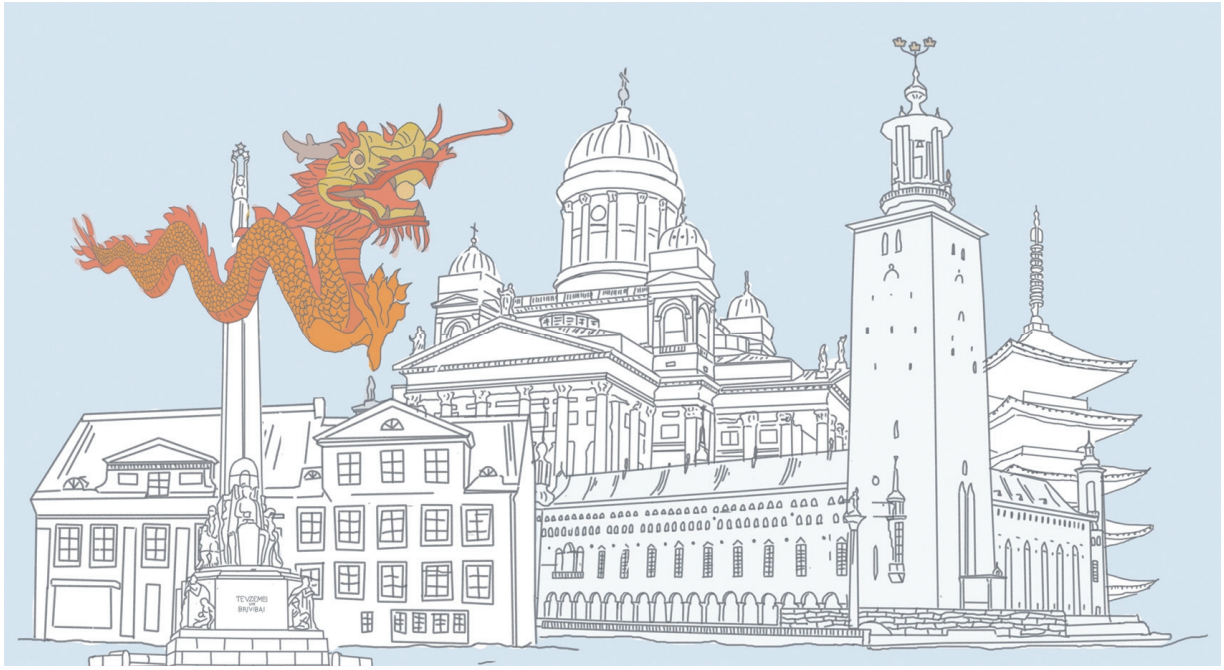
BASAAR Project

Baltic Sea- Asia Agenda for Regions in a Globalizing World



Cross - Country Cooperation in Education, Tourism and Logistics between the Central Baltic Sea Region and Asia in the Future
WP4 Networks and Flows
Final Report

Martins Menniks
Riga City Council, Latvia

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Abstract *"What are the cornerstones of future cooperation between the Central Baltic Sea region and Asian countries ensuring development in tourism, logistics and education?"* In geographical terms, the research is delimited mainly to China, India with respect to Asia. It is a reasonable delimitation since China and India nowadays are considered the driving forces in world development, and the cooperation that to this date seems to be underdeveloped between CBSR and these countries representing valuable business opportunities in the future.
Keywords BASAAR, Globalization, Asia, Central Baltic Sea region, logistics, tourism

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1 Foreword

This report is one in a series produced by the project "Baltic Sea – Asia Agenda for Regions in a Globalising World" (hereinafter – BASAAR). The BASAAR project was co-funded by EU's Central Baltic INTERREG IV A Programme 2007-2013 under the priority 2 "Economically Competitive and Innovative Region". This priority focuses on enhancing the overall economic development and competitiveness of the programme area. It emphasises innovations and broad, qualitative co-operation. Moreover, the development of connections to facilitate cross-border co-operation and a better flow of goods and people is another focus, together with the utilisation of the labour force and the development of the tourism sector[1].

One of the main aims of the BASAAR project is to improve the capacity of the Central Baltic region to adjust to globalization, with special focus on how the developing Asian economies will affect the Central Baltic Sea region. The project was organised around three main themes: 1) Knowledge society, 2) Resource inventory and 3) Networks and flows. The findings related to the three themes were complemented by a scenario study presenting four long-term scenarios for the region and its relation to Asia. To get an independent view, Asian experts were invited to comment on the scenarios.

The project results are presented in a set of three independent reports providing benchmark results, analysis and action recommendations related to each of the three project themes, an executive summary of all recommendations and the scenario report. Project reports are mainly intended to serve as background papers for planners involved in regional planning processes of the project partners and other organisations. All reports can be downloaded from the websites of the project partners.

[1] Central Baltic INTERREG IV A Programme 2007-2013, p. 56; http://www.centralbaltic.eu/programme, accessed on 30.01.2010

The BASAAR project partners:

- City of Helsinki Urban facts, Finland
- City of Stockholm, Sweden
- City of Uppsala, Sweden
- Harju County Government, Estonia
- Office of Regional Planning, Stockholm County Council, Sweden
- Regional Council of Southwest Finland, Finland
- Riga City Council, Latvia
- Riga Planning Region, Latvia
- Tallinn City Office, Estonia
- Turku Science Park Ltd., Finland
- Uusimaa Regional Council, Finland (Lead Partner)

2 Introduction

The cross-boundary cooperation is of great importance in the international economic relations representing one of the most effective ways of utilizing the potential of various regions by increasing an employment level, attracting investments, developing infrastructure and many more. In fact, the large Asian market opens various opportunities for future cooperation with the Central Baltic Sea region (hereinafter – the CBSR), namely, Sweden, Finland, Estonia and Latvia.

The present research conveys the results of analysis of Work Package 4 Networks and Flows-logistics, tourism and education which was carried out within the 2nd priority "Economically Competitive and Innovative Region" project "The Baltic Palette – Co-project for Planning Cooperation Between the Baltic Sea Area and Asia" (hereinafter – BASAAR) of the programme of INTERREG IV A Central Baltic Sea Region. The project is connected with several European Union programmes that support cross-border and regional development and focuses on general economic development and promotion of competition in the territory involved in the programme.

In order to analyze the issue the following research question has been raised: *"What are the cornerstones of future cooperation between the Central Baltic Sea region and Asian countries ensuring development in tourism, logistics and education?"* In geographical terms, the research is delimited mainly to China, India with respect to Asia. It is a reasonable delimitation since China and India nowadays are considered the driving forces in world development, and the cooperation that to this date seems to be underdeveloped between CBSR and these countries representing valuable business opportunities in the future.

There already exist working documents by European Parliament analyzing the EU and China relations with respect to tourism and education in the future; however, there is a gap in the research literature in terms of more specific regional analysis applied to particular countries of interest. This report contributes to the existing research literature and attempts to fill this gap by applying the analysis in fields of tourism, logistics and education and portraying future cooperation opportunities specifically to the CBSR.

The remainder of this paper is organized as follows: Section 2 introduces to background of the economic trends in Asia. Section 3 analyzes the field of education by analyzing the students' flows in the CBSR from Asia. In Section 4 the field of tourism with respect to the attractiveness of the CBSR to Asians is analyzed and Section 5 –development of logistics of the CBSR in relation to Asia

is presented. Furthermore, in Section 6 the EU-China relations in tourism, education and logistics are described. Section 7 presents the future perspective towards Asia, and Section 8 concludes.

3 Economic Trends in Asia

1. The Chinese economy continues to grow despite the pressure of the global financial crisis: The data of the first six months of 2009 indicate that during the global financial crisis the GDP of China has increased by 7%. The volumes of investment continue to grow along with employment and income stimulated by the policy of the Chinese government that encouraged the local consumption thus largely compensating the decrease of exports. It is forecasted that the magnitude of the Asian economy will grow in the future, so the establishment of sustainable cooperation between Asia and the CBSR will become essential.

2. Increased standards of living and an emerging middle class: The number of people in China and India that belong to the global middle class rises. These are people who have sufficient financial and information means to travel, consume global level quality products and to acquire competitive education. It is forecasted that the income of the Chinese middle class will reach the level of developed countries by the year 2050 (National Intelligence Council, 2006). Therefore, Asian countries will gradually constitute an even larger exports market, including tourism services` market for companies around the world.

3. Return of talented and highly qualified immigrants to China and India: A decrease of the population of the EU has been compensated and the economic competitiveness has been raised by attracting talented immigrants, including those from India and China as a result of a more open immigration policy towards people with high professional skills. Consequently, a large number of talented immigrants moved overseas where they developed successful, innovative and globally oriented enterprises. Tendencies of the preceding years, however, show that these immigrants from Asia are not able to obtain permanent residence permits, therefore, many talented and highly qualified immigrants will return home to China and India contributing their skills and knowledge to their home region`s development in the future.

4. An increase in the Asian technological exports: Both India and China link their competitiveness to a knowledge economy in which a significant role is given to technologies and natural sciences such as biology, chemistry and physics. These begin to outrival the market positions of European countries in the high tech field. The Chinese market share in the combined world high tech market is growing, whereas the share of European countries decreases (The National Science Board, 2008), and this dominance of Asia with respect to technology is forecasted to prevail in the future.

5. Asia has high potential in science, research and development: Asian countries are gradually becoming extremely powerful with respect to knowledge and technology accompanied by competitive higher education. Nowadays Asian countries are investing more in research and development than Europe does, hosting the largest amount of students of natural and engineering sciences. Projections show that by the year 2020 China and India will be capable of introducing future technologies – nano, bio and IT and their convergences, which is earlier than in the Eastern Europe. It is also forecasted that an increasing number of companies will purchase research and development services particularly from China.

6. Transfer or production to the Asian countries: Both capital and labour resources have become standardized "goods", and globalization has enhanced easy accessibility for production launch in any place of the world. Standardization changes the production processes into services provided in the global market and stimulates their transfer to the Asian countries that provide inexpensive labour force.

7. Asian countries have the most active age structure of inhabitants: In Europe 23 out of every 100 potentially economically active inhabitants (aged 15-65) are of age 65- and – older, in Asia the respective amount is 10. Currently the generational division in Europe has become economically uncompetitive in comparison to Asian countries. In Asia such a large proportion of inhabitants at active age must be planned for. It affects economic growth and many other issues, including the sustainability of families, the ability to travel, as well as the international relations.

4 Education

Firstly, it is important to recognize the main differences in education systems in the countries of interest which will then help to explain the patterns of Asian students' inflows there.

4.1 Sweden

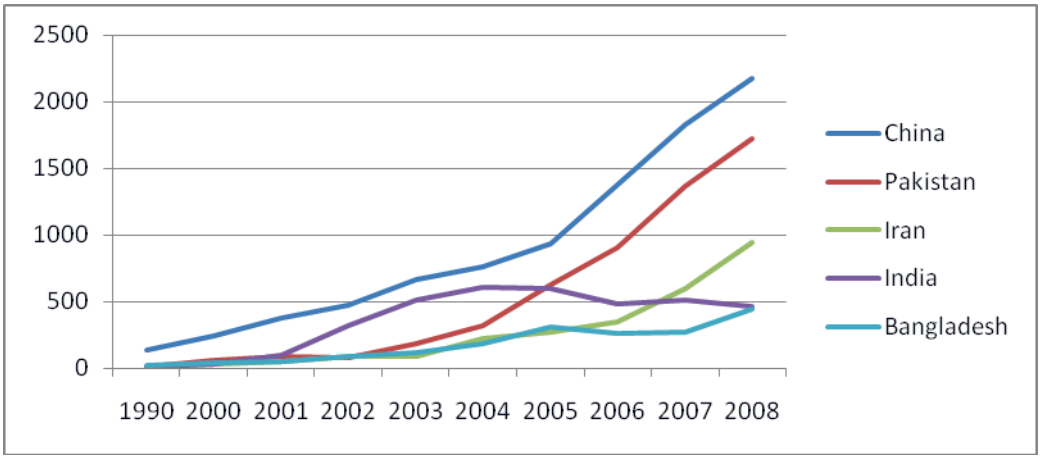
Currently in Sweden higher education for foreign students is free of charge, recognizing that this investment will pay back in the future through taxes paid by former students once they are employed. Foreigners want to study in Sweden mainly to improve their career opportunities and gain personal experience, they also choose to study in Sweden because English is the language of instruction, the programmes are appropriate and the tuition is free (Swedish National Agency for Higher Education, 2008).The research shows that introducing a tuition fee diminishes an education programme's appeal. In fact, in 2008 there has been a discussion in the Swedish parliament about charging foreign students (non EU-citizens) starting from the the autumn term of 2011. It has been explained by the fact that Swedish students who wish to study abroad have to pay tuition, so is not reasonable to expect Swedish taxpayers to sponsor foreign students` studies. Besides, even for their accommodation and other expenses, many of the Asian students receive funding from Swedish International Development Cooperation Agency (SIDA) in the form of scholarship (Asian Tribune, 2009).

Sweden is by far the leader of the CBSR in attracting students from Asia. The total number of Asian students in Sweden has tripled from 276 students in 1990 to 793 Asian students in 2000 (Appendix 1). But over the following years to 2008, the number has increased nearly tenfold, reaching 7540. Besides, in Sweden it is from Asia that the number of incoming students is increasing the most (Swedish National Agency for Higher Education, 2009).

The proportion of Asian students in total foreign student population of Sweden in the period from 2000 to 2008 has grown from 26% to 67% which shows that the country, indeed, is an attractive destination for education and such a tendency is likely to continue in the future. In terms of division by nationalities, in 2008, there were 2174 students from China, 462 from India:and 1725 from Pakistan (Figure 1). One explanation of such a tendency is the magnitude of the population of China itself as the other 2 countries are much smaller with respect to inhabitants. Moreover, the reputation of Sweden as an open and welcoming society that

respects diversity and immigration contributes to large inflow of Asians, which serves already as a strong backbone for the future cooperation with Asia.

Figure 1: Dynamics of Asian student population in Sweden



Source: The Swedish Migration Board (Migrationsverket)

4.2 Finland

With respect to Finland, higher education for foreign students is also free of charge. The country recognizes the long-term value foreign students contribute to the economy. Consequently, educational and development institutions in Finland are focusing their efforts on such issues as improving communication with foreign alumni of their universities, simplifying and improving student orientation and information, creating jobs and services for foreign students and alumni, and their spouses. Indeed, there is the notion in Finland that public institutions should lead by example and create internship opportunities for foreign students.

Similarly to Sweden, there is a tendency of increasing numbers of Asian students choosing Finland as a destination for their studies. Even though an increase of the Chinese students over the period 2004 to 2006 has been rather small (10%), the absolute number of students from China pursuing studies in Finland is large (1444 students). A positive tendency of students` flow in Finland is also seen with respect to Indian students as the respective number has grown by 28% over the period 2004 to 2006. The change seems relatively large, however, the number of Indian students in 2006 (169) was almost 9 times smaller compared to the number of students from China in Finland during the respective year. An interesting aspect is seen in comparison with the Indian students in Sweden over the period 2004 to 2006 where there is a decrease in

the number of Indian students` inflow year-by-year even though the absolute amount of Indian students studying in Sweden is almost 3 to 4 times higher compared to the number of Indian students in Finland.

4.3 Estonia

In both Estonia and Latvia, while the total cost of living is considerably lower than in the Nordic countries, foreign students must cover tuition costs themselves. Foreign students are thought of as sources of immediate income for universities rather than a long-term investment that will pay back in the future. While students from Asia may come to Finland and Sweden for education and stay for a job, it is recognised that employment opportunities for Asian students in Latvia are very limited as a student visa does not permit employment.

While the total number of Asian students in Estonia reached 183 in 2008, accounting for only 0.25% if its student population, it is nevertheless remarkable given the nation's small size. In 2008 58% of all the Asian students were from China, while only around 0.03% of student population was represented by students from India. When examining the tendencies of student flow from China it is seen that the absolute numbers of students are decreasing from 2005 to 2008 and, in fact, the absolute number of students from India has been stable at 11 over 2005 to 2008 with a major exception in 2006 when it jumped to 17 students, however, no conclusions can be drawn as there is a lack of data with respect to the total student population from 2005 to 2007 and any relative changes cannot be analysed.

4.4 Latvia

A nation of comparable size to Estonia, Latvia only had 12 Chinese students in 2008 (0.6% of all foreign students) and the number has increased over the period from 2005 when there was only 1 student from China representing only 0.07% of all foreign students (Appendix 2). While the absolute number of students from China has always been small, the relative number calculated as a percentage from all foreign students has increased approximately 9 times over the period 2005 to 2008. Overall, there is a positive tendency of the Chinese students when it comes to choosing Latvia as a destination for their studies, however, the magnitude of an increase is very small and the absolute numbers of students are really small compared to any other country of the CBSR.

Considerably different trend of foreign students is seen when analysing Indian students` choice for studies in Latvia over the period 2005 to 2008 (Appendix 2). The absolute numbers of students from this country is very small which is similar

to the case of China, however, they are a bit larger and the magnitude of a decrease in number of students from India studying in Latvia over the period analysed is also relatively larger as in 2008 there were only 9 students from India representing 0.5% of total foreign student population compared to 19 students from India representing 1% of the respective population in 2005.

4.5 Fields of Education

For Asian students in Finland, the most popular fields of study are Information Communications Technology and Business, accounting for over 50% of Asian students (Appendix 3). These are also the education programmes where employment opportunities are available for Asian alumni. In Sweden the highest proportions of Asian students study either technology (46%) or science (17%), while more than a quarter study economics, social sciences and law (Appendix 4).In Latvia, the tiny number of students from Asia is divided among the fields of Medicine, Technology and Business. Unfortunately, in case of Estonia there is a lack of data as to the Asian students' fields of study.

Overall, it seems that the most popular fields of study among Asians in the CBSR are technology and business. In the future it would be useful to popularize and develop other study fields in universities to suit the requirements and expectations of Asian students and increase the Asian studens` inflow in the CBSR. As there is a general tendency of the number of Asian students pursuing studies in the CBSR to increase, popularization of yet less attractive study fields could generate larger inflow of Asians. It would be useful to conduct a survey to reveal the Asian students` motivation behind their choice of a study field to pursue in the region. By analyzing the data, further strategy of cooperation could be found.

4.6 Conclusion

There is a vast difference in flows of Asian students to Nordic countries, on the one hand, and the Baltic countries, on the other. Sweden leads by the number of Asian students, with Finland close behind; Latvia has the smallest number even compared to Estonia. There exist major differences in attractiveness for studies which leads to a conclusion that the future strategies for attracting students from Asia might be rather different for these countries.

Sweden leads by the number of Asian students, with Finland close behind; Latvia has the smallest number even compared to Estonia

With respect to Latvia and Estonia the strategic emphasis in the future, first of all, should be put on building a

stronger recognition of a country for welcoming cultural diversity and reputation for its universities, creating opportunities for employment during studies and after graduation, and increasing of the local Asian community.

In Latvia, additional obstacles are imposed by the difficulty in obtaining a student visa, especially for students from India which reflects in a negative trend for the Indian students` inflow over the past years, where Latvia has no diplomatic representation. However, recently a major step towards establishing the Latvian embassy in India has been discussed among the Latvian politicians which could be a promising opportunity to gain business contacts and establish long-term cooperation with India stimulating the flow of Indian students in the country. No doubt that it would also stimulate the trade flow and attract tourists from India. Overall, with respect to Latvia and Estonia much is to be done to popularize these countries offering high quality education and welcoming cultural diversity in society and especially, educational environment. Currently Asian students may feel frustrated or even threatened by the society's lack of tolerance for diversity.

Regarding Sweden and Finland, the country recognition by the Asian population is already strong, so the next step could be continuing integration of Asian culture in educational environment by offering language courses and attracting native Asians to teach various subjects at universities.

5 Tourism

5.1 Infrastructure

The countries involved in the BASAAR project have rather different infrastructure endowments regarding tourism. Finland's flag carrier Finnair offers direct and fast flight routes to destinations in the Far East (China, Japan and Korea) and elsewhere in Asia (Appendix 5). Currently there are in total 4 destinations in China and India directly reached from the capital city of Finland, Helsinki. Among all the CBSR countries Finland is the regional leader by having the most developed air flight services infrastructure which makes Finland a conveniently reachable and particularly attractive tourism destination for Asians. Interestingly that with respect to destinations in other CBSR countries Finland offers rather limited choice of flight destinations concentrating only on the largest countries of the CBSR (6 destinations).

Helsinki is a trans-Eurasian hub, Stockholm – a Scandinavian one; all can gain by Riga and Tallinn joining the Baltic Sea tourism circuit

Stockholm has direct air connections to 2 destinations in Asia: Bangkok and Beijing, however, there is also a possibility to fly to Tokyo via Copenhagen. Even though the choice of destinations in Asia is limited from Sweden, Stockholm offers much wider choice of direct flights within the CBSR covering 11 destinations. So travelling within the region from Stockholm is rather convenient which might be seen as a business opportunity in tourism.

Currently both Riga and Tallinn have no regular direct flight connections with either China or India. Riga International Airport is the largest one in the Baltic States and capable of handling large jets required for long-distance flights which could be exploited in the future. As such, the airport is emerging as a sort of regional hub for routes connecting Scandinavia and Eastern Europe/Central Asia. Riga International Airport offers 15 direct flight destinations within the CBSR serving as a regional leader in comparison with the other 3 capital cities analysed. The unutilized capacity of the airport could serve as a business opportunity in the future by building the air connection to Asia. The capital city of Estonia, Tallinn, however, offers relatively less choice even within the CBSR covering 7 destinations. As Estonia is a rather small country, there are only a few domestic flights. Regular connections from Tallinn to islands Hiiumaa and Saaremaa are the most important; however, the country must recognize the future importance of developing air connections not to lose the competitiveness over the other countries in the region which are striving for development and

may have higher capacity and resources for improvement in the field of air connections.

Helsinki is a trans –Eurasian hub, Stockholm- a Scandinavian one; all can gain by Riga and Tallinn joining the Baltic Sea tourism circuit. Moreover, both air and ferry traffic between the major CBSR cities is well developed. In particular, the ferry connection between Helsinki and Tallinn is fast and inexpensive, positioning each city as a convenient, complimentary daytrip destination to the other. Although the distance is greater, ferry connection between Riga and Stockholm is convenient enough to organise short trips for Asian tourists.

5.2 Positioning

5.2.1 Finland, Helsinki

The city of Helsinki is positioning itself as a major destination for tourism from China, especially Beijing. The visibility of the Finnish multinational communications corporation Nokia in China facilitates the relationship building. Helsinki is known as a clean, modern and safe meeting point between the east and west. Helsinki has a reputation as the coolest party city in the Nordic countries. Helsinki's coastal position makes it ideal to experience in the summertime from one of the many sightseeing ferries leaving from the port of Helsinki.

5.2.2 Sweden, Stockholm

A survey made by the Ministry of foreign affairs (2005) about the picture of Sweden abroad documents that for the Chinese Scandinavia possesses a beautiful nature that is nice to behold. Visiting the nature and experience it is something Chinese people rarely can do in their own country and this is highly appreciated when they visit Scandinavia, therefore nature related activities are common in combination with activities related to culture and sightseeing. Chinese also consider Stockholm a hip city with good shopping opportunities (Hemström, 2006). Overall, Stockholm is seen as an interesting destination, however not ‘solo’ but rather as the part of a visit circuit comprising several cities.

5.2.3 Latvia, Riga

Furthermore, the city of Riga does not have a direct connection to Asia, and most tourists arrive there from Copenhagen or Helsinki. It is not recognised in Asia yet, however, Asians are starting to show interest about the city and Latvia. Latvia in cultural, architectural and environmental aspects has heritage that is completely different from that of the Asian mentality, so there exist an opportunity to represent and emphasize the uniqueness of the culture and increase the awareness of Latvia among Asians.

5.2.4 Estonia, Tallinn

Similarly to Riga, the city of Tallinn is not well-recognized among Asians yet, however, due to the uniqueness of culture and nature; it could be marketed as an attractive short-term destination for Asians. Besides, Tallinn is well-connected to Helsinki by air and water transport, and often marketed to tourists in Helsinki as a day-trip destination. So this could serve as a way of future cooperation between these cities to create tourism activities that are more diverse and cover a larger part of the CBSR.

5.3 Creating Attractive Tourism Destinations

Even though it is true that the CBSR countries are still an exotic destination of travelling with the picturesque nature and cultural and architectural heritage, the high quality service is considered to be one of the most important factors for Asian travellers. Recently an interesting research with respect to Indian tourists has been made by the Embassy of Iceland in India portraying the most important aspects for Indian tourists when they are choosing a particular travelling destination. According to the research the tourism from India to Europe is increasing at a rate of 5 -7 percent per annum (Sachdev, 2009), however the number of Indian travellers to the Nordic region is still considered very small mainly due to lack of tourism information. The most crucial factors in destination choice for Indian travellers are value for money, various attractions and activities, food (many Indians prefer pure vegetarian food), air connectivity and multiple destinations in one trip.

The fact that there are very different cities in the CBSR invites cooperation among them in destination marketing in China. However, in marketing to business cities are more competitive and like to act on their own. By cooperating and establishing common tourism strategies these cities would increase their capacity in handling larger amounts of tourists, attracting a higher amount of money spent per visitor.

Overall, in the long-term, there is much to be improved in Estonia and Latvia to make them interesting destinations in their own right for Asian visitors. First of all, the technique of nation branding should be the main priority to increase the awareness of these countries in Asia. It is crucial for Latvia and Estonia since at the moment Asians can hardly identify these countries. For Latvia and Estonia the development of infrastructure particularly regarding air connections is important. In the short or medium term a lucrative tourism strategy for the CBSR would be the „sharing" tourism- marketing the region together all the CBSR nations would benefit by increasing Asian tourists` time in the region and helping to promote the region as a diverse and interesting destination.

Furthermore, with destination branding the CBSR should position itself as an alternative destination besides the more popular European destinations by keeping the image of an exotic place to visit. It should focus on the top of the wealthy Asians whose purchasing power is high and who are the creators of public opinion and may serve as the ambassadors of positive travelling experience in the CBSR. The main idea is that different kinds of actors, including hotels, restaurants, tour operators, governmental bodies (Blain, Levy & Ritchie 2005),cooperate closely in the future and jointly work on advertising, PR and promotion of the tourism destination in the region. Close cross-border partnership among tourism service providers and facilitators in the region would increase the capacity and resources to create a strong and distinctive image of it.

Strategic view:

1. **Marketing the CBSR together**
2. **Crucial for Latvia and Estonia:**
   - **Nation branding**
   - **Development of infrastructure**
3. **Destination branding**

5.4 Conclusion

On the one hand, Finland and Sweden have a relatively strong nation brand to rely on and this constitutes a milestone when promoting these countries abroad. The factors that well position them as tourism destinations for Asians are the following: reputation of a country, direct air connections, existing local communities of Asians, well-developed infrastructure for tourism- hotels, restaurants serving genuine Asian food-, language translation and shopping facilities. It should also be taken into account that many of factors that are important for Asians are similar between tourists from China and India, however, while marketing tourism for Asians it may be useful to emphasize the factors that differentiate these groups and to some extent target them separately.

Reputation, diverse toursim destinations, Direct flights, service in hotels and restaurants, local Asian community, language translation, wide shopping facilities are all crucial for attracting Asians

On the other hand, Estonia and Latvia are behind the Nordic countries on almost all factors important to attracting tourists from Asia. These nations have much lower brand recognition among Asians which might be explained by the low Asian tourist inflows in these countries. However, the problem may also stem from the fact that these countries seeing low tourist inflows have not been striving to develop infrastructure and tourism facilities that would be particularly

attractive to Asians. However, lately the importance of this population has been recognized as with wisely created tourism marketing techniques based on cooperation and openness it may create a business opportunity for these countries. There already are convenient air and ferry transport links across the Baltic Sea positioning both Estonia and Latvia as potential secondary destinations for tourists visiting Helsinki and Stockholm.

6 Logistics

6.1 Trade with China

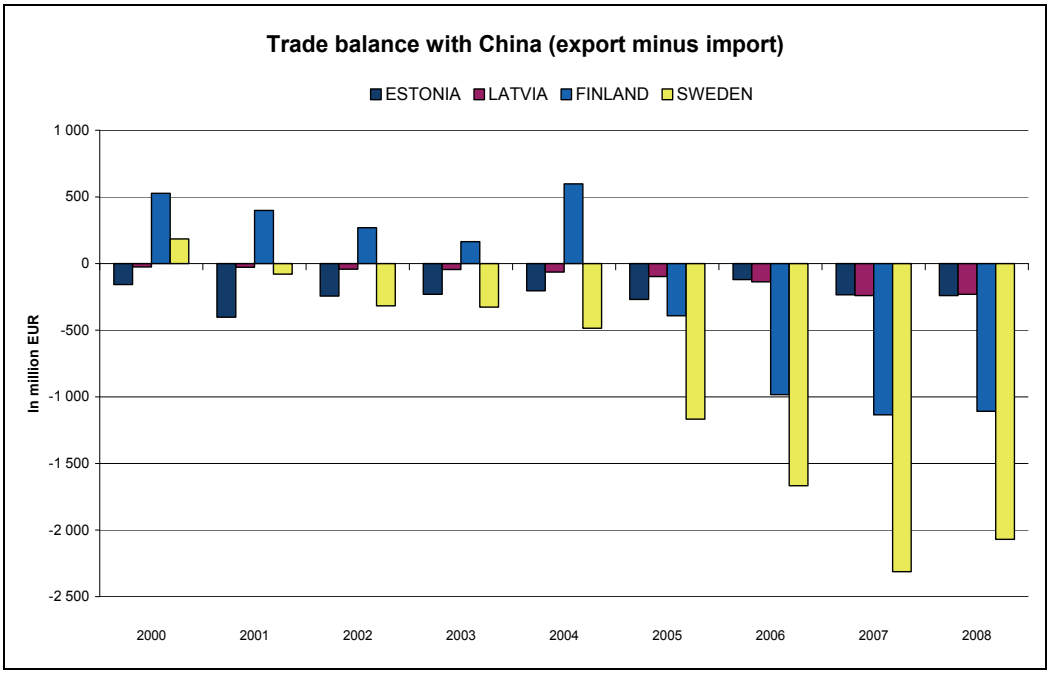
Trade between the CBSR and China remains relatively low, both in absolute numbers and as a share of the respective countries' total trade. Even for Finland, the country that is most involved in trade with China, it accounts for only around 4% of total national trade value.

Trade dynamics with Asia over the period 2000-2008 show wide disparity among the CBSR countries: the value of Finland's trade (exports plus imports) with China has grown by over 100%, while Latvia's trade has grown by more than 800%. All the CBSR countries report trade deficits with China over the last years.

Another way of measuring the magnitude of disparity in trade with China is considering that GDP of Latvia is about one-eight of the GDP of Finland, while Latvia's imports from China are 19 times smaller and exports to China are 152 times smaller than Finland's. Thus Latvia is the CSBR nation which imports from China exceed the exports to China by a factor of 13.

Although the CBSR exports to China are growing, the imports are increasing much faster and this negative trade balance with China has been persistent over the period from 2000 to 2008 with a major exception of Finland. As trade figures show (Figure 3), Finland has been able to balance its trade with China running a considerable trade surplus over the period from 2000 to 2004. In fact, Finland was the only EU member to consistently run a trade surplus with China (Freeman, 2005), although Sweden has also managed to have a trade surplus in 2000.

Figure 3: CBSR countries' trade balances with China (2000-2008)



Source: Eurostat

6.2 Trade with India

The trade volumes are even smaller between India and the CBSR. Trade with India accounts for less than 1% of national trade for all CBSR countries which shows that trade relations with India are highly underdeveloped: in case of Latvia, it makes for only 0.2% of the value of imports and 0.14% of exports.

On the other hand, both Sweden and Finland report a large and growing surplus in trade with India, while Estonia and, in particular, Latvia show trade deficit. Even though the trade magnitude with India in absolute values is relatively low, the average annual growth rates of both exports and imports over the period from 2000 to 2007 are rather impressive. The average annual growth rate for Latvian exports to India amounted to 38.2%, and 25.2% for imports respectively (Figure 4), however this trade growth did not translate into significant trade shares as the Latvian exports` in 2007 were even less than 0.1% of the total EU 27 exports` value, but the imports from India reached only 0.1% of the total EU 27 imports` value.

Figure 4: CBSR countries` trade balance with India (2000-2007), value in million EUR

	EXPORTS						IMPORTS						TRADE BALANCE			
	2000	2005	2006	2007	Average annual growth rate 2000-2007	Share in EU-27 exports 2007	2000	2005	2006	2007	Average annual growth rate 2000-2007	Share in EU-27 imports 2007	2000	2005	2006	2007
EU-27	13 678	21 322	24 385	29 480	11.6%	100.0%	12 846	19 088	22 612	26 605	11.0%	100.0%	832	2 236	1 773	2 875
Estonia	2	13	12	15	33.5%	0.1%	9	7	8	16	9.5%	0.1%	-7	6	3	-1
Latvia	1	3	6	8	38.2%	0.0%	5	15	22	22	25.2%	0.1%	-4	-12	-16	-14
Finland	318	279	328	454	5.2%	1.5%	66	95	114	143	11.6%	0.5%	252	184	214	311
Sweden	310	750	1 072	1 151	20.6%	3.9%	223	318	353	450	10.5%	1.7%	87	433	719	701

Source: Gambini, (2009), from http://www.eds-destatis.de/en/downloads/sif/sf_09_026.pdf

Estonia has a similar to Latvia trade balance situation with India. The average annual growth rate for Estonian exports to India over the period from 2000 to 2007 amounted to 33.5%, and 9.5% for imports respectively, however in 2007 the trade share was only 0.1% both for exports and imports (measured as a fraction of the total EU 27 exports and imports values of that year respectively).

Even though Finland had a moderate annual growth rate of 5.2% for its exports to India and 11.6% for imports from India over the period from 2000 to 2007, the magnitude of trade relations with India is considerably higher than for the Baltic States` countries. In fact, trade balance has been consistently positive, but trade shares for its imports and exports are still relatively small when expressed as a fraction of the total EU 27 exports and imports values (in 2007 the share for its exports to India was 1.5% but for the imports only 0.5%).

Trade with China and India is still relatively small for the CBSR, especially fot the Baltic States

Sweden among all the CBSR countries has the most significant trade relations with India both in absolute and relative terms. The average annual growth rate for Swedish exports to India amounted to 20.6%, and 10.5% for imports respectively, and this trade growth translated into the following trade shares: the Swedish exports` in 2007 were 3.9% of the total EU 27 exports` value, but the imports from India reached only 1.7% of the total EU 27 imports` value.

Overall, trade with China and India is still relatively small for the CBSR, especially for the Baltic States. Particularly India does not seem to be a

significant trading partner for any of the CBSR countries, but the importance of these relations is increasing year-by-year, so it is now important to strengthen these relationships and build confidence that would be useful for long-term cooperation between these countries.

6.3 Logistics Competence and Performance

Logistics is the science and the practice of optimizing the flows of resources, including goods, information and people. The World Bank developed the Logistics Performance Index in 2007 to rank 150 countries according to their 'logistics friendliness', which combines both objective and perceived measurements of the ease of logistics operations in a particular country. The scores are from 1 to 5, 1 being the worst performance for the given dimension. The index (LPI) is composed of 7 dimensions[2]:

Figure 5: Logistics Performance Indices for the CBSR countries

Country	LPI	Customs	Infras-tructure	Inter-national shipments	Logistics competence	Tracking & tracing	Domestic logistics costs	Timeliness
SWE	4.08	3.85	4.11	3.90	4.06	4.15	2.44	4.43
FIN	3.82	3.68	3.81	3.30	3.85	4.17	2.22	4.18
LAT	3.02	2.53	2.56	3.31	2.94	3.06	2.94	3.69
EST	2.95	2.75	2.91	2.85	3.00	2.84	3.29	3.35

Source: The World Bank, 2007, from
http://siteresources.worldbank.org/INTTLF/Resources/lpireport.pdf

6.3.1 Sweden and Finland

In 2007, with a score of 4.08, Sweden ranked #4 worldwide having the most efficient system of logistics. The LPI for Finland was 3.82 placing it at #15 which also shows that Finland is among the top performers in relation to the field of logistics. Overall, both countries do well on all accounts, with particularly high

[2] **Customs**-efficiency of the clearance process(i.e. speed, simplicity and predictability of formalities)by border control agencies, including Customs;
Infrastructure-quality of trade and transport related infrastructure(e.g. ports, railroads, roads, information technology);
International shipments- Ease of arranging competitively priced shipments;
Logistics competence- Competence and quality of logistics services (e.g. transport operators, customs brokers);
Tracking and tracing- Ability to track and trace consignments;
Domestic logistics costs- Local transportation, terminal handling, warehousing;
Timeliness- Timeliness of shipments in reaching destination within the scheduled or expected delivery time.

scores on timeliness of shipments in reaching destination within the scheduled or expected delivery time. Finland is nearly as good. The only aspect where Finland outperforms Sweden is the ability to track and trace consignments, however, the magnitude of difference is small and Sweden is particularly good at this aspect as well.

The lowest scores for both were received with respect to domestic logistics costs including local transportation and warehousing expenses where Sweden scored 2.44 and Finland 2.22. Worth mentioning that these were the lowest index values across all the 7 dimensions for any of the CBSR countries. This is a reasonable finding taking into account the standards of living and the high price level in the Nordic countries. In fact, due to high costs of domestic transportation and warehousing Finnish and Swedish firms often locate their warehouses in countries where the costs are considerably lower (Appendix 6). Finnish companies locate 26 % out of their warehouses in their own home country and 9% in Estonia being the second choice country respectively. Swedish companies set 15 % out of their distribution centres in Sweden. Swedish enterprises prefer Germany as a second choice country for locating their distribution centres: there are 8 % out of the total amount of warehouses of the Swedish companies. The United Kingdom reaches exactly the same level of popularity among the Swedish businesses. Almost as high score Norway, France and Finland. Lithuania, Russia and Poland are, on the other hand, the fairly noticeable place to locate warehouses for Finnish companies (Hilmola& Szekely, 2006).

6.3.2 Latvia and Estonia

Much different situation in logistics is seen in the Baltic countries which are noticeably behind the Nordic countries. In 2007, the logistics competence index for Latvia was 3.02 ranking it #42, while Estonia performed even worse receiving 2.95 which ranked it #47. Latvia leads Estonia on most positions, however, Estonia outperforms Latvia with respect to speed, simplicity and predictability of formalities by border control agencies, as well as quality of trade and transport related infrastructure (ports, railroads, and roads). Overall, high logistics costs and low levels of service are a barrier to trade, foreign direct investment, as well as the economic growth for Latvia and Estonia. In case there is no visible improvement in these fields, these countries will be in danger of missing opportunities of globalization.

The index is a useful indicator as it aggregates various aspects in a composite index to allow for comparisons. The index scale also can be used to interpret performance outcomes measures. For example, the analysis based on the additional country information gathered in the survey (World Bank, 2007) indicates that, on average, having an LPI lower by one point (say, 2.5 rather than 3.5) implies 6 additional days for getting imports from the port to a firm's warehouse and 3 additional days for exports. It also implies that a shipment is 5

times more likely to be subject to a physical inspection at entry. With this interpretation in mind it is seen that on average the difference between the Nordic countries and the Baltic States is around 1 point, so the above mentioned implications when comparing the Baltic and Nordic countries do hold (as the LPI for Sweden and Finland was 4.08 and 3.82 compared to Latvia and Estonia with LPIs of 3.02 and 2.95 respectively).

6.4 Conclusion

Although trade with China and India in not very significant for any of the CBSR countries, it is especially small for Estonia and Latvia which could be explained by the underdeveloped trade relationships between these countries as Latvia and Estonia are much younger and smaller economies. In order to achieve increased exports from the CBSR to China, it is crucial to eliminate trade barriers and to address better protection and enforcement of intellectual property rights, export and import procedures ` efficiency , as well as the non-tariff barriers.

Most of the Baltic region`s trade with Asia is taking place over sea routes and this is predicted to continue in the future, however, there is an opportunity for Latvia to increase its role as a linking spot between Europe and China in the future when Trans-Eurasian rail connection is developed.

With respect to overall quality of logistics performance there are wide disparities between the Nordic and Baltic countries lagging behind in all aspects so the trend of competition rather than cooperation among the CBSR countries in the field of logistics is likely to prevail in the future. Logistics serve as a key determinant of a country's competitiveness and beyond cost and time taken to deliver goods, the predictability and reliability of supply chains is increasingly important in a world of just-in-time production sharing which are the aspects particularly weak in the Baltic countries. Since there are strong synergies among reforms to customs, border management, infrastructure, and transport regulations because reforms usually reinforce each other, it will be much efficient for the CBSR countries to work in a competitive environment while eliminating weak spots each country has. Policy reforms connecting supply chain services, further public investments in critical areas improved transparency in administrative processes are crucial for future development in logistics.

Competition rather than cooperation in logistics between the CBSR countries is likely to prevail in the future

7 EU-China Relations

The following sections deal with China relations in a broader context - the European Union (EU)-rather than the CBSR on which this report has focused so far. The data and analysis is retrieved from the EU Parliament working papers dealing with relations between the EU and China. The analysis of the EU relations with China will be delimited to the fields of tourism, logistics and education.

7.1 Logistics

7.1.1 EU-China trade

The EU-China trade has increased dramatically in recent years. China is now the EU's 2nd trading partner and the biggest source of imports, but the EU is China's biggest trading partner. Total bilateral trade between the EU and China was worth €326 billion in 2008. Europe exports of goods to China in 2008 went up by 9% in 2008 compared to 2007. Exports from the EU to China grew by approximately 65% between 2004 and 2008 (European Parliament, 20010). Europe's trade deficit (including services) in 2008 was €169 billion euros (Figure 6). The trade deficit reflects a huge shift within the economies of Asia to focus production in China. Although imports from China have surged, Asia's share of total EU imports has increased only very moderately by 10% over the last decade. But the deficit still reflects the considerable problems EU businesses have while accessing the Chinese market.

Barriers to trade in China are estimated to cost EU businesses €21 billion in lost trade opportunities every year. It is one-fourth of current EU exports to China. Intellectual property rights protection remains a major problem for European businesses in China. Almost 54% of all counterfeit goods seized at European borders in 2008 came from China. Furthermore, European services companies find it very difficult to break into the Chinese market. Although China has signed agreements to open its market, since 2001 it has granted 22000 telecoms licenses in China and only 12 have gone to foreign companies. China maintains investment and ownership caps in many sectors such as banking, construction and telecommunications (European Parliament, 20010).

Figure 6:

EU27 trade in goods with China
million euro

	2000	2001	2002	2003	2004	2005	2006	2007	2008
China									
Exports	25 863	30 665	35 099	41 473	48 371	51 825	63 784	71 887	78 428
Imports	74 632	82 000	90 148	106 221	128 590	160 327	194 831	232 517	247 695
Balance	-48 768	-51 335	-55 049	-64 748	-80 219	-108 502	-131 046	-160 630	-169 267

Source: European Parliament (2010), Working document on EU-China relations, from http://www.europarl.europa.eu/meetdocs/2009_2014/documents/d-cn/dt/814/814006/814006en.pdf

7.2 Tourism

7.2.1 Travelling destinations

In recent years there has been a sharp rise in Chinese tourism of around 12.5% per year, a rate of growth which it is estimated will be maintained at least until 2020. As travel to Europe involves a long and expensive journey, Chinese tourists tend to save on costs by visiting several countries in the course of the same holiday. The standard tour includes Italy, France, Belgium, the Netherlands and Germany, all the space of under two weeks. Nevertheless, the majority of tourists travelling abroad continue to prefer destinations which are closer at hand, including Hong Kong, Japan, South Korea and only a small percentage of tourists travel beyond Asia. Europe accounts for 6% of this market, or around 1.8 million passengers.

7.2.2 Attractive tourism products on offer

With regard to the products on offer in the European tourist sector, and the prospects of diversification in this area, 90% of the Chinese travel agencies managing the Chinese trips abroad are particularly interested in trips to cities known for their artistic heritage. However, in the future the new products on offer might include other types of trips for which there is increasing demand, including wedding and honeymoon packages, gastronomic tours, trips connected with sporting events and travel to visit spas, health resorts and wellness centres.

7.3 Education

7.3.1 Determinants of the choice of studies for Chinese

The availability of native English lecturers is the most important condition in the choice of universities. Lecturers and professors should be obliged to attain a very high standard knowledge of the English language.

Furthermore, it has been identified that high end universities with top lecturers and top researchers is also one of the most important determinants for choice of studies. Besides, Chinese students think highly of studying in a politically and economically strong nation. They don't perceive Europe as a strong (future) power, so they are less interested in studying there. Nevertheless in Europe, two economic strong member states do attract Chinese students: Germany and France.

Not only a good level of the English language is a condition, but the “fame” of the university is important to Chinese students as well. Fame is a subjective feeling, but Chinese students consider having the top lecturers, the top researchers, a sound link between universities and the business world as very important. To attract students from Asia more European budget should be allocated to university education, research and development.

Noteworthy is that Chinese students in general don't have remarks concerning the university model, i.e. the way of teaching. When Chinese students actually chose to study in Europe, European professors and argue that Chinese students psychologically don’t connect more to Europe after their stay in Europe than they did before. Studying in Europe doesn't make the Chinese students “like” Europe more. Thus it is important to invest in a stronger and long term bond between Europe and China, for example, integrating courses on European culture, intercultural behaviour in their studies.

7.4 Conclusion

The future in the trade between China and the EU will be based on economic openness and reform in their bilateral relationship and in their respective economies to ensure an open, stable and predictable environment, with a view to creating new business opportunities.

In terms of tourism important aspects were revealed on which Europe should concentrate more in the future: the fact that Asian habits involve visiting several countries in the course of the same travel so Europeans should concentrate more on creating travel packages suit the needs of Asians and also creating completely new exciting travel options.

With respect to education, it is clearly seen that much of the tendencies and room for improvements are in line with those when analyzing the CBSR such as the importance of reputation for universities, opportunities for employment and integration of courses on intercultural behaviour to strengthen the ties between countries and increase the awareness of the importance of cultural diversity. Overall, the trends in EU-China relations particularly with respect to tourism and education are rather similar to the conclusions drawn when specifically the CBSR was analyzed.

8 Future Perspective

Two aspects had been brought forward as the most significant criteria determining the relationships between Asia and the CBSR in the future: firstly, openness or reticence towards Asia and, secondly, the character of cooperation among CBSR cities in regard to Asia.

8.1 Openness to Asia

The first is openness towards Asia wherein state institutions and the society is open for the flow of people, goods, services and capital from Asia. To envision and expect growth there must be, first of all, a major change in immigration policy, enhancing the way immigration documentation is being handled in both China and India. Unless this is done, not much growth can be expected neither in logistics, education nor tourism. If the national level policy is not altered, flows will remain small and growth can only be expected to happen via close partnership with the CBSR cities that already have gathered momentum in cooperation with Asia.

If, however, immigration policy and public awareness of Asian growth does change towards recognition, attention must be directed towards strengthening and employing cooperation with partner cities in China and India to invigorate the flows of tourism, education and logistics. This should be done in close unison with respective business representatives and national level politicians to increase the scope of this operation. Overall, public awareness must be raised with both cultural exchange and Asian language learning in schools. The task of state and municipal institutions is to develop a more open policy towards the Asian countries. It would mean:

1) lightened visa granting procedure for citizens of Asian countries;

2) a more open immigration policy, including issuing work permits;

3) reduced barriers to international trade and capital flows;

4) development of a multicultural society, i.e. tolerance towards representatives of other races and their culture;

5) developed competence of Asian language and culture.

The ideas of reticence are reflected in the nationalism paradigm of globalization opponents, i.e. free flow of capital, goods and services as well as flow of people

that pose an additional threat to local interests and national identities. Within this approach it is crucial to notice and to prevent threats connected to globalization. The more open state and municipal institutions are the higher will the threat of Asian enterprise and labour force competition be for Latvian enterprises and labour force, as well as national values, i.e. language and mono-culturalism.

In this perspective the task of state and municipal institutions would be to develop a reserved policy towards the Asian countries. It would mean:

1) a cumbersome visa procedure for potential illegal immigrants from Asian countries;

2) provision of a reserved immigration policy, including a complicated procedure of work permit issuing;

3) heightened international trade and capital flow barriers in order to protect the local entrepreneurs from the global competition;

4) integration of representatives of other cultures and races into the society based on the national culture;

5) protectionism of national culture and language.

8.2 Cooperation among the CBSR Cities

The second major development factor is the mutual relationships between the CBSR cities. There is either mutual competition or cooperation between the cities to attract flows of logistics, education and tourism. The data collected show that some of these segments might operate on their own (i.e. market organizes cooperation and growth), while others depend significantly on municipality and its initiative to set out terms of cooperation. Even more so, as the profile analysis shows, there are somewhat different economies and scales operating on the opposite sides of the Baltic Sea. Economies of Sweden and Finland are stronger and are able to generate flows on their own, while those of Estonia and Latvia depend more on cooperation to attract Asian flows. Given that national political climate is not in favour of Asian cooperation, Riga and Tallinn might turn out to be even in a greater need to cooperate with other cities of the CBSR to generate inflows.

Within this development model it is the task of the municipalities to stimulate a dialogue between the economic players of various cities as well as to mutually develop regionally significant transport networks for cooperation with Asian countries. Within cooperation of city municipalities it is necessary to increase the competitiveness of the network of cities by creating the critical mass necessary for the development and by joining the many capacities and competences of

cities. Cooperation stimulates economic growth of cities themselves and their nearest territories. Cities that are able to provide high quality value added services perform as cooperation knots in the network. Individual cities profile themselves within the city cooperation network or strive to develop a mutual supplement to the service functions rather than to duplicate functions.

9 Conclusions

The purpose of the report was to investigate from different perspectives how cross-country cooperation between the CBSR ,namely, Sweden, Finland, Estonia and Latvia and Asia should be managed in the future to exploit the opportunities that the large Asian market, in particular, China and India, opens. The following research question was set up: *"What are the cornerstones of future cooperation between the Central Baltic Sea region and Asian countries ensuring development in tourism, logistics and education?"*

Overall, it was shown that there exist wide disparities in development among the CBSR countries, thus with many aspects there is no one universal future cooperation strategy with Asia that could be exploited across the whole region. However, the direction of future relations can be determined. The two cornerstones crucial for determining the relationships between Asia and the CBSR are the level of openness and the character of cooperation among CBSR cities in regard to Asia.

The future cooperation will be based on more open policy regulating tourist and students` inflows from Asian countries; however, it should be done with caution to protect the local culture and language and not to stimulate the illegal flows of labour and other resources in the region. Furthermore, promising business opportunities could be gained from enhancing the cooperation among the CBSR cities and promoting the whole region as an exotic destination for tourism from Asia. For Latvia and Estonia there also seems to be the urgency to develop the infrastructure and transportation networks to suit the specific needs of Asians in order to keep up to competition of the highly developed Nordic countries.

During the research a few topics that would be particularly interesting for future research emerged: what services and facilities are important for leisure tourists and business travellers. This would help to identify what can be done in order to target these groups separately which is a more effective way as the tourist needs and facilities required may differ among them. With this in mind more tailor-made tourism routes could be developed within the CBSR. It is also important to mention that the further in-depth research on what Asian students themselves consider important when choosing to pursue studies in any of the CBSR countries since the analysis of the relative numbers of Asian students in any of these countries does not reveal what aspects in education need to be improved top develop the Asian students` inflows in the future.

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Documents received from project partners:

- (preliminary) main findings from interviews conducted in Helsinki
- Statistical report WP 2 – Knowledge Society
- Final Report: Survey of Chinese investment flows to the Baltic region. inno Scandinavia, Stockholm, 2009-09-25
- Data Report WP3:Asia and the Central Baltic Region–trade, investments, and Asian companies
- Data WP3
- Helsinki Statistics on Tourism and Logistics
- WP3 qualitative findings – Presence of Asian Business in the Stockholm-Uppsala region
- Facts about Stockholm's tourism industry, 2008 edition

Other sources of information:

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- National Intelligence Council: 2006
- The National Science Board, The National Science and Engineering Indicators 2008
- OECD: 2007
- The Brookings Institution: 2006
- Eurobarometer: 2006
- United Nations Environment Program: 2005
- The World Bank Logistics Performance Index, www.worldbank.org

11 Appendices

Appendix 1

Figure 1: Sweden: number of first time registered students from Asia and selected Asian countries

	1990	2000	2001	2002	2003	2004	2005	2006	2007	2008
Asia	276	793	1155	1620	2302	3004	3636	4371	5740	7540
China	137	244	382	473	662	766	934	1378	1824	2174
India	16	39	97	323	506	605	592	482	508	462
Pakistan	8	53	86	74	179	316	624	907	1367	1725

Source: The Swedish Migration Board (Migrationsverket)

Appendix 2

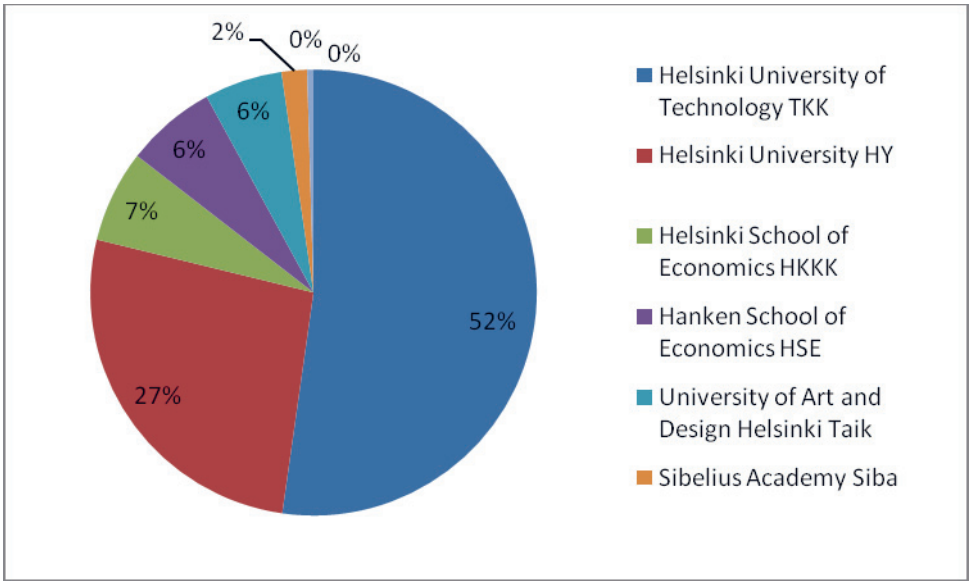
Students from China and India in Latvia (2005-2008)

Country of citizenship	2005	2006	2007	2008
China	1	5	3	12
India	19	16	10	9
Total foreign student population	**1416**	**1425**	**1492**	**1583**

Source: Ministry of Education and Science of Latvia, Annual reports 2005-2008, from http://izm.izm.gov.lv/registri-statistika/statistika-augstaka/3290.html

Appendix 3

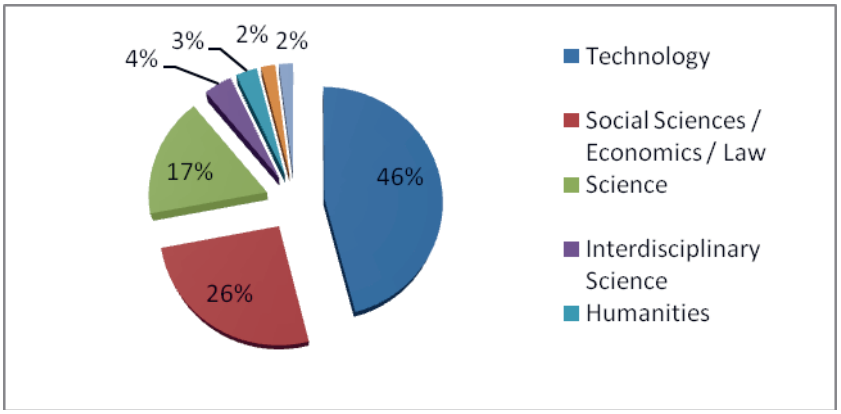
Finland: Study fields of Asian students in Uusimaa (historical province in the south of Finland) universities



Source: Statistical report WP 2- Knowledge Society

Appendix 4

Sweden: division of Asian students by study fields



Source: Statistical report WP 2- Knowledge Society

Appendix 5

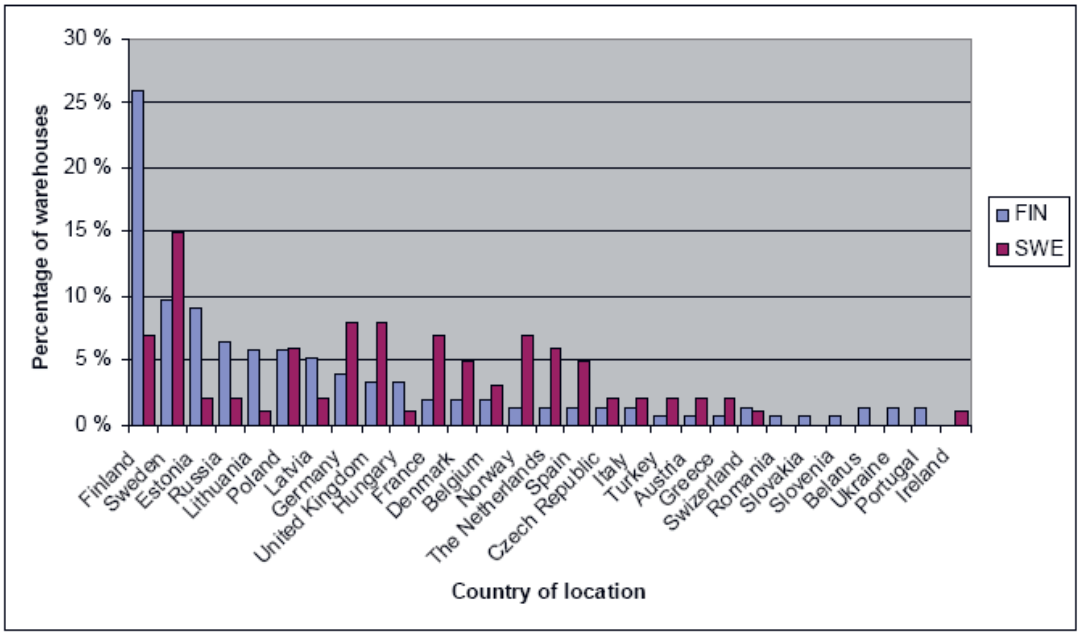
International destinations directly reached from capitals of Central Baltic Sea Region countries

City	Destinations in Central Baltic Sea Region countries (excluding domestic)	Destinations in China and India
Helsinki	Gothenburg Norrköping Riga Stockholm Tallinn Sundsvall(seasonal)	Beijing Shanghai Delhi Hong Kong
Riga	Gothenburg Helsinki Kuopio Lappenranta Oulu Stockholm Tallinn Tampere Tartu Turku Vaasa Kuusamo Rovaniemi Umea Luleå	none
Stockholm	Helsinki Mariehamn Tallinn Tartu Tampere Turku Riga Vaasa Parnu Kuressaare Oulu	Beijing Bangkok
Tallinn	Gothenburg Helsinki Lappenranta Riga Stockholm Turku Tampere	none

Source: compiled from websites of Helsinki Vantaa Airport www.helsinki-vantaa.fi, Riga International Airport www.riga-airport.com, Stockholm Arlanda Airport www.arlanda.se, Lennart Meri Tallinn Airport www.tallinn-airport.ee (all accessed 10 February 2010)

Appendix 6

The location of warehouses of Finnish and Swedish companies in Europe, 2006



Source: Statistical report WP 2- Knowledge Society

Contact	Martins Menniks
Organisation	Riga City Council, Latvia
Address	Amatu str. 4, LV-1050, Riga, Latvia
Phone	+371 6702 6143
Email	Martins.menniks@riga.lv
Website	www.riga.lv