



VALTIONEUVOSTON KANSLIA  
STATSRÅDETS KANSLI



# Making use of the potential of the Baltic Sea Region

Vesa Vihriälä  
Economic Council of Finland  
23 October 2009



# Economic Council of Finland

- A forum for policy discussion between the government, central bank, and social partners at the highest level; established in 1966
- Aim to help form common understanding of policy challenges and opportunities as well as policy options
- Led by the Prime Minister; currently 16 members of which 8 ministers (incl. PM)
- Meets once a month behind closed doors; discussions based on expert analyses (presentations, reports); no formal decisions or public position taking
- An evaluation underway



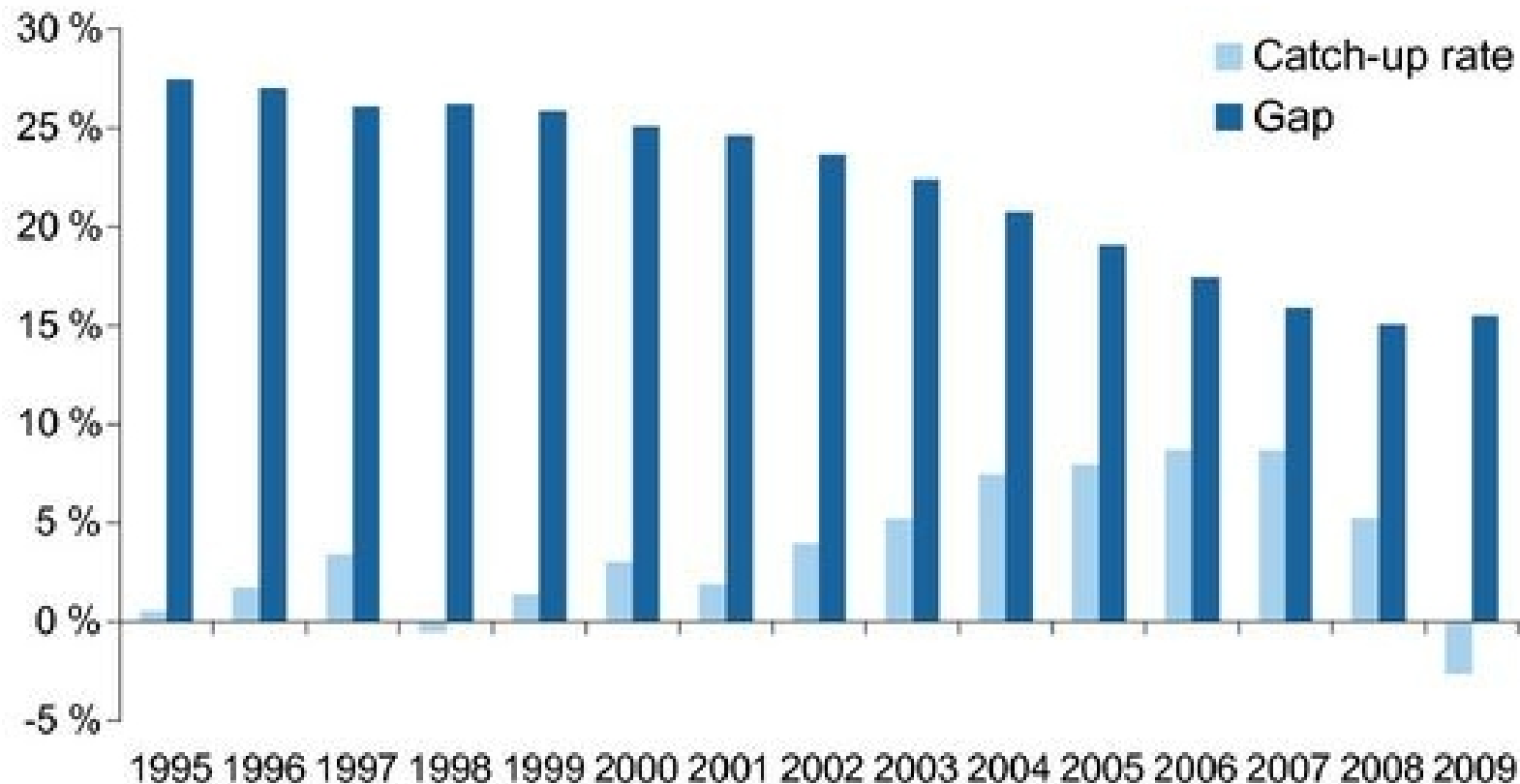
# The Baltic Sea Region

- Until recently somewhat peripheral region in Europe
  - Market potential
  - Logistics
  - Political divisions
- Position has improved
  - GDP capita convergence rapid recently
  - Communication links improved
  - Apart from Russia, all countries EU Member States
- Long-term potential likely to change, how=?
  - Climate change => value of plentiful renewable natural resources, logistical position
  - Demographics => population size and age structure
- Very important for Finland
  - Over 40 % of trade with BSR countries
  - 70 % of inward FDI from BSR, 40 % of outward FDI to BSR
  - Labour flows have increased substantially



# Catch-Up Rate: Baltic Sea Region versus EU-15

GDP per capita gap relative to EU -15/  
Relative reduction in the GDP per capita gap %



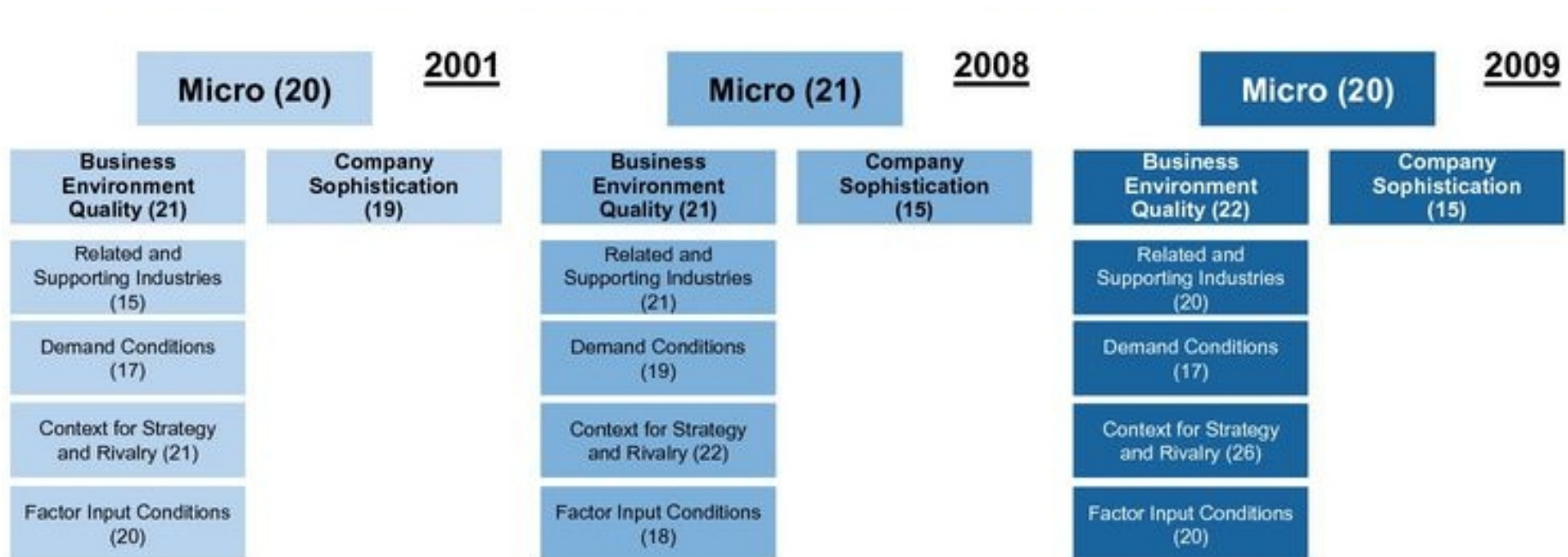


# Potential not fully utilized

- Region has
  - Some of the best ranked innovative environments
  - Substantial natural resources (particularly when the adjacent regions in Russia, polar area are taken into account)
  - Highly educated labour force
- Yet
  - Differences between countries huge in many dimensions
    - Productivity, GDP/capita
    - Level of physical infrastructure
    - Innovation activity
    - Rule of law
    - Environmental policies
  - Flows of knowledge, resources across countries not fluid enough
  - “Internal markets” still fragmented
  - Getting act together to pursue common interests far from perfect



# Microeconomic competitiveness over time, Baltic Sea Region



Source: Unpublished data from the Global Competitiveness Report (2009), author's analysis.

State of the Region-Report 2009

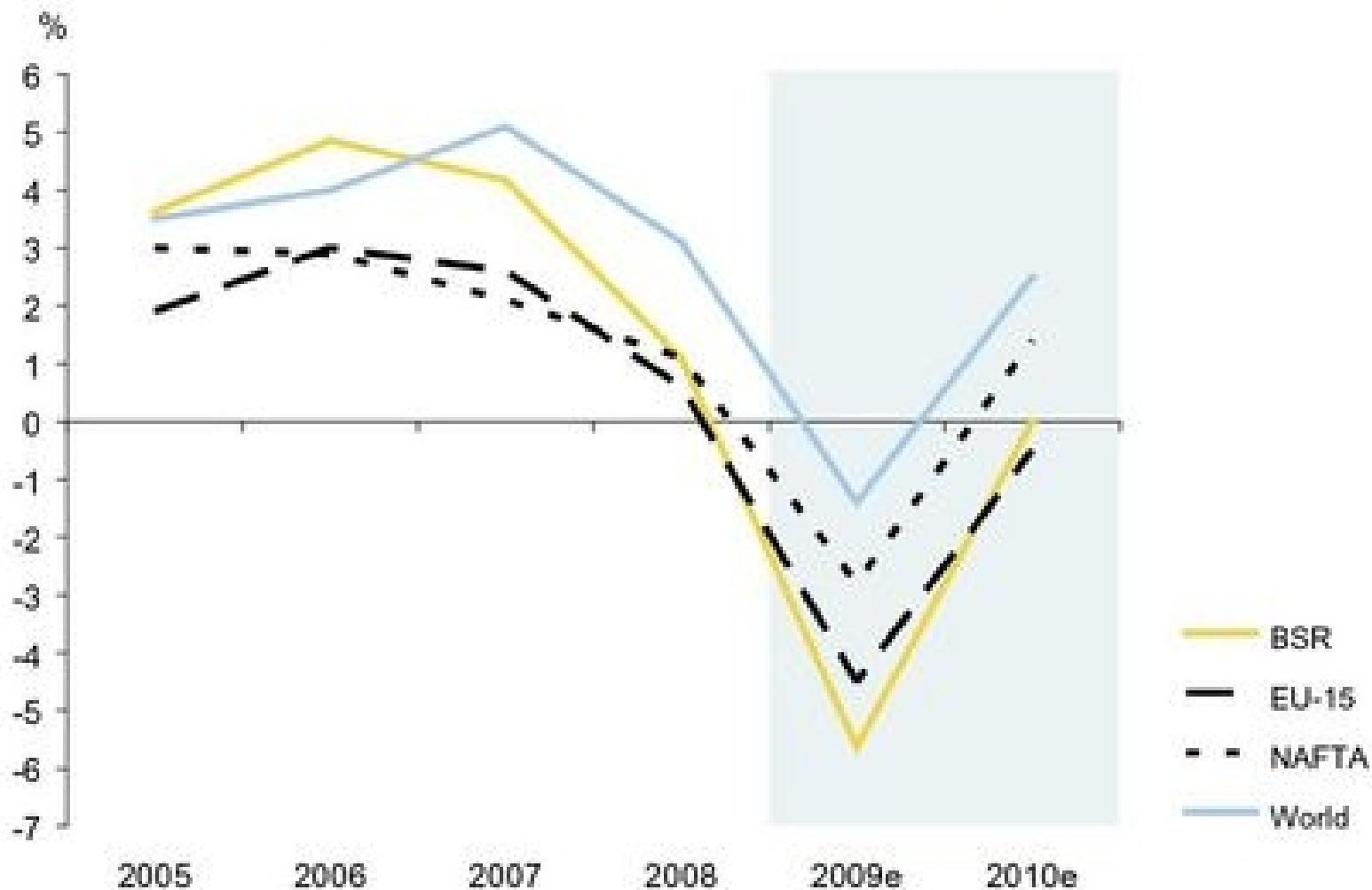


# The economic crisis adds to the challenges

- The regions has been hit disproportionally turning GDP/capita convergence into divergence, and leading to increased poverty
  - Export orientation, cyclical sensitivity
  - Serious macroeconomic imbalances in some countries
- Need for fiscal consolidation could harm many important efforts, if not well targeted
  - Public support for innovation
  - Improvement of infrastructure
  - Environmental policies
  - Upholding and improving social cohesion
- Delayed improvement of employment situation could undermine the attractiveness of the region for skilled labour



# GDP growth in some world regions



Source: EIU (2009), IMF (2009)

State of the Region-Report 2009





## The potential and the challenges have been recognised

- Many bodies of cooperation established
- In Finland: Government report On Baltic Sea Policy
- Most recently EU's Baltic Sea Strategy proposal by the Commission after a wide consultation
  - Environmentally clean place
  - Prosperous place
  - Attractive and accessible place
  - Safe and secure place



# The question: will sound general objectives lead to concrete measures in key policy areas?

- The strategy does not allocate any fresh funds => can the existing ones be directed to advance common objectives?
- Do the decisions on the services markets and labour mobility give sufficient impetus for developing a true internal market?
- Is adhering to the rule of law principles advancing in practice in those countries which so far have scored weakest in this regard?
- Is Russia integrated sufficiently into the common endeavours?
- ...



# Many have to contribute but the regions' governments must lead

- Governments alone cannot implement a successful strategy, as so much depends on
  - Business community
  - Social partners
  - Civil society more broadly
- But only the BSR governments can change legislation and administrative practices



Thank you