

Strengths and Weaknesses in the Baltic Sea Region

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This presentation draws on joint work with Professor Örjan Sölvell and has benefited strongly from ideas developed by Professor Michael E. Porter. The State of the Region-Report has been financed by the Nordic Investment Bank (NIB) and the Nordic Council of Ministers (NCM) in collaboration with the Baltic Development Forum (BDF). The full Report is available at www.bdforum.org

Additional information on competitiveness research can be found at the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu

Two Questions

- **Where does the Baltic Sea Region stand?**
- **Is the Region on a sustainable trajectory?**

Dimensions of Strengths and Weaknesses

Outcomes

- Prosperity
- World market position
- Innovation
- Integration

Assets

- Macroeconomic, political, legal, and social context
- Business environment quality
- Company sophistication

Capabilities

- Institutions
- Trust
- Common 'language'
- Leadership

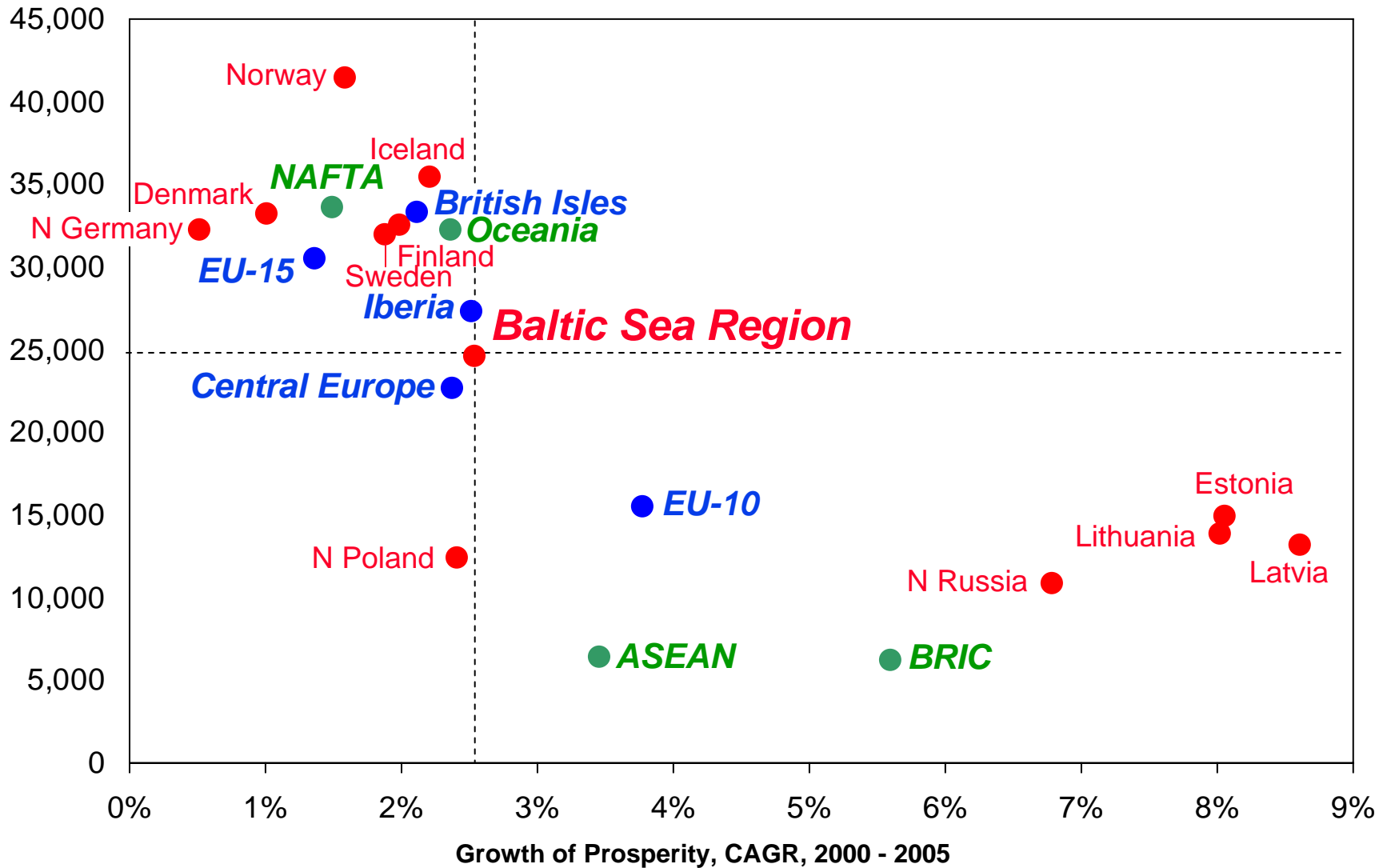
Economic Outcomes

- High prosperity in the north-west, high growth in the south-east
- World market position solid **but not improving**
- Innovation position strong **but not improving**
- Level of integration is significant **but unbalanced across parts of the region**

Prosperity

Cross-National Regions and BSR Countries

GDP per Capita, US-Dollar, PPP, 2005

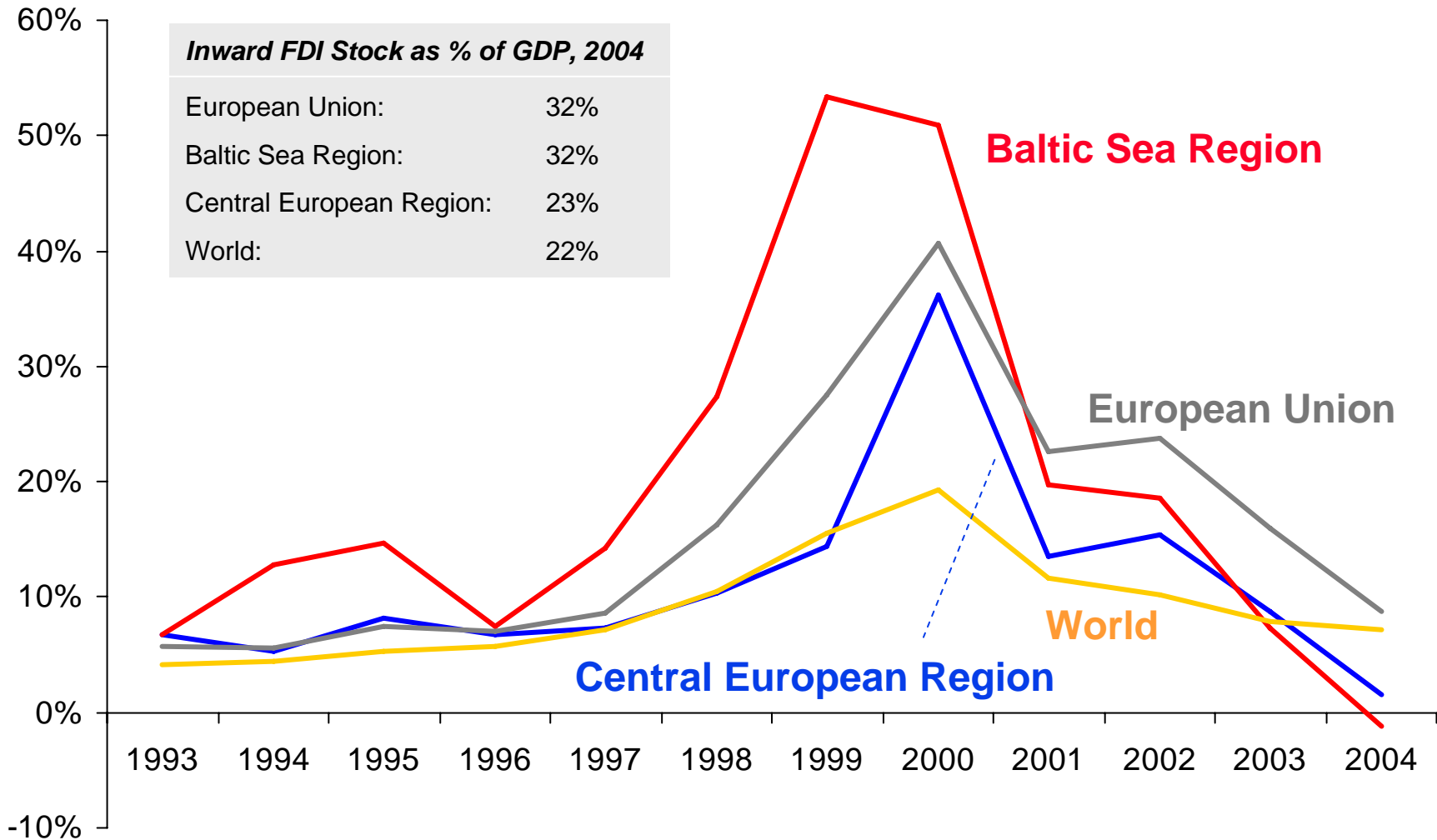


Source: Groningen Growth and Development Centre and The Conference Board (2006), IMF (2006), authors' calculations

Investment and Exports

FDI Inflows over Time

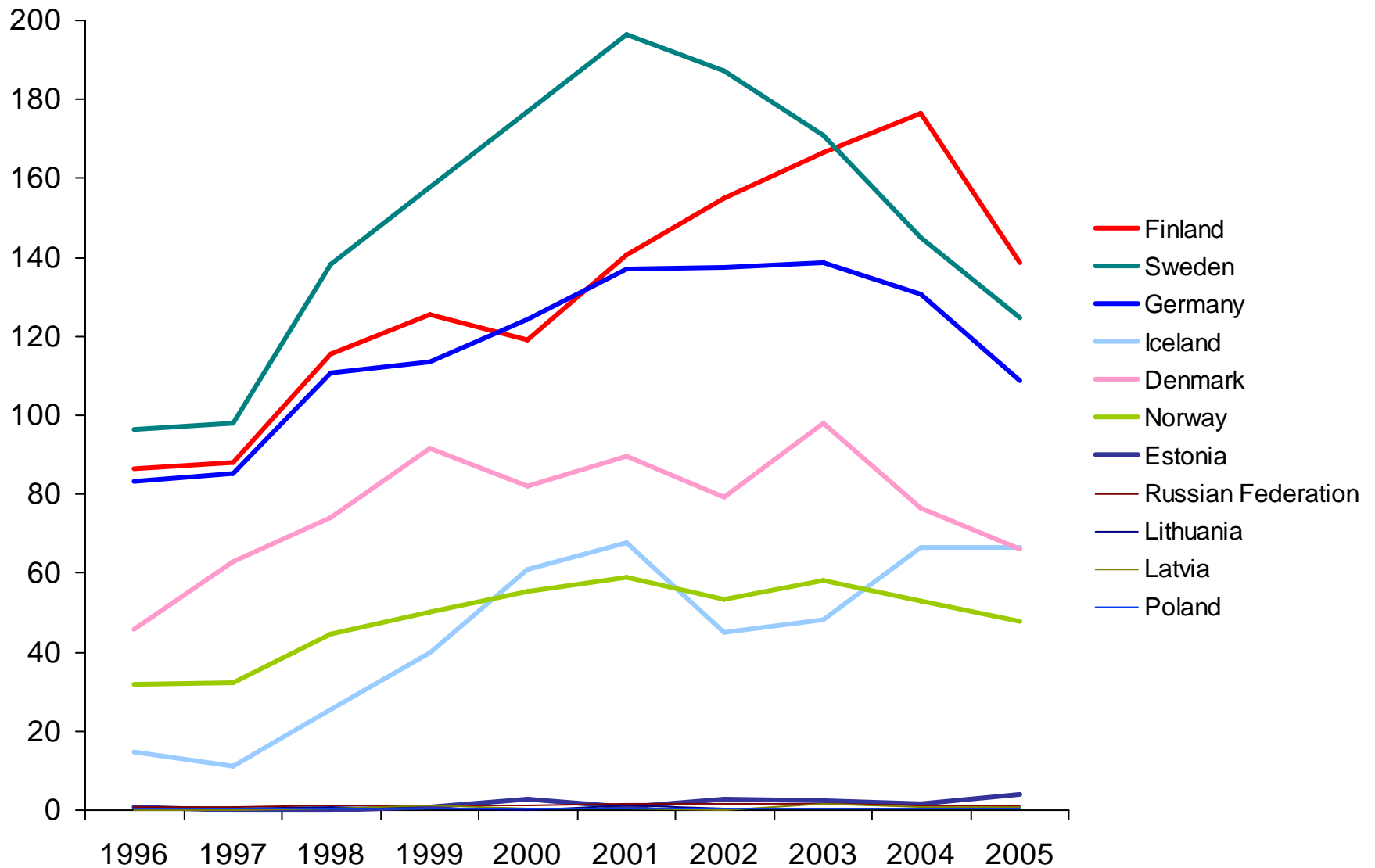
FDI Inflows as % of Gross Domestic Investment



Patenting Intensity over Time

Baltic Sea Region Countries

Patents per 1000 Capita



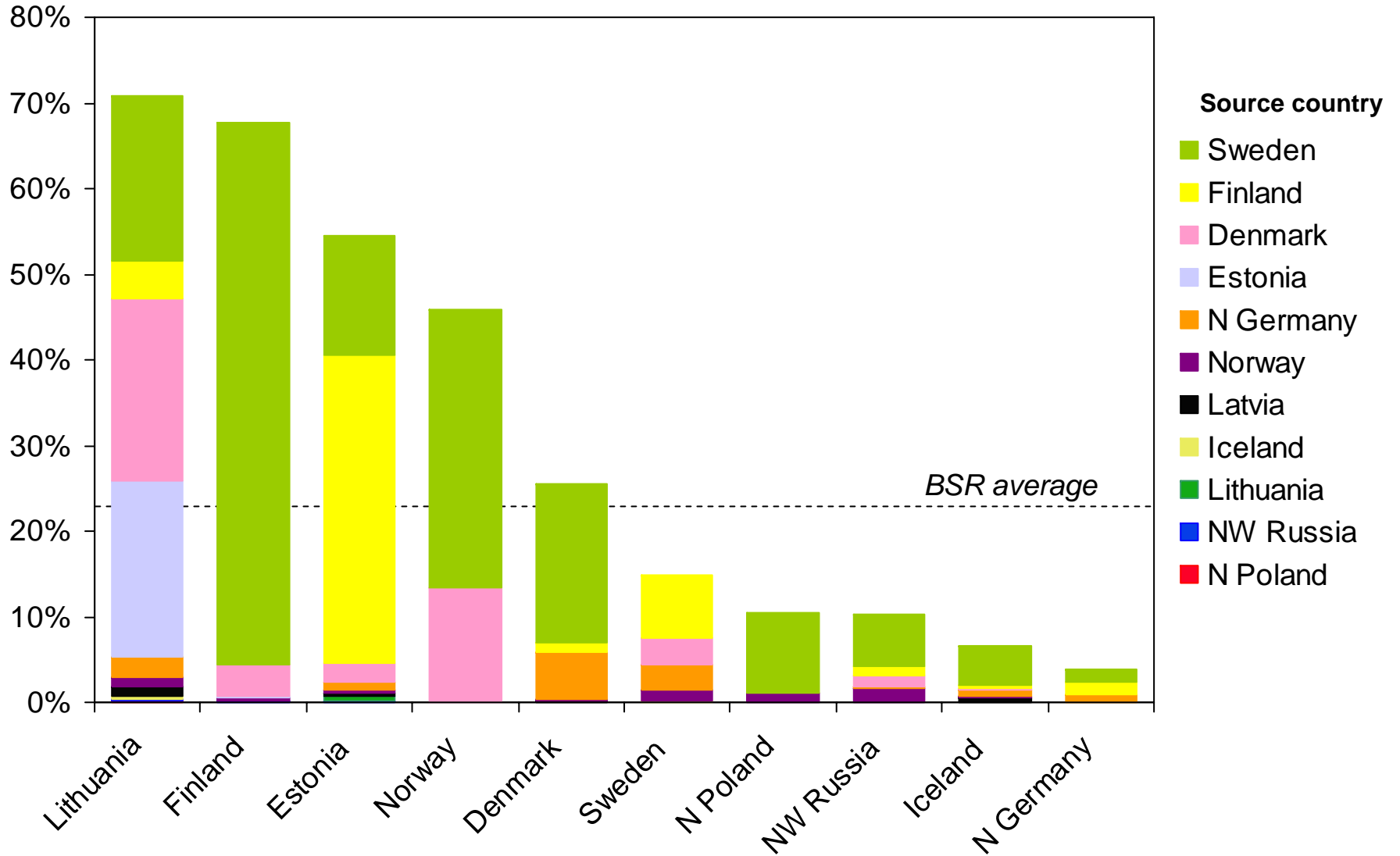
Source: USPTO (2006), author's analysis.

State of the Region-Report 2006

Integration

Foreign Direct Investment Flows

Share of inward FDI from other BSR countries, 1999 - 2004



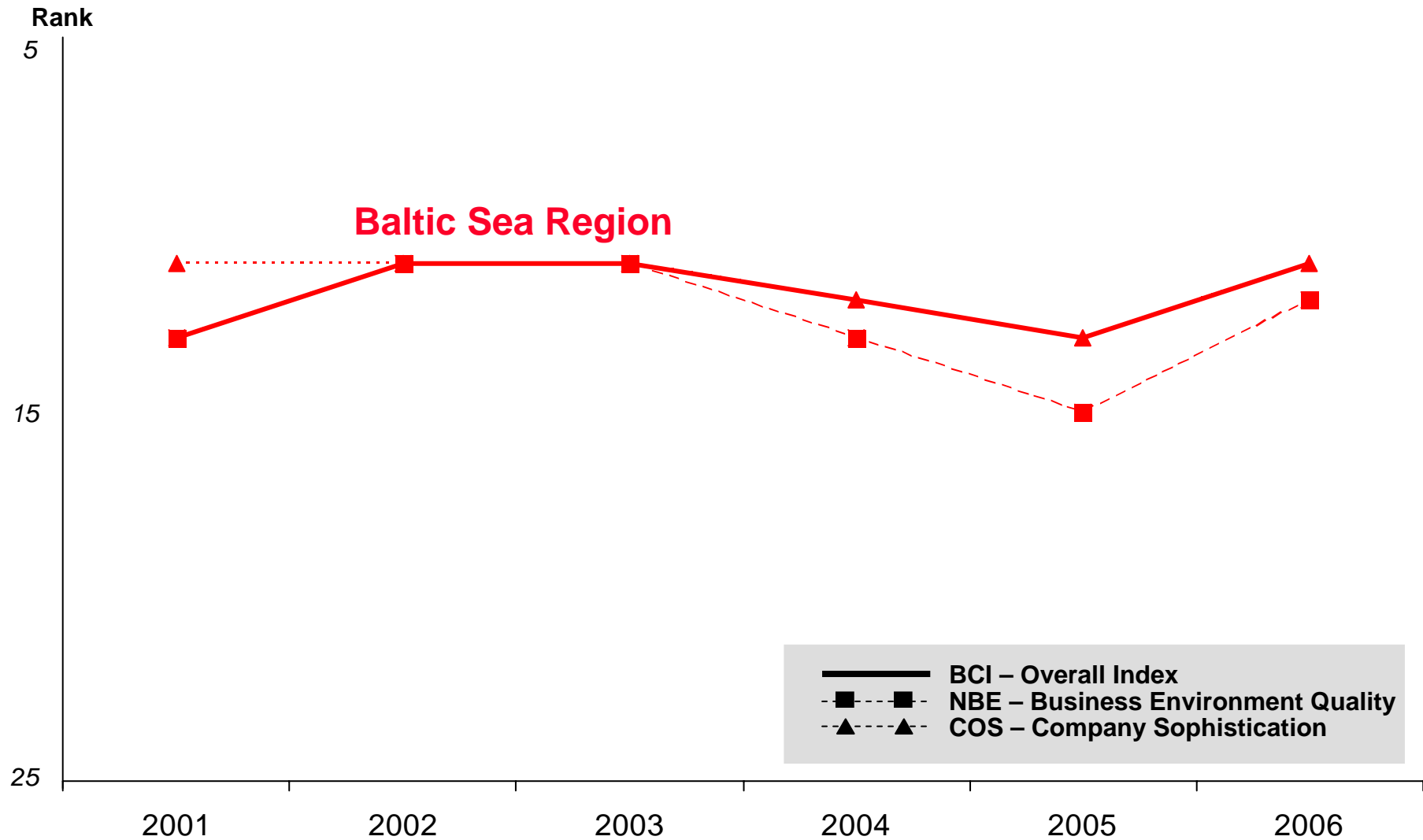
Source: UNCTAD, national statistical offices, author's calculations

Economic Assets

- **Sound macroeconomic policies, sound institutions and legal systems, and few social issues**
 - **But economically small region at the European periphery with few metropolitan regions**
- **Well established financial markets, solid skill and science base, and a regulatory environment supporting fair and open competition**
 - **But low attraction of skilled foreign labor, weak incentives for investment and risk taking, and remaining gaps in infrastructure**
- **A core group of multinational companies from the region and wide-spread adoption of modern management practices**
 - **But few new companies of significant size emerging**

Microeconomic Foundations

Business Competitiveness Index Ranking over Time



Source: Global Competitiveness Report (2006), author's analysis.

Knowledge Creation

Top Universities in the Baltic Sea Region

Institution	Country	World Rank	BSR Rank
Karolinska Inst Stockholm	Sweden	45	1
Univ Copenhagen	Denmark	57	2
Uppsala Univ	Sweden	60	3
Univ Oslo	Norway	69	4
Univ Helsinki	Finland	76	5
Stockholm Univ	Sweden	93	6
Lund Univ	Sweden	99	7
Aarhus Univ	Denmark	101-152	8
Univ Hamburg	Germany	101-152	8
Gothenburg Univ	Sweden	153-202	10
Tech Univ Denmark	Denmark	153-202	10
Univ Kiel	Germany	153-202	10
Chalmers Univ Tech	Sweden	203-300	13
Norwegian Univ Sci & Tech	Norway	203-300	13
Royal Inst Tech	Sweden	203-300	13
Swedish Univ Agr Sci	Sweden	203-300	13
Umea Univ	Sweden	203-300	13
Univ Southern Denmark	Denmark	203-300	13
Univ Turku	Finland	203-300	13

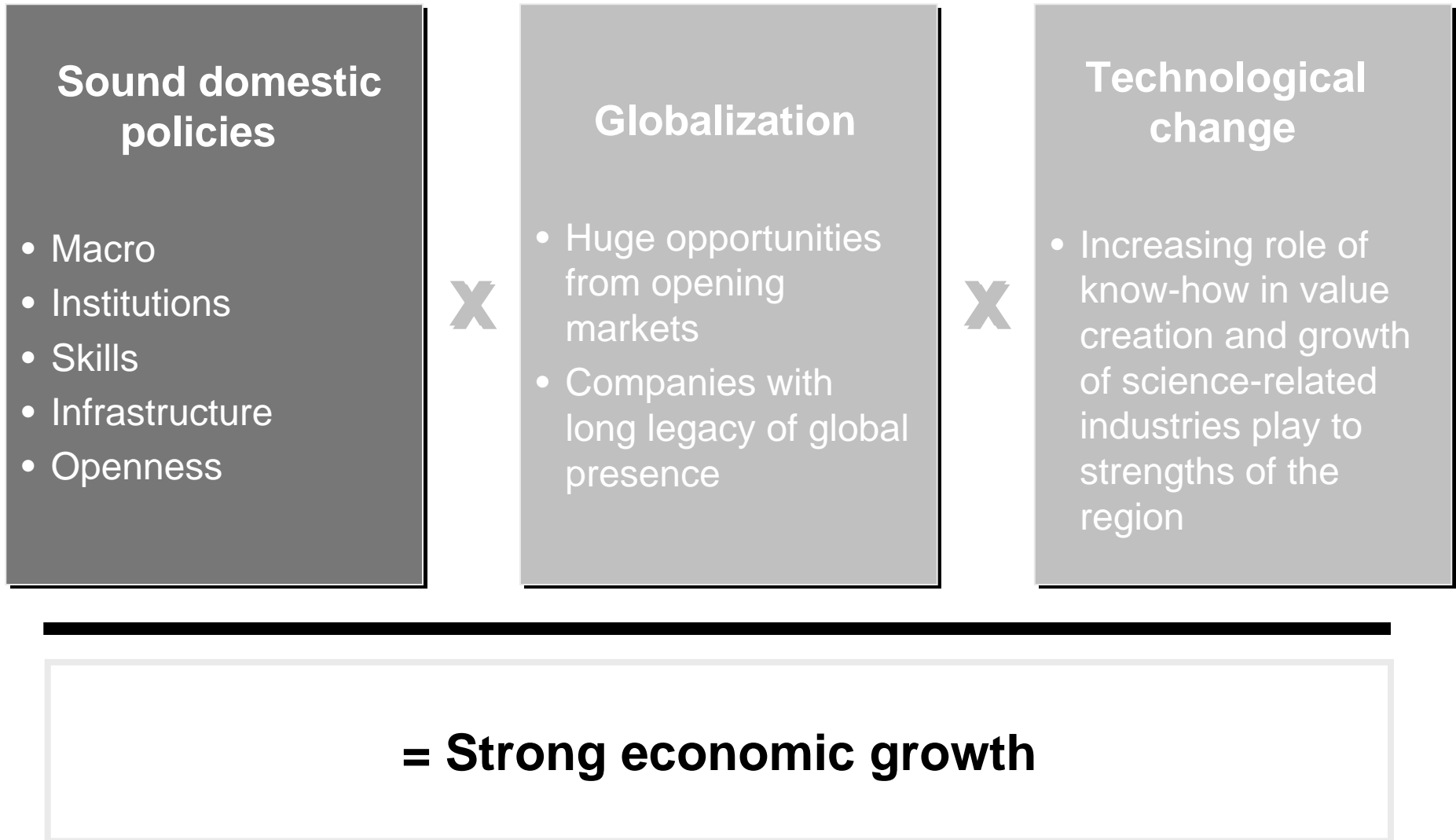
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Capabilities

- **Wide set of cross-regional institutions and long historical legacy of linkages across the region but very different recent historic experiences**
- **Generally high level of trust in the north-west but unclear whether this carries over to cross-regional relations and the south-east**
- **Broad consensus on the importance of competition and the impact of globalization but different views on the role of government**
- **General tendency to believe in the power of institutions with less tradition in individual leadership**

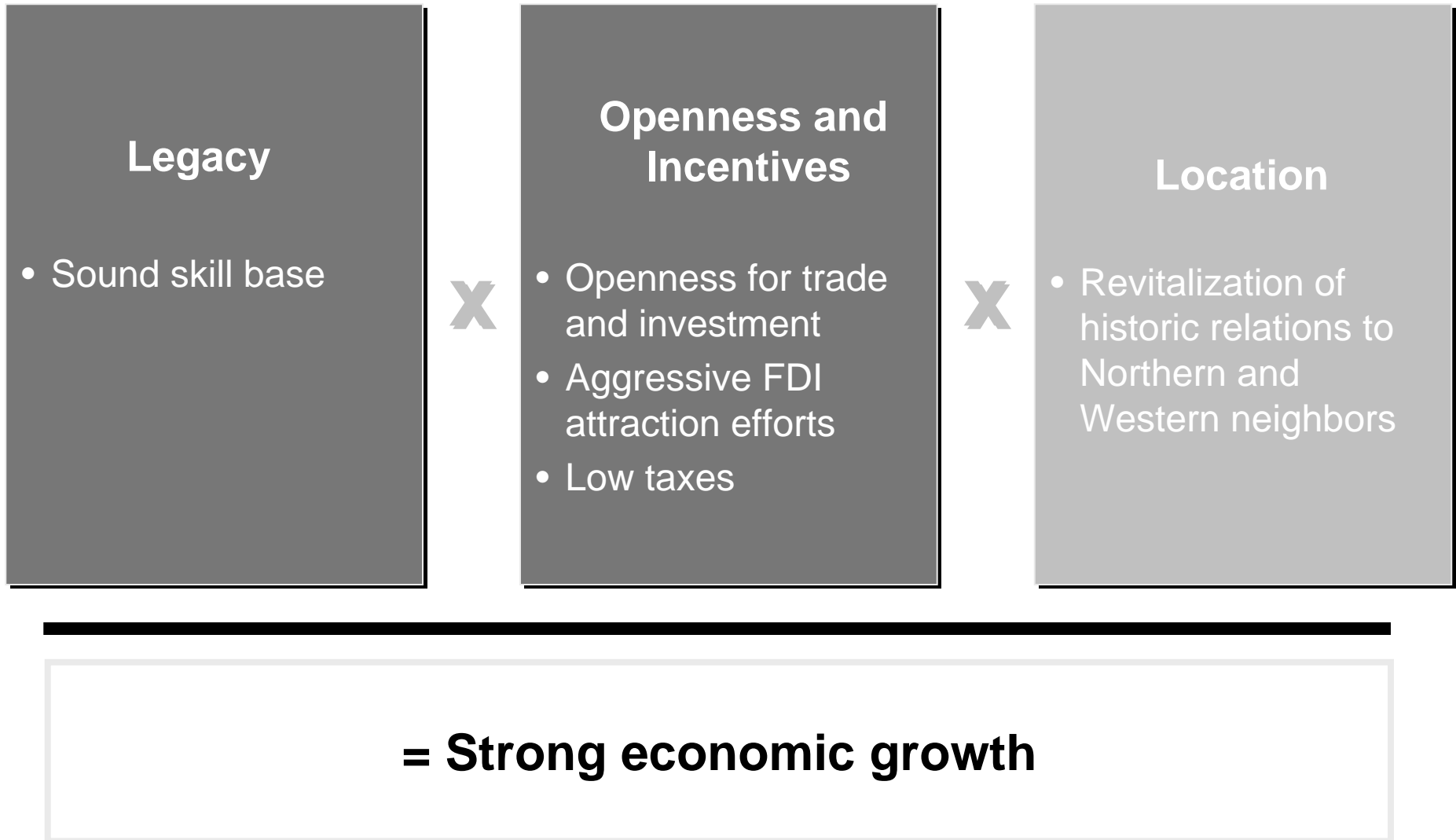
The Formula of Baltic Sea Region Growth

The Nordic Model



The Formula of Baltic Sea Region Growth

The Baltic Model



The Formula of Baltic Sea Region Growth

The Integration Model



The Formula Hitting its Limits

Traditional challenges remain in place

- Economically small region at the European periphery

Baltic Sea integration policies are losing traction

- Past model of west-to-east transfers has reached its limit
- EU membership of Baltic countries and Poland create a competing arena
- The EU context changed the dynamics of relations to Russia

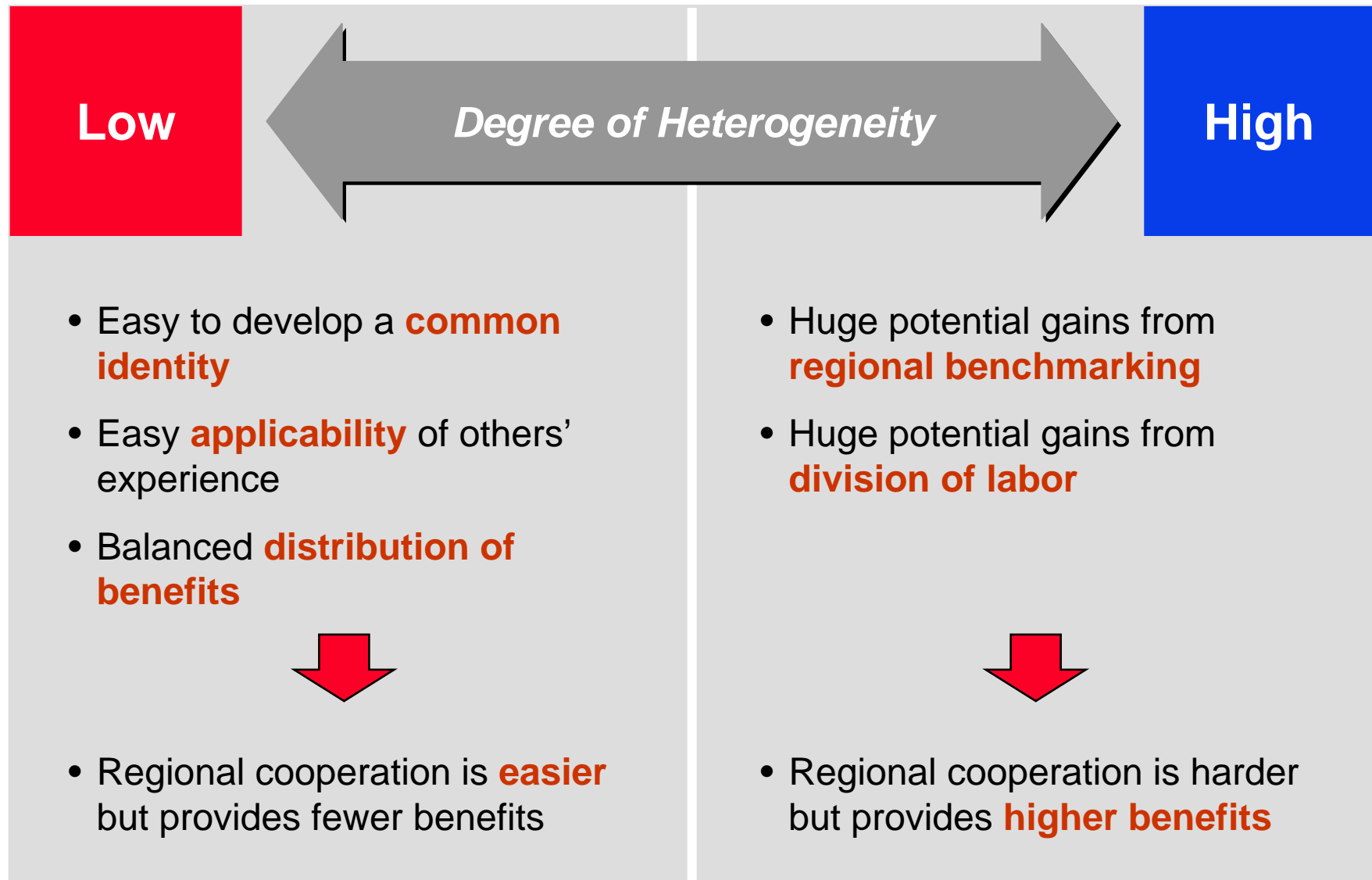
Domestic policy models are losing traction

- Nordic countries need to provide better environment for human skill-intensive entrepreneurial companies
- Baltic countries need to invest in creating new capabilities

Competitors are catching up

- Many countries are significantly upgrading their domestic policies

The Challenge of Economic Heterogeneity



Putting the Baltic Sea Region at the Top of Europe

Key Issues

- Aggressively pursue **full regional integration**, especially when it hits politically sensitive areas
- Intensify the integration of **private sector leaders** and companies into regional cooperation efforts
- Identify the **unique economic value** that the Baltic Sea Region aims to provide as part of the global economy
- Address individual weaknesses in the business environment, focusing on the areas **most critical** to the Region's strategic position