

European Integration is Bearing Fruit

by Kari Jalas

Finnish companies expect three basic things from European integration: Political and economic stability, dismantling of trade barriers and an operating environment that supports the international competitiveness of European companies. New EU Member States around the Baltic Sea are offering all of these.

The Central Chamber of Commerce of Finland uses its specially developed success indicator to evaluate the performance of European economies. On the basis of this indicator, the most successful economies in 2005 are Luxembourg, Latvia, Estonia and Lithuania (The Central Chamber of Commerce of Finland, Euro-Zone Economic Scan 2/2005, www.chamber.fi).

The success indicator is based on a growth and a stability component. Latvia, Lithuania and Estonia all rank in the top four for the growth component. These countries have experienced rapid economic growth and an increase in investments. In Latvia and Estonia employment has been growing faster than the average of the surveyed countries.

Estonia is the highest ranking of the three countries in the stability component, with Latvia and Lithuania ranking lower. Estonia is doing well as a result of its small national debt and surplus in the public sector. All three countries have big current account deficits that lower their rankings in the stability component.

Skilled workforces, low production costs and improving infrastructure attract international enterprises to expand their business activities into these countries. Poland takes a central position between East and West. Its national economy is as big as that of the nine other new EU Member States combined.

EU membership has clearly improved the business environment in the Baltic States and Poland. Finnish enterprises are sure to benefit from these rapidly developing markets. However, there is much more to be done to remove still existing trade obstacles.

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The Central Chamber of Commerce of Finland conducted a survey concerning the functioning of the European Internal market of the Baltic countries and Poland in April 2005. A total of 280 Finnish companies with operations in the countries in question responded to the survey. Similar surveys were carried out in 2001 and 2002 (The Central Chamber of Commerce of Finland, The Finnish Business Perspective of the Baltic and Polish Markets, 2005, www.chamber.fi).

Finnish companies expected a large increase in the significance of the Estonian, Latvian, and Lithuanian and, in particular, Polish markets over the next five years. 80 per cent of the respondents predicted an increase in the significance of the Polish market. According to the enterprises the primary means by which Finnish companies can benefit further from this growing market potential will be by increasing their own exports, establishing subsidiaries, forming partnerships with local companies and increasing subcontracting.

Although the significance of the Polish market was on the rise, 57 per cent of the survey respondents still named Estonia as their primary market. Second position was shared by Latvia and Poland. Lithuania was viewed as a slightly less important market.

Estonian, Latvian, Lithuanian and Polish business environments have clearly improved over recent years. Finnish

companies rated the countries and gave Estonia the best score (in a scale from 4 to 10 (best) with 7.56 (7.15 in 2001). The business environments of Latvia and Lithuania were rated slightly lower than in Estonia, with both countries receiving a score of 7.04 (as compared to 2002; Latvia 6.50, Lithuania 6.48). Poland received a score of 6.89 (as compared to 6.59 in 2001). The business environments were compared to Finland, which received a score of 9.

One fifth of the respondents felt that business culture in Estonia had improved during the last few years. The decrease in bureaucracy and growth in the economy combined with EU membership have brought about interest in the Estonian market. EU membership and improved business culture were seen as the most positive developments in Latvia. Almost half of the respondents in Lithuania recognized EU membership as the most important positive change in the country's business environment. Economic growth, developments in transportation and logistics were also underlined. One quarter of the respondents viewed EU membership as the most significant step forward for the Polish market. Bureaucracy has decreased and corporate culture has improved in Poland.

Estonia's primary problems were its low price levels (17 %) and low levels of purchasing power (15 %). The biggest problem in the Latvian market was the lack of language skills (17 %). Price levels (10%), trade practices and corporate culture (10%) were also mentioned as problems. The most significant problems for the Lithuanian market were its trade practices and corporate culture (22 %). Price levels (19 %) and stiff competition (19 %) were also seen as problems. In Poland, the biggest problems were in trade practices and corporate culture (23 %). Also mentioned were problems related to price levels (21 %), financing (19%) and bureaucracy (17%).

The activities of the authorities have improved across the board since the surveys that were conducted in 2001 and 2002. The greatest improvements have occurred in the activities of customs and border control authorities as well as those of the inspection and certification authorities.

A number of Finnish companies are planning to invest in the markets of the Baltic countries and Poland. Over half (55 %) of the large companies that responded to the survey plan to invest in either Estonia or Latvia during the next year, whereas 38 per cent of the large companies plan to invest in Poland.

Almost one third of all the respondents had invested in Estonia in the preceding 12 months. During the same time, 19 per cent of the respondents had invested in Latvia, 16 per cent in Lithuania and 23 per cent in Poland.

The Baltic Sea Area is already one of the fastest growing hotspots of the global market. However, its potential is not yet fully recognized. Unfortunately two crucial drivers of economic growth are still missing in the area: free movement of labour and a common currency, the euro.

Chambers of Commerce around the Baltic Sea are working hard to foster European integration in the area. The Baltic Sea Chambers of Commerce Association (BCCA) is committed in promoting prosperity and competitiveness in the region. The Central Chamber of Commerce of Finland has held a Vice Presidency in the BCCA since 2004.

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