ON RUSSIAN/NORDIC INVESTMENT COMPETITION IN THE BALTIC STATES

V. Olenchenko[*]

Researchers often overlook the relation between Russian and Nordic investment capital; and even less attention is paid to studying the competition between the two. Yet this subject can be of particular relevance to the areas that are geographically, historically and culturally close to both Russia and the Nordic countries. Thus, the aim of this article is to analyze how the competition between Russian and Nordic capital investment is played out in the Baltic States. The study discusses the principles of Russian and Nordic investment in the Baltic, and suggests ways to regulate these relations. To this end, we compare the investment conditions created in the Baltic States for both Russian and Nordic investors. The analysis shows that most of the Baltic market is controlled by the Nordic capital, which blocks the arrival of Russian investment to the Baltic states. With a nod to a number of previous studies, the authors of this article suggest some adjustments to the theory of foreign direct investment. The study will be also of practical interest to those Russian investors who are seeking entry points to the Baltic markets.

Key words: Russian capital, the Baltic States, Nordic capital, investment, market development theory, energy, banking, real estate, the regional dimension, the investment climate, EU

[*] Institute of World Economy and International Relations of the Russian Academy of Sciences. 23 Profsoyuznaya ul., Moscow, 117997 Russia.

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Introduction

An analysis of current investment presence of foreign capital in the Baltics leads to a conclusion that competition in this sphere is created mostly by the Russian and the Nordic capital.

This competition is most pronounced in the field of energy, where

the Nordic investors strive to put competitive pressure on Russia. The Russian capital encounters the strongest resistance from the Nordic capital in the finance industry (banking, insurance, leasing, and pension funds). The Nordic investors use traditional and covert forms of competition to jeopardize new Russian investment and simultaneously suppress any activity of the existing Russian investment properties. An interesting situation has developed in the Baltics real estate market (mostly, the residential segment), where real estate is usually sold by Nordic companies and bought by Russians. Such transactions are beneficial for Nordic businesses and, at the same time, increase Russian real estate assets in the Baltics. In this case, the Baltics serve as a platform for business between the Russian and the Nordic capitals.

The above concerns direct investments. As to portfolio investments, there is no strong competition, since the Nordic capital has almost gained total monopoly in this segment in the Baltics both in organisational and absolute terms, leaving little space for Russian or any other foreign capital.

As to the current trends, both facts and statistics show that, over the past 15 years, the Nordic capital has been more effective than the Russian capital in exploring the Baltic investment space. Moreover, the increase in the role of the Nordic capital is a result of winning over positions that used to be held by the Russian capital.

Conceptual framework for competition

The Russian-Nordic conflict of interests in the Baltics has deep historical roots. It is only natural that today it has transformed into a competition of capitals. There is a scientific rationale for such conceptual confrontation between the Russian and the Nordic capitals in the Baltics. Studies (Vernon, USA; Johanson, a proponent of the Uppsala model, Sweden) of capital internationalisation (moving to foreign markets) show that firms first begin their foreign operations in the countries that are culturally and historically close to them [1, p. 36—42]. Therefore, the Baltics are a ‘comfort zone’ for both the Russian and the Nordic capitals. It is evident that both capitals target the Baltic space considering it to be the closest to their ‘motherland’ [2, p. 140]. Of course, there is a need to differentiate between the Baltic States in view of their historical development. Estonia leans towards Northern Europe, but serves as a platform for competition between the Russian and the Nordic capitals. In Lithuania, cooperation between the Russian and the Nordic capital is ‘diluted’ with Polish and Belarusian presence. In Latvia, the German capital, rather active until recently, is being gradually replaced by the Nordic capital leaving enough room for it to compete the Russian capital.

Against this background, one cannot but pay attention to the fact that the systematic deterioration in the Baltics-Russian relations is often preceded by the Nordic capital ‘attacking’ Russian positions in the Baltics. Moreover, one hypothesis suggests that chronic conflicts between the Baltics and Russia might be sustained by the Nordic countries. It seems that, in most cases, Nordic investors regulate this process to create unfavourable investment en-

vironment for the Russian capital and, therefore, generate additional competitive advantages for themselves in — considering that it is the Nordic capital that dominates the Baltic market at the moment.

Development of the Nordic capital in the Baltics

After regaining independence in the early 1990s, the Baltics — as well as the other countries of the post-Soviet space — initiated a transformation from planned to market economy. Naturally, market formation drew attention of foreign capital. The geographical and historical traditions determined the origin of this capital: it was coming predominantly from the Nordic countries, which fits into the pattern of businesses starting their operations from culturally and historically close countries [1]. As to the profile, the leading role is played by Swedish investments[1].

At first, the Nordic capital started gradually entering the market through purchasing small shares from the local capital, eventually increasing and expanding their presence but avoiding publicity. As a result, by the late 1990s, the SEB group owned 95% of the largest local bank, Vilniaus Bankas. The new owners deliberately kept the original Lithuanian name and positioned it as a bank of the national capital. This also holds true for another Baltic bank — Hansa — created in Estonia by local business, from whom the bank was bought by Swedbank, which also preferred to remain incognito.

Nordic investors were guided by several considerations. In particular, they took into account that the population of the Baltics is distrustful and prefers national product, all other things being equal. Moreover, Baltic businesses managed to persuade the Nordic investors of their exclusive experience in dealing with Russia. Therefore, in the 1990s, the Nordic capital entered Russia and developed its operations disguised as Baltic banks and companies. As a result, Baltic banks gained the reputation for being reliable and influential institutions in Russia. Later, as the Nordic investors started to feel comfortable in the Baltic and Russian markets, they abandoned these practices and disclosed their actual brands, under which they are operating in Russia today. At the same time, Baltic businesses continue to exploit their established reputation and thus instil the idea of attractiveness of Baltic national credit and business organisations in the Russian population. Their message finds a receptive audience among Russians who keep their money in the Baltic banks despite the cases of bank insolvency and rescue (Lithuania's Snoras and Latvia's Citadele).

Energy

Economic agenda of the Baltic States is full (perhaps, too the brink) of different energy projects. These include power cables between Finland and Estonia (Estlink-1, Estlink-2), Sweden and Lithuania/Latvia (NordBalt), construction of LNG terminals (Latvia — Liepaja, Estonia — Muuga, Paldiski), and a gas pipeline between Poland and Lithuania (LitPol).

[1] SEB and Swedbank financial groups.

The mere enumeration of the projects raises questions as to their practicality for the Baltics. In this connection, one can consider several motives that could explain the participation of the Baltics in the energy projects, whose total power capacity exceeds all national needs.

The first — more evident — motive is the creation of an independent energy source to meet industrial and household needs. These needs can be measured, since it is possible to calculate the amount of power consumed at the moment and that to be consumed in the future. This can be beneficial in two respects — saving resources spent today on importing power and redirecting them to other purposes, in particular, eliminating possible obstacles to expanded reproduction. One apparent criterion for rational expenditure on project implementation is the cost of a unit of power. If the cost of producing a unit of power is lower than that of imported power, the project is cost-effective; otherwise, the competitiveness of manufactured goods will decrease, i. e. the result will be opposite to the expected. However, the industrial motive is not decisive for the Baltics, which show a trend towards deindustrialisation caused by the alignment of the Baltics national economies with the EU structure of the division of labour.

The second motive is using cheap energy sources to increase investment attractiveness. In this case, energy prices are crucial in attracting investors, since the other factors cannot be improved. For instance, natural resources cannot be replenished artificially — the Baltics do not have mineral resources of such composition or plenitude that could interest serious investors. Nor can be the Baltics considered attractive from the perspective of human resources. Traditionally, the pillars of their qualified workforce were specialists from the other Soviet republics, and most of them repatriated or immigrated as soon as the Baltics regained their independence. The Baltics only partially succeed in overcoming this stereotype as today, many Baltic specialists take unqualified jobs in the EU.

The third motive is generating power for export. Today, there are objective conditions for the implementation of this scenario, since, in the Soviet times, the Baltics were part of the united Soviet energy system, which made it possible to transfer power from one republic into another in a short time. The scheme is still operational. In case of emergency, the Baltics will receive power form Russian or Belarus in 3 to 5 minutes. After the disconnection sought for by the local authorities, the Baltics will find themselves in energy isolation, also determined by its geographical position. Therefore, export, i. e. exchange of power with Russia and Belarus, will become senseless.

The fourth motive is the opportunity to benefit from energy transit. There are two options — transboundary transit between the Baltics and transit to Poland and the Nordic countries. Today, the Baltics are considering nationalising oil pipelines and transmission lines running through their territories to ensure stable income in the future.

It is worth noting that the Baltic officials do not mention either of these motives in public speeches stressing that all these projects pursue a single goal — reducing energy dependence on Russia.

Overcoming energy dependence

The term ‘energy dependence’ was coined rather recently — in the 1990s. At first, it concerned the Baltics, which regained independence in that period but allegedly remained dependent on Russia due to surviving bilateral economic ties, which was chiefly manifested in Russia importing Baltic agricultural produce and the Baltics importing Russian natural gas and power. The term was coined to appeal for help from Western Europe in retaining the identity of the Baltics, in particular, through securing the EU membership. Western politicians popularized the notion. Later, it came to characterise Russia-EU relations in general in terms of Russian hydrocarbon exports to Europe. It has become one of the key mottos describing the attitude of Western partners towards Russia. The term has an exclusively anti-Russian connotation.

It is worth stressing that professional economic dictionaries do not feature related entries. The concept of energy dependence comes from biology, where it denotes energy consumption by different objects in the form of exchange as a key condition for sustaining life. In the English language, the term ‘volatility’ is often used in related contexts, probably, in order to portray Russia as an unreliable partner.

Regardless of the anti-Russian sentiment embedded in the term ‘energy dependence’, it has two serious flaws that allow us to question its relevance to economic theory and practice. The first relates to the fact that the energy sources serving as the manifestation of energy dependence are considered not as goods, which they, in effect, are, but as a measure of dependence. The second flaw relates to that the term disorientates manufactures and consumers, who are being persuaded that that the latter do not enter a relationship of exchanging goods with the energy supplier, but engage in a dangerous liaison with unpredicted consequences.

As to the more pedestrian aspects, power generation in each of the Baltic States relies on several unique facilities — a hydropower plant on the river Daugava in Latvia, (until recently) the Ignalina NPP in Lithuania (70 % of consumption), and CHPP burning local shale in Estonia (50 % of consumption). Neither of these sources has anything to do with Russia.

There are different approaches to bringing the motto of energy independence to life. For instance, Lithuanian political leadership has devised plans to construct a nuclear NPP in Lithuania to replace the Ignalina NPP, which was closed on January 1, 2010 to fulfil the EU requirement. Sweden and Finland, while supporting the Baltic aspiration towards energy independence from Russia, promote another approach — they push forward the idea of interconnecting the Baltic energy systems with Swedish and Finnish power generation sources, namely, the national NPPs.

Energy dependence can be also understood as an effect of energy prices on the end user power prices for both industry and households. To replace power from Russia with a Finnish source (Estlink-1) almost doubled the price for Estonian households — from 0.0288 euros per 1 kW in 2007 to 0.0488 in 2014 [3].

If one believes in 'energy dependence', a question arises as to the limits of energy dependence and the degree to which a country can enjoy energy supply form Russia without becoming dependent. The authors and advocates of the thesis do not give any numbers or guidelines. Instead, they opt for a radical solution saying that efficiency can be attained only through refraining from importing energy from Russia altogether. In other words, a country importing hydrocarbons and power from Russia is persuaded that any contact with Russia is dangerous, as if Russia were a carrier of a deadly virus.

Let us try to establish the limits of energy dependence. The EU regulations on renewable energy sources (RES) can be taken as a reference point. They are relevant, since it is difficult to forecast their reliability — elements of nature are not subject to human will. Each RES element — the sun, wind, and water — is unpredictable and thus there is a need for a reliable backup. Here, one can draw a parallel with the energy dependence motto. Until recently, the EU set the 20% renewable energy consumption requirement for the member states. At the EU summit held in October 2014, the 40% requirement was adopted.

To a degree, these requirements can be interpreted as recommended energy dependence limits ensuring stable functioning of the economy. Let us consider the proportion of Russian hydrocarbons in the total EU energy imports. They account for 34%, which meets the parameters of admissible energy dependence; therefore, this should not raise any concerns. However, the advocates of the energy dependence principle do not provide any calculations, which makes a reasoned discussion impossible.

The analysis shows that the Baltics policy of energy independence from Russia is not well grounded. It seems artificial, meant to replace Russian suppliers with Nordic ones (and Polish in the case of Lithuania).

Banking

In the past two decades, Nordic financial capital has dominated the entire Baltic financial market gaining almost complete control over Latvian (more than 60%), Lithuanian (approximately 70%), and Estonian (more than 80%) banking sectors[2].

The first target of its Baltic expansion was loan capital. Nordic banks were extremely aggressive in offering credits to local businesses and households. Experts estimate the total private debt in the Baltics at USD 60,000,000. Credit interest brings the Nordic creditors stable profits with a long-term perspective.

Further expansion of the Nordic capital manifested in closely connected Nordic insurance, leasing, and consulting companies and pension funds penetrating the Baltic market.

In these conditions, most attempts of the Russian capital to enter the Baltic financial services market were not successful. For instance, the Russian insurance company RESO did not manage to stay in the market — it was

[2] Proportion of Nordic banks in the national banking sector.

accused of violating the local legislation. The actual reason was that the company would build a large customer base among the Russian-speaking population of the Baltics. Lithuania's Snoras bank controlling the Russian capital was nationalised in 2011. Having the largest network of branch offices present throughout Lithuanian regions, it competed with the Nordic banks. The nationalised bank was transferred to Nordic banks with 50% owned by the leader of Lithuania's financial sector, Sweden's SEB.

The Nordic capital dominance on the Baltic financial markets is not a taboo topic. It is discussed at the expert level and in political communities. A segment of the population (the 'Nordic lobby') views both financial and general economic predominance of the Nordic countries as beneficial for the Baltics.

They argue that, in view of the 2007—2009 global crisis, the Euro crisis, of which the public only became aware in spring 2010, and the persistent turbulence in the world economy, it is the unofficial economic integration with the Nordic countries (primarily, Sweden and Finland) that can ensure the economic stability of the Baltics.

This thesis seems plausible, if one considers Sweden, Finland, and the Nordic countries in general as immutable positive factors. However, a historical overview and current events do not support such perspective. In the early 1990s, Sweden and Finland went through large-scale economic crises of their own. Some experts believe that the Nordic capital generated by the Baltic expansion was instrumental in overcoming this crisis.

Today, central banks of Denmark and Sweden imposed a negative interest rate, whereas Finland sells bonds at a negative yield[3]. Both facts mean that these countries are experiencing problems in stimulating economic development. In this case, multilateral economic ties between the Nordic countries and the Baltics become a channel for the rapid spread of crisis symptoms to both regions. They are so tightly integrated, after all. However, one might ask whether the Baltics have a mechanism for protecting themselves from any potential adverse effects. It seems that the Baltic politicians and economists — especially those pushing for more government regulation — are devising at lease some 'preventive measures'. Still, today, there is no real opposition to the Nordic lobby in the Baltics, which has deeply penetrated both the policy-making and the economy of the Baltic States.

Real estate

Nordic financial groups have created an intricate financial structure in the Baltics, which includes real estate agents affiliated with the leading Nordic banks.

This structure develops such a real estate trading scheme, where Russian investors serve as buyers and Nordic companies as sellers. The Baltics become a mere platform for transactions between Russian investors and Nordic businesses.

[3] Four European countries follow this practice — Denmark, Switzerland, Sweden, and Finland. Three of them are Nordic countries.

Therefore, Russian investment in real estate does not move geographically but merely changes its owner. For instance, a Russian investor makes a deposit in a Baltic bank. In most cases, it will be SEB or Swedbank. Willing to purchase real estate in one of the Baltic republics, the investor contacts a company working in the Baltic market; a company most likely owned by one of the above-mentioned Nordic banks. The bank, which possesses information about the client's financial solvency — their financial capacities, i. e. the amount of their savings on the deposit — offers real estate options based on the investor's preferences, interest, and capacity to convert the deposits into real estate. Schemes are set to encourage the client to act in the interests of the bank.

Vulnerabilities of Russian investors can be considered in a broader context. It is well known that most Russian investable funds concentrate in offshores. Their key weakness is that the Western banking community is often aware of the amount of funds and intentions of their owners. A good example is the Cyprus banking rescue by the EU in 2013. Therefore, one should keep in mind that, in most cases, competitors become aware of the investment intentions of Russian offshore capital long before they are clearly formulated.

Consider a hypothetical situation: JP Morgan Stanley places funds in Russian banks under Russian jurisdiction and plans on investment on the Russian territory or into Russian assets. The answer to the question as to who will benefit from this situation — JP Morgan Stanley or its Russian competitors — is rather evident. The only thing left is to extrapolate this scheme on the relations between Russian investment capital in the Baltics and Nordic financial companies and banks operating in the region.

Investment climate

For Russia, Baltic investment climate is affected by two groups of factors. The first one is the local authorities, which regulate it using legislative tools. The 1990s and 2000s showed the growth of anti-Russian sentiments in the Baltics. It was stable and manifested in a biased attitude towards Russian foreign and domestic policies, as well as in a number of ambitious attempts to challenge Russian actions in the areas that have no direct bearing on the Baltics.

Current situation in Ukraine is a good example. The Baltics, which actively support the EU sanctions against Russia, constitute a small group of states that not only uphold sanctions against Russia but also call for their tightening.

Those interested in growing tensions between the Baltics and Russia try to present current confrontation as a traditional situation in Russian-Baltics relations. However, there is a clear difference in opinion between the Baltic leadership and population. The Latvian, Lithuanian, and Estonian officials have chosen anti-Russian sentiments as the backbone of their foreign policy. Nevertheless, the results of recent election campaigns in the Baltics show that the voters support the parties advocating normalisation in relations with Russia and good neighbourly relations with the country. During the 2014 presidential campaign, D. Grybauskaitė — the embodiment of anti-Russian

sentiment in Lithuania — was re-elected with only a small majority in the second round. In Latvia, the Harmony party supporting the idea of equal dialogue with Russia won the majority of parliamentary seats. In Estonia, the Centre Party identifying the Russian vector as an integral part of Estonian foreign policy proved its popularity in the 2015 parliamentary election.

The second group of factors affecting investment climate in the Baltics is of Nordic origin. Anti-Russian sentiments is supported by the Nordic banks in the Baltics. This support is often tacit. For instance, it is manifested in regular newsletters published by the banks in local languages and aimed at informing the general public about regional economic situation. As a rule, they include a section on Russia, which usually has a negative tone[4].

Yet another factor behind the increasing effect of the Nordic capital on Lithuanian financial market is the recently established Lithuanian Financial Markets Institute (Lietuvos finansų rinkų institutas (LFRI)) [4].

Its composition is rather interesting, since — as the Baltics financial segment in general — it is dominated by the Nordic capital represented by banks, investment funds, and financial consulting and investment management companies [5][5].

The mission of the Institute, which seems to be vested with certain coordination functions, is developing recommendations for strengthening the current market situation. It is worth noting that competition is never mentioned as a business driver, nor is market stagnation resulting from monopolisation. In this context, of special interest is the Institute's project to publish the Baltic Financial Markets Handbook, which is meant to create an image of the market that would correspond to that of the Institute's founders. The formulation of the Handbook's topics by the founders may serve as a pointer to the specialisation of the Nordic financial institutions in the Lithuanian and, probably, the Baltics' market [4].

It is only logical that the members and founders of the Institute generate and implement ideas that increase and promote competitiveness of the Nordic capital in the Baltics, i. e. they give the Baltic financial market the status of Northern Europe's domestic market. In particular, this is the target of the Swedish financial groups dominant in the Baltics.

In general, Nordic businesses treating the Baltic market as a segment of Northern Europe's domestic market can be considered as both a warranty for Nordic investors and a warning for foreign investors from other regions.

Significance of competitive experience

Russian and the Nordic capitals represented in the Baltics have different experiences in overcoming competitive pressures in foreign markets. The first difference is the period of companies operations, the second are skills in external market development, and the third is PR.

[4] SEB, Swedbank, and Nordea banks.

[5] Swedbank, DNB, SEB, Nordea, Lords LB Asset Management, Baltcap, Litcapital, Neries investicijos, KPMG, Opus Capita, Nasdaq OMX Baltic, Gild Coporate Finance, and Sorainen.

The history of Sweden's leading bank Swedbank, one of the main players in the Baltic financial market, dates back to 1820 [6]. Another active player, Finland's Nordea, was also established in 1820 [7]. However, Russian banks in the Baltics cannot boast such a long history. For instance, Russia's SMP bank operating in Latvia was registered on April 11, 2001 [8]. The difference in experiences of the Swedish and Russian banks is 191 years, which makes the SMP bank securing a share of the Baltic market a compliment to the bank.

As to foreign market development skills, one cannot but stress that, in the case of Swedish banks, these are the result of operations in the domestic market. A specific feature of Swedish economy is strict governmental control aimed at ensuring 100 % employment rate and income equalisation. Therefore, Swedish banks develop and improve the skills of consistent and resolute overcoming of government pressure to enhance their positions. When expanding to the Baltic market, these skills became a competitive advantage of the Swedes who have managed to create conditions for promoting their interests (not to say that they were able to suppress the Baltic state machine entirely). Objectively speaking, the Russian capital has not fully mastered the skills of competition in foreign markets.

As to the PR effect, recent history has forged an association between the Swedish capital and the 'Swedish model', which stands for stability and prosperity. For a long time — since 1936 — it has been perceived as a marriage of socialism and capitalism, which accounts for the interest in this model from the Baltics pursuing a transition from a socialist to a market economy. Global abandonment of traditional opposition of the socialist and capitalist ideologies has rendered the image of the Swedish model blurred and hard-to-understand. However, the idea has not lost its appeal [9]. The image of the Russian capital, on the other hand, has been constantly tarnished by the Western mass media — it has been accused of affiliation with the criminal underworld (early 1990s), a lack of stability (late 1990s), excessive governmental regulation (early 2000s), corruption (late 2000s), and isolationism and aggression (today).

By all three criteria — operational history,, competitive skills, and the PR effect — the Russian capital looks less competitive than the Nordic capital. The situation can be remedied through investing in image-making and by studying the methods used by competitors.

Differences in regional approaches

Conceptually, Nordic countries see themselves as leaders in the Baltic Sea region, aspire to formulate the region's policy and oversee its implementation. They substantiate their claim with the GDP data. According to them — which is partially corroborated by the EU — the Nordic countries account for 60 % of the total GDP of the Baltic region, whereas the northern areas of Germany and Poland for 14.5 and 5 % respectively, the Northwestern federal district of Russia for 14 % and the Baltics for 7 %. Of course, this methodology is open to criticism, in particular, as to why the Nordic countries take

into account the national GDPs of their states and compare them to regional GDPs of the coastal territories of the other countries (except for the Baltics). They do not give a sufficient explanation and continue using this methodology [10, p. 39].

Sweden and Finland — the closest neighbours of the Baltics and Russia in terms of geography — use the following tactic. The idea of any regional Baltic association is usually discussed without Russia present. Its functioning mechanisms are developed without Russian participation. Russia is not invited to take part in the institutionalisation of such associations. As the association becomes a legal entity under international law, Russia is offered an opportunity to cooperate and even accede to the organisation. Russia's natural desire to formulate and promote its national interests is interpreted for the public opinion as Russia's usual opposition to the Western community. Good examples are the Northern Dimension programme and the Strategy for the Baltic region [10, p. 40—45].

In this context, Nordic ambitions to secure economic dominance in the Baltics look like part of their general Baltic leadership strategy. Moreover, Swedish financial groups (Swedbank, SEB) identify the Baltics as a segment of their home market [6]. The second largest Finnish financial group, OP-Pohjola Group, views Finland and Estonia as a single market [11]. These approaches are not a secret. Latvian, Lithuanian, and Estonian officials do not refute these interpretations publically, in effect, admitting their accuracy. A foreign investor willing to invest in the Baltics has the right to inquire about the regulation of the Baltic market and the development of conditions for free competition.

As to Russia, the traditional term of 'cross-border cooperation' is usually used in relation to the Baltics. It means that economic interests of the Baltics do not have a wide geographical scope; they are often limited to the regions of the Northwestern federal district. This pattern is also applied to relations with Latvia. The country demonstrates pragmatism in relations with Russia more often than Estonia and especially Lithuania (see, for instance, the presentation of Russia's Minister of Foreign Affairs Sergey Lavrov made at the joint press conference with Latvia's Minister of Foreign Affairs Edgars Rinkēvičs and the following discussion within the negotiation held in Moscow on January 12, 2015) [12].

The role of the European Union

After regaining independence in the early 1990s, the Baltics shaped their foreign policy in accordance with the aspiration to join the EU, which finally happened in May 2004. Within the EU, the Baltics have allied with those member states that do not show any enthusiasm for a political dialogue and economic partnership with Russia.

Moreover, the Baltics and Poland are putting in a great deal of effort to instil distrust of Russia in the European Union and present the country as an unreliable economic partner. They promote the thesis that the EU member states have to follow a single confrontation-based policy towards Russia and

create obstacles to the Russian policy aimed at developing relations with the EU. This was especially pronounced in the implementation of the Nord Stream project aimed to construct a Baltic Sea offshore gas pipeline carrying Russian natural gas to Western Europe. The Baltic-Polish project of a gas pipeline running from the Caucasus fields to Europe (Nabucco) was introduced as a controversial alternative to the Russian investment into the project. The Nabucco pipeline was designed to reach Finland through Lithuania, Latvia, and Estonia. The Baltics and Poland, supported by the Nordic countries, insisted that the project had to be given priority in the EU. Its creators hoped to deprive the Nord Stream of political and economic backing.

The Baltics have treated Russian investment on their national territories similarly. Latvian, Lithuanian, and Estonian leadership strived to take the Russian assets into their ownership. A good example is the attitude of the Baltics to the implementation of Directive 2009/73/EC (the so called 'gas directive') stipulating that the member states should separate generation and sale operations from transmission networks. The Directive granted the Baltics and Finland an exemption, since these countries were perceived as an isolated market. They were permitted to comply with the regulations on a voluntary basis. Moreover, 18 months were given for adaptation after the adoption of the Directive (September 3, 2009). Therefore, the Directive was due for implementation not earlier than March 2011. Baltic leadership ignored both circumstances and initiated the process of unbundling and alienation of Russian gas assets in spring 2010 [13, p. 372—375].

For Northern Europe, the EU membership of the Baltics is of interest for a number of reasons. In particular, it is something of a guarantee of inviolability of Nordic investment in the Baltics and of stable profits. Moreover, it creates competitive advantages over capital originating from non-EU countries that are geographically and historically close to the Baltics. The rotating presidency of the Nordic countries in the EU gives opportunities to push the decisions beneficial for the Nordic capital through. For instance, the 'gas directive' adopted as an official EU document during the Swedish presidency partially substituted Russian gas supply to the Baltics with that from Norway.

Conclusions

Conclusions can be divided into several groups. The first one concerns the Baltic market proper, the second — the relations between the Russian and the Nordic capitals, and the third one presents comments on conceptual framework for foreign investment abroad.

As to the first group, the analysis of the situation concerning foreign direct investment in the Baltics shows that the state of affairs is far from the free competition ideal. The market is overregulated by local authorities and monopolised by the Nordic capital, which complicates the access to the Baltic market for investors that are not affiliated with the Nordic capital. It seems that the Nordic capital, although having exhausted most of its investment interests in the Baltics, continues to prevent other investors from ente-

ring the market. In general, the Baltics market is mothballed by the Nordic capital, which results in chronic stagnation of the Baltic national economies.

One can state that, under the influence of the Nordic capital, the Baltics are gradually transforming from a national market into a business space for interaction and competition of foreign capitals. In essence, this corresponds to the dominant Western idea of limited sovereignty of small countries — a modern offshoot of Euroatlanticism.

As to the competition between the Russian and the Nordic capitals, the examples and schemes mentioned above indicate that the attitudes of the Nordic capital towards the Russian capital can hardly be called fair competition.

This gives rise to a number of questions that are not rhetorical at all. The first one is whether such attitude to the Russian capital is characteristic of the Nordic capital only in Russia or there is a need to be ready for similar treatment regardless of time and place. Does it concern only certain types of the Nordic capital or is it a common national feature? Should the Russian capital take into account the Baltic experience of the Nordic capital everywhere or should it be interpreted as an unpleasant exception?

For instance, Swedish capital in Russia does not always comply with the Russian legislation. So, the famous Swedish cosmetics company Oriflame was not able to refute the accusations of using a tax evasion scheme in Russia, which were made in the summer of 2014 [14]. Moreover, Oriflame calls for corporate solidarity of Swedish companies and appeals to the Swedish state to support the company. Ambassador Veronika Bard-Bringéus presented the special committee of the Council of Federation of the Federal Assembly of Russia with an ultimatum that if the investigation into the company's actions did not stop, all 400 Swedish companies having subsidiaries in Russia would cease their operations in the country [15].

In these conditions, the Russian capital should act pragmatically and use competitive advantages over the Nordic capital where possible, primarily, in the CIS and within the Eurasian Economic Union. At the same time, one should not take the path of revenge, keeping in mind that there are other ways to respond to unfair competition from Nordic businesses. The behaviour of capital, as well as that of a human being, is guided by inherent or acquired reflexes. There is a need to assists the Nordic capital in developing an adequate strategy for the Russian capital, in particular, in abandoning illusions of uniqueness and inviolability.

At the same time, it is hardly rational to interpret discrimination against the Russian capital observed in the Baltics as a fault of the local authorities and the Nordic capital. There is a need to consider whether the Russian capital uses its full potential to protect its interest. The key competitive disadvantages of the Russian capital in the Baltics seem to be as follows. The first one is depositing funds in banks of the countries acting as a direct competitor for the Russian capital, which immediately creates unequal conditions. The second one is the absence of a Russia-friendly financial infrastructure (consulting, legal, insurance, and leasing services), which makes Russian businesses deal with companies controlled by a competitor, and has obvious negative consequences. The third one is the absence of a regional strategy

developed by the Russian capital. Moreover, different branches of the Russian capital are poorly coordinated. The starting point for improving investment conditions for the Russian capital in the Baltics might be the elimination of above-mentioned competitive disadvantages.

The analysis of competition between the Russian and the Nordic capitals in the Baltics makes it possible to make a contribution to the theory of capital expansion into foreign markets (R. Vernon, J. Johanson). In particular, we have shown that the proposed dependence of capital expansion on geographically, historically, and culturally close markets is not universal. As the case of the Baltics demonstrates, this pattern requires formation of standard favourable conditions; otherwise, competition between foreign capitals will be marred by discrimination.

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About the author

Dr. Vladimir Olenchenko, senior research fellow, the Center for European Studies, the Institute of World Economy and International Relations of the Russian Academy of Sciences, Moscow, Russia.

E-mail: olenchenko.vladimir@mail.ru