

Chapter 8

ECONOMIC DEVELOPMENT:

Economically strong but crisis still shows

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The Nordic Regions have generally maintained their previously strong positions in relation to the EU average when it comes to economic development. Urban and capital city regions show high levels of GRP per capita, as is the pattern throughout Europe. Stockholm, Oslo, Copenhagen and the western Norwegian regions are among the wealthiest in Europe. It is also the case that capital regions and larger cities remain strong economic centres in the Nordic Region. These regions show GRP per capita levels which correspond, or even exceed, most other metropolitan regions in Europe. While southern European city regions have suffered reductions in relative GRP (Gross Regional Product) per capita, Nordic city regions continue to place at the top of the scale. The picture is not however as clear cut as it once was. Helsinki has for instance lost its position among the highest performers in the last 3-years. And in Denmark and Sweden some regions now have a significantly lower GRP per capita compared to previous years; notably Kalmar, Värmland, Hovedstaden, Syddanmark and Östfold; the same is also true for Åland. At the same time other regions are improving and have risen up the rankings e.g. Hordaland in Norway.

In addition to the urban regions referenced above, there are now also a number of peripheral regions displaying high levels of GRP per capita (figure 8.1). The Swedish and Norwegian northern regions are all performing well in relation to the European average. Indeed, some of these regions can even be viewed as 'top performers'. Greenland and the Faroe Islands are also above the European average (for Greenland though, Danish subsidies supply roughly 60% of government revenue and 40% of Greenland's GRP). However promis-

Defining GRP

The indicator Gross Domestic Product measures the overall economic output of all economic activities in a country (measured in terms of purchasing power parity, or standards). The corresponding indicator at the regional level is the Gross Regional Product (GRP). Although these measures are somewhat blunt (for instance they do not consider sustainability) in the assessment of regional performances they are still the most stable and most commonly harmonised measure for economic comparisons. Together with the labour market and other business-related indicators in this report they provide an understanding of regional economic development.

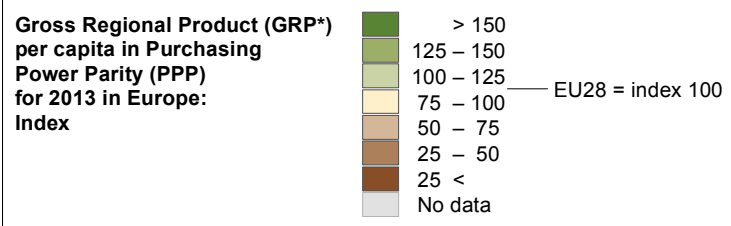
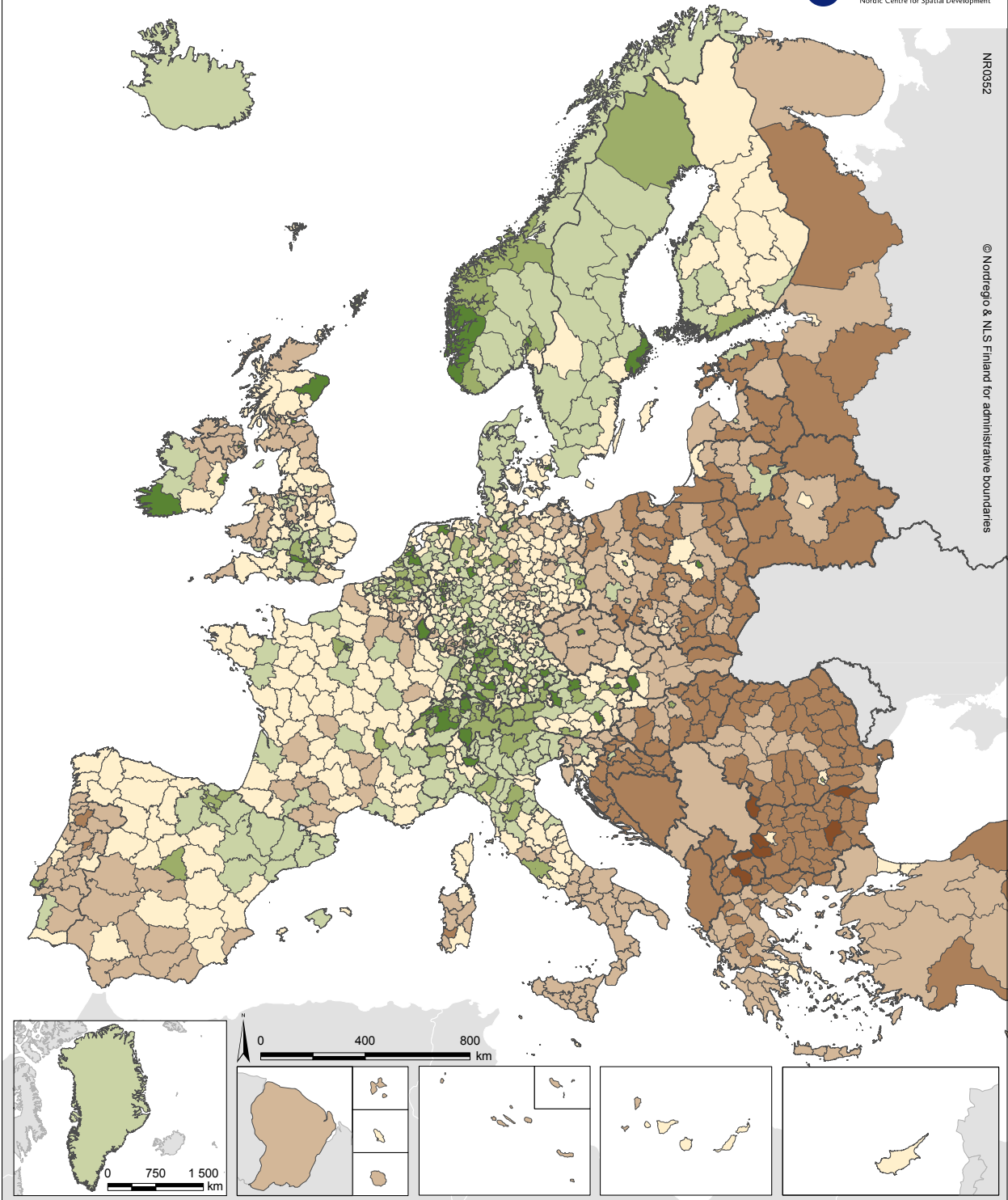
ing these facts may appear, they should nevertheless be seen in the context of the existing economic structures in those territories. Indeed, whereas urban economies are often based on a diverse range of economic activities and benefit from trends in urban growth, the economies in the top-performing but more peripheral regions are usually thriving thanks to a large, single industry often highly specialised internationally: in Åland, the transport sector; in Norrbotten, mining; and in Northern Norway, oil exploitation and fisheries. (For Norway the GRP figures from off-shore activities, including oil and gas extraction, are excluded from our maps at the

GRP (PPP) per capita in Europe in 2013



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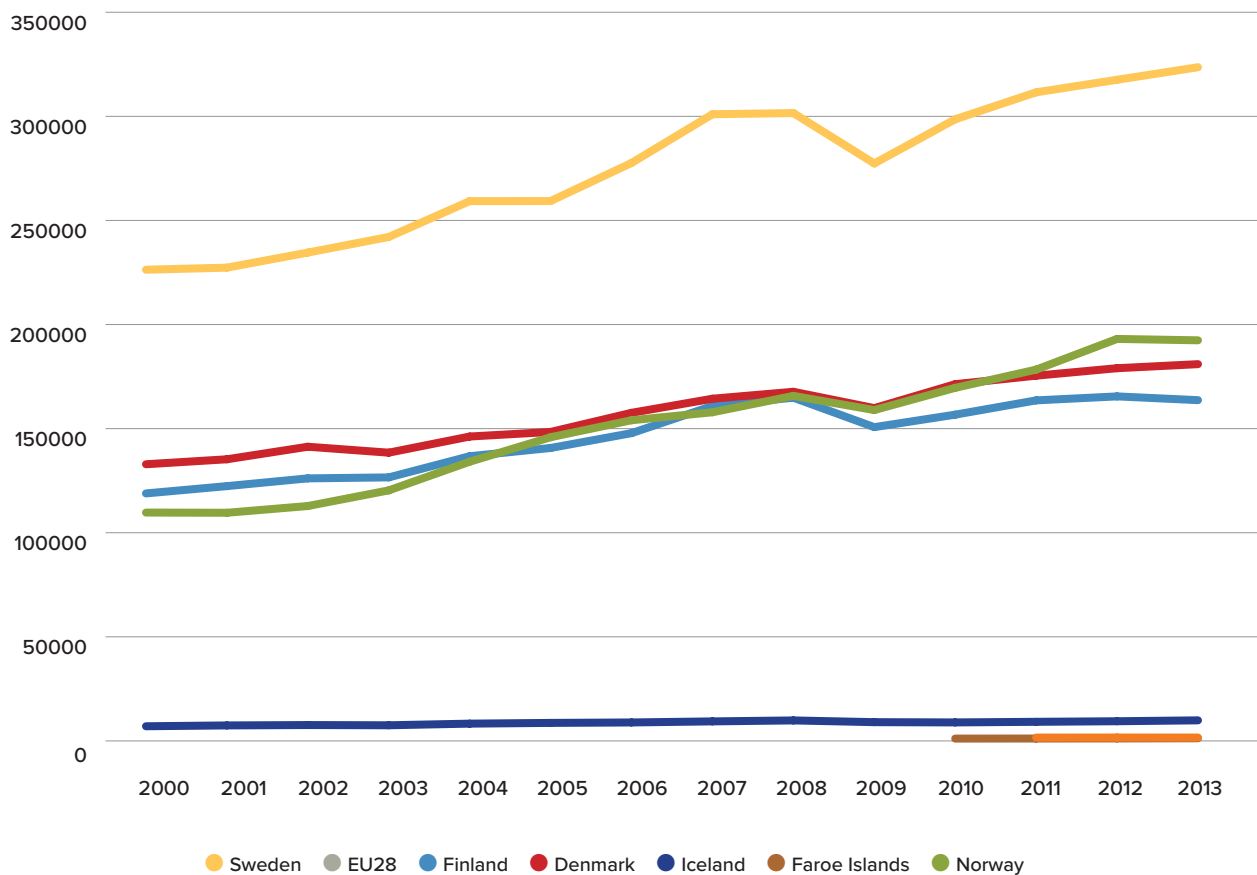
*) NUTS 3 level, except: IS, BA, RS, XK: NUTS 0 (national level). BY, N.W. RU: NUTS 2/SNUTS 2 (oblast level), TR: NUTS 2. 2013 data, except: BY, RU, TR (2011)

PPP conversion by relating data on PPP in international \$ from World Bank (BA, BY, ME, RS, N.W. RU, XK) and CIA Factbook (FO, GL) to EU28 data from Eurostat. IS: Estimate (NSI/Eurostat). NO: GRP from offshore industries excluded

Data source: Eurostat, NSI's, World Bank, CIA Factbook, Nordregio estimates

Figure 8.1: GRP (PPS) per capita in Europe in 2013

Figure 8.2: GDP (Gross Domestic Product) in the Nordic countries, 2000-2013; GDP in million Euro – Purchasing power parity (PPP)



Data source: Eurostat, NSI's, World Bank, CIA Factbook, Nordregio estimates. Note: Finland: Includes Åland. Greenland: 2011-2013. Faroe Islands: 2010-2012

regional scale. Although the vitality of these sectors induces a high level of economic performance for these regions (also related to secondary and tertiary service sectors), it leaves the regional economies highly vulnerable to changes occurring in these sectors which are usually well beyond the boundaries and the control of Nordic Regional actors, both economic and political. In this light one of the most important aspects for regional policy as it relates to these territories is to be able to use, and build upon this growth potential and current growth and wealth. Strategies need to be put in place to develop current productive sectors further, as well as to attract new businesses or sectors of activity with high added value. Although some of the regions mentioned above display strong economic growth they continue to face a number of serious challenges with respect to demographic trends and ongoing developments in the labour market, etc.

The economic crisis of 2008-2009 affected the entire Nordic Region quite severely, with Denmark, Iceland and Sweden suffering GRP decline rates of - 5%, Norway -2% and Finland as high as - 8% (figure 8.2). Most parts of

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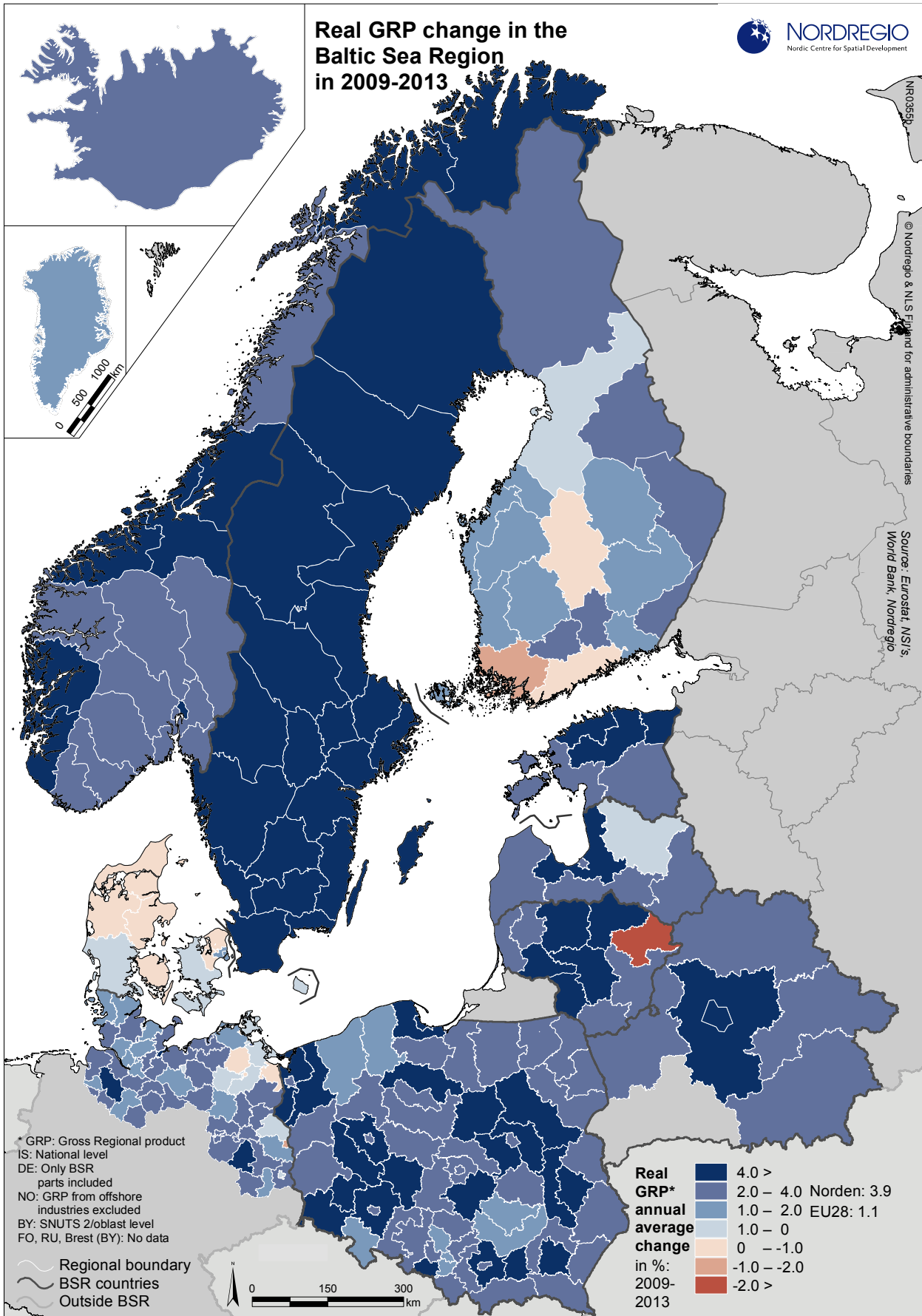


Figure 8.3: Real GRP (Gross Regional Product) change in the Baltic Sea Region in 2009-2013. Note: Faroe Islands: No data

the Nordic Region recovered in the years to come, but in 2014 and 2015 some countries (and regions) have again shown signs of slowing down: Denmark with negative numbers in 2012 and 2013 and Finland more recently in 2012 to 2014. At the finer regional level the picture is rather complex, even in countries with negative development some regions are still doing well. However, only Sweden and Iceland show strong economic growth rates throughout the regions.

Some regions in Finland persistently remain within the category just below the EU average. Most of these regions still show GRP growth rates for the period 2009 - 2013 which are around 2 - 4%, but Keski-Suomi and Pohjanmaa show weak, and in the case of the former, even negative GRP development. Comparing GRP maps with the map in figure 8.5 of dominant economic activities (by employment) it is evident that the regions in these parts of Finland have high shares of people employed in the agriculture, forestry and fisheries sectors.

Examining further the change in real GRP for the period of 2009 - 2013 national figures for Denmark and Finland can be translated into regional stories. In Denmark the regions of Nordjylland, Midtjylland, Sydjylland and Hovedstaden have all suffered from, on average, reduced annual GRP throughout this period (figure 8.3). In Finland the situation is even more serious in Varsinais-Suomi where GRP has on average decreased between 1 - 2 percent. In Helsinki-Uusimaa and Keski-Suomi the reduction is more moderate, between 0 - 1 percent. As already mentioned, Sweden has seen increases in GRP for all regions of more than 4%, but this is sensitive to what years are examined, some regions suffered rather severely from low GRP in 2008 and 2009 and therefore have made great recoveries. In Iceland the picture is equally strong, while in Norway some regions have grown above 4% while others have grown above 2%. Greenland has, on average, seen GRP increases between 1 - 2%, as has Åland.

Broadening the scope and comparing the Nordic Regions with the rest of the Baltic Sea Region (figure 8.4) it is evident that the so called "east-west divide" still persists as the Nordic Region continues to enjoy much high-

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er levels of GRP per capita than their eastern (including north west Russia) counterparts. The exception is the capital cities which have relatively high GRP levels, with Warsaw being particularly strong in this regard. The Baltic States, as well as Poland, also show strong though fragmented growth in GRP and are, together with the Nordic countries, performing well compared to southern, and south-eastern, Europe. Nevertheless, the Nordic average in GRP per capita corresponds to around 125% of the European average; the southern and eastern parts of the Baltic Sea Region have values corresponding, generally, to 25-75% of the EU average. From a European and Baltic Sea perspective, regional disparities among Nordic Regions are clearly less evident compared to what may be found in many larger continental economies (such as France, Germany or Spain, see figure 8.1). As such, the Nordic Region appears to constitute a much more cohesive economic area (with no regions really lagging behind) than is the case in other parts of Europe - even in the face of the past economic crisis.

Urban regions; and urban rural disparities

Urban regions are often highlighted as the major areas for economic performance, although there are well known caveats with this representation; the most important being location of headquarters and economic reporting. With this in mind it is still clear that the major contributors to national GRP are the city regions of Stockholm, Helsinki, Oslo, Gothenburg, Malmö, and Copenhagen. Compared to the economic activities of St. Petersburg, Warsaw, Hamburg and Berlin these regions are small, but the greater region of Stockholm clearly stands out. But again, regional delimitations make a huge difference in representing urban regions (Sweden and Finland have large NUTS 3 regions).

Other places that tend to perform well economically are the regions endowed with second-tier cities: Gothenburg in Sweden, Stavanger and Trondheim in Norway and Aalborg in Denmark. This pattern is much less pronounced in Finland for which the Tampere region performs somewhat averagely in both Nordic and European terms. But in general, metropolitan and city-regions can be viewed as the key centres of economic production in the Nordic Region, not unlike many other European countries.

Urban areas or cities are often centres of economic growth and development. However, it is difficult to acquire economic growth data, such as GRP, at an urban level. And although it is widely acknowledged that GRP is an unnatural growth measure at the urban scale, there is still no simple indicator of economic growth that is tailored specifically to these urban areas. The in-

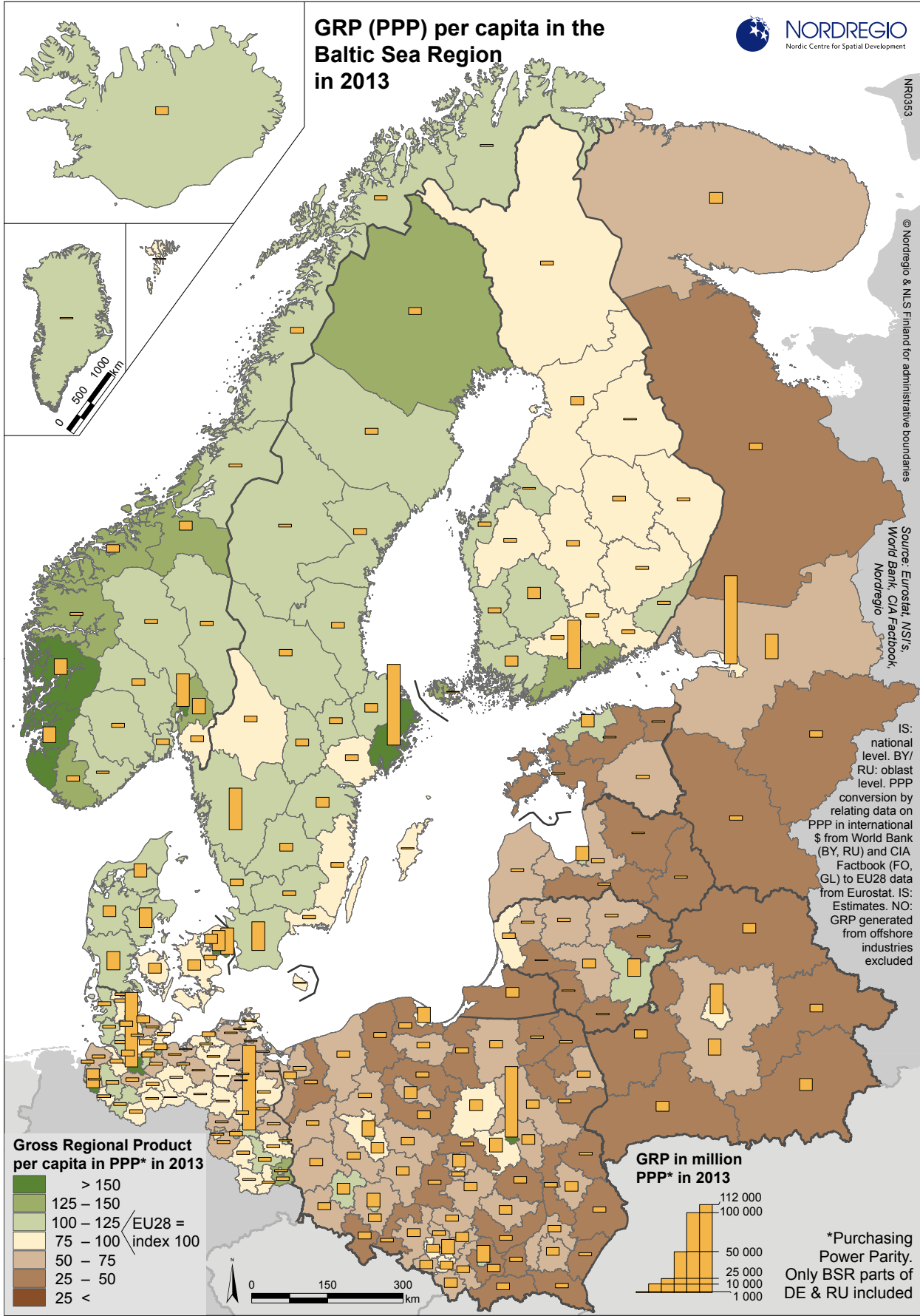


Figure 8.4: GRP (PPP) per capita in the Baltic Sea Region in 2013

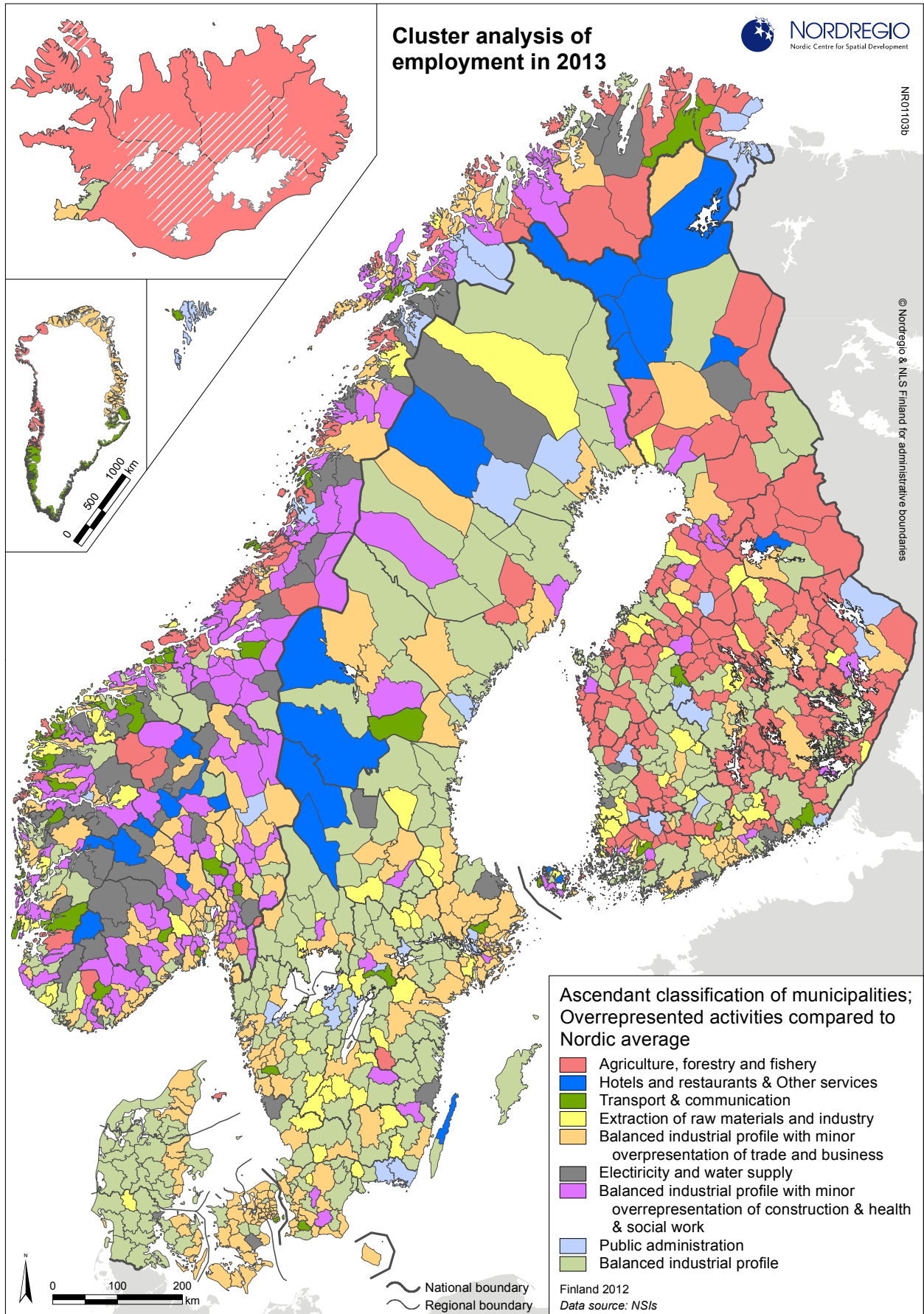


Figure 8.5: Cluster analysis of employment in 2013

terpretation of GRP per capita should be handled with care as it does not take into account the commuting flows that occur across the regional, or urban and sub-urban, boundaries.

Some of the patterns observed at the regional level hold true for cities and urban areas in the BSR. Disparities between cities in the east and west in particular, as well as core-periphery patterns (between large and small cities) can be identified. In general, urban areas stand out as relatively prosperous areas in all countries in the BSR. However, in the most eastern cities, Minsk, St. Petersburg and Polish cities (except Warsaw), the level of urban GRP is far below that in the western cities.

Some regional disparities remain

In the eastern and southern parts of the BSR the metropolitan/non-metropolitan dichotomy prevails, with rural regions showing lower levels of GRP per capita, and urban and accessible regions at the other end of the scale. In the Nordic countries however this picture is not as pronounced; many remote regions show high levels of GRP as well as strong growth, e.g. regions in northern Norway and Sweden. Hence, the prosperity of regions in the Nordic countries does not fundamentally depend on their urbanity while regional inequality is generally at a lesser level.

Indeed, in the light of the economic crisis, larger city regions in Finland and urban regions close to Copenhagen, have grown less than rural regions. Moreover, other regions in close proximity to these capital regions are also growing slower which highlights the influence of capital city regions on a larger geographical area, both in times of growth and decline.

At the same time it is clear that in the Nordic Region, economic growth is increasingly taking place in the capital regions or in the largest agglomerations. It is still unclear how this will affect the structure of regional development in the future, but it might be so that many Nordic Regions simply cannot keep up with the fast pace of development set by the larger urban regions. It is clear then that, as is the case in many other European countries, there is still scope for implementing a regional policy that ensures a more balanced approach to regional development where resources and opportunities are more evenly distributed. The Nordic countries, with their histories of cohesive regional development, have coped rather well with the latest economic crisis. Indeed, it should be highlighted here that balanced regional development seems to provide both the necessary level of resilience and a basis for fast recovery (see for instance the analysis of the ESPON ECR2 project, 2014).

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Nordic regions have different economic structures

There is a rich mix of economic activities at the regional and local levels in most parts of the Nordic Region. Even though economies are becoming more open and global, there is still scope for economic interactions at the regional scale, and different economic activities interact in supply and demand relationships. These are strong to a varying degree, but together they build a fabric of regional multipliers, and sometimes support each other strategically in clusters of knowledge, materials or markets. Some regions have a more diverse economic fabric, while others have more homogeneous businesses. All regions have public sectors, and firms related to public utilities and services, to some extent. City regions are usually the centres of financial institutions, insurance firms, larger corporate headquarters, consultancy firms and firms in the tertiary sector of the economy. Secondary sectors (known as manufacturing, transport and some related service sectors) are found throughout the countries, but are strong in secondary and smaller cities, while the primary sectors of agriculture, forestry and fisheries are prevalent in more sparsely populated regions, and in the northern regions.

A map of the most dominant sector or activity will obviously hide a lot of information; however it is an interesting map to have as a backbone for analysing and discussing regional differences and Nordic Regional heterogeneity. The cluster map below (figure 8.5) only shows the dominant sector (or sectors) of employment. Other sectors are of course also important in many regions.

At first glance the map may seem to be just a mosaic of colours showing the overrepresented sectors at the

municipal level, but some clear patterns are discernible. E.g. in the rural municipalities of Finland the agricultural, forestry and fisheries sectors show a strong overrepresentation, much more than can be observed in the other countries; the exception being Iceland, which has a strong focus on fisheries in all but the Reykjavik and Keflavik municipalities. In Norway there is a tendency in many municipalities towards a very balanced industrial profile, but with an overrepresentation of construction, health and social services. In Denmark and Sweden there are many municipalities with a very balanced industrial structure, but also clusters of regions specialised in trade and businesses. In Denmark the very balanced structure seems to be overrepresented by the later (trade and businesses) in the east, and more generally balanced in the west. In some areas in Norway, Sweden and Finland there is also a strong focus on hotels, restaurants and other services – often related to tourism areas in the mountainous regions. The dominance of “electricity and water supply” in Southern Norway is also interesting to observe. In other countries (e.g. Sweden) this dominance is mainly found in municipalities dominated by nuclear power plants.

Turning to the economic interaction between the Nordic countries in terms of trade flows (figure 8.6) it is evident that proximity matters; but this is not the entire story. Russia for instance seems to be an important export country for Iceland, Greenland and the Faeroe Islands. Due to history and proximity, Finland relies more heavily on Russian trade than do for instance Sweden, Denmark or Norway. These countries trade more with Germany and Poland. Norway has strong bilateral trade with Sweden, Denmark and Germany, while Sweden and Denmark have more diverse trade patterns. South Baltic “horizontal” trade is important with strong interactions between Germany, Poland, the Baltic States and Russia. Estonia has stronger trade relations with Sweden and Finland than it does with Latvia and Lithuania. Sweden and Finland do not display as important interactions in trade with Iceland, Greenland and the Faeroe Islands as do Norway and Denmark. Iceland also trades a lot with Germany, a trade relationship which is important from the Icelandic perspective in terms of both imports and exports.

Concluding comments

This chapter has explored economic development in the Nordic Region. It found that Nordic economies are performing well when considered in both the European and the BSR context. Most parts of the region have recovered well from the severe affects of the economic crisis, although it is worth noting that in 2014 and 2015 some countries (and regions) again showed signs

Bilateral trade data

In this map (figure 8.6), which displays trade flows between countries in the Nordic Region and the Baltic Sea Region, we choose to include the largest in-flows and out-flows, respectively, per country based on the value of exports in US\$ (FOB). A high number of flows would have made the map difficult to interpret, while using only a limited number of in-flows and out-flows per country made it possible to also include flows to and from the West-Norden Region (the Faroe Islands, Greenland and Iceland), which in absolute numbers are rather small.

The trade data in the map is derived from the Direction of Trade Statistics of the International Monetary Fund (IMF), providing a standardised and coherent dataset, similar to that published by the United Nations’ Comtrade. It should however be noted here that this data was processed and published as it was received from the reporter country. Thus, looking at the linkage between two given countries, one country might provide different import figures from those provided by the exporting country. Furthermore, there are several independent institutions working globally and producing their own estimated trade statistics.

of slowing. The Nordic countries differ somewhat from other parts of Europe in that strong economic performance is evident in regional areas as well as in the capitals and other large cities. Two caveats become important here however. Firstly, strong economies in peripheral areas are, in many cases, a result of a single, large, high performing industry. Secondly, city regions still dominate as the major contributors to national GRP. As such, scope remains for implementation of a regional policy that ensures a balanced approach to regional development and distributes resources and opportunities evenly. There is a rich mix of economic activities occurring at the regional and local levels in most parts of the Nordic Region. In some cases this results in a quite balanced industrial profile. There are other regions where the industrial profile is skewed towards particular industries, which in general makes them more economically vulnerable.

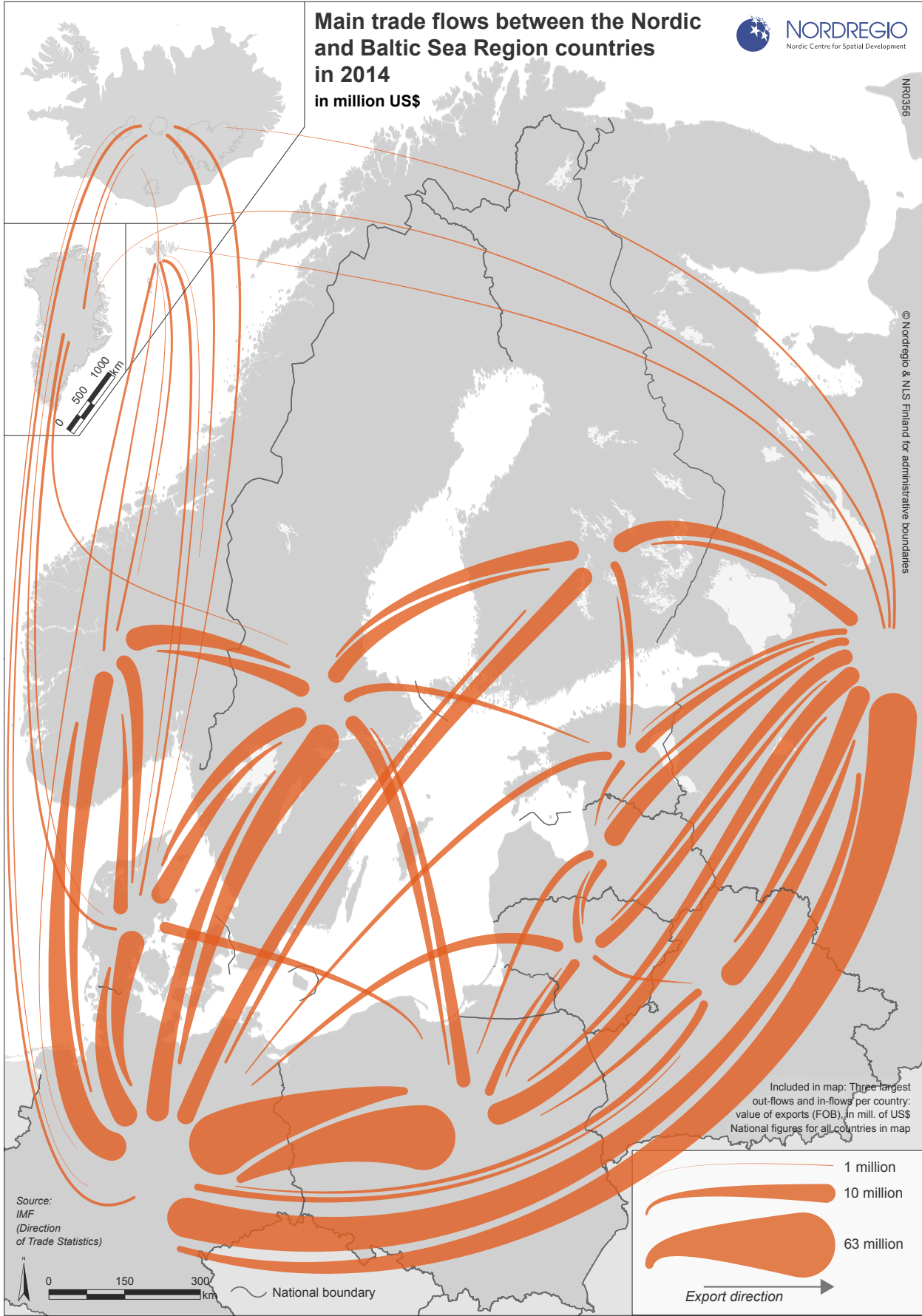


Figure 8.6: Analysis of trade in the Baltic Sea Region in 2014. Largest flows in each direction included