



ANNE BERNER

New opportunities and trends in Nordic cooperation



ALEKSI RANDELL

Core Network Corridors will gain importance as drivers of the competitiveness of the Baltic region



ALEXEY VEDEV

Economic development of Russia in 2017-2018: A recovery-driven unstable growth



KYÖSTI KARVONEN

Finland chooses continuity



**BALTIC RIM
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The Pan-European Institute publishes the Baltic Rim Economies (BRE) review which deals with the development of the Baltic Sea region. In the BRE review, public and corporate decision makers, representatives of Academia, as well as several other experts contribute to the discussion.

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ANNE BERNER

New opportunities and trends in Nordic cooperation

Expert article • 2347

Northern Europe is known for its open knowledge societies and innovative economies. Here in the north, the Baltic Sea region, the Nordic countries and the European Arctic overlap, and Finland is integral to each one. We are all Arctic, all Nordic and we hold a particularly central position in the Baltic Sea region. Over 40% of Finland's foreign trade is with countries around the Baltic Sea, and Sweden and Denmark by themselves account for a similar, high proportion of all foreign direct investment in Finland.

Nordic cooperation dates back to regular ministerial meetings held already in the 1930s. In 1971 the cooperation was formalised as the 'Nordic Council of Ministers' (NCM), which was established under amendments to a 1962 Nordic treaty. The Nordic countries were at the time proceeding well ahead of the EEC in terms of border-free travel, a common labour market and shared social security. Cooperation between our closely connected societies survived the cold war well, despite the divisive security environment. For example, the world's first fully automatic mobile phone system NMT, with Nordic roaming, was created in 1981.

Sweden and Finland joined Denmark as full members of the EU in 1995. A declaration on Nordic cooperation was included in the accession treaties but no exceptions to European law were agreed upon. The Schengen area was extended to include Norway and Iceland so that the existing Nordic freedom of movement would not be restricted. Other efforts to adapt Nordic cooperation to the new circumstances were partly successful. These measures, however, could not prevent the trend by which Nordic cooperation was losing political relevance. There was a move away from 'high politics' towards policy research, experience-sharing and financing programmes. A very important niche was seized by extending such programmes and policy dialogue to the three Baltic States. In 2005, these countries also became members of the Nordic Investment Bank.

I took on the responsibilities of minister in charge of Nordic cooperation in mid-2015. At that point, with international affairs deteriorating, there was a perception that consecutive financial and political crises were tearing the EU apart from within. On the eve of Finland's turn to assume the rotating presidency of the NCM in 2016 an extraordinary influx of asylum seekers stirred up European politics and this led to challenges to the Schengen agreement, subsequently causing some restrictions to free movement across Nordic borders. We found ourselves in the midst of public sentiment that materialised as more demand for stronger Nordic collaboration. At the meantime, the enlarged EU had become more diverse and less wary of constructive like-minded groups and sub-regional solutions. For instance, the common Nordic electricity market is recognised as a future building block for the EU Energy Union.

Under such circumstances, the NCM launched a reform effort that was prepared during Finland's Presidency. The reform was aimed at improving the response to current political challenges and at making Nordic cooperation more relevant — be it for citizens, businesses or political leaders. As a result, some new flexibility was introduced into working methods, the institutional structure and budgeting. In response to the political agenda, a programme for integrating immigrants and refugees started in 2016, and it has been successful in sharing best practices. Further reform may be needed in the future.

In autumn 2016, the prime ministers of the Nordic countries declared the Nordic countries the world's most integrated region. Existing and new endeavours to improve the conditions for mobility, cross-border solutions and common standards are being promoted on many fronts, in conformity with EU-efforts. The ministers for Nordic cooperation commissioned an important report on legislative cooperation, which was delivered to us in February. In the coming months, its recommendations will be studied in different quarters in all Nordic countries.

The programme for Sweden's Presidency of the NCM in 2018 stresses the importance of the Baltic countries and the synergies with the regional councils and forums. The themes for the presidency are inclusion, innovation and security, with digitalisation as a recurrent theme throughout the programme. In 2017 an ad hoc council of ministers for digitalisation, MR-Digital, was mandated for a three-year term, and Estonia, Latvia and Lithuania were invited to participate. Prioritised spearhead projects include electronic identification, 5G, e-Procurement, and cross-border platforms and services.

The Nordic-Baltic region is a digital pioneer and it offers significant potential for advanced cross-border solutions and business platforms. Cross-border travel, transport and communications are areas with great potential. The challenging conditions of the Arctic also call for specialised solutions, where joint Nordic ventures could deliver. ■



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ALEKSI RANDELL

Core Network Corridors will gain importance as drivers of the competitiveness of the Baltic region

Expert article • 2348

There is a lot of untapped potential that could be utilised to achieve positive economic development in the Baltic region. Good transport connections to central Europe, the Mediterranean and Asia are necessary for the economies of the countries in the Baltic Rim to develop favourably. The Baltic Rim could evolve into a hub for international traffic between east and west if infrastructure were to be developed with a longer-term view and with a focus on collaboration among the countries in the region. At the same time, traffic in the Baltic, both on land and at sea, should be more closely connected to the Trans-European Transport Networks (TEN-T) of the EU.

Finland's neighbours consider the vigorous development of their transport networks as one of the key factors for fostering their national competitiveness. Unless it follows a similar clear strategy that is underpinned by its national interests, Finland, and at the same time, the entire Baltic region are in danger of inevitably falling behind. Instead of examining individual transport projects, the transport system should be viewed as an integrated whole both within Finland's national boundaries and in the entire Baltic Rim. Just as important as new investments, existing transport infrastructure needs to be utilised effectively, and this in turn requires the promotion of a digital platform economy that enables transport services and the utilisation of information. To achieve these goals, all parties must be involved, including the private sector.

From Finland's perspective, the country's international connections must also be considered in the national transport system when making long-term plans. Though collaboration between different countries is challenging, its role will be further emphasised in the future. A good example of international collaboration is the promotion of the Bothnian Corridor, a joint project between Finland, Sweden and Norway that links the northern parts of the Nordic countries with the rest of Europe. At the local level, its impact is considerable. For example, one of the aims of the Bothnian Corridor is to link the Vaasa and Umeå regions together with a stable ferry connection. Collaboration between different countries often arises from very practical needs, such as increasing tourism.

Connecting the EU's Mediterranean–Scandinavia TEN-T Core Network Corridor, which runs through Sweden, to Finland offers collaboration opportunities on a larger scale. There is an ongoing discussion in Sweden about the maximum speed for high speed trains travelling through this corridor from Malmö and Gothenburg in southern Sweden to the country's capital, Stockholm. Connecting the vibrant Greater Stockholm Area, with more than three million inhabitants, to Turku and Helsinki and further afield in Finland depends largely on Finland's contribution, as does redeeming the potential this link offers. Much of this depends on the timetable for establishing a speedy "one hour" train connection between Turku and Helsinki to complement the E18 motorway that runs from Turku to

Finland's eastern border, and on how Finland will develop its ports and airports into smart transport and service platforms and hubs that serve the growing transport needs of the western Baltic region as well as its business opportunities.

Finland's links with the eastern parts of the Baltic and, further, to central Europe will be improved considerably when the Rail Baltica connection between Berlin and Tallinn is completed by 2025. From Finland's point of view, it is important to promote the Rail Baltica project, as the development of this Core Network Corridor linking the North Sea with the Baltic states is almost essential for enhancing Finland's international transport infrastructure. A fixed tunnel link between Helsinki and Tallinn would open up a new, efficient corridor for goods traffic between Finland and the rest of Europe. Before this tunnel is built, economic activity between Finland and Estonia could already be grown considerably by increasing train ferry traffic. Once in place, a fixed rail connection with the rest of Europe would also increase seaborne passenger and goods traffic between Finland and Estonia.

Aside from Rail Baltica and the Helsinki–Tallinn tunnel, the Arctic corridor is also a crucial connection for Finland. Not only from the perspective of the Baltic economic region but, first and foremost, from the European Union's point of view, developing the Arctic connection is a concrete way of advancing the EU's Arctic policy and strengthening its position in this globally important region that attracts much interest. Finland has a special role in promoting issues related to the Arctic thanks to its role as chairman of the Arctic Council and its upcoming presidency of the Council of the EU. Surveys have recently been completed on the Helsinki–Tallinn tunnel and the Arctic railway, which has clearly stimulated public dialogue on both projects. This is a good thing, as Finland's logistical position and the Arctic region attract plenty of interest globally. China's New Silk Road concept, for instance, could redirect global goods flows. China has already concluded agreements with Russia on investments in railway and port infrastructure in order to improve transport connections between Asia and Europe. The Silk Road concept also includes a northern branch that connects to the Baltic region.

As open global markets grow, the role of large metropolitan regions will be further emphasised. On a global scale, the individual metropolitan regions in northern Europe are small players, which is why their influence is minor. The countries in the Baltic region should collaborate more to raise their collective weight. Norway, Sweden and Denmark are planning to create a single economic zone encompassing the cities of Oslo, Gothenburg and Copenhagen by linking them with high speed train connections. This economic zone, if realised, would form a travel-to-work area with a total of eight million inhabitants. A similar economic zone could be formed in the northern and eastern parts of the Baltic. Finland should address this issue without delay by turning the Helsinki,

Turku and Tampere regions into a more competitive travel-to-work area encompassing southern Finland, with more than two million residents. This can be done by building high speed train connections between these cities and ensuring that Finland is adequately connected to the European Core Network Corridors.

The Helsinki–Tallinn tunnel would form one link in a loop that, in future, would connect Helsinki, Tallinn and St Petersburg, forming a single economic zone. Once the Berlin–Tallinn railway is completed, it would offer Finland a land connection to central and southern Europe, as well as a link to the New Silk Road in the east through St Petersburg. In the long term, a land connection with the rest of Europe would increase transports to the Northeast Passage. For this reason, it will become almost vital for Finland and the rest of the Baltic region to develop their transport connections in the future. ■

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ALEXEY VEDEV

Economic development of Russia in 2017-2018: A recovery-driven unstable growth

Expert article • 2349

The ongoing revival of Russia's positive economic growth rates in 2017 was anticipated by an overwhelming majority of experts. A certain correction was reasonably expected following the 2015/16 decline in GDP and in investment and a drastic fall of living standards for the first time in 15 years. The key question to answer is whether the growth is nothing but a corrective growth or the Russian economy is on the path of new circle of sustainable growth in the middle run.

The Russian economy was faced with three negative shocks in 2014, namely (1) falling crude oil price, (2) sanctions against Russia and Russia's countersanctions, (3) decelerating GDP growth rates, due to domestic structural problems.

In 2011–2013, when crude oil was traded higher than \$100 per barrel Russia's GDP growth rates decline consistently and the GFCF growth rates were negative. The economic developments under high crude oil prices was driven largely by deteriorated effectiveness and increasing costs in the Russian economy. The increase in labour costs was represented by a growing share of wage fund in GDP and by shrinking gross profits. The 2015/16 fall of real wages by more than 10% led arithmetically to a bigger share of profit in GDP, and therefore an investment resource became available for enterprises. However, fixed investment increased on 4.4% in 2017 as real wages were up by 3.4% in 2017, and enterprises saw their profit decline by 8.5%. In other words, the growth in costs resumed on the back of uptrend.

Furthermore, the low effectiveness of Russian economy is evidenced also by persistently faster growth rates of real wages over labour productivity, except in 2015, when a visible correction of real wages took place. An equilibrium was established in 2016, whereas the decline in effectiveness resumed in 2017 – real wages increased on 3.4% GDP and labour productivity only on 1.9% or twice time lower.

The decline in households' final demand was a key factor in the GDP fall driven by both the decline in household real disposable income and the increase in propensity to save. In 2017, households gradually departed from the saving behaviour model that is mostly seen in times of crisis. Household real income contracted by 1.2% in 2017, whereas the retail trade turnover increased 1.25%. A certain upturn was observed in retail lending. Retail credit outstanding in banks increased 12.2% in 2017 after two years of stagnation, including 6.75% decline in 2015 and zero dynamics in 2016. Not only were mortgage loans on the rise, but also car loans and unsecured loans increased.

The growth in consumer lending cannot be regarded as a factor that can speed up demand. As early as 2013, Russia caught up with the USA regarding the debt load on household disposable income,

however, households' credit outstanding in banks represented 85% of GDP in the United States versus a mere 16% in Russia.

Still we have institutional problems connecting with doing business. During last 17 years (2000–2017) 100 rubles of aggregate demand expansion were covered by inflation (53-57 Rub.) and by imports (22-25 Rub.). In case of ruble devaluation there is trade off between inflation and imports. Only 1 Ruble from 5 was covered by real domestic production growth! This means the policy of quantitate easing is ineffective. If Russian government will stimulate final demand growth or subsidies low interest rates on loans it will lead to inflation acceleration and import growth.

Thus, although the Russian economy has succeeded in adapting itself to two of the three shocks (i.e. to falling crude oil prices and to economic sanctions) the accumulated structural problems still remain to be addressed. In addition, there are factors that constrain our optimism about cyclic component's possible contribution to GDP growth rates. First of all, household consumption is weak, the retail trade turnover and consumption of paid services in 2017 increased 1.2% and 0.2%, respectively. Net exports saw a marginal contraction. That is, the components that represent two thirds of GDP remained unchanged. It appears that the expected GDP growth of more than 2% in 2017 by the Russian Government was too optimistic (1.5% in reality). In our view, there is every reason to suppose that the ongoing growth is a recovery-driven, corrective and unstable growth. Furthermore, the above listed factors will be depleted this year and therefore promote no growth in 2018. And I expect economic growth in Russia in 2018 near 0%. ■



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Are we ready to head North?

Expert article • 2350

Europe and the European Union are currently facing challenges as well as opportunities. Despite the tightening foreign and security policy situation in the Baltic Sea region, we have to be able to ask ourselves what can be done in this situation and how to do it? We all agree that our competitiveness must be safeguarded for the decades ahead. Nevertheless, for us here on the northern edge of Europe, do we fully understand what competitiveness really means and what steps have to be taken to promote it, for example, concerning competence and transport connections?

Finland will hold the European Union Presidency in July 2019. The Northern Dimension of the European Union, established under the leadership of Prime Minister Paavo Lipponen and Finland, celebrated its 20th anniversary in September 2017. The aim of the Northern Dimension was to strengthen stability, wellbeing and sustainable development by means of practical cooperation. In addition to governments, universities, research institutes and the business community also participated in the cooperation. The experiences gathered over the last 20 years show that, at the EU level, the Northern Dimension is the largest and the most successful of all Finland's developments. The Northern Dimension has provided a partnership model, in which the partnerships may differ in nature. However, they all have strived to combine policy-making, expert work and practical project activities. Due to their diversity, the partnerships have proved to be a productive way to carry out tangible cooperation. This cooperation takes place within four partnerships: the Environmental Partnership, the Partnership in Public Health and Social Wellbeing, the Partnerships on Transport and Logistics and the Partnership on Culture.

Could this offer even more opportunities for us as we are approaching Finland's EU Presidency and the year 2019? The new Northern Dimension may act as a bridge builder, not only in the geopolitics, but also in such substantive issues as education and the social dimension. The European Union has to be able to improve the position of young people, to prevent youth exclusion and youth unemployment. The circular economy, energy and climate solutions are also at the center of knowledge of the Northern Dimension. Energy and climate targets cannot be reached in Europe or at the global level, unless we are able to create internationally replicable solutions. Nordic co-operation on the single electricity market offers many good examples and leads the way at both a European and international level. However, politics has a major role in implementation, but narrow national interests still lead to decisions, for example, relating to business support and energy solutions, which do not contribute to achieving climate goals. In the midst of the arms race, we should not forget the need to carry out the necessary environmental projects. As well as people, nature would certainly prefer to have more experts with diplomacy and détente than arms dealers and confrontation.

How could we further develop the Northern Dimension? Having a bold vision is essential. Dialogue on Arctic cooperation has to be maintained and developed. Russia, the US, Canada and Japan have significant roles to play. The importance of environmentally sustainable investments for a credible roadmap in the development of the Northern Dimension is essential. The Nordic welfare model is a prime example for the whole world. Delivering welfare requires

appropriate funding and major cuts by the current Finnish government, for example, in the field of education do not build a credible foundation for bringing competence back to the top of the world ranking. On the contrary.

The countries in the Baltic Sea region have to be able to develop a better shared vision for constructing future transport and traffic infrastructure projects. Besides the Mediterranean Corridor, the Baltic Corridor should be among the primary programs. Instead of individual projects, a Master Plan, i.e. a comprehensive logistics vision at the European Union level should be initiated, and it can be done during the Finnish Presidency.

Finland and Norway are now strongly pursuing a European connection to the Arctic Ocean through Finland and Norway. In this scenario, the proposed tunnel linking Helsinki to Tallinn is essential in order to achieve the Central European connection to the North. This would change mobility and the importance of the entire northern region and open up completely new opportunities for people and business because transport and logistics costs are significant in entering growing Asian markets.

With regard to tourism, Heading North offers a completely new international area. When talking about tourist areas, we should not look at national borders. For example, who knows what country he or she is travelling to when going on vacation to the Caribbean, which is a cluster of islands consisting of more than 30 countries? We want to go to the Caribbean because of its pleasant climate and clear blue sea. The Heading North can offer even more: security, purity, authenticity and, most importantly, different cultures and languages. All countries ready and willing should be involved. We must not set up barriers for cooperation and for creating new service entities. This principle is the secret of development and success of tourism in Lapland. Cooperation does not involve national borders. Finland, Norway, Sweden and Russia all benefit from growth in tourism. Variety is about authenticity, originality and difference. Thus, we need to pay particular attention to the most important elements in the Nordic framework of values. Therefore, justice and equality must always be at the center. We must also have the courage to defend the weaker ones. Let us behave and show humanity to each other. ■

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TIMO HIRVONEN

Cooperation between the Finnish and Swedish navies

Expert article • 2351

The Baltic Sea region has traditionally been perceived as a secure environment. The outbreak of the crisis in Ukraine in 2014 has put Europe in a challenging situation. The deteriorated security situation in Europe and elevated military tensions in the Baltic Sea region has precipitated the discussion about security policy and national defence issues. There are numerous examples of debates concerning the defence of the Åland islands and Gotland in the media, both in Finland and Sweden. Previous cuts in the defence budgets have increased the need of military cooperation; almost every nation in Europe cooperates in varying areas, either bilaterally or in organizations.

The Finnish Navy has a long tradition of international cooperation. We have been engaged in international exercises and activities since the 1990's. Our primary partner has been the Swedish Navy, with whom we have had personnel exchange and bilateral exercises over the decades, but also activities striving for operational goals and operational effect. The cooperation between the Finnish and Swedish Navies is called FISE Naval. Our cooperation has allowed us to conduct our activity in a cost-efficient manner, but it has also made us interoperable with each other.

Interoperability very often means more shared action. This is also the case in FISE Naval, which has evolved significantly in twenty years. The beginning stage of FISE Naval was the Sea Surveillance Cooperation Finland Sweden (SUCFIS), which was initiated due to the recognized need for enhanced situational awareness in our maritime region. The basic level cooperation and exchange of information that were initialized in the 1990's resulted in the every-day surveillance cooperation of today.

We nowadays have a Swedish-Finnish Naval Task Group (SFNTG), which consists of the Task Group Commander, the Staff and one or several Task Units, that are formed on demand to utilize every situation in the most efficient manner. The composition of SFNTG Task Units can include Surface Warfare, Amphibious Warfare, Mine Countermeasures, Logistics assets and troops. This is only the Finnish point of view: in addition to the aforementioned, Sweden is able to provide submarines for SFNTG exercises, which offers Finnish troops the chance to exercise Anti-Submarine Warfare with a real target.

The SFNTG is not a high-readiness organization, which is just waiting for an order to leave the harbor; it is primarily a mission-based, modular type, regional contribution for exercises, sea surveillance, crisis prevention and crisis management in the Baltic Sea region. It can also be seen as a concept for developing various areas of warfare. The SFNTG can also be used outside the Baltic Sea region if the situation requires, and if there is a political mandate to conduct such an operation.

The SFNTG has been used in numerous exercises in the last few years. These include, for instance, the Combined Joint Staff Exercise (CJSE), Northern Coasts (NOCO), Baltic Operations (BALTOPS), Swedish-Finnish Exercises (SWEFINEX) organized by Sweden and Finnish-Swedish Exercises (FINSWEEEX) organized by Finland. Even though much of the training includes staff exercises, the main purpose of attending international exercises and training together is to develop tactics and procedures, and thus become more effective. One additional benefit of training together in SFNTG is that various activities start to become routine. Once action is routine it is effective, thus saving time, money and personnel resources. Mutual training provides a cost-effective solution for enhancing a nation's national defence.

The SFNTG achieved Initial Operational Capability (IOC) in the end of 2017; Full Operational Capability (FOC) is planned for 2023. In conclusion it is noteworthy to state, that the SFNTG is not a substitute for national defence; it completes it in multiple areas. What cannot be done alone, can be done together.

FISE Naval is a good example of applied military mathematics: the sum of one plus one is definitively more than two. ■



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PETER STOLT

Sweden's and Finland's deepened defense cooperation

Expert article • 2352

Finland and Sweden have strong historic bonds and have since decades an extensive cooperation within the defense sector bilaterally, but also within multilateral organizations and forums such as UN, EU, NATO and NORDEFCO.

2013 the governments of Finland and Sweden announced that the bilateral defense cooperation would intensify further. The goal of the intensified cooperation, based on already existing structures, was to make the defense forces of the both states more cost effective and to gain higher operational effectiveness.

In May 2014 an action plan was presented. The forces were tasked to investigate the possibilities of strengthening the cooperation in peacetime through exercises; education and training; air and sea surveillance; and common use of infrastructure. Furthermore, possibilities of developing joint units for international exercises and crisis management operations were to be investigated.

On the 31st of January 2015, the armed forces submitted a joint final report with concrete proposals on suitable areas for cooperation. In May the same year, the state secretaries of defense signed a common intent to initiate the implementation according to the forces' suggestions. The armed forces were tasked, and have since, successfully conducted and developed the cooperation according to a continuously updated implementation plan.

Extensive interaction now takes place at defense policy level. Exchange of civil servants between the ministries and of officers between the military headquarters is conducted; military commanders on all levels meet frequently and secure communication is established between important functions.

Participation in respective national military exercises is extensive; e.g. units from all Finnish branches participated in the Swedish Defense Forces large scale exercise Aurora, in the autumn of 2017.

The armies are developing common concepts on brigade level. The air forces are developing interoperability, mainly through exercises within the concept of Cross Border Training (CBT). Development work for permanent exchange of recognized air pictures is ongoing. The naval cooperation consists mainly of the Swedish Finnish Naval Task Group (SFNTG), which met initial operational capability (IOC) during fall 2017. Since the beginning of last decade, a cooperation for establishment of a common recognized maritime picture is in place. The amphibious units have a well-established cooperation and further cooperation is established also in other areas.

Russia's illegal annexation of Crimea and support of separatists in eastern Ukraine started the deteriorating security situation we now have in our neighborhood. This remains a serious threat against the existing security order and has affected the cooperation between Finland and Sweden. Even though the risk for a separate military attack directed against our nations is low, the military threat cannot be excluded. Crises or incidents, also those involving military force, may still occur in our region. If they do, both Sweden and Finland will most certainly be affected.

Further cooperation is therefore initiated on operational planning and preparations for common use of civilian and military resources, also beyond peacetime conditions. The objectives of the cooperation have been set out in the latest Swedish defense bill and the Finnish defense policy report of 2017.

Enhanced capacity for Finnish Swedish joint military actions raise the threshold towards incidents and aggression which will help improving the stability in the Baltic Sea area. The two governments' statements do, however, not include any mutual defense insurances. Such acts require new national political decisions. Possibilities to make such decisions, also rapidly if needed, have been developed through changes of national law in Finland. On the 30th of April 2018, a Swedish investigation will present suggestions on how decision making on giving and receiving military support, in the context of Swedish Finnish cooperation, can be further improved.

The Swedish defense commission suggests work to begin for a common planning process for giving and receiving civilian defense support and to identify certain sectors where common planning would be useful. Such sectors could include; supplies and delivery safety/redundancy, especially transports and logistics; population protection; repairs; operation and maintenance of critical infrastructure, health care resources and medical supplies.

The cooperation between Sweden and Finland is more extensive and deeper than any other cooperation, and therefore unique. The trustful, long-term cooperation between our states continues patiently and dynamically with high ambitions. Our total capabilities and the cost effectiveness of our respective defense forces increase with time, as does security in the Baltic Sea region, in an era when it certainly is needed. ■



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JARI SAINIO

The international cooperation of Southwest Finland Emergency Services in the Baltic Sea

Expert article • 2353

Rescue services in Southwest Finland
Southwest Finland Emergency Services is responsible for rescue services in 27 municipalities. Population in the area consists of 480,000 people with 88.9% native Finnish speakers, 5.7% native Swedish speakers and 5.8% other native languages. The Emergency Services has 83 fire stations, and there are 66 volunteer fire departments operate in the area. The Emergency Services has about 550 people as full-time staff and additionally about 1000 people working in volunteer fire departments. Annually, Southwest Finland Emergency Services carries out about 8400 rescue service assignments and 42,000 emergency care assignments.

The geographical area of Southwest Finland also includes the water areas of the Archipelago Sea. The archipelago is a challenging operating environment for rescue services because the Archipelago Sea consists of about 22,000 islands. There are 4272 people living in 177 islands without a fixed road connection to the mainland.

Maritime accidents

The responsible authority in maritime accidents is the Finnish Border Guard. Southwest Finland Emergency Services participates in maritime rescue missions as a collaborative authority. The operative task of the maritime rescue management group is to coordinate the tasks of various authorities, volunteer associations and other communities and operators related to maritime rescue. The Director of the Southwest Finland Emergency Services, the Rescue Director of the Emergency Services or his/her deputy is included in the maritime rescue management group. Southwest Finland Emergency Services is constantly prepared to send out the specially trained Maritime Incident Response Group (MIRG). The MIRG is constantly ready to respond in the entire Finnish maritime area. The most important and urgent task of the Group is safely retrieving the crew and passengers of vessels in danger and putting out fires. When necessary, the Group can be sent outside the Emergency Services area or outside Finnish maritime area according to various agreements.

Hazard project

Ports, terminals and storage facilities are often located close to residential areas, thus potentially exposing a large number of people to the consequences of accidents. The HAZARD project deals with these concerns by bringing together rescue services, other authorities, logistics operators and established knowledge partners. HAZARD project aims at mitigating the effects of emergencies in major seaports in the Baltic Sea Region. The types of safety and security emergency include, for example, leakages of hazardous materials, fires on passenger ships at port, oil spills in port areas as well as explosions of gases or chemicals.

The activities within the project aims at improving safety and security in port areas. HAZARD brings together Rescue Services, other authorities, logistics operators and established knowledge partners. HAZARD enables better preparedness, coordination and

communication, more efficient actions to reduce damages and loss of life in emergencies, and handling of post-emergency situations by improving: harmonization and implementation of safety and security codes, standards and regulations, interoperability of resources through joint exercises, communication between key actors and towards the public, the use of risk analysis methods and adoption of new technologies. The project duration is 36 months, from spring 2016 to spring 2019 and the total budget is 4.3 M€, which is partly funded by the EU's Interreg Baltic Sea Region Programme.

The partner consortium in the project consists of analytic and knowledge partners from different universities in Finland, Sweden, Poland, Lithuania and Germany, rescue service authorities and seaports from Turku, Klaipeda and Hamburg. Moreover, there are several associated organisations, like the Finnish Transport Safety Agency and the Federation of the European Union of Fire Officers Associations. Lead partner for the project is Turku School of Economics. Southwest Finland Emergency Services has the responsibility for work package 2, Joint Exercises and Communication in Emergencies. The joint exercises are very concrete, rescue emergency and security exercises, which are planned and executed by the participating seaports and relevant authorities.

Other cooperation

The Union of Baltic Cities is a voluntary city network that has been developing the Baltic Sea area since 1991. Southwest Finland Emergency Services has participated actively in the work of the Safe Cities Commission. The main focus areas of the Commission are civil protection and the prevention of accidents and crime with the aim to improve security services and standards in the Baltic Sea area.

In addition to expert personnel and high-quality equipment, successful rescue operations require good and functional cooperation. Cooperation is required between authorities as well as the different units within an organisation. Southwest Finland has very long-standing traditions of cooperation between authorities, which has helped us achieve excellent results. ■



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The clash of security perspectives

Expert article • 2354

The Baltic Sea region has become one of the focal points concerning rising tensions between Russia and “the West”. During the confrontational Cold War era, Berlin and the inter-German border formed the geographical center of gravity between the Soviet Union and NATO. After the demise of the Cold War, during some 20 years, political and military tensions were practically absent as all states were redirecting their security and defence policies and getting a grip on the new logic of the emerging post-Cold War era. For some time, great-power rivalries were ancient history. Today we witness the “return” of tensions, exchange of threats and sanctions as well as lowered level of diplomatic encounters. Ever since the beginning of the Ukrainian crisis’ acute phase (2013-2014), at the latest, the security situation in Europe - and the Baltic Sea region - has changed. The potential of a military crisis erupting has increased.

Getting the diagnosis right on the root causes of today’s Russia-West problematique is a prerequisite for any chance of successfully solving it. According to some, today we face Cold War 2.0 or the “new normal”, which is characterized by predatory policies of Russia vis-à-vis the United States, Canada and European states. However, focusing on the superstructure of the confrontation - the level of actions and reactions - will not get us very far in understanding and solving the ongoing crisis.

It is the stratum that lies under the sanctions, threatening behavior and policies of escalation that needs to be understood and addressed in order to have any possibilities for lowering tensions, settling disputes and fostering cooperation. For diplomacy to work there must be a common language through which communication is possible. Today Russia and the West lack such a language. Why? Because they conceptualize security very differently. They do not share a paradigm within which they could even define the problem not to mention figure up any potential solutions. What we witness today is a clash of security perspectives between Russia and the West. And this has tangible security-related outcomes in the Baltic Sea region and elsewhere.

During the post-Cold War era Western notions of security have changed greatly - moving from emphasizing state-based military security towards cooperative security on many sectors (economy, environment, social security etc.) touching on individuals, states and even the stability of the globalizing world order. Engaging former adversaries has been a key aspect of the new Western security approach. The enlargement of the EU and NATO are practical manifestations of this change.

During the last 25 years, many Western states have managed international security with a broad array of tools, including armed forces. Military crisis management, counterterrorist operations and counter-insurgency operations have become bread and butter to many Western military forces. Militaries are used actively to safeguard “global security”, to inhibit large-scale humanitarian suffering, to hunt down terrorists and to manage insurgencies out-of-area.

Russia on the other hand has retained a distinctly traditional focus on international security. It is about the military security of the state in an anarchical predatory world where states in general and greatpowers particularly compete for resources, standing and prestige. It is a zero-sum world of spheres of influence, great-power privileges, deterrence and if necessary the use of military force in order to advance state’s critical security interests. Militaries are maintained and developed for deterrence, defence, war-fighting and the prestige that they bring. Using military force is a normal tool of statecraft for Russia - as it is for other great powers.

Bridging together these two paradigms of security - Russian and Western paradigms - is no easy task. As we have seen, communication is not easy. And trying to communicate can actually make things worse, particularly when engaged in public communication - not back-channel diplomacy. Public face-saving or trying to avoid been pushed into a corner may override other more constructive goals of conflict resolution when communication is public and not private.

But communication - or better yet diplomacy - is the best thing that we have to lower tensions and on the long run to build trust and settle conflicts. During crises diplomacy is much more valuable than during “normal times”. The problem that we face today is related to the low level of diplomatic engagement between Russia and the West. If ever there was a need to do more - not less - on the diplomatic front, it would be now.

If we do not get the diplomatic track to function properly between the West and Russia in the near future, it may well be that the ongoing problems will be solved with other means. This would be a dire situation for Europe - and the Baltic Sea region. ■



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Militarization of the Baltic Sea Region: Economic consequences and scenarios for the development of military and political confrontation

Expert article • 2355

After the Ukrainian crisis the international situation was characterized by the increased instability, a combination of centrifugal and centripetal tendencies, economic imbalances, the unwillingness of the global players to sacrifice their own national interests in favor of the commonwealth.

Under the remaining topicality of such threats as poverty, famine, epidemics, a widening gap between the poor and the rich, a tightening competition for energy, raw materials, food, water, innovation and skilled human resources, threats to security dominated in the list of contemporary challenges to mankind.

There is a pronounced tendency for the disturbance of the check-and-balance system between the rival states and groups of states, the "proliferation" of regional conflicts, and involvement of new participants in them. Drug trafficking, human trafficking, cybercrime, radicalism and terrorism have transformed into the global cross-border threats.

An obvious crisis of confidence in the European region, in the wide Eurasian space and on the global scale has shown that the demand for a constructive dialogue and making a compromise still exceeds the supply.

The development of the situation in the field of military and political security in the Baltic region confirms one of the "security paradoxes" once written about by the researcher of the Center for European Integration N.K. Arbatova: "On the one hand, the Baltic region, including its post-communist and post-Soviet part, is one of the most stable and prosperous regions in modern Europe. On the other hand, it is this region, due to its close proximity to Russian borders, that can easily turn into the frontline of possible confrontation between Russia and NATO in the event of downfall of relations between them." (Arbatova, N.K., Paradoxes of Security in the Baltic Region, *Nezavisimaya Gazeta*. January 30, 2001). Obviously, this eventually happens. The Baltic Sea, instead of being a "sea of peace" can become a new European "tinderbox" like the Balkans in the early 20th century.

By missing the opportunities for economic development (in particular, traffic flows and Russian investments), the Baltic countries, which could potentially be a zone of contact and cooperation between the West and Russia, have become a frontline of a new Cold War. According to experts, the severance of economic ties with Russia results in 8-12% GDP gap for the Baltic states (Mezhevich N.M. *The Baltic States 2.0, A Quarter-Century of the Second Republics*, M., 2016).

In these circumstances, the growth of military expenditures is an unacceptable burden. The military needs of the state represent the totality of its economic needs necessary for the material provision of the country's military security, for the armed protection of its national interests. Military security of the state directly depends on the level of satisfaction of military demands (Kolesnikov A.V., Prodchenko I.A. *Relevant Issues of Economic Theory and Military Economics*: Moscow: Military University, 2006. p. 261). If the state is unable to provide its defense with more modern, therefore, more expensive technical means,

An obvious crisis of confidence in the European region, in the wide Eurasian space and on the global scale has shown that the demand for a constructive dialogue and making a compromise still exceeds the supply.

including weapons that meet or even exceed the characteristics of the analogues held by a potential adversary, there appears an objective possibility of a security threat. The RAND Corporation has developed a system analysis, various forecasting methods, and conceptual foundations of the Planning-Programming-Budgeting (PPB) system (The RAND Corporation Research Study). Hitch CJ and McKean RN, Eds *Harvard University Press*, Cambridge, Mass., 1960). The American approaches to the economic analysis of military expenditures have their own specifics but it is possible to draw certain conclusions.

First, the increase in military spending causes a reduction in other government expenditures (for infrastructure, health). Additional 2.2% of GDP for military spending within seven-year period result in GDP contraction by about 2%. (*The Economic Effects of War and Peace*// Quarterly Economic Brief. International Bank for Reconstruction and Development Issue, 6 January, 2016 URL: <https://openknowledge.worldbank.org/bitstream/handle/10986/23705/9781464808227.pdf?sequence=12&isAllowed=y>).

Secondly, many of the wartime expenditures continue to increase after the war is over. For example, the country is intent on a steadily high level of military spending, and the capital continues to “fly” from the country. If there are no reforms, the economic recession often results in a new civil conflict that destroys the economy and increases the risk of the further war. Economic growth is necessary to avoid this trap.

The Chairperson of the Consent fraction in the Latvian Parliament Janis Urbanovich called the 2017 state budget front-line. According to the parliamentarian, it is as if the country was preparing to repel an attack from the East. “Russia is not an enemy for Latvia. Latvia’s enemies are poverty, stupidity, problems of the health care and education system,” emphasized J. Urbanovich. (“The threat from the East” made Latvian new budget front-line. URL: https://www.lenta.ru/news/2016/11/03/latviya_byudzhet). The number of local economic projects which are sure to slow down is growing. “I think that since we are preparing for war, no one feels like investing in the military zone,” said Tõnis Seesmaa, a member of the OÜ Navesco Board of Directors, in August 2016. (The Vähi project is idle because of the fear of war. URL: <http://www.dv.ee/novosti/2016/08/26/proekt-vjahi-prostaivaet-iz-za-straha-vojny>) This can be said about any Baltic economic project.

The thesis about the growing economic, political, military uncertainty ceased to be original after Brexit, and the European Union Strategy for the Baltic Sea Region (CEBBM) adopted in 2009 did not take into account the military and political aspects of the intergovernmental cooperation.

According to experts (Mezhevich N.M., Zverev Yu.M.) consideration of the situation in the field of military security in the region, taking into account historical, economic, demographic, and geographical realities, makes it possible to outline three scenarios for the development of military and political confrontation in the Baltic region.

A scenario codenamed the *Treaty of Brest-Litovsk*. Neither war, nor peace - a concept of controlled confrontation. At the heart of the scenario there is an every possible entanglement of Finland and Sweden in the military and political confrontation, the final consolidation of their associative status in NATO, the rejection of confidence-building measures offered by Russia, an information war. Under the effective political management and the aspiration of the

parties to the potential conflict to find a mutually acceptable way out, this scenario can develop during the mid-term perspective (5-7 years) and then take to scenarios 2 and 3.

The second scenario codenamed the *War of the Doomsday (the Yom Kippur War)* presupposes the emergence of a local military conflict. The peculiarity of this conflict is that it can be both provoked and de jure not provoked by one or the other party. This conflict can arise because of the extreme geographical limitations of the theater of operations. For example, the air and sea lanes in the area of the Estonian island of Vindloo are so narrow that any movement of an aircraft or ship can be interpreted as a violation of the airspace or territorial waters. The island itself is located at a distance of 16 nautical miles from the Russian island of Maly Tyuters (Small Tyuters). Taking into account modern speeds, it is extremely difficult to prove or deny the fact of violation. The accuser gets obvious advantages if not military, then political.

The third scenario codenamed *Helsinki 3* (the initiative to implement this scenario was announced by the Belarusian diplomacy) presupposes the beginning of hard and long-lasting but potentially effective negotiations on security and confidence-building measures in the region. However, the accumulated range of not only military and political but worldview problems limits the possibility of movement along this path. It is also worth noting the apparent lack of independence of a significant part of political actors in the region, a complicated decision-making mechanism in terms of geography and management.

To forecast the progress of events in the Baltic region is rather difficult, especially it is difficult to assess the probability of scenario No. 3 because it is potentially implemented in a larger - regional (Europe) or global scenario.

The probability of the first scenario in the short term (one or two years) is estimated by experts as about 85-90%, scenario No. 2 - 5%, scenario No.3 - 5%. Changes in the ratio are possible in case of large-scale external factors (deterioration of the economic situation in Europe, a change in the US foreign policy).

The question is whether Russia has potential allies in the region. Legally and geographically Belarus is an ally which after the Ukrainian crisis demonstrated resistance to the unfavorable external factors and its ability to active counteractions and mitigation of their impact.

As before, the efforts of Belarusian diplomacy were aimed at carrying out a balanced multi-vector foreign policy, comprehensive protection of national interests, strengthening of the regional security and stability.

In the face of distrust between Russia and the West, Belarus, on the one hand, has remained committed to the strategic partnership with the Russian Federation, a first-priority commitment to the integration within the Eurasian Economic Union (EAP), traditional interaction with the Collective Security Treaty Organization (CSTO) and the Commonwealth of Independent States (CIS).

On the other hand, Belarus continued to build constructive pragmatic relations with the European Union and the United States. The priority of Belarus' foreign policy on the European vector is the intensification of partnership with the EU countries in the areas of mutual interest: trade and investment, transport, transit, cross-border and regional cooperation, energy, environmental protection.

Belarus is a reliable partner of the European Union not only from the view point of maintaining stability in the region but also on strategically important issues of pan-European importance: ensuring energy and environmental security, settlement of conflicts, combating crime, drug trafficking, and illegal migration. ■



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Shared situational awareness is a deterrent in the Baltic Sea Region

Expert article • 2356

Today's global events are largely difficult to make sense and highly disruptive. Traditional means of diplomacy and post-Cold War rules on international security and stability seem no longer to apply. The unprecedentedly direct and hard rhetoric of the world leaders saturates the news stream yet understanding its meaning has become perhaps the greatest challenge for the decision-makers of our time.

What led to today's unpredictable security situation was the Russia's annexation of Crimea and invasion of Eastern Ukraine in 2014. While there were clear indications and warnings pronounced by the Russian leadership for many years prior, the invasion came as a world-wide wake-up call. Crimea demonstrated that Russia is able and willing to project military power where the West has gone absent or weak. This reality hit home also in the Baltic Sea region and it became an imperative to ensure that the region would not become a power vacuum.

During the peaceful post-Cold War decades, the militarily non-aligned Finland had continued to develop its defence capability to be prepared for a potential military threat. During that time, however, little if any thinking took place on how nations around the Baltic Sea would cooperate, should they be faced with a military crisis. After the increased Russian military activity in the Baltic Sea and the High North, following Crimea's invasion, the vulnerability of the Baltic Sea was no longer a hypothesis but a hard reality.

Russia's exercise activity over the recent years has shown that its armed forces are highly maneuverable, rapidly deployable and capable of challenging the West in the Baltic Sea and even further afield. That Russia can mount an operation in a matter of hours, is a critical concern for the speed of political decision-making of any nation and the entire transatlantic community.

As a result of these realizations, NATO had to reassess its contingency plans, which also included looking at cooperation between its geographic neighbors. The situation called for new type of regional cooperation with its long-time committed partners, Finland and Sweden, that would reach beyond peace-time and NATO out-of-area operations.

The need for intensified sharing of information between Finland, Sweden and NATO provided the two non-NATO Nordics a chance for a tailor-made partnership with NATO called the 28+2 (NATO + Finland and Sweden, subsequently 29+2). Recognizing that security threats would not respect membership lines of any organization or state, the format concentrated on the exchange of views and analysis on the threat environment. Finland and Sweden were also able to share their national best practices on resilience and clarify misconceptions on their defence doctrines. Respecting the distinct difference between a NATO member and a partner, the 28+2 dialogue was a win-win situation for all parties. It was understood, that Finland and Sweden could not remain outside or unaffected of any crisis taking place in the Baltic Sea region, or even further afield. It finally also became evident that the Nordic geography would play a key role should NATO have to defend its Baltic Allies.

The American leadership in the region also began to play an enabling role for constructive cooperation between nations, and across institutional boundaries. The US led an intensified political dialogue with the Nordic and Baltic nations and committed troops to Europe through the European Reassurance Initiative and the NATO's Enhanced Forward Presence. These activities were recognized as a welcomed deterrence also by Finland and Sweden. The renewed interest of the US to the regional security was also made apparent by the Statements of Intent on bilateral defense cooperation that it signed with both Finland and Sweden during 2016.

Military exercises and training in the region gained a whole new meaning: the defence and deterrence of Europe. Despite intense national political scrutiny, Finland has continued to take part in the most demanding NATO and bilateral exercises, allowing for the Finnish Defence Forces valuable opportunities to enhance defence capability and interoperability.

The United States has been the most important and trusted partner for Finland for many decades. The roots of the cooperation lie in several defence procurement programs, most importantly the acquisition of F-18 Hornets for the Finnish Air Force. Defence cooperation with Sweden, another key bilateral partner for Finland, is a relatively recent work in progress. Both defence relationships are of crucial importance for Finland and they must be cultivated alongside with its institutional defence cooperation with the European Union and NATO.

It remains unknown if Finland or Sweden will ever have sufficient political appetite for NATO membership. In the meanwhile, it is a necessity for Finland, Sweden and the Alliance to deepen their cooperation to include coordination of policies and activities both in peacetime and in times of crisis.

What we have learned in recent years is that we must continue to aim at constructive dialogue with Russia. On the other hand, we have also learned that tight cooperation between nations and organizations will create shared situational awareness and unity that will act as the strongest deterrent against any aggressor. Information that is analyzed and shared, practices that are coordinated and interoperable, are invaluable force multipliers for the Allied and partners alike. Shared common picture of the situation is a key to expedited political decision-making. Most importantly, it will also allow for more effective deconfliction and de-escalation of crises, when Europe is faced with challenges to its security. ■



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Kymenlaakso: A region by the sea and the EU external border

Expert article • 2357

Kymenlaakso on the map – past and present

Region of Kymenlaakso (*Kymmenedalen* in Swedish) with some 180 000 inhabitants is one of the 18 regions in Finland. It is situated in South Finland by the Gulf of Finland. Kymenlaakso has a large archipelago, *skärgård*, that is partly bilingual and thus makes the whole region officially bilingual (Finnish and Swedish). Bilingualism also unites our region with the family of Nordic countries. The outer islands on the Gulf of Finland belong to Russian Federation. Kouvola, Kotka and Hamina are the major towns in Kymenlaakso.

Comprising the South-Eastern corner of Finland, Kymenlaakso makes a special gateway from the EU to the East. The border was very new in the 1940's after two tragical wars between Soviet Union and Finland. Kymenlaakso became a new border region after the Second World War. The border was established inside Finland of that time tearing apart old regions, the archipelago, and also creating a completely new border region. After 1991 the so-called Iron Curtain fell also here between Finland and Russia making the border a more normal one. The new situation also allowed regions on both sides of the border to get mutual benefit of a new kind of cooperation and trade. Prospects of the future were very positive and hopeful in the 1990's.

A Maritime Region on the EU external border

The biggest and busiest border crossing point between Finland and Russian Federation is situated here in Kymenlaakso. Vaalimaa border crossing point has developed in the course of time to a best practice example of a well functioning border crossing on the EU external border with all modern facilities.

Port of Hamina-Kotka is the biggest export harbour in Finland. Kouvola makes the biggest railway junction in Finland. Together these logistical hot spots make the whole region a centre of transport and logistics in Finland. Recently, a goods train from Kouvola to Xi'an in China began its weekly regular transport routes from Kymenlaakso through Russia and Kazakhstan to China. Vast Chinese markets offer huge new prospects!

After a quite long trade recession in the very last years during this decade, the Russian trade is recovering and the number of tourists is again increasing in Kymenlaakso. In spite of the EU – Russia sanctions, trade and the number of tourists are more sensitive to economic fluctuations in Russian internal economy than any other reasons. Thus the Russian national economy is in a decisive role in the field of tourism. However, also the threatening weather report of international politics - with new dark clouds – makes a shadow on trade relations and economic development in external border regions.

As Finland, Sweden and Austria joined the European Union in 1995, Kymenlaakso became an active member in two Interreg A areas: the one cooperating with Estonia, which today is a part of Central Baltic regional cooperation. Estonians had that time Phare funding of their own because Estonia joined the EU only in 2004. The other Interreg direction of Kymenlaakso was to the East. Kymenlaakso became a member in South-East Finland Interreg zone. The cooperating regions were – and still are – City of Saint Petersburg, the surrounding Leningrad Region and as a bordering region Republic of Karelia. Nowadays this corresponding funding of

these areas on the EU external borders is called *ENI – European Neighbourhood Instrument*.

Cooperation, peace and security, mutual accountability and a shared commitment to the universal values of democracy, the rule of law and respect for human rights, are founding principles of the special relationship between the EU and the Neighbourhood countries of the East and the South. On the EU Eastern external border we should bear in mind that these values and principles are prevailing also on the Southernmost border areas of the EU and, after all, they are universal values and principles.

Maritime activity and other policy fields internationally

Kymenlaakso is a member in many organizations on a European level. One of the most prominent of those pan-European memberships already since 1996 has been a membership in the *CPMR – Conference of Peripheral Maritime Regions*. After Finland joined the European Union in 1995, Kymenlaakso was the very first region in Finland to join the CPMR as soon as possible in 1996. Nowadays this European organization consists of more than 150 European regions and also French overseas regions. The CPMR gives a voice to European regions. Regionalism is the corner stone of this organization. Through the CPMR European regions can be heard in the EU Commission, Council of Europe and Parliament.

Especially the EU Commission very highly appreciates the CPMR as an effective European EU lobby organization. The CPMR has many fields of policy, e.g. transport and communications where the organization has set many targets and also has reached many of them as concrete achievements. There have been such policy fields as Trans-European transport corridors and Motorways of the Sea, not to forget such big efforts during recent years as Maritime Spatial Planning or Blue Growth. Kymenlaakso has also been holding many chairmanships and executive secretariat in the CPMR Baltic Sea Commission.

Logistics, transport facilities, cross-border cooperation, bioeconomy, blue growth, maritime affairs, maritime spatial planning and also other fields of EU policies have made the Regional Council and other players in Kymenlaakso work very actively in the CPMR and also other international organisations. Kymenlaakso has been a very visible maritime region internationally on European fora. ■



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Kouvola: Perfect for growing logistics operations

Expert article • 2358

Kouvola has a logistically ideal location with railway connections to all cardinal points and main road connections in six directions. Kouvola RRT is the only Finnish railroad terminal in the EU's core transport network. As part of the network, it is comparable in significance to the main Finnish ports and airports.

Railway logistics is among Kouvola's main strengths. The capacity of the largest Finnish cargo marshalling yard and the volume of cargo handled makes Kouvola the most central location for railway transport in Finland. The New Silk Road container train connection to China that started operations in autumn 2018 strengthens Kouvola's position as a transport hub between Asia and Europe.

Vision: the best in transport

The City of Kouvola intends to invest in the logistics sector and especially in railway logistics. We are proud of our city, which is a modern and international centre of freight transport. In a comparison of European logistics centres done in 2015, Kouvola was rated the best in Northern Europe. At present, Kouvola has around 200 companies operating in the sector with nearly 2000 jobs.

In the future, Kouvola will be an attractive logistics cluster that draws operators into the area thanks to excellent connections. Digitalisation and automation will also shape future logistics services. Blockchain technology has been developed in Kouvola to enable real-time transmission of logistics chain data. New solutions are made necessary by changes in operating environments. The role of logistics centres will change, and outsourcing of warehouses will become more common. In Finland, the outsourcing rate is only 12 percent, compared to nearly 50 percent elsewhere in Europe.

EU's goals to develop railway traffic require railway yards and loading terminals to be equally available to all operators. The Kouvola RRT project aims to enable this. A modern intermodal terminal that operates on an open access principle and allows for handling trains of over one kilometre in length will be built in Kouvola. The mode of transport can be changed easily based on need. Kouvola RRT is expected to boost economic growth and employment both regionally and nationally.

The New Silk Road turns attention to China

The massive *One road – one belt* project implemented by China focuses on rail transportation. The significance of railways is increasing globally as operators seek more environmentally-friendly transport options. In addition to the EU, the popularity of railway transportation has increased in Russia and China.

For Finnish international trade, a railway connection between Europe and Asia is very significant. Recently the transport volume in China has increased by 40-100 % each year, and the volume of railway transportation is expected to triple in the coming years.

Dozens of container trains are already travelling between China and Central Europe each week. Operators estimate that the demand for train routes will tenfold by 2025. The current routes are oversaturated and options are needed.

Demand for a northern railway connection

The Kouvola-China route is very competitive compared with Central European routes because it is quicker, effective, and has possibility to operate with longer trains. Also, the track gauge is the same in Finland, Russia, and Kazakhstan, removing the need to reload the containers twice along the way.

Container trains offer an alternative for slow sea container transport and for expensive air transport. They offer new opportunities for products requiring special conditions, seasonal products, and for e.g. timber that suffer from moisture during sea transport.

The first Railgate Finland Kouvola-China Express container train left from Kouvola to Xi'an in November 2017. Import and export volumes almost doubled in December, and the demand is growing. Once established, the route will be operated weekly.

The route opens up new opportunities also for the Nordic countries. There has been interest in Sweden and Northern Norway. Also Finnish companies are willing to use the route, especially for deliveries where keeping to schedule is vital.

Kouvola is part of the Northern Growth Corridor

The economic outlook has brightened in Finland. The positive chance has been quick and is expected to continue.

Kouvola is part of the Finnish Northern Growth Corridor. Our location, logistics connections, and RRT combines us to Russia, Asia, and the North Europe as well as to the largest Finnish universal port HaminaKotka.

The western end of the Finnish Northern Growth Corridor is growing fast, and this trend is expected to continue. Similar growth must be activated at the eastern end of the growth corridor. Infrastructure investments and development of transverse transport connections are also needed in South-East Finland. ■



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JAROSŁAW SUCHOPLES

Exploring potential of bilateral contacts: Relations between Poland and Finland nowadays

Expert article • 2359

The year 2018 is a very particular year for Poland due to a splendid jubilee of the 100th anniversary of restoration of the Polish independent state. I assume that the significance of this jubilee does not need to be explained to the Finns who have only just finished to celebrate the commemorations of *Suomi 100*. One hundred years of independence is a good moment to reflect on bilateral relations between Poland and the country of my mission – Finland. How strong is now the Polish-Finnish cooperation? Which areas does it cover?

I am truly pleased to underline that the Polish-Finnish relations have always been very good and now they are particularly vivid and intense. We cooperate in a number of areas on political and expert levels: from security matters to economic affairs and culture. Only in 2017 several important bilateral encounters took place. The most important was certainly the official visit paid by the President of the Republic of Poland H. E. Mr. Andrzej Duda in October 2017. A set of important political and economic items fulfilled the agenda of his fruitful visit. Apart from that, the Finnish Prime Minister H. E. Mr. Juha Sipilä came to Warsaw in January of last year: it was exactly in Poland where the Finnish Prime Minister commenced international celebrations of the 100th anniversary of the Finnish independence. Moreover, in 2017 a visit to Finland was paid by the Polish Minister of National Defense Antoni Macierewicz and by the Minister of Sport and Tourism Witold Bańka. Other visits, at the level of undersecretary of states, were paid by the representatives of the Ministry of Development, Ministry of the Environment and the Ministry of Foreign Affairs. The Polish and Finnish Ministers for Foreign Affairs, Mr. Witold Waszczykowski and Mr. Timo Soini, exchanged views on matters related to the foreign policy in a bilateral meeting that took place during V4+NB8 Summit in the Polish town of Sopot in May 2017. There is no doubt that this intense exchange of meetings and visits will strongly contribute to a further development of friendly bilateral relations between Poland and Finland and to strengthening the closer cooperation between our countries, especially in the area of security and innovations. Poland and Finland remain important partners in the EU, sharing common values that are deeply rooted in the fundamentals of the political cooperation among the states of our continent.

The relations between Poland and Finland base to big extent on economy. Poland is perceived by our Finnish partners as one of the most promising markets. There are more than 170 Finnish investors in Poland, active mainly in construction and related sectors. Polish companies export different products to Finland as e.g. machines, electrical devices, metals, vehicles and medical products. The value of goods exported from Poland to Finland in 2016 amounted to ca. 1,6 bln EUR. The exchange of goods go also in the opposite direction: from Finland to Poland, reaching in 2016 the amount of 1,4 bln EUR.

Not only political and economic matters build strong bonds between our countries: Poland and Finland are close to each other thanks to the history. It was already in the 16th century when one of the daughters of the Polish king Sigismund I, Catherine Jagiellon, became wife of the duke John III Vaasa residing in Turku. The 'Polish princess' brought to the court in Turku achievements of the Renaissance, reorganizing the castle and the court's lifestyle according to the best models of the epoch. At the end of the 16th century Polish and Finnish territories were united under one ruler: the son of John and Catherine, king Sigismund III. In this historical context it is important to note that these years do not only mark independence jubilees in our states. Last year, in 2017, both our countries celebrated 150th anniversary of birth of their eminent statesmen written on pages of the Polish and Finnish history: those of Marshal C. Gustaf Mannerheim and Marshall Józef Piłsudski.

Last but not least, the cooperation between Poland and Finland is also possible thanks to the Poles living in Finland and to the Finns interested in Polish issues. The Polish community in Finland is not a big one, but among its members one can find i.e. main stage designer of the Finnish Opera or former vice-president of Nokia. They are also quite numerous – if counted proportionally – researchers, architects, artists, musicians and Catholic priests. Moreover, the vivid relations between our countries have been developed by many Finnish-Polish friendship associations who promote Polish culture in Finland and facilitate exchange of people. This mutual exchange of persons – and of knowledge on our countries, their history, traditions and cultures – continue to serve to the best possible to the intense development of our bilateral relations. I can only hope that their intensity will never weaken. ■

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JARNO SYRJÄLÄ

New trends in the Finnish-Chinese economic relations

Expert article • 2360

The cooperation between Finland and China dates to the establishment of diplomatic relations in 1950. For decades, trade has constituted a key driver of the bilateral relationship. In 1953, Finland became the first Western country to sign a bilateral trade agreement with China.

Today, China is Finland's largest trading partner in Asia and the fourth largest globally. According to the Finnish Customs statistics, the total value of the trade in goods was around eight billion euro in 2017 with China exporting worth 4,6 billion euro and Finland's value of exports exceeding 3,4 billion euro. Finland's exports to China grew by 27 percent and import from China by 12 percent.

The trade is still mostly based on the traditional makeup. Key products exported from Finland to China are pulp, paper, timber, electrical devices and industrial machines. China exports to Finland mainly electrical devices such as phones and computers, along with clothes and textiles.

However, economic relations between China and Finland are more than just trade in goods. There is an entire set of economic interactions: trade in services, investments, research and development, tourism, employment and so forth. Today, China is also an important home market for many Finnish companies.

An important step to further intensify the bilateral cooperation was taken in 2017, when the future-oriented, new-type of cooperative partnership between the two countries was established during President Xi's state visit to Finland. This partnership, which is complementary to the EU-China comprehensive strategic partnership, includes a number of potential growth areas.

We see that China's attractiveness as a market will only grow. First, despite some slowdown in its economic activity, China continues to report impressive growth rates compared to most other national economies. It is unlikely that the GDP growth will drop significantly below the official target of 6.5 percent in the next few years.

Second, the structural changes in China's economy create additional business opportunities. China now offers an increasingly segmented market with emerging demand. Especially the strong growth of China's middle class has brought remarkable economic change and social transformation that calls for medical, educational, recreational, cultural and sporting services to increase quality of life.

This broadens also the bilateral cooperation to new areas. President Niinistö and President Xi have agreed that 2019 will be the Sino-Finnish theme year for winter sports. Its primary goal is to help China excel in the Beijing 2022 Winter Olympic Games. As China continues to introduce winter sports to 300 million of its citizens, the cooperation will extend well beyond the landmark event.

Third, China's growing consumer product sector combined with the need for sustainable production is a good match with Finland's expertise in bioeconomy, clean technology and digitalization as well as with the raw materials Finland produces. New opportunities abound for the food industry, for example. Consumers in the higher income brackets are able and willing to pay for branded and differentiating quality products.

For Finnish companies to succeed, the selection of distribution channels is crucial. Online sales in China have grown significantly and people are increasingly accustomed to using the internet to acquire products, especially food.

For decades, the transport connectivity between Finland and China has managed to keep up with the growing volume. To sustain the ease of transport remains critical. Finnair was the first airline in Western Europe to begin direct scheduled flights to China 30 years ago. To better facilitate trade, the first railway link between Finland and China was opened in November 2017. This land route shortens the travel time significantly compared to sea freight. Improving connectivity is also an important part of China's Belt and Road Initiative.

Finland and China are engaged in creating new ways of doing business with each other. Launching of the business community driven Innovative Enterprise Committee in June 2017 is a good example of that. The work has got a robust start with the highest level of the participating companies giving their full support. Industry specific working groups such as the one on energy are the Committee's main platforms.

Competition in the Chinese markets will remain intensive. At the same time, there are other factors that will influence foreign companies. In that regard, China's own policies and initiatives are relevant. With the "Made in China 2025" initiative, for instance, the Chinese government is looking to upgrade China's manufacturing industry. Its approach, however, is problematic if it ends up assisting Chinese industries and, by default, hurting the competitiveness of foreign firms operating in the country. Instead, China's initiatives to upgrade its economy should be based on transparency, openness and equal treatment in line with market principles. ■

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ALEXANDER GREMITSKIKH

St. Petersburg and Turku: A time-tested friendship

Expert article • 2361

In 2018 St. Petersburg and Turku celebrate 65-th anniversary of establishing close and fruitful cooperation as twin cities. It should be noted that Turku became the first foreign partner of this type for the Russian “northern capital”.

This landmark represents a good opportunity to take stock of what has been achieved and look into the future.

Starting mainly with a regular exchange of official delegations in the 1950s, ties between two cities gradually expanded and gained momentum. A breakthrough came at the beginning of the 1990s with profound political changes in Russia that opened new horizons, and both sides effectively used new opportunities.

Nowadays these relations represent an extensive system with numerous channels of dialogue and practical interaction. It is based on a large number of bilateral documents, including memorandum of understanding between the Legislative Assembly of St. Petersburg and the City Council of Turku, agreement on cooperation between the Government of St. Petersburg and the City Administration of Turku and plan of measures to implement it, as well as documents on sectorial collaboration.

Two cities join efforts in developing cooperation in a wide range of areas: business ties and investments, transport and logistics, ICT, education and research, innovations, health, culture, public services and so on, not least people-to-people contacts. This activity involves dozens of institutions on both sides and annually envelops a lot of events, including St. Petersburg days in Turku and vice versa.

Necessary assistance is provided by the Russian and Finnish Consulates General respectively in Turku and St. Petersburg, functioning for already 50 years.

Bilateral collaboration between two cities is bolstered by their interaction in numerous multilateral organizations and forums for the Baltic Sea region.

Additional efforts to move cooperation on were made during the visit of Governor of St. Petersburg Georgiy Poltavchenko to Turku in July 2017. New impetus was given at the beginning of April this year by the visit to St. Petersburg of three Turku top officials – Chairperson of the City Council Elina Rantanen, Chairman of the City Board Lauri Kattelus and Mayor Minna Arve.

The important role of Turku is illustrated by the fact that the city was chosen as the venue for the 5-th Congress of Russian and Finnish twin cities (over 150 in number) in 2017.

Multidimensional ties between St. Petersburg and Turku are a living, robust organism. It gets its life force from the genuine interest of both sides in deepening their mutually beneficial cooperation, based on the long-standing traditions of the Russian-Finnish relations in general.

As seen from Turku, the fundament of truly good-neighborly relations between Russia and Finland, thoroughly built by dedicated efforts of generations on both sides, is not damaged by the ongoing political turbulence on the “big” international arena. This basement stands as solid as ever. And what was sown continues to grow and bear fruit to the benefit of both peoples.

What is being done now is a promotion of this purposeful work aimed at enhancing cooperation and achieving new results corresponding to modern needs and aspirations. It can be said with full confidence that there are all reasons to count upon effective continuation of the success story one has had so far.

Probably the only thing that somehow clouds the sky is the impact of Western anti-Russian sanctions on business collaboration. They really do not set the tone, but still set certain limits. As a result some opportunities are missed, several cooperation projects stranded. It is abnormal and contradicts the interests of both sides.

It should be stressed that those who initiated the sanctions and inspired others to join in have a hidden agenda and selfish motives. The sanctions’ real purpose is to promote unfair competition, where political pretexts are used to provide strictly economic benefits. Russian Minister of Foreign Affairs Sergey Lavrov elaborated on this aspect at his meeting with members of the Association of European Business in Russia on October 31st 2017 (see the English version on the web site of the MFA of Russia: www.mid.ru).

But this is a temporary factor, though probably protracted one. The overall evaluation of and prognosis for the productive twin city relations between St. Petersburg and Turku are undividedly positive and optimistic.

This experience matters not only in the bilateral, but also in a wider international context. Ties on the regional and municipal levels are luckily sheltered from political storms and remain an oasis of openness and constructiveness. It can be used as a “matrix” for restoring full-blooded relations between a number of Western countries and Russia in the national scale, when time comes. It will. ■

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TOMI TAIPALE

Could Lithuanian companies help Finland achieve greater success?

Expert article • 2362

Of the three Baltic countries, Lithuania is probably the least familiar to Finns. Much of this is simply due to geography. Nevertheless, Lithuania is a country of diverse opportunities and it could potentially hold the key to success for many Finnish companies. The goal of this article is to highlight some of the opportunities that Lithuania can offer to Finnish businesses.

Finland is currently in a period of economic growth, and the future looks bright. According to the latest Business Tendency Survey carried out by the Confederation of Finnish Industries, nearly 20% of companies view the shortage of skilled workers as an obstacle to growth. This trend is evidenced by the prominent recruitment campaigns of major corporations such as the Meyer Turku shipyard and Valmet Automotive's production plant in Uusikaupunki. Even harder hit by the labour shortage are small and medium-sized enterprises with a slightly higher threshold of recruitment. According to the most recent

Occupational Barometer, Finland is not only facing a shortage of doctors and nurses, but there is also a need for large numbers of skilled software developers, construction workers, metal workers, automation engineers and designers. The question is, could some of these competence deficiencies that hinder growth be mitigated by seeking know-how beyond Finland's borders?

Of the Lithuanian population of 2.8 million, 53% have a higher education degree. Some 80% of the country's young professionals speak fluent English, and more than half of the entire population speaks at least two different languages. Lithuania has six free economic zones to promote business activity in the country. Lithuania is part of the eurozone and a member of NATO.

Wages in Lithuania are still relatively low compared to most European countries. In 2017, the average monthly wage in Finland was €3,382, compared to €771 in Lithuania. In Estonia, where Finnish businesses have already been active for a long time, the average monthly wage in 2017 was €1,146. This means that the skilled workforce in Lithuania remains very cost-efficient.

In terms of logistics, Lithuania boasts an optimal location. With three international airports, major European cities are only a few hours away. The international Port of Klaipeda is the largest in the

Baltic countries, handling 65 million tonnes of cargo per year. Road transports reach Tallinn in one day and most of Finland in two to three days. There are also direct rail connections from Germany all the way to Asia.

Lithuanian tax policy is favourable to businesses and relatively competitive. Corporate income tax rates are 0–15% and the VAT rate is 21%. Workers pay income taxes of 15% on their earnings. Companies located in the free economic zones are potentially eligible for corporate tax exemptions for as long as 10 years.

Lithuanian energy production changed dramatically with the closure of the Ignalina nuclear power plant in 2009. The country has set a goal of restoring self-sufficiency in energy by 2020. As part of the renewal of the energy supply, a large LNG terminal was opened in Klaipeda in 2014 to diversify the opportunities for imported energy. This terminal is also of significance to Finland. Scheduled for completion in 2019, the Balticconnector gas pipeline between Finland and

Estonia will mean the end of Finland's dependence on natural gas from the East.

In addition to its high level of competence in information technology, Lithuania is best known for its diverse expertise in manufacturing. The country has a great deal of know-how in plastic and wood manufacturing. Another strong sector is the metal industry, which also represents a high volume of exports. Lithuanian companies are also active in Finland, and the country's metal industry know-how is widely recognised. Lithuanian expertise is extensively employed in locations such as the Turku shipyard.

In terms of the number of production workers, Finland is the fifth-largest investor in Lithuania. The largest is the United States, followed by Germany, Denmark and Sweden. According to the Bank of Lithuania, Finnish direct investments in the country totalled nearly 600 million euros in 2013–2017. Active Finnish investors have included Fortum, Nokia, Ahlstrom, Hesburger, Peikko Group and Metso, amongst others. The total number of direct investment projects in 2010–2017 was 19. The investment volume has shown a slightly declining trend during the past few years, while trade between Finland and Lithuania has increased slightly over the same period. The trade balance has traditionally been, and still is, in Finland's favour. The

Could the code for some components of IT software be written in Lithuania? Could components for the construction industry be manufactured in Klaipeda, which is what the shipyard already does?

major categories in the import of goods are plastic products, metal and iron products as well as processed products in these industries.

In Finland, finding skilled workers is an obstacle to growth for many companies. To overcome this problem, Finnish businesses must either find new recruits or free up time for their highly skilled workers to focus on their core competencies. In my opinion, this is an area where Finnish companies have room for improvement. In many industries, such as construction, the aim is to create the end product or service from components that have been produced in an environment that is optimal for their production. Could the code for some components of IT software be written in Lithuania? Could components for the construction industry be manufactured in Klaipeda, which is what the shipyard already does? I think these opportunities are worth investigating to secure the development and growth of Finnish enterprises.

Lithuania is a very business-friendly operating environment, and the business community provides effective assistance to companies that are looking to explore the opportunities presented by the country. The Finnish-Lithuanian Trade Association organises trips to Lithuania every year. The Commercial Attaché at the Lithuanian Embassy in Helsinki helps Finnish enterprises find the right contacts in Lithuania. There are also several Honorary Consulates of Lithuania in Finland that can provide assistance in these matters. ■



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BALTIC RIM ECONOMIES

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IAROSLAV CHORNOGOR

Lithuanian-Polish-Ukrainian regional partnership

Expert article • 2363

Ukraine, Poland and Lithuania established partnership relations after the collapse of the “socialist camp”. A common history, close initial socio-political conditions and orientation towards European integration have led to close cooperation. Poland and Lithuania have made significant progress in their development and have become full members of the EU and NATO over the next 27 years. Ukraine’s way of development and integration overcomes much harder, but there are a number of objective and subjective reasons.

Nowadays Ukraine faces security challenges and needs help. Poland and Lithuania became one of the first countries recognized the independence of Ukraine in the early 90’s. In addition, they consistently help Ukraine on the path to European integration. This cooperation can potentially have a significant impact on the balance of power on the European continent, especially on the international arena in the security and energy spheres. A significant number of consultations, contacts and meetings are held, including at the highest level. Polish experience is actively involved in reforming Ukraine, especially in terms of decentralization.

The main cooperation takes place both in bilateral and trilateral format. Joint participation of President of Ukraine P.Poroshenko, President of Poland A.Duda and the President of Lithuania D.Gribauskaitė in the panel discussion at the 48th World Economic Forum, which took place on January 23-26, 2018 in Davos, had symbolic character. The cooperation continues in the format of the Inter-Parliamentary Assembly “Ukraine - Poland - Lithuania”, a regular VIII session was held in Warsaw, on March 27-28, 2017, where the partners expressed support for the territorial integrity of Ukraine and called Russia to end the occupation of the Crimea, as well as cease violating human rights on the peninsula. Servicemen of our countries regularly participate in joint military exercises. An important success in military cooperation was the creation of Joint Lithuanian-Polish-Ukrainian brigade with a headquarters in Lublin, Poland, intended to participate in international peacekeeping and humanitarian operations. Ukraine receives significant assistance from its partners, including humanitarian aid for the treatment and rehabilitation of fighters wounded during the anti-terrorist operation in the Donbass.

However, there are problems in the relationship. The relations between Ukraine, Poland and Lithuania have a complicated nature - primarily, it considering the issue of historical memory. Countries have different views on the events of the first half of XX century, especially regarding the activities of the national liberation movement organizations. Thus, the so-called “case of Komorowski” took place in April 2015, when almost immediately after the speech of the

President of Poland B.Komorovsky from the rostrum of the Verkhovna Rada of Ukraine, the Ukrainian parliament adopted decommunization laws noting Ukrainian Insurgent Army participation in the struggle for Ukraine’s independence. Poland perceived this decision ambiguously and in general extremely negative. Also poles are sensitive to information about the tragic events in Volyn in 1943 and the attitude to the Ukrainian nationalist’s leaders, S. Bandera and R. Shukhevych in Ukraine. Instead, Ukraine and Lithuania negatively perceive the views of some of Poland’s political movements concerning the belonging of the territory, which once were part of the Rzecz Pospolita to Poland. In particular, the Lithuanian and Ukrainian parties expressed their protest in August 2017 because of the intentions of the Polish authorities to portray photos from Lvov and Vilnius in new passports.

It should also be noted from the negative effects that despite the active political dialogue the trade turnover between the countries tends to decrease. Asymmetry of relations gives rise to concern: Ukraine acts as an applicant and recipient of assistance that does not correspond to its real potential.

Nevertheless, relations between Ukraine, Poland and Lithuania have fundamental importance for the region, especially in the security sphere. Relationships that would have the character of a strategic partnership and allied relations in the security sphere are desirable for Ukraine. In the future, it is necessary to review the format of relations, making them more pragmatic and forward-looking. Along with security and political cooperation, economic and humanitarian cooperation should be strengthened. Only then external and internal conditions will consolidate the relationship into a single, effective system of a new type that will be able to harmonize relations between countries and provide an opportunity to confront external military and information threats. ■



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EU supporting cooperation across borders in the Baltic Sea Region

Expert article • 2364

Regions play a central role in the implementations of key EU policies like Innovation, Climate Action, Environment, Transport and Mobility.

In some cases, transboundary public goods play a central role when implementing those policies. It is the case for the Baltic Sea whose contribution to sustainable economic growth was threatened by alarming pollution levels. Addressing such a challenge requires a specific approach to plan, decide and act together. Such an approach was beyond the reach of existing regional and national governance, and borders were obstacles preventing the development of the necessary comprehensive and collective approach.

A new model of governance and cooperation was thus needed. The answer was the creation of the EU Strategy for the Baltic Sea Region.

To address challenges and opportunities that cannot be solved by individual countries alone, but are too specific to be tackled at an EU-28 level, the EU Strategy for the Baltic Sea Region (EUSBSR) was created in 2009. Shipping safety, marine biodiversity and environmental quality are some of the issues that transcend borders. Any adverse events in the Baltic Sea can have negative repercussions on all countries of this macro-region. The macro regional level is the right place for addressing these issues. A recent expert review¹ confirmed that the EUSBSR action plan overall addresses the relevant needs of the macro-region, which are also well suited for regional cooperation. After nine years, the Strategy is today central to the cooperation agenda in the Baltic Sea Region.

As the first macro-regional strategy adopted in Europe, the EUSBSR has also served as a model for other macro-regions in Europe. To date, four EU macro-regional strategies are in place: the EU Strategy for the Baltic Sea Region (2009); the EU Strategy for the Danube Region (2010); the EU Strategy for the Adriatic and Ionian Region (2014); and the EU Strategy for the Alpine Region (2015). 19 EU Member States and 8 non-EU countries, are participating in these four strategies. The guiding principle for these strategies is that they do not come with new EU funds, new legislation or new formal structures: instead, they aim to ensure an optimal use of all existing financial sources (EU, national, regional, private, etc.), a better implementation of existing legislation, and a better use of existing institutions at all levels.

Existing EU financing is significant. With the EU-funded "Investment for Jobs and Growth" programmes, we support regional development and with our cooperation programmes – the Interreg programmes – we focus on cooperation between border regions or between regions in a bigger transnational set-up. The Interreg programmes cover all countries and regions in Europe. In the Baltic Sea Region 11 cross border programmes and one transnational programme, the Interreg Baltic Sea Region programme, are currently investing over EUR 1.1 billion of EU-funding to enhance cooperation in the region. It represents the highest amount ever invested in cooperation around the Baltic Sea.

¹ http://ec.europa.eu/regional_policy/en/policy/cooperation/macro-regional-strategies/

The first progress report from the European Commission on the implementation of the four macro-regional strategies published in 2016 described the progress in implementation and results achieved². A key achievement of the EUSBSR is that it has brought together stakeholders across countries, sectors and levels. It has led to an increase in policy dialogue and cooperation on major issues in the region, to a mobilisation of projects across borders and sectors, to joint initiatives and improved the coordination of existing organisations and networks. The EUSBSR has strengthened cooperation in certain policy areas, e.g. the extension of the Baltic Energy Market Interconnection Plan (BEMIP) or the Strategy on Adaptation to Climate Change in the Baltic Sea Region. Smart specialisation strategies have been used to drive a more effective innovation policy across borders. The Strategy also helps to better implement EU legislation, for example the Horizontal Action 'Spatial Planning' encourages countries to commonly implement the requirements of the EU Maritime Spatial Planning Directive. Following the launch of the 'Strategy for Plastics in a Circular Economy' by the European Commission in January 2018, the EUSBSR is already actively implementing it by fighting against plastic marine litter, for example through the [BLASTIC project](#) under [policy area 'Hazards'](#).

Under the current EU chairmanship of the Helsinki Convention on Baltic Marine Environment Protection (HELCOM), the Ministers of the Environment of the nine Baltic coastal states welcomed in their Ministerial Declaration, among others, the EUSBSR regional cooperation platform to reduce pharmaceuticals in the Baltic Sea, the joint HELCOM-UNESCO-EUSBSR status report on pharmaceuticals in the aquatic environment, as well as the many successful cooperation projects, including under the EUSBSR and within the cross-border cooperation programmes.

Crucially, the success of implementing the EUSBSR relies on the commitment and goodwill of the participating countries and it is up to the countries and regions to make best use of the available EU, regional, national and local resources to support the Baltic Sea Region Strategy. The European Commission is fully committed to continue its supporting and accompanying role to the key partners of the Strategy. ■

² http://ec.europa.eu/regional_policy/en/information/publications/reports/2016/report-on-the-implementation-of-eu-macro-regional-strategies

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DAGFINN HØYBRÅTEN

Trust defines the Nordic countries and brings them together

Expert article • 2365

When, as I often do, meet with foreign visitors they are often curious about the high levels of trust in the Nordic region, and specifically why the people of the Nordic countries show so much trust in people whom they previously don't know. It defies the logic dominant in most countries around the world to trust a person that you have had no prior relation with.

We know for a fact the first statement to be true. High levels of trust in other people distinguish the Nordic region from the rest of the world. No other country reaches the same levels of social trust as those found in Denmark, Finland, Iceland, Norway, and Sweden. In general the citizens in these countries believe that their fellow citizens – the people they meet every day on the streets – are people of high moral values and hence can be trusted.

The high trust levels in the Nordic countries is the result of many societal processes, some extending far back into history while others are more modern. One important dimension is the Nordic countries having very low levels of corruption. If you don't trust the state to act in a fair manner it is hard for an individual to trust other people, since they potentially could bribe themselves to preferential treatment. Another important reason for the high trust levels is all the grass root organizations that exist and so many Nordic citizens are actively participating in. They are meeting places where people form bonds tying society together. A third factor is relatively homogenous societies, especially in economic terms; the gini-coefficient for the Nordic countries is relatively low.

High levels of trust are very beneficial assets for a society. First of all, a society with high levels of trust has fewer formalities, conflicts and legal processes. In economic terms, this means trust reduces transaction costs in the economy, i.e. costs associated with ensuring that an agreement is fulfilled. Resources that in other countries are necessary to uphold an extensive legal system can in the Nordic countries be put to use in more productive ways. Calculations indicate that an increase of ten percentages in national trust can be expected to increase economic growth in a country by half a percentage point. This should perhaps be taken with a grain of salt, but it nevertheless indicates that the relationship between trust and economic growth is not of marginal significance.

Besides the economy, trust also benefits other parts of the society. Trust has come to be regarded as an important component in promoting political engagement and a democratic development in society. A favorable, i.e. reducing, effect on criminality has also been shown.

Social trust is also good news for the individual. For example, several studies show a strong association between trust and individual happiness; people enjoy living in a society where they trust each other.

Another positive effect is that social trust simplifies collaboration and promotes altruistic preferences in the population. Furthermore, people with high levels of trust are more inclined to perceive that they have greater control over their lives and have better life chances.

In conclusion, for many reasons it is good news for a society to have high trust levels in the population. Consequently, the high levels of social trust in the Nordic countries can justifiably be called a Nordic gold. This is one reason why The Nordic Council of Ministers have taken an interest in trust as an important phenomenon, resulting in the report "Trust – the Nordic Gold". But also to remind us that trust can't be taken for granted, and must constantly be supported through various societal processes.

Trust in a Nordic context goes beyond the trust Nordic citizens' display in other people. Trust spanning across the Nordic borders is also an important foundation for the Nordic cooperation as such. In a recently conducted survey, resulting in the report "Ett värdefullt arbete", covering more than 3200 citizens around the Nordic countries, it turned out that more than 90 per cent think the Nordic cooperation is important or even very important. (Almost 60 per cent thought the Nordic cooperation to be very important). The result probably stems from a notion that in times of global turmoil, it is to the other Nordic countries one can turn for support and stability. To add on, more than two thirds of the Nordic population asked for even more Nordic cooperation.

When asked about what is the main foundation for Nordic cooperation, the alternative that came out in top was "shared values". To me, this in many ways goes back to where we started. The Nordic societies in many ways stand out compared to other regions around the world. Strong and shared values together with high levels of trust are at the core of the Nordic societies, and it is with values and trust we will go forward in the Nordic cooperation. ■



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TOBIAS ETZOLD & CHRISTIAN OPITZ

More political relevance for Nordic cooperation

Expert article • 2366

The institutionalized cooperation between the Nordic countries, in particular within the framework of the intergovernmental Nordic Council of Ministers (NCM), has been undergoing an ambitious reform process since 2014. Denmark, Finland, Iceland, Norway and Sweden are thus responding to internal as well as external challenges that will largely determine the future of their joint cooperation. Within the region, in particular the influx of migrants in autumn 2015 put a heavy strain on neighbourly relations. Then at the latest, it became clear that institutionalized Nordic cooperation risked becoming irrelevant if it did not address the sensitive issues of 'high politics'. Simultaneously, the NCM suffered from not being awarded greater powers and that the highest political level was not sufficiently involved.

In addition, critical external developments have to be tackled. The Nordic countries must rebalance their relationship with Russia. US President Trump is questioning old certainties surrounding the political and ideological orientation of the liberal-democratic Western model to which all Nordic countries firmly subscribe. Also concerning their relationship to the European Union (EU), the five countries - whether EU Member State or not - have to decide how they can or want to position themselves on the future of the EU and regarding the Brexit negotiations, both individually and jointly.

The most recent reform process within the NCM started when the ministers for Nordic co-operation of the five countries presented their four visions of future cooperation under the heading, *Tillsammans är vi starkare* (Together we are stronger), in February 2014. On the one hand, they continued two classic, inward-looking ambitions: a *borderless Norden* (especially in terms of further removing border obstacles such as different taxation, etc.) and an *innovative Norden*. On the other hand, in response to growing international interest in Nordic experience and solutions, the Nordic social and cooperation model is to be profiled more strongly throughout the world, as outlined in the vision of a *visible Norden*. The vision of an *outward-looking Norden* underlines the ambition to intensify Nordic cooperation with regard to global issues and within international organizations. However, in particular the vision of a borderless Norden was in sharp contrast to the reality of controls reintroduced at the inner-Nordic borders from 2015 onwards, posing a serious credibility problem for Nordic cooperation.

Nonetheless, the subsequent process of modernization aimed at highlighting and strengthening the political relevance of the cooperation, making it more effective and opening up new fields of cooperation.

Throughout the reform process the future relevance of Nordic cooperation has been underscored in two dimensions: an internal dimension in the sense of increased flexibility, more efficient working structures, increased politicization and a more prominent role for the prime ministers, stronger links with civil society and new topics for intra-Nordic cooperation; an external dimension consisting of more EU cooperation, greater internationalization and old and new multilateral partnerships, for example with Germany.

Progress has been made in both dimensions, such as the establishment of new ad hoc councils (digitalisation) and cooperation programmes (integration of refugees and immigrants), focussing on key topics for EU cooperation and the Nordic Council's liaison to Brussels. The Brussels liaison is not a revolution, but perhaps the nucleus for further EU cooperation, insofar as it is linked to existing, even informal, forms of cooperation.

For the current and future reforms it is important to set clear, realistic and workable goals that take into account the national, regional, European and international context. In addition, there is a need to regularly review and amend the objectives and implementation timelines. Agreed reforms to achieve objectives must be implemented quickly and consistently. In the past, many meaningful reform proposals were tabled but never implemented. It is also important to clearly communicate the reforms and the desired and actual changes that accompany them, both internally and externally. National (for example civil society actors) and international partners must be able to adapt to the new structures and embrace them.

Ultimately, Nordic cooperation and its institutions need, on the one hand, a transfer of competences and resources on the part of governments in order to achieve substantial benefits. On the other hand, governments must be convinced of the relevance of the new committees/fields of cooperation and must build trust in them. Both sides need each other and can provide mutual support - however, this process is not automatic but depends on the concrete benefits and, indeed, drawbacks of cooperation in practice. ■

This article derives from the authors' SWP-Comment „Seeking Renewed Relevance - Institutions of Nordic Cooperation in the Reform Process“, January 2018 (<https://www.swp-berlin.org/en/publication/institutions-of-nordic-cooperation-in-the-reform-process/>).

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Helsinki Tallinn railway tunnel: Results of the FinEst Link feasibility study

Expert article • 2367

The results of the FinEst Link project state that a fast connection between Helsinki and Tallinn could bring major regional, national and European benefits. The feasibility study is made as conventional railway with 1435 gauge both for passengers and freight and good connection to both countries transport systems.

According to the FinEst Link feasibility study, the railway tunnel would help create a metropolitan twin-city region of three million inhabitants in the future where people, goods and services could move around easily. The expanding labour market would create economic growth, open new possibilities for businesses and improve the quality of life. The Helsinki–Tallinn tunnel with travel time of only 30 minutes would enable daily commuting across the Gulf of Finland and connect the European rail network from Central Europe to the Arctic.

The project (ended in February 2018) was led by Helsinki–Uusimaa Regional Council in partnership with the Cities of Helsinki and Tallinn, Union of Harju Municipalities, Finnish Transport Agency and the Estonian Ministry of Economic Affairs and Communications. The study received Co-funding from the EU's Interreg Central Baltic programme to its 1.3 million euros budget for 2016–2018. The consultants who participated in the FinEst Link feasibility study are: Amberg Engineering, Sweco Finland, WSP, Ramboll Finland, Sito, Strafica, Kaupunkitutkimus TA, Inspira and Rebel Group.

The FinEst Link feasibility study presents an operational model where at peak hours passenger trains run at 20-minute intervals at 200km/h. The travel time is 30 minutes and single ticket costs 18 euros. The price for of frequent traveler tickets is 15 euros. Approximately 40 passenger trains operate run between Helsinki and Tallinn daily. Car shuttle trains, truck trains and cargo trains run approximately 30 times per day at the speed of 120–160 kilometers per hour. Transferring a private car in a shuttle would costs 70 euros.

The FinEst Link final report identifies a tunnel system with two single-track tunnels and one service tunnel with cross-passages as the most suitable tunnel system. Rails for crossing cargo trains will be built in the stations. The maintenance of the tunnel is carried out at night time.

On the Finnish side, there are three stations for passenger traffic: Helsinki city centre, Pasila and the Helsinki-Vantaa airport. The terminals and depots on the Finnish side could be located at the noise area of the airport. The terminals would serve the cargo traffic of all Finland. The tunnel would connect fluently to the planned Ring Road 4 (Kehä 4) and other road network, to logistic terminals and to the Hanko-Hyvinkää track creating a well-functioning connection to the rest of Finland.

In Tallinn, the tunnel would reach Ülemiste which is a growing commercial area a bit more than three kilometers distance from the

Old Town. Located close to the Tallinn airport, Ülemiste has a recently opened tram connection to the city center. The terminals and depots would be located at the airport noise area and close to the logistic areas. For freight transport, the tunnel would connect to the Muuga terminal which is the largest cargo harbor in Estonia.

In the tunnel, the tracks would have the European gauge of 1435 mm but when joining the planned Airport Line in Helsinki, a part of the tunnel tube would have both tracks: the European standard and the Finnish one (1524 mm). After a planning phase, the building and boring of the tunnel could start in 2025 and the tunnel would be built ready in 15 years. The tunnel would be ready for passengers and cargo in 2040.

In the FinEst Link project, the investment cost of the railway tunnel has been estimated at 13,8–20 billion euros. The project uses a mean value of 16 billion euros. The amount includes, for instance, tunnel construction, two artificial islands, planning costs, stations, terminals and depots excluding however the costs for rolling stock.

The Helsinki–Tallinn tunnel alignment is 103 kilometers long which means that the tunnel would be longest undersea railway tunnel in the world. According to the FinEst Link calculations, approximately 12 million passengers would take the train and 11 million the fast ferries totaling to 23 million passengers per year in 2050. Currently approximately nine million passengers travel between the cities per year. A significant increase to the passenger volumes comes from daily commuters who would have whole new possibilities for living and working.

The FinEst Link project foresees significant growth potential for cargo if the tunnel is built. According to its estimations 4.2 million tons of cargo would run both in the tunnel and on the ferries resulting to a total of 8.4 million tons per year in 2050. Currently the amount of cargo between Helsinki and Tallinn is approximately 3.8 million tons. The FinEst Link feasibility study estimates the passenger and cargo volumes to double or triple in the next 30 years. Also, the volumes in the ferries would continue to grow even if the tunnel is built.

Seen merely as a transport project, the railway tunnel is not economically feasible, but from the viewpoint of deeper twin-city integration and regional development there could be major benefits from the tunnel.

Digitalization and robotization are reforming transport services and business models already in short run. In infrastructure projects with a long time horizon one has to take into account also fundamental technology developments in transportation. For these reasons the FinEst Link project in launched an open international challenge for technology developers to provide new solutions.

The proposals were very innovative and open minded. They showed an interest to participate in the common work to achieve a high quality and cost effective solution for the tunnel concept. The

FinEst Link Feasibility study and this open challenge showed how interesting and positive the idea of connecting these two 100 th Anniversary countries and their capital regions with the tunnel. There are still many possibilities for the best traffic system. When we look bravely into the common future of next 100 years, the connection with the FINEST tunnel is one part of our growing economy.

On the basis of the final report published in February of the railway tunnel project between Helsinki and Tallinn, the FinEst Link, the Finnish Ministry of Transport and Communications has set up a task force to examine whether and how to proceed in the project.

One of the tasks of the task force is to examine the need for further studies and how they could be financed. In its work, the group will take into account the results and recommendations of the FinEst Link study completed in February. The group is also to consider the far-reaching economic impacts of the tunnel, questions related to financing, connections between transport and logistics and the related business models, smooth travel chains and future technological development. ■

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ALLAN SELIRAND

You know Estonia as an IT-country: Wait till you find out what else we can offer

Expert article • 2368

As a small and agile country, Estonia has built a reputation all over the world on an idea that resonates globally in this day and age – we are known as an IT-country with all our public sector digital solutions and innovative thinking. This kind of marketing has had a desirable effect of attracting new talent and new companies to come up with innovative and maybe even disruptive ideas. Estonia is truly ripe with IT companies.

These new ventures may have nothing to do with the famous Estonian government IT solutions like paying taxes online, internet voting or getting your prescription medicine refilled online. But the notion that Estonia is filled with IT companies, start-ups and intelligent young people looking to find digital solutions to complex problems has been a self-fulfilling prophesy.

Yet Estonia has much more to offer and the prospect for investors from nearby countries is especially attractive.

Investors know that the path to a higher value proposition lies in research and development, business development and marketing. Estonia is the perfect place to try out new ideas, especially when it comes to technology.

The government of Estonia recently approved a pathway to test self-driving vehicles on Estonian roads and develop a specific legal framework for autonomous machines, Artificial Intelligence and well, in short, robots. This is still a work in progress, but it should create rules for liability, data protection, algorithms, intellectual property rights. It is yet another example where Estonia works alongside entrepreneurs to ensure that the legal system does not get in the way of actually doing business or trying to improve people's lives.

Estonia could thus be the perfect testing ground for large-scale automation projects where you can take your existing production to the next level or design a completely new production process. New technology is always expensive to implement, it requires considerable investments into the research behind it, but not a large quantity of workers. The time of investing tens of millions of euros to hire hundreds of workers is in the past. For these investments to pay off, the added value must be lucrative. This is where Estonian skills and knowledge pay off: 86% of Estonian adults speak a second language, around 40% have a college or university degree and the state has invested hundreds of millions into vocational education.

The top-level research in Estonia is mostly done in universities. Consider the Tallinn University of Technology, our flagship engineering and technology school, which not only produces top research, but also boasts one of the most modern campuses in Europe. The campus is home to more than 200 high-tech companies such as Skype, Starship Technologies or Cybernetica, to name a few. This in turn attracts more and more international talent to study IT and engineering in our capital.

Tartu University, located just a couple of hours from the capital, is Estonia's biggest public research university with cutting edge infrastructure and scientists from around the world. Together with the Estonian University of Life Sciences, the city of Tartu is an example of a university town that produces not only great ideas, but tangible technological advances in the fields of medicine, biotech, biomaterials and cleantech.

There are many examples of international businesses using extensive research and development to add greater value to their products that they sell around the world – Axinom software development or Ericsson telecommunications are just to name a few.

But this is just how we do things in Estonia. In the last three decades we rebuilt the way we do business from zero. "No legacy", so to speak. This has allowed us to design the rules and regulations of doing business in a way that is adaptable, transparent and agile. The world changes quickly and we have kept our pace. Yet the economy of Estonia is diverse and the political environment stable enough that risks to the economic activity are well mitigated. There is the reason why Estonia ranks very high in the ease of doing business, competitiveness and economic freedom. We could boast about rankings all day but eventually, statistics don't do business, people do.

In addition to offering a nation-scale testbed for your solutions, a flexible legal environment and a powerful tech ecosystem, the tax system makes it even more lucrative to invest in Estonia. About 15 years ago the government decided to incentivize business investments in Estonia by bringing the tax on reinvested profits down to zero. Distributed profits are taxed 20% but in case of regular profit distributions, the tax rate will be lowered to 14%, if the dividends are paid to a legal entity.

Every business investment has a bottom line – the numbers have to add up, the value proposition has to be solid and every entrepreneur, every company does their own due diligence. As the head of the Estonian Investment Agency I would be delighted to invite you to get in touch with us and find out how Estonia could help you take the next step. ■



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PAAVO VIRKKUNEN

Travel boom from China to Finland: Coincidence or not?

Expert article • 2369

Travel demand from China to Finland has boomed during the past few years. China used to be a minor source market for travel to Finland, holding ranking positions higher than ten; however, now China holds the fifth position, measured by registered overnights (362.138, +33,4%)* – and altogether 432.000 visits to Finland (+62%)** during 2017.

Converting these figures into Export Value for the Finnish National Economy, the significance of the development becomes even more striking. The Chinese travel income is estimated around 335 M€ 2017, and the growth during 2017 alone was 110 M€.** Altogether, the Chinese travel to Finland is currently the second largest travel income source – only Russia being bigger, due to regular daily shopping trips to Finland.

As the Chinese tourists' expenditure per trip to Finland is absolutely highest – more than 1.200 € per trip, with growth of about 400 € compared to previous year (on average, tourists spend some 318 € per trip in Finland**) – the phenomenal growth requires some background analysis.

Even though the boost has become visible only during the past few years, developing the fundament has taken long time. The current air traffic connectivity between Finland and China is the densest – when considering the relative size of Finland as nation, compared with European major economies (Summer 2018 Finnair will have 7 destinations in China, altogether 38 weekly flight frequencies between the nations)***.

Political air traffic relations between China and Finland have been established already in the '70's, based on the Air Traffic Agreement that was initially signed already in the '50's. The first implementation of the ATA was the opening of first direct non-stop route between Europe and China – namely Beijing and Helsinki – in June 1988. That route – and the strategic development that has followed the opening – have been to a great extent the fundament for the current boost. The long-term product development work by Finnish Travel Industry, persistent marketing and sales work within the Chinese Tour Operators and Travel Industry and smooth cooperation with the authorities have strengthened the fundament and credibility of the good development.

Certainly, this all would not have happened without the huge transformation of Chinese National Economy. The growth of prosperous middle class, with the Millennial Generation adopting global travel trends and willingness to explore new, interesting phenomena and destinations, possessing growing purchase power for consumption – and, language skills enabling Free Independent Travel patterns – these are perhaps the most significant socio-demographic factors behind the development.

The Chinese Travel Industry has also grown through a metamorphosis. Currently the Chinese consumer market is among the most sophisticated and digitalized markets, globally. The development curve into mobile, digital and consumer-driven market behavior is probably the steepest known. The reason for this is rather simple – there was no existing, solid, market-wide infrastructure for consumer

business available, thus the leap into modern mobile business network was the fastest means to catch the wave of growing consumer demand. Currently the degree of digitalization in consumer business in China is undoubtedly among the highest in the world.

So – how was Finland as travel destination able to reach its current, prominent position on the Chinese Travel market? Part of the answer is surely the long-term development work that started already in the '70's – supported by Visit Finland, present in China already more than 10 years. But, every success consists also of a combination of good luck, an opportunity that needs to be taken, visionary action, and understanding of the market mechanism – in particular, when thinking of consumer business.

Highly digitalized, mobile social networks, growing interest and curiosity regarding outside world and its phenomena, environmental development including rapid pollution and its consequences – just to mention some significant factors.

The trigger for Finland's awareness as travel destination was a reality TV-show – We Are In Love – that is hugely popular in China. The producers were looking for a new "exotic" destination for few episodes of the show, and through persistent sales work the producing company decided to take the chance. During March 2016 the film crew shot three episodes in Lapland – mainly in Rovaniemi and Levi – and the episodes were shown in China during April 2016, prominently displaying Finnish winter, Aurora Borealis, and activities in clean nature.

The episodes turned out to be very popular – altogether the estimated coverage was some 450 million spectators – and it created lots of buzz in the Chinese social media. The Chinese Travel Industry is highly digital, having their tentacles deep in the social media. They discovered that Finland is popping up as a "dot in the radar", and key players like Ctrip, Caisa, Utour and Alibaba Group decided to take a closer look at Finland as travel destination. In particular the Alibaba Group Travel subsidiary Alitrip got very interested, deciding to arrange a rebranding event in Rovaniemi (Alitrip was rebranded into Fliggy), in November 2016, live-streamed through their network in China, and gaining an estimated coverage of close to 100 million spectators.

Another significant new idea that came up around the rebranding event. As Chinese consumers do not have easy access to global credit cards, lack of suitable payment instrument for shopping was perceived as a major challenge, and Alibaba had a solution for this dilemma – Alipay mobile payment platform that was easy to implement into Finnish merchant scene, in particular in destinations where Chinese tourism was rapidly growing. This reflected with a rapid increase in per capita consumption of Chinese tourists in Finland; +49% 2017 vs 2016.

The emphasis of development of tourism from China to Finland is now very much in promoting Finland as a year-round destination, and bringing up new regions like Lakeland and Archipelago. The Chinese demand is currently very much concentrated in Helsinki and Lapland. As the demand trends are rapidly shifting into individualistic direction, it is essential to provide means to support that development.

* Statistics Finland - Tilastokeskus

** Visit Finland matkailijajutkimus 2017

*** Finnair

A good example of this is for instance acceptance of Chinese Driver's License for traffic in Finland, providing more possibilities for individual connectivity to travel services.

All in all – travel demand development from China to Finland is a significant Service Export growth item, providing prosperity, jobs and welfare for Finland, through the Finnish Travel Industry. This is particularly significant for scarcely populated areas, where availability of employment through other industries is rare, and other income possibilities meager.

However, we need to remember that tourism is a long-term source for income, and we must not forget, that sustainability and responsible use of the nature is of utmost importance. Let's take care that we leave our most important tourism equity – the environment – to the next generations in better shape than what we got. ■

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KYÖSTI KARVONEN

Finland chooses continuity

Expert article • 2370

When the Finnish electorate voted in this year's presidential elections in late January, it overwhelmingly re-elected the incumbent, Mr. Sauli Niinistö, 69, for a second six-year term.

While no run-off was considered necessary by the well over 60 per cent majority that Mr. Niinistö garnered, the electorate, in the same vain, gave its vote of confidence to continuity, a traditional feature of Finland's foreign and security policy.

The number one topic discussed in the short presidential campaign, its shortness being another trademark of Finnish politics, was Finland's status vis-a-vis Nato, the North Atlantic security organization.

Out of eight candidates in total, seven more or less concurred that there is no need for major changes in the Finnish policy line. Only one candidate, Mr. Nils Torvalds, a member of the European Parliament, running as the candidate for the Swedish-speaking People's Party, stepped out of line and argued for Finland's membership in Nato. He fared poorly in the polls, collecting only under two per cent of the votes.

Finland's position on either to stay out of Nato or to apply for membership has remained rather unchanged for a couple of decades. The official policy line is formulated in the present government's program as follows: "Finland is a militarily non-allied state which is engaged in a practical partnership with NATO and it maintains the option to seek NATO membership."

While either saying directly no to Nato membership or not speaking their mind outright, the candidates debated ardently about whether a referendum would be needed to finalize the application. This is yet another permanent feature of the Finnish foreign policy culture – we discuss the following steps while not taking the preceding step first. Mr. Niinistö argued for the referendum while Mr. Pekka Haavisto, the Green candidate, ending up second in the vote, argued against it, saying that the referendum could easily become a target for foreign, i.e. Russian, information warfare.

Another topic discussed a lot in the campaign was the military cooperation between Finland and Sweden and especially what Finland should do in case Sweden abruptly made a turnaround in its policy and applied for membership in Nato. Finland still carries bruising memories from the 1990's when Sweden sent an application for membership in the present European Union, not informing its dear eastern neighbour about it in advance.

The candidates differed in their opinions, how Finland would and should react in case Sweden changed its mind, say, after its parliamentary elections, due next September. However, all of them more or less agreed that such a decision in Sweden would give Finland a lot of food for thought. Of course, they maintained Finland would make its own decisions without asking for permission from others. The same is traditionally said about Russia and its role in the Finnish deliberations.

Mr. Niinistö's first term was heavily shadowed by the increased military tension in the Baltic Sea region, initiating with Russia's annexation of the Crimea and its warfare in Eastern Ukraine, both by its own forces and by proxy, followed by Nato's countermeasures in the Baltic region and in Eastern Europe. Finland responded by condemning the annexation, by the way as the first western country.

In recent years Finland has deepened its military cooperation with Nato, and also with individual Western countries, e.g. The United States, the UK and Germany with which Finland has concluded varying bilateral arrangements in the field of defence cooperation. Finland has also arranged multinational military exercises on its soil, including U.S. troops. In addition, the main Finnish military exercise to be held in 2020 at the earliest, possibly with U.S. troops, is in the works. The debate that broke out late last year was so intense that the decision-making on the exercise was postponed over the presidential elections.

While sticking to military non-alignment in words, Finland has increased and deepened its ties with the Western security alliance in deeds. In a report published last November by the Finnish Foreign Policy Institute FIIA, its research fellow, Mr. Matti Pesu wrote that "ever-more increasing cooperation is binding Finland to the Western security system and its deliberations" and that "the waning of Finnish military non-alignment has further accelerated". The extensive report would have deserved wider publicity and more public discussion than it did.

In president Niinistö's own words, Finland's foreign and security policy leans on four pillars. The first is credible national defence, the second Western partnerships with EU, Sweden, Nato and the United States, the third good relations and cooperation with Russia and the fourth the United Nations and other international organizations. The pillars are in continuous motion and in mutual interaction. The more and the stronger the pillars are and the better interaction is between them, the better for Finland. ■



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Draining the swamp in Washington means fewer diplomatic channels to Baltic Rim countries

Expert article • 2371

The hearing of the US ambassador-designate Robert H. Pence in the Dirksen building was a routine event for the Senate Foreign Relations Committee. No hard questions were asked. The nominee seemed well prepared and ready to take off to Finland. It was hard to even hear the usually striking irony on the politically heated Capitol Hill unless you want to find it in democratic senator Chris Murphy's words. Murphy reminded that the planned 30 per cent cuts from the State Department budget will definitely effect Pence's assignment in Helsinki, too.

That's what you hear often in Washington, D.C., these days: as a civil servant, get ready for budget cuts. They will haunt you and make your life harder.

Robert Pence was nominated in November 2017, ten months after President Donald Trump's inauguration. His senate hearing was held only in March 2018. While there always are bottlenecks in political and bureaucratic processes, this time around also dozens of other countries, including Scandinavians, have experienced similar unusually long delays. They are both politically motivated and a result of the current administration's general disarray.

President Donald Trump promised to drain the swamp in Washington D.C. which is usually interpreted to mean a smaller and leaner administration and the cleaning out the armies of corporate lobbyists.

He has made significant changes in several federal agencies, most notably the U.S. Environmental Protection Agency. EPA is an important partner for all the Baltic Rim countries. The White House is seeking to cut more than 2,5 billion USD from EPA's fiscal 2019 budget. It would mean an overall reduction of 23 percent.

Scott Pruitt's nomination as EPA Administrator last year was largely seen as a prelude for dramatic changes. Historically, republican administrations have been much less pro-environment than the democratic ones, but never, however, in such a dramatic manner as the current administration. Before Trump, it was unheard of to give the top position to a person, who has previously sued his own agency for other reasons than suspected crimes.

In his previous position, as Attorney General for Oklahoma, Pruitt was suing President Barack Obama's administration for several environmental policies, including the centerpiece of Obama's climate initiatives, the Clean Power Plan.

In addition to pulling back from the Paris agreement, the Trump administration has tried to overturn at least sixty different Obama policies regarding climate change at home. The United States is clearly going in an opposite direction than the previous administrations when it comes to clean air, the protection of wetlands and the reduction of green gas emissions.

The State Department is one of the targets of Mr. Trump's administrative revamp. The White House has proposed a staggering 25 percent cut to the State Department budget. The belt-tightening would affect nearly all functions in this organization of thirty thousand people.

The U.S. ambassadors to Estonia, Latvia and Lithuania are career diplomats, who were allowed to keep their posts during the transition last year whereas Finland, Sweden, Norway and Denmark host political appointees. Ambassadors posted in those countries change with the administration. Like Mr. Pence, they are typically persons with no diplomatic career or experience but who have been leading presidential campaign donors.

As of March 2018, forty-one countries didn't have a U.S. ambassador in office. This includes countries, to which the United States usually sends a career diplomat, and countries with a politically selected representative. President Trump still didn't have an envoy in the strategically, politically and economically important nations of Germany, Turkey, Saudi Arabia, South Korea and Cuba.

By April, eight of top ten jobs in the State Department were unfilled. Among them were the positions of the Under Secretary for Arms Control and International Security, an important position for the Baltic NATO members, and the Under Secretary for Economic Growth, Energy and the Environment, which is a key position for all Baltic Rim dialogue. For instance, several arctic policy issues that are important for Finland's current chairmanship of the Arctic Council are in this particular portfolio.

How big a problem is this?

Some in Washington, D.C., find it to be a huge concern. Others seem to take a more pragmatic approach. Although we haven't witnessed quite a similar situation before, vacant top positions are not a new phenomenon in the U.S. capital. Acting Under Secretaries are able to cover much of the necessary work. And while work is piling up on their desks, it seems that personal visits and relationships are becoming a more important channel of conducting business with the current U.S. administration than the structural ones.

In the first months of 2018, several Finnish ministers have visited their counterparts in Washington. A delegation of Swedish businessmen, for example, followed Prime Minister Stefan Löfven during his state visit. The delegation was invited to a White House dinner hosted by Trump. Presidents of Estonia, Latvia and Lithuania, in turn, attended a summit of the Baltic countries and the United States, highlighting close transatlantic relationship and strategic partnership. ■



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MANABU SENKOGU

The Baltic States and Japan: What, if any, are the possibilities of further cooperation?

Expert article • 2372

In January 2018, Japanese Prime Minister Shinzo Abe visited Estonia, Latvia, and Lithuania (following which he also visited Bulgaria, Serbia, and Romania). The visits mark the first ever to these countries by any Japanese prime minister, although the incumbent Emperor of Japan Akihito did visit these countries 11 years ago (in May 2007).

It is said that this visit was intended to strengthen relations between these countries and Japan, and it was announced that Japan will establish the new cooperation format “Baltic States plus Japan” for this purpose, in addition to the current framework “North Baltic Eight (NB8) plus Japan”, which was established in 2013. However, according to the information released by the Ministry of Foreign Affairs of Japan, no concrete measures or plans for promoting cooperation were discussed at the leaders’ conferences between Abe and the three prime ministers of the Baltic States. The Japan-EU Economic Partnership Agreement (EPA) was one of the topics of the summit, but this scheme will not directly affect relations between the Baltic States and Japan. Abe also urged these states to support pressure on North Korea, which continues nuclear and missile development, and the three prime ministers have agreed on this point, but actually, the Baltic States do not have a strong interest in this matter. In addition, the Baltic States are sceptical of Abe’s attitude toward Russia, as Abe has adopted a conciliatory stance towards Putin in relation to the so-called Kuril Islands dispute between Russia and Japan, which is the only unresolved territorial dispute between Russia and other neighbouring countries (if we exclude the territorial dispute between Estonia and Russia. These two countries signed a treaty confirming borders in 2014, but the parliaments of both countries have not ratified it yet).

For the moment, let us look closely at the current relations between the Baltic States and Japan. Concerning trade between the Baltic States and Japan, the current situation is as follows: Estonia: imports from Japan: 19.6 million euros, exports to Japan: 64.2 million euros (2015); Latvia: imports from Japan: 18.9 million euros, exports to Japan: 48.5 million euros (2016); Lithuania: imports from Japan: 38.5 million euros, exports to Japan: 118.9 million euros (2017). The trade between these countries has increased in recent years, and we can see that the amount of exports from Lithuania to Japan substantially exceeds the amount of exports from Japan to Lithuania, mainly because of the recent rapid increase of imports of agricultural products from Lithuania, such as cigarettes, skimmed milk, fish, lumber and other wood products. However, the ratios of trades of these countries with Japan are much lower than 1% of their total trade, so economic cooperation with Japan is not a vital factor to these states for the time being.

The number of people who visit the Baltic States from Japan has increased rapidly in recent years. According to the information of Project CAITO, a project that promotes and supports rural tourism companies to enter the Japanese tourism market by strengthening their capacity and cooperation in the three Baltic Sea countries (Latvia, Estonia, and Finland), the interest of Japanese tourists in the Baltic Sea countries has increased in recent years, as, for example, in 2015, 21,575 Japanese tourists visited Latvia, which is 39% more compared with 2014, and 96,044 Japanese tourists visited Estonia in the same year (21% increase compared with 2014). This could be explained by the geographic location and tourism infrastructure. Estonia is closer to Finland, which is regarded as a flight destination for Japanese tourists because direct flights from the biggest cities of Japan to these countries go only to Helsinki (by Finnair and Japan Airlines). However, Japanese tourists constitute a comparatively small proportion of all inbound tourists (1.5%–2%) to Latvia and Estonia, as the large distances and costs hamper further increase of Japanese tourists to these states.

These facts do not mean that the future possibilities for cooperation between the Baltic States and Japan are slight, as various types of exchanges have been conducted between them. For example, the Ministry of Foreign Affairs of Japan has been holding the Japan-Baltic Seminar annually since 2008 for promoting mutual understanding and cooperation. However, cooperation between the Baltic States and Japan is not expected to improve rapidly as a result of the one-off visit of the prime minister. To enhance the relationship, steady efforts over time are required. ■

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27 years of regional work: The Baltic University Programme

Expert article • 2373

The Baltic University Programme (BUP), founded in 1991, have for 27 years been active in the drainage area of the Baltic Sea Region. Being an innovative Programme by its nature, BUP strives to find novel ways of interaction and cooperation among universities by promoting openness, internationalization and mobility in the Baltic Sea Region. The main aim is to support the work to build strong regional educational and research communities. The programme is committed to the creation and dissemination of new knowledge in the fields of sustainable development, environmental protection, nature resources, democracy and education for sustainable development (ESD). This is achieved by developing and offer university courses and conferences, support multi- and interdisciplinary research co-operations, and by participation in transdisciplinary projects in cooperation with different stakeholders in society as authorities, municipalities and business.

Since start BUP has: gathered 232 universities in the region, educated some 150 000 students over the years, organised hundreds of conferences, been sailing on the Baltic Sea and beyond some 28 times, worked with governments, companies and some 30 cities in the region, close to 50 books and 60 hours of film has been produced, and last but not least - created friendships between students, researchers and academic teachers in the region, even some families! Maybe these efforts are more than any other university network world-wide.

The cooperation started while there was still Soviet Union. In that time at the coordinating secretariat at Uppsala University there were very foggy ideas about which universities existed in the Eastern part of the region, behind the Iron Curtain. East-West contacts were unusual. To reach each other we started, before the era of Internet, as a satellite TV University. In the 1980s the Internet existed only as experimental connections mostly between universities of technologies. Mobile telephones were large and cumbersome and not so common. The first personal computers were small and slow with very limited memories. Traditional "copper" phone lines were mostly used also for digital communication and BUP equipped several universities for this. The Royal Institute of Technology (KTH) in Stockholm was on the frontier in Internet communication. BUP arranged its first international seminars using special video conference studios. The first to be created in a BUP university was the Phoenix centre at St Petersburg State University.

Now 27 years later the world looks very different. We have been through a dramatic and revolutionary change and entered the age of communication. The new possibilities of seamless communication

are crucial for international cooperation from practicalities to building bridges. It is exactly why networks like the Baltic University Programme are possible to develop. All members of BUP are together a strong and needed force in the Baltic Sea region for the transition to a sustainable future. In this work there are challenging tendencies as the rise of nationalistic politics. The statutes of the Baltic University Programme list environmental protection, democracy, and sustainable development as our main tasks. The very construction of regional networks includes respect for others, political freedom, and protection of human rights.

Now 27 years later also BUP looks very different. It started with a secretariat at Uppsala University, today there are BUP Associated secretariats in Åbo, Lodz and Hamburg, and BUP National Centras with a centre director in 12 countries. And since two years we have introduced membership, currently there are 82 Member Universities contributing to the development of the programme and for strengthening cooperation in the region. Another initiative since 2016 is presidency, which means that all BUP National Centres are responsible for running activities within the programme through a presidency over a time period of six months. Today we are also one of two Flagships within EU Policy Area Education - the EUs Strategy for the Baltic Sea Region (EUSBSR).

The current challenge within BUP is the ongoing generation shift. There are colleagues in several countries that have been engaged since early 1990ies, which soon will be retired. This means renewal and a challenge, both for good and bad. ■

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HELENE CARLBÄCK

Swedes in Russia: Narratives in change

Expert article • 2374

Although the number of Swedes in Russia was comparatively low at the turn of the last century, the topic has its given place in the history of Swedish-Russian relations. About 3,000 men and women emigrated from Sweden to Russia in the 1860s to 1917. Unlike the emigres to North America, making up a far larger number, most of Swedes to Russia returned in five-ten years to their homeland; in Saint Petersburg however, a sizeable Swedish colony established itself as a group of Swedish families that had lived in the city for generations. Swedish migration to other parts of Russia was marginal, apart from the city of Baku at the turn of the last century; comprehensive migration to Moscow did not form until after 1910, when the Russian economy experienced an economic boom. In hindsight we know that it was too late to start developing a viable, cohesive Swedish colony in Moscow because of the upcoming 1917 Revolution. In the early part of this period, Swedish immigrants consisted mainly of artisans and skilled workers while later, merchants and business leaders would dominate the scene, representing corporations such as L M Ericsson, ASEA, AGA, SKF, Separator and Atlas-Diesel. The Nobel family's oil empire in Baku and manufacturing and engineering ventures in Saint Petersburg stand out in this context.

In the early 20th century one narrative about the Swedes in Russia reflects a reawakened nationalistic and patriotic interest, intertwined with the idea of a special Swedish mission in Russia. With their high degree of professional competence, the Russian Swedes could contribute to building up the country as a modern nation, possibly even colonizing it to some degree. These ambitions were embedded in a global discursive construction in the era of imperialism of a "we" and a "them" reflecting beliefs in an East-West boundary of perceived differing degrees of civilization.

From the turn of the century, concerns over how to preserve *svenskhet* ("Swedishness") intensified to reach its peak during the First World War. The periodical *Allsvensk samling* (The All-Swedish Association), a mouthpiece of *Riksförbundet för svenskhetens bevarande i utlandet* ("The national association for the preservation of Swedish culture abroad") brought up ideas of a pan-Swedish movement – primarily encompassing the Swedish-speaking communities in Finland and Estonia – as a counterbalance to the pan-Slavic movement. There was also the notion of the superiority of Swedish culture as opposed to Slavic culture: "Slavs have ever been state-forming or culturally significant peoples to any serious degree. In fact, Russia as a state is the accomplishment of Germanic Swedes", the *Allsvensk samling* wrote. Swedish ethnicity, traditions, and language was enhanced as something precious worth preserving. One observer of the Swedish colony in the oil-extracting city of Baku wrote in the above-mentioned periodical about the disposition to preserve Swedishness,

despite the lack of a Swedish association in the city: "Among the families with children it has almost without exception been the custom, when children reach school age, to send them to Sweden to receive a Swedish upbringing. That the language of everyday conversation is Swedish is a given, even in families where the mother is of a different nationality."

In contrast, by the end of the 20th century the keen interest in exclusive "Swedishness" had waned. Due to the challenge of global migration flows, politicians as well as scholars looked to role models, also in history, of integrated multicultural societies. Swedish ethnologist Susanna Helsing has framed the history of the life of Swedes in Saint Petersburg in a multi-ethnic context. About fifty Swedish families had stayed in the city for more than one generation and were well-integrated with the surrounding society. The children were raised with Russian, German, and Swedish; often the mother of the family was of Russian or German background. In some families, Russian was the first language for children, but with their German mother, they always spoke German; the father made sure that the Swedish heritage would be held on to and hired Swedish nannies. Both Russian and Swedish were spoken in some families and Swedish as well as Russian holidays were celebrated.

When the Russian 1917 revolution forced Swedes to leave the country, the encounter with Sweden became a partial disappointment for many of the Russia-Swedes who had been influenced by the cosmopolitan atmosphere in Saint Petersburg. For the returning emigrants Sweden seemed narrow-minded and they sometimes missed what they thought had been a broad-mindedness of the Russians and "the breath of a wider world".

This short essay has reminded us of how narratives on a similar topic, in this case "Swedes in Russia", vary over time in order to meet prevailing political and cultural demands in a given society. ■



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JOHN CHRISTMAS

Latvian narratives and the EBRD

Expert article • 2375

Perhaps 2018 will be the year when the actual activities of the Latvian government and the European Bank for Reconstruction and Development will replace the feel-good narratives spread by the international Media for a decade.

I am knowledgeable about this because since 2005 I have been the exiled whistleblower from Parex Bank, a Kremlin-linked offshore specialist which was the largest bank in Latvia. My whistleblowing, mostly about loans to secretly related companies which effectively meant the bank's equity was fake, wasn't investigated and wasn't reported in the Media.

What Latvian officials decided to do instead of investigating was promote Parex at government events so that the bank could borrow more money. Then suddenly in 2008 the government made a bailout loan to Parex and nationalized the shares which was a complete surprise to the public who thought Parex was always profitable.

This unnecessary bailout was the start of an economic and demographic collapse. And it was also the start of a series of false narratives from a government desperate to tell anything but the truth to the people. First came Prime Minister Ivars Godmanis' explanation that the government bailed out Parex to rescue Latvia from a crisis caused by the United States, and the assets of Parex were good and the bailout loan would be paid back with interest. The Media went along with this.

In 2009, since the public was sceptical, the government invited the EBRD to conduct due diligence on Parex. The EBRD announced that Parex was valuable and purchased a quarter of Parex shares, thus supporting the narrative. I was in exile, with former Parex colleagues threatening me to shut up about their pyramid fraud, amazed that the EBRD could be so clueless. Meanwhile, many shell-company deposits and key employees moved from Parex to ABLV Bank a few blocks away.

Then in 2010, the government announced that actually half of Parex assets were bad, including the same ones listed in my 2005 whistleblowing although the whistleblowing still wasn't acknowledged. Of course this directly contradicted the 2009 story that the assets were good. The bailout loan would not be fully repaid, however the public still didn't know how much was lost, whether it was lost a long time ago or just now, and who got the money.

The government, now led by Prime Minister Valdis Dombrovskis, had to create a new narrative because the old narrative about the United States didn't fit anymore. The new narrative was that Sweden caused an economic bubble in Latvia which had burst, and that's why assets became bad and the government had to bail out Parex to rescue Latvia. The Media went along with this. Dombrovskis received praise from the international community for rescuing Latvia from Sweden despite more leaks undermining this story. For example it was discovered that Parex had transferred 100 million dollars without collateral to a sanctioned oligarch linked to Vladimir Putin and the Tambovskaya Mafia.

Also in 2010, I discovered what was really going on because a dissident website published a report by government consultant Nomura. The report was 'confidential' which meant people leaking the report could be prosecuted. It was quickly taken offline, however parts still appear on the 'LatviaEBRD' videos on YouTube. According to this report, the government already knew earlier that Parex was

worthless and convinced the EBRD to buy the shares by secretly agreeing to buy back the shares at a higher price later. The EBRD due diligence had been fake.

I was furious that the EBRD had done this. I messaged many foreign journalists assuming that they would jump on this discovery. The implication was that the Latvian government was rogue, secretly supporting the Kremlin while publicly professing loyalty to the European Union and NATO. And, the EBRD was rogue as well, promoting fraud instead of promoting transparency. The censored Nomura report evidenced one of the largest rackets in Europe.

Unfortunately most journalists aren't accountants and didn't understand the cover-up. And, some journalists seemed intimidated or corrupt. However I did find two journalists, Mauro Caterina of Italy and Arno Wellens of the Netherlands, who made efforts to enlighten European voters. They both deserve awards for their efforts. Wellens introduced me to Pieter Omtzigt of the Dutch Parliament who was able to get confirmation in 2014 that the cover-up had in fact occurred.

In a sense, I was vindicated because my allegations were confirmed true. However most of the Media was still going along with the Sweden story. And the only law enforcement action was a cooperation between Czech and Latvian police to imprison a Latvian folk singer who protested against the cover-up. It was surreal. Was Europe completely hopeless?

Three things happened in the beginning of 2018 which give me hope: (1) two Latvian banks made allegations that the central bank governor is running a protection racket, and this governor is the same person who received my whistleblowing information in 2005, (2) FinCEN blacklisted ABLV for massive international money laundering, this is the same bank which received accounts and people from Parex, and (3) the Tambovskaya Mafia trial began, with Parex-linked Michael Rebo agreeing to cooperate with Spanish prosecutors.

Let's not waste this opportunity. Latvian officials are already building a new narrative, claiming a fake news conspiracy. Don't listen to them. Instead let's demand answers from the EBRD. Who received the billions of dollars and euros that disappeared through Parex and ABLV? Let's end the narratives which have hurt many people in many countries for many years. ■



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SERGEY KALENDZHIAN

Business education in Russia: New trends and perspectives

Expert article • 2376

Business education in Russia as a phenomenon arose in the 90s of the XX century, during the period of economic transformation, and since that time has passed through a complex development. Russian Business Education Association (RABE) has been established about 30 years ago and now includes 87 business schools from all regions of Russia.

At the same time, there are still very few leaders in Russian business education market which can be recognized as business schools of the international level. Only 12 schools in Russia are accredited by AMBA, 5 schools have EPAS accreditation, and only 1 has received EQUIS accreditation. AACSB has not accredited any Russian business school yet, but several market leaders have already started the accreditation process. International accreditations are not the only factor which plays the role in assessing the quality of a business school. In a changing environment, the requirements for business education are becoming increasingly complex: it concerns the content of programs, the level of faculty, the forms and methods of teaching.

In the 1990-s business schools in Russia have been established as the Faculties of State universities, then some private business schools have appeared. During the last 10-15 years the situation has dramatically changed. We live in the time of a very tight competition. Besides the increasing internal competition (due to the economic turbulence), business schools are surrounded by strong external competitors, such as corporate universities and training companies. Each of them certainly has their own advantages in the market. But recently business schools face a new type of competitor, which is **on-line education** (MOOCs and other distance learning courses available in the Internet). Actually, we entered the era of digital education, when anyone can get access to knowledge in any subject for free or at a very low price.

What is then the added value a business school creates for students in order to stay a leading player in the Russian market? First of all, a classic MBA program is much more than just a set of courses in management. It provides **complexity and integrity of the program curriculum**, which gives the deep understanding of business processes. A business school stimulates students to create knowledge themselves in the learning process instead of simple knowledge consumption. Faculty members become not just teachers, but also **consultants for MBA students**. Interactive learning is

a very important part of MBA, which forms **practical skills and competencies, including soft skills. Cooperation with the real business world** is a great advantage for the students of a business school. And finally, a business school an excellent platform for **best practices exchange and networking**, that students would never get from on-line courses.

So, a traditional business school can probably be replaced in future as a knowledge provider, but cannot be replaced as a platform for professional and personal development of a modern leader.

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Besides that, nowadays we live in a globalized world, when the borders in business disappear. That is why MBA students should be able to work and manage in the international context. The leading Russian business schools are expected to increase the **international learning experience**, including student and faculty exchange, seminars abroad, double degree programs.

Graduate School of Corporate Management of Russian Presidential Academy of National Economy and Public Administration (GSCM RANEPa) was established in 1998 as a full-cycle business school with its own concept, containing a full range of educational programmes in business: Bachelor, Master, MBA, Executive MBA and DBA. In 2017 Graduate School of Corporate Management passed re-accreditation of its three flagship programs - MBA, Executive MBA and DBA – at International Association of MBAs (AMBA) for 5 years. The concept of GSCM development was based on the experience obtained by studying international best practices of world famous business schools: Harvard Business School, IESE, Schulich School of Business. The important feature of the GSCM is the general nature of the offered business education programmes (General MBA) and the emphasis on developing managerial and leadership skills (soft skills) of students. These skills are necessary for executives at all levels of management, regardless of their functional scope and organization's affiliation.

Our unique distinctive feature is specialization in soft management and promotion of North-European management model in Russian companies. This model was developed at AFW Wirtschaftsakademie (Bad Harzburg, Germany) in the early 60-s. The essence of this concept is to replace authoritarian elements in management with more advanced management technologies. It is based on delegation of authority and responsibility, and can be characterized as the

combination of democracy and management order. As a result, the company's business processes are effectively transformed, productivity increases and innovations are actively developed by employees at all hierarchy levels. This model has been adapted to the Russian business environment and included in all business education programs of GSCM. Students implement this model in their companies already during the course and present the results of this work. Their feedback and thanks confirm the significant economic benefits of management transformation.

Graduate School of Corporate Management traditionally pays much attention to developing and expanding international cooperation: among the School's partners there are universities and business schools from European countries (Germany, Switzerland, Netherlands, France, Spain, Lithuania, Bulgaria, Finland), the USA, as well as India, China, Malaysia. We organize international modules for our students on a regular basis, including seminars, master classes and business visits to the leading international companies. At the key programs teaching in English is now introduced: it creates new opportunities for exchange programs realization.

We are looking forward to cooperation with new partners and invite you to take part in our events! ■

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The effects of state capitalism on Russia's business environment

Expert article • 2377

The most important trend in the Russian economy over the last decade is the astonishingly enlarged role of the state and rise of state capitalism. Prime Minister Dmitri Medvedev recently observed that the number of state-owned enterprises (SOEs) has doubled since 2013. The Russian government now accounts for up to 70% of GDP (although competing estimates place the number around 40%), mainly through budget expenditures and ownership stakes in large corporations. State-owned banks, led by Sberbank and VTB, hold more than 65% of assets in the banking sector.

From 2000-2008, the Russian government largely confined its nationalizing appetite to companies in the so-called 'strategic' sectors: defense, natural resources, finance, etc. But as of late, these boundaries have collapsed. SOEs are acquiring assets in industries where previously only private firms dominated. Take the retail sector, for example, where this year state-owned bank VTB acquired a 29% stake in Magnit, a dominant brand among consumers founded by one of Russia's leading private entrepreneurs. In 2012, the same bank purchased a \$50 million stake in a joint venture with Burger King. Recent years have seen state-backed investment funds expand their holdings in transportation, media, and insurance, while Sberbank and VTB have taken on substantial real estate assets. Some observers expect state-led acquisitions to soon begin in the mobile phone, food processing, and agricultural industries. If before we could speak of certain industries able to distance themselves from politics, now everything is intertwined.

This significant expansion of the state's footprint in the economy has bred a number of negative consequences for the country's business environment. First, many young people view employment in the public sector or state-owned enterprises as the most efficacious path to a successful, lucrative career. Surveys suggest that parents in Russia see jobs for their children in the security services as increasingly prestigious. Government work is stable and well-compensated. The many appeals of working for the government, combined with sharply rising emigration ("brain drain"), is resulting in a crowding out of employment in the private sector. Shortages of skilled workers are increasing, which creates drags on economic growth.

Next, not only has competition declined in most industries, private firms now have to compete with SOEs directly for market share. The many structural advantages of having state ownership severely tilts the playing field against private companies. SOEs can draw on connections with officials for improved access to finance, preferential regulatory treatment, and bailouts in case of overexpansion and indebtedness. To compete, private firms have to invest considerable resources in developing their own political inroads. How else can they take advantage of the many government programs propping up the economy, from massive subsidies designed to stimulate agricultural production, state guarantees for manufacturers, and import substitution policies that shelter industries from foreign competition. Even more worryingly, small businesses face an uphill battle to acquire the necessary political capital to thrive.

Finally, state-owned enterprises are both swallowing up valuable resources and using them ineffectively. According to various measures, the productivity of Russian SOEs lags far behind their private sector counterparts. SOEs capitalize on soft budget constraints, taking on excess, unproductive labor and running up large deficits. The lack of transparency in their corporate governance potentially hides even bigger fiscal holes that the government is now on the hook for. Private firms in Russia still struggle to raise adequate capital and access loans: when SOEs gobble up the few resources available, the situation is even further exacerbated.

The most pressing question in Moscow right now concerns the degree to which private businesses can push back against the grabbing hand of the state. Many expect Putin's next term in office to usher in additional burdens on private firms. Tax rates will increase, while authorities are dramatically strengthening tax enforcement capacity. Businesses will have to pay more to a still opaque, and often thoroughly corrupt, bureaucratic apparatus, with often little to see in return. And the privatization of Russia's many state corporations remains a mirage. Government officials are still captivated by national champions that monopolize activity across diverse sectors.

The private sector in Russia still has considerable structural power at its disposal. Capital flight since 2014 has undermined the government's attempts to increase tax revenue and attract much-needed investment. The state desperately wants to stop the bleeding and instill confidence among investors to prioritize production in Russia. Both sides have strong reasons to develop a new model of interaction. Russia has little hope of returning to the high growth rates of the 2000s without innovative, dynamic small businesses and fiercely competitive industries that export to international markets. Only by banding together and threatening complete market exit can private firms force the government to rethink its state-led model of economic growth. ■



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Outward foreign direct investment by Russian MNEs: Focus on home-country push factors, Europe and five CEE countries

Expert article • 2378

Investigating the Russian economic footprint through outward foreign direct investment (OFDI) and the activities of Russian multinational enterprises (MNEs) has not become either outdated or less interesting, even though, understandably, most of the current attention on Russian influence in Europe has been focused on direct interference in political affairs. In a recent study, we have assessed the international expansion of Russian MNEs, with a focus on home-country push factors, Europe and five EU-member Central and East European (CEE) states, including the Czech Republic, Hungary, Poland, Slovakia and Slovenia. Indeed, we have established some fascinating facts and figures.

Russia has a long history of OFDI, with the golden era ending with the global financial meltdown. By that time, Russian MNEs had become significant factors in international capital flows, though they have never been ranked among the largest MNEs. Having faced two financial crises over the past 10 years that interrupted the upward trend (the last one caused by low oil prices and Western sanctions against Russia over its actions in Ukraine), the current period is probably rather about their survival.

Among the important features of Russian OFDI, the most well-known ones are round-tripping (i.e. FDI leaving the country and returning) and trans-shipping that allow Cyprus, the Netherlands and the British Virgin Islands to lead the unchanging list of Russian FDI recipients (according to official statistics from Russia's central bank). Round-tripping leads to Russian FDI being overestimated in both directions. In addition, round-tripping and the offshore orientation of Russian OFDI are strongly related to negative domestic push factors (including the poor business climate in Russia), as well as to the tax minimization strategies of Russian MNEs. Negative push factors are very important in driving corporate decisions to invest abroad. On the other hand, concerning a typical positive push factor, the Russian state's role in directly promoting foreign expansion, one can argue that the state supports only the largest Russian MNEs but Russian OFDI is not dominated by state-controlled companies (among the top 20 Russian non-financial MNEs, the number and combined value of foreign assets are higher for private companies than for state-controlled ones). State-owned companies possess many advantages that can help them internationalize. However, the Russian state's influence on private companies is also frequently quite significant. One characteristic feature is that the leading Russian private MNEs have an oligarchic ownership structure.

Due to the specific features of Russian OFDI and the lack of statistics referring to the ultimate host/investing country, the role of certain host countries is underestimated, while that of others is overstated. Nevertheless, Europe's leading role in Russian OFDI remains unchallenged. However, it should be emphasized that Europe's share has been falling. This began many years ago and was not directly linked to EU–Russia relations, which – in turn – have definitely reached a very low point at present. As the Minsk II ceasefire agreement of February 2015 has not been met, the end of the sanctions by the European Union, Russia's prime export market and the main destination of Russian OFDI, is not in sight. Russia's pivot towards Asia as a means of diversifying away from Europe had been formulated before the events in Ukraine. Nonetheless, despite some steps in this direction, a dramatic increase in Russian expansion has not been witnessed and is not projected.

In Europe, possibly Italy, Germany and the UK are the largest recipients of Russian FDI (based on the FDI project database of the Moscow-based IMEMO Institute). In Central and Eastern Europe, Bulgaria, Serbia and Romania can be mentioned. The five CEE countries are not among the main destinations, though Russian FDI in the Czech Republic or Poland is also not negligible. Even Slovenia has received notable Russian-involved companies. Nevertheless, company data demonstrate that the activities of Russian investors in the five CEE countries have been paved with failures. These have been evident in both divestments and unrealised plans. The low share of Russian investment in the five CEE countries may be referred to as business opportunities that the Russian parties have failed to exploit.

In general, Russian OFDI is still dominated by oil and gas MNEs, though Russian businesses are represented practically in every sector. In our five CEE countries, most Russian FDI has been done in hydrocarbons, iron, steel and machinery, but banking, software solutions, electronic production, real estate and even the light industry have also been targeted.

Regarding the theorems, all our research suggests that Russian OFDI follows Dunning's eclectic paradigm or Ownership–Location–Internalisation (OLI) of international production to a certain extent, but the extension of the OLI theorem with a home-country leg to OLIH is needed. We have tested this for the five CEE countries.

Opposition to Russian investment could continue to grow in the EU. While examples of Russian pressure on companies to sell to them have been known to occur in CEE countries within the EU, there

are also already precedents in Western EU states for transactions that have failed because of resistance to Russian investment. In general, there is no need to worry about Russian OFDI, but some of the expressed concerns have certainly been attested. We believe that it is the Russian party who would benefit most from alleviating these fears. ■

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Wind of change: New opportunities for Finnish-Russian energy cooperation

Expert article • 2379

Finland and Russia have a long history of economic cooperation in energy sector. From the Soviet times Russia has been the major natural gas supplier to Suomi as well as the main petroleum oil and coal exporter. However, such close ties in traditional energy sector are expected to weaken soon. In 2016 Finland ratified Paris Agreement and launched new national Clean Technology Programme. According to the Framework Convention on Climate Change, Finland should by 2050 accomplish really radical emission reductions.

To succeed, Suomi is going to phase out coal and cut oil use in energy production by 2030 and increase renewables' share up to a half by 2020. In 2016 the share comprised around 35%, consequently, it should be augmented by 15 percentage points. Last year the share was initially forecasted to reach 40%, but according to preliminary Finland Statistics data, rose up only to 36%. It means Suomi has 3 years to gain remaining 14%. Estimating Russia's share and alterations in Finnish energy market, it looks possible to name the sectors where a degree of bilateral economic cooperation has the real chances to enhance.

One could argue that the most promising sphere for development is wood fuel. Since 2011 wood has been prevailing over oil in Finnish energy consumption and the country has been enlarging its import. In 2017 wood accounted for 26.7% of energy consumption, increasing by 12 percentage points only from 1990. So, despite the evolution of biofuel technologies, it looks extremely problematic the abovementioned extra 14% of renewable could entirely consist of timber fuels.

The most traded wood biofuels are pellets. Last year Finnish imports ramped up by 72% in value and by 73% in volume terms. Russia's share in imports has been going up rapidly and in 2017 reached 96.8% in value and 99.4% in volume. It is highly important for Russian suppliers due to the fact that Suomi accounted for more than a third of RF wood fuels export in 2016 and, to some extent, Russia depends on Finnish pellet importers. For Russian exporters who

supply cheaper raw materials, price of wood pellets plays a crucial role, especially now, when the market is low. Meanwhile, according to calculations based on the Wood Pellet Association of Canada forecast, world pellets price will increase by about 45% by 2020 due to rising world demand.

In addition to trade, one should take into consideration technological cooperation. Finland is a pioneer and benchmark in forestry effective technologies. As an example, we could briefly mention the method of forest bioeconomy data collection invented by Natural Resources Institute (Finland). This is a combination of images taken by unmanned drones, satellite pictures and sample plot measurements that is really useful in estimating Russian forest areas. The other facet is investment activities of Finnish companies such as UPM, Stora Enso, Metsa (all of them paying tribute to biofuels production), run business in wood processing in Russia. The Finnish forest industry has already invested a billion euro, mostly in northwestern territories, by establishing mills, developing infrastructure and leasing forests.

Let us proceed with the other applicant for replacement of hydrocarbon resources in Finnish energy consumption. Contrary to some other European countries gradually reducing nuclear power usage, Finland is not going to refuse this energy source in the foreseeable future. Vice versa, Suomi is going to build the fifth nuclear power plant Hanhikivi-1 in cooperation with Russian State Corporation Rosatom. From Finnish side, the project is implemented by nuclear power company Fennovoima. It is evaluated that the plant will provide a tenth of Suomi energy consumption by 2024. This project is also lucrative for some associated industries. For instance, the plant will be equipped with pressurized water reactor designed by Russian Hidropress. In 2013 another Russian company TVEL signed a ten-year contract for the nuclear fuel supply, management and design.

Besides construction of nuclear power plant, the important area is trade in the nuclear fuel *per se*. Finnish imports after fluctuating around €80-90m for several years in 2017 rocketed up to €150m.

Finland and Russia have a long history of economic cooperation in energy sector. From the Soviet times Russia has been the major natural gas supplier to Suomi as well as the main petroleum oil and coal exporter.

Around 38-40% of the Finnish import used to come from Russia until last year when the share declined to 19%. Thanks to the new Hanhikivi-1, Finland will increase imports of nuclear fuel, at least, by a quarter because no uranium is currently mined. Some experts initially expected that due to Germany is phasing out nuclear power plants and all uranium mines had already been closed, this can fast enough lead to substitution of German fuel with Russian one. However, surprisingly, in 2017 Germany tripled nuclear fuel exports to Suomi. Perhaps, they just sold excessive fuel. Whatever it was, but after 2022, when nuclear power production will be terminated in Germany, Russia can pretend to be the leading supplier of nuclear fuel to Finland. ■

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The future of machine learning and advanced analytics: Finland and Russia perspective

Expert article • 2380

The Artificial Intelligence market is in a state of biggest “hype” in the IT market and in digital transformation. Growth estimates on market sizing are indicating massive growth and investment in the following years, forecast from various research institutions vary in time period and scoping so it is difficult to estimate a realistic future projections from these research snapshots.

But theory and forecasts are just that – theory and quite broadly varying also in their definition of what “Artificial Intelligence” actually means. This, in addition to the somewhat ballooned expectations created by software vendors and service providers are confusing the buyers rather than convincing them of the usefulness of AI solutions.

Implementing AI in a meaningful way is not a matter of technology – the technology is available but not in the neat package most end-users would expect to receive for a mature technology. First of all it is important to separate concepts such as “Weak” of “Narrow” AI versus “Strong” or “Broad” AI.

What we currently have is most definitely only Weak AI. But we should not take the term weak as not efficient. The Weak AI solutions give great opportunities to organizations to make the best out of their data assets.

What I mean by “Weak” AI means is by definition of Anne Håkansson (reference to a presentation in Stockholm 4.5.2017), a researcher and teacher at Kungliga Tekniska Högskolan in Stockholm:

- Simulates “thinking”
- Makes conclusions on simple, repetitive challenges
- Is model-based in the resolution
- Translates language
- Can search for data from various systems
- Has no consciousness

The most well-known and most used applications of Weak AI are: NLP (Natural Language Processing), OCR (Optical Character Recognition), Adaptive Chatbots and Machine Learning.

Out of these, Machine Learning is by far the most efficient. As with most “new” hype technologies Machine learning is not new. The concept of Machine Learning was described before 1950, when for the first time we had computer processing power to simulate how neural networks could work. However, only now, in the 22nd century we have processing power that enables full-scale Machine Learning

solutions that are reasonably priced enough to be accessible to a wide organizational use.

For any new technology to make a break in the market, 3 things must be in place.

- There has to be a pain – e.g. organizational inefficiency, lacking potential for new business streams, need for speed.
- There has to be an offering – you can’t implement a new technology unless there is a technology and service offering
- There has to be awareness – You can’t implement unless you are aware that a usable technology exists and it is available for us.

So what can be achieved with Machine Learning? As a technology and concept it is basically the same thing as Advanced Analytics, as defined by, for an example Gartner:

“**Advanced Analytics** is the autonomous or semi-autonomous examination of data or content using sophisticated techniques and tools, typically beyond those of traditional business intelligence (BI), to discover

deeper insights, make predictions, or generate recommendations. Advanced analytic techniques include those such as data/text mining, machine learning, pattern matching, forecasting, visualization, semantic analysis, sentiment analysis, network and cluster analysis, multivariate statistics, graph analysis, simulation, complex event processing, neural networks.”

Advanced Analytics, Predictive Maintenance, Decision Engines all basically build their capability on top of Machine Learning. Solutions such as Advanced Analytics have been available for decades but their cost-level has been way beyond what a typical organization can afford. With the rise of Open-Source Solutions and new Machine Learning Platforms or Layers this powerful technology is reachable also the large mass of Midsized organizations.

However, the technology is just one aspect of implementing Machine Learning or Advanced Analytics solutions. The more crucial things are:

1. Amount of Data
2. Algorithm creation skills.

In order to Machine learning and/or Advanced Analytics to have a reliable prediction rate, there has to, typically, be Petabytes of good quality data. Although large organizations have been building their data lakes and data warehouses, the data is usually of poor quality. Master Data/ Metadata is broken and data cleansing is needed before

As a former industry analyst, the maturity level of Russia in terms of Machine Learning adoption way surpasses the Nordic countries.

a high-quality decision making engine powered by Machine Learning. Many organizations do not enough of data to create viable analyses. These organizations need to enrich their data with open-source external data or anonymized data from an external service provider.

Algorithm skills are scarce. Most organizations, especially the ones in the Nordics, will suffer from a lack of adequate skills. Russia and the CIS countries have invested to the right statistical and mathematic skills for decades and provide a high quality – reasonable cost talent base for organizations such as Zyfra to support our clients with proven and tested solutions. As a former industry analyst, the maturity level of Russia in terms of Machine Learning adoption way surpasses the Nordic countries. Russia and the Baltics will be a high-demand, high-quality solution base for the Nordics and globally. ■

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On recent anti-nuclear movements in Russia

Expert article • 2381

In 2006, the Russian Government in cooperation with the nuclear state corporation Rosatom announced the ambitious plan to build approximately 26 new reactors by 2030 in the Decree № 605 *On the federal target program "Development of Nuclear Power Industry of Russia in 2007 - 2010 and until 2015"*. The plans to build new nuclear reactors were actively discussed by environmental organizations that deal with nuclear energy and anti-nuclear groups in 2008-2013. Anti-nuclear movements are not a new phenomenon in Russia. The demonstrations against nuclear energy and in relation to other environmental problems took place in the 1980s-90s as well as there was a campaign against the import of spent nuclear fuel in 2000-2001.

Environmental organizations and local anti-nuclear initiative groups are engaged in anti-nuclear movements in Russia. These organizations and group have brought up concerns about constructions of new reactors, prolongation of older reactors time-span, decommission and nuclear waste disposal. Among other places, environmental organizations dealing with nuclear energy and anti-nuclear groups have been active in Moscow, Saint Petersburg, Sosnovy Bor in Leningrad region, Murmansk, Nizhny Novgorod, Murom in Vladimir region and Kaliningrad region.

Environmental organizations and local anti-nuclear groups have engaged in a variety of activities ranging from publishing brochures and leaflets on nuclear energy to mobilization of supporters and organization of demonstrations. Choice of action seems to depend on a type of group or organization as well as on its location. Environmental organizations residing in the capital or big cities tend to act as experts. They have published lengthy detailed materials on various aspects of nuclear energy industry as well as they have shared their expertise with protesters in the regions where reactors may be constructed. The examples of such materials are *Ecologist story about the nuclear industry* by Alexey Yablokov and *On the economy of Russian nuclear power industry* by Bellona. Some environmental organizations, including Bellona, have taken part in the work of the Public Council of Rosatom at different points of time. In general, the action repertoires of environmental organizations dealing with nuclear energy issues illustrate the trend of professionalizing civil society. In the meanwhile, some environmental organizations also organized protest actions against nuclear energy developments.

Anti-nuclear groups emerged in the regions where plans to build new reactors were announced. Their political opportunities are shaped by the regional and local contexts, which seem to partly differ from political opportunities of the environmental organizations. Anti-nuclear groups organized demonstrations and mobilized supporters at the local and regional level. As nuclear reactors are constructed and planned in specific locations, public hearings are carried out at the local level. This institutionalized practice has shaped action repertoires in a distinct manner. Anti-nuclear groups tend to carry out

activities in their region, seemingly focusing less on actions in other regions. An exception is the movement "No Nuclear Power Plant in Monakovo" (Murom, Vladimir region) and the Nizhny Novgorod anti-nuclear movement. Both movements mobilized in reaction to the construction plans of a nuclear power plant in Nizhny Novgorod region close to the border with Vladimir region. Concerns over the same power plant have led them to engage in jointly organized actions.

To what extent planned nuclear reactors will be constructed remains unclear. Several plans have already been changed after 2013. The plan for the Baltic Nuclear Power Plant is currently being reconsidered. The construction of the nuclear power plant in Nizhny Novgorod will be delayed. Activities of anti-nuclear movements have down trended accordingly. As the discussions about constructions of nuclear power plants have diminished, local actions have shortened. Moreover, some of the environmental organizations dealing with nuclear energy were affected by the amendments to the law on non-governmental organizations from 2012, when the status of the foreign agent was introduced. A foreign agent is defined as organization that carry out political activities and get financial support for these activities from foreign sources. Although it would be hard to assess direct impact of actions of environmental organizations and local anti-nuclear groups on the nuclear energy development in Russia, their engagement has certainly contributed to shaping public discussions about nuclear energy. ■

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From Putin to people: Perspectives on the Russian hydrocarbon age

Expert article • 2382

While the Russian Federation glides on to President Vladimir Putin's fourth term, the bearings of "same old, same old" might nevertheless be turning into something rather more complex. The inevitable countdown for Putin's era has started. Whatever the future may hold, the hydrocarbon sector plays a vital part in all scenarios, for its ligaments are tightly entangled with the society and the economy. Consequently, public statements concerning the oil and gas industry have implications beyond the business itself. The inspection of such speeches and accounts by the Kremlin officials, especially from President Putin himself, may help understand the orientations of the domestic politics as well as international relations. Especially the annual television programme Direct Line with Vladimir Putin provides an interesting viewpoint for observing the main elements of Russian energy relations: it provides a more holistic view as it is directed mostly to domestic audiences.

Looking back, in 2014–2015 issues related to Ukraine and the sanctions dominated Russian discourses on energy politics. As the conflict has stagnated, these themes are no longer in the focus of Kremlin's energy-related statements. This could be reflective of Russia's shifting foreign policy emphasis. While Russia did annex Crimea, failing to take control over the Ukrainian situation has gnawed on Russia's status as a regional great power. At the same time, the modest achievements of the Eurasian Union thus far have added to this relative decline. To compensate, Russia is now seeking bilateral partners all over the globe.

While the federal budget's energy income dependency has been alleviated in the past few years—mostly dictated by the low market price of oil—energy affairs are still closely intertwined with Russia's global efforts. Amidst the oil price fluctuation, Russia has been forced to adapt—and to negotiate. Reaching understanding with the OPEC members, especially Saudi Arabia, has been of great importance on the road to energy market stabilization. In addition to agreeing on oil production cuts, the two countries have made commitments to invest in each other's economies. Yet, it remains to be seen whether this cooperation will continue even after the eventual end of the production cut. In any case, this warming of relations can be seen as part of an effort to alter the geopolitical status quo, considering that Saudi Arabia has traditionally been an important ally of the United States.

Especially in the minds of Western gas consumers, the tightening of Sino-Russian relations has often given rise to heated debates. Be that as it may, issues related to China are not on the forefront of Putin's

energy-talk. This probably indicates either the lack of conflict between the countries regarding energy issues, or alternatively that China and Russia have created a less public way of dealing with such matters. Even though China is the most significant buyer of Russian oil, when it comes to gas, there has been no proper infrastructure in place between the two countries. It will be interesting to see whether the launch of the Power of Siberia pipeline, that is expected after 2019, will lead to a change in Kremlin's discourse down the road, seeing as how gas sales have traditionally caused more controversy between the buyer and the producer than those of oil.

The future of Russian energy sector leans on technical solutions; on making technology available at the domestic market, and on enabling extraction at distant sites. While Russia is set to keep up the production of hydrocarbons, Kremlin acknowledges the demand for cleaner energy solutions. One response to this has been the advocacy of

natural gas as a clean energy source. Approximately one third of the natural gas extracted in Russia is exported and it holds its place as an important source of income. However, the domestic heat generation leans heavily on gas, which in turn allows Russia to export oil in large quantities, most of its annual production. Therefore, the state can keep collecting the tax revenues of exports, while

externalizing the environmental impact of burning oil. In his speech at the Russian Energy Week Forum panel in October 2017, President Putin pointed out that like many other big players, Russia is preparing for the changing energy market. Yet, according to Putin, the age of hydrocarbons will last at least for another 25 years.

Currently Russia's renewables sector is rather marginal: excluding hydropower, only some hundredths of a percent of Russia's primary energy production comes from renewable energy sources. Yet, the potential development of photovoltaic or wind power technology has been used as a selling point of sorts for the energy giant's innovativeness and competitiveness. More significant, however, is Russia's contradictory outlook on LNG. Russia has invested in LNG development, which the Kremlin also promotes. Should these ventures succeed, they would help Russia overcome the limitations of geography and dependency on specific clients, which is a goal pursued by the country's energy producers. Nevertheless, at the same time Putin is unwilling to give too much clout to LNG, which is acknowledged as an asset of the US.

On the one hand the promotion of plans to diversify production and modernize the energy sector has to do with letting it be known that Russia is not lagging behind in advancements of the energy

Russian leadership seeks to remind international audiences that oil and gas continue to dominate the energy market, thus remaining an exoskeleton of Russia's external action.

sector. Yet on the other hand, by not rushing the triumph of new energy sources or renewables, Russian leadership seeks to remind international audiences that oil and gas continue to dominate the energy market, thus remaining an exoskeleton of Russia's external action.

Global aspirations support Kremlin's domestic policy of utmost stability. The energy riches enable certain external ventures, but are also closely connected to the pact between the state and the society. As Yegor Gaidar, among others, has pointed out, the natural resource riches have rendered it possible for the state to get more revenue without raising the income tax. Therefore, the ruling elite has been able to surpass the social negotiation between the state and the people. Currently, in the state's energy discourse, there is no room for the Russian people as proactive agents. Also, Putin does not often mention the great energy enterprises in the Direct Line programmes. This creates an illusion that the Russian state is in fact the main player on the sector, instead of rent-seeking companies and the wealthy individuals that keep benefiting from them.

The yearning for inner stability and endeavors for global significance circulate in the veins of the Russian state. While these objectives support one another, they exist on the opposite sides of a spectrum: on the one end there is action and on the other: ultimate apathy, non-action. This horseshoe of ambitions embodies the paradox of the strengths and weaknesses of the Russian project. In part, Kremlin's global aspirations soothe the potential dissatisfaction of the Russian people and unite them under common goals. However, stability could turn into apathy, which would then bleed the legitimacy of the centralized Russian system. The main questions in envisioning Russia's future are whether the Putin regime will outlive Putin's person and furthermore, whether Russia's future is rooted in the foundations laid in the last two decades or if it will revolve into a new, unprecedented system. All the while the energy sector, a remarkable source of wealth for Russia, is undergoing a metamorphosis of its own. ■



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Business elites of the Baltic Sea region

Expert article • 2383

The present and future of the Baltic countries to a large extent depends on business elites of these countries. Billionaire ratings of American magazine Forbes and Hurun Chinese Research Institute can give us empirical material for their study. The differences between these ratings are not only in the methods, but also in the fact that Forbes sets the number of billionaires among the citizens of the country, whereas Hurun presents the number of billionaires residing in the territory of the given country, regardless of their nationality.

According to Forbes, there were 2,208 billionaires with total net wealth amounting to 9059.6 billion dollars, whereas according to Hurun – 2,694 billionaires (\$10,573.8 billion) in 2018. Our calculations based on the Forbes rating shows that there were 123 billionaires (\$578.7 billion) in Germany, 101 (\$409.3 billion) in Russia, 32 (\$124.6 billion) in Sweden, 10 (\$43.7 billion) in Denmark, 6 (\$13.8 billion) in Poland and 6 (\$13.5 billion) in Finland in 2018. Analysis of the Hurun rating gives other information: 114 billionaires (\$501 billion) in Germany, 71 (\$314 billion) in Russia, 20 (\$70 billion) in Sweden, 4 (\$10.6 billion) in Poland and 4 (\$8.1 billion) in Finland. Both ratings show that main centers of capital accumulation in the Baltic region are Germany, Russia and Sweden. At the same time, the analysis of these ratings reveals that a significant part of Russian and Swedish billionaires, as well as some German, prefers not to live in their homeland. In addition, emigrated Russian and Swedish billionaires prefer to live in the UK, while German super-rich people in Switzerland. In contrast, Danish, Polish and Finnish billionaires turn out to be patriots who stays in their countries.

The Forbes data analysis shows that the average age of billionaires in Germany in 2018 is 63.7 years, Finland – 62.33, Sweden – 59.59, Denmark – 59.38, Poland – 56.2, and Russia – 54.91 years. Usually, lower average age of the business elite speaks of its dynamism, flexibility, and clear-headedness. In this regard, Russian billionaires have the best performance, while German – the worst.

The Forbes rating study reveals that among German billionaires number of women is 33 (26.83% of the country's total billionaires), Swedish – 4 (12.5%), Danish – 3 (33.33%), Finnish – 1 (16.67%), Polish – 1 (16.67%), Russian – 1 (0.99%). As we can see, the business elite of Denmark and Germany are approaching balanced gender structure, while the capitalist class of Russia is characterized by dominant masculinity. It is almost impossible for women in Russia to get into the upper stratum of the business elite. Usually, the balanced gender structure of the business elite means its flexibility and harmonious vision of the world.

An important characteristic of the business elite is its industry specialization. The Forbes rating analysis shows that German billionaires are characterized by an industrial-technological orientation (industry, construction, engineering, logistics, high technologies, etc.), while Russian billionaires are distinguished by their resource

economy orientation (oil, gas, metals, timber, etc.). This means that German super-rich people contribute to the development of Germany while enriching, whereas Russian nouveau riches turn the country into a resource colony of the global economy. Naturally, this leads to the decline of all major spheres of Russian social life – labor force, education, science, etc.

A serious feature of business elite is its property structure, particularly, the ratio of billionaires and millionaires. We can judge about the number of millionaires basing on the study of the Swiss Bank Credit Suisse. In 2017, per one billionaire there were: 35,167 millionaires in Denmark, 17,184 in Germany, 14,250 in Poland, 11,429 in Finland, 10,806 in Sweden, and only 1,375 in Russia. This proves that there is an oligarchic capitalism in Russia, whereas in other Baltic countries – democratic capitalism.

A very important characteristic of any representative of the business elite is whether it inherited its fortune or saved it by itself. In the latter case, we are talking about a self-made man or a self-made woman. From this point of view the Hurun rating assesses each billionaire on a scale from one to five, and thanks to this we can calculate the average level of self-made billionaires of each country. This figure for billionaires in Poland is 4.25, Russia – 4.14, Denmark – 3.3, Sweden – 3.25, Germany – 3.21, Finland – 3.07. The predominance of self-made billionaires speaks about high level of intellect, energy, initiative and disingenuity of the business elite.

The business elites of different Baltic countries have contradicting characteristics that will to a large extent determine place of these countries in the global capitalist system. ■



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Russian innovation system in the digital era

Expert article • 2384

The Global Innovation Index 2017 places Russia 45th (Finland, for comparison, is 8th) among 127 economies. The country ranks 43rd and 51st by the innovation input and output, respectively. According to this Index, the strongest components of the Russian innovation system are human capital and knowledge creation, while its weakest areas are the impact of knowledge on economy, innovation linkages, the political and regulatory environment, and investments (including venture capital).

The main indicator reflecting the status of an innovative system is expenditures on R&D as a percentage of a gross domestic product (GDP). For Russia, this indicator is just over 1%, compared to 2.03% in 1990, before the breakup of the Soviet Union. Currently, these expenditures exhibit a negative dynamic, decreasing from 1.19% in 2014 to 1.11% in 2016. In addition, in the last 7-8 years, the government allocations for R&D have been growing at a much higher rate than those by industry. If calculated as a percentage of total expenditures on R&D, the industrial investments have been declining over time. Russian companies prefer to acquire new technologies (typically abroad) rather than to develop their own. This leads to the technological dependence of the country.

During the last 3 years, the Russian government has introduced several strategic documents and instruments aimed at the development of the innovation system. These measures include the National Technology Initiative – NTI (2014), the Strategy for scientific and technological development (2016) and measures for its implementation (2017), and the “Digital Economy of the Russian Federation” Program (2017). All these activities are interconnected. The NTI is defined in the Strategy as the main tool for its implementation. The core goal of NTI is to enter several promising technological markets by 2035, with an intermediate 3-year milestone of developing new technologies for these industries. To reach the goal, the government suggests a policy mix: support of R&D, educational activities (starting from secondary schools), etc. The NTI and Digital Economy Program identify similar sets of breakthrough technological areas, which are deemed critical for the country’s economic progress. Most of these priority areas are centered on digital technologies (such as Big Data, virtual and augmented reality, neurotechnology, quantum technologies, advanced manufacturing). Making major advances in such technologies is important but may prove difficult because, according to McKinsey, Russia is highly dependent (up to 95-100%) on import of IT-equipment and computer software. According to the World Digital Competitiveness Ranking 2017, Russia is 42nd (Finland – 4th) among the 63 surveyed countries because the environment for technology development is unfriendly. Trying to make it better,

the Russian government has been promoting measures to stimulate knowledge and technology outputs. These measures include such instruments as

- Additional generous funding to strengthen university research;
- Matching grants to link university researchers and high-tech companies;
- Assistance to fast-growing companies to increase volumes of their export.

The most visible successes are in the university sector: today, professors and researchers publish more articles and in better quality journals. Many Russian universities have resources to invite leading foreign scholars, and the number of foreigners has more than quadrupled under the government program to advance at least 5 universities into the top-100 in world university rankings. Universities are also engaged in a competition-based program that seeks to link them with industry. The government subsidizes industrial enterprises to fund complex high-tech projects performed collaboratively with universities.

In the context of the NTI, more attention is given to companies that can become technological leaders at least on the national scale. As a result, the most recent instrument in the government innovation policy is focused on medium-size fast-growing technological companies. For these businesses to grow even faster and turn into transnational companies, the government started a pilot program called “Support of private high-tech companies-leaders till 2020” (“National Champions”), which currently includes 62 companies and provides them with individual, mostly non-monetary support (e.g., the assistance with using existing policy instruments; informational support and consulting; simplified export procedures).

Overall, the government continues to dominate the Russian innovation system. This has both positive (mobilization of resources for priority areas) and negative (weak horizontal linkages) effects. So far, however, the success in making the country more visible both in research and in commercial applications of new technologies has remained modest. ■



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Regulation of digital platforms in Europe: A stumbling block or a building block?

Expert article • 2385

The current European debate on regulation of digital platforms focuses on American digital platforms such as Google, Amazon, Facebook and Apple. There are no significant European digital platform businesses which are systemically as important as US platforms. This has contributed to rhetoric on unfair practices, lack of accountability and empowerment of consumers. Debate has become more political as mainstream politicians such as French President Emmanuel Macron have discussed publicly the need to enhance fairness and to regulate platforms. The European Commission has proposed a new tax on revenues of large digital companies.

It is an ironic twist of fate. Ten years ago content providers such as Google and Facebook were behind regulatory efforts aiming to establish network neutrality regulations in Europe which tried to curb the market power of network operators. As network neutrality was never seen just about technical issues in data management, but concerned human rights and freedoms, then digital platforms often had the moral high ground. Some European politicians did not hesitate to support business interests of digital platforms and demanded tougher network neutrality regulations while others were reluctant.

It is much easier for European politicians to make a stand now. Ten years ago content providers, or today's dominant digital platforms, pushing for tougher European network neutrality regulations were American while network operators were European telecom companies. Even Skype, a leading European activist in network neutrality debates, was acquired by Microsoft in 2008 making it an American actor. Now the bad guys are American.

These American platforms are seen as dominant, if not abusive, gatekeepers in multi-sided markets which benefit from extraterritoriality, network effects and information asymmetries. Policy-makers are concerned about the digital platforms' questionable content management policies, algorithmic discrimination, abuse of personal data, conflict of interest in managing different business relations, lack of transparency in its operations and, last but not least, tax optimization schemes.

Whatever new regulations are implemented as a result of current push to constrain the dominant platforms, they cannot keep up with digital cycles. This is well demonstrated by the EU Commission's actions against Microsoft as well as Google. As financial regulators always tend to regulate the last financial crisis, then regulators of digital companies tend regulate foregone business models which is likely to be defunct once regulations have been implemented.

Even more importantly, new rules targeting US platforms may have unintended consequences. The expansion of Chinese platforms into Europe may become easier. Chinese platforms have different growth model by focusing on horizontal expansion into different business fields while US platforms have grown by vertical integration.

Finnish game developer Supercell, Estonian ride-sharing company Taxify and Swedish music streaming platform Spotify have recently attracted investments from Chinese digital platform groups such as Tencent. According to McKinsey & Company, the share of China in global e-commerce has reached 42 percent while it was below one percent ten years ago. While the future is uncertain, we cannot rule out that a different debate focusing on risks of technology transfer and security will emerge as a result of expansion by Chinese platforms.

The regulatory overreach may also end up by throwing baby out with bathwater. Dominant US platforms may stop offering certain services or abandon altogether some small markets. As many digital companies may need platforms for growth, then European businesses and platforms may find it harder to grow as a result of constraints imposed on the US platforms. Larger companies have more resources available for regulatory compliance than smaller companies. This, in turn, may encourage monopolization of digital ecosystems. As European platforms such as Spotify become more successful, then new regulatory rulebook may also impose limits on realization of their potential.

At the same time, heavy reliance on self-regulation of digital platforms in Europe is not a feasible option anymore. But top-down regulation by enforcing existing and creating new rules may lead to significant barriers in developing the EU Digital Single Market.

Policy-makers have to explore alternatives such as co-regulation, which incentivizes cooperation between governments and digital platforms. For instance, Airbnb already helps Portuguese government and French municipalities to collect taxes. In game theoretic terms, battle of the sexes game with coordinated multiple equilibria should be played out in the EU regulatory game rather than the prisoner's dilemma with suboptimal outcomes. Regulation should serve as a building block in digitalization of Europe and not to become a stumbling block. ■



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Digital economy: The case of Belarus

Expert article • 2386

The digital economy is one of the polar themes of the development of the world community and economies. Each country is on its way in the process of building a digital economy. Belarus has also begun to move in this direction, which is confirmed by the adoption of the Decree of the President of the Republic of Belarus No. 8 "On the development of the digital economy". The document creates unprecedented conditions for the residents of the High Technologies Park and gives serious competitive advantages to the country in the creation of the digital economy of the 21st century. It is supposed that by the decree's norms by 2030 the number of employed in the domestic IT sphere will grow from 30 thousand people to 100 thousand, foreign investment and Revenues from exports will increase 5 times. The decree is of an experimental nature (it will be effective until January 1, 2023) and is designed to ensure the existence of an appropriate legal regime within the framework of the HTP (High-Tech Park). According to the head of state, the main goal of the document is to create such conditions that the world IT companies would come to Belarus, open their representative offices, development centers and create a popular product in the world. The second goal of the decree is to invest in the future. This is IT personnel and education. The third is the introduction of the latest financial instruments and technologies. Leading economies of the world are only just eyeing this new phenomenon. Belarus is actually the first state in the world, which opens up wide opportunities for the use of blockade technology. We have all chances to become a regional center of competence in this area, - said Alexander Lukashenko.

The main provisions of the Decree include the following:

1. To extend until January 1, 2049 the validity period of the special legal regime of the High-Tech Park, while maintaining the principle of extraterritoriality, in addition granting the residents of this Park the right to exercise in the established order: educational activities in the field of information and communication technologies; activities in the field of e-sports, including the preparation of cybersport teams, the organization and conduct of competitions, the organization of their broadcasts; activities in the field of artificial intelligence, the creation of systems for unmanned vehicle control; other types of activities.
2. To create conditions for the introduction into the economy of the Republic of Belarus of the technology of the register of transaction blocks (block), other technologies based on the principles of distribution, decentralization and security performed with their use operations.
3. To grant privileges and preferences to the participants of the relations connected with the use of modern technologies.
4. Take measures aimed at increasing the legal protection of participants in relations associated with the use of modern financial technologies.
5. To conduct a legal experiment within the Park of High Technologies for approbation of new legal institutions with a view to their possible implementation in the civil legislation of the Republic of Belarus.

The previous document had been in operation for more than ten years. During this time, many technologies and activities appeared, which were not stipulated in the previous Decree. For example, crypto-currencies, block, sale of applications and embedded products through digital distribution services. The new Decree was just supposed to bring everything in line with the current picture of the world, in which cyber-sportsmen can earn more top-managers of banks, and money with the help of mining is made literally from the air. All this activity was required to provide for the legislation and legal protection of users. The new Decree is aimed at the development of product companies, that is, those who develop their own applications, and do not write the code for outsourcing. Stimulate their activities are proposed by the following measures: VAT exemption, which appears in foreign companies when providing marketing, advertising, consulting and some other services to HTP residents; zero tax rate on income of foreign organizations in relation to income from the alienation of shares, shares in the authorized capital, shares in the property of HTP (subject to continuous possession of not less than 365 days), as well as royalties, income from providing advertising services and certain other income, paid to them by HTP residents. Introducing a smart contract into the legal field of the Belarusian legislation and granting the right to carry out through its fulfillment and (or) execution of transactions, Belarus becomes the first country in the world to legalize smart contracts at the country level. ■



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Project of fluency cross-border car traffic on South-East of Finland

Expert article • 2387

One great Success and a story of cross-border fluency development project

City of Imatra got in 2017 on 30th of November a prestigious Quality Innovation Award "Honorary Mention in the category of potential Innovations" from **The Finnish Quality Association**. In a Jury of the Award there were authoritative members e.g. from **VTT** (*Technical Research Centre of Finland Ltd. which is one of the leading research and technology organizations in Europe*), **Tekes** (*The Finnish Funding Agency for Innovation: the most important publicly funded expert organization for financing research, development and innovation in Finland*) and **ETLA** (*The Research Institute of the Finnish Economy: a major Finnish think tank for economic, policy and social studies, financed by employers' organizations*).

First steps

In the beginning of 2016, the Regional Council of South Karelia launched a financing search in the theme of "Regional innovation and Experimenting". This organization chose our cross-border project to one of the funding objects. Core of our project is to be innovative by experimenting new methods quickly and hassle-free manner (agility methods) and thus keeping the possible failure costs in extreme low.

First focus of the Project was to create a database system whereby cars drivers (who intend to cross the border from Finland and vice versa from the Russia to Finland) will get information on mobile phone, what is total throughput time in border just now and also a prognosis. This later information will be obtained because cars drivers are asked on the phone screen to record the time they planned to arrive at the border. With help of real time and prognosis information cars drivers can make decision what is the best time to come to the border. This is not any queueing number system because it's not allowed (only to lorries) by Schengen border Agreement. This system has not any connections to the border authorities systems and will not engage/employ border authorities. Border authorities – if they will - can exploit prognosis information of cars recorded to this mobile information database.

Following steps

Solutions of this first project received a good feedback from the European Regional Development Fund agencies in Helsinki. This funding organization decided to support extension development. Objectives are (readiness degree-% in 5th of March 2018):

- develop a trusted digital insurance database for Russian cars. This will eliminate potential false insurance documents that the Finnish customs authorities notice sometimes when checking insurance papers of incoming cars: (80%)
- create a digital mobile platform for entrepreneurs in South Karelia to enable them to advertise services and goods to passengers who are coming to Finland: (60%)
- To show on the mobile phone screen that Finnish car vehicle inspection date and vehicle tax paying are both validity. If these are not ok, car owner cannot drive through the border: (30%)
- digitize obligatory documents needed in Russia. These documents (arrival card and customs clearance form) are still on paper form. This

will also streamline the cross-border process. This last aim will need consultation between Finnish and Russian ministries: (10%)

Summary of cross-border digital project

In 11 th of January in 2018 it was published Beta version to Android phones of cross-border traffic application of this extension project. Now it will be tested and further developed with help of over 1100 participants. Of them 65% are Russian people. To sum up this developing project it is based to customer perspective, service design and the way of proceeding with quick agility method. By testing our application with a quite big testing group it has been possible to get both immediate feedback to improve application.

There are three free Wi-Fi base stations in the border zone of Finland and one in the Russian side where is also one traffic camera. These technical devices meter total throughput time but will also report from database what were the waiting periods in each different checking point in the border zone. People can also watch camera pictures on the phone screen. It has also been formed Facebook groups both in Finland and also in Russian to get feedback in application.

We will believe that throughput information offered on mobile phone screen will attract Russian travelers to come to Finland by utilizing Svetogorsk -Imatra border. Same metering information will help also Finnish people to decide when to leave to Russian border. Application platform allows entrepreneurs possibility to offer services and goods to Russian travelers' mobile phones. Frauds will be removed from traffic insurance documents by digitizing paper documents.

Our open architecture cross-border traffic fluency system could also be copied to other Finnish and Russian cross-border areas. ■



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MINNA SÄPYSKÄ - AALTO

The hunt for cross-border startups

Expert article • 2388

First, let's face the fact: 90% of the startups fail. One of the biggest reasons for this is that they make products nobody wants. Other top reasons for failure are a lack of sufficient capital (29%), an assembly of the wrong team for the project (23%), and superior competition (19%). Cold statistics like these are not intended to discourage entrepreneurs, but to encourage them to work smarter and harder.

Startups and the ecosystems they evolve in are usually internationally oriented and the mindset of startups is often "go global". In the end of the day, the solidity of a team determines the success of the business idea and getting the right people in to the core team is very crucial. However, there are no "forced marriages" and therefore the assembly of the team has to happen quite intrinsically.

In our Baltic Entrepreneurship Laboratories (BELT) project, partly financed by the Interreg Central Baltic Programme and launched in 2015, the main goal is to create five new cross-border startups in the Central Baltic region. Keeping the aforementioned facts about startup development in mind and adding the cross-border demand set by the Central Baltic Programme, the starting point of the project was not surely a walk in the park. Despite the statistics, the curiosity to see whether it can be done or not was bigger than the fear of failure.

Multinational startups do exist and they can evolve and become big players on a global scale. A good example and globally known success story is Skype developed in Estonia by three programmers, Ahti Heinla, Priit Kasesalu and Jaan Tallinn, and later founded by Swedish-born Niklas Zennström and Janus Friis from Denmark.

The BELT project has provided tools and opportunities to tap into open innovation processes and lean startup methodology. The central hypothesis of the lean startup methodology is that if startups invest their time into iteratively building products or services to meet the needs of early customers, they can reduce the market risks and avoid the need for large amounts of initial project funding and expensive product launches and failures. The lean startup methodology has been put into action in four BELT BootCamps – intensive three-day startup camps during which the startups were coached in business plan development, product-market fit assessment, team synergy etc. Over the last three years, there has been over 150 participants and over 60 startups or teams from Latvia, Sweden and Finland in the BELT BootCamps, bringing together startups dealing with a variety of business ideas from smart mobility to different technology solutions.

The BELT BootCamps have evolved along the way and they have been iterated throughout the project based on the feedback from the participants. Consequently, the same lean startup methodology with a build-measure-learn loop has become the guiding principle in all BELT BootCamps and in the whole project.

The first established cross-border startup was born in the very first BELT BootCamp in Jurmala, Latvia. There two random persons met and started to work on an idea as a team. Today, Memocate is an operating startup which has finished two funding rounds and has grown from a two-person team to a group of eight people. They have

tested their product with customer groups and are eagerly looking for new test groups and plan to expand to new market areas. Besides Memocate, there are couple of other promising startup teams that have proceeded during the BELT project. They are still working on their business plans, building their products or searching for right team members and hopefully the last push can be given to them during the last BELT BootCamp in Tampere, Finland mid-April 2018.

To create cross-border startups is very difficult and in order to succeed many things need fall into place. If the team is solid but the team members are scattered all in different countries, the communication must be efficient. Even Skype does not entirely solve this challenge. Product or service development is crucial part of progress and it can be very tricky in a cross-border team. When the moment of actual establishment of a company becomes a reality, the startup registration procedure varies from country to another. Finding the most advantageous option requires good knowledge of legislation of different countries.

In addition to promising cross-border startups, the BELT project has managed to create an active cross-border network of entrepreneurship-minded people and startups who actively utilize the network. In addition, The BELT BootCamp participants have learned different methods and tools they can utilize in different stages of business development. Moreover, they have the connections to the BELT business coaches who can always guide the startups onwards. ■



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Immigration and the Swedish labor market

Expert article • 2389

The refugee-crises of 2015-16 put Europe and the EU under great deal of strain, and the migrant inflow combined with lingering negative employment effects from the last financial crises have brought many anti-EU and anti-immigration parties directly or close to power. In Sweden, which came out of the economic downturn relatively well, the anti-immigrant party "Sverigedemokraterna" are currently the third largest party and may well gain even more in the upcoming September elections. After all, a net inflow of 750 000 people since year 2000 is major change in society, and that such a development would not generate some type of backlash is unrealistic. Even though we may now be heading towards a period of more restricted immigration policies (to some extent this has already happened), two fundamental forces suggest that the pressure and large population flows from current sending regions will continue.

The first is – of course – the demographic transition, sweeping across the globe at a varying pace but with similar consequences. Much of the Middle East and Africa are now experiencing the equivalent of what Europe went through during the 19th and early 20th century: a sharp rise in the share of the young adult population (due to a drop in infant mortality), contributing to both social unrest and large migration outflows. Over time, as has been the historical pattern, fertility will most likely drop in response to lower infant mortality, but these are by no means fast-moving social developments.

The second force is climate change. Among leading climate scholars, there is little doubt that the world will be very hard pressed managing the IPCC benchmarks for a limit of average warming at two degrees Celsius. Even at two degrees, however, most scenarios suggest that the regions from which we currently see large migration outflows will become decisively less habitable.

So, regardless of short term political developments, we are probably well advised to adopt a long-term perspective on how society and labor markets can better adapt to a high-immigration context. In Sweden, as elsewhere, there is an ongoing debate on both the causes and solutions to lower employment among the foreign-born, a gap currently at about eight percentage points (with large variation in-between groups). Roughly, this debate evolves around the role of racism and employer discrimination, the necessity of lowering minimum wages to create more low-skilled jobs, and the extent to which educational investments can sufficiently solve the problem.

There is no doubt that prejudice against foreign born of various backgrounds is a problem. At the same time however, lower levels of formal education among many immigrant groups, and the quality of education in many sending countries are clearly important (if racism in general was the most important factor, why would the employment gap be much smaller for foreign-born with higher education, and especially those with Swedish degrees and diplomas?).

The role of formal education is not overly controversial, but the quality of education in sending countries has received much less attention. In OECD's latest "Survey of Adult Skills 2015" for Sweden (PIACC), respondents whose education stem from North or Sub-Saharan Africa or the Middle East came out significantly lower on average. Further, in terms of employment and income, there was little difference between immigrants and the Swedish born population when controlling for test results. This outcome thereby points to discrimination as less important in explaining differences in employment, and that lack of education is the main cause of this.

Two factors should however suggest caution in putting all faith in educational measures when trying to close the gap: Firstly, such different policies have been tested for a very long time, with mixed results. Second, having grown up in much less developed parts of the world, acquiring a modern secondary level education in a new foreign language is by no means easy. A recent report by the Delegation for Migration Studies (Delmi) shows that among unaccompanied minors aged 27, who have thereby resided in Sweden at least ten years since arrival, less than 20 percent have achieved a three-year secondary education (basically a requirement for Swedish labor market entry). These figures are not too encouraging; according to Swedish Public Employment Service, around half of those granted asylum since 2015 have compulsory nine-year education or less.

The upcoming elections seem likely to result in an unclear parliamentary situation, with neither the left nor right gaining a majority. Given that many, mostly on the left, see large needs for both tax increases and public investments of different kinds, while a large share of those on the right see a lowering of minimum wages as a way to address the immigrant employment gap, could there be room for a coming trade-off on this matter? The status quo is no alternative. ■



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JARI HÄNNINEN

Changing environment of the Baltic Sea should be recognized in the future resource management activities

Expert article • 2390

As is well known, the political balance of the Baltic Sea has spent restless times during the last years mainly due to its strategic position between east and west. Since the 1980s, the rapidly changing situation has been a reality for the environmental condition of the sea as well. The reason for this has been the global climate change, which influences especially the exceptional characteristic of the Baltic Sea – the salinity content of the brackish seawater. The changing environment should be better recognized in the future management activities of the sea.

Practically all the water in the Baltic Sea derives from the North Atlantic Ocean. Salinity in the Baltic Sea is maintained by seawater intrusions from the North Sea through the Danish Straits. Freshwater, on the other hand, is first evaporated in the Atlantic, after which it enters the catchment area via precipitation and finally reaches the Baltic Sea as river runoffs. Our research has shown that major oceanographic events in the Baltic Sea, such as the reduced frequency of saline water pulses, are regulated by increased river runoff from the Baltic Sea watershed. Anthropogenic changes in the climate over recent decades have increased the precipitation in the Baltic catchment to give a positive water balance, i.e. more fresh than saline water reaches the Baltic Sea, and the surplus fresh water flows continuously out into the North Sea, hindering saline water intrusions from the Atlantic at the same time. These events have resulted in decreased seawater salinity and further changes in the biodiversity of the sea as the salinity of water is the ultimate controlling factor of faunal and floral composition and distribution in the Baltic Sea. Regional modelling exercises for the Baltic Sea have anticipated that the progress will still continue for decades in the future. This newly developing Baltic Sea ecosystem, originated in climate change and characterized by reduced seawater salinity, will encourage invading species from the relatively fresh waters of the Gulf of Finland and Bothnian Bay while several seawater species simultaneously are expected to retreat south-west, and some of them may even disappear from the Baltic Sea.

Since coastal brackish water areas are central to the well-being of several aquatic and marine species, some of which are commercially important, the issue of an expected increase of freshwater runoff and decreased salinity in the northern Baltic Sea deserves attention. This is especially important for management activities, especially in fisheries. In the Baltic Sea, freshening of the water has caused both qualitative and quantitative changes in fish fauna due to changes in the planktonic community, which further have changed the diet of the most important commercial fish, the Baltic herring. As a result the herring is starved and due to this we have demonstrated some 25% decrease in body length in the northern Baltic Sea. This must affect the energy flows and ecological interactions among the species in the ecosystem, not to mention the consequences for the fisheries and fish processing industry. By now, the commercial fish catch in the Baltic Sea is about 700,000 tons annually. The majority of the catch consists of marine species: herring, sprat and cod. Of these,

herring will most likely retain its distribution and dominant position in the pelagic ecosystem even in the northern sea areas, but its body size will remain constantly small, keeping also the stock biomass low. Modelling has anticipated that during the next 100 years, the other marine fish species will gradually disappear from northern Baltic Sea catches with the extension of the decreased salinity range from north to south. For the fishing industry the consequences of this development will be problematic in the future.

Speculatively, a combination of physical, chemical, and biological environmental changes may turn any one of above mentioned species into a key species that will profoundly affect the ecology of its habitat. We need a heightened, more sophisticated approach to monitoring than exists currently. For example, the ecosystem approach of the European Union's Marine Strategy Framework Directive, MSFD (2008) could be a basis for development. The MSFD is intended to promote sustainable use of the seas and conserve marine ecosystems. The main objective is to reach and maintain Good Environmental Status (GES) in Europe's seas. GES is described by e.g. biological diversity. We emphasize that with advancing climate change, salinity changes are likely to affect the biodiversity of brackish water environments. This should be accounted for in future monitoring program designs, and these program designs need to be adapted accordingly.

Archipelago Research Institute (ARI) of the University of Turku is the only university-level field station at northern Baltic Sea possessing research vessels and other long-term monitoring equipment for marine ecological and oceanographic studies in the Archipelago Sea. The time series collected at the station date back to the start of regular environmental monitoring in Finland in early 1960s, and have now continued unbroken more than 50 years. The long term environmental data collected at the institute has been a basis for developing the current status of the ARI as one of the leading institutes in environmental long term data modelling directed to explain the Baltic Sea ecosystem functioning. Our monitoring history has shown that stable and regular observation of natural phenomena with fixed methods is the only way to reveal slowly occurring changes or effects of abrupt disturbances in marine ecosystem. ■



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LAURI PALTEMAA

Finnish economic relations with China: Trends and risks

Expert article • 2391

Finland has one of the longest histories of economic relations with the People's Republic of China (PRC) in Western Europe. Finland and the PRC established diplomatic relations in 1951 and signed a trade agreement in 1953 – during the time of the Korean War when most Western countries had placed the PRC under trade embargo. Although during the Mao-era (1949-1976) trade between the two countries was rather small in quantity and consisted mostly of Finnish paper and pulp exchanged to Chinese soy beans, the fact that Finland had long trade relations with the PRC was a good starting point for growing economic ties when the economic reforms began in China in 1979.

Since 2010, Finnish exports to China (including Hong Kong) has fluctuated between 5.5–7 percent of Finland's total exports. This made China the sixth largest export destination for Finland and the third largest country of origin in imports in 2017. The most important items in Finnish exports to China are forestry products and machinery, while Chinese imports consist mostly of electronics, consumer products, clothing, and for example toys. In this Finnish import profile is quite typical to other Western economies, which have relied increasingly on outsourcing their consumer products manufacturing to China. In 2017 Chinese imports constituted about 7 percent of total Finnish imports, but only 0.14 % of PRC total exports. As one might expect, Finland has no economic leverage over China.

In relative terms, Finland is one of the most active trading partners with China in the EU. It is also notable that in the EU the Finnish exposure to Chinese markets is second only to Germany. Currently, the PRC is also the third largest destination country of Finnish outbound investments. This makes Finland relatively more vulnerable than most other EU countries to China using trade issues as leverage in bilateral relations. The PRC has demonstrated its ability and willingness to use trade as leverage in its foreign policy. For example, the Philippines suffered a ban on banana imports to China for "health risk" reasons after an unfavorable court ruling for China in the South-China Sea dispute in 2016. There are no reported similar cases concerning Finland or Finnish companies, but due to its exposure Finland would make a soft target for Chinese pressure should a need arise. In the EU context, Finland is already regarded as being "soft" on China which has manifested itself for example in the Finnish government's willingness to lift the EU arms embargo on China and low profile in human rights issues. To underline the good bilateral relations, in an act of "panda diplomacy" China rented two pandas to a Finnish zoo in 2017.

Finland's economic reliance on China is increased by the boom in Chinese inbound tourism. Currently, Chinese tourism grows extremely fast in Finland: by about 30 % in 2016, and about 60 % in 2017. In addition to this, the Finnish national airline Finnair has based its business strategy on being the fastest route provider between Western Europe and East Asia. China is naturally a key to this strategy. While the strategy appears to be working well at the moment, it also exposes Finnish service trade to China risk.

Since around 2010 Chinese companies have started to invest abroad increasingly. So much so, that in 2015-2016 China invested more abroad than was invested in China, which is a historic change. Altogether, Chinese companies invested abroad about 800 billion USD in 2010-2016. Only a small fraction of these investments have targeted Finland, or Finland has otherwise indirectly become part of them. In 2016 only 16 Chinese subsidiaries were operating in Finland (out of about 4250 foreign subsidiaries in total) and the largest one of them was Volvo which is owned by the Chinese car company Geely. Like Volvo, about half of the Chinese subsidiaries in Finland were classified as retailing companies. Chinese investments are therefore still relatively small in Finland. However, there are two noteworthy aspects to these investments. First, the most recent investments clearly target Finnish high tech companies in IT, automotive, electronics, and maritime technology sectors. For example, the Chinese IT giant Tencent bought Supercell, a Finnish computer game company and National Silicon Industry Group (NSIG) bought a Finnish silicon disc manufacturer Okmetic in 2016. Further, a 22% share in Valmet Automotive was bought by Chinese CATL interested in lithium battery development. Nevertheless, apart from the Supercell deal, these investments have been relatively small in size and their impact to Finnish economy therefore limited.

Second, there is the prospect of large, or mega scale, Chinese investments in natural resources and transportation sectors in Finland. A Chinese company, Kaidi, is planning to invest in biofuel production in Kemi, and another Chinese company, Camce, in Kemijärvi for cellulose. These investments would be relatively large, nearly 1 billion € each, but they are dwarfed in comparison to two speculative infrastructure mega projects, which are under consideration by the Finnish government, Norway, Estonia and private companies: the Arctic Railroad (2-3 billion €) and Helsinki-Tallinn railway tunnel (c. 10 billion €). Both of these are expected to attract Chinese investments and the Helsinki-Tallinn railway tunnel has already a private alternative planning project undergoing which includes Chinese actors. The economic profitability of such mega projects is uncertain, as is Chinese investments in them. Nevertheless, should any of the projects be realized with Chinese funding they would expose Finland to Chinese influence far more than before. ■

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SUN YAN

China-CEE cooperation and China-EU relationship: Background, progress and outcomes

Expert article • 2392

Cooperation between China and Central and Eastern European (CEE) Countries, also simplified as “16+1 Cooperation”, refers to the cooperation mechanism between China and 16 countries in Central and Eastern Europe including Baltic countries of Estonia, Latvia and Lithuania, the Balkans comprising Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Republic of Macedonia, Montenegro, Romania, Serbia and Slovenia, and four Visagrád Group countries of Hungary, Poland, the Czech Republic and Slovakia, which was established six years ago in 2012 with the 1st China-CEE Countries Summit held in Warsaw of Poland. Since then, there have had five summits of leaders from China and CEE countries being held respectively each year in Bucharest of Romania (2013), Belgrade of Serbia (2014), Suzhou of China (2015), Riga of Latvia (2016) and Budapest of Hungary (2017). Important outcomes of these summits, the Bucharest Guidelines for Cooperation between China and CEE Countries, the Belgrade Guidelines, the Suzhou Guidelines and the Medium-Term Agenda for Cooperation between China and Central and Eastern European Countries, the Riga Guidelines and the Riga Declaration on Infrastructure and Equipment Cooperation at the Adriatic-Baltic-Black Sea Seaport...all of these lay the foundation for China and CEE cooperation mechanism.

Though there always has been doubts and suspicions to the cooperation between China and CEE countries in the past six years, especially those groundless concerns that “16+1 Cooperation” would be not good to Europe, we have to witness beneficial (for both Europe and China) and encouraging achievements in so many practical fields such as economy and trade, agriculture, transportation, science and technology, education, culture, tourism, health, think tanks, local exchange and youth. Besides, both 16 countries from Central and Eastern Europe and China have the willingness to build up this mechanism, working as a platform, for policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond, in order to realize mutual development and promote growth. Created at the time when Europe was confronted with financial crisis, sovereignty debt then refugee problems, this cooperation mechanism not only brings stimulus to the development of Central and Eastern Europe but also helps enhance economic performance of this region, which promotes balanced economy and development of Europe as a whole and has been conducive to the process of European integration. Based on the facts above, China-CEE cooperation is an important part and necessarily beneficial complement to China-EU cooperation within the framework of China-EU comprehensive strategic relationship and has promoted the development of China-Europe relations.

Take the following as an example. Back to 2012 when China-CEE cooperation mechanism was created, China promised 10 billion US dollars as special concessional loan to Central and Eastern European countries for cooperation in infrastructure, high-technology and green economy. In November 2016, the financial joint venture of Sino-CEEF Holding Company Limited was founded. The new company would initiate a Sino-CEE fund focusing on investment cooperation in infrastructure, high-tech manufacturing and mass consumption industries with an expected size reaching 10 billion euros. This will provide financial services to promote development of the above mentioned fields in CEE region, especially non-EU countries in Western Balkan region, which can definitely benefit European integration and balanced development in Europe.

In the past six years, outcomes of China-CEE cooperation have kept achieving in many fields from trade and investment, infrastructure to culture and people-to-people dialogue. Take the alignment and coordination of development initiatives and strategies as an example. Up to now, China's Belt and Road Initiative have worked together to cooperate and coordinate with the following development policies and projects of European countries including European Union and Central and Eastern European countries such as Juncker's Plan (new investment plan for Europe), the EU Strategy for the Danube Region, “open to the east” policy of Hungary, Amber Road frameworks of Poland, Three Seas Initiative by Poland and Croatia, etc. Coordination and cooperation of these policies and projects strengthen strategic cooperative relations between European Union (including CEE countries) and China and push forward to obtain win-win results.

Three outcomes are quite practical and outstanding. The one draws the highest attention is trade and investment. In the past six years, trade volume between China and CEE countries have steadily increased from 43.9 billion US dollars in 2010 to 58.7 billion US dollars in 2016, equivalent to 9.8% of the total volume between China and Europe. Meanwhile, investment to each other kept expanding with, in cumulative terms, over 9 billion dollars investment by Chinese companies in the 16 CEE countries and more than 1.2 billion US dollars investment by the 16 CEE countries in China.

The second outcome should be mentioned is the cooperation of infrastructure development, including construction of railways, roads and highways, logistics and warehousing facilities, power stations... which combines China's equipment, Europe's technology and the markets of CEE countries. For instance, in order to boost inter-connectivity, transport routes between Europe and Asia are under development including constructing the new channel of the Asia-Europe joint sea-and-rail transportation (the China-Europe Land-Sea Express Line), developing Europe-China international railway

container traffic, establishing multi-modal logistic centers in CEE countries and throughout the whole Eurasian Land Bridge areas, improving the international supply chain and border crossing rules on the transport corridors. The China-Europe freight trains made over 6,000 trips, reaching eight cities in four CEE countries, freight trains by China Railway Express from a city in Southwest China to Poland only take 12-15 days for 9826 km. And rail transport is environment friendly.

The third outcome is people-to-people exchange and cooperation, which has become increasingly dynamic evidenced by such popular events as the Year of Promotion of Tourism Cooperation, the Year of People-to-People and Cultural Exchanges and the Year of Media Cooperation between China and CEE countries. The "16+1" cultural coordinating center and a youth development center will be established. To expand educational exchange, China will provide no less than 5,000 government scholarships of all kinds to CEE countries in the coming five years.

In conclusion, China-CEE cooperation has shown dynamic and achieved win-win results which eventually contributes to China-EU comprehensive strategic partnership. ■

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China's 16+1 platform and the Baltic States

Expert article • 2393

Since 2012 China has shown increasing interest towards East and Central Europe (CEE). In essence, Beijing aims to institutionalize its relations with regional states. The project has been named the 16+1 initiative and it targets sixteen CEE countries, including the Baltic States.

Countries such as Poland, Czech Republic, and Hungary have embraced China's growing role and accepted promises of increasing economic cooperation. They have done this amid voiced concerns from the institutions of the European Union and Western press, who worry that the aim of China is to undermine European coherence.

After 2012, nonetheless, the actual economic output of China has been all but substantial. This has left some of the 16+1 countries disappointed. Hungary, for instance, supported China in the South China Sea dispute and blocked the European Union from participating in a joint letter condemning the mistreatment of lawyers under policy custody in China. Despite the political support, Hungary has yet to benefit from China in any meaningful way.

The 16+1 countries face the risk of detracting their relations with the West, while not making economic headway with China. Despite the hitherto low level of economic engagement, Chinese politicians and rightwing populists in the 16+1 countries insist that China is a major player in the region. The latter also embrace Chinese style authoritarian model of governance and claim that this potentially saves white Christian Europe from Brussel elites, moral decay, and immigration.

The Baltic States

Amid these developments, the role of the Baltic States within the 16+1 platform has raised little international attention. This can be attributed to the fact that they have had little economic ties with China. In a sense, the Baltic States began building their relations with China from scratch in 2012.

According to the New Silk Road initiative, the Chinese have been keen in investing in logistics and infrastructure of the Baltic region, which has suited the Baltic States. Latvia's particular interest remains in the ability to service transit cargo flows. Lithuania and Estonia have in addition promoted the potential for "high-tech" cooperation. Estonia, especially, has advertised herself as a regional e-commerce distribution center and a digital pathway for China to Nordic markets. These solutions are hoped to supply China's growing e-consumer market that seeks to increase trade with European domestic markets.

To succeed in this, the Baltic countries have increased their visibility in China by participating in the diplomatic efforts of Beijing. Chinese state media has increasingly displayed Baltic politicians praising China and economic cooperation potential. Tallinn Deputy Mayor Aivar Riisalu, for instance, was recently quoted in Xinhua news stating that "Estonia needs strong and big partners and the new market for Estonians is China".

Consequently, in their dealings with China, the Baltic States have supported the so called one-China policy. Key word in descriptions of bilateral relations by all parties remains "practical", which underlines the economic dimension of cooperation, in contrast to any ideologically driven political discussions.

Outcomes and Outlooks

The main obstacle for cooperation with China for the Baltic States is their small domestic markets. The largest recipient of Chinese investments is Lithuania (10 million euros / 75% of Chinese total investments in the region, 2014). Estonia comes in second (2,8 million euros, 2014). Latvia, with three of the largest ports and biggest airport in the Baltics, receives the least Chinese investments (0,4 million euros, 2014). In all three countries, nevertheless, China ranks low among foreign investors.

Regarding major infrastructure projects, EU legislation and Chinese trading terms are a poor fit. Despite this, rumors continually link China into major infrastructure projects in the region. Most recent ones suggest Chinese investors buying the Estonian shipping company Tallink. The investment is connected to the Helsinki-Tallinn tunnel project of which there are two bids: a Finnish government initiative and a Chinese investment group proposal.

In all, the Baltic States have apparently succeeded in what many of the 16+1 countries have not: they have been excluded in discussions outlining concerns of China's activities; either haven't they used China as a leverage in their dealings with the European Union. Instead, the Baltic States have developed bilateral relations without excessively compromising European coherence.

The prevalent view in the Baltic States seems to be that in remaining outside of the China-related concerns, they can strengthen their position as intermediaries between China and the West. For small countries this would be no insignificant diplomatic accomplishment. For Beijing, the talk of successful economic cooperation with new countries is yet again further evidence of China's growing soft power. ■

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BALTIC RIM ECONOMIES

Pan-European Institute

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