Sea region. Shared values and visions are often a prerequisite for building and maintaining the drive and enthusiasm necessary to tackle conflicting interests, not least those related to trade barriers and economic framework conditions.

In this regard, the European Union provides an inspiring example. Co-operation on coal and steel or the development of a European Single Market has never been an end in itself. In the EU, the main motivation for co-operation has stemmed from strong, common visions for a region characterised by great diversity and diverging interests.

Therefore, it is time to call forward the visionary leaders in the Baltic Sea region. They have to determine what the Baltic Sea region is all about – and what it is not about. And if they are serious about wanting to further develop the Baltic Sea region, they need to “think big” and unite on strong visions and viable strategies for the future. If not, co-operation in the Baltic Sea region is at risk of losing the momentum built up during the successful drive towards unification with the European Union.

The 5<sup>th</sup> Annual Baltic Development Forum Summit provides a perfect opportunity for regional leaders to ask themselves: Where does the Baltic Sea region need to be in 10 years’ time? And what will it take to get there? If the Summit can provide the right answers to these questions, then it will without doubt be the most important in the history of Baltic Development Forum.

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*Uffe Ellemann-Jensen  
Chairman,  
Baltic Development Forum*

Whereas New Europe has made an impressive entry into the EU, Old Europe drags her feet. Both Sweden and Denmark have now voted against joining the single European currency and Germany is troubled with recession. These developments put the exploitation of the full benefits of the Baltic Sea region at risk. On the other hand, the candidate countries have been opening their markets and reforming and restructuring their economies in preparation for EU membership. Latvia, Estonia and Lithuania have with convincing majorities accepted EU membership without exemptions and restrictions. Poland already stands out internationally as a true supporter of freedom and European values. These countries represent the best of New Europe and have demonstrated the benefits of the enlargement of the EU. However, to fully realise all of the potentials, it is crucial that Old Europe also learns from New Europe. Only by working together in public-private partnerships can we on develop the Baltic Sea region further.

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**The Business  
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*Hans Dalborg  
Chairman, Nordea  
and  
Lars Thalén  
Strategic Advisor, Nordea*

Business has a strong interest in the Baltic Sea countries leaving former divisions behind and becoming a coherent region. And business leaders can contribute to shape history this way. Both "hard" factors - such as infrastructure, institutions and regulatory frameworks - and "soft" factors - including ideas, visions and values - play important roles in creating a coherent market. At stake now is whether the Baltic Sea region has - or can develop - the potential to become such a market. The fact that the Euro, for the foreseeable future, will for not become a common currency throughout the region hampers the chances that the Baltic Sea economies will form a "natural" region. The fact is that a shared identity and a strong sense of belonging to a Baltic Sea region is not likely to develop by itself. Political leadership is vital, but there is also an important role to be played by businesses. While corporations cannot be expected to make business decisions that are less than financially optimal, business leaders can be expected personally - and even more in associations - to work in tandem with political leaders to help create the business opportunities that a new growth region could offer.

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**Special Summit Analysis  
Baltic Sea Strategies:  
Minimalist versus  
Maximalist**

*Jacob Rosenkrands  
Analyst and Reporter*

It is time for the Baltic Sea Region to choose the road for the future. With the EU enlargement in place, there is a call for a new big idea to unite the 10 countries surrounding the Baltic Sea. Otherwise, a unique historic opportunity to expand markets and build networks in the region may turn into an identity crisis. On the agenda right now are a number of strategies and challenges that all claim to pave the road for the Baltic Sea region to become a global frontrunner: A Baltic Sea Single Market, Russia in the

EU, a "Smart Region," a Baltic Sea Brand, Industrial Clusters of Excellence. Yet except for a shared desire to compete globally the decision-makers in politics, business, and academia do not share a common vision. Rather, in the debate on the future of the Baltic Sea Region, there is a remarkable gap between "minimalists" and "maximalists". The minimalists want to stick to the fundamentals, i.e. dialogue about best practice when it comes to trade. The maximalists want the Baltic Sea Region to aim high and build spectacular projects, which would identify the region as a winner. These conflicting views constitute a great risk for the future development of the region, which is already characterised by considerable diversity. Therefore, as Baltic Sea leaders gather in Riga for the 5th Annual Baltic Development Forum Summit, they are urged to focus on what the 10 Baltic Sea countries have in common, more than the many things that still separate them, and unite on joint strategies to develop the potentials of the region.

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### **Baltic Sea Economics Towards More Dynamic National Economies**

*Jukka Ruuska  
Deputy CEO, OMHEX  
and President,  
HEX Integrated Markets*

Membership of the European Union will raise the credibility and stimulate the development of the capital markets of the Baltic countries of Estonia, Latvia and Lithuania. In particular, Estonia is an example of the potential benefits to be gained through EU membership: share prices are at historic highs and interest rates at historic lows, and the economy is experiencing strong growth. However, the governments of the three Baltic countries must not overlook the development of national capital markets in their general enthusiasm for the EU. A capital market is essential in creating a risk capital base for companies and efficient mechanisms for capital allocation within an economy.

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### **News from Baltic Development Forum Baltic Development Forum Broadens Its Network**

*Ole Frijs-Madsen  
Director,  
Baltic Development Forum*

The Baltic Development Forum has initiated several new projects thus far in 2003, including projects within the ICT sector and Transport and Infrastructure Area. These and other new projects and activities will be displayed in Riga on 5-7 October 2003, where more than 400 high-level executives will gather for the 5th Annual Baltic Development Forum Summit. The Annual Summit represents the strong and active support of Baltic Development Forum from its more than 60 members and partners and its network of more than 2000 key players in 10 countries to make the Baltic Sea region a successful part of the new Europe.

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#### **BalticSeaagenda**

**Baltic Sea Agenda** is a joint publication of Baltic Development Forum and Monday Morning - Think Tank of News:

Editor-in-Chief Erik Rasmussen, Assistant Editor-in-Chief Ole Frijs-Madsen, Managing Editor Lars Jannick Johansen, Assistant Editor Kasper Elbjørn, Graphic Layout Mette Qvist Sørensen, Language Editing The Word

**Print:** Expressen Tryk- og Kopicenter ApS

Copying is allowed only with the explicit permit of Monday Morning and Baltic Development Forum

**Circulation:** 2900

ISSN 1601-8966

## New Europe meets Old Europe

# The World Is Watching!

By **Uffe Ellemann-Jensen**

Chairman of  
Baltic Development Forum



**COPENHAGEN** With the recent referendums, New Europe has proven ready to exploit the opportunities opened up by a closer and more obliging European co-operation. The candidate countries have been opening their markets and reforming and restructuring their economies in preparation for EU membership. This has led to strong economic growth and effective demand. Old Europe, on the contrary, drags her feet. Both Sweden and Denmark have now voted against joining the single European currency and Germany is troubled with recession. Thus, Old Europe has weakened its opportunities for reaping the golden opportunity represented by the EU enlargement.

By next year, within the Baltic Sea region, only Russia and Norway will be outside the EU. Among the new members is Poland, which has proven to be a staunch supporter of the European idea by completing our common task to build a Transatlantic House of Freedom, open to all of Europe's peoples, prepared to meet the global challenges of the 21st Century. Furthermore, Latvia, Estonia and Lithuania have accepted EU membership with convincing majorities without exemptions and restrictions. In my view, these countries represent the best of New Europe.

The Finns did not have full freedom of action until the end of the Cold War. Thus, it would be appropriate to include Finland as a part of New Europe. Since 1995, Finland has been committed to European integration without exemptions and reservations, and with an engagement that has long since positioned the Finns as the most influential and positive Europeans in our part of the continent. Finland's exceptional performance in the last few years ought to be an example for the rest of the region.

“ **Old Europe has weakened its opportunities for reaping the golden opportunity represented by the EU enlargement**

The enlargement of the EU is an opportunity to create a truly comprehensive European Union, to promote co-operation with Russia, and to finally consign the Iron Curtain to history. Unfortunately, a new division is emerging between an Old Europe, that has problems with making up her mind and taking hard decisions, and a New Europe that exploits the opportunities opened up by the enlargement. That is a shame - and a situation that we need to challenge.

The Baltic Sea countries must lead the way and show that our diversity indeed is our strength and not our weakness. We must demonstrate readiness to push for

reform of markets, reform of institutions and, where necessary, support unpopular economic measures. We must show what New Europe and Old Europe is capable of when they learn from each other and work together.

As New Europe's economies grow and their consumers become more prosperous, the candidate countries offer great opportunities for the rest of Europe. The expansion of the EU's Single Market will not just increase the number and scope of opportunities and consumers, it will also simplify the process of doing business.

**” As New Europe's economies grow and their consumers become more prosperous, the candidate countries offer great opportunities for the rest of Europe**

The EU's Single Market is based on four main 'freedoms': the free movement of goods, services, people and capital. The Single Market depends on the removal of all trade and investments barriers. Although most tariff barriers between the EU and the candidate countries have already been removed, joining the Single Market goes further than the present arrangements. It requires that the candidate countries remove all remaining non-tariff barriers to trade and improve their business ethics.

Fortunately, New Europe understands fully that it takes hard work to obtain a functioning market economy, and in particular, to prepare their economies for competing in the Single Market. Thus, I trust that the enlargement of the EU will help boost all of the Baltic Sea economies. I also trust that it will help bring Russia even closer to the rest of Europe, taking the vision of a Baltic Sea Single Market one step closer to reality.

However, the Baltic Sea countries must continue to push for rapid and comprehensive implementation of structural reforms of our region's markets and institutions. This is the only way to enhance the Baltic Sea region's attractiveness on the global market. The Baltic Sea region must show that it is the "Smart Region" of Europe, a region destined to become a frontrunner in the global economy. It must show that both New Europe and Old Europe have something to offer.

**” The Baltic Sea countries must continue to push for rapid and comprehensive implementation of structural reforms of our region's markets and institutions**

The fifth annual Baltic Development Forum summit in Riga on 5-7 October will be a challenge in this regard, but I believe the region will prove its worth and deliver on its potential to become a global frontrunner.

Some of the benefits of the enlargement of the EU are appearing already. It is up to us to seize them. So, let's show what New Europe and Old Europe are capable of when they work together in a public-private partnership: The world is watching!

**Uffe Ellemann-Jensen** was Minister for Foreign Affairs of Denmark 1982-1993. Besides being Chairman and Co-founder of Baltic Development Forum, Uffe Ellemann-Jensen is an author of several best-selling books on politics and member of several boards of international companies. He is also a trustee of the International Crisis Group and Chairman of Danish Centre for International Studies and Human Rights.

## The Business Perspective

# Time to Shape History

**By Hans Dalborg**  
Chairman  
Nordea



and

**Lars Thalén**  
Strategic Advisor  
Nordea



**STOCKHOLM** A new future is emerging for the Baltic Sea region. Long term, we will all be Europeans with separate national identities and with the East-West Block division of Europe gradually reduced to a historical parenthesis. Short term, in the coming few years, the recent referendums in several of the Nordic and Baltic Countries will mean little change. Most importantly, we now have the opportunity to make a choice. If we really want to create a coherent Baltic Sea region, the necessary prerequisites are in place. Now is the time to shape history.

In 25 years from now, Estonia, Latvia and Poland will be more EU mainstream than they were Soviet republics after nearly 50 years behind the so-called Iron Curtain.

There are two reasons for this: the pace of change and popular support. More will happen to move these countries into the European mainstream during the coming 25 years than could occur during the long years they spent in the institutional

framework set up by the Soviet Union. At the same time, there will be less popular resistance to - rather public embracing of - developments than was the case during the Soviet era.

So we can safely assume that our European grandchildren will have come to view these countries as true European countries. Not least the young generation in those countries will have acquired that self image.

” **In 25 years from now, Estonia, Latvia and Poland will be more EU mainstream than they were Soviet republics after nearly 50 years behind the so-called Iron Curtain**

But countries freeing themselves from foreign oppression and cultural dominance will also want to recreate their own national identity. It would be surprising if any of the countries concerned would simply exchange one foreign identity for another. Instead they will work on forming their own individual identities while at the same time integrating these identities and their economies into the new Europe they will help shape.

### **A Baltic Sea affinity?**

But will there be a special affinity - cultural, economic or even institutional - between these countries and the Nordic countries? Will there be a special Nordic strain in the

identities they develop and in the exchanges that will emerge?

The Baltic countries have strong Nordic historical and cultural ties, close geographic proximity and sizes similar to the rest of the Nordic countries. It is not unlikely that they will develop individual European identities with a sense of shared values and interests with countries like Finland, Sweden, Denmark and Norway.

**” A strong sense of belonging to a Baltic Sea region among all the concerned countries is not sure to develop by itself**

Poland might be a different case. Based on history and geopolitical considerations, it may be assumed that it primarily will want to gain its “legitimate” status as one of the big – and one of the Great – European, even Central European countries. A Poland looking North will hardly be as natural as one looking West and South. Also, because Poland has a population roughly the size of the rest of the Nordic and Baltic region, one might expect the Poles to view this region as less of an extended home market than some of us already do.

So, a strong sense of belonging to a Baltic Sea region among all the countries concerned is not sure to develop by itself.

#### **Little immediate change, but...**

However, the popular votes in the Baltic countries, Poland and Sweden on the EU and the Euro will hardly bring about immediate major and rapid changes.

Poland and the Baltic countries will join the enlarged EU with strong support from its Nordic neighbours. They will gradually act in the same economic and political playing field as Finland, Sweden

and Denmark – and maybe, within not too long, Norway – as members of the EU. This is the main institutional and regulatory change that will create business opportunities.

For the foreseeable future, however, the Euro will not be a joint Nordic and Baltic currency. Sweden can not be expected to join the Euro countries within less than a decade. Norway is not near such a move. The Swedish referendum will, if anything, reduce the probability for Denmark to join the Euro Zone.

But the new EU members are eager to get into the Euro Zone both to be part of stability and normalcy and to reduce the negative impacts of separate currencies. It could maybe be argued that they would be wise to stay out of the common currency for quite some time to be able to nationally control what is likely to be more rapid growth and – maybe - somewhat higher inflation than in the main Euro economies. But political considerations in combination with hard earned experiences of non-convertible currencies seem to bring Poland and also the Baltic Countries into the Euro Zone sooner rather than later, surely before Sweden, Denmark and Norway.

This fact is likely to hamper the coming together of all these economies and countries as a “natural” region – even centre – for growth in Europe. It might very well speed up Nordic investments in these countries. But it might also slow down the growth of regional trade. For the already global corporations based in the region, it might not be as important an issue. For medium sized companies, currency could very well be a deciding factor.

#### **A new vision**

Both “hard” factors - infrastructure, institutions, regulatory framework - and “soft” factors - ideas, more specifically vision and values - play a role in creating

the future. In business, quantifiable factors like geography (distance) and size of market do matter as do regulatory environments and risk elimination like that of a joint currency. But also perceptions like sense of belonging, shared values and a common vision drive behaviour.

Any market offering favourable hard and soft conditions for growth is appreciated by business. From that perspective ideology is not the issue. At stake now is whether the Nordic Baltic Region has or can be given the potential to become such a market.

**” This lost opportunity makes it even more desirable or imperative to build the necessary platform of a joint Baltic Sea vision**

With all countries in the Nordic and Baltic Region inside (or, in the case of Norway, conforming with) the EU, we believe that enough of the hard factors are in place to make it meaningful to further develop the soft ones. This is the case despite the fact that we have lost the opportunity for maybe a decade to have one common currency. But, this lost opportunity makes it even more desirable or imperative to build the necessary platform of a joint Baltic Sea vision.

Here political leadership is vital. It is about articulating the unique vision and values of this region. It is about quickly acting upon such statements with joint efforts in fields like infrastructure investments, communications, energy supply, non-tariff trade barriers, Research and Development, education and cultural exchanges.

Also business can contribute. You can not expect corporations to make business decisions because of a belief that is less than financially optimal. But you can expect

business leaders personally - and even more in associations - to work in tandem with political leaders to help create the business opportunities that a new growth region could offer.

**” You can expect business leaders personally - and even more in associations - to work in tandem with political leaders to help create the business opportunities that a new growth region could offer**

The opportunities for the aspirations of the Baltic Development Forum have improved thanks to the enlargement of the EU. Also, the need for renewed efforts to drive developments in the desired direction has increased due to the continued currency proliferation in the Baltic Sea region.

**Hans Dalborg** is Chairman of Nordea. He also serves as Chairman of the Royal Swedish Opera, Ung Företagsamhet and Norwegian-Swedish Chamber of Commerce. He is board member of Axel Johnson AB, Svenska Spel, the Stockholm Concert Hall Foundation, Swedish Touring Club, SITE and Studieförbundet Näringsliv och Samhälle (SNS). He is a member of the European Round Table of Financial Services (EFR) and the Royal Swedish Academy of Engineering Sciences (IVA).

**Lars Thalén** is Strategic Advisor to Nordea. He was Head of Group Identity and Communications during the merger period forming Nordea. He has previously worked as an independent consultant at Identity AB, specialising in corporate strategy advising several corporations pursuing Nordic and Baltic business strategies and mergers. Mr. Thurén has a background in journalism and with the Swedish Ministries of Finance, Industry and Foreign Affairs.

# Baltic Sea Strategies: Minimalist versus Maximalist

By **Jacob Rosenkrands**  
Analyst and Reporter



**COPENHAGEN** The Baltic Sea region faces a fateful choice. The mission that has been on top of the regional agenda for the last couple of years has been completed. The recent admittance of Poland, Estonia, Latvia and Lithuania into the EU sealed a new European order, which politically and economically opens up new opportunities for the Baltic Sea countries. Yet the new situation may turn into an identity crisis, as it accentuates the key questions for Baltic Sea co-operation: What is the next big idea that can unite the region's 10 countries? And what strategy does the region need to make such an idea work?

Without new visions and strong strategies supported by regional consensus, the risk is that the process of integration in Baltic Sea region will lose momentum. Hence, it is time for the leaders of the Baltic Sea countries to make up their minds and choose the road for the future.

Everybody seems to agree that the Baltic Sea region has all it takes to become a frontrunner in the global economy - innovative industries, a strong knowledge base, and vibrant markets. But it is yet to be proved if the region has the will and capacity to get this message across to the rest of the world.

So far the debate about the future development of the Baltic Sea region has resulted in a number of noteworthy ideas: A Baltic Sea Single Market, Russia in the EU, a "Smart Region," a Baltic Sea Brand. In fact networks of

corporations, research institutions and organisations from throughout the region are already working together to establish "clusters of excellence" in specific fields", i.e. health and biotech. There is neither a lack of vision nor of credible ideas.

Yet there is still no firmly established unity among decision-makers in the region on how to make these ideas work in practice. Instead, there seems to be a clear division between "minimalists" and "maximalists" in the debate on the future of the Baltic Sea region. The minimalists think that the countries around the Baltic Sea should stick to the fundamentals; i.e. focus explicitly on the general business climate. The maximalists want the Baltic Sea region to aim high and launch projects so ambitious that by their very existence will make the region stand out globally.

Prior to the 5<sup>th</sup> Annual Baltic Development Forum Summit, this special analysis examines a range of key issues and challenges in the debate surrounding the future of the Baltic Sea Region. It shows that more than ever, there is a strong need to address the fundamental question of what the co-operation in the Baltic Sea actually involves and requires. And that more than ever, strong leadership is needed to unfold the potentials of the Baltic Sea region.

## The Key Challenges

Based on the lessons learned from regional co-operation so far, three major challenges stand out:

- **To create a common market without barriers:** With 8 out of 10 countries now in the EU, the Baltic Sea region has taken a significant step towards removing trade barriers and increasing co-operation. Even so legal and practical obstacles remain for corporations looking to invest in the region. Infrastructure still reflects the old

world order, which separated the east from the west. And Russia, considered to be an important vehicle for future growth in the region, is still not a member of the EU or of the WTO. The Berlin Wall and the Iron Curtain are gone, but more work needs to be done to make the Baltic Sea region work as one market.

- **To promote existing assets:** By pooling talent and capabilities, networks of industries and institutions can create win-win situations for everybody involved, as well as regional growth. In recent years, cross-national clusters have emerged in ICT, health and energy. Their experiences - and the ability to discover the industrial dynamos of tomorrow - are pivotal to the Baltic Sea region's ambitions of becoming a world leader in the knowledge economy.
- **To build a unifying brand:** Despite a general consensus on which values should shape the future, nobody has so far been able to identify a single common theme for the Baltic Sea region. To a large extent, the region is characterised by cultural, political and economic diversity. This not only makes it difficult to build a regional brand but also emphasises the need for decision-makers to pay attention to the question of regional identity. In order to attract investment, a highly skilled work force and tourists, the Baltic Sea region must learn how to communicate the essence of the region to the world.

As leaders gather in Riga for the 5th annual Baltic Development Forum Summit these are the major themes. Obviously, businesses, cities, academia, governments and NGOs each have their particular points of interest. But all these stakeholder groups will have to reach agreement if the Baltic Sea region is to address the challenges and turn ideas into reality.

### One Region, One Market

Since the fall of The Berlin Wall the people of the Baltic Sea region have been witnessed the formation of a new world order. The former Cold War frontier between East and West is today at the heart of the European Union. For the Baltic Sea region, the admittance of Poland and the three Baltic countries into the EU is of course a great success. It confirms that the countries of this region now share the same fundamental values as their more established EU partners, such as democracy, co-operation, human rights, peace, economic growth, and free trade.

Today, less than one year after the Copenhagen Summit that concluded the accession negotiations, we tend to

forget that the enlargement itself was "a small miracle," says Lykke Friis, Director of European Affairs, Confederation of Danish Industries, and she adds, "It was a window of opportunity which was used at the right time. Shortly after the Copenhagen Summit, the war in Iraq broke out and changed the political climate in Europe to the worse. Suddenly, the states of Europe found themselves on different sides in the US-led war. So, it cannot be emphasised enough that even though we take the new European map for granted today, it could have turned out very differently".

Yet along with this success come new questions, Lykke Friis again, "The Baltic Sea region faces a totally new situation due to the EU enlargement. Until now, co-operation in the region has mainly focused on the old EU-members helping the potential members into the union. The challenge now is to avoid the identity crisis that could be just around the corner".

Identity crisis or not, the fact that EU's Single Market has been expanded to the borders of Russia in the east, is likely to increase investment in the region. As the Spanish and Portuguese experiences in the eighties show, international business sees EU membership as a guarantee of stability. The hope is that the EU enlargement will help the region realise its considerable growth potential. There are between 80-100 million consumers in Baltic Sea region. Average growth rates fluctuate around 4 percent, which is currently well above the European average.

According to Harvard Professor Michael Porter, the meeting between East and West and old and new tend to create win-win-situations, "Poor countries have a possibility of catching up quickly, to build capabilities quickly, getting access to sophisticated consumers and to gain from the competitive pressure. The rich countries will get access to bigger markets and will get the opportunity for efficient specialisation, which makes it possible to out-source production in an effective way."

There is also an interesting political dimension to the enlarged Europe: Erik Berglöf, director of the Stockholm Institute for Transition Economics (SITE), "In the old EU states, we are locked into certain perceptions of what the EU, the transatlantic relationship, the EU-Russia-relationship are about. Now we have a much richer perspective on things, which I think is very positive for the debate. It is a fresh new perspective."

As the Baltic Development Forum is always keen to point out: The Baltic Sea region is characterised by innovation, transformation and integration. This is where you find the trendsetters of business and academia, developing markets, and new stable alliances for the future.

### The Shadow of the Iron Curtain Persists

Yet metaphorically speaking the bricks and mortar of the Berlin Wall and the shadow cast by the Iron Curtain have yet to be completely vanquished.

Most fundamentally, cultural and political lines of division persist between the old and the new states: Alf Vanags who is director of Baltic International Centre for Economic Policy Studies (B.I.C.E.P.S.) in Riga, "I do not think that people in the old states - or the West if you like - fully understand the depths of the differences in political cultures in the region. This is perhaps one of the biggest problems for the Baltic Sea region. From time to time the old states will be surprised by the way things are done in the bureaucracies and political systems of the Baltic countries and Russia. Co-operation will sometimes be uncomfortable. Of course there is an ambition on this side of the Baltic Sea that we should develop a welfare state like the Scandinavian ones and a middle of the road type of market economy. Maybe we will achieve it eventually, due to some sort of convergence of culture. But still a culture of corruption and a political system run by business interests tends to reproduce itself."

Alf Vanags' analysis is supported by a recent report from the Confederation of Danish Industries. It shows that corruption, crime and not the least the lack of uniform standards of good governance still concern companies, which operate in Poland, the Baltic countries, and Russia. However, in a survey among Danish corporations, 60 % stated that it has become easier to operate in the region within the last 3 years.

The free flow of people and goods across borders is also impeded by an inadequate infrastructure in the region. To a large extent, the transport corridors in use today are the same as pre 1989. This problem has been addressed by the EU, which in 2001 published its White Paper on European Transport Policy. The paper suggests 60 specific steps to be taken to improve regional infrastructure. One of the proposals is the Femer Belt Bridge or Tunnel between Germany and Denmark. Yet to congested European roads and the environmental costs of transportation by land and air, the EU commission generally favours transportation by sea.

Regional stakeholders are also trying to influence the infrastructure agenda. Since last year, a round table group of executives from transport companies, industry and organisations from the Baltic Sea countries has worked to identify issues of importance to the future infrastructure. See textbox.

## Barriers to trade and investment in the Baltic countries, Poland, and Russia

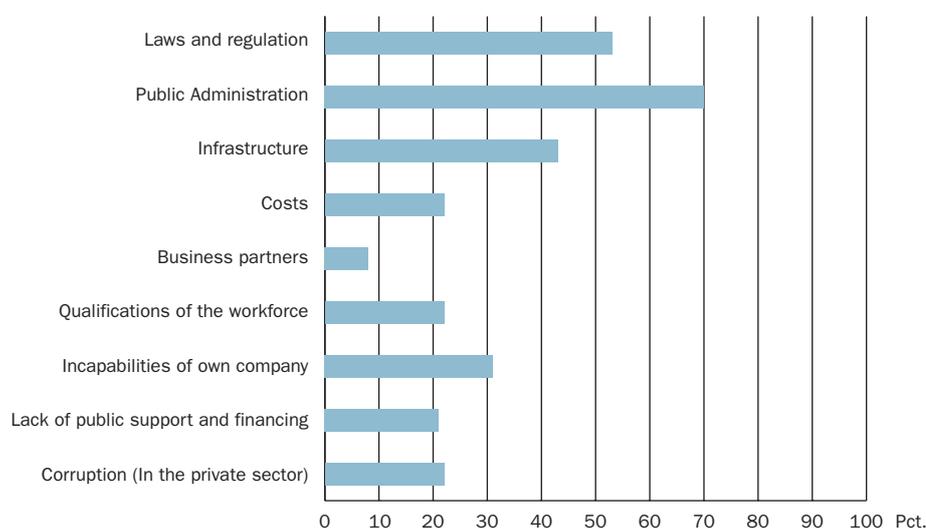


Figure 1

Source: "En slagkraftig og barrierefri Østersøregion - Spræng murbrokkerne væk", Confederation of Danish Industries

### Transport Infrastructure Challenges

In the report “Challenges for the Baltic Sea region’s Transport Infrastructure” the Baltic Development Forum roundtable states that development of the transport sector should aim at revitalising and strengthening the international position of the Baltic Sea region. The group identifies 8 strategic issues:

- Create documentation for and acknowledge the importance for European development of a rapid regional economic development and integration of the Baltic Sea region.
- Promote a vision for exploiting the Baltic Sea region’s unique perspectives for development of transport systems and infrastructures.
- Promote the development of the Baltic Sea as an increasingly important “gateway to Russia and the Far East”.
- Evaluate and promote the “Baltic Sea region of modern intermodality”.
- Support and develop the unique regional “importance and value of air transport”.
- Strengthen and promote “commercial/sustainable development of Motorways at Sea and Short Sea Shipping”.
- Document the economic benefits of an accelerated harmonisation of standards. Promote a “Fast track harmonisation pilot project” or implementation programme.
- Make a commitment to implement a joint framework/programme for operational PPP’s (private-public partnerships, national-international).

### Russia - the Missing Link

These barriers aside, leaders in Baltic Sea region are presently concerned about two of the major countries in the region, Germany and Russia. The challenges they face are very different, but both are pivotal to future growth in the Baltic Sea region due to their strong political and economical impact on regional developments.

Germany, the world’s third largest economy, finds itself in the middle of a recession that has proved to be more difficult to shake off than expected. The German Economy is currently shrinking, and GDP growth in 2001 was only 0,6%. On top of that, Germany is under fire from the EU for not complying with the single currency rules.

Economists and the Schröder government agree that only structural reforms in the labour market and social welfare system will guarantee long term growth. “Indeed, if the economy is to return to its previously robust self and put on a footing that enables it to deal with the pressing challenges that lie ahead, such as paying for pensions, health, and education, Germany must undertake

comprehensive structural and administrative reforms,” writes OECD economist Echarid Würzel in an analysis published in Observer.

Chancellor Gerhard Schröder presented a reform programme earlier this year, which among other things takes measures to remove barriers preventing dismissal of employees, and which raises incentives for the unemployed to apply for jobs. But while economists encourage Schröder to implement reforms, the powerful German Unions are not willing to give up hard won privileges. However, from the Baltic Sea market point of view, it is crucial that German gets the needed reforms in place soon.

With regard to Russia, the problem continues to be that the future role of this European power has not yet been clarified. According to Sergei Razow, the Russian Deputy Minister for Foreign Affairs, the question is, “How can one talk about real rapprochement of countries and the creation of a single economic, political and humanitarian space when Russia finds itself on the other side of the Visa Fence?”

This question has been given a lot of attention in Baltic Development Forum and at various other institutional levels. In November 2002, the EU-Russia Co-operation Council set up a high-level group to discuss a Common European Space. The mandate was to build on a concept for closer economic co-operation between EU and Russia. Also, the European Commission Action Plan for the Northern Dimension, published earlier this year, stresses the importance of closer economic relations with Russia (The Northern Dimension addresses regional development in Northern Europe and seeks to intensify cross border co-operation between EU and its neighbours to the north).

“If you look at potential for increased trade, increased investments, and potential for further integration, Russia is the missing link,” says Erik Berglöf from SITE. “Most of the barriers to bringing Russia closer to the rest of the region are internal Russian matters. But there is no reason to close the doors to Russia. It is very important to keep Russia involved in the conversation about the development in the region,” he says.

Currently, Russia is far from meeting the rules, which regulate trade and investments in Europe. On top of that, the country is not yet a member of the WTO. Among the current EU members and within The Baltic Sea region,

opinions diverge when it comes to how far Europe should take any process of integration with Russia. Pekka Sutela, Head of Bank of Finland's Institute for Economies in Transition believes that, "Russia should be told firmly and loudly that she will become a member of the Union - when and if she fulfils the criteria as everybody else."

Others, like the chairman of Baltic Development Forum, Uffe Ellemann-Jensen, take the opposite standpoint and stress that Russia will never become part of the EU: "Russia is so much more than a European country. I don't see Russia as part of the EU. On the other hand, WTO membership for Russia is very important. Only then can we begin developing a free trade area".

### A Baltic Sea Single Market

With the bulk of the Baltic Sea countries now in the EU, Brussels now becomes an extremely important arena for removing trade barriers between Russia and the rest of Europe. Yet, seen from a regional point of view, membership of the EU should not become an excuse for doing nothing. As suggested by among others the Confederation of Danish Industries (DI), the Baltic Sea countries could increasingly engage in benchmarking processes in order to identify best practice for trade and investments. This of course requires standardised tools and methods for evaluation. Still, an overview of remaining obstacles and barriers in the region would ease political negotiations in this field, as well as making life easier for individual companies.

#### Michael Porter's recommendations for the Baltic Sea region

In St. Petersburg, at the Third Annual Baltic Development Forum Summit in 2001, professor Michael Porter pointed out three major challenges for the Baltic Sea region:

- To address the weaknesses in the national business environments
- To enhance competitiveness via regional co-ordination
- to create an institutional structure to support and co-ordinate efforts to improve the regional competitiveness

He also recommended 6 first stage integration areas for the Baltic Sea region:

- Logistical infrastructure
- Brain circulation
- Higher education
- Environmental policies
- Cluster interchange and integration

### Baltic Sea Clusters

At the 4th annual Baltic Development Forum Summit in 2002, three regional clusters, potentially of great importance to the future, were identified:

- **ICT-cluster:** Even from a global perspective, the Internet and mobile market penetration in the Baltic Sea region is extremely high. World leading companies like Nokia and Ericsson benefit from the region's highly skilled workforce, a competitive IT-sector, strong research institutions and public policies that give high priority to the information society. The political leaders of Estonia, Latvia and Lithuania have implemented visionary policies, which include wireless Internet and the world famous Estonian e-government system. Based on this - and inspired by EUs Lisbon Strategy for the knowledge society - the Baltic Development Forum has developed a Baltic Sea region ICT-cluster model, whereby private corporations and public institutions work together to the mutual benefit of the ICT-sector. Such a model would not only lead to improved products and services for the region's citizens and consumers, but if successful, would also lead to greater regional stability, innovation and profitability. This year's Baltic Development Forum Summit will invite relevant stakeholders to form a Baltic Sea Information & Communication Technology Executive Network.
- **Health-cluster:** Investment in the health-sector is a key to economic growth and improved quality of life for citizens. Despite its diversity, the health-sector - i.e. health care providers, universities, the medico industry - have a shared interest in many common themes, such as biotechnology, data management, medical devices, etc. This invites cross-sector research and knowledge exchange. In fact, a health-cluster is already taking form. Since 1997, Swedish and Danish universities, companies, and organisations have been working together in the Medicon Valley Academy, with the vision of becoming the most attractive bio-region in Europe. On a larger scale, ScanBalt has been established. Scanbalt is a network of national and regional biotech networks and organisations from throughout the Baltic Sea region. The desire to compete in a global market has motivated leading public and private actors to form this meta-bioregion. Today, ScanBalt is working closely together with the Baltic Development Forum and Monday Morning - Think Tank of News to develop the network further.
- **Energy and sustainability-cluster:** Concern for energy prices and the costs of pollution have put energy and sustainability in the spotlight. Russia will continue play a key role in this area for the years to come. The country is both a leading producer of oil and natural gas as well as under international pressure to improve energy savings. The interdependence of the Baltic Sea economies stresses the need for safeguarding energy supply through clever co-operation. This work does not yet have a firm institutional base. Developing a real energy cluster, however, will be further explored by the Baltic Development Forum. The co-operation initiated so far in the energy sector is a direct outcome of the Northern Dimension Action Plan, which gives the opportunity to discuss energy issues on equal grounds between the EU and all countries of the Baltic Sea region.

But why stop here? As Uffe Ellemann-Jensen suggests, a future goal could be to establish “a Baltic Sea Single Market” for all countries in the region, including Russia. The idea is to speed up the implementation of common legislation where approximation is needed in order to remove obstacles to trade. According to the chairman of Baltic Development Forum, this process should be guided by a road map using the methodology of Jacques Delors’ 1985 White Paper on the Single Market. “I have been in politics long enough to know that you need concrete deadlines to get anywhere. And that was what Jacques Delors’ White Paper gave us,” says Uffe Ellemann-Jensen.

**Regional Cohesion Cannot Be Taken for Granted**

Even without the current trade barriers, the Baltic Sea region will not automatically function as a homogenous market. Cohesion has to be deliberately created by corporations, politicians and citizens who see benefits in cross-border relationships. “We will never become the

economic centre of Europe. Our chance is to integrate in our region, to deepen the industrial links among ourselves,” says Erik Berlöf from SITE.

The Baltic Sea market is dominated by three very large countries - Germany, Poland and Russia - which have the potential to dictate to the rest of the market. For the minor countries in the region, especially the ones on the periphery, there is a strong incentive to build links to the dominant countries.

The need for co-operation is also emphasised by the fact that businesses in the Nordic and Baltic countries rely heavily on SMEs. With a few remarkable exceptions, these countries do not have multinational corporations that can serve as regional growth drivers.

The bottom line is that the Baltic Sea region needs to cultivate the type of environments and incentives, which attract human talent and capital.

**Research and Development**

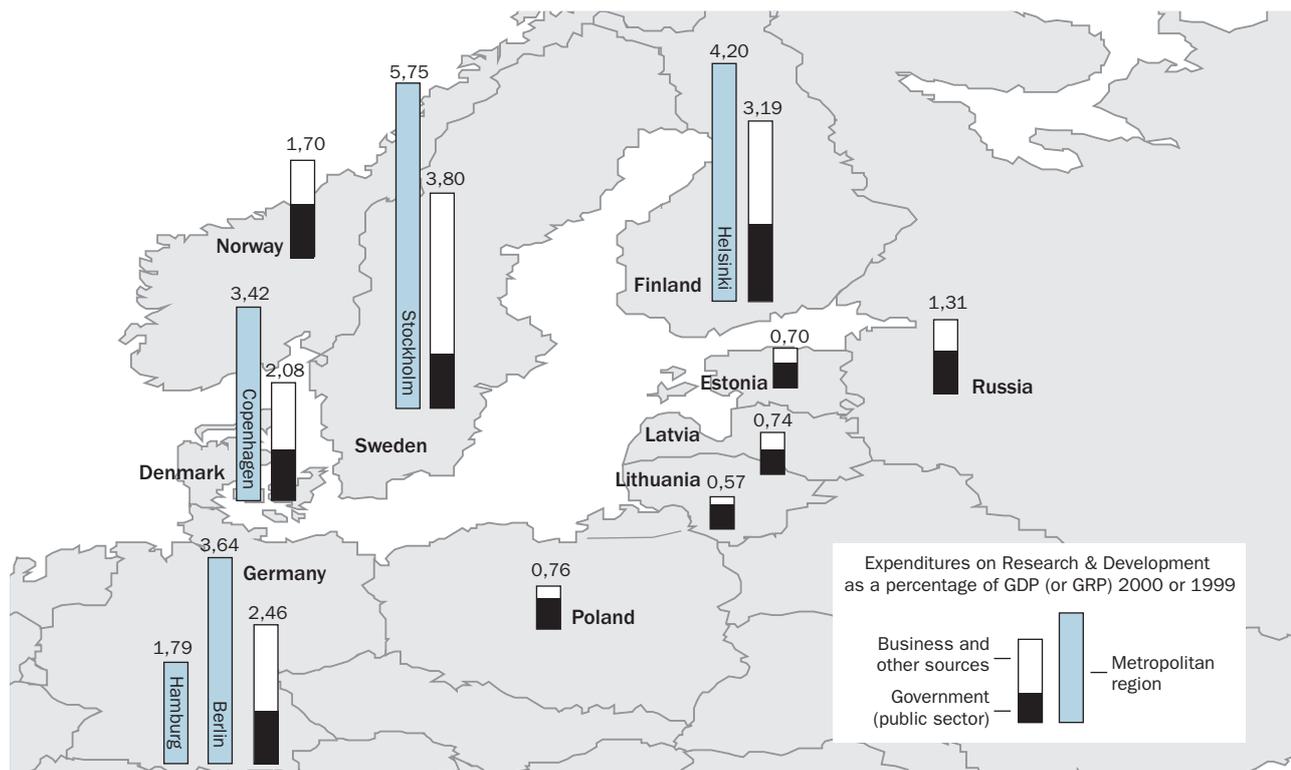


Figure 2

**Note:** The figures for Estonia and Germany refer to 2000, while the figures for the other countries and metropolitan regions refer to 1999, except for Lithuania (1998). The regions of Hamburg and Berlin are here identical to the respective "länder". Helsinki corresponds to the Uusimaa-region.  
**Source:** EuroFutures AB: The Baltic Sea Region, facts and figures, 2002

In this respect, Michael Porter’s concept of industrial clusters stands out as an important source of inspiration for the Baltic Sea region. A cluster can be defined as a “geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities.”

According to Porter, regional clusters will be of growing importance in a globalised economy. For the Baltic Sea region, which depends heavily on SMEs, clusters are almost a necessity. By forming these networks for exchange of knowledge, talent and money, performance levels can be reached, which would otherwise be unattainable by individual companies, regardless of size.

**A Baltic Sea “Smart Region”**

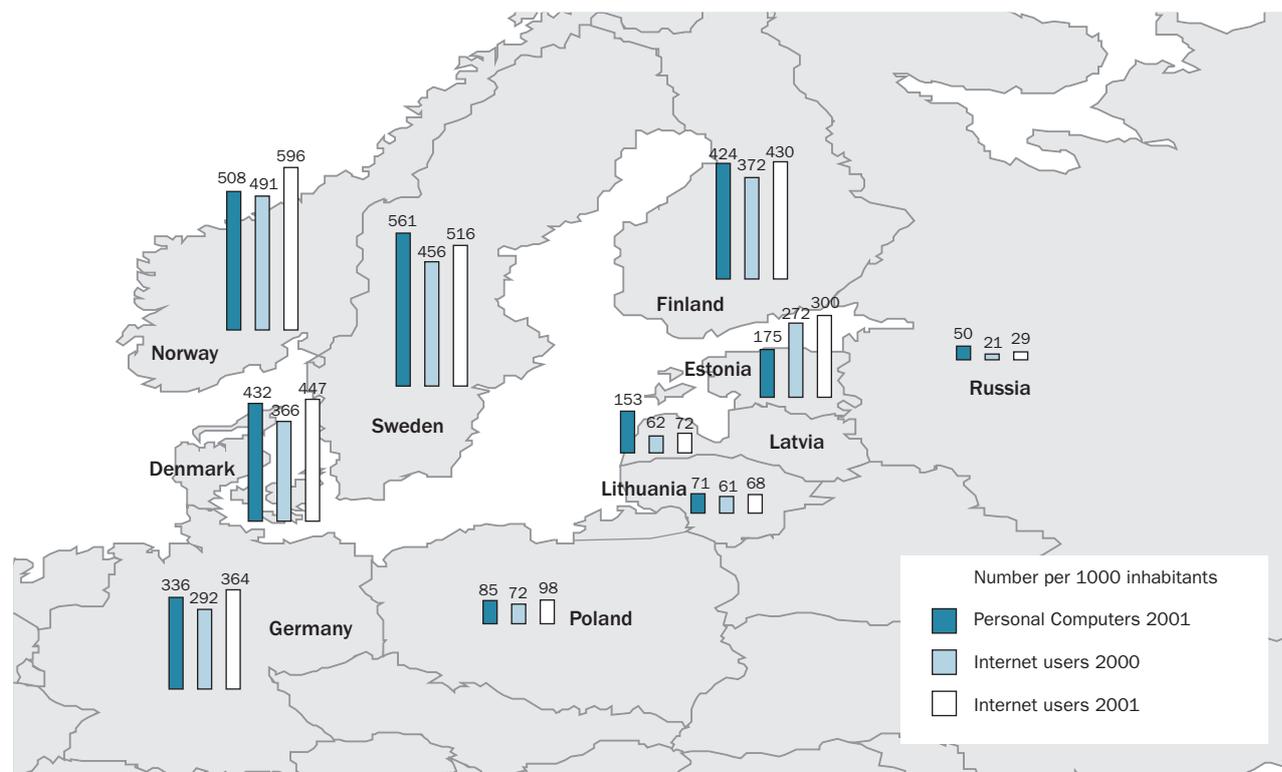
The above three potential clusters are likely to play a major role in a vision that has only grown stronger since

the start of the Baltic Development Forum: The vision of a Baltic Sea Knowledge Society - a “smart region”. This is nurtured by the fact that the region today already encompasses a well educated workforce, a wide range of excellent universities and research centres as well as a number of world leading companies. Added to this, surveys show that the Nordic countries are already ahead of the rest of Europe and the US when it comes to Internet access, investments in R&D, ICT expenditure and patenting activity.

The vision of a smart region will probably stay high on the agenda of the Baltic Sea region. Consequently, issues like education and R&D will grow more important.

“Without the creation of knowledge, no knowledge society will occur,” states by Bent Christensen, Managing director of Medicon Valley Academy. A simple reminder

**Personal Computers and Internet**

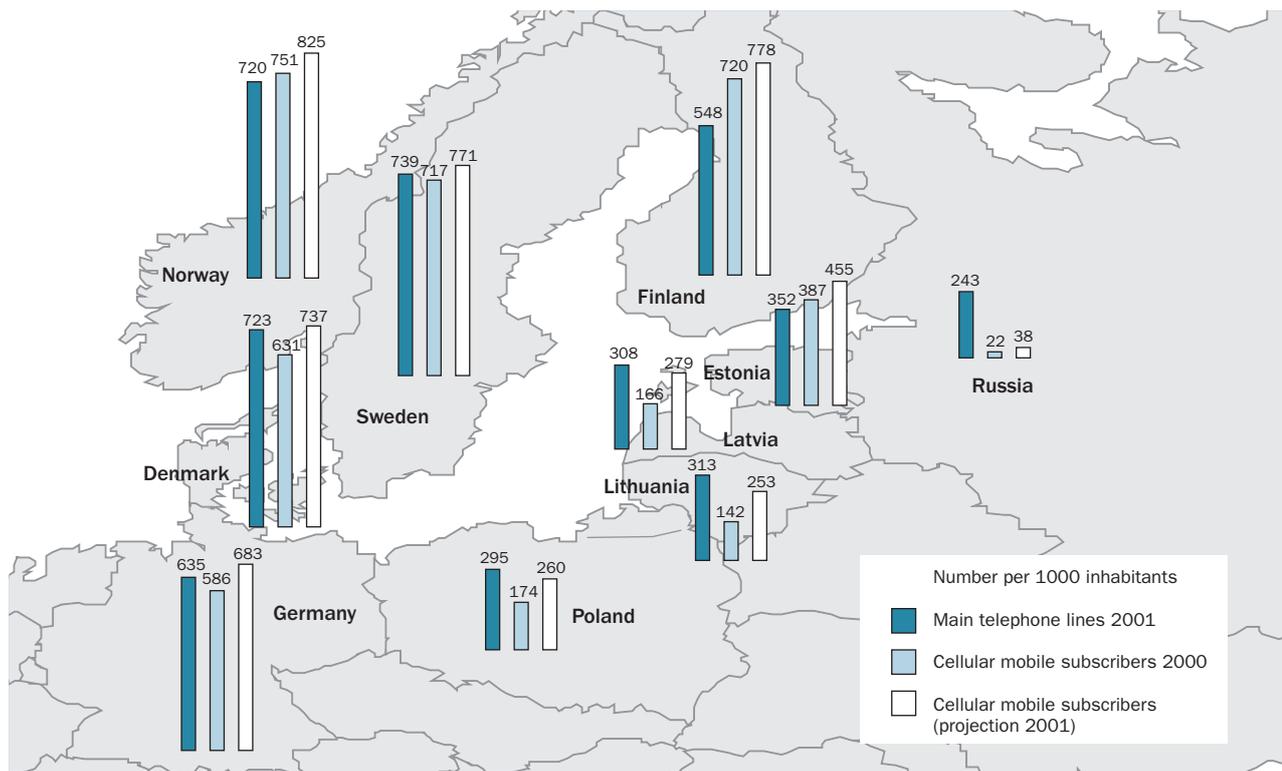


	Europe	UK	USA	Japan	Spain	China
Personal Computers 2001	179	366	623	35	168	19
Internet users 2000	-	301	451	293	133	17
Internet users 2001	180	400	500	455	183	26

Figure 3

Source: EuroFutures AB: The Baltic Sea Region, facts and figures, 2002

Telecommunications



	Europe	UK	USA	Japan	Spain	China
Main telephone lines 2001	405	578	665	597	431	138
Cellular mobile subscribers 2000	-	727	398	526	609	66
Cellular mobile subscribers (projection 2001)	438	783	444	572	655	112

Figure 4

Source: EuroFutures AB: The Baltic Sea Region, facts and figures, 2002

that investments in innovation need to be prioritised - even when economies are in decline and politicians are under pressure to spend money on short-term issues.

Statistics show that R&D spending varies a great deal in the region, and there is today a significant gap between west and east. The latter is trailing behind, partly because it is the part of the region where traditional economic foundation was mainly been based on primary industry.

Even though each of the Baltic countries has since attained remarkable results, for instance in the field of technology, there is a risk that the knowledge gap between old and new states will grow. This is the view of Alf Vanags from B.I.C.E.P.S.: "People like to think this region has special capabilities in terms of inventiveness, innovation, technology, and brainpower. But is it a cre-

dible vision? No and yes. When you look at the three Baltic countries and Poland it is a fact that these four countries are going to be the four poorest countries of the European Union. There is a very strong potential for a brain drain. So, there could be a scenario where this vision does not at all turn into reality. But there is also a positive scenario, in which the eastern countries develop their creative potential."

According to Alf Vanags, the outcome will among other things depend on how the structural funds in the EU will be used in Eastern Europe: "Will the money be invested in the development of human capital, or will it be used to subsidize business?"

No matter how strong the clusters in focus turn out to be, it is crucial that the Baltic Sea region systematically keeps searching for the dynamos of tomorrow. Where are the

promising industries that - under the right circumstances - can turn the region into a global frontrunner in 5, 10 or 20 years from now? Christer Asplund, Chief Administrative Officer of Business Development of the city of Stockholm sees it this way: "What we need is to discover our clusters and in particular discover potential clusters. If we do not discover them we cannot brand them, we cannot benefit from them."

Erik Berglöf of SITE prefers to emphasise the general need for integration within and between industries, rather than the need to build clusters in specific areas. "I do not want to echo empty forecasts about the potentials of this region. What is needed right now is a good general investment climate. We should focus on getting rule of law in place in the region, open markets, and good human capital - the fundamentals. Then the clusters will come almost automatically. I am quite sceptical about the idea that governments can drive the development in specific directions," he says.

### Good Cities Attract Talent

The role of major cities in the region is another issue that has become more interesting in the last few years. The Baltic Sea region counts 6 big cities with populations of around 2 million inhabitants or more - Berlin, Copenhagen, Hamburg, Stockholm, St. Petersburg and Warsaw. However, only one of these - St. Petersburg with its 4,6 million inhabitants - can be said to be a region of global cosmopolitical size. This is worth noting since the Baltic Sea region in its quest to become a global frontrunner will have to match regions centred on cities like New York, London, Barcelona, Milan and Tokyo.

Cities are important for competitiveness for a number of reasons. Metropolises tend to have more innovative businesses, more human talent, better academic institutions and higher R&D expenditure than other regions. Additionally, metropolises are brands in themselves, which gives them a competitive advantage in a world where attention is not something you are automatically granted, but something you have to compete for.

## Urban Agglomeration

Population in cities and metropolitan regions, million

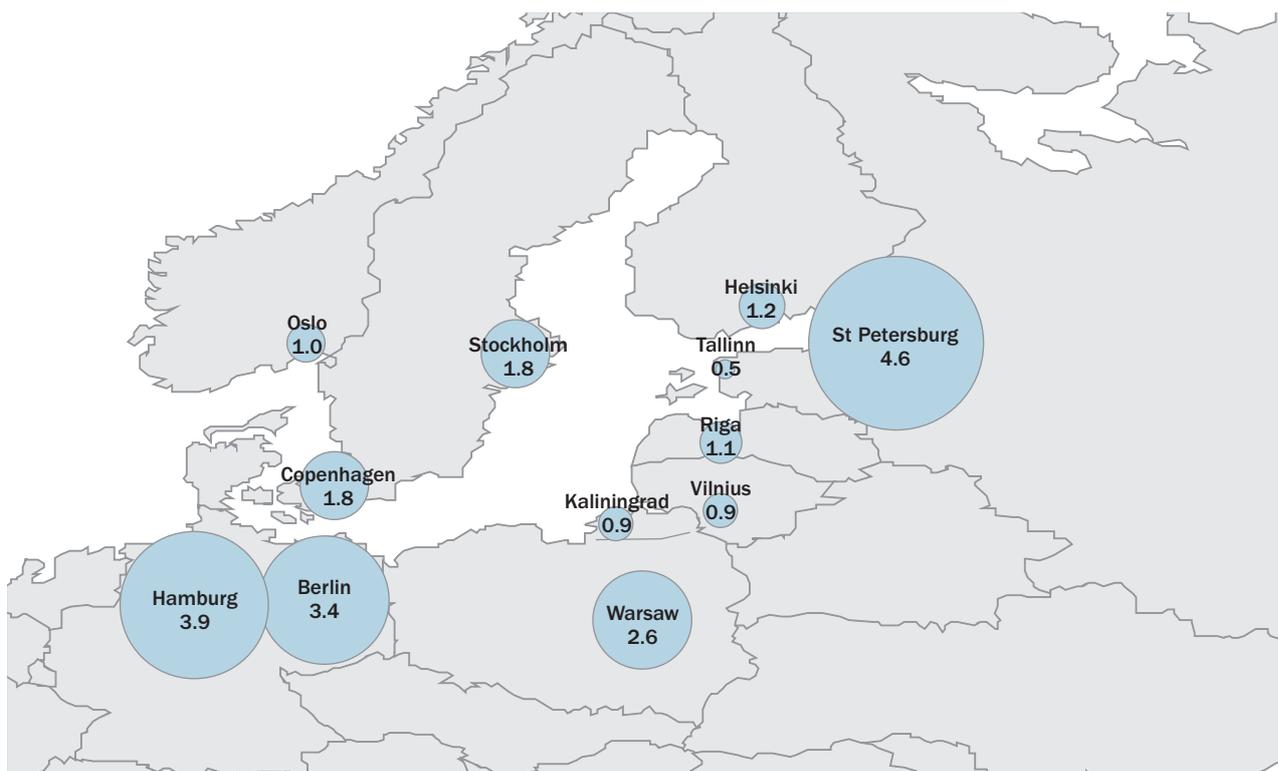


Figure 5

**Note:** Riga stands for the Riga Metropolitan Region which includes the cities Riga and Jumala and the districts of Tukunos, Limba, Ogre and Riga. Warsaw covers both the city and the suburbs.

**Source:** EuroFutures AB: The Baltic Sea Region, facts and figures, 2002

The work of the American professor in regional economic development, Richard Florida, has highlighted the significance of the role of major cities in the process of economic growth. Florida, author of the international best-seller “The Rise of the Creative Class”, argues that culture and life quality are among the decisive factors that make modern knowledge workers choose to work in a particular city.

Richard Florida’s so-called creativity index ranks cities according to 4 parameters - proportion of creative knowledge workers, number of high tech companies, and degree of innovation and diversity. It is well known that gifted people and new technologies make cities grow. What has impressed scientists, businessmen and politicians alike is that Florida statistically substantiates that tolerance, openness and diversity contribute to growth. The cultural life and atmosphere of cities has suddenly become an issue to be considered by regional planners and decision-makers.

As such, the degree of co-operation between cities would appear to play an important part in the future development of the Baltic Sea region. The proximity of cities like St. Petersburg, Tallinn, Helsinki, and Stockholm, for instance, sets the stage for a common effort to attract tourists, high-skilled employees and entrepreneurs to this

geographical square. Connections are already being made. Thus, the city of Copenhagen last year hosted a conference, Baltic Metropoles, which addressed the future challenges faced by cities in the Baltic Sea region.

**In Search of a Baltic Sea Brand**

The challenge of raising the global attention and attractiveness of the Baltic Sea capitals relate closely to the search for a common Baltic Sea brand.

Does the Baltic Sea region have a shared history, a clear identity, which all 10 countries can subscribe to? The question is vital if the region at some point decides to proceed with plans to create a common Baltic Sea regional brand. Once a marketing tool of corporations, branding is today a process, which cities, regions, even nation-states engage in. The aim of branding is to place your name in the top of consumers’ and investors’ minds. And thereby to attract more tourists, new businesses and increase exports.

In 2002, Estonia launched its branding campaign, Brand Estonia, which will further intensify now that the Estonians have voted to join the EU. The official brand manual, which has been made by the Enterprise Estonia organisation working together with national and international marketing companies, includes the slogan - “Welcome to

 Estonia's brand

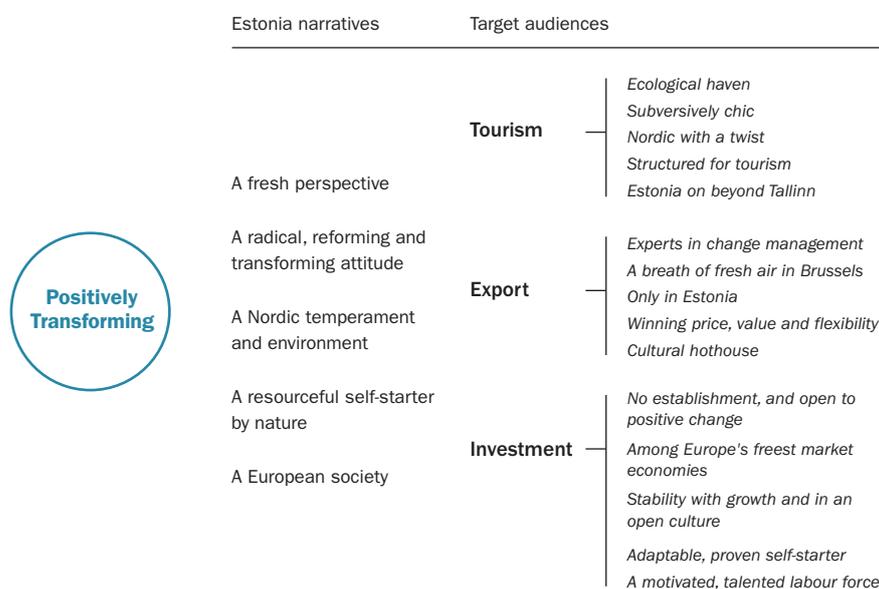


Figure 6

Source: Enterprise Estonia: Welcome to ESTonia. Developing a brand and communications strategy for Estonia

ESTonia” - a logo, an Estonian colour palette, and guidelines for which values should be stressed in communication between Estonia and the rest of the world. Noticeably, Estonia is not alone in its efforts. Scotland, as well as regions like Catalonia in Spain and Øresund between Denmark and Sweden, has also branded itself.

The Hanseatic League of the 14th century is often mentioned as a historical parallel to the present ambitions to create a prosperous region. The Hanseatic League consisted of more than 200 cities in the region, all involved in a flourishing trade. It was based on a fair legal system, effective organisation and technology. Still the Hanseatic history is just as much a story about German dominance in the region, as it is a model for co-operation between independent societies.

In more recent times, the history shared by the Baltic Sea countries is a rather bloody one. Furthermore, the political, cultural, and religious diversity of the Baltic Sea region makes it difficult to point to a shared identity or lifestyle. Probably most Danes do not feel Baltic to any considerable extent. And even in the case of the three Baltic countries it is hard to point to common denominators, where language, political systems, religious and ethnic backgrounds diverge.

Surveys from the European Union indicate that the citizens of the region feel they have little in common. There is a remarkable lack of shared visions for Europe. And previous media studies show that the images presented in the media do not contribute to consensus and clarity. Generally, the media in the Baltic Sea region behaves like the media in the rest of Europe, and neglects the discussion about the common future in a re-united Europe. In the old democracies, the coverage of the Eastern European countries tends to be negative, focusing among other things on crime, corruption, prostitution, and lack of democracy.

### **The Baltic Sea Ties People Together**

A new comprehensive study of media coverage in Baltic Sea region indicates that the Baltic Sea is the one and possibly only thing that ties people together. The number one theme occurring across all media is concern for the environment of the sea and the coastal areas.

Business news from the region comes in second, but it appears that business is primarily seen from a national rather than regional perspective. When cross-border

acquisitions take place, the message typically is not that strong regional companies are being created: Annele Aerikkala, Managing Director of Observer in Finland, Estonia, Latvia and Lithuania: “The results raise the question, why this area is not seen as a coherent business area? It seems that in the eyes of the media and citizens there is no region, just individual countries like Germany, Finland, Estonia etc.”

Usually, regions are known for their common culture - like the Mediterranean Region - or for what they do - like Hollywood, Silicon Valley, and the Ruhr district. What the position of the Baltic Sea region should be is still to be decided. One of Europe’s leading branding experts, Wally Ollins, has previously noted, that “nobody, or so it seems, is able to articulate a common theme or thread which could run through a Baltic brand to make it coherent, consistent and therefore credible. But only by finding out what the Baltic Sea region stands for can we make the world understand that the region is interesting to visit, to invest in, to buy from, and to live in,” says Ollins.

Probably, the EU is the best example that even diverse regions made up by former enemies, can succeed in building strong brands. The EU has demonstrated that regional unity can be gained by the means of strong political and economic motivation. Still, the history of the EU is also a reminder that it is very difficult to create a common identity across national and cultural lines. As shown by the Swedes in the recent referendum on the Euro, a large number of citizens are concerned about the future of the nation-state in a globalised world.

Carl Count Hohenthal, Deputy Editor-in-chief at German newspaper, Die Welt, thinks the idea of creating a common Baltic Sea region with its own identity is a good one, “But I think at the moment we are far, far from away from a common identity. I think there is no Baltic Sea identity whatsoever.”

“From a German point of view the image of the Baltic Sea region is first of all a touristic image. If it comes to business and economics we certainly realise and acknowledge the success of Finland, which has something to do with Nokia. Otherwise Germans don’t know anything about Finland - it is a secret country. Then we also think Norway is interesting because of its energy and fishing. Of course we have a special relation to Poland. But, that is about it,” adding that he thinks, “the Baltic Sea identity should come via Bruxelles.”

Lykke Friis, Director of European Affairs, Confederation of Danish Industries, also predicts that EU will become a platform for consensus building among the Baltic Sea countries. If only because it will be a necessity: “In a future EU of 25 or more countries, regions will be crucial to obtain influence. The time for individual states’ manifestations is over. To have backing groups will become more important. Countries that co-ordinate their views and then speak in one voice will win the new influence battle” she says.

But Friis adds that the Baltic Sea region will not become a global frontrunner by reducing its own role to that of becoming a regional club in the wider EU. The Baltic Sea region has to formulate new strategies that can replace the symptoms of what she calls enlargement fatigue: “We cannot continue as if everything is business as usual. A new vision of what the Baltic Sea region is all about has to be developed. From a business perspective it is very clear what this vision should be: the Baltic Sea region shall become a frontrunner in terms of growth and innovation. In order to implement this vision the existing barriers to trade have to be tackled,” she says.

### Agenda for the Future

The Baltic Development Forum has identified five key challenges for future development in the region:

- I. Optimal framework conditions for regional and international investments and business
- II. A sound economic and physical environment based on the principle of sustainable development
- III. Intelligent and regionally co-ordinated transport infrastructure
- IV. Increased investments in research and knowledge circulation
- V. Active civic participation and strong democratic institution building

Still, the lack of a common vision hampers the aspirations of the Baltic Sea region to become globally recognised by business and consumers. Without a sense of unity and a shared set of goals for the future, there is a risk that even local investors and entrepreneurs will turn their attention away from the region. Also, the persistent economic slow down and public concerns about national identity in a globalised context have not made it easier to make a case for cross-border co-operation.

See Textbox. The Baltic Development Forum has developed a number of strategies for the future since its inception in 1999 (see text box), and they may contribute to helping the Baltic Sea region to become a global frontrunner. But top decision-makers in politics and business now have to choose which path to take. Just as in the past, the future also demands political leadership. Which is exactly the point of Uffe Ellemann-Jensen, the chairman of Baltic Development Forum, who likes to quote the legendary American president Harry S. Truman: “In periods where there is no leadership, society stands still. Progress only occurs when courageous, skilful leaders seize the opportunity to change things for the better.”

**Jacob Rosenkrands** is a Copenhagen based analyst and reporter. Jacob Rosenkrands works for Monday Morning Weekly, as a commentator for DR (Danish Broadcasting Corporation) and a number of other Danish magazines and media. He also participates as an appointed expert in COST Action A14 - a European research project on “Government and Democracy in the Information Age.” Jacob Rosenkrands holds an MA in Political Science from the University of Copenhagen.

## Baltic Sea Economics

# Towards More Dynamic National Economies

**by Jukka Ruuska**  
Deputy CEO of OMHEX and  
President of HEX Integrated  
Markets



**HELSINKI** The past few days have witnessed historic steps as referenda have been held on EU membership in Estonia and Latvia, and on joining the EMU in Sweden.

Now that the Estonians and Latvians have also voted “yes” in their referenda, all the Baltic States will join the European Union. The votes showed that a clear majority in the Baltic States want to seize this historic opportunity to move forward.

EU membership will be very beneficial to the economies and capital markets of the Baltic States. It will raise their credibility and stimulate development of their capital markets. Prosperity, economic integration and investment activity will be increased.

In fact, Estonia has already benefited quite strongly: share prices are at historic highs and interest rates at historic lows, and the economy is experiencing strong growth. This consistently optimistic picture now has a stronger foundation as investors and businesspeople everywhere know that Estonia’s path is irreversible.

The Baltic States have also declared their desire to join the EMU. For Estonian se-

curities markets, the euro is no longer something new. Trading on the Tallinn Stock Exchange has been euro-denominated for a year and a half already, and it has been accepted very well. There have been no negative opinions recently, even from local investors and market participants who were affected most by the change. Foreign investors have felt increasingly at ease when trading in Estonian securities, and joining the EMU is seen as a natural step.

Membership of the EU for the Baltic States is a momentous step for the economies of the Nordic countries and indeed Europe. It will create new forms of competition in manufacturing and in the domicile of companies. This will put pressure on national economies to become structurally more dynamic as any inflexibility and inefficiencies will have to be eliminated.



**It is to be hoped that the governments of the Baltic States do not overlook development of their own capital markets in the general enthusiasm for the EU**

It is to be hoped that the governments of the Baltic States do not overlook development of their own capital markets in the general enthusiasm for the EU. A capital market is essential in creating a risk capital base for companies and an efficient

mechanism for capital allocation within an economy. It is important to establish such permanent know-how resources in the Baltic States.

After an emotionally charged campaign made uncertain at the last moment by the assassination of Swedish Foreign Minister Anna Lindh, Swedes voted decisively in a referendum to reject membership of the European single currency. The final tally showed more than 56 per cent voting against the euro and nearly 42 per cent in favour.

” **The euro would have been good for Sweden’s economy and for the securities markets**

Being the only Nordic country in the euro zone gives Finland some special status, but it will be a disadvantage for Finland and for other Nordic countries that Finland will be the only one of them moving to the core of the EU, as Finland on its own has less voting power.

I’m sure that a “yes” to the euro would have reduced currency risks and increased trade. The euro would have been

good for Sweden’s economy and for the securities markets. It remains to be seen how far keeping investments denominated in krona will increase risk premiums in the long term. Because Sweden is already fully committed to EU membership, a new referendum would be desir-

**Mr. Jukka Ruuska** is Deputy CEO of OMX and President of HEX Integrated Markets. He was born in 1961, became a Master of Law at University of Helsinki in 1986 and Master of Business Administration, Helsinki University Technology in 1998. Prior to his present position Mr. Ruuska has – among others - worked as Partner in the law firm Lakikonsultit Anttonen, Tähtinen & Ruuska. He has been Vice President in Kansallis-Osake-Pankki and Deputy Managing Director of Prospectus Oy, Director, Corporate Planning in Finnet Group and Director, Corporate Planning in HTC. From 2000-2003 he served as President and CEO of HEX Group before taking on his present position.

Mr. Ruuska is a member of several boards of which he is Chairman of Finnish Central Securities Depository, HEX Securities Services Ltd, HEX Securities Technology Ltd and HEX Back Office and Custody Services. He is also the Chairman of the Supervisory Council of Tallinn Stock Exchange and a Board member of VR-Group Ltd.

## News from Baltic Development Forum

# Baltic Development Forum Broadens Its Network

by **Ole Frijs-Madsen**  
 Director,  
 Baltic Development Forum



Dear Reader,

Why are more than 400 high-level executives gathering for 3 days for the fifth year running? And why in Riga this year, or previously in Copenhagen, Malmö and St. Petersburg? Why do more than 60 members and partners actively support the work of Baltic Development Forum? And why do an increasing number of new partners from major cities, business organisations and companies consider being part of a network of more than 2000 key players in 10 countries?

Estonia, Latvia, Lithuania and Poland provided part of the answer earlier this year when they decided to say yes to the EU and yes to a Europe with new, borderless possibilities. Their accession to the

EU on 1<sup>st</sup> May 2004 is the symbolic crowning of a long and difficult struggle.

With four new Baltic Sea countries soon entering the EU, and with Russia and Norway on the doorstep of the Union, ten countries represent a unique region of 100 million inhabitants – a “Smart Region” as Uffe Ellemann-Jensen has put it.

What’s in for us? How can we profile our company, city or organisation? How can we establish contact with new partners? How can we develop our visions and strategies?

We are constantly met with these questions from a broad range of players from within, but indeed also from outside of the Baltic Sea region. And we are pleased to be able to meet their concerns and suggestions through our work in the Baltic Development Forum.

The public-private partnership concept (PPP) recently has been given even more concrete form in the Baltic Development Forum. One of the main tasks of the Baltic Development Forum is to match players from the public and private sectors in all ten countries around the Baltic rim. Through very defined projects in the ICT sector and Transport Infrastructure area in 2003, we have contributed to putting the region more efficiently on the European map.

A range of recommendations and initiatives resulting from the projects will be presented to the European Commission, the European Investment Bank, governments, business associations as well as in major cities and capitals.

It is a special pleasure to note the increasing interest and dynamics of the cities, including Berlin, Copenhagen, Hamburg, Helsinki, Riga, Stockholm, St. Petersburg

and many others. The shared interest to promote city developments, business structures, citizen friendly services, transport infrastructure and the like is striking. And we see more and more cities extending their international and regional focus to make sure that they stay tuned and well positioned in the global economic competition. Baltic Development Forum welcomes further co-operation in this area and aims to be the preferred partner for the launch of regional, municipal initiatives.

During 2003, Baltic Development Forum has held seminars, round table discus-

sions and summit meetings in the Baltic Sea Region. We are constantly travelling to meet new partners, extend the network and promote new initiatives.

As a non-political, non-profit foundation, we work hard to make this region more coherent, more dynamic, more visible and a greater market place. We appreciate your support for our work. Let us together seize the opportunity to make the Baltic Sea region a successful part of the new Europe.

## Partners



Members

