

# GEOPOLITICAL AND GEO-ECONOMIC CHANGES IN THE BALTIC SEA REGION AT THE TURN OF THE XX—XXI CENTURIES

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The article describes the process and results of geopolitical and geo-economic changes in the Baltic Sea region at the turn of the 21<sup>st</sup> century. The authors assess political, economic, and military potential of individual countries and groups of countries. Ranking the selected countries and grouping them according to the similarity of their characteristics requires a variety of methods — economic, statistical, cartographic, graphic-analytical, to name just a few. In the late 1980s — early 1990s, there were three socialist countries in the Baltic Sea region. They were signatories of the Warsaw Pact and members of the Council for Mutual Economic Assistance (the Soviet Union, Poland, and East Germany). The Baltic Sea region housed four market economies (Sweden, Finland, Denmark, and Germany). Only two of them were members of NATO and the EU (Germany and Denmark). At present, there are eight EU countries in the region; six of them are NATO members (Germany, Sweden, Denmark, Poland, Lithuania, Latvia and Estonia), and the same two countries, Sweden and Finland, remain outside the bloc. Russia, the legal successor of the USSR, is neither a NATO, nor an EU member. The authors explore similarities and differences between countries of the Baltic Sea region in terms of their territory, population, GDP, foreign trade turnover and the number of regular armed forces. The article stresses the importance of international cooperation in increasing the growth rates of economic development of all countries of the Baltic Sea region.

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## Introduction

In the late 1980s, the countries of the Baltic region constituted two different groups. One was part of the so-called ‘Soviet bloc’ and comprised

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three socialist countries with a planned economy, which were also members of the Warsaw Treaty Organisation (WT) and the Council for Mutual Economic Assistance (CMEA). These were the USSR, Poland, and the GDR. The other brought together ‘capitalist’ market economies of the West. Two of the four ‘capitalist’ countries were members of NATO and the EU (the FRG and Denmark) and the other two were not affiliated to those structures (Sweden and Finland). The geopolitical and geoeconomic changes of the late 1980s-early 1990s created a radically new situation on the shores of the Baltic Sea. Today, the region comprises eight EU member states and Russia. Six of the eight states are also members of NATO (unified Germany, Denmark, Poland, and the three former USSR republics — Lithuania, Latvia, and Estonia), and two are not (Sweden and Finland). Not affiliated to either NATO or the EU, Russia is a member of the Eurasian Economic Union and the Collective Security Treaty Organisation. This article compares a number of characteristics of the Baltic region states — territory, population, GDP, external trade, and the number of regular armed forces personnel before and after the changes. Special attention is paid to the role played by the USSR and the RSFSR in 1990 and the Russian Federation in 2015 in the Baltic region.

### The late 1980s

In the late 1980s, the Soviet Union had a solid geopolitical position in the Baltic region. It included total control of the eastern coast of the Baltic Sea stretching from the Polish border in the South to the Finnish border in the North. The southern Baltic coast was almost completely controlled by its allies — Poland and the GDR — members of both the CMEA and the WT.

The border between the two systems, the West and the East, ran through the Baltic region. However, the groupings on either side of the border were not homogeneous. Only the FRG and Denmark were EU and NATO members. A segment of the capitalistic system — Sweden and Finland — remained politically non-aligned. Moreover, Finland had close economic ties with the USSR and it was part of an agreement of friendship and cooperation with the Soviet Union, which imposed certain political limitations. The ‘Eastern bloc’ was also heterogeneous and divided by civilizational disparities. Despite a once deep rift within the German nation, the reunification proved its fundamental unity and affiliation with the Western civilisation. The Polish society also remained part of the Western civilisation. Although the USSR declared the emergence of a ‘Soviet people’ as a new historical alliance and some experts proclaimed the development of a ‘Soviet civilisation’<sup>1</sup>, the Baltic union republics demonstrated pronounced civilizational differences from the future regions of the Russian Federation.

In the late 1980s, the USSR was the largest country in the Baltic region in terms of territory and population. It accounted for 63 % of the regional GDP (based on the official exchange rate). The number of the Soviet armed forces personnel was three fourths of the total armed forces personnel of the region’s countries. However, by external trade, the Union was outperformed

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<sup>1</sup> S. Kara-Murza titled his two-volume work ‘Soviet civilisation’ [5].



by the FRG. The Soviet external trade accounted for less than 20% of the total regional external trade, which was indicative of the Union's poor integration into the world economy (table 1).

Table 1

#### A comparison of selected characteristics of the Baltic region countries, 1989

Country	Area, 1000 km <sup>2</sup>	Population, million people (June 1990)	GDP, USD billion	External trade, USD billion	Number of regular armed forces personnel, 1,000 people
USSR	22 402.2	290938	2659.5	218.0*	3988
FRG	248.6	62168	945.7	574.0	469
GDR	108.3	16307	159.5	61.7	137.7
PPR	312.7	37776	172.4	47.5 **	312.8
Sweden	450.0	8526	132.7	100.7	64.5
Denmark	43.1	5131	73.7	54.1	31.7
Finland	338.1	4977	74.4	44.2	31
<i>Regional total</i>	23 903.0	425823	4217.6	1100.2	5034.7
USSR, % to the countries of the region	93.7	68.3	63.1	19.8	79.2

\*1988.

\*\*1987.

Sources: [24, 25].

The Baltic region countries were principal trade partners of the USSR. In 1989, the GDR ranked first, Poland third, the FRG seventh, and Finland tenth in the Union's total trade [10]. Bilateral trade with Sweden and Denmark accounted for a less significant proportion of the total trade. The Baltic Union republics were an important part of the country's economy and their level of economic development was well above the Union average.

#### Changes at the turn of the century

At the turn of the 21<sup>st</sup> century, a new series of dramatic geopolitical changes took place in the Baltic region. They were caused by the collapse of the Soviet Union and the system of European socialist countries (fig. 1).

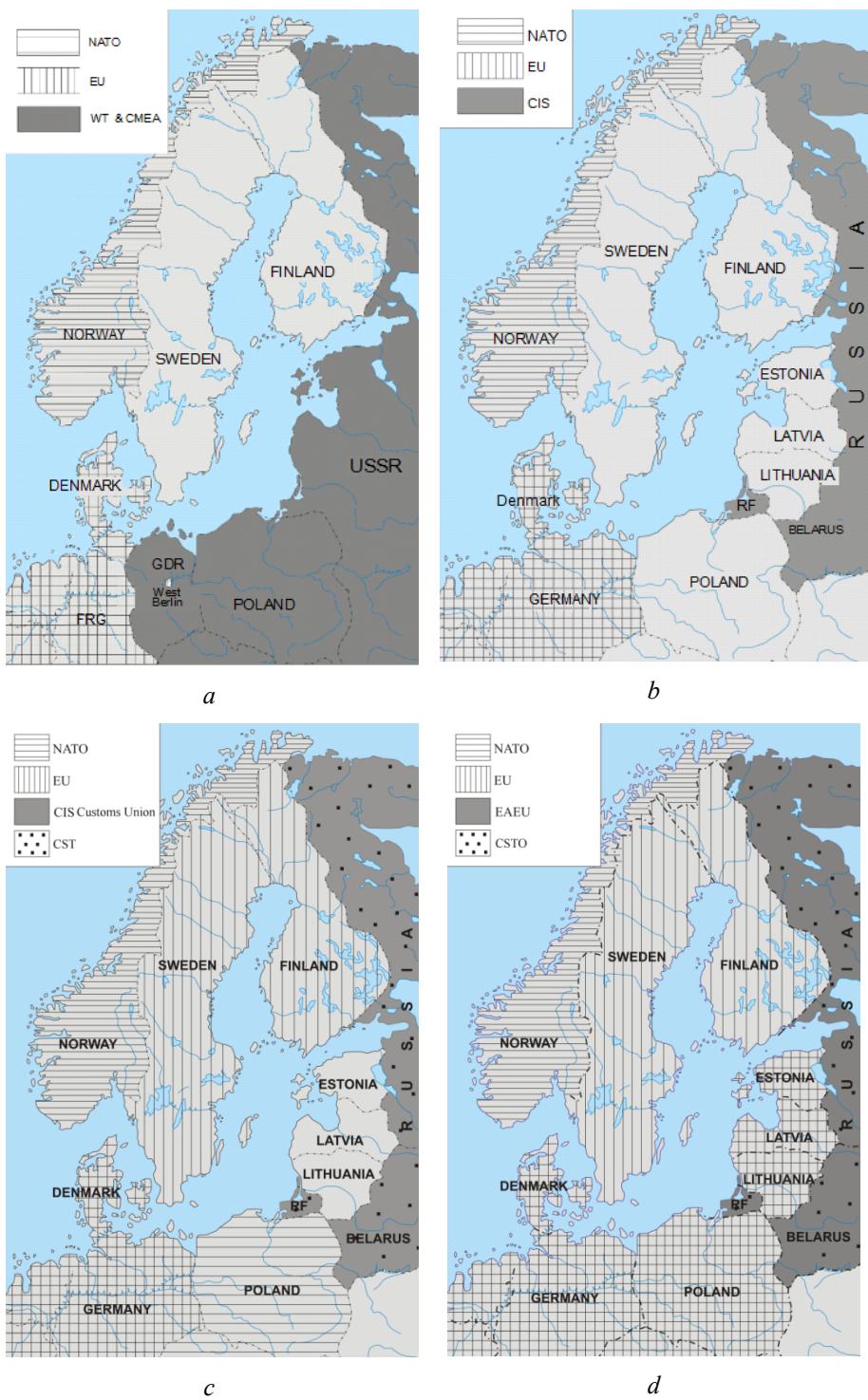


Fig. 1. Geopolitical changes in the Baltic region, 1998—2014:  
 a — 1988; b — 1992; c — 2000; d — 2014



In 1988, the east and the south of the Baltic region was a territory of the USSR and its allies. In the West, the exit from the sea was controlled by NATO and the EU and more than half of the Baltic coastline belonged to non-aligned Sweden and Finland — members of neither the EU nor CMEA.

The dissolution of CMEA and the Warsaw Treaty and the reunification of Germany in 1989 started to change the situation in favour of NATO and the EU. In 1995, Sweden and Finland acceded to the EU. In 1999, Poland became a NATO member state, followed by the Baltics in 2004. In the same year, Poland and the Baltics acceded to the EU. Today, out of nine Baltic Sea region states only Russia is not a member of the EU. Russia, Sweden, and Finland are not affiliated to NATO.

After the collapse of the USSR, the Commonwealth of Independent States (CIS) was established. However, it did not contribute to cooperation among the member states but rather it resolved conflicts between them. In 1992, part of the former USSR republics signed a collective security Treaty (CST), based on which the Collective Security Treaty Organisation (CSTO) was established in 2002. Since 2004, it has had observer status in the UN General Assembly.

The Customs Union played an important role in economic cooperation. The inception agreement was signed in 1995, although the Common Customs Code for Russia, Belarus, and Kazakhstan came into force only in 2010. Later, these countries were joined by Kirgizia and, later, Armenia. In 2015, all the countries became members of the newly established Eurasian Economic Union (EAEU) aimed to create common economic space.

At the same time, former confrontation between the blocs came to an end, which facilitated transnational cooperation between the countries of the macroregion. In 1992, the Council of Baltic Sea States was established. It brought together nine countries with a direct outlet to the Baltic Sea, as well as Norway and Iceland. The organisation and numerous international agreements have contributed to the development of cooperation between all countries of the region.

Unfortunately, recent confrontation has impeded economic cooperation, which actively developed earlier. Social contacts have also been affected but to a lesser extent. If, earlier, the Baltic region was considered one of the world leaders in international cooperation and military disengagement, now this role of the region is becoming less pronounced.

## Current situation

Correlation between the economic development of states with a traditional market economy and post-socialist countries (including Russia, Poland, and the former Soviet republics of Lithuania, Latvia and Estonia) has dramatically changed over the last 25 years.

*Table 2***GDP per capita in Germany and other Baltic region states, 1990—2015**

Country	GDP (PPP) per capita in Baltic region states to Germany's GDP, %						
	1990	1995	1998	2007	2011	2014*	2015
Russia	43	20	18	43	44	57	54
Germany	100	100	100	100	100	100	100
Poland	31	28	31	47	54	60	57
Sweden	92	86	89	107	107	100	102
Denmark	91	101	105	109	98	100	97
Finland	90	83	91	103	96	89	88
Lithuania	36	19	22	48	50	60	61
Latvia	42	17	19	52	41	52	53
Estonia	39	21	25	63	54	59	61

Based on [28].

\* [15].

Four states with a long tradition of market relations — Germany, Sweden, Denmark, and Finland — have been regional leaders in economic development since 1990. They are among the world's twenty countries with the highest GDP, which ensures high standards of living in these states. They comprise a group of market countries with a social economy. They take an active part in international division of labour and demonstrate high rates of international trade turnover per capita. Thus, these countries are interested in securing new markets and gaining accesses to sources of raw materials. This requires developing connections with post-socialist countries of the Baltic region.

In the 1990s, as the eastern German states — the former GDR — reunified with the FRG and were forced to 'catch up' with the West, Sweden first outperformed Germany in terms of GDP per capita; the latter has not reclaimed its leadership to this day.

The development of economic and political ties with all countries of the Baltic region is of enormous importance for the Russian Federation, which — after the collapse of the USSR and the dissolution of CMEA — has to build a new system of relations in the international division of labour. Once Russian principal trade partner, today's Germany ranks only third in the country's international trade, topped by China and the Netherlands. At the same time, trade ties with Finland, Poland, and the Baltics also play an important role. However, having severed many trade contacts with Russia, Poland and the Baltics become increasingly oriented towards the West. This is not always practical for either party and, thus, there is room for joint research. Opportunities for Russian-Swedish and Russian-Danish economic and cultural ties have not been exhausted.

Table 3 presents a comparison of the basic characteristics shaping the potential of the Baltic region states.

Table 3

**Selected characteristics of the Baltic region states**

	Characteristics				
	Area, 1000 km <sup>2</sup> , as of 1.01.2016	Population, 1000 people, as of 1.01.2016	GDP (PPP), USD billion, 2015	External trade, USD billion, 2015	Number of regular armed forces personnel, 2016
Russia	17 125	146 544	3718	535.1	798
Germany	357	82 162	3841	2275.9	179
Poland	312.7	37 967	1005	377.7	99
Sweden	450.3	9 851	473	284.3	30
Denmark	43.1	5 707	259	177.9	17
Finland	338.1	5 487	225	125.0	22
Lithuania	65.3	2 889	82.4	64.9	16
Latvia	64.6	1 969	49.1	29.7	5
Estonia	45.2	1 316	37.6	27.9	6
Total	18801	293 892	9690	3898	1172
RF,% of the total of all regional countries	91.1	49.9	38.4	13.7	68.1

Sources: [13, 19, 26, 28].

By 2015, the quantitative characteristics of Russia — territory, population size, number of armed forces personnel — were well below those of the USSR. GDP and external trade turnover increased, although Russia's proportion was still below that of the USSR in 1989.

Relative indicators, such as the contribution of the Russian Federation to the total performance of the Baltic region states, decreased (fig. 2).

By area and population, Russia still stands out from the nine Baltic region states (91 % of the total area and 50 % of the total population). The areas of four countries of the region can be considered average by global standards, ranging from 300 to 500 km<sup>2</sup>. These are Sweden, Germany, Poland, and Finland. The other four — Denmark and the Baltics (Lithuania, Latvia, and Estonia) — have smaller areas of 40—70 thousand km<sup>2</sup>.

By population, only Germany (82 million people) can be compared with Russia (146.54 million people), although the difference is 1.8-fold. The population of Poland is 0.45 times that of Germany. The other states are classed by population as small states. The Nordic countries<sup>2</sup> (Sweden, Denmark, and Finland) are home to 5 to 10 million people each and the Baltics states — to 1 to 3 million people.

<sup>2</sup> The Nordic countries (Scandinavian states and Finland) also include Norway and Iceland lying outside the Baltic region.

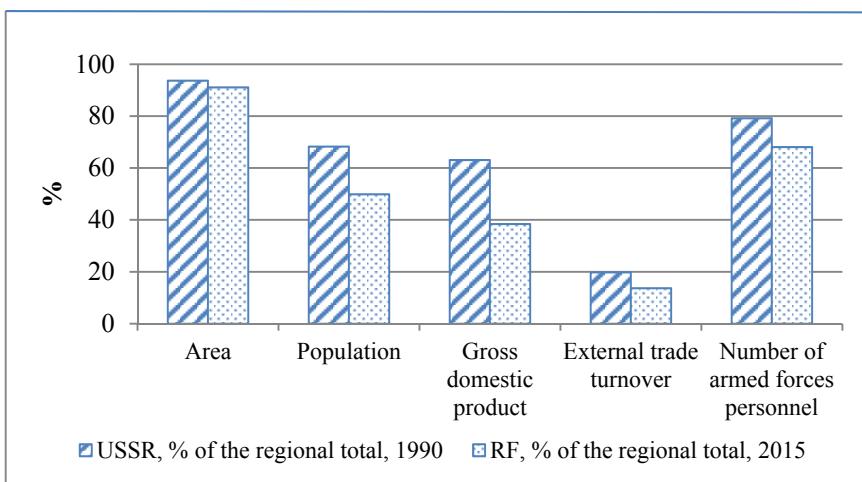


Fig. 2. USSR (1989) and RF (2015) to the regional total

Source: based on tables 1 and 2.

According to *The World Factbook*, the GDP (PPP) of Russia and Germany are almost equal — USD 3.7 trillion and 3.8 trillion respectively, or 38% and 40% of the total GDP of the Baltic region countries. Poland accounts for 10% of the total regional GDP, Sweden for 5%, Denmark and Finland for 2—3, and each of the Baltic States of Lithuania, Latvia and Estonia — for 1%.

In 1990—2015, correlation of the economic potentials of the Baltic region countries changed significantly. The contribution of each post-socialist country (with the exception of Latvia) to the total GDP of the nine Baltic region states increased and that of countries with a traditional market economy diminished. The most significant decrease was observed in Germany and Latvia (fig. 3).

The total redistribution in favour of the post-socialist countries reached 5.6 percentage points. Despite the severe crisis of 1992—1998, the contribution of Russia increased from 35.5% to 37.6% or by 2.1 percentage points. The most significant loss was sustained by Germany — almost 5.5 percentage points.

A parameter considered crucial when assessing the level of a country's economic development, GDP per capita allows us to identify two groups of states in the Baltic region in 2015 (see fig. 4). The first group comprises countries with a traditional market economy (Germany and the Nordic countries) with a GDP per capita ranging from USD 41 to 48 thousand. This is a high level, characteristic of the most economically developed countries of the world. The second group consists of post-socialist countries, which had a socialist non-market economy over a long time (Russia, Poland, and the Baltics). In these countries, GDP per capita ranges from USD 25 to 29 thousand. This is significantly below the performance of the first group but above the global average (USD 15800)<sup>3</sup>.

<sup>3</sup> The World Factbook // CIA, USA. URL: <https://www.cia.gov/library/publications/the-world-factbook/geos/xx.html> (accessed on 10.07.2016).

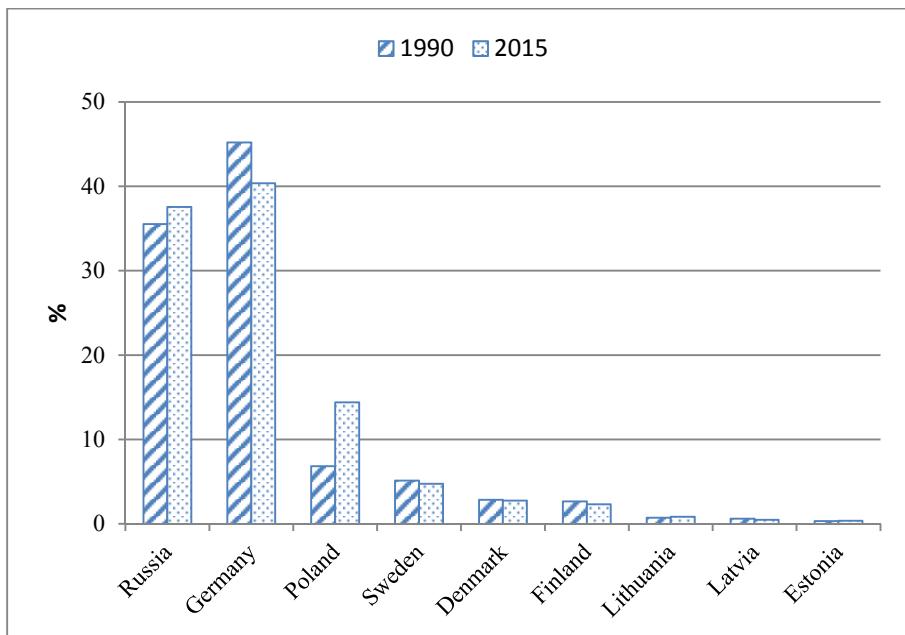


Fig. 3. Changes in national contributions to the total regional GDP

Sources: [14, 23, 27].

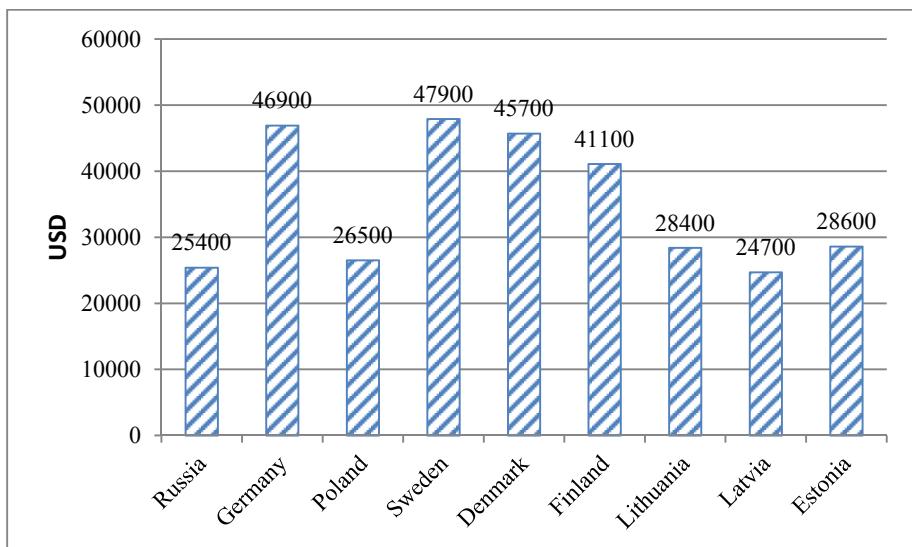


Fig. 4. Gross domestic product per capita, USD, 2015

Source [28].

Russia's international trade turnover accounts for 14% of the regional total. This is 0.67 times the proportion of the USSR in 1989. Of course, the USSR was larger than Russia and the Baltics became independent states and added their international trade potential to that of the other countries outside Russia. However, this proportion is not high for a state of the size of the Russian Federation. The country is not sufficiently integrated into the world market.

By the number of armed forces personnel, Russia considerably outperforms the other countries of the Baltic region. It accounts for 68% of the total armed forces personnel of the nine countries. However, if the military personnel per 1,000 population rate is considered, the difference comprises only 36%.

This ratio changes when the number of military personnel stationed within the Baltic region is examined. Unlike most NATO member states with an outlet to the Baltic Sea that are capable of concentrating their military potential in the region (table 3 shows that such a contingent can reach 400,000 troops), the geography of Russia's armed forces objective goes well beyond the Baltic shores. The personnel of Russian Western military district (from Murmansk in the north to Voronezh and Nizhny Novgorod in the south) also numbers at approximately 400,000 people [4]. The Baltic area accounts for an insignificant part of this figure. Just few years ago, the headcount of ground forces of the Kaliningrad defence district was only 11.6 thousand people according to some estimates [2].

Despite its military and strategic absurdity, growing confrontation initiated by the countries of the West contributes to international tension around the Baltic Sea, once known as the 'sea of peace' and the 'sea of cooperation'. Specialists argue that the NATO command is deploying objects in the immediate vicinity of the Kaliningrad region. These are the US Patriot missiles, the US military base in Riedzikowo (near Słupsk, Poland), fighter aircraft in Zokniai (Lithuania), etc. [3]. Such actions contribute to rising tensions in the region and force Russian leadership to respond. All peoples living on the shores of the Baltic Sea are interested in returning to the strategy of effective partnership between Russia and NATO to ensure the security of Russia and the other countries of the region.

## Conclusions

Dramatic changes have taken place in the Baltic over the past 25 years caused by the collapse of the planned economy system and communist regime in the former socialist countries, the reunification of Germany, the disintegration of the USSR, and the enlargement of the EU and NATO. Despite the difficulties faced by the former socialist countries, these changes have led to a more rapid economic growth as compared to the countries with traditional market economy (the only exception is Latvia). While Russian Federation has significantly improved its performance, post-Soviet states still lag behind the countries with a traditional market economy in the level of economic development.



Russian geopolitical position after the collapse of the USSR has led to a reduction of the country's maritime presence, including that in the Baltic region. As a political and economic partner, Europe remains a priority for Russia. The Baltic region states account for 16% of Russia's international trade. Russia's trade with the other EU states is often carried out via the country's regions situated on the Baltic shores. The EU in general remains Russia's most important trade partner, although its contribution to Russia's international trade turnover in January-May 2016 was smaller than in the same period of 2015 (44% and 46% respectively) [16]. Russia needs to hold an important position in the region and protect its economic and political interests.

Economic integration processes — the development of different forms of international cooperation and the creation of a common economic space around the Baltic Sea [1, 6—9, 11, 12, 17, 18, 20—22] — can increase the competitive ability of all countries of the Baltic region and accelerate their socioeconomic development. Current tensions and increasing military confrontation and expenditure do not contribute to either economic growth or better standards of living.

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