ECONOMICS

ECONOMIC DEVELOPMENT OF THE BALTICS AND NORDIC COUNTRIES: CHARACTERISTICS OF ECONOMIC MODELS

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Economic development models are crucial for understanding historical progress of countries and in forecasting their future economic prospects. The Nordic countries are connected with the Baltics through culture, history, politics, and economy. These states have a common interest of ensuring stability, security, and welfare in the Baltic region. This article strives to answer the question as to why the Nordic model of economic development is acclaimed internationally for the effective use of national and external resources, which is not the case in the Baltics. The Nordic and Baltic national models demonstrate that similar financial and economic performance does not translate into similar economic development results. The article tracks ten years of economic performance of the Nordic and Baltic countries and analyses economic models from the perspective of new institutionalism. The authors offer a definition of a 'successful economic development model'.

Key words: Baltic region, Baltics, Nordic countries, economic theory, new institutionalism, national economic systems

Introduction

Proponents of traditional economic research paradigms — foremost, the classical one — showed little interest in the attempts at an economic analysis of non-economic factors of social development. A close examination of Marxist political economy suggests that its founders did not exclude taking into account national characteristics. For instance, they maintained that a socialist revolution and dictatorship was possible in some countries (Prussia) and highly improbable in others (Russia).

Initially, ideas about the diversity of market models were based on key

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economic performance indicators, such as the proportion of gross domestic product redistributed through the national budget, the ratio of private to public property, and public and market regulation mechanisms. These considerations are relevant to this day. However, the verification of pertinent data is not an easy task in the cases of either the world or a regional economy.

As a rule, any national economy is a variation of the market economy model. It is characterised by both the above universal macroeconomic indicators and a number of social, political, and geographic characteristics. A national economic model is a formalised description of the key principles of a state's development. The framework for any modern public policy is not market economy in general but its national model. Within the interdisciplinary approach, the notion of 'national economy' suggests the presence of geographical determinants, including the natural resource potential: 'the objective prerequisites are the level of development and nature of national productive forces; specific non-economic factors — nature and climate, geography, geopolitical situation, social aspects, culture, etc.; vital and thus objective goals of national development' [6, p. 24]. Traditions, national psychology, and regional history are of no less importance to the assessment of a country's economic potential and its social capital. Without taking all the above into account, a theoretical framework will be divorced from reality and the specific features of a national economy. Researchers are used to either thinking globally or focusing on a regional level when analysing key macroeconomic indicators. Studies into national details have become a rare thing [4]. In this sense, the approach proposed by neo-institutionalists is an optimal choice when analysing the economic models of the Baltic States.

Economic models from the perspective of neo-institutionalism

For neo-institutionalists, the thesis that social institutions matter and they can be analysed using standard macroeconomic instruments is an axiom. In neoclassical economics, basic economic categories found a more profound interpretation and a wider application. The new institutional theory laid the theoretical groundwork for the analysis of national economies. An institutional environment was understood as a 'combination of fundamental social, political, legal, and economic rules creating a framework for human behaviour' [2, p. 45]. The neo-institutional approach emphasises the fact that the end result depends on the model of human behaviour and relevant conditions, i. e. the aggregate of institutions and the institutional environment. The Bloomington School — principally, a proponent of neo-institutionalism — considers ineffective extensive use of the commons a dangerous situation, stressing that the severance of social ties can be prevented by a clear configuration of institutional relations, which suggests the common use of and control over resources.

Neo-institutionalists stress the significance of entry and exit rules, procedure and information rules, and authority distribution and monitoring models — the violation of which should entail penalties [13]. Thus, neo-institutionalism is applicable to the analysis of economic practices in the Baltics, since they demonstrate consequences of violating the key principles of neo-institutionalism in constructing a technically market model. As to the Bloomington School, Elinor Ostrom emphasised that common property could be successfully managed by different social and professional communities, which does not exclude market organisation principles [17]. This was the case in Nordic Europe but did not become reality in the Baltics.

Another important question is whether the neo-institutional factors exclude rent-seeking. The answer is negative. However, political rent associated with using political powers in economic matters translates into an artificial restriction on competition. However, competition does not disappear but it transfers from the realm of market relations to the realm of exerting influence on the state (from the field of economy to that of politics): 'property rights and hence individual contracts are specified and enforced by political decision-making, but the structure of economic interests will also influence the political structure' [7, p. 70]. In Estonia, it is called *seemukapitalism* — 'crony capitalism'. Complying with the formal rules of economic institution's functioning and violating the principles of a competitive market is a characteristic feature of Estonia's and Latvia's economic models. Do Nordic businesses have political rent? Of course, they do. However, it is strictly limited by the 'long-term socio-political experiment conducted following a social-democratic blueprint' [8, p. 2].

Current models of national socioeconomic processes developed under the influence of relevant objective and subjective factors of social development. At the same time, theoretical concepts officially declared and implemented at a national level affect national models. In the case of the Baltics and Nordic countries, theoretical concepts were realised in the models of national economic development and they largely determined the features and structures of national economies. However, the historical, geographical, political, and ethnic context of economic processes was not identical. As a result, one can speak of two national regional models — the Baltic and the Nordic ones. Financial and economic performance indicators can be rather similar for the two models (see table), thus, they cannot explain the specific national features. From the neo-institutional perspective, we have to take into account not only the quantitative but also qualitative content of indicators when considering GDP (PPP).

Key socioeconomic performance indicators for the Baltics and the Nordic countries, 2015

Country	Population, people	Aggregate GDP, million euro (at market prices)	GDP (PPP), euro per capita	Inflation rate, %	Unemployment rate, %
Sweden	9 799 186	447 009.5	45 600	0.7	7.4
Norway	5 190 239	348 332.1	67 100	2.0	4.4
Denmark	5 683 483	271 786.1	47 800	0.2	6.2
Finland	5 479 531	209 149.0	38 200	– 0.2	9.4
Estonia	1 314 608	20 251.7	15 300	0.1	6.2
Latvia	1 977 527	24 348.5	12 300	0.2	9.9
Lithuania	2 904 910	37 330.5	12 900	– 0.7	9.1

Source: Eurostat. URL: http://ec.europa.eu/eurostat/data/database (accessed on 10.11.2016).

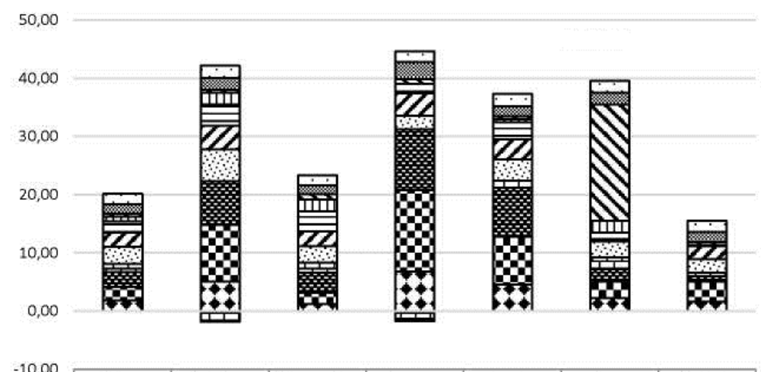
At first, the efficiency of transformation theory raised serious questions: 'There is a serious danger facing a researcher of modern economic growth — becoming engrossed in tracking similar changes undergone by societies that differ so much in their cultural traditions and trying to build a strict development trajectory mandatory for all nations' [3, p. 23]. The thesis that following a reform strategy helped to achieve remarkable results in a number of developing countries and certain states of Central and Eastern Europe [18] was promoted with irrational assertiveness. The following conclusion was drawn in Russia's citadel of liberal theory — the Carnegie centre: 'The economic model of Eastern Europe implies that the standards of living in these countries must be half as high as in developed ones. Without it, the model loses its attractiveness. If a cyclic upswing takes Eastern Europe to a higher level, a crisis, stagnation, and rebound will follow, because the countries cannot continue to grow until they restore their lag' [11].

Analysis of economic development of the Baltics and Nordic countries in 2006—2016

The success of an economic model of development depends on the ability to use competitive positions effectively. However, the greatest difficulty is recognising and exploiting competitive advantages.

It is important to consider and compare changes in the economic performance indicators of the Nordic countries and the Baltics in 2006—2016 (estimates in the case of 2016). Statistic data on the Baltics show that Joel S. Hellman's theses about a connection between GDP and the scale for reforms is not effective here [15]. In terms of management and content, a reform should affect a system so that it is not destructed and the standards of living, which were achieved before the need for reforms arose, are improved. This is how progressive transformations took place in the Nordic countries. In the Baltics, another model was realised. The first stage was selling Soviet legacy and the second using European funds. As a result, the Gini coefficient shows a significant disparity between the Baltic and Nordic models.

This situation is accounted for by the features of the Baltic and Nordic financial sectors. In the Baltics, banks play a very significant role. It is not only that capital is concentrated in the banking sphere but also most of insurance, leasing, and investment firms and funds belong to banks. As a rule, Baltic banks are branches of Swedish and Danish institutions. This is a logical result of financial market liberalisation. In this context, it is important to remember that 'opening the capital account can [lead] to higher wage inequality' [14]. However, this is only part of the problem. The next serious question is to what degree leaders are interested in helping those lagging behind. 'Breaking circles of poverty required 'market investments'. However, it was impossible to mobilise resource of necessary quality and in necessary amounts' [12, p. 10]. This is not surprising. Why should Finland facilitate 'market investments' in Estonia if this can create a direct competitor to Finland? However, Estonia chose such a theoretical model that excluded any possibility of competition with the Nordic countries. The key point is that, in theory, capital market liberalisation has numerous advantages. In practice, it leads to economic instability and financial crises [19]. Changes in GDP (PPP) shown in figure 1 prove this.



	Denmark	Estonia	Finland	Latvia	Lithuania	Norway	Sweden
2016	1,80	2,10	1,70	1,90	2,10	2,00	1,90
2015	1,60	2,00	1,50	2,90	1,80	2,00	1,80
2014	0,60	0,50	1,00	0,80	0,50	20,00	0,50
2013	0,77	2,05	1,93	-0,41	0,53	2,04	0,14
2012	1,89	3,64	3,45	1,60	2,93	1,38	-0,05
2011	2,50	4,09	2,61	3,88	3,47	0,15	2,29
2010	2,90	5,42	2,77	2,40	3,63	2,76	2,34
2009	1,43	-1,87	1,80	-1,37	1,17	2,01	0,58
2008	2,50	7,52	3,39	10,40	8,46	2,14	0,90
2007	2,38	9,74	1,93	14,03	8,20	2,79	3,45
2006	1,80	5,08	1,24	6,76	4,54	2,24	1,64

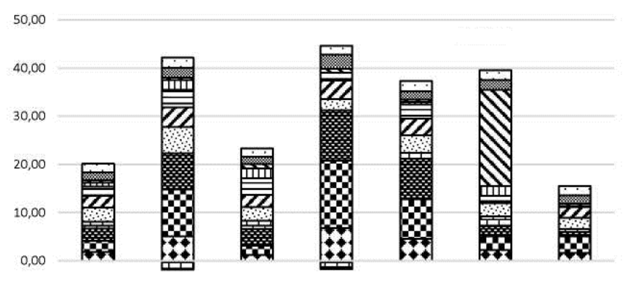
Fig. 1. GDP (PPP) of the Nordic countries and the Baltics, USD billion

Based on: [16].

The table and figures 1 and 2 show that the Nordic countries far outperform the Baltics. Based on ten-year data on GDP (PPP), Lithuania ranks first, Latvia second, and Estonia third among the Baltics. However, by GDP (PPP) per capita, Estonia ranks first, followed by Lithuania and Latvia.

The Nordic countries are world leaders in terms of the quality of economic growth. This indicator comprises competitive ability, human development index, standards of living and life expectancy, social security standards, production automation, trade and services, low level of corruption, economic freedom, and environmental protection.

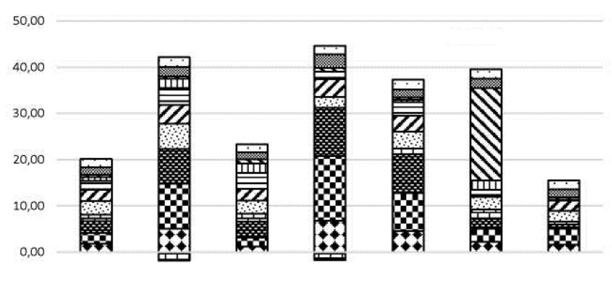
Figures 3 and 4 show that Latvia is the leader among the Baltics and the Nordic countries in terms of the inflation and unemployment rates over the past ten years.



	Denmark	Estonia	Finland	Latvia	Lithuania	Norway	Sweden
2016	1,80	2,10	1,70	1,90	2,10	2,00	1,90
2015	1,60	2,00	1,50	2,90	1,80	2,00	1,80
2014	0,60	0,50	1,00	0,80	0,50	20,00	0,50
2013	0,77	2,05	1,93	-0,41	0,53	2,04	0,14
2012	1,89	3,64	3,45	1,60	2,93	1,38	-0,05
2011	2,50	4,09	2,61	3,88	3,47	0,15	2,29
2010	2,90	5,42	2,77	2,40	3,63	2,76	2,34
2009	1,43	-1,87	1,80	-1,37	1,17	2,01	0,58
2008	2,50	7,52	3,39	10,40	8,46	2,14	0,90
2007	2,38	9,74	1,93	14,03	8,20	2,79	3,45
2006	1,80	5,08	1,24	6,76	4,54	2,24	1,64

Fig. 2. GDP (PPP) per capita of the Nordic countries and the Baltics, USD billion

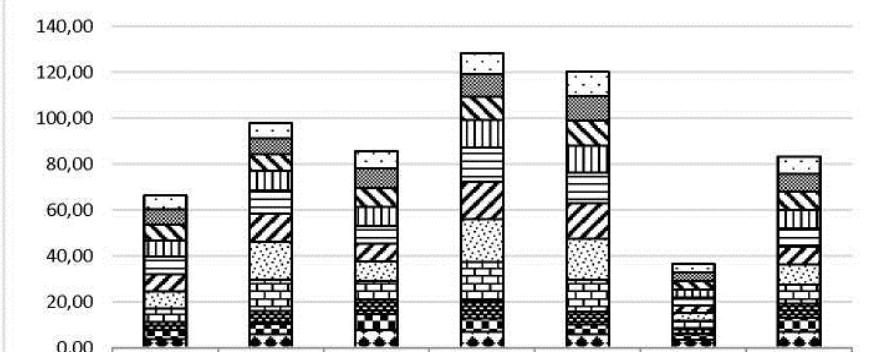
Based on: [16].



	Denmark	Estonia	Finland	Latvia	Lithuania	Norway	Sweden
2016	1,80	2,10	1,70	1,90	2,10	2,00	1,90
2015	1,60	2,00	1,50	2,90	1,80	2,00	1,80
2014	0,60	0,50	1,00	0,80	0,50	20,00	0,50
2013	0,77	2,05	1,93	-0,41	0,53	2,04	0,14
2012	1,89	3,64	3,45	1,60	2,93	1,38	-0,05
2011	2,50	4,09	2,61	3,88	3,47	0,15	2,29
2010	2,90	5,42	2,77	2,40	3,63	2,76	2,34
2009	1,43	-1,87	1,80	-1,37	1,17	2,01	0,58
2008	2,50	7,52	3,39	10,40	8,46	2,14	0,90
2007	2,38	9,74	1,93	14,03	8,20	2,79	3,45
2006	1,80	5,08	1,24	6,76	4,54	2,24	1,64

Fig. 3. Inflation of consumer prices in the Nordic countries and the Baltics
as of the end of the period, percentage change

Based on: [16].



	Denmark	Estonia	Finland	Latvia	Lithuania	Norway	Sweden
2016	6,20	6,80	7,70	9,20	10,50	3,80	7,60
2015	6,60	7,00	8,30	9,70	10,70	3,80	7,80
2014	6,90	7,00	8,50	10,30	11,00	3,70	8,00
2013	7,02	8,63	8,15	11,86	11,77	3,50	8,00
2012	7,53	10,02	7,73	15,05	13,37	3,22	7,97
2011	7,57	12,33	7,78	16,20	15,39	3,28	7,77
2010	7,48	16,71	8,38	18,68	17,81	3,58	8,58
2009	5,99	13,55	8,24	16,90	13,79	3,16	8,30
2008	3,46	5,46	6,37	7,53	5,83	2,60	6,17
2007	3,77	4,59	6,87	6,05	4,26	2,51	6,12
2006	3,90	5,91	7,72	6,84	5,78	3,43	7,04

Fig. 4. The unemployment rate in the Nordic countries and the Baltics, % of the total workforce

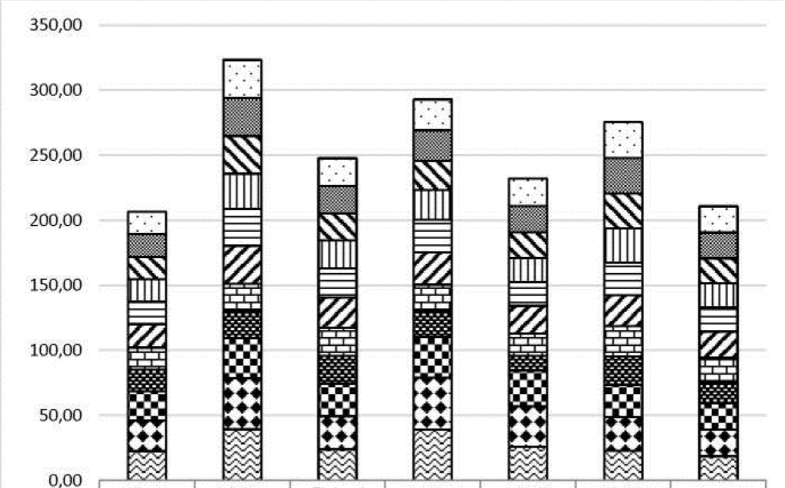
Based on: [16].

By ten-year inflation rate data, Estonia ranks second and Norway third among the Baltic and Nordic countries. By the unemployment rate, Lithuania ranks second and Estonia third.

Among the Nordic countries, the leader in the inflation rate is Norway, followed by Finland and Denmark.

Over the same period, Latvia holds first place in terms of inflation rate among the Baltics, followed by Estonia and Lithuania. By the unemployment rate, Latvia ranks first, Lithuania second and Estonia third.

Strategically, the Baltics are losing competition for investment. At the same time, investment in the Baltics is slightly increasing. Among the Baltics and the Nordic countries, the leaders in investment are Estonia and Latvia, followed by Norway (fig. 5). Norway records highest levels of investment among the Nordic countries, outperforming Sweden, Finland, and Denmark. Among the Baltics, Estonia ranks first, closely followed by Latvia. Lithuania ranks third.



	Denmark	Estonia	Finland	Latvia	Lithuania	Norway	Sweden
2016	17,39	29,31	21,25	23,81	21,12	27,55	20,20
2015	17,32	29,13	21,08	23,36	20,35	27,20	19,75
2014	17,32	29,10	20,91	22,53	19,60	26,83	19,19
2013	17,33	26,84	21,32	22,85	18,46	26,43	18,41
2012	17,40	28,66	22,42	25,00	18,31	24,89	18,87
2011	17,71	28,92	23,47	24,88	21,26	23,75	19,86
2010	16,90	21,28	21,60	19,85	17,31	23,28	18,71
2009	16,93	20,73	21,19	20,51	11,43	22,27	16,50
2008	22,37	30,73	25,07	31,22	27,05	24,50	20,22
2007	23,37	39,30	25,47	39,96	31,23	25,79	20,32
2006	22,71	39,36	23,98	39,07	25,99	23,01	18,73

Fig. 5. Investment in the Nordic countries and the Baltic States,% of GDP

Based on: [16].

An important question is the quality of investment. The Baltic model is uncompetitive in terms of 'long-term or strategic investment'. This has to be taken into account when considering the pattern described below.

Economic model of the Baltic States

We believe that, despite the development of the services sector, the significant proportion of agriculture — which is not accounted for by necessary markets — is an important and still relevant economic problem of the Baltics. The similarity of agricultural industries of the Baltic economies results in strong competition — each country has to lower prices and take numerous measures to attract the customer. As a result, the republics are plagued by disagreements, which require constant settlement, since international businesspeople consider the Baltics a uniform space for expansion [5].

The second problem is the political stance adopted by the Baltics, namely, the countries' attitude towards the economic legacy of their historical, i. e. Soviet, past. The exhaustion of the effect from Soviet legacy privatisation led to a qualitative deceleration of economic growth. It would seem that the common history should contribute to cooperation between the Baltics and such an economically powerful neighbour as Russia, since, as part of the USSR, the countries were connected by strong cultural and economic ties. However, the Baltics insist on revising the results World War II and the legacy of the Soviet Union. Thus, the common history has become a stumbling block for further development of economic ties. The development of trade and transit connections between Russia and the Baltics is virtually absent today. It would be logical for the Baltics to stop ignoring Russia as a potential economic partner, in order to accelerate economic development.

The above problems decelerate the economic development rate in all the three Baltic countries. However, there is another — macroeconomic — aspect to the problem.

In the Baltics, 'an increase in the cost of labour… divorced from productivity is refuted by the adherents of monetary (neoclassical) schools of thought' [12, p. 10]. However, such a theoretical and practical approach has become the only viable possibility for regional practicing economists and financiers. This 'rule' is applied only to the countries that have stepped on the path to transformations. A recent example is Ukraine. For the states that have traditionally had a market economy, there is always an exception. The experience of Nordic Europe proves it.

A similar case of misplaced extrapolation of the global trend is the problem of deindustrialisation. One has to distinguish between deindustrialisation caused by a high level of production technology and consisting in a reduction in the proportion of manufacturing in total national product (which happened in the Nordic countries) and Baltic deindustrialisation. In the latter case, one can speak of simplification of technology and infrastructure, degradation of economic sectors and ensuing impaired quality of social capital. The relevant economic success of the Baltics is interpreted as success only when compared to other states of CEE.

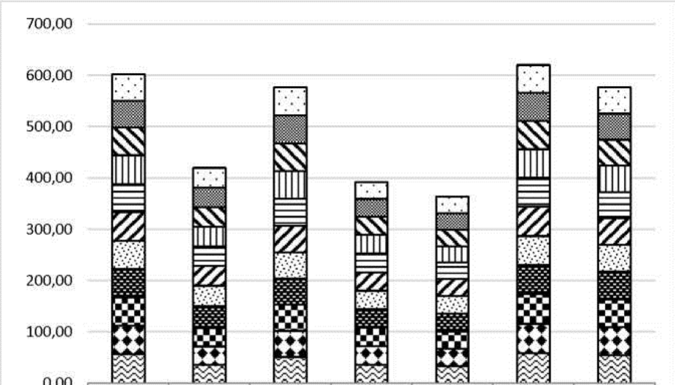
Overall, the Baltics' model of economic development is not attractive from the perspective of effective use of national and external resources. Focusing on tourism and transit after gaining independence, the Baltics — unlike the Nordic countries — were unable to modernise agriculture and manufacturing.

Economic model of the Nordic countries

The Nordic model of economic development is globally attractive due to its effective use of national and external resources, which takes into account the considerations of social justice and development stability. Constructing and implementing such a model is an important contribution of the Nordic countries to the development of human civilisation. These countries have become pioneers in not only technology but also the socioeconomic sphere. The recognition of the role of technological advance in economic growth by the countries' political leadership made this factor an economic policy priority, which led to a transition from technological to innovative policy. This transition was accompanied by the development of the object of regulation, which shortened the innovation cycle from coming up with a new idea to its commercial use in new products, organisation and industrial technology, and manufacturing. The evolution of relevant policies was accompanied by binding different elements of R&D into a single national innovation system, which made it possible to strengthen its weaker components and ensured that technology and innovations contributed to economic development [1].

Fig. 6 demonstrates national income/GDP ratio. Norway heads the list, followed by Denmark, Finland, and Sweden. Among the Baltics, Estonia ranks first, Latvia second and Lithuania third. In terms of national expenditure/GDP ratio (fig. 7), the leader among the Nordic countries is Denmark, followed by Finland, Sweden, and Norway. Among the Baltics, Estonia ranks first, Latvia second and Lithuania third.

The Nordic countries are closely connected with the Baltics by cultural, historical, political, and economic ties. These states have a common interest of ensuring stability, security, and welfare in the Baltic region. A regular political dialogue and practical cooperation between the Baltics and Nordic countries take place within the NB8[1] and NB6[2] cooperation formats.



	Denmark	Estonia	Finland	Latvia	Lithuania	Norway	Sweden
2016	51,89	38,50	54,92	32,59	31,98	54,48	51,18
2015	51,90	38,43	54,77	34,74	32,29	54,75	50,89
2014	54,25	38,32	54,20	35,44	32,28	55,09	50,31
2013	56,03	37,52	53,80	35,94	31,84	55,24	51,68
2012	55,26	38,74	52,64	37,00	32,24	56,86	51,41
2011	55,47	38,38	51,86	35,63	32,66	57,04	51,51
2010	54,81	39,81	50,61	36,04	34,43	56,00	52,32
2009	55,24	42,34	50,84	36,22	34,68	56,47	53,96
2008	54,88	36,11	51,33	35,61	34,07	58,42	53,91
2007	55,74	35,98	50,82	36,34	33,80	57,52	54,50
2006	56,79	35,72	51,16	36,09	33,25	58,28	54,93

Fig. 6. Income of the Nordic countries and the Baltics,% of GDP

Based on: [16].

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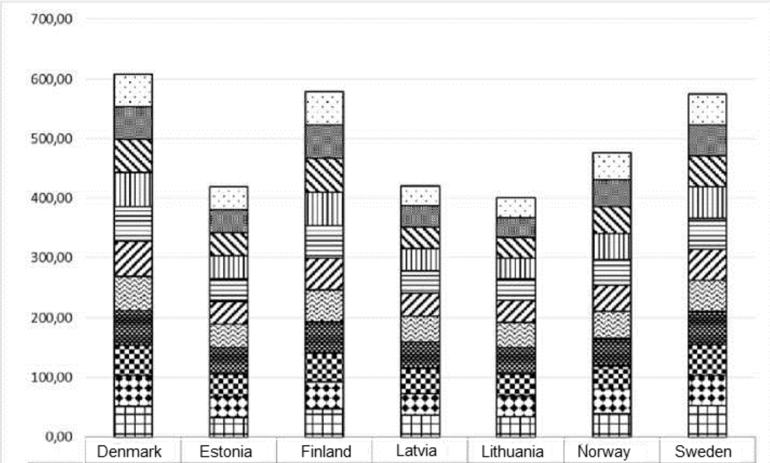
[1] NB8 is a regional cooperation format that brings together eight countries — Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden. Its regular meetings discuss relevant international problems.

[2] NB6 is a cooperation of the Nordic Council and the Baltic Assembly. It includes Denmark, Finland, Sweden, Latvia, Lithuania, and Estonia.



	Denmark	Estonia	Finland	Latvia	Lithuania	Norway	Sweden
2016	54,23	38,61	55,82	33,83	33,63	45,39	51,30
2015	54,87	38,73	56,15	35,42	33,95	44,87	51,64
2014	55,70	38,65	56,60	36,25	34,44	44,29	52,36
2013	56,88	37,70	56,08	37,09	34,04	44,23	53,02
2012	59,20	38,97	54,80	36,87	35,59	43,06	52,12
2011	57,51	37,19	52,86	38,79	38,16	43,65	51,48
2010	57,53	39,62	53,30	43,35	41,65	44,89	52,33
2009	58,01	44,27	53,42	44,07	44,11	45,94	54,94
2008	51,60	39,01	47,17	43,15	37,36	39,64	51,74
2007	50,94	33,62	45,67	35,70	34,81	40,21	50,95
2006	51,75	33,29	47,24	36,59	33,70	39,96	52,71

Fig. 7. Expenditure of the Nordic and Baltic countries, % of GDP

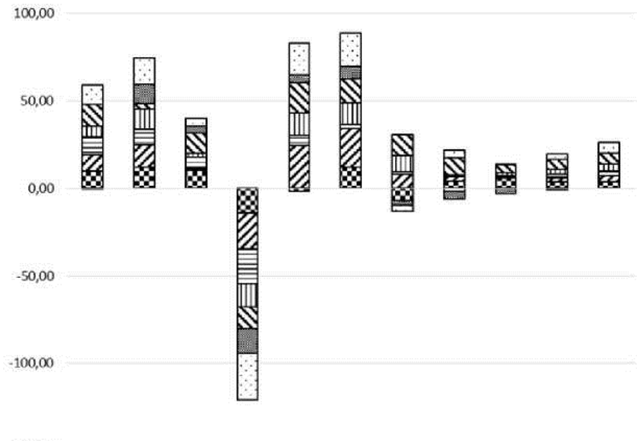
Based on: [16].

The economic ties between the Baltics and the Nordic countries are based on three pillars — financial sector, trade, and foreign direct investment. The Baltics' financial sector is dominated by Nordic banking groups, which are also major investors in the countries.

An analysis of the recent economic situation in the Nordic countries and the Baltics suggests a rather high development rate. However, the financial crisis of 2008 adversely affected the economies of these states — the export and import policies yielded less impressive results. The worst performance was observed in 2009 (fig. 8 and 9).

Sweden is the leader among the Nordic countries based on ten-year exports data, followed by Denmark, Finland, and Norway. Among the Baltics, Lithuania ranks first, Estonia second and Latvia third. The Baltics' leader in imports of goods and services (fig. 9) is Lithuania, followed by Estonia and Latvia. Among the Nordic countries, Sweden ranks first, Denmark second, Finland third, and Norway fourth.

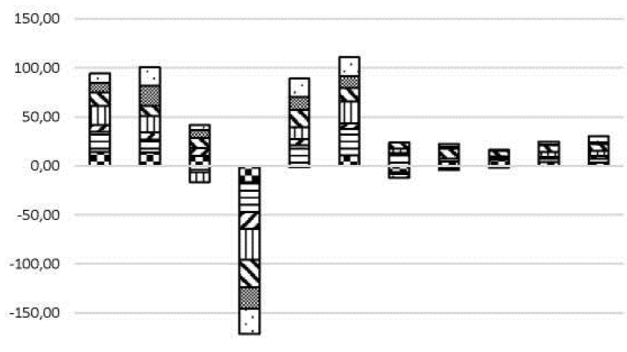
Based on ten-year data on exports of goods and services, Lithuania ranks first, Estonia second, and Sweden third among the Nordic and Baltic countries. As to imports of goods and services, the list is headed by Estonia, followed by Latvia and Lithuania.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sweden	11,07	15,06	4,54	-26,64	18,14	18,83	-3,39	4,66	0,35	3,04	6,12
Norway	-0,36	10,90	4,07	-14,12	4,48	7,11	-2,64	-4,25	-2,81	-0,65	0,14
Lithuania	12,25	3,12	11,44	-12,63	17,39	14,11	11,78	9,53	4,45	5,60	6,28
Latvia	6,38	11,60	2,36	-13,14	12,51	12,40	9,36	1,01	2,00	2,95	4,00
Finland	10,13	9,07	6,59	-20,09	6,18	1,99	1,15	-1,75	0,46	1,85	2,53
Estonia	9,39	12,59	0,89	-20,35	24,32	22,24	8,32	2,56	0,71	2,42	3,71
Denmark	9,88	12,27	10,34	-13,92	-1,82	12,07	-6,95	4,12	5,89	3,64	3,55

Fig. 8. Exports of goods and services in the Nordic countries and the Baltics, percentage change

Based on: [16].



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sweden	9,81	18,97	5,63	-25,7	18,49	19,32	-4,12	2,86	1,40	3,20	6,40
Norway	9,57	20,38	7,94	-21,5	13,44	11,98	-1,47	1,85	-1,70	0,70	1,60
Lithuania	13,67	10,65	10,25	-28,1	17,95	13,70	6,13	9,85	5,70	6,80	7,00
Latvia	19,63	16,45	-10,2	-31,7	11,83	22,33	4,49	-1,68	1,20	5,20	5,20
Finland	6,69	7,40	7,93	-16,8	6,50	6,03	1,27	-2,51	0,80	1,70	2,60
Estonia	20,70	12,98	-6,16	-30,6	21,02	26,79	12,18	3,18	1,50	3,50	4,00
Denmark	14,37	13,93	10,35	-16,5	-1,34	10,93	-6,48	4,55	6,10	3,80	3,50

Fig. 9. Imports of goods and services of the Nordic countries and the Baltics, percentage change

Based on: [16].

After the 2008 crisis, economic performance indicators started to improve in 2010 in the Nordic countries and 2001—2012 in the Baltics States. Overall, the situation in the Baltic Sea region can be characterised as follows: 'in the current conditions of global redistribution of economic forces and return to archaic sanction practices escalating into trade wars, the economy of the Baltic Sea region is faced with the risk of decreasing competitive ability and investment attractiveness as a result of a 'closing effect' — an inhibited reaction to external changes in the economic situation' [10, p. 78]. This problem has a more adverse effect on the Baltics than the Nordic countries.

Conclusions

This analysis confirms the effect of certain institutional conditions on the success of national economic development models. These models are very sensitive to geographical, historical, and ethnographic factors. When constructing national models, such non-economic aspects can be used to a country's advantage or they can become a tool of economic destruction. Unlike the Baltics, the Nordic countries made good use of their historical and geographical circumstances, which resulted in a successful development model. The Norwegian economist, Erik S. Reinert, was right to stress that rich countries are rich because of a combination of government intervention, protectionism, and strategic investment rather than free trade [9]. In other words, the chances of Eastern Europe and the Baltics in particular to catch up with the touchstone region — the Nordic countries — are low. Rudyard Kipling's formula 'East is East and *West is West*, and never the twain shall meet' is relevant in this case.

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