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Niche Living

AN INTERVIEW WITH MR. GEORGY VALENTINOVICH BOOS, THE GOVERNOR OF KALININGRAD OBLAST, THE RUSSIAN FEDERATION.

In this issue of Baltinfo we decided to focus on the interrelated economic issues that are currently affecting the Baltic Sea Area. In light of this we have chosen to interview one of the players in the region who is attempting to radically change the outward perception of the oblast he governs.

Mr. Georgy Valentinovich Boos, The Governor of Kaliningrad Oblast, The Russian Federation.

In February 2007, the CBSS Working Group on Economic Cooperation had a series of meetings in Kaliningrad with the local authorities there. We heard about your ambitious plans to transform the Kaliningrad region over the next ten years into something of a "European Hong Kong". The members of the Group were impressed by the new developments and improvements that the Oblast has undergone so far. Could you share some of your secrets from the reform strategy in the Oblast and tell us briefly about the current challenges as well as your long term vision?

Our main objective is to achieve parity with average European living standards in the foreseeable future. To be able to reach this objective it is necessary to boost economic growth in the Oblast within a short time-frame, along with improving social welfare of the citizens and substantially improving the demographic situation. The following package of documents has been adopted over recent months to implement the strategic goals set for the Oblast. A new Law on Special Economic Zone (SEZ) in the Kaliningrad Region entered into force on 1 April 2006, significantly increasing the investment attractiveness of the Oblast and creating the necessary pre-conditions for sustainable economic growth. A special multi-annual Strategy for social and economic development of the Kaliningrad Region for the next 25 years was adopted and supplemented by a Programme of the social and economic development of the Kaliningrad Region for 2007 – 2016.

Concerning the overall economic development, the Kaliningrad region is at present at the stage of "recovery growth". In practical terms this means that we envisage a number of challenges linked both with the exclave location of the Oblast and the necessity of attaining adequate competitiveness with the surrounding EU Member States. To meet those challenges a new system of management is being introduced to adjust the economic policy of the Oblast accordingly. The new approaches represent a shift from the system of prefer-

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Photo: Phil Saprykin

Reliability – Quality – Success

ences and benefits the Oblast enjoyed under its “special status” to concerted efforts directed at fitting the resources of the Oblast into the European macro-regional economic processes, including, of course, in the Baltic Sea Region. In doing so, the Kaliningrad Oblast has to be consistent with the overall strategic economic objectives set by the Russian Government. Not least, a specific niche for the Oblast has to be properly identified in the context of the Russia-EU relationship.

To draw a brief picture of the Kaliningrad economic performance I could mention one or two statistics. Two out of three TV sets assembled in the Russian Federation are from the Kaliningrad Region and about half of all vacuum cleaners made in Russia come from the Oblast. Five leading car makers, including Hummer, BMW and KIA assemble their cars here. The rate of economic growth, as well as the basic indexes of social and economic development for the Kaliningrad Region in 2006 exceeded average growth rates in greater Russia.

On this visit we learned much about the efforts of the Kaliningrad Regional Government to enhance the framework of the so-called Special Economic Zone (SEZ) in the Kaliningrad Oblast, which provides favourable conditions for potential investors. What is the current state of play with the SEZ?

The Kaliningrad region is the only free economic zone in Russia. The term Special Economic Zone was first introduced in 1996 and related to a set of customs preferences and privileges enjoyed by investors in the Oblast’s economy. The status and the regime (content) of the SEZ is established on the basis of a Federal Law “On special economic zone in the Kaliningrad region and on amendments to some legal acts of the Russian Federation” which came into force in April 2006. The SEZ in the Kaliningrad Oblast is a viable economic tool to spur investment inflows into the Region and improve investment attractiveness of the Kaliningrad Oblast. The new Federal Law introduces positive improvements to the regime of the SEZ. In particular, the newly introduced Law on the SEZ provides for a gradual replacement of customs preferences by tax benefits in order to create more incentives for capital-intensive and export-oriented manufacturing.

The adoption of the new Law on SEZ, according to the latest statistics, has had a very positive impact on economic development, boosting trade and services in the Oblast. As a result, over the past year 34 entities and companies have been registered as so-called residents of the SEZ; 6 000 new jobs were created; the total amount of investment within the SEZ reached 19.5 billion Russian Roubles (around 570 million Euro) and the average monthly salary at the resident companies rose to 18 000 Roubles (around 530 Euro). The Government of the Kaliningrad Region offers administrative support to the residents of SEZ including, for example, unimpeded access to energy resources, assistance in purchasing or renting real estate, including land, ensuring speedy bureaucratic formalities and paperwork and facilitating relations with the municipal governments. Moreover, the support to investors could imply subsidising a part of the interest rate for the loans concerned, as well as supervising the investment projects most viable for the Oblast.

It is often said that the social demographic aspects of the Kaliningrad Region are quite special because of the migrant nature of Kaliningrad’s population and the growing influx of migrants from elsewhere in the Russian Federation and of migrant workers from the former Soviet republics. Many of these migrants have come from regions of ethno-political tension; how has Kaliningrad integrated these new people? Has there, for example, been a renewed building scheme for apartments, an extension of health care and welfare management or provisions made in the utility sectors to cope with the new entrants?

When talking about integrating migrants into the Kaliningrad Region, it is noteworthy that the migrant nature of the Oblast itself has contributed a lot to positive attitudes of the population towards the newcomers. The great majority of those who moved to the Oblast in the 90s have successfully assimilated and have found both employment and accommodation. In the foreseeable future we expect a “second wave” of migrants moving to Kaliningrad Region – mainly our countrymen from the Russian mainland.

The new economic measures, among others, target the demographic development of the Oblast, aiming at increasing the population up to 1.5 million by 2016.

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The Baltic Sea Region: Prepared for the next stage?

BY CHRISTIAN H. M. KETELS

The Baltic Sea Region has experienced a remarkable transformation over the last 15 years. From a region in the shadow of the cold war that was facing major economic crisis in the early 1990s, it has become a core part of an integrated Europe and one of the most competitive regions in the world. Regional cooperation has been important in the past, but will it remain important in the future? And are the current organizational structures well equipped to meet new demands?

How competitive is the Baltic Sea Region?

The focus of cooperation in the Baltic Sea Region has decisively shifted from political to economic objectives. Countries (and electorates) are now motivated to support regional integration by the economic benefits it might deliver. Political security and the development of independent democracies are for most people in the region goals that have already been achieved and no longer warrant significant further efforts.

The economic performance of the Baltic Sea Region over the last few years has been impressive.[1] Prosperity rates are high in the old EU member countries, Iceland, and Norway and are quickly improving in the new EU members and northwestern Russia. The Region's position on world export markets is stable and its stock of foreign investment is high. Patenting intensity and R&D spending are high. Trade, capital, and people flows connect the Region. But while the current position of the Region is strong, there are also signs that it cannot be taken for granted. Investment inflows have recently taken a beating. Patenting rates are dropping faster than in other parts of the world. And integration is unbalanced, with largely Swedish companies operating throughout the entire Baltic Sea Region as one home base.

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The current performance of the Baltic Sea Region is rooted in the competitiveness of the business environment it provides to the companies operating here. The western parts of the Region have traditionally benefited from strong legal and political institutions, sound macroeconomic policies, and the absence of large social issues. In the last 15 years, these advantages have been extended to the eastern parts of the Region with surprising ease. The Region has well integrated financial markets, a strong skill and science base, solid physical and communications infrastructure, and a regulatory environment that supports fair and open competition. And the Region is home to many strong companies including a core group of multinationals with a wide presence in global market.

The need for a new growth formula

The future performance of the Baltic Sea Region will depend on its ability to address its remaining weaknesses in an increasingly competitive global environment. Some of these weaknesses are related to where we are located in the world: The Baltic Sea Region is an economically small region at the European periphery, characterized by low population density and few internationally visible metropolitan areas. The Baltic Sea Region needs to work much harder to attract economic interest from abroad than countries like China, India, or the United States where large and/or quickly growing domestic markets and global centers of research or production exert strong pull towards global companies. Other weaknesses are related to the way our economies, especially in the Nordic countries, have traditionally been organized: The Baltic Sea Region has been strong in leveraging domestically available skills and provided the stable environment for long-term investments by large, capital-intensive companies. But domestic capabilities are increasingly insufficient; we need to increase our ability to attract human capital from abroad, move from solid to world-class in research areas that we have a meaningful position in, and ensure that education and skill upgrading is rewarding for out citizens.

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[1] For a detailed discussion of the Region's competitiveness see Christian Ketels, Örjan Sölvell, *The State of the RegionReport 2006*, Baltic Development Forum: Copenhagen; download at **www. bdforum.org**

"The future performance of the BSR will depend on its ability to address its remaining weaknesses in an increasingly competitive global environment"

And innovation, productivity growth, and job creation are increasingly happening in clusters of companies and research institutions of all sizes; we need to increase our attractiveness for entrepreneurs and modernize the incentive systems for our researchers and scientists.

Our Region needs to find a new formula for economic success. The old formula has been tremendously successful, but there a number of reasons why it is not able to support future growth: In the Nordic countries, globalization and technological change have created huge economic premiums for the competitive advantages that sound domestic policies and past entrepreneurs had developed. But now many other countries have significantly improved their economic policies, reducing the relative advantages of the Nordic countries. In the Baltic countries, the integration into the European Union created huge economic potential for market-oriented policies to exploit the competitive advantages of a well trained work force at attractive wage levels in the close proximity of western European markets. But now rising wages and overheating demand are creating real risks to the sustainability of the current growth path. In regional cooperation, the past focus on integration under the umbrella of the European Union has allowed regional ties to grow significantly. But now the existence of the EU is challenging the need for regional bodies as a political platform to pursue cooperation.

Regional cooperation in a new era

Defining the new growth formula will require action by many different levels of government, with national governments in a central position to lead change. But the regional arena provides a number of unique tools that can help national (and subregional) governments to achieve success in the process. The region can help individual countries to overcome the limitations of their small size in several dimensions. More effective competition across the region can drive specialization around different clusters and activities and foster the emergence of truly world-class capabilities, in science as well as in other areas. More collaboration across the region can provide superior combinations of complementary strengths, for example within networks of clusters (Scanbalt already provides an example of this approach), and enable the region to develop a richer profile in terms of the value that it is providing as a place to do business.

More effective competition and more collaboration require a deeper level of integration. The European Union can support integration, especially by further pursuing the common market agenda, but the Baltic Sea Region can reach a significantly deeper level. In a region that is both geographically and culturally more narrowly defined, it is easier to agree on the many small steps in terms of creating compatible, ideally even identical rules and regulations and connecting physical infrastructure. In such a region it is also possible to create cluster linkages that are much tighter than they could be across Europe or with clusters in other parts of the world.

For the Baltic Sea Region to be effective in addressing these dimensions, it will be necessary to review whether the current set of institutions, created when needs were quite different, is still appropriate: Do they enable cooperation that cuts across the many different policy areas that affect business environment quality and integration? Do they engage the wide range of partners in business, academia, and different levels of government that have an impact? Are they capable of pursuing concrete projects with concrete benefits that can mobilize participants? And – a point particularly important given the multitude of current cross-regional institutions, networks, and projects – are they able to provide a central platform for defining strategic directions that are widely shared across the region and can provide orientation for voluntary follow-up? These questions do not provide answers, but can hopefully be useful to policy makers in the Region developing them.

Dr Christian H. M. Ketels

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Symbols of Kaliningrad Oblast flying high

According to a special Decree of the Russian President V. Putin adopted in June 2006 concerning assistance to the fellow nationals living abroad in their voluntary resettlement to the Russian Federation, the Kaliningrad region is defined as one of 12 "pilot" regions for the implementation of this Decree. It is expected that the Kaliningrad Region will have to accommodate and take care of around three hundred thousand migrants who will be arriving for permanent residence in the Oblast during 2007 – 2012. Respective measures from the Government side are aimed not only at creating favourable conditions for integrating new members into society but also at maintaining tolerance and understanding towards the newcomers.

It is envisaged that fellow nationals coming from abroad will be granted equal rights in the spheres of education, healthcare and social security. At the same time, fellow nationals and members of their families are being provided with lodgings on an equal footing with local citizens. It is, moreover, noteworthy that by 2010 it is planned to considerably increase capacity in the sphere of housing. To create attractive conditions for immigrants and to solve the housing issues, the Regional Government is introducing and expanding new market approaches in this field, especially with regard to mortgage loans. It is therefore compulsory for businesses to subsidise mortgage interest rates for their employees. Special grants and privileges will be offered to young families on purchase of a flat or individual house.

On 1 March 2007, a Parliamentary Conference held on the Northern Dimension Policy, organised by the European Parliament, stated that attention should be drawn to the priority areas of the Northern Dimension Policy, including the Kaliningrad Oblast, with its opportunities for development, which pertains to its particular geographical situation. Given the alarmingly high rate of registered cases of HIV/AIDS infection in Kaliningrad and the general alcohol problems that affect the Baltic Sea Region as a whole, could you imagine developing a stronger cooperation with the Northern Dimension Partnership for Public Health and Social Wellbeing and its affiliated Experts Groups in tackling HIV/AIDS, Prison Health, Primary Health Care and Alcohol related problems in the Kaliningrad Region? Could you also comment on ways in which the Kaliningrad Oblast is tackling these two public health issues currently?

Certainly, any constructive cooperation to improve health and social well-being of the society should get full support. Communicable diseases, of course, do not recognise borders. Therefore neighbours should work together to curb proliferation of these diseases. The Kaliningrad Region has wide experience of international cooperation in the sphere of public health services. Most of joint projects with our partners from the Baltic Sea are directed against HIV/AIDS and tuberculosis. The World Health Organisation, the European Union and other international bodies are implementing a number of projects in the Oblast, covering such fields as vocational training, increasing material medical resources, assisting with medicine supplies for the population.

For example, a TACIS project "Health improvement of the population in the Kaliningrad region" focuses on primary medical-sanitary assistance, protection of reproductive health and motherhood, as well as on the fight against infectious diseases, not least in the prison system. A joint project with the EU, "Development of the system of medical services for the least protected groups of the population" is aimed at providing assistance to pregnant women and children infected with HIV, including those who were born from infected mothers. In cooperation with Swedish partners we are implementing implement a project "Precautions against HIV among teenagers and youth in the Kaliningrad Region".

In Russia, Health is proclaimed as one of the key national priorities. In that regard, I of course welcome this backing for our efforts to combat such problems as alcoholism, which affects our society as well. The Federal Budget provides special subsidiary financing for the development of public health services in the regions of the Russian Federation under the so-called National Project "Health". The "Health" project gives priority to treatment of those infected with HIV in the Kaliningrad region. Some assistance comes from international sources, such as the international program of Global Fund, which allows the establishment of treatment for the HIV infected on a free-of-charge basis. The National Project "Health" was also helpful in enhancing assistance with precautions and treatment of tuberculosis. During the last year more than 30 new digital photofluorography and X-ray devices were delivered to med-

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Bienvenuti, Bella Italia!

INTERVIEW WITH ITALIAN FOREIGN MINISTER, MR. MASSIMO D´ALEMA

The CBSS annually hosts consultations with the Observer States. What suggestions do you have for expanding cooperation between CBSS Member and Observer states? What fields would Italy focus on its future policy towards the Baltic Sea Region and the CBSS?
We are satisfied for having obtained the Observer status in the CBSS and the Euro-Arctic Barents Council. We have recently applied for the same status in the Arctic Council. Indeed we attach growing importance to the cooperation with the Nordic Regional Organisations in coping with challenges stemming from globalisation and climate change. Energy, environment, sea-transportation routes and trade flows are just a few examples of the fields in which cooperation between CBSS Members and Observer States might be particularly fruitful. Annual summits are held between the consultations and we do appreciate the CBSS Swedish Presidency's initiative aimed at improving the impact of these summits through the discussion of specific proposals.

Italy has a lot of experience with regional cooperation, being a founding member of the European Union, the Central Europe Initiative (CEI) and the Adriatic – Ionian Initiative (AII), and has been very active in encouraging contacts between these regional organizations. Some exploratory meetings have already taken place. What are your hopes for the future of this 'interregional' cooperation?
A more effective cooperation between Northern and Southern Europe has traditionally been an important goal of our foreign policy. An intensified consultation on our respective approaches and/or solutions to issues of common interest as well as the sharing of experiences and practices might be very fruitful for all of us.

The impulse Italy gave to starting a co-operation process between the Organizations of Northern Europe (CBSS and EABC) and those of Central and Eastern Europe (CEI and AII), that became a concrete reality in the wake of the Warsaw meeting in 2005, is an example of our commitment to strengthening and enlarging the interregional cooperation.

"We know that the Baltic Area has been the first region in the world to adopt goals in a long-term perspective for sustainable development"

What role do you see for smaller, regional frameworks such as the CBSS, the CEI and the AII within an ever-expanding European Union? Are they becoming more or less relevant? How are their roles changing as most of their members are becoming EU Member States?
In our view, Regional Organizations also have an important role in the context of an expanded European Union. These organisations enable their members to cooperate in fields not yet involved in the EU integration process, and to deal with issues which might have a local or regional relevance and which therefore can be better understood in a regional framework rather than by supra-regional institutions such as the EU.

Furthermore, we should not forget that Regional Organizations like CBSS, CEI and AII include both EU and non-EU Members. In this sense, they offer a greater opportunity for a wider dissemination of policies and best practices.

In the Italian statement given at the most recent Observer State consultations, both energy and the environment were emphasised as issues of high relevance. Could you talk a little bit about your understanding of the current situation with regard to sustainable development and what areas of experience might be profitably exchanged between Italy and the CBSS, for instance bio-fuels and eco tourism.
A growing dialogue and exchange of information between the CBSS and Observer States such as Italy, regarding energy, environmental and transportation policies, could be truly beneficial. In particular, a more effective dialogue on energy policy could help us to achieve relevant and tangible results on energy efficiency and the development of renewable energy sources. We are particularly interested in discussing the increased use of bio-fuel and other renewable energy sources as well new methods and technologies for energy saving. Therefore we appreciate the efforts of the Baltic Sea Region Energy Co-operation in building a framework for dialogue in energy policy, according to the guidelines of the CBSS Ministers of Energy Meeting held in Reykjavik in October 2005.

Environment is another delicate and relevant issue on which we would like to focus our attention. We know that the Baltic Area has been the first region in the world to adopt goals in a long-term perspective for sustainable development. The experience of the "Baltic 21" unit of the CBSS Secretariat in tackling eutrophication, the loss and degradation of biodiversity and the impacts of maritime and agricultural activities on the environment could represent crucial reference points for the preservation of the Mediterranean Sea and its environment.

Photo: Phil Saprykin

Boat in the harbour

ical clinics of the Kaliningrad Region. The "Health" Project also encourages the development of advanced medical technologies. For example, we plan to construct a new modern Centre for cardiovascular neurosurgery. I anticipate that the Centre would also be able to provide expert services not only for Russians, but also for citizens of other countries in the Baltic Sea Region.

The Kaliningrad Oblast shares some of the same environmental challenges as the rest of the coastal area in the Baltic Sea Region, for example the need to cope with increasing oil tanker traffic. How high has environmental protection been on the priority list of the Regional Government, and what has been done to alleviate the impact of human and business activities on the environment? Especially the challenges of the deep sea port system from a clean-up perspective?

The Government of the Kaliningrad Region is achieving impressive results in its efforts to ensure the ecological safety of its part of the Baltic Sea. In January 2007 we introduced some administrative improvements in the environmental sector to render our work more efficient. Most notable efforts were directed towards the pulp and paper industry. Hence the enterprises in this sector have to come up with a plan, coordinated with the Regional Government, for the reconstruction of their production facilities in a way that reduces its impact on the environment. Building advanced waste water treatment units for this branch of industry is also foreseen. With a view to conforming with the requirements of the HELCOM Convention on Protection of the Baltic Sea, the Kaliningrad Region will spend around 9 billion Roubles (260 Meuro) on measures to improve the drainage system and recycling of household solid waste in the Oblast. Nevertheless, there is a demand in the Oblast for a transfer/swap of best practices and technology relating to protection of the environment, especially in the area of waste water management.

The fight against corruption is high on the CBSS agenda. Corruption has a destructive effect on economic growth. What has been done in the Oblast to tackle corruption and what incentives have been introduced to lessen the pervasive, unseen nature of this scourge? Furthermore what has the Oblast implemented to bring good governance and business practice closer to the prescribed standards of the European Union?

Recently (mainly in 2006) the Oblast has undergone an Administrative reform leading to the establishment of new principles of governance. The number of officials has been reduced by half, and the number of bureaucratic institutions has also been reduced substantially. The principle of a "one stop shop" was implemented in public procurement and services to facilitate and to oversee the transactions. Tender procedures for public procurement and services were also introduced as a core element for enhancing public control and combating corruption. The Administrative reform was supplemented by a budgetary reform introducing a new five-year budget planning system. The Office of the Regional Public Prosecutor is in charge of the struggle against corruption, tracking down corrupt officials and working hard to increase transparency in the taxation system and in public administration. We are hopeful that all those measures will bear fruit in the fight against this social scourge.

In conclusion we would like to ask you a question about one of the CBSS key projects in the region, the CBSS EuroFaculty programme at the Immanuel Kant State University of Russia in Kaliningrad. The project which has focused on modernisation of curricula and improvement of teaching methods at the faculties of law and economics will be completed with a final conference in October of this year. What impact do you think this project has had for the region in economic terms or, just as importantly, by affecting people's perceptions?

The EuroFaculty project in the State University of Immanuel Kant has contributed a lot over the past seven years to modernising and improving educational programs and methods of teaching at the Legal and Economic Faculties. Not least, it has increased the language proficiency of both teachers and students. The project has also generated other spin-off with some tangible results. But this project certainly has had a long-lasting positive effect of the University. The Kaliningrad Region has been host to many experts who have given the benefit of their broad expertise and up-to-date outlook and who have generously applied their knowledge for the benefit of the Oblast. The international conferences and other events, as well as communications with classmates from other universities conducted within the EuroFaculty, have all helped young people to learn more about and from each other, as well as to find new friends. The project raised awareness of European values and has provided a feeling of a common bond with other civilised cultures. It is especially important for those who will live and continue working in our common Baltic Sea Region in the 21st Century.

Ein Kinderspiel...?

COMPETITIVE AND SUSTAINABLE BALTIC SEA REGION POLICY
FOR INCLUSIVE ECONOMIC OPPORTUNITY AND PARTICIPATION

In May the CBSS will be focusing its efforts on Trade and Economy, when the CBSS Trade Ministers meet for their sixth meeting. On the agenda will be the issues of competitiveness, global market placement, inflationary pressure, barriers to trade and investment of both an inward and outward nature and employment.

In this second article, a follow up to our comparative analysis of gender equity and sustainability, we highlight one of the main indexes used to analyse the advancement of women globally; namely economic participation and opportunity. We figured the most obvious place to start was with the labour market of the region.

Economics has traditionally been a male preserve. In Sweden for instance, the country that ranks the highest in overall gender equality, up until the 1980s there were only 7 women educated to PhD level in economics, the current figure is now over 80. The Nobel Prize for Economics has never been awarded to a woman. The other coveted prize in economics, The John Bates Clark Medal, has only this year, for the first time, been awarded to a woman – Dr. Susan Athey who specialises in the assumptions of economic theory and its limits. This lack of women in the field of economics of course impacts indirectly on policy and understanding of how women's operation in the labour market differs from men's.

Differences between non-market/non-paid work, like housework are only recently being calculated into the equation, with Norway pioneering studies on time use between genders. The main change in society that has aided women's entry into the market place is a shift away from manufacturing towards the service industry. Technology has also helped in providing answers to time consuming household pressures such as laundry. Child care facilities have improved and education for all has been pursued. However, the conundrum of glass ceilings and glass walls, both vertical and horizontal, discriminatory pressures that affect women in the workforce still exist. This will be one of the leading topics of debate in the next decade, simply because it is the most persistent.

Over the coming years as the demographic of our region changes and more women than men complete degree level education it will become more necessary in our knowledge based economies to raise the level of women's participation in the workforce and the level that women operate on in the workforce. This has been already flagged as a potential issue in most countries during pension reform, something that Latvia and Sweden have taken especially seriously.

The lack of 15–64 year olds will become more acute and interestingly the same techniques to attract older people into the workforce and retain them will come down to flexibility; the same needs of women, one will conversely help the other.

When we look at the tables 1 and 2 the data does not just highlight this discrimination, one of the reasons that women continue to be paid less is not so linked as

Table 1. Labour Market Participation Rates in the Baltic Sea Region

Country and rank	Female participation rate in the labour market (%)	Male participation rate in the labour market (%)	Negative participation gap for women (%)
1 Finland	67.3	71.4	4.1
2 Sweden	70.7	75.5	4.8
3 Lithuania	61.0	66.3	5.3
4 Estonia	65.3	71.0	5.7
5 Norway	72.2	78.4	6.2
6 Iceland*	80.5	86.9	6.4
7 Denmark	73.4	81.2	7.8
8 Latvia	62.4	70.4	8.0
9 Russian Federation*	66.9	75.2	8.3
10 Germany	61.5	72.8	11.3
11 Poland	48.2	60.9	12.7
EU 25 average*	56.3	71.3	15.0

Table 1. shows that the Baltic Sea Region's negative participation gap in the eleven countries is better that the average for the EU 25. The percentage gap is more important to focus on as not to penalise or reward countries with low or high employment figures, though high employment is desired. This table also stresses the employment within each gender sample and not across the population as a whole. The female employment rate is calculated by dividing the number of women aged 15–64 in employment by the total female population of the same age group, the same for the male participation percentage.

* All percentages are from 2006, except Iceland and the EU 25 average from 2005 and the Russian Federation figures which are taken from the World Bank WDI report 2007 with figures from 2004.
The indicator is based on the EU Labour Force Survey. The survey covers the entire population living in private households and excludes those in collective households. Employed population consists of those persons who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent. Source: Eurostat 2007.

it was to women getting paid less for the same job (though this still exists and is more pronounced the higher up the corporate ladder one travels) but more to do with their general lack of promotion opportunity and their sink status in five C occupations of Cleaning, Catering, Caring, Cashier and Clerical work rather than men who are the main representatives of the other C level – the group of executives who have Chief in their title.

The negative pay gap for women will never close unless it becomes easier for the workforce in general to work part-time while staying in the same job. Equity of course is not about women and men in the workforce being treated the same but being treated equally. Women give birth; men do not and although there has been great movement in paternity / parental leave (Iceland being one example) the attitudes towards paternity leave need to be changed in the corporate culture to develop child-friendly work places.

To break these models along with other economic barriers governments will need to remove bureaucratic obstacles that make it hard for parents to combine work and having children, firstly by reforming tax and social security systems that create disincentives against dual-breadwinner families where the woman (who is usually the second and lower earner) is usually taxed at a higher rate, offering more parental leave and child care options, and making use of technology to create more flexible working patterns.

The current Minister for Family Affairs in Germany, Ms von de Leyen is currently asking the question why when Germany spends 2.9% of GDP on family policy is the birth rate so low. The answer may be that state assistance is largely spent on direct payments to parents and not on building a child care system. An infrastructure of child care creates a system that makes it possible for women to work and research clearly shows that countries that have a well funded system have a higher birth rate.

The other issue is to develop training schemes and development contacts for mothers whilst they are having parental leave so that at least women can come back on the same level after a break away from work. At present women's salary tends to stop or reverse after parental leave and never recover to the track that men have achieved. A study by the Centre for Work Life Study found that women in the US will lose 37% of their earning capacity if their leave from work was three years or more. Women are as a consequence delaying having children or not having children at all. Germany's birth rate is 1.36 with Latvia, Lithuania and Poland around 1.2.

Solutions to these demographic and economic challenges are as complex as the reasoning but the top ones (along with the bureaucratic measures mentioned above) seem to be education, networking, mentoring and role modelling. Next issue with the beginning of the Latvian presidency we will focus on education.

Table 2. Yearly Earning Potential of Women and Men in the Baltic Sea Region in PPP €

Country and rank	Ratio of estimated female estimated male earned income	Estimated earned income, female (PPP € 2004)	Estimated earned income, male (PPP € 2004)	Negative difference for women (PPP €)
1 Sweden	0.81	22,200	27,500	5,300
2 Norway	0.75	27,800	37,000	9,200
3 Denmark	0.73	22,800	31,000	8,300
4 Finland	0.71	20,900	29,700	8,700
5 Iceland	0.71	23,100	32,500	9,300
6 Lithuania	0.69	9,100	13,200	4,000
7 Latvia	0.67	8,000	11,900	3,900
8 Estonia	0.62	9,500	15,400	6,900
9 Russian Fed.	0.62	6,500	10,400	3,900
10 Poland	0.59	8,200	13,800	5,600
11 Germany	0.58	17,500	30,400	12,900
European Union (25 country average)	0.58	16,000	27,600	11,500

Table 2. demonstrates the differences in the current yearly earning potential of women and men in the Baltic Sea Region in Purchasing Power Parity (figures are rounded to the nearest 100). The ratio is important because it represents the difference but does not give importance to the actual pricing figures which are dependent on the general economic situation of the country. Though it perhaps interesting to note the negative amounts in women's PPP in each country compared to their employed male colleagues. It is also important to note that all of the countries in the table below have a proportion of the economy that is not declared - this is particularly relevant in the post socialist / transitional states, where lower income does not necessarily denote the total figure. The Russian Federation figures are federal and not regional, this is problematic because St. Petersburg and Kaliningrad (Moscow also) represent economic hubs whose earnings potentials are reduced by the general size of the country. There are no gender-disaggregated figures by region.

Due to the lack of gender-disaggregated income data, female and male earned income are crudely estimated on the basis of data on the ratio of the female non-agricultural wage to the male non-agricultural wage, the female and male shares of the economically active population, the total female and male population and GDP per capita (PPP US$) calculated on the basis of data on GDP per capita (PPP US$) and population from World Bank. 2006. World Development Indicators 2006. CD-ROM. Washington, D.C. unless otherwise specified; data on wages from ILO (International Labour Organization). 2006b. LABORSTA Database. Geneva. [http://laborsta.ilo.org]. .]. accessed April 2006. ; data on the economically active population from ILO (International Labour Organization). 2005a. Estimates and Projections of the Economically Active Population, 1980–2020. Fifth edition, revision 2. Database. Geneva. . Estimates are based on data for the most recent year available during 1991–2003, unless otherwise specified. All information taken from the UNDP HDI report of 2006.
The US dollar value of 2004 has been converted into a Euro value in all figures simply to make comparison for the European eye easier – this is not an ideal way to visualise or treat PPP figures in dollars but has been applied across all figures using the conversion rate of 1.00 US Dollar equalling 0.84140 EUR dating from the exchange rate on May 9 2004.

The Opinion section of Baltinfo represents the views of individual columnists or writers on subjects relevant to the Baltic Sea co-operation. This section is intended to stimulate debate and to present a broad array of views from academics, NGOs and decision makers from the region. The articles in the Opinion section are not to be interpreted as representing the opinion of the CBSS.

In the last issue we gave space to three scientists to discuss an overall outlook for the BSR with regards sustainable practice related to climate change, this issue we continue our economic theme with an outlook of the BSR from the perspective of corporate banking.

Macroeconomic outlook in the Baltic Sea Region

THE 11 MEMBER COUNTRIES of CBSS together have almost 300 million inhabitants, of which more than 100 million live in areas bordering the Baltic Sea. Though the definition of the Baltic Sea Region is not precisely clear, the fact that this region harbours incredible economic growth potential is obvious. In addition, with the exception of Norway and Russia, all of the countries are currently members of the European Union. This means that the level of integration goes far beyond just economic policies, but also entails the harmonisation of legal principles, economic regulatory institutions and social policies. To a slightly lesser degree, this is also reflected in the treaty relationship between Norway and the EU. Only Russia currently remains outside this common framework. Hopefully, in time, Russia will also integrate into the Common European Economic Space and the World Trade Organization.

This region is far from homogeneous. The Nordic countries of Finland, Sweden, Denmark and Finland represent some of the most competitive markets in the world. For their part the Baltic countries have become economically very closely integrated with the Nordics through company ownership, trade and financial flows. As large economies in their own right, Germany and Poland are also very well integrated into the larger European and global economy, while Russia and Norway are enjoying the fruits of high oil prices.

The process of regional integration that began in 1989 with the dismantling of the Berlin wall and culminated with the collapse of the Soviet Union in 1991 will continue to accelerate over the coming years. A reflection of this can also be seen in the financial sector, where banks such as Nordea are increasingly focused on this region as their strategic home market.

What follows is a short description of the future macroeconomic outlook for the Baltic Sea countries as seen by Nordea. All in all the outlook is promising, although some economic and political challenges also lie ahead.

Baltic States

In recent months financial market players have focused their attention on Latvia due to the currency unrest. The combination of high growth and a tight labour market has led to a surge in inflation and a double-digit current account deficit. As a consequence, speculation has arisen about a possible devaluation of the LVL. So far, however, the situation has been countered by currency market intervention and monetary policy rate hikes. The currency is still under pressure but although the LVL is currently trading close to the limit vis-à-vis the EUR, the Latvian central bank will in our view be able to protect the flank. Also the Latvian government has recently unveiled a new proactive policy to curb inflation. The implementation of this policy will be crucial in retaining the confidence of the markets.

The two other Baltic States – particularly Estonia – have shown the same signs of overheating as Latvia, but their currencies have not yet come under significant pressure. The Estonian GDP growth rose to an all-time high of 11.4% in 2006, beating the previous record achieved in 1997. Growth last year was almost twice as high as the average over the past 10 years. Capacity constraints, wage pressures and growing indebtedness have been the outcome of a growth rate surpassing the potential growth rate. However, 2007 will probably see slower GDP growth, which in turn is likely to ease some of these constraints. There are only limited signs of deteriorating competitiveness. The real exchange rate does not appear to be overvalued, profits as a share of GDP are at a healthy level and productivity in the open sector of the economy is not lagging excessively behind wage growth. It remains to be seen how the latest political disputes with Russia will influence transport sector income and export earnings. However, given a healthy budget surplus, the Estonian government retains considerable financial flexibility.

For seven quarters in a row, Lithuanian economic growth has outstripped the estimated long-term sustainable rate of about 6%. Consequently, Lithuania is in the phase of the economic cycle typically characterised by accelerating inflation and growing imbalances – although the imbalances have not developed as far as in Latvia and Estonia. In real terms, wage growth accelerated to around 15%. This exceeds productivity growth. This is typical of developments in the late stage of the business cycle. Competitiveness is probably not in danger yet, as the wage level is relatively low and long-term trends are still healthy. Lithuanian exports will probably continue to outstrip demand in export markets over the long term. Usually, this is compensated for when the cycle turns weaker and employment and wage growth decelerate.

Germany

Domestic consumption in Europe's largest economy has been dampened by the 3% hike in VAT. This could add as much as 1% to the rate of inflation. However, Nordea believes that this will be partly compensated by a slightly lower level of savings. The greatest effect of this has been in the first quarter and over the course of the year consumption growth should recover. This could impact Euro area inflation rates by up to 0.3%, thereby increasing the likelihood of an ECB rate hike. Yet the increased revenues will allow the public sector to keep its deficit within the allowable limits. It should be mentioned that all of this is taking place against the backdrop of the lowest unemployment levels for many years.

Russia

The Russian economy has expanded very strongly over the past few years. One of the key drivers of the overall performance of the Russian economy has been the skyrocketing oil prices. The times when Russia had to face its foreign creditors cap in hand are now definitely over. The country is slowly but surely regaining its status as a superpower, whose voice carries clout also in terms of trends in the global economy and the financial markets. But this does not mean that everything is rosy in Russia. Events on the political scene ahead of the presidential election in 2008 are worrying and there are still signs of underinvestment in the oil sector and several other sectors. In a worst-case scenario this could turn the current upswing into a protracted downturn within a relatively few years. And lastly, Russia will no doubt experience severe financial problems if commodity prices start to decline again, because the country's corporate structure is not sufficiently diversified.

Poland

In Poland economic trends continue to surprise on the upside. Growth was 6.4% year on year in quarter 4 of 2006 and could be even higher in quarter 1 of 2007. Going forward, we expect economic activity to cool down a bit, as growth in the main export markets, and consequently Polish exports, decelerates. In particular domestic demand looks set to increase sharply on the back of private consumption and buoyant investment activity. Not least the latter bodes well for the long-term growth prospects, but near term it could also have a decisive effect, as the Polish labour market is gradually starting to show signs of overheating – one of the reasons being that many have chosen to look for work outside the country

Nordic countries

In Finland, Sweden, Denmark and Norway the economies have also developed favourably. Year 2006 was a record growth year and even though the growth is expected to slow down somewhat in 2007, we continue to expect above potential growth for all four countries. While the housing market has been booming in all of these countries, we expect rising interest rates to cool markets down into a soft landing.

The Nordic countries share a number of similarities: they grow faster than the Euro area economies on average; they have low inflation, decreasing unemployment, healthy public finances and current account surpluses. Furthermore, all of them have a high social equality combined with high economic efficiency. Overall they are considered at the moment to be well equipped to take on the tight global competition.

As regards the cyclical situation, since the Nordic countries – in common with the Baltics – are small open economies, their cyclical development is closely tied to that of their major trading partners and the global economy in general. The continued high oil price bodes well for the Norwegian and Russian economies but also reflects positively on Finland owing to the importance of trade with Russia. The Finnish economy also benefits from the improved conditions in Germany as well as the good economic situation in Sweden. Overall we expect the growth to surpass 3% in 2007 while inflation remains contained and unemployment rate decreases. In Sweden the new centre-right government has improved growth prospects further with its programme to improve incentives for employment. Consequently, the Swedish economy is expected to grow by over 3 percent in 2007. However, the economy is set to slow down somewhat in 2008 as higher interest rates make financing opportunities less favourable while the investment cycle gradually matures and levels out.

A good global economic situation has reflected well also on the Danish and Norwegian economies, which have grown above their potential growth rate for some time. This has resulted in a tightening labour market. So far, however, inflation has remained well contained as imports have been able to compensate for the high demand without giving way to price increases. In 2007 and 2008 the growth is expected to slow down owing to slower growth in private demand, partly reflecting the cooling housing market together with increasing resource constraints.

Iceland

With high inflation and a very wide current account deficit in 2006, Iceland somewhat resembles Latvia and Estonia in macroeconomic imbalances. We are cautiously optimistic that robust policy reactions will lead the country out of its current economic turmoil. However, the external imbalances and household indebtedness will remain a risk in the near term.

The coming year heralds many opportunities for corporate business in the Baltic Sea region. Further corporate tax reform in Germany should improve German competitiveness. In addition, continued high oil prices will not only benefit Norway and Russia, but also Finland as a major exporter to Russia. Poland is set to continue to show strong economic growth, but the Baltic countries will have to manage growth that is already too high. Over the coming years, continued political and economic integration in the Baltic Sea region can create an enormous amount of wealth for our societies.

Esa Tuomi
Senior Vice President
Head of Corporate Banking,
New European Markets
Nordea Bank

The future is at stake

There is a well-grounded expectation that the Baltic Sea Region (BSR) will remain one of the global "hot spots" for economic growth. However, both good will and concerted efforts from the side of the Member States will be needed to keep the region on track, so that this assertion can come true. It is at this juncture, under the auspices of the Swedish CBSS Presidency that further proposals to address ways of strengthening and reinvigorating regional cooperation are being actively pursued. On 23 May Stockholm will host the 6th CBSS Ministerial Meeting on Trade and Economy complemented by a conference specifically focusing on *The Baltic Sea Region's Integration in the Global Economy* organised jointly by the National Board of Trade and the Stockholm Institute of Transition Economics. Let me just dwell upon a couple of elements that could be essential for a "success" strategy.

Phil Saprykin, Deputy Director, CBSS Secretariat

It is evident that the ability of the BSR to retain the *Top of Europe* competitive edge requires intense investments into education and R&D, especially science and engineering. Ties between universities and industries have to be reinforced. Insufficient state funding for higher education represents a common challenge for the Universities in Europe as a whole. Ways of attracting funding from industry and the private sector, and from other donor sources should be sought, including fees, endowments and donations.

The ability of the BSR to remain an epicentre of economic growth also depends on smooth and seamless cross-border economic cooperation. A large number of the existing hurdles region-wide heavily affect small and medium sized companies (SMEs). The effects on large companies are minimal because of their size and entrenchment. According to experts, an uneven implementation of laws and regulation in the EU/EEA Member States, let alone in Russia, represent both the prime and the largest source of obstacle in the BSR. his would be a laudable task for Governments to assume. The reduction of the bureaucratic burden for SMEs could be actioned by a more harmonised implementation of the existing laws and regulations, which the Member States can and should agree upon in the small negotiated steps in the nearest future.

The need for *talent* and skills will become a pressing topic because of the region's changing demographic patterns, due to a falling birth rate, an ageing population, immigration/migration and adaptation to new technology. The lack of young talented people (labour force) will increasingly affect high-tech and knowledge intensive industries in the Region as the traditional pool of potential workers shrinks in the coming decades, especially in Germany, Poland, the three Baltic States and Russia (by 2025 the number of people aged 15–64 is projected to fall by 7% in Germany). For the sake of the future of the BSR all stakeholders concerned, including governments, should consider means to retain and cultivate talented people in their countries, as well as to invite back escaped talent. Appropriate conditions should be created to attract talented people from outside of the Region to add to the diversity and knowledge base. Strengthening links between entrepreneurship and education already in schools would be conducive to bring up more talents at earlier stages.

Following the well know principle of *unity in diversity* brings me to the point that our collective interests in the Baltic Sea Region will work together for the benefit of each and every one of its countries.

Baltic Sea Calendar

www.cbss.org/calendar

MAY 07

4 – 5 Visby Sweden
10th Working Session of the Commission on Culture of the Union of the Baltic Cities entitled – European Means for Cultural Cooperation

8 – 9 Warsaw Poland
4th Meeting of National Contact points on Unaccompanied and Trafficked Children

10 –11 Stockholm Sweden
2nd Meeting of the CBSS Working Group on Customs Cooperation and Border-Crossing Aspects

10 – 11 Hamburg Germany
Baltic Sea Region Programme 2007-2013 conference, organised by the City of Hamburg and the Joint secretariat BSRP 2007–2013 within the EU German Presidency

14 Warsaw Poland
CBSS Working Group on Democratic Institutions (WGDI) Meeting

15 – 17 Fredrikstad Norway
BEN Seminar on Labour market and business, organised by the Swedish / Norwegian border region Grensekomitten

15 – 16 Helsinki Finland
TEDIM Seminar – EU-Russia Logistics Challenges Today, logistic developments in the Baltic Sea Areas and the Northern Dimension

15 Warsaw Poland
Working Group on Democratic Institutions Conference on the relations between Corruption, Democracy and Human Rights

21 – 22 Copenhagen Denmark
34th ARS Baltica Organising Committee Meeting

21 – 22 Stockholm Sweden
Working Group on Economic Cooperation (WGEC) meeting

22 – 23 Stockholm Sweden
6th CBSS Ministerial Conference on Trade & Economy

22 Stockholm Sweden
Conference – The Baltic Sea Region's Trade and Integration in the Global Economy — to be held in conjunction with the meeting of Ministers for Trade and Economy

24 – 25 Tallinn Estonia
Baltic Sea Region CACVT, the WGCC 4th Training on care and assistance of child victims of trafficking

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