

UNIVERSITY OF WARSAW
EUROPEAN INSTITUTE FOR REGIONAL AND LOCAL DEVELOPPEMENT

**REGIONAL AND LOCAL
STUDIES**

**ÉTUDES RÉGIONALES
ET LOCALES**

7

BALTIC EUROPE

**Editor:
Bohdan Jałowiecki**

Warsaw 1992

**EDITORS OF THE SERIES:
REGIONAL AND LOCAL STUDIES
ETUDES REGIONALES ET LOCALES**

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Volume partially sponsored by Michel Marbot "Danuta Ltd."

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ISBN 83-900283-4-4

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BOHDAN JALOWIECKI

Preface

Baltic Europe – A New Zone of Regional Cooperation

This volume presents results of a research project on Baltic Europe Region conducted by the European Institute for Regional and Local Development at the University of Warsaw. The report has been financed by the Polish State Committee for Scientific Research. The first version of the report was widely distributed in December 1991 among research centers, governmental organisations and researchers interested in Baltic Europe.

This volume contains revised and shorted version of the original report. It is published simultaneously in Polish and English. Although the English version is slightly shorter (because of limited financial resources of the publisher), it does not impoverish its content.

At this occasion I would like to express my thanks to Mr. Michel Marbot from "Danuta Ltd.", whose financial support made publication of the *Baltic Europe* possible at all.

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The strength of the European Economic Community, its attractiveness and the pulling power it displays vis a vis the peripheral countries of Europe, should discourage all those countries which do not yet belong to EEC away from initiating other configurations of European cooperation,

and even more so insofar as many countries which do not belong yet to EEC are trying to become the members of this community. This concerns equally Switzerland and Austria, Sweden and Finland, as well as the post-communist countries and those which emerged from the previous Soviet Union.

Still, there appear new initiatives of international cooperation, such as the concept of the "Baltic Europe" or the "Hexagonale". These proposals are, as of now, articulated quite modestly, with all the reservations that they do not constitute by any means a counterweight or a competition for the EEC, but notwithstanding this they reflect a certain state of thought on the future of Europe.

The European Economic Community, in spite of its significant successes, goes through a certain crisis, resulting from the difference of interests between particular countries, these differences existing always, but have been getting deeper since the accession of Greece and Portugal, of these two weakly developed peripheral countries, having economic and social structures significantly diverging from the ones of the core countries, to the EEC. The consecutive step on the road to integration of the EEC countries, envisaged for 1993, will most probably be delayed in time. The mechanism of functioning of the EEC, charged with the notorious centralized bureaucracy of Brussels is acting with diminishing efficiency. The concepts of introduction of new countries to the circle of the "twelve" will not lead to more effective functioning of the Community, but to the contrary – will entail even greater difficulties, the greater the quickest will be the integration of the countries of Central and Eastern Europe.

It is presently hard to prophesy the end of this Europe which has reached from Atlantic to Elbe due to the division of the continent into two opposing, and even often hostile blocks, but it should not be forgotten, neither, that the EEC in its current shape is in a way a consequence of the Yalta deal and should, also for this reason, undergo a radical transformation. The essential change in the geopolitical structure of Europe makes one doubt about such a form of European economic cooperation as has developed into the present EEC. It is quite certain that Europe should be thought over anew, for it is not possible to mechanically increase the block of "twelve" by at least the equal number of countries, since due to such a growth an entirely new quality will ensue, requiring an essential remodelling of the existing structures and cooperation mechanisms.

That is why the designs for the new configurations of international

and interregional cooperation seem interesting. One of them is just the "Baltic Europe".

Why is this macroregion of Northern Europe interesting? Countries located over this not too great a water body are geographically close, they are in many cases economically complementary and represent altogether an important demographical potential, meaning a significant market. Some of the Baltic countries, such as Germany, Poland or Russia dispose also of an important hinterland.

Individual countries located around Baltic do have some integrative experience, to mention only the members of the Nordic Council (Denmark, Finland, Sweden), of the EFTA (Finland and Sweden), and of the EEC (Germany and Denmark), the latter country being a something like a transmission belt between the EEC and other Scandinavian countries. The late CMEA (Comecon) did not leave good memories, but one should not forget of the strong economic links existing between Poland and the Baltic republics. And thus, for instance, Poland has been the most important trade partner of Estonia (excepting USSR, of course).

A disadvantageous factor, at least at a first glance, is the unevenness of the potential of particular countries. Among the Baltic countries we have on the one hand immense Russia and on the other hand tiny Estonia. This factor, however, seems disadvantageous only at the first glance, for cooperation in the framework of Baltic Europe may and primarily should take place among the coastal areas of the interested countries. This is becoming fully possible as the changes in the previous Soviet Union gain momentum and the inevitable decentralization comes into perspective in which the regions of Petersburg and Królewiec (Königsberg, Kaliningrad) will constitute relatively autonomous economic zones.

Baltic Sea has never played in the domain of trade and cultural exchange a role similar to that played by the Mediterranean. The Hanseatic traditions cannot be compared to the Mediterranean community at least three thousand years old. The lands of Northern Europe were since the beginning somewhere in the peripheries of the World and for a long time the only thread linking them with the other Europe was the "amber route". This peripheral location, which in a certain sense has not essentially changed is also a kind of asset of the new European cooperation configuration. It is namely the psychological aspects that play a role here, and namely the anxiety of the inhabitants of the periphery in the face of the danger of domination of the Center.

The concept of Baltic Europe emerged together with the transforma-

tions which took place in the Soviet Union and in the previous socialist countries.

Regaining of independence by Lithuania, Latvia and Estonia gave rise to a new quality in the basin of Baltic Sea. New partners appeared – potential cooperators, but also competitors in economic activity. Changing Europe will have to find a place for them in its economic and political structures.

In various countries located over Baltic there emerged simultaneously in the scientific communities, among the politicians and in the press, the opinions that there exists a certain natural community – Baltic Europe. This phenomenon was even noticed by "Le Monde Diplomatique", which, in the September issue of 1991 published a voluminous article having a symptomatic title of: *In the search of the Baltic cooperation zone*. The Swedish Foreign Office commissioned elaboration of a report on the economy of Estonia, Lithuania and Latvia, seen from the perspective of possibilities of economic cooperation. In Poland the Committee for Scientific Research ordered an expert report, to be prepared by the European Institute for Regional and Local Development, concerning Baltic Europe and encompassing Denmark, Estonia, Finland, Lithuania, Latvia, Sweden, the northern lands of Germany, the northern macroregion of Poland, as well as the regions of Petersburg and Kaliningrad. The undersecretary of state in the Committee for Scientific Research, Professor Antoni Kuklinski, is promoting the idea of publishing a scientific quarterly journal devoted to Baltic Europe. At the conference of the representatives of Baltic cities, which took place quite recently in Gdańsk, the Association of Baltic Cities was created. All these initiatives, appearing independently, do not seem to be quite random, but rather would indicate the appearance of a new manner of thinking of Europe.

A closer cooperation of the Baltic countries requires an adequate scientific preparation, and then a significant mutual broadening of knowledge of citizens of particular countries concerning their neighbours, in order, for instance, to get rid of the existing negative cliches.

Alas, the knowledge on the Baltic countries, and especially in the comparative setting, is not too great, and the advancement of research leaves a lot to be desired. The insufficiency of knowledge on this region results, in particular, from the fact that in the previous geopolitical setting there had been no possibilities for a closer cooperation of the countries of the Baltic region. Thus, the studies mentioned, conducted by the European Institute of Regional and Local Development, University of Warsaw, have the character of international comparative studies.

An important scientific direction of study was performance of direct comparisons of regional development processes in the Baltic countries, in particular in those which are already now effectively connected with the whole system of international economy, or in those which just enter this path. The comparative studies will make it possible to determine the scale of the necessary transformations of the regional structures and the role of the regional and self-governmental authorities in these processes. It is essential to describe at the beginning the human and economic resources, urbanization, standard of living, and ecological situation. There has been no possibility until present, first of all due to lack of sufficient information and the short period of time meant for preparation of the Report, for presentation of the internal differentiation of particular countries. When we speak of the regions of the Baltic Sea basin, we refer to particular countries, and regional differentiation means differentiation within these particular countries.

It was also necessary to shortly characterize the previous relations between the countries of the region in terms of cooperation in the domains of economy, politics (existing bilateral and multilateral treaties), culture (cultural exchange), ecology (joint undertakings aiming at protection of Baltic Sea), and tourism and recreation.

One of the conditions of active international cooperation is development of European infrastructural connections in telecommunication and transport. Transeuropean road and railway routes start in or go through the Baltic countries. In connection with this it is necessary that the countries of the Region in question cooperated in the development of these networks. One of the tasks of the expert report is to take up the discussion on the existing and to suggest the new prerequisites for the development of the infrastructural networks, fulfilling the current requirements in the situation of changing political and economic map of the European continent.

The social, economic and ecological potential is in the Baltic countries strongly regionally differentiated. This differentiation, traditionally defined through standard statistical categories (relative to production volumes, demographic indicators, state of the environment etc.) is radically removed from the regional differentiation with respect to capacities of adaptation to the requirements of active international cooperation and the preferences of potential foreign investors. This phenomenon is partly seen already presently, as reflected in various reactions of individual regional settings to the changes of the economic system (unemployment, private economy, privatization). That is why the perception of the re-

gional setting just from this point of view is necessary for the evaluation of possibilities of international cooperation.

The process of development within the integrated international economy becomes more of regional than of national nature. There are only some regions which stand out as the carriers of progress, by concentrating the production of new technologies and innovations. An essential role in programming of development is played by the regional authorities. The role of harbour towns should also be emphasized – their cooperation may have an essential significance for the processes of integration of Baltic Europe.

Identification of possibilities of adaptation of particular Baltic countries to the requirements of joint action and work on the European scale necessitates their determination and confrontation with the demographic, social (including education structure), economic and ecological potential of the regions. Thus, the studies as to the levels and structures of development of particular Baltic countries as compared to the background of a broader international context should be conducted. An essential element of this sphere of research should be constituted by the studies on the changes of regional structure of economy of the Region, indicating the changes in the tendencies of capital and labour flows, locations of zones of advancement and progress, as well as the role of the international capital in regional development.

An important problem of regional development is activation of border regions. The capacities of these regions stem from the international passenger traffic (hotel infrastructure, catering and commerce at the border crossings) and cargo transport (reloading stations, tax free zones). Great importance should also be attributed to exchange and transboundary economic cooperation. Studies should aim at cataloguing of the existing state and at showing of the potential activation capacities of these areas.

The studies of the European Institute for the Regional and Local Development, the report of the Swedish Foreign Office, reports put together at the University of Copenhagen, as well as many other references cited in the Report start to constitute the scientific basis for the cooperation of the Baltic Europe countries.

The present volume is the first example in Polish literature which deals to such a great extent with the problems of Baltic Europe. The text collects most of the information available, so that a reader can get obtain answers – sometimes really detailed, indeed – to many questions of his/her interest. The short time available to the authors for preparation of this report did not allow for carrying out of studies of a more in-

-depth monographic nature, especially such which would present internal differentiation of the countries under study. It seems that it is necessary to undertake in the nearest future such more in-depth studies. From among the problems deserving yet a detailed insight one should mention the following: regional development, transport, tourism, ethnic and cultural differentiation, and also the potential seeds of conflict.

Establishing working contacts with scientific centers dealing with Baltic Europe from Denmark, Finland, Lithuania, Latvia, Germany, Sweden and Russia should be considered as one of the most important achievements of our research. An international seminar for scientists from the Baltic Europe countries has been scheduled for the end of 1992. This volume should serve as a base for discussion which would be held during this meeting. Authors of the voulme express their hope that it would be an important contribution to the debate on cooperation between the Baltic countries.

Warsaw, March 1992

**MIROSŁAW GROCHOWSKI
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Socio-Economic Characteristics of Countries of Baltic Europe

Introduction

The present part of the report contains the description and the analysis of selected facts, phenomena and processes from the economic and social spheres of the Baltic countries. The selection performed was mainly guided by two criteria. First of all these facts, phenomena and processes were subject to analysis which, when considered on the scale of the whole region, can become the basis for distinction of certain specific features of one or more countries. Secondly: this selection was meant to facilitate identification of deeper systemic differentiation, which can positively or negatively determine the conditions of future cooperation in the framework of Baltic Europe.

The scope of the subject matter of this part of report was defined by the authors in an arbitrary manner. It does not exhaust in its entirety the problem area related to the historical experience, the present and the future of the countries of Baltic Europe. Information presented can be treated, though, as a fundamental material, providing knowledge on the region and indicating the directions of further studies.

1. Areas and populations of the countries of the region

1.1. Areas of the countries and demographic structures of population

The analysed group of states encompasses countries with a variety of magnitudes and with various population densities (see Table 1, Fig. 1).

An essential differentiation of population processes can also be observed in these countries. This differentiation results both from the previous demographic trends and from the deeply rooted cultural patterns and social behaviour related to the degree of economic development.

The biggest differentiation concerns sex structure. The number of women in the Soviet Union and Germany is the highest in the region (Table 2).

Baltic West displays very low natural increase indicator values (Table 3, Fig. 2). In the period 1980-1988 these indicators have not undergone significant changes. It can generally be said that Baltic East has had and still has higher natural increase. Special attention should at this point be turned towards the situation of Lithuania, Latvia and Estonia. In comparison with the average indicators for the whole of the previous Soviet Union the respective indicators for these countries are decidedly lower. The differences with the Asian part of the Soviet Union are especially distinct.

In the countries with high natural increase one observes also high infant mortality (Table 4). Most dramatic situation with that respect exists in Poland. The differences in the conditions of living, in the state of natural environment, in the level of health care and in many other factors which influence the infant mortality rates, make a clear distinction between the images of two worlds, which are close in terms of geographic distances, but are far away as to the level of social development.

Natural increase is one of the factors shaping the age structure of the population. Countries of low natural increase have ageing societies (Table 5).

The age structure of population determines to a certain extent the productive potential of the society, and the number of population in the productive age may influence the governments' policies concerning immigration.

The differentiated situation which we observe in Baltic Europe will have a bearing upon the differentiation of economic processes and on the course of integration of these countries with the European Community. Poland and Soviet Union stand out in this group due to the highest share of population of less than 14 years of age per 100 people in working age.

Sweden stands out due to the lowest share of population of 60 and more years of age per 100 people in working age (Table 6).

The differences in the population age structures in the Baltic countries, which are observed presently, will in the future be getting even deeper. There is namely a superimposed differentiation of life expectancy in particular populations (Table 35).

1.2. The socio-professional structure

Physico-geographical diversity of the Baltic countries, as well as locations of mineral and other natural resources, define the spatial settings of economy and the settlement system. Various political systems and strategies of development influenced the formation of social and professional structure. The degree of modernization of society and economy, and the processes of urbanization are differentiated as well. The most urbanized countries are Germany, Sweden and Denmark. The least urbanized countries are Finland and Poland (Table 7, Fig. 3).

The urbanization level correlates positively with employment in service sector. It is especially visible in the case of the Baltic West. In the other countries the sphere of material production still dominates in the economy (see Table 8 and 9). One should note that in these countries the share of professionally active population is lower, as well. The processes of restructuration of the post-communist economies will necessitate the shifts of labour force among various sectors of economy. Polish experience to date shows, however, that definite professional groups, especially those related to large-scale industries, are little flexible and are opposed to the reforms threatening their previous position. Thus, the lengthy process of changes in the structures of economy will entail conflicts, which in turn will influence the processes of integration of the region.

There are numerous barriers of psycho-sociological nature, which may cause violent reactions of various social groups to the new situation. Openness of a society to changes depends to a high degree upon the education level of this society. The distribution of the numbers of university graduates (Table 10) indicates that, generally, perspectives ahead of the post-communist countries are not too bright. Groups which could potentially produce the elites of the future are relatively little in numbers. On the top of this these groups are affected by the consequences of the reforms as the first ones.

There is also a significant differentiation among the countries of Baltic Europe concerning the structure of national economy, as described by the shares of employment in particular sectors of economy (Table 9).

1.3. Migrations and social differentiation

Societies of the countries of Baltic Europe differ significantly as to the manners of their organization on the macro and micro scales.

The average magnitude of the household is the greatest in Poland, Estonia, Lithuania and Latvia (Table 11). The magnitude of a household is in most cases related to the magnitude of an average family, and also to the composition of a family, in connection with gaining of independence by children. The model of family is in the Baltic East more traditional. This confirms the earlier statement concerning cultural differences.

Social differences which can be observed in the region result from the degree of advancement and the level of stabilization of political and economic processes. Low inflation and relatively low and stable unemployment rates in the group of western Baltic countries cause that their societies are not going through violent changes entailing a drop of their standard of living and an anxiety as to the future. The indicator of price changes in Poland illustrates the best the dramatic nature of such changes (Table 12). Lack of convertibility of rouble and differentiated price structures do not make it possible to properly compare the situation in the Baltic Republics of the previous Soviet Union with the situation in other countries of the region. On the basis of the available data one can conclude, though, that the financial situation of the inhabitants of the Baltic Republics is better than in the other republics issued from the Union (Table 13). This applies, in particular, to Estonia, where the incomes of population have been in all groups and over all years the highest.

Both the economic and the political situation have been in the past the causes for political outmigration of population from the socialist countries to the West. It can be expected that political causes will lose their significance, but economic migration will increase. Migration flows in Europe will increase after the boundaries will have been opened to a greater extent than today and this will cause new problems, especially in countries hosting immigration flows.

Migration flows cannot, alas, be compared for all of the Baltic Europe. The present situation has, however, certainly a lot of new qualitative features. They are not, however, reflected in statistics (e.g. the migration wave from the previous Soviet Union to Israel). In the past the officially reported migrations from the eastern countries had a limited scope.

In the years 1987 and 1989 permanent outmigration from Estonia amounted to, respectively, 770 and 1575 persons, from Lithuania: 684 and 1796 persons, from Latvia: 525 and 3066. Temporary outmigration from the Soviet Union encompassed altogether some 2.5 million persons.

Statistics do not say, though, what proportion of the latter number of people decided to stay abroad for good. There was a high proportion of young people (up to 18 years of age) among the migrants. Most migrants from the Baltic Republics and from the other parts of the Soviet Union went, however, not to the neighbouring countries, but to: Israel (44.7%), Germany (41.8%), USA (6.0%) and Greece (4.6%). The percentage shares of these migrants within the countries mentioned was insignificant.

In the case of Poland the permanent outbound migration in the years 1987 and 1989 amounted to, respectively: 36,400 and 26,600 persons, while there were, respectively, 1,800 and 2,200 persons who settled in Poland. A significant share of immigrants was constituted by inhabitants of countries of Africa and Asia.

Then, outmigration from Norway amounted in 1988 and 1990 to 19821 and 23,439 persons, respectively, while immigration – to 29,964 and 25,205 persons.

In 1989 there were 38,391 persons who came to live in Denmark, while 34,949 left this country. The analogous numbers for Finland for 1988 were 9,270 and 8,447, and for Sweden, for 1989 – 65,866 and 21,484.

The main differences between the international migrations in the countries of Baltic Europe consist, in particular, in the fact that in the countries of the western group immigration dominates over outmigration. In Baltic East the situation is just the opposite. Besides this, western countries are characterized first of all by intraregional migrations. People leaving eastern countries, on the other hand, direct themselves to western Europe and to other continents.

Thus, for instance, among those who settled in Finland in 1988 only 38.1% came from outside of the Baltic West and Iceland. In the case of Sweden the same indicator was for 1989 equal 66.8%, for Norway 75.1% and for Denmark 81.6%.

2. The economic situation of the region European background – general remarks

Countries located over Baltic Sea are not homogeneous with respect to their economic potential, the level of economic development and the manner of conducting the economy.

In Scandinavian countries and in Germany (this concerns, as of now, its western part) there exists a system of highly developed market economy. The dominating form of ownership of production means is private

ownership. It is in Finland that the state sector plays a role more important than in other Scandinavian countries.

Similar processes of transition towards the market economy are taking place in Poland and in the eastern part of Germany, notwithstanding different conditions in which these processes are going on. As is known, economy of the eastern part of Germany was included into the already existing, well formed and highly developed economic organism of Western Germany, and also, automatically, in the economic system of the Common Market, together with the whole system of assistance, subsidies, aids and loans of the EEC meant for the less developed regions in the member countries.

The transformation processes in Lithuania, Latvia and Estonia are taking place in particularly complex conditions.

The setting of economic forces and capacities related to membership of particular Baltic countries in the international economic organizations is differentiated throughout the region in question. Three of the countries – Finland, Sweden and Norway – belong to the European Free Trade Association (EFTA). Two are members of the Common Market – Germany and Denmark. Poland has just ended negotiations concerning its affiliation with this organization. Soon after gaining of independence the Baltic Republics expressed also their wish of association with European Community.

At the end of October 1991 the EEC (12 countries) and EFTA (7 countries) signed an agreement, which stipulates that on January 1st, 1993, the European Economic Area of 19 countries will come into being. This will occur in the very instant when the process of creation of the integrated internal market of 12 countries of the Community. By signing the agreement, EEC and EFTA took the obligation of guaranteeing free flow of persons, goods, capital and services among the 19 countries. On the basis of data for 1990 this future European Economic Space would encompass 377 million persons (constituting 7.1% of total world population), produce 30% of total world production value (i.e. 7 thousand billion US dollar worth) and the magnitude of its foreign trade (imports+exports) would constitute 43% of the world trade (2.7 thousand billion US dollars in 1989).

Irrespective of negotiations between EEC and EFTA, Sweden (as well as Austria) applied for membership in the EEC. It is expected that in 1992 such applications will be forwarded by Finland and Norway. It should be added that the membership of these countries in the EEC obtained before the common economic space of the "nineteen" would have been created,

would ensure their better position in the decision making bodies of the EEC, related to the rights of a full member of this organization.

3. National income

3.1. Introductory remarks

In the analysis of creation and division of the national income, in view of accessibility of adequate comparable data, we are referring only to quantities characterizing certain development trends with this respect, and we are trying to track the shares of particular sectors of economy in creation of the national income. In view of various national income accounting systems in Western Europe and in Poland it was assumed that for these two areas GDP will be taken into account, while for the Soviet Union and Eastern Germany it will be NMP, instead.

3.2. The dynamics of the national income

The rate of growth of the national income was in the countries considered quite differentiated over 1980s (see Tables 14 and 15). The highest rates have been observed in Eastern Germany. Thus, for instance, by 1987 the NMP grew there with respect to 1980 by 35%. The average annual rate of growth was there relatively high especially in the first half of 1980s (4.6%), which was an exceptional situation in Europe, where most countries could not exceed 3.5% of growth per annum.

Growth rates were most stable in Finland. This country, together with Norway, occupied in 1988 second/third place as to the value of rate of growth. Such a high position of Norway resulted from good economic situation of the first half of the decade.

In the case of Baltic Republics economic situation is hard to follow due to application of current prices in economic calculations. At the end of the decade Soviet economy entered the period of violent inflationary processes, which again makes comparisons very difficult. It can only be stated that in the first half of the decade the highest growth dynamics among the Baltic Republics was displayed by Lithuania, and the lowest one by Latvia.

The lowest increase of the national income in 1980s was observed in Poland (10%). This was first of all due to the very low rate of growth in the first half of the decade.

Comparison of the national income per 1 inhabitant in the countries of the western part of the Baltic region for 1988 (Tables 15 and 16) puts

them in the following sequence: Norway, Sweden, Finland, Denmark and Western Germany. The smallest differences, spanning altogether some 390 US dollars, appear between the first three Scandinavian countries. A characteristic feature of the decade of 1980s was a decrease of national income in all the countries (excepting Finland) in the first half of the decade and a sharp upward turn in the first years of the second half (from 55% in Norway to 93% in Finland).

In two federal states of Germany, namely in Schleswig-Holstein and in Hamburg the value of GDP was growing throughout all of the decade (by, respectively, 20% and 31%), in spite of the drop by 33% in the whole of the country during the first half of the period. Table 16 shows, besides this, a tremendous influence exerted on creation of national income by the industrial and harbour metropolis of Hamburg.

3.3. The structure of creation of the national income

In most of the countries of this region the shares of industry and agriculture in the national income produced have been declining, while the share of service was on the increase (Table 17). An exception is constituted by the slight increases of the shares of industry in Denmark and Sweden, and a somewhat bigger increase in Eastern Germany.

In the case of construction and trade there is no unambiguous tendency in the region. Importance of these sectors has been growing in some countries, and declining in some other, with characteristically high growth of the share of construction in the Soviet Union and in Poland, and a very high increase of the share of trade and commerce in Poland, which should not only be seen as related to the decrease of significance of industry, but also to the quicker development of private trade and commerce in the second half of 1980s.

The tendencies of changes in the structure of creation of national income were in the Baltic Republics of the Soviet Union similar as in the whole of the USSR (Table 18).

In two northern federal lands of Germany, i.e. in Schleswig-Holstein and in Hamburg the directions of changes corresponded to national tendencies. The structure of income in Hamburg is typical for a highly urbanized industrial region – in 1989 the shares of particular sectors were as follows: agriculture, forestry and fishery – 0.2%, industry – 24.2%, trade and transport – 26.8%, service – 48.8%.

4. Industry

4.1. Dynamics of industrial production

The dynamics of growth of industrial production during 1980s was in the majority of countries higher than the dynamics of national income (see Table 19).

Industrial production grew with the quickest pace in two Baltic Republics – in Lithuania and in Latvia, and also in Eastern Germany. Increases in these countries were greater than 32%. These increments reflected the continuing traditional path of economic development, based upon industry, over which the eastern European countries have been moving until nowadays.

4.2. The structure of processing industry

The following phenomena are characteristic for the structure of processing industries in the countries of Baltic Europe (see Tables 20, 21 and 22):

- the machine building and metal industries have the greatest significance with respect to employment, and also with respect to production value, in all the countries of the region, the latter with exception of Denmark and the Baltic Republics;
- the second sector with respect to employment share is, in the three Scandinavian countries, i.e. Finland, Sweden and Norway, constituted by the wood, paper and polygraphic and printing industries; the second place in Germany is occupied by chemical industries, in Poland and the Soviet Union – by textile, garment and leather industries, and in Denmark – by food processing industry; similarly, with respect to production value, wood industry takes the second place in Finland and Sweden, while in Norway this place is occupied by food processing, and in Germany (West) by chemical industry; in all the other countries the second place in terms of production value is occupied by food processing industry (excepting Denmark, where this place is taken by machine building and metal industries, instead);
- the significance of the machine building and metal industries in all the countries has been systematically increasing during 1980s; this concerns both employment and production value; an exceptional

situation took place in Poland, where stagnation of the numbers of employed persons occurred (in comparison with other sectors), and the share of production value diminished;

- the significance of the chemical industry which occupies in the economy of each country an essential position, has been declining in the western countries in terms of production value share, while the share of employment has been on the increase; in the eastern countries, including Poland, there has both been an increase of employment and of production value;
- it is characteristic for almost all of the countries considered that there was a decrease of importance of textile and leather industries; with regard to food processing industry a relative decrease of employment share entailed a drop in production value and vice versa;
- according to global trends the share of the steelworking industry in the economy has been decreasing in spite of the fact that in Finland and in Norway relative employment in this industry was on the increase;
- the industrial structure of the Baltic Republics is quite differentiated; machine building industry dominates in employment in Lithuania and Estonia, while food processing – in production value; in Latvia, on the other hand, machine building industry dominates in production value; it can generally be said that industry in these republics is based upon three branches: machine building and metal industries, light industries and food processing; the role of fuel and chemical industries is low in these economies, with the latter industry faring better in Estonia.

4.3. The place of energy resources and production in the economy of the region

The greatest absolute energy potential in the region is located in the countries of the previous Soviet Union, whose area cannot because of obvious reasons be compared with the other countries of the Baltic Europe. The second rank is occupied by Germany, a European potentate. Behind these two there are: Sweden, Poland and Norway (power generation capacity of power stations of these countries is approximately four times lower than in Germany).

Most of the Baltic Europe countries are not self-sufficient with respect to energy resources and to electric energy generation. It is only in Norway, in the Soviet Union and in (Western) Germany that more electric energy is produced than consumed per 1 inhabitant. The greatest deficit is observed in Finland. Much smaller deficits exist in Denmark and in Sweden (Tables 23 and 24).

5. Agriculture and forestry

5.1. Land use

Due to variety of physio-climatic conditions in the countries of Baltic Europe the land use there is very differentiated (Tables 25 and 26). Agriculturally used land encompasses 3% of land in Norway, but almost 65% in Denmark. Besides Denmark high shares of agricultural land characterize Poland and Eastern Germany, as well as Lithuania. The greatest relative surfaces of forests (more than 60%) exist in Finland and Sweden. In Norway, Poland and in Germany these shares are at some 30%.

In Schleswig-Holstein arable land constitutes 54.3% of agricultural land, orchards – 0.9% and permanent grasslands – 44.8%. In Hamburg respective numbers are 52%, 12% and 34%. The latter structure reflects the suburban character of agricultural economy of Hamburg. Mecklenburg is the region with very high forest area share, and the highest shares of agricultural land and agricultural employment among all the federal lands of Germany.

5.2. Agricultural and forestry production

Soviet Union provides 17% of world production of wheat and 54% of world production of rye. Even greater are the shares in the world surfaces under these two crops – 21% for wheat and 64% for rye (see Table 27).

Polish shares in world production of rye is 18% and of oats 5%. Western Germany produces 2% of wheat and 6% of barley. Nordic countries occupy last positions with respect to production of cereals.

Denmark produces the highest amounts of wheat and barley per 1 inhabitant. Poland leads with that respect in production of rye, and Finland – in production of oats. The least of wheat and rye per 1 inhabitant is produced in Western Germany, of barley – in Poland, and of oats – in Denmark. The dynamics of agricultural production was the highest in Denmark and Soviet Union (Table 28).

In the first half of the decade there was a distinct growth of cereals production in the whole region. In the second half the greatest decrease occurred in Sweden, Eastern Germany and Finland.

In Lithuania and Latvia the dynamics of agricultural production was higher than in the Soviet Union, while in Estonia – distinctly lower.

The dynamics of agricultural production was lower than that of industrial production in all the countries excepting Poland.

Soviet Union is the regional potentate also in terms of forest economy (11.4% of world wood production) – see Table 29. Forest production in the Baltic Republics was in 1989 insignificant on the national scale: 0.7% in Lithuania and Estonia, and 1.1% in Latvia. A significant role in the national economy, on the other hand, was played by the forest sector in Sweden and in Finland, and in Germany as well. The role of this sector is low in Norway and minimal in Denmark.

5.3. The degree of agricultural development

The world averages of yields of wheat, barley, rye and oats are, respectively (in tons per hectare): 2.4, 2.4, 2.1, 1.8 (Table 30).

Among the countries considered it is only in the Soviet Union, where farming is strongly extensive, that the yields indicated are not attained. Although Poland significantly exceeds these world average yields, especially in wheat and oats, it still occupies the second to last place in the region.

The most intensive agricultural economy is conducted in Denmark. Wheat and oats yields exceed in this country the world average by the factor of three, while the yields of rye and barley – by more than the factor of two.

The average yields of 4 main cereals attained in the Baltic Republics are higher than the Soviet Union averages. They amounted in 1989 in Lithuania to 2.91 tons per hectare, in Latvia to 2.35 tons and in Estonia to 2.44 tons. For comparison – in Schleswig-Holstein the yields were 6.97 tons of four main cereals per hectare, and in Hamburg – 6.12 tons. The yields of winter wheat were, respectively – 7.57 and 6.48 tons, of rye – 5.09 and 4.84 tons, of winter barley – 8.27 and 7.23 tons, and of oats – 3.86 and 3.47 tons. Both these subregions are among the leading federal lands of Germany in terms of agricultural productiveness.

The extensive character of agriculture of the Baltic East can also be seen through the data on livestock breeding contained in Table 31, and machines and fertilizers used in agricultural production (Table 32).

6. Investments

In Nordic countries, excepting Denmark, and in the Soviet Union the rate of investment growth was higher than the rate of growth of the national income (Table 33). In Eastern Germany and in Poland the level of investment outlays in 1988 was virtually equal to the one at the beginning of the decade.

The decade of 1980s can be distinctly divided into two subperiods – the subperiod of low dynamics of investment outlays in the first half of the decade (and in some countries even a decrease of the rate of growth of investment value) and the subperiod of relatively high investment dynamics in the second half of the decade.

7. Service

7.1. Health care

It is well known that the level of health care in Germany and in the Scandinavian countries is very high (tabel 34). The latter group of countries belong to the ones with the longest life expectancy and the lowest infant mortality indicators (Table 4). Health care system in Poland is in the state of deep crisis. In the Baltic Republics the standard of health care is usually higher than the Soviet average. One should turn attention there to one of the world highest indicators of the number of physicians per 10 thousand inhabitants. Similarly high is the indicator of the number of hospital beds. In spite of that, life expectancy is by several years lower there than in western European countries and the infant mortality level is higher (Table 35). It is also characteristic that these differences got deeper during the post-war period, since before the war, e.g. in Estonia, the average life duration was longer than in Finland, and the differences are nowadays to the advantage of Finland – 4 years in case of men, and 8 years in case of women.

7.2. Education

Kindergarten care is common in the Baltic West (in Denmark, Germany, Norway and Sweden). In other countries this kind of care encompasses various proportions of children: from 38% in Finland through 50% in Poland to 60% in the Baltic Republics.

Table 36 presents the indicators concerning the reach of university

education. It can be easily noticed that the countries of Baltic Europe might be divided into two groups:

- the ones with high numbers of students (more than 220 per 10 thousand inhabitants, and not less than 30% of a given age group), i.e. Denmark, Finland, Sweden and Norway,
- the ones with low numbers of students (below 200 per 10 thousand inhabitants), i.e. Lithuania, Latvia, Estonia and Poland.

The situation with that respect is especially disadvantageous in Poland.

There are additional factors of differentiation between the two groups of countries mentioned, namely: technical equipment in schools and the level of financing of education development.

8. Maritime economy

Most of Baltic ports can be used throughout the year. The exceptions are the ports of Gulf of Bothnia, which freeze during winter. The main ports of Baltic Sea countries are: Copenhagen, Ålborg, Århus, Odense (in Denmark), Helsinki and Turku (in Finland), Hamburg, Bremen, Lübeck, Kiel, Rostock, Wismar and Stralsund (in Germany), Bergen, Stavanger, Oslo and Tønsberg (in Norway, and not belonging to the Baltic Sea itself), Gdańsk, Gdynia, Szczecin and Świnoujście (in Poland), and finally Göteborg, Stockholm and Malmö (in Sweden).

Some of these ports have international character and high importance for the whole economy, while other ones are of importance for cooperation of local or subregional nature.

Thus, for instance, four Polish harbors: Gdańsk, Gdynia, Szczecin and Świnoujście concentrate as much as 99% of Polish seaborne trade. All the other ports located along the coast (27 of them) and the ports of the Vistula Bay and the delta of Vistula are of local significance. The main Polish ports, in view of their equipment type, can be classified as universal-specialized ones. They can serve as cargo loading and unloading ports as well as passenger and tourism harbors. Similarly as in the eastern part of Germany, in Poland, in Latvia, in Lithuania and in Estonia the harbor towns do not have an adequate support of modern technical infrastructure, of facilities protecting against pollution of Baltic, against dusts etc. Still, the most pressing thing is to modernize the railway-harbor nodes. This would enhance the effectiveness of transport from Poland on the line from Gdańsk to Helsinki and from Świnoujście to Ystad. Helsinki

play a key role in navigation within the eastern part of the sea due to its closeness to Petersburg and Tallin. The most developed navigation connections are concentrated to the south of the line Helsinki-Turku-Stockholm. The greatest density of these connections occurs in the area of southern Sweden, Denmark and Germany. Besides this, connections between Skellefteå and Kokkola, Umeå and Kokkola, Umeå and Vaasa, Vaasa and Örnsköldsvik, as well as Vaasa and Sundsvall are of importance for economic relations between Sweden and Finland.

One should pay attention to the growing importance of ports of Eastern Germany. They become serious competitors for other ports in the eastern part of the Baltic Europe.

Baltic countries dispose of a significant potential as regards seaborne transport and fishing. Having excluded USSR from comparisons one can state that Denmark and Germany dispose of the greatest transport capacities. Germany dominates in the volumes of cargo loading and unloading in the Baltic ports – see Table 37.

There is also a significant differentiation with respect to the shares of Baltic countries in freshwater and sea fishing. Danish and Norwegian fishing fleets are the greatest ones in the region (see Tables 38 and 39).

9. Selected problems of environmental protection

Deterioration of the natural environment may have long-term negative effects for many domains of social life and economic activity in Baltic countries.

The most important problem is pollution of Baltic Sea (Table 40). The question of improvement of water quality in the Baltic is extremely complex. This results not only from the present state of affairs. Situation is further complicated by the fact that Baltic is an almost inland sea. Water exchange with North Sea is very limited. The period of complete water exchange may even extend to 50 years.

The necessity of international cooperation in the domain of environmental protection results from the distributed (non-point) nature of emission of pollutants. Bioaccumulation of various types of pollutants occurs already in the sea. This process goes on largely in a latent way, and the emission sources cannot be readily determined.

It should also be added that Baltic is exposed to large amounts of pollution emitted outside of the countries surrounding it. It was stated, for instance, that DDT is brought to the Baltic region with the winds

originating in the tropical countries, where this pesticide is still used to fight mosquitoes as malaria vector.

The volumes of pollution emissions in the Baltic countries are differentiated. This concerns both water and air pollution (Table 41). The proper Baltic is polluted mostly by Poland, USSR, Germany, Sweden and Denmark. The sequence of countries results not only from locations and coastal stretches of particular countries, but also from their levels of economic development, as measured by the advancement of the technologies of production applied and the scale of activities meant to protect the environment. In case of air pollution the shares of particular countries are similar.

The consequences of the increase of air pollution are borne by all the Baltic countries, and these consequences are only partly dependent upon the country's "contribution" into the degree of pollution. When applying the indicator based upon the percentage shares of trees in various damage degree states (0 to 3) (Table 42) we can conclude that Denmark is in the worst situation of all the countries considered, since pollution from the neighbouring countries is exported to Denmark. Poland is second in this ranking. The closeness of industrial zones of Czechoslovakia and Eastern Germany plays an essential role here. The best situation occurs in Sweden, Finland and in Lithuania. This depends upon the regional structure of economy, by distribution of forests, and by the distance separating these countries from the most urbanized and industrialized parts of the Baltic region.

The ecological disasters in the Gdańsk Bay and in the Gulf of Finland result, inter alia, from the lack of industrial and municipal sewage treatment plants. The pulp and paper industry, traditionally well developed in the region (Sweden, Finland, Denmark and Norway) proves that definite types of industrial activity may even in the highly developed countries entail serious threats to the environment.

10. Foreign trade

The role of foreign trade is quite differentiated among the economies of particular countries (Table 43).

The magnitude of trade exchange per 1 inhabitant in the countries belonging to the western European economic associations, i.e. EEC (Denmark and Germany) and EFTA (Norway, Finland and Sweden) is several times higher than in the countries of the previous Comecon (CMEA).

The barriers in the trade between the eastern and the western countries of the region are constituted by:

- low competitiveness of products turned out in the eastern countries of the region,
- difficulties in reaching of the balance of payments in the eastern countries, and in particular their foreign debt,
- autarchic concept of the traditional economic strategy of the post-communist countries, as well as the consequences of the earlier attitude towards cooperation within the block of countries of central-eastern Europe.

10.1. The branch structure

Table 44 presents the branch structure of trade of the Baltic countries based upon the international classification (analogous data for Lithuania, Latvia and Estonia are not accessible, and therefore the branch structure of trade of these countries is commented upon separately).

Industrial products dominate in the trade of all the countries considered. The agricultural and food products play distinctly leading role in the trade of Denmark – 11.6% of imports and as much as 26.8% of exports. All the countries excepting Norway are net importers of energy carriers. Exports of oil are, on the other hand, decisive for Norwegian trade balance (more than 40% of export value). Exports of energy carriers (coal) plays also important role in the case of Poland (almost 10% of export value).

As far as trade in machines, devices and transport equipment is concerned the strongest is the position of Germany.

Similarly, in the structure of foreign trade of Lithuania, Latvia and Estonia industrial products dominate. The greatest importance in export should be attributed to products of : machine building and metal industries (29%), electrical industry (24%), and then food processing industry (22%). The greatest shares of imports are taken by products of: machine and metal industries (32%), electrical industry (15%), chemical industry (12%) and fuels (11%). Trade exchange is taking place mainly within the framework of the previous Soviet Union. Only in the case of a few groups of commodities the share of trade with other countries is significant. This applies in terms of exports to: fuels (70% of exports goes to the outside of USSR) and fish products (24% going out of USSR), while in terms of

imports to: food products (65% coming from outside of the USSR) and products of electrical industry (34% from outside of the USSR).

10.2. Spatial structure

In the spatial structure of foreign trade one can easily notice low significance of the "transbaltic" relations. Membership of particular countries in various international economic organisms is more important than the fact of location in the basin of Baltic Sea.

The second feature is unevenness of the trade exchange. Although the countries of Baltic Europe account for some 40% of foreign trade of Denmark and Sweden, this number results primarily from trade among the Nordic countries and Germany. Trade with the remaining countries of the region is very limited. In case of Poland trade with the countries of the region takes some 25% of foreign trade value, with 80% out of this taken by trade with Germany. Foreign trade of Lithuania, Latvia and Estonia is dominated by exchange with other parts of the previous Soviet Union (some 85% of trade value), and the most important trade partner of these republics is Russia.

Importance of trade among Baltic countries for their foreign exchange is illustrated in Table 45. Particular rows of this Table present the percentage shares of imports (exports in part B) of a given country originating from (going to) another country.

11. Information infrastructure

Poland is one of the countries worst equipped with information infrastructure. In 1987 there were in Poland more than seven times less telephones per 1000 inhabitants than in Sweden, the latter country leading with that respect in the Baltic region. The situation is similarly bad in the republics of the previous Soviet Union, while in the Baltic Republics the density of telephone network is much higher. In Lithuania and Estonia it is only somewhat lower than in Eastern Germany, and in Latvia it is even higher.

The bad shape of the informational infrastructure in Poland is illustrated also by the indicators concerning accessibility to daily press, as well as radio and television (Table 46).

The whole region can be subdivided into three groups with respect to press accessibility: the least differentiated group, with high accessibility of press - Eastern Germany, Finland, Sweden and Norway, the more

differentiated group with average accessibility of press – USSR, Denmark and Western Germany, and the third group, to which only Poland belongs.

Situation in Poland improved significantly at the end of the decade, and even more so at the beginning of 1990s, this latter period being not accounted for in the table. Similar symptoms caused by "perestrojka" and by the increased demand for information are also observed in the previous Soviet Union and in the Baltic Republics.

The structure of international transport in Baltic Europe

ANDRZEJ SITKOWSKI

A. Road transport

1. The present state

The network of routes serving international transport and exchange in Europe has been shaped during centuries, but only after the World War II the task of designing it and of defining the technical conditions it should satisfy on the basis of international treaties was undertaken. An interesting aspect of the role of the United Nations in breaking of the barriers connected with cold war on our continent is the Declaration on Construction of International Highways of 1950, elaborated under the patronage of UN European Economic Commission in Geneva and including the whole of Europe (but not ratified by all parties). This Declaration has been replaced by the European Agreement on General International Roads (AGR), signed in 1975, which became valid only in 1983, after

significant difficulties. The process of ratification of the Agreement is anyway not finished.

From among the Baltic states Denmark, Germany, Poland and USSR are the parties of this Agreement. Finland and Sweden have as yet not joined the Agreement, although they expressed already such an intention. The independent Baltic Republics of Estonia, Lithuania and Latvia will certainly be in favour of joining the agreement and of submitting new road connections for introduction into the international network of E roads in which, due to the stance taken by the USSR, their roads are until now not included (with exception of a segment of road E 20 from Tallinn to Petersburg). The question of the attitudes of Sweden and Finland with respect to the Agreement will most probably be positively resolved in the nearest future.

Many years of negotiations concerning the shape of the European road network, whose results have been outlined before, have put into shade the problem of adjustment of this network to requirements set out in the Agreement and to the increasing road traffic. Individual countries have been modernizing the international road network in accordance with their capacities, but no international assessment of compliance of this network with the technical requirements resulting from the Agreement was undertaken. Various degrees and results of economic activity and social mobility, and the differences in budgetary capacities of countries of the Baltic region, resulting therefrom (in all these countries the outlays on road construction, upgrading and maintenance were disbursed from the state budget) caused that the state of the international road network in the Baltic region is quite uneven. Similarly as in other domains the division line follows the former boundary between the socio-political systems.

It is highly probable that in none of the Baltic countries the whole network of international roads will attain the qualities of proper motor-ways in the foreseeable future. This means that the state of the remaining road network, excepting the international highways, will be of high importance for the conditions of the international traffic.

As far as the degree of use of the existing road capacities is concerned, these capacities being defined by the parameters of their geometry, the majority of Polish roads do not differ from the standards of similar roads in Western and Northern Europe. Polish roads may even differ from the western ones in a positive manner, for the capacities of some international roads in north-western Germany are almost saturated, while in Poland, due to lower traffic intensity, such phenomena occur only over short segments, especially within agglomerations. Polish roads, though,

have lower quality, mainly due to the state of their surface, side spaces and in some cases road signs. The greatest difference to the disadvantage of the eastern part of the Baltic Europe exists in the domain of traffic service, especially of the international traffic, and in the traffic security level.

The most important element of the service for the international traffic is constituted by border crossings. While it is true that most of the border crossings from/to Poland (excepting the eastern ones) offer an almost free passage of passenger cars, the same does not apply to cargo traffic, since trucks have often to wait in lines for several hours.

The situation on Polish eastern borders – with Lithuania, Byelorussia and Ukraine – where passenger cars wait before they leave Poland for more than ten hours, and before they enter Poland – often more than 100 hours – constitutes a unique case in the world. Even worse, this situation did not get anyhow better with replacement of the central Soviet staff by the locally administered republican officers. As the press recently reported the situation at the sole border crossing to/from Lithuania (Ogrodniki/Lazdijai) got somewhat better, for the waiting time decreased from 9 days down to 70-100 hours (!). Waiting time on the Polish side was only (!) a dozen hours. A comparison of conditions at this border crossing with the crossing points in Scandinavia illustrates the dimensions of the civilizational (and cultural) gap between the transport-wise integrated north-western Europe and some of the post-communist countries. The level of equipment of most roads in eastern and central Europe with road-adjacent service infrastructure for travellers is insufficient. This infrastructure is rapidly improving in the domains of catering and food, as well as fuel, but is still in very bad shape as regards communication, information and technical service, often needed in international travels. The worst is the situation with hygienic and sanitary facilities.

The roads to the South of Baltic are not safe and Scandinavian countries are aware of this problem. A study of this problem on the territories of Czecho-Slovakia, Poland and Hungary was undertaken recently on the orders of the Nordic Council. In order to illustrate the difference between the conditions of traffic in Poland and in Scandinavia one can cite the data for 1989, according to which the number of traffic deaths per 10,000 cars was in Denmark 2.9, in Finland 2.8, in Sweden 2.3, while in Poland – 10.8. Situation got even worse in 1990 and in 1991. With this respect the difference between the level of Poland and the one of Nordic countries (leading in Europe as far as security of road traffic is concerned), or even of the European average, is much bigger than the differences in the general technical state of the road network.

2. Perspectives for the future

Liquidation of division of Europe, and especially emergence of new independent countries after the disintegration of the Soviet Union, in particular of the Baltic Republics, requires a new perspective on the spatial pattern and technical standards of the E road network in Baltic Europe.

A glance on the map of E roads in the region of Baltic allows one to see gaps to the north and east of the last highway axis of the North-South orientation, i.e. E 77. These gaps encompass all of the three Baltic Republics and Byelorussia, the latter crossed only by one road – E 30 – from Warsaw to Moscow. This distinct underdevelopment of the road network resulted from the purposeful policy of the USSR aiming at maximum limitation of direct interpersonal contacts related to road traffic, and disinclined to upgrading of the Soviet roads to the European standards.

Besides this, there is a striking lack of international road connections between Finland and Karelia (Autonomous Republic being a part of Russia), lack of connections towards Murmansk, as well as the blank space of Kola Peninsula, whose industrial potential starts already to attract foreign investors.

Situation to the west of E 77 in Poland is somewhat better, but the density of roads is significantly lower than in the areas to the north and west.

Where, therefore, and what should be the new international roads?

In Scandinavian countries the existing network of international roads seems to correspond to historically shaped needs for many years to come yet, with the exception of the extension of the route E 06 from Kirkenes to Murmansk and the potential connecting roads between Finland and Karelia. Road traffic through this eastern border is growing quickly, there are even regular passenger connections. Besides the previously existing border crossings is Vaalimaa, Noijamaa and Rajajooseppi new ones have recently been opened in Vartalus, Njirala and Imatra.

Similarly, in north-eastern Germany there is presently no obvious need for new main E roads of class A, while there is a need for new connecting roads of B class in relation with opening up of new border crossings between Poland and Germany, whose number is as of now too small. Thus, local authorities of Polish western provinces postulate, for instance, opening of the border crossings in Mescherin/Gryfino and Kietz/Kostrzyn. It is true that not all the border crossings, through which international traffic is allowed (as opposed to crossings meant only for local traffic), must be located on international main routes, but this should be the case at least for the intensive international traffic.

Situation is different on the line from Poland through the Baltic Republics. There, at least two international routes of class A should in an obvious way be established. One of them would lead from Estonia through Latvia and Lithuania to Poland, while the second would constitute a connection of the tax free zone of Królewiec (Königsberg, Kaliningrad) with the first route mentioned on the one hand and with Polish network of international roads on the other (see Map 2).

The route leading from Tallinn to the south would link not only Finland, but also Sweden with Poland, and would then go further to countries of central and southern Europe. According to Finnish specialists in case this road is granted adequate standard it could constitute an alternative for the overcharged western routes leading southward. Presently, the constantly improving ferry connections of Finland and Sweden with Poland and Germany, as well as Scanlink connections are certainly more attractive for the majority of those who travel on the roads over these areas. The interest of Finland in the route mentioned found recently its expression during the conference which took place in Hamburg in 1990 under the sponsorship of International Road Federation, where the concept of this route was for the first time fully presented under the name of *Via Baltica*. The potential course of *Via Baltica* over the territory of Poland is presently being studied in the Bureau of the Road Network Development Planning in Warsaw.

It is as of now only known that the route should cross Polish-Lithuanian border in Szypliszki, bypassing the existing border crossing in Ogrodniki. If the route went through Ogrodniki the areas of Augustow Forest would be endangered, and besides this the present connection through Szypliszki is better fit for the increased road traffic.

The road of *Via Baltica* has its history already. As is known, in previous USSR there were only a few roads open to international traffic. Finland did already in 1970 postulate with respect to the Soviet Union that a route leading to Poland and to southern parts of USSR through the Baltic Republics be opened for the international transit traffic. It was, however, only in 1988 that the route for Nordic countries was opened through Tallinn, Riga and Vilnius to Poland, but with several hundred kilometer long detour through the capital of Byelorussia, Minsk.

Finns are presently expressing their interest in opening for them of an international road from Murmansk to Petersburg (M 18 according to Soviet coding).

As far as the second potential international route is concerned, the one linking Królewiec with Poland and with the Baltic Republics, its west-

ern segment (Królewiec – Elblag) did constitute already the subject of a threepartite agreement of Poland, Sweden and Russia (Elblag province in Poland, Blekinge district in Sweden and Kaliningrad – Królewiec – district in Russia). According to the agreement, signed in 1991 in Karlskrona, the Polish and Russian sides are obliged to prepare the technical and economic prerequisites for the reconstruction of the pre-war motorway, together with outfitting of the border crossing in Gronowo/Mamonovo. Farther to the west this new road should obtain a connection with the E 75 and E 30 roads (through E 261) and thereby to the main road axes leading to the west and south of Europe. In case the tax free zone in the vicinity of Królewiec develops on a greater scale, the new road might gain high importance and become Via Baltica no. 2.

As far as the new routes, Via Baltica no.1 and Via Baltica no.2, are concerned, little is known as to the present state of the roads in the Baltic Republics and in the district of Kaliningrad (Królewiec). According to Finnish sources the road infrastructure to the south of Riga will require significant maintenance effort and a reconstruction in order to support the continuous heavy passenger and cargo traffic.

It is, on the other hand, essential, that the existing road connections be opened for the international traffic and then gain the status of international E roads according to the procedure envisaged by the European Agreement of 1975. The conceptual and study work concerning determination of their future standard and the potentially corrected geographical course should be conducted parallelly. In case of Via Baltica no.1 its course will follow the road M 12 (in Soviet coding) from Tallinn through Riga to Panevezys, and then A 230 and A 227 to Kaunas, and therefrom A 226 to Kapsukas and to Poland. It is possible, however, that in the transitory period, in spite of Kaunas, it will have to go around over a longer route through Vilnius (where M 12 reaches). The Via Baltica no.2 will follow, outside of Polish border, on the territory of the district of Kaliningrad, the roads: A 194 Mamonovo-Kaliningrad, A 239 to Kapsukas and A 226 to Kaunas, where it will join Via Baltica no. 1.

The future standard of the new roads on the territories of Baltic countries, and also on the territory of Poland, can be defined only on the basis of adequate technico-economic analyses. The promotor of Via Baltica no.1 from the Finnish business community proposed, as of now, the alternative of motorway or expressway. The traffic forecast for 2010, which they presented in Hamburg, though, indicates than only in the vicinities of larger agglomerations, such as Tallinn, Riga or Kaunas, traffic intensity of 15,000-20,000 cars per day can be expected, while on the

border with Poland it will only reach 2,300 cars per day. Presently, on the route from Szypliszki through Suwałki – Augustów – Grajewo – Łomża – Różan – Pułtusk – Serock to Warsaw, there will be on most segments, for a long time yet, a significant reserve of traffic capacity, with exception, of course, of the Warsaw road node, which constitutes, though, a separate problem.

The most urgent task in the domain of integration of the road network in Baltic Europe is opening of new routes for the international traffic, improvement of the quality of traffic service in the post-communist countries, and in particular – liquidation of the bottlenecks on the border crossings, as well as enhancement of security over the international roads. The new routes should be included in the network of E roads, to which the European Agreement of 1975, mentioned before, applies.

MIROSLAW GROCHOWSKI

B. Rail and air transport

1. Rail transport

In spite of numerous historical links between the countries located around Baltic Sea the network of transport routes has been developing in the post-war period without any coordination and without any significant common undertakings. This fact resulted from the disadvantageous political climate and from the membership of these countries in different economic organizations. Although networks developed within individual countries are connected with each other, but they differ significantly as to their technical parameters, velocities of trains, comfort of travelling, volumes of loads transported and capacities of reloading. Railway border crossings have differentiated infrastructures for passenger and goods clearance. Ineffectiveness of this infrastructure, especially in the eastern countries of Baltic Europe, hampers the smoothness of transport. Political changes and the perspective of closer economic cooperation will force introduction of necessary changes in the infrastructure of railway transport.

It is characteristic that in the eastern countries of Baltic Europe it is railway that remains the most popular of the transport means in case of cargo. Comparing the situation in 1980 and in 1988 we can state that the shares of railways in totals of goods transport in Eastern Germany were, respectively, 28.4% and 37.3%. There was, therefore, a significant increase of these transport activities. The same indicator increased in Poland over the analogous period from 17.8% to 22.9%. On the other

hand, the railway share of goods transport decreased in Western Germany in the same period from 10.2% to 9.0%. One cannot, of course, evaluate the state of development of railway transport in a country on the basis of such data. It should be emphasized, though, that the share of railways in goods transport in previous socialist countries was high. The fact that railway was intensively used and simultaneously not well developed may additionally complicate the very costly modernization processes.

When evaluating the possibility of railway connections between the eastern and western countries of Baltic Europe we can state that Poland is potentially in the best situation. The railway infrastructure existing presently ensures railway transport between Poland and Germany over two main lines: from Warsaw through Poznań and from Cracow through Wrocław. In this manner Poland has a potential access to the most important industrial centers and harbor towns of Germany, like Hannover, Bremen, Bebra, Bremerhaven, Hamburg, Flensburg and Lübeck. Adequate use of ferry connections: Nyborg – Korsør, Warnemünde – Rodby and Sassnitz – Trelleborg would open the way to Scandinavia, including Oslo and Stockholm. Similar functions can be fulfilled in the future, after an adequate preparation, by the twin port system of Szczecin – Świnoujście.

In Norway and in Sweden, in spite of concentration of the main and secondary railway lines in the south of these two countries, adequate conditions of railway transport are ensured.

Both in Norway and in Sweden railways are connecting the most important urban centers of the north and south. Malmö, as a harbor town and an important railway node plays a very important role in this system. Connections with Bergen and Stavanger in Norway originate in Malmö. The railway line from Malmö to Stockholm continues over Boden, Kiruna, Abisko and Narvik. This north-south connection is complemented on the Norwegian side by the line ending in Bodø.

The southern part of Finland is covered with railway lines connecting the most important urban centers: Helsinki, Turku, Tampere, Oulu, Kuopio and Imatra. This system is connected with the railway network of the previous Soviet Union and with the Baltic Republics via Petersburg. The closest connections with the other parts of Scandinavia lead through Baltic Sea from Vaasa, Kokkola, Turku and Helsinki.

The Baltic Republics are of course included in the system of railway lines of this part of Europe, but the patterns of railway lines there, the state of the infrastructure and the connections existing presently do not correspond to the current and even less to the future needs. First of all

it appears to be necessary to improve the quality of connections with Poland, including adequate equipment of border crossing stations.

When observing the situation in the domain of railway transport in the Baltic countries one can conclude that the key significance should be attributed to stations in western countries, and especially in western Germany, for it is there that the largest number of adequately equipped marshalling yards are located, from which trains are being dispatched to various places in Europe. These stations are: Hamburg (Maschen), Hannover (Seelze), Cologne (Gremberg), Hamm, Bebra, Mannheim, Stuttgart (Konrwestheim), Nürnberg, Regensburg, Munich and Saarbrücken. In eastern Germany such stations are: Seddin, Dresden and Erfurt. Of other Baltic countries higher significance might be attributed to such stations in Denmark as Rødby and Gedser, in Finland – Kouvola and Vainikkala, and in Poland – Szczecin-Central Harbor, Wrocław-Brochów, Warsaw-Praga, Poznań-Franowo and Tarnowskie Góry. The stations listed make it possible to receive, store, load and unload goods and to put together train compositions (to sort cars) owing to the presence of at least 750 meters of rails, adequately equipped marshalling yards, control devices, power sources etc.

The quickest and most intensive connections between the countries of Baltic Europe exist in its western part. Express lines may in many cases be evaluated as effectively competitive for other transport means. In other countries of this area an even short distance may turn out highly time consuming. The perspective of closer ties with the EEC forced Poland to take up work which will bring about adjustment of railway infrastructure to international standards. The Agreement on the Main International Railway Lines (AGC), signed by Poland, assumes the increase of the velocity of passenger trains (160 km per hour minimum) and goods trains (120 km per hour minimum), as well as the increase of load per axis to 22.5 tons. In order to comply with these requirements Poland will have to modernize the existing connections and to create the new ones.

It is necessary to adjust to European requirements the several main railway connections in Poland, such as: Baltic ports – boundary with Czechoslovakia (North-South); Zgorzelec – Wrocław – Wieluń – Bełchatów – Piotrków Trybunalski – Idzikowice – Warsaw – Kuźnica Białostocka (South-west – North-east), with the branching Wrocław – Cracow – Medyka (South-west – South-east), and Kunowice – Poznań – Warsaw – Terespol (West – East). Modernization of these lines is the precondition for introduction of Poland, in the future, into the network of high speed European connections on the line Frankfurt (Main) – Warsaw,

with a branching towards Cracow, as well as Berlin – Warsaw. Modernization of railway lines E 59 and E 65 (to Szczecin and Gdańsk) is to be carried out in the framework of TER (Trans-European Railway) which is meant to make more effective the connections of Scandinavia with the rest of Europe. Together with construction and modernization of the railway network there should proceed upgrading of border crossing stations, for instance in Kuźnica Białostocka (construction of the permanent car wheel change facilities), or in Szczecin – Gumience (construction of reloading yards). These are the necessary, minimum conditions for Poland to adequately take advantage of its geographical location.

2. Air transport

The state of development of air transport is even more differentiated than in the case of railway transport. There are numerous causes for this situation. In the countries of the previous eastern block air transport, both domestic and international, was dominated by just one carrier. The magnitudes and the poor equipment of the international airports made it difficult to deal with larger aircraft and its passengers.

The main carriers in Baltic countries are: Lufthansa, KLM, SAS, Finnair, Swedair, Danair and Finnavia. Among the remaining companies, having lesser significance, we find Hamburg Airlines, Norsair, LOT, Aeroflot, as well as Swissair and Continental Airlines. The evaluation of the significance of particular lines was performed on the basis of numbers and reaches of flight connections. Thus, the evaluation is approximate, since it does not account for different aircraft capacities on various lines, nor on the loading factor, and therefore also did not reflect adequately the numbers of passengers transported.

The very existence of air transport is especially important for Norway and Sweden in view of their latitudinal stretch and presence of important industrial centers in the northern parts of both countries. Norway disposes of some 20 airports, having both local significance and significance for the scale of Baltic Europe. There are 17 such airports in Sweden, and 21 in Denmark. In Finland and Germany there are less of such airports (4 and 9, respectively). This results both from the scale of demand and (as is the case with Germany) from sufficient development of other kinds of transport, functioning on a compact and uniformly populated territory.

Air transport in Poland is making use of 11 airports, out of which 8 are allowed to serve international flights. These airports are in many cases quite distant from the corresponding towns. There is lack of airports

in the eastern and north-eastern parts of the country. Excepting Warsaw and Gdańsk all the other airports are equipped only for receiving smaller and medium passenger aircraft. The magnitudes of airport buildings do not correspond to the needs in view of limited space and wearing. Only 5 airports are equipped with facilities for landing in difficult atmospheric conditions. All the other ones have outdated and primitive facilities.

In the Baltic Republics, in spite of the fact that in all the metropolitan towns of this area there are airports, only Tallinn and Riga are included in the system of international air transport.

In Norway, among the airports having supralocal importance, we find: Bergen (maintaining regular connections e.g. with Berlin, Copenhagen, Düsseldorf, Frankfurt, Göteborg, Hamburg, Stockholm, Stuttgart, Hanover, Helsinki, Warsaw, Malmö, Munich, Oslo, Stavanger, Tampa and Turku), Stavanger and Trondheim (European routes). Other airports, important from the point of view of transport inside Norway and to/from the neighbouring countries are: Bardufoss, Alta, Bodö, Eveness, Harstad, Haugesund, Honnigsvåg, Longyearbyen and Narvik. All these airfields have connections with the capital and with other important towns of Norway.

Berlin will play in a not too distant future a very special role both in united Germany and in the whole of Baltic Europe. It is connected with regular flights to all the capitals of the Baltic countries, and to these towns which play a significant role in air transport of a given country (in Norway, for instance, Bergen and Stavanger). Other airports, such as Bremen, Düsseldorf, Frankfurt, Hamburg and Hannover have traditionally sound position as the transit and end ports of transport, used by numerous airlines and maintaining intercontinental connections.

The main airport in Denmark is Copenhagen. Connections between Copenhagen and other Danish towns can be without any exaggeration called round-the-clock connections. Thus, for instance, SAS alone offers 14 connections per day with Billund, 10 connections with Ålborg, 13 with Århus and 9 with Esbjerg. These connections are very convenient and they offer the passengers the facility of simple further connections with other Baltic countries.

The setting of airports in Sweden and their functions remind to a certain extent the situation in Norway. Besides Stockholm there is a dozen or so of airports of international and local significance. The set of Swedish airports includes, in particular: Göteborg, Jönköping, Kalmar, Kiruna, Linköping, Luleå, Malmö and Norrköping.

The greatest importance should in Finland be attributed to airports

located in Helsinki, Tampere and Turku. They ensure connections with the majority of towns in the western part of Baltic Europe. Other airports are Mariehamn and Vaasa, which, in spite of their smaller scale, are quite important for connections with Sweden. As mentioned before, in the Baltic Republics it is only Latvia and Estonia that have airports included in the network of international connections of the Baltic Europe. Riga is connected with Berlin, Copenhagen, Frankfurt, Göteborg, Hamburg, Malmö, Oslo and Stockholm. The number of flights in comparison with airports of other countries is rather low (1-2 flights to a given airport). Most flights include a stopover in Copenhagen. There are nonstop flights to Copenhagen and Hamburg only. This situation may be very advantageous for Germany and Denmark in the future. In case of increase of the number of connections these two towns may become important points at the interface between Western Europe and the Baltic Republics. The flight timetable of Tallinn is similar. In this case, as well, the omitted airport is Warsaw, and the passengers flying eastwards are all passing through or going to Petersburg, while passengers going westwards – land in Stockholm (Arlanda) or in Helsinki.

In case of Poland there are only two airports which play a role in connections between Baltic countries. These two are Warsaw and Gdańsk. It can be said that in comparison with the Baltic Republics connections from these two airports are better developed, although intensity of flights is several times lower than between the airports of western countries. Main connections originating in Warsaw go to Berlin, Copenhagen, Helsinki, Oslo, Petersburg and Stockholm. From Gdańsk it is possible to fly three times a week to Petersburg and four times a week to Hamburg. Other airports of national importance which should be mentioned here are Wrocław, Rzeszów and Poznań.

The differences existing as to the development of air transport make it possible to distinguish two groups of countries in terms of their degree of involvement in the air traffic network of Baltic Europe. In spite of better connections and more developed network of airports Poland cannot be considered a partner disposing on its territory of the infrastructure allowing for a substantial increase of intensity of air traffic. When the extension to the airport of Warsaw is finished and the investment project planned for Gdańsk (new airport) is implemented, then the situation will somewhat improve.

The opening of air connections between Poland and Lithuania, in spite of relatively low scale of this undertaking, may become a starting point of the development of air transport in this part of the region.

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Institutionalization of cooperation in the region of Baltic Europe: the present state and the perspectives

Institutionalization of cooperation in the region of Baltic Europe may be founded upon two sound bases:

- the first, concerning the Baltic region as a whole, was initiated by two conventions, signed in 1973 and 1974 by all the countries of the region, which are related to, respectively, fishing and protection of the living resources of Baltic Sea on the one hand, and environmental protection of marine ecosystems of this water body on the other;
- the second, Nordic one, very elaborate, having many centuries of tradition, and encompassing not only coastal countries but also Norway and Iceland.

Experiences of the beginning of 1990s prove that Baltic countries opt for a gradual development of cooperation, depending upon the current needs, and for making use of the already existing institutional links, with simultaneous formation of new institutions, especially of non-governmental nature.

1. Multilateral agreements encompassing all the Baltic states

In spite of previously undertaken efforts the first international convention was signed by all the then Baltic states at the beginning of 1970s, only after adequate political conditions had been fulfilled, namely after all the countries of the region recognized officially both German states. This convention on fishing and protection of biological resources of Baltic Sea and Belts (straits on the way between Baltic and North Sea) was signed during the conference of Baltic states, which was convened on the initiative of Poland in Gdańsk, on September 13th, 1973. This convention became valid in July 1974. The states – parties to the convention – deemed their goal to consist in cooperation in the domain of protection and enhancement of living resources of Baltic Sea and Belts, attainment of optimum yields, and in particular – broadening of scientific research leading to this goal (1989).

On the basis of the statements contained in the convention the International Commission of Baltic Sea Fishing was established, with the seat in Warsaw. The main tasks of this commission are:

- watching over the state of the living resources and the fishing activities in Baltic Sea and Belts, through acquisition, analysis and dissemination of adequate statistical data;
- preparation of proposals concerning coordination of scientific research over this area;
- preparation of recommendations as to the fishing quotas and the interdictions of fishing over certain areas of the sea and over given periods.

At the beginning the Commission was composed of six members – Baltic states – and only in 1977 German Democratic Republic joined this body. Then, in 1984, after EEC joined as such the Baltic Convention, this economic organization started to represent its own members in the Commission. International organizations and governments of other countries not being parties to the Baltic Convention can also be invited to take part as observers in the meetings of the Commission or of its specialized organs.

The International Baltic Sea Fishing Commission has formal relations with other international bodies, including Helcom (The Helsinki Committee for Protection of Marine Environment of the Baltic Sea) and ICES

(The International Council for Marine Studies with the seat in Copenhagen).

After the coastal countries had proclaimed in the second half of 1970s own economic zones stretching over the sea area, the conditions of realization of the Convention changed, both with regard to the magnitudes of fishing quotas to be allotted to particular members and with regard to implementation of the programs of protection of biological resources of Baltic. New elements have also been brought in by the replacement of two of the Commission members – Denmark and Germany – by the EEC as their representative.

According to its article XVII, p.2, Convention is open to every state which is interested in preservation and rational use of living resources of Baltic Sea, under the condition that it be invited by the states-parties to the Convention. This means that the countries of the south-eastern coast of Baltic, which have recently regained their independence, may become the parties of the Convention.

Just after the Gdańsk Convention had been signed the change of political conditions in the region of Baltic made it possible to convene the second diplomatic conference of the Baltic countries. This time it was Finland that initiated the meeting and the conference took place in March 1974. This second meeting was related to the earlier efforts of the states of this region, undertaken during two multilateral meetings in 1969 and 1970 in Visby, concerning fighting of pollution of Baltic waters caused by oily spills. The result of the work of Helsinki Conference was the fact that the representatives of governments of seven Baltic states signed on March 22nd, 1974, the convention on protection of marine environment of the area of Baltic Sea. It was the first international agreement in the world which tried to regulate in a holistic manner the problems of protection of the environment of a definite marine area. Its articles were to a certain extent a complement to the earlier regulations of the Gdańsk Convention.

After the Helsinki Convention had become valid, which happened only in May 1980, the system of environmental protection encompassing the whole region of Baltic Europe, and not only Baltic itself, was created. Justification for such a statement can be found both in the articles of Helsinki Convention and in more than ten years of experience of realization of these articles. The Helsinki Convention envisages a number of activities, which should be undertaken by the Baltic states in their internal relations with regard to the whole area of a given state. According to Article 3 of the Convention these countries will undertake individually or collectively all the appropriate legal, administrative or other adequate

measures with the aim of preventing and diminishing of pollution and with the aim of protection and enhancement of the value of the marine environment of the area of Baltic Sea. In some other place (Art.4, p.3) the Convention says that although its regulations do not apply to the internal waters of particular states, the countries which have signed this Convention are taking the obligation of ensuring that the goals of the present Convention be attained over these waters. Regulations contained in Art.6 have a similar nature, for they speak of undertaking by the states being parties to the Convention of adequate measures for purposes of control and minimization of pollution of the marine environment of the Baltic area originating from the land.

For purposes of realization of the goals of the Convention the Commission for Protection of the Marine Environment of Baltic Sea was established with the seat in Helsinki (this Commission being therefore called the Helsinki Commission or Helcom).

Implementation of the contents of the Convention depends upon the good will and the material capacities of the participating states. In most of the Baltic countries the Committees of Baltic Sea were established as the institutions responsible for realization of regulations contained in Helsinki Convention, and therefore also of the postulates issued by Helcom.

Helcom is playing, according to the Convention, a very important role of the organizer and coordinator of scientific and technological cooperation among the Baltic countries. These matters are the subject of work of one of the three standing Committees created within the framework of the Commission, as well as various expert groups. States – parties to the Convention took namely obligation of conducting and promoting research having as its objective the development of measures and methods of evaluation of the kinds and magnitudes of pollution, its paths and ways of appearance, hazards related and countermeasures, and in particular the development of alternative methods of purification, degradation and removal of such substances and materials which could probably cause pollution of the marine environment of the area of Baltic Sea.

For purposes of realization of its tasks Helcom entered into close co-operation with numerous international organizations, including the ones belonging to the system of the United Nations. There are close connections between Helsinki Commission and The International Commission of Baltic Sea Fishing in Warsaw, The International Council of Marine Studies (ICES), the United Nations Environmental Protection Program (UNEP), the World Meteorological Organization, the World Marine Or-

ganization, the International Atomic Energy Agency (IAEA) in Vienna and the European Economic Commission of the UN. Helcom cooperates also with a number of bilateral research programs of Baltic states.

Two elements are worth emphasizing in the regulations introduced in the Helsinki Convention. First of these relates to the manner of resolving conflicts concerning interpretation or application of the Convention (Art.18). This point is important for the enforcement of cohesion of the regional system of protection of the marine environment of the Baltic Sea, established through the Convention. The second of them is the postulate of the open nature of the Convention, which can be joined by any country, provided it is invited to do so by all the states – parties to the Convention.

Poland is actively supporting the thus broadly understood protection of natural environment of Baltic Sea, and this attitude was confirmed during the first historical meeting of the prime ministers of Baltic countries which took place in Rønneby on September 2nd and 3rd of 1990. During this conference, devoted to protection of the environment of Baltic Sea, Polish side deemed it especially important to establish an ad hoc special task force which would elaborate a comprehensive program of saving the Baltic Sea. Establishment of such a task force would strengthen the roles of Gdańsk and Helsinki Commissions and would lead to an even closer cooperation between these two bodies.

The fact that Czecho-Slovakia, Norway and EEC took also part in this conference was the confirmation that they are ready to join the Helsinki Convention, which would mean a broadening of the geographical reach of the Baltic system of environmental protection.

2. Institutions of multilateral cooperation of Nordic countries taking up the problems of Baltic-wide collaboration

The regional cooperation of the Nordic countries has the tradition of many centuries and is based upon the cultural identity of these countries as well as the far reaching community of interests. This cooperation includes almost all domains of social relations and its participants are governments, state institutions, regions and administrative units, as well as individual citizens. Nordic countries, constituting a certain integrated area, have elaborated many model patterns for regional cooperation, which can be used over the wider area of Baltic Europe. In the considerations we present further on attention will first of all be concentrated on these

Nordic institutions which in a certain period of their activity have reached outside of their previous geographical domain and took up the problems of cooperation in the whole region of Baltic Sea, and it can be expected that also in the future these institutions will play a definite role in the Baltic cooperation.

According of the treaty of 1962, concerning Nordic cooperation, amended anyway several times since then, cooperation is carried out in the framework of the Nordic Council, the Nordic Council of Ministers as well as specialized state institutions. The treaty of 1962 says that its signing parties, i.e. Denmark, Finland, Iceland, Norway and Sweden, will be developing cooperation in the domains of law, culture, transport and communication, and, more generally, in social and economic spheres. The organs common for all the Nordic countries are only barred from taking decisions concerning national security and foreign policy.

The Nordic Council, which was created in 1952, constitutes a forum of cooperation of the parliaments and governments of the Nordic countries. Its opinions and recommendations are not binding with respect to member countries, but they are usually taken into consideration by these countries. Within the framework of this Council there act six standing specialized commissions, dealing with economy, law, communication and transport, culture, society and natural environment. The recommendations and opinions issued by the Nordic Council are addressed primarily to the Nordic Council of Ministers, established in 1971 with the purpose of intensification of cooperation among the member countries. The meetings of this body gather the ministers for Nordic cooperation of particular countries as well as ministers responsible for the domains discussed at the given meeting. Unanimous decisions of this body are binding for the governments, although in some cases these decisions should be ratified. Both these organs of the Nordic cooperation are collaborating closely with each other, while preserving their autonomy. Until 1989 activity of both these institutions, however, did not exceed the geographical sphere of the Nordic countries.

Changes which took place in Eastern Europe at the end of 1980s opened up new possibilities of cooperation between the Nordic countries and the remaining states of the Baltic Sea basin. It was already in 1989 that the representatives of the Baltic Republics took part as observers, on their own initiative, in the plenary session of the Nordic Council. Members of the Council did then submit a number of proposals concerning intensification of Nordic cooperation with respect to countries of Eastern Europe, especially in the domains of environmental protection, culture,

education as well as democratic institutions. In August 1990 the Presidium of the Nordic Council presented the suggestion of its Economic Committee concerning the matter of urgent study into the possibility of granting a financial support to Baltic countries. During the 39th plenary session of the Nordic Council, at the beginning of 1991, the Baltic Republics were unanimously admitted as guest members, although the statute of the Nordic Council does not envisage such a possibility.

On March 2nd, 1990, five Nordic countries signed the agreement on establishment of the Nordic Environmental Protection Financing Corporation (NEFCO), which will be managed together with the Nordic Investment Bank (NIB). The task of the new corporation is to promote in Eastern Europe investment projects which are important from the point of view of ecological interests of the Nordic countries. This task will be realized through support of financing of these enterprises in Eastern Europe which, through formation of "joint ventures", technological transfer or other forms of cooperation with the Nordic firms, take up the undertakings which serve environmental protection.

Another initiative, of the Nordic Council of Ministers this time, was establishment of the scholarship program supervised by the Council, serving the development of contacts between the North and the Baltic Republics. Within the framework of this program altogether 5 million Danish crowns were disbursed for the years 1990-1991 for purposes of financing research and education scholarships.

The Nordic Council of Ministers has also taken the decision on the opening of the Nordic information bureaus in Tallinn, Riga and Vilnius, these bureaus meant to play the role of centers of information, documentation, intermediary and practical assistance on the line between these republics and the Nordic states.

Since the IInd World War until the end of 1980s as many as 95 common Nordic institutions of specialized cooperation were established, of which approximately half were formed on the basis of decisions of the Nordic Council of Ministers. The greatest number of institutions function in the domain of economy-technology-industry, then in science and research, in culture and education and finally in social and legal domain.

The institutions of Nordic cooperation went through many years of an evolutionary process. It sometimes occurred that in the instance of establishment they encompassed just a part of the Nordic countries, and after some time other Nordic countries would join them. In some cases such institutions were becoming the focusses around which other Baltic countries would concentrate, interested in cooperation in a given area.

An example may be provided by the agreement reached in 1961 by four Nordic countries (Denmark, Finland, Norway and Sweden) concerning cooperation with respect to the use of ice-breakers.

3. Baltic-wide non-governmental institutions

The non-governmental institutions of Baltic-wide cooperation are not too numerous and their history is usually as yet relatively short. Among the most important of them one should cite the Conferences of the Baltic Chambers of Commerce, created in 1972 upon the initiative of Commerce and Industry Chamber from Lübeck. These conferences are taking place every two years in various locations on the Baltic coast and gather the members of chambers of commerce, as well as representatives of economic and industrial institutions. The subjects of discussions are, in particular: foreign trade, transport capacities, environmental protection, tourism and recreation, energy supply, information exchange, and also education and schooling. The results of the work at these conferences are transmitted to the governments of Baltic countries and to other authorities and institutions, via the intermediary of chambers of commerce. In the periods between the conferences the Executive Committee is convening.

One of the most visible effects of the activity of the conferences of Baltic Chambers of Commerce was the Baltic Tourism Conference which was organized 1984 in Lübeck and at which the representatives of commercial tourism organizations and of a number of Baltic towns met and discussed the subject of promotion of tourism in the region of Baltic Sea.

Another kind of conference initiated by the Nordic countries is the Baltic Conference of University Rectors, which used to convene quite sporadically at the beginning, but then, since 1988 – it would meet regularly. It was, however, only the Conference of Rectors which was held in 1990 in Gdańsk that had the character of a Baltic-wide meeting, since in the previous ones merely the rectors of German and Nordic universities were taking part.

The recent institution of the Baltic-wide reach is the Union of Baltic Towns, a non-governmental organization, established on September 20, 1991, during the conference of Baltic towns in Gdańsk. Declaration of creation of the Union was then signed by the representatives of 32 towns (and the number of members increased in the subsequent months). According to the statute of the Union the municipal cooperation includes such domains as: environmental protection, trade and commerce, trans-

port, marine economy, culture, science and tourism. Mayor of Kalmar in Sweden was elected the President of the Union with two-year term, and it is in Kalmar that in the spring of 1992 the subsequent Conference of the Union of Baltic Towns will take place. The seat of the Union is located in Gdańsk, where the Secretariate of the Union is located for the first term. Three working groups which were functioning during the Gdańsk conference (dealing with problems of telecommunication, environmental protection, and transport and marine economy) were transformed into standing Commissions of the Union. According to the statute of the Union this organization is open and it can be expected that the number of its members will somewhat grow yet.

4. Baltic-wide institutions being presently created or designed

The great increase of contacts over the area of Baltic Europe, which can be observed since the beginning of 1990s brought as its fruits numerous proposals of creation of new institutions of Baltic-wide cooperation, or of giving the previously loosely organized entities existing in this region a more formal nature. Especially high number of initiatives in this domain were forwarded by the three Nordic countries: Sweden, Finland and Denmark, and by Poland, as well as by the German federal land of Schleswig-Holstein, and also – in the category of Baltic towns – by Lübeck and Gdańsk.

Proposals submitted concerned cooperation carried out via the governmental and non-governmental channels, with a variety of membership and subject matter scopes. The farthest reaching suggestion was forwarded by the Swedish minister Mats Hallström during the seminar organized by the Presidium of the Nordic Council. He suggested that the point of time has been reached proper for institutionalization of cooperation in the Baltic region in the form of the Baltic Sea Council, which would be composed by appropriate decision makers and outstanding personalities. The purpose of functioning of the Council would be information exchange, exertion of influence on the public opinion, discussing of common undertakings and reception of recommendations. This proposal was mentioned with attention by the chairman of the Finnish parliament, Kalevi Sorsa, during the conference of representatives of parliaments of Baltic countries concerning cooperation in the region (held in Helsinki in January 1991). This proposal was clearly supported by the representatives of parliaments of Denmark, Norway and Sweden, and also Poland.

Numerous other MPs, as well as observers from the Nordic Council and from Helcom opted for institutionalization encompassing only selected domains of cooperation, such as environmental protection, transport or energy problems (1991b).

There exists a number of initiatives concerning granting of a more stable character to conferences (meetings) of leaders of definite ministries of the governments of Baltic countries. The conferences mentioned in this context are the ones convening the ministers of environmental protection and of transport, while the recent Danish-German initiative of October 1991 postulates that at the beginning of 1992, in Copenhagen, the First Baltic Conference of Foreign Affairs Ministers be organized, to be then also turned into a periodical meeting. It is similarly assumed that the Baltic inter-parliamentary conferences will be continued.

Let us remind here that Poland forwarded a number of initiatives concerning institutionalization of Baltic-wide cooperation in the domain of environmental protection during the Baltic conference in Rønneby. These proposals referred, in particular, to establishment of the Baltic Foundation of Marine Protection and of calling for the Center for Fighting Catastrophic Spills on Baltic Sea.

It is also worth mentioning that there has been a Nordic initiative of the second half of 1991, concerning creation of the Baltic Investment Bank, whose task would consist in supporting of the economic development of the Baltic Republics.

Other domains and problems constitute the subjects of the Danish initiative concerning creation in 1992 of the Baltic harbor town organization, or of "Ars Baltica" – the initiative originated by Schleswig-Holstein and aiming at development of the Baltic cultural cooperation, as an important element in construction of Baltic identity.

Finally, let us note yet an interesting undertaking of one of the Nordic countries, displaying a particular interest in the development of Nordic cooperation. In the middle of November 1991 the Swedish Baltic Institute started to function in Karlskrona. This institute is directed, on behalf of the Swedish Foreign Office, by the previous ambassador of Sweden in Poland. The task of the Institute is to support all kinds of undertakings in which there is a Swedish participation, whether public or commercial, carried out mainly on the opposite shore of Baltic Sea (including Poland). Particular attention is in this context attached to undertakings taken up in the domains of eco-investments and technology, communication and transport, as well as society and culture. Activities of this Institute have been joined by the Swedish-Polish Chamber of Commerce, existing since

1929. One of the first projects piloted and co-realized by the Institute is modernization and construction of the commercial and transport connection from Gdańsk over Elbląg to Kalinigrad (Królewiec, Königsberg).

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The overview of various institutional links existing among the Baltic countries, presented here, makes it possible to formulate a number of generalizing remarks:

1. The political divisions existing in the post-war period in the area of Baltic Europe hampered the development of institutional relations encompassing all the Baltic countries. The first connections of this type concerned the environmental protection of Baltic Sea, and therefore the domain which is relatively less negatively charged with the consequences of existing political divisions.
2. Along with emergence of advantageous political conditions at the turn of 1990s the interest of the coastal states in the development of cooperation on the scale of the whole region of Baltic Europe increased very considerably, and together with this interest – also the process of creation of Baltic-wide institutions intensified.
3. The most developed sphere of cooperation of Baltic countries, based upon two multilateral conventions, is protection of natural environment of Baltic Sea. There are two institutions created on the basis of these conventions: the International Commission of Baltic Sea Fishing and the Commission for Protection of Marine Environment of Baltic, which constitute the institutional foundation of the broadening connections among the states of region in the domain of environmental protection.
4. Cooperation in the domain of environmental protection entails development of cooperation in other domains as well, and in particular in financial sphere, this fact finding its reflection in emergence of new institutions or in widening of the scope of competence of the already existing financial institutions (like, for instance, the Nordic Investment Bank).
5. Experiences of the two recent years prove that Baltic states opt for a gradual construction of closer ties between the states of the region, with the pace tuned to the real needs and with the use made of the

already functioning institutions, concentrating mainly Nordic countries. It can be expected that the beginning of 1990s will bring into existence a number of new Baltic institutions of non-governmental character, but one should also envisage the possibility of emergence of institutions in which governmental representatives would take part as well.

6. Establishment of Baltic-wide institutions will entail creation of a whole system of connections among them. It becomes necessary to form adequate contacts between these institutions on the one hand and the organizations from outside of the Baltic region, such as the EEC or the agencies of United Nations.

Perspectives of economic cooperation in the Baltic Region

1. Introductory remarks

The purpose of the present report is to analyse the perspectives of economic cooperation in the broadly understood Baltic region in the light of the current political, econimico-institutional and social tendencies appearing in the countries of this region.

Considerations contained herein concern Germany, Denmark, Norway, Sweden, Finland, Russia (represented by Petersburg and the Kaliningrad province), Estonia, Latvia, Lithuania and Poland.

This part of the report tries to answer the following general question: will Baltic be a linking, an indifferent or a dividing factor for the economies of countries located around this sea?

2. Motivations of and conditions for the international economic cooperation – general characterization

There may be the following motivations to international cooperation (listed here in the sequence of their importance):

- pragmatic (economic),
- political, and

- emotional.

Pragmatic motivations consist in the will of potential partners of attaining concrete material benefits from cooperation. In conditions of market economy this pragmatic motivation can be reduced to the wish of selling (at high price) and buying (at low price), and of profitable location of capital. That is why in the pragmatic motivation the most desired are the partners who offer large sales markets and the partners offering large resources of raw materials, especially the ones of strategic importance, as well as economies having high profit rates, both economically and politically stable, where foreign investments can be profitably located.

Pragmatic motivation has the nature of *perpetuum mobile*, for advantages from cooperation encourage all the participants to continue cooperation.

Economic cooperation, motivated by political aspects consists in that one side is granting economic assistance in return for (more or less explicitly formulated) political concessions of the other side. Both the cost and the benefit sides of the effects for two partners concern different phenomena and lack a common denominator. Thus, the eventual balance of costs and benefits has a very distinct subjective character. This causes that the kind of economic cooperation mentioned is subject to instabilities and breakdowns.

Similarly, in economic cooperation motivated by emotional aspects one side is granting the other economic assistance, in this case, however, without expectation of political concessions, but due to pure empathy, like, for instance, because of cultural, ideological or emotional links. Because the altruistic motives play a marginal role in economy, the latter kind of cooperation is – excepting quite rare cases – of marginal importance.

Economic cooperation requires overcoming of the “resistance of the matter”. In other words, intensity and the nature of cooperation depend upon definite conditions. These conditions are as follows:

- economic: structural and current,
- materially-spatial,
- economico-institutional,
- political, and
- culturally-linguistic.

We will now comment on these conditions and potential motivations of cooperation in the region of Baltic Sea, with special attention paid to socio-political and institutionally-systemic aspects.

3. Conditions for economic cooperation in the Baltic region

3.1. Political conditions

Political situation is undergoing now essential changes: stresses caused by the division of the region into military-political blocks have disappeared almost completely, tensions in bilateral relations between the countries of the region are of marginal nature, while political stability has significantly deteriorated, especially in the post-socialist countries of the region.

The international and the internal political situation and its perspectives in particular states and parts of the region is as follows:

After the ultimate legal regulation of territorial problems between Germany and Poland (the state border treaty and the general Polish-German treaty, both ratified in 1991, as well as the Polish-East German treaty on the demarcation of territorial waters of 1989) the sharpest bilateral political conflict in the region of Baltic disappeared. In spite of the legal regulation of the problem, the historically conditioned lack of trust from the Polish side and the doubts as to the intentions of the German side still exist, exerting negative influence upon the bilateral economic cooperation. An expression of this is a rather critical attitude of the Polish public opinion towards the German proposal of the German-Polish economic border zone. Tensions in Polish-German relations, although capable of hampering bilateral economic cooperation, are sufficiently small to not constitute any threat to cooperation of any of those countries with third partners, and even to the contrary, in the case of Poland these tensions encourage closer cooperation with other countries (including those located at the opposite coast of Baltic Sea), so as to equilibrate the influence of Germany.

Problems of bilateral nature exist also in case of Polish-Lithuanian relations, this time mainly in the context of the situation of Polish minority in Lithuania.

When speaking of Polish-Lithuanian relations one should mention that they are closely followed by Germany, trying to establish whether Poland applies in its relations with Lithuania and with Germany the prin-

ciple of analogy (i.e. whether Poland is ready to grant its German minority the same kind of rights it is demanding for Polish minority in Lithuania).

Tensions having territorial background exist in Lithuanian-Byelorussian relations. Thus, according to Byelorussian side the region of Vilnius is ethnically Byelorussian and Byelorussia considers itself a heir to the Grand Duchy of Lithuania to not a lesser degree than the present Lithuanian state. Although Byelorussian authorities are not officially submitting any territorial demands, a certain degree of tension persists.

A potential source of tensions in the relations of Lithuania with its eastern neighbours (Byelorussia and Russia) may also be constituted by the situation of the Eastern Slavonic (Russian and Byelorussian) minorities, by the question of withdrawal of Russian troops from Lithuania and the transit from Kaliningrad (Królewiec, Königsberg) through Lithuanian territory to Russia. In case of a coincidence that would be disadvantageous for Lithuania, the above tensions may become an essential obstacle not only in developing good economic relations with the neighbours, but also with the third partners.

Similar problems connected with the situation of the Russian-speaking minority and the Russian troops may also appear in relations of Latvia and Estonia with their eastern neighbour. Summing up, however, and taking into account the pragmatic attitude of the leaders and populations of Latvia and Estonia, it does not seem that relations with Russia could really be spoiled due to their fault.

Memories of territories lost to Russia exist in Finland, but this fact has no real influence on Finnish-Soviet relations. A much more important potential threat is related to the possibility of mass migration from the post-Soviet areas to Finland, made much more probable and easy by the closeness to the Finnish border of 5-million town of St.Petersburg, where hardships connected with food supplies are especially sharply felt. One should be reminded here that population of Petersburg equals that of whole Finland.

As far as relations among other countries of the region are concerned, there are no essential problems, although there occur conflicts caused by opposing economic interests, such as the Danish-Finnish conflict about the designs for construction of bridges over Danish straits, meant to connect Denmark with Sweden. Such bridges would make more difficult transporting of drilling rigs, exported by Finland. This conflict was resolved by the verdict of the International Court of Justice in The Hague to the benefit of Denmark.

As regards the internal political situation, it is most stable and peace-

ful in Scandinavian countries, although even there, especially in Finland, certain tensions have recently appeared, related to economic difficulties.

Situation in Germany is very differentiated – quite stable in Western Germany and quite tense in Eastern Germany, i.e. in the previous German Democratic Republic. These tensions find their expression mainly in frustration caused by economic hardships, reprivatization (meaning quite often that facilities used by Eastern Germans are being handed over to their previous owners, living in Western Germany), and domination of newcomers from the western part of the country in all the domains of public life. A very well visible symptom of tensions are the atmosphere and acts of violence directed against foreigners, especially in Eastern Germany. A large weight of the stable western part of the country in the united German state causes that tensions in the eastern part have just a regional significance. They can negatively influence, however, the international economic cooperation, and especially the Polish-German across-the-border cooperation.

Internal situation of Poland, considered for a longer time already in the West to be unclear and unstable, underwent, in the opinion of external observers, a deterioration after the parliamentary elections of October 1991 and the difficulties in formation of government, which followed these elections, as well as the wave of labour protests. Thus, political situation of Poland is perceived as quite uncertain and unstable, which is not advantageous for involvement of the serious Western capital in Poland and reduces actual international economic cooperation to simple trade.

Situation of post-Soviet Baltic states is, likewise, uncertain. This concerns, first of all, Lithuania, which after the first period of international sympathy is more and more often encountering criticisms from the West¹.

There is even more uncertainty as to the situation in Russia (and the whole previous territory of USSR), this uncertainty strongly influencing

¹The influential British weekly *The Economist*, in its analysis of conditions which should be set by the West when granting economic assistance to republics of the previous Soviet Union, published the following remarks: *Close economic, political and military ties with the West should be offered only those who are prepared to observation of the rules established in Helsinki declaration of 1975, signed by the United States, Canada and all the European countries including USSR. The Helsinki rules refer also to the manner in which governments treat their citizens. Until the missed Moscow coup d'etat western governments had not cared much as to how these republics behave in their own yard, believing that Kremlin was responsible for everything. The manner, however, in which Lithuanians are treating their Polish minority or in which Georgians are treating Ossetians (and vice versa) gives sufficient basis for anxiety for the external observers. The West can offer these republics assistance in overcoming their difficulties. Those, however, which are persistently breaking the accepted rules, should be conscious that they will loose western aid, "Divide and free", The Economist, October 19th-25th, 1991, pp.18-20.*

the estimates as to the perspectives of Russian peri-Baltic areas (Petersburg and Kaliningrad), although in these areas themselves the situation is as of now stable.

Situation in Russia has essential influence upon the whole Baltic region, and especially on its eastern part, from Finland down to Poland. This influence will force the countries mentioned to intensify their relations with other countries, in order to counterbalance the negative shocks from the side of Russia. Finland tends to have closer ties with the EEC, Poland – with EEC and additionally with other countries of Central Europe, while Lithuania, Latvia and Estonia see their main opportunities in relations with Scandinavian countries. Thus, economic and political destabilization of Russia will have (in spite of some exceptions) altogether a negative influence on the perspective of cooperation of countries of the Baltic region.

An important element of internal political situation, which influences the perspectives of international economic cooperation is constituted by the attitude of local population and authorities to such cooperation, and in particular to the presence of foreign capital on own territory. From this point of view countries of this region should be classified into two groups: the rich and the poor ones.

In the rich countries there are no political anxieties as to the cooperation with the poor countries of the Baltic region. The problem becomes less obvious when we analyse the attitude of these countries with respect to cooperation with other rich states of the region. In case of Germany one observes that there are no reservations as to cooperation with the rich nor with the poor countries. The same, approximately, can be said of Denmark. In countries located on Scandinavian peninsula the situation is differentiated. Attitudes favourable for integration with Western Europe dominate in Sweden. These attitudes are reflected in the fact that Sweden officially demanded admission to the EEC. In Finland popular attitudes are much more moderate, although political and business communities are quite aware of the necessity of integration with Western Europe. Then, in Norway, public opinion has a rather negative attitude towards integration with the EEC, and this fact has to be taken into account by the authorities. An intermediate solution, which can be accepted by all parties, is formation of a free trade zone, encompassing the EEC and EFTA, and therefore also the Scandinavian countries².

Turning now to the poor countries of the region let us note that one

²More on the subject of psychologico-political conditioning for integration with the EEC in the Scandinavian countries can be read in German daily *Süddeutsche Zeitung*, where Jens

can observe certain apprehension in Poland with respect to foreign capital, and in particular – with respect to the German one – but it does not seem that this could entail essential difficulties for international cooperation.

In the post-Soviet countries the declared positions and attitudes are very advantageous and even enthusiastic. In the particular case of Kaliningrad province one can even speak of a certain euphoria connected with the perspective of the introduction of German capital³. This kind of atmosphere, though, should be looked at with significant skepticism, for it is often based upon purified, 'realistic images of what the market economy and foreign capital are, and they can easily change substantially after being confronted with reality.

3.2. Cultural and linguistic conditions

In the ten countries of the Baltic region there are ten various official languages. Such a multiplicity of languages may suggest important, purely linguistic, difficulties in communicating. This, however, is not the case. Such a situation is brought about by two main factors: significant affinity of certain languages (Danish, Norwegian and Swedish; Finnish and Estonian) and existence of languages playing the role of intermediaries (with, additionally, bi-linguism, which is quite common on vast parts of the region considered).

The main international language of the region is English. It is commonly known and spoken in Scandinavian countries, and rather frequently in Germany. Knowledge of English, on the other hand, is poor or none in the post-socialist countries (in the zone where Russian has been considered the international language), which may hamper contacts, and especially circulation of information between the north-western (rich) and the south-eastern (poor) parts of the region.

There are certain prerequisites for German language, as well, to play the role of the international language in the Baltic region. This language is also quite popular in Scandinavian countries. Presently, we are witnessing a distinct effort on the side of Germany to increase the international significance of the German language, especially just in Central Europe and in the Baltic region.

Schneider writes: *No time to loose, no time to play with. Sweden wishes to join in quickly, and in Finland and Norway the EEC-discussion is going on.* Süddeutsche Zeitung, 24 October, 1991.

³This is confirmed beyond any doubt by the press reports (in Polish as well as in foreign press), by the reports in Soviet TV broadcasted in Warsaw etc. See e.g. Jacek Borkowski: "Podróż do Kantogrodu" (A Journey to Swindelburg), Gazeta Wyborcza, 27 May, 1991.

As far as the cultural-religious aspect is concerned, in spite of obvious differences between the countries involved there exists also a significant similarity, resulting from the fact that all the nations inhabiting the region belong to the broadly conceived European-Christian civilization. (At a certain point in time, after Reformation, Baltic was almost entirely an "internal Lutheran sea"). Links are especially strong with that respect among the Scandinavian countries (mainly Sweden, Finland and Denmark) and they extend to Estonia and Latvia, and through the latter – also towards Lithuania. It is certainly due to this aspect of the situation that the Scandinavian countries opened as the first ones their embassies in Lithuania, Latvia and Estonia, and these three latter states see, in turn, their "road towards Europe" as leading just through Scandinavia.

Taking into account the above considerations on the role of the linguistic and cultural factor one can expect that the south-eastern part of the region will become the area of German-Scandinavian cultural competition and German-English-Russian linguistic competition. The reduction of the language and culture barriers will undoubtedly encourage intensification of economic cooperation, but this factor should rather not be overestimated. It is namely possible that the cultural-linguistic competition could easily turn into a propaganda-and-advertising warfare without essential economic implications.

3.3. Economo-institutional conditions

These conditions entailed until quite recently a distinct division of the region into the north-western and south-eastern parts. The barriers related to this kind of conditions were mainly responsible for the fact that the transbaltic economic cooperation and trade have had a marginal character. In the north-western part there was market economy with an important role of the state, while in the south-eastern part there reigned bureaucratic economy referred to as centrally planned, whose main features were shortage economy, lack of convertible currency, non-market principles of price formation, monopolistic structure of economy, bureaucratic allocation of investment funds and location of investment projects, as well as drive towards autarchy. The latter tendency concerned national economies as the wholes. Its consequence is, for instance, reflected in the fact that the post-Soviet Baltic states have structures of their economies strictly adjusted to the structure of economy of the whole previous USSR⁴.

⁴This problem is widely commented in the report *Economic Survey of the Baltic Republics*, Stockholm, June 1991, parts I and II.

Presently, the Baltic region is going through institutionally-economic transformations, although with various intensities in its various parts.

The most dramatic transition from the planned economy to the market-based one is taking place in Eastern Germany. A closer look at this particular problem would require, however, a separate report. We should only, perhaps, in this place turn attention to some aspects of the problem. Introduction of convertible currency in the previous German Democratic Republic, after an actual revaluation of East German mark (conversion of a large part of monetary assets, wages and incomes at the 1:1 exchange rate, while the true buying power of East German mark was several times lower), abolition of customs barriers and other measures of protection of internal market, as well as socio-political perturbations, staff changes in Eastern German enterprises etc.etc. caused complete loss of competitive capabilities of Eastern German goods as compared to the ones from Western Germany and the EEC in general. The result was dramatic drop of production value. According to the data of the International Monetary Fund the industrial production on the territory of previous German Democratic Republic decreased at the beginning of 1991 to the level of less than 40% of its value in 1985. (Industrial production value in Western Germany increased in the same period by more than 20%.) There emerged also and grew quickly another negative phenomenon – unemployment (to more than 12% of labour force).

Simultaneously, massive privatization and reprivatization processes are taking place. Until the end of September of 1991 Treuhand (the trustee office responsible for privatization of state enterprises) has sold almost 4 thousand (3788 exactly) out of 8 thousand state enterprises it was entrusted with. The income from the sales amounted to 13.8 billion German marks, and the investments promised by the purchasers to take place in the nearest years – 85.2 billion German marks⁵.

When speaking of transformations in the Eastern German economy one should note that they are occurring in conditions of massive transfer of financial means from Western Germany. This transfer during the first year after reunification has been estimated at some 100-150 billion German marks⁶. An important part of cost related to this transfer is borne by the central budget, which is the cause of significant budgetary deficit. In 1990 this deficit amounted to 75 billion German marks (instead of the

⁵"Treuhand privatisiert 410 weitere Unternehmen" (Trustees privatize subsequent 410 enterprises), *Süddeutsche Zeitung*, 19/20 October, 1991.

⁶"Germany's Support for Integration is Impressive, Says OECD", *IMF Survey*, August 26, 1991.

10 billion deficit which had been planned for that year) and in 1991 (until October) it amounted already to 130 billion German marks, i.e. 4.5% of GNP⁷. In autumn 1991 first signs of renewed activity in the economy of previous German Democratic Republic, at least in certain branches, could be seen, like e.g. in construction. It is emphasized, though, that this is not the effect of systemic changes, but rather the effect of massive financial infusion motivated by political considerations⁸.

Significant burdens which must be borne by German economy in connection with institutional and systemic transformations and with restructuration of the previous German Democratic Republic cause that the foreign expansion capacities of Germany, including expansion over the area of the Baltic region, are as of now strongly limited. These capacities will radically increase when the processes of transformation and restructuration are terminated.

As far as Scandinavian countries, belonging to EFTA, are concerned, the transformation processes which take place in their territories are mainly oriented at adjustment of their economies to the system in force in the EEC and enhancement of their competitiveness. These processes, speaking very generally, consist in reduction of the constraints to the market mechanism, imposed by the welfare state model of Scandinavian countries. In particular, these processes consist in privatization of enterprises owned partly by the state (thus, for instance, the center-right government of Sweden, formed in 1991, plans privatization of 35 large enterprises), diminishing of the tax burden on entrepreneurs and limiting the social benefits (especially the sick leave payments)⁹

The process of liberalization of Scandinavian economies involved also the very important banking sector. This particular process started several years ago. Until that time activity of the banks was closely controlled by the state. Banks, when liberated from the state control of loans and investments, turned out little capable of independent taking of economi-

⁷"Bundesbank kritisiert hohes Defizit" (National Bank criticizes high [budgetary] deficit), *Süddeutsche Zeitung*, 22 October, 1991.

⁸To cite: *Economic activation in Eastern Germany is not a self-propelled process, for this process is not based upon the action of market forces, but on the far-reaching transfer of means and on the state policy with respect to labour market*, "Herbstgutachten sagt für 1992 Aufschwung voraus", *Süddeutsche Zeitung*, 22 October, 1991.

⁹See: "Schwedische regierung privatisiert 35 Unternehmen" (Swedish government privatizes 35 enterprises), *Süddeutsche Zeitung*, 12 November 1991, or: Piotr Cegielski: "Szwecja prywatyzuje sie: 35 koncernów dla krajowego i zagranicznego kapitału. Prawo na burt" (Sweden privatizes itself: 35 corporations for home and foreign capital. To the starboard), *Gazeta Wyborcza*, 16-17 November 1991.

cally rational decisions. The consequence was first a credit expansion of the banks and then (presently) their great difficulties¹⁰. These difficulties found their expression in such events as the actual bankruptcy of the second Norwegian bank (Christiania) in October 1990, important troubles of the third one (Fokus Bank), takeover in August 1991 of Skopbank, the greatest Finnish savings bank, by the Bank of Finland, in order to save it from bankruptcy, rescuing of the greatest Swedish savings bank, F3rsta Sparbanken, by the Swedish government at the cost of 609 million US dollars, and previous rescuing of the Swedish Nordbanken bank at the cost of 800 million US dollars. Financial troubles of Scandinavian banks are not, of course, a good precondition for economic cooperation, including cooperation over the Baltic region.

High significance for the Scandinavian countries should be attributed to formation of the already mentioned free trade zone called European Economic Area (EEA), previously referred to as European Economic Space (EES), into which countries belonging to EFTA (i.e. Sweden, Norway, Finland, Iceland, Austria, Switzerland and Liechtenstein) and to the EEC will be included. The agreement on formation of EEA was signed in October 1990 after a year and a half of negotiations, and it becomes valid in 1993. Within EEA the so called "four freedoms" will be observed, namely: free flow of goods, service, capital and labour (with certain restrictions concerning purchasing of fixed assets and estates as well as secondary export of goods imported from outside of EEA). The EEA has an asymmetric nature, since countries of EFTA will not participate in making of decisions concerning EEC, while they will have to adjust themselves to these decisions. In spite of this asymmetry it is held that EEA will be more advantageous for the countries of EFTA than for the EEC, mainly because of the dimensions of markets of both these economic groupings – 350 million consumers in the EEC versus 40 million (albeit, in fact somewhat richer) in the EFTA. In order to grasp the difference of economic potential of the two organizations suffice to note that the GNP of the whole of EFTA is equal to just half of GNP of Germany alone. The share of EFTA in the exports to countries of the EEC was in 1990 at 10%, while the share of EEC in the exports to countries of EFTA was in the same year at as much as 58%. In order to equilibrate the balance of losses and advantages the countries of EFTA took obligation of making

¹⁰These difficulties are commented upon, for instance, in: "Troubled Times in Scandinavia", *The Wall Street Journal Europe*, October 1991; "After-the-boom hangover for Nordic banks", *The Times*, October 15, 1991; "Scandinavian banks. Disaster-prone", *The Economist*, October 19, 1991.

certain concessions to the other group - Norway and Iceland to increase the fishing quota for Spain and Portugal, and the whole of EFTA - to bring in a financial input for the benefit of the poorer EEC members from the Mediterranean. (This financial support ought to consist of the sum of 850 million German marks, paid to the budget of the Community over the period of 5 years, 1.15 billion German marks for subsidizing of the credit interest rates and 4 billion German marks in the form of 5-year credits with 3% interest rate)¹¹.

Formation of the European Economic Area will have an indirect significance for the perspectives of economic cooperation in the Baltic region. This event will result, on the one hand, in the fact that cooperation between the richer countries of the region will intensify, and on the other - that the competitiveness of the cheaper countries of the EEC (especially the Mediterranean ones), as the suppliers of goods to the Scandinavian countries and the space for location of Scandinavian capital, will increase. Thereby the attractiveness of the poorer countries of the Baltic region for Germans and for Scandinavians diminishes.

One should not, however, overestimate the negative influence exerted by the European Economic Area on the post-socialist countries of the Baltic region. The chances of these countries depend, namely, mainly on themselves, on their economic and institutional settings, political stability and the access to Western European markets.

As far as the economico-institutional transformations in the post-socialist countries of the region are concerned, Poland is the country in which these processes are most advanced. The institutional-systemic foundations for the market economy have in principle been established: free market of commodities, well ordered and relatively stable prices, convertible currency (although at present only - theoretically - internally), significant share of the private sector in economy, elements of labour and estate market, banking system with separation of the emitting bank from the commercial ones etc. What is lacking is first of all the material and technical side (transport and communication infrastructure), the adequate tax system as well as business skills and habits corresponding to conditions of market economy, as well as stability of regulations and of the general political situation. Association with the EEC and the conditions of this

¹¹The problems of the European Economic Area are taken up in: "EFTA Likely to Gain from Integrated Europe, Says Study", *IMF Survey*, March 4, 1991; "Lest a fortress arise. Europe's two trade areas have formed an alliance. There will be gains aplenty", *The Economist*, October 26, 1991; "European Economic Area - A short shelf-life", *The Economist*, October 26, 1991; "Verhandlungen über Alpentransit offenbar beigelegt" (Negotiations over transit through the Alps apparently settled), *Süddeutsche Zeitung*, October 22, 1991.

association giving Poland certain preferences (the asymmetric reductions of customs taxes, advantageous for Poland) provide an opportunity for a beneficial cooperation with the EEC. The greatest problem for Poland at present is how to ensure that the necessary anti-recession measures do not entail significant losses to the achievements in the systemic-institutional domain, and how to ensure a longer-standing political and economic stability in Poland. If Poland does succeed in simultaneous fulfillment of both tasks, i.e. attainment of a decent economic growth, and progress (or at least not a regress) in formation of institutional bases of market economy, then it will become an attractive partner for foreign countries, including western and northern neighbours located around Baltic Sea.

The situation is much more difficult in the post-Soviet area of the Baltic region, both in Russia and in the independent republics of the Baltic coast. On this whole area there reigns the kind of economy which can be described as the socialist economy of hyper-shortages in the state of decomposition. Market forces are limited almost entirely to informal economy and criminal activity, and are seen as criminal by significant portions of population. The only real symptoms of market functioning in the legal sector are price increases. This phenomenon should be noticed, since it means that the societies accept price increases which, after decades of ideologically motivated stabilization of prices constitutes a significant psychological breakthrough, necessary for introduction of market economy. In these countries there is a lot of talking about privatization. Thus, for instance, in Lithuania, even a law on privatization and reprivatization of arable land, as well as appropriate procedures in this domain, was passed¹². Real effects will not come soon, though. Although the Baltic Republics (and especially Lithuania, which made already adequate decision) declare the will of having their own currency (Russia and Estonia are also mentioning this step), but they treat this matter rather in the categories of a symbol of state sovereignty, and not in terms of economic categories. It is not known, for instance, what will be the exchange rate of the Lithuanian currency, lit, with respect to Russian rouble and other currencies, whether it will be convertible or not, what will be the exchange rate policy in the future, and so on. In addition, it is observed

¹²For the text of this resolution in Polish language see: "Uchwała rządu Republiki Litewskiej Nr 423 O opracowaniu projektów urządzenia reformy rolnej oraz zatwierdzaniu metodyki ich uzasadnienia ekonomicznego w miejscowościach wiejskich" (The resolution of the government of Republic of Lithuania No.423 On the elaboration of designs for organization of land reform and acceptance of the methods of their economic justification in rural settlements), *Kurier Wileński*, 23 October, 1991.

that the leaders and the managing staff in these countries display little understanding of the mechanisms of market economy¹³.

Altogether, it should be stated that the post-Soviet area of the Baltic region lacks in the elementary institutional foundations for the market economy. The three independent Baltic Republics are in a somewhat better situation due to their small dimensions and therefore to the possibility of concentration of foreign aid and greater flexibility of action.

3.4. Structural and current economic conditions

The economies of countries of the Baltic region are structurally complementary. On the one hand there are rich countries (Germany and Scandinavian countries¹⁴) with high demand and high cost of living (the latter statement concerning in particular the Scandinavian countries), and on the other hand – poor countries with low living costs and low wages. Big differences between the North and the South of the region, determined by climate, are reflected in the natural productivity of agriculture of the region. Agriculture of the Scandinavian countries functions to a large degree due to subsidies (which play there an even greater role than in the EEC).

In the hinterland of the areas of southern and eastern coasts of Baltic Sea there are enormous territories of Russia and of other republics of the previous Soviet Union with their tremendous natural riches and the potential large sales markets, which are of interest for the western capital. Although this capital is primarily interested in getting directly in touch with Russia and with the other respective republics, it will often be forced to accept the service of intermediaries (at least in transport), which gives rise to an opportunity for the whole analysed south-eastern coastal area of Baltic Sea.

¹³This question is strongly emphasized in the lengthy report devoted to the economy of the post-Soviet Baltic Republics: *Economic Survey of the Baltic Republics*, Stockholm, June 1991.

¹⁴According to Schweizerische Bankgesellschaft the costs of living (the cost of a basket of goods plus the apartment rent cost) in 1991 in selected capitals of the world was (assuming the living cost for Frankfurt am Main = 100): Tokyo – 177, Oslo – 140, Helsinki – 136, Stockholm – 132, New York – 130, Madrid – 126, Zurich – 125, London – 117, Copenhagen – 112, Milan – 109, Paris – 103, Düsseldorf – 102, Frankfurt a/M – 100, Vienna – 94, Brussels – 90, Lisbon – 73, Athens – 70, Buenos Aires – 70, Cairo – 59, Bogota – 49. From: "Teure Städte – billige Städte" (Expensive towns – cheap towns), *Süddeutsche Zeitung*, October 22, 1991. This analysis does not provide data for towns in Central and Eastern Europe, it can be assumed, though, that the living costs there do not exceed (and in the nearest period will not exceed either) the level of Lisbon or Athens. This means that the living costs over the south-eastern coast of Baltic are by the factor of 2 or 3 lower than on the opposite, northern coast.

Norway disposes of significant resources of oil and gas. Poland is very much interested in the import of these energy carriers for purposes of diversification of its sources of supply and of getting more independent of fluctuations of political and economic situation in Russia.

The complementarity of economic structures of countries of the Baltic region creates merely the potential possibilities of intensive economic co-operation. Realization of these possibilities will in the long run depend on the previously considered institutional and political factor, and over the medium term time horizon (i.e. over several years to come) – also on the technical and material factor (first of all the state of the technical infrastructure). The technical-material barrier will soon be overcome if there appears an opportunity of a more long-term cooperation, advantageous for the western capital.

The chances for short-term cooperation depend upon current economic situation, although the actual influence exerted by this factor is not uniquely defined, e.g. in some situations bad economic outlook is hampering cooperation, while in some other it may, instead, motivate to more intensive international economic relations.

The economic situation in the post-socialist countries of the region is commonly known: everywhere (including previous German Democratic Republic) there is a decrease of production and consumption, although brought about by various reasons. In Poland and in Eastern Germany the main cause is lack of adequate demand (resulting from anti-inflationary policies) and competition from the side of more effective western economies. In the remaining part of the region the decrease of the value of economic indicators is caused by the breakdown of economic links, formed in the central planning system in conditions of lack of market mechanisms which would regulate the linkages between the economic agents.

Germany, as a whole, has – in spite of burdens resulting from reunification – a good economic situation. A steady economic growth of a few percentage points per year is observed. Considering the large economic potential of Germany this creates good perspectives of cooperation for their northern and eastern neighbours. Certain apprehension – especially in Scandinavian countries – is incited by the big budgetary deficit of Germany and appearance of this country as a customer on the international financial market, which causes an increase of the interest rate, entailing, as is known, a downward turn in the economic growth outlook.

As far as economic development situation in Scandinavian countries is concerned, it has recently been not too good. The worst is the situation

in Finland, which was hit the most by the collapse of the Soviet economy. It is expected that in 1991 there will be zero economic growth in Finland, although it has been quite not long a time ago at 5% per year. Unemployment in September 1991 was at 250 thousand persons, i.e. 10% of labour force, and it is envisaged that it might reach 350 thousand over the winter of 1991/92. There is a significant budgetary deficit. Selling of Finnish commodities on western markets encounters difficulties due to their high prices. In this situation Finnish government and trade unions made a dramatic decision of reduction of real wages by 7%¹⁵.

Worsening of economic outlook in Finland is generally influencing negatively the opportunities of cooperation of this country with foreign partners. On the other hand, reduction of production costs, performed with the aim of improvement of competitiveness of Finnish goods outside Finland will mean – if it succeeds – an easier access to Finnish products for economic partners of Finland. Simultaneously, the drop of real value of wages and the necessity of budgetary cuts will force changes in agricultural policy, that is – reduction of subsidies and import of cheaper food from outside, which, in turn, gives an opportunity for food producers (first of all from the EEC, but also from the southern part of the Baltic region).

It can altogether be stated that the influence exerted by the current economic situation on the perspectives of cooperation in the Baltic region is at present not uniquely defined. In the nearest years we can expect that there will be an improvement of economic development outlook in Germany, which will certainly add dynamics to cooperation around Baltic Sea, but decisive significance should be attached to the course of events in Russia.

3.5. Material-spatial conditions

In this point of the report the most important technical barriers to economic cooperation in the Baltic region will be signalled.

The greatest barriers appear in the domains of transport, communication and border infrastructure (border crossings) in the post-socialist countries. The quantitative shortages and the lack of reliability of the telephone network are commonly known and do not require additional clarifications. A bottleneck in the cooperation between Germany and Poland

¹⁵See: "Finnische Regierung probt Lohnsenkungen" (Finnish government tries out lowering of wages), *Süddeutsche Zeitung*, October 15, 1991, or: "Finnish Labour Unions Agree to 7% Pay Cuts In Move Considered Crucial for the Economy", *The Wall Street Journal, Europe*, October 22, 1991.

on the one hand, and Poland and Lithuania on the other hand, is constituted by the inadequate capacity of border crossings. In the nearest period of time such a bottleneck may appear on other segments of Polish north-eastern and eastern border. Another problem is related to inadequate network of road and rail transport. The potential and present demand for such an infrastructure is going to be met through implementation of the envisaged projects of construction or improvement of roads (highways) connecting Germany with Finland, crossing Poland, the Russian province of Kaliningrad, Lithuania, Latvia, Estonia and Petersburg. It is also worth deliberating whether the railway lines through the Baltic Republics should be reconstructed in terms of gauge (narrowing down to fit the European standard), though it should be kept in mind that besides indications for such an operation there exist also serious counterindications (like intensive transport connections with the areas of the previous Soviet Union, in which such a change of railway gauge cannot be expected).

The post-Soviet Baltic states do not have long distance air connections with other countries. Until present they have been using connections through Moscow. They are now looking for more rational solutions, like connections through Warsaw, Stockholm or other airports of the Baltic region. This would require more effective transport connections with these intermediate airports¹⁶.

An important problem in the region is constituted by energy in general and power generation in particular, especially from the point of view of environmental protection. Poland needs natural gas and oil from Norway (a pipeline, perhaps) and the extension to oil reloading capacities of its harbors. Ecological hazards are caused by power stations of "Chernobyl type", located in Eastern Germany and in Lithuania (Ignalina). They require modernization or liquidation. Potential liquidation of power station in Ignalina would entail serious problems for energy balance of Lithuania (Ignalina provides 25% of electric power consumed in Lithuania) and for relations of Lithuania with its neighbours (it supplies with electricity also Kaliningrad province and Byelorussia).

¹⁶See: "Mariaż LOT-u z Lietuvos Avijalinijos" (Marriage of Polish Airlines LOT with Lithuanian Airlines Lietuvos Avijalinijos), *Kurier Wileński*, 23 October, 1991.

4. Motivations to economic cooperation in the Baltic region

At the beginning of the present part of the report the statement was forwarded stipulating that the motives for cooperation can be classified into pragmatic, political and emotional (sentimental).

The pragmatic motives of economic cooperation in the Baltic region are different in the rich and in the poor countries. In the poor countries the goal is the economic development and one of the ways towards it is to make use of comparative advantages in the trade with rich countries and of the assistance offered by these countries. In the rich countries, on the other hand, it is living standard and quality of life objectives that play important role side by side with economic development. Quality of life is determined, in particular, by ecological situation and social peace. Both these elements depend to a certain degree upon the poorer neighbours: they may be the source of pollution of the natural environment, reaching the richer countries; they can also be the origin of mass migratory flows, disturbing social peace of the richer countries, towards which these flows are oriented¹⁷.

That is why the rich countries are interested in curbing of emissions of air and water pollution in the poor countries (this interest is first of all displayed in Scandinavian countries) and in bringing their own solid wastes out to the poorer countries. Consequently, rich countries are inclined to granting aid for construction of waste water treatment plants in the basin of Baltic Sea and for installation of filtering devices, for this means transformation of air and water pollution into solid waste, which will remain in the poor countries. The latter, therefore, should tend to avoid the situation in which assistance for environmental protection is reduced to transformation of one form of pollution into another, and to rather use this assistance to introduce such changes in technology and structure of production that will diminish the very emission of pollutants.

Rich countries are afraid of mass inflow of migrants from the East.

¹⁷The instance of Germany indicates how difficult is this problem. In spite of reunification, Eastern Germany is still serving as the dumping ground for Western Germany. There are more than 5 million tons of wastes transported every year from Western to Eastern Germany. This situation is perpetuated due to financial hardship felt by the East German federal lands and communes, as well as due to low fees for storage of wastes. Thus, for instance, in Brandenburg, the fee for deposition of 1 ton of waste from West Berlin is 42 marks, while in Western Germany this fee is 10 times higher. See: "Greenpeace prangert alte Bundesländer an - Müllexport nach Osten floriert weiter" (Greenpeace accuses the old federal lands - garbage export to the East still flourishes), *Süddeutsche Zeitung*, 12 November 1991.

That is why they are positively interested, in particular, in the improvement of conditions of living in their closest neighbouring countries, like the ones located to the South and East of Baltic Sea, and are acting in this direction through, for instance, economic assistance and concessions in the domain of international trade.

As far as the political and sentimental motivation of economic cooperation in the Baltic region is concerned one should expect that after the problems related to reunification of Germany are solved, there will be an economic expansion of Germany in this zone. It should be remembered that the area of the southern and eastern coast of Baltic Sea was not so long ago in terms of historical perspective almost entirely economically, culturally and politically dominated by Germany. The expansion mentioned will probably encounter competition from the side of Sweden, constrained, however, by the limited economic potential of this country. The competition between these two may be also joined by Russia, if it overcomes its economic crisis. Other participants of this competition, although active on a more local scale, might be Finland (in Estonia) and Poland (in province of Kaliningrad – Königsberg or Królewiec – and in Lithuania, particularly so in the area around Vilnius).

5. Conclusions

Perspectives of economic cooperation in the Baltic region depend first of all upon the degree of success with which the post-socialist countries of this region will implement market-oriented institutional reforms and ensure political stability.

If they succeed, then there will ensue an intensification of mutually advantageous trade and the growth of the volume of foreign (mainly German and Swedish) investments in post-socialist countries. These phenomena will follow in a way automatically, since they are the consequence of complementarity of the economies of countries located in the region considered, of their cultural affinity and of political motivations existing within them. These factors have until now been blocked by the inconsistency of economic systems and by existing geopolitical divisions. The adjustment of economic systems and the abolition of political divisions would simply open the way for the natural economic processes. In such conditions there will also follow liquidation of technical barriers. The changes taking place will find their reflection in rapid growth of some towns and subregions, and in particular – of communication centers and transport nodes, as well as centers of political and economic authority.

If, however, economic transformation and political stability are not ensured, then the rich countries of the region will rather tend to cooperate among themselves, leaving the countries located on the southern and eastern coasts of Baltic Sea at the margin of their economic interests. In the radically pessimistic scenario envisaging economic and political breakdown in Russia there could follow mass migrations of population along the coasts of Baltic (and not only there) and "boat people" will appear on this sea, just as it occurred between Vietnam and Hong-Kong and more recently between Albania and Italy.

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