

The Baltic states at 99: Past, Present and Future

The 12th Conference on Baltic Studies in Europe
University of Latvia, Riga, Latvia, 19-21 June, 2017



ECON 1 - 20th June, 2017

9.00-10.30

ECON 1.1. INTERNATIONAL ECONOMIC RELATIONS AND BALTIC COUNTRIES - room: 414

Chair – Viktor Trasberg (University of Tartu)

Jan Körnert, Jörn von Elsenau (University of Greifswald) The dominance of foreign controlled banks in the Baltic states and their potential to exert power on EU institutions

In the late 1990s, a number of foreign banking groups made their market entries into the banking systems of Estonia, Latvia and Lithuania. Today, these international institutions dominate the banking systems in these countries, thereby wielding considerable power. Through the very high market share of foreign controlled banks and the role of banks as a vital pillar of any country's economic system, dominance over the banking system leads to dominance over the economic system. The mutual interdependency between economic and political systems extends this dominance to the political systems. This paper first examines the economic and political influence of such foreign banks within the three Baltic nation states. It then goes on to consider whether certain inferences regarding the political power of foreign controlled banks might be extended to larger political entities, in particular the European Union. The conclusion is that, through the rights that the governments of these member states have to make their voices heard, to participate in decisions and to exercise veto powers, these foreign controlled banks could indeed wield considerable power in Brussels. The law must serve to contain such power – for example, in the form of a European law on foreign investment.

Hilmar Hilmarsson (University of Akureyri) Do as we say and not as we do: Crisis response and post crisis results in the Baltic States and the consequences of interlinkages with the Nordic countries

The Nordic-Baltic region has become highly integrated. The Nordic countries have been successful in balancing competitiveness and growth with social inclusiveness while the Baltic States have grown economically but remain vulnerable with weaker social systems and more unequal income distribution. During the presentation the crisis response in 2008/9 and post crisis results in the Nordic and Baltic countries will be discussed in terms of both economic performance and social progress. It can be argued that crisis response in the Baltic States was influenced by Nordic-Baltic financial sector linkages, affecting both economic and social outcomes in Baltic States. Crisis response in Sweden and Finland in the 1990s will also be discussed. Important lessons can be learned by comparing the crisis response of these various small states that are at different income levels, have different welfare and tax systems, and are seeking different levels of integration with the European Union.

Andrew Johansson, Dirk Linowski (Riga Graduate School of Law) Gauging the Impact of China's One Belt, One Road Initiative on the Baltic Rim

Lost in the shuffle of political regime changes that dominated the public policy discourse of 2016 was a steadily rising tide of support for a potentially game-changing infrastructure program on the Eurasian continent. Referred to by a bevy of titles, China's "One Belt, One Road" (OBOR) initiative will result in vastly improved land and maritime connections. Moreover, it will leave a host of large-scale infrastructure development projects peppered throughout the continent in its wake. This once-in-a-generation type of imperial infrastructure investment is on par with the development of the British railroad network in the 1800s and the Marshall Plan of the 1940s. Whereas the Marshall Plan was estimated to have cost \$130 billion in current US dollars, the OBOR's price tag is estimated by the Chinese government to exceed \$4 trillion.¹ If this project is fully realised, it will travel through a staggering geographic area: upwards of 60 countries stretching from eastern China through Central Asia and ending in Europe. The Baltic Sea region must take note of this changing landscape and coordinate home-grown infrastructure development programs that allow it to capitalise on these new investments and pivot towards China.

13.30-15.00

ECON 1.3. FINANCIALIZATION AND THE BALTIC ECONOMIES: FROM TRANSITION TO FINANCIAL CRISIS AND RECOVERY - room: 414

Chair – Jan Körnert (University of Greifswald)

Leonardo Pataccini (University of Tartu) European integration and financialization in the Baltic countries: the role of the banking sector

The financial crisis started in 2007-2008 has put the role of finances in the spotlight for scholars, citizens and policy makers, and this phenomenon has become particularly relevant in the case of the Baltic countries, where the crisis was especially severe. Accordingly, in recent years the term Financialization has been used to refer to the unprecedented expansion of financial activities at the global scale during the last decades. However, to date, studies on financialization have mainly focused on developed economies such as those from Western Europe and the USA. Therefore, there is still a lack of research concerning the specific features of this phenomenon in other regions of the world. Hence, the aim of the paper is to analyze the role of the banking sector in relation to the development of financialization in the Baltic Economies and its macroeconomic and social implications for these countries. One peculiarity of this region is that while most of studies on financialization emphasize the predominance of stock exchanges, in the case of Baltic countries the key financial actors were the banks, most of them of foreign origin, which arrived to these countries during the years of convergence and accession to the EU.

Egert Juuse, Ringa Raudla, Aleksandrs Cepilovs, Olga Mikheeva, Bent Sofus Tranøy (Tallin University of Technology) The implications of Europeanization of financial regulation and supervision for national bureaucracies – the case of Nordic countries

Multifaceted notion of Europeanization as a reflection of the convergence process in the European Union (EU) poses multiple avenues for research. This paper elaborates on the Europeanization process of financial regulation and supervision with the focus on the post-2008 crisis period, given the vigorous efforts to centralize the regulatory landscape in Europe since then. In contrast to most of the studies that address the output level – dealing with explanatory factors that affect the correct and timely transposition of the

EU policies –, the current analysis focuses on the implications of the Europeanization process for national bureaucracies, given a gradual depolitization of the finance sphere. By following a phenomenological research design, this comparative (cross-sectional) study attempts to understand financial bureaucracies' perceptions of, attitudes towards, and reactions to the Europeanization of financial regulation and supervision in four Nordic countries – Estonia, Latvia, Norway and Sweden. Insights into the positions of bureaucracies enable us to reflect on the implementation performance, effectiveness and embeddedness of the EU regulatory and supervisory principles in these countries.

Andrew Johansson (Steinbeis University Berlin/Riga Graduate School of Law)

Introducing Tax Increment Financing as a Mechanism to Spur Economic Development in the EU

This paper analyzes the applicability of tax increment financing (TIF) within European competition law. More specifically, the analysis focuses on the role of State aid as an impediment for economic growth within the EU. The paper suggests that the most effective method for government entities to promote job creation is through infrastructure investment, which leads into an analysis of the various methods of financing infrastructure development. One type of infrastructure financing, in particular, is identified as noticeably absent within the context of the EU: tax increment financing (TIF). The paper concludes with an analysis of how TIF could be implemented in the EU. A series of recommended policy changes and legal amendments are proposed that would provide policymakers and economic developers with the necessary legal framework to introduce TIF as a mechanism to spur economic development in the EU.

Egert Juuse, Ringa Raudla, Aleksandrs Cepilovs (Tallin University of Technology)

Policy Learning in Financial Regulation and Supervision

The experience of a major crisis is often expected to lead to policy learning but the empirical evidence about it is limited. The goal of the paper is to explore comparatively whether the crisis of 2008-2010 has led to policy learning in financial regulation and supervision by civil servants in the Estonia, Latvia and Sweden. The paper discusses how various factors can influence policy learning, including the acknowledgment of failure, blame shifting, analytical tractability of the problems in the policy field, and influence of external actors like supranational organizations (especially the European Union) and academic experts from universities. Drawing on qualitative research (including semi-structured interviews with civil servants from the countries studied) indicates that policy learning in financial regulation and supervision has been more extensive in Sweden than in Estonia, owing to more explicit acknowledgement of policy failure, more significant inputs from the academic experts and a more critical assessment of the advice coming from the EU.

15.30-17.30

ECON 1.4. SOCIAL ASPECTS OF BALTIC ECONOMIES - room: 414

Chair – Leonardo Pataccini (University of Tartu)

Nolan Sharkey (University of Western Australia) Baltic States at 99 - Attracting and Retaining People and Talent: The role of international tax

The role of income tax in the development and shaping of an economy and society is often a neglected issue. However income tax can have a profound impact on both. International income tax in turn can impact trade and investment flows as well as the flow of human capital between states.

This paper will consider the role that income tax may play in attracting and retaining human capital in the Baltic States. It will consider how the income tax laws of these states as well as treaties and the laws of other states may attract human capital to the region or conversely attract it away from the region. Human capital is critical to the future of all states not least Latvia, Estonia and Lithuania. The paper will provide comparative insights as well insights on the true interactions between the different countries' tax rules. The focus will be on the Baltic countries in comparison and interaction with China, Hong Kong, Australia and Singapore.

Ēriks Selga (Riga Graduate School of Law), Dirk Linowski (Riga Graduate School of Law) Tracing the Sensitivity of Baltic Venture Capital Markets to National Legislative Developments

In this comparative study we attempt to understand the impact of legislative evolution in each Baltic state on the development of their venture capital markets. The legal homogeneity derived from imparting European Union law, paired with the nascence of venture capital activity in the Baltics, accentuates market reactions. By tracing venture capitalist responses, several legal advancements are isolated as correlating to beneficial or detrimental market growth.

The legal investigatory approach is twofold. First, we assess the effects on venture capital stemming from modifications of broad regulatory frameworks. Variance in the legal certainty of various pertinent fields, in particular, property, intellectual property, and privacy rights – manifest as strong landmarks in changes to investment and innovation activity. Second, more specialized government policies and regimes are investigated. Particular programs aimed at venture capital aid promote even sharper changes in the markets, and induce divergence among the Baltics.

Our findings suggest that while notable differences exist between the Baltic States, the neighbors may benefit from selective legal harmonization in order to foster the stable growth of their venture capital markets.

Viktor Trasberg (University of Tartu) Baltic countries: who drinks what?

In 2016 was carried on a comparative survey about alcohol consumption pattern in the Baltic countries. The study was arranged by International Alliance Responsible Drinking (IARD, USA) as part of global research program on the unrecorded alcohol market. Among others, the study objectives were to analyze alcohol-purchasing patterns in the Baltic countries; describe the size and composition of the unrecorded alcohol markets and price responsiveness of alcohol consumers. The paper will focus to the mentioned aspects and generalizes alcohol consumption on individual level.

As a survey outcome, an extensive database was collected. The data allows comparatively analyze alcohol consumption situation in the Baltic countries. On that basis, the author designs several economic models to explain alcohol consumption profile depending on income, education and professional affiliation. The second part of the paper considers societies' attitude about alcohol policy options.

Irēna Zeiza (University of Latvia) Understanding of public relations (PR) and their role in business among the Latvian businessmen

The aim of the research Understanding of public relations (PR) and their role in business among the Latvian businessmen is to characterize and analyze the level of understanding of PR among the Latvian businessman based on a scientific literature and empirical study and give suggestions for further research and improvement of level of understanding for businessmen.

Paper consists of theoretical and empirical part. Theoretical part consists of overview of PR concept and role in the enterprise. Empirical part consists of three in debt interviews with experts (Jurģis Liepnieks, Dagnija Lejiņa and Ieva Stūre), comparison of survey

results for Latvian businessman and group of experts – both international (like Dennis L. Wilcox, Zah Kahar, Greg Simons) and Latvian experts (Rita Voronkova, Ieva Kustova, Inga Latkovska, Ruta Siliņa and Ojārs Stūre). The trend was discovered, that PR management level in organization is directly related with understanding of PR. Answers of respondents showed that in general understanding of PR among the Latvian businessmen can be evaluated positively. Among many questions entrepreneur's answers were close both to theoretical statements and expert group answers. However, among some questions the regularities have been discovered, what should be researched more deeply.