

BALTIC RIM ECONOMIES

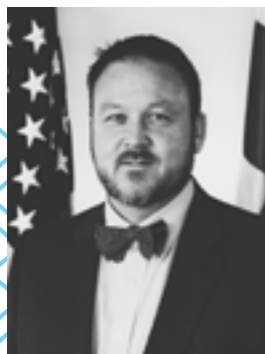
ILKKA SALMI

Baltic Sea Region
and security
cooperation



SHAWN WADDOUPS

U.S. Baltic
Sea Region
engagement:
What's changed?



MATTI POSIO

One thing missing
in Finland



ALEXEY KUZNETSOV

FDI geography:
cultural proximity
vs. geopolitical
barriers





BALTIC RIM ECONOMIES

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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Léo Pignol & Sonja Lavonen

University of Turku
Turku School of Economics
Pan-European Institute
Rehtorinpellonkatu 3
FI-20500 TURKU, Finland
Tel. +358 29 450 5000

www.utu.fi/pei

bre@utu.fi

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VYTAUTAS BAKAS

Lithuania's strive for energy security

Expert article • 2509

Having suffered a nearly 50-year-long occupation, Lithuania has, over the recent 29 years of its independence, built a competitive market economy, become a member of the EU and NATO, and continues to build a welfare state. Ensuring energy security was and continues to be a major challenge on this road. The following are some of my thoughts on the ways energy resources can be turned into weapons used against sovereign states.

Lithuania is among the countries which import almost 100 % of their fossil fuel. The country has also been struggling, ever since its independence in 1990, to secure energy supply. In times of the Soviet occupation, Lithuania, much like the other Baltic States, was forced into isolation from the rest of Europe, and so was its energy infrastructure, including its oil and gas pipelines and power grids. For many years, even after its accession to the EU, Lithuania remained an energy island which was heavily dependent on Russian energy supply.

Due to its pro-Western path of integration, Lithuania has for many years, been subject to Russia's energy pressure exerted through Russian state monopoly corporations, established in each energy sector and controlled by the Kremlin. The weapons of exerting pressure in the energy sector involve constant disruption of energy supply, price manipulation, and forced selling of energy infrastructure. The monopoly corporations create various sophisticated schemes involving intermediary energy suppliers, which are being exploited to bribe the political elite, civil servants, the academia and the media.

By causing oil supply disruptions and manipulating oil prices, Russia has, for years, exerted pressure on Lithuania in an effort to take over the Lithuanian oil refining infrastructure. When eventually those efforts failed in 2006, Russia cut off oil supply to the Lithuanian oil refinery.

Over the years, Gazprom, a Russian state-owned monopoly corporation, was the single gas supplier for Lithuania and the rest of the Baltic States. There used to be no other alternatives to gas supply. For several years (2011–2015) Lithuania used to pay the highest price for gas in the EU as a punishment for its progress in implementing the EU Third Energy Package, which was undermining the domination of Gazprom.

In 2017, the Committee on National Security and Defence of the Seimas of the Republic of Lithuania conducted a parliamentary investigation which disclosed the non-transparent influence on the Lithuanian politics that Rosatom, a state-owned corporation controlled by the Kremlin, had wielded in the long-run, including its attempts to change the geopolitical vector of the Lithuanian energy sector.

Besides putting pressure on the neighbouring countries on a bilateral basis, Russia is making use of yet another powerful energy instrument to strengthen its influence. This entails large-scale energy projects that are economically unsound, but geopolitically motivated, such as Nord Stream 2 or the nuclear power plants in Astravyets, Belarus, and the Kaliningrad Region (the construction of the latter has been frozen, but not terminated).

With these projects, Russia seeks to strip its neighbouring countries of a possibility to pursue their energy security policies independently, strengthen the Kremlin's influence over the EU by

increasing the latter's dependence on Russian energy resources, and secure strong support of lobbyists in the capitals of certain countries and EU institutions.

Under the pretence of trying to ensure diversification of supply routes, Nord Stream 2 is actually aimed at concentrating the control over the entire chain of supply in the hands of a single holder. What is more, attempts are made to engage large Western companies in the project for the sake of binding consumers to using Gazprom's pipeline and binding Western companies with their investments, thus making them both hostages of and lobbyist for Russian politics. Therefore, the implementation of this project undermines the solidarity of EU Member States, threatens the security of supply to Central European countries, and thwarts Ukraine's prospects of European integration.

The same applies to the Rosatom-led nuclear projects at the Lithuanian borders. The projects are aimed at hampering the synchronisation of the electricity transmission networks of Lithuania and the rest of the Baltic States with the continental European network. In addition, the construction of the nuclear power plant in Astravyets, Belarus, is pursued in violation of international conventions and nuclear safety standards and thus represents a threat to the security, environment and public health of Lithuania and Europe as a whole. This February, the Meeting of the Parties to the Espoo Convention in Geneva has concluded that Belarus has infringed three articles of the Convention thus failing to prepare proper documentation for and justify the selection of the construction site, consult with the countries that are most likely to be affected, and adopt properly the final decision.

In response to the existing energy security challenges, the aspiration for energy independence from Moscow's dictatorship has become Lithuania's strategic interest – the thing that has been supported by all the political forces in Lithuania. This is the basis of our national security. Eventually, we have managed to gradually end our energy isolation and diversify our routes of energy supply.

Having built its own oil terminal, Lithuania established an alternative way to importing oil via the Baltic Sea. Thanks to the terminal, the Lithuanian oil refinery, being the only oil refining facility in the Baltic States, manages to compete successfully on the regional market for petroleum products.

In 2014, Lithuania was among the first states around the Baltic Sea to build its own LNG terminal with a floating storage unit in Klaipėda. As a result, Gazprom lost its exclusive position of a single gas supplier having a monopoly over the gas sector. With the emergence of alternative gas supply, the price for gas has dropped almost by half. Moreover, Lithuania has also acquired unique competences in the field of LNG that can be shared with other Baltic States.

Lithuania now has electricity interconnections with Sweden (NordBalt) and Poland (LitPolLink), while Estonia is connected with Finland (Estlink-1 and Estlink-2). These interconnections enable participation of the Baltic States in Nord Pool, the largest European power market. Lastly, there is only one more step left on the road towards energy security, i.e. the project of synchronisation of the electricity transmission networks of the Baltic States with the continental European network. Once it is completed in 2025, energy security will no longer be dependent on the decisions taken in the Kremlin. ■

Expert article • 2509

VYTAUTAS BAKAS

Chair of the Committee on National Security and Defence
Seimas
The Republic of Lithuania

ILKKA SALMI

Baltic Sea Region and security cooperation

Expert article • 2510

The Baltic Sea creates a shared neighborhood of nine countries and forms a common environment which has several remarkable characters to be highlighted when assessing international cooperation in general, but in more detail when analyzing internal security. Bilateral and multilateral relations between countries around the Baltic Sea form the very immediate and natural international sphere of cooperation. We have to follow and be aware of phenomena and changes in our operative environment.

The Baltic Sea is at the external borders of the Schengen area. Finland, Estonia and Russia are situated around the Gulf of Finland and share sea border. Moreover Norway, Finland, Estonia, Latvia and Lithuania share land border with Russia. When it comes to law enforcement and border guard cooperation, the external border of Schengen area and moreover of the European Union brings out specified needs and courses of action. The Baltic Sea is a key operational environment for the organized crime groups and their actions in drug trafficking, illegal immigration, frauds and other serious cross border criminality. All security issues and serious and organized crime around the Baltic Sea are cross border by definition.

To tackle these challenges the Heads of States of the Region of the Baltic Sea decided to enhance and formalize cooperation in the area of internal security by founding the Task Force on Organised Crime in the Baltic Sea Region (BSTF) in 1996. The BSTF is formed by all eleven Baltic Sea countries. Mission of the Task Force is to plan and carry out cooperation in tackling organized crime by improving regional exchange of information and enhance cooperation on legal matters, training and research. The Operational Planning and Coordination Meeting gathers together two to three times a year to discuss the operational needs to fulfil goals set by the Strategic Meeting. Cooperation and dialogue from the operative level to the strategic and ministerial level is crucial.

The Baltic Sea Region Border Control Cooperation (BSRBCC) was established the same year as the BSTF. The initiative of BSRBCC was launched by the minister for foreign affairs of Finland, Mrs. Tarja Halonen, and The Finnish Border Guard invited the first official meeting of BSRBCC in 1997. During this meeting it was announced that cooperation among border guards in the Baltic Sea region is to tackle for instance, irregular migration and cross-border crimes and to enhance information exchange between neighboring countries and their respective border authorities.

The main strength of the BSTF and BSRBCC is that eleven countries participate in the cooperation with their respected law enforcement, border guard and custom authorities. This enables multilateral cooperation but also enhances bilateral cooperation between the countries in question. The Annual Strategic Meeting of the Personal Representatives of the Heads of Governments of the BSTF and the highest body of chiefs of national authorities of the BSRBCC forum sets the strategic and political goals for the cooperation.

Shared and comparable analysis of the serious crimes at the Baltic Sea serve countries' national authorities to carry out their duties efficiently. This strengthens the law enforcement activities of the Baltic Sea Region significantly. Coordinated activities, such as joint operations, are at the core of the practical cooperation. The cooperation has led to concrete results in tackling serious and organized crime. It has also been agreed to include several strategic topics such as exchange of information on border situation, border traffic and illegal migration. The exchange of best practices related to border surveillance is also one of the key cooperation areas.

Moreover, regional and global law enforcement agencies Europol and Interpol are involved and the existing structures and practices for information exchange are enhanced. As BSTF and BSRBCC members share best practices and analyses, agencies like Europol and Interpol have a crucial role to play when common activities are analyzed from a regional point of view. This cooperation should not duplicate any of the existing cooperation but instead in its multiple formations bring added value to the work of Europol and to the bilateral work between the Baltic Sea states. As an example of a practical implementation, the BSTF also puts in action the policy area "Secure" of the EU Strategy for the Baltic Sea Region.

Cooperation is based on unconditional trust and equality of member states. This cooperation offers in practice a mechanism for authorities working with law enforcement issues to enhance security in the Baltic Sea Region in general but also regional border security as part of EU four tiers border security model observing cooperation with third countries.

Baltic Sea model has also been an example or basis for several other regional cooperation forums globally. The best experiences and practices of this cooperation have been copied and used as examples on other regions such as Mediterranean and Black Sea areas. ■



ILKKA SALMI
Permanent Secretary
Ministry of the Interior
Finland

TANELI LAHTI

Rule of law and the European single market

Expert article • 2511

The single most valuable economic asset of Europeans is their Single market; a common market place of 500 million consumers that creates an annual gross domestic product of over 15 trillion euros and over 30.000 euros for every European citizen. These achievements make the European Union the largest economic area in the world, giving it global influence and a possibility to steer global developments, be it in the field of climate policies, digitalisation or trade and finance.

In the single market goods, services, capital and skills move freely across borders of member states, increasing the choice of consumers, keeping prices in check and allowing enterprises to compete on the world's largest playing ground. What makes it here, will make it anywhere in the world. The single market is therefore not only a market place with enormous opportunities, but also a springboard to global markets. Once you have succeeded on the European market, you can be confident that you will be competitive also globally.

The European single market has created thousands of brands, innovations and creative products that are sought after where ever you go around the globe. Just look at the selection of shops and goods in any shopping mall or super market in Asia, the Americas or Africa. Many of the goods people are buying or saving for look familiar. If they are not of European origin, very often they emulate European design and lifestyle. While we Europeans tend to be very critical of ourselves and our achievements, we tend to oversee that Europe still often stands for what is of highest quality and standards. Competition is growing every day, but we do still hold our share.

Furthermore, the single market is open to all, not only to Europeans themselves. Companies, products and ideas from all over the world seek to make it on the European market, which remains one of the most attractive in terms of size and purchasing power in the world.

What makes the single market, how does it work? After all, Europe is made of tens of independent countries, tens of languages, several currencies and hundreds of diverse cultures. How can there be a single market if its basis is so manifold and fragmented? This is made possible by shared, jointly agreed rules, standards and regulations. Within the European Union, member states have created over decades a rulebook of stunning magnitude and detail, regulating the way the four freedoms materialise in practice.

It is exactly the much derided directives, regulations and delegated acts that make the market, that allow entrepreneurs to test the success of their inventions and products in all EU member states, that allow consumers to enjoy reasonably prized goods of great variety from all corners of Europe and that allows ideas, knowledge, entrepreneurship and people pursuing their dreams, to move and prosper freely wherever in Europe they wish to.

Every single European rule regulating the functioning of the single market is borne out of a need for common approaches as expressed by consumers, producers and other stakeholders wishing to make the market work better. There are thousands of stakeholders wishing to

get their voices heard and demands reacted to. But, before a call for new rules or standards turns into regulatory practice, it goes through thorough preparation and vetting, where all concerned stakeholders are heard, experts have their say, evidence is collected and best scientific knowledge applied. Only after years of thorough preparation the rules become subject of decision making by politicians, who make the final choices on the route to take and approach to follow.

The process takes years from identified need to everyday practice, and is often criticised for being too slow, too heavy. But, there is no short-cut to a well regulated and well functioning single market. Every regulatory change causes adjustment costs and has to be carefully prepared. The current process may be slow, but it does produce probably the best regulatory framework in the world. Just look at how European regulatory practices quickly are followed across the world and become global standards. To give two examples, the GSM in the nineties allowed mobile communications to develop and the GDPR of just two years ago is now being applied in most of the western world to ensure confidence and confidentiality between digital service providers and consumers.

It is easy to ridicule European law making for being too much and too cumbersome. But, the alternative to European rules would be rules and regulations created by every member state, region or other actor itself. The result would be an unmanageable labyrinth of tens of differing sets of rules, and effectively no single market at all. It is therefore usually preferable to aim for European rules and regulations that are evenly applied all across the single market.

But, even the best regulatory framework delivers its objectives if it is consistently and evenly applied everywhere. In case of large deviations in the way rules are being interpreted or in the way they are being implemented by national authorities and judicial systems, the result is at best a fragmented single market or at worst no single market at all. The larger the differences are, the more difficult and costly it is for companies to operate across national and regional borders. In the end, business and economy suffer, and consumers end up having less choice and higher prices.

The European single market requires constant care-taking and cultivation. If it is left on its own, it will start fragmenting very quickly. Market participants will want to defend their positions from competition, regional and national authorities will start developing their own rules and practices and obstacles to trade and investment will emerge. There will therefore have to be a strong and independent authority to monitor and ensure correct implementation of the agreed rules, supported by strong and independent judicial systems where market participants can seek justice when necessary. The rule of law is therefore essential for the functioning of the single market. Companies and consumers, all citizens in general will need to be able to trust that their rights are always and everywhere in Europe protected efficiently. Otherwise, the potential and benefits of the single market cannot materialise fully. From business point of view,

rule of law is not an abstract, but something that affects its operations every day. It is therefore highly welcome that the European Union and its member states are paying increasing attention to their commitment and protection of the rule of law. ■

TANELI LAHTI

Dr., Professor of Practice
Turku School of Economics at the University of Turku
Finland

Director
Confederation of Finnish Industries, EK
Finland

JUHA OTTMAN

Poland facing challenging energy policy decisions

Expert article • 2512

Poland hosted in December 2018 COP24, the United Nations Climate Summit, in the city of Katowice in Silesia, Southern Poland. Selecting Katowice as the location for the venue was symbolic, because the region is known for its heavy industrial base but also for its poor air quality. Out of the 50 most polluted cities in the European Union, more than 30 are in Poland, many of them in Southern Poland. Clean air is a major point of concern for Polish citizens.

The Polish government is therefore facing tough decisions in energy policy, if Poland wants to fulfil the climate goals agreed in Paris and further endorsed in the Katowice Rulebook in December. Poland has the largest coal reserves in Europe and the country is heavily dependent on coal in its energy production. However, many coalmines are out-dated and unprofitable resulting in a lower production capacity and imports of coal from abroad, in particular from Russia. Many power plants powered by coal are coming to the end of their life span. As the coal industry is a strong political lobby, Polish governments have traditionally avoided unpleasant decisions to reduce dependency of coal in energy production.

COP24 is followed by COP25 in Santiago de Chile in December 2019, for which the EU has to agree its common negotiating position. The EU also has to prepare a strategy on how to become carbon neutral by 2050 following the communication by the European Commission in November 2018. Poland has been advocating with its closest EU allies, notably other Visegrad countries Czechia, Hungary and Slovakia, a lower level of ambition for the EU in climate policy. The main argument has been an unfavourable starting point for Central and Eastern European member states in meeting the requirements to reduce CO₂ emissions, improving energy efficiency and increasing the share of renewables.

Even in the short term, Poland is likely to miss all the European Union's 2020 strategy targets in climate action. This would imply a significant financial burden for the Polish budget in the future. Therefore, the Polish government has acknowledged the necessity to take action.

The Government of Poland published a draft NECP (National Energy & Climate Plan for 2021-2030) in January 2019. Poland aims at reducing the share of coal in energy production from the current 80% down to 60% by 2030 by investing in nuclear energy and renewable energy sources. Poland aims at increasing the share of renewables up to 21% from the current 11%, reduce CO₂ emissions by 30% compared with 1990 levels and improve energy efficiency by 2030.

Poland has identified nuclear energy as an important emission free source of electricity in the future. Currently there are no nuclear power plants in Poland, but there are plans to put the first power plant in operation in 2033. By 2043, Poland wants to have six nuclear power plants in operation. However, no decisions on the financing, potential location or the technology to be chosen are made.

Improving energy security and reducing dependency on imported energy especially from Russia is very much a security policy issue for Poland. Currently 78% of natural gas and 96% of oil is imported, mainly from Russia. The aim of the Polish government is to become independent from Russian gas imports by building a gas pipeline from Norway via Denmark to Poland by 2022, expand the LNG terminal in Swinoujscie and improving connectivity with the neighbouring countries. Poland also signed in 2018 a long-term bilateral agreement with the United States on LNG imports. Poland aims at diversifying its oil imports by expanding the oil pipeline between Gdansk and Plock making it possible to increase oil imports by maritime routes.

Poland has been very vocal in criticizing the construction of Nord Stream II gas pipeline from Russia to Germany. Poland sees the pipeline as a direct security threat to Europe and undermining the EU's energy policy objectives. Poland also sees NS II as an example on how EU rules are applied in a different manner to different EU member states. In addition, Poland has been lobbying the U.S. to impose sanctions on companies involved in the project.

While seeing many positive elements in new strategic plan for 2021-2030, many experts and think tanks have been criticizing the government for the lack of ambition. If Poland wants to become entirely emission free economy by 2050, it has to invest more on emission free or low carbon energy production and reduce substantially faster its dependency on coal.

The Polish vision for energy provides also opportunities for Finland. Fortum has been active in the Polish market and invested recently about 200 million € in a power plant in Zabrze producing heat and power in cogeneration. Finland is also ready to share her best practises in building nuclear energy and management of used nuclear waste. Team Finland Poland has identified clean air as one of the sectors for growth for Finnish business. Welcome to Poland! ■



JUHA OTTMAN

Ambassador
Embassy of Finland
Warsaw, Poland

SHAWN WADDOUPS

U.S. Baltic Sea Region engagement: What's changed?

Expert article • 2513

One of the rewards of serving as a U.S. diplomat in the Baltic Sea region is that, for the most part, we spend our time and energy working collaboratively with Allies and partners to address shared concerns, most of which are outside the immediate region. As I described in these pages two years ago, U.S. linkages and collaboration with Baltic Sea region partners are both broad and deep, based on mutual interests and a commitment to shared values. During the intervening period, our engagement with regional partners has only increased, and I can say without equivocation that U.S. engagement here contributes to regional stability.

Challenges persist, however. I wish I could say there is less need to focus on traditional hard security calculations, but this is an era marked by increasing strategic competition. Russia continues its more aggressive stance towards its neighbors, and even farther afield. We have had to confront the reality that it is violating the Intermediate-Range Nuclear Forces Treaty (INF) and degrading European strategic stability. Meanwhile, Chinese economic activities are raising questions about its geopolitical ambitions in the Baltic and Arctic regions. As western democracies, we must respond to these challenges together. Together, we must engage competitors where effective, but stand firm when needed -- and to do both in tandem. Sometimes that calls for a show of resolve, like the U.S. European Deterrence Initiative or continuing sanctions; at other times, it calls for attempts at dialogue, such as in the Arctic Council and Arctic Coast Guard Forum, or with the Helsinki meeting between Presidents Trump and Putin. Regardless, it is most effective when we act in unity.

In this uncertain security environment, our top priority remains ensuring the safety and security of our citizens. NATO is the bedrock of U.S.-European defense relations, and the U.S. commitment to it is unwavering. Foreign ministers from the 29 NATO Allies and North Macedonia, a soon-to-be Ally, gathered on April 4 to mark the Alliance's accomplishments in the very same room in Washington, D.C., where leaders from the original 12 members signed the North Atlantic Treaty exactly 70 years ago. As they noted, NATO has succeeded in "guaranteeing the freedoms of our almost one billion citizens, the security of our territory, and the protection of our values, including democracy, individual liberty, human rights, and the rule of law." One of the most significant recent developments for regional stability is the increase in Allies' defense spending. More must be done, but we are approaching levels that will ensure we have the required capabilities to respond to any potential security need.

Finland and Sweden's Enhanced Opportunity Partnership with NATO has matured over the last two years, leading to expanded training and exercises when these capable partners choose, and fostering better political dialogue regarding Baltic Sea region security. The United States also signed a unique trilateral Statement of Intent on Defense Cooperation with Finland and Sweden in 2018 that builds on already effective bilateral security partnerships and lays the

foundation for further collaboration.

The United States has also focused on strengthening NATO-EU cooperation to reinforce transatlantic security. The fact that the EU is doing more on defense is a welcome development, but ensuring that the initiatives of these two organizations do not overlap or compete remains of paramount importance, as does ensuring that all Allies and partners can acquire the most capable equipment. Establishing the European Center of Excellence for Countering Hybrid Threats in September 2017 in Helsinki was one concrete accomplishment in this regard. The Center is doing outstanding work to help build resilience in its members, while also facilitating meaningful NATO-EU dialogue about how to protect our democracies.

Economic vitality is equally critical to transatlantic stability, and the Baltic Sea region is one of the epicenters of transatlantic trade and innovation. This region is the prime example of how fair and mutually beneficial trade, investments, and exchanges of knowledge deepen our alliances and partnerships and make both sides more productive. The U.S.-EU economic relationship is still the largest, most dynamic, and most complex in the world, with over \$1.1 trillion in annual two-way trade, and we are actively looking for ways to improve it. In many areas we have serious issues to resolve, but it is far from the U.S.-EU economic rift some want to portray. Instead, we are coming together in real and significant ways. Most importantly, Washington and Brussels are exploring how to move trade negotiations forward to address some of the issues that remain. The United States is committed to concluding these negotiations with timely and substantive results, consistent with our priorities.

Strategic competition is increasingly apparent in the economic realm, too. We must ensure that everyone is playing by the same rules. Central to this is the joint U.S., EU, and Japanese effort to confront non-market oriented policies of third countries, such as China, as well as strengthening and reforming the World Trade Organization. We underscore the U.S. commitment to supporting the mandate of the WTO, but as U.S. Trade Representative Robert Lighthizer has said, "we cannot sustain a situation in which new rules can only apply to a few and that others will be given a pass."

We are exploring with regional partners how we can more effectively screen strategic investments to protect national security interests without hindering legitimate business. We support efforts to increase regional energy security through interconnections and diversification of routes and sources of energy, like the Baltic Connector pipeline and LNG terminals around the Baltic Sea. We firmly oppose projects, like Nord Stream 2, that will ultimately undermine Europe. We increasingly collaborate with regional partners to address cross-border crime and corruption, including money laundering and illicit financial flows that threaten our well-ordered economies.

Finally, we continue our collaboration to promote peace, education, public health, research, economic empowerment, and human rights around the world. Finland's decision this year to join

Lifeline, a consortium of 19 governments that provides emergency financial assistance to civil society actors under attack, is an excellent example. Since it was founded in 2011, Lifeline has supported more than 1,375 civil society organizations in 103 countries. The core of Lifeline is the Baltic Sea region -- it is chaired by the United States and Norway, with Denmark, Estonia, Latvia, Lithuania, Poland, Sweden, and now Finland as members. The United States will maintain efforts like Lifeline, where we can pool our resources and know-how with like-minded partners to create a more stable environment within which we all will benefit. This is worthwhile engagement, and something we can be proud of together. ■

**SHAWN WADDOUPS**

Political and Economic Section Chief
Embassy of the United States
Helsinki, Finland

OSS I SAVOLAINEN

Let's make the Baltic Sea Region stronger!

Expert article • 2514

The Helsinki-Uusimaa Region is at the heart of northern Europe. Its location at the Baltic Sea, along with its cultural climate and green and blue landscapes have made Helsinki-Uusimaa as a leading business area in Finland. Also it is a dynamic knowledge hub and innovation centre for new European business and politics. Our region is one of the fastest growing areas in Europe and it is a home to around 1.7 million inhabitants, which is about a third of the total population of Finland. Helsinki-Uusimaa Regional Council wants to be an active partner in the Baltic Sea cooperation.

The Baltic Sea has given its resources to us for many centuries. That's why we want also to protect the sea itself and to develop the Baltic Sea Area. The Helsinki-Uusimaa Region has a strong and ambitious vision. We want to promote the Baltic Sea Region as a leading knowledge region in Europe and as a neighbour to Russia. Also we want that the Baltic Sea Area will have a stronger role in the Global context. To achieve these goals, the Helsinki-Uusimaa Regional Council is engaged in coordination and consensus building. It mobilizes actors and resources at governmental, regional and local levels to set common regional development priorities and to optimize the use of regional strengths and assets.

One of the tools in this work is European Union Strategy for the Baltic Sea Region, EUSBSR. As a part of the European Cohesion policy, it has been a successful idea and a pioneer for the European macro-regions. Helsinki-Uusimaa will strongly support the continuity of the strategy and we want to participate in the ongoing revision process. In this work the numerous co-operation organizations around the Baltic Sea have a significant role. Especially the Baltic Sea States Subregional Cooperation BSSSC and the Baltic Sea Commission of Conference of Maritime Peripheral Regions CPMR are the important partners for the regions like Helsinki-Uusimaa.

The Regional Council of Helsinki-Uusimaa has noticed that during the first decade of the Baltic Sea Strategy the environmental themes seem to be successful and maybe the best project applications are often on the environmental sector. We think also that the EUSBSR should make possible to promote cooperation in the smart specialization between different Regions in the Baltic Sea Area as well as between the Baltic Sea Countries through international cooperation. The promotion of innovations in the Baltic Sea region should be one of the main priorities also in the future. That will be realized if the Baltic Sea Region will succeed in the global context.

I know many of my colleagues in the Baltic Sea Area and we usually discuss on the opportunities how to use the new kind of technological solutions. I think the countries and regions around Baltic Sea really want to be forerunners in implementing the new technology. The integrated digital cross-border transformation of the Baltic Sea region could also be raised in the updated EUSBSR. As a good example of that, on the base of the strong cooperation between Helsinki and Tallinn there is an aim to create the EU flagship area for

Digital Interoperability.

The most important impact criteria for digital transformation in the Baltic Sea region could be 1) Functionality and avoidance of heavy investments using digital optimization, 2) Reducing climatic load with sensors and Artificial Intelligence systems, e.g. in reducing emissions and utilizing new electronic mobility and logistics solutions and 3) Improved accessibility of public services by facilitating cross-border digital solutions, such as e-prescription and further development. I think this kind of ideas and initiatives could rapidly increase the competitiveness and welfare in the Baltic Sea Area.

Even the EUSBSR doesn't have own funding system, the good projects need to be funded also in the most developed regions in the Baltic Sea Area. Helsinki-Uusimaa Region welcomes the European Commission's proposal that EU's cohesion policy should cover all the European regions. The EU has a crucial role to play in supporting all regions and member states to make the most of their potential for innovation, competitiveness and sustainable jobs and growth. Principle of subsidiarity and multilevel governance must also stay in the EU's cohesion policy and that is very important for the macro-regional strategies. Smart specialisation, regional innovation ecosystems and Interreg cross border maritime programmes must be strong part of EU cohesion policy. We have an experience that the so called EU's smart specialisation approach offers a good platform for boosting the region's innovation ecosystem.

In the turbulent and globalizing world the importance of cities, regions and macro-regions is increasing. The Regions have a strong responsibility to be active partners in the international cooperation. Baltic Sea is also the Sea of the Strong Regions!■



OSS I SAVOLAINEN

Regional Mayor
Helsinki-Uusimaa Regional Council
Finland

GERD LANGE

Sustainable tourism cooperation in the Baltic Sea region

Expert article • 2515

With 227 million overnight stays in 2016 of which 24 percent are international visitors, two digit growth rates between 2014 to 2016, and nearly 640.000 people employed in tourism related industries, tourism belongs to one of the major economic sectors in the Baltic Sea region (BSTC Tourism Market Report "State of the Tourism Industry in the Baltic Sea region", 2018).

Bundling the countries' resources in order to meet common challenges and to benefit from opportunities that arise for the Baltic Sea region has been and will be crucial for a thriving and prospering region. Therefore, member states of the EU and the European Commission decided on implementing the EU Strategy for the Baltic Sea Region (EUSBSR) in 2009. The strategy aims at strengthening cooperation between the countries bordering the Baltic Sea, focusing on the main objectives: saving the sea, connecting the region and increasing prosperity. With 13 different Policy Areas and 4 Horizontal Actions, the EUSBSR fosters networks and increases the political awareness on EU level.

Since its introduction in 2009, the Policy Area Tourism (PA Tourism) is closely working together with the tourism industry in the Baltic Sea region (BSR), following the overall objective to establish the BSR as a common and coherent tourism destination. The Ministry of Economics, Employment and Health Mecklenburg-Vorpommern took over the coordination role of PA Tourism in 2014, and is now combining transnational tourism cooperation activities with regional tourism policy expertise. Serving as a forum for dialogue and exchange between national representatives of the respective member states, a Steering Committee provides advice and assistance to PA Tourism. Thus, the made progress is reflected consistently and necessary adaptations with respect to stakeholder responsibilities as well as thematic or political trends are made.

Closely linked to the implementation process of PA Tourism in the EUSBSR is the Baltic Sea Tourism Forum (BSTF). Founded in 2008 by the Ministry of Economics, Employment and Health Mecklenburg-Vorpommern and the Mecklenburg-Vorpommern Tourist Board, the annual event has become the communication and exchange platform for transnational initiatives in the BSR. The BSTF aims at promoting dialogue, building consensus and sharing the vision on common challenges of sustainable tourism development in the BSR. The forum attracts key tourism stakeholders from around the Baltic Sea and contributes significantly to transnational exchange and collaboration in the region. In 2018, around 350 participants followed the invitation to the 11th joint Baltic Sea and Latvian Tourism Forum in Riga / Latvia. The 12th Baltic Sea Tourism Forum is planned to be organised in Pskov / Russia from 12 – 13 November 2019.

In the frame of the annual Foras the idea of a more structured and sustainable tourism cooperation was born with a Center of Expertise at its core. The so-called Baltic Sea Tourism Center (BSTC) is supposed to constitute the central and competent contact point for

tourism in the BSR providing relevant partnerships, insights and skills for the sector on macro-regional level. Moreover, the BSTC actively addresses partners, stakeholders and relevant externals in order to bring forward a sustainable, balanced and international tourism development. Additionally, it speaks with and on behalf of the tourism sector actively offering inspiration, data and needed support. The vision of the BSTC is reinforcing and uniting the voice for sustainable and competitive tourism development in the BSR. Throughout an intensive stakeholder consultation over the past years, transnational working areas such as Tourism Policies, Sustainable Tourism, Market Research and Training Offerings have been identified as very important and convene committed tourism stakeholders in newly launched Expert Groups - aiming to support the BSTC with competences and expertise in the areas addressed.

In order to make smart and innovative decisions for the future of the BSR, the BSTC published the first BSTC Market Report "State of the Tourism Industry in the Baltic Sea Region" in 2018. The report provides reliable insights and figures on how the BSR has and is developing with regards to tourism. In 2019, the 2nd Market Report will be complemented by the first BSTC Trend Report - published with the aim to support smart decision making in tourism development.

The tourism industry is a major business field, not just in the BSR but all over the world. According to the UNWTO, tourist arrivals worldwide are expected to rise from the current 1.4 billion (2018) to 1.8 billion per year by 2030. These prospects put the BSR in strong competition with other macro-regions and demand for realignments of internationalisation strategies to both benefit from the positive effects and minimize the negative impacts of growing tourism flows. Together with the tourism sector, PA Tourism and the BSTC will make every possible effort to further improve more permanent cooperation patterns, provide stronger political support, and secure more stable funding opportunities especially with regard to the Multiannual Financial Framework 2021-2027 ahead. ■

Further information at: www.bstc.eu



GERD LANGE

Coordinator for Policy Area Tourism of the EUSBSR // Head of Tourism Unit
Ministry of Economics
Employment and Health Mecklenburg-Vorpommern
Germany

BERND HEMINGWAY & NATALIA SKRIPNIKOVA

30 Years Since 1989: CBSS Regional Responses to Global Challenges

Expert article • 2516

In Northern Europe regional cooperation became an important part of international relations after the Cold War. The collapse of the Soviet Union created a new political situation and triggered the launch of several region-building projects. One of the new regional actors became the Council of the Baltic Sea States (CBSS) in 1992.

Even though the Baltic Sea has always been an important meeting point of Western and Eastern European countries, during the Cold War it was mainly perceived as the sea. However, political changes of early 1990s generated a reconsideration and Baltic Sea turned into a common agenda for cooperation and a subject of constructing a sense of a new commonness.

During the following more than 25 years the CBSS became one of the main actors providing international cooperation in the Baltic Sea region. The CBSS is an inter-governmental organisation consisting of twelve members (Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia, Sweden and the European Union). Since the creation of the CBSS the region has gone through a remarkable change. Today eight countries are EU Member States and two countries are EFTA members (Norway and Iceland). European integration processes have transformed the geopolitical situation in the region. The Baltic Sea almost became an inland sea of the EU. In the given circumstance the CBSS had to adapt to new realities and continue working on building trust and collaboration in the region.

In order to adapt to changing situations the CBSS has moved from a policy discussing organisation to be also a project-oriented actor. Today the CBSS utilises a multi-stakeholder approach in its activities. CBSS activities engage different actors like: governmental, non-governmental, businesses, social institution and academia. In applying such an approach, the CBSS provides a common governance enterprise and improves the efficiency of dealing with public issues. Bringing actors of different types together showed a greater performance in discussing and working with new and complex issues in the transnational environment. At operational level the CBSS follows the international agenda and translates global challenges into the regional context. In the framework of the UN 2030 Agenda and its Sustainable Development Goals (SDGs), the CBSS initiated the report "Baltic 2030: Bumps on the Road" (2018), which explores the most pressing challenges for the Baltic Sea Region and provides a macro-regional overview on all 17 SDGs. The work of strengthening children's rights focusses on promoting a non-violent childhood, protecting children on the move as well as the so called "Barnahus" by ensuring child-friendly legal and social procedures and services, securing that children are heard throughout in the process of identification, referral and when finding a solution. The CBSS efforts in providing a platform for enhanced cooperation on civil security and climate adaptation in the region resulted in its international recognition as an important player in the implementation of the UN Sendai Framework for Disaster Risk Reduction. Addressing a cross-

border crime of global nature such as trafficking in human beings, the CBSS engaged municipalities of the region and provided tools for local actors to deal with cases of human trafficking.

The changes in the Baltic Sea Region also encouraged the discussions on the future role of the CBSS in the region. Consequently, the Foreign Ministers of the CBSS Member States and the High Representative of the European Union established the CBSS Vision Group in Reykjavik on 20 June 2017. The aim of the CBSS Vision Group was to elaborate recommendations to maintain and strengthen the role of the Council of the Baltic Sea States towards 2020 and beyond. The Vision Group included independent representatives from the 11 CBSS Member countries plus the European Union. The result of the Vision Group led to a report presented at the Stockholm Ministerial on 18 June 2018. The report has seven key recommendations regarding the future role of the Council of the Baltic Sea States ensuring political dialogue and efficient project implementation in the region. The Member States expressed their continued support for the mission of the CBSS concluded in the Stockholm Declaration 2018. They encouraged the incoming presidencies "to drive the reform efforts with a view of reaching political agreement on a substantial roadmap for reform of the CBSS, with the goal of reaching tangible progress by 2020".

The experiences of the Council of Baltic Sea States illustrate how a regional actor has managed to adapt to shifting realities and global and local challenges in the region. Closer arrangements for practical cooperation in combination with a broader participation in political dialogue have proven to be fruitful measures to proceed with a productive regional cooperation. ■

The Vision Group Report is available:

<http://www.cbss.org/wp-content/uploads/2018/06/Vision-Group-Report.pdf>

BERND HEMINGWAY

Deputy Director General
Council of the Baltic Sea States

NATALIA SKRIPNIKOVA

Core Team Intern Assistant
Council of the Baltic Sea States

TIMOTHY HELENIAC, SHINAN WANG, EEVA TURUNEN, JOHANNA ROTO, JUSTINE RAMAGE & LENEISJA JUNGSEBERG

People and Permafrost in the Arctic

Expert article • 2517

It has been often repeated that the Arctic is warming at twice the rate as the rest of the planet. One result of this rapid warming is thawing permafrost along the Arctic coasts. The full impacts of this thawing are the object of inquiry of an EU Horizon 2020 called Nunataryuk (<https://nunataryuk.org/>). One output from this project was an atlas documenting the population, economy, and infrastructure which would be impacted by the thawing permafrost. A highlight of the findings:

Demographic trends across the Arctic regions differ considerably in terms of population size, growth rates and the structure of settlements, as well as fertility and migration patterns.

Settlement patterns indicate that two-thirds of the Arctic population live in settlements with more than 10 000 inhabitants. Many regions in the Arctic are characterised by a dispersed population living in many small settlements with less than 5 000 inhabitants. In Alaska and the Russian Arctic, a large share of the population lives in larger settlements.

Permafrost is widespread in the Arctic. In total, 60 percent of the Arctic settlements are located on permafrost, among which 46 percent are coastal. More than two third of the population in the Arctic lives in these settlements located on permafrost. Due to the observed increase in air temperatures in the Arctic permafrost is thawing, which has large consequences for most of the inhabitants living in the Arctic.

Population change is the result of net migration and natural population change. There is a continuous migration into larger urban centres and a decline in smaller settlements. Alaska, the Canadian Arctic, and Iceland have had significant population growth over recent decades. The population of the Russian Arctic has continued its post-Soviet contraction with ongoing decline in all but two regions.

Indigenous people comprise a significant share of the Arctic population, especially in the Canadian Arctic and Greenland where 75 percent or more are indigenous. Approximately one million people, or nine percent of the total population in the Arctic region are indigenous, who are impacted differently by permafrost thaw.

Population structure illustrates the gender ratio and age structure. Generally, there are more males living in the Arctic regions except for the Russian Arctic where females represent a higher share. More than 30 percent of the population is aged 0-14 in the Russian and Canadian Arctic and in Alaska. In the Arctic regions the share of the working age population is 70 percent. The old age dependency is low across the Arctic.

Society and economy in the Arctic regions are characterised by a high dependence on natural resources.

Labour market analysis shows a variety of main sectors of employment. The primary sector represents 14 percent of the economic activity in the Arctic, while the secondary sector represents 20 percent. The tertiary sector also known as the service sector has the largest share of employment with 66 percent. Relatively high share of employees was working in the tertiary sector in Alaska and in the Canadian Arctic. On the contrary, low share of employees are engaged in service-related economic activities in the Russian Arctic.

Production: The Arctic average of GRP (Gross Regional Product) is 40 000 Euro. Alaska, the Canadian Arctic and the Nordic Arctic region perform well in relation the Arctic average. Alaska, the

Northwest Territories and Svalbard are the best performers. In the Russian Arctic, there are large difference between regions. Nenets, Yamal-Nenets and Khanty-Mansi are among the best performers in the Arctic. while the remaining regions had a GRP in PPP far below the Arctic average.

Accessibility and infrastructure are crucial in connecting settlements in the Arctic.

Road infrastructure is considerably less dense on areas underlay by continuous permafrost. Settlements in Greenland, Nunavut, Nunavik and Labrador are not connected by road network with scarcely road segments connecting adjacent settlements. Thus, travel by road remains a challenge for many of the inhabitants in these regions. Alaska, the Northwest Territories and the Yukon have better road infrastructure.

Maritime routes have experienced significant growth of traffic in recent years. Between 2016 and 2017 the cargo volume in the Northern Sea Route increased by nearly 40 percent.

Airports in the Arctic are of high importance due to the long distances between settlements and the lack of road network. There are 7 large and 260 medium sized airports over the Arctic.

Resources in the Arctic are considerable and the exploration and transport facilities for oil, gas, and mineral resources is increasing throughout the circumpolar region.

Oil and gas exploitations are mostly located in the Beaufort Sea area (North Slope of Alaska and the Mackenzie Delta), and in northwest Russia (Barents Sea and West-Siberia). Oil and gas are even found in the Canadian Arctic Archipelago (Nunavut). These three regions are also targeted for future exploitation.

Location of mining sites is changing and goes higher north due to technical development, permafrost thaw and sea-ice decline, which allow the exploitation of resources that were inaccessible.

Access to natural resources is highly dependent on technical capacities and environmental challenges, which lead to higher extraction costs. High economic costs of exploitation and transportation, and high demand for environmental protection are decisive factors for the exploitation of Arctic resources. ■

Maps and the atlas of people, economy, and infrastructure and permafrost is available at:

<http://www.nordregio.org/maps/>



TIMOTHY HELENIAC
Senior Research Fellow



SHINAN WANG
Cartographer/GIS Analyst

Expert article • 2517**EEVA TURUNEN**

Junior Research Fellow/ Cartographer

**JOHANNA ROTO**

GIS Consultant

**JUSTINE RAMAGE**

Research Fellow

**LENEISJA JUNGSBERG**

Research Fellow

MALLA RANNIKKO-LAINE

EU fund for infrastructure calls for sufficient national investments

Expert article • 2518

In order to ease the mobility of people, and stimulate sustainable growth, we must increase accessibility. The climate targets, together with the growing demand of combined labour market between major Finnish cities depend increasingly on railways.

The high-speed railway line between Helsinki and Turku would reduce travel times significantly between the two cities. Close to one-hour ride would both connect people with jobs, create well-being and promote growth along the trackside.

The One-hour rail connection is part of the Northern Growth Corridor and belongs to the EU TEN-T Core Network Corridor. Situated in the Scandinavian-Mediterranean Corridor, One Hour Train could be co-financed with the European Union.

Connecting Europe Facility (CEF) channels EU money for interconnected trans-European networks covering the sectors of transport, energy and digital infrastructure. In the upcoming EU long-term budget 2021–2027, CEF will fund the development and modernisation of infrastructure networks over 42 billion euros.

During the ongoing period, Finland has been able to utilize CEF programme only partly. Everyone seems to agree, that we must increase our cut. If Finland could succeed in maximizing its CEF fund, it would mean calculatory 600 million euros in the years of 2021–2027.

The funding could be applied to the projects in TEN-T Core Network Corridors. Currently in Finland the Scandinavian-Mediterranean corridor is the only core network corridor running through the territory. For the new programming period Helsinki–Luulaja is getting the same status as it will be added to the North Sea–Baltic Corridor. Therefore, in the future funding will be applicable for two corridors in Finland; for the fast trainway lines between Turku and Helsinki, and Helsinki and Oulu.

In the coming period the maximum support for these kind of railway projects could be up to 20–30 %. If the subsidy is 20 % of the investment, Finnish government should launch railway investments worth over 3 billion euros during the seven-year period. This would mean the allocation of national budget money of approximately 430 million euros annually for the development projects in railways. At the moment the entire allocation for national transportation development projects (including roads, highways, railway lines etc) is less than 500 million euros.

Within the current Finnish budget framework, it would be possible to build the One Hour Train in the 2020s, but at the same time it would mean that almost nothing else could be developed anywhere in the country. This basic calculation demonstrates that the aim to maximize Finnish cut from CEF with our current investment level is impossible. Consequently the national investment level for transportation development projects must be doubled.

This is the same conclusion that the Parliamentary Working Group (for National Transport System Planning) has stated; the annual budget allocation for transportation development projects should be

about one billion instead of current under 500 million.

The investments for the fast trainway lines are strategically important to Finland. Not only that infrastructure development projects answer to the demand of accessibility and mobility of people, they also give a strong tool to reduce the transport emissions. High-speed trainway line between Turku and Helsinki, would also construct a significant international route between Stockholm and St. Petersburg.

In order to make railway line investments possible, the Finnish government has sought to find new ways of funding transport infrastructure. This is important since it is extremely unlikely that with the mere state budget (even including the CEF money), these kind of large scale railway projects, could ever be carried out. The possibilities of getting the funds outside the state budget, from other beneficiaries, such as municipalities or publicly owned communities, are worth checking.

In the beginning of this year, the Finnish government decided to found a state owned limited company *Nordic Railways Ltd.* (Pohjolan Rautatiet Oy) to promote the railway transport investments. The government decided that the parent company would have subsidiaries, as project companies for each large-scale railway project. After the Finnish government's resignation in March, the preparation of the project companies was put on hold.

In the government negotiations, the parties must make decisions on the railway investments. National decisions are needed quickly, otherwise we will miss the application deadline of the TEN-T CEF fund. The upcoming CEF fund will be called for proposals already in the beginning of the new EU budget term, in the 2021.

In practise, the One Hour Train between Helsinki and Turku is the only railway project which could catch this schedule. This is because it has already been funded for 40 million, and its planning has been ongoing for a few years. Building of the One Hour Train could be started from Espoo urban railway immediately after the government's investment decision. ■



MALLA RANNIKKO-LAINE

Senior Planner

Regional Council of Southwest Finland
Finland

MARJO UOTILA

Towards stronger strategic alliances

Expert article • 2519

Today the global competition for investments is fiercer than ever. Accessibility of and connectivity within and between cities, regions and countries are the key enablers of winning the game.

Finland ranks 3rd on the FDI Attractiveness Scoreboard

According to the recent FDI Attractiveness Scoreboard, Finland has maintained its position as the 3rd most attractive country for foreign direct investments from 2009 in the 2016 update. Finland is the most attractive EU Member State and only behind Switzerland and Hong Kong on a global scale. However, some factors such as the peripheral location of Finland in the EU tend to pull Finland's overall attractiveness down.

To attract investments, accessibility is vital

Transport and logistics infrastructure is found to be the third most important location factor for international investors in an investor survey undertaken by Ernst & Young. Similarly, in a recent study by Business Finland, accessibility is found to influence the location choice positively as the costs of transporting intermediate and final goods will be lower.

The Northern Growth Zone alliance

In order to strengthen the accessibility and connectivity of the part of Finland which covers +50% of Finland's population, jobs and GDP, and +60% of Finland's R&D&I investments, the involved 6 regional councils and 13 major cities, including the capital region, have formed a strategic alliance, the Northern Growth Zone.

The Northern Growth Zone stretches from Stockholm to St Petersburg, bringing together more than 13 million people and an economic area worth over 330 billion euros, and it is defined as a key business and innovation region in Finland's Strategy for the Baltic Sea Region.

Further, the Northern Growth Zone and the state of Finland have agreed on a growth zone agreement for the years 2016 – 2019, with a specific growth funding instrument focusing on more effective logistics flows with the uptake of digitalization. In the ongoing pilot projects, logistics costs have been reduced at best as much as 70%, reducing also the carbon footprint of logistics dramatically.

Ecosystems as the focus of Finnish industrial and innovation policy

One of the recent developments of the Finnish industrial and innovation policy is focusing on ecosystems. This policy is operationalized by Business Finland's targeted Growth Engine funding instrument, strengthening the orchestration of selected ecosystems expected to generate EUR 1 billion in turnover from new businesses, exports and foreign investments in Finland.

One of the selected ecosystems is the Corridor as a Service (CaaS), contributing to developing the Northern Growth Zone as a major intelligent multimodal logistics hub between east and west and connecting the Northern Growth Zone to global business and innovation ecosystems.

Core Network Corridors in the European Union TEN-T policy

The European Union TEN-T policy focuses on removing the bottlenecks on the main logistics routes, defined as the Core Network Corridors.

The Scandinavian-Mediterranean Corridor is the largest of the altogether nine corridors, in terms of core network length of rail (ca. 9.400 km) and road (ca. 6.400 km) and number of core ports, airports and rail-road terminals (in total about 90 sites). 15% of the EU28 population lives along the regions of the Scandinavian-Mediterranean Corridor, which generate 20% of the European GDP.

The northern part of the Scandinavian-Mediterranean Corridor is at the heart of the Northern Growth Zone, covering all the major ports on the Gulf of Finland, the core network airports of Helsinki and Turku, the Urban Nodes of Helsinki and Turku, as well as the only core network railroad terminal (RRT) in Kouvola.

The One-hour-train initiative – the high-speed rail link between Turku and Helsinki – is one of the key pre-defined projects on the Scandinavian-Mediterranean Corridor, connecting Finland to the European network.

The Scandria@Alliance

The vision of the recently launched Scandria@Alliance agreement is to cooperate with the European Union, member states, regions and other relevant stakeholders in order to implement a sustainable and multimodal transport system by 2030 in the Baltic Sea Region and the regions along the Scandinavian-Mediterranean Corridor.

The Finnish founding partners of the Scandria@Alliance are the Regional Council of Helsinki-Uusimaa and the city of Turku. As the leader of the Northern Growth Zone alliance in Finland, the city of Turku is in a key position connecting the stakeholders in Finland and the Scandria@Alliance.

All of these recent agreements, alliances, networks and ecosystem initiatives contributing to the accessibility and connectivity of the Northern Growth Zone further improve the fluent flows of people, goods and data, and strengthen Finland as an attractive location for FDI. ■



MARJO UOTILA

Director, Strategic Alliances
Northern Growth Zone (Pohjoinen kasvuvyöhyke)
c/o City of Turku, Finland

KARI VEIJONEN & JAAKKO RUOLA

Finland's Archipelago Sea is unique on a global scale

Expert article • 2520

The Baltic Sea is one of the world's largest brackish water areas. Its salty water is from the North Sea, from edge of the Atlantic, whence water is irregularly pushed into the Baltic Sea through the straits of Denmark. The freshwater that dilutes the saltiness is mostly humidity condensed into rain, that too mainly from the Atlantic, that is driven into the sea by rivers. Approximately 250 rivers run about 500 km³ of fresh water into The Baltic Sea each year. Many marine biologists call the Baltic Sea a large estuary or a shallow bay of the ocean. The relatively small-sized and little-watered Baltic Sea differs significantly from both salty oceans and freshwater lakes. It is a low-salt brackish water pool, a young sea within a tectonic plate depression, that has received the majority of its current biota only after the last ice age so within the last ten thousand plus years.

As part of the Baltic Sea, the Archipelago Sea forms a globally unique biosphere. The Archipelago Sea's 2,000-million-year-old bedrock, 41,000 named islands, Finland's highest biodiversity and changing seasons make it a natural entity unlike anything else in the world. The Archipelago Sea is Finland's most important natural equity. It is a weaving of naturescapes and landscape tradition brought about by centuries of human influence; of island clusters, broad open water, shallows and trenches. Seals lie on cliffs polished by millions of years of erosion. Across meadows, broadened by grazing, seas of flowers sprawl, colourful flocks of butterflies flutter and animals scuttle. The Archipelago Sea is paradise for boaters, cottagers and travellers alike. In addition to islanders, ferries transport summer dwellers and visitors. Furthermore, the unique Archipelago Sea is a world-class travel route, where modern passenger ships transport over 5 million passengers between Finland and Sweden each year.

The Archipelago Sea is ill, and it must be saved for future generations

People have had a strong influence on the archipelago and its nature since the islands began rising from the sea after the latest ice age. Seal hunters and fishermen came first. Little by little habitation spread, villages were born. Wood collection kept the scenery open, livestock gnawed down meadows and pastures. Once the archipelago became deserted one island at a time, open landscapes began to grow shut. Gradually, almost unnoticed, human impact changed its nature. The force of sewage from growing cities, industry emissions and the wash of nutrients from agriculture extended to marine nature. Almost invisibly, but even more drastically.

Although the majority of emission sources have been tamed, the influence of agriculture upholds a high level of nutrients in the water. In addition, nutrients and heavy metals stratified in sediments may also be released into rotation from time to time. Climate change further increases problems. The Baltic Sea – and the Archipelago Sea as part of it – is ill. The blooming of blue-green algae in the midsummer is the most visible part of the problem, something nevertheless the

entire ecosystem of the sea is suffering from. The future health of the sea is in our hands.

In March 2019, the Finnish Ministry of Environment launched a programme to increase the protection of Finnish waters. Based on this, on March 11, 2019, 20 million euros were assigned to the purification of the waters of the Archipelago Sea for the next three years. The government has granted water protection a nationally significant investment – all in all, the funding allocated for this cause during the government budget session was 45 million euros for 2019–2021. This program complements other water protection funding, such as EU funding, which is significant for agricultural water protection among other causes. These funds have been allocated for agricultural water protection, locally for example for reconditioning lakes and developing water control in cities. The Minister of the Environment for Finland's last government, Kimmo Tiilikainen believes that with the help of this water protection enhancement programme, significant strides can be made to the condition of our waters in the coming years

Operation Archipelago Sea 2019–2023, aiming to increase knowledge about and respect for the Archipelago Sea and to impact the cleanness of the sea

While our government's investment is substantial it is not sufficient. The Centrum Balticum Foundation and its Protection Fund for the Archipelago Sea have decided to launch the Unique Archipelago Sea communication operation to influence action. The operation aims to increase knowledge about and respect for the Archipelago Sea internationally, especially within the Baltic Sea region. We invite all individuals, companies and communities to join us in our five-year endeavour, Operation Archipelago Sea, which aims to give future generations a respected and clean, globally unique nature and travel destination. ■



KEIJO VEIJONEN & JAAKKO RUOLA

Senior Business Executives
Veijonen Consulting Ltd
Finland

DENIS MELESHKIN

Finnish investors attracted to Belarus by cost competitiveness, highly educated workforce and small taxes

Expert article • 2521

Belarus is seeking economic growth by attracting foreign investors from Finland, among others. Realization of the existing trade and economic potential is of great importance to Belarus in terms of attracting investment and expanding the use of modern Finnish technologies.

Finland is known as one of the world's largest investors. Finnish companies are in constant search of projects for profitable investment and Belarus can become a profitable and reliable partner for Finland in the field of investment cooperation.

Belarus is interested in developing cooperation with the Finnish side in a number of areas: forestry, woodworking, biotechnology, biofuel production, agriculture, scientific and technical cooperation, environmental protection, etc.

In terms of direct investments from Finland Belarus has been overshadowed by the Baltic, Russia, Ukraine and Eastern Europe countries. The total amount of Finnish investment in Belarus today is close to \$2.12 million.

However, Finnish companies have found setting up in Belarus brings numerous benefits. Belarus is home to 24 companies with the Finnish capital, including seven joint ventures. There are also representative offices of Finnish firms operating in the country.

Retail trade is among the promising areas for investment in Belarus. In 2007 the second largest retail joint company KESKO bought the control packet of actions of Belarusian net of building hypermarkets OMA and plans to expand this network with new investments for tens of millions of euros.

Olvi Group owns the main shareholding of Lidskoye Pivo. But the main potential is in the energy sector. Finnish energy companies work here, such as Wärtsilä, Valmet and KPA Unicon.

Some Finnish companies are already participating in the construction of backup power plants near Belarusian Nuclear Power Plant. Finnish technologies in this area are considered reliable and competitive. Taking into account the planned launch of the first block of the BelNPP, cooperation in this area seems to be promising for the both sides. For example, this applies to peak-reserve power plants, based on gas turbine installations, which may be of interest to the Finnish side. The creation of peak-reserve energy sources will increase stability of the national power system in changing loads, and will be especially relevant after the increase in the share of nuclear energy in the country's energy balance.

The Finnish-Belarusian environmental partnership plays an important role in the relations of the two countries and is growing fast both at the bilateral level and within the framework of international projects that involve Finland (NDEP, HELCOM, UBC, etc.).

Nowadays the possibilities are being explored to find additional subsidies for a number of projects already agreed upon, and work is underway to identify new aspects of joint environmental activities, in particular, the purification of industrial wastes.

The main objective for the period 2015-2018 was the implementation of the investment program «Belarus: an environmental infrastructure project — phase one» with the assistance of the EBRD and the Northern Investment Bank. Three new projects which involve Finnish companies and public funds have been launched for a total investment of 30 million US dollars.

Every year Belarus is getting more and more attractive for foreign business. Last years brought a number of positive changes in investment climate, which were warmly welcomed by the international community.

Belarusian business conditions made it possible for foreign investors to enjoy Belarus as a platform for further business development. Moreover, assisted by international organizations a number of large-scale public-private partnership infrastructure projects are being launched.

Characterizing the Belarusian economy, it is necessary to note its high diversification, openness and high degree of integration into the system of international trade.

Belarus' business and investment climate remains quite challenging and Finnish companies are closely following its development. Belarus seems to be broadly on the right track. The Government is implementing a range of measures to attract foreign investments. A number of important documents have been adopted in the country that significantly simplified the work of investors and improved the investment climate. Achievements include a more stable macroeconomic situation, deregulation of administrative burdens, the predictability of legislation and its fair implementation, the judicial system, customs clearance etc. Belarus is one of the six leading countries of successful reforms according to the World.

Elevating borders and broadening the horizons for mutual cooperation, Belarus makes every single step to show its openness for everyone: in 2018 Belarus has introduced the 30-day visa-free regime for the citizens of 80 countries.

Various indicators of the country's development and the work on sustainable development enable the country to place high in the global rankings.

Belarus is steadily improving its position in the Bank's international rating "Doing Business". Today it occupies the 37th place. This position is no longer just a figure, it is the opinion of the world experts that it is easier for businesses today to operate in Belarus than in a number of countries that were common in a different time under different conditions. This is one of the factors that encourage Finnish companies to explore the Belarusian market.

In 2018 Belarus ranked 54 among 153 countries in the Good Country Index. The results of the Index indicate that, relative to its size, Belarus contributes enough to humanity.

Belarus has received high approval for the work done to achieve the Sustainable Development Goals in 2018. According

to 2018 SDG Index and Dashboard report Belarus ranks 23rd among 156 countries and has been generally rated above average for the region of Eastern Europe and Central Asia.

Almost all the territory of the country is a set of various successfully functioning preferential regimes for investment, within which tax, customs benefits and other advantages are granted for investors to set up and run a successful business.

Finland is an innovation-driven country and one of the most innovative economies in the world. Today's Belarus is also showing signs of growing demand for innovative approaches in all spheres of economy.

The Great Stone is a strategic project for our country, the flagship of innovative and efficient industrial production. An unprecedented regime for the investor is established here. The resident of the Park is exempt from income tax, land tax and real estate tax.

In Belarus, the world practice of the operation of special Free Economic Zone regimes is successfully applied, which gives enterprises the opportunity to work in special preferential terms. Residents of FEZ are exempt from profit tax, real estate tax, land tax, rent payment for land plots, import value-added tax.

One of the most promising areas of cooperation with Finnish companies is the sphere of information and communication technologies. It cannot but be mentioned that one of the best preferential regimes for the IT sector is the High Technology Park. Today in HTP many world IT-giants are registered, including Rakuten Viber and Epam and other world IT leaders. The mobile applications developed by HTP resident companies are used by more than 1 billion people in 193 countries. The success of the Belarusian High-Tech Park is due to unprecedented benefits. The residents of the Park are exempt from all corporate taxes and value added tax.

The Finnish IT sector is considered to be the one of the global success stories. Belarus also wants to count on this direction.

In 2018, revolutionary legislation was introduced in the field of regulating the digital economy, which essentially turns Belarus into one of the most comfortable countries in the world for conducting IT business. Belarus became the first state in the world with comprehensive legal regulation of activities with crypto-currencies. Institutions of English law are being introduced.

By its Science & Technology ranking from the list Belarus is on 28th place (Finland is 10th). It shows Belarus as an attractive country for investments, especially in IT and innovation sphere.

Finnish IT gurus confirmed that the best coders come from Belarus. Belarus has a huge potential for a strong engineering and mathematical education. In terms of the number of people employed in the IT sphere per capita, Belarus holds one of the highest positions in the world. This, by the way, is also relevant for Finland.

Finland secret is an investment in high-quality education and the creation of the Finnish Innovation Fund. Previously, it dealt mainly

with the scientific development of large companies, but now began to focus on financing small start-ups. Belarus ranks 52 globally among 202 countries, based on the strength of its startup ecosystem. Companies such as Microsoft, Google have been busy snapping up local startups for years now, with big names such as World of Tanks and Viber all hailing from Belarus. In 2017 Google acquired the computer vision startup AIMatter, the Belarusian company behind the photo-effects app Fabby, which continues under Google's guidance. The app was really a showcase for AIMatter's technology, a platform for detecting and processing images, which is what Google was really buying into, industry observers say. Adding to the picture, Facebook also acquired Belarusian startup Masquerade.

According to the National Agency of Investment and Privatization, a government agency that promotes foreign investment, currently there are a lot of investment projects which could be interesting to Finnish investors. The most of projects are in IT, green economy, agricultural, industrial, pharmaceutical and touristic fields. For example, it might be attractive to be invested in the projects in green economy field such as Production setup of bleached chemical-thermomechanical pulp. Bleached chemical-thermomechanical pulp is used in the production of paper and paperboard as a cheaper alternative to bleached hardwood pulp. Among the main entrepreneurs' aims such as financial increase there is not less important aim as an environmental protection.

The National Agency of Investment and Privatization is a trustworthy partner for Finnish business in Belarus. The agency is a starting point for foreign investor to discover the country. It works with investors on a one-stop-shop basis and accompanies projects at all stages of their implementation, including post-investment support. ■



DENIS MELESHKIN

Deputy Director
National Agency of Investment and
Privatization
The Republic of Belarus

TOMASZ ORŁOWICZ

The role of subcontracting for Finnish and Polish SMEs in bilateral cooperation

Expert article • 2522

There is still a lot of untapped potential in the cooperation of small and medium-sized enterprises on both sides of the Baltic Sea today. Poland used to be known as a low-cost country and that makes it favourable when it comes to subcontractors' selection. Polish subcontractors are also famous for high quality skills and expertise. This situation, however, is changing. For the better. In the next few years Poland will undergo the process of its economy transformation. The low-cost economy is increasingly becoming a thing of the past. The future is innovation and the knowledge-based economy. Nowadays Poland is perceived as a country which offers good quality products and services for reasonable prices. Parallely, and what is even more important, it proposes well-educated and talented professionals. In the year 2016 Poland has implemented the strategy that is supportive for science, research and development and therefore playing the crucial role for the modern economy.

In the middle of 1990's, Poland was one of the fastest-growing economies in the world. In 2018, the average level of income in Poland exceeded two thirds of the euro area, the highest in history. Also in 2018 Poland has become the first country from the Central and Eastern Europe to be ranked a "developed market" on the FTSE Russell index list.

Many of today's Polish SMEs champions launched in the 1970s and 1980s. At that time especially crafts and small workshops served a significant function, being noticeable suppliers of parts and components to the industry. After 1989, when the free market allowed their progress, and as the result of economic transformation, powerful growth of entrepreneurship took place. Fathers of the production companies were mainly graduates of technical schools, giving very often foundations for long-lasting family business.

It resulted in over 2 million SMEs, active currently in Poland. Furthermore, one can find many "Hidden Champions", in different fields. The ones are very leaders in their branch or local markets, but as the mid-sized are not widely known to the general public, let alone other countries, turn up propensity to find partners for cooperation and to diversification of their portfolio - namely clients and/or cooperants, even partners in joint businesses.

A wide variety of Polish industrial products have already been exported to Finland during the last years. These embrace various components, yachts, buses, ships, electric engines, machines, as well as auto parts and chemicals. All of them enjoy a well-deserved favourable reputation in Finland. Most of these products were made in Poland, as the result of cooperation with the network of local subcontractors. Many of those companies are the best partners for Finnish enterprises, not only to produce but also develop products, that either are no longer profitable to be manufactured in Finland, or it is too difficult and complex to order them in Asia.

Current economic growth in Finland has shown a great demand

for specialists in technological industries. Finnish consumers also expect positive changes in the market - first of all those stemming from diversification of suppliers and competitive variety of products - simple, modern, esthetic, practical. Metal industries leaders develop dynamically. They try to be as competitive as possible, especially when they operate outside, expectably in global scale. They also need and can keep-up standards of high quality of their products, but at the same time they know they must reduce costs of manufacturing, delivering and selling. In these circumstances, there is a need to link different knowledge and very professional, innovative skills of engineering and managerial kind; both require and absorb top specialists and well educated people of wide imaginary visions. On the other hand Poland needs wise cooperation. After living through three decades of transformation, simple machinery transfers and direct financial supports ceased being sufficient, here in Poland. Conclusion is obvious - there is a great chance for complementary cooperation and programs - Poland fits in this gap perfectly, alike Finland on the other side. This is best possible match - one can hope.

Evidently, it is only half the battle to find a company that meets our manufacturing needs. To the same extent important, or maybe more, is the human factor, as always people do the business with other people - personalities and cultures intervene inevitably. If so, Polish manufacturing sector can do much more it has been doing so far. How to have it done? On the one hand, for most of European SMEs opening factories in Poland proves impossible - from both financial and organisational perspective. But... borderless set-ups created by the EU, legal framework of the *acquis*, proximity of the countries, better and better infrastructure for logistical operations, etc. - bring hope and instruments to join businesses without direct "hard" investments. Consequently, the good, accessible and reliable partner with own resources plays the decisive role in a matter. System similarities, geographical location makes many things easier - to meet, to talk and do business face-to-face, sharing obligations and work in own countries. This convenience adds up easier access to the neighbouring markets, as well - beginning in Germany, landing in Russia. Nowadays we have more and more flight connections between Poland and Finland, including constant improvements on Via Baltica and the construction of Rail Baltica. All of that improves the regional transport and communication network.

To sum up, having a business partner from Poland indicates a great opportunity to enter the market with your products easily and cheaply. In comparison to Sweden, Germany, Russia and the Baltic countries - Poland has both a huge, absorptive market and resources that could be fruitfully utilised. It would also be worthwhile for the Finnish SMEs to benefit from the Polish market production capabilities and keeping two-partite business relations in the long-term. Also Polish distribution system, abundant and varied wholesale and retailing add also a perspective.

Expert article • 2522

The strategy related to Poland, carried out wisely, could contribute to the rapid growth of many, especially small, Finnish companies. Through the synergy effect the Polish manufacturers and companies would also benefit a lot. Ultimately, such joint effort would pay to all contracting parties.

Finding a good partner is not easy, it requires an effort and time, but in the long run it would turn out to be very profitable and would let both sides thrive. ■

**TOMASZ ORŁOWICZ**

Head of Helsinki Office
Polish Investment and Trade Agency

SANNA TURUNEN

The era of additive manufacturing has dawned

Expert article • 2523

Only a few people know that in southern Finland the ecosystem of companies and experts in the field of additive manufacturing or more familiarly 3D printing is quite versatile in proportion to the size of the region. The ecosystem also collaborates, which can be the basis of totally new industrial solutions. Among others, the new solutions of metal printing and bioprinting serve as the trendsetters.

Additive manufacturing is becoming a great tool for the medical industry as it enables printing of unique fully customized pieces, yet at an affordable price. 3D printing technology can be used for both prototyping and production of medical instruments, surgical prototype models, as well as custom-made implants and prosthesis. Indeed, 3D printing can be used for various applications to create parts adapted to the needs or to the morphology of the patients but what if instead of inanimate objects, it could be possible to print living human body parts?

It sounds like science fiction, but it may well become a reality in the near future. Obviously, bioprinting of tissues and organs can't be performed with a traditional printer as 3D bioprinting is a complex process. However, if you replace the ink of your traditional desktop printer with cell-laden hydrogel bio-ink and paper with bio-paper made from ingredients such as collagen or gelatin and add a third dimension, the depth, to complement the movement in the horizontal and vertical dimensions? With these modifications, you will end up with a basic 3D bioprinter capable of dispensing living cells embedded in a supportive hydrogel matrix in a layer-by-layer fashion according to a CAD model. As the hacking of an inkjet printer is not as straightforward as it may sound and not everybody is keen to build a bioprinter of their own from the scratch, luckily nowadays there are several commercial bioprinting systems already available, as many new bioprinting companies have emerged during the past few years.

Turku-based 3D Tech Ltd has launched on the market their modular Brinter™ bioprinting platform, which is the first ever bioprinter developed entirely in Finland. Modular bioprinters are cost-effective solutions offering several print heads based on different dispensing principles in a single printing platform. This allows the printing of various biomaterials with different viscosities into a single construct. The most common printing technology implemented in the majority of commercial 3D bioprinters is the extrusion-based approach due to its inexpensive assembly and operational costs. Extrusion-based printers dispense cylindrical filaments of bioinks employing either pneumatic (air pressure) or mechanical (piston) forces to deposit the bioink through a nozzle. Currently, bioprinters, such as Brinter™ can already be used in a variety of applications, such as a versatile tool for basic research in tissue engineering and regenerative medicine conducted at universities and research institutes.

Moreover, before translating from bench to bedside, bioprinting offers a cost-effective solution for the pharmaceutical industry to shorten and enhance the productivity of the drug discovery process.

Bioprinted tissue models (e.g. liver) with multiple cell types and a complex native-like physiological environment will eliminate the need to use test animals for testing drugs during the drug discovery process. In addition, bioprinting can be used to recapitulate the cancer microenvironment by precisely locating tumor cells and microcapillaries into a tumor tissue model to study cancer pathogenesis, growth, and metastasis.

The next new wave of personalized medicine will be 3D bioprinted customizable patient-specific drugs, which can be altered in terms of drug loading, the release rate, and the taste of medicine simply by changing the geometry of a tablet. Ultimately, in the long run, the bioprinting technology will provide inspiring solutions to address the shortage of organs for transplantation. As further progress is achieved in the field of biomaterials, bioprinting techniques, and cell technology, bioprinting will transit into clinical practice, as the printing of fully functioning tissues and organs becomes a reality.

The global market for 3D bioprinters has a value of approximately \$774 million and is expected to grow at a compound annual growth rate (CAGR) of 18.8% between 2017 and 2025. Furthermore, it is estimated that by 2027 there will be over 5,000 3D bioprinting platforms installed worldwide, giving a unique opportunity to innovative 3D bioprinting rookies, such as 3D Tech, to thrive and dislodge the current industry leaders. Undoubtedly, bioprinting will be the next trend in healthcare and personalized medicine. ■

SANNA TURUNEN

D.Sc. (Tech.) in Biomedical Sciences and Engineering
Product Manager
3D Tech Ltd
Finland

Postdoctoral Researcher
Tampere University
Finland

MIKKO VILLIKAR

Finnish – Swedish naval co-operation

Expert article • 2524

The deepened defence cooperation between Finland and Sweden aims at increasing effect and efficiency through combined use of resources, through increased interoperability and through a closer dialogue on common challenges. It is based on the already close defence cooperation between the two countries.

On the 6 of May 2014 the Finnish and Swedish defence Ministers signed an action Plan for deepened defence cooperation between Finland and Sweden. The cooperation is divided in to several areas. This article is about the Navy part, FISE Naval.

The aim of the deepened defence cooperation in FISE Naval is to achieve increased operational effect through combined use of resources, increased interoperability and a closer dialogue on common challenges.

FISE Naval is created in order to enhance the bilateral naval cooperation between Sweden and Finland. The Swedish and Finnish navies have been engaged in different types of cooperation, i.e. bilateral exercises, exchange, development and acquisition programmes, but also activities with a more operational goal. The main effort of the vision Swedish-Finnish Naval Task Group (SFNTG) is to find cost-effective and smart ways to utilize the two navies' operational capabilities and capacities into available forces in order to meet today's and tomorrow's security challenges.

FISE Naval, including SFNTG (Swedish Finnish Naval Task Group) and SUCFIS (Sea surveillance cooperation Finland and Sweden), is established under the joint FISE framework agreement between the Finnish and Swedish Armed Forces. The aim of the SUCFIS-cooperation is information exchange between Finnish and Swedish sea surveillance systems in order to improve maritime situational awareness. The development of the SFNTG is based on a Vision and a Road Map documents which have been developed by the Navy Command Finland and Maritime Component Command Sweden and are signed by the Chiefs of the Navies. The SFNTG is a tactical unit, covering all warfare areas except for submarine warfare. In the same level, there is also SFATU (Swedish Finnish Amphibious Task Unit). SFATU consists of Commander, staff element and units. The main goal of SFATU is the deepened cooperation of amphibious troops.

The Task Group would consist of units already deployed in different pools of forces by Sweden or Finland, as well as other naval and coastal forces, maintenance units and staff. This separately tailored Task Group can be provided for international crisis management tasks as a ready and trained unit with a ready-to-use command structure. The Task Group would consist of staff and separately designated surface warfare units, mine clearance units and amphibious units.

The Task Groups operational functions are designed to command and Control, ability to exchange information (Intelligence), engagement, ability to concentrate troops and performance (Mobility), sustainability and protection.

To support operational functions, following potential areas of cooperation has been identified such as planning capability, management system capability (C4I), force generation, compatibility (Doctrine / Interoperability), training and exercises, equipment and procurement, personnel management and personnel exchange,

service and support performance (Logistics and infrastructure).

The SFNTG has been in various exercises since 2014, both CAX (computer aided exercise and livex at sea. The two main annual exercise of the SFNTG have been the TTT (table top tactics) during winter time (CAX) and livex, the Northern Coast exercise. The SFNTG has been commanded by both Swedish and Finnish Commanders. The change of command takes place every year, so that every other year Swedish commander is in charge and every other year Finnish commander commands the SFNTG.

The ships or units in the SFNTG have consisted of surface war ships and mine clearance units. The main task of SFNTG has been sea surveillance and protection of shipping. The next exercise the SFNTG participates will be Northern Coast 2019 in the Southern Baltic Sea. ■

MIKKO VILLIKARI

Commander, Chief of Operations
Coastal Fleet
Finland

KASPERI SUMMANEN

Finland's "NATO-option" still matters

Expert article • 2525

As Finland's partnership with NATO has deepened a unique and somewhat controversial foreign policy concept referred to as the "NATO-option" has emerged. In principle it means the Finnish government states openly that it is prepared to apply for membership of the alliance.

According to its proponents, the mere idea of holding a door open for NATO creates security and stability for Finland as well as the greater Baltic Sea region while still avoiding any issues membership might cause with Finnish-Russian relations.

Its critics, especially those who favor joining NATO, see the option as an extension of cold war era finlandisation, words on paper aimed at stifling true debate over whether Finland should join or not. The critics correctly point out that only full membership carries real security guarantees. The critics are equally correct in reminding the optionists that applying for NATO membership in dire straits would be unrealistic. You cannot get a fire insurance when your house is already on fire, as they say.

NATO-option is however fundamentally misunderstood by both sides of the debate. Whether we like it or not, outside observers see our NATO-option differently than we do. Instead of having anything to do with hard security and actual membership, the option has become a tool of strategic messaging and should be treated carefully as such.

During his 2017 visit to Finland Russian president Vladimir Putin affirmed the importance of such messaging. Putin praised Finnish foreign policy as "balanced and independent". Alluding to Finland and Sweden he also stated his willingness to cooperate with "neutral countries" in the Baltic Sea region. Russian president chose his words with care and sent a message. He is fully aware that Finland and Sweden, both close partners of NATO and members of the EU, consider themselves non-aligned, not neutral.

When the Finnish government explicitly states its preparedness to apply for NATO membership, it openly signals our alignment with the alliance and western values connected to it. It is a step away from perceived neutrality. NATO-option as a form of strategic messaging is exemplified by how the door was closed - at the request of Social Democrats - by Jyrki Katainen's government in 2011 and opened again by Juha Sipilä's government in 2015. Both governments stated Finland is prepared to apply for NATO membership. Katainen's government however also wrote in its programme that Finland would not apply during that election cycle. The next government on the other hand refused to make such a promise. In a post 2014 world polarised by Russia's annexation of Crimea and its war in Ukraine, this was a clear message to our neighbours as well as our transatlantic partners. A more bellicose Russia drives us towards the alliance, not away from it. One can consider what kind of a message for example not mentioning the option at all would have sent.

Whether it wants it or not, Finland is married to its concept of NATO-option. It does not matter that the idea of applying for membership in a situation where Finland faces a threat it cannot counter on its own is unrealistic. How our governments discuss the option is still a metric for outside observers trying to assess our foreign policy stance with regards to the big players.

During the election debates in April we received a poignant reminder on how carefully our public discussion on NATO is watched.

Chairman of the Social Democrats Antti Rinne questioned whether Finland would even be accepted into the alliance if it applied. Rinne based his argument on the unpredictability of present American leadership. The comment quickly found its way to Chinese state media which stated that the Finnish option of joining NATO had lost credibility. In the next debate Petteri Orpo, Chairman of the National Coalition Party, criticized Rinne for "harming our NATO-option". Some argued that Rinne was effectively paving the way for closing the option altogether - why hold the door open, if you believe no one is coming.

It is not hard to believe a Finnish government - especially if lead by Social Democrats or the Green Party - could include the promise of not applying for NATO membership in its program. This recently happened with our close defense partner Sweden. There the new leftist government immediately announced it would not seek NATO membership during its reign. Why make such a statement if not to send a message to those who would be opposed to Sweden joining the alliance? The Swedes would probably argue such statements create predictability and stability - it could however also be seen as appeasement.

The Finnish government should tread carefully if it decides to play with our NATO-option. As fictional as the door opened by the previous government might be, closing it would be seen as a message especially in the Baltic Sea region. It would be a small but not insignificant step towards the very "neutrality" favored by Mr Putin.

**KASPERI SUMMANEN**

Editor

Verkkouutiset (Online media owned by the National Coalition Party)
Finland

ANDRES KASEKAMP

AABS unites scholars of Baltic studies

Expert article • 2526

Baltic studies is concept that was born in 1968 when a group of Estonian, Latvian, Lithuanian scholars in exile in North America decided to pool their talents and establish the Association for the Advancement of Baltic Studies (AABS). Until that point, most scholarship had been from a narrow national perspective. Furthermore, the Baltic states had been incorporated into the Soviet Union and wiped off the map of Europe. In the context of the Cold War, research on their home countries by Estonians, Latvians, and Lithuanians in exile was not taken seriously and was often viewed as politically motivated by the wider academic community. Thus one of the aims of the founders of AABS was to prove that their scholarship was objective and legitimate.

Baltic studies was defined broadly: it encompasses a wide variety of disciplines, including (but not limited to) political science, history, economics, culture, literature and language. Though AABS focuses on Estonia, Latvia and Lithuania, in recent years, it has been attempting to broaden its scope to include other countries of the Baltic Sea region.

The goal of Baltic studies is to be genuinely comparative. It is surprising that there is still resistance to the idea that the three Baltic nations belong together among some Estonian, Latvian and Lithuanian scholars who prefer to emphasize their differences rather than their similarities. Our understanding of events and processes benefits tremendously from a comparative perspective. AABS seeks to overcome the still common practice of an author from one of our countries, e.g. Estonia, writing about her own nation but entitling the article as the Baltic case, as if the other two countries are identical and the conclusions reached in their research can automatically be broadened to include all three Baltic states.

The flagship event of the AABS is its biannual conference on Baltic studies which regularly attracts several hundred researchers from at least four continents. Last year when the republics of Estonia, Latvia and Lithuania celebrated their centenaries, AABS celebrated its 50th anniversary with a conference at Stanford University. Recent AABS bi-annual conferences have been held at the University of Pennsylvania, the University of Washington, Yale, Georgetown and Johns Hopkins. The next conference will be held in Charlotte, North Carolina on 28-30 May 2020. On two occasions, the AABS conference has been held together with the annual conference of the Society for the Advancement of Scandinavian Study. Additionally, AABS has also had some joint efforts on a smaller scale with the German Studies Association.

The face of AABS is its quarterly peer-reviewed Journal of Baltic Studies published by Routledge / Taylor & Francis and currently edited by Dr Matthew Kott, based at the University of Uppsala. It is the premier journal in area studies for our corner of Europe. The most recent issue (vol. 50, no. 1) is entitled "The Baltic states after the crisis: the transformation of welfare systems and social problems" which showcases how researchers from a variety of

disciplines can contribute to understanding contemporary problems from a transnational perspective while also having relevance for policymakers beyond our region.

In parallel to the AABS biannual conference there is also the Conference on Baltic Studies in Europe, a biannual conference on alternative years to the AABS conference, a tradition which began at the University of Stockholm at the end of the Cold War and has rotated among Baltic Sea states. The next European conference will be held in Poland for the first time in the city of Gdansk on 26-29 June 2019 (cbse2019.wordpress.com).

Though AABS began as a North American organisation (and is a member of the prestigious American Council of Learned Societies), it has a global reach. The European component has been increasing in terms of its membership, publishing activities, and leading officers, e.g., the President-Elect of AABS is Prof. Daunis Auers of the University of Latvia. AABS has members in more than 30 countries, including all the Baltic Rim states.

Unlike many other scholarly organisations, AABS is a learned society which is open to all who have an interest in the area, i.e., many non-academics are members. It is a self-financing organisation which relies on its membership dues and donations. Thanks to numerous individual benefactors, AABS has been able to develop a program of scholarships and grants for students and researchers of Baltic Studies. These includes grants for emerging scholars and doctoral dissertation writing grants. Additionally, there are several grants specifically for citizens of Latvia. For more information, please see aabs-balticstudies.org and consider joining AABS to support academic research on the Baltic states. ■



ANDRES KASEKAMP

Professor of History, Chair of Estonian Studies
University of Toronto
Canada

KATA FREDHEIM

Remigration and brain gain in the Baltics

Expert article • 2527

So far this century, no country in the world has suffered a greater depopulation rate than Latvia. In 2014, the population was 19% lower than in 2000. In the past two decades, the three Baltic countries lost a significant portion of their population. A combination of low birth rates, ageing population and emigration contributed to the decline. High rates of emigration are not unique to the Baltics. Since Central and Eastern European countries joined the EU, and especially since the financial crisis, many have emigrated for work or educational reasons. Emigration's impact on societies and economies has been severe, resulting in shortages in the labour market and in further demographic problems. Only recently did statistics indicate that the wheel may be turning in Estonia and Latvia as net migration edged towards positive numbers even if for just a few months.

In the Baltic states, similarly to other Central and Eastern European countries return migration is often portrayed as the magic solution to improve the countries' demographic trends. Migrants' return has been seen as a way to reverse brain drain, a way to turn migration into a source of net human capital gains, simply put 'brain gain'. This view is not new: during post-war decades, migrants' skills and experiences were welcomed as a 'brain gain'. Today, assets that returning migrants bring include work and study experience in diverse environments, languages, innovations, advanced technology skills, foreign contacts, entrepreneurial aspirations, and financial resources to be invested in business ventures.

Return migrants' participation in entrepreneurial activities in the Baltics is 10 % higher than the participation of the average population. Know-how, entrepreneurial mindset and financial resources contribute to return migrants' greater entrepreneurial activity. For Baltic countries entrepreneurship is seen as a matter of progress if not survival. The three countries pride themselves in their entrepreneurial ambitions, and recognise that a path towards economic growth is developing their highly educated and innovative workforce. Entrepreneurship is a remedy for demographic woes as it helps create clusters of innovation and this attract more talent.

Municipalities, governments, NGOs and even investors have developed initiatives such as regional return migrant support, small business grants, or working with businesses who pledge to recruit remigrants. Such initiatives, whether supporting entrepreneurs or return migrants, recognize that new beginnings are not easy. Return migrants face complex challenges, such having to build a new network, integrating into society, and figuring out the administration of life. However, there is a vast diversity of interests, experiences and difficulties among returnees like in any other part of the population. Return migrants come back to a place they used to know, but a place that changed since they left. Their experiences abroad influence their expectations about salary, lifestyle and attitudes to corruption. As a result, many returnees leave their home countries again. In Lithuania, it was found that returnees can face prejudices from

employers. Employers' perception was that returnees expectations and experiences do not match up. Employers also find it difficult to account for the diversity of returnee experiences.

Thus, many questions remain unanswered. Policy makers and businesses may be responding to demographic shifts based on hunches and prejudices. Lack of recent research contribute to the myths around returnees, entrepreneurs and employers attitude. A new study we are conducting at the Stockholm School of Economics in Riga on remigration and brain gain aims to provide a clearer picture about the experiences of employers and returnees. Granular data from interviews and aggregate data from pan-Baltic surveys will give evidence on which to base policy now and in the future. Through this research, we will learn about experiences of employers, business owners, employees and return migrants; this will help to respond to today's opportunities and challenges. Surveys and interviews with thousands of high school graduates will give us a glimpse into the future: what the next generation's hopes, dreams, migration plans and entrepreneurial intentions are. Combining the data about the now and plans for the future could help policy makers and the business community to strengthen their initiatives and policy in search of a sustainable if not magic solution. ■

**KATA FREDHEIM**

Executive Vice President, Partnerships and Strategy
Assistant Professor
Stockholm School of Economics in Riga
Latvia

PETTERI VUORIMÄKI

EU-Russia relations and the Baltic Sea Region

Expert article • 2528

When I arrived in Brussels in January 2003 the EU-Russia relations were riding on the crest of a dynamic wave and while Parties had different views and levels of ambition on some aspects, there was a clear, positive, hopeful and forward looking atmosphere prevailing. Preparations were in full swing for the historic EU-Russia Summit in St. Petersburg in May 2003. Subsequent years witnessed the creation of the Roadmaps for the Four Common Spaces; an intensive series of meetings at all levels; negotiations on a new comprehensive and legally binding agreement to replace the Partnership and Cooperation Agreement; the transformation of the Northern Dimension into a common policy between four equal partners (EU, Russia, Norway and Iceland), the Partnership for Modernisation, the conclusion of a visa facilitation agreement, to name only the key developments. As for the Baltic Sea Region, the publication of EU's first macro-regional Strategy marked a milestone and that Strategy clearly noted the importance of further cooperation with the Russian Federation in order to be able to address the challenges which cross national borders and which are common.

When I leave Brussels in the summer of 2019 the overall atmosphere is much gloomier, much more pessimistic and much more tense. The EU and other partners have clearly expressed their discontent, including through various types of restrictive measures, regarding the illegal annexation of Crimean peninsula and Russia's actions in eastern Ukraine. The EU itself has stayed united and based its actions on the well-known five guiding principles which provide the framework for EU's relations with Russia for the foreseeable future. In just a few years the relationship has gone from the joint aspiration to establish a strategic partnership to the formulation in the EU's 2015 Global Strategy on Foreign and Security Policy that managing the relationship with Russia presents a "key strategic challenge for the Union". For someone like me who has spent the past few decades trying to promote cooperation with Russia, the current situation is sad or to use a British understatement, sub-optimal.

Having said that, cooperation at a regional level (not least in the Baltic Sea Region context) has continued to function well. The various types of cross-border challenges faced by all and opportunities for the benefit of all can only be solved through cooperation between all. A reformed Council of the Baltic Sea States and a fully utilised Northern Dimension Policy, and its Partnerships (Environment, Public Health and Social Well-being, Transport and Logistics, Culture) could play an instrumental role in this regard. The Northern Dimension has since 2006 been a genuinely common policy. Cross Border Cooperation programmes combine funding from the EU and the Russian Federation and both the EU and Russia are full members in both the Council of the Baltic Sea States and Barents Euro Arctic Council. Therefore, the structures are there to allow for constructive and mutually beneficial cooperation to take place, despite political differences (even those which are fundamental in nature). In addition to producing concrete

results for the benefit of citizens in the region, they can also play an important confidence building function during difficult times.

The CBSS Vision Group which I had the pleasure to chair was tasked to elaborate "a report with recommendations for a vision" for both the region and the CBSS. This was a tall undertaking but I am convinced that the decision makers in the region will find our final report (<http://www.cbss.org/wp-content/uploads/2018/06/Vision-Group-Report.pdf>) of use. Producing recommendations may be easy but putting them into operational practice is always harder. This requires common resolve, determination and commitment. Cooperation is possible and desirable and there is no alternative not to cooperate if the region is to prosper. The current state of EU-Russia relations does not make such cooperation impossible since for the EU some of the guiding principles (selective engagement, support to people-to-people contacts and support to civil society) can well be used, and are being used, as the basis for action also in the context of the Baltic Sea Region. What the region would, however need, is a more holistic view, more coordination between different actors and the ability for the actors to see the necessary linkages and synergies. All this requires some creativity, and perhaps also patience.

The vision that the report presented was that of *a region which is prosperous, safe and secure for all its people; open, transparent and inclusive for all nations and nationalities across the region and beyond; confident with its own strong regional identity and focused on sustainable economic growth and development, while being fully aware of its ecological vulnerabilities; committed to pursuing vibrant and enhanced exchanges between its people, especially in the field of education, better inclusion, prosperity and social cohesion; protective of human security and safe societies and capable of building trust between its nations.*

The means to realize that vision would necessitate promoting further dialogue and communication: sustaining high level political contacts; enhancing the role of the CBSS Secretariat; for all to provide sufficient funding; analysing better the ecosystem composed of regional actors and by working to ensure that the EU Strategy for the Baltic Sea Region and Russia's Strategy for the North-West Russia are able to create synergies and results. Cooperation would also entail pursuing closer engagement with Belarus on key issues of common interest.

All actors around the Baltic Sea Region, and beyond, can contribute to ensuring that this vision does not end up as a mirage but that it turns into a reality. After all, regional cooperation is always important. During times of tension and disagreements, it is particularly important. ■

Disclaimer: The views expressed in this article are of a personal nature and do not necessarily reflect the views of either the European External Action Service or the Ministry for Foreign Affairs of Finland.

**PETTERI VUORIMÄKI**

Senior Expert, European External Action
Service (EEAS)
Chair of the CBSS Group of Independent
Experts, 2017-18 (CBSS Vision Group)

KONSTANTIN KHUDOLEY & ERIC SHIRAEV

New trends in Russia's foreign policy

Expert article • 2529

In the second decade of the 21st century Russia acts a global power. Its current confrontation with the West is not as tough as it has been during the Cold War. Yet it is not less dangerous given a more difficult manageability of the international processes and their significantly diminished predictability. Russia has also galvanized its foreign policy in many other directions. The declared 'Pivot to the East' allowed Russia to avoid isolation, but the effect of the pivot proved to be limited. Russia's and China's seemingly joint policies on numerous issues, including opposing the USA, complemented each other, but this did not lead to a military alliance or the transformation of the SCO into an 'eastern NATO'. Russia and Iran supported Syrian president al-Assad; yet significant contradictions and mutual distrust emerged between them. There were no qualitative changes in the relations with India, Vietnam, South Korea, Singapore, Indonesia, Japan and other influential countries of the East either. The post-Soviet states took a very cautious position trying to avoid involvement in the confrontation between Russia and the West. Moscow would still like to welcome the arrival of a wide-ranging cooperation in Eurasia, but, according to many experts, there is a belief that Russia is bound to a long international solitude with only few partners.

Russian politicians tend to make their judgments and decisions from a point of view rooted in aggravation of the current confrontation. Now, it is proceeding within several dimensions.

First, it is an arms race. The world is witnessing an erosion of the whole preexisting system of arms limitation treaties, and prospects of their replacement by new ones are not in sight yet. Moscow proceeds from the premise that the turbulence existing in the contemporary world not only will continue, but also grow. The fact that, recently, the Russian leadership is increasingly frequently talking and speaking about a possibility of war (including nuclear) most likely testifies to their possible adherence to this dangerous scenario, although some of these declarations seem to have a rather polemical value. All in all, the military factor in Russian foreign policy will undoubtedly remain very strong.

Second, Russia strives to counter the United States almost everywhere. Therewith, the Russian leadership is countering colour revolutions, which are viewed as very dangerous precedents. Preventing such events from happening and developing allows Moscow to flex its muscles and show its capability to act as equals to the USA on a global scale. In almost any spot of the globe where a conflict emerges, Russia supports the side confronting the USA.

Third, Moscow strives to play, to the fullest extent, the card of contradicting and even challenging the West. Thus the upper classes of the Russian society are tend to be convinced that the 'historical West' is declining and its inner problems and contradictions will grow. The influential circles also consider that President Trump's unilateral actions will lead to a weakening and possibly a breach of the transatlantic ties, and Brexit will cause a domino effect in the entire EU.

Fourth, there is an active propaganda campaign delivered through both the traditional media and the Internet. The main aim of this campaign is to cause greatest possible difficulties for the western establishment; whereby the radical left and the right in Europe are particularly targeted.

Despite the fact that, economically, the West surpasses Russia many times over, Moscow is convinced that Russia's economy has been adapted to the sanctions, the domestic political situation is under a full control, and Russia will be able to resolve the confrontation successfully: the West will eventually get exhausted of its own sanctions and will gradually lift them. Therefore, high stakes are placed on delivering as much harm as possible to the West, and primarily the USA, by neglecting the losses Russia itself could sustain. Even though Russia has identified almost all the vulnerable economic and political "spots" of the West, Moscow does not possess the necessary potential to coerce the West to agree to retreat. At the same time, Moscow is certain that the West will perceive whatever Moscow's concessions as a manifestation of weakness, and not as a readiness for compromise, and will only raise its demands. Therefore, Russia can now offer hardly anything to the West to bargain or negotiate. Finally, a shift in Russian foreign policy can disturb the formed consensus among the elites in Moscow.

Foreign-policy attitudes and sentiments of the Russian society are not as monolith as they could appear to an observer. The "Crimean euphoria" of 2014 is gradually evaporating, the confrontation fatigue is growing, although the population by no means always links a decline in the living standard with international affairs. The attitude towards the West is also gradually changing – it is by all means as not as hostile as that one of the upper classes of the society. Yet, here too, the readiness to make political and other concessions to the West is insignificant.

At the present time, almost all western experts we have interviewed do not see any strong prospects of an improvement of the relations with Russia. The majority reasons that the Russian foreign policy has deep ideological and cultural roots and does not depend on the personal qualities of leaders; others believe, however, that changes may happen as soon as a new generation of politicians comes to power. Similar discussions are taking place among Russian experts too. However, it is obvious that, in the short-run, Russia's ruling circles have sufficient resources and beliefs for pursuing the current foreign policy and will hardly be inclined to change it. ■



KONSTANTIN KHUDOLEY

Professor
School of International Relations
Saint Petersburg State University
Russia



ERIC SHIRAEV

Professor
Department of Public and International
Affairs
George Mason University
USA

MATTI POSIO

One thing missing in Finland

Expert article • 2530

The Finnish general election ended in a seemingly expected result. But there was a big difference from debates before. Almost nothing was said about foreign policy and Finland's geopolitical place in the world.

On the face of it, no big news broke. Finns voted actively (at least the 72% of us) in the parliamentary election of April 2019, and a pro-European coalition government led by the largest party, Social Democrats, is likely to be formed soon. All good and swell, isn't it?

Below the surface this campaign was far from run-of-the-mill.

The increasingly nationalist and inward-looking True Finns party (in English they call themselves simply 'The Finns Party') finished extremely close second, only narrowly escaping the opportunity to assume the duties of a government negotiator. Its chairman never had a true shot at becoming the prime minister, really, because of the dissonance with every other party, but this cliffhanger result merits a closer look.

In the run-up to the 2019 election, it was social security, immigration policy and climate change that dominated the debate, alongside some very Finnish quarrels about what your attitude is towards raking the forests.

One thing was missing in the election debates and it was the one that often defines Finland in the eyes of international observers. Nothing new was uttered about the key questions of foreign policy, or Finland's place in Europe and the world. At least not in the traditional sense.

True, the party leaders did address the 64 or so fighter planes the Finnish Air Force is going to be bought, to replace aging Hornets. The Social Democratic frontrunner Antti Rinne talked some about Africa and the need to employ its youth, but that too was mainly for the domestic crowd. I remember the liberal conservatives of National Coalition Party and Greens stressing the importance of keeping Europe open and integrated. The Center, well, voiced some centrist views. The nationalist populists rumbled on about returning border controls, stopping development aid, maybe dismantling the EU, and not fussing about global issues such as climate change as they are not our responsibility but the Chinese'. Those ideas were too strange to even consider.

This wasn't your grand old foreign policy debate about Finland leaving its 'option' open to one day possibly join NATO, with carefully decisive wording, while also quietly increasing the level of co-operation and participation with the alliance. Nor did Russia and its expansive attitude towards smaller neighbors play any major part, apart from the fact that everyone now seems unusually and totally satisfied with the Finnish president Sauli Niinistö's handling of issues, including his meetings with Putin.

Even Donald Trump was not mentioned much, mostly as a mere symbol of all things chaotic in our troubled times, alongside with Brexit (will that mess ever even happen).

You guessed it. Europe was also not at the core of Finnish politics. We are a member of the EU and it's crumbling, but no-one seemed to ask what Finland's policy concerning Brexit is. Did the prime minister even speak in the wee hours of the latest Brussels meeting, behind closed doors? No-one cared, as we knew Finland's position on the timetable was characterized as 'flexible'.

Back in the 90's, and even early 2000's, leaked documents or uncaredful statements about Finland's relations with the West or Russia could decide elections. Partly that was unhealthy, unnecessarily worried glancing over one's national shoulder, always fearing for the worst (read: waking the bear). The positive effect of these constant discussions was that Finnish top-level politics always demanded both knowledge about foreign relations and insight into how decisions are made on world stage. Now, only a handful of Finnish political leaders seems interested.

Even Sweden does not get under our skin. As late as two years ago I took part in a closed media briefing in Helsinki, on the highest levels of security politics, and addressed was the possibility of Sweden applying for NATO after the right-wing block would have won its general election of 2018. Of course, that never happened and now both Sweden and Finland march on under the 'No for NATO membership forever' Social Democratic drumbeat. So, no need to discuss anything here either.

Finland's elites seem more united than ever about foreign policy, if you choose to ignore the risky and provocative EU statements of our second largest party, True Finns.

Here are the cornerstones if you missed them. Finland is and will be an EU member and a founding member of Eurozone. Finland will diligently make sure it stays as close as possible to NATO and its key member states in guaranteeing our national security, without joining. Finland will continue to support a rule-based, law-based and institutions-based international order, the UN, and of course human rights, while not making any large gestures as the right-minded Swedes might, by refusing to talk to autocratic leaders or others who do not share our core values. Putin, Trump, Xi or anyone with any leverage is gladly welcomed in Finland, both because a small nation needs the channels and because it loves to get the spotlight.

This said, there is a deafening silence in Finland in terms of a foreign policy debate. If during the Cold War Finland's position could not always be talked about openly, now it's just not talked about. Everyone seems happy with the status quo. Only problem with this approach is that the state of things around us is far from stagnated. One day soon the distant cries of the next turmoil on our doorstep will again echo in Helsinki, and it will be hard to remain happy with what we had now, as nothing stays the same.

Russia has always both fascinated and defined us as Finns. Finland's seventh president J.K. Paasikivi lived through the most troubled times of our nation, and he used to say: 'Look at the Map'.

Russia's largest European neighbor, Ukraine, is, since the year 2014, defending itself and our democratic Western alliance on the frontlines of a war initiated by Russia, but strangely enough, even the thought of this does not touch the hearts and minds of Finnish voters at the polls.

Everyone's favorite history novel and movie in Finland is Väinö Linna's *The Unknown Soldier*. Many remember sequences from the epic by heart. There, as men from all regions and layers of society prepare for war, sparked by the unannounced first acts of hostility by the Soviet Union, a Finnish government minister is heard on the radio, and it could well be someone from the present-day Ukrainian government speaking.

“For the second time, in a short period of time, our men stand to defend their homes and fatherland. We wanted nothing else than to peacefully build this land, and develop it towards ever greater prosperity, but the power ambitions of our enemy did not allow for it. We could never want war, but at least as unable we are to give up our freedom, and independence.”

Along with its Nordic neighbors, Finland today is one of the best and most prosperous countries in the world, as proven by many indicators, thanks to both international order and favorable globalization and our own systematic work for generations on many fields of life, business and policy.

As some politicians would now like to close doors and windows quite literally, the mainstream of political leaders must not allow the closing of Finnish minds for European, international and global debates. Without foreign relations, in all their aspects, what would Finland be. And would it even be. ■

**MATTI POSIO**

Editor-In-Chief
Lännen Media Newsroom
Finland

PETRI RAIVIO

Nord Stream 2: The Russian gas pipeline splitting the European Union in two

Expert article • 2531

The dogs may bark, but the caravan moves on. Russia's state-owned gas company Gazprom gave an update on progress of the construction of the Nord Stream 2 gas pipeline in early April.

According to the company, 978 kilometers of pipe had been laid in the bottom of the Baltic Sea, about 40 per cent of the total length of the pipeline consisting of two pipes of 1225 kilometers each.

Recent obstacles have not slowed down the massive pipe-laying vessel ploughing the Baltic. Denmark announced in March that it will open another environmental assessment for the segment of the pipeline's route that would run in Denmark's exclusive economic zone south of Bornholm Island. A leaked letter revealed that Nord Stream believes this can cause a long delay to construction.

In February the EU agreed on revised gas market rules. Although watered down, the revision opens the possibility of extending the EU's rules separating gas pipeline ownership from production to pipelines crossing into EU territory from third countries.

Germany managed to gain a provision that effectively allows German authorities to apply for an exemption to the ownership rules for Nord Stream 2. But the legislation opens the possibility for opponents of the pipeline project to take the issue to the European Court of Justice.

And then there is the position of the United States, which has threatened companies involved in the construction and financing of Nord Stream 2 with economic sanctions. The U.S. has voiced concerns over European dependence on Russian gas, and of Ukraine losing gas transit income as a result of the new pipeline bypassing the country.

American motives may not be purely altruistic. It promotes the use of U.S. liquefied natural gas as an alternative to Russian pipeline gas in Europe. The EU, eager to avoid a flare-up in its trade war with the U.S., is keen to prove that it is already a good LNG customer.

The European Commission issued a press release in March stating that EU imports of LNG had increased by 181 per cent since Commission President Jean-Claude Juncker met President Donald Trump in July 2018.

The numbers appear tailored to please Trump. The press release bizarrely speaks of a cumulative increase since July, not month-on-month, which would give a lower figure. At the same time, there is no mention of gas imports from Russia, which dwarf American LNG.

But the pipeline forges ahead despite the headwinds in zoning, regulation and potential sanctions. The reasons for its resilience can be found in both ends of the pipeline.

On the one hand, Russia has an interest in selling its natural gas to the Europeans. The pipeline will provide the state with a predictable and stable source of income for decades. It may also provide political leverage.

And the Europeans want cheap Russian natural gas more badly

than they fear dependence on Russian energy. American LNG tends to be more expensive than Russian pipeline natural gas, although in March LNG prices dipped briefly below market prices for natural gas in Europe.

Germany has decided to decommission not only its nuclear plants, but also its coal and lignite power stations. Renewable energy will not be able to replace the massive power generation capacity disappearing from the market. Natural gas is cleaner than coal and is needed as a medium-term solution for crossing the bridge to clean energy.

Finland has more at stake in Nord Stream 2 than many other European countries. Finland's state-owned utility Fortum recently bought a majority stake in German Uniper, which is one of the shareholders in Nord Stream 2. Finland's former Prime Minister Paavo Lipponen has been lobbying to promote the pipeline.

The official Finnish position on Nord Stream 2 has been to consider it as purely an environmental question. This differs from the positions of Sweden and Denmark, let alone those of the Baltic states.

Coincidentally, Finland is much more reliant on Russia for its gas deliveries than the other Nordic countries, which import natural gas mainly from Norway. State-owned gas monopoly Gasum negotiates gas prices with Russia's Gazprom, which is building the pipeline.

"Finland has no national special interest either for or against the project", said Prime Minister Juha Sipilä in response to a parliamentary question on Nord Stream 2 in 2016.

But what is the European interest?

The critical camp is led by Poland and includes the Baltic states as well as Denmark and the U.K. Their argument is that Nord Stream 2 gives Russia another lever it can use in its dealings with the EU, and will put Ukraine in a precarious situation with a loss of gas transit fees and the increased risk of Russia cutting off supplies.

Nord Stream 2's added capacity of 55 billion cubic meters per year would be just about sufficient to replace the amount being currently transited through Ukraine.

On the other side of the debate are Germany and the Netherlands, which needs new sources of gas to compensate for its own declining production. Austria and Belgium support the project because their companies have invested in it.

Seven years after the launch of the EU's Energy Union – aiming to reduce dependency on Russian energy supplies – a unitary European position towards Nord Stream still does not exist. Conflicting national interests continue to override the search for a European position. ■



PETRI RAIVIO

EU Correspondent, Brussels
YLE Finnish National Broadcasting Co.

HEIKKI LEHTIMÄKI

Selected issues impacting the future of the Ukrainian Gas Transit System (GTS)

Expert article • 2532

Ever since the Nord Stream gas pipeline concept was introduced in 2005, for some it was solely a commercial or environmental issue and for the others, the project contained clear geo-economic or geostrategic elements, too. Nord Stream 1 (NS1) is now operational since 2011/2012 and is transporting 55 Billion cubic meters (BCM) of gas a year from Russia (Vyborg) to Lubmin in Germany (system fully operational in 2018). NS2 pipeline system (also 2 parallel 48-inch lines) is now being laid from Ust-Luga on the Baltic Sea coast in Russia to Lubmin. The construction of the 1 230 km-long pipeline system (also 55 BCM) is about 83% completed.

In the previous issues of the Baltic Rim Economies (BRE), Mykhailo Gonchar (BRE 1/18, 1/16 and 6/11) and Andrii Chubyk (BRE 4/14 and 5/10) have described the impact of NS2 on the future of the Ukrainian Gas Transit System (GTS) as an alternative transportation route for Russian gas to the EU. What follows is an update on the complex situation, due to 1) the recent changes in the EU Gas Directive, 2) the recent development in the NS2 permitting process in Denmark, 3) the impact of the Stockholm Arbitration Court awards in the gas import and transit disputes between Gazprom and NJSC Naftogaz and for Crimea as well as 4) the role of the Trilateral Gas Group (the EU, Russia and Ukraine) in attempting to reach a common understanding on the future of gas transit in Ukraine.

1) At the time of writing this article (15 April), the European Parliament had adopted by votes 465 to 95 (68 abstentions) on 4 April an overhaul on Gas Market rules meaning that gas pipelines from non-EU countries will be covered by the EU Law. This will give legal clarity for the existing and future gas infrastructure from non-EU countries and will clear procedures for when the Commission can grant exceptions. After the formal approval of the EU Council (and publishing in the Official Journal) it will enter into force 20 days later and will cover e.g. NS2 pipeline. Member States have 9 months to bring their national legislation in line of this decision. Jerzy Buzek, rapporteur in the European Parliament, said: "From now on, all gas pipelines from non-EU countries, including Nord Stream 2, will have to abide by EU rules: third-party access, ownership unbundling, non-discriminatory tariffs and transparency." (EuroParl Press Release).

2) Finland, Sweden, Germany and Russia have granted all the environmental permits for the NS2 pipeline to be laid in their Exclusive Economic Zones (EEZ) and Germany and Russia also for the territorial waters. Due to the recent maritime delimitation agreement between Poland and Denmark (and possibly also due to the Baltic Pipe project from Denmark to Poland in the same area), Denmark has requested NS2 to study a third alternative pipeline route in addition to the one going through the Danish territorial waters east of the Island of Bornholm (as NS1) and the other one to the west of Bornholm (EEZ). The new requested route would go to south of Bornholm and would utilize the "Polish Banana" zone, i.e. the banana shape part of

the new delimitation area between Denmark and Poland and often shown in yellow colour on the maps). This request of Denmark may in practice delay permitting by months, if not years, in case appeals would be made against the ultimate Danish decision. A recent Danish law allows the Foreign Minister to veto a pipeline route in the territorial waters on national security grounds.

3) After the illegal annexation of Crimea and the war in Donbas, imports of Russian gas into Ukraine ceased in 2015 and the transit market of Russian gas to Europe using the Ukrainian GTS changed – due to the commissioning of NS1 in the Baltic Sea. Ukraine used to import directly 59.3 BCM of Russian gas in 2000. Since 2016, gas (also of Russian origin) has been imported only from the West using the reverse flow system. In 2018, imports totalled 10.6 BCM (via Slovakia (Budince GMS), Hungary and Poland). Ukrainian domestic gas consumption has halved (from 2001) to 33 BCM in 2018. Russian gas transit volumes via Ukraine peaked in 1998 (141 BCM) and the corresponding figure in 2018 was 86.8 BCM. The gas purchase contract and gas transit contract disputes between Naftogaz and Gazprom have been taken to Stockholm Arbitration Court. The Arbitration Award in 2017 – 2018 was 2.6 BUSD (net) in favour of Naftogaz. Appeals are under way. The International Arbitration Court in The Hague awarded Naftogaz separately a 5 BUSD compensation for the onshore and offshore oil and gas reserves and subsoil licenses in Crimea as well as for confiscated oil/gas drilling rigs, supply vessels, infrastructure equipment, etc. German press (Bild 4.4.2019) is referring to a confidential Ministry of Foreign Affairs memo according to which Moscow would put the cancellation of the Stockholm Arbitration court award of 2.6 BUSD as a prerequisite for extension of the gas transit contract between Naftogaz and Gazprom after it will expire at the end of 2019.

4) The above examples show concretely the huge geostrategic, commercial and monetary significance of the gas disputes between Ukraine and Russia – with direct and indirect impacts on many other countries, too. E.g. Naftogaz earns about 2.5 – 3.0 BUSD in revenue annually for transiting Russian gas to Europe. This accounts roughly for about 3% of the Ukrainian GDP. The Trilateral Gas Group between the EU, Russia and Ukraine is trying to find a solution for the disputes. The EU has suggested a 10-year transit contract with e.g. a minimum of 30 BCM annual throughput. Gazprom has been speaking of only 10 – 15 BCM volumes. Naftogaz unbundling is proceeding and the Ukrainian government is trying to find foreign investors and/or parties to operate the GTS system together with Ukrainian entities. Under today's circumstances, Nord Stream / Gazprom may need the Ukrainian GTS as a back-up solution after 2019, if/when NS2 will be delayed due to the changes in EU legislation and the Danish permitting process. And too small an annual throughput volume for Ukraine is not enough, because operating the GTS requires maybe 15 – 30 BCM – not to get "rusty". Also, the GTS would require some

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additional repair, maintenance and new pipeline section investments. But whether to invest, if the transit contract will not be extended beyond 2019..? Not an easy equation to the parties involved!

To summarize:

“Brussels – Russia’s 55 Bcm/year Nord Stream 2 gas link to Germany will miss its end-2019 start-up target, and may not be fully operational for “some years,” a senior European Commission official said Thursday.

The project is still waiting for a Danish permit, which could take at least another year, and the extra onshore transmission capacity needed to reach customers in southeast Europe would not be available by 2020, the EC’s deputy director-general for energy, Klaus-Dieter Borchardt, told a Politico event in Brussels.” (S&P Global/Platts/11.04.2018). ■

**HEIKKI LEHTIMÄKI**

Managing Partner
Plan Energy Ltd,
Helsinki, Finland

BEN ARIS

Russia 4.0: Putin's May Decrees and National Projects to transform the economy

Expert article • 2533

Russia is entering a fourth phase of transition since the fall of the Soviet Union, where it is finally getting to grips with some of the long overdue deep structural reforms and investment into infrastructure to transform it into modern market based economy.

The first period was the chaos and widespread poverty that followed the collapse of the Soviet Union in 1991. That ran until the economy was reset by the deep devaluation of the ruble in the August 1998 financial crisis that revalued the ruble more fairly and re-monetized the economy, killing off the so-called “**virtual economy**”. Russia then boomed through to 2011 when the petro-fuelled economic growth model was exhausted. By 2011 economic growth began to slow and by 2013 it fell to zero, despite oil costing more than \$100 per barrel.

The third phase began in 2012 when president Vladimir Putin **retasked all Russia's spare cash into modernizing the army** and in preparation for the subsequent show down with the west that followed the annexation of the Crimea in 2014.

That has meant a decade of austerity for the population, which has been eating into Putin's popularity. A recent poll in April found that the number of Russians that would vote for Putin if elections were on Sunday is at an all-time low, although his personal popularity remains in the 60s. The economy is growing again, but the 2.7% growth in 2018 will slow to 1.3% this year and **real disposable incomes in the first quarter of this year fell again** as Russian incomes enter their sixth year of stagnation.

Russia's economy has become a tale of two cities: Russia's **banks** and leading **corporates** putting some of the best profit numbers in the last three years in 2018, but none of this money is trickling down to the man in the street.

The various crises of recent years has forced a consolidation on many sectors – especially those catering to the consumer. The madcap rush to win market share is over and companies and banks are now increasingly focusing on efficiency and improving profitability. Sectors like retail have just seen their first mega-mergers with market leaders joining forces with rivals to create some of the biggest players Europe-wide: the **merger between white good retail M.Video and Eldorado** last year has been followed by the attempt from **supermarket chain Magnit to buy rival Lenta** this year.

Now the military modernization phase is over and the Kremlin is turning its attention back to fixing its economic problems. It has to. Social disquiet is rising, **trust in the government has fallen to a 13-year low**, and it is only a matter of time before the population start protesting. The government has cut back on military spending and launched a massive state-lead investment program. The boom in the noughties was fuelled by the state hiking public sector wages by 10% a year for a decade; this time round the Kremlin is hoping to improve prosperity by supply-side investments into the social sphere

and infrastructure.

Remaking the Russian economy

The new blueprint worked out last year is enshrined in the so-called **May Decrees**. The details are outlined in the **RUB25.7 trillion (\$390bn) spending program planned for the 12 national projects** that runs through to 2024 – although much of the detail remains missing. The goal is to “transform” Russia with investments largely into infrastructure and the social sphere to produce better than global average growth.

Putin unveiled the reform plan during his state of the nation speech on March 1. The President wants productivity growth to accelerate to 5% per year (since 2009, the average growth was only 1%) during next decade, the share of SMEs in GDP to go up to 40% (from current level of 20%), the number of people employed in SMEs to go up from 19mn to 25mn people, and to halve the number of people living below the poverty line (currently 13.8% of the population or 20mn people).

Russia doesn't have such a bad record on the impact of infrastructure spending: Russia has been investing 1.3% of GDP in infrastructure between 1995-2016 to produce an average growth rate of 2.4%, which implies a multiplier of 2.3, according to Dr Vladimir Popov of the Dialogue of Civilizations Research Institute (DOC) in a **recent paper** looking at OECD members' investment and growth in the last decade, which is better than the emerging markets average but still a fairly mundane result.

The goal is to increase Russia's economic growth to 3% by 2021 and then maintain it at above the global average growth rate through to 2024 at least.

It has been a long standing trope that Russia has not made any reforms, but a reform program is actually well underway. However, so far it has been limited to the financial and fiscal sectors.

The stand out success so far as been the clean up of the banking sector launched by Elvira Nabiullina, who took over as Central Bank of Russia (CBR) governor in 2013. Nabiullina has been closing two banks a week like clockwork since she took over and the clean up is coming into its end game as the number of banks in Russia **fell below 500** in November 2018.

At the same time the tax service has been transformed following a near-miss crisis in 2016 when the government nearly ran out of money: **MinFin was unable to fill a RUB2 trillion hole in the budget**. It was bailed out at the last minute by the nominal “privatisation” of a 19% stake in Rosneft that **later transpired to be little more than a loan**.

The scare caused MinFin to push head with tax service reforms and hunt for new sources of revenue. The tax service was given a new revolutionary IT system that saw tax revenue rise by 30% in 2018, although the overall tax burden remains almost the same.

MinFin has also introduced a raft of measures to increase revenues including a make over the mineral extraction

Expert article • 2533

tax (MET), the mandatory payment of 50% of income as dividends for all state-owned enterprises (SOE), a 2pp increase in the VAT rate, and an increase in retirement ages, to name some of the most prominent changes.

More recently federal treasury system has been revamped as MinFin takes “manual control” of the most indebted regions. During the crisis debt in some regions ballooned to the point where debt servicing consumed some regions entire tax income and nearly caused a crisis.

All these changes produced a 2.7% budget surplus in 2018 – the biggest surplus in years – and **Russia is currently running a triple surplus** as the trade and current account surpluses are also at levels not seen since the boom years.

The May Decrees move the action into the real economy. The liberal branches of the government – the ministries of finance, economics and social, as well as the Audit Chamber now headed by former Finance Minister Kudrin – will oversee the social spending.

And about a third of the spending is targeted at infrastructure that will be supervised by the state’s de facto development bank VEB. RF (formerly Vnesheconombank) headed by Putin confidant Igor Shuvalov. Previously Putin personally oversaw all the large scale state sponsored infrastructure spending which he handed to his inner circle of “**stoligarchs**”, or state sponsored oligarchs. However, the new system institutionalises this system of hands on control in the shape of VEB, which in effect becomes a “ministry of infrastructure.” In a recent development **VEB said in April that it was in talks to buy the bridge building company Mostotrest** that built the Kerch straight bridge connecting Crimea to the Russian mainland from its owner stoligarch Arkady Rotenberg. If the deal goes ahead then VEB will directly control both the capital and the construction companies that will carry out the infrastructure investment.

The jury remains out on the effectiveness of this model of reform and investment. As with so many of the Kremlin’s plans it is a hybrid model which attempt to bring in elements of the market to improve efficiency but leaves final control in the Kremlin’s hands. Russia observers are watching the GDP numbers careful to see if growth does accelerate to 3% in 2021, which will be the first acid test for the scheme. ■

BEN ARIS

Editor-in-Chief
bne IntelliNews
Russia

ALEXEY KUZNETSOV

FDI geography: cultural proximity vs. geopolitical barriers

Expert article • 2534

Since the 70s researchers have repeatedly shown that the effect of neighborhood and ethno-cultural proximity exists in FDI geography. Only partially this effect can be explained by economic factors like low transport or managerial costs due to short distance between headquarters and foreign subsidiaries of MNEs. Parameters of investment climate also cannot explain attractiveness of some countries for intensive FDI flows from countries with the same official language, common history, similar legislative system or other non-economic indicators of cultural proximity. For instance, Finnish FDI stock in Estonia was \$5.4 billion at the end of 2017 (according to IMF CDIS data) which equaled 22.4% of total inward FDI in Estonia but such FDI stock in Latvia was \$0.4 billion or 2.3% of total inward FDI in Latvia. The Baltic States have many similar features but Finnish and Estonian are close cognate languages and Estonia is a neighbor of Finland in contrast to Latvia.

Our analysis of CDIS data shows that 22.4% of Austrian inward FDI stock has German origin, 25.5% of Belgian inward FDI stock is French and 35.9% of Finnish FDI stock is Swedish. Even long geographical distance cannot be an obstacle for cultural proximity influence on FDI. For instance, Spanish share in total FDI stock is high in many countries of Latin America (e.g. 23.6% in Bolivia, 17.3% in Argentina, 16.9% in Uruguay and 10.9% in Mexico).

Such patterns in FDI geography even proliferate because many emerging markets MNEs appeared. Indeed, cultural proximity is important especially for new-comers of business transnationalization because it can soften problems of their low economic competitiveness and the lack of experience of foreign operations. Thus, 13.9% of the Czech outward FDI stock was in Slovakia while 41.4% of Slovak FDI stock was in the Czech Republic. Croatia has attracted 30.7% of Slovenian FDI stock while other former Yugoslav republics have received another 32.8%. The indicator demonstrates records in cases of Belorussian FDI in Russia (74.2%) and Azerbaijani FDI in Turkey (52.6%).

The culture's impact on the business transnationalization character has been studied for four decades already. G. Hofstede offered to measure national cultures by a number of indicators to reveal the degree of various countries' proximity from the point of view of organizational aspects of doing business. We can also mention the Uppsala school of the internationalization process of the firm that was the first to correlate geographical distribution of outward FDI from certain countries and the process of gradual informing businessmen about special features of foreign business. The presence of the factor of cultural and historical proximity is not a researcher's fantasy: MNEs quite often handle some neighbor countries as their "home" markets.

Surely, it's not always possible to find the border in FDI geography between cultural or historical proximity and political expediency supported by economic profits. For example, why does Russian Alrosa mine diamonds abroad only at its subsidiary in Angola or why is the main foreign asset of OMZ – the engineering company in

nuclear power engineering – located exactly in the Czech Republic? Moreover, we can remember evident geopolitical barriers for the influence of proximity in FDI geography. Before the 1990s it was difficult for South Africa's MNEs to invest in neighbor countries because of their opposition to apartheid policy. Another example is connected with US-Cuba relations. Due to political sanctions there is no US FDI in Cuba while Spanish FDI stock exceeds \$0.5 billion and Russian FDI stock is almost \$0.15 billion.

During current decade we are witnesses to a new phenomenon: geopolitical cataclysms destroy previously comfortable regions of FDI expansion for some emerging markets outward FDI. For instance, Northern Africa and Middle East were popular for MNEs from the Arab Gulf monarchies while Russian MNEs often preferred Ukraine as an initial direction for foreign expansion. However, military conflicts eliminate these possibilities: e.g. Bahraini FDI stock in Libya decreased from \$1.84 billion at the end of 2010 to \$0.12 billion in 2017 while Russian MNEs have lost 2/3 of their FDI in Ukraine in 2014-2015 (more than \$12 billion if we calculate trans-shipping FDI too).

There are several other geopolitical obstacles which slow down FDI flows from emerging markets. Russian large MNEs are examples of negative influence of "sanctions war" and investment protectionism in the EU which was the main region for Russian FDI outflows before 2014. There is also a problem of negative Russian image in Western media which is more crucial for middle-size investors. Thus, cultural proximity cannot always overcome geopolitical barriers. ■



ALEXEY KUZNETSOV

Director of the Institute of Scientific Information for Social Sciences of the Russian Academy of Sciences (INION RAN)
Russia

Editor-in-Chief
Outlines of Global Transformation
Russia

ALEKSEI IGNATEV

Kaliningrad after the 2018 World Football Cup: What next?

Expert article • 2535

Kaliningrad is a Russian city where the World Football Championship matches took place in summer 2018. This event stimulated socio-economic development of the city and the Kaliningrad region. The new football stadium was constructed in the center of the city. More over the large infrastructure transportation projects (roads, airport) as well as social and tourist infrastructure projects were implemented. The projects were funded both by the federal and the regional budgets. As a result, the local businesses (first of all in construction area) got a significant impulse for their development.

From the other hand the event raised interest to Kaliningrad as the good site for investments and business doing. But the Championship is over. The satisfied players and fans went home. What next? What are the ways for development of the local and regional economy and business? How make Kaliningrad interested for investors again? These issues are vital for the regional authorities and the local business community as well.

The whole area of the Kaliningrad region is the special economic zone (SEZ) since 1993. The regime was changed several times. Some tax and customs privileges were introduced and then abolished, the terms for the SEZ residents were being changed as well. All this were not in favor for attraction new investments – both foreign and domestic. Moreover, a number of local SEZs with even more attractive than Kaliningrad regime were created.

That's why new federal legislation for the Kaliningrad SEZ's residents were introduced since January 1, 2018. In particular, the amount of investments needed to treat a company as a SEZ's resident was decreased. For the manufacturing (tourism, recreation, agriculture, fishery as well) companies the investment minimum now is 50 mln. rubles, for the health care ones – 10 mln. rubles and for the IT – just 1 mln. rubles. For all the other companies the investment minimum is 150 mln. rubles. This money should be invested within 3 years from the moment of signing the investment agreement between a company and the Regional Government.

There are the follow advantages for the SEZ's residents:

- The regime is in force within the whole area of the Kaliningrad region
- All tax privileges can be used for the 15 years
- Easy way to get Russian visas
- Some guarantees related to taxes and costs for renting a plot

The SEZ's residents profit and property tax is 0% within 6 years from the beginning of the project implementation and during the next 6 years the profit tax is 10% and the property tax is 1.1%. The first 6 years' period starts from the moment when a company gets first profit. If there is no profit within first three years then the period starts since the 4-th year. The land tax for the residents is 0% within 5 years since

the plot is registered as the company's property.

The companies which got the resident status since January 1, 2018 till December 31, 2022 are allowed to use the low social tariffs within 7 years if they create new jobs. The overall social tariff is just 7,6% (the normal tariff is about 5 times higher). This norm can be used till December 31, 2025.

To the beginning of March 2019 210 companies were registered as the SEZ's residents with the amount of proclaimed investments – 121.1 mlrd. rubles. The total number of jobs is 32 000. 72 companies were registered in 2018 with the amount of proclaimed investments 14,6 mlrd. rubles.

The IT companies based in the other Russian regions have a particular interest to the SEZ's regime. Many of them not just registered as residents but physically reallocated their offices' and production facilities to the Kaliningrad region. To the moment the Kaliningrad Development Corporation implements a project within the village for IT specialists will be constructed close to the Baltic Sea shore.

It is expected that the free 30 day electronic visas (10 days per each enter) for foreign tourists and businessmen for visiting the Kaliningrad region will be available since July 1, 2019. This fact definitely will make the investment regime more attractive but to the moment it is still uncertain citizens of which countries will be allowed to use them.

Another incentive to invest in Kaliningrad is the Special Administrative Area (SAA) introduced by a Federal law in the Otkladyrsky island located in Kaliningrad. An international holding company registered in the SAA will be granted with tax privileges.

The International companies (IC) should meet follow requirements:

- It should be registered till January 1, 2018 in a country – member of the Financial Action Task Force and/or the MoneyVAL
- The authorized entities of the IC should control it before January 1, 2017
- Act on the territory of several countries included Russia
- The minimum obligation volume of investments into Russia is 50 mln. rubles
- The period for this investment is 6 month since the IC is registered as the SAA's resident

A number of companies most of which are under America's sanctions expressed their interest to use this financial instrument. It's obvious that the SAA can't bring much funds to the regional budget directly but it is expected to bring many new businessmen and managers to the region which will help to develop the hospitality and service industries.

So, the Kaliningrad region economy will be shifted step by step

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to the all kind of service and IT industries which seems reasonable as the exclave location of the region dictate to cut the logistics and customs costs to make produced products competitive in the market.

ALEKSEI IGNATEV

Program Director
Kaliningrad Economic Development Agency
Russia

SVETLANA V. STEPANOVA & EKATERINA A. SHLAPEKO

Russian shopping tourists in the border regions of Finland

Expert article • 2536

In the contemporary context, the cross-border shopping is one of the most popular trends in the consumption practices of the people living in the border areas of the neighboring countries.

The theoretical aspects and the development practices of the cross-border shopping tourism are widely presented in the scientific literature. There are four main conditions that reveal possibilities of the cross-border shopping tourism: difference in the range, quality and price of the product on the opposite side of the border; information about the opportunities on the opposite side of the border; the ability and willingness of the population to travel as well as the transparency of the state borders. Also, the development of the cross-border shopping is stimulated by the economic factors: tax free, shopping at the duty free shops, sales and shopping in the second-hand and the flea markets. Besides, the need to purchase the certain goods and services on the opposite side of the border, shopping tourism seems to be one of the ways of spending leisure and pleasant pastime during the holidays and vacations.

At present the Russian entrepreneurs who purchase the goods for the commercial purposes as well as the shopping tourists appear to be the source of wealth for some residents of the border regions of Finland. For instance, the development of the border town of Lappeenranta is closely connected with the Russian tourists. In 2013, 2 million tourists in the city of Lappeenranta (the population of the city is 75 thousand people), 1.8 million people were the Russian citizens with 300 million Euros spending.

The cross-border trade and the shopping tourism among the Russians have become popular in the recent years. The Russian tourists are the largest group (36%, 2016) in the inbound tourist flow to Finland. In 2016, the Russians spent about 470 million Euros in the neighboring state (in 2015 about 1 billion Euros; in 2013, 1.3 billion Euros) that accounts 174 Euros per trip or 82 Euros per person per day. Finland is one of the most popular shopping directions among the residents of the border regions of North-West Russia. Among measures taken by business to increase the flow of Russian tourists are: the socializing function of navigation (signs in Russian); the tourist services in Russian; the publication of information and the tourist booklets in Russian; the development and operation of web-sites in Russian, etc.

The tax free system (from January 5, 2017 the refund is carried out at the Allegro and Leo Tolstoy trains), the invoice system, the service culture, the infrastructural features of the commerce, as well as Duty Free shops (at the border crossing points Torfyanovka, Brusnichnoye, Vyartsilya, at the Finland Station for the passengers of the 'Allegro' train, the airports and the ferries) are very important.

The Finnish border cities began to open the shopping centers (for example, Laplandia Market, 800m from the Brusnichnoye border crossing point) and the hotels with the different pricing and develop the related services (recreation, spas, water parks). Besides, they improve the advertising campaign in Russian. For example, the

advertising and informational publications in the media, the social networks, the tourist portals and the shopping malls in St. Petersburg became the main tools within the promotional program of tourist opportunities in Lappeenranta and Imatra from the GoSaimaa information portal with a budget of 3.3 million euros.

The transport and price accessibility, the possibility of obtaining the multiple-entry Schengen visas and the convenience of the international border crossing points are of particular importance for the residents of the Republic of Karelia, the Leningrad Region and St. Petersburg. It should be noted that the citizens of the Russian Federation residing in the North-West Federal District and having permanent or temporary registration do not need to provide documents to prove the purpose of the trip. There is a wide range of the shop tours organized by the tourist and transport companies to Finland. The standard price of a tour package for the purpose of shopping includes: transfer, insurance, visits to the shopping centers, in some cases accommodation, food and sightseeing. In addition to the possibilities of shopping tours and the use of private vehicles, residents of the North-West Russia have the opportunity to get to Finland by train or the daily buses.

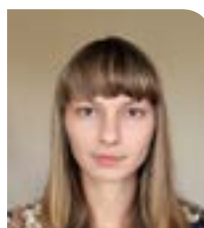
The implementation of the sanctions against Russia and the increase of the euro exchange rate had the negative impact on the inbound flow of the Russian tourists to Finland. In the recent years, there is a significant decrease in the interest of the Russian citizens to visit the territory of the neighboring Finland for the tourist purposes: in 2014 – 4.2 million people, in 2015 – 3.1 million people, and in 2016 – 2.9 million people. According to the Global Blue Oy, in November 2014 the Russians spent 43% less financial means compared to 2013. At the same time, the tax return of the Russians is 83.5% of the total tax refunds. In December 2014, the duty-free sales in the border cities of Finland decreased by more than 70%. It affected the cities of Joensuu, Imatra, Kotka, Kouvola, Kajaani, Lahti and Kuopio. However, the cross-border trade continues to develop thanks to the shaped preferences of the Russian tourists. The shopping tourism from Russia gradually begins to recover after a sharp recession. For 2016, the high growth rates of sales are observed precisely in the cities bordering Russia: Lappeenranta (+ 34%) and Joensuu (+ 32%), Imatra (+ 19%) as well as at Vantaa Airport (+48 %), in Lahti and Hamina (+ 37%). According to the research center TAK Oy for January-August 2016, the average expenditure of the Russian traveler was 172 euros, 114 euros of which accounted for the shopping. In 2017, according to the Global Blue, the largest increase in sales in the Tax free system was recorded in Savonlinna (98%), Hamina (80%), Lahti (66%), Imatra (65%) and Rovaniemi (58%).

Thus, the growing trend in the shopping tourism among the citizens of the border Russian regions aims at acquiring the Finnish goods and services. Moreover, there is a need not only to purchase the goods and services, but also to organize the leisure activities. The interest of the local residents and the travel possibilities were determined by

the degree of the border openness, the established contacts and the attractiveness of the adjacent territory. The contemporary residents of the Russian borderlands choose Finland as an attractive destination due to the transport accessibility, the developed tourist infrastructure and a wide range of the quality goods at affordable prices. ■

**SVETLANA V. STEPANOVA**

Researcher
Department of Regional Economic Policy
Institute of Economics
Karelian Research Centre
Russian Academy of Sciences
Russia

**EKATERINA A. SHLAPEKO**

Researcher
Department of Regional Economic Policy
Institute of Economics, Karelian Research
Centre
Russian Academy of Sciences
Russia

ALEXANDRA YATSYK

Is Narva (still) “the next”: A controversial story of the city of many frontiers

Expert article • 2537

Narva, the third biggest city of Estonia, neighbouring Russia and predominantly Russian-speaking, seems to be the main antagonist in the never-ending story of ethnic and political exclusion. Since the 1990s, this former Soviet industrial city has been steadily decaying, losing its social capital while desperately trying to carve out a niche for itself in the newly independent and staunchly pro-European Estonia. The Ida-Virumaa region and its capital the city of Narva have been often portrayed in the academic literature as a peculiar enclave with Soviet-era mentality, an eyesore to the rest of the country. Deteriorating local economy and growing outflow of the youth from the area combined with proximity to unfriendly Russia can hardly create an attractive image.

“There are two options that these people face here, - says a hero of the “Mountains of Ashes” (est. -Tuhamaed), a documentary, released in 2017 by Ivar Murd – physical death or escape to a “real Estonia,” “where people live in their houses, where lakes are clean, where all people share a feeling of belonging, where they feel good at home, and there are no broken families”. In this context, the story of the region evokes the feelings of exclusion and unfulfilled dreams about the “better life” elsewhere in Estonia, free from the weight of the Soviet past and thus culturally flexible.

Russia's annexation of Crimea and the war in eastern Ukraine have predictably triggered a cascade of concerns that Narva would be “next,” resurrecting its hybrid identity, painful past and almost forgotten story of the local referendum on the autonomy in 1993. Yet as Narva's bidding for the European Capital of Culture in 2024 shows, the Estonian government is trying to break down its marginalized image. In fact, the Estonian authorities have been paying increasing attention to Narva, as demonstrated by holding of the state awards ceremony on the eve of centenary celebration of Estonia's independence on 24 February 2018, in Narva on 21 February. Similarly, the celebration of the Europe Day on 9 May, which supplanted the commemoration of the Victory Day, and the relocation of the Presidential Administration for one month to Narva in 2018 (President Kersti Kaljulaid managed state affairs from Narva in the last week of August, first week of September, and in second and fourth weeks of November) all demonstrate the official Tallinn's sensitivity towards this part of the country.

The Estonian government's initiative to nominate Narva as the European Capital of Culture for 2024 is gradually improving the city's capacity to cope with the challenges of post-Soviet de-industrialization. A good example of this was the Urban Lab “Narva – Detroit” - 2018 that was geared towards facilitating discussions of the “future of a shrinking city...the role of communal activity and arts reimagining the city scape...and strategic meeting points of a border city”. The Narva-Detroit forum was consonant with the crux of the Narva-2024 project in the sense of transforming the city from Estonia's neglected and abandoned periphery to a post-industrial space, even potentially to

“Europe's hipster capital”.

The musical show “Kremlin's Nightingales” (est. -Kremli Ööbikud) staged by the Tartu-based Uus Teater in Narva in August 2018 was another example of finding an alternative language of speaking about the Soviet past beyond the mainstream Estonian political concepts. The performance was dedicated to the Estonian Soviet-era pop star Jaak Joala, who was portrayed as asserting the cultural power of the periphery on the core. The show took place at Narva's Krenholm factory, a former Soviet textile giant, now abandoned.

In October 2018, the Krenholm factory hosted another theatrical show entitled “Oomen” and based on a 1923 poem “Poetics of a Proletarian Punch” by an avant-garde socialist author Aleksei Gastev. This interactive (and bilingual, Russian and Estonian) spectacle deconstructed the glorious image of the industrial age, as represented by the textile production at Krenholm factory, which epitomizes both the Russian Empire and the Soviet Union. Thus, the Narva-2024 initiative is an interesting attempt to re-signify the city's peripheral (political) status in a positive (de-politicized) manner, as “Estonia's next success story”.

The significant gains made by Estonia's right-wing political forces in the general election in March coupled with the upcoming elections for the European Parliament in May make this year very special for Narva and for Estonia's Russian-speaking community. As for the Narva-2024 project, the year started with the conflict between the central government and Narva's municipal authorities over the bid preparation. In March, the city mayor Tarmo Tammiste was sacked by the city council and on 8 April he was replaced by the ethnic Russian, Aleksei Jevgrafov. Some local observers suggest that the reshuffle is not due to corruption but cultural and political tensions. Thus, as the Narva's chief architect, Ivan Sergeev points out, if only Narva municipal authorities are left with preparing the bid themselves, the city is likely to lose.

The parliamentary elections gave rise to the unprecedented in Estonia's post-Soviet history coalition between the Estonian Centre Party, which is traditionally supported by Russian-speakers, the conservative Fatherland and the right-wing Estonian Conservative People's Party (known under EKRE acronym). The longevity of the coalition will depend on its internal dynamics but the possibility of the Fatherland member Tõnis Lukas, who advocates restricting all media deemed hostile to Estonia, becoming the next Minister of Culture will, among other factors, hold the answer to the question of whether Narva will be the “next.” ■



ALEXANDRA YATSYK

Visiting Fellow
Polish Institute of Advanced Studies (PIAST)
Warsaw, Poland

PIOTR RUDKOUSKI

Belarus – Russia: A new stage of (dis) integration

Expert article • 2538

The political brotherhood of Belarus and Russia has never been cloudless. Since at least 2002, “gas wars” and “milk wars” have been recurrent elements of the “integration” of the two countries. At the beginning of the current decade, those wars were supplemented with information wars: from July 2010 to June 2011, NTV (by that time completely pro-Kremlin) aired a five-installment documentary “The Godfather”, and Russia Today – a one-installment “Hard Luca”, both ruthlessly lambasting Aliaksandr Lukashenka. Lukashenka, in his turn, supported the Kremlin neither in its conflict with Georgia in 2008, nor in its action against the Kyrgyzstani President Kurmanbek Bakiyev in 2010, nor in its annexation of Crimea in 2014.

The appointment of Mikhail Babich as the Russian ambassador to Belarus in August 2018 seems to have opened a new stage in Belarus – Russia uneasy relationships. Babich, formerly the chair of the Chechen government and presidential plenipotentiary envoy in Volga Federal District, arrived to Belarus not only as an ambassador but also as a “special presidential envoy”. This, unsurprisingly, caused numerous speculations about what his genuine mission might be. The speculations were further fuelled by Dmitry Medvedev’s offer for Belarus to adopt an “advanced integration” scenario (dubbed by experts as the “Medvedev ultimatum”) and a harsh verbal ping pong between Babich and the Foreign Ministry of Belarus. Let us remind that in March 2019, Anatol Glaz, the press secretary for the Belarus’s Foreign Ministry, called Babich a “bookkeeper” and biting added that the ambassador seemed not to see the “difference between a federal district and an independent state”. The Russian ambassador paid Glaz back by calling him an “ordinary clerk”. Babich’s controversial activity in Belarus ended in his sudden dismissal on April 30 and the appointment of Dmitry Mezentsev the new ambassador. Nevertheless, as a BISS expert put it, “the shuffle of persons in the Russian Embassy does not indicate a change in the Kremlin’s interests regarding Belarus.”

What do the recent developments in Belarus – Russia relationships mean? What are the Kremlin’s intentions in regard to Belarus? How likely is the “annexation scenario”?

It is clear that the Kremlin wants Belarus to become its permanent satellite and is strongly motivated to make it more dependent, not only economically and politically, but also culturally. The “annexation scenario” is unlikely, however. There are at least three reasons to think so. First, the annexation of neighbouring states is for the Kremlin neither the main goal nor the main method of achieving other goals. It is not true that the Kremlin is restoring an empire in a nineteenth-century version. Putin’s regime aims at making Russia a regional superpower with a belt of formally sovereign, but in fact Russia-dependent states. Weak, but formally sovereign states within the imaginary zone of “Russian interests” is for the Kremlin a more desirable option than the emergence of new federal subjects.

Second, however authoritarian it is in classical terms, Putin’s regime in fact consists of (informal) checks and balances. The strongest counterweighing factor is economic technocrats who constitute quite a significant layer in the Russian power structure. They can be indifferent to ethical aspects of a hypothetical annexation, but they are very sensitive to its economic costs, especially if the annexation be military. And Putin himself is not unable to assess the risks. Suppose he invades Belarus and gets 90% support in Russia (which is likely but not certain). Immediately, harsh international sanctions will follow (almost certain). The reorganization of the annexed territory and counteracting rebellion will also cost. Thence, economical consequences will be painful. This will lead to mass dissatisfaction in the country (a significant probability). It does not pay.

Third, Lukashenka’s approval rating is high among Russia’s citizens as well as among pro-Russian minorities in other countries in the region. So, violent annexation of Lukashenka-led Belarus might bring discredit to the Kremlin.

For the above reasons the Kremlin will most probably try to beef up its soft power and implement the plan of “annexation without annexation”. The Belarusian regime, in an attempt to resist this plan, will continue cautiously to strengthen national identity and carry on with the rapprochement with the West. For Belarus, the game is not risk-free, but it seems unavoidable in the nearest future. Thence, the relationships between the two countries are going to be disintegrational rather than integrational. ■



PIOTR RUDKOUSKI

Director

Belarusian Institute for Strategic Studies
Vilnius, Lithuania

DMITRY YARMOLYUK

Belarus: a footprint on Baltic shores

Expert article • 2539

While essentially an Eastern European country Belarus has seen its history closely intertwine with that of the Nordic/Baltic region for many centuries. The strategic location at the commercial crossroads and watershed of the Baltic and Black seas predetermined this land's role of a bridge between worlds and an integral part of their historic narratives.

The past distinctly echoes in today's Belarus. Of all the post-Soviet nations it is the closest to the Nordic/Baltic average human development and GDP per capita indices and has one of the most open economies in the area¹. An important destination for "Made in Belarus", the region accounts for 13 per cent of the country's trade and 15 per cent of its export². Almost half of Belarus' sales to the European Union is consumed by its eight Baltic Member States.

Seaports continue to be vital gateways to Belarus' exports. The country supplies 1/3 of all transit freight in Klaipeda and around 2/3 of all cargo transported by the Lithuanian rail. Significant volumes also pass through Ventspils and Riga. In this way the landlocked nation secured itself a firm foothold in the Baltic and an outreach to overseas markets while contributing massively to its neighbours' transit revenues.

The Baltic – Black Sea link remains an important element in the country's economic calculus. The Zubr (meaning bison) and Viking multinational cargo train projects connect Belarus, on the one hand, with Lithuania, Latvia and Estonia, and on the other – with Ukraine, Moldova, Bulgaria, Georgia and Turkey. The ancient but still partly operational E40 waterway increasingly catches the eye of the governments in Minsk, Warsaw, Kyiv, Ankara, but also the EU and European financial institutions. Once fully restored the 2000-km long natural corridor running from Kherson in Ukraine to Polish Gdansk would offer a cheap alternative to land transport and radically improve regional logistics.

The advent of the "One Belt – One Road" (OBOR) initiative to join ultimately with the EU's TEN-T network emphasizes the country's bridging role. An important OBOR hub, the Chinese-Belarus Great Stone industrial park taking shape next to Minsk turns into a focal point for numerous innovative and multinational industries. With European stakeholders like Germany's Duisburger Hafen AG, it opens wide and attractive prospects for connectivity and synergies in the EU market. At the same time the National High-Tech Park rises to the crest of the global digital trend with over 90 percent of its USD 1 bn worth of exports targeting some of the most demanding IT-producers in the EU and the US. Business mobility and people-to-people contacts in general benefit from a 30-days visa waiver for nationals of 74 countries, i.a. all EU Member States, flying to Minsk. Further flexibilities are envisaged by the Belarus – EU Visa Facilitation Agreement under preparation.

The country is increasingly visible in some of the key areas of

multilateral cooperation in the Baltic/Nordic area. It is a full-fledged stakeholder in the Northern Dimension Environmental Partnership (NDEP) and Partnership for Transport and Logistics. By contributing 2 million euro to NDEP and signing agreements with the Nordic Investment Bank and Nordic Environment Finance Corporation the country can draw significant international funds and expertise for its projects with an added value for the Baltic ecosystem. EU-funded cross-border cooperation programmes support numerous partnerships between Belarus and its three Baltic neighbours, on topics ranging from border security and disaster management to health, culture, education and environment. Six of the Belarusian universities engage with partner institutions through the Baltic Sea Region University Network.

Belarus increasingly uses its observer status in structures like the Council of the Baltic Sea States (CBSS) and the Northern Dimension to explore further cooperation opportunities and partake in collective responses to modern challenges.

According to the 2018 CBSS Vision Group report, "Belarus is geographically part of the Baltic Sea Region. Belarus and the CBSS Member States can jointly provide a substantial contribution to regional cooperation [...]. We therefore recommend stepping up practical cooperation which may lead in the future to a concrete consideration of Belarus becoming a member of the CBSS".

The country is ready for the challenge and will continue building up its role as part of the CBSS family for the benefit of a wider Baltic Sea region. ■

DMITRY YARMOLYUK

Deputy Director for European Cooperation
Ministry of Foreign Affairs of Belarus

¹ Human Development Index (UN, 2017), GDP per capita PPP (World Bank, 2017), trade % of GDP (World Bank, 2017).

² Belstat, 2018. Counting Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Sweden and Russia's Kaliningrad Oblast, Karelian Republic and Leningrad Oblast

GALINA GAVRILKO

The Baltics and Belarus: Development of foreign economic cooperation and improvement of the institutional structure

Expert article • 2540

Politicians and experts from the Baltic states analyze the past and build a strategy of sustainable development and cooperation with the partner countries from the EU and the CIS, taking into account the experience of a 25-year transformation and 100-year independence of the Baltic states. The estimated results and prospects for the development made by foreign researchers are diametrically opposed.

Some experts say, "... the Baltics keep proposing initiatives for the European Union which complicate their foreign policy, in particular relations with Russia, the former Soviet Republics (Belarus), with the countries that prefer a non-aligned path of development." [Olenchenko, V.A. The Baltic States: The Eve of the 25th Anniversary of Independence / V.A. Olenchenko // World Economy and International Relations. - 2017. - No. 4. - p.107].

Other researchers analyze the particular features of the Belarusian and Baltic economic models and come to the conclusions about the necessity and possibility of extension of trading and investment cooperation, with due account of external and internal factors for sustainable social and economic development. [A. Budrauskaite, A., Trade Policy and Economic Growth: Cases of Belarus and Lithuania / A.Budrauskaite, J.Mamytova, K.Mlinarevic, A.Savina [Electronic resource]. - Access mode: <https://hrcak.srce.hr/file/29039> - Access date: 09/30/2018].

In our opinion, publications of Belarusian experts and representatives of official authorities of the Baltic republics and Belarus on the prospects for mutually beneficial cooperation in the field of foreign trade and foreign investments (T. Zharina, A. Korol, M. Kokaev, M. Virsis) also have practical significance for foreign economic cooperation.

The neighboring Baltic states are among top ten trade partners of Belarus, with whom Belarus has a common history and actively develop foreign trade and cultural ties.

In 2015 Lithuania, Latvia and Estonia imported goods from 174 countries. The main suppliers of products to the regional market in 2015 were the Russian Federation, Germany, Poland, Finland, the Netherlands, China, Sweden, Italy, the United Kingdom, and Belarus.

In 2015 the commodity turnover of Belarus and Estonia amounted to 195.7 million euros. Belarusian exports to Estonia reached 131.3 million euros, and goods from Estonia totaled 64.4 million euros. The balance was positive for Belarus in the amount of 66.9 million euros.

Lithuania is also one of the most important European economic partners of Belarus. At the end of 2015 this country ranked 8th in the

total volume of Belarusian commodity turnover and 6th in the volume of Belarusian exports.

In 2015 the volume of merchandise trade between the countries amounted to 1,934.1 million euros. Belarusian exports to Lithuania reached 879 million euros, imports from Lithuania – 1,055.1 million euros. The balance of foreign trade for Belarus was negative in the amount of 176 million euros.

In 2015 the commodity turnover between Belarus and Latvia amounted to 451.4 million euros. Exports from the Republic of Belarus to Latvia in value terms amounted to 300 million euros. Belarus imported goods from Latvia in the amount of 151.4 million euros. The balance was positive for Belarus in the amount of 148.6 million euros. [Commodity flows. Market Overview // Market Survey. - 2017. - Түюк2. - S. 10.17, 19-20].

The structure of Belarusian exports to Latvia consists of 400 commodity items. Belarus exports petrochemical products, timber and wood products, food products, metal products, tractors and other advanced technology products, textile goods and footwear.

The brands of Belarusian manufacturers such as the Belarus tractors (M.T.Z.-Serviss, LLC, joint venture), farm machinery (BaltTehnika) and MAZ vehicles (AlkomTrans) are well known to Latvian consumers. The Amkodor machinery (Kombainserviss) has been on the Latvian market since 2014.

Institutions and macroeconomic environment provide the basis for the economic activity and competitiveness of the export basket. For this reason, it is important to conduct a comparative analysis of the ranking of Belarus and the Baltics in the Doing Business and good governance studies of the World Bank (see Table 1).

Table 1. The Doing Business and good governance studies ratings of the World Bank in the Baltics, Belarus, Russia (points)

Country	Doing Business Rating, 2018	Good Governance Rating, 2017*
Belarus	38	- 0,35
Latvia	19	0,90
Lithuania	16	0,98
Estonia	12	1,12
Russia	35	-0,08

** The average in 6 indicators: voting rights and accountability, political stability and the absence of violence, government effectiveness, quality of government regulation, rule of law, control of corruption.*

Source: World Bank data

(www.doingbusiness.org/content/dam/doingBusiness/media/.../DB2018-Full-Report.pdf; <http://info.worldbank.org/governance/wgi/index.aspx#home>)

Summarizing the results of the 25-year transformation of the Baltic states, with due account of the priorities of the foreign trade policy with neighboring countries pursued by these states, the following conclusions can be made:

- the reproach to the Baltic states that they conduct only an anti-Russian policy and depend on external managers, who are far from the national interests of these countries, needs a serious adjustment;
- the institutional environment of the Baltics is estimated by the World Bank experts higher than that in Belarus and Russia, therefore, reforms in this area should be coordinated at the national and interstate levels within the Union State and the EAEU;
- to improve the competitiveness of Belarus' national economy, economic growth, export development and to attract foreign investments, it is necessary to keep on working on the improvement of governance, taking into account foreign experience, including the experience of the Baltic states: at the 73rd UN General Assembly Estonia and UNDP launched a cooperation project to support e-governance development. ■

GALINA GAVRILKO

Ph.D. (Economics), Associate Professor,
Department of International Economic Relations,
Belarus State University,
Belarus

JOHN CHRISTMAS

Latvian Narratives and the EBRD 2

Expert article • 2541

This article follows my 'Latvian Narratives and the EBRD' published by BRE a year ago. As the whistleblower from Parex Bank of Latvia, I had hope of a crackdown against Latvia's notorious 'non-resident' or 'offshore' banks. The governor of the central bank was accused of running a protection racket by three offshore banks, and the United States had blacklisted one of the Parex successor banks, ABLV Bank. However, Latvia still refuses to investigate my whistleblowing even though the fraud caused an economic and demographic collapse starting in 2008. Latvia can pay off half of the national debt just by taking action on this one fraud case, however refuses to do so. Now in 2019, Latvian officials are claiming that they had a crackdown and everything is cleaned up. But none of the money launderers have been punished, none of the missing billions of euros have been recovered, and the officials who have been covering-up my whistleblowing remain in power.

In the previous article, I explained how following my whistleblowing, I was chased out of Latvia with threats. The Latvian government nationalised Parex and made a bailout loan. Government officials said that the United States caused the bank to collapse and the bank's assets were still good. The Latvian government then invited the EBRD to conduct due diligence on Parex. The EBRD announced that Parex was valuable (implying my whistleblowing was fake) and bought a stake in 2009. Then in 2010, the government announced that half of Parex's four billion euros of assets were bad with many of the worst losses coming from assets named in my whistleblowing (implying my whistleblowing was correct, the EBRD due diligence was fake, and Parex annual reports from previous years, audited by EY, were fake) however blamed this on Sweden.

I suspected that either the EBRD was robbed or else the privatization was fake, however wasn't able to get confirmation until I convinced the Dutch Parliament to investigate in 2014, which was the year the privatization was reversed. Latvia had paid the EBRD to buy the stake, which both sides knew was worthless, by making a secret 'put option' to reverse the transaction at a guaranteed profit to the EBRD. Latvia's debt and deficit figures shown to voters and creditors from 2009 to 2014 were false.

Now moving ahead to 2018, a new discovery showed that nothing has changed in Latvia. From the four billion euros of assets at Parex, we could surmise that two billion were bad because after the EBRD 'privatization,' that's the amount that was put into Reverta resolution company when Parex was split into Reverta and newly created Citadele Bank. The other two billion of assets were supposedly good. The Citadele 2010 annual report states, 'On 30 July 2010 European Bank for Reconstruction and Development (EBRD) concluded a share purchase agreement with Privatisation Agency, whereby the EBRD became part owner of Citadele's shareholding structure with 25% of share capital.' The paid-in share capital owned by the EBRD is listed as being 26 million Latvian lats which is 37 million euros. Latvia sold the stake to the EBRD because the European Commission requires that EU member states must privatise banks.

This was an amazing PR accomplishment since many people believe Citadele is cleaned up. Citadele is the only Latvian bank which has a USD correspondent account. All of the other banks were

blocked because of Latvia's reputation for money laundering. Keep in mind that Citadele's predecessor Parex was identified by Spain as money launderer for Vladimir Putin's Tambovskaya Mafia and some of Parex losses were caused by fake unrecoverable 'loans' to people linked to Tambovskaya. Tambovskaya was a heroin trafficking and sex slave organization. Most of the employees and clients from Parex are now at Citadele, which still generates business from Russia. Also, ABLV Bank, in some ways also a spin-off from Parex, was just blacklisted by the US Treasury for money laundering including looting Ukraine and Moldova.

The European Commission's Eurostat published a report on 23 April 2018 titled 'Final Findings Eurostat EDP dialog visit to Latvia 7-9 June 2017.' This report wasn't mentioned in the media, however I saw it. The report states that there is another 'put option' and the Latvian government must reverse the sale of Citadele shares to the EBRD for 88 million euros! Latvia's debt and deficit figures are still fake now in 2019.

The Parex-EBRD deal temporarily covered up the fact that the first two billion of Parex assets were bad, and therefore it is possible that the Citadele-EBRD deal covers up that the other two billion of Parex assets are also bad. And, the European Commission's Eurostat thinks this is ok, which is astonishing since the purpose of the secret reversion is to help Latvian officials to lie to the European Commission that they privatised Citadele even though really they didn't.

EY and the European Central Bank were also represented during this dialog visit. EY has good reason to keep the Parex looting covered-up since they signed off on Parex annual reports for years. However the European Central Bank should be on the other side. As the largest investor in Latvian government bonds, the ECB should be horrified that Latvia and the EBRD have falsified Latvia's financial statements to help gangsters to loot the government.

As I did previously, I informed journalists at major newspapers. As they did previously, they ignored me and published articles about how Latvian officials are working hard to clean up. That's why I have to write about this myself and I am grateful to BRE for providing a venue. I hope someone inside Eurostat and/or the EBRD will eventually take positive action. The EBRD should disclose all cases in all countries where it pretended to buy a stake in a company and Eurostat should disclose all cases of fake privatisations in EU member states. ■

JOHN CHRISTMAS

Former Head of International Relationships Group
Parex Bank

ANDREI V. KOROBKOV, NIKOLAJ A. SLUKA, PAVEL N. IVANOV

The Chinese diaspora in Europe: Serving the motherland from abroad

Expert article • 2542

Europe, one of the largest immigration systems of the world, is experiencing currently a test of strength under pressure coming from a powerful new wave of migrants from the Muslim countries of the Middle East and North Africa (MENA) caused to a large extent by the Arab Spring.

According to Eurostat, arrivals from the Middle East to the EU were estimated at 1.5 million in 2015 and 1.8 million, in 2016. With the accumulation of economic problems and the escalating ethnic tensions in many countries of the region, demands are intensifying for a strict limitation of immigration and the reorientation of migration policy towards the primary acceptance of highly qualified migrants while limiting simultaneously the admission of practically all other categories of immigrants, including refugees. During his term in office, Nicolas Sarkozy, the former President of France, spoke, in particular, of the need to switch from «suffered» to «chosen» immigration.

Regardless of the growing realization of the problem's acuteness by political elites, no effective measures have been introduced yet to deal with it. As a result, criticisms of European migration policies are intensifying. The problem cannot be limited to migration and minorities issues. These are not synonymous with poverty, unemployment, social frustration, and aggression that the Brits, for example, view as the root causes of pogroms in their cities, while considering white youngsters (chavs) as their main perpetrators. The crises also hurt representatives of the middle class, deepening the gap between them and the rich. This does not resolve the problems related to the integration and adaptation strategies, multiculturalism, cluster and dispersed settlement, and the links of those with the issue of social mobility or the lack of the latter.

The challenge of multiculturalism still remains a headache for many Western European governments as well as for the supporters of tolerance and multiculturalism concepts in general. Prior to the start of the June 2018 EU leaders' emergency summit, dedicated to the issues of migration, the French President Emmanuel Macron stated that the EU migration crisis has been transformed into a political one. With this background, immigration to Europe from China remains to a large degree an invisible one. This is explained partially by the different scale of the incoming migration flows as well as by their origins. In 2016, the Chinese comprised just 3% of 76 million international immigrants residing in Europe. While the huge potential scale of the Middle Kingdom's population mobility is well understood, that country traditionally prefers to act «in the shadow zone.»

In contrast to Muslim immigration, caused to a large extent by the Arab Spring and thus having a forced, push character in the countries of emigration, the Chinese immigration could be characterized as a product of a merger of the ideologies of the receiving states, relying on the concept of multiculturalism, and the sending country, pursuing the «going out» policy.

With a relatively long history of Chinese immigration to Europe, experts concentrate their attention on its most recent wave, the

so-called New Immigration that started at the inception of China's economic reforms and the policies of Openness. This migration wave is marked by a balanced gender structure and high shares of younger age cohorts, well educated and highly qualified people, aiming at the assimilation within the European societies, allowing them to find a job within the prestigious segments of labor market. This migration wave has significantly boosted and qualitatively transformed the process of the ethnic diaspora formation in the region. Exactly this New Migration is defining the main quantitative parameters of the diaspora and is responsible for the formation of the «model ethnic minority» stereotype that has become deeply ingrained in American public consciousness.

There also exists another «shadow» component of this migration flow represented by the industrial workers and service personnel who as a group have quite different demographic parameters and are marked by the relatively low levels of educational achievement, well being, and language proficiency. This latter group also includes undocumented migrants. This is a different and quite poorly explored up to this point area of research.

The emergence of deep fracture lines separating the host countries' native populations and the politically and socially deprived immigrants who differ in language and religion -- the concept defined in classical Political Science as mutually reinforcing cleavages -- is less likely in this situation, marked by quite heterogeneous structure of the immigration flow.

The fact that the main immigration flow is centered on a relatively narrow group of receiving states reinforces contrasts in the territorial distribution of the Chinese diaspora in Europe. Its overall numerical strength has an expressed meridian gradient, declining in the West-East direction, and nearly directly correlates to the geography of the economically developed and populous countries. More than 98% of the diaspora is located in just 10 countries, while 50% lives in the UK and France. Large Chinese communities have been formed in Germany and the Netherlands as well as in Italy and Spain—the latter being the countries that have relatively recently offered amnesties for illegal immigrants. On this background, less visible are the countries of Northern and, especially, Eastern Europe, that for the first time opened their borders for Chinese immigration just in the 1990s. The exception represent just Hungary and Romania, having a relatively higher share of the Chinese in their modern immigration flow structure.

The «Chinaization of Europe» issue is acquiring a partially local character in the context of escalating leadership struggle among the world's major powers in the framework of transition to the third global integration cycle. It is important that China is viewing emigration in the context of its «going out» strategy and in combination with other «soft power» mechanisms, involving the cooperation with European states in various fields—economic, investment projects, research and development, educational, socio-cultural etc. More than that: official Beijing is incrementally cutting on the projects that were designed to

promote migrants' repatriation or aimed at the replenishment of the human capital reserves, and is transiting to a large scale «Serve the Motherland from Abroad» strategy. The main task is to form the China-centered interlayer as a factor of state influence in host countries with high levels of ethnic communities' concentrations. In the future, the representatives of such influence groups are expected to become deeply ingraned into the social, political, and economic life of the receiving countries in order to be able to lobby China's interests in case of necessity. Thus the main emphasis will be made on preserving and strengthening the diaspora's national consciousness, promoting China's future global political and economic superiority. ■

Links to published work mentioned in the article:

https://journals.kantiana.ru/eng/baltic_region/4021/11465/



ANDREI V. KOROBKOV

Professor of Political Science and
International Relations
Middle Tennessee State University
USA



NIKOLAJ A. SLUKA

Professor of Geography
Moscow State University
Moscow, Russia



PAVEL N. IVANOV

MS (Geography), general advanced scholar
Fudan University
Shanghai, China

KRZYSZTOF FALKOWSKI

Impact of Russian-Chinese trade on Russian economic competitiveness

Expert article • 2543

Over the recent years, the importance of China as Russia's trading partner has been steadily rising. While in 2007 China's share in Russian foreign trade amounted to 7.2% (or USD 39.6 billion), in 2017, that is 10 years later, it grew to 12.5%, with the trade volume soaring to USD 87.3 billion (i.e. up by 120.5% between 2007 and 2017). Thus, China has become Russia's leading trading partner, both in imports (22%) and exports (11%). Noteworthy, between 2007 and 2017 China's share in Russian imports almost doubled, rising from 12.2% to 22%, while in exports it increased even more, from 4.3% to 11% (according to United Nations Commodity Trade Statistics Database). This resulted not only from the dynamic development of the Chinese economy, but also from the cooling of political relations between Russia and the EU after the introduction of EU economic sanctions in 2014, as well as from a significant rise in sales of Russian petroleum to China.

In view of the above, it is worth considering whether, and if so how, such a high and year-by-year steadily growing position of China as Russia's leading trading partner affects the international competitiveness of the Russian economy.

Apart from petroleum, a major role in Russian exports to China was played by low-technology goods. Although – due to the growing importance of petroleum – their share in total Russian exports to China decreased over the years 2007-2017, it still remained relatively high, ranging from 23.7% in 2007 to 13.9% in 2017. Within this goods category, Russia's leading export products represented the subcategories 'wood, paper and paper products' and, to a much lesser extent, 'food and beverages'. As far as Russian imports from China are concerned, high, medium-high and low technology goods were of similar importance. Their share in the years 2007-2017 oscillated between the low of 24.3% (2013), 26.1% (2011), 22.6% (2015) and the high of 31.8% (2015), 33.2% (2013) and 30.2% (2009), respectively. The most significant subcategories were: 'radio, television and telecommunication equipment and devices' (for high technology goods); 'machinery and equipment' (for medium-high technology goods) and 'textile, leather and footwear products' (for low technology goods).

Now, what does it say about the international competitiveness of the Russian economy? Generally speaking, Russia's competitiveness in international trade is very low and is in fact limited to natural resources and their derivatives only. Traditionally, the country's largest relative comparative advantages have been, and still are, in trade in non-ferrous metals (mainly copper, tin, zinc, and aluminium), refined petroleum products, non-metallic mineral raw materials and ferrous metals. These represent mainly natural resources and low added-value goods, which reflects the real competitive profile of the modern Russian economy. In contrast, Russia possesses few, if any, comparative advantages with respect to the remaining goods, i.e. from the high, medium-high and medium-low technology categories

(according to the relevant OECD classification). A particularly difficult, or even dramatic, situation is observed in the category of high-technology goods, which does not mean that Russia has no competitive advantages whatsoever in respect of this category. On the contrary, worldwide it is a valued and competitive exporter of 'aviation equipment and aircraft, including spacecraft', as well as certain types of weapons.

In conclusion, the existing structure of trade between Russia and China has been found to reflect closely the international competitive profile of the Russian economy; additionally, it has been shown that due to this structure Russia's traditional competitive advantages in trade in medium-low technology goods and oil for many years tend to be preserved. Russian exports to China are predominantly the goods in respect of which the country has strong competitive advantages, that is natural resources, especially petroleum and its derivatives, which are low added-value goods with low technological advancement. In turn, Russia imports those goods in respect of which it possesses no competitive advantages, that is high, medium-high and low technology goods (in 2017, these three categories accounted for 86.4% of the total value of Russian imports from China).

However, the persistence of that situation does not bode well – and has not done so for many years – from the point of view of Russia's further economic development and, indirectly, its place in the international division of labour within the world economy. The present structure of Russia's trade with China, which has remained almost unchanged for years, reinforces even further the existing resources-based profile of the Russian economy, which, as a consequence, may lead to regress in other sectors of the country's economy and its strong dependence on fluctuations in the prices of natural resources on world markets. ■

KRZYSZTOF FALKOWSKI

Assistant Professor
World Economy Research Institute
Warsaw School of Economics
Poland

MARKUS HOLMGREN

Eurasian Economic Union and energy markets

Expert article • 2544

In this article I discuss the various ways the Eurasian Economic Union could influence energy markets and thus impact the Baltic Sea region. The Eurasian Economic Union is an international organisation which aims to further economic integration and modernisation of its member countries - Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan. The Eurasian Economic Union was founded on 1.1.2015 making it a young international organisation so even if the economic integration process has seemingly seized already, due members inability to agree in few key questions (e.g. pricing mechanisms), that can still change.

First thing to mention is that while the Eurasian Economic Union is not much of an independent actor this doesn't rule out possibilities of independent impact. This means that for the Union to have an impact, the economic integration doesn't have to deepen as there are multiple other less direct ways.

Even without independent actorship, the Eurasian Economic Union has other ways to impact actions of others. It can function as a forum and / or serve as a tool with which the member states can solve or avoid domestic issues, but before elaborating on this it is worth mentioning that part of the reason for this is the apparent lack of commitment towards the project by Russia.

Lack of commitment towards the institutional dimension doesn't, however, signal lack of interest towards the associated issues. One of those issues is the China's growing economic presence in Central Asia and Eurasian energy markets, and Russia seems very keen to at least slow down this development and keep Central Asian economies looking towards Russia. This can be done either by strengthening markets or control over markets.

It seems that Russia has also a genuine interest to modernise their economic practises, based on recognition of very real economic weaknesses, but every time the economic policies conflict with tightening political control (regional, personal or otherwise), their priorities become visible and modernisation efforts seize.

Creation of protective barriers against outside competition is one of the outspoken aims of the Eurasian Economic Union and this seems to be one of the only goals that are being pursued. Though Russia didn't bring the issue of countersanction policies to the Eurasian Economic Union board, but instead committed to them unilaterally, the Foundational agreement itself gives Russia rights to demand that the member states sell part of their energy resources to Russia.

Before coming back to our main topic, I want to further address the issue of weak actorship and offer few examples of how Eurasian Economic Union can be utilised as a tool of increasing political control over energy markets, which could in turn further enhance Russia's capability to use its energy as a weapon as foreign policy tool.

The Eurasian Economic Union is like any other international organisation in that it's rules are only as binding as its members choose them to be, and the lack of commitment to the project allows member states to be selective with its application. The Eurasian

Economic Union offers a convenient pretext for its members to seek justification from when they want to penalise or subsidise companies in other words exercise power over market actors.

The Eurasian Economic Union offers many benefits for "natural" monopolies of which the "naturalness" is mandated by the - Supreme Council of the Eurasian Economic Union - heads of the member states without any requirements for explanations. These benefits can be used for weeding out market competition and subsidising selected actors without (directly and immediately) burdening the state budget. The free trade regulations also allow for penalising actors for perceived violations of them. Conveniently, the free-trade requirements have been worded vaguely enough to merit of punishing any company that doesn't enjoy the mandate of a natural monopoly.

While it may be true that this isn't anything the leaders of the member states could not do in their own right, the Eurasian Economic Union does offer two things, political distance and a forum to discuss issues happening in other member states. The aforementioned political distance is mainly gained both in respect of national parliaments and national media. The Eurasian Economic Union also has nominally independent international court that is effectively under direct control of the heads of the member states.

The answer to the question of how all of this could affect the Baltic Sea region lies in their mostly shared dependency on Russian energy. Increasing control of state control over energy market can influence the prices, impact the interdependency situation in between the EU and Russia and threaten the emergency supply security in case of minor conflicts (as in case of major conflict Russia would likely gain full control over energy markets anyway). ■

MARKUS HOLMGREN

Freelance researcher



BALTIC RIM ECONOMIES

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