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Making the sea a safer place

By Maria Damanaki

Since 2007, the European Commission has been advocating closer integration of the various maritime surveillance systems which exist across the EU member states and bordering regions. A more interoperable surveillance system would bring together existing monitoring and tracking systems used for maritime safety and security, protection of the marine environment, fisheries control, control of external borders and other law enforcement activities. In October 2009 the Commission set down four guiding principles to create a common information sharing environment as a response to the challenges of the Baltic and the Mediterranean sea basins. Now, we are working on a detailed step-by-step approach leading to the common information sharing environment, which we hope to present in the second half of this year.

But what is the common information sharing environment and what is its added value? It is widely recognised that the European seas provide prosperity to the EU. But they are also the scene of illegal activities, such as illegal immigration, drug or human trafficking, organised crime and illegal fishing, as well as of legal activities creating however threats on our common natural heritage, human lives and the marine environment, such as intense maritime traffic associated with ship accidents and marine pollution. Today, these threats are managed at least at the initial *awareness* level, in a fragmented way, within the remit of different sectoral authorities. Those authorities dealing with border control, customs, fisheries control, maritime safety, marine pollution response, maritime security of ships and ports, prevention and suppression of criminal activities tend to gather data and operational information for their own needs and do not necessarily benefit, sometimes out of an obsolete perception of maintaining ownership and prerogatives, from the work carried out by each other.

The benefits of sharing maritime surveillance information are evident. Often the authorities are dealing with different aspects of the same problem, or alternatively with different problems having common aspects. Making it possible to exchange already existing maritime surveillance information across sectors and borders should enhance their situation awareness, increase their efficiency and cut costs. The common information sharing environment is therefore a powerful *awareness creating* and in turn *decision making* tool in the hands of national authorities across Europe to carry out targeted operations and thus become more effective. In terms of costs, making existing sectoral surveillance systems (military included) available to other sectors, thus avoiding duplications in data collection, is a cost-effective option, against creating additional sectoral systems and investing on new infrastructures for gathering essentially the same data.

It is true that European sea basins face some common challenges, but it is all the more true that each has its own specific characteristics in this respect. For example the Baltic sea sees at any given time thousands (some esteem 1500) of ships, amongst them 250 tankers, being on the move from/to one of each ports from/to the North Sea; statistics show seaborne oil transportation through this "shared lake" to tend towards the incredible number of 200 million tons per year. As a result of this and its unique natural characteristics, the Baltic ecosystem is in danger.

In the south, EU's affiliation with Asia and Africa through the Mediterranean creates threats of a different nature. In

addition to the intense maritime traffic that occurs also in the Med, hundred thousands of ill-fated people try to reach the European "paradise" through the Med every year.

EU maritime interests are also present far from our continent and they should be protected wherever they are, by means of naval operations in need of support from a clear maritime picture (the anti-piracy operation Atalanta is a striking example). The same is true for other Common Security and Defence Policy missions for peace-keeping, stability and humanitarian aid in several regions of the world.

The integration of maritime surveillance carries a very strong potential to provide the operational authorities with the necessary information for building knowledge. For giving answers to the fundamental questions 'who is there' and 'what is happening', consequently a concrete indication whether this is legal or not, an essential prerequisite for taking the right decision at the appropriate time. Such potential is absolutely useful for every authority carrying out duties at sea, in every sea basin around and even outside the continent.

Nowadays, the data is there. Numerous sensors on board ships, on shore, ashore, in the air and in space, as a result of international, EU and national legislation or initiatives provide messages, images, real or near real-time pictures. Some cross-border cooperation on surveillance also exists, much more developed and institutionalised in the Baltic. The Commission will, during the elaboration of the several steps of the Roadmap, i.e. until the end of 2013, explore to what extent a regional approach would fit better with the idea of the common information sharing environment. In other words, how such environment should be governed in order to better address regional specificities and related challenges.

For the time being, the potential of and obstacles for enhanced data exchange is being tested in a theatre of operations both in the northern sea basins (North and Baltic sea) and in the Mediterranean, following such regional approach. This is realised through two EU co-financed pilot projects, the MARSUNO (9 Member States plus Norway, amongst them all EU Baltic States and 21 national authorities participate) and the BlueMassMed (6 southern Member States, 32 national authorities involved). Those pilot projects are of particular importance, not only for the input they will provide to the Commission in building integration but above all for bringing neighbouring states together, for building trust and confidence (not least between civilian and military authorities) and for personifying member states interest in the integration process.

Whatever the challenges involved, the integration of maritime surveillance is a strong enabler for timely and effective reaction, to protect the interests of the EU and of Member States, to preserve sustainability, to make the EU safer and more secure.

Maria Damanaki

Commissioner for Maritime Affairs and Fisheries

European Commission

Measures of Finnish farmers to prevent the eutrophication of the Baltic Sea

By Sirkka-Liisa Anttila

For us Finns, the Baltic Sea is a window to Europe. It is also our most important route to the common market. With its wonderful archipelago, the Baltic Sea offers one of the most beautiful landscapes and tourist attractions in Finland. The unique beauty and value of the Archipelago Sea cannot be measured in money.

The Baltic Sea is an exceptionally shallow, brackish inland basin with a slow exchange of water. This means that any improvement to the current poor condition of the Baltic Sea will be slow. Even if we managed to stop the nutrient emissions to the Baltic Sea immediately, we would still suffer from the yellow inflorescence of cyanobacteria for many summers to come. In other words, there are no quick solutions, but decisions must be made quickly if we are to save the Baltic Sea.

During the past few decades, significant investments have been made in the effort to reduce the loading of water bodies by agriculture. With the agri-environmental support scheme, Finland has striven to reduce the nutrient content of the Baltic Sea throughout the country's membership in the European Union. The effects of the agri-environmental support scheme have been studied since 1995, and the support scheme has been improved as based on the latest research results at the beginning of each programme period. Thanks to the agri-environmental support scheme, the use of nutrients has decreased, and the growth of nutrient content in arable land has stopped.

The reduction in the amount of accumulated nutrients results from fertilizing in accordance with the agri-environmental support scheme, which is considerably tighter than the EU's Nitrates Directive. Indeed, the use of fertilizers has decreased significantly after the introduction of the support scheme. Phosphate fertilizer sales have dropped by 60% and nitrogen fertilizers by 25%. The nitrogen balance, which indicates the level of nitrogen left in the soil after the growth period, has decreased significantly in Finland since the country's accession to the EU.

Previously, phosphorus contained by artificial fertilizers and manure accumulated on agricultural land as a result of heavy fertilizing. Consequently, growth in the risk of phosphorus leaching into watercourses was stopped in the 1990s. Due to the structure of the Baltic Sea, floods as well as winters with little snow and much rain, the reduction in the use of nutrients has not significantly improved the condition of the water body so far.

The cultivation methods of Finnish farmers have become much more ecological. Direct runoff from manure storages has been eliminated, and the focus in environmental action has shifted to cultivation. The number of shoulders and buffer strips has increased, buffer zones have been established, and the use of vegetation cover in winter has increased.

The voluntary agri-environmental support scheme offered to farmers will continue to function as a key tool in reducing the nutrient load. In the coming programme period, the targeting of agri-environmental supports should be further improved. In the future, subsidies will be targeted geographically, and at the farm level at areas and parcels with the highest nutrient load. In addition to the targeted measures, all farmers receiving agri-environmental support

are required to take action to reduce the nutrient load into watercourses.

Research has always played a key role in the development of agri-environmental support schemes, and the future programme will also be designed on the basis of the best, latest research available. With the voluntary nature of the agri-environmental support scheme, it is crucial that all measures are effective, meaningful and feasible. Furthermore, the compensation paid for these measures must cover the loss of income incurred by the farmer as their result. This is the only way to ensure that farmers practising agriculture in areas susceptible to leaching participate in the agri-environmental support scheme. The Ministry of Agriculture and Forestry takes the poor condition of the Baltic Sea very seriously, and is ready to face the challenge.

In February, Finland hosted the Baltic Sea Action Summit for the heads of states from countries round the Baltic Sea. The summit aimed to secure commitments from heads of state on goals to protect the Baltic Sea. About 140 concrete commitments were made at the summit to promote the protection of the Baltic Sea and to improve its ecological condition. Prime Minister Matti Vanhanen pledged the Finnish Government's commitment to strengthen its efforts in all areas to improve the state of the Archipelago Sea by 2020.

A key part of this commitment is reducing the nutrient load of agriculture in the drainage area of the Archipelago Sea. Finland wants to be a pioneer in the recycling of nutrients. Improving the recycling of nutrients and the adoption of new technologies are not only a large service to the Baltic Sea but also to agriculture.

In the future, the price of artificial fertilizers such as phosphorus will increase significantly as the global phosphorus reserves diminish. However, manure contains a large quantity of phosphorus. We now desperately need a technology that enables the processing of manure nutrients into a form that is usable for plants and easily transportable. Manure should not be categorized as waste. Instead, it should be viewed as a raw material for nutrients and energy, which should be utilized effectively.

While Finland's share in the total nutrient load of the Baltic Sea is small, it should never be downplayed. We must do our share in improving the condition of the Baltic Sea. I am happy to see that all countries bordering the Baltic Sea are committed to this goal. By working together and learning from one another, we will no doubt find new solutions to improve the condition of the Baltic Sea. No single country can save the Baltic Sea alone. What we need is concerted action and strong commitment from everyone. The best results are achieved through cooperation – for the good of the Baltic Sea.

Sirkka-Liisa Anttila

Minister of Agriculture and Forestry

Finland

Estonia and Euro – continuation of long-term policy of fiscal prudence

By Jürgen Ligi

At the time of writing this article, Estonia is meeting the reference values of the Maastricht criteria - a set of economic indicators that provides the basis for the European Commission and the European Central Bank to assess a Member State's status of convergence to become part of the Euro Area.

Estonia's fiscal deficit for 2009 was 1,7 per cent of GDP, well below the Maastricht reference value of 3 per cent, and its public debt is the lowest in the European Union, standing at 7 per cent of GDP as of end-2009. Strong fiscal performance is complemented by price convergence and price stability. The inflation rate is expected to remain at moderate levels in the years ahead. For nearly eighteen years has the external value of Estonia's currency – the kroon – been irrevocably fixed against the euro and, prior to the inception of the single currency, against the *deutsche mark*.

Estonia is waiting for the European Commission's proposal and the decision by the ECOFIN Council on the Euro Area enlargement. If the decisions are favorable, Estonia would adopt the euro by January 1, 2011.

Becoming part of the euro area is an achievement for every Member State. For Estonia it would be a reward for its efforts to maintain macroeconomic stability and to develop flexible, market friendly economic structures. The euro adoption should not be considered as an end goal in itself. Becoming member of the Euro Area is a natural outcome of our policies and an integral part of Estonia's long term economic strategy. It is achieved against the backdrop of a severe global crisis that hit hard Estonia's small and open economy. In this context, a few policy conclusions could be drawn.

First, prudent fiscal management, followed by all the governments since transition, was a precondition for supporting macroeconomic stability and resilience of the economy to external shocks. By running consistent surplus budgets for almost a decade, Estonia's government accumulated fiscal reserves that amounted to over 6 per cent of GDP by the end 2008. This was a cushion for the economy to survive the first shock of the global crisis without the need to take recourse to borrowing in extremely adverse market conditions in 2008 and 2009. The authorities were provided with a breathing space to devise fiscal and structural measures to adjust the economy.

Second, Estonian government took measures almost immediately after the crisis struck to keep fiscal position within the limits of the Stability and Growth Pact, and focused on maintaining the credibility of state finances. The authorities were confident that any negative impact would be offset by improved medium and long term prospects, as the economy would emerge from the crisis with a stronger fiscal position than otherwise the case would be. The cumulative fiscal tightening for 2008 and 2009 amounted to 10, 2 per cent of GDP in nominal terms and to 7 per cent of GDP in structurally adjusted terms. Estonia is now well positioned to achieve budget surplus, its Medium Term Fiscal Objective, by 2013.

Third, flexible labor markets and transparent business environment facilitated adjustment in individual firms.

Companies cut back labor force and working hours, and the average salaries fell by 4, 5 percent in 2009. The overall adjustment was significant, as the unemployment stood at 15, 5 per cent as of end-February 2010. The employment ratio has kept up relatively well, 580 500 person has jobs (employment rate at ca 56 %) implying that much of labor force has remained active market participants in search of a new job. One result of this adjustment was a sharp correction of imbalances that had occurred after Estonia's accession to the EU in 2004. The current account turned into surplus of 6, 6 per cent of GDP in third quarter of 2009. There are also signs of renewed job creation, albeit it would take some time until the unemployment rate would return to its pre-crisis levels.

Forth, fiscal resilience and market flexibility were supported by strong banking system. The government and central bank have been actively supporting the integration with European Single Market. Nearly all banks and insurers in Estonia belong to Scandinavian and European groups. Additionally, banks and other financial intermediaries have substantial capital and liquidity buffers in Estonia. The combination of market integration and sizable domestic cushion proved to be invaluable to ensure financial stability. As of today, Estonian government has not spent a single taxpayer kroon to support the banking system.

An important policy conclusion from the last two years is the notion that well designed policy consolidation could pay off in relatively short term. Solid fundamentals need to be in place to that end - strong public and private balance sheets and culture of flexible markets and readiness to adjust. With these preconditions, the crisis management could focus on supply side measures that would result in speedier and relatively unharmed exit from the crisis. In Estonia, after a serious contraction of 14 per cent in 2009, growth has resumed and is expected to reach 3, 3 per cent in 2011. The other conclusion is that the present European Union policy coordination frameworks, such as Stability and Growth Pact, financial market integration and the Lisbon Strategy are growth enhancing, if rigorously implemented. The task now is to build upon the present strengths while devising the EU2020 strategy.

Estonia's possible accession to the Euro Area and policy experiences could have a beneficial impact for broader Baltic Sea region as well. Euro adoption would reduce financial risks and support investment flows and trade links in the region. Estonia's recovery and euro adoption provide an example that consistently sound policies will pay off eventually. Estonia is devoted to long-term tradition of prudent fiscal policies irrespective of eurozone membership.

Jürgen Ligi

Minister of Finance

Estonia

Changing energy security environment in Lithuania – old challenges and new responses

By Arvydas Sekmokas

Year 2010 represents a turning point in Lithuanian energy policy. While celebrating the 20th Anniversary of its independence restoration, Lithuania's energy independence is under the risk – the closure of Ignalina Nuclear Power Plant (NPP) at the end of 2009 once again raises the issue of Lithuania's energy insecurity.

The closure of Ignalina NPP has ended previous nuclear energy period of Lithuania's energy policy. After being a net exporter of electricity for more than two decades, from the beginning of this year Lithuania has changed its status to importer overnight. Such situation necessitates reconsideration of the current energy policy and drawing the new guidelines.

Lithuania's commitment to shut-down Ignalina NPP indicated in the EU Accession Treaty is an integral part of the broader picture of Lithuania's energy insecurity. Lithuania together with Latvia and Estonia is an "energy island". The synergy of closure of Ignalina NPP and status of an "energy island" implies demand for a new energy security agenda. Vital interconnections in order to integrate to the continental part of the EU internal energy market and new generation capacities to balance current energy-mix are two main responses while seeking to increase energy security of Lithuania.

Practical steps how to exit from energy isolation falls into two groups: physical interconnections and systemic integration into the European energy systems. Lithuania – Sweden (NordBalt) and Lithuania – Poland (LitPol Link) electricity interconnections are under rapid development and will be completed in 2015. However, physical interconnections, as it was mentioned before, should be also supplemented by systemic integration. Electricity interconnections and synchronous operation of electricity system with ENTSO-E Continental Europe network represents the main goal which will guarantee that Lithuania will be on the EU energy map and will be fully integrated into the EU energy market.

Lithuanian gas isolation represents another side of Lithuania as an "energy island". Natural gas for the customers of Lithuania is supplied from one source and by single pipeline. Total dependency on gas import source and gas supply infrastructure requires diversification. This goal could be achieved by building new gas interconnections with neighbouring countries and by diversification of gas import through the sea.

Currently developing Lithuania's energy infrastructure projects are multidirectional, but strives for the same goal. This multidirectional energy policy is oriented towards implementation of:

- Lithuania – Sweden (NordBalt) electricity interconnection
- Lithuania – Poland (LitPol Link) electricity interconnection
- Lithuania – Poland gas interconnection
- LNG terminal

The afore-mentioned interconnections and LNG terminal are of crucial importance for the long-term energy security of Lithuania, especially until the new nuclear power plant will be build. The conditions to implement these projects in time are strengthened by the Baltic Energy Market Interconnection Plan (BEMIP) endorsed on the 17th of June 2009. BEMIP covers the main electricity and gas interconnections, development of new electricity generation sources, creation of common market and development of LNG and underground gas storages in the Baltic Sea region. This is a comprehensive plan to move energy developments in the region and Lithuania is highly committed for the implementation of this plan and perceives BEMIP as a constituent part of National energy strategy.

Continuity of nuclear energy policy is the main strategic goal of Lithuania. Closure of Ignalina NPP marked the end of one nuclear power plant, nevertheless, nuclear energy remains the key principle of Lithuanian energy security. New nuclear power plant constitutes Lithuania's response to future energy supply deficit and principal option to increase generation capacities. The project, due to be implemented together with the regional partners (Estonia, Latvia and Poland), will significantly improve energy security situation of all Baltic countries. Currently the project is under systemic implementation according to strategic guidelines and an indicative timetable. After the Environmental Impact Assessment and preparation of Business and Financial Model have been completed, Lithuania is now dealing with potential strategic investors. Strategic investor will be chosen until the end of 2010. This will allow to move the project further and to select appropriate capacity and technology for the new nuclear power plant. Commissioning of the new power plant is planned for the year 2018–2020.

The closure of Ignalina NPP triggered not only development of energy infrastructure projects but also the creation of electricity market. After the closure of Ignalina NPP a certain part of electricity has to be supplemented from external electricity import sources. For this reason creation of market platform was the most efficient solution to achieve two important variables of energy security classics – sufficient energy for reliable price. As from the 1st of January 2010, Lithuania is gradually opening up its electricity market. At this date Lithuanian power exchange according to the Nord Pool principles started operating and it is an important step leading towards single and harmonized common Baltic electricity market integrated with the Nordic market. Full electricity market opening, foreseen in 2015, is the main precondition for energy market in the Baltics as well as in the EU.

Last but not the least Lithuania will continue to develop renewable energy and energy efficiency policies. These policies will be actively developed alongside building of the new nuclear power plant and implementation of electricity and gas interconnections. It is the long-term, comprehensive and horizontal energy security measure. It is one of the most efficient long-lasting stepping-stones to decrease Lithuania's dependence on fossil-fuels and reduce CO₂ emission – the same goals as in the nuclear energy option. Currently renewable energy sources covers 13 percent of total energy consumption, the average share of renewable energy in total final energy consumption must annually grow around 1–2 percent and in 2020 renewables will comprise 23 percent of final energy consumption. The most important and most developed renewables in Lithuania are biomass and hydro-energy. Wind (on-shore and off-shore) and sun energy are potential renewables to be developed.

In conclusion, the main pillars of Lithuanian energy policy in the long term are nuclear energy and renewables. This long term strategy is oriented towards balanced and sustainable energy-mix. Intermediate goal – to build electricity and gas interconnections – is a prerequisite for Lithuania to become fully integrated into the EU's energy market.

Arvydas Sekmokas

Minister of Energy

Lithuania



Hopes and concerns over the Eastern Partnership– the Belarus' view

By Sergei Martynov

The Eastern Partnership is a unique project in the way that it singles out for the first time all the six Eastern European states from the overall context of the EU neighbourhood and focuses on them as a regional entity.

Belarus responded with interest to the Eastern Partnership initiative from the very outset and actively contributed to its conceptual development both in the run-up to and following the 2009 Prague summit. We see it as a result-oriented cooperation framework, based on common democratic values, but whose scope goes far beyond these values. It should serve pragmatic interests of all partner states and the Wider Europe in general by fostering sustainable development, economic and social modernization in this part of the continent.

EaP is not an anteroom for an EU membership. The Eastern Partnership should enable the partner states to choose freely between integration into and equitable partnership with the European Union. Whatever their choice, they should enjoy equal access to all Partnership benefits. This will provide for the EaP to become a viable component of the current and future geopolitical landscape of a common Europe.

It is important to prevent this initiative from turning into a tool in the struggle over "spheres of influence". Belarus perhaps like no other partner state is averse to the idea of "drawing lines" and "taking sides". EaP activities should be open to any interested third country. For this reason Belarus welcomed the idea of creating an Eastern Partnership "group of friends". This should embrace in the first place the countries that are geographically close to our region and hence, best positioned to contribute directly to its development.

Belarus supported the topics of the first EaP flagship initiatives¹, even though their detailed content is still to be defined. They should be matched as soon as possible with the partner states' own projects for the benefit of the EaP region. This is necessary to secure the conceptual and operational synergy between the EU and non-EU parts of the EaP.

Belarus, alone and jointly with other partner countries and EU member states, came up with a number of such concrete proposals of regional importance in the fields of customs, strategic transport, energy security, cultural heritage, etc. However, eleven months after the launching of EaP at the Prague summit the prospects of any practical project activity are still vague. What was conceived as an ambitious and result-oriented initiative risks to bog down in lengthy discussions and preparatory meetings that consume the limited EaP budget. Moreover, its procedural framework is still incomplete and mandates and modalities governing the involvement of European financial institutions are still in the making. All this prevents partner countries from drawing their own projects and applying for funding.

But there is another important thing about the Eastern Partnership apart from project-making. Becoming closer to the EU not only means bringing about necessary reforms or advancing common values. It necessarily involves making our region known in Europe, promoting its economic, social, cultural, historic identity in the EU, encouraging the interest of the European public in Eastern neighbourhood matters.

The Eastern Partnership should become a platform for thematic presentations of our countries in the EU. Regular Eastern Partnership project fairs involving major international donors could be staged in European capitals. The EU should organize a string of European business and media tours to the partner states, promote studies and publications on Eastern

neighbours. A Regional Development Forum could be set up as an umbrella for regular networking and match-making events bringing together companies, investors, economic authorities and researchers from Eastern partners and the EU.

Such events would make the best EaP publicity in Europe. They would also radically increase the partner states' own capacity to draw external funding into the Eastern Partnership, with a multiplier effect for Community funding.

Importantly, the Eastern Partnership should help striking the right and fair balance between security and mobility in Europe. Partner states that assure higher security standards should enjoy proportional facilitations in terms of mobility. Countries that already enjoy or seek such facilitations should be assisted in meeting relevant security commitments. Roadmaps for simplified visa regimes based on this principle should be extended to all partner states, as an element of the future uniform, equitable, legal and controlled migration area.

The EaP could stimulate the search for sustained economic growth solutions in the region. It should encourage the European Union to address outstanding issues in its trade with individual partner states impeding their fair access to the EU market. As a first step toward the goal of deep and comprehensive free trade areas, this would bring immediate benefits for their economies.

In general, the Eastern Partnership has been so far a mixed success. It has a vast potential to become a really useful framework capable of improving in a tangible manner the existing cooperation system in Europe. Belarus stands ready to contribute to the search for solutions that would turn this initiative into an efficient and user-friendly tool adapted to the needs of our economies and societies. On the other hand, we must together keep its initial thrust safe from erosion. This involves safeguarding its basic principles enshrined in the 2009 Prague Declaration by securing equal participation of all partner states in its various formats – including the nascent parliamentary dimension. Second, we must prevent the Eastern Partnership from remaining forever just another of many discussion fora in Europe.

This is what will ensure its eventual and strategically important success.

As a closely knitted group with a tradition of socially oriented reforms and environmentally sustainable economic growth, the Baltic/Nordic countries seem to be natural partners of the six Eastern European states in their pursuit of economic transition and modernisation. Baltic and Nordic countries should have an important role to play in advancing the goals of the Eastern Partnership. They could contribute bilaterally to its various initiatives, integrate their own "centres of excellence" into the EaP cooperation system and work towards increased visibility of the Eastern Partnership within regional groupings in the Baltic. At the same time, they could draw material benefits from becoming closer to an increasingly interconnected and dynamic string of states spreading between the Baltic and the Caspian seas.

Through its presence in the Council of the Baltic Sea States, the Northern Dimension framework, growing cooperation with other multilateral fora in the area, Belarus will seek to secure an interested and positive involvement of its Northern neighbours into the Eastern Partnership process.

Sergei Martynov

Minister for Foreign Affairs

Belarus

¹ Integrated border management, 2) Prevention of, preparedness for, and response to natural and man-made disasters, 3) Small and Medium Enterprise Facility, 4) Regional energy markets and energy efficiency.

The success of the Baltic Sea region is anchored to communality

By Jutta Urpilainen

The financial potential of the Baltic Sea region has been immense throughout the ages. In the Hanseatic days merchant ships travelled from port to port. Salt, fur and fish have been replaced with new products, the least of which is not energy in its various forms. If trade in the old days increased the flow of language and culture from south to north, is the region's busy activity today, too, a channel between the east and the west. For Finland and Russia alike the region is logistically of key importance.

History holds the key to the future. Building communality is the biggest challenge for those operating in the Baltic Sea region. The Baltic Sea region no longer has the Cold War dichotomy; the gaps in economical and social wellbeing are deep though. We have all the prerequisites to increase connections and cooperation whether it comes to economy, environment, education, energy or tourism.

Finland has, if the political leaders of the country so wish, the possibility to have a key role in this development. Finland is fully aboard the European integration. At the same time, Russia is our biggest foreign trade partner. We also have functional and broad bilateral cooperation with Russia. The work we have done with the northern dimension policies in the European Union is a natural part of this partnership.

Export the Nordic model

The financial crisis that has shaken the entire world has, once again, showed the strength of the Nordic social model. The welfare model based on open trade, stable labour markets, strong safety networks and social justice works in financial turmoil. Unemployment has not increased nearly as rapidly north of the Baltic Sea as it has done on its southern side. People's safety networks have not been sacrificed, which has meant that the burden is shared more equally between different groups of people.

As for economy, I would, indeed, offer the Nordic model to be used more widely in the countries in the Baltic Sea region. We should revise John Maynard Keynes' economic principles and see an active state as a strong point. For this part, though, we in Finland need to shape up as well. The right-wing government has neglected public investments that support employment and made various tax cuts worth several billions of Euros. This must be seen as a cautionary example. The state of Finland's public finance has, because of these choices, deteriorated significantly.

A stable labour market is a distinct trait of the Nordic model as well. In Finland, where the union membership rate is high, the number of industrial actions taken has reduced significantly over the decades, which means that by bargaining for the conditions of work, stability and predictability have been gained. This, then, has strengthened the conditions for economic growth. When the Baltic states joined the European Union, cooperation in the trade union movement was enhanced. By open-mindedly seeking best practices across borders, the bilateral and multilateral relationships are strengthened at the same time. This should continue.

To practical cooperation

A joint will is the prerequisite for all good cooperation. Mere political declarations do not carry far. Concrete, practical cooperation is needed. A good example of cooperation in the field of environment is the treatment of the St. Petersburg wastewaters that was founded on strong cooperation between Finland and Russia. From a near zero level, St. Petersburg has

reached treating over 90% in ten years. The state of the Gulf of Finland keeps enhancing as Russia conveys the good example to smaller population centres. The increasing interest in environmental issues in Russia helps significantly.

The Strategy for the Baltic Sea Region adopted by the European Union strengthens the dialogue further. Finland has played a significant role in drafting the strategy and now in implementing it. Even though the strategy is an internal one for the Union, the practical projects will in many matters be agreed upon with partner states. In answering the most central challenges in the Baltic region, the input of all states in the region is needed.

Alongside the approved and traditional actions, new and innovative ways of cooperation are needed. In February the Baltic Sea Action Summit was organised in Finland. It gathered a diverse group of participants: heads of states and representatives of cities of the region and company management and civic society actors alike were present. The project began the implementation of altogether 140 commitments. They are related to eutrophication, challenges of sea traffic, maintaining biodiversity and other central problem areas. The project that brought the public and private open-mindedly together got a good response.

Protecting the environment does, indeed, offer an excellent dimension to cooperation. However, it is not the only one. When speaking about an ever wealthier and better future, it would, for example, be sensible to increase youth exchange between countries. The development of the region could also be considered through the recent European Union 2020 Strategy. Could we get better results in, for example, our energy solutions, reducing emissions or reducing poverty through better cooperation? In any case strengthening the cooperation will not do any harm.

Toward a new Hanseatic League

Today the traditions of the Hanseatic League founded as early as in the 13th century are honoured by celebrating the Hanseatic Days. The event that is organised in Tartu, Estonia in July could be an inspiration for other cooperation as well. The countries in the Baltic Sea region face many common challenges. Energy, environment and logistics take a key role.

Competing interests and historical baggage can be seen in these questions. If taking big leaps seems difficult, we should take small steps forward. Through the practical cooperation that would arise we could further strengthen the centuries-old culture of cooperation.

This is an era of increasing trade, movement of people and other communications in the Baltic Sea region. The civic societies grow stronger. The success of the region can be built on this positive change. The identity of the Baltic Sea region can be built through communality. At the same time, communality and cooperation that arises from it also releases the growth potential of the region.

Jutta Urpilainen

Chairman

SDP

Finland



The EEAS is coming – do not expect a big bang

By Anneli Jäätteenmäki

Providing a single telephone number for the EU foreign policy chief is a relatively straightforward matter. Alas, ensuring that the message given from the number is coherent and uniform is exponentially harder. Yet this is the essential task of the new High Representative Catherine Ashton. As she acts as a spokesperson for the 27 member states, they are ultimately responsible for the coherency of the foreign policy.

The entry into force of the Lisbon Treaty set off the creation of the European External Action Service (EEAS). In late March 2010, Lady Ashton published her proposal for the service amidst all too familiar turf wars between the different institutions, each trying to secure as much say as possible over the creation, functioning and overseeing of the EEAS. The following months will be full of debate and amendments. Only time will tell how the machine runs in practice.

The potential benefits for the EEAS are considerable. If it succeeds in developing an effective EU foreign policy, the annals of European diplomacy will be changed.

The change will be incremental and rather slow. One can enact new institutions with a stroke of a pen but ensuring their smooth functioning needs resources, patience and compromises. For the change to be successful, there should be a change of culture of conducting external affairs. In the future, significant foreign policy decisions might be taken in the Council by qualified majority voting.

However, existing political realities are acknowledged in the Lisbon Treaty by two declarations, which are meant to sooth the member states wary of new powers given to the EU institutions. Thus, the new foreign policy structures will "not affect the responsibilities of the member states, as they currently exist, for the formulation and conduct of their foreign policy nor their national representation in third countries and international organisations."

Lady Ashton's task is colossal. She is to work as the high representative for foreign and security policy, vice-president of the European Commission and chair of the Council of foreign ministers.

There will be plenty of time to find errors of judgment and difficulties of implementation in her initial work. This is not to undermine the importance of change of views at this crucial planning stage. It is rather to point out that Ashton should be given enough time to prove her abilities.

The reduced role of the foreign ministers at the EU meetings will hurt some as they will be presided over by the High Representative in the Council and excluded from the meetings of the European Council. Given the traditional high profile of foreign ministers and the calibre of the incumbents in general, their reduced role might take some time to digest.

On the other hand, foreign ministries have already lost their monopoly over external affairs – if there ever was one – to myriad actors. Foreign ministries should be able to adapt to changing times by default.

From the national perspective the new powers of the EU in the sensitive areas of foreign policy can be interpreted as a threat to national interests, whatever they may be. There is generally no talk of winding down the embassies abroad. On the contrary, it is still held valid that no international organisation can represent any single member state better than the state herself. The common feeling and expectation is that the coming external action service will only supplement the national foreign services.

There are some costly dangers of duplication, inefficiencies and overlap when the EU delegations are strengthened and national embassies continue to coexist with them. The high talk of efficient use of taxpayers' money is suddenly toned down.

It remains to be seen whether cooperation works between EU delegations and national embassies in practice. At the moment there are some practical problems such as the lack of secure communication channels between them.

Recruitment will also present some challenges. Will the loyalties of staff originated from the national diplomatic services be fully transferred to serve the interests of the EU as a whole? Will the "broadest possible geographic basis" and merit prevail in recruiting new staff? Pure technocrats do not exist in large numbers. People with personal histories and sympathies do.

The staff serving in the EU institutions is amongst the best paid and most technically competent civil servants in the world. Setting up the EEAS is a golden opportunity to make them also the best team players. Subsequently, all recruits, including persons from the national ministries, should be tested in social skills.

It has been a pleasure to note that the personnel selection office will now assess these core competencies amongst a host of others that are essential in a civil service of the 21st century.

There is also some pruning to do in the staffing of the Council and Commission personnel who work in external affairs in Brussels and in third countries. On the other hand, ensuring that the Parliament is able to truly exercise adequate legislative and budgetary control of the EEAS requires proper level of staffing at the Parliament.

This should be very clear but unfortunately political accountability is not addressed in the draft decision currently being circulated. Fundamentally, parliamentary scrutiny is impossible if the MEPs are not interested in overseeing the work of the EEAS.

Turning into policy matters, it is very important that trade and development issues are integrated into the remit of the EEAS. According to the current draft decision, there is a worrying separation of development competencies between the new service and the Commission. It is not acceptable that the general aim of policy coherence is compromised. Much of the EU's foreign policy leverage is in trade and development. If these are not properly coordinated, the leverage is wasted.

In conclusion, the creation of the EEAS is potentially a step forward in the Europeanisation of foreign policy. Smaller member states such as Finland will especially benefit from the common policies and strengthened EU delegations.

A new culture and consensus of doing diplomacy will emerge. By pooling their resources, the member states will punch above their individual weight in world politics, thus proving the musings about European decline greatly exaggerated. On the other hand, they might not.

The EEAS is only a tool. If it is to be a truly European tool, the big member states must be willing to conduct common foreign policy in cooperation with the smaller members. When the President of France, the German Chancellor and the British Prime Minister want to be seen and respected on the world stage, the room for common foreign policy is limited, even with the EEAS.

Anneli Jäätteenmäki

MEP

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Main vectors of cooperation

By Sergey L. Katanandov

Many people are interested in how the world economic crisis affected the economic ties of the Republic of Karelia. It is true that Karelia is an export-oriented border region of Russia, over 40% of our production are supplied to foreign markets. Due to worsening of the foreign trade business environment, sales volumes decreased by almost one third in 2009. A response to that were the anti-crisis measures adopted by the Government of Karelia. Systematic address work with enterprises and investment projects was arranged.

As a result, not a single foreign investor refused his plans in Karelia. For example, enterprises of the "PKC Group" company in Kostomuksha, producing wiring for trucks and electronic devices, turned out in a complicated situation due to the decrease of the order portfolio. We have many times met with the leadership of the company, our experts visited the production site, and as a result we worked out a Joint Plan of administrative, technical and taxation measures. Due to these actions we managed to improve the situation and avoid wholesale redundancy.

Some of our partners even managed to increase production in 2009. The "Stora Enso" company started a pellet production plant in the settlement of Impilahti of the Pitkyaranta district. The Swedish company "Swedwood" producing furniture panels in Kostomuksha, Finnish "Rappala" producing fishing equipment in Sortavala and others worked stable. Such important results help create a favorable investment image of Karelia.

One of the strategic directions of our work is development of transport communication and communications. We continued to develop the Petrozavodsk Airport. Due to the actions taken by the Government of Karelia federal financing was granted and runway lighting installed. This will let us arrange the all-year-round flights between Helsinki and Petrozavodsk.

Despite the limited regional financing, we continued to invest in development of the motorway system. Namely, traffic conditions on the road part Kochkoma – Ledmozero – state border were improved. Implying further reconstruction, the road Priozersk – Sortavala – Petrozavodsk got the federal status last year. Since part of it runs along the border, there appears an extra opportunity to develop border-crossing points, for example, in the Lahdenpohja district.

Last year the 200-th Anniversary of entering of the Grand Duchy of Finland in the Russian Empire was widely celebrated. In the autumn on the premises of the Petrozavosk State University we held together with the Government of Finland a big conference of researchers, dedicated to this event.

In November 2009 our meeting with Tarja Halonen with participation of the Oulu Governor Eino Siuruainen took place. During the meeting we summed up our cooperation for the year and cleared up the perspectives of future interaction. Namely, in 2009 there were 28 projects implemented in such spheres as environment protection, agriculture and forestry, health and social care, cooperation of rescue and fire services, with total volume of financing of 2 million Euros. Tarja Halonen assured that the administrative reform in Finland, during which counties are reformed in administrative districts, will not interfere with further development of mutually beneficial ties.

A good example of international ties is a joint work of the Petrozavodsk State University and Karelian Research Centre of the Russian Academy of Sciences with Finnish colleagues. Our scientists take part in research projects, students and post-graduates undertake an internship abroad, export of educational services is developed. I would especially like to note such a direction in the University activities as production cooperation on the basis of the IT-park. I think that this is one of the most perspective forms of cooperation with Finnish and other foreign companies, a principally new level of interaction and transition to an innovative economy.

Regional programmes of cross-border cooperation of Russia and the European Union started at the end of 2009, where Russia takes part as a budget co-financer. One of these programmes is "Karelia", the territory of its action complies with the "Euroregion Karelia", uniting our republic and three Finnish Regional Councils. The Government of the Republic of Karelia has formed a list of first priority infrastructure projects, which we hope to implement within the Programme. As one of the top priorities we see the economic development. This surely does not mean that there will be no projects in education, culture and healthcare. Except that, the Programme of Cross-Border Cooperation of the Republic of Karelia until 2015 is being developed. In this work we are in a constant contact with the Ministry of Regional Development of the Russian Federation, which is the coordinator of the cross-border cooperation not only with the EU, but also of the bilateral cooperation between Russia and Finland. We hope that the developed projects will contribute to an improvement of the life quality of the Karelia's border regions and the republic as a whole. I am sure that in 2010 our interaction with foreign partners will only increase.

On the eve of the 90-th Anniversary of the Establishment of the Republic of Karelia, together with the Office of the President of the Russian Federation Plenipotentiary Envoy in the North-West Federal District, we arrange a conference, where, with participation of a wide range of Russian and foreign participants, the actual issues of cross-border cooperation will be discussed. One of them is the experience of development of Euroregions in the EU countries and Russia.

We hope that during the current year new investment projects will be started. Together with the Federal Authorities the work on further development of the frontier-guard, customs and road infrastructure will be continued. Of course, we will develop different initiatives in the spheres of culture, education, sport, youth policy, which will facilitate development of good neighbourhood relations between the Republic of Karelia and Finland.

Economic crises should not be a barrier for cooperation development.

Sergey L. Katanandov

Head of the Republic of Karelia

Russia



The Baltic Sea – example for the whole Europe

By Heikki Aurasmaa

The Baltic Sea is of great significance to Finland. It carries more than 80 per cent of Finnish foreign trade. In 2008, trade with the Baltic Sea countries accounted for 40 per cent of Finnish exports and 45 per cent of imports. Finland's three largest trading partners – Germany, Sweden and Russia – are all Baltic Sea countries. If Norway is included among the Baltic Sea countries, as many as six of Finland's top ten trading partners lie in the Baltic Sea Region. In addition, the majority (70%) of foreign direct investments (FDIs) in Finland originate from the region, and a large share of Finnish FDIs abroad (40%) are made within it. Indeed, the Baltic Sea Region can even be considered Finland's home market, since the country's national market is rather small in size.

The Baltic Sea also is of major economic and international significance and potential. Some 15 per cent of the world's freight traffic is conducted there and the share is about to increase. Last year, the Baltic Rim countries' aggregate GDP exceeded 12% of world GDP. Furthermore, the population of nearby markets number some 85 million, which is 17 times the Finnish population. The Baltic Sea economic area plays a major commercial role in the economies of most Baltic Rim countries. Moreover, Russia's importance in the development of the Baltic Sea Region is continuously growing with respect to the economy and knowledge potential, environmental protection as well as projects related to marine traffic.

The EU's enlargement has led to a considerable rise in business opportunities in the Baltic Sea Region, enabling a new type of business based on strong Nordic ownership. In addition, the diversification of business activities in the Baltic countries and Poland has created new opportunities for business also in the region's neighbouring countries, such as Ukraine and, to some extent, Belarus. In this internationalisation process, high-level expertise and services are an asset.

Baltic Sea cooperation, both economic and in terms of knowledge, research and innovation activity, presents an attractive outlook for regions' social and economic development. Deepening the economic integration and enhancing its business environment will create new prerequisites for the region's economic growth and success. This will reinforce its possibilities of coping in the face of intensifying global competition, in whose context the ageing of the region's population will pose a major additional challenge.

Economic growth in the Baltic Sea region springs from excellence and innovation. Thus, the fullest, most efficient use of existing potential is vital to the region's economic growth and competitiveness. In universities and research institutes, increasing collaboration between students, teachers and researchers is a natural way of enhancing cooperation. The region's enterprises should be involved more intensively in this. In fact, this so-called triple helix model has yielded excellent results in Finland's regional innovation policy and its application would be crucial in Baltic Sea area cooperation. Key drivers in reinforcing economic growth include the promotion of common R&D projects,

securing financing, the utilisation of the best competencies on offer in the Baltic Sea Region and creating market conditions that encourage innovations. Promoting innovative clusters will also provide small innovation companies with a broader-based operating environment that supports business development.

Global competition underlines the importance of a region's accessibility to its competitiveness. Thus, solutions associated with Baltic Sea Region traffic systems are crucial, particularly to Finland, which lacks a direct road connection to the European market. Transport systems as well as reliability and speed of transport are now more important as competitive factors and essential assets in terms of logistical costs. In addition to effective traffic connections, intelligent transport systems must be developed with the help of ICT. Intelligent systems can be used to optimise transport, thereby reducing the environmental load and impacts on climate change caused by traffic. Another benefit lies in safer transport, including the directing of road, rail and sea traffic.

For the development of the region's transport systems, a comprehensive network of key connections is required, covering all forms of transport. A priority network should be a continuous pan-European network using intelligent transport solutions and enabling the smooth and safe transport of goods and persons. In addition, a closer connection between northern areas and EU markets is required, including the utilisation of northern natural resources and the development of tourism.

The Baltic Sea's ecological value, and the recreation and tourism opportunities it affords, are of huge importance not only to the region's population but also internationally. Extensive archipelago areas are characteristic of the Baltic Sea, particularly in its northern reaches. Preserving the sea's natural and cultural values, its coastline and archipelago and their sustainable use would directly reinforce both the region's economy and its population's well-being.

The value and importance of the Baltic Sea Region as well as its potential has been widely notified and more and more efforts have been taken to enhance co-ordinated development actions in the Region to improve its social and economic development as well as the condition of the sea itself. A good example of this is the EU's Baltic Sea Strategy that was approved by the European Council last autumn 2009. However, strong and long term joint effort is needed to implement it and to make the Baltic Sea Region as one of the most flourishing economic and cultural area in the whole world. But it is an issue we strongly believe and work for.

Heikki Aurasmaa

Undersecretary of State

Ministry of Employment and the Economy

Finland

Innovation policy in Russia – new trends

By Oleg V. Fomichev

Historic success of the USSR in the XXth century – victory in the Second World War, creation of the nuclear weapon and atomic energy sector, leadership in the space research and military aircraft construction – were to a considerable degree based on the advanced technological achievements of the national science and industry. Our progress was due to the giant concentration of all the country's resources on the solution of technological problems of defense industrial complex. Having switched over to the market economy, Russia has faced new challenges in the XXIst century. These new challenges are stipulated not by military confrontation but by increasing competition with the developed and developing nations for the worthy niche in the world market. Meanwhile, it is obvious that the contemporary base for our economy - raw materials export with low value added – will soon become subject to considerable erosion because of the global economic shift towards “green” and energy-saving technology as well as due to the toughening competition in the raw materials market.

For Russia the only way of further development and raise in standard of living up to the European level is technological development, based on the modernization and innovations. Russia has all capabilities for the “innovation leap” as the country still has considerable scientific and technical potential. In the number of people occupied in research and development Russia ranks third or fourth in the world. Russia is also one of the world leaders in such disciplines as nanotechnology, living systems, environment, nuclear and space systems, energy-saving technologies, supercomputers design and software.

Main obstacles of current Russian technological disadvantage are not only insufficient R&D expenditures but also the inability to convert knowledge into competitive goods and technologies. Unfortunately, our entrepreneurs are mostly used to live without tough market competition catering only for available domestic market which is not characterized by substantial demand for advanced technology products, so they don't want to change this model in future. This is largely related to the bubble in the economy before the crisis which entailed the enterprises' illusion of the possibility to get profit without investment in new products and technologies.

Talking about the entrepreneurs' responsibility for the innovative development of their companies we also must admit the lack of government attention to the restructuring of advanced technology industries. Traditionally we paid more attention to the financing of the research sphere, supposing that high level of research would ultimately lead to high level of innovation activity in the economy.

Tax incentives were mainly given to the extractive industry and did not support sectors with high value added. Another negative factor from our point of view is the absence of effective support of the innovations in the real sector. Government expenditures on science have increased whereas co-financing of innovations in private industries remained extremely low – the share of enterprises getting government financial support for technological innovations in Russia is close to zero in comparison to European countries.

Now it is the time for government policy to focus on the stimulation of innovation activity in real-sector enterprises. Despite the fact that the role of the state in post-crisis recovery have risen, it is precisely business that is to become the principal innovation “driver” at the new stage of economic growth. The backbone of the modernization policy is therefore a stimulation of innovations, creating the class of innovative enterprises, modernization of the scientific sector and engineering.

At the same time we are not going to follow our specific Russian “third way”. In the past few years state has made a lot for creating conditions for innovative development – basic innovation infrastructure (business-incubators, technology transfer centers, industrial parks, special zones); financial development institutions were established like Russian Venture Company and government co-sponsored venture funds, Development Bank, public Corporation

for Nanotechnologies (“Rosnanotech”) etc. Program of support to small and medium size businesses was approved. The law was enacted, that finally granted the right to universities to establish start-ups.

Now there is a need for, so to say, innovative self-identification. Taking into account the crisis aftermath and long-run trends of the global technological development it is crucial to specify our competitive advantages and the path of our future innovative progress. This is the issue for the Innovation Strategy of The Russian Federation that is now under development in the government.

As for practical actions, that government is going to take in short-run to stimulate innovations in state and private sectors, they are as follows:

In the state sector the goal is to utilize giant potential of the public procurement system to create demand for high-tech and innovative goods and services based on the experience of several OECD countries, e.g. Great Britain, Korea.

Another challenge is innovation development in public companies. Our state-owned companies as a rule don't invest in innovations: new technologies or cutting-edge goods and services. Taking into account (still) the large share of state-owned enterprises in the economy it certainly leads to the lack of demand for such products countrywide. The mechanisms of tackling this problem are not totally market-oriented – the biggest public corporations will be obliged to develop the corporate innovation strategies, that will supposedly be discussed and approved by the government.

The situation is more complicated for the private companies – their motivation for the introduction of innovations is defined by the market demand and competition. However, the President has made a decision to support innovation projects of private companies. For high-tech economic sectors, such as IT and engineering companies, selective tax cuts are going to be introduced. State support of start-ups has been almost doubled last year and will grow further.

The efficiency of development institutions (funds and public corporations) will be raised as long as they have considerable financial resources to allocate. They will help to arrange the transfer of promising technological projects from idea to industrial implementation.

Furthermore, the President has made a decision to create new “green-field” innovation center in Skolkovo near Moscow. Interaction with European R&D and venture capital community is a necessary prerequisite for the success of a project and can be profitable for all countries decided to participate.

Wrapping up, technological modernization and innovative development of Russian economy, Russia's successful integration into the global high-tech market is beneficial not only for our country. The truly cutting-edge, disruptive innovations have always appeared at an intersection of different sciences, cultures and peoples. Without innovative Russia the socio-economic potential of Europe and the world would be considerably lower.

Oleg V. Fomichev

Director

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The Russian Federation



No shortcut to visa-free travel

By Vesa Häkkinen

Russian Foreign Minister Sergei Lavrov has announced that Russia is prepared to agree on visa-free travel with the European Union at any time, even tomorrow. His rhetoric is understandable since the EU and Russia agreed on a long-term perspective for visa-free travel as early as in 2003. However, it goes without saying that exemptions from visa requirements cannot be introduced overnight.

In Finland's opinion the EU and Russia should, already in the near future, determine concrete conditions for reciprocal visa freedom. Finnish Foreign Minister Alexander Stubb has raised publicly at least two problems that are crucial from Finland's standpoint. They have no direct connection with visas but are clearly connected with the reciprocal facilitation of movement.

One of the problems highlighted by Minister Stubb is the Russian bureaucracy in granting work permits. It is most regrettable that Russia took measures impeding the operations of all European businessmen in Russia at the same time when the reciprocal visa facilitation agreement between the EU and Russia became applicable in June 2007. After all, there is good reason to regard this agreement as the first concrete step towards visa-free travel.

According to the visa facilitation agreement, the fee for processing visa applications amounts to 35 euros and the processing must not exceed 10 calendar days. The agreement facilitates separately the travels of certain groups, such as drivers, members of official delegations and students. The EU has concluded visa facilitation agreements with seven other countries in addition to Russia.

The other problem that Minister Stubb has mentioned is connected with registrations in Russia. As known, a foreign citizen staying in Russia for more than three working days must register the stay. Under the visa facilitation agreement the parties agreed to undertake measures to simplify the registration procedures. Russia has not complied with this obligation.

Besides solving these specific issues, crucial to Finland, the EU and Russia must determine the general conditions for visa-free travel. The conditions have already been discussed in the so-called visa dialogue, launched in April 2007. Among other issues, this dialogue has dealt with document security, illegal immigration, and public order and security. Moreover, the parties have discussed such questions as the freedom of movement of Russian citizens and the issuance of passports to Russians from the human rights point of view.

Finland, who supports visa-free travel between the EU and Russia, considers that also the problems identified during the visa dialogue must be solved before agreeing on reciprocal visa freedom.

In addition to clearly specified conditions, Finland supports immediate steps to facilitate movement and people-to-people contacts on a reciprocal basis. The visa facilitation agreement, the EU Visa Code and the national legislation of Russia form an excellent basis for such steps.

In recent years, Finland itself has taken so many steps in the required direction that Russia, in turn, is now expected to take the next one. Russia has shown both willingness and ability to flexibility, for instance by granting unilateral visa exemptions to cruise ship passengers staying in Russia for less than 72 hours. As the summer cruise season is beginning, it remains to be seen how many Finns or citizens

of other EU Member States in the Baltic Sea region use this opportunity of visa-free travel.

It is already known that Russians have made good use of the flexibility provided by Finland. Last year, well over 700 000 Russians obtained a Schengen visa for Finland. Of all visas issued last year, more than 80 per cent were long-term multiple-entry visas. As a Schengen visa is valid for travel to nearly all European countries, Russian citizens can move in Europe much more easily than only a few years ago.

Furthermore, measured by national standards, the efforts made by Finland to improve the visa services in its missions in Russia are enormous. In 2004, the consulate-general in St. Petersburg opened large new premises. The visa offices in Moscow and Murmansk have been extended continually, and also the consular agency in Petrozavodsk started work in new premises at the beginning of this year.

Another facilitation in Russia is that Schengen visas for Finland may also be applied for in Yekaterinburg and Pskov, where the Schengen partners Hungary and Estonia represent Finland in visa issues. Moreover, Finland and Poland are negotiating the possibility of agreeing that Poland would represent Finland in Kaliningrad.

Considering the above-mentioned numbers of visa applications and the location of Russia in Finland's neighbourhood it is no wonder that Finland focuses its activity in visa issues specifically on Russia. However, Finland supports continuing an active visa facilitation policy with other countries, too.

Examples of such other countries include Ukraine, which also has concluded a visa facilitation agreement with the EU, and the future visa facilitation partner Georgia. It is noteworthy that both these countries have unilaterally exempted all EU citizens from visa requirements.

Russia cannot be expected to show similar flexibility. Still, even small positive signals, as the unilateral visa exemption for cruise ship passengers, are more than welcome.

The EU, too, must be active. In practice, the European Commission has the right of initiative for promoting visa-free travel further – in other words, for starting to determine concrete conditions for it. The Commission is naturally waiting to receive a signal from at least a considerable number of Member States that they are unanimous about the importance of the issue.

In these circumstances it is in the interest of both the EU and Russia to promote visa exemptions on all fronts, step by step, by giving clear signals and avoiding timetables carved in stone. There are no shortcuts to visa-free travel.

Vesa Häkkinen

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Vilnius city – for the admirers of modern life and unique traditions

By Vilius Navickas

Theoreticians of the urban culture unanimously agree: the aura of a city is something more than just bricks and buildings. People are no longer easily impressed by architectural masterpieces. Today they need more, i.e. something beyond touch or feeling: the spirit of the city.

Vilnius, the capital of Lithuania, can take pride in its stunning architecture. The Old Town of Vilnius was inscribed in the UNESCO world heritage list: with little lost over the course of time, it is as it has long been—a sight of several hundred years ago. Therefore, some people call Vilnius a city of unique churches, others, a handbook of architecture with live lessons, and the rest simply enjoy the vivacious life of the Old Town.

Another centre of attraction is the contemporary architecture quarter, which is gradually becoming a modern district of skyscrapers. Another surprise is in the adjacent district, i.e. in the residential area of wooden urban architecture in the very centre of the city. Plans for the future include transforming it into an open public park. Thus, one of the advantages of Vilnius is its compactness. The city is free of traffic congestions characteristic of major European capitals. Although the length and breadth of the city are not immense, there is no provincial feel to life.

The way the historical buildings, old as they are, maintain the highest global standards of cultural life leaves quite an impression on practically all visitors to Vilnius. The Vilnius and Kristupas classical music festivals as well as two international jazz festivals attract world-famous performers. The international theatre festival *Sirenos* has also gained momentum, as well as the modern dance festival *The New Baltic Dance*. Directors of Vilnius theatres are winners of numerous European and global stage awards. Entire groups of theatre lovers come from abroad to enjoy the shows of world-known directors in the Vilnius Opera and Ballet Theatre.

The best-known world exhibitions were organised in the modern National Art Gallery, which opened in Vilnius last year. To attract even more admirers to the city, construction of a Guggenheim Museum is now in the works.

Currently new cultural traditions are arising that correspond to a new challenge—to bring culture closer to people. The traditional events of the Vilnius European Capital of Culture programme (e.g. street performances, projects such as *Let There Be Night and Art in Unexpected Spaces*) attract tens of thousands of people. They escape from a daily routine and view the surrounding world in a different light.

But most of all, Vilnius is proud of one unique event, which reveals via traditions, folklore and folk-art, the values which the nation of Lithuania has retained best. A large annual folk arts and crafts fair in honour of St. Kazimieras (Casimir), begun over 400 years ago, is organised in the city on the first weekend of March. It attracts folk art professionals from all over Lithuania, as well as national cuisine masters and a variety of craftsmen. Every urbanite considers himself obliged to visit the Kaziukas Fair: not for the sake of buying, but to plunge into the spirit of national heritage. Craftsmen take part in spectacular carnivals, counties present their cultural values, whereas for people it is a perfect opportunity to purchase unique handmade crafts: from kitchen utensils to chests or boxes to hot tubs.

By the end of summer, the city is again full of people attending the Baltramiejus Fair. It begins in the Old Town with a solemn parade of masquerading craftsmen, followed by various games and street performances.

The Capital Days in September are also very popular. One can taste traditional Lithuanian dishes or try his fortune in the

national crafts throughout the main streets: make clay pots, produce nails or broaches, weave a piece of fabric, make spoons, play old traditional music instruments or listen to tales of old fashioned shoe-making. The fair is also famous for folk and modern music performances, exhibitions and impressive street performances.

Situated on a crossroads between the East and the West, Vilnius not only retains its unique face, but seeks to expand its role. About 100,000 students study in higher institutions annually. They speak the languages of Western and Eastern countries fluently; they are motivated and seek career advancements. In order to retain perspective young people, the city has simplified bureaucratic obstacles for foreign direct investment creating new jobs.

Because education is a priority, Vilnius can also take pride in effective education centres providing rapid development of the conference tourism. The number of big conference halls has increased, and the recently established conference tourism office is committed to organise an event of the Conference Tourism Association. Usually international conferences are held in venues having a good background of scientific and practical work, therefore we are glad that Lithuanian specialists (physicians, physicists and other representatives of progressive technologies) are recognised all over the world.

Cycling became very popular when bicycle paths were built in the city. Bicycle rental chains plan to open this summer, thus citizens will have the opportunity to rent a bicycle at one location and return it at another.

Vilnius is one of the greenest European capitals. Every year it designates new green zones adjusted to public recreation needs. The popular Bernardinai Monastery Park, situated close to one of the city's emblems, Gediminas Tower, is currently under reconstruction. It will include reconstruction of the park's historical structure with greenhouses, gardens and beds of herbs cherished by monks.

Another ambitious plan is to revitalise the Neris River, one of the main Lithuanian rivers that runs through Vilnius: establish boating clubs and harbors, launch more sightseeing ships, establish a tourism information centre on water, arrange the embankment lighting system, create a sculpture park, as well as places for the folk art trade.

Thus, Vilnius is under a rapid renovation. It tries to keep harmony between the new and the old, and retains its face for those who are fascinated by the city. Apart from the architectural masterpieces, guests of Vilnius notice a unique atmosphere of the city, its warm and kind people and hospitable environment. It constantly surprises visitors by presenting diverse cultural treasures: the famous women of old, an interesting record of currency circulation, and events underground. Residents are interested in the past of Vilnius and are proud of the city they live in. Maybe that is why they are so attentive to visitors of their city.

Vilius Navickas

Mayor

Vilnius

Lithuania



“Finnish House” in the heart of St Petersburg

By Arto Mustajoki

In 2009, Finland celebrated historical events that took place two hundred years ago, though it was not quite clear what the main reason for the festivities was. In 1809, after a war between Sweden and Russia, Finland was transferred from its Western neighbour to the Eastern one. This was the beginning of the period of an autonomous Finland, known as the Grand Duchy of the Russian Empire. Becoming part of Russia – an enemy that Finland has fought against – might seem an unlikely cause of celebration for the Finns. However, the period of autonomy, which lasted for more than a century, is commonly regarded as a positive preparatory phase for the independence of the Finnish nation.

The anniversary year ended with an opening ceremony of the House of Finland in St Petersburg. The Prime Ministers of the two countries, Matti Vanhanen and Vladimir Putin, signed a certificate which meant that the renovation of the building had been finalized and the premises were ready for utilization. This was not strictly true, and the actual use of the building did not begin immediately; but the visit by the political leaders gave a great boost to the final stages of the repair work and to the public profile of the House. The various organizations involved will start their activities in the building in May 2010.

The House, located in the very heart of the city, will provide a unique opportunity for Finland to be more visible in St Petersburg. It brings together various Finnish organizations, such as the Cultural Institute of Finland; the Helsinki Centre, which accommodates not only activities of the city of Helsinki, but also of Tampere and Kotka; a representative office of the city of Turku; the Finnish–Russian Chamber of Commerce; FINPRO, the Finnish trade promoter; and promotion offices of the Jyväskylä and Mikkeli regions. The Finnish school, patronized by the Finnish General Consulate and intended for the children of parents working in the city, will also be based in this building. Some studio apartments are also available for Finnish researchers and artists temporary working in St Petersburg.

The initiator of the House of Finland concept has been the Finnish St Petersburg Foundation, which was founded twenty years ago by universities, churches, friendship associations, public organizations, ministries, and some private enterprises. Its main purpose is to maintain the Finnish Institute in St Petersburg. Finland has a total of 17 such institutes in various parts of the world. They are dedicated to the promotion of Finnish culture and research and to establishing links with the local authorities and a wider public. The institutes are independent actors, but receive a modest yearly subsidy from the Finnish state. Since the very beginning, the St Petersburg Foundation has been searching for a suitable location for the Institute. After multiphase trials three years ago, everything clicked into place when the City of St Petersburg approached the Foundation. After speedy negotiations, a building of 4,500 square metres in *Bolshaja Konjushennaja Street* (just off the *Nevsky Prospect*) was let to the Foundation for 49 years. It was obvious that the highest political structures of the City supported the endeavour, and so did the Finnish authorities.

The location of the building is ideal. The street is one of the most beautiful ones in St Petersburg. The area has a long tradition of accommodating famous inhabitants,

including the Nobel family and several Russian authors and poets. The house itself is “a piece of Finland” in St Petersburg. It is part of the traditional Finnish district, in the centre of which stands the Evangelical Lutheran church of St Maria owned by the Ingrian Church. The house was built in 1847. The famous Finnish priest Uno Cygnaeus, known as the father of the Finnish primary school, worked here before his career in Finland. Carl Gustaf Emil Mannerheim, an officer of the Russian army and subsequently Marshal of Finland, worked in the house, and an office of the Finnish bank was also located there. All these activities took place, of course, in the pre-Soviet times when there was no real border between Russia and Finland.

The renovation and modernization of a large building is a great challenge everywhere. It is no less demanding a task in a country like Russia. For a relatively small foundation it has also represented a certain risk. Besides the need to obtain all the necessary permissions and to find contractors, etc., additional difficulty has been caused by the special status of Institute. It has a director who signs all the official documents, but the money comes from the Foundation. The whole process would not have been possible without the help of several important partners: the City of St Petersburg, the Finnish Government, the Finnish General Consulate, The Ingrian Church, and numerous others. The costs, approximately 13 million euros, have been covered by a bank loan guaranteed by the Finnish Government.

We can say that the Finns have returned to their roots. The “Finnish House” will give a substantial boost to Finnish affairs in the St Petersburg region and in Russia more generally.

Arto Mustajoki

Professor of Russian

University of Helsinki

Chair of the Board of the Finnish St Petersburg Foundation

Finland



Photo: Seppo Muukkonen

Those who adapt survive

By Lasse Paitsola

The economic recession, which began by the end of 2008, has revealed exactly how much "smaller" the world has become over the last few decades. The financial problems of one country were reflected everywhere almost instantly. It seemed that everyone reacted at the same moment, and the reactions did not necessarily correspond to the real economy of the nation or the business in question. Some of the reactions were excessive.

For businesses, globalisation appears as the necessity to adapt to new, demanding circumstances. A completely new kind of flexibility and cost-effectiveness are required. These demands are reflected in the company board, management, and personnel as well as financiers. Competence and improved reaction times are required at all levels.

Nurminen Logistics has gained operational experience in international markets over three centuries. Being an international business has never been questioned in the company. Today, Nurminen Logistics' main market areas are Finland, the Baltic Sea region, Russia and other CIS countries.

In 2008, more than 30 percent of the value of the Russian imports passed through Finland and, if will and expertise exist, it should be possible to keep the share high in the future, too. Finland shares 1,300 km of well functioning border with Russia. From Asia, for instance, it is possible to import goods into Russia and other CIS countries directly by rail or ship, but particularly for those who value the service performance engendered by security, ease of border formalities and long-lasting logistical experience, it is worth using Finland as a gateway to the countries in question. Our logistical infrastructure is in good shape: harbours, roads, railways and terminals all work well. Our ports will not suffer from congestion even when the economy starts to recover, road and rail transportation from the ports will function efficiently, and sufficient attention is paid to security factors. Service quality is also a decisive factor in determining where goods transit. Professional, service-oriented and international personnel is capable of doing what is agreed on for the most demanding shipping projects as well. Knowledge of the local circumstances and regulations is a necessity, especially in Russia and other CIS countries.

Nowadays, transit traffic from Finland is mainly heading east but, in the future, the flow will definitely be two-way, once goods also start to be manufactured in increasing

quantities in Russia and other CIS countries. The need for developing logistics and new traffic routes continues to increase, in particular in western Russia. Projects for new freight and oil harbours are ongoing in the country, and the Baltic Sea region remains topical also due to the gas pipe project. The new, northern route, opening up as a result of the climate change and, in connection to it, the role of the Murmansk region, will also introduce completely novel opportunities for both Finland and Russia.

Change is not a concept unfamiliar to Nurminen Logistics. After the establishment of the company, known at the time as John Nurminen, in Rauma in 1886, it has offered an extremely versatile range of services in nearly all sectors of logistics. The history of the company has been documented in a book – aptly entitled *Muodonmuutoksia (Metamorphosis)* – and whoever reads it will be convinced that the ability to adapt to each situation and to make the strategic decisions required are the keys to success and a long life. A factor contributing to the success of the company – which started off as a family business to become the listed company it is today – has also been the fact that it has been owned by the same family for four generations. Long-span ownership policies have made it possible to develop company operations in a sensible manner.

Nurminen Logistics aims at being an operator to be reckoned with in the next century too, and this is the reason behind its constant renewal. The ability to adapt to the prevailing conditions is a feature that companies should be able to reciprocally expect from the state, the authorities and the labour market organisations, too. Opportunities should be created, not prevented. Excessive promotion of vested interests benefits no one, but results in catastrophic consequences for all parties. Successful management of the streams of flows requires that the handler never stop moving.

Lasse Paitsola

President and CEO

Nurminen Logistics Plc

Finland



Ten-year anniversary of the Russian international transport corridors – what lies ahead?

By Katri Pynnöniemi

Roughly ten years ago, in autumn 2000, the Russian Ministry of Transport launched its policy on the Russian international transport corridors. This initiative was introduced as a new aspect of Russian economic policy, aimed at channelling much-needed investments into the crumbling infrastructures and the transport sector in general. The development of the corridors was envisioned in the “Modernization of Russia’s transport system 2002-2010” federal target programme, which was approved in late 2001. As estimated in that year, investments in infrastructure modernization during the programme period would amount to 4.6 trillion roubles. The time is now ripe to analyze the results of this ten-year phase of development.

According to information issued by Minister of Transport Igor Levitin in March 2010, budget spending during the programme period increased fourfold from 70 billion roubles in 2002 to 283.1 billion roubles in 2009. The total investments in the programme in 2009 were 752.8 billion roubles, almost twice as much as in 2002. Yet, concrete results are poor, especially when it comes to the road sector. Vladislav Inozemtsev, the head of the Moscow Center for Research on Post-Industrial Societies, cites Rosstat figures according to which the length of automobile highways remained practically unchanged from 1995 through 2007. By adding local roads to these figures, the authorities have masked an actual nine per cent decrease in the country’s road system.¹

A comparison with China illustrates the scale of the problem. According to Minister Levitin, 23 thousand kilometres of road were built within the programme period (2002-2009). This is less than half the amount that China built in 2008 alone (53.6 thousand km). If the length of the road system is inadequate, the same can be said about its quality. It has been estimated that only 40 per cent of the federal automobile roads meet the requirements in terms of pavement standards and road width. In an international comparison, Russia ranks 118th out of 133 countries in terms of the quality of its highways, as indicated in the latest report by the World Economic Forum. According to experts in the industry, this is mainly due to outdated construction practices and massive corruption, a common hallmark of the sector.

Failures to deliver what was planned and the poor quality of the existing infrastructures are serious concerns when it comes to Russia’s global competitiveness and economic growth prospects. Dividing the 12 pillars of competitiveness identified in the above-mentioned report into four, Dmitry Medvedev, in his speech at the Krasnoyarsk Economic Forum in February 2008, emphasized the importance of institutions, infrastructure, innovation and investments for Russia’s development. It was against this backdrop that the Russian government approved a new federal target programme in May 2008 designated “development of the transport system 2010-2015”. It was estimated at the time that up to 21 trillion roubles (€583 billion) would be required to develop the transport system. This is comparable with the estimated total cost of €600 billion for the trans-European transport network in the EU area. Moreover, investments required for the development of the rail system by 2030 will amount to 13 trillion roubles (€361 billion).²

What these figures mainly demonstrate is the magnitude of the task ahead. One of the key questions is whether Russia will manage to create workable relations between state and non-state actors and to radically alter the current constellation of corruption and inefficiency in the state administration. The global

financial crisis and the subsequent economic downturn in Russia have already forced the government to reduce and reschedule the planned investments in infrastructure. This has made decisions on how and where the scarce resources will be allocated even more critical.

For example, the average annual figure of 650 billion roubles to be invested in upgrading and building the road infrastructure was slashed to 263.4 billion roubles in 2010. The planned investments in the road sector are roughly comparable to the Russian Railways investment programme, which amounts to 270.5 billion roubles in 2010. It is important to note, however, that government subsidies to the company in the same year total 141.4 billion roubles, including 60 billion roubles allocated to construction projects for the Sochi Olympics, and a total of 81.4 billion roubles in compensation for losses incurred in passenger and cargo transport. Furthermore, as indicated by the president of Russian Railways, Vladimir Yakunin, the company is seeking a minimum of 400 billion roubles in subsidies from the government over the next six years, including a deficit of 7 billion roubles in funds earmarked for the Sochi project.³ The Ministry of Finance has already pointed to the need to trim the investment portion of the budget for 2011 as well.⁴

As far as the international transport corridors are concerned, as indicated above, investments in roads, railways and other installations targeted at the international transport corridors have been slow in coming, or missed their ‘point of destination’ altogether. Nor has Russia been able to significantly increase its share in international transit transport. At present, approximately one per cent of the trade flows between Asia and Europe runs through Russia. At the same time, Russia has been consistent in its policy of decreasing the country’s dependency on neighbouring countries’ infrastructures vital to its energy exports. This has meant that installations which mainly serve the needs of the energy sector have been upgraded. The new oil terminal at Ust-Luga is the latest example of this trend. The new port is expected to be completed by 2012. The projected capacity of the port is from 25 million tons up to 50 million tons annually. Thus, it seems that Russia has succeeded in ‘opening a window to Europe’. However, if the current pace of deterioration of the infrastructure base of the country is not halted, the distance between Russian products and global markets is only set to increase, further jeopardizing aspirations for an ‘innovative path’ of development.

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¹ Novoe Vremya 10.3.2010.

² Pynnöniemi, Katri 2008. “The transport infrastructure in Russia: from modernization to development – fact and fiction”. FIIA Briefing Paper no 16.

³ Nezavisimaya Gazeta 1.3.2010.

⁴ Vedomosti 3.8.2009.

Growing role of sustained transport links and contribution to region's competitiveness – news from Lithuania

By Sigitas Brazinskas

Recent studies have shown that the biggest competition between companies appears not among themselves, but rather between various supply chains. While goods distribution service is performed, an appropriate attitude shows that costs mostly occur not in a company or companies, but outside their legal boundaries such as supply of raw material, components, distribution and sales. Thus it is essentially important to evaluate costs with the right approach from "beginning to the end" as all costs will be reflected in the final product price at the final sales point.

To this extent such attitude reaches the essence of a value chain management where any decision or solution makes considerable impact to the price for a customer as well as entire competitiveness where it might be a single company, country or region. There is no difference between product, service, region or country. Investment just in roads and railways is less reasonable if ports can't handle cargo or vehicles have to stand longly at the borders.

The goal of these activities is to offer the customer a level of value that exceeds the cost of the activities, thereby resulting in a profit margin. Therefore several cost drivers such as geographic location, timing of market entry, delivery time from one country to other where several countries are crossed, capacity utilisation and economy of scale play an important role.

Recent economic crisis has hit the Baltic countries most significantly in the EU: GDP went down in average to minus 15 % in 2009, unemployment rate is more than 10 %. Governments had to take appropriate measures to stabilise further decline. Every country had chosen different ways to stabilize own economies where the major aim remains to set preconditions to support it for sustainable and inclusive growth.

Despite negative news from various sectors such as industry, finances, tourism, retail in the Baltic countries in 2009, major region transport companies (it includes both passenger and cargo by air, sea and roads) have reported positive latest trends and indicators.

It is obvious that the Baltic countries finally get the real value related to transport when cargo and passenger flows start passing via the region in larger volumes. There are several transport links with significant benefit to contribute to Estonia's, Latvia's and Lithuania's economies and enhance region's competitiveness. Every link is unique in relation to transported cargo, passenger routes, port and airports geographic locations, utilised capacities, flexibility and other features.

All three Baltic countries largely depend on export and situation in foreign markets. Consumption had decreased as a result of the latest world economical decline there. In a such situation transport has started to play a crucial role to assure sustained cargo flows between more stable economic regions which were impacted less by the economic crisis such as Nordic countries, Germany, Poland and Far East countries. The Baltic countries are right in the middle between these large and economically stable regions. They can offer transport and logistic services and connect these regions. In this context Lithuania has a number of features which might be presented and exposed on the international arena. The news is that both Lithuanian state authorities and private companies have taken appropriate measures to enhance and explore arising business opportunities to link Europe and Far East regions.

To facilitate this growth Lithuania has contributed by arranging the Asia-Europe Meeting (ASEM) in October 2009 which aimed to facilitate developing of a balanced and sustainable transcontinental transport system - the gap to be bridged in a minister-level meeting. The ASEM was followed by the Asia-Europe Transport Development Forum with participants from transport companies. Further international conferences with presentations on existing shuttle train "Viking", Klaipeda port infrastructure development and reduced port duties, short waiting time at border cross were arranged in Finland,

Sweden, Kazachstan, on the way are Germany, Denmark, Russia (Kaliningrad), Belarus, Georgia and other countries.

Delivery time starts to play an essential role as never before. If cargo is delivered from Far East ports to Europe by sea transport within two months, products might become obsolete when they reach distribution centers in Europe. Railway connection takes just a few weeks, however here agreements between the states are very important. Latest news for the container train "Viking" inform that EU-Belarus border crossing takes just 30 minutes, goods are delivered fast from the original station to the destination, it is safe and environment friendly conveyance. Any cargo by road can be delivered from Klaipeda to Moscow within 24 hours. A strategic interest for the Baltic region countries represent a creation of a transit system and logistical services for dynamically developing cargo flow going through the territory of Belarus and Ukraine further to Russia, Turkey, Georgia, Kazachstan and other countries. The East-West Transport Corridor (EWTC) is gaining its credibility to be known on the map.

Environmental protection and climate change are also important indicators. As some cargo has to be handled from ships to road transport several times during shipping via Nordic ports, new ferry lines and sustain connection to railway transport are demanded.

Since Klaipeda port is ice-free, shipping route and delivery schedule are not impacted by cold climate conditions. Port has been modernized in the recent time and has more capacities to offer. The Lithuanian government aims to enhance port's competitiveness among the Baltic sea ports and has made several exemptions in duties. From March 2010 Klaipeda port started offering significant discounts for cruise, ro-ro liner and other incoming ships.

Lithuania has the European railway gauge from the Polish side with growing number of logistic facilities and opportunities along the border. New technology solutions are launched where vehicles can be reloaded on railway platforms and shipped further with minimal impact to environment, decreased number of trucks on roads and delivery time.

Lithuania already has remarkable achievements in transport development and offers diversified and flexible transport means (roads, sea, railway), combined delivery solutions (railway-trucks and vice versus,) various directions to neighboring countries (roads and European railway gauge), advantage as the short waiting time to cross the EU-Belarus border. This leads to a win-win approach for countries in the region as fast deliveries facilitate easier market entry, product distribution, sales, new customers, productivity, growing prosperity and competitiveness at the end.

However further success depends on two factors such as transport development and opportunity promotion. Since promotion is progressing at full speed, challenges for full fledged development are still ahead. Agreements between states for smooth cargo delivery, infrastructure investments, environment protection remain as key areas to be developed. Recent actions set by the Lithuanian government show that development is directed towards right direction and mutual benefit.



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The Baltic Sea Strategy and economic growth in the Baltic Sea Region

By Timo Laukkanen

The adoption of the EU Strategy for the Baltic Sea Region and its Action Plan was one of the autumn 2009 Swedish EU Presidency's highlights. The strategy and its action plan offer something for almost everyone. But are we able to finance the implementation of the agreed agenda, and are the implementation structures in place?

The goal-setting of the strategy – to make the Baltic Sea Region environmentally sustainable, accessible, attractive, safe and secure – is easy to share by everyone. We must, however, make sure that we can afford all the good endeavours that are listed in the Strategy and its Action Plan.

Sustainable economic development is a high priority for all of us. To achieve adequate growth we must ensure that our companies are winners in the global competition. This is not in conflict with the Baltic Sea Strategy goal-setting and we all seem to agree with that. In practise this means proceeding in balance with the available resources and without jeopardising the global competitiveness of our companies.

The economic crisis started in the second half of 2008 and 2009 was a tough year for the Baltic Sea states. Getting back to a solid growth path requires fostering competitive business environment. Even in the wealthiest Baltic Sea states stimulation of economic growth by borrowing billions can not continue forever.

Most of the required measures are in the hands of the national governments and parliaments, but re-gional cooperation can support the recovery of our interlinked economies.

From Lisbon Agenda to EU2020 strategy

The Lisbon Agenda, which was launched in 2000 to turn the EU into the most competitive and dynamic knowledge-based economy in the world by 2010 failed to meet its target. This concerns both the whole of the EU and the Baltic Sea region. However, it was not a total failure and a lot was achieved. Work on the Lisbon issues must now be continued under the new EU2020 strategy.

EU, regional and national business organisations proposed many Lisbon agenda recommendations in their statements and other contributions to the preparation of the Baltic Sea Strategy and its Action Plan. Those proposals are valid today as well.

Business-friendly daily operational environment

To secure sustainable economic growth we must improve the daily business environment to ensure global competitiveness of our companies. Surveys that have been made among Finnish companies underline the need for well-defined laws, regulations and instructions, custom-oriented information services and prompt binding preliminary rulings especially in customs, competition, taxation and environmental issues. This and a wider use of e-services will also help in cutting expenditure in companies and public administration.

All costs and benefits of the introduction of new laws and regulations that have direct or indirect effect on business should be carefully evaluated and self-regulation like recommendations on Corporate Governance should be used more widely.

No to protectionist measures

Liberal and well-functioning import, export and investment policies have been crucially important for the success of the Baltic Sea companies. A vast share of their growth has come from international operations and the share of exports has traditionally been high in most of the Baltic Sea economies.

The global economic crisis has raised protectionism which limits the export potential. Despite of the possible short-term

positive effects from protectionist measures the Baltic Sea states should continue active promotion of free trade and investment liberalisation.

To further facilitate trade and investment inside the region the Baltic Sea Business Advisory Committee has proposed that the Council of the Baltic Sea States should prepare a study on the current state, problems and possibilities of trade and investment liberalisation in the region. Unfortunately too often economic problems lead to a tunnel vision and short-sighted problem-solving methods instead of looking for best practises abroad.

Infrastructure to support business

Long distances and remote location in the north of Europe require strong input in infrastructure to minimize the cost of transport and logistics. For Finnish companies these costs are one third higher than for most of the Central European companies. In addition to increasing domestic investments the Baltic Sea states should strengthen their cooperation to speed up TEN and other cross-border investments.

Concerted efforts are also needed to prevent the adverse effect of the introduction of the International Maritime Organisation (IMO) decision on new marine fuel sulphur regulations from October 2008. The decision sets diverse standards for environmental requirements in northern and southern Europe. The strictest rules relate to the Baltic Sea, the North Sea and the English Channel. In practice this means a change from heavy fuel oil to more expensive distilled fuel by 2015 in marine transport. This will drastically affect the costs of export and import industries as the cost of sea freight will increase by 30-50 %.

Environmental protection is high on the agenda of the Baltic Sea business community Cleantech being the flagship of business in this area. We must only ensure that whatever decisions are made their costs and effects should be carefully examined and weighed.

Need to address strategy implementation

The time since the adoption of the EU Strategy for the Baltic Sea Region and its Action Plan is short and it is easy to understand that practical results take time. The business emphasizes the urgency of taking action and would like to see a solid structure to be in place for the implementation of the Strategy and its Action Plan.

The need for regional cooperation is obvious. However, regional cooperation issues seem to be hanging somewhere between international, EU and domestic affairs. Preparation for ministerial conferences gives a temporary boost to the Baltic Sea Cooperation, but we should not be satisfied with that. The EU Strategy and its Action Plan must not be left floating free on the waves of the Baltic Sea between annual high-level meetings.

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De-securitize the Russia policy of the West

By Hans-Joachim Spanger

Securitization is not just a term in finance to distribute risk. It has also made its way into international politics where it rather creates risks: Coined by the Copenhagen School and Ole Wæver, it essentially refers to the transformation of a given issue into a matter of security and can be regarded as an extreme version of politicization. It quite often acts as a diversionary tool - and Russia's peculiar relationship with NATO is a case in point.

On 29 November 2009 Russian President Dmitri Medvedev launched his draft of a "European Security Treaty". Having long called for an overhaul of the current system in order to ensure that security on the European continent becomes truly "indivisible" - and not dominated by NATO -, Russia has finally come up with a concrete proposal. The proposed measures look fairly modest as compared to the alarmism with which both sides have for long decried their mutually exclusive security interests. Essentially Russia calls for a - legally binding - pledge to consult each other, bilaterally, multilaterally and in a conference format, depending on the severity of actions that might affect the security of any party to the proposed treaty.

Not much later, in January 2010, the "Institute of Contemporary Development" issued a report on "Russia in the 21st Century: Visions for the Future" which amounts to no less than an OECD blueprint for the comprehensive modernisation of Russia. This is in itself not extraordinary, except for the fact that Medvedev is chairman of the institute's Board of Trustees. According to the report, comprehensive modernisation also entails a turnaround in Russia's foreign policy, heading for membership in the EU and also in a "substantially changed" NATO and making the country's external relations conditional on how they contribute to its internal development - the latter being the frequently stated guiding principle of Medvedev's "extremely pragmatic" foreign policy.

The bold vision and the modest proposal are intimately linked - by the person of the Russian President and no less conceptually as his draft treaty proposes rules of engagement that try to reconcile Russia's claim to Great Power status and its European (and ultimately Western) vocation. The West, however, is rather intent on decoupling. Ready to pocket the vision as reinforcing the Western trajectory, it has not yet shown willingness to consider anything possibly impeding its own freedom of action. This is short-sighted as the security treaty can act as a building bloc towards the modernisation project and in overcoming the mutual resentment and notably Russia's obsession with NATO that obscures the cooperative opportunities in Europe - and ultimately Medvedev's modernisation project.

It is indeed a long way to joining an organisation that Russia's new military doctrine, signed into force by President Medvedev on 5 February 2010, stipulates as constituting the No.1 external "danger". This official statement is just another expression of the deeply entrenched Russian NATO syndrome.

There has been virtually no change in Russia's attitude over time: the same grievances have been expressed in the same way since 1994, when Russia was pondering over its accession to NATO's "Partnership for Peace" programme. From that time on Russia has consistently called for a universal security system based on equality and argued against "new dividing lines in Europe". And it left no doubt that Russia had to react "adequately" to NATO expansion. The current grievances are not any different and list: (a) NATO's willingness to expand further, (b) the anti-Russian or outright antagonistic attitudes of many (new) members, (c) NATO's desire for military superiority, or (d) the military bases and installations close to Russia's borders, including land- and sea-based missile defence systems.

These grievances have by no means been confined to those parts of Russian society with vested interests in a confrontational

posture such as the Military Industrial Complex. Take, for instance, another report from the "Institute of Contemporary Development" on Russian-US relations, in which Aleksei Arbatov gave some hints on the broad-based consensus: although acknowledging a "low likelihood of a premeditated wide-scale military attack on Russia", he claims - very much in line with Andrei Kozyrev's famous Helsinki speech in 1992 - "disastrous results" in case of NATO's further expansion and in particular with regard to the inclusion of Ukraine.

And finally there is a kind of conceptual mismatch between, on the one hand, the emphasis on quite up-to-date objectives (notably that the overall aim of modernising Russia can best be achieved in close cooperation with the most advanced countries in the West) and new trans-national threats (such as terrorist attacks, trans-national organized crime, WMD proliferation, illegal migration, and climate change) and the concurrent reference to fairly traditional threat perceptions, on the other, when it comes to NATO and to the US. So far the latter have taken precedence.

These factors clearly show that one can hardly attribute Russia's stance on NATO to Putin and the authoritarian departure of Russia from the mainstream of European politics, as pundits of the democratic peace theory would have it. Rather it is much more deeply seated and of a structural nature to be reckoned with. One is the Great Power aspiration - nothing peculiar to Russia. There is an ostensible call that Russia will never accept being relegated to the sidelines of the civilized world. With the Great Power comes the quest for an exclusive sphere of interest, the notorious bone of contention between Russia and the US in particular. A third - and more recent - factor is the change in the international balance of power, most notably the rise of the BRIC countries (Brazil, Russia, India, China). This has given the impression of providing new openings. In fact, the issue of "multipolarity" that became much more tangible along with the BRIC, is the only thing that has visibly changed in favour of Russia.

Having piled up mutual misunderstandings and accusations for more than a decade, one lesson seems obvious: NATO cannot rest on its benign rhetoric and keep wondering why Russia does not subscribe to it. If it is to improve relations with Russia, the West clearly has to move. In light of the prevailing balance of power it clearly can do so without undermining its standing or less so its existence. And the opportunity provided by President Medvedev, who ultimately refers back to Gorbachev's vision of a Common European Home, should not again be squandered.

NATO cannot expect to escape pan-European rules of conduct indefinitely - if it does not want to alienate Russia indefinitely. Consider the alternative: a quite traditional concert of great powers, which would inevitably come about if a comprehensive rule-based system does not materialize. And this would even further broaden and lift security concerns to undue prominence. Therefore the urgent need to seriously negotiate the proposed security treaty.

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Arctic security – beating the alarm for the wrong reasons

By Sven G. Holtsmark

Recent years have witnessed a surge in interest in Arctic issues, including Arctic security. This became particularly evident from August 2007, when the planting of a Russian flag on the North Pole sea bed resulted in a frenzy of international attention, much focused on the allegedly growing potential for violent conflict in the region. The good news is that much of the alarmist coverage of Arctic issues has been based on misperceptions of the issues involved. As a matter of fact, there are good reasons to believe that the Arctic will remain a region of pragmatic and peaceful cooperation among the major stakeholders. The bad news is that alarmist misperceptions in the public discourse threaten to influence policy makers' decisions. If so were to happen, we will have one more example of a dire prophecy contributing to its own fulfilment.

Two closely related factors are behind the re-emerging focus on the Arctic – climate change and the potential significance of still-unexplored Arctic petroleum resources. Climate change – because the gradually reduced ice coverage in parts of the Arctic Ocean in the coming decades may open the region to large-scale economic activity to a degree never before experienced. To mention only one major implication: Reduced ice coverage may open the Arctic Ocean to new sea lines of communication (SLOC) between Asia, Europe and North America. Petroleum – because recent stipulations suggest that on- and off-shore fields north of the Arctic circle may contain as much as 30% of the world's undiscovered reserves of natural gas, and 10% of undiscovered oil. This second factor is reinforced by the first factor, climate change – reduced ice coverage has the potential to open additional off-shore fields for exploitation.

Thus, there are solid reasons behind the increasing focus on the Arctic. But there are equally solid reasons to tune down both expectations of a rapid opening-up of the region for commercial activity, and the alarmist prophesies of the Arctic as a breeding ground for future conflicts. Notably, the exploitation of new Arctic off-shore fields involves formidable technological and environmental challenges. Much due to this, extracting petroleum from these fields will in most cases be extremely costly, with a corresponding need for consistently high prices of gas and oil. The growing uncertainty about the prospects for the development of the Shtokman natural gas field in the Russian Exclusive Economic Zone (EEZ) in the Barents Sea illustrates the point. As regards the potential for new Arctic SLOCs, there are huge uncertainties about when, or if at all, these will become economically viable to the degree that they will start competing with today's traditional sea lanes. Last year's passage of two German ships along the Northern Sea Route did nothing to alter this picture.

Discussions of Arctic security often emphasise the existence in the Arctic of unresolved maritime borders and legal disputes. This includes firstly a number of not finally settled delimitations between Arctic Ocean states' EEZs (most importantly between Russia and Norway, US and Canada, and US and Russia) and disagreements about the status of Arctic waterways (parts of the North-West and North-East Passages). Secondly, some Arctic Ocean littoral states claim, or are expected to claim, control over their continental shelf far beyond the 200 nautical EEZ. Some of these claims are, or may be, overlapping.

To some analysts and commentators, the combination of unresolved delimitation issues *and* presence of petroleum almost by default points towards conflict. This needs not be the case. Russia's and the other littoral states' claims for an extended continental shelf follow directly from the implementation of the 1982 United Nations Convention on the Law of the Seas, UNCLOS. Some of these claims have already been settled, others are still to be made or are in the process of being evaluated according to UNCLOS procedures. Equally

important: The most promising potential petroleum reserves are in areas of undisputed national jurisdiction. The much-publicized overlapping claims (Russia, Canada, Denmark) close to the North Pole are hardly related to the prospects of finding petroleum – which is expected to be almost non-existent in these areas. On the other hand, it would be surprising if states did not make the full use of available legal means when they are invited to present territorial claims.

Rather than pointing towards conflict, the prospects of increasing economic activity in the Arctic Ocean will by themselves present strong incentives for Arctic cooperation. Large-scale exploitation of technologically and environmentally challenging Arctic Ocean petroleum fields is only imaginable under conditions of regional peace and stability. This also applies to the transportation of oil and gas out of the region, and to the exploitation of mineral resources on the Arctic Ocean seabed. Moreover, security of demand is as important for the exporting country as security of supply for the importer. This is particularly true in the case of an economy as heavily dependent on energy exports as Russia's. This, together with the long history of successful regional cooperation on resources management in the region, even between Cold War foes, gives cause for optimism. The Arctic's post-Second World War history of stability and pragmatic cooperation is actually one of the factors attracting global attention to its still-unexplored petroleum and mineral resources.

In the Arctic as elsewhere there is, and is likely to remain, the residual risk that disputes over national interests can lead to violent conflict. This danger will increase if policy is developed based on basic misperceptions. It can be argued that the state of Arctic security in the long run will be determined primarily by the bilateral and multilateral interaction between Russia and the other states bordering on the Arctic Ocean. This, in turn, implies that Arctic affairs will be intertwined with the broader picture of relations between Russia and the West. However, this will not be a one-way relationship. Given the importance of the Arctic region for the Russian economy and its military posture, and the increasing awareness of the importance of Arctic issues in Western countries, relations with Russia in the Arctic may turn out to be one of the determinants of the evolution of relations between Russia and the West in general.

With this in mind, policy makers should focus on the potential for expanding cooperation to further develop robust regimes for the handling of issues such as ecological safety and living resources management, the challenges of opening and operating new SLOCs, and the handling of security threats emanating from outside the Arctic Ocean region. In many cases, framework regimes are already in place, so there is no need to start from a "blank sheet".

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Russia's modernization campaign – towards a high-tech Potemkin village?

By Philip Hanson

For the past six months or so, Russian politicians have been making speeches about modernization. Prime Minister Vladimir Putin now heads a 26-member government Commission on High Technologies and Innovation. President Dmitrii Medvedev heads the presidential Commission on the Modernization and Technical Development of the Russian Economy. If technological progress requires competition, the president and prime minister are certainly providing it.

But how serious is all the talk? The short answer is that it is serious but unlikely to produce results.

Under different names, the topic of technological catching-up has been a staple of Russian political discourse since Peter the Great. Under the heading of 'diversification' it was actively discussed among policy-makers in the latter part of Putin's first presidential term. In 2003 the Ministry of Economic Development and Trade (as it then was) proposed various policies for stimulating manufacturing at the expense of the natural-resource industries. The subsequent hiking of taxation on oil companies was intended in part to achieve this.

The current round of campaigning goes back to 2007-08. This was when the famous Putin Plan for the upgrading of Russia into a leading-edge knowledge economy by 2020 took shape. The latest burst of political activity, however, began with several pronouncements by Medvedev last year, including his address to the Federal Assembly in September. He called then for Russia to cease to be 'a primitive raw materials economy' and instead to become 'a smart economy producing unique knowledge, new goods and technology of use to people', particularly in medicine, IT, telecoms and space, as well as in the energy sector.

Both Putin's and Medvedev's speeches on the subject indicate that they see Russian modernization as a top-down, state-led process. It is true that they both advocate investments in education and the reduction of barriers to the development of small firms – which free-market liberals would agree with. But the emphasis is on state programmes and large companies – the latter either state-controlled or working closely with the state.

The presidential modernization commission has fewer administrative powers and less funding than the government commission, but it has in recent months made the running so far as proclamations are concerned. Here it has the advantage of the presentational skills of presidential aide Vladislav Surkov. It also has the substantial merit of having Russia's most effective economic administrator, Anatolii Chubais, on board. It is the presidential commission that is establishing a 'Russian Silicon Valley', to be built at Skolkovo, near Moscow.

Russian liberals have been highly critical of the whole approach, whether from Putin or from Medvedev. Yulia Latynina sums it up: 'Modernization is impossible in Russia because there can be no nanotechnologies in the Byzantine Empire'. The liberal view is that state industrial policy, even if it is sometimes successful in some countries, cannot succeed in present-day Russia, where the state machine is corrupt and grossly inefficient. What liberals want to see is reform that will allow a properly independent judiciary, the rule of law, protection of property rights and the removal in

general of impediments to competition. This in turn, in the view of most liberals, requires political liberalization: the introduction of open competition into politics. Without those changes, the grand state schemes envisaged by the president and the prime minister will create only large black holes in the state budget.

There are other difficulties. Russian science and technology are weak. There are plenty of researchers, but they are aging, under-paid, under-motivated and still working in semi-seclusion from the outside world. In September last year a group of expatriate Russian scientists sent an open letter to the Russian President and Prime Minister; they deplored what they described as the 'catastrophic state' of Russian fundamental science. The letter's signatories were working in leading universities and research institutes in the US, UK, Germany, France, Australia and other countries. Their judgement carries a lot of weight.

Neither higher education nor applied science is in good shape either. In the widely-used THE-QS rankings of world universities, Russia has four in the top 500, against 10 Indian and 11 Chinese universities. World Intellectual Property Organization data for 2007 show the following percentage shares in all patent applications outside the country of residence of the first-named patentee: India 0.48; China 0.90; Russia 0.14. Anatolii Chubais himself has pointed out that there is very little private-sector demand for R&D in an economy dominated by industries that are not R&D-intensive.

There has been some clarification and improvement in modernization policies. At first all the emphasis was on Russia somehow, in a decade, becoming a major source of products and processes new to the whole world. Now both the presidential and the government commissions have recognised that catching-up by absorbing technologies new to Russia but already established elsewhere has to be part of the agenda. But it is still an agenda in which large state-controlled entities linked to the old military industrial complex – the United Shipbuilding Corporation, the United Aircraft-building Corporation, Rostekhnologii, Rosnanotekh, etc – are assigned key tasks. Rosnano is due to become a joint-stock company instead of a legally-anomalous 'state corporation' by the end of 2010, which is a modest improvement. Anatolii Chubais has used some of Rosnano's resources to establish a venture capital fund, to encourage small, high-tech start-ups. But the basic approach remains top-down.

Overall, the prospects for the modernization campaign are not good.

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Sea level rise in the Baltic Sea

By Martin Vermeer

The rise in global temperatures due to the anthropogenic greenhouse effect is already causing the level of the world's oceans to rise. These two related processes will accelerate spectacularly in decades to come, almost independently of success in reducing greenhouse gas emissions. What impacts will this have on countries around the Baltic Sea? This question naturally contains two sub-questions:

1. How locally representative is global mean sea level rise?
2. How much sea level rise is cancelled out by the post-glacial land uplift ongoing in Fennoscandia?

Methods of sea level monitoring

Two complementary techniques are widely used to monitor sea level: tide gauges, and satellite radar altimetry. Traditional tide gauges or mareographs monitor variation in sea level relative to the solid Earth at the gauge's location. In satellite altimetry, radar pulses bounce off the sea surface below a satellite, the orbit of which is precisely tracked using the Global Positioning System. Unlike tide gauges, which only measure in fixed locations, the satellite in its orbit scans over time the full extent of the world ocean also away from coastlines. It thus gives a much better measure of the *global mean* of sea level – albeit only from 1992 onward, when Topex/Poseidon, the first satellite of this kind, was launched. Tide gauges again have been in widespread operation for well over a century.

Several researchers have studied sea level rise over the instrumental period: [1] and [2] arrived at similar results despite using very different, clever analysis methodologies. Over the 20th Century sea level has risen by 17 ± 5 cm, and is distinctly accelerating.

Recent estimates of future global sea level rise

Non-scientists may find it challenging to gain a coherent understanding of the state of the science on climate change and sea level rise. One needs to place available sources into a “credibility hierarchy” – see, e.g., [3] –, before using them to build a consistent picture to base policy making on. This is in essence what the Intergovernmental Panel on Climate Change (IPCC) endeavours to do globally. Never rely on one source, always consider the full span of the literature. Even so, not all reported results are equal: appearance in well-reputed peer review journals, authors' publication history, replication by others, methodological independence, etc. all matter.

In recent literature, projected sea level rise over the rest of this century has seen an upward adjustment [4,5,6,7,8]. Whereas the IPCC's Fourth Assessment Report (AR4, [9]) gives a range of 18 to 59 cm – noting the uncertainty in dynamical ice flow processes, which could add surprises – these more recent papers all arrive at higher to much higher ranges, like Pfeffer et al.'s 80-200 cm [8].

Of these papers, only [8] considers physical ice flow processes; the other five use “semi-empirical modelling”: extrapolation of an empirically found relationship between the rate of sea level rise and some function of temperature. As extrapolation is inherently risky, one would wish for further independent estimates based on better physical understanding of ice sheet dynamics. Work is ongoing aimed at resolving this conundrum and may bear fruit in the years ahead. It would seem wise to allow these results to inform major adaptation commitments, even in the 2050 time frame.

Sea level rise in the Baltic Sea

For the Baltic area, there are further considerations. Firstly, impact is diminished by the ongoing post-glacial land uplift in Sweden and Finland. Secondly, a less known but important effect is the “fingerprint” of continental ice sheet melt due to the change in gravity field (geoid) when the mass from an ice sheet redistributes itself over the world ocean. E.g., the molten ice from Greenland will mostly flee to the southern hemisphere, while in its immediate vicinity, sea level will even subside. Fennoscandia straddles the zero line.

Several authors, e.g., [10,11], have painstakingly modelled this effect. The overall conclusion is, that the local effect of sea level rise on the Baltic coasts may be only some 60-80% of the global mean

value; less on coasts, like Ostrobothnia, where a powerful land uplift is ongoing; more on the German coast where there is subsidence.

Assessing the potential for damage and appropriateness of adaptation measures is again a very broad, specialized subject of its own into which I am not equipped to venture.

Conclusion

Before the century is out, Nature will have the last word, vindicating the scientific community for sounding appropriate warnings. Those wishing to be on the right side of history, be they policy makers or informed citizens, must resist wishful thinking and lending credence to the loudest voices. Instead, they need to recognize that domain expertise matters: either respect it, or independently acquire it. There is no royal road. As C.S. Lewis writes (*Miracles*, Ch. 6):

“[But] the man who will neither obey wisdom in others nor adventure for her himself is fatal.”

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Endnotes

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The beginning of the end of European integration?

By Philipp Schwartz

Macro-regional strategies or at least the political will to create such show up right now all around Europe. First experiences are already made with the implementation of the EU Strategy for the Baltic Sea Region. At the same time is ongoing a public consultation process for a strategy of the Danube region to be submitted to the European Council by the European Commission by the end of this year. There are thoughts on an Alpine Strategy, and a North Sea Strategy has been mentioned. As much benefit macro-regional strategies as such bring for their respective macro-region, isn't this approach scrutinizing the very idea of European (Union) integration? By identifying macro-region after macro-region, addressing the challenges of and using the opportunities within a macro-region, is this not "the beginning of the end" of European integration? Don't we put at risk the great achievements if we start splitting up again into various macro-regions? Do we eventually need later a "Strategy for EU Strategies" to coordinate the various macro-regional efforts? The answer would be "no" as the EU Strategy for the Baltic Sea Region or any other macro-regional strategy is to be seen rather as a coordination tool. It is about coordinated efforts for the benefit of a macro-region, herewith for the cohesion of the EU as a whole.

Tools are there to be used to turn priorities into action. "From Priorities to Action" was also the name of a seminar organised by the Central Baltic INTERREG IV A Programme 2007-2013 (www.centralbaltic.eu) in March this year in Tallinn. "From Priorities to Action" could also be the name of the process initiated and supported by the EU Strategy for the Baltic Sea Region. Although in this context one should rather speak about "From Priorities to *Coordinated* Action" as the Baltic Sea region definitely did not lack actions in the past. But it is not the pure number of actions which counts. Doing something does not necessarily create added-value beyond the action itself. The Central Baltic INTERREG IV A Programme 2007-2013 provides a framework to create such added-value – a framework where tackling problems, challenges and development areas which need combined cross-border efforts can be brought to life, not only under the Programme itself, but also under the EU Strategy for the Baltic Sea Region.

But what comes then, when problems are solved, challenges tackled and development areas developed, hence priorities achieved? Priorities again! As certain priorities will be achieved by certain actions, new problems, challenges and development areas will appear, and new priorities will have to be set. It would be important that this setting of new priorities would be a natural process where priorities derive

from concrete and existing needs and not one where priorities are "formulated wishful thinking". And when is "then"? "Then" is after 2013, when the present programming period 2007-2013 is over. The discussions on post-2013 have started and it is now time to influence the outcome. Let's therefore return to the opening question if the EU Strategy for the Baltic Sea Region is "the beginning of the end" of European integration? No, we are rather at "the end of the beginning" of a new, better coordinated set-up for (macro-regional) cooperation. However, whether this new set-up is vital depends to a large extent on how the future programming period 2014 onwards will be shaped. For the time being, with the vast number of funding programmes and possibly soon several macro-regional strategies within the EU, it is important to be open minded and to look beyond one's own core business to see one's chances as well as duties regarding European integration now and after 2013. In this context, the Central Baltic INTERREG IV A Programme 2007-2013 could be seen as a "little" macro-regional strategy as the programme consists of three (sub-)programmes all with their own specific needs and resources, however the same three priorities. One could therefore say that the Central Baltic INTERREG IV A Programme 2007-2013, somewhat similarly to the EU Strategy for the Baltic Sea Region, aims at coordinating and aligning the activities and funding in these three geographies striving for one Central Baltic area which is attractive to live in, invest into and to travel to. This is not to be done by neglecting the distinctive characteristics, but by using the different strengths complementing each other. The future can therefore not be to merge all existing funding programmes into the one big pot providing funding to the region like a watering pot. Definitely, certain topics and geographies will also in the future need special attention and support. But the overall set-up could possibly be aligned and simplified. At least it is worth discussing – now!

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Latvian-Russian relations – a new thaw?

By Nils Muiznieks

Relations between Latvia and Russia have generally been quite cool over the last 20 years with occasional periods of “deep frost.” Recent developments have led some observers to speak of a “new thaw” in relations, as contacts at various levels have intensified. However, old sources of tension – Russia’s desire to maintain its influence in Latvia, Latvia’s minority policy, and disagreements surrounding history – persist and can be activated at little notice. This suggests the need for caution and a long-term perspective, as well as the necessity of building institutionalized knowledge about Russia in Latvia to inform Latvian policy-making and lay the groundwork for a more active Latvian role in NATO, EU and Baltic Sea region discussions about cooperation with Russia.

The legacy of the last 20 years includes many ups and downs in Latvian-Russian relations. From the restoration of independence in 1991 until 1994 and the signing of an interstate agreement, tensions revolved primarily around security, as Russia delayed in withdrawing its troops and shutting down an early-warning radar station. The citizenship status and language rights of Latvia’s large population of post-war Russian-speaking settlers have surfaced as acrimonious bilateral issues at more-or-less regular intervals. In the late 1990s and early 2000s, Russia strongly objected to Latvia’s moves towards NATO and sought “compensatory measures” for acquiescence to Latvia’s EU accession. In 2002, as part of its policy of lessening its dependence on transit countries, Russia diverted oil exports from Latvia’s Ventspils port to Primorsk, thereby downgrading the importance of Latvia in Russia’s important hydrocarbons export sector. In 2005 history complicated relations, as Latvia’s efforts to make reference to the 1920 Soviet-Latvian Peace Treaty prompted Russia to scuttle a border agreement. Moreover, the Latvian President’s initiatives to educate the world about Latvian history on the 60th anniversary of the end of World War II struck some raw nerves in Russia.

After Latvia’s accession to the EU and NATO, relations slowly began to change. Some issues, such as trade and the visa regime, were no longer on the bilateral agenda, but shifted to the level of EU-Russian relations, while accession to NATO eased existential security concerns in Latvia. 2007 marked a turning point, as a political and business consensus in Latvia emerged on the need to move forward in relations with Russia. After much Latvian soul-searching, agreement was reached on a Border Treaty in which Latvia abandoned all claims to territory lost to Russia after World War II. Since then relations have thawed considerably.

After years of delays, the intergovernmental Latvian-Russian commission was finally constituted and has met regularly over the last two years to discuss economic cooperation, humanitarian issues, border demarcation, etc. Russian Foreign Minister Sergey Lavrov is scheduled to visit Riga in Spring 2010 to sign bilateral treaties on cooperation in the fight against crime, cooperation in the field of tourism, and the prevention of double taxation and tax evasion. Recently, Latvian President Valdis Zatlers accepted an invitation to go to Moscow on May 9 to attend ceremonies commemorating the 65th anniversary of the end of World War II – a controversial step within Latvia, since the end of World War II marked the loss of Latvian independence and the onset of Stalinist repressions. The Riga City Council has developed close cooperation with Moscow, and the two city governments plan to organize a gathering of mayors from the Baltic Sea region and Western Russia in Riga in July 2010.

Political dialogue has been supplemented by concrete cooperation. In mid-2009, the United States began to use Latvian ports to ship non-lethal equipment by rail through Russia and Central Asia to resupply its forces in Afghanistan. The emergence of the Northern Distribution Network has implied

intense cooperation not only between the US and partners traditionally suspicious of NATO in the East, but also between Latvia and Russia in the realm of customs and border-crossing. Since Latvia’s accession to the EU, Latvian-Russian trade has boomed: from 2003 through 2008 the value of imports from Russia increased by a factor of three, while the value of exports to Russia increased almost sixfold. While trade in 2009 decreased due to the economic crisis, Russia remains Latvia’s 3rd largest export market and second largest source of imports. Russian tourists are increasingly common in Riga, Jurmala and elsewhere in Latvia – 2009 witnessed a 22% increase compared to 2008 in visas granted to tourists from Russia.

Despite the increased propensity to talk, trade and visit, traditional sources of bilateral tension remain. Notwithstanding Latvian-Russian cooperation to facilitate military transit, the Russian-Georgian war in August 2008 rattled nerves in Baltic capitals and prompted Baltic officials to request reassurance from NATO allies in the form of contingency planning, military infrastructure and NATO maneuvers in the region. Russia, in turn, engaged in saber rattling in autumn 2009, organizing two large anti-NATO military maneuvers in Belarus and Western Russia (Zapad 2009 and Ladoga) based on the improbable scenario of ethnic Poles in Belarus rising up and terrorists from Lithuania attacking Kaliningrad.

Disagreements over history and minority policy continue to resurface in various fora. While Russia has sought to stem the publication of critical analyses of the past within Russia, it also created a commission to combat historical “falsification” by its neighbours, including Latvia. One new arena for Latvian-Russian memory battles is the European Court of Human Rights, which has passed rulings on a number of cases dealing with fraught issues from the past. The Court is scheduled to pass a decision soon on a controversial case involving a former Red partisan commander named Vasilij Kononovs, whom the Latvian courts tried for war crimes but whom Russia hails as a war hero. Russia has become more active in defending its “compatriots” in Latvia by funding non-governmental organizations and granting Russian citizenship to Latvian residents. All the while, Gazprom and Itera – Russia’s natural gas giants – continue to maneuver within Latvia and to cultivate local political allies in their effort to maintain Latvia’s dependence on Russian gas and energy networks.

Interestingly, after years of denying the importance of the Soviet legacy, researchers in Latvia have recently taken a new interest in the post-Soviet space. The University of Latvia has created an inter-disciplinary doctoral programme in post-Soviet studies. This suggests not only recognition of the lingering importance of the Soviet legacy as a brake on development, but also a growing appreciation of the importance of analyzing Russia and its influence in Latvia. Given Latvia’s membership in the EU, increased Baltic-Nordic cooperation in studying Russia is necessary to generate a common understanding of opportunities and challenges in EU-Russia relations. Here, there is also much room for cooperation with Russian colleagues.

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Minority rights in the Baltic States

By David J. Galbreath

Estonia, Latvia and Lithuania, like most other states in Central and Eastern Europe, have significantly large minority communities of minorities. These minorities range from traditional Livonian and Old Believers to Soviet era Russians, Belorussians, Poles, and Ukrainians. Of these minorities, it has been the so-called 'Russian-speakers', who make up a larger group than that of ethnic Russians along, that have gathered most attention. This attention has sprung from the several factors. The first is that the majority of these minorities arrived after the 1940 annexation of the Baltic States into the Soviet Union. The second is that these 'Russian-speakers' have maintained a close affinity with Russian culture and the Russian state. The third factor is that, given the first two characteristics, the 'Russian-speaking' minorities have remained politically sensitive in the three Baltic States, but particularly more so in Estonia and Latvia. For this reason, the European Union, Council of Europe and the OSCE focused a great deal of attention on minority rights in the Baltic States prior to the 2004 EU enlargement. This short article discusses the underlying themes of minority issues in the pre-enlargement and post-enlargement phases.

Why the Fuss?

Baltic independence practically came at the end of August 1991, following attempted coup in Moscow that same month. Prior to independence, the national movements were split between 'restorationists' and reformists who had different opinions of whether to include the Soviet era minorities or not. The 'restorationists' were politically more successful in Estonia and Latvia, who pushed for a restrictive citizenship law that would only allow automatic citizenship for those who either held or direct descendant held citizenship in the inter-war period. In Lithuania, the reformers instituted an inclusive citizenship law that affected both Russian-speakers and Poles to allow them automatic citizenship for any who had resided in Soviet Lithuania for 10 years or longer. To say that Estonia and Latvia went one direction and Lithuania went another hides a great deal of difference between the former pair and obfuscates societal tensions in the latter, especially in its relations with Poland. Nevertheless, several things can be said about this early period. The first is that despite the eruption of ethnic conflict in other places in the former Soviet Union such as Moldova, Georgia and Azerbaijan, political tensions did not lead to societal conflict. The second is that on the whole, the situation for the average 'Russian-speaker' has remained the same, in terms of statelessness and political alienation. Finally, despite often vitriolic rhetoric between the Russian and Baltic governments, the Russian Federation has had little influence on the political and social circumstances of the 'Russian-speaking' communities in the Baltic States.

European integration arguably had the greatest affect 'Russian-speakers' although this should not be overstated. The protection of minority rights was a part of the Copenhagen Criteria, which was used as a rough guide to hold acceding-states to a minimum requirement of EU standards. The EU worked together with the Council of Europe and the OSCE High Commissioner on National Minorities to pressure Estonia and Latvia in particular into changes. Such changes occurred in the two Baltic states when children in 1992 and after were granted automatic citizenship should their parents make the request. Other than making sure that minorities had access to naturalization procedures and insuring that the Baltic states meet the standards set by their own legislation, European

conditionality had a limited affect on minority communities. In other words, while the pre-enlargement period illustrated a great deal of protection, European organizations were largely unwilling to move to a position of empowerment.

What did enlargement change?

Following the May 2004 accession of the Baltic States into both the EU and NATO, few circumstances have changed from the pre-enlargement phase. The Baltic governments have done little to improve the circumstances of stateless minorities in the short term. In the long term, it is a reasonable to argue that the changes in the education law in Latvia, and to a lesser extent Estonia, will lead to positive changes in terms of citizenship. Prior to 2004, Latvian schools were divided between those that taught in the state language and those that taught in minority languages (e.g Russian, Polish). At the beginning of the 2004 school year, minority language schools were forced to teach a 60/40 split between the state language and minority language respectively. The preceding year and beginning of the 2004 school year produced a series of protests against the education reforms, under banners such as 'Save our Schools'. Minority groups did not like the reform's affect teaching minority languages to children, while the state assumed that linguistic integration could only happen at an increased rate of fluency in the state language. Following the 2004 school year, there has been little in terms of collective opposition to the education reforms.

Things turned even worse in Estonia in April 2007 following the parliamentary elections that returned the governing coalition to power. In an increasingly hostile atmosphere, the government acted on an electoral promise to remove the so-called 'bronze soldier' from near Old Tallinn. As the heavy equipment was brought in, the protest began to stop the removal of the memorial statue. The protest turned into a riot that ravaged the old town and surrounding city centre streets for several nights. For Estonia, it was an indication of how little the Russian-speaking population had integrated into Estonia. For the Russian-speakers, the incident was further indication of how little the Estonian state cared for the minority community and a collective sense of sacrifice during the Second World War.

While other states have come and gone, there has been little in terms of collective violence in any of the Baltic States. The greatest problem for majorities and minorities alike is the financial crisis that has affected Baltic states in general and Latvia especially badly. The Georgian-Russian war of August 2008 also illustrated the dangers to the Baltic governments of the security risks in ignoring minority issues and taking an excessively hostile approach with Moscow. While enlargement has helped insure that the same that happened to Georgia could not happen to the Baltic states, the post-enlargement minority rights regime has stalled when it comes to empowering minority communities in the Baltic states.

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Limits of Europeanization – policy discourses on minority rights in Lithuania

By Vilana Pilinkaite-Sotirovic

In the post-Communist area there has been a clear tendency to pay lip service to supporting national minority rights. In fact, instead of promoting tolerance and diversity, “cultural minority rights” policies in post-Communist Europe tend to focus on cultural activities and education, which may result in the marginalization and division of people associated with traditional minority groups. At the same time, on the governmental level, there is an increase in awareness of “non-traditional” minorities (such as sexual minorities, immigrants, the disabled, among others). This awareness is related to several directives issued by the EU (specifically, the EU Council Directive 2000/43/EC and 2000/78/EC) which highlight categories such as racial identity, sexual orientation and disability.

The impact of Europeanization, understood (broadly) as spreading European norms and social practices, should not be ignored. In Lithuania, for example, adoption of the Law on Equal Opportunities (2005) was followed by the ‘National Antidiscrimination Programme 2006-2008’ which attempts to promote democracy based on ethnic diversity and non-discrimination. Created and coordinated by the Lithuanian Ministry of Social Security and Labour, the Lithuanian programme stated that there was a pressing need for ‘research, analysis and education for tolerance’. Unfortunately, the initiative does not go beyond an evaluation of the situation. It fails to address the real issues related to ethnic intolerance and discrimination, such as the poverty experienced by ethnic minorities and discrimination in the marketplace. Similarly, the new ‘Strategy of Development of Ethnic Minority Policies 2007-2015’, approved by the government of Lithuania in October 2007, did not include any measures to reduce unemployment and social exclusion of ethnic minority groups, despite the fact that these issues were identified by the government as the main obstacles for the social integration of minorities. Recent sociological studies suggest that Lithuania’s labour market is segregated along ethnic lines. Ethnic Lithuanians are more likely to be in the higher echelons of government and administration, while ethnic Poles and Russians are more likely to work as skilled or unskilled workers. Ethnic Poles and Russians report that they have to rely on their ethnic connections when looking for a job. These findings suggest the absence of equal opportunities in the labour market, but so far this issue has not received the attention of the Lithuanian government. Currently, there are approximately 300 ethnic minority NGOs registered in Lithuania. The main goal of their activities is to preserve the culture of ethnic minorities, protecting them from assimilation. At the same time, these NGOs embrace cultural nationalism and promote networking based on belonging to the same ethnic group, creating an ethnically segmented civil society and hindering the development of cross-cultural civil society.

Since 2006 social research has demonstrated the tendencies in society to view tolerance and non-discrimination of minorities as “positive” ideals; however, the profound value structure has not been affected. This is particular evident in the society’s attitudes about sexual minorities and Roma. 70 percent of the respondents would “never” approve of any discrimination related to sexual orientation. But 61 percent acknowledged that they would “never” want to belong to any organization which includes homosexuals as its members, and 56 percent of people admitted that they do not want to live in the same neighborhood as homosexuals. Another public survey, which assessed discrimination in the labor market, showed that almost 90 percent of Lithuania’s employers described themselves as “tolerant.” This suggests that they do not support discrimination against minorities. However, the majority of respondents confessed that they would not agree to employ Roma. 40 percent said that they were afraid that other workers would express dissatisfaction with their decision to employ minorities, and 74 percent expressed doubts about the abilities of people belonging to these groups to perform

well in workplace. Though most recent public opinion surveys suggest the tendencies to decrease negative attitudes to Roma, migrants and some socially vulnerable groups, however, the hierarchy of the most unpopular groups remains unchanged—Roma, Muslims and homosexuals are likely to experience social exclusion.

Integration into the European space (culturally, geographically, politically) has introduced new public discourses and created social practices that are essential for a diffusion of international norms associated with minority rights. Regardless the legal instruments on equal opportunities adopted in 2005, the policy discourse did not imply the ability to detach the perceptions about national security and national well being including the preservation of traditional values from minority rights. Several recent developments suggest that the presence of and especially political activism of “non-traditional” minority groups are still likely to be seen as a threat to traditional values. For example, in 2007, the European Year of Equal Opportunities, the City Council in Vilnius banned the entry of the promotional bus of the EU’s campaign *For Diversity against Discrimination*. Moreover, citing “security reasons,” in 2008 the City Council voted unanimously to deny permission for the human rights organizations to peaceful gathering “For Promotion of Human Rights and Diversity”, but allowed ultra-nationalist groups to march in the center of Vilnius. Similarly, the Roma are seen as a group that continue to be a security threat (related to drug trafficking). Several years ago, to fight this “security threat,” the municipal government of Vilnius ordered the destruction of numerous “illegally” built houses inhabited by Roma residents in a settlement close to Vilnius.

The most recent policy discourse on preservation of traditional family values openly questioned the European democratic principles. Many Lithuanian parliamentarians claimed that they wanted to protect “traditional Lithuanian family values” and suspended the inclusion “sexual orientation” into the amendments to the Law on Equal Opportunity, a concept, they argued, “alien” to the “traditional” Lithuanian society. Majority parliamentarians openly expressed homophobic attitudes and attempted to introduce the censorship on mass media to protect society from “homosexual propaganda” while debating the law on Protection of Minors from Negative Information in Mass Media”. To protect what they consider family values, conservative politicians went as far as to question the authority of the European Parliament for the intervention to the affairs of sovereign country when the European Parliament called Lithuania to follow European values of tolerance and non-discrimination.

Paradoxically, after Lithuania’s entry into the EU, there was a backlash against equality policies and non-discrimination norms. By and large, this reaction came from socially conservative politicians across the political spectrum who claimed to support traditional national values and used different strategies, such as questioning the meaning of “sexual orientation”, banning “homosexual propaganda” and scrutinizing the recommendation of the European Parliament. Currently the policy discourse in Lithuania on the protection of “traditional values” has been stronger than the inspiration to “Europeanize” by incorporating norms of tolerance and non-discrimination.

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The Baltic economies after a perfect storm

By Marek Tiits

The global crisis stroke, as argued by many, by complete surprise and there was very little individual small economies such as the ones on the Baltic Sea Region could themselves do to avoid the domestic crisis that followed. Is this really so? What have we learned from this crisis? Are there any extra lessons to be taken?

The general hope and perception emerging from recent international media coverage is that the global financial and economic crisis is nearly over. The employment figures remain sluggish, but financial markets enjoyed last year extraordinary gains, and a number of economies have started to demonstrate again quite reasonable growth rates. In the Baltic Sea Region, also things seem to have started to return back to normal. The quarterly GDP growth was in Q4 2009 for the countries in the Baltic Sea region close to 0% or even slightly positive. Estonia prepares for adoption of euro in 2011 and the budget crisis in Greece has overshadowed the woes in the Baltic States. The view that the crisis is nearly over and everything will continue as previously represents a rather comforting outlook. This is a very tempting, yet dangerous way of thinking.

Finland, which was in the recent years known as one of the most competitive economies in the World, was hit by the global crisis severely. So, one could argue that small export led economies were hit harder than bigger nations. Still, the economies of the three Baltic States were in terms of the contraction of the GDP in 2009 among the worst hit economies in the World. How is this that the earlier very rapid GDP growth turned into the severest crisis of the kind?

The very rapid economic growth demonstrated by the Baltic States over the last years built on the inflow of foreign finance. The inflow of capital, which came at record low interest rates, triggered in the Baltic States major asset and consumption booms accompanied by large current account deficits. The subsequent domestically led growth triggered a very rapid growth of wages that outpaced significantly the productivity growth in the exporting industry. According to the OECD, the unit labour cost increased in 2005-2009 in the Baltic States by 50-60%, and the real effective exchange rate of these economies appreciated together with this very rapidly. The above reflects a very rapid erosion of the competitiveness of these economies.

The global financial and economic crisis was for this part of the World a perfect storm that hit the weakest point of these economies. The global financial crisis led in the Q4 2008 suddenly to the reversal of the flows of foreign capital. The earlier inflows of finance to the Baltic States turned suddenly into outflows, while the demand on the export markets contracted simultaneously as well.

The earlier economic imbalances were so large that it was basically impossible to compensate for this only by increasing the productivity at the existing businesses. For example, we calculated last year for Estonia that, in order to sustain the 2007 level of GDP, and to compensate fully for the previous inflow of capital, her export revenues would need to increase overnight twofold.

The gap between the wage and productivity levels appeared, as the result of the above, suddenly to be so large that the private sector had little choice but to cut heavily the costs. In the fixed exchange rate regime, wage cuts are essentially the only way out of such situation. Yet, the 20-25% wage deflation, which was very much needed in the Baltic States, takes a lot of time to actually take place throughout the economy. Therefore, wage cost cutting has worked mostly through decline in employment and rapidly increasing unemployment, while the hourly wage costs have declined very little.

The Baltic States have had throughout 2000s difficulties in closing their trade deficits. In the end of the 2008, when that the currencies of the neighbouring non-euro-based economies depreciated by 20-25%, it became even harder to compete at the export markets. All of the above led to major decline of the foreign exchange income, domestic consumption and GDP.

The public sector response to the crisis has varied from country to country, but it has still involved, predominantly, attempts at closing the rapidly increasing public deficits and balancing the state budgets. Understandably, with declining tax revenues and increasing social costs, the public sector had in general very little resources available for supporting the upgrading and productivity growth in the exporting

industry. Yet, this way, the contraction of the Baltic economies became even more rapid than it would have been otherwise.

The crisis has led to an increasing economic, regional and societal polarisation in the Baltic States. The situation is better in the capital cities and bigger regional centres, as they have always a bigger role in the international trade and services, but also in the provision of public services. The more remote regions, which are not lucky to have strong exporting industry districts, are in deep trouble as the decline in domestic consumption and increase in unemployment has hit these parts of the countries the hardest.

The hardship the Baltic States, and especially the more remote parts of these countries, are likely to continue face is in no way unique. It is just a part of a much broader pattern, where the peripheral Europe from the Baltic States or Balkans to the Spain or Ireland have all faced a similar externally fuelled consumption booms that have now went bust. There is no way for the domestic consumption led growth, be it public or private debt led, to come back. While the European periphery cannot (or do not want to) devalue, they are unable to earn enough export revenues to support reasonable levels of GDP growth and employment either. Unless anything changes, this hints of a forthcoming longer period of slow growth and high unemployment.

What the lagging regions and countries in Europe need is major anchor investments into their exporting industry. Such investments will serve as catalysts to the development of entrepreneurship and various smaller companies, which benefit from the presence of the above anchor investments that intermediate the smaller local companies and global market. The only problem is that such large-scale investments do not happen by the way of the automatic convergence of costs and living standards.

The above thinking is in fact very well known from the classical development economics developed by Paul Rosenstein-Rodan, Ragnar Nurkse and others more than the half of the century ago. Nurkse resumed in his theoretical excursion that a gold standard as the basis for exchange rates, or currency union such as eurozone, can only function if the exchange rate regime comes together with strong co-ordination of employment and economic development policies.¹

The dilemma the European periphery faces now is that no member state is not necessarily willing to hand more policy power over to the Brussels; yet the role of the cross border policy co-ordination and of the EU cohesion and regional policies has still to increase.

Marek Tiits

Chairman of the Board

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For more detailed review of the economic development in the Baltic States, please consult also the forthcoming State of the Region Report 2010.

¹ See also: Ragnar Nurkse, "Domestic and International Equilibrium", in: Seymour Edwin Harris (ed.), *The New Economics: Keynes' Influence on Theory and Public Policy*, New York: A. A. Knopf 1947, pp. 264-292.

EU Baltic Sea strategy: regions taking the chance – are they?

By Kirsi Stjernberg

The time has come

The time has come to put the Baltic Sea Strategy into practice. It is the very first macro-regional approach of the European Union, and we, “the Balts”, have the privilege of being the pioneers of this new thinking. At the same time we also have certain pressure, together with the Commission, to succeed in it. I have heard lots of doubts about this way too comprehensive strategy with no direct funding. Is it only going to be a piece of paper, a strategy among others that never leads to any tangible actions?

Anyhow, it is not always the outcome that is the most important thing; important is also the process itself. It is about the EU and Commission having given a visible role for the regions and cities in this process. We have been listened to during the consultation phase, and we are now given responsibilities if only we take them. We have a great chance to show our commitment and capacity, right now. The wheels are turning, and the new macro-regional strategy for Danube is already under preparation, partly depending on the success of the Baltic Sea Strategy. The discussions of the future EU Cohesion Policy 2013+ have also begun. The regions showing activity now in implementing the strategy can hardly be totally neglected in these negotiations.

The question is, have we really understood the possibilities of the strategy and its action plan on the regional level? Are our local and regional politicians committed to this, taking the implementation in their own hands, not waiting for orders from above? Are we modern enough to be able to see the power of cooperation over the borders, even with those regions that at the same time are our competitors?

Southwest Finland taking the challenge

I am happy to say, that Southwest Finland is working hard to be in the forefront of putting the strategy into practice. Our region and its different actors are active in many fields of the strategy, but as an example of what a region can do, Regional Council of Southwest Finland has taken responsibility as a lead partner in one of the flagship projects of the strategy action plan. This is thanks to our long-term regional partner, Mecklenburg-Vorpommern in Germany. They were ambitious enough to take the responsibility as coordinator for the tourism priority in the action plan and wanted to have their regional partners on board as flagship leaders. Our Regional Council is responsible for a flagship called “Attract tourists to rural areas especially coastal ones”. The regional tourism organization, Turku Touring, is in charge of the implementation on practical level.

We are only in the beginning, but already preparing for this project has brought us closer together with several actors both locally, nationally as well as internationally. Marshal Office, Vojvodship Pomorskie, University of Greifswald and Cruise Baltic (tbc) are the other enthusiastic flagship leaders of the tourism priority, and all these flagship projects will work in close co-operation.

Baltic Sea Region has a good potential for becoming a unique, attractive tourism destination. To achieve this, we need to understand the importance of deep co-operation between regions and common development of expertise, know-how and products. It's about identifying the uniqueness of each small region and fitting it into the big picture of the whole Baltic Sea Region. All the products and destinations must be accessible and form service chains working well together. The goal of the flagship project is to create a Baltic Sea Region “Centre of Excellence”, formed by tourism organizations, education bodies, public and private sector, gathering the best know-how and developing potential of the region. This potential is used for developing sustainable tourism products, services and destinations based on nature and culture in rural, especially coastal, areas. A special mentoring program for uniting different actors and companies from different regions and countries is also developed.

A fresh approach

The flagship project can be seen as an umbrella, seeking to find the best practices in tourism field. This way, a common understanding of the future of tourism in this region will be achieved. Having a common view will help attracting EU funding and also in influencing the future funding mechanisms. The common goals are implemented in several different projects, both on-going and new ones, locally, nationally and most of all on the whole Baltic Sea Region. The fresh thinking behind this is that these projects will be financed by different EU and national/regional funding programmes together. It might also be possible that the loans of European Investment Bank and Nordic Investment Bank could be used for funding these activities.

One thing discussed a lot concerning the whole strategy, and just as well the tourism part of it, is of course how to involve Russia in this work. ENPI, European Neighbourhood Policy Instrument, might give a possibility for this, if only the Russians can be convinced of the benefits of co-operation. In this, the existing local and regional partnerships with Russia can play an important role.

Kick-off seminar of our flagship, on “open call basis”, will be held in the end of the summer in Turku. Our region can't, and we don't want to, work alone for these goals. We need you too!

Kirsi Stjernberg

Special Planner

*Regional Council of
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Finland



Baltic Studies – a changing research agenda

By Heiko Pääbo

Baltic Studies is an interdisciplinary research agenda that has focused on the developments in three Baltic states: Estonia, Latvia and Lithuania. This particular focus of the area studies has provided valuable results to understand better how three small nations have formed their societies, cultures, political and economic lives. In addition, it has provided a good research agenda for comparative studies to explore the societal nexuses on the Eastern rim of the Baltic Sea. Nevertheless, the concept of Baltic Studies in this form can be considered as a remnant of the Cold War Era and in current context it needs revision to extend its borders to more suitable framework. In the following article the author argues for refreshed concept of Baltic Studies as area studies of the Baltic Sea Region.

In 1968 the Association for the Advancement of Baltic Studies was established at the University of Maryland. The purpose of the association has been to promote research and education in various disciplines of the Baltic Studies. In addition, the organisation by involving many Baltic origin scholars abroad offered a good opportunity to introduce Estonians, Latvians and Lithuanians on the global level. It facilitated to make more understandable the complex issue of the Baltic nations during the Cold War and find support for their national causes. This function has its particular importance in the context of statehood continuity of three Baltic states and it also has contributed for the construction of external identity of the Baltic states. The restoration of independence in 1991 changed significantly the research agenda of the Baltic Studies and it involved considerably transitional studies in its research agenda. It enabled also bring together Baltic scholars from abroad and from the Baltic states more actively that enabled to extend the research perspectives. In addition, the socio-political realities started to challenge the concept of Baltic states that focused narrowly only on Estonia, Latvia and Lithuania. Societies of three nations faced new opportunities and it also brought about reconstruction of identities. By middle of the 1990s political elites of Estonia and Lithuania were challenging externally imposed Baltic identity and they started to look for broader and more suitable frameworks for self-identification that is not reminding past trauma as the Baltic states concept does by referring to the Soviet occupation and repressions.

The new broader framework that is more suitable to current international developments is the Baltic Studies as the umbrella for the research about the Baltic Sea Region. This initiative has been launched in the region by the scholars from the Eastern and Western rim of the Baltic Sea to overcome the Cold War iron curtain and erase the borders in the region that has been divided by the ideological confrontation after the World War 2. Several universities in the region have launched semester or MA programmes related to the Baltic Studies in the new framework that focuses on the entire region of the Sea. The new concept of Baltic Studies stands on the belief that water is what links us not separates the nations. Therefore BalticStudyNet, the network of eight Baltic Sea universities has defined its aim to

join forces to make the region unified and to enhance research and studies of the societies, cultures, economies and politics of the nations who live around the Baltic Sea. The renewed concept of Baltic Studies is also more suitable for current developments in the European Union where recently adopted Baltic Sea Strategy aims to increase integration and cooperation in the Northern part of Europe and thereby to increase its dynamic development as well as competitiveness in the global context. Therefore area studies should also support socio-political developments to provide needed expertise for enhancement of the region.

The redefinition of the concept of Baltic Studies is not an easy task. The internalised understanding of the Baltic region as three Baltic states is not easy to change and extend it on the broader regional level. Currently in the region there is collected sufficient scholarly as well as political support to redefine the area and initiate research on the Baltic Sea Region. In longer run it also facilitates to internalise the regional identity among the population. However, the internal acceptance of the changing the frameworks is not sufficient but there should be also external recognition of the regional identity. It is not so easy to overcome the actively internalised old borders and to replace it with new concepts because it seems for people as an artificial construction in comparison to internalised perceptions. Nevertheless, from the general point of view both regional definitions are artificial and the only difference is the level of internalisation of the concepts. Therefore the Baltic Studies should move more actively towards broader regional framework to include entire Baltic Sea Region and thereby to facilitate internalisation of new regional construction.

Academic world has crucial role in developing new understandings and social beliefs. Therefore it should be acknowledged that research agendas in area studies have also important role in constructing regions. The Association for the Advancement of Baltic Studies and the Society for the Advancements of Scandinavian Studies will hold the first joint conference this April in Seattle to bring together Baltic Studies and Scandinavian Studies that can be considered as the first step for bringing together two area studies in Americas to help to form an umbrella for the Baltic Sea Region studies. It is an important development that sets also new agenda for internalising of new understanding of Baltic Studies.

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Finnish investments in Estonia

By Pellervo Erkkilä

Finland and Sweden have been the biggest investors in Estonia during the last twenty years. While Sweden has mainly invested in banking sector – two largest Estonian Banks, Hansapank and Uhispank are in Swedish ownership – have Finns earlier mainly invested in manufacturing, food processing, retail and hotel sectors, but during last ten years has Finnish financing sector – Sampo Bank and IF Insurance sector also been active in the market. Totally 4200 Finnish companies have investments in Estonia Tallinn with its neighboring areas have been the most popular locations due to the infrastructure conditions and transport connections between Estonia and Finland. Outside Tallinn one of the biggest investments has been Rakvere Meat Processing Plant by HKScan producing large scale of meat products mainly for domestic market. The company is also active in other Baltic countries having deliveries to the whole area. Finnish retail chains S-Group and Kesko are expanding their activities in Estonia having supermarkets in the biggest Estonian cities. In hotel business the first Finnish company was SRV Group who acquired the shares of hotel Viru in Tallinn. The company enlarged the hotel by building a modern shopping mall in connection to it. Also other hotelkeeping companies have entered to the Estonian market in Tallinn region and in Pärnu. Finnish manufacturing companies started mainly by purchasing or establishing small and medium sized mechanical engineering companies to supplement their own production in Finland. The most successful Finnish manufacturing company in Estonia has for years been Elcoteq Ltd, manufacturing mobile phones, components and devices for Nokia and Ericson and Elcoteq AS has been for many years the biggest Estonian export company. In energy sector Fortum Corporation has been in the market for years and is at the moment investing USD 125 mio in a new combined heat and power plant in Pärnu. Neste Oil has a chain for fuel distribution and service stations covering the whole country. Last time have more small and medium size Finnish manufacturing companies started to invest in Estonia. They find today modern facilities and skilled labor for competitive prices. For example Hylres Oy is investing in new production line for special metal sheets and electronic components. Eastern Estonia have been recently attracted Finnish investments. Material handling equipment manufacturer Cargotec Ltd has invested EEK 300 mio in new factory in Narva on the Russian border. The subsidiary exports all of its output. Also S-Group and Vicus Capital are

investing in Narva: S-Group for a Prisma supermarket and Vicus for a shopping mall.

Is today the right moment to invest in Estonia? There are several factors recommending investments: State economy has successfully been stabilized: Payment balance has turned to positive and State debt is lowest in EU. Inflation rate is under 3 %. Country has 2009 fulfilled Maastrich requirements for joining EURO area in 2011.

Overheated real estate prices have calmed down. Modern manufacturing facilities available for rent starting at 2 EUR/m²/month. Skilled labor available starting at EUR 700 / month. Example of costs & salary calculations for employer and employee: Gross salary: 10 000 EEK /month

Employer:

- social tax of 33% = 3300 EEK is to be paid by employer
- unemployment insurance premium of 1,4 % is to be paid by employer
- total costs to the employer are 13440 EEK/month

Employee:

- Unemployment insurance premium of 2,8% = 280 EEK is withheld
- Funded pension payment of 2,0 % = 200 EEK is withheld
- Income tax of 1768 EEK is withheld, calculated as 21% from 7270 (10 000 – 280 – 200 – 2250) = 1527 EEK. 2250 EEK is 1/12 of the annual basic exemption of 27 000 EEK.
- Net salary to the employee is 8193 EEK / month, calculated as 10 000 – 280 – 1527 = 8193.

So, summarizing: Estonia is today an interesting market for foreign investments due to its open society, reasonable cost level and modern IT – network and banking systems.

Pellervo Erkkilä

Chairman

Finnish- Estonian Trade Association

Finland



The Baltic Sea – our common *mare politicum*

By Kimmo Elo

Since the end of the Cold war and especially during the last decade the Baltic sea region has also become a political space competing with other regions in Europe. The previous dividing line which ran between the socialist and capitalist blocks in the middle of the Baltic sea has vanished. It has been replaced with a pan-European framework including both the northern and southern rim states of the Baltic sea. The northern balance, which firmly anchored the Nordic states between the superpowers, has been replaced by a Baltic balance, causing a need for a re-thinking of the regained political sovereignty.

Baltic balance refers to the fact that the contemporary Baltic sea region is a geopolitical space squeezed between Russia and Europe. The western boundary of this region is made up of one of the most important member states of the European Union (EU): Germany. In the east, the region borders on Russia, the other strong player in the region and Europe. Thus, the Baltic sea region is the geopolitical corridor linking together the core of the EU –Germany– and the EU's most important neighbor, Russia.

The replacement of the Northern balance by Baltic balance and the emergence of the idea of a common Baltic space has not occurred without tensions. As the cold war ended, the former status of the Baltic sea region as an important region in terms of security politics was canceled almost overnight. In the recent years two separate and partly overlapping, partly parallel developments have dominated the area. On the one hand, the Baltic states have had a clear agenda aiming at memberships in the most central political, economic and security organizations of the West. On the other hand, the Nordic states fought their impending marginalization on the emerging mental map of the new Europe. They also fought against the impending diminished predictability in the Baltic Sea region by seeking closeness to the most important European players, especially to Germany.

However, although the chosen paths differed, they have all led to the same political goal – the emergence of the EU as *the* political and economical focal point of the region. The EU has become the “natural forum” of the Baltic sea region, thus forcing the rim states toward closer cooperation. Although this has opened up entirely new possibilities, developments in the recent years have also made clear, that the “imagined community” built around the Baltic sea region is not as homogeneous as one might expect.

This heterogeneity is visible both in economic and political terms. Economically, there exists a wide gap between the Northern and Western rim states and the Southern and Eastern rim states. In concrete terms, the Baltic sea region is – as the latest economic crisis has shown – equipped to overcome economical turbulence in a different way. What is common for all countries in the region is their strong dependence on Germany as the most important economic partner. Germany is by far the strongest economic power in the region. Most importantly, the strongest linkage here is between Russia and Germany.

The *Nord Stream* gas pipeline project connecting Russia and Germany undoubtedly makes the Baltic sea region important within the EU in terms of energy politics. But it also shows, that the energy question has a strong political aspect letting the past, present and future to clash. Additionally, the

energy debate reveals how closely interrelated economical and political power nowadays are. The attempts to de-politicize the pipeline project have *strengthened* the political tensions not only within the Baltic sea region, but also within the EU, as the southern Baltic sea rim states see themselves as disconnected from the decisions concerning energy politics.

All these developments of the recent years stress and underline the need for an understanding of the Baltic sea region as our common *mare politicum*, our common political sea. The Baltic sea should be politicized, since without a strong political commitment from all rim states inside or outside the EU the whole region remains a region that speaks with many voices. The fact is that the Baltic sea region is, when compared with other “supraregional dimensions” of the EU (e.g. the Mediterranean/Southern dimension, the Eastern dimension or the Transatlantic dimension), rather small and heterogeneous, even fragile politically.

The rim states between Germany and Russia have to understand, that if they want to turn the Baltic sea region to a powerful player in the EU, they need to cooperate with both Germany and Russia. On the one hand, support from Germany is mandatory for successfully putting Baltic sea region issues on the EU agenda. On the other hand, without a functioning cooperation with Russia all attempts to establish common Baltic sea politics remain incomplete. The core problem is that both Germany and Russia have other competing interests outside the Baltic sea region. This makes the situation even more asymmetric: To become politically and economically strong, the Baltic sea region requires support from Germany and Russia, but Germany and Russia can be strong also without the Baltic sea region. Therefore the most important task for the future is to convince both Germany and Russia that they would benefit from cooperation within the Baltic sea region.

In the recent years the recent past has dominated politics in the Baltic sea region both causing new and strengthening old tensions in the region. We should not forget that there have been times in the past when the Baltic sea region has been seen as a common *mare politicum* between Europe and Russia as well as a common space for common ideas. The whole region has benefited from that kind of thinking. The most certain way of preventing positive things from happening is letting the political will to get lost in a cacophony of rim states speaking with many voices.

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National innovative system in Belarus – glance at the regions

By Nina I. Bohdan

The concept of innovative systems is based on multiple i.e. supranational, national and regional levels. In 2006 Belarusian government approved the Concept of National Innovative System and developed the State Program of its realization for 2006-2010.

The Belarus national innovative system is shaped in the context of creating the knowledge economy and the world economic globalization that requires to reveal new factors of economic growth and to recognize the role of regions in the current development trends.

The analysis proves that Belarus has created the basic human capital for the knowledge economy. The country has enough resources to solve the problems of developing a modern economy. The number of Belarusians with higher education in the age group between 24 and 65 is twice as high as in EU (53% against 23.5%), with a good part of them engaged in scientific and technical activities. At the same time, we observe a certain stagnation of innovative processes in the country:

- the growth of innovative activity in industry in 2003-2008 was slow (13.6% in 2003 to 17.6% in 2008, while in the developed countries every 2nd enterprise is engaged in innovative activities);
- the share of hi-tech export in the industrial export does not exceed 3-4% (20% in the developed countries);
- small innovative businesses do not develop. Their share in the scientific and technical sphere reduced twice during the last 5 years.

In spite of scientific advance and numerous qualified personnel, there is no significant progress in the innovative development of the country. The main reason of the weak adaptation of the Belarus enterprises for innovative calls of the new century stays at the institutional level. The complexities of the transformation period and historical conditions did not promote the active role for the enterprises in financing of research and development. Institutional building of the country's innovative system has political aims and priorities. In Belarus the State innovation development program on 2006-2010 was accepted and is realization. The regional level of the innovative system has to play an important role in this program

A number of factors contribute to increasing the importance of innovative systems at the regional level. First, due to globalization, regions are getting more involved in the international exchange beyond national borders; they become independent policy makers and legislators at the regional level. Second, it is the regional environment that determines in many ways the competitiveness of the national business at the national level. Innovations result from the environment rather than from individual efforts. Third, there has occurred a definite change of innovative development at the local level. The concept of "new regionalism" has come to replace "fordism" with its mass production and mass consumption. The postindustrial economy is highly dynamic and individualized in manufacturing and consumption, which makes a much too greater emphasis on the regional factor.

The analysis shows a significant asymmetry in regional scientific and technical potential in Belarus. The basic part of the scientific and technical potential is concentrated in the capital city; moreover, no significant shift towards its regional distribution has been observed recently. We observe essential asymmetries in the density of expenses on R&D and the number of researchers in regions: 80% of these are concentrated in the centre. Yet, the "gaps" in the density of scientific workers over the country's territory can be partially explained by objective factors such as the concentration of the academic and other scientific organizations in the capital city. Another reason is the so-called inclusion factor - the capital city and region take advantages of close location to the center, better information access; they get more research grants.

However, we should note that the asymmetry of innovative activity in the regions isn't as significant as that of scientific and technical potential. Regions with relatively weak scientific potential overcome or do not lag much behind the regions that have a significant human, financial and technical potential. There are several reasons for this:

- The innovative process has changed in the modern economy. It used to proceed from so-called "linear model" when innovations were based on scientific research; now it proceeds from so-called "integrated model". In such conditions the critical factor comes to be the institutional environment, rules of the game and the nature of interrelations between participants of the innovative process (scientists, businessmen, politicians, financiers and officials).
- The other reason of a rather weak impact of scientific and technical potential on innovative processes is in the fact that many tasks for scientific and technical programs and innovative projects get initiated by scientists, not by producers; they are seldom preceded or accompanied by marketing research. The scientific and technical product often finds no demand because of low susceptibility to innovations in the real sector of economy.
- The third reason is the lack of experience in statistical reflection of innovative processes in the country which explains disproportions in scientific and technical potential and results of innovative activities in the regions. The innovations statistics requires highly qualified performers. Unfortunately, there still remain many unsolved problems in statistical survey of innovative activities.
- Finally, there exist certain differences in the institutional environment. The western regions of Belarus, with their smaller share in industrial production and accordingly smaller depth and duration of transformations after the Soviet Union disintegrated, have better preserved their «historical memory» of doing business and common ways of regulating market processes as they had become a part of the USSR later than the rest of Belarus. Besides, the western regions (Brest and Grodno) are influenced by the 'demonstration effect' due to their location on the border with the European Union. These regions have a greater share of employed at private and foreign enterprises.

Stability of the national innovative system depends on the degree of integration of its supranational levels in the development strategy and their response to innovative challenges in science and technologies. Meanwhile, the present state of the Belarusian national innovative system is characterized by its fragmentation and, therefore, instability. Innovative activities of regional enterprises and companies depend both on their scientific and technical potential and institutional potential that is much more difficult to estimate. The estimation of the institutional environment in the region is complicated because of the necessity to measure "non-technical" barriers to innovative activities. The problem is that institutions as a form of public life are interrelated in many different ways that are regulated by the laws of their internal dynamics. Parameters of the institutional potential have to characterize the ability of interaction between the research sector and industry and define the presence of business networks in the region as a set of stable and relatively closed communications between economic agents that are interested in expanding and developing innovative activities. The regional authorities are required to provide mutual cooperation between enterprises, scientific institutions and universities to promote innovative activity in their regions.

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Interactions between a post-modern (the EU) and modern (Russia) players of international relations – setbacks for mutual integration

By Laurynas Kasciunas

Robert Cooper defines the EU a post-modern actor of the international relations, whereas, Russia is considered a modern actor of international relations. According to R.Cooper, the processes of European integration laid the foundations of voluntary opening of previously strictly country-sovereignty related issues to external interference. The EU as a post-modern system thus does not depend any more on zero-sum solutions and does not accentuate sovereignty and the distinction between domestic and external affairs. To put it in other words, the EU is a system of mutual interference in the member states' domestic affairs.

Meanwhile, the „modern“ Russia follows a strictly „sovereignist“ approach towards security and foreign policy. The political regime of the country is based on political vertical, whereas the economy (especially concerning the strategic sectors) is highly centralised and interlocked with the political regime. In contemporary Russia property rights of large capital have become a matter of negotiation and separate agreements between the business and the state. This trend is particularly vivid in the strategic sectors of economy. The state provides guarantees on property rights and safeguards the balance of influence between competing interest groupings and the business provide their loyalty for the state. Such system could be considered a „new social contract“ among the Russian state and the people. A wide spreading variety of models of business-politics junction could be identified: some private business structures have a protégé status being patronized by a specific influential state agency and thus enjoying a special protectionist position; another model implies that large enterprise can be simply owned by high rank bureaucrats and politicians (or their groupings), although such ownership is often not formally validated.

According to modernization scholar Anton Oleinik, in countries where modernization was lagging behind, the state usually performed a special role in the “catch-up” process. In Russia modernization has been governed largely by the state. Such role of the state was a direct outcome of the weak status of the private sector. In successful cases of modernization (Great Britain or the US) the strength of the private property allowed for the separation of economics from politics, it means, that these domains became autonomous vis-à-vis each other. Whereas in Russia there were always channels through which the state could penetrate into the economic sphere, something that created conditions for the gradual interlocking of politics and economics. This is how the phenomenon of “property power” was born in Russia, i.e. when the political regime acquired the power to selectively ensure the right to private property in exchange for political loyalty.

The interlocking of politics and economics in Russia reduces the likelihood of the emergence of alternative centers of power. The fact that the state has been at the centre of the modernization process in Russia, means that bureaucratic “machinery” has the power monopoly within the state. Therefore the internal architecture of groups, who controls this “machinery” and the principles of functioning of this groups need to be at the centre of attention in efforts to assess the scenarios of future development of Russia's political-economic system. It is also important to understand that any attempts (external or internal) at systemic reform are

going to be met with severe resistance from the dominant power groups.

In developing countries, such as Russia, modernization processes are basically imported from the outside and implemented by the governing elite, but always in a selective way. In other words, developing countries tend to choose models of modernization that do not conflict with the established rules-of-the-game and the institutional/power setting.

Another important feature of Russian „modernity“ is the emphasis on sovereignty that results in strict differentiation between domestic and external policies. Russia holds a particularly stiff position against any type of external interference and adaptation of external or international rules in its domestic or foreign policies, and holds a particular approach on functioning of international and supranational regimes. To put it in other words, the „golden rule“ of Russian conduct in international affairs is „no interference in Russian domestic affairs“.

The principle of sovereignty supremacy obviously spills over into Russian external affairs as well. For example in relation to various transnational or supranational organizations Russia usually prefers talking to the key states separately, than the organization as a whole, to put it in other words, Russia acts to bring in a certain degree of re-nationalization of foreign policy into international regimes. Concerning international security regimes, Russia remains highly selective and declarative in its participation. Again the basic principle of Russia's participation in any international regime calls for involvement in decision-making of organization as deeply as possible, simultaneously avoiding any requirements that could interfere in Russian domestic or foreign policy.

Some academicians claim that Russia has developed a very unique and qualitatively new mode of state-market relations that requires totally new tool of analysis and does not fit into any existing schemes. Nevertheless, the current Russian political and economic regime is now commonly characterized as a political vertical, state corporation or a system of bureaucratic capitalism. The key features attributed to such a system are the following: a hermetic and external influence-resistant political system; fusion of the political and economic elites and bureaucratic-corporate control over the strategic branches of economy, the latter being banned from direct foreign investment. For instance, Russian legal regulations restrain foreign investment in 42 strategic branches of economy, among them – arm production, aircraft and space technologies, digital technologies and processing of natural resources.

The whole of the above described characteristics determines that any attempts by external actors (be it states or international organizations) to bind Russia to a specific set of rules (e.g. European initiatives to apply the European method in Russia), as well as, initiatives of increasing Russian economic dependence via direct foreign investment in the strategic sectors are usually doomed to failure.

The existing political vertical and specific model of politics and economy fusion determine the reluctance of Russian political and economic system to adopt external pressures. Nevertheless, such model of state and economy governance is especially sensitive to various domestic pressures:

redistribution of spheres of influence, competition among the elite groupings, failures to achieve inner consensus, etc. This means that Russian political stability (and potential change) depends on the settled balance among agencies of power and ability to manage the competition among elite groupings via the existent "rules of the game". To be more exact, the state stability fully depends upon stability of the "rules of the game" within political and economical elite.

The equilibrium within the political and economic elites is maintained by a specific system of "checks and balances", i. e. the equal division of economic benefits and political privileges among separate elite groupings. Such a system can only be maintained in a centralized state economy and by state control over the most important branches of economy (imposing such control directly or through ownership of loyal oligarchs). Such preconditions of state stability stiffly anchor the state's economic structure, because any structural reform in the strategic sectors (diversification, liberalization or restructuring) implies not only a radical change in the state's economic foundations, but also a drastic review of the consolidated "rules of the game" for the political elites. A change of that proportion could trigger inner crisis among the elites.

The decisions that have been made by the Russian government in the face of the international economic and financial crisis confirm the assumptions on complexity of any reform in Russia. At the end of 2008 a list of about 300 large

strategic companies has been compiled, to indicate clearly which companies shall be eligible to receive state support. One out of several criteria of enlisting companies in such a register was the systemic character of a company. Ten largest energy corporations were enlisted. It is expected that existence of such a list shall trigger further merges and growth of companies, emergence of new monopolies dependent on state donations. Such a trend is likely to emerge as the already enlisted companies receive state support and become capable of absorbing smaller and financially weaker enterprises that are not eligible for state support.

So, the fusion of economic and political power plays is a particularly important obstacle to reforms not only in the political system of Russia, but also in the economy of this country. And only changes in the interactions between economic and political power can impose transformation of Russia.

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New business competence through executive MBA programmes

By Kirsi Kostia

Challenging times call for new strategies

In the current challenging economic situation, several Baltic Sea Region organizations are facing need for strong renewal in their businesses. In many companies the executive management have to deal with cost cutting programmes that characterize everyday life and at the same time to be prepared for the future development. If the crisis has hit hard, survival is the major effort. But as many studies have pointed out, there is a risk that future competences of the company have been eliminated at the same time with cut costs. Top management is too busy taking care of the day-to-day problems to be able to think about the future strategies.

During challenging times it is very important to develop the company for future business. Top managers need new ways to think about their business and challenge their current strategy. They need "mind fertilizers" and good networks. Good way to boost top management learning is executive education programmes and especially eMBA programmes (executive Master of Business Administration). TSE exe at Turku School of Economics and several other business schools through the Baltic Sea Region offer high level programmes that combine on one hand practical business needs and on the other hand the latest research knowledge in Business Administration and the Baltic Region business.

Executives learn through networking

The structure of our highly regarded eMBA programme in Turku School of Economics is based on three focus areas: business competence, strategic thinking and leadership. We have used these elements to construct a programme that incorporates the above mentioned balanced mix of academic study and utilizing knowledge from current research, practical know-how, business cases and company visits, development projects that benefit the company, and learning from each other. The last element, learning from each other, is a crucial element of the executive programmes. Based on the feedback from our programme participants, I suggest that collaborative learning is approximately half of the learning. The other half comes from the traditionally emphasized programme content. Business Schools may have content emphasis based on research focus areas of the business school, but the basic elements of business administration (strategy, accounting, marketing, management etc.) are there, too.

As our slogan in Turku School of Economics eMBA programme says, "a journey far begins from near". The programme has a strong future orientation, with the aim of learning to look far and to be prepared for new challenges. At the same time, it is also necessary to know yourself and your own leadership qualities. We believe in development that begins from within oneself. And that is one reason why during critical times it is important that top managers emphasize development and develop themselves. Executive programmes are delivered so that it is possible to study while working full time. Good programmes are planned so that live business cases and decision situations can be used in building solutions through learning.

Executive education provides competitive advantage

Executive programmes offered by highly valued business schools are ways to engage key executives to a company. Usually Executive MBA programmes are intended for middle and top managers as well as future potentials. Usually these programmes take 1,5-3 years to complete while studying part-time. The eMBA title is highly valued in the business world and stands as a proof of the person's competence. At the same time, it is a sign that the employer company is willing to invest in developing their human resources. Life-long learning is a way of thinking in business, too.

To sum up the advantages of the eMBA programme, it will deepen and expand your business competence with the latest applied academic knowledge. You will acquire a broader understanding of business world, and knowledge, skills and insights that enable you to advance to new and more challenging positions. You will receive tools and confidence for discussions and decision-making. And what is important in the longer run, the executive programmes will improve your skills in strategic thinking, managing the global business environment and capturing the big picture. You

will acquire competence and tools for strategy processes, from planning to implementation. The long lasting programmes (contrasting to short, topic specific programmes) will develop your leadership and learn you to know yourself better as a leader. You will be able to utilise your strengths in leading people and managing change. You will learn to appreciate the meaning and value of constant learning and development. And as was mentioned above, the collaborative learning perspective is very important; the programmes will inevitably widen your network and you will learn to know best practices in other business areas.

For the employer organisation to get the best use of the investment, it is important that the eMBA studies are directly connected to other development projects in the organization, for example through assignments, theses, strategy reports, etc. Utilizing new information and knowledge brings about innovative solutions that can be put in practice without delay. An eMBA student brings fresh business competence and new tools for strategic management to the organization. From the talent management perspective, the eMBA can be seen as part of the HR tool box and career planning in the organization. And finally, the eMBA programme offers an opportunity for benchmarking and networking. It is also possible that the programme provider can be a real strategic partner for discussing the organisation's development in general or for research cooperation, too.

Learning through reflection

The eMBA programme is a demanding academic programme, which requires commitment from both the participants and their employers. For the students, this means that in addition to participating in the programme sessions, they will invest in active learning, self-improvement and transferring learning to their own work and workplace. Support from the employer ensures maximal practical benefit from the programme. The programme provider in its part commits to offering the latest academic knowledge and expertise applied to practice, diverse learning methods, expert speakers and competent trainers. The greatest benefit for the company will be gained through ensuring that the new knowledge is utilised also in practice.

In adult education, reflection is important and actually a crucial part of learning; new knowledge and skills are built upon previously gained learning and experiences in practical business. The students should actively develop their own skills and knowledge by interpreting and adapting what they see and hear.

Learning is not just an individual process, but also a collective process. According to the collaborative concept of learning, knowledge is constructed in interaction through dialogue. Emphasis on collective learning means in practice the importance of interaction among the participants. That can be encouraged in various ways during the study sessions.

For us in Turku School of Economics, developing this programme has been a long-term endeavour, and in the spring 2009 we were awarded international EPAS accreditation by the EFMD (European Foundation for Management Development). Strong ties with the business world, comprehensive and balanced contents of the programme, high quality network of trainers and the capable and committed staff at TSE exe, among others, were cited as our programme's strengths.

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