

A common Baltic Sea investment agency could attract new capital into the region

by Kari Liulto

The countries surrounding the Baltic Sea are highly dependent on the economic relations between them. Of all Baltic States' foreign trade, clearly more than half takes place with other countries that surround the Baltic Sea. The dependency of Poland, Sweden, Finland and Denmark on trade within the area is slightly less, but still around 40%. The Baltic Sea nations account for one-fifth of Russia's foreign trade and one-tenth of Germany's.

In spite of the globalisation, it is probable that regional co-operation in the Baltic Sea region grows. The EU accession of the Baltic States and Poland, and the expanding energy co-operation between the EU and Russia increases further the economic ties between the countries surrounding the Baltic Sea. The Baltic Sea is Russia's most important route for transporting oil abroad, which strengthens the region's importance in the EU-Russian energy-related co-operation. The Baltic Sea maintains this position at least until the end of the next decade, when oil exports through the Barents Sea and the Sea of Japan may exceed those going through the Baltic Sea.

Foreign direct investments are not increasing the amount of capital within the region

According to a UN report, foreign direct investments in the Baltic Sea Region have grown at an exceptional rate. The amount of foreign direct investment more than trebled between the years 1995 and 2003. The growth of such investments in the Baltic Sea economic area has even outstripped that of China!

Inward FDI stock in the BSR (million USD)

Baltic Sea Region (BSR-9)	1995	2000	2003	Change 1995-2003
Denmark	23 801	66 701	76 195	320 %
Estonia	688	2 645	6 511	946 %
Finland	8 465	24 272	46 400	548 %
Germany	192 898	470 933	544 604	282 %
Latvia	615	2 084	3 320	540 %
Lithuania	352	2 334	4 960	1409 %
Poland	7 843	34 227	52 125	670 %
Russia	5 465	25 226	52 518	961 %
Sweden	31 089	93 970	143 230	461 %
Total BSR-9	271 216	722 392	929 863	343 %
Other				
EU-25	1 161 997	2 356 102	3 509 032	302 %
China (incl. Hong Kong)	362 401	803 815	876 519	242 %
USA	535 553	1 214 254	1 553 955	290 %

Source: UNCTAD

Nevertheless, we cannot yet talk of a 'China phenomenon' in the Baltic Sea Region. New external foreign capital is going into China, strongly supporting growth and creating new jobs.

Intra-FDI stock in the BSR (rank)

Investor country	Recipient country (data as of), stock by countries %, (rank)									
	Denmark (2003)	Estonia (2004)	Finland (2003)	Germany (2002)	Latvia (2004)	Lithuania (2004)	Poland (2004)	Russia (2004)	Sweden (2003)	
Denmark	***	2% (6.)	4% (5.)	1% (12.)	8% (3.)	15% (1.)	3% (9.)	~	3% (9.)	
Estonia	~	***	~	~	8% (5.)	8% (6.)	~	~	~	
Finland	2% (8.)	24% (2.)	***	2% (10.)	8% (6.)	8% (5.)	1% (17.)	~	16% (3.)	
Germany	4% (6.)	2% (7.)	5% (4.)	***	15% (1.)	11% (3.)	13% (4.)	11% (4.)	6% (6.)	
Latvia	~	1% (13.)	~	~	***	2% (13.)	~	~	~	
Lithuania	~	~	~	~	1% (16.)	***	~	~	~	
Poland	~	~	~	~	~	1% (16.)	***	~	~	
Russia	~	2% (9.)	1% (11.)	~	7% (8.)	8% (4.)	1% (20.)	***	~	
Sweden	20% (2.)	46% (1.)	54% (1.)	2% (8.)	11% (2.)	15% (2.)	5% (7.)	~	***	
Total BSR-9	27%	77%	64%	5%	59%	68%	21%	11%	26%	

~ less than 0.5% of total FDI

Source: National statistical authorities, central banks and investment agencies

Here, on the other hand, foreign investment growth can largely be attributed to investments between Baltic Sea countries. In other words, capital is being transferred from one shore of the Baltic Sea to another, so the total amount is not increasing.

The companies in the northern and western parts of the Baltic Sea are particularly active in the region's internal investments. The Danes are particularly active in Lithuania and Latvia. Finland is among the three most important investors in Estonia and Sweden. Swedish and German companies are significant investors all over the Baltic Sea Region. It is important to notice that also the companies based in the Baltic States, Poland and Russia have started their expansion abroad. This expansion has so far concentrated on the nearby countries i.e. the Baltic Sea Region.

All Baltic Sea countries would benefit from external capital investment

In order to boost the economic growth of the Baltic Sea region, we need capital to flow in from outside the area. Because of the Baltic Sea economy's internal interdependence, new capital growth in the region would also benefit those countries that are not direct recipients, and therefore, it would now be mutually beneficial to initiate co-operation aimed at attracting external capital into the region.

Tighter co-operation is more a question of the will to make it work than of significant financial outlay, because national investment agencies are already collecting most of the necessary information. The next step would be to gather all this national information in a common Baltic Sea investment agency that would be accessible and free-of-charge for all.

An agency such as this could operate in a virtual fashion. Potential investors could easily study investment possibilities in all the Baltic Sea countries via a common internet portal. These web pages could then be linked to those of national and even regional investment bureaus, allowing the investor to make direct contact with whoever is actually offering the investment support service.

A joint investment service for the Baltic Sea countries would be a natural extension to the co-operation that has long taken place between Baltic Sea states, towns, chambers of commerce and universities. As well as the countries actually bordering the Baltic Sea, inviting Norway and even Belarus into the agency could prove to be a wise decision for the future.

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