



International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at <http://www.econjournals.com>

International Journal of Economics and Financial Issues, 2016, 6(4), 1502-1506.



Russia among the Countries of the Baltic Region

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ABSTRACT

The Baltic region incorporates interactions of eight European Union (EU) countries and the Russian Federation. It is composed of Sweden, Denmark, Finland, Lithuania, Latvia, and Estonia, as well as the territories of Russia, Germany and Poland located on the Baltic coast. Subjects of the Russian Federation located in the Baltic region account for 16% of the territory, 20% of the population, and 15.5% of gross domestic product (GDP). An even bigger role is of Russia at the national level among the countries of the Baltic region. It accounts for 91% of the territory, 50% of the population, 38% of GDP and 14% of foreign trade turnover of nine countries combined. New spatial forms of cooperation are being formed with Russian participation – Euro regions, cross-border clusters. International cooperation increases the global competitiveness of each of the participating countries. The development gap has decreased between more and less wealthy countries. However, in the past few years, the relationship between the EU and Russia has deteriorated. In 2014-2015 Russia's trade with the countries of the region decreased more than with other EU countries and the world. The mutual and social ties decreased. This is not conducive to socio-economic development of both Russia and the EU, and it is in the interest of both parties to abandon the growing confrontation.

Keywords: International Regionalization, Baltic Region, Baltic Countries, European Union, Russia

JEL Classifications: F15, F36, F42, F55

1. INTRODUCTION

The two opposing but interrelated processes take place in the economic, social and political relations of the world: Integration and differentiation. Since the end of the XX century, these processes are implemented in the context of globalization. In economics, this means that a global economic space is being created and, therefore, the integration processes that unite national economies are being enhanced. But the global economic space also means that economic agents are dealing with the global competition, the consequence of which is the increasing territorial polarization in the level and pace of development of countries and regions. That is the necessary consequence of globalization is the international regionalization. One of the most rapidly emerging international regions is the Baltic region. The composition of the participating countries in its formation, evaluation of their economic potential

and determination of the boundaries of the Baltic region as a field of their cooperation in the Baltic Sea is the subject of this article.

2. THE CONCEPTS OF THE BALTIC REGION AND THE BALTIC REGION COUNTRIES

Awareness of the benefits of cooperation and integration of national economies in order to increase their competitiveness in the global market has led to the formation of a number of macro-regional economic unions, the most effective of which is the European Union (EU). Such unions are actively forming their own economic space within the global space. However, the competition inside intensifies, the integration centers are being formed, which are seeking to use developing mutual relations in order to strengthen the competitiveness of all parties involved in the cooperation.

One of the centers of international economic integration and, more generally, of the various forms of international cooperation is being formed around the Baltic Sea, which is long binding the people and countries located on its coast. With that, not all countries participating in the cooperation are part of the EU – Russia is a distinct center, gradually forming the economic space of the Eurasian Economic Union, which includes part of the former Soviet republics (Belarus, Kazakhstan, Armenia, Kyrgyzstan, and Tajikistan).

The countries getting more actively involved in cooperation in the Baltic Sea are states with direct access to the Baltic Sea. They are nine (stated in descending order of population): Russia, Germany, Poland, Sweden, Denmark, Finland, Lithuania, Latvia, and Estonia (Figure 1). These states are often referred to as the Baltic region (Fedorov and Korneevets, 1999; Korneevets, 2010; Mezhevich, 2004). We shall adopt this classification in this article, especially since it was their associate communications through the Baltic Sea, and they are actively involved in shaping the international Baltic region¹.

Two main factors are responsible for the allocation of the Baltic region: Formal – geographical localization around the Baltic Sea, and informative – close economic relations (active mutual trade, developing industrial cooperation), the development of close cooperation in education, science, and culture. The close internal relations within the region allow us to speak of it as a coherent (i.e. connected) region that possesses a certain internal unity.

The boundaries of the Baltic region are considered differently by different authors. Several authors from Kaliningrad (e.g. Gutnik and Klemeshev, 2006; Fedorov et al., 2012; Kuznetsova, 2013; Mikhailov, 2013), from St. Petersburg (e.g. Mezhevich, 2004; Mezhevich et al., 2016), from Pskov (e.g. Klemeshev et al., 2015) include the territories of Denmark in its structure (excluding the Faroe Islands), Sweden, Finland, Lithuania, Latvia, Estonia and those administrative and territorial units of Russia, Germany and Poland that adjacent to the Baltic coast (Figure 2). We believe that this is the most accurate interpretation of the concept of “Baltic region,” because it includes countries and parts of countries that are most closely related in its development to the Baltic Sea.

Subjects of the Russian Federation account for 16% of the territory, concentrate 20% of the population, and produce 15.5% of gross domestic product (GDP) of the Baltic region. An even bigger role is of Russia at a national scale among the countries of the Baltic region. It accounts for 91% of the territory, 50% of the population, 38% of GDP and 14% of foreign trade turnover of all the countries of the region combined. Cooperation of the EU countries located in the Baltic region and Russia is an important factor in the development of all countries in the region due to the natural, demographic and industrial potential available, as well as a considerable size of its aggregate domestic market.

¹ Note that often a broader interpretation of the concept of the Baltic region is applied, including 11 members of the Council of the Baltic Sea Member States. Since its founding in 1992, in addition to the states mentioned above, it includes Norway, and since 1995 – Iceland (Council of the Baltic Sea States – CBSS official website: www.cbss.org). Sometimes Belarus is also assigned to the Baltic region (Baltic University Program – BUP official website: www.balticuniv.uu.se).

Figure 1: The countries of the Baltic region



3. THE ECONOMIC POTENTIAL OF THE BALTIC REGION

Countries of the Baltic region account for 12.6% of the territory and 4.1% of the world population. As of 2015, their GDP based on purchasing power parity (PPP) amounted to 8.5% of the GDP of all the countries of the world. The per capita was 2.1 times higher than the world average. Within the scope of the global international trade, the Baltic region countries account for 10.5%². The ratio of the main indicators characterizing the economic potential of the Baltic region countries is given in Table 1.

In terms of area and population, Russia stands out among the nine countries (91% of the territory and 50% of the population of all countries of the region). Four countries have a global average size of the territory – from 300 to 500 thousand km²: Sweden, Germany, Poland and Finland. The other four – Denmark and the Baltic countries – Lithuania, Latvia and Estonia, are small in size, from 40 to 70 thousand km².

In terms of population size, Russia (146.5 million people) is comparable only to Germany (82 million people), although it has

² The World Factbook. URL: <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> (accessed 11.07.2016).

Table 1: Some indicators of the Baltic region countries

Countries	Indicators			
	Size of territory, thousand km ² 1.01.2016	Population size, thousand people, 1.01.2016	Gross domestic product, billions of US dollars (PPP), 2015	The foreign trade turnover, billion US dollars, 2015
Russia	17 125	146 544	3718	535.1
Germany	357	82 162	3841	2275.9
Poland	312.7	37 967	1005	377.7
Sweden	450.3	9 851	473	284.3
Denmark	43.1	5 707	259	177.9
Finland	338.1	5 487	225	125.0
Lithuania	65.3	2 889	82.4	64.9
Latvia	64.6	1 969	49.1	29.7
Estonia	45.2	1 316	37.6	27.9
Total	18801	293 892	9690	3898

Source: Russian Statistical Yearbook (2015). Moscow: Rosstat; Eurostat. URL: <http://ec.europa.eu/eurostat> (accessed 10.04.2016); The World Factbook. URL: <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> (accessed 11.07.2016). PPP: Purchasing power parity

Figure 2: The Baltic region

1.8 times more inhabitants. Poland (38 million inhabitants) has 2.2 times fewer inhabitants than Germany. The rest of the countries in terms of population are small states. The countries located in the Baltic Nordic³ (Sweden, Denmark, and Finland) are home to 5-10 million people on average, the Baltic countries – 1-3 million inhabitants.

GDP of Russia and Germany, calculated by PPP, according to The Factbook, in 2015 were almost identical – 3.7 trillion USD in

Russia and 3.8 trillion USD in Germany, 38% and 40% of the total GDP of the Baltic region countries respectively. Poland accounts for 10%, 5% – Sweden. From 2% to 3% is Denmark and Finland and less than 1% for each of the Baltic countries.

In the production of GDP per capita (this figure can be considered the most important in the assessment of the level of economic development of the country), two groups of countries stand out in the Baltic region (Figure 3). Firstly, it is the countries with traditional market economies (Germany and the Nordic countries), with per capita GDP of 41-48 thousand USD. This is a high level, characteristic of the most economically developed countries. Secondly, the post-socialist countries, where for a long time the socialist, non-market economies has dominated (Russia, Poland, the Baltic republics). Here the GDP per capita varies between 25 and 29 thousand USD. This is significantly lower than the first group of countries, but significantly above the world average (15.800 USD)⁴.

4. BALTIC REGION COUNTRIES IN RUSSIAN FOREIGN TRADE

Countries of the Baltic region play an important role in the foreign trade relations of Russia. In 2012-2014, their share in Russia's foreign trade amounted to 18-19%, and by 2015 dropped to 17%. Half of Russia's trade turnover with the countries of the Baltic region accounted for Germany (Table 2).

Russia's foreign trade turnover increased until 2013. But in 2014 it decreased by 6.8% and in 2015 it has dropped by 33%⁵. The decline is due to a sharp drop in the ruble exchange rate, predominantly as a result of a sharp decline in prices of the most important subject of the Russian export – energy. Decline in the volume of trade with the countries of the Baltic region has been stronger compared to the turnover with EU countries and to an even greater extent, to the total volume of Russia's foreign trade. Due to the economic sanctions of the EU against Russia and Russian retaliatory measures (ban on food imports), the share of

3 The Nordic countries (Scandinavian countries + Finland) also include Norway and Iceland, located outside the Baltic region.

4 The World Factbook. CIA, USA. URL: <https://www.cia.gov/library/publications/the-world-factbook/geos/xx.html> (accessed 10.07.2016).

5 Rosstat. URL: <http://www.gks.ru/> (accessed 10.07.2016).

Table 2: The role of the Baltic region countries in the foreign trade of the Russian Federation

Countries	Share of foreign trade turnover of Russia		Volume of trade with Russia, 2015 in % to 2014	Trade turnover in 2015 per capita income of the country concerned
	2014	2015		
Germany	8.9	8.7	65.3	564
Poland	2.9	2.6	59.7	357
Finland	2.0	1.9	61.2	1784
Sweden	1.0	0.8	53.3	436
Denmark	0.6	0.5	62.5	497
Latvia	1.7	1.4	55.1	3771
Lithuania	0.7	0.6	58.9	1179
Estonia	0.7	0.5	50.4	2048
Total	18.5	17.0	61.5	612
European Union	48.1	44.8	62.4	464
World	100	100	67.0	72

Source: Based on: Почепаев. URL: <http://www.gks.ru/> (accessed 10.07.2016); Eurostat. URL: <http://ec.europa.eu/eurostat> (accessed 10.07.2016)

all countries in the region decreased. The volume of Russian trade turnover with them made up only 61.5% from the level of 2014 (whereas with the EU as a whole – 62.4%). The smallest drop (incl. the average indicator for EU countries) in Russian turnover had Germany. Particularly large decline in turnover occurred with the Baltic countries and Sweden.

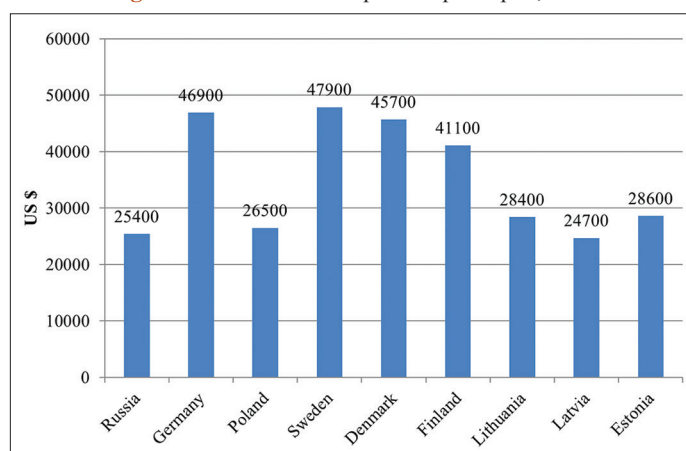
The level of development of foreign trade relations between Russia and each of the other countries is not the same (Figure 4). The highest share in the Russian foreign trade turnover has Germany (about 9%) and the largest amount of turnover per 1 inhabitant of the country (about 4000 US dollars) – Latvia. Finland has a relatively high share in Russia's foreign trade (about 2%), and significant turnover per capita (second only to Latvia and Estonia). The lowest rates on both indicators are typical for Sweden and Denmark.

Germany has the largest volume of trade with Russia – accounting for slightly more than half the total volume of foreign trade relations of Russia with the countries of the Baltic region. However, while 10 years ago, Germany ranked first among all countries in the world by turnover volume with Russia, it is now second on this indicator after China and the Netherlands.

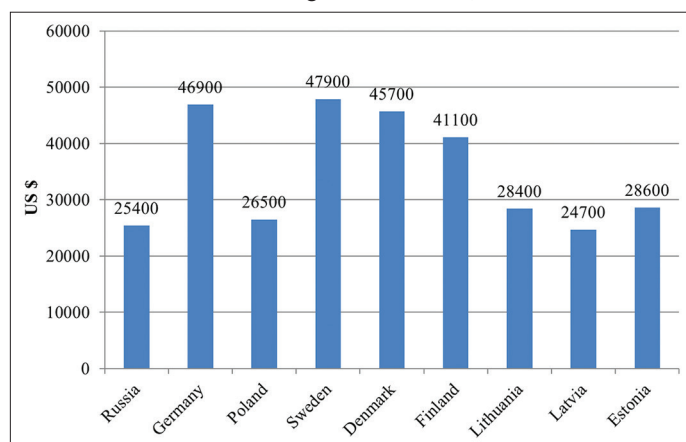
According to the size of the foreign trade turnover with Russia in per capita terms, the Baltic countries and Finland are among the countries of the Baltic region with significantly higher rates compared to Germany. Inferior to Germany are only Denmark, Sweden, and Poland, which have the lowest score.

5. PARTICIPATION OF RUSSIAN REGIONS IN THE CROSS-BORDER COOPERATION IN THE BALTIC SEA

Prospects for improving the competitiveness of the Baltic region countries largely depend on the strengthening of relations between the states located here, and their cooperation and joint problem solving. Such problems of mutual interest – economic, environmental, demographic, political – are many. There are sharp contradictions that must be solved, such as the problem of

Figure 3: Gross domestic product per capita, 2015

Source: The World Factbook. URL: <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> (accessed 10.07.2016)

Figure 4: Distribution of foreign countries in the Baltic region in terms of turnover with Russia in per capita and the share of turnover with Russia's foreign trade turnover, 2015

Source: Based on: Rosstat. URL: <http://www.gks.ru/> (accessed 10.07.2016); Eurostat. URL: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home> (accessed 1.07.2016)

real equality of the Russian population with “titular” nations of the Baltic states. An important issue for Russia is the support of

Kaliningrad region, which is geographically isolated from the rest of the country. All states have an interest in a mutually acceptable decision over the military security. Russia, for example, is very concerned about the ongoing expansion of NATO to the east, construction of new military facilities near the Russian border, conducting military exercises near the Russian border. On the other hand, there are claims to the Russian side (unfounded in Russia's view) expressed by NATO and a number of countries included.

In the context of the occurred confrontation and the weakening trend towards cooperation and integration with the EU, Russia sets the possible new vectors of its foreign economic policy. Chief among which is the further development of economic integration in the Eurasian space through the formation of the Eurasian Economic Union. An important area of economic cooperation is China, which is interested in Russian raw materials and a number of technologies. Another direction – India, that also has a significant growth potential and demand for fuel and energy resources. The technological cooperation is of interest for Iran and Latin American countries.

However, in the interests of both Russia and the EU countries not to weaken but strengthen the existing cooperation. The Baltic region refers to areas with well-developed cross-border cooperation. Not only the bilateral linkages between enterprises and organizations are developing, reflected in a large number of Euro-regions organized, but cross-border industrial clusters are being formed as well (Mikhaylov and Bolychev, 2015). Especially active developments of such ties takes place between the EU countries, with some participation of the Russian counterparts. Up to date seven Euro regions are formed in the Baltic region on the border between Russia and the EU countries. Five these Euro regions are formed with the participation of the exclave of Kaliningrad region, which is particularly interested in cross-border cooperation due to its geographical position.

Mutual interest in cooperation gives hope for the development of processes of cooperation of Russia and the EU, Russia and the foreign countries of Europe both at interstate and regional levels. It seems that the initiative in expanding Russian – EU relations must be taken over by joint Russian-European structures of the Baltic region, and above all the Council of the Baltic Sea States. After all, the Baltic region, where Russia and the EU are the direct neighbors, is now and may become to an even greater extent the future macro-region of their most close cooperation, while the Baltic Sea will become not only the “sea of peace,” as it was declared more than a quarter of a century ago, but also “a sea of friendship.”

6. CONCLUSION

Russian regions in the Baltic Sea, especially St. Petersburg, Leningrad and Kaliningrad regions have considerable potential for the development of a variety of relations with foreign neighbors in

the Baltic Sea. However, over the past few years, the relationship between the EU and Russia have deteriorated. In 2014-2015, Russia's foreign trade relations with the countries of the region and the share of these countries in Russia's foreign trade has declined. It is not in the interests of either side. Especially since it is in the Baltic Sea in recent years it has been established a sufficiently close cross-border cooperation of the Russian Federation with neighboring countries to implement joint projects in the sphere of education, science and culture. Along the borders with a number of EU countries, an agreement on local border traffic regimes takes place. The damage caused by the reduction of mutual ties affects all countries of the Baltic region without an exception.

Under these circumstances, there is a challenge to Russia: To reformulate its policy objectives and to determine its economic interests and national security priorities not only at global, but also at the regional level, in relation to the Baltic region. Due to its internal structure and accumulated experience of international cooperation, the Baltic region continues to have the potential for large-scale cooperation between the countries, administrative-territorial units of states and municipalities. This potential can be used by active development of transnational and cross-border ties in the interests of socio-economic development of all countries in the region and increase global competitiveness of all the countries located here.

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