



„Economic Development in the Baltic Sea Region“

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1. General characteristic of Baltic region countries economic development

In the modern world with its growing globalization and integration of countries into international processes, separate regions are becoming more independent. One of these regions is the Baltic region, which is a transnational region consisting of different countries micro regions and therefore it doesn't coincide with the frontiers.

There are no well-established geographic boundaries in the Baltic Sea Region. In a narrow sense it includes countries with direct access to Baltic Sea and which have the possibility to use direct shipping routes among themselves without crossing the borders of other countries. These nine countries are: Russia, Germany, Poland, Sweden, Denmark, Finland, Lithuania, Latvia and Estonia.

In a broad sense it is usually spoken about eleven countries being members of Council of Baltic sea states (CBSS) formed in 1992. Besides the nine countries listed before into the CBSS are included Norway - since 1992, and Iceland – since 1995.

And finally, in a broad sense of the term, Belarus is also considered as the country of Baltic region. The most obvious substantiation of Baltic region concept is fiziko-geographical. In its basis lies the “basin” principle, according to which the area of drainage basins of rivers flowing into Baltic sea belongs to Baltic region. According to this point of view Baltic region includes the whole territories of Lithuania, Latvia, Estonia, almost all Poland territory, the major parts of Sweden and Finland, over half of Denmark and about half of Belarus territory, northeast part of Germany and small areas in Ukraine, Czech Republic and Slovakia. The region also contains the northwest part of Russian Federation – St. Petersburg, Pskov, Kaliningrad oblasts, the major part of Novgorod region, part of Karelia, small areas in Arkhangelsk and Murmansk regions, as well as an area in Tver region in the central part of Russia.

There also exists the historical development principle according to which numerous people living near Baltic sea established different types of relationships with each other.

The basic term of Baltic region is given in the international program “Visions and Strategies Around Baltic Sea 2010” (“VASAB”)

In accordance with this program Baltic region includes Denmark, Sweden, Norway, Finland, Lithuania, Latvia, Estonia, Poland, Belarus, Germany federal states - Schleswig-Holstein, Mecklenburg-Vorpommern, Brandenburg, the cities of Berlin and Hamburg, federal subjects of Russia – city of St. Petersburg, Leningrad, Pskov, Novgorod, Murmansk, Kaliningrad oblasts and Republic of Karelia.

The territory of Baltic region is 2.4 million sq. km and covers 11 countries or parts of the countries (See fig.1).



Fig.1 Territory of Baltic region

The population of Baltic region is about 110 million people with average population density 46 people per km². More than a third of region inhabitants live in Poland, about a quarter – in Norway, Denmark, Sweden and Finland. Another quarter lives in seven Germany federal states. Baltic region is one of the most quickly developing regions in the world. The economic development rate in the region is higher than in the most developed European countries. It has a great amount of knowledge, capital and resources.

Baltic region is characterized by rapid growth of population prosperity that is achieved through the development of services, high-tech orientation of industry, good infrastructure, high level of employment.

The economic development rate of the territories of Baltic region differs. The countries of the post-Soviet territory such as Poland lag behind the northern countries and Germany

Therefore the countries that form Baltic region can be divided into main two groups:

Highly developed countries, related to the number of the technological leaders of the modern world (Germany, Sweden, Finland, Denmark).

Countries with low levels of development (Poland, Lithuania, Latvia, Estonia).

Table 1. The common information about countries of Baltic region, 2010

Country	Population	Territory	Population density	GDP, bln.\$		GDP (in PPP)
				In PPP	In exchange rate	
1	2	3	4	5	6	7
Russia	139 390	17 098.2	8.3	2 219	1 477	15 800
Russia (Northwestern Federal District)	13 437	1 687	8	331,6	220,7	24 676
Germany	81 603	356.7	230.5	2 815	3 339	34 200
Poland	38 464	312.7	122	688.3	430.7	18 836
Sweden	9 074	450.0	20.4	335.1	406.1	37 000
Denmark	5 516	43.1	127.0	197.5	310.1	35 900
Finland	5 255	338.1	15.6	178.9	238.6	34 100
Lithuania	3 545	65.2	51.6	55.2	37.1	15 500
Latvia	2 218	64.6	35.2	32.3	25.9	14 500
Estonia	1 291	45.2	29.6	23.7	19.3	18 300
Norway	4 676	323,8	14,4	276,4	335,3	59 100
Belarus	9 612	207,6	46,3	128,4	49,0	13 400

Source:www.cia.gov

Analysis of the table will show that by level of economic development Germany, Sweden, Denmark and Finland are on leading position. All of them are among the first 20 countries of the world in terms of GDP per capita (34000-37000 \$), and it provides high living standard for their population. These states take active part in international division of labor, they have high indices of foreign trade turnover and they are interested in the development of products' sale and receiving an access to raw material resources. So they are interested in development of connections with post-socialist countries. Russia is the leader of total population and economic potential. At present time the volume of GDP per capita lags behind the EU states, but it doesn't reflect real possibilities of Russia in connection with its abundant natural and labor resources, scientific and educational potential. The development level of Poland is lower, than in other economically developed countries, but the results of market reforms have affected the higher rate of GDP per capita. Among Baltic countries the leader by indicators of economic development is Estonia, Latvia lags behind.

Economic development of countries is characterized by economic structure, which determines the proportion of service industries, manufacturing and agriculture in national production.

Table 2. GDP structure of Baltic region countries, 2009

Country	Specific gravity in GDP structure of the countries, %		
	Service industries	Industry	Agriculture
1	2	3	4
Russia	62.4	32.9	4.7
Germany	72.6	26.6	0.8
Poland	63.7	31.1	4.0
Sweden	73.1	25.1	1.7
Denmark	76.9	22.2	1.1
Finland	69.0	28.2	2.7
Lithuania	69.1	26.7	4.2
Latvia	74.3	21.9	3.8
Estonia	71.0	26.5	2.6
Norway	52,7	45,1	2,2
Belarus	51	39,7	9,3

Source:www.cia.gov

Thus, economy of Germany, Sweden, Denmark and Finland can be called post-industrial (“service economy”), in other countries a large part of population is engaged in industry and agriculture.

Let’s analyze the economic development of countries (See fig. 2).

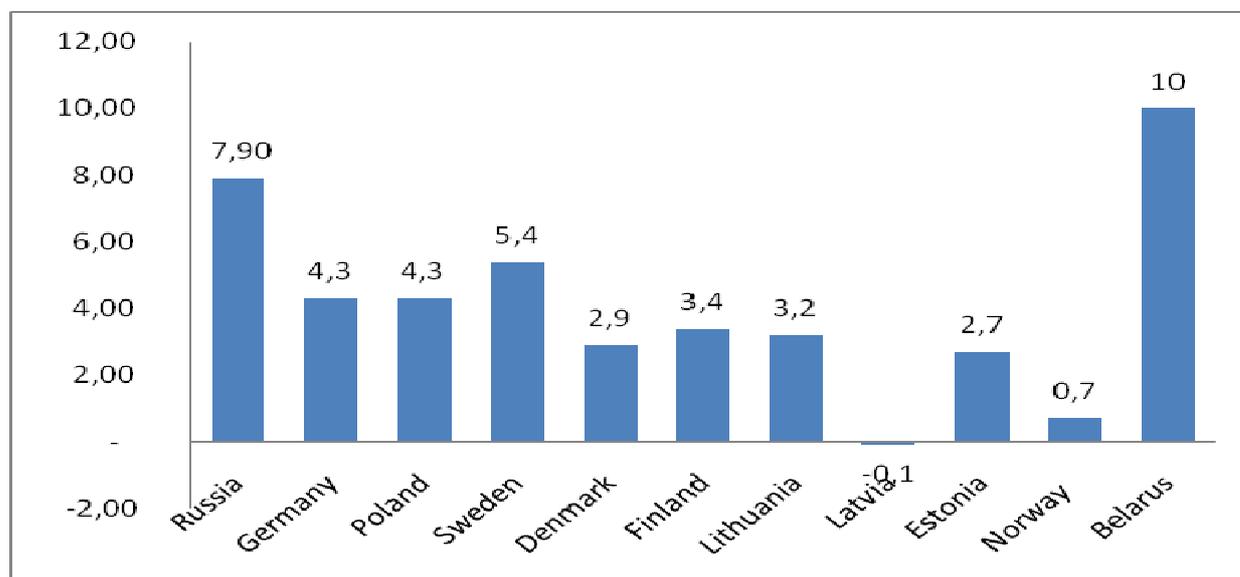


Fig. 2 GDP of Baltic region countries (Source:www.cia.gov)

Therefore, high rates of economic development are typical for Russia, Germany, Sweden and Poland, in which virtually overcome the consequences of economic crisis and, on the contrary, in Baltic countries its effects is still felt.

Baltic countries are characterized by the following trends:

1. The growth of foreign direct investment in the region. Small highly-developed countries (Sweden, Finland, Denmark) provided more than half of FDI into the region. The main areas of investment are trade, banking, transportation, and logistics. FDI inflows are particularly evident in Latvia and Estonian economy.

2. The development of intraregional trade. The volume of trade in the region in recent years has increased significantly. It indicates a high degree of interaction between countries and their active participation in the international division of labor. (See tab. 3 and tab. 4)

Table 3 The share of Baltic states in the mutual trade turnover, 2006, %

Country	The share of the country in a foreign trade turnover									Countries of the region
	Russia	Germany	Poland	Sweden	Denmark	Finland	Lithuania	Latvia	Estonia	
1	2	3	4	5	6	7	8	9	10	11
Russia	---	10.2	3.0	0.9	0.6	4.0	1.3	0.3	0.3	20.6
Germany	2.4	---	3.2	2.2	1.7	1.0	0.2	0.1	0.1	10.8
Poland	6.6	28.9	---	2.9	1.8	0.9	1.0	0.5	0.2	42.8
Sweden	1.3	13.6	2.0	---	7.8	5.8	0.4	0.3	0.7	31.9
Denmark	1.6	18.5	2.2	13.8	---	2.6	0.5	0.3	0.3	39.8
Finland	12.5	13.1	1.3	12.1	3.0	---	0.4	0.5	3.1	46.0
Lithuania	20.1	12.8	7.0	4.3	2.7	1.8	---	7.0	4.0	59.7
Latvia	8.7	12.1	6.4	5.8	3.5	4.6	13.3	---	9.2	63.6
Estonia	7.8	10.6	2.3	11.1	2.8	22.6	6.0	7.4	---	70.6

Source:www.cia.gov

Therefore, trade among countries in Baltic region reaches significant values. Leading role in the mutual foreign trade belongs to Germany, which dominates in the foreign trade among Baltic countries. We should also note the formation of the trade triangle Germany-Denmark-Sweden. While trade with the countries of Baltic region prevails in Baltic States, their share in Baltic trade is low because of the small commercial and economic potential. Now let's consider the mutual trade turnover of countries in 2009.

Table 4 The share of Baltic states in the mutual trade turnover, 2009, %

	The share of the country in foreign trade turnover	Countries of the region
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Country	Russia	Germany	Poland	Sweden	Denmark	Finland	Lithuania	Latvia	Estonia	
1	2	3	4	5	6	7	8	9	10	11
Russia	---	20.6	5.1	2.3	1.8	7.6	3.6	3.1	3.3	47.4
Germany	9.0	---	9.8	4.7	4.2	2.5	1.2	1.1	1.1	33.6
Poland	10.2	40.2	---	6.8	3.2	2.0	2.2	1.5	1.3	67.4
Sweden	5.0	25.1	5.2	---	16.5	11.5	1.6	1.1	2.3	68.3
Denmark	4.7	32.2	5.7	21.9	---	6.1	1.7	1.3	1.5	75.1
Finland	22.3	23	3.2	21.5	1.7	---	1.5	1.3	7.2	81.7
Lithuania	31.3	15.7	10.0	7.1	2.8	2.0	---	10.3	6.2	85.4
Latvia	21.9	17.4	8.1	6.8	4.6	2.9	20.3	---	6.0	88.0
Estonia	13.9	12.4	2.6	14.8	3.1	18.1	12.8	12.5	---	90.2

Source: www.cia.gov

Analysis of the table shows that the proportion of countries with developed market economies in trade with each other remains high, at the same time, they are important partners of Poland, Lithuania, Latvia and Estonia. The intensity of the turnover in the group of developing countries is relatively small. This indicates that these countries are more oriented to the regional leaders than to the trade with each other. At the same time, the aggregate share of developing countries in regional trade turnover increases. Their own production is becoming more widely sold in the markets of regional partners, especially in Sweden and Finland. Differences in levels of economic development create a "mutual attraction" due to the benefits of commodity exchange and placement of investment funds.

Let's consider the features of the economic development of individual countries in Baltic region

1. Russian Federation is the largest state in the world (17 075 400 km² or 11.46 % of total surface area of the Earth). Population is 141 927 296, at present time the country takes the 9th place in the world.

Russia has the biggest resources of natural gas in the world and also it's the largest producer of it. Moreover Russia takes the first-second place in terms of volume of extracting oil and the second place in terms of volume of its export.

The structure of economy is following:

Service industries – 62.4 %

Agriculture – 4.7 %

Industry – 32.9 %

The main macroeconomic indicators of economic development in Russia are presented in Table 5.

Table 5 Main macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
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1	2	3	4	5	6	7
GDP at PPP bln \$	1 697	1 894	2 117	2 276	2 116	2 219
GDP per capita, \$	11 823	13 269	14 888	16 033	14 913	15 800
Inflation rate, %	11.5	12.7	9.8	9.0	14.1	11.7
Unemployment rate, %	8.3	7.6	6.6	6.2	6.4	8.4
Gross exports, bln \$	162.5	245	317.6	355.5	471.6	303.4
Gross imports, bln \$	92.9	125	171.5	223.4	302	191.8

Source:www.cia.gov

Thus balance of foreign trade is favorable, inflation and unemployment rates are high.

Main branches of industry are production of electrical equipment, electronic and optical equipment, chemical industry, manufacturing activity, mining and quarrying of energy producing materials, pulp and paper production, publishing and printing, metallurgical production.

Main crop plants are: cereals, sugar beets, sunflowers, potatoes, flax. Meat and dairy, wool and livestock farming are developed in the country.

The development of economic and political connections with countries in Baltic region is extremely important for Russian Federation. Germany ranks first in terms of Russian foreign trade. Baltic ports have traditionally been considered as a "window" of Russia into Europe.

Northwestern Federal District of Russian Federation

Baltic sea region includes north-west regions of Russia which form Northwestern Federal District. It includes 11 subjects of the Russian Federation: Republics of Karelia and Komi, Arkhangelsk, Vologda, Murmansk, Leningrad, Novgorod, Pskov and Kaliningrad oblasts, Nenets Autonomous Okrug and the city of St. Petersburg. St. Petersburg is the federal city of Russia and the center of the District.

Northwestern Federal District has a favourable geopolitical position – it shares borders with Finland, Norway, Poland, Estonia, Latvia, Lithuania, Belarus, has an outlet to Baltic, White, Barents and Kara seas.

The district territory forms 9.8% of The Russian Federation territory.

The population on the 1st of January 2010 reached 13 437 thousands, which is about 9.5% of Russia population. Urban population makes 82.5%, rural – 17.5%.

The national structure is heterogeneous: the major part of the inhabitants are Russian, among other nations prevail komi, karelians, sami and nenets.

The manufacturing industry is the leading branch of the north-west economy. In 2008 share of the industrial production made 33% of GRP. Handle manufactures which release about 72% of industrial products (in Russia 63%) dominate in the branch structure of GRP.

Northwestern Federal District carries out the country's 6.8% of mining operations, 13.1% of handle manufacturing production and 11.7% of energy production.

The wood, woodworking and pulp-and-paper industries are the main industries of the district. Among the handle manufactures it is worth mentioning petroleum industry in Komi, extraction of iron and nickel ores in Murmansk oblast, marble in the south of Karelia, peat in Leningrad, Novgorod and Vologda oblasts.

The reindeer breeding, fur animal hunting and fishing are spread In Nenets Autonomous Okrug, Komi, Arkhangelsk and Murmansk oblasts. In Karelia, on the south of Komi and in Arkhangelsk oblast the dairy animal industry and agriculture are developed.

Table 6. Competitiveness evaluation of the Northwestern Federal District of Russian Federation

Indicator	Measuring units	Absolute indicator value
Territory	sq. km	1 687 000
Population	people	13 437 000
Density	people per sq. km	8
GRP	billion \$	220,671
SME quantity	un.	351 786
Unemployment rate	%	2,2
Investment rate in GRP	%	4,2

Source:www.cia.gov

The Northwestern Federal District is one of the most strategically important districts of Russian Federation, it has a special geopolitical position, possesses unique mineral-raw natural resources, performs special function of the Russian Federation borders protection, actively participates in inter-regional external economic and international cooperation.

Among the countries of Baltic sea region the Northwestern Federal District is highly rated by important indicators of social and economic development. It takes:

the 1st place by the area size

the 3d place by the population

the 4th place by the SME quantity

the 5th place by the GRP rate

However the Northwestern Federal District takes last place by the investment rate in GRP and population density.

2. Germany is the largest in number (82 mln people) and economic potential country of Western Europe. Its Gross Domestic Product is twice higher than the GDP of all other Baltic Sea countries taken together.

The structure of economy is following:

Financial sector – 26.1 %

Industry – 24.3 %

Public and private –producers of services -19.7 %

Trade, catering and hospitality, transport – 16.5 %

The main macroeconomic indicators of economic development in Germany are presented in Table 7

Table 7. Main macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7
GDP at PPP bln \$	2 512	2 681	2 834	2 924	2 812	2 932
GDP per capita, \$	30 508	32 596	34 483	35 656	34 388	35 930
Inflation rate, %	1.6	2.0	1.7	2.3	2.7	1.3
Unemployment rate, %	10.6	11.7	7.1	9.0	7.8	7.5
Gross exports, bln \$	893.3	1 016	1 133	1 354	1 498	1 145
Gross imports, bln \$	716.7	801	916.4	1 075	1 232	956.7

Source:www.cia.gov

The most competitive industries are engineering, automobile, electrical, pharmaceutical, chemical, aerospace industries and ferrous metallurgy. The leading branch is an animal husbandry. Germany exports meat, oil, corn.

There is a gradual decline in unemployment. By the volume of exports, Germany takes the second place in the world after the USA

(9.0 %) and is the second largest importer of the world. Germany is very sensitive to changes in world markets: it affects jobs, investment, incomes and living standards.

3. Sweden takes the third place in West Europe by its territory – 450000 km².

Sweden is among the most developed countries.

The structure of economy is following:

Service industries – 73,1 %

Agriculture – 1,7 %

Industry – 25,1 %

The main macroeconomic indicators of economic development of Sweden are presented in Table 8.

Table 8. Main macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7
GDP at PPP bln \$	299.6	322.7	343.2	349.2	334.3	352.3
GDP per capita, \$	33 146	35 532	37 513	37 878	35 951	37 775
Inflation rate, %	0.7	0.5	1.4	2.2	3.5	0.3
Unemployment rate, %	5.6	5.8	5.6	6.1	6.2	8.3
Gross exports, bln \$	121.7	126.6	173.9	170.1	183.1	133.3
Gross imports, bln \$	97.9	104.4	151.8	151.4	165.3	120.5

Source:www.cia.gov

So, there is an increase of GDP and GDP per capita, low inflation. Country has a trade surplus. Sweden is rich in forests. Wood and water resources also give the opportunities for timber industry and hydro-electric engineering to develop. The main export industry is engineering. It gives 40 % the whole country's industrial output.

The import structure is characterized by the predominance of machines and equipment in it. The main buyers of Swedish goods are:

Great Britain, Germany, Denmark, Norway and Finland.

4. Denmark has no unique natural resources. Major factor of the development of the country is a key position on the sea routes from Baltic Sea to the North.

The structure of economy is following:

Service industries – 76,9 %

Agriculture – 1,1 %

Industry – 22,2 %

Main macroeconomic indicators of economic development in Denmark are presented in Table 9

Table 9. Main macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7
GDP at PPP bln \$	181.4	193.7	202.8	197.5	197.5	203.2
GDP per capita, \$	33 528	35 689	37 227	35 828	35 828	36 764
Inflation rate, %	1.4	1.8	1.7	3.4	3.4	1.3
Unemployment rate, %	6.2	5.7	3.8	1.9	1.9	4.3
Gross exports, bln \$	73.1	84.9	93.9	114.9	114.9	91.5
Gross imports, bln \$	63.4	74.7	89.3	116.4	116.4	84.5

Source:www.cia.gov

Analysis of the table shows that the country's GDP and GDP per capita grows. Exports exceed imports, the country's foreign trade turnover is positive.

Most dynamic branches of industry of the country are engineering and shipbuilding. Chemical industry, poultry and fur farming are also well-developed.

Foreign economic relations play a crucial role for Denmark, because it doesn't have its own industrial raw materials. Denmark exports engineering products. Important item of import is fuel.

5. The history of independent Finland is a little bit more than 80 years. Finland is among the 20 countries with the most in high rates of GDP per capita. Main natural resource is forests. Finnish economy is characterized by industrial and agricultural orientation.

The structure of economy is following:

Service industries – 69 %

Agriculture – 2,7 %

Industry – 28,2 %

The main macroeconomic indicators of economic development in Finland are presented in Table 10.

Table 10. Main macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7
GDP at PPP bln \$	159.9	172.5	187.0	192.8	179.0	185.0
GDP per capita, \$	30 436	32 680	35 278	36 205	33 445	34 402
Inflation rate, %	0.8	1.3	1.5	3.9	1.6	1.4
Unemployment rate, %	8.9	8.4	7.0	6.9	6.4	8.2
Gross exports, bln \$	61.0	67.9	84.7	89.9	96.6	62.7
Gross imports, bln \$	45.2	56.5	71.7	78.1	87.5	57.7

Source:www.cia.gov

So, along with rising domestic production, the country takes active part in international trade. Finland is a major manufacturer of woodworking equipment, electric cranes and diesel engines. It is one of the world's largest producers and exporters of pulp, paper and paper board. 1/3 of exports is machinery, ¼ is the production of pulp and paper industry.

6. Poland is the state in the center of Europe. Poland is rich in mineral resources. Thanks to them it is one of the leading manufacturers and exporters of coal, sulfur, copper and silver in the world.

The structure of economy is following:

Service industries – 63,7 %

Agriculture – 4,0 %

Industry – 31,1 %

The main macroeconomic indicators of economic development in Poland are presented in Table 11

Table 11. Main macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7
GDP at PPP bln \$	517.9	568.1	624.5	670.3	687.9	717.5
GDP per capita, \$	13 571	14 896	16 383	17 581	18 050	18 837
Inflation rate, %	3.4	2.2	1.3	2.5	4.2	3.5
Unemployment rate, %	19.5	18.2	14.9	12.8	9.8	11.0
Gross exports, bln \$	75.9	92.7	110.7	144.6	175.3	142.1
Gross imports, bln \$	81.6	95.7	113.2	160.2	199.0	146.4

We can see, that the country has increased its production, but the unemployment rate is also rather high. Gross imports exceed exports, the country has a negative foreign turnover.

Main branches of industry are metalworking, energy industry, engineering, food industry. Poland is one of the largest producers of agricultural products in Europe and in the world.

Poland's foreign policy is aimed to build closer ties with Western countries. At present, EU countries account for 64% of Polish foreign trade.

7. Lithuania hasn't significant natural resources. Minerals are mainly represented by local building materials - clay, sand, gravel, limestone, gypsum and chalk.

The structure of economy is following:

Service industries – 69,1 %

Agriculture – 4,2 %

Industry – 26,7 %

The main macroeconomic indicators of economic development in Lithuania are presented in Table 12

Table 12. Main macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7
GDP at PPP bln \$	48,5	54,1	61,1	61,2	55,2	56,4
GDP per capita, \$	14 218	15 927	18 108	19 114	16 529	16 998
Inflation rate, %	1,1	2,7	3,8	5,7	10,9	4,5
Unemployment rate, %	8,0	4,8	3,7	3,5	5,8	13,7
Gross exports, bln \$	8,9	10,9	14,6	17,2	23,7	16,5
Gross imports, bln \$	11,0	13,3	18,3	23,8	29,3	17,6

Source:www.cia.gov

An important resource for economic development of Lithuania is geographical position. It acts as an intermediary in relations between Russia and the West. Now through its territory there is a transit of goods and passengers between Russian Federation and Kaliningrad oblast. Most competitive industries are engineering, chemical, woodworking, pulp and paper industries. Agriculture is focused on meat and dairy farming.

Foreign relations play an important economic role for Lithuania.

Lithuania imports fuel, raw materials and semiproducts, textile and exports products of textile, chemical industry and equipment.

8. Latvia is a state in the north Europe, the population is 2 254 653 (2010). The main factor of economic development is geographic position of Latvia.

The structure of economy is following:

Service industries – 74,3 %

Agriculture – 3,8 %

Industry – 21,9 %

The main macroeconomic indicators of economic development in Latvia are presented in Table 13.

Table 13. Main macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7
GDP at PPP bln \$	30.4	35.2	39.9	39.0	32.3	32.3
GDP per capita, \$	13 181	15 355	17 485	17 187	14 291	14 331
Inflation rate, %	6.0	6.7	6.8	10.1	15.4	3.5
Unemployment rate, %	8.8	7.5	6.5	5.7	5.3	17.1
Gross exports, bln \$	3.6	5.7	7.0	8.1	9.6	7.2
Gross imports, bln \$	6.0	8.6	10.3	14.8	15.3	8.9

Source:www.cia.gov

Latvian industry specializes in manufacturing, using mostly imported raw materials, - instrument-making, radio engineering, electrical engineering, transport engineering, woodworking and timber industry, food industry. Major industry specializations of agriculture are dairy and beef cattle.

Main Latvian exports products are timber and wood, textiles. In imports fuels and minerals are dominated.

9. Estonia takes the first place among Baltic countries in terms of foreign trade. It is based on power plants that run on slates. Main branches are electrical technology, radio engineering, instrument-making industry, meat and dairy farming.

The structure of economy is following:

Service industries – 71 %

Agriculture – 2,6 %

Industry – 26,5 %

The main macroeconomic indicators of economic development in Estonia are presented in Table 14.

Table 14. Main macroeconomic indicators

Indicators	2005	2006	2007	2008	2009	2010
1	2	3	4	5	6	7
GDP at PPP bln \$	22.4	25.6	28.1	27.3	23.7	24.4
GDP per capita, \$	16 618	19 012	20 961	20 327	17 695	18 274
Inflation rate, %	3.0	4.1	4.4	6.6	10.4	-0.1
Unemployment rate, %	9.6	7.9	4.5	4.7	5.7	13.8
Gross exports, bln \$	5.7	7.4	9.7	11.1	12.6	9.1
Gross imports, bln \$	7.3	9.2	12.0	14.8	15.3	9.8

Source:www.cia.gov

Estonia takes the first place among Baltic countries in volume of engineering products and imports equipment, mineral raw materials and textile materials.

10. The Republic of Belarus has favorable economic-geographical and geopolitical position. Belarus is situated in the center of the Europe and shares borders with five countries: Russia (in the north-eats and east), Ukraine (in the south), Poland (in the west), Lithuania (in the north-west) and Latvia (in the north). The area of Belarus is 207.600 sq. km. By the size of its territory, the Republic occupies the 13th place among the European countries and the 6th among the CIS countries (following Russia, Kazakhstan, Ukraine, Uzbekistan and Turkmenistan). One of the main characteristics of the country's location is its transition. The republic is situated on crossing

of the trans-European communication ways connecting the west and the east, the north and the south of Europe. Part of the transcontinental railway, crossing all Eurasia from Pacific to Atlantic Ocean, transits Belarus. The delivery of energy sources from Russia to the EU countries is released by oil and gas pipelines through the territory of the Republic. In such terms, the country has a considerable economic gain from transit transportations.

About 5 thousands deposits of mineral raw materials are revealed and explored in Belarus. The special place among them have potash salts. The country is on one of the first places in Europe by their industrial reserves. The country is rich with non-metallic minerals such as granites, dolomites, limestones, marl and chalk, sand-gravel materials. Petroleum resources are small therefore its extraction is carried out in small volumes. The Republic of Belarus has prospects to extract ferrous and non-ferrous metals. It's worth mentioning that country has raw materials resource base for building materials production. Thus, the Republic of Belarus possesses quite good raw materials resource base necessary for the economic development of the country.

Table 15. The Republic of Belarus GDP structure

Sector	Percentage in the GDP structure , %					
	Year	2005	2006	2007	2008	2009
1	2	3	4	5	6	7
Industry	28,4	28,1	26,7	28,1	25,3	26,8
Agriculture	7,9	7,9	7,4	8,4	7,8	7,5
Construction	6,9	8,0	8,5	9,4	10,7	11,0
Transportation and Communications	9,5	9,3	9,3	9,0	9,2	9,5
Commerce and public catering	9,4	9,7	9,8	10,4	10,8	11,1
Other	37,9	37,1	38,9	33,6	35,3	34,1

Source:www.cia.gov

We can see from the table that industry and agriculture form the basis of belarusian economy. However their percentage in the GDP structure decreases while the percentage of the service sphere increases. The growth of the service sphere indicates gradual post-industrial economy formation. Let's analyze the Republic of Belarus economic development rates.

Table 16. The Republic of Belarus economic development rates

Year	GDP, bill. \$		Increase rate %		GDP (PPP) per capita	GDP (PPP) per capita increase rate, %
	по ППС	по курсу валют	ВВП по ППС	ВВП по курсу валют		
1	2	3	4	5	6	7
2002	58,1	14,6	---	---	5865	---
2003	63,5	17,8	109,3	121,9	6445	109,9
2004	71,3	22,7	112,3	127,5	7273	112,8
2005	83,5	30,2	117,1	133,0	8562	117,7
2006	94,8	37,0	113,5	122,5	9763	114,0
2007	106,1	45,3	111,9	122,4	10946	112,1
2008	119,5	60,8	112,6	134,2	12587	115,0
2009	120,9	49,0	101,2	80,6	12750	101,3
2010	130,8	52,9	108,2	108,0	13865	108,7

Source:www.cia.gov

Therefore the country's GDP increases constantly. Only in 2009 there was a decrease as a result of serious consequences of the world financial crisis. However the 2010 rates show the republican economy revival. The Republic remains on the 3d place among the countries of CIS by the GDP per capita rate.

The basis of the belarusian economy is industry. Its share includes about 35 percent of all production assets, almost one-third of the total output gross domestic product and over 26 % of people employed in the national economy. The sector is developing in accordance with the Program of development of industrial complex of Belarus for the period 1998-2015. The program is aimed to support a stable growth of production output based on modernizing, improvement of the branch structure of industry and production quality increase.

The main objectives of the industry sector development are:

- exports increase;
- reasonable import-substitution;
- implementation of international quality standards;
- unprofitable enterprises restructuring.

The main aim of the Belarus government policy is to increase efficiency of the economic sectors. That can be achieved by the development of the investments into fixed capital. The main sources of the investments into the fixed capital are bank credits and budget. The rate of foreign resources is low – about 2% (2009-2010).

One of the main features of the Republic of Belarus economy is high degree of openness. During the last years the republican international trade dynamics is characterized by rapid growth of trade-turnover. It is caused by economic and scientific-technical potential growth. However we should mention the negative trading balance growth, which means that the country buys more than it sells. Belarus international trade dynamics is presented in the table 17.

Table 17. International trade of the Republic of Belarus

Year	Foreign trade turnover, bill. \$	Export, bill.\$	Import, bill.\$	Foreign trade balance, bill. \$	Foreign trade turnover rate, %	Foreign trade balance growth rate, %
1	2	3	4	5	6	7
2002	16,5	7,7	8,8	-1,1	---	---
2003	20,5	9,4	11,1	-1,7	124,2	154,5
2004	25,1	11,5	13,6	-2,1	122,4	123,5
2005	33,0	16,1	16,9	-0,8	131,5	38,1
2006	40,7	19,6	21,1	-1,5	123,3	187,5
2007	52,8	24,5	28,3	-3,8	129,7	253,3
2008	72,2	33,0	39,2	-6,2	136,7	163,1
2009	49,6	21,3	28,3	-7,0	68,7	112,9
2010	54,2	24,5	29,7	-5,2	109,3	74,3

Source: www.cia.gov

The Republic of Belarus supports trade relations with more than 180 countries. The main part of foreign trade turnover occurs to the CIS countries. Russian Federation is a major trade partner of the Republic of Belarus. Russia accounts for 40% of the Republic of Belarus export and about 60% of its import. Within the framework of the customs union there's a substantial growth of trade volumes with Kazakhstan. Among the European countries the main trade partners of the Republic of Belarus are: Germany, Great Britain, Poland and Netherlands. During the last years

there's been an increase of trade volumes with the countries of Latin America – Venezuela, Brazil, Argentina.

The commodity composition of the republican export varies within different regions. Main exports to the EU countries include mineral products (73.2%), chemical industry products (9.7%). The commodity composition of exports to Asia is following: chemical industry products (69.4%), non-precious metals and products from them (7.9%), vehicles (5.7%). To the countries of North and South America is generally exported the chemical industry production (87.4%).

Analyzing the Republic of Belarus export structure we can make following conclusions:

1. The majority of the exported goods are not considerably processed, still they are made from import raw materials.
2. Slight commodity diversification of the country's export as well as of the separate regions' export. Thus almost each region has one commodity group which forms more than a half of its total export.

Import is presented mainly by energy resources (oil, oil products, electric energy), raw materials and components (raw materials for chemical manufactures, cars, equipment and vehicles accessories).

Analyzing the Republic of Belarus import structure we can make following conclusions:

1. High share of vehicles and equipment in import structure. The wide assortment of similar goods is issued in the Republic of Belarus. The import of such goods shows either insufficient output volumes, or low consumer qualities of a similar home production.
2. It is imported a great volume of chemical industry production, which is traditional for the domestic industry. This fact also indicates weak competitiveness of belarusian goods even in home market.

The negative balance of foreign trade in goods is partly compensated by positive result of trade in services. Chief exports are automobile, railway, air, sea transportations and pipeline services. They account for 70% of services export. The main trade partners are Russia and EU.

11. Norwegian economy is a prosperous bastion of welfare capitalism, featuring a combination of free market activity and government intervention. The government controls key areas, such as the vital petroleum sector, through large-scale state-majority-owned enterprises. The country is richly endowed with natural resources - petroleum, hydropower, fish, forests, and minerals - and is highly dependent on the petroleum sector, which accounts for nearly half of exports and over 30% of state revenue. Norway is the world's second-largest gas exporter; its position as an oil exporter has slipped to ninth-largest as production has begun to decline. Norway opted to stay out of the EU during a referendum in November 1994; nonetheless, as a member of the European Economic Area, it contributes sizably to the EU budget. In anticipation of eventual declines in oil and gas production, Norway saves almost all state revenue from the petroleum sector in the world's second largest sovereign wealth fund, valued at over \$500 billion in 2010. After lackluster growth of less than 1.5% in 2002-03, GDP growth picked up to 2.5-6.2% in 2004-07, partly due to higher oil prices. Growth fell to 1.8% in 2008, and the economy contracted by 1.4% in 2009 as a result of the slowing world economy and the drop in oil prices. GDP (purchasing power parity): \$276.4 billion (2010 est.) country comparison to the world: 43, \$272.3 billion (2009 est.), \$276.2 billion (2008 est.). GDP - real growth rate: 1.5% (2010 est.) country comparison to the world: 167, -1.4% (2009 est.), 1.8% (2008 est.). GDP - per capita: \$59,100 (2010 est.) country comparison to the world: 6, \$58,400 (2009 est.), \$59,500 (2008 est.) GDP - composition by sector: agriculture: 2.2%, industry: 45.1%, services: 52.7% (2009 est.).

Labor force: 2.59 million (2009 est.) country comparison to the world: 110.

Labor force - by occupation: agriculture: 2.9%, industry: 21.1%, services: 76% (2008).

Unemployment rate: 3.7% (2010 est.) country comparison to the world: 32, 3.2% (2009 est.).

Investment (gross fixed): 18.6% of GDP (2009 est.), country comparison to the world: 102.
Budget: revenues: \$226.8 billion expenditures: \$187 billion (2009 est.).
Public debt: 47.7% of GDP (2010 est.) country comparison to the world: 55, 49.8% of GDP (2009 est.).

Inflation rate (consumer prices): 2.4% (2010 est.), country comparison to the world: 71, 2.1% (2009 est.), 4% (31 December 2008), country comparison to the world: 72, 6.25% (31 December 2007).

Market value of publicly traded shares: \$227.2 billion (31 December 2009), country comparison to the world: 32, \$125.9 billion (31 December 2008), \$357.4 billion (31 December 2007).

Agriculture - products: barley, wheat, potatoes; pork, beef, veal, milk; fish.

Industries: petroleum and gas, food processing, shipbuilding, pulp and paper products, metals, chemicals, timber, mining, textiles, fishing .

Industrial production growth rate: 0.3% (2009 est.), country comparison to the world: 154.
Current account balance: \$60.23 billion (2010 est.), country comparison to the world: 5, \$53.53 billion (2009 est.).

Exports: \$137 billion (2010 est.), country comparison to the world: 31, \$122 billion (2009 est.).

Exports - commodities: petroleum and petroleum products, machinery and equipment, metals, chemicals, ships, fish.

Exports - partners: UK 24.28%, Germany 13.4%, Netherlands 10.87%, France 8.55%, Sweden 5.76%, US 4.82% (2009).

Imports: \$74.02 billion (2010 est.), country comparison to the world: 37, \$66.68 billion (2009 est.).

Imports - commodities: machinery and equipment, chemicals, metals, foodstuffs.

Imports - partners: Sweden 13.86%, Germany 12.89%, China 7.8%, Denmark 6.78%, US 6.16%, UK 6.01% (2009).

Debt - external: \$2.232 trillion (30 June 2010), country comparison to the world: 7, \$475.9 billion (31 December 2008), note: Norway is a net external creditor .

Stock of direct foreign investment - at home: \$132.8 billion (31 December 2010 est.), country comparison to the world: 27, \$128.4 billion (31 December 2009 est.).

Stock of direct foreign investment - abroad: \$226.6 billion (31 December 2010 est.), country comparison to the world: 18, \$206 billion (31 December 2009 est.).

2. Features of the operation of small and medium-sized enterprises in Baltic region.

The importance of small and medium enterprises (SMEs) for economic and social life is obvious. In this regard, one of the functions of the state should be the providing of support and development of this sector. The current stage of SME development is characterized by the fact that at the level of state and society has the understanding of the need to enhance private initiative, not only as a way to secure employment, but also as one of the most important sources of stable social and social-economic growth.

Analysis of scientific literature shows that individual scientists and economists have different views about the essence of small-and medium-sized enterprises. For example, FA Hayek believes that SMEs are the economic entities, which are characterized by a behavior, the desire to find different revenue opportunities in a highly competitive market.

In our view, SME is a commercial organization engaged in business activity at its own risk, intended to get systematical profit from these activities, having qualitative and quantitative criteria established by the laws of individual countries.

Qualitative criteria for defining small and medium enterprises include the following: economic independence, relatively small market for goods (works, services),relatively small number of manufactured goods, relatively limited financial resources and high levels of the business market, etc.

Thus, in the countries - EU member states all economic entities of economy are divided into micro, small, medium and large enterprises. In the European Revue of small and medium-sized enterprises № 6 are used the following categories of companies:

- Micro-enterprises - with the number 1 - 9 people;
- Small businesses - with the number 10 - 49 people;
- Medium-sized enterprises - with the number 50 - 249 people.

In general, in the EU other criteria, allowing the company to be attributed to SMEs along with the number of employed workers is a commodity - no more than 40 million euros, or book value of assets - not more than 27 million euros. An important criterion is the economic independence of small businesses.

Baltic region is one of the fastest growing regions in the world. One of the features of the region is high rates of development of small and medium-sized businesses. This sector has elevated dynamism, flexibility, innovation activity, the ability to create quickly new industries and to the regeneration of new jobs. It forms an extensive network of companies operating mainly in local markets and directly related to the mass consumption of goods and services. Baltic region countries have their own quantitative criteria for defining SMEs (See table 18).

Table 18: Criteria for SMEs

Countries	Criteria for SMEs
1	2
Russia	Commercial organizations, whose employee number in industry, construction, transport - is less than 100, in wholesale trade - 60, retailing and consumer services - 30, in other sectors - 50 people
Germany	Small and medium-sized enterprises are enterprises with not more than 500 people, with an annual turnover not more than 100 million euro
Poland	Small and middle-sized: number of employees at the plant: micro - 1-9 people, small businesses - 10-49 people, medium-sized - 50-249.
Sweden	Small and medium-sized enterprises are enterprises employing not more than 200 people. For the classification of small and medium-sized enterprises are used the following indicators: - The growth stage (initial, survival, growth); - Geographical scope (local, regional or national scale); - Branch, etc.;
Denmark	Small and medium-sized enterprises are enterprises employing not more than 2000 people.
Finland	The category of small businesses is usually referred to the number of employed 50 people, an annual turnover of 7 million euros and the balance up to 5 million euros. Firms and companies, which employ from 50 to 250 employees, are considered average. Their annual turnover is usually not more than 40 million euros, and the balance - 27 million euros. Microenterprises have less than 10 employees.
Lithuania	Include enterprises with not more than 100 people with a turnover not more than 2 million litas
Latvia	Include enterprises in which the number of employees does not exceed 25 persons, a turnover is not more than 200 thousand lats, the carrying value of fixed assets - not more than 70 000 lats
Estonia	Are enterprises with not more than 80 people with turnover not more than 15 million Estonian kroons

A small and medium-sized business is a key component of the economies of Baltic region. The role of SMEs in the economy of the region is presented in Table 19.

Table 19. Level of SMEs development in Baltic Sea Region, 2008.

Countries	SMEs' share in the number of persons employed, %	SMEs' share in GDP, %
1	2	3
Russia	13	11
Germany	69	57
Poland	60	52
Sweden	68	
Denmark	73	
Finland	65	65
Lithuania	32	32
Latvia	60	63
Estonia	56	52

Source: www.indexmundi.com

Among Baltic region countries the most favorable conditions for business activity (according to the investment ranking “Doing Business”, which is the project of the World Bank and the International Finance Corporation) have Denmark and Norway (they are in the top ten).

Table 20. “Doing Business” ranking, 2010

Country	General position in the ranking
Denmark	6
Norway	10
Finland	16
Sweden	18
Estonia	24
Germany	25
Lithuania	26
Latvia	27
Belarus	58
Poland	72
Russia	120

Source: www.indexmundi.com

Small and middle business influences a lot on the development of the national economies. It stimulates formation of the competitive environment, increase of the consumer goods production, development of services sector, creation of new workplaces, stability and dynamism of national economy.

Thus, we can say that with the development of SMB the country economic indicators improve. It's possible to prove this fact by the correlation dependence, namely by Pearson coefficient:

$$R_{x,y} = \frac{M[XY] - M[X]M[Y]}{\sqrt{(M[X^2] - (M[X])^2)}\sqrt{(M[Y^2] - (M[Y])^2)}}$$

Fig.3. Formula for the Pearson correlation coefficient

Let's consider interrelation between the SME quantity and the most important macroeconomic indicators.

Table 21. GDP rate and SME quantity of Baltic region countries

Countries	GDP (bill. \$)	Quantity of small and middle enterprises
Belarus	128,4	313 496
Estonia	24,65	43 000
Poland	725,2	1 407 000
Sweden	354	542 000
Germany	2960	1 774 000
Denmark	201,4	207 000
Russia	2229	6 891 000
Finland	187,6	204 000
Latvia	32,2	67 000
Lithuania	56,22	126 000
Norway	276,4	247 000

Source: www.indexmundi.com

The value of the Pearson correlation coefficient $R_{x,y} = 0,7159$ tends to unity. This demonstrates the existence of close relationship between the indicators. In other words an increase of the SMEs amount affects positively the economic development of the countries.

Thus, the contribution of SMEs in the economies of the region is great. On average, SME sector in the Baltic countries employs 2/3 of the population, but in Russia and Lithuania this figure remains low. Medium-sized and small businesses create over 40% of turnover, producing more than 50% of the national product. In small and medium-sized enterprises more than 50% of the investment is employed.

The average age of employees is 35 years; the proportion of women in their number is constantly growing. A qualification of staff is continuously enhanced by professional training. A successful activity of SME guarantees the stability of the economies of its effectiveness. It stimulates the development of healthy competition, it allows improving production, introducing new technologies.

Now let us consider the structure of SMEs in Baltic region (Table 16). The most popular business in the region are trade, food processing, construction. This sphere of activity does not require high technology and a large of number of complex equipment.

Table 22. The structure of the SME sector in Baltic region, 2008

Field of activities	SMEs' share, %
1	2
Power engineering and gas supply	66 %
Textile industry	80 %
Clothes	70 %
Woodwork	80 %
Publishing industry	69 %
Construction	88 %
Wholesale trade	84 %
Retail trade	73 %
Hotels, restaurants	86 %
Real estate	89 %
Other services	94 %

Source: www.indexmundi.com

The growing number of enterprises in the sector of SMEs in Baltic region is associated with the development of industries in which small and medium-sized firms have a significant economic value. It's first of all services. They also take the first place in the manufacturing industry, construction, trade, provision of hotel services and restaurant service. SME sector employment in these industries ranges from 86% to 95%.

Let's consider the peculiarities of individual countries SMEs in Baltic region.

1. In the **Nordic countries** (Finland, Denmark and Sweden) small and medium-sized business (SMB) represents a significant part of the economy. Thus, SMEs play an important role in social and economic life of Finland. Among all the registered enterprises in the country more than 90% belongs to the category of small and medium-sized. Their total annual turnover is 52% of the total turnover of all companies, and the share in GDP - 65%. They employ 65% of all workers, and annually with their help about 60% of new jobs are created. The share of SMEs in the Finnish exports is 17% and is growing faster than large companies. The volume of investments in R & D in this category of enterprises is 13%. In a country microenterprises are dominated (See fig.4).

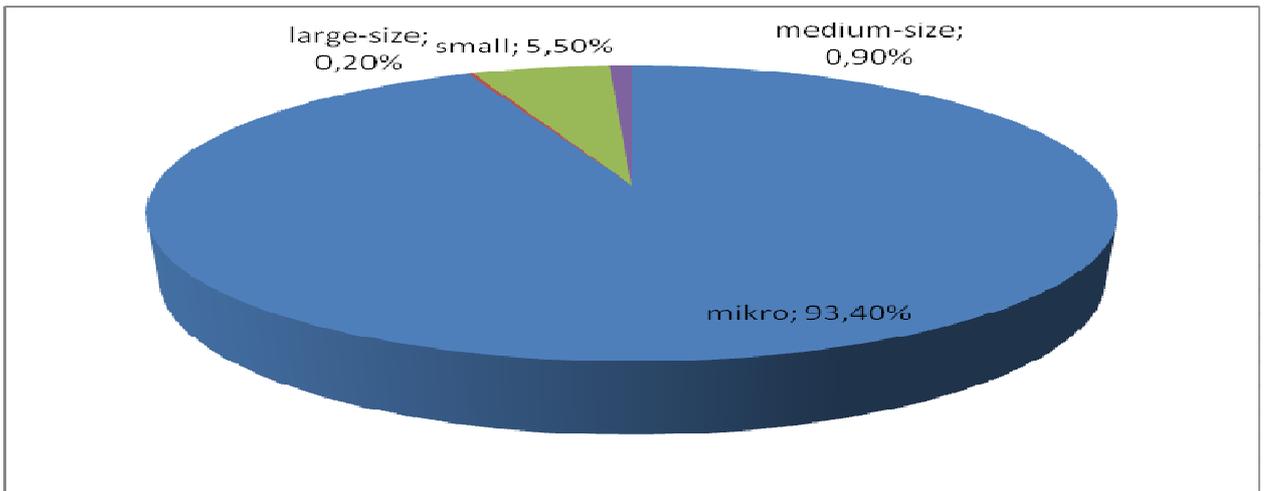


Fig.4. Structure of enterprises in Finland

Priority support for SMEs is in **Finland** in the field of high technologies. Government selected several major scientific and technical areas in which Finland can claim to global leadership: electronics, information technology and telecommunications, chemistry, biotechnology, lumber and metal, energy, shipbuilding (See fig. 5).

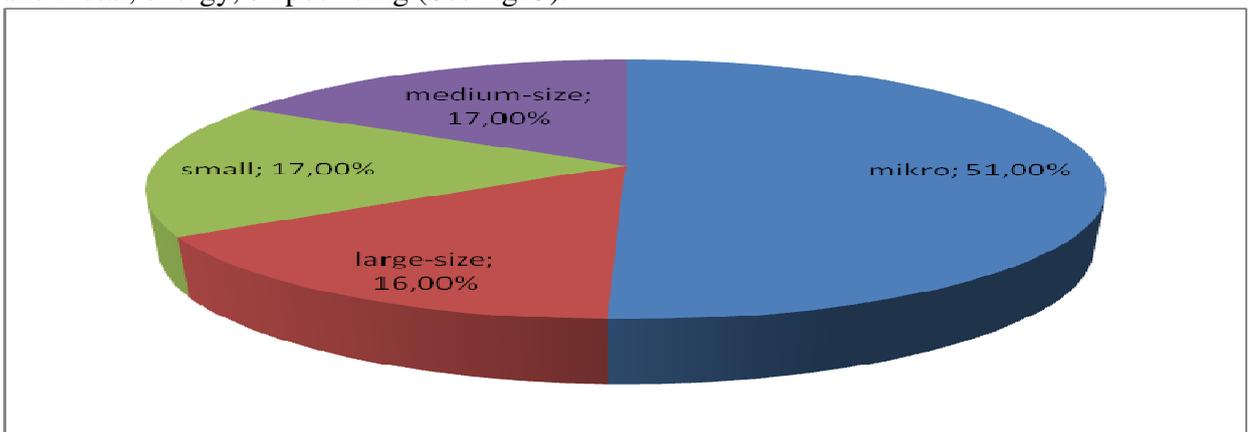


Fig.5. The share of companies in total turnover, 2009

A characteristic feature of the Danish economy is predominance of SMEs. The number of small and medium-sized enterprises in 2009 was 99,5% (See fig. 6), the proportion of their products in the turnover of the country is 30-35%, in output value - about 45%. In such enterprises work more than a half of all people employed in manufacturing.

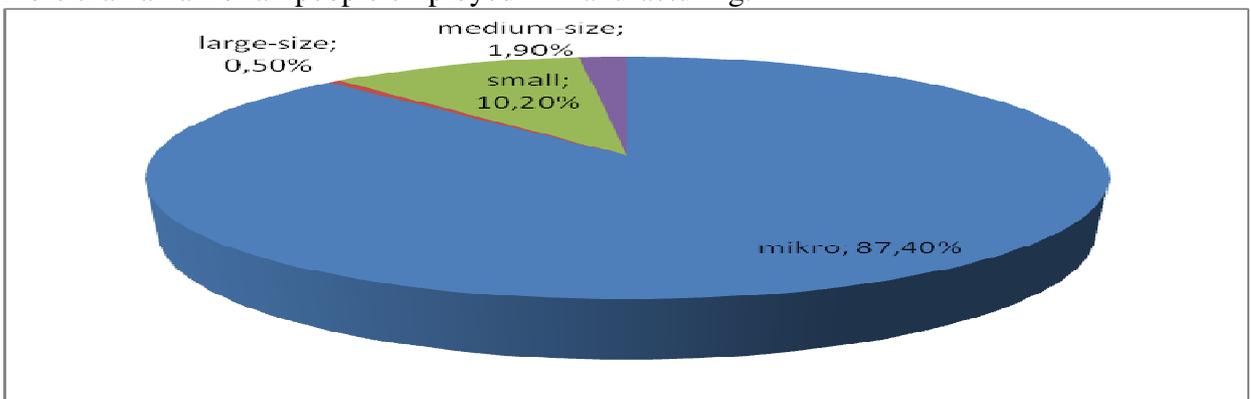


Fig.6. Structure of enterprises in Denmark in 2009

In the world ranking of competitiveness of business (Doing Business - 2011) Denmark has been marked as a country with the best business climate in Scandinavia. Danish SMEs predominate in the processing manufacturing, commerce, construction. They are characterized by active innovation, specialization of business.

In Sweden there are about 5000 small enterprises and third of total workforce in Swedish industry works there. Every year there is created about 20 thousand enterprises (2009). Microenterprises dominate in the country(See fig. 7)

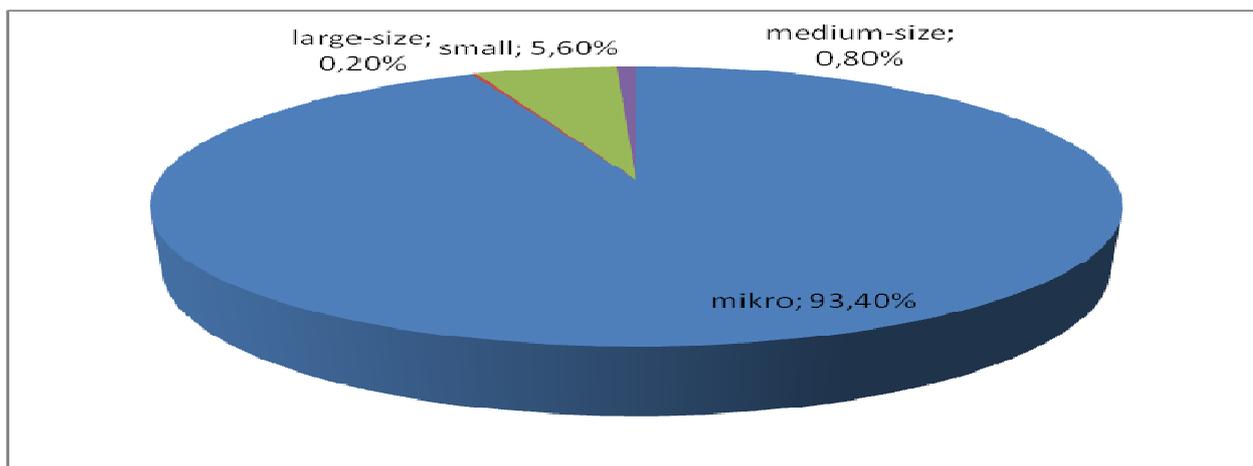


Fig.7. Structure of enterprises in Sweden in 2009.

Small and medium-sized enterprises in Sweden has innovation orientation. These companies make the largest contribution to scientific and technical development and implementation, create new types of goods, services and technologies. Costs of private companies in Sweden on R & D are more than 2 times higher than other EU countries. Enrollment rates of venture capital in GDP are 2-3 times higher than the average EU level. Another feature of the Swedish economy is the presence of small and medium-sized companies in the timber industry. In the country there are about 7 thousand enterprises of forest industry.

So, it is possible to identify the main factors of growth of SMEs in the Nordic countries:

- availability of long-term national strategy aimed to increase the competitiveness of the state as a whole, including the concept of development of SMEs;
- effective public policy support and development of small and medium-sized business;

2. Small and medium business in **Germany** is one of the most actively developing economic sector. About 69% of the total workforce is occupied in this sector. The GDP share is 57%. The major part of the SMEs are microenterprises(90%). The structure of the enterprises activity is presented in the table 23.

Table 23. The structure of the SMB activity.

Activity	SMEs' share, %
1	2
Mining	32 %
Processing manufacturing	45 %
Chemical industry	91 %
Energy and water supply	22 %
Construction	92 %
Wholesale and retail trade	61 %

Hotels and restaurants	89 %
Wholesale and retail trade	45 %

Therefore, SMB in **Germany** is present in almost all branches of processing manufacturing, services sector including construction, wholesale and retail trade. The SMEs' contribution into the annual turnover is presented in the figure 8.

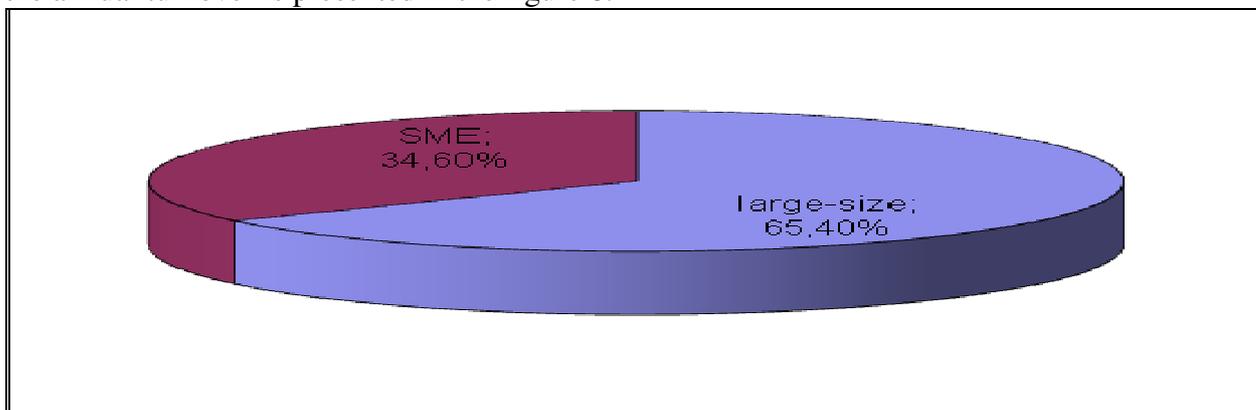


Fig. 8. Companies' share in the annual turnover, 2009

One of the special features of the SMB in Germany is the development of innovative business. This sector accounts for 60-70% of all the registered patents and discoveries. In present day in Germany the accurate infrastructure of small innovative business support is generated: technological centers, research institutes, etc. One of the main problems of the German SMB is administrative burden. An average businessman spends about 121 hours per month on contacts with fiscal organizations, compulsory certification, protection of the consumers' rights, environmental preservation.

3. SMB development in **Russia** is low in comparison with other countries with market economy. The SMEs' contribution into the economy of Russia is presented in the table 24.

Table 24. SMEs' share in basic economic indicators, 2009

Indicator	Medium-sized enterprises	Small enterprises	Micro-enterprises
1	2	3	4
Average number of workers	4,2	21,7	9,6
Enterprises' turnover	4,4	24,5	11,7
Investments into fixed capital	2,8	4,4	1,2
Fixed assets	2,6	5,7	2,5
Circulating assets	4,4	24,4	16,0
Capital and reserves	1,5	12,0	9,6

Thus, SMEs in Russia's economy have relatively small place. In the total number of enterprises registered in the country, only 15% belongs to the category of small and medium-sized. Share of population employed in this sector is 13% while the share in production of GDP, only 11%. Small enterprises prevail in the country.

The distinctive ability of SMEs in Russia is the unevenness of their participation in total production. The structure of the companies is represented in Table 25.

Table 25. Structure of the SME sector in Russia, 2009

Kinds of activity	Medium-sized enterprises	Small enterprises
1	2	3
Agriculture and forestry	22.6%	3.6%
Mining	3.6%	1.0%
Manufacturing industry	23.7%	10.3%
Construction	12.5%	12.1%
Wholesale and retail trade	20.0%	41.1%
Transport and communication	5.0%	5.9%
Operations with real assets	8.9%	18.0%
Other kinds of activity	3.7%	8.0%

The table shows that medium-sized enterprises dominate in manufacturing, wholesale and retail trade and agriculture. Small businesses dominate in wholesale and retail trade, real estate transactions. The greatest development of SMEs in Russia are provided by industrial and business centers of Russia, where there are the most favorable conditions for them. 4. Small and medium-sized enterprises of **Poland** is the driving force of the country's economy. In Poland, there are about 3,8 million registered companies, small and medium enterprises share is over 99% (See figure 9).

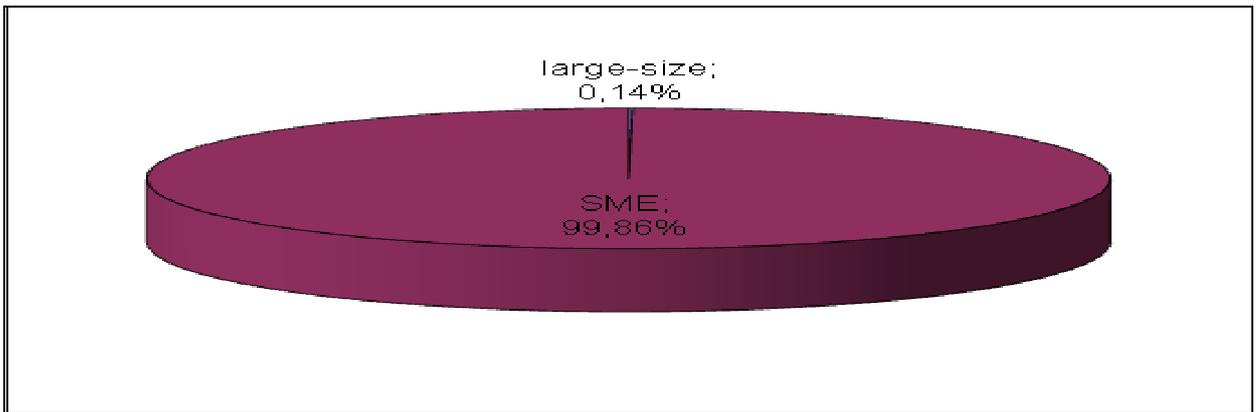


Fig.9. Enterprises' structure of Poland

During last five years the number of microenterprises has increased by 3%, small - almost 7%, number of medium-sized enterprises virtually stays the same, but there was a decrease in the number of large firms. In 2009 in Poland there was created 357 000 new firms, which is 10% more than in 2008. The share of the population employed in the sector is 60%. In addition, the contribution of SMEs in Poland's GDP is 52%.

SMEs in Poland cover industries such as wholesale and retail trade, services and industrial production (Fig.10)

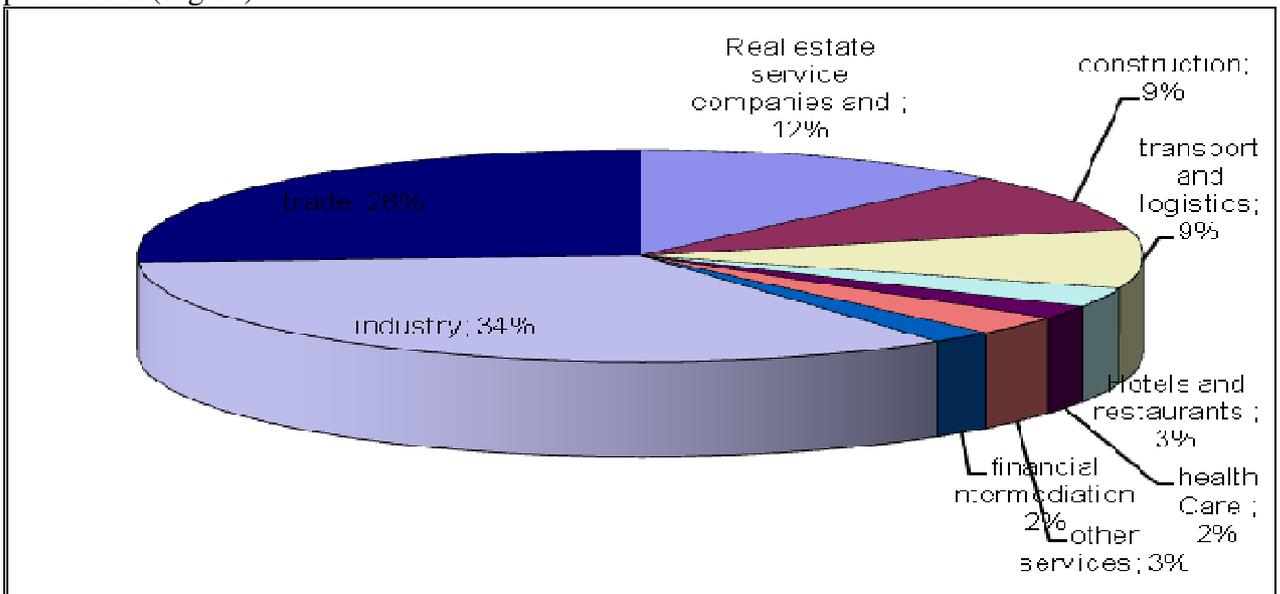


Fig.10. Employment in the branches of SMEs in Poland in 2009

Polish SMEs are less innovative than firms of this size in developed countries in Baltic sea region. However, they are actively involved in innovative activities. Thus, 97% of Polish SMEs use telecommunications technology, while 55% have their own websites.

5. SMEs in **Latvia** – these are 95% of all businesses that employ 60% of the Latvian workforce and produce 63% of GDP. By the share of SMEs in GDP, Latvia ranks first among Baltic States. The predominant type of the enterprises are micro-with the number of employed about 10 people. These companies form 60- 80% of the total number of SMEs.

Most of them are companies working in the massive market. The main purpose of this sector is to provide jobs for working-age population, because the unemployment rate there is high. Sectors of SMEs in Latvia are presented in figure 11.

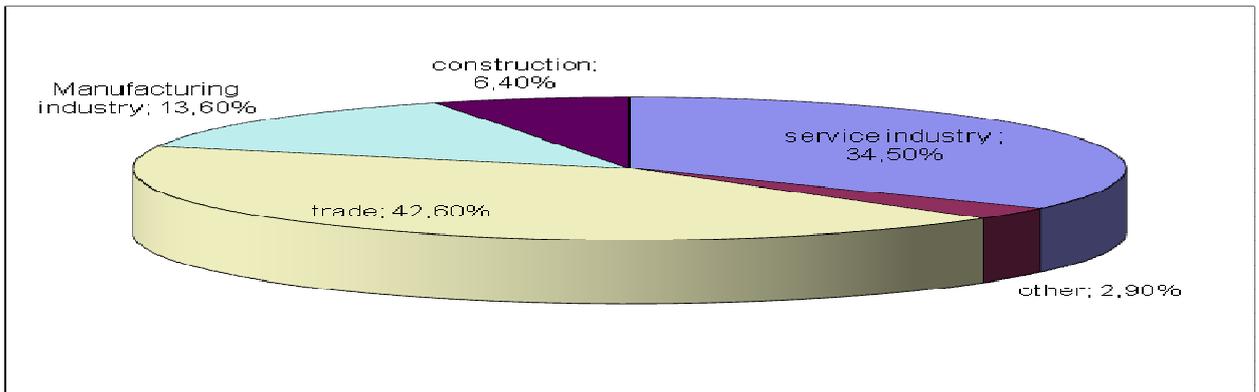


Fig. 11 SMB sector in Latvia

So, there is an increased proportion of trade and services in the total number of SMEs in the country.

6. **In Estonia** the share of SMEs is significant. The sector employs 56% of the workforce. SMEs produce 52% of GDP. In a country prevail micro firms with about 10 employed in each.

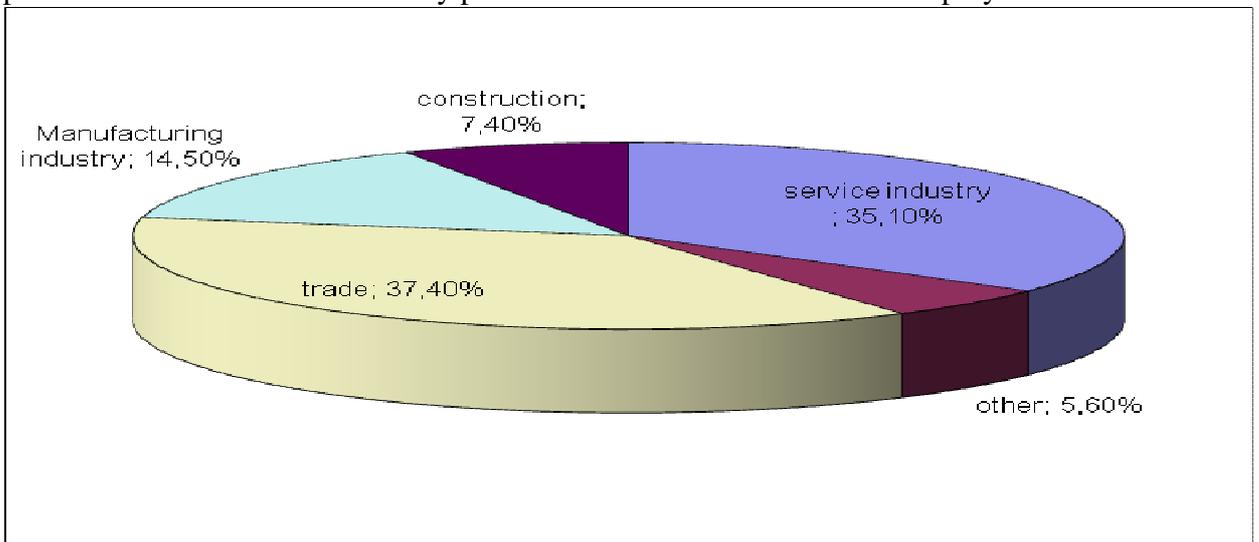


Fig. 12. SMEs' activities in Estonia

The greatest development in Estonia is given to trade, manufacturing firms and service businesses. In the country SMEs have a key role in import-substitution production and employment development.

7. **In Lithuania**, in the SME sector is employed 32% of the total working population. The contribution of small and medium-sized enterprises in the country's GDP is 32%. The overwhelming majority of enterprises in the structure of SMEs are micro-enterprises. Main activities of SMEs are presented in the figure 13.

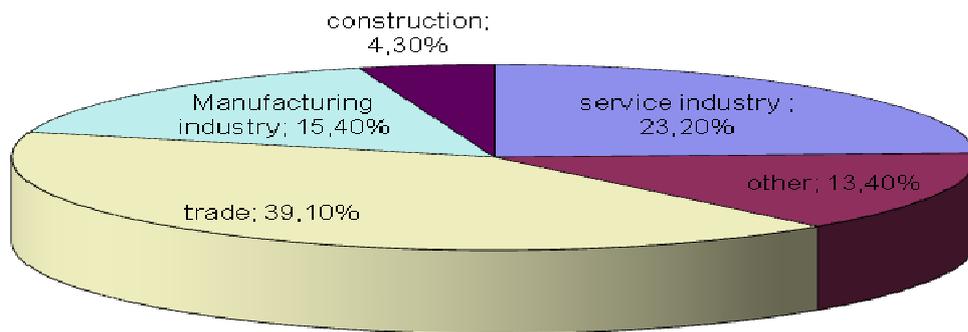


Fig. 13. SMEs' activities in Lithuania

So, SMB in Lithuania is dominated by trade and services. The peculiarity of the country's economy is the dominance of the SME sector in industries such as timber production, the furniture industry. Priority support in the country is provided for SMEs working in high technology sector. Active innovation activity is realized by medium-sized enterprises (37 %) and small enterprises (16 %).

Analyzing the functioning of small and medium-sized enterprises in Baltic sea region we can make the following conclusions:

1. This group of countries is characterized by high rates of development of SMEs. On average, in the SME sector more than 60% of the working active population is employed and their contribution to GDP is over 50%. Micro enterprises are dominated in the region.
2. As a rule, companies are operating in local markets and directly related to the mass consumption of goods and services.
3. They are highly technological, production and management flexibility. This allows them to respond promptly to changing market conditions.
4. Another feature of SMEs in the region is an active innovation, which promotes the development of the countries' economies.

So, SMB in Baltic region is the vital sector of national economies. Active functioning of the SME sector in the region can overcome setbacks and to stabilize the economy and create the prerequisites for a successful lift in the future.

State support of small and medium enterprises in Baltic region.

Government regulation of business represents administrative activity of the State, aimed to organize economic relations in the sphere of business sector with the purpose of its members' protection. Successful activity of small and medium-sized business ensures the stability of economic development, its effectiveness. It stimulates competition, promotes the growth of employment, better meet the needs of the population. Therefore, in Baltic countries a great attention is paid to SMEs, is released the policy of their support, whose main goal is to balance the public interests and the business interests.

Support for SMEs in the countries of the BR is carried out on four levels: international (EU), regional (BR), national (single country) and local levels. Let us consider in details the state regulation of SMEs at each level.

1. At the international level, support for SMEs is carried out within the EU. Policy support in this sector focuses on three key executives: the individual person, firm, and society. Its main objectives are:

- Strengthening of the internal market;
- Internationalization of Business Worker Tee at the enterprise level;
- Elimination of administrative barriers;
- Creation of a single economic space in the EU through harmonization of legislation of small businesses; enhance the interaction of EU member states directed to establish economic and monetary union within the EU.

In the EU two forms of government support of SMEs are developed:

- Development of long-term programs for small and medium-sized business as the basis of legislation;
 - The inclusion of SMEs in solving problems such as improving the administrative and regulatory framework, financial and fiscal conditions, the provision of information services and enhanced cooperation, competitiveness and access to research, innovation and learning.
- In the EU a system of supranational and national authorities and organizations with an efficient mechanism of their interaction was created to improve the management and development of SMEs. It takes into account the interests of the EU, individual member countries, the views of various business organizations, national, sectoral and regional structures and small business associations, chambers of commerce.

The EU Commission has organized the Committee on Trade Facilitation in the field of entrepreneurship. Network of information centers of business allows you to apply a single methodology similar requirement for the business selected by the project, as well as more efficient use of financial resources.

The legal regulation has the great importance. In order to regulate SMEs the original legal models were developed and implemented: the European pool of economic interests, the European joint-stock company. All this allows small and medium enterprises in different countries to address the contradictions of national legal systems, facilitates their participation in international programs of the EU.

At the EU level, there are two main funding of the SME sector. One of them is targeted on providing risk capital promising enterprises and involves giving loans of up to 50% of initial capital, as well as covering up to 50% of operating costs with a maturity of 5 years. The second is "Eurotech", which has created a network of 13 mutual guarantee funds, which allocate credits for investment in hi-tech projects of a transnational nature and help to invest in structural crisis the industry and in environmental projects.

Support for SMEs at EU level is realized by the European Investment Bank. Also a significant role in financing SMEs plays a European Regional Development Fund, European Agricultural Guidance and Guarantee Fund, European Social Fund.

Much attention is given to the creation of networks designed to maximize the interaction of small and medium-sized enterprises with national, regional and local structures to support them. Such cooperation is carried out in the networks:

- Interprise - encouraging direct contacts and agreements between businesses in Europe;
- Europartenariat - promotion of cooperative relations in the less developed regions;
- BC-Net - a confidential search for partners abroad, including outside the EU;
- BRE - open selection of partners for joint ventures;
- EvroInfoCentres Network, which provides small and medium business and commercial information on a wide range of issues.

It is also necessary to note the activity of international organizations (UNIDO, UN-ECE, PHARE, WASME, EBRD, TACIS, USAID, etc.), providing financial, technical and informational support to the SME sector.

2. **In Baltic region**, support to small and medium-sized businesses has **Hanseatic Parliament**. Hanseatic Parliament - a nonprofit organization founded in 1994 on the initiative of the Hamburg Chamber of Handicrafts, which serves as the secretariat of the Parliament. The residence is located in Hamburg. It is composed of 1945 craftsmen and chambers of commerce from 11 countries: Germany, Poland, Sweden, Denmark, Finland, Lithuania, Latvia, Estonia and Russia. Partners from Belarus actively participate in the Hanseatic parliament: Minsk and Brest branch of Belarusian Chamber of Commerce. The Brest State Technical University involved in the project work. Name of the organization comes from the Hansa - the name of political and commercial union of northern German cities, formed in the XIV century. Belarus joined the Hanseatic Parliament in 2006.

Parliament represents the interests of approximately 450 thousand SMEs. Cooperation within the chambers and groups supporting small and medium-sized businesses, increases the level of regional economic development, helps to effectively represent the interests of all members of the Hanseatic Parliament. Goals and objectives of the Hanseatic Parliament is:

1. Enhancing economic competitiveness of Baltic region as a whole;
2. Support for small and medium-sized businesses, especially international action and international cooperation;
3. Development of Vocational Training, elite education for Entrepreneurs and managers of small and medium-sized enterprises in the form of individual training courses of study in higher educational institutions, as well as courses of training;
4. Support of economic and cultural development of the individual Baltic regions of space and promote the exchange of experiences and cooperation based on regional characteristics.

As an engine of economic development in the region, the Hanseatic Parliament provides entrepreneurs the following features:

Training. Thanks to the cooperation Hanseatic Parliament with 5 colleges in the region, entrepreneurs and management team have the opportunity to improve their skills.

Improving the quality of products. Membership in the Hanseatic Parliament is the sign of high quality products and services. "High standards of quality positively affect the image of an entrepreneur, helps in marketing and promoting their brands on the market overall« Made in Baltic ».

The effectiveness of cooperation. As the inter-territorial association Hanseatic Parliament generates ideas and promotes the exchange of ideas between representatives of all Baltic States. Fairs, conferences, congresses and seminars organized by the Hanseatic Parliament, provide a unique opportunity to establish new business contacts.

Implementation of innovative projects. Developing cooperation with universities, colleges and research institutes, Hanseatic Parliament promotes the innovative capacity region, which allows developing a strategy for conquering new markets sales.

Exchange of information. Thanks to the internet members of the Hanseatic Parliament receive relevant information about the activities of the organization and have the opportunity to exchange views on organized forums.

One of the projects is a project of the Hanseatic Parliament QUICK (Qualification (Qualifying), Innovation (Innovation), Cooperation (Cooperation) and Key business (key business)). The project is financed by the European Union and the program INTERREG Baltic Sea Region (Interreg Baltic Sea Region). The project of QUICK small and medium enterprises is various forms of support. In particular, training sessions are organized and carried out a transfer of innovation in e-based (all enterprises with access to the Internet may obtain the necessary

information). In the Republic of Belarus, Minsk Branch BCCI, taking advantage of the Hanseatic Parliament, small and medium enterprises of the country and offers entrepreneurs are supporting various forms of mutually beneficial cooperation between Belarus and EU countries (the introduction of innovative projects, qualifications of personnel, exchange of information). Another important project is the creation of the Hanseatic Parliament of the **Academy of Baltic Sea**. Its main goal is improving education for small and medium-sized businesses. This project brings together 15 universities and higher education institutions in Germany, Finland, Sweden, Poland, Lithuania, Estonia, Russia and Belarus. From the Republic of Belarus participates in the project Brest State Technical University. Higher education institutions of Baltic region are going to educate future entrepreneurs and, thus, satisfy the needs of the SME sector for highly qualified personnel. The universities with the support of leading enterprises of the Hanseatic Parliament will conduct joint studies, which will be available to members of the organization.

3. In Baltic States, you can see many similarities in the system of state support the SME sector. So, **at the national level**, the main government bodies are responsible for promoting and supporting small and medium enterprises. It is, first of all, the Ministry of Trade and Industry, Ministry of Labour and Employment, Ministry of Agriculture, tax and Statistical Services, trade advice, public financial companies and funds. There are also patent agencies and state registration of enterprises, service standards, the courts of all instances and other regional administrative bodies, contributing to the successful functioning of the SME sector. Significant role in supporting SMEs also plays a national trade and chambers of commerce, their units operating in the regions and provinces, associations of entrepreneurs, a number of information and technology centers. The main tasks of public authorities in the countries of the region within the state policy of development of entrepreneurship are the following:

1. Development of proposals and implementation of state policy" support and development of small and medium-sized businesses.
2. Research SMB.
3. Implementing programs that promote the elimination of legal, administrative, economic and institutional barriers in the creation and development of small and medium-sized businesses.
4. Ensure the formation and development of efficient infrastructure support and develop the SME sector.
5. Protecting the interests of entrepreneurs, accounting, and a synthesis of views small and medium-sized businesses.

After analyzing the complex of measures aimed at creating a special favorable treatment for the SME sector in the region, you can identify the main directions of state support for small and medium-sized businesses (Table 20).

Table 20 Main directions of state policy, which promote the development of SMEs in Baltic Sea Region

Destination	Content
1	2
Financial and credit and investment support	<ol style="list-style-type: none"> 1. Creation of state guarantee system of SMEs' crediting 2. Governmental stimulation of new working places creation in SMB sector 3. Stimulations of the employment among the unemployed 4. Public provision of financial assistance for expansion and modernization of existing firms (for buying real estate, equipment, technology) to budding entrepreneurs, the unemployed, women, youth, representatives of national minorities, and the disabled, etc. 5. Payment of premiums successful businessmen and young people to create business, grant financial assistance to large companies to target small businesses.

	6. Fixed low interest rates on loans for the entire loan term, long-term loans (up to 10-29 years = 0). 7. Guaranteeing a State or specialized financial institutions to 60-80% of loans for small firms. 8. Provision of venture capital to young entrepreneurs and students.
Tax support	1. Exemption from several taxes in the first 2-4 years of business. 2. Lowering tax rates for small and medium-sized enterprises in 2 times in comparison with other entities. 3. Flexible amortization policy
Involvement of small and medium-sized firms to carry out government orders.	1. Legislative reservation production of a certain list of goods and the amount of work. 2. Involvement of small and medium-sized firms to carry out government orders in the defense industry. 2. Removal of SMEs' discrimination at the organization of the state purchases
Support export activities of small and medium-sized firms	1. Facilitating the promotion of products for small and medium-sized firms. 2. Incentives and rebates for businesses entering the global market. 3. Finance the introduction of small and medium-sized firms of modern information technology to the world market. 4. Creation of the insurance system for the SMB international activity 5. Free trade zones formation
Support for research on SMEs	1. Adoption of Special Programs supporting research, providing benefits for research and development work, low-interest loans, long terms. 2. Providing knowledge-intensive small and medium enterprises of industrial, office, commercial premises. 3. Creation of "technology parks", "business incubators", "industrial hive.
Staff support for small and medium-sized businesses	1. State awards for small and medium-sized enterprises, increasing the number of employees, including young. 2. Developed network of business education. 3. Effect of training, retraining and upgrading skills of workers and specialists.

Thus, the States, recognizing the importance of the SME sector for the successful functioning of the economy as a whole, have him strong support, aimed at improving the competitiveness of business, elimination of administrative barriers, etc.

Let us consider in more detail the state regulation of small and medium-sized businesses at the national and local levels, the example of Scandinavian countries.

4. In the Scandinavian countries at the national and local levels created and developed an effective infrastructure development and support of the SME sector. At the national level, the problems of development and support to the sector are engaged in such ministries and government agencies as the Ministry of Trade and Industry, Ministry of Labour and Employment, Ministry of Agriculture, tax and statistical services, trade advice, public financial companies and funds. Along with the above mentioned government agencies, there are other bodies in charge of regulation and support for small and medium business: patenting authorities and state registration of enterprises, service standardization, the courts of all instances and other administrative bodies. Significant role in supporting SMEs play a national trade and chambers of commerce, their units operating in the regions and provinces, associations of entrepreneurs, a number of information and technology centers.

The important role of SMEs in the infrastructure belongs to the state finance companies and funds. In Denmark, on behalf of the Agency for Trade and Industry Development Fund operates. He is on the basis of self-sufficiency is funding projects to build and develop long-term and high-risk ventures. In Sweden, finance companies focused on creating new companies, early stage of their development, promote economic growth. The main channel for providing

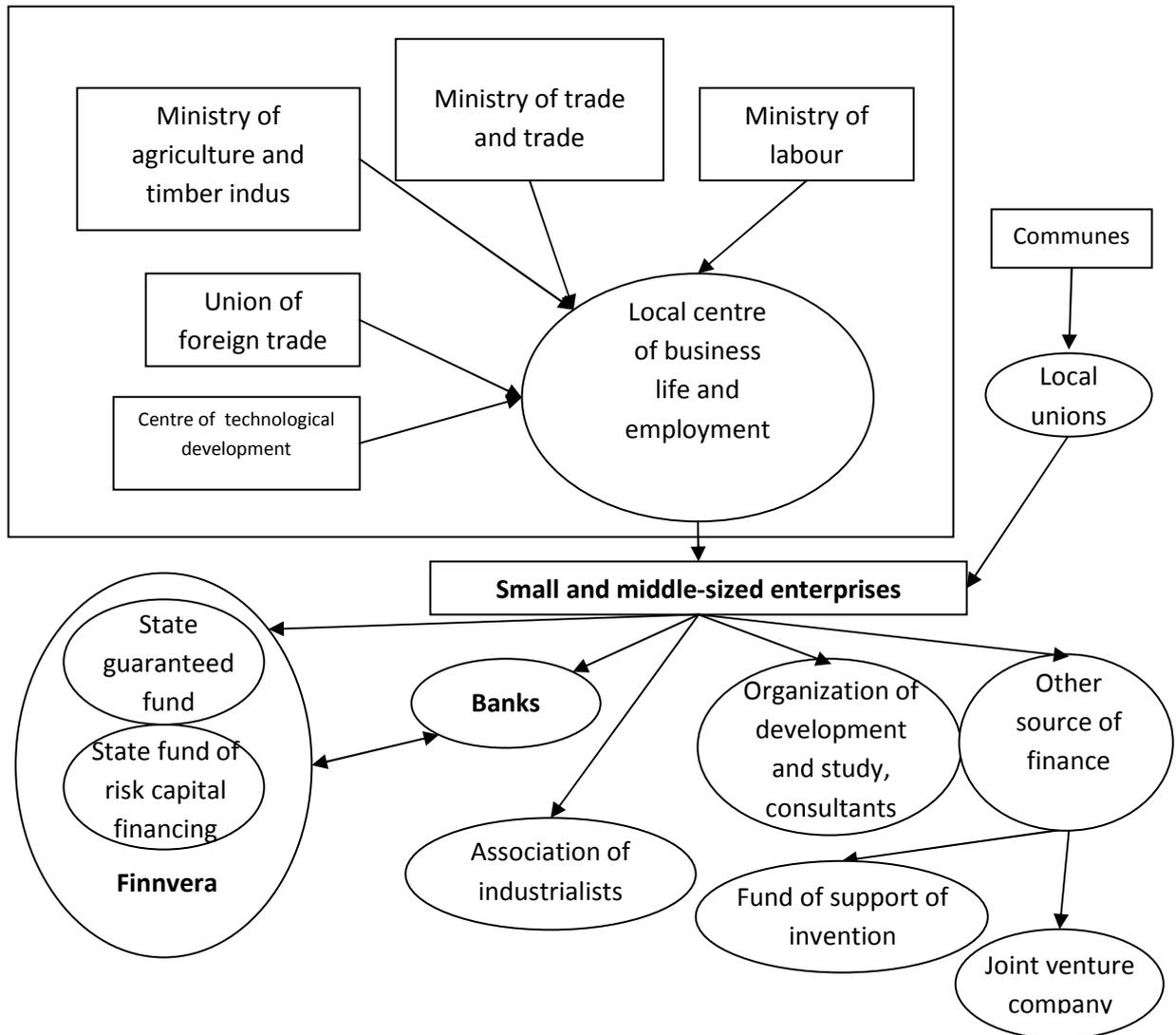
government financial support is Concern Almi. The system of state support for small and medium-sized enterprises in Finland is based on existing legislation on the functioning of special government guarantee, finance and insurance funds, whose implementation is through state-owned company Finnvera. The purpose of this company is to provide financial services to support and develop businesses, especially SMEs. The company's activities aimed at fulfilling the tasks of the state regional policy.

The infrastructure of the Nordic SMEs plays an important role voluntary association whose members are entrepreneurs: the Danish Employers' Association, Federation of Finnish entrepreneurs, the Federation of Private Enterprises (Sweden), the Confederation of Swedish Enterprise, etc. The activities of these organizations are directed at promoting business, improving conditions for entrepreneurship development, etc.

We give examples of organizations that provide information and analysis and consulting support: Denmark - Technology Information Center, Finland - Foreign Trade Association (Finpro), Sweden - The Foundation of employment and social trust (Startlinjen). Their activity is aimed at increasing knowledge about the possibilities of development and growth of enterprises, SMEs networking with other organizations, experts and research centers. Technical support is based on the activities of various research innovation centers, incubators, for example, FORCE Institute, Center for Innovation in Denmark, VINNOVA Technology Agency). The activities of these organizations includes the conduct of various studies, testing, inspection, certification, development of new technologies, etc.

Let us consider in details the relationship between the mentioned organizations and the enterprises of the SME sector on example of Finland (See figure 14).

Fig. 14. The system of state support of SMEs in Finland



Thus, the Scandinavian countries demonstrate a striking example of effective public policies to regulate and support small and medium enterprises. Based on the analysis of various forms of state support of **SME sector in Baltic countries**, we can conclude that public support for these businesses helps:

- development of innovation and creation of new enterprises;
- SMEs to new markets and develop new technologies increased internationalization processes in national SMEs and enhance their economic activity;
- professional development staff, managers and owners of SMEs;
- to identify relevant issues of development of SMEs through extensive research and resolve them through various government programs.

3. The competitiveness estimation of Baltic Sea region counties according to their development

The economic situation analysis of Baltic Sea region countries demonstrate that they develop quite dynamically. On the one hand the countries; economies differ among themselves, on the other hand they supplement each other.

Let us present our own competitiveness estimation of Baltic Sea region countries (See tab. 21)

Table 21. Competitiveness estimation of Baltic Sea region countries

Indicator	Rate	Belarus	Germany	Poland	Sweden	Norway	Denmark	Finland	Lithuania	Latvia	Estonia	Russia
Territory, Sq. km.	0,05	207 600	357 022	312 685	450 295	323 802	43 094	338 145	65 300	64 589	45 228	1 687 000
Relative indicator, RI1			0,582	0,664	0,461	0,641	4,817	0,614	3,179	3,214	4,590	0,123
Population	0,05	9 612 632	82 282 988	38 463 689	9 074 055	4 676 305	5 515 575	5 255 068	3 545 319	2 217 969	1 291 170	13 437 000
Relative indicator, RI2			0,117	0,25	1,06	2,056	1,74	1,829	2,711	4,334	7,445	0,715
Population density People/sq .km	0,05	46,3	230,5	123	20,2	14,4	128	15,5	54,3	34,3	28,5	8
Relative indicator, RI3			0,201	0,376	2,292	3,215	0,362	2,987	0,853	1,35	1,625	5,788
GDP, bill.\$	0,25	128,4	2 960	725,2	354	276,4	201,4	187,6	56,22	32,2	24,65	220,671
Relative indic			0,043	0,177	0,363	0,465	0,638	0,684	2,284	3,988	5,209	0,582

ator, RI4												
SME s quan tity Rela tive indic ator, RI5	0,1	313 496	1 774 000	1 407 000	542 000	247 000	207 000	204 000	126 000	67 000	43 000	351 786
			0,177	0,223	0,578	1,269	1,515	1,537	2,488	4,679	7,291	0,891
Qua ntity of empl oyed on SME s	0,1	536 000	21 501 000	7 576 000	2 720 000	1 329 000	1 783 000	1 268 000	932 000	643 000	423 000	1 614 165
Rela tive indic ator, RI6			0,025	0,071	0,197	0,403	0,301	0,423	0,575	0,834	1,267	0,332
Inve stme nts rate in GDP	0,1	36,9	17,6	20,2	17,9	21,4	18,6	19,5	17	21,5	21,6	4,2
Rela tive indic ator, RI7			2,097	1,827	2,062	1,724	1,984	1,892	2,171	1,716	1,708	8,786
GNP per capit a, \$	0,15	1,248	23,534	4,253	25,10 5	35,053	30,191	23,549	3,239	3,330	3,956	1,764
Rela tive indic ator, RI8			0,053	0,293	0,049	0,036	0,041	0,053	0,385	0,375	0,316	0,708
Inde x of econ omic freed om	0,15	0,7	2,9	2,1	3,1	2,7	3,2	3,1	2,65	2,55	3,2	1,3
Rela tive			0,24	0,33	0,23	0,26	0,22	0,23	0,26	0,28	0,22	0,54

indicator, RI9												
Competitiveness coefficient of Belarus economy (Integrated indicator) II*	1	0,33	0,41	0,61	0,8	0,93	0,87	1,53	2,26	3,09	1,67	

Source: www.indexmundi.com

$$II^* = RI1 \times 0,05 + RI2 \times 0,05 + RI3 \times 0,05 + RI4 \times 0,25 + RI5 \times 0,1 + RI6 \times 0,1 + RI7 \times 0,2 + RI8 \times 0,1 + RI9 \times 0,1$$

Thus, integrated indicators of Baltic Sea region countries are:

- 0,33– Germany
- 0,41 – Poland;
- 0,61– Sweden;
- 0,8 – Norway;
- 0,93 – Denmark
- 0,87 – Finland;
- 1,00 – Belarus;
- 1,53– Lithuania;
- 2,26 – Latvia;
- 3,09 – Estonia;
- 1,67 - Russia.

Also it is possible to carry out the analysis based on ranging of the countries by each indicator. The country which has the highest value of the indicator takes the 1st place, the country with the lowest value – 11th place.

Table 22. Ranging of the countries by the indicators

Indicator	Units of measurement	Indicator value	Rang of the country
Economical characteristics			

Territory:			
Germany		357 022	3
Poland		312 685	6
Sweden		450 295	2
Norway		323 802	5
Denmark	sq.km.	43 094	11
Finland		338 145	4
Lithuania		65 300	8
Latvia		64 589	9
Estonia		45 228	10
Russia		1 687 000	1
Belarus		207 600	7
Population:			
Germany		82 282 988	1
Poland		38 463 689	2
Sweden		9 074 055	5
Norway		4 676 305	8
Denmark		5 515 575	6
Finland	people.	5 255 068	7
Lithuania		3 545 319	9
Latvia		2 217 969	10
Estonia		1 291 170	11
Russia		13 437 000	3
Belarus		9 612 632	4
Population density:			
Germany		230,5	1
Poland		123	3
Sweden		20,2	8
Norway		14,4	10
Denmark		128	2
Finland	people/sq.km	15,5	9
Lithuania		54,3	4
Latvia		34,3	6
Estonia		28,5	7
Russia		8	11
Belarus		46,3	5
GDP:			
Germany		2 960	1
Poland		725,2	2
Sweden		354	3
Norway		276,4	4
Denmark		201,4	6
Finland	bill. \$	187,6	7
Lithuania		56,22	9
Latvia		32,2	10
Estonia		24,65	11
Russia		220,671	5
Belarus		128,4	8

SME quantity:			
Germany		1 774 000	1
Poland		1 407 000	2
Sweden		542 000	3
Norway		247 000	6
Denmark	un.	207 000	7
Finland		204 000	8
Lithuania		126 000	9
Latvia		67 000	10
Estonia		43 000	11
Russia		351 786	4
Belarus		313 496	5
Quantity of employed on SMEs:			
Germany		21 501 000	1
Poland		7 576 000	2
Sweden		2 720 000	3
Norway		1 329 000	6
Denmark	people.	1 783 000	4
Finland		1 268 000	7
Lithuania		932 000	8
Latvia		643 000	9
Estonia		423 000	11
Russia		-	5
Belarus		536 000	10
Unemployment rate:			
Germany		7,5	5
Poland		11	8
Sweden		8,3	7
Norway		3,2	3
Denmark	%	4,3	4
Finland		8,2	6
Lithuania		13,7	9
Latvia		16	11
Estonia		13,8	10
Russia		2,2	2
Belarus		1	1
Investments rate in GDP:			
Germany		17,6	9
Poland		20,2	5
Sweden		17,9	8
Norway		21,4	4
Denmark	%	18,6	7
Finland		19,5	6
Lithuania		17	10
Latvia		21,5	3
Estonia		21,6	2
Russia		4,2	11
Belarus		36,9	1

GDP per capita:			
Germany			
Poland		23,534	5
Sweden		4,253	6
Norway		25,105	3
Denmark		35,053	1
Finland	doll.	30,191	2
Lithuania		23,549	4
Latvia		3,239	9
Estonia		3,330	8
Russia		3,956	7
Belarus		1,764	10
		1,248	11
Index of economic freedom:			
Germany		2,9	5
Poland		2,1	9
Sweden		3,1	3
Norway		2,7	6
Denmark	points	3,2	1
Finland		3,1	3
Lithuania		2,65	7
Latvia		2,55	8
Estonia		3,2	1
Russia		1,3	10
Belarus		0,7	11

Source: www.indexmundi.com

Then is counted the sum of places taken by each country and the average place is calculated. That is the place the country takes among all the countries by all of the indicators.

Table 23. Total competitiveness

Country	The sum of places	Average place	Normalized place
Germany	32	3,2	1
Poland	45	4,5	2
Sweden	45	4,5	2
Norway	53	5,3	5
Denmark	50	5,0	4
Finland	61	6,1	6
Lithuania	82	8,2	10
Latvia	84	8,4	11
Latvia	81	8,1	9
Estonia	62	6,2	7
Russia	63	6,3	8
Belarus			

The competitiveness analysis has conditional character, the number of studied indicators is limited. According to the received results the most competitive countries are Germany, Poland, Sweden, Denmark, Norway and Finland. Latvia, Lithuania and Estonia take last places. Belarus lags behind the European countries, but it can compete with Russia and Baltic states.

In order to choose the best way of the countries' cooperation, avoid dangers and use available resources as effective as it possible, let us carry out the SWOT analysis.

Table 24. The SWOT analysis of Baltic Sea region

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Favorable geographical position which stimulates the development of international communications; 2. Baltic Sea region shares borders with economically developed countries; 3. There are preconditions for creation of scientific and technological clusters; great number of clusters in high-tech, especially in the western part of Baltic Sea region; 4. Highly qualified workforce, great potential of high technologies; 5. Developed education system, high standard of living and cultural potential; 6. High potential of SMEs in various areas of activity; 7. Great number of multinational companies; 8. Investment appeal of the region; 9. Well-developed transport and communications infrastructure; 10. Developed shipping routes network; 11. Trans-European networks covering neighboring countries of EU. 	<ol style="list-style-type: none"> 1. Nonuniform social and economic development of eastern and western countries of the region, backlog in development of rural areas in some parts of Baltic Sea region; 2. Some eastern countries are in the process of transition to the market economy; 3. Inconsistency of partners' actions, which leads to inefficiency of joint actions; 4. Insufficient use of innovative potential; 5. Low ability of using and spreading of innovations, caused by backlog in social and economic development level and low population density especially in the eastern part of the region; 6. The big disproportion in territorial distribution of leading clusters; 7. Unprofitable demographic structure (aging population); 8. Peripheral position of Baltic Sea region relatively main economic centers of Europe; 9. Low availability of some areas (especially in the north and in the east) because of backwardness of land and air transport infrastructure
Opportunities	Threats
<ol style="list-style-type: none"> 1. Formation of new competitive clusters; 2. Innovations' growth by expansion of education possibilities and research activity; 3. Opportunity of using great innovative potential of the east of Baltic Sea region; 4. Realization of various cooperation programs with the purpose of the region competitiveness strengthening ; 5. Working out of joint solving of common problems by transnational cooperation; 6. Attraction of industrial, financial and human resources, direct foreign investments into various activity spheres; 7. Use of resources and energy high potential ; 8. Favorable conditions for marketing development and creation of Baltic Sea region brand; 9. Attraction of home and foreign tourists; 10. Creation of favorable business conditions; 11. High potential for formation of Baltic Sea region as transit region for passenger and cargo 	<ol style="list-style-type: none"> 1. Growth of the regional disproportions of Baltic Sea region countries; 2. Insufficient development of knowledge and innovation base in eastern countries of the region; 3. Worsening of a demographic situation (negative level of population increase); 4. Growth of migration processes; 5. Insufficient use of human resources of Russia and Belarus for integration of Baltic sea region; 6. Worsening of ecological situation; 7. Increase in territorial separation by level of using of information-communication technologies and possibilities of digital services application.

traffics; 12. Satisfaction of growing requirements for sea transportations; 13. Spreading of avia services and communications (Internet, mobile communication) for overcoming the regions' remoteness and their low population.	
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With the exception of quickly developing economy, unique characteristic of Baltic sea region is importance of all types of transport (with a small exception for internal waterways) for the region transport system, which is not usual for other Europe regions. However this transport system operates non-uniformly on the territory of the region - with very low density in the north and essentially higher density on a southern direction, especially on the south-west of the region. Vertical extent of region explains great geographical distances and long time spent for trips not only on internal lines between the regional centers, but also for external connections with the leading markets of Europe.

Another characteristic feature of the region is location of Baltic sea directly in the center of its territory that becomes simultaneously a barrier and a cooperation link. Baltic sea is an important transport artery, special sea economic zone and an important zone of repose and tourism.

The cities of Baltic sea region, in their majority, have great potential for global economy, for example, as a zone of new global integration in Europe. This characteristic feature distinguishes the region from another areas out of the heart of Europe. In the cities of Baltic sea region there are headquarters of 15% of large transnational corporations. Formation of such zone in Baltic sea region is restrained by the location of cities with low population density and long distances. Thus, the preliminary condition for strengthening of development of Baltic sea region cities is expansion of interaction between cities, enlargement of material (trade, foreign direct investments), and non-material (knowledge transfer, decision-making networks) streams.

Among the characteristic advantages of Baltic sea region are: intellectual resources and high-skilled labor force of the region, high potential of the growth of new EU member states, considerable market potential of north-eats of Russia and Belarus, effective innovative systems of "old" EU members. Such combination provides the advantages to the region on the world arena for reception of investments and high-quality resources, such as labor and a know-how. Especially human capital should become the basic property of Baltic sea region in comparison with other European regions.

However, functional integration of the region faces formidable difficulties, among which, on the one hand, a considerable difference in social and economic development in different parts of the region, and on another, - general development problems.

Though the rupture between old and new market economies slowly reduces during last years, recent data says that the disproportion in Baltic sea region increases. Considerable difference in level of social and economic development between western and eastern countries, low development of rural areas are main weaknesses of the process of integration and territorial rapprochement of Baltic sea region countries.

Despite obvious tendencies of growth, territorial disproportions of production per capita remain the highest on continent. In this region are presented the richest and the poorest areas in Europe, in many cases these are neighboring regions. As a whole disproportions repeat outlines of the Iron Curtain that divided the region. The greatest ruptures are on border between

Finland/Norway and Russia, between the former Western and Eastern Germany. It also should be mentioned that in Poland there are 5 poorest areas among 25 EU countries. East-West division remains in following spheres:

1. Intensity of economic production. Despite fast "catching up" processes in EU member states, GNP per capita in the countries BSR- East is still 4-5 times lower, than in their western neighbors. In 1995 the difference between the BSR-EAST and the BSR-WEST was approximately 1:3 whereas by 2003 the difference has decreased approximately 1:2.5. If the difference of relative production volumes of two groups of countries changes linearly and grow steadily, this rupture will be overcome by 2039. However this linear growth is almost improbable.

2. Unemployment. As effect of economies' transformation and productivity increase, some new EU member states and new federal lands have faced serious problems on maintenance of employment of the former workers of agrarian sector and industrial enterprises, especially in countryside. Thanks to national and regional help programs, unemployment has been reduced and overwhelmed, though till now, in some areas of Poland and in new lands of Germany this factor exceeds 20 % of people of able-bodied age. Rupture between unemployment rates of BSR-EAST and BSR-WEST increased till 2002, and then it has started to decrease caused by growing unemployment rate in Germany and decreasing indicators in the new EU members (Poland for example) and Russia.

3. Employment distribution by sector. At national level, Latvia, Lithuania and Poland still have low indicators of employment in services sector. Though the tendency of transformation in economy structure of the countries the BSR-EAST from industrial sector to services sector has positive indicators, only 54 % of labor is occupied in services sector. For comparison, in the countries BSR-WEST services sector provides three quarters of all workplaces.

4. Quality of the disposed to innovations business environment . Whereas the business environment of the west of Baltic sea region has developed infrastructure (for example, development of transport and communications), highly skilled labor and strong clusters and companies competing on innovations and uniqueness – public support of innovations and clusters in the east of BSR considerably lags behind. Though the countries of BSR-EAST remain to show steady growth of GNP, positive changes in services sector investments into information and communication capital, still remains great rupture between investments into innovations and their productivity, where Northern countries and Germany are on one side and Eastern countries are on the other. It is especially when the countries are compared by such indicators as formation and manufacture in the clusters, investments into researches and developments, patents and scientific publications.

5. The contribution into the transport structure and information and communication capital. In the BSR there is a huge disproportion in availability of transport infrastructures (especially, railway stations, airports and mixed terminals). Except northern peripheries, Baltic states, Russia and Belarus have the lowest indicators of availability of transport communications in Baltic sea region and in Europe. Also there are obvious disproportions on broadband Internet access that can lead to digital split of Northeast and Southwest.

6. Environmental protection. Public awareness on problems of environmental protection and possible solutions is much lower in the countries of BSR-East. At the same time this activity suggests using of renewed energy sources, potential for energy savings, improvements of conditions of water resources using . Financing and a know-how on these measures is already accessible in BSR-West.

7. Social conditions and development effects. Though social and human capital is the main welfare of the region, eastern part of BSR requires hard work in a given direction on the basis of wide public involving, availability of social services and public health services, perfection of environmental management.

Common problems which the countries RBM face, are connected with global tendencies of social and economic development and ecology which influence negatively territorial development. Among them:

1) Concentration of intellectual activity and services, especially business services in capitals and megacities. This tendency can strengthen a difference between the advanced urbanized regions and rural territories. Besides, the cities of BSR, despite solid social and economic potential, differ low rates of penetration of information and communication capital in public sphere (the electronic government, electronic public health services, electronic training).

2) Internal orientation on the solving of transport BSR problems, with an insufficient transnational component which is necessary for BSR integration and improvement of communications between the urbanized regions. Except densely populated and well provided with transport southwest part of the region and some megacities (basically, capitals), the most part of region of Baltic sea (for example, the northeast, the Baltic States, Belarus) suffers from insufficient internal and external communications. Besides, Baltic sea forms a natural barrier to a trading exchange between the BSR countries that puts communications in dependence on navigation and shipping routes. It is necessary to notice that absence of steady airlines with northern peripheries reduces cooperation potential between peripheral regions and raises their dependence on capital regions.

3) The land transport carries out the most part of international transportation of the goods, and development of extent of these roads, both on long, and on short distances is swept especially up in new EU Member States. Only over the last ten years the volume of the transported goods has increased more than twice, and it is expected further increase in this tendency, considering expansion of EU and increase in the foreign trade activity of Russia and Belarus. It can deepen the problems of transport transportations appreciable already now in a transport network of the southeast of region, and can cause serious ecological threats also. Now, BSR transport sector is the leading factor of increase in requirement of EU in energy carriers and emissions of carbonic gas in atmosphere. Essential shift was outlined in the geographical plan towards strengthening of the East-West streams.

4) Improbable increase in volume of the passenger aircraft, caused by expansion of cheap carriers which break a stereotype of low availability of BSR remote regions. This process causes also a competition for granting of services on a long distance among land and ferry carriers. However at the same time this growth causes environmental problems.

5) Spatial disproportions in distribution of information and communication capital (for example, broadband access to the Internet, house networks) which are appreciable both between the countries, and between the urbanized and rural areas in the countries RBM.

6) Safety on the sea. Baltic sea is the most intense knot of the sea communications in Europe. It is forecasted that the risk of incidents and ecological accidents (floods) can increase with the development of high-speed ferry communications with new EU Member States, and also in connection with growing transportations of crude oil and oil products by sea from the Russian ports through gulf of Finland. According to forecasts, by 2020 navigation should become the

main means of trade in the region and will reach on an indicator of transportations of 54 % of volume of international trade in region. Sea tourism endures boom as well.

7) Increase in use of sea resources due to development of all economy sectors connected with the sea. This pressure has caused the conflict between working out of sea bowels and ecological conditions of Baltic sea. In the general interests - realization of the Sea Strategic Instruction (for example, preparation of national ecological plans) and cooperation which is required from EU member states and from the other countries.

8) Pollution of waters of Baltic sea with substances containing nitrogen and fluorine. Though as a whole the maintenance of nitrates in waters was reduced for last 15 years, sea resources extraction, sea transport and emission of nitrate agriculture products, timber cutting, industrial production and settlements remain the main sources of pollution.

9) The status and further development of coastal BSR areas demands harmonization and development of possibilities through national borders. It will lead to necessity of realization of an integrated approach to management of coastal areas on regional and national levels, according to decisions of the European Parliament and Council (2002/413/EC), reconsidered in 2006.

10) Natural cataclysms, such as the serious flooding in some countries, hurricanes and forest fires which often occurred recently and which, partly, attribute to global climate change.

11) Demographic tendencies of population aging in BSR and increases in life expectancy which put new social and economic problems, such as maintenance of labor force quantity for preservation of steady growth or providing services for people of mature age. The opposite situation, however, takes place in northwest areas of Russia, basically caused by high death rate and absence of a tendency to life expectancy increase.

12) Migration which remains directed to big cities and megacities, campuses, and the non-uniformity of moving caused by it. Serious processes of the population reduction in northern peripheral areas where only over the last 10 years the most part of administrative formations has lost over 10 % of the population: basically these are persons of young age. These tendencies put serious pressure upon viability of small and average peripheral cities, countryside, or the former industrial areas which lose the youngest and educated population. Between 1995 and 2000 economic disproportions between megacities and not - megacities continued to grow. Last years the tendency to migration between the BSR-WEST and the BSR-EAST has been even higher that is connected with opening of labor markets in EU and Norway for workers from new EU member states.

13) The economic condition of rural areas which make the most part of BSR territory which are an important source of incomes reception . There is occupied about 15 % of the population in many subregions of the BSR.

14) Insufficient development of the city centers of rural areas which have been kept away from the capital centers, in these small and average cities is not guaranteed of employment of the agricultural population which tries to pass from agriculture in services sector.

15) Energy savings in premises and manufactures, consumption of all kinds of energy under forecasts should grow on 60 % by 2030. The most part of this increase is that of traditional energy sources, however, fast growth of use of nuclear and renewed energy is predicted. Serious problems remain in sphere of reduction of emission of carbonic gas in atmosphere which is the main gas influencing climate change.

These shared problems should dare in common through the transnational cooperation creating base for concrete actions.

The Baltic Sea region has high potential for strengthening of competitiveness on a global scale. First of all it is necessary to stimulate economic development through granting of the state services and creation of the favorable environment for business development. The successful policy in this sphere should include active cooperation of the state and private sectors. At transnational level political support is necessary for the best participation in competitiveness and integration PBM increase for the local and regional governments. Stimulation of enterprises activity, attraction of direct foreign investments, development of corporate decisions, increase of labor productivity and development of the business environment, development of the economy which is based on knowledge, - all these important measures demand joint activity on regional, local and national levels of the governing with involving of business and scientific communities. Based on it, the government can improve decision-making process and the investment activity in economic and social spheres of cities and surrounding regions.

For internal integration of BSR, the special attention is given to development of small and average cities, as well as to separate schemes of moving in the big territories with small population density (for example, area of Barents sea). Also has great value the working out of decisions on strategy and practical ideas of cities development and harmonization of surrounding rural areas.

All actions should promote development of effective communications and BSR identity, competitiveness and harmonization strengthening. This is very important in view of territorial digital stratification and a language barrier which interfere with streams of ideas and electronic communications in BSR.

For this purpose it is necessary to develop joint programs, cooperation projects between the countries and to stimulate strengths of Baltic sea region and to eliminate the revealed problems. It is necessary to pay attention to such strategic questions, as development of the economy which is based on knowledge, and more integrated transport environment.

Within last decades cooperation between the local, regional and national governments grew fast in Baltic sea region and received an additional push to development in connection with EU expansion. Cooperation through borders already mentions many fields of activity and defines high level of convergence, including an exchange of the goods and investments. However the region needs greater integration for strengthening of its competitive positions in Europe and transformation into the global economic player.

Social and economic, transport and ecological indicators show the necessity of association of efforts of some countries of region for fuller use of development potential. The view that successes of Baltic sea region in economy depend only on good indicators of the separate countries is called into question. Development of infrastructure, human capital and amplifying economic and investment integration are considered, now, as primary factors of strengthening of regional competitiveness, economic growth, and, as a result, creation of workplaces and well-being improvement.

If we look through separate countries it is possible to allocate following problems, experience and approaches to which solving in the above-stated countries represents in the long term interest for Belarus.

Sweden – experience in social insurance area, in the field of a labor safety, in the field of the state supervision of the financial markets, in the field of employment regulation, in the field of the organization of accounting and auditor activity, in the field of perfection of model of the agriculture state support, in the field of management of higher education, in the field of conducting small and average business, in the field of attraction of foreign investments, in the field of structural reorganization of economy, in the field of currency regulation in the conditions of the neighborhood with an euro zone, in the field of local government, in the field of social security, in the field of the legislation (about real estate).

Denmark – experience in area of currency regulation in the conditions of the neighborhood with an euro zone, in the field of development of local kinds of fuel (in particular wind power), in the field of the labor safety organization, in the field of creation of the holding companies abroad, in the field of the environmental protection and maintenance of health of the population, in the field of expansion by the local companies of the foreign markets on a basis of niche specializations (development of separate niches), in the field of the organization of the higher agricultural education, in the field of the organization and functioning of the public agricultural organizations in the country, in the field of development of farms and system of their advisory service, in the field of participation of local authorities in realization of a trading and industrial policy of the country, in the field of the organization of parliamentary control over an expenditure of public finances, in the field of achievement of steady rates of economic growth in the country, in the field of decrease of unemployment, in the field of development of the higher and secondary education system, and also preparation of pedagogical staff, in the field of the state support of small-scale business, in the field of social policy.

Finland – experience in area of achievement of high competitiveness of production and of the country as a whole; in the sphere of education, in the field of maintenance of economic and national safety, in the field of currency regulation, in the field of the legislation (about change of the labor contract), in the field of development of a forestry and the wood industry, in the field of development of the infrastructure providing enterprise activity.

Norway – in the field of the labor legislation (perfection of contracts), in the field of agriculture development, in the field of escalating of an energy potential of the country, in the field of decrease in tax loading along with providing of high level of social security of separate groups of the population.

Estonia – experience in area of the solving of negative foreign trade balance problems, unemployment, maintenance of steady rates of economic growth, deficiency of the state budget, rise of labor price, growth of an external debt, rational use of credits, low efficiency of workers in comparison with the Western Europe, replacement of local goods by import, increase in prices for energy carriers.

Lithuania – experience in area of solving problems of the environmental protection, economic criminality, maintenance of high rates of economic growth, deficiency of labor, decrease in tax loading, a rise in prices and inflation; problems of socially - focused market economy formation, encouragement of investments into human resources, carrying out of active social policy. Experience in area of realization of an active employment policy, and also working out of the separate program of legal, economic, social and cultural measures of agriculture and village development, and their maintenance with resources; experience in increase of the GDP redistribution through the state budget, increase of share of small and average business in economy of the state, increase in the financial help of cooperation on village. To study experience in sphere of public health services of Lithuania where all women at the age from 30 till 65 years can be checked regularly and free of charge on a cancer of a neck of uterus and a

breast, and the pensioners are provided with free prosthetics of teeth. To study experience of Lithuania in sphere of attraction of means for building of the new nuclear reactor and the argument of the country government to remain «the state possessing an atomic energy station».

Latvia – experience in area of the problems solving of a rise in prices and inflation, unemployment, growth of salary and incomes of the population, demographic crisis and labor outflow abroad, increases of investment activity, a rise in prices for energy carriers, growth of the cost price of production and decrease in price competitiveness of export of the Latvian goods and services, decrease in profitability of production of the Latvian enterprises, deficiency of trading balance. Studying experience of carrying out of currency reform, experience of realization of measures on prevention of threat of the Latvian economy overheat , and also experience of carrying out of school reform and overcoming of its negative resonance in a society.

Germany – experience in area of calculation and estimation of a climate influence on rates of economic growth of the country; experience of reforming of an average and higher education system; experience of budgetary financing of social spheres of economy within the limits of a social market economy model operating in Germany; experience of carrying out of pension reform including as one of its elements an increase of pension age; experience of carrying out of tax reform, including refusal or decrease of VAT. So, in Germany economic growth directly is defined by investments into the human capital. higher they are, the higher is economic growth and well-being. The higher is the income of people, the higher is an educational level, and on the contrary – the better people are educated, the higher is their income. The human capital is formed, when people study: at school, in university, it is independent with help of books or through the computer, the Internet. Thus received knowledge should not only be learned, but applied in daily situations, for example on work. Only then it will be the working capital. Also, in Germany the custom of formation at the enterprises is developed. Many young men get alternative education, working within three years in companies and simultaneously visit professional college. Successes of German economy are based just on system of the professional formation, allowing to prepare highly professional staff. People are high-qualified and by that is the basis for higher efficiency of economy.

Poland – experience in area of the solving of unemployment problems, inflation, deficiency of the state budget, reduced investments and GNP, external debts, negative balance of migration and decrease in indicators of consumer expenses, deficiency of the current balance of payments. Experience of a solution of a problem of considerable loss of the Polish export in connection with decline of "shuttle" trade (toughening of boundary control for citizens of Russia and Belarus) also. Besides, it is necessary name the following problems: science and education problems, problems connected with the solution of housing difficulties, transport development, transformation of villages, of agriculture, public health services perfection, environmental protection. There is a positive experience in the solution of the problems mentioned by the means of financial policy, conditions of rapid development of a private sector (creation of the best conditions for activity of the small and average enterprises), possibilities of foreign investments inflow, realization of a social orientation state budget. Results of social and economic development of Poland in the field of growth of labor productivity, improvement of qualitative structure of export, reduction of inflation, decrease in negative balance of foreign trade and deficiency of the balance of payments, acceleration of housing construction, construction of motorways and high-speed roads in the country, simplifications of system of taxes and social insurance for small and average business, elimination of bureaucratic barriers on a line «the official – the businessman», creations of funds of credit commissions and extra funds for the small and average enterprises are positive. For example, anti-recessionary measures for the unprofitable enterprises: the enterprises and banks receive from the state privileges under condition of satisfaction of government requirements. The anti-recessionary package provides

discarding of taxes, customs payments, social funds payments debts to the state budget for large and small, state and private enterprises if they present the plan of re-structuring (improvement) and will find 15 % of own means for realization of this program.

In connection with demographic peak 2002-2005 in Poland, is interesting the program in the field of youth employment which provides such forms of employment and experience reception for youth, as training, practice, seasonal employment, use of microcredits. In case of graduates employment businessmen receive tax and other privileges.

For Belarus is actual search of ways of the solution of agrarian-economic problems similar to Poland: dissociation of agrarian structure; high rate of unemployment among the population living in rural territories; low level of education in this sphere and, as consequence, insufficiency of enterprising people. Thereupon is interesting an experience of introduction of a variety self-made goods; the organization of family agriculture, as the basis of the future land management; the organization of tourism, workmanship, trade; the integrated cultivation of fruit (vegetables), less widespread vegetables, cultivation of medicinal grasses, beekeeping. Thus, among various possibilities of preservation and development of agricultural activity of the population in territories of villages is essential the replacement of the traditional cultures which are grown up till now by alternative.

Russia – experience in social insurance area, in the field of a labor safety, in the field of the state supervision of the financial markets, in the field of attraction of foreign investments, in the field of creation of the holding companies abroad, in the field of the state support of small-scale business, in the field of reduction of tax loading and economy liberalization, experience in area of achievement of high competitiveness of production and of the country as a whole; in the field of maintenance of economic and national safety, in the field of development of a forestry and the wood industry, in the field of development of the infrastructure; in the field of escalating of an energy potential of the country; in the field of the solution of problems of negative foreign trade balance, rise of labor price, growth of an external debt, rational use of credits, low efficiency of workers in comparison with the Western Europe, replacement of the local goods by import, rise in prices for energy carriers. Experience in area of the solution of problems of labor deficiency, aging of the nation, slowly growing population, immigration.

Also it is interesting to study Russian experience in the sphere of solution of problems of excessive dependence of the country from foreign transnational corporations; in the field of efficiency increase (increase of productivity of not-exporting sector of economy, and also preservation of a favorable level of business activity for the export enterprises without dependence from that, are they in the country property of or not); in the field of a solution of deficiency of a floor space problem. Experience of Russia in the field of export stimulation, the further development of "quality" of a manpower, reforming of an education system and the migratory policy for the purpose of increase of a share of highly-educated specialized workforce, is also of interest for perfection of the Belorussian economic model.

Dynamically developing economic relations in Baltic sea region have great value for all Europe. On the one hand, by taking part in the international chains of processing of raw materials from the Russian Federation into the finished goods and realizing this production to Europe. And on the other hand – by using of new technologies and the high-technology production imported from the European union for manufacturing of goods and export of this production to other countries of the world.

The countries of Baltic sea region are characterized by high purchasing and payment ability that is the positive factor for escalating of economic relations.

It is necessary to carry out branding of Baltic sea region which is well recognized among other integration associations, deposited by affinity to the markets, possessing a fine investment climate, excellent educational potential, dynamical megacities, and introducing successful measures of environmental protection.

First of all it is necessary to focus on manufacturing and distribution of innovations in region as on the factor of economic development, it is necessary to pay attention on innovations in spheres of natural and engineering science, on such technical innovations, as service business, design, or other spheres of knowledge connected with the market.

It is necessary to improve internal and external transport availability of region, i.e. to prepare and advance joint solution on transport and information-communication technologies which overcome existing barriers in distribution of innovations and transport streams, and, thereby, promote territorial rapprochement of Baltic sea region. The countries should be guided by the further integration of the areas of strategic development located along transnational transport corridors, and on creation of new transport communications.

Cooperation of the large centers of the urbanized regions, cities and rural areas is important for strengthening of the general potential and identity of Baltic sea region, and also its appeal to citizens and investors. Cooperation should be directed on joint actions in social sphere of cities and regions development, on institutional development and more active public participation.

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