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## A German view on the Baltic Sea region

Baltic Rim Economies

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# A German view on the Baltic Sea region

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**G**ermany is only one among the ten countries on the Baltic Rim but viewed upon as entire country it is one of the largest in the Baltic Sea Region (BSR), at least in economic terms. The other two large countries on the Baltic shore are Poland and the Russian Federation. However, the majority of these three BSR neighbors' regional entities are not involved in Baltic Sea related affairs and they have no focus on economic and cultural relations with BSR countries. To be sure, with respect to their mutual trade relations Germany is the prime trading partner of Poland and it was an important trading partner of Russia at least in the period prior to the Russian economic slowdown and the Ukraine sanctions. But only a fraction of these trade flows are performed via Baltic Sea shipping and related transport links, while the long land-borders and the crossing infrastructure links invite intense streams of land transport via road and rail. One might thus contend that for these large BSR neighbors Baltic Sea trade is of minor importance.

Focusing on the German economy with its rather high export quota it becomes clear that the BSR is only one integration area — i.e. destination of its exports and origin of its imports — among a lot of peers being located in other directions of the compass rose. The main focus of German trade is on all of the EU countries in the four points of the compass, as well as on important world markets far away, such as the USA, being in line with the attracting forces of partners' incomes and the retarding effects of distance. Thus, the BSR countries taken together rank among Germany's important trading partners, but not beyond that. The reason for this limited impact can be simply explained by the fact that particularly the Nordic countries are rich nations measured by per-capita-incomes, but are rather small markets by total GDP due to their sparse population. The Nordic countries account for less than 2 per cent of world GDP. The three Baltic States on the Eastern shore are small economies anyway. Looking at the entire BSR in a narrower sense — i.e. taking for the three larger countries only the provinces on the very shore — the result is about 2.6 per cent of world GDP. The gravity of the BSR as trading area is therefore limited.

Moreover the BSR in a narrower sense is characterized by a high degree of economic heterogeneity — a North-South downward gradient of wealth can be observed. With no doubt, the transformation economies on the Southern shore, the Baltic States and the Polish Baltic Sea provinces, caught up towards the rich Nordic neighbors. Their per capita incomes increased within a range of about 100 to 200 per cent since the beginning of the 2000s. But the income gap is still significant: While the rich Nordic regions of Stockholm, Hovedstaden and Helsinki-Uusimaa lead the BSR income ranking by 145 to 175 per cent of the EU average per capita income, Polish Baltic Sea provinces such as Warminsko-Mazurskie or Podlaskie only achieve 50 per cent of the EU average. The Polish provinces with no exception even fall short of Poland's average per capita income. This is also true for the German Baltic Sea neighbors of Schleswig-Holstein and Mecklenburg-Vorpommern which are well above the overall German income level and are at a great distance to the Nordic countries' incomes. And despite their catching-up process the three Baltic States achieve income levels no better than 65 to 75 per cent of the EU average.

This wealth gap at the Baltic Sea implies diverging interests: The economic and population centers of the Nordic countries are located around the Baltic Sea while at the Southern rim relatively poor regions are dominating which are not at eye level with their Nordic neighbors. The Nordic countries rely on the Baltic Sea as the most important device to facilitate transport of passengers and goods and, hence, foreign trade. The Baltic Sea is their efficient gateway mainly to markets in Central and Western Europe as well as to overseas markets — they are not primarily interested to integrate economically with their direct Southern neighbors. Thereby the less developed Baltic Sea neighbors in Germany, Poland and the Baltic States gain from transport services, in case of the transformation countries furthermore from some Nordic direct investment in workbench productions due to the still significant wage gaps. And they benefit from the Nordic countries' efforts to improve the infrastructure links across the Baltic Sea at their own expense. Without these strategic interests of the Nordic countries e.g. the German region of Schleswig-Holstein would have no prospects to receive Federal money for improvements of its transport infrastructure which are required in the context of the Fehmarn belt fixed link financed by Denmark. In the end, a close cooperation corresponds with the interests of all Baltic Sea neighbors.



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