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**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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Editor-in-Chief | Kari Liuhto
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Technical Editor | Teemu Itälä

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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SAMPO TERHO

Direction of the Finnish humanitarian immigration policy

Expert article • 2300

Because there exists no one kind of immigration there cannot exist unequivocal and simple solutions to immigration. To make this issue even trickier one has to by necessity to assess often conflicting goals and values when contemplating the alternative approaches for immigration policy.

Even though overlap does exist, to tackle the subject matter we should separate labour based and humanitarian immigration. Generally, with exceptions, the labour based immigration is often beneficial to the receiving society when humanitarian immigration often causes negative financial impact for the receiving society. However, the purpose of humanitarian migration is not necessarily to be beneficial for the receiving society but to provide human rights, protection from persecution and uphold international treaties.

Current government has made crucial reforms and by and large, Finnish approach to humanitarian immigration is in better condition than it has ever been. However it would be foolish to blindly endorse status quo and there exists nothing preventing us from continuing to improve the existing policies and treaties. Therefore, in this article I am introducing my party's solution to what I think is the biggest challenge concerning humanitarian migration and which I think Finland and EU at large should strive for. I believe that it is possible to combine our most important values with sustainable finance in the way that allows us to reach our ultimate objectives more efficiently.

In the world of limited disposable resources the morally robust starting point should be the evaluation of the most cost-effective way to providing human rights and protection for the biggest amount of people. Compulsion to do good is not good enough because opportunity costs can amount to unacceptable outcomes where poor selection of production method amounts to the unacceptable loss of human rights and protection.

When we compare different counterfactual ways of providing humanitarian protection it is clear that current model of taking asylum seekers to Finland and other EU-countries is an inefficient way of providing human rights and international protection from prosecution. The cost of an asylum seeker in Finland is very high in comparison of the humanitarian refugee in neighbouring regions of the countries where refugees are fleeing from. Even conservative estimates point to the fact that it is at least ten times more effective to provide protection in neighbouring regions than in Finland.

Our aim should not be to provide Finnish living standards to relatively small amount of people annually but to use our limited resources to provide human rights and protection to as many as

we possibly can. If we know that by using those resources in the alternative way would produce significantly more of the things we are trying to achieve we should act accordingly and change the way we are using the resources. The decision to use taxpayer's money to achieve certain objectives in the field of humanitarian immigration is clearly political but we still should not be committed intrinsically to any certain model as long as it delivers the desired outcomes. After all, if we can use the limited resources in a way that provides human rights and protection for bigger proportion of people we have moral obligation to do so.

This would mean that we should start shifting our support and funding to refugee camps, safe havens, and neighbouring regions. We should seriously study and advocate system where humanitarian protection is the most important variable inside chosen financial constraints. Therefore our long term goal should be that both the application for asylum, processing of the application, and possibly the asylum itself should be located outside of European Union.

The model I am suggesting would be superior to our current system at least in three different ways. Firstly it would effectively reduce the amount of unfounded and illegal immigration which is currently burdening heavily our public finances. When you uncouple the link between the asylum and the country of application, this creates better incentives where only those who are really entitled for protection will be able to get it and where incentives for illegal immigration are greatly reduced.

Secondly, this would reduce many of negative consequences resulting from the current model of asylum system. Integration programs have turned out to be often tedious, slow and expensive. Many of the challenges regarding integration would be significantly reduced when the amount of asylum seekers arriving to Finland and EU would decline.

Thirdly, this model would allow as provide protection and human rights to significantly larger amount of people with the same resources. Therefore we should strive for it even if it would not bring any kind of benefits for the receiving countries themselves. After all, inefficient and unreasonable humanitarian immigration policy costs persecution and lost human lives. ■

SAMPO TERHO

Minister for European Affairs,
Culture and Sport
Finland

OTHMAR KARAS

The straight path forward

Expert article • 2301

Far beyond geographical proximity, the EU Member States and Russia share historical, political, cultural and religious features which have put them in a common room of civilisation. Since the end of the Cold War, interactions between the EU and Russia have not only been marked by periods of intense exchange and cooperation but equally turbulences ranging from the Chechen wars in the nineties, to the Russian-Georgian war in 2008 and the Ukrainian crisis since 2013.

Despite the EU's constant open and readiness to find common understanding and solutions on topics of Russia's concerns, tensions have grown over an increasing number of areas including security, trade and within the common neighbourhood.

In March 2014 the borders of Ukraine were forcefully redefined by Russia through the illegal annexation of Crimea to be followed by aggressions in eastern Ukraine. These actions constitute grave violations of the Charter of the United Nations, the Budapest Memorandum as well as the Helsinki Final Act setting the foundation to guarantee peace and security in strict adherence to international laws as well as the commitment to a common set of values and principles.

In response, the European Union has implemented a sanction policy towards Russia. The European Parliament resolution of 2 June 2015 on the state of EU-Russia relations set the tone for the EU's Russia policy underlining that "a resumption of cooperation would be envisaged on the condition that Russia respects the territorial integrity and sovereignty of Ukraine, including Crimea, fully implements the Minsk Agreements (*which include full control of the border by the Ukrainian authorities, the unconditional withdrawal of Russian troops and weapons, and an immediate halt to the provision of assistance to rebel groups*), and stops destabilising military and security activities at the EU Member States' borders".

The exchange of 300 prisoners between Ukrainian and separatist forces at the end of December 2017 has been one of the last few positive signs since the emergence of the conflict, while the overall implementation of the Minsk Agreements remains stalled. In contrary, recent OSCE numbers show a radical increase in violations of ceasefire by 81.206 incidents more than in 2016. The same trend accounts for instances where weapons were in violation of Minsk withdrawal lines. Therefore a UN peacekeeping mission in eastern Ukraine could only be established with consent of the Ukrainian government and deployed over the whole territory of the region affected by the conflict, including the state border between Ukraine and the Russian Federation. In this context, progress can only be achieved by securing that the mandate may not be limited to accompanying OSCE monitors.

Therefore EU-Member States must unanimously ensure that only the full implementation of the Minsk Agreements may lead to lifting the sanctions and result in a change of the EU policy towards Russia.

Moreover, not only the violations of the international legal order have wounded European security and subsequently harmed trust between the EU and Russia. Russia's reinforcement of military

capabilities in Europe, the excessive use of military snap exercises such as the recent Zapad manoeuvre in September 2017 as well as the deployment of Iskander missiles and air defence missiles in the Kaliningrad region are further unsettling signals. However, in the up run to the presidential elections on 18 March 2018 there is little change in the political leadership or strategy to be expected. Therefore, as long as Russia does not refrain from challenging the global security architecture and established principles of international law, there can be no "business as usual" in EU-Russia relations

Nevertheless, this should never mean to refrain from dialogue, as only a genuine and open communication can bring about improvements. Not to open a channel for exchange only helps those striving to weaken peace and security.

Recent developments have been clearly detrimental to the EU and Russia as well as the countries of our common neighbourhood. Many opportunities for strengthening cooperation in areas of mutual interest might have been missed. The EU's strive to develop stronger ties with its neighbours through the emergence of the Eastern Partnership has regrettably been misunderstood by Russia as a threat. Moreover, the EU Eastern Neighbourhood Policy and the Eastern Partnership, since its inception in 2009, have been significantly hampered by the deterioration of the EU-Russia relations. Therefore it is essential to continue to tackle issues relevant to both, the EU and Russia. In the long run, a discussion should resume on areas of common interests which could span economy, trade, climate change, and intensify in areas of science and education. For the time being, it is remarkable that in spite of the negative political context, various types of people-to-people contacts, in particular, in the education and research fields remain in place between Russia and the EU. Since the Erasmus plus programme has been opened to non-EU countries, over tens of thousands of students and staff have participated in academic exchanges between the EU and Russia. The last years' increase in participation in Jean Monnet activities by Russian universities is a positive signal.

Russia and the EU share the same continent and several common interests. An acceptable *modus vivendi* must be found not just for sake of our citizens. As Commission President Juncker already pointed out in his speech at the 20th Saint Petersburg International Economic Forum in 2016 concerning the path forward "it begins with Minsk, and it begins with the respect for international law". ■



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OTHMAR KARAS

Member of European Parliament
Chair of the Delegation to
the EU-Russia Parliamentary
Cooperation Committee

SIRPA PIETIKÄINEN

China is ahead in the game – where is Europe?

Expert article • 2302

In order for Europe to compete economically but also to remain a relevant, viable partner to China, we need to strategically plan our future cooperation models. Europe has the option to keep doing more of the same and see China fly past in terms of development and innovation. But by being smarter and transforming faster, Europe has the potential to develop exportable concepts as a basis for continued cooperation, trade and sustainable global development.

China is big, thinks big, and does big in every sector. Around 18% of the world's population lives in China. At the same time, China's share in global gross domestic product adjusted for purchasing-power-parity is over 15%. China holds a place among the world's fastest growing economies. The value of China - Europe trade alone is on average over €1 billion a day.

Like the economy, infrastructure development and mobility have seen huge growth in the last decade. Over half of the world's high-speed railway network is in China. And Chinese high-speed trains are getting faster. China is researching next-generation maglev trains that could eventually reach theoretical maximum speeds of 4,000 kilometers per hour. Infrastructure development ambitions are not limited within the Chinese borders, as reflected in China's call for a new Sino-European Silk Road.

The investments in infrastructure are being paralleled with investments into academics. The reputation of China's education sector has been improving with an increasing number of Chinese institutes listed onto the Times Higher Education World University Rankings list.

The growth has not come without an environmental price. China has challenges with environmental degradation, air pollution, and waste management, for example. China has plans to address these. China is a leader when it comes to clean energy investments, with plans to invest over €300 billion into renewable energy generation by 2020. China also has a circular economy strategy and law, following the inclusion of the concept in both the 12th and 13th Five-Year Plans. From the planning phase, industry is designed to ensure that waste from one industrial process can provide efficient and effective input to others. From January this year, China has refused to accept imports of plastic scrap, textiles or mixed paper imports, including from millions of metric tons of low-grade waste from EU countries. While China is determined to make use of recycled materials from its own domestic market, it also forces the EU to find alternative solutions for what to do with materials previously collected and exported to China.

Chinese growth is taking place in a global environment, where discussions about peak-oil, reducing stocks of sand, scarcity of water and overall depletion of natural resources and biodiversity are frequent. There is no doubt that parallel to the move to a circular economy and doing more with less resources, China like all countries is making strategic plans about how to ensure supply of raw materials and resources also in the future.

China is not interested in import and supply of raw materials only, but also of human capital. This is evident in their large-scale business deals. They are not only for the acquisition of infrastructure or machinery. They also aim to ensure that Chinese specialists, engineers, scientists, and/or IT experts, learn to service, sustain and

up-keep them. In this manner, Chinese experts acquire knowledge and skills, which can be further adopted and applied.

It is also evident that with increased globalisation and shortened distances, few international projects implemented on a massive scale are purely technical. They also carry political implications. Transportation and movement of goods, services and capital will always warrant political and security analysis, and from the perspective of the originating and recipient countries and of neighboring countries.

To some extent, the rapid expansion and development of China has not registered in its full significance, perhaps due to the fact that China is not considered paternalistic in its policies. Yet China is not afraid to take bold steps in the international arena, when it serves their interests. The decision to move ahead with the launching of a new international development bank two years ago, despite opposition from Washington, serves as an example of this. The number of countries that joined the Asian Infrastructure Bank (AIIB) reflected China's growing economic influence not just in the region but in Europe as well.

Europe need not despair, but it does need to strategically consider how it will compete with the pace and level of China's development. The key is to be fast and to consider where it has an added advantage.

Certain choices with regards to economic investments have to be made in order to stay ahead of the game. Will Europe hold on to outdated subsidies for coal-based energy production? Or will they remain relevant and ahead of the game in the clean energy transition? Whether Europe can compete in the circular economy arena with China, given the investments China is already making towards this transition remains to be seen. The level and focus of European investments into research and innovation, including through the EU's Horizon 2020, will influence this. How Europe supports entrepreneurship, including among women where it has been lagging far behind considering both China and the United States, and among youth, will also be of significance.

Where Europe has significant potential is in exporting concepts and solutions, rather than raw materials. A good example is in the area of e-Health and wellbeing. If European countries can, applying new e-Health technology for prevention, treatment and monitoring of individuals based on concepts and models of wellbeing, provide solutions to challenges that societies in the future will face, this will make Europe relevant. We will have something to offer that is valuable to governments at all levels, and in individual demand. We just have to be clever about how we foster, market and sell it. ■



SIRPA PIETIKÄINEN
Member of European Parliament

ELINA LEPOMÄKI

European perspectives on the Nord Stream 2 gas pipeline

Expert article • 2303

Attempts to solve Europe's growing energy needs have resulted in political tension between Russia and the EU. Even more so they have created disagreements between EU member states. The ongoing plan to build a new gas pipeline to import more gas from Russia to Central Europe must be viewed in today's context of growing political unrest.

The Nord Stream 2 gas pipeline is an ongoing energy export project even after much debate. The debate is between the countries that see the gas pipeline as an economic issue and others that view it also as a political and highly strategic project in the area of security policy and geopolitics. Most of the Nordic and Baltic countries belong to the second group as Central European countries belong to the more supporting group.

The political stance in Germany is divided, with the Social Democrats mostly backing the gas pipeline and the Christian Democrats being more skeptical. Most German European Parliament members oppose the gas pipeline. For Germany the pipeline is a way to cut energy costs and lock in secure supplies. The same pipeline that could cut the German energy costs would actually raise them for the Eastern European countries.

This new energy infrastructure project is not one of a kind for Russia. South Stream in 2007 and Nord Stream in 2007 were ordinary projects. Europe already gets a great share of its energy from Russia. If everything goes according to plan the new pipeline will be online by the end of year 2019.

Even though projects like Nord Stream 2 have been conducted in the past, the pipeline can simply not be viewed the same way as its predecessors in today's context. The unstable atmosphere at the Baltic Sea and the Ukrainian crisis with all its consequences have changed the situation completely. The Nord Stream 2 pipeline is seen as a strategy for Russia to bypass Soyuz and Brotherhood pipelines, which pass through Ukraine. This strategy could make Europe even more dependent on cheap Russian gas.

After the Ukrainian crisis diplomatic tensions between EU countries and Russia and the economic sanctions against Russia have made a dent in Russian economics. After the oil price has dropped gas has become ever more significant for Russia's economy. Both Russia and the countries buying the gas have a great economic interest in the project.

Poland has been the most active opponent of the project. Also Sweden and Denmark have voiced their concerns of the pipeline as a threat to national and regional security. Some Nordic countries have security concerns concerning both the construction and operational phase of the pipeline. For instance there have been doubts to let the Nord Stream company operate Swedish ports during the construction phase. In general countries are concerned with the location of the pipelines near their shores in the Baltic Sea, where Russia has increased its military presence.

In Denmark the discussion around the pipeline has been heated. The parliament has recently passed a law that could allow it to ban the Nord Stream 2 gas pipeline from going through its waters on grounds of security policy. The law was made specially to block this particular project.

Unlike its neighbouring countries Finland has not voiced any concerns of the pipeline as a possible threat for security. Finland sees the project simply as an economical issue just like Germany, the biggest defender of Nord Stream 2 in Europe. The main difference between Finland and Germany is the simple fact that Germany will economically benefit from its existence. Unlike in Denmark and Sweden there is hardly any political discussion about the project in Finland. Finland stands alone as a supporter of the project within the Nordic and Baltic countries.

The situation is being closely monitored by the EU. The Commission is against building Nord Stream 2 and the European Parliament has noted that the gas pipeline would undermine the aim of the EU energy politics of diversity of the sources of energy in EU. Already Russia accounts for 34% of EU's overall gas market. The share is significantly larger in some member states.

The European Commission has raised concerns that the pipeline would increase Europe's reliance on Russian gas and cut transit revenues for Ukraine. The Commission sought support from all member states to negotiate on their behalf with Russia on these concerns, but the talks were blocked by the lack of unity among member states. Now the EU is working on a fast pace on new legislation that aims to apply the EU's internal energy market rules to offshore gas pipelines to the EU.

When the EU, most Nordic and Baltic countries affected by the construction of Nord Stream 2 and other European countries such as Poland taking a critical approach to the project should Finland seriously consider its positioning with this pipeline again. Energy export projects are never just economic projects for Russia. Since they are political for Russia, they should be political for us. When all our neighbouring countries have seen possible security threats in this project, we should not be the ones looking the other way. ■



ELINA LEPOMÄKI
Member of Parliament
(National Coalition Party)
Parliament of Finland
Finland

HANNU MUHONEN

Towns need a well-functioning Baltic Sea

Expert article • 2304

The town of Hamina is located on the shore of the Gulf of Finland, approximately 140 kilometers to the east of our capital, Helsinki. The distance to the border crossing point of Vaalimaa at the Finnish-Russian border is some 50 kilometers and to St. Petersburg some 250 km, that is, we are located at the border of east and west. The town is known for its fortification, the circular town plan, the garrison, the port, the Google Data Centre and the international military music festival Hamina Tattoo. Hamina has some 21,000 inhabitants.

The towns and municipalities are facing great changes in Finland. At the moment, our Parliament is handling a significant legislative package which will transfer the responsibility for healthcare and social services from towns and municipalities to 12 counties. In practice this means for Hamina that more than half of the operational economy of our budget and some 600 of our employees will transfer to the Kymenlaakso County at the beginning of 2020. The role of the town will undergo a considerable change. The Association of Finnish Local and Regional Authorities has described well the future areas where the towns play an important role:

1. culture
2. well-being
3. participation and social aspects
4. industry and employment
5. the environment
6. self-government
7. development and partnerships

The tasks relating to industry and employment and the thriving of the townspeople will be especially emphasized. The Baltic Sea becomes increasingly important for the success of Hamina in the future.

In 2011 the towns of Hamina and Kotka merged their ports into Port of HaminaKotka Ltd. The new company has been successful; for example, in 2017 the transport increased by some 10 %. As we all know, the Baltic Sea is extremely important to Finnish foreign trade and also to our port. In practice, Finland cannot operate without the Baltic Sea. Many of our most important trading partners are located on the shores of the Baltic Sea and, on the other hand, Finnish products could not be exported elsewhere in the world or foreign products could not be imported to Finland without crossing the Baltic Sea.

The political situation of the Baltic Sea is very sensitive. There are a lot of pressures and even the smallest overreactions can endanger the development of the entire area. New type of will for cooperation is needed between the Baltic Sea countries, maybe similarly as at the beginning of the 1990s, when the great political change took place. Finland has friendly relations with all Baltic Sea countries. We are engaged in normal and developing trade with seven Baltic Sea countries and, within the framework of sanctions, also with Russia. The external relations of Russia shall, in the future, have a huge impact on the development potential of the entire Baltic Sea. Poland is a big opportunity to all Baltic Sea countries. It is a large economy and at the very beginning of its development.

Last year I had the possibility to visit large ports in the Netherlands and in Belgium. There were two issues linking all ports that especially sank in. They were energy and the environment.

The town of Hamina owns Hamina Energy (Haminan Energia Oy). The company has actively diversified its energy production.

Liquid natural gas (LNG) is a future fuel which, in practice, lowers the maritime transport emissions of vessels powered by LNG to zero. An import terminal to be built by a joint venture of Hamina Energy and its Estonian partner, Alexela Varahalduse AS, will be the first and only on the Gulf of Finland. LNG will guarantee the growth and success of both the port and the energy company. In the future, both the freight transport as well as the cruise ships can come to Hamina to fill their tanks with LNG. The ships sailing to the port and their passengers will need a broad range of services and the provision of the services creates jobs. For the Energy company, the sale of LNG is a new line of business, which will provide the company a possibility to grow and simultaneously create a partner network both in maritime transport and in the generation of heat and steam.

Hamina plays a significant role in the production of wind power in Southern Finland. The own wind turbines of Hamina and also the wind turbines of Suomen Voima (Finnish Power) are located in the area of Hamina. Hamina Energy is also a stakeholder in one of the biggest solar power stations in Finland. The power station is located in Hamina. Hamina Energy is a significant recycler and a producer of biomass energy. A significant part of the bio waste of Kymenlaakso and South-Eastern Finland is degraded at the biogas plant of the company into biogas, which is utilized inter alia as transport fuel. We should further mention that also other "green industry" is located in Hamina, such as an ethanol fuel plant, a bio-oil plant and sawmills, the by-products of which can be utilized.

On the Gulf of Finland, the water flows along the coast line of Estonia to the east and along the coast line of Finland to the west. This means that we get some of the nutrients circulating in the Baltic Sea sooner or later to our own maritime area. Therefore, participation in water conservation in other Baltic Sea countries is also for the benefit of Finland. On the other hand, most of the stress on the maritime area of Hamina and its vicinity reaches the area from the River Kymi. In addition to this, the maritime area is also targeted by spatial stress mainly from the wastewaters of the industry and municipalities of the Kotka and Hamina region. Resources must therefore be allocated to water conservation in Finland also in the future.

Climate change may, in the future, result in a significant stress in the maritime areas because during mild and rainy winters the leaching of nutrients increases. New ways must be found to decrease spatial stress for example from agriculture and forestry if the current protection structures no longer work in the future.

Recreational boating and fishing have always been important hobbies in summer. Sailing across the Gulf of Finland has centuries-long traditions. At the moment, the borders of maritime areas prevent the direct routes east of Suursaari. Also, some of the outer islands that once were part of Finland are closed. Hopefully the

situation can change so that the Gulf of Finland becomes even more open for both the commercial and recreational traffic.

It is never possible to work too hard for the sake of maritime safety. Lively traffic requires that all parties are even more careful and that common rules are respected. ■

**HANNU MUHONEN**

Mayor
Town of Hamina
Finland

Pan-European Institute

BALTIC RIM ECONOMIES

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MARJUKKA VIHAVAINEN-PITKÄNEN

Many potential benefits to improving connectivity in the Arctic

Expert article • 2305

One of the drivers of the Presidency of Estonia in the Council of the European Union last autumn was digitalisation. In this connection Estonia underlined especially that connectivity should be interpreted in a wider sense. This means that the web doesn't only mean that it will serve entertainment purposes as we often think, but it is for serious purposes. Digital and electronic solutions and technologies will save money, time and also labour and help our everyday life. The needs and the demand for better services and connections are the same, irrespective of where we live or work, or whether we are located in the middle of the European Union or in the more remote areas far from the big centres. Even though the demands are the same in the northernmost areas, for example in the high latitudes of the Arctic, the technological solutions and the available infrastructure which is needed is often not only more expensive but also more difficult to provide.

Good communication links are critical factors in improving the living conditions and quality of life of the population in the Arctic, and also in developing business operations in the region. Public services such as healthcare and education can be improved considerably by promoting digitalisation, provided that there is adequate communication infrastructure. Another obstacle which must be taken into account is the ability to use the opportunities and available services which technology provides. Users may differ according to age, gender or education. The digital divide is a relevant factor even in modern societies.

For Finland, being a small country on the edge of Europe, connectivity is important whether it means building transportation routes via sea, land and air, ways to communicate, or building digital connectivity within the country and between the nations.

Connectivity is also one of the top priorities of the Finnish Chairmanship of the Arctic Council in 2017–2019. The Arctic Council's Ministerial Meeting decided in May 2017 to continue the work of the Task Force on Telecommunications Infrastructure in the Arctic by establishing a new Task Force on Improved Connectivity (TFICA) where Finland and Denmark share a chairmanship. The Task Force on Improved Connectivity has started its work in November 2017. For Finland as a Chairman of the Arctic Council this is an excellent opportunity to attract business representatives' attention to this forum. When participating in it they can bring abroad their very valuable knowledge of solutions and technologies to improve connectivity in the Arctic. The Arctic region offers great business potential but requires at the same that actors and technology take the region's fragile nature into account.

However, the TFICA is not the only initiative of its kind in Finland's Arctic Chairmanship period. The Ministry of Transport and Communications and the Finnish Geospatial Research Institute is investigating the challenges of satellite navigation in the Arctic and seeking solutions to them. The project was launched in October 2017. Satellite navigation is increasingly often the pillar of various transport modes, and intelligent transport based on it is on the rise in all modes of transport.

The challenge for Finland and many other countries in the Arctic region, however, is the uneven coverage of the satellite navigation systems in the region, which slows down the effective introduction of autonomous transport, in particular. Therefore, it is important that the same efficient and reliable navigation technology is available in the Arctic as at lower latitudes.

In addition to business opportunities, safer positioning and more

reliable location data provide a basis for improving the quality of life and safety and for a new kind of environmental protection as well. While holding the Chairmanship of the Arctic Council in 2017–2019, Finland intends to focus intensely on improving communications preparedness in the Arctic region and on services supporting maritime transport, which are closely linked to navigation and

Good communication links are critical factors in improving the living conditions and quality of life of the population in the Arctic, and also in developing business operations in the region.

geospatial information. The project is part of the Government's key project to build a growth environment for digital business operations.

Functional wireless connections would improve maritime safety, enable conveyance of the data on conditions, and provide reliable positioning. The challenge with respect to positioning is to achieve the same performance and reliability in navigation and positioning as when using traditional technologies at lower latitudes.

Submarine telecommunications cables and an advanced fibre infrastructure based on these would provide opportunities to build additional connections to submarine telecommunications cable routes. This would in turn attract investment and business to the Arctic region.

The realization of the North-East Passage Data Cable project, which will connect Asia to Europe through the northernmost parts of Finland, Norway and Russia, is also a priority for the Finnish government. It will work as an option to improve the connectivity in the Arctic region. Together with the trunk cable route from northern Finland to the south of the country it could play a significant role in connecting the northern areas of Europe to central Europe.

It is often asked why governments should play a role in a submarine cable project. Their role is to support the technical implementation of the project and act as facilitators but the project itself

will be carried out by companies on the basis of genuine commercial interests. The project could be fulfilled only if there is a real business interest, even though there is a multinational understanding that it is needed.

It is a fact that existing investments, for example data centre investments located in the country, send a strong signal to foreign markets, inviting further investments. For Finland this is an encouragement to continue to be a digital frontrunner and to take a leading role in the digitalisation of Europe.

Communications practices, services and citizens' behaviour are all changing. As a response to the growing capacity demands, Finland has started to draft a new digital infrastructure strategy. The strategy aims to define Finland's broadband targets for the year 2025 and the means to achieve them. The strategy will be technology neutral, which means it will be promoting the construction of both optical fibre connections as well as the necessary spectrum policy measures for the development of 5G. ■



**MARJUKKA
VIHAVAINEN-
PITKÄNEN**

Senior Adviser
Networks Department
Ministry of Transport and
Communications
Finland

ALLAN ROSAS

CBSS: small, unknown but beautiful?

Expert article • 2306

After the fall of the Berlin Wall, new avenues opened up for East-West cooperation in Europe. At the all-European level, it was decided to strengthen the Conference (later to become Organization) for Security and Cooperation in Europe (OSCE). Other initiatives were launched with a view to sub-regional cooperation, such as the Council of the Baltic Sea States (CBSS), which saw the daylight in March 1992. A declaration to this effect was adopted at a meeting in Copenhagen, assembling the Ministers for Foreign Affairs of ten Baltic Area States and a representative of the European Commission (the executive branch of the European Union – EU).

In 1992, only two of the participating States were Member States of the EU (Denmark and Germany), while another was a NATO member (Norway), two were non-aligned States (Finland and Sweden) and the other five members had until recently been members of the Eastern Block (apart from Russia, Estonia, Latvia, Lithuania and Poland). Particularly active in the birth of the CBSS were Denmark and Germany, which together with the participation of the European Commission underlines the role played by the EU in the birth of the CBSS and its subsequent developments.

While the late 1940s saw the creation of a number of intergovernmental organizations based on legally binding instruments, a more recent trend has been to favor documents of a more political character (“soft law” instruments). The OSCE, the CBSS and the two sub-regional bodies for Arctic and Barents Sea cooperation (the Arctic Council and Barents Council) are examples of this trend. A political declaration does not normally require to be adopted following the procedures for the conclusion of international agreements and it can be put into effect without further ado.

It was probably this “soft” nature of the CBSS which explains why it was politically possible to launch it as an “overall regional forum” for intensified cooperation and coordination. Six areas of cooperation were envisaged, including economic and technical assistance and cooperation, humanitarian matters and health, protection of the environment and energy, culture, education, tourism and information and transport and communication.

While the mandate continues to be broad, three long-term priorities, that is, regional identity, sustainable and prosperous region and safe and secure region, have been identified. To illustrate the broad range of activities, reference may be made to the Reykjavik Declaration adopted on 20 June 2017, in which the Foreign Ministers and high-level representatives of the participating States invited the organization to identify and launch new project activities within the following areas: sustainable development, youth, human trafficking, child protection and civil protection.

The CBSS displays a fairly developed institutional structure, with a Presidency rotating among the 11 participating States, a Committee of Senior Officials, a number of working groups, task forces and the like, and a permanent International Secretariat (established in 1998) with its seat in Stockholm. Its bodies cannot take legally binding decisions and so the main focus is on recommendations, projects and coordination and facilitation of activities run by national administrations. The CBSS also cooperates with other organizations active in the Baltic Sea Area, such as the EU and the Baltic Marine Environment Protection Commission (Helsinki Commission-Helcom) as well as networks between parliaments, cities, universities and other actors.

The resources of the CBSS are quite modest (the staff of the International Secretariat comprises around 25 persons) and it is not always easy to assess the specific added value of its work as compared to the myriad of other organizations and networks which are active in the Baltic Sea Area.¹ Among its current participating States, eight are today members of the EU, two are closely associated with the EU (Iceland and Norway) and so the CBSS has to some extent become a forum for cooperation between Russia and the EU and its Member States. That said, the CBSS can still perform a useful role notably as a “hub” for coordination of, and information about, activities in this Area in general. It is to be expected that an independent group of wise persons, which has recently started its work, will in its report to be presented in 2018 come up with concrete proposals how to enhance the role of the CBSS, so as to make it more both known and beautiful. ■

¹ This complex institutional framework is studied by the BaltReg project, run by the departments of law and public administration of the Åbo Akademi University, financed by the Academy of Finland and associated with BALEX.

ALLAN ROSAS

Judge

European Court of Justice

Chairman

Advisory Board

BALEX (Baltic Area Legal Studies),
a cooperation framework between
the University of Turku and the Åbo
Akademi University
Finland

JOAKIM BERNDTSSON & KARL YDÉN

Back to the future? Swedish public opinion on Russia, defence spending and NATO membership

Expert article • 2307

The past decade has seen substantial shifts in Swedish security policy, and major change in the domestic debate about NATO membership. From being a non-starter with neither substantial public nor parliamentary support, all the right-of-centre former government parties now call for a Swedish NATO membership. Public opinion on this question has also changed. As shown by the annual surveys by the SOM (Society, Media, Opinion) Institute at the University of Gothenburg, the period between 1994 and 2012 indicate a low, stable level of support for a NATO membership at around 20 percent. However, according to the latest (2016) survey, about one third (33 per cent) of the Swedes now support Swedish NATO membership. The results from these surveys also indicate an increasing “post-Crimean” concern with developments in Russia, as well as a sharply increasing reluctance to reduce defence spending. What can explain these shifts?

During the Cold War, Sweden’s strategic position was that of a neutral country between NATO and the Warsaw Pact, combined with a political position of solidarity with the global south and a strong support for the UN, including active participation in “Blue Helmet” peacekeeping operations. The end of the Cold War meant a redefinition of Sweden’s foreign and security policy. Economic as well as security related developments led to a political reorientation. Sweden joined the European Union in 1995 and, in 1992, changed its ‘neutrality’ policy into ‘military non-alignment’. A full NATO membership was still out of the question, but Sweden became an increasingly active NATO “partner nation” and contributed to several NATO-led peace operations during the 1990s.

Following the 9/11 attacks, Sweden contributed to the ISAF operation in Afghanistan and over the following years, the Swedish Armed Forces were increasingly reconfigured towards international expeditionary operations within a UN and/or EU and/or NATO framework. Territorial defence capabilities were deemed no longer necessary, and Sweden gradually geared its military towards overseas operations, including transformation to an All-Volunteer Force. The so-called “Afghanistan Doctrine” was criticized by some commentators, but few paid any serious attention. Public interest in defence and security policy was limited, and the armed forces were increasingly marginalized in the political debate as well as in the central government budget. NATO membership, although favoured by some, was still not subject of serious political debate.

However, a resurgent Russia increased the sense of insecurity and reenergized the Swedish security and defence policy debate. In 2013, around half of the Swedes (53 percent) expressed concern with developments in Russia; by 2015, four out of five Swedes (80 percent) shared this concern. In the same period, concerns about terrorism and war also increased. Perceived Russian aggressiveness on the international stage also seems to have dealt a serious blow to Swedish post-Cold War support for cutting defence expenditure. While a popular idea during the 1990s and a fairly popular idea until 2012, the last few years have seen it tumble to historic lows. In 2016, 53 percent of Swedes dismissed the idea of decreased defence

spending, and only 14 percent supported it – practically a reversal of public opinion in 1993-94.

In view of these shifts, it is not surprising that we should see changes in public (and political) opinion about NATO as well. Since the mid-1990s, those in opposition of a NATO membership typically outnumbered supporters by a factor of two to one. However, between 2012 and 2013, opposition weakened markedly, and in 2015, the share of supporters had risen to about 38 percent, outweighing the opposition (31 percent for 2015) for the first time since 1994. Although there was a slight decrease in support in the 2016 survey, Swedish public opinion is now practically evenly split, with the share of undecided remaining stable at around 30-35 percent.

At the same time, political positions on NATO have shifted. The so-called “Alliance” – four right-of-centre parties that form part of the political opposition – collectively favour a NATO membership, while the Government (The Social Democrats supported by the Green Party) remain committed to “military non-alignment” as the best defence policy for Sweden and the region (including Russia and, notably, Finland – a historically crucial component of Sweden’s defence strategy). The Swedish Minister for Defence Peter Hultqvist argues for rebuilding territorial defence capabilities, bilateral agreements and military cooperation, claiming this provides better security for Sweden than joining NATO. A case in point here is the military exercise *Aurora 17* (the largest such exercise in decades), conducted in September 2017, where Swedish military trained alongside several NATO member countries, notably the U.S. and France.

Entering into the Swedish general elections of 2018, it remains to be seen if and how issues such as NATO membership and defence and security policy will form part of political campaigns and debates. It is also unclear how other factors, such as the position of the current US administration vis-à-vis NATO, will impact on Swedish political considerations. What is clear, however, is that Swedish defence policy has, in many ways, reverted back to some familiar positions in terms of territorial defence and analysing Russia’s intentions. But modern armed forces are much smaller than the mass armies of the Cold War, making international military cooperation even more necessary than before. Thus, the issue of NATO membership will likely remain on the political agenda for the foreseeable future. ■

JOAKIM BERNDTSSON

Associate Professor
University of Gothenburg
Sweden

Email: joakim.berndtsson@
globalstudies.gu.se

KARL YDÉN

Senior Lecturer
Chalmers University of
Technology
Sweden



KARI LIUHTO

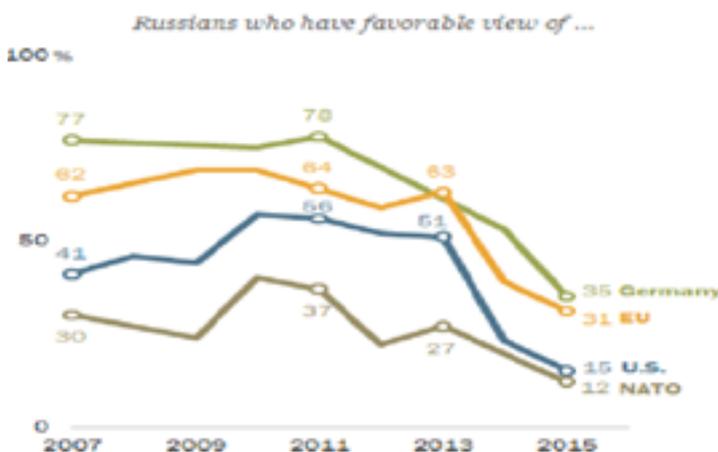
Russia's economic interaction with the NATO member states

Expert article • 2308

In December 2015, Russian President Vladimir Putin signed an updated National Security Strategy, which described NATO's expansion as a threat to Russia¹. Half a year later, Russia's Foreign Minister Sergey Lavrov stated that "Russia 'would never attack any member state of NATO', but said that the alliance's eastern expansion remains a threat"². In a similar tone, President Putin considered NATO's expansion towards Russia's borders a threat, which he articulated as follows: "we will be obliged to undertake something because we see this [NATO expansion] as an additional threat to Russia"³.

Russians' views of key western nations and organisations have become increasingly negative since 2007 (Graph 1). At the beginning of 2018, two thirds of Russians believed that Russia had external enemies⁴.

Graph 1. Change in Russians' views of the West



Source: PEW Research Center⁵.

How should we interpret the freeze in Russia's attitudes to the West? Have anti-NATO statements made by Russian leaders been directed at Russia's domestic audience in order to maintain public support with the help of an external enemy? This article aims to find an answer to the aforementioned question by analysing Russia's economic interaction with NATO countries during the current decade.

Even if the 29 NATO countries' share of Russia's foreign trade has declined somewhat since the beginning of this decade, it still accounts for nearly half of all such trade. The decline in the NATO share is

1 <http://www.bbc.com/news/world-europe-35208636>

2 <http://www.newsweek.com/lavrov-putin-baltic-nato-attack-never-estonia-lithuania-latvia-summit-defence-467530>

3 <http://www.newsweek.com/vladimir-putin-vows-eliminate-nato-threat-sweden-joins-619486>

4 <http://russialist.org/two-thirds-of-citizens-believe-russia-has-enemies/>

5 <http://www.pewglobal.org/2015/06/10/nato-publics-blame-russia-for-ukrainian-crisis-but-reluctant-to-provide-military-aid/russia-ukraine-report-39/>

mainly due to the growth of China as a foreign trade partner of Russia. In 2010, China represented 9.6% of Russia's foreign trade, whereas its proportion was 10.9% in 2013, and is now 14.9%. NATO countries buy over 80% of Russia's natural gas exports, but this share may drop by around 10 percentage points when the first natural gas pipeline (Sila Sibiri or Power of Siberia) from Russia to China is operating at full capacity by the mid-2020s. Russia's oil exports to China will also grow, but at a much slower rate. In 2015, 12% of Russia's crude oil and oil product exports ended up in China, whereas most Russian oil was sold to NATO countries⁶.

A third of all foreign direct investment (FDI) received by Russia and a third of all investments made by Russian firms abroad are linked to NATO countries. In reality, NATO countries account for considerably more than a third of such investment: if, from Russian FDI statistics, we eliminate Russian investments made via the Bahamas, Bermuda, the British Virgin Islands, Cyprus and Jersey, and then funnelled back to Russia, NATO countries' share of investment would leap to over 60% of both inward and outward FDI (Table 1).

A third of Russians travelling abroad go to a NATO country. It seems that no major change has occurred in this despite the Ukrainian crisis. It is worth mentioning that 0.8 million Russians visited the NATO member Turkey in 2016, and Russian tourism in Turkey has more than doubled in the first quarter of 2017, despite the fact that Turkey shot down a Russian military aircraft near the Syrian border in November 2015. In addition to tourism, wealthy Russians still send their children to NATO countries for higher education, store a substantial part of their financial reserves in the banks of some NATO countries and buy summer houses from such countries. Concrete actions of this kind by Russians do not seem congruent with the opinion polls (Graph 1), i.e. wealthy Russians, at least, do not seem to consider the West and NATO a major threat.

To conclude, the economic indicators presented above do not support arguments that Russia has changed its modes of economic cooperation with NATO countries. Despite the aggressive rhetoric in Russia, there is still a plenty of room for peace and prosperity between Russia and NATO, regardless of the understandable increase in military spending on both sides. According to the Stockholm International Peace Research Institute (SIPRI), Russia spent \$20 billion on its military capacity in 2000, whereas its military expenditure reached almost \$70 billion in 2016. The aforementioned sum means that Russia spent 5.3% of GDP on its armed forces in 2016. In the same period, only five NATO members reached the 2% GDP threshold⁷. However, increased military spending is not automatically negative. On the contrary, underinvestment in the military may generate more risks than overinvestment. On the other hand, aggressive rhetoric can be more dangerous than high military spending per se.

6 https://www.researchgate.net/publication/314089386_Russia-China_Economic_Relations

7 <https://www.economist.com/blogs/graphicdetail/2017/02/daily-chart-11>

Table 1. NATO member countries' share in Russia's foreign economic relations (%)

Russian ...	2010	2013	2016	2017	as of
... exports*	57	56	50	50	1-10/2017
... exports of natural gas (volume)	63	71	81	not available	
... imports	45	46	42	42	1-10/2017
... outward FDI stock	28	30	32	31	1-6/2017
... inward FDI stock	24	34	32	34	1-6/2017
... tourists travelling abroad**	not available	not available	33	31	1-4/2017

* Albania, Iceland and Montenegro are not included in the foreign trade figures, and Croatia does not appear in the 2010 trade statistics.

** Albania, Canada, Iceland and Luxembourg are not included in the tourism figures, since no data was available for those countries.

Note1: all 29 NATO member countries have been taken into account for the period since 2010, despite the fact that they may have joined NATO later.

Note2: inward FDI stock means accumulated foreign direct investment received by Russia and outward FDI stock total investments made by Russian firms overseas by the end of the given period.

Sources: The author's calculation is based on data from the Bank of Russia, Customs Russia, the Federal Agency for Tourism and Gazprom

KARI LIUHTO

Professor, Director
Pan-European Institute
Turku School of Economics at the
University of Turku
Finland

MARGARITA ŠEŠELGYTĖ

Security challenges for the Baltic Sea region

Expert article • 2309

Majority of the states in Baltic Sea region are small states in terms of the size of their populations, GDPs and the ability to influence global processes. Another distinguishing feature of this region is a dense network of international institutions (the European Union (EU), NATO, Organization for Security and Cooperation in Europe (OSCE), Organisation for Economic Co-operation and Development (OECD) Nordic Council, Baltic Council etc.) which makes countries interdependent in various fields (economy, politics, and security). The Baltic Sea region is as well one of the most economically prosperous, competitive and stable regions in Europe. A number of factors have contributed to this situation: relatively stable neighborhood, absence of the heavy security challenges, good governance, economic growth, international order which is based on the values of liberal democracy and the rule of law.

Crisis in Ukraine and aggressive foreign policy of Russia however became a major game changer which has negatively disturbed the security balance in the region. Neighborhood ceased to be stable and secure. Moreover Russia has been causing anxiety due to its military reinforcements on its Western borders, aggressive rhetoric and attempts to interfere in the internal affairs of other countries. On a number of occasions it has employed hybrid instruments of intervention cyber, information economic means of pressure in order to affect the political stability of the countries in the region.

When it comes to security the most distinguishing features of the small states are: the lack of resources to defend themselves independently, limitations to take independent decisions on their security policy, higher degree of vulnerability and inability to influence the system on their own. To strive economically and politically small states require a certain degree of stability in the international system and in particular in the region. The research on small states demonstrates that the vicinity of a large, revisionist, undemocratic power, aggravate all the vulnerabilities and limitations mentioned above. In order to improve their security in the antagonistic environment throughout history small states were employing the strategies of the bandwagoning or the membership in the security alliances and other international organizations.

In the Baltic Sea region the US, NATO, and the EU for a number of years were the main security providers contributing a lot to the welfare and stability of the region. Unfortunately along with the increasing assertiveness of Russia, other systemic factors vitally important for the regional security occurred. First of all the global role of the main guardian of the liberal international order and security provider in the region the US is changing. Globally it is being challenged by China and other rising powers. Russia in its turn makes a lot of efforts to test existing international order aiming to propose a new model of international relations which relies not on international institutions but rather on bilateral agreements of great powers. This model of international relations is particularly unfavorable for the small states. Moreover Presidential elections in the US have raised the worries in the region that the US foreign policy could become more isolationistic and its presence in the Baltic Sea region could be diminished. The US "withdrawal" from the region might challenge the role of another important pillar of the regional security - NATO. Although current US

administration on a number of occasion affirmed the relevance of NATO and in 2018 plans to allocate 4.8 billion USD for the deterrence in Europe along with another 214 million USD for the modernization of American military bases in Europe, the risk of the change in the US focus due to the new security challenges and changing security balance remains.

Another immense systemic challenge to the security of the Baltic Sea region is related to the crises in Europe (economic, refugee, political). These crises have provoked a number of negative consequences such as political instabilities in a number of European countries, Brexit and most importantly forming dividing lines between the members of the European Union. As small states to prosper and to have a stronger voice in the international politics rely a lot on the international institutions, weak and divided European Union might pose a serious challenge for the security of the small states in the region. Due to the strong interdependency and higher degree of vulnerabilities to systemic shocks crises on European level might have greater impact on small states. Disagreements on a number of foreign policy issues within the EU and between the EU and the US might place these countries between the rock and hard place and create even more security dilemmas for them.

What could small states of the region do in order to survive these systemic turbulences? One of the possible strategies to undertake is to increase their own resources necessary to ensure security. Many of the countries in the region are already gradually increasing their defence spending. However it is quite a challenging task as it takes time, moreover it is not always easy to reconcile the defence aims with other needs of societies. More effective cooperation among the countries in the region might be a partial solution. Already existing or new institutional formats could be employed for that purpose (e.g. PESCO, NORDEFECO). Small states are more vulnerable not only for the systemic challenges but also to the effects of the hybrid elements of external pressure, a coordinated cyber attack could paralyze the functioning of state institutions as it happened in Estonia in 2009. A relatively limited disruption of the infrastructure in small state can have devastating effects on its functioning. Moreover due to the proximity and interdependence in the region negative events might very fast spread from one country to another. Therefore it is of the utmost importance to indicate major vulnerabilities both on national but as well on the regional level and tried to reduce them by strengthening the resilience. Domestic features such as good economic management, administrative competence, political stability and cohesion of the society throughout the history have proved to be the vital elements for the small states to successfully survive systemic fluctuations. Better cooperation trying to reduce the vulnerabilities, exchange of information and sharing the experience should make and important part of the security strategies of the small states in the region. Though small states are more vulnerable they are also more flexible, more adaptive. New creative ways how to deter and react to the new security threats might be tested in these states. A societal initiative how to fight the "internet trolls" by organizing a group of internet commentators who call themselves "elves" has emerged in Lithuania. Currently this strategy is being tested and employed by other, bigger states.

Finally, soft power has always been the main source of power in the small countries, be it reputation, activism in foreign policy or the active use of military instrument in the international operations. Activism in foreign policy remains an important tool to increase the security for the small states in a current security situation. Small states in the region should not shy away from the active support for the main principles of liberal international order, as the existence of this order is vital to the security of small states in the region. One could draw the lessons from the history that the alternative order based on the Great Power politics treats the small states as the objects of negotiations and the deals of the big ones. Coalitions of like-minded states could become instrumental in increasing the relative power of small states in international relations and the small states in the Baltic Sea region have a good ground for such cooperation: there is a common interest, a relatively high degree of trust and an already existing network of formal and informal institutions. ■

MARGARITA ŠEŠELGYTĖ
Dr., Studies Director
Institute of International Relations
and Political Science
Vilnius University
Lithuania

HENRI VANHANEN

Maintaining stability at the Baltic Sea region

Expert article • 2310

Humankind, over the millennia, has put in place various mechanisms to help cope with uncertainty. For example, putting in place narratives to filter and process the vast array of information available and arrange it in order – a cognitive trick to make sense of an uncertain world.

Today, the Baltic Sea Region is a hub of differentiating yet interdependent interests. The region is an ecosystem where national interests through economics and geopolitics come together in a complex way. It is safe to call it one of the pivotal entities of world politics.

However, while the essential nature of the region creates overall stability in political terms, geopolitics tend to shatter this conception. After the dramatic deterioration of Russia-West relations since the illegal annexation of Crimea in 2014, the Baltic Sea has become a strategic spot of geopolitics and uncertainty has arrived at the region.

In the Western view, the Baltic Sea Region is not formed primarily by geography, but by overlapping institutional, political and economic relationships. In economic terms the regional trade world volumes are very high. For Russia, the Baltic Sea is an important strategic area as well. Its data cables and energy imports are highly dependent on functioning sea routes. Kaliningrad is one of Russia's most vital military bases in Europe.

While a direct military conflict seems unlikely, the increasing amount of Russian military activity on its western borders and superpower ambitions have increased the geopolitical risk potential over the region. The Russian view regarding the region's interdependencies does not completely parallel with the Western conception. This zero-sum view emphasizes confrontation and competition over cooperation.

At the moment it seems that tensions between Russia and the West will continue for the foreseeable future. This means that the Baltic Sea Region will also remain as one of the key areas of geopolitical interests. In order to avoid escalation and unnecessary risks, both Russia and the West should actively seek ways to avoid collision. A demilitarizing approach is needed.

As explained earlier, the region is an interdependent ecosystem living off trade. A problem for one is often a problem for all. It is in the interest of all regional states that it remains out of harm's way, regardless of the differing strategic views on the Baltic Sea. Finnish President Sauli Niinistö has been a spokesperson for mutual transparency and trust with his initiative to increase flight safety over the region. The idea was welcomed by all parties and this approach should be utilized even further.

Building trust and strengthening interdependencies by appealing to the essential interests of all parties on a broad scope could help strengthen regional stability. The EU and Russia could for example seek an agreement to maintain the safety of maritime trade, infrastructure; submarine and data cables, archipelago and add transparency in military naval activity for starters.

Even if we could reach a functioning dialogue, creating new or strengthening existing interdependencies alone will not solve the fundamental differences between the parties if the action is based on the convergence of interests instead of values. As of today, Ukraine remains an open conflict and NATO must deliver security to its member states until Russian aggression is checked. The Minsk Agreement has set the primary road map to solve current the crisis. The coastal states of the Baltic Sea also have the right to oppose infrastructure projects, such as Nord Stream II, if they act according to international law.

Still, preventing escalations by dialogue and agreements is a step towards the right way, whether it be a small step. Like the initiative to increase regional flight safety, at the moment we need an approach which is based on the necessity of the lowest common denominators. The idea is not to seek cooperation no matter the costs or circle around international law. In realist terms; when utilized in a positive sense, interdependencies matter and can help us get forward in a stalemate situation.

The Baltic Sea Region includes essential national interests to both Russia and the West on which we need to build peace on. An inclusive approach is essential for peaceful development in the future as well. The interdependencies within the Baltic Sea Region guarantee that there will be a common interest to seek cooperation. Uncertainty can be controlled only through common action and seeking initiatives to add transparency – by building new narratives of trust. ■



HENRI VANHANEN

Master of Social Sciences, Editor
The Ulkopoliitikist
Finland

MYKHAILO GONCHAR

Future of natural gas transit from Russia via Ukraine to the EU

Expert article • 2311

The pre-war Ukrainian-Russian cooperation in the gas sector was distorted due to Russian aggression against Ukraine, which led to the occupation of Crimea and the eastern part of Donbas. Ukraine has stopped importing gas from Russia since 2015, having switched to importing it from the EU market. Cooperation between Gazprom and Naftogaz in terms of gas transit continues, although Gazprom has not fulfilled its obligation to transport “at least 110 billion cubic meters annually” throughout the entire term of the contract. In 2012-2016, transit volumes fluctuated within 62.2–86.1 bcma.

Ukraine undergoes reforms of gas sector in accordance with the European Union’s Third Energy Package, the EU-Ukraine Association Agreement and the Energy Community Treaty. This includes the unbundling of Naftogaz and transformation Gas Transmission System (GTS) into an independent company. Unbundling must be brought to a close in 2018. Therefore, this will affect the relationship with Gazprom, as well as the decision of the Stockholm arbitration regarding the transit contract. Another factor of influence is Russian bypass projects – Nord Stream 2 (NS2) and Turkish Stream (TS). These projects are able to nullify the gas transit through Ukraine. They completely contradict both the interests of Ukraine and the basic principle of diversification of sources, routes and suppliers enshrined in the documents of the Energy Union.

There are four basic scenarios for Ukraine in regards to the gas transit after 2019 when existing transit contract will be ended.

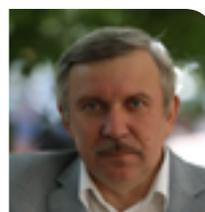
1. Zero transit scenario. No relations with Russian Federation regarding the transit will be preserved. If TS and NS2 will be implemented due to the lack of active opposition from the European Commission and active promotion by lobbyists, this can cost Ukraine up to \$3 bln of lost annual revenues. In case of construction of Russian bypass gas pipelines, European companies will not use the GTS of Ukraine as well.

2. Poor transit scenario. It is believed in Brussels, that saving 40 bcma of transit will be enough for Ukraine, although it is a zero-profit line. Moreover, neither Europe nor Russia guarantees this volume. Gazprom also states sometimes that transit through Ukraine will be partly preserved. But at the same time, they mean that it could be 10-15 bcma. It is clear, that for the GTS with total capacity of 142 bcma, 10-15 bcm of transit per year is a scanty amount. Ukraine will have to be satisfied with “crumbs from the European feast with Gazprom” during the winter peak period, when bypass pipelines across the Baltic and the Black Sea will not be able to satisfy demand in Europe.

2.1. Short-term inertial scenario. The cooperation will continue for several years after 2019, in other words after the expiration of the current 10-year transit contract. Even if Gazprom builds NS2 and TS during 2018-2019, however, it will not be able to carry out pre-commissioning and testing operations before the pipelines reach its full capacity. Gazprom will be forced to continue the transit of gas through the territory of Ukraine to the EU for about two years after this. This can be done within the framework of a temporary contract between Gazprom and Ukrainian operator of GTS, created as a result of the unbundling of Naftogaz. The collaboration based on short-term contracts may also be carried out in order to ensure the supply of additional gas volumes to the EU at the peak of European demand in winter.

3. Reduced transit scenario. If NS2 will be blocked by the efforts of the USA, the European Commission, Poland, Denmark and Ukraine, but the TS appears, the volume of transit will be reduced. In other words, main gas delivery routes of the Ukrainian GTS will be operated at 50-60% of its capacity. Two European operators — Slovak Eustream and Italian SNAM showed their interest to the main Ukrainian transit route the Northeast – West (Sudzha-Uzhgorod) with the transit volume of 30 bcma. They worked out a common vision and offered it to the Government of Ukraine. It is planned to create an international operator with the participation of these companies and the Ukrainian JSC UkrTransGaz. The operator will lease the specified route of the GTS and use it for gas transit with the transfer of gas metering stations to the Russian – Ukrainian border. This approach has been supported by the Energy Community Secretariat.

The year 2018 will be decisive for both NS2 and future scenarios for the GTS of Ukraine. According to any of the scenarios, the use of Ukrainian GTS at full transit capacity is not foreseen. Although 2017 became a record-breaking in the 5-year period with 93.5 bcm of gas transported through the Ukrainian GTS but this is not a reason for optimism. ■



MYKHAILO GONCHAR

President
Centre for Global Studies
“Strategy XXI”
Ukraine

Member
National Committee for Industrial
Development
Ukraine

Email: info@geostrategy.org.ua

JUHA-ANTERO PUISTOLA

Nord Stream 2 – divide et impera

Expert article • 2312

During the presidential campaign, candidate of the Centern Party Matti Vanhanen reiterated his view that the Nord Stream 2 pipeline does not have any security political dimensions. Member of Parliament Elina Lepomäki (National Coalition Party) challenged his opinion stating that several EU Member States recognizes security political risks connected to the project. She wondered how Finland is blind to those.

It is easy to understand Finland's official view towards the NS2. We have maintained some aspects of our neutral stance when Russia's interests are on stake. What makes it easier is the fact that this time Russia's and Germany's interests are *peacefully* lined. However, as Finland is also a member of the European Union, we should at least *discuss* possible negative impacts of the NS2.

Ukraine in crosshairs

Considering the relationship between Ukraine and Russia, it is not difficult to imagine, that Kreml is doing everything in its power to weaken Kyiv. Ukraine will lose nearly \$2 billion in transit fees when the NS2 will be operational. That will have a huge impact on country's economy, which is already suffering from the war and corruption. Actually, the latter is far worse problem than losing transit fees. (That said the fees could disappear much faster than corruption.)

Looking things from Russia, Ukraine has done almost nothing to build a reputation as a reliable transit partner. Since 2006, when the first interruption of Russian gas transiting Ukraine occurred, Russian long-term goal has been that avoidance of any transit interruptions should be a key part of Gazprom's strategy in Europe. Interruptions caused by any other actor to be precise. Energy will stay as a possible weapon in Russia's toolbox. If all matters proceed according to Russia's plans, Gazprom will control the pipelines with a capacity of 86 billion cubic meters in the heart of Europe. That could pose a strategic risk.

Obviously, in public parlance, Russia only emphasizes economic and reliability related reasons when discussing NS2. The ongoing war in Ukraine is not the only reason for risks for both supplier and customers. Key pipelines in Ukraine are getting old and there are not enough investments to modernize them. Several thousands of kilometers of pipelines and 20 compressor stations should be renovated. According to an Russian estimation, that would require over 10 billion dollars.

Europe in parts

From Finland's viewpoint, we should be worried that European Union is also divided to at least two camps while discussing the NS2. Bulgaria, the Czech Republic, Greece, Hungary, Estonia, Latvia, Lithuania, Poland and Romania have taken the hardest position against the project. From their perspective, the gas transit

through Ukraine is essential to the stability in the Eastern European region. (Dependence on Russian gas decreases from east to west of Europe: Finland - 100%, Slovakia - 84%, Austria - 70%, Poland - 64%, Germany and Hungary - 62%, Czech Republic - 58%, Denmark - 55%, Italy - 40%, France - 25%.) Moreover, their leaders are at least a little bit afraid that the project is gnawing the European Union from the inside.

At the moment the Ukrainian transit is vital for Austria, Bulgaria, Croatia, Greece, Hungary, Italy, Slovakia and Slovenia. However, even Western European countries could become more dependent on Russian supply when European own resources will be exhausted. Domestic gas production in North West Europe is already declining fast. For those countries, NS2 could be a rational solution.

Thus, it is understandable that Germany and Austria are in favor of the NS2. Both countries see the political and economic gains in it. It strengthens the relationship between Germany and Russia and gives Germany keys for European gas market. The second key that is. The other is inside the walls of Kreml.

German Chancellor Angela Merkel has used her influence in order to guarantee the NS2 development. However, recently she has been

reminded that the NS2 is not a typical "business project". If Germany twists too many arms, it could face political isolation inside the European Union. On the other hand, Germany's leadership is greatly needed during the BREXIT times. That might convince others to be less vocal against the project.

Where's the beef?

For me it is quite clear, that the Nord Stream 2 has several layers of security issues and even risks. In the short term, the environmental aspects are dominant. However, the first pipe was built without any major problems and that could be expected with the second one too as well.

Nevertheless, in the mid or long term we will face some hard questions: How disagreements like this will effect on European unity, what will be the Russia's role in our energy security and how will Germany practice her leadership? That said I tend to agree with MP Elina Lepomäki. We should not ignore security implications – even if they are difficult to discuss. ■

For me it is quite clear, that the Nord Stream 2 has several layers of security issues and even risks. [...] However, the first pipe was built without any major problems and that could be expected with the second one too as well.

JUHA-ANTERO PUISTOLA

Senior Adviser, CDR

Secretariat of the Security Committee
Finland

RUSLAN MUSTAKIMOVICH SHAFIEV

The main directions of Russia's energy diplomacy

Expert article • 2313

The need for active, effective state energy diplomacy is conditioned by the fact that issues of ensuring the interests of participants in world energy trade go out, as a rule, far beyond the competence and capabilities of individual energy companies.

For Russia, as a country with the richest natural resources, having not only national but also global significance, diplomacy of the world's largest donor of raw materials, primarily energy resources, is an exceptionally important area of economic diplomacy. This is certainly a very powerful factor of Russia's influence in the international arena, but it should be used with great care, since the interests of the national security of foreign countries - importers of domestic raw materials are directly affected. In other words, Russia can, if necessary, appeal to the status of a raw superpower, but in no case should it cast doubt on its reputation as a reliable supplier that guarantees uninterrupted supply of partners with raw materials.

Russia extensively applies energy donation (selling energy at preferential prices) in its relations with the CIS countries. Only in the first ten years, since 2000, the total volume of energy donation in Russia has exceeded 70 billion dollars. (Belarus - 49 billion dollars, Ukraine - 17 billion dollars, Moldova and Armenia - 4 billion dollars), another 88 billion dollars. accounted for the income of Belarus and Ukraine from exports of subsidized Russian oil and gas raw materials (mainly oil products, as well as residual products of oil refining, ammonia and nitrogen fertilizers, primary petrochemicals, direct re-export of Russian oil and gas). Supplies of energy carriers from Russia to the CIS at prices significantly below the world level had significant indirect benefits for the Commonwealth economies in terms of a general increase in their competitiveness, especially energy-intensive industries, including Ukraine's main export industry - ferrous metallurgy.

Diplomacy of the largest donor of raw materials includes work in four main areas.

The first direction is the resource-rich developing countries, which are of growing interest to Russia as an additional source of raw materials, which can significantly strengthen the resource base of the domestic extractive industry and strengthen our country's position on the global commodity market. First of all, it is about building up Russia's commercial presence in the commodity sector of such countries (for example, Central Asian and African countries), acquiring rights to develop mineral deposits.

The second direction envisages cooperation with other countries - large net exporters of industrial raw materials in ensuring the stable functioning of strategic commodity markets, primarily energy carriers. The main objective of such cooperation is collective regulation of the world energy market in the interests of maintaining a price level acceptable for producers and consumers.

The third direction assumes close cooperation of Russia with the largest consumers and net importers of raw materials, first of all energy carriers - the G-8 countries, China, India, R. Korea and a number of

others. In this case, the central issue for Russia is the involvement of these states in the formation of a system of international energy security with the decisive participation of our country. Russia acts as a guarantor of uninterrupted provision of the growing needs of the world's leading powers in energy carriers, and the latter are actively investing in the development of new fields in Russia and the creation of the necessary infrastructure.

The fourth direction is Russia's participation in multilateral and regional cooperation in forecasting, regulating and stimulating commodity markets, primarily energy and non-ferrous metal markets, which are most volatile and subject to speculative factors. Russia's activities in international commodity organizations serve as an important channel for obtaining complete and objective information on the state, prospects for the development and regulation of world commodity markets for accounting in the formulation of trade policies, as well as expanding direct contacts between Russian and foreign companies in the production and trade of raw materials. Therefore, it is necessary to build a system of cooperation between Russia and international commodity organizations and agreements whose main goal is to increase the stability and predictability of Russian exports by finding a balance between the interests of producers and consumers of products.

The fuel and raw materials specialization of Russian exports proved to be effective in mitigating the consequences of the socioeconomic crisis caused by the transition to a market economy (especially in the early 1990s). It should be recognized that in the conditions of a sharp reduction in the domestic solvent demand, export activities contributed to the maintenance of production and employment in a number of commodity sectors, allowing for a minimum investment in the development of the mining complex and related industries oriented for export. Export of the most important types of mineral raw materials was the most important source of filling the budget, providing over 70% of foreign exchange earnings. ■

RUSLAN MUSTAKIMOVICH SHAFIEV

Doctor of Economics, Professor
The International University in
Moscow

Academician
Russian Academy of Natural Sciences

Email: roushafiev@gmail.com

MATTI SAARELAINEN

A need for clarity in the era of hybrid threats

Expert article • 2314

Today's world is safer than ever before, and yet research suggests that feelings of insecurity among the population of Western countries have increased. How can this be explained?

Since the annexation of Crimea the two concepts of hybrid warfare and hybrid threats have become well established as part of European and Western security debates. The concept of hybrid warfare originates in Western security discussions relating to evolving challenges from non-state actors like terrorist organisations, organised crime, proxy fighters etc. Since the early 2000s the concepts have also expanded their meaning to take into account state actors. Many argue that those concepts, hybrid warfare and hybrid threats, are in fact just old wine in new bottles. Or that they should not be used at all, since influencing and threats have been around for centuries. However, since we have been experiencing changes in our security environment new words also have an important place. But new words without a clear meaning can create confusion and add to feelings of insecurity.

In September 2017 the European Centre of Excellence for Countering Hybrid Threats was established in Helsinki. The tasks of the new centre of excellence include bringing clarity into security debates and finding solutions as to how countries can improve their civil-military capabilities, enhancing resilience against forces that try to polarise societies in ways that undermine democracy, improving preparedness against attacks that seek to weaken different alliances and states, finding better ways to build solidarity among nations and share best practises and expertise, as well as looking to improve coordinated responses. This was just one development among many that both the EU and NATO as well as their individual member states have promoted in response to the changing security environment. These measures are an indication that there is indeed a need for a reassessment, inspection and review of existing methods for countering security threats.

The changes occurring in the security environment are among the causes of an increased feeling of insecurity. Experiences of big changes have, in historical terms, always caused frictions in society. In the first place, when the environment around you is changing people tend either to argue more vigorously for change or withdraw to try to defend the status quo. Then, once there is at least some level of agreement that things are changing, come disagreements as to how to respond. Therefore analysis of what has changed is at the core of understanding the nature of the current security environment in Europe. Even if the annexation of Crimea highlighted Russia as the main actor behind the changes, one can also see Russia as one of those that has exploited a situation where changes had been already happening, but where the new nature and impact of those changes was not yet fully understood. The post-Cold War era has come to an end. Power relations in international politics are being renegotiated. Relational power - that is the power to change others' beliefs, attitudes, preferences, opinions, expectations, emotions and/ or predispositions to act - is today more important than material resource power. This means that influencing operations are more complex and multidimensional.

Network based action, the dark side of globalisation, is also a contemporary phenomenon which is here to stay and which favours weaker state and non-state actors. The internal and external are tied into each other more strongly than they have been in recent decades. But questions concerning how, and what should be done by nation states and what the outcomes are going to be, contribute to the feelings of insecurity.

A major part of the changes in the ways influence can be achieved comes from the revolutions in the media landscape. Digitalisation and social media as new opinion builders have changed the speed with which information travels, the way information is produced and the way people are connected beyond national borders. This change, along with other reasons, has brought forward the need to understand different political and strategic cultures. Information produced in one country can be interpreted in other, very different, ways elsewhere. The gatekeepers of information are changing. The Internet has become a new battlefield where rules are still being formulated. Fake news, content confusion and opinion based "facts" agitate the public domain. Trust, one of the fundamental elements of functioning societies, is eroding. This also means that the so called "normal state of affairs" is very difficult to define. This kind of situation also has deep policy implications, and long term planning becomes increasingly difficult.

Digitalisation and the internet are part of a bigger picture of how today's world is changing: fast developing technologies give rise to new domains like cyber space where national and international rules of the game have to be thought out. Humans may have always tried to influence thinking, but the means and areas in which influence is exerted are changing fast. This has implications for military industry and for the nature of future conflict and wars. The debate about the blurred lines between war and peace is an indication that the nature of conflicts and wars is changing too. It is difficult to say at this point what the outcome will be. Officials using concepts like hybrid warfare, information warfare, and political warfare want to highlight the severity of the situation, yet at the same time everyday life goes forward without war being present. This also creates feelings of uncertainty. This situation presents challenges for traditional military forces as well as for traditional internal law enforcement. Both are very much still needed, but perhaps in different ways from before.

A final reason for talking about the end of the Post-Cold War era, is generational change. We have left behind the Cold War and even the post-Cold War era. The Cold War had two very distinct features which underpinned a clear world order: superpower relations determined the world order while the fear of nuclear war guided many security policy decisions; and then there was the ideological struggle between communism and capitalism. During the post-Cold War era globalisation, with ideas of integration and interdependence, became the fashionable way of describing the world. Today's new generation is a digital generation informed by two contradictory trends: cosmopolitanism and neo-nationalism. Historical memory also changes along with generations, which leaves space for the political manipulation of historical events.

Even if today's influencing by state and non-state actors uses many old methods, and influencing as such is not a new phenomenon, the methods express themselves in a new way in a new time. Therefore, it makes sense to talk about the era of hybrid threats. A characteristic of this era is that the changing nature of both war and conflict make it hard to identify what is a threat and what is not, as well as who is behind the actions. To regain a feeling of security, we need to adjust our security thinking to the new situation. Today there are hybrid cars - cars that run with both petrol and electricity. Cars running with petrol are not new, and cars running with just electricity are not new (although still rare), but cars where these two are combined, are a new product. The same goes for the security environment. Old methods are combined in a creative way, which then form new security threats – Hybrid threats. ■



MATTI SAARELAINEN
Director
The European Centre of
Excellence for Countering Hybrid
Threats – Hybrid CoE
Finland

Pan-European Institute

BALTIC RIM ECONOMIES

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JORMA TURUNEN

Digitalization as the key success factor of the Finnish manufacturing industry

Expert article • 2315

Finnish technology industry is responsible for half of the Finnish exports and 70% of research and development of the Finnish private sector.

The industry is going through a fundamental structural change, which is based on three main reasons: 1) The production of mobile phones in Finland was stopped 2) the subcontractor sector of the machine industry has been restructured due to fast market growth in Asia relative to moderate growth in Europe, and 3) the restructuring of paper and pulp industry in Finland and elsewhere, where technology industry has been one of the main suppliers.

The global success of the Finnish industry is based on an excellent education system and an agile public innovation system. Even if the tax environment is not yet perfect for the companies, there is evidence, that the corporate tax reduction of the Katainen government has increased the business of the Finnish companies. This can be seen in tax revenues increasing more than calculated using the static model.

The education and innovation systems come together in intense co-operation between the companies and educational institutions at all levels, which is essential for a small country with limited resources. The during-the-studies assignments and theses help both the student and the university in seeing the relevance. The recruitment risk for the potential employer is reduced, when the employer gets to know the student during the assignment work.

Phenomena like Slush, prove that international investors are willing to invest in university spin-offs of high technological competence.

Which are then the key success factors of the Finnish companies in the global market?

The most important and proven factor is deep knowledge of the customer problem and co-developing the solution with the customer. In many cases the winning solution is a totally new way to solve the

customer problem consisting of a combination of more than one top competences. Finnish manufacturing companies are not necessarily at their best in producing long series, but rather short series with high level of tailoring and thus higher value add than the competition. Increasingly the internet and software technologies facilitate a new business model, where the Finnish company is no longer getting the revenue from the product sales but selling a service based on a solution, where the product is a component. An example of this approach is the Finnish factory crane manufacturer, Konecranes,

which has installed different kinds of sensors in the crane. These sensors together with algorithms predict the maintenance needs. Hence, the customer is no longer taking the crane in its own balance sheet, but paying a monthly fee for uninterrupted lifting service.

Industrial Internet, robotization, automation, machine learning are the key technologies helping the Finnish manufacturing industry to come out with new solutions with high productivity. Health technology,

game industry, smart energy solutions, mobility as a service, bio fuels and cleantech, including circular economy, represent the growing sectors of the Finnish business with huge international potential.

The world market is increasingly competitive but very receptive for Finnish niche solutions. ■

The education and innovation systems come together in intense co-operation between the companies and educational institutions at all levels, which is essential for a small country with limited resources.



JORMA TURUNEN

CEO

Finnish Technology Industries

Finland

EINI HAAJA & MILLA HARJU

ECOPRODIGI – bringing eco-efficiency to maritime sector in the Baltic Sea region through digitalisation

Expert article • 2316

“Change has never happened this fast before, and it will never be this slow again”. The quote may have originally referred to communication revolutionised by technology, but can now be appropriately applied to the current state of the maritime sector in the Baltic Sea Region. The industry is going through a ground – or should we say sea-shaking (r)evolution, stirring up challenges requiring trans-, and international cooperation. Pan-European Institute is currently leading “ECOPRODIGI” project which started in October 2017, with co-funding from the EU Interreg Baltic Sea Region Programme, addressing particularly those challenges detailed in the following.

Challenges for the BSR maritime sector

(1) Environmental requirements. The Baltic Sea is one of the world’s busiest and one of the most vulnerable seas with unique biological characteristics. The EU and IMO are working intensely to further clean shipping in the Baltic Sea, and the industry networks are under pressure to meet the regulations imposed by several agencies. New regulations are constantly in progress, which requires the industry to become agile and improve its environmental performance significantly and constantly.

(2) Global competition. Given the rapid advancements in competing clusters in Asia particularly, the maritime sector in the Baltic Sea Region is facing increasingly fierce global competition. In order to compete with these challengers, the shipping industry needs to cut costs – not only in shipping, but also in shipbuilding and the overall supply chain. At the same time, the industry has to provide customers with something superior to competitors. This materialises in the form of more advanced facilities and services, and for instance in showing the environmental effects of their choices. In fact, environmental consideration and proven ambition to provide customers with sustainable products and services is of increasing customer value, hence a competitive advantage. For the Baltic Sea Region to maintain the front-runner position, there is an instant and utter need for increasing eco-efficiency in the shipping industry.

It is only together that we can overcome the challenges and harness digitalisation to reduce negative effects of shipping, and make eco-efficiency our competitive advantage in global markets!

(3) Digitalisation. Measuring, visualising and optimising processes at shipyards, ports and during voyages will enable more efficient, proactive, and data-driven decision-making, thereby reducing various types of emissions, waste, and energy consumption. Digital technologies (big data, sensors, cloud services, virtual and augmented reality, 3D scanning, internet-of-things-based solutions) will revolutionise the processes and contexts of work in all industries over the coming decades, providing also revolutionary solutions to increasing eco-efficiency. Digital technologies have already been successfully applied in many industries to enhance eco-efficiency, but in the maritime sector, the opportunities remain largely unexplored and underexploited. This is largely due to the decentralisation of the related experts and end-users. Simultaneously, maritime industry operators are not aware of the value these solutions could provide them, and often lack the knowledge, connections, and resources to explore, develop and implement them. However, mastering operations digitally is the only way forward for the industry, and a necessary step for meeting the plans regarding autonomous shipping, for instance.

The ECOPRODIGI project

Considering the nature of the marine environment and the intertwined maritime industry, it is natural that these broad challenges, the eco-inefficiency of maritime industry and the problems related to global competition and digitalisation, are transnational and cannot be addressed at an organisational or national level. The development of digital network solutions requires new, creative capabilities from these actors to work in a transnational environment. On this basis, ECOPRODIGI is an ambitious project of over 20 research institutes, companies and stakeholder groups from around the Baltic Sea region which aims at increasing eco-efficiency in the Baltic Sea Region maritime sector through digitalisation. The unique industry-driven consortium comprises private partners such as shipyards, shipping companies and technology-SMEs. The project is coordinated by the Pan-Europe Institute of Turku School of Economics at the University of Turku. The budget of this grand project totals over 4,2 million euros and it is co-financed by the EU Interreg Baltic Sea Region Programme.

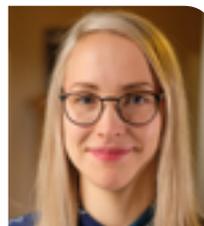
In practice, ECOPRODIGI kick-starts an international industry-academia collaboration by bringing together the most relevant actors in developing and piloting eco-efficiency solutions for the maritime industry in the Baltic Sea Region. Based on the needs of the industry end-users, the project focuses co-creating, piloting and implementing digital solutions in three technology application cases where digitalisation has been identified as having most potential in increasing eco-efficiency: ship performance monitoring, cargo stowage, and shipyard processes. Besides conceptualising new digital solutions, ECOPRODIGI provides for instance highly needed information on the key eco-inefficiencies in the maritime industry processes, an outlook of the sector's digitalisation in the Baltic Sea Region, knowledge of challenges and best practices in co-creating and implementing digital solutions, and a roadmap with recommendations on how the digitalisation of the maritime industry and the relevant transnational collaboration can be best supported. Thus, the project concretely increases the capabilities of shipping companies, shipyards, suppliers and ports to improve the eco-efficiency of their current operations as well as to create and implement new digital solutions in the future.

The project has only just begun and much is to follow in the three coming years. To find out more about ECOPRODIGI and join the events that will be organised by the project around the Baltic Sea Region, for instance, please visit www.ecoprodig.eu and follow us on Twitter [@ECOPRODIGI_BSR](https://twitter.com/ECOPRODIGI_BSR) / [#ECOPRODIGI](https://twitter.com/ECOPRODIGI).

It is only together that we can overcome the challenges and harness digitalisation to reduce negative effects of shipping, and make eco-efficiency our competitive advantage in global markets! ■

**EINI HAAJA**

Project Manager
Pan-European Institute
Turku School of Economics at the
University of Turku
Finland

**MILLA HARJU**

Project Manager
Pan-European Institute
Turku School of Economics at the
University of Turku
Finland

TOMMI INKINEN

Digitalization is strongly present in the current Maritime Studies of the Baltic Sea at the University of Turku

Expert article • 2317

Maritime studies are doing very well at the South-West Finland today. Centre for Maritime Studies (CMS) is an international education and research unit that is an integral part of Brahea Centre of the University of Turku. CMS offers diverse research agenda in the fields of maritime industries and logistics for public and private sector organizations. An important factor in the maritime research profile of the University of Turku is the current strong drive in multimodal transportation digitalization, automation and IT management. Autonomous, including remotely operated, shipping is one of the main areas in our current research.

For the future university research the main objective is to conduct high quality studies that have both academic significance as well as applications. The research focuses both on academic (basic) and applied research linked with practice. The scientific research is multidisciplinary combining business studies and economics together with environmental and social sciences. CMS research agenda also highlights the role of a research integrator in maritime research. We have specialists in traffic and ports in the Baltic Sea, logistics chains and infrastructure, and in marine industry sector. The results produced are always presented in such a way that the stakeholders can make use of them in the most efficient manner. Economy, market, and business environment monitoring is one of our key focuses. We are also concentrating in research and development projects related to the environmental issues of shipping and ports, especially to the benefits and costs of emission restrictions. We coordinate interdisciplinary environmental research supporting marine spatial planning and integrated coastal zone management. We apply our extensive collaboration network to support both national and international networks and partnerships. A number of them are found in the Baltic Sea Region (BSR). For example, our partnership in Merikotka network, combining the excellence of Aalto University's marine technology, and University of Helsinki's environmental studies, strengthens our national and international activities.

Currently, CMS focuses on the following research spearheads: First, *shipping and maritime logistics* including research tasks concerning maritime transport (volumes and contents), infrastructure, port networks and port operations. Digitalization is strongly present on these topics and CMS currently participates a number of related BSR-wide projects. Other key-areas of research are maritime safety and pilotage operations. Second, research on economics and societal impacts of *maritime cluster* focuses on the development and future prospects of marine industries, related cluster dynamics and their

economic impacts. In this regard, corporate social responsibility in shipping operations together with studies focusing on Blue Growth are acknowledged. Third, the theme of *marine environment and spatial planning* includes analyses on efficiency and impacts of environmental regulations in shipping. Therefore, environmental status of ports and marine spatial planning are significance study topics associated with shipping and offshore activities in the Arctic and their performance and impact of the European ports system. These are integrated into knowledge-base and management system analyses.

The three spearheads require methodological diversity and triangulation. Therefore, both qualitative and quantitative approaches are applied in CMS research projects in concert. This applies not only to the research itself but also education demands of universities. The future generations of professionals working in the maritime sector require broad skill sets including know-how of technology, economy and management. The most important methods include combinations of data mining, statistical modeling and qualitative tools. Methodological proficiency is the key-feature in all our projects and research designs.

From these foundations CMS and the University of Turku has created a track record in the maritime studies focusing on the Baltic Sea and BSR. We aim to develop and apply four main steps in our research. These include steps starting from the project creation, planning phase, project execution, and result monitoring together with continuous development of research agenda. In this process, the structuring of the research design and project management is paramount, and extensive BSR wide collaboration networks are needed. Finally, knowledge dissemination with all the relevant media channels, together with an output and impact monitoring continue to be focal points in the University of Turku's strategic research profile of maritime studies. ■



TOMMI INKINEN

Professor
Brahea Centre
Centre for Maritime Studies
University of Turku
Finland

Email: tommi.inkinen@utu.fi

MICHAEL EMERSON

Prospects for Lisbon to Vladivostok

Expert article • 2318

At first sight the prospects for Putin's slogan – a common economic space from Lisbon to Vladivostok – look pretty bleak. Russia is engaged in deep and comprehensive protectionism at home, resolution of the conflict according to the Minsk II in the Eastern Donbas is nowhere in sight, and sanctions with the EU rather than free trade is the reality.

Could all this begin to change in 2018?

The crucial turning point would be if the Kremlin decided that the time had come for a change in its economic policy, away from state-directed protectionism, back into liberalising-modernising reforms. This would follow if it was seen that the current protectionism had outlived its usefulness, and was just leading into the ossification of an uncompetitive and stagnant industry. Such an assessment has significant backers. Recently the former economics minister German Gref was heard to say that Alexei Kudrin had prepared for the Kremlin the best possible strategy for redynamising the Russian economy with liberalising reforms, ready for use at any point after Putin's sure re-election in March 2018.

If there were to be internal liberalizing reforms, would there be external trade policy liberalisation too? Economic logic would say yes. If that were the Kremlin's conclusion, the next step would naturally be for the Eurasian Economic Union (EaEU) to make a free trade agreement with the EU. This would also fit perfectly with the Kremlin's aim to enhance the prestige of the EaEU. The EaEU has made one free trade agreement with Vietnam, and is anxious to further advance its role in international affairs. China is willing to make a helpful gesture, but the EaEU side is not ready for free trade with China, and instead negotiates a so-called 'non-preferential' agreement, which means anything except free trade.

For the EU however the interest in a free trade agreement would be much more plausible. It would mean competition for sure, but not as with China. The EU is supplying quality products with high technological content, and given geographic proximity the prospects for extensive supply chain linkages with European direct investment in Russia could be good, if the business climate were also improved. So there could be a good fit with the proposed Kudrin reforms. In addition the EaEU has been quietly but profoundly reforming its technical product standards, away from the obsolete GOCT standard, and switching instead into a comprehensive adoption of international and European standards, which are largely the same. These developments are an important factor favouring industrial integration between the EU and Russia, naturally complementing a tariff-free trade agreement.

What then about the European side? Would it be a willing partner for such a scenario? At the purely economic level the answer would surely be yes. To get preferential access to the important Russian market would be very nice, given that China can only get a non-preferential deal. For the EU its imports from Russia, being commodities, are virtually tariff-free already. This asymmetry of advantages could be balanced by compensating asymmetries in tariff liberalisation, with substantial transition provisions on the EaEU side. This could follow the EU's free trade deal with Ukraine, under which the EU scrapped most of its tariffs on day one, while Ukraine did so with transitional delays of 3, 5 or even 10 years.

On legal-economic conditions, the EU would require Belarus to accede at last to the WTO, since for a WTO member it is illegal to make a free trade agreement with a non-WTO member; and the EU, unlike some others, takes WTO law seriously. But now Belarus seems to be seriously engaged in negotiations with the WTO.

Last but not least, there is the Minsk II roadblock to the removal of the current sanctions. Minsk II is today completely stuck, and fatal hostilities are still occurring weekly on the border with the separatist regions. The chances of Ukraine regaining control over the external frontier of the separatist regions with Russia as required under Minsk II seems beyond the plausible.

The Kremlin knows that there would have to be some significant progress over the separatist Eastern Donbas, if it wanted to re-engage with the EU. Could there emerge a new reality of this order? Of course the Kremlin would have to switch position from exploiting the Eastern Donbas as a permanent spoiler. One model for this could be the 'Transnistrianisation' of the Donbas. Concretely, the Kremlin would prevail upon its puppets in Donetsk and Lugansk to truly respect a cease-fire, withdraw all heavy weapons, cooperate with the OSCE in a land-mine clearance programme, and make the border safely open for people and commerce. Donetsk and Lugansk would remain self-governing and Russia would retain control of the separatists' border with Russia (equivalent to having a military base there, as is the case in Transnistria). The scenario would be quite simple to implement, requiring nothing much to be negotiated between the parties. The border with Ukraine would become visibly and credibly peaceful and safe. This could well lead on to the discontinuation of the EU's sanctions, since the unanimity required for their semi-annual for their continuation, already precarious, would evaporate. Kyiv could further to decide to stop its current (unfortunate, counter-productive) trade blockade against the Donbas, and replicate a further feature of the Transnistria model, in which Donbas companies with headquarters registered in Kyiv would again be able to operate across the de facto border.

Our scenario may stretch the imagination, but it is a coherent politico-economic construction. Who knows? The Kremlin may even be thinking about it, and Brussels might do the same. ■



MICHAEL EMERSON

Associate Senior Research Fellow
Centre for European Policy Studies
(CEPS)
Brussels, Belgium

Former EU Ambassador to Moscow

Email: michael.emerson@ceps.eu

CLAUS-FRIEDRICH LAASER & KLAUS SCHRADER

A German view on the Baltic Sea region

Expert article • 2319

Germany is only one among the ten countries on the Baltic Rim but viewed upon as entire country it is one of the largest in the Baltic Sea Region (BSR), at least in economic terms. The other two large countries on the Baltic shore are Poland and the Russian Federation. However, the majority of these three BSR neighbors' regional entities are not involved in Baltic Sea related affairs and they have no focus on economic and cultural relations with BSR countries. To be sure, with respect to their mutual trade relations Germany is the prime trading partner of Poland and it was an important trading partner of Russia at least in the period prior to the Russian economic slowdown and the Ukraine sanctions. But only a fraction of these trade flows are performed via Baltic Sea shipping and related transport links, while the long land-borders and the crossing infrastructure links invite intense streams of land transport via road and rail. One might thus contend that for these large BSR neighbors Baltic Sea trade is of minor importance.

Focusing on the German economy with its rather high export quota it becomes clear that the BSR is only one integration area — i.e. destination of its exports and origin of its imports — among a lot of peers being located in other directions of the compass rose. The main focus of German trade is on all of the EU countries in the four points of the compass, as well as on important world markets far away, such as the USA, being in line with the attracting forces of partners' incomes and the retarding effects of distance. Thus, the BSR countries taken together rank among Germany's important trading partners, but not beyond that. The reason for this limited impact can be simply explained by the fact that particularly the Nordic countries are rich nations measured by per-capita-incomes, but are rather small markets by total GDP due to their sparse population. The Nordic countries account for less than 2 per cent of world GDP. The three Baltic States on the Eastern shore are small economies anyway. Looking at the entire BSR in a narrower sense — i.e. taking for the three larger countries only the provinces on the very shore — the result is about 2.6 per cent of world GDP. The gravity of the BSR as trading area is therefore limited.

Moreover the BSR in a narrower sense is characterized by a high degree of economic heterogeneity — a North-South downward gradient of wealth can be observed. With no doubt, the transformation economies on the Southern shore, the Baltic States and the Polish Baltic Sea provinces, caught up towards the rich Nordic neighbors. Their per capita incomes increased within a range of about 100 to 200 per cent since the beginning of the 2000s. But the income gap is still significant: While the rich Nordic regions of Stockholm, Hovedstaden and Helsinki-Uusimaa lead the BSR income ranking by 145 to 175 per cent of the EU average per capita income, Polish Baltic Sea provinces such as Warminsko-Mazurskie or Podlaskie only achieve 50 per cent of the EU average. The Polish provinces with no exception even fall short of Poland's average per capita income. This is also true for the German Baltic Sea neighbors of Schleswig-Holstein and Mecklenburg-Vorpommern which are well above the overall German income level and are at a great distance to the Nordic countries' incomes. And despite their catching-up process the three Baltic States achieve income levels no better than 65 to 75 per cent of the EU average.

This wealth gap at the Baltic Sea implies diverging interests: The economic and population centers of the Nordic countries are located around the Baltic Sea while at the Southern rim relatively poor regions are dominating which are not at eye level with their Nordic neighbors. The Nordic countries rely on the Baltic Sea as the most important device to facilitate transport of passengers and goods and, hence, foreign trade. The Baltic Sea is their efficient gateway mainly to markets in Central and Western Europe as well as to overseas markets — they are not primarily interested to integrate economically with their direct Southern neighbors. Thereby the less developed Baltic Sea neighbors in Germany, Poland and the Baltic States gain from transport services, in case of the transformation countries furthermore from some Nordic direct investment in workbench productions due to the still significant wage gaps. And they benefit from the Nordic countries' efforts to improve the infrastructure links across the Baltic Sea at their own expense. Without these strategic interests of the Nordic countries e.g. the German region of Schleswig-Holstein would have no prospects to receive Federal money for improvements of its transport infrastructure which are required in the context of the Fehmarn belt fixed link financed by Denmark. In the end, a close cooperation corresponds with the interests of all Baltic Sea neighbors.



Claus-Friedrich Laaser
Senior Researcher, Area Special
Topics
Kiel Institute for the World
Economy (IfW)
Germany



Klaus Schrader
Head, Area Special Topics
Kiel Institute for the World
Economy (IfW)
Germany

Email: claus-friedrich.laaser@ifw-kiel.de

KAISA LEIWO

Turku region enjoying positive structural shift

Expert article • 2320

In Southwest Finland, value added grew 3.8 per cent last year, while growth for the country stood at 1.6 per cent. The area has, in fact, been driving growth in the entire Finnish economy recently. The buzzword now is positive structural change, referring to the exceptionally strong shift taking place in industry in Southwest Finland. The shift is reinforcing growth in the area and is expected to increase the need for workforce at least until the mid-2020s.

The positive structural shift does not apply only to Southwest Finland. The economic impacts of growth are radiating throughout Finland and beyond our borders. According to a study by the University of Turku, Meyer's shipyard in Turku, for instance, has a worldwide impact in today's global operating environment. Another study indicates that in the nationwide growth figures, Meyer's shipyard in Turku and the Valmet Automotive's plant in Uusikaupunki together generate a visible impact, most of which is new growth. The Turku region's growth and the positive structural change thus benefit the whole country and also the neighbouring countries, bringing well-being far beyond the region's geographical borders.

The major challenge now lies not only in securing this growth, but also in ensuring its proliferation. What can be done to promote the matter?

Experts required

Companies' order books look good, which, in the network economy, means that subcontractors' order books are also filling up, in Southwest Finland and the surrounding areas alike. Every effort should be made to support and further this development.

According to some estimates, the Turku region will require 15,000–30,000 new employees in the coming years. The biggest bottleneck in growth appears to be finding skilled workforce for companies. According to the Turku Chamber of Commerce's member survey in December, 51.1% of the CEOs of the companies that took part in the survey cited the availability of skilled workforce as a factor limiting companies' growth. This result is worrying. Although demand and exports appear to be strong, companies are not finding enough employees to enable growth. One company surveyed stated that it has been unable to respond to requests for quotations for six months because it cannot find suitable workforce.

When it comes to ensuring growth, the development of training plays a key role. Southwest Finland needs company-driven, flexible training in the spirit of life-long learning. With the situation being acute right now, bold and immediate training initiatives are also needed.

Skilled employees and competence are required for jobs calling for top expertise as well as for hands-on tasks. Technical fields are experiencing the biggest shortfall of experts – both technical training and the volume of research must be considerably increased in the Turku region. The matter is being addressed, which is a good thing,

but larger volumes will likely be needed.

The mobility of the workforce must be promoted. Some of the means for doing so include housing policies, enhancing mobility and increasing the attractiveness of the area. Relocating for work is still rather difficult in Finland, especially if the person moving has a family. In addition to improving companies' operating conditions, efforts must be made to ensure that skilled employees enjoy their work and are properly integrated into society.

An active approach must be taken when it comes to work-based immigration. The Turku region and Finland as a whole would not survive without foreign experts. The growing need for workforce cannot be met with domestic resources alone, which means Finland's and Southwest Finland's international appeal must be quickly boosted. Finland must assume the role of an open, international society that welcomes foreigners to work and thus contribute to building the country.

According to a survey conducted by the chambers of commerce, employment-related risks, such as inflexible employment conditions, are hampering the supply of workforce in companies ('Kauppakamarien Yritysparlamentti' survey). Structural problems and rigidity related to the labour market are now highlighted as the need for workforce grows. In the worst cases, recruitment might not take place, despite the need for it. Freedoms and flexibilities in the labour market must be increased to ensure that the employment rate improves and that companies can recruit the workforce they need.

It is great that the Turku region is now on a good path of growth. This benefits both the region itself as well as its neighbours in Finland and nearby countries. The major challenge now is to ensure that growth does not end prematurely due to various obstacles. The main threat at the moment is the lack of skilled workforce. All efforts must be made to improve the availability of skilled workforce. This will ensure that we can enjoy the benefits of growth for as long as possible – both in Southwest Finland and elsewhere. ■



KAISA LEIWO
Acting Managing Director
Turku Chamber of Commerce
Finland

TONI SULAMERI

Future of wind power is offshore

Expert article • 2321

Suomen Hyötytuuli Oy has built the world's first offshore wind farm for demanding ice conditions in Tahkoluoto, Pori, Finland.

In August 2017, Suomen Hyötytuuli Oy celebrated the commissioning of Tahkoluoto's wind farm, the world's first offshore wind farm designed for icy conditions. Tahkoluoto is Finland's first wind farm built on offshore foundations.

Suomen Hyötytuuli has made substantial investments in the development of offshore wind power, and in 2010, the company built Finland's first offshore turbine on offshore foundations outside of Tahkoluoto, Pori. Suomen Hyötytuuli and our partners have significantly increased the knowledge on offshore wind power in the Baltic Sea area and enabled offshore energy production on an industrial scale.

Preparations for the Tahkoluoto wind farm project began when the pilot turbine was finished in 2010, so the project has been in development for a long time. Despite the long development process, ten turbines were installed more than a week ahead of schedule. The commissioning of the wind farm took place ahead of time as well. During the project, all the way from planning and authorization, progress has been facilitated by the positive attitude of all interest groups.

The development of offshore wind power technology for icy conditions required several steps. Cost-effective offshore construction requires business ecosystems that are proven successful. The development of such ecosystems began during the Tahkoluoto project. Now, we have a finished concept for producing offshore wind power on an industrial scale.

Our main partners in the project included: Siemens Gamesa (turbines), Technip Offshore Finland Oy (offshore foundations), ABB Oy Power Grids (substation), Pori Energia Sähköverkot Oy (grid connection), Prysmian Finland Oy (offshore cable), Jan De Nul NV (marine operations), Finnish Sea Service Oy (offshore cable installation), and Blue Water Shipping Oy, Finland (port operations / logistics).

The Ministry of Economic Affairs and Employment granted an investment aid of 20 million euros for the project to boost offshore wind power business and export in Finland. In addition to promoting renewable energy, the investment aid was also aimed for gathering information on the special characteristics of offshore wind power in Finnish conditions.

Future of offshore wind power

Strong technological and commercial development in the North Sea shows that offshore wind power will be one of the ways to produce energy in the future. The most significant change affecting the cost of energy are the next generation turbines entering the market.

Conditions for offshore wind power production in the Baltic Sea region differ from, for example, the North Sea, as the cold and icy conditions (a sea that freezes, a shallow coastline, a hard seafloor, less windy location, wind farms located near the coastline) require special technical solutions. Considering the specificity of Baltic Sea conditions, we hope to increase the local content of offshore wind technology in the future.

When operating in the global wind power market, developing technological solutions for arctic conditions can create better export opportunities and bring more business to the technology companies in the Baltic Sea region. Suomen Hyötytuuli plans to continue the development of offshore wind power. Reaching the target of market-driven energy production with offshore wind power will require further development, good project prospects and a stable investment climate. The current situation in the energy sector makes it hard to make any investments. Political decisions (such as the plans to increase real estate taxation) affect risk-taking and our development work.

Company:

Suomen Hyötytuuli Oy is a producer and developer of Finnish wind power with wind farms in Pori and Raahe, a new wind farm under construction in Raahe, and several wind farm projects in several locations in Finland. The owners of Suomen Hyötytuuli are Helen (Oy Mankala Ab), Jyväskylän Energia, Lahti Energia, Lappeenrannan Energia, Pori Energia, Tampereen Sähkölaitos, Turku Energia, and Vantaan Energia. ■



TONI SULAMERI

Managing Director
(M.Sc. Engineering)
Suomen Hyötytuuli Oy
Finland

EMIN AKCAOGLU, HARALD J. BOLSINGER & RAINER WEHNER

Recent developments exposing further political risks: what about multinational corporations' reaction?

Expert article • 2322

Foreign direct investment (FDI) by multinational corporations (MNCs) is one of the major drivers of economic globalization. The past three decades marked an unprecedented increase in FDI flows and stock. According to the data published by UNCTAD, the world FDI stock increased phenomenally from US\$ 698 billion in 1980 to US \$ 23 trillion in 2012. The growth in FDI flows has indeed outpaced the rate of growth in international trade. However, FDI flows have declined since the beginning of the global financial and economic crises in 2007. This was not surprising as the crisis has severely restricted economic growth and international private capital flows, urging outrageous government interventions that we nowadays still see in big economies like US, EU, Russia, too. 2009 was the beginning of a recovery period for global FDI flows; but in 2011, a downward trend started and continued by 2015. After a significant improvement in 2015, the trend has been downward again. Though a modest recovery is expected at the moment, UNCTAD states that "elevated geopolitical risks and policy uncertainty for investors could have an impact on the scale and contours of the FDI recovery in 2017" (UNCTAD, World Investment Report 2017: p.2). Therefore, while the world has been going through a turbulent process, political risks and policy uncertainty currently seem as the major concerns of MNCs for their potential investments.

Multilateral Investment Guarantee Agency (MIGA, 2010, World Investment and Political Risk 2009) defines political risk as the probability of disruption of the operations of multinational corporations by political events or forces, whether they occur in host countries, home country, or result from changes in the international environment. In host countries, political risk is largely caused by uncertainty over the actions of governments and political institutions, but also of minority groups, such as separatist movements. In home countries, political risk may be due to political actions directly targeting host countries, such as sanctions, or from policies that restrict outward direct investments.

In many countries, the political agenda is rapidly changing, and the ever-diminishing stability is replaced by huge uncertainty and high dynamics. Uncertainties caused by unexpected political developments in various countries involve significant politics-induced financial risks for MNCs, and surprisingly, this situation is not limited only to developing and emerging countries. In fact, in some cases the focus for political risk seems even to be shifting from developing countries to developed industrialized ones. For instance, it seems that there is a rise in populist and nationalist views among a number of politicians in the western world. When such people are elected they may bring trade and investment restrictions, higher government spending and lower taxes, resulting in wider fiscal deficits and restrictions on immigration. As is known, some of such views have even been able to gain additional power recently. Therefore, there are serious concerns among business people, politicians, academics and thought leaders that the world is getting more insecure due to global terrorism, nationalist and authoritarian tendencies etc.

The current officiating US president gives an example for the global rise of political polarization between free trade in global solidarity and national political protectionism: He had been campaigning over such perspectives in his election campaigns; and one of his first statements as president was "America first!" politically expressed in operative decisions of his government like abandoning the Trans Pacific Partnership Agreement. Even the future of Transatlantic Trade and Investment Partnership Agreement is not really clear under the officiating US-Trump administration though the negotiations are still in progress. The president's policies on free trade, inward foreign direct investment, NATO, foreign policy and immigration etc. are reflecting a significant shift from the traditional approaches of freedom and international connectedness that the US were standing for. The relations of US with the EU countries have also been in a general deterioration since the new president came into power.

Another interesting event has been Britain's wish for an exit from EU, so called the Brexit, following a referendum in June 2016. After this decision, many Eurosceptic politicians in other European countries celebrated the result, and expected other countries to follow the British example. The recent French presidential elections were a very important stage in shaping such expectations for the future as Marine Le Pen was also running for the presidency, based on an anti-EU campaign. Pro-EU Emmanuel Macron's presidency has currently calmed down such concerns and recovered the high reliability in solidarity among at least the economically powerful EU countries apart from Britain. But, it seems that by the time for a full recovery from the global financial and economic crisis, those discussions and the risks against the existing establishments will still stay on the scene.

The European affairs were not limited only to these events. Moreover, for instance, the Ukrainian territory Crimea's annexation by Russia in March 2014 with a military intervention has changed the security position on the European continent significantly. Though there were contradicting views even within EU over the conflict, it now seems that Poland for example has particular concerns due to the unpredictability of Russia that does not avoid using even military power.

In the late 1980s after the collapse of communist regimes and the end of the cold war, however, there was initially a huge optimism for peace and political stability in Europe. Yes, there was a long civil war in the ex-Yugoslavia in the centre of Europe for a very long time; but with the impetus of the end of cold war, the European Union started an ambitious enlargement process synchronized with an ongoing harmonization process for a European single market and then many newly independent or ex-communist countries have either joined the EU or applied for full-membership.

While all such developments were in progress, Russia was also in her own restructuring process. In 1999, Vladimir Putin first became the prime minister and then the acting president in Russia. Since then, Russia's standing regarding the world political events have resembled the Soviet period.

While the western world has been struggling with these developments, the developing countries are also having important problems with further implications on the industrial world. One of such major affairs is the civil war in Syria that started in 2011 and is still going in. At the moment, it is unpredictable which type of resolution will be the final stage. But even this single event has caused millions refugees' flow from the region mainly to Europe. The Syrian refugees have particularly been a big challenge on neighbouring Turkey, and on Greece, Germany and others not only financially but also regarding to social and political aspects.

Another model-like political risk case is Turkey. Since the military coup attempt on 15 July 2016, there have been important political developments in the country. For instance, just after the coup attempt, a state of emergency has been declared; and then a referendum was held on 16 April 2017 to amend the country's constitution. This was followed by a major change in the political structure to replace the existing parliament-based government with a presidential system. As a result, there are serious concerns whether Turkey is evolving into an authoritarian regime. Under such circumstances, the Turkish president accused some European countries' governments to support the opposition in Turkey just before the referendum. The high and erratic uncertainty of political developments like this show up in the actual Turkish change of policy where European countries are called as "long friends" and "partners" again.

A final outburst has come from the Middle East. The four Arab countries led by Saudi Arabia have first cut off their diplomatic relations and then initiated a boycott against Qatar stating that the government in Doha has links to terrorist groups. The conflict arose less than a month after the US-president's visit to Saudi Arabia where he called for Muslim nations to unite against extremism. This issue may be escalated as Iran and Turkey have been backing Qatar while the other countries have been increasing their pressure. Initially, there were serious worries that the dispute may be ended with a military action in the regions; but fortunately, now it seems that the tension has calmed down. However, just a recent event followed this in the region: In Iran anti-government protests erupted over the government's economic policies across different cities just at the turn to 2018. During the demonstrations people have been harmed and killed on all political sites and it seems that the government still tries to take control over the event.

On top of these, perhaps it should also be noted that China's leader Xi Jinping has just called on the Chinese armed forces to become a 'top-ranked' military by the year 2050. This could be related to meaningful perceptions for the near future's security concerns over the Asiatic region and also shows up political risks.

It is interesting to go through all these events, which are, in fact, not the all. Let us keep in mind that we have not yet even mentioned the acts of global terrorism in major cities in the world. As is known, the deaths have been counted by hundreds by now.

These issues are not only political but they have significant economic and business-related consequences. For instance, the Brexit has already proved that there will be unexpected outcomes on multinationals' operations in Britain. For example, it is claimed that many banks and financial sector companies based in London are planning to relocate their operations somewhere in the continental European cities such as Frankfurt or Paris. Or similarly, as a major direct investor in the world, may Germany's political relations with Turkey adversely affect German multinationals' operations in Turkey? These are important issues to be addressed, and clearly though it is not possible to avoid, it is always essential and possible to manage political risks at least by analysing and thinking in realistic scenarios.

Therefore, political risk management is surely a basic area especially for multinational companies to study particularly these days. In other words, in the current global environment of high political risks and policy uncertainty, it will certainly be valuable to examine the evolution of political risk perceptions of multinationals and also the tools and techniques they use to skilfully manage such risks. Analysing how investors perceive and deal with these risks will additionally contribute to a better understanding of the role of political risk insurance in the post-crisis investment landscape, and how it can help to multinationals' direct investment activities in high risk regions or countries.

It is an imperative for companies, countries, business professionals and politicians, to get together for discussion about future developments and about options for securing global solidarity to the good of people and business in existing normative frameworks. In this respect, Würzburg International Business Forum's International Business Conference (24-25 May 2018) will bring academics, professionals, business people and representatives of the public sector from the world together to analyse the current situation, trying to foresee future developments regarding political risk management within the framework of foreign direct investment and all other activities of multinational corporations. As an extension of this main theme, availability and use of political risk insurance will be also evaluated.

The Conference will provide an international forum for the exchange of information and experience on firm internationalization, export-import business, international entrepreneurship and risk management in different countries and the implications of these so far on countries' economies and societies from a broader perspective. The Conference will explore both theoretical issues in the field and practical issues in formulating policy and strategy and it will also pay attention to the issue of employment and growth regarding multinationals and foreign direct investment. The detailed information about the conference can be found in the conference website: <http://wibf.fhws.de> ■

**EMIN AKCAOGLU**

Guest Professor
Faculty of Economics and
Business Administration
University of Applied Sciences
Würzburg-Schweinfurt
Germany

**HARALD J. BOLSINGER**

Professor, Dean
Faculty of Economics and
Business Administration
University of Applied Sciences
Würzburg-Schweinfurt
Germany

**RAINER WEHNER**

Senior Lecturer and Director
International Relations
Faculty of Economics and
Business Administration
University of Applied Sciences
Würzburg-Schweinfurt
Germany

ELMIRA K. ZILBER & ANDREY S. MIKHAYLOV

Limited territorial capital and the development of a university

Expert article • 2323

Territorial capital is notion widely used for assessing regional competitiveness and growth potential. Polarization in spatial distribution of economic activity, human and natural resources, financial flows, public infrastructure and other tangible and intangible assets (cultural norms, social routines, etc.), determines the level of territorial capital. The mosaic of available capabilities forms local identity and predetermines regional innovation system development trajectory. Knowledge and competence clusters, representing, respectively, academia and the industry, are the two nodes that frame institutional architecture of a regional network and set the basis for its innovative milieu.

Shortage of resources and actors at the local domain create a fragile system, where the asymmetry in the development paths of business and academia limits their collaboration capacity, preventing the establishment of a cohesive regional community. An unbalanced and inharmonious institutional space drives regional actors to seek functional quasi-integration into interregional, cross-border and transnational networks as auxiliary stakeholders in their search for the necessary resources (funding, technologies, information, etc.) within the value exchange process. Such engagement implies partial adoption of external strategic guidance and objectives by an individual actor, which might contradict the interests and threaten innovation security of its home region.

Universities with a (semi-)peripheral geo-economic location are the ones most affected by limited territorial capital. Being naturally involved in the global research agenda, many regional universities face the challenge of low demand for R&D and innovation, because local market shows reduced number and diversity of knowledge-intensive companies. The study of successful strategies of the universities around the Baltic macro-region reveals three winning forms of institutional organization: 1) national excellence center (e.g. Umeå University, northern Sweden), 2) focused research institute (e.g. the Arctic University of Norway, University of Bergen), and 3) institution for collaboration (e.g. University of Oulu, Finland).

The first strategy, developing as the national excellence center, implies that there is a state driven-initiative of selecting one or several higher education institutions to develop as knowledge clusters, each focused on a particular subject area. In this case, national funding is to be concentrated on a limited number of interrelated research topics and degree programs prioritized by the state. A university's role is that of a focal point of knowledge distribution, and a leading institution in the field, with local territorial capital largely shaped by the university that attracts resources and generates innovation activity (including university start-ups).

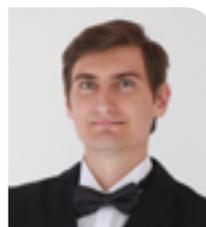
The second strategy, that of a focused research institute, is generally prompted by environmental conditions and industry specialization of a region. For example, proximity to the Arctic Circle, availability of a maritime industry complex, natural resources (e.g. mineral deposits), etc.. Unlike national excellence centers, focused research institutes form around the inalienability of their competitive advantage, the factor of place. Such development strategy is well-suited for focused, or specialized, universities turning them into global hot-spots for specific areas of research, as opposed to fully comprehensive universities, whose leadership may find it difficult to prioritize.

Finally, a university can develop as an institution for collaboration, i.e. through the integration into innovation systems of other regions in the framework of inter-regional cooperation, cross-border regionalization and internationalization processes. External resources compensate for the deficiencies of local territorial capital, providing both the required inputs and demand. Successful integration entails adaptation of the ongoing research agenda to suit one's partners' needs, thus conditioning specific focus areas and concentration of available resources. In this scenario, the university becomes an element of the larger network and a local hub for knowledge spillover.

The exclave position of Kaliningrad region of the Russian Federation in conjunction with its trade-oriented economy is a classic case of a region with a limited territorial capital. Low gross value added by regional enterprises, insignificant R&D expenditure, and low demand for innovation force the two large universities of the region – the Immanuel Kant Baltic Federal University (IKBFU) and the Kaliningrad State Technical University (KSTU) - to adopt outward-oriented development strategies. The latter, an industry funded institution serving the maritime complex of the Baltic Sea, is well-fitted to become a focused research institute. The Immanuel Kant Baltic Federal University, on the other hand, is a fully-comprehensive institution of higher education, already integrated in the Baltic Sea region. For example, 27 international projects with the total budget of more than 5 million euro have been recently implemented in partnership with the Baltic Sea region countries. The next step for the University is to strive to follow the third development strategy of the ones outlined above – to fully develop as an institution for collaboration, becoming the major factor in regional attractiveness and intensifying trans-border cooperation by, for example, integrating the Fabrika Science Park laboratories into transnational research and innovation projects. The University has much to offer its institutional partners and is willing to serve as a hub in communicating and concentrating the interests of all stakeholders involved. ■



ELMIRA K. ZILBER
MD, D. Sc., Vice-Rector for
Research and International Affairs
Immanuel Kant Baltic Federal
University
Russia



ANDREY S. MIKHAYLOV
PhD, Deputy Vice-Rector for
Research and International Affairs
Immanuel Kant Baltic Federal
University
Russia

Email:
andrmikhailov@
kantiana.ru



SERGEY KADOCHNIKOV & ANNA FEDYUNINA

The shifting structure of Russia's export 2014-2016

Expert article • 2324

During the last two decades, the Russian Government has been seeking export diversification in order to reduce the dependency on oil and gas in export revenues. However, the share of mineral products in total exports increased from 51% in 2000 to 70% in 2013, while the share of crude petroleum increased even sharply from 25 to 35% of total exports.

The situation has changed in 2014. Russia has been hit by fluctuations in prices in oil and gas markets accompanied by a general slowdown in international trade and anti-Russian sanctions over the annexation of the Crimean peninsula and involvement in the Ukrainian conflict. It led to the decreasing values of export in 8 out of 11 main commodity groups in Russian export. As a result, Russia's share in the world export of goods and services contracted to less than 2%. Russia's total export in 2016 amounted to 285.5 billion dollars, which is 16.9% lower than in 2015, and 42.6% lower than in 2014. Export of non-primary, non-energy export in 2016 amounted to 109 billion dollars and showed less dramatic fall, which is 7.3% lower than in 2015 and 21% lower than in 2014.

In sum, during 2014-2016, Russian export basket lost almost half its value. It happened mostly because of the contraction of export of oil and oil products that determined up to 84% of the total export fall. As a result, Russian export structure has changed significantly. Share of mineral products and crude oil in Russian export fell to the minimum of 2000's and reached 48% and 26%, respectively. According to the Russian Export Center, share of non-primary, non-energy export reached maximum of 38.2% over the last 10 years. Despite the restructuring between energy and non-energy sectors of Russian export in 2014-2016, there are important changes also within non-primary, non-energy export. The share of high-technology and medium-technology industries within non-primary, non-energy export has reached a record high of 60% in 2016. It happened because of two factors. Firstly, some low value-added goods significantly have lost their export shares, among them aluminum and its alloys, nickel, cast iron, refined copper, ammonia, barley. Secondly, a number of product categories from medium- and high-technology sectors have shown significant increase in export values (even almost from zero level) in 2014-2016 are food and foodstuffs (including soybean meal, sunflower oil, soy, maize, sorghum, spice seeds, meat co-products, frozen beef, pork, honey), chemical products, fertilizers and pharmaceuticals (including petrochemicals, cyanides, phosphate acids, phenol derivatives, nucleic acids, nitrogen fertilizers, potash fertilizers, vitamins and provitamins), machinery and equipment (including turbojet engines and gas turbines, hydraulic turbines, radar equipment), metals and metal products (including soldering lamps, clamps, aluminium barrels, drums and boxes).

What are the factors that drive an increase in medium- and high-technology Russian export? Did Russian economy explored new export variety and get new exporters in 2014-2016? The nature of export shifts in Russian export 2014-2016 is mainly based on intensive margin of exports, i.e. based on an increase of export of already existing export products. According to the Russian Export Center, the volume of Russian export of new goods in 2016, not exported in 2014, is about \$300 million or 0.1% of total Russian

export. The volume of Russian export of new medium- and high-technology goods is about \$52 million or 0.1% of total medium- and high-technology export (excluding weapons, ammunition and double-use goods). It means that Russian exporters did not begin to produce new products. However, the number of Russian firms selling abroad increased from 21.8 thousand in 2014 to 27.1 thousand in 2016, the number of exporters in manufacturing sector increased from 6.3 thousand in 2014 to 6.8 thousand in 2016.

Estimations provided above evidence that during 2014-2016 the main driver of export growth and diversification in Russia has been an increase in the number of firms, which started to sell already developed (traditional) export products to foreign markets.

Does the intensive margin of export might provide sustainable growth rates for the Russian economy? The answer is not straightforward.

According to our estimations, 1% growth of manufacturing export during 2003-2011 led to an increase in Russia's economic growth rates of 3.1-7.5%. At the same time, the emergence of new export goods (extensive export margin) did not have a significant impact on economic growth rates. The situation of 2014-2016 is rather similar to the previous periods. The main driver of export and economic growth is still the expansion of already existed products that fully corresponds to the previous period 2003-2011. These results support the idea that intensive margin of export based on already existing Russian manufacturing products will continue to serve as a driver for economic growth in the medium run. Indeed, relatively weak ruble and a potential for new markets discovery (mainly, in transitional and emerging economies) makes it possible for further expansion of Russian non-primary, non-energy exports. In other words, further export and economic growth will depend on success of entrance of Russian firms into new markets. ■

**SERGEY KADOCHNIKOV**

Director, Professor
HSE University in St. Petersburg
St. Petersburg, Russia

**ANNA FEDYUNINA**

Director of Analytical Centre, PhD
HSE University in St. Petersburg
St. Petersburg, Russia

Email: afedyunina@hse.ru

ANDREY VINOGRADOV

Logistics of internet retailing in Russia faces new challenges

Expert article • 2325

Despite the negative trends in the Russian economy, national B2C e-commerce market shows fairly high growth rates. In 2014-2016 online sales increased by 60% while gross retail turnover gained only 7.4%. However, e-commerce share of total retail sales in Russia remains quite low (4%) compared to many European countries (e.g. 8% in France, 9.4% in Germany, 11% in Finland, 15.6% in Great Britain). Issues of e-commerce logistics support constitute one of the main reasons for such development lag. These issues involve a low level of the logistics infrastructure development including poor quality of many roads and complicated transport access to lots of towns and localities. The problem is even acuter provided the underdevelopment of the regional route networks along with a high degree of their centralization (transportation between two localities is often available only via the regional centre).

High-quality warehouses suiting the needs of internet retailers are also in short supply even in the big cities of Russia. National developers have just begun construction of contemporary «Light Industrial» facilities, with the area starting from 700 sq.m, that have separate approach driveways, docks, support and auxiliary premises.

Infrastructural issues are accompanied by steep demands of the customers regarding the service level that the e-tailers have to meet. In contrast to many European countries, consumers in Russia are used to require the options of goods selection and try on service at the door, partial delivery as well as cash payment upon delivery. These requirements result in decreasing couriers productivity, the need for couriers to collect cash from consumers along with the rise in returned goods flows.

Recent changes in government regulation of B2C e-commerce pose additional challenges for logistics. According to the Federal Law No. 54-FZ, e-tailers are now obliged to provide a buyer with a fiscal cash receipt strictly in time of the payment (receipts made in advance are not valid anymore). Since a large part of internet retailers outsource last mile delivery, logistics operators have to provide specific financial services that they are not accustomed to.

Generally, the trend of logistics and non-logistics services integration is clearly gaining momentum. Besides logistics and financial operations, an integrated offering may include the website, call centre and photo studio services.

New challenges for Russian e-tailers and their logistics partners also involve storage, handling and delivery of bulky goods (since DIY online sales demonstrate an outstripping growth rate), food products, alcoholic beverages and pharmaceutical drugs. Free online sales of spirits and medicines are currently prohibited by Russian laws, however, government authorities are planning to lift these bans in the near future.

Along with issues and challenges, it is important to note measures that companies take to improve the efficiency of e-commerce logistics support. Thus, in order to cut down last mile delivery costs, e-tailers tend to introduce «click & collect» scheme assuming that customers collect the ordered goods at pick-up points, selected stores or automated parcel lockers. Nowadays almost 60% of online shoppers in Russia prefer «click & collect» option.

To increase productivity and cut down customer order lead times, huge e-tailers set up automated warehouse facilities (e.g. Ozon's DC in Tver and Lamoda's DC in the Moscow Region). In the Northwestern Federal District of Russia, such facilities are actively developed by Ulmart, the second largest national internet retailer. Ulmart has already put into operation two suburban fulfilment centres as well as the urban one in St. Petersburg. The third SFC is now under construction.

Under the conditions of long shipping distances and poor accessibility of many localities, the national postal operator becomes a key enabler of cross-border and domestic internet retailing. The Russian Post with its 42000 offices throughout the country continuously develops logistics services for e-commerce and considers parcel handling and delivery as one of its strategic priorities.

Like the Russian Post, large-scale logistics operators start to pay attention to the fast-growing segment of internet retailers and develop integrated service offerings for e-commerce. For example, Finnish 3PL provider Itella, one of the leaders on the Russian market, has set the strategic goal to become the customer's first choice for logistics and e-commerce services by 2020. In the near future logistics service providers will have a chance to leverage the emerging trend of marketplaces creation by grouping small and medium-sized e-tailers and gaining from economies of scale when servicing them.

In general, tackling logistics bottlenecks at different levels seems to be a critical prerequisite for meeting new challenges and enabling sustainable growth of the Russian e-commerce sector. ■



ANDREY VINOGRADOV
Ph.D., Deputy Head for
International Relations, Associate
Professor
School of Logistics
National Research University
Higher School of Economics
Moscow, Russia

Email: avinogradov@hse.ru

RAJIB SANYAL

Bribery in international business in post-USSR countries

Expert article • 2326

The extent of bribing foreign government officials while conducting international business varies greatly among the 15 independent nations that emerged in the aftermath of the breakup of the USSR in the early 1990s. This is despite the centralized and integrated political and economic setup shared by these countries for over 70 years (except for the three Baltic States – Estonia, Latvia, and Lithuania – which were incorporated into the USSR in 1940).

Data from 1996 to 2016 on perceived bribe taking – Corruption Perceptions Index (CPI) – produced by Transparency International (TI), an anti-corruption advocacy body, provides insights into the extent of bribe taking that is occurring in these 15 countries. They fall into three distinct groups -- Cluster 1 composed of the three Baltic States (Estonia, Lithuania, and Latvia) have the lowest level of bribe taking, followed by countries in Cluster 2 (Georgia, Belarus, Armenia and Moldova), with the remaining eight countries (Kazakhstan, Russia, Ukraine, Azerbaijan, Kyrgyzstan, Tajikistan, Uzbekistan, and Turkmenistan) in Cluster 3 exhibiting the highest levels of bribe taking. (All the countries are listed in the order of low to high bribe taking).

What explains these differences? Countries that have a high degree of economic freedom, rely more on market forces, are supportive of the private sector, and have a lighter regulatory touch have lower levels of bribe taking. The three Baltic countries score high on the index of economic freedom.

Strong democratic institutions and practices in a country reduce the propensity to take bribes. While levels of democracy vary, compared to countries in the other two Clusters, Cluster 1 countries score high on the democracy index. Although not “full” democracies and considered “flawed”, they are certainly not authoritarian or hybrid regimes. Democracies with their rule of law, independent judiciary, press freedoms, and fair elections act as brakes on corrupt practices.

One of the positive legacies of the USSR has been human development such as education, healthcare, and women’s empowerment. All the post-USSR countries have very high, high or medium levels of human development; none are considered low. Countries with higher levels of human development have lower levels of bribe taking. Cluster 1 countries have very high levels of human development (as is Russia); the other nations are high or medium.

Of the 41 signatories to the 1997 OECD Convention on Combating Bribery, only four -- Estonia, Latvia, Lithuania and Russia – belong to the former USSR. The expectation is that treaty adherents have in place enabling mechanisms to enforce it and cooperate with member states to prosecute bribe giving. The OECD has noted that Russia has been lax in implementing this treaty. All the Cluster 1 countries have acceded to the treaty.

The geographical location of all these countries also play a part. Cluster 1 lies on the northwest fringes of the former USSR, facing members of the European Union (EU). The Cluster 2 countries lie mostly on the southwestern edges. Cluster 3 has Russia, the legal successor to the USSR, and countries to its south bordering China, Afghanistan, and Iran. This geography influences and is influenced by political, historical and cultural factors. The Baltic republics were keen to integrate themselves with the “West” once the USSR disintegrated, as a way to ensure their independence. To join the EU and gain the security cover afforded by NATO, they had to undertake the necessary reforms -- in their political systems and economic policies -- to meet membership requirements. By doing so, they moved closer to the standards of the countries of Western Europe; one outcome has been lower levels of bribe-taking by their officials. TI places the three Baltic countries among the top 50 on the CPI score; in contrast, Cluster 3 countries are among the lowest ranked (thus more corrupt).

For political reasons, the EU and NATO were also responsive to the desires of the Baltic countries. A similar dynamic, albeit on a different level, is occurring in some of the Cluster 2 countries; they look to the West for political and economic support. Reforms there have been less sweeping but much more than what has occurred in Cluster 3 countries. Russia itself has not reformed its politics and economics as much and has maintained its sphere of influence on its southern neighbors. These neighbors border countries from where no political and economic philosophies akin to what the EU or the West offers emanates.

In sum, compared to the Cluster 2 and 3 countries, the ones in Cluster 1 have to a greater extent embraced liberal democracy and free market practices, have higher levels of human development, and actively enforce laws against bribery. Their geographical location and history have also played a role. All these explain why their public officials have a relatively lower propensity to take bribes. ■



RAJIB SANYAL

Dean
Willumstad School of Business
Adelphi University-New York
USA

ANDRES METSPALU

Biobanking and precision medicine

Expert article • 2327

In the late nineties, it became clear that the international human genome program would produce the first human genome DNA sequence early in the next century, highly potent microarray technology was taking shape and Estonia was bound to join the European Union. I had a fundamental question: how can we excel (or even survive!) in this new and very competitive international science landscape. We had little funding, few scientists and weak international science networks. In order to put Estonia on the international science map we needed a forwarding-thinking idea.

In 1999, several individuals favored the creation of a large, prospective, population-based biobank in Estonia. The country sought to become more competitive in the international research community, develop infrastructure for genomic and molecular medicine, and use the results of this research to improve public health. After a widespread public debate, the Estonian Parliament (*Riigikogu*) passed the Estonian Human Genes Research Act (HGRA) in 2001. The act stated clearly the three objectives of the chief processor of the Estonian Biobank, the University of Tartu, where the Estonian Genome Center was founded:

1. to promote the development of genetic research;
2. to collect information on the health and genetics of the Estonian population; and
3. to use the results of genetic research to improve public health.

The ultimate goal of improving public health, as stated in the third objective, served as the foundation for 15 subsequent years of work leading to the initiation of the Estonian Precision Medicine Pilot Project in 2015.

The Estonian Biobank cohort is a volunteer-based sample of the Estonian resident adult population (aged ≥ 18 years). The current cohort of almost 52,000 participants will be increased by additional 100,000 people in 2018, representing 15% of the Estonian adult population, making it well suited for population-based studies and shifting the precision medicine from the genome center to the public hospitals.

Several aspects covered by the HGRA are crucial for the development of the Estonian Genome Center of the University of Tartu (EGCUT) database, as well as its application in a variety of research projects. For instance, whereas funding for research projects conducted by the EGCUT is competitively based, the state maintains the specimen collection stored in the biobank and the database, as stated in the HGRA. This arrangement may have contributed to the public's strong support of the biobank, as shown by annual telephone polls conducted over the past decade. Data decoding enables the linkage of participants' genetic and health data, which is essential for genome-based health research, re-contacting participants, and integrating the information into health care practices.

Every participant in the EGCUT has signed a gene donor consent form (www.biobank.ee). Participants provide "broad consent," which consists of permission to use the samples collected for future research purposes in general (with the objectives of studying links between genes, environmental factors, lifestyle and physical characteristics, health, and disease), without identifying specific projects as long as the approval of the Research Ethics Committee is obtained. Participants have the right to obtain research results and to grant their physicians access to that information. Finally, they are aware of the fact that their tissue sample may have some commercial value and research and development institutions as well as commercial enterprises may receive anonymous data about gene donors.

Several nationwide information technology development initiatives in the Estonian health sector have had major impacts on the growth of the EGCUT database, as well as the potential to implement the results from genetic research into medical care. Key elements include the introduction of the national electronic identification (ID) card and the launch of the Estonian National Health Information System.

The work described above has led to national precision medicine initiatives in Estonia.

In 2014, the Estonian Government allocated funds to establish a plan for a shift toward precision medicine based on modern genetic technology. The government in December 2014, proposed the pilot project, which will be conducted in 2015–2018. A feasibility study is ongoing and should be completed by the end of June 2015. Now, in 2018, the "RITA – instrument" was used by Estonian Research Council to start the first precision medicine project conducted in the two largest hospitals in the country for 2018–2020. These activities would be important steps towards the use of the precision medicine as an integral part of national healthcare, and data could be used for basic research, clinical studies and new developments with outside partners. The ID card and ENHIS patient portal enable the secure delivery of genetic risk assessments (genetic risk scores) and drug response based on pharmacogenomics data to primary care providers, physicians in hospitals, and patients. In my opinion, precision medicine is foremost prediction and prevention, but also personal and participatory in essence. In this way, the old vision of the 4P medicine of Leroy E. Hood will become practice.

In conclusion, the idea put forward in 1999 was very fruitful: based on the Estonian biobank the new institute was established in University of Tartu – The Estonian Genome Center. It quickly became quite active in human genome research, raising over 40M EUR for infrastructure and research activities from internal and external sources, publishing over 300 papers primarily in elite journals. Recent international evaluation concluded stated that "*The publication record of the Estonian Genome Center is truly impressive: this is a genuine world-leading centre that should serve as an example to others in the University of what can be achieved.*"

On 1. January 2018, one governmental institute "Estonian Biocentre" fused with the EGCUT resulting in the new, "Institute of Genomics of University of Tartu." This new institute has over 100 people, is well funded, and internationally competitive. Large projects will take time, but great vision, consistent work, brilliant scientists, dedicated support staff, and a bit of luck has put the Estonian genomics community firmly onto the international science map. ■

ANDRES METSPALU

Professor and Director
The Institute of Genomics
Estonian Genome Center
University of Tartu
Estonia

RAMŪNAS POVILANSKAS

Health tourism in Estonia, Latvia and Lithuania

Expert article • 2328

All three Baltic States – Estonia, Latvia, and Lithuania – are widely known for cherishing their health tourism traditions. Treatments based on local natural remedies – mineral water, medicinal peat and therapeutic mud – are still widely applied for convalescence and medical rehabilitation purposes at Baltic health resorts. This is a major difference between the Baltic and the Nordic health tourism, since traditional Nordic spa towns are at present branded mainly as heritage tourism destinations, occasionally with high-end spa and wellness facilities.

It is worth comparing the fate of Haapsalu, a historic seaside spa town in Estonia to that of Naantali in southwest Finland. Throughout the 1800s, both, Haapsalu and Naantali were seaside spa towns favourite with Russian tsars and nobility. The very first therapeutic seaside mud baths in the world were established in Haapsalu by Dr Carl Abraham Hunnius in 1825.

Yet, after the WWII, both seaside spa towns experienced a different evolution as tourism destinations. During the 1960s, a hospital was built in Haapsalu to treat polio, and today it has evolved into a cutting-edge European neurological rehabilitation centre, treating patients with severe neurological damage (see article in BRE 2017/3). Meanwhile, Naantali nowadays is a seaside heritage tourism destination rather than a convalescence place which it was a century ago. The Naantali Spa Hotel is seen on the international wellness tourism market as a member of the Royal Spas of Europe network, along with another three exquisite spas in Baden-Baden (Germany), Mariánské Lázně (Czech Republic) and Sárvár (Hungary).

Today, 18 spa towns and seaside resorts in the Baltic States are actively looking for their unique selling points on the domestic and international health tourism markets: Haapsalu, Kuressaare, Narva-Jõesu, Pärnu and Värskä in Estonia; Baldone, Carnikava, Jūrmala, Liepāja, Līgatne, Ogre, Salacgrīva, Saulkrasti and Sigulda in Latvia; Birštonas, Druskininkai, Neringa and Palanga in Lithuania.

Repositioning of the spa towns and seaside resorts into wellness oases instead of convalescence and rehabilitation places is also gaining ground in the Baltic States. The number of specialized establishments that provide high-quality spa and wellness services is steadily increasing. For instance, Fra Mare Thalasso Spa and Spa Hotel Laine in Haapsalu offer exquisite mud therapy services, whilst Spa Vilnius in Druskininkai, a leading health spa in Lithuania, offers innovative convalescence and wellness packages developed by renowned physiotherapy scholars and combining amber therapy, mineral water baths, herbal treatments, and hydro massage, to mention just a couple examples.

Yet, differently from Western Europe, plastic surgery establishments are not popular in the health resorts of the Baltic States so far: out of 17 plastic surgery clinics, currently active in Estonia, just one is located in Pärnu, whereas in Lithuania, out of 33 plastic surgery clinics, none is located in any of the four seaside resorts and spa towns. Only in Latvia, out of 20 plastic surgery clinics, two are in Jūrmala, one is in Liepāja, and one is in Sigulda.

There is no statistics on the share of foreign tourists visiting the Baltic States specifically for health and medical tourism purposes. We can just speculate based on the annual turnover of plastic surgery clinics in 2016: ca. 50 million € in Lithuania followed by 30 million € in Latvia and 25 million € in Estonia. These are not big amounts. By comparison, in 2016, the annual turnover of plastic surgery clinics in Denmark, which is similar in population size to the three Baltic States together, was ca. 750 million €.

The appeal of the Baltic seaside resorts and spa towns as tourism destinations also relies on the popularity of events organized there, for example, art festivals which are dedicated to famous artists connected with these towns. The Tchaikovsky Festival is held in Haapsalu in honour of the famous Russian composer Tchaikovsky, who once spent his vacations there. The Summer with Mikalojus Konstantinas Čiurlionis is an annual international arts festival held in Druskininkai, the childhood town of the famous Lithuanian painter and composer Čiurlionis.

The attractiveness of the Baltic States for health tourism is also enhanced by the integration of the spa towns and seaside resorts as tourism destinations with the adjacent metropolitan areas – Tallinn, Riga, Vilnius and Kaunas, as well as with the nearby national parks attractive for their rich and diverse nature: Matsalu and Vilsandi national parks in Estonia, Gauja and Ķemeri national parks in Latvia, Kuršių nerija and Dzūkija national parks in Lithuania.

Thus, we can see a new kind of health tourism destinations emerging in the Baltic States, combining spa, wellness, plastic surgery, active outdoors, nature and urban tourism. A good example of such a new, integral health resort is Viimsi peninsula next to Tallinn.



RAMŪNAS POVILANSKAS

Professor
Recreation and Tourism
Department
University of Klaipėda
Lithuania

Email: ramunas.povilanskas@gmail.com

ELLU SAAR

Youth unemployment in the Baltic States

Expert article • 2329

Over the past decade, all three of the Baltic States faced extremely sharp economic fluctuations. Their GDP growth and decline were among the highest in the EU. In 2009, according to World Bank data, the GDP decline in Lithuania, Latvia and Estonia was about 14%. As a result, the 21st century labour market in the Baltic States has been highly volatile. The period of employment growth during the first half of the 2000s was followed in 2008 by a recession involving significant job losses. The global economic crisis started to affect labour market indicators in the Baltic States in the second half of 2008, more than tripling the number of unemployed people by mid-2009 and reaching a total unemployment rate of 13.5% in Estonia, 13.8% in Lithuania and 17.6% in Latvia. These rates were considerably higher than the European average. The following year, in 2010, unemployment hit a record level in all three Baltic States.

Young people (15-24 years) were the hardest hit by the employment crisis. The rapid increase in youth unemployment that had started in 2008 continued until 2010 when the unemployment rate for youth reached 32.9 % in Estonia, 35.7% in Lithuania and 36.2% in Latvia. The employment rate among young people decreased substantially.

The Baltic States have been able to bounce back relatively quickly from the employment crisis. In comparison to other EU-28 Member States, labour market indicators in the Baltic States have improved significantly faster. In 2012, youth unemployment in the Baltic States continued to decrease to 15-16% in 2014 (below the EU average of 22.2 %). In 2016, the country specific youth unemployment rates were 13.4% in Estonia, 14.5% in Lithuania and 17.3% in Latvia. Despite the rapid recovery, the level of youth unemployment remains higher than before the crisis and is more widespread compared to the prime-age population, indicating the presence of barriers for youth in entry to the labour market. The sharply decreased unemployment rates can be partially explained by high emigration of young people, especially from Latvia and Lithuania. Those young people facing difficulty in finding a job or getting low wages have often chosen to migrate abroad. For example, during 2009-2013, young emigrants age 15-24 years accounted for approximately 26% of the total number of increased migration flows from Lithuania.

Another important indicator of labour market exclusion, widely used in the descriptions of the situation of young people, is the NEET rate (the percentage of young persons who are Not in Employment, Education or Training). Thus, this indicator also comprises inactivity. During the crisis, this rate increased significantly in all Baltic state. The share of NEET youth rose primarily among people aged 20-24 years and 25-29 years. The NEET rate peaked in 2010 and since 2012 has steadily decreased. In 2016, the NEET youth rates were 9.1% in Estonia, 9.4% in Lithuania and 11.2% in Latvia, which were slightly lower than the EU average. This can be partially explained by a rather high level of youth participation in the education system.

Previous work experience is key to boosting young people's employability: approximately 50% of employed youth interviewed in Lithuania indicated that work experience, gaining workplace skills and work experience as well as the ability to maintain the acquired workplace skills are of great importance to improving the employment prospects of young people.

The interviews carried out with young people under the framework of the Horizon 2020 project "Social Exclusion of Youth in Europe: Cumulative Disadvantage, Coping Strategies, Effective Policies and Transfer" (EXCEPT, see <http://www.except-project.eu>) indicate great diversity among young people entering the labour market. The stories told by young people reveal that, if entry into the labour market has not been smooth, it can take them a long time to find their proper place. At the same time, not all NEET youth suffer from social exclusion – social support (predominantly from parents) allows them to avoid work, while looking for a better job or to take their time in choosing the right occupation/profession. A lack of professional skills is a risk factor for youth with basic education and general secondary education.

Unfortunately, often a high education level does not secure better job prospects for young people. Various surveys and indicators clearly suggest that the main reasons of high unemployment among young educated people include inadequate preparation for the labour market (including mismatches between skills acquired and labour market needs, and insufficient practical skills of young individuals) and the prospect of low wages discourages youth from entering the labour market.

The Youth Guarantee Scheme has changed the situation of the youth policy approach in the Baltic States, particularly as there were no comprehensive labour market policies specifically targeting young people. The Youth Guarantee scheme enabled more attention to be laid on early intervention and to create tailored active labour market services for youth. Nevertheless, the political context in the Baltic States for implementing the Youth Guarantee is quite different from Nordic countries. Governments in Nordic countries have strongly backed the scheme. In the Baltic States, there is a lack of a strong political impetus to tackle the issue of youth unemployment and to roll out the Youth Guarantee. Moreover, expenditure on active labour market policies in Estonia, Latvia and Lithuania is substantially lower than in Nordic countries. For example, in 2016, these expenditures accounted for 0.18 % of national GDP in Estonia, 0.14% in Latvia and 0.24% in Lithuania compared to the 0.85 % of GDP in Finland. ■

ELLU SAAR

Professor
Institute of International Social
Studies
Tallinn University
Estonia

Email: ellu.saar@tlu.ee

GÖRAN LARSSON

Global conflicts with local consequences – some examples from Sweden

Expert article • 2330

Thanks to a long period of intense global conflicts and a liberal local migration policy, Sweden is among the countries in the European Union to have accepted the greatest number of migrants from countries outside Europe per capita during the 21st century. Partially due to the large number of refugees arriving in 2015 – approximately 160,000 primarily from Syria, Iraq and Afghanistan – for a variety of reasons Swedish politicians have deemed it necessary to dramatically change the policy towards refugees, migrants and asylum-seekers, with the result that it is now much harder to obtain residence as a foreigner in Sweden. Even though people have been migrating to Sweden ever since the 1950s, making the religious landscape in the country increasingly multireligious thanks to these processes, the changed migration patterns of recent decades have resulted in an even more pluralistic society.

In addition to Islam, Judaism, Hinduism, Buddhism, Sikhism and a large number of Christian denominations, the presence of religious minority groups from the Middle East has also grown. Consequently, Sweden has become a first or permanent safe haven for a large number of persecuted minorities like Yazidis, Alevites, and Mandaeans. For example, Sweden is often presented as the country with the largest Mandaean community in the world. Although statistical information regarding these groups is unreliable for various reasons, there are approximately eleven thousand Mandaeans, between four and fifteen thousand Yazidis and between seven and fifteen thousand Alevites living in Sweden. Besides the growing presence of Middle Eastern Christians, the presence of Muslim communities is also increasing. Among the main reasons for so many individuals having left the Middle East is a general lack of democracy, a lack of respect for human rights, endemic warfare and low life expectations.

Islamic State is the latest example in a long line of persecutors, but it is important to stress that minorities have always been at serious risk of being persecuted by those in power, in the Middle East as in Europe or elsewhere. However, in both Syria and Iraq (at least until the toppling of Saddam Hussein in 2003) minorities have also been in a position to exercise an influence over the state apparatus, and in both countries minority representatives have even held power over large majorities of Sunni (as in Syria) or Shia Muslims (as in Iraq). However, after the American invasion of Iraq in 2003 and the uprisings in Syria after 2011, this has been an important reason why these majorities have protested against the rule of both Saddam Hussein and the Assad family. This also explains why the leaders of Iraq and Syria have shown the utmost brutality in countering all attempts by others to take power and change the political landscape. In these cases, democracy has not been on the agendas of the minority leaders when in power, but as power structures have changed, minority representatives are much more likely to seek political influence, whether by democratic or military means.

Simultaneously new power constellations, like Islamic State, have carved out new political spaces for themselves since 2014. The rise of the Kurdish state in western Iraq (often called Rojava) has united the Kurds in Iraq, enabling them to fight Islamic State, but they have also acquired political aspirations that are causing anxieties among non-Kurdish groups and states like, Turkey, Iraq, Iran and Syria. While many groups have so far been united under the banner "My enemy's enemy is my friend", it is not likely that these loosely knit bonds will remain in place – quite the contrary. Decades of violence and political instability have resulted in distrust between different religious and ethnic groups, such as Shia and Sunni Muslims, Christians and Muslims, as well as other ethnic and religious groups.

Besides creating havoc in the Middle East, the American invasion of Iraq in 2003 and the uprisings in Syria after 2011 have also attracted a large number of so-called foreign fighters from different parts of the world who have joined in the fighting. For example, approximately three hundred individuals have left Sweden to join Islamic State and similar movements. In addition, an unknown number of Swedes have also joined other sides in the conflicts, like the Kurdish forces, the Free Syrian Army and similar groups. Although the conflicts are rooted in local contexts, they have become truly global, resulting in a growing fear of terrorism in the West, with rampaging anti-Muslim attitudes, anti-Semitism, etc. Thus while the recent flows of migration have given rise to a sense of both solidarity and human compassion, fears, intolerance and populism have also spread in Europe and North America. Although we have only vague and limited knowledge about how, if and under what circumstances conflicts and tensions rooted in the Middle East have actually been transported to Sweden through migration, it would be naïve to think that the refugees, migrants and asylum-seekers who have been forced to leave their own countries have done so with out sorrow, pain and some lust for revenge. However, the wars and conflicts in the Middle East are also being exploited by forces that would like to keep Sweden a so-called mono-cultural country, to close down its borders and to pay no attention to human atrocities and sufferings elsewhere. To counter the potential negative effects of these tendencies on Swedish society, there are therefore good reasons to study and monitor how global conflicts might have a negative impact on Swedish society and to counter their effects. ■

GÖRAN LARSSON

Professor of Religious Studies
University of Gothenburg
Sweden

Email: goran.larsson@religion.gu.se

LUULE SAKKEUS

Population development of Estonia

Expert article • 2331

Estonia will be celebrating its centennial birthday on February 24. However, people have been constantly inhabiting the southern shores of the Finnish Gulf for already over 12 000 years. Whether these inhabitants were Aesti - from which the name for the country 'Eesti' ('Estonia') derives from - or some other tribe, it has yet to be established, but they were living there next to Fenni.

Although the first written record about Estonian population can be found in the 13th century Liber Census Daniae, regular data on the events occurring in the population started to be collected under the Swedish rule in the 17th century. Owing to several wars and multiple fires for the most part of the Estonian territory the data has been continuously preserved only since 1834. Thus our knowledge about the development of the Estonian population mainly embraces the modern history.

Estonia has been described as a country which already since the 17th century was characterised by the western type of marriage – i.e. higher age at first marriage and over 10% of female population never marrying. That kind of development signals about the natural ways of limiting the family size, characteristic to most countries lying west of Hajnal's line. John Hajnal divided Europe along the imaginary line from St. Petersburg to Trieste into two distinct parts. Early modernisation was imminent to a great extent of countries to the west of that line. This first and foremost meant earlier transition into lower mortality as well as, relatedly, earlier advancement of controlled fertility behaviour. Rising life expectancy enabled to educate everybody, at least at the basic level. It gave the basis to modernise everyday activities and thus free groups of population from the firsthand need to deal with essentials of survival.

By the end of the 19th century over 93% of Estonians were literate which encouraged people to seek new opportunities in the emerging cities but also outside Estonia. Alongside with other nations in Europe going through similar changes it among others resulted in proclaiming its own statehood, for Estonia in 1918. With regard to the population development further increasing life expectancy and decreasing birth rates below the replacement level were experienced already in the 1920s. Despite fairly low population growth rates during the demographic transition period compared to some other European countries in the West, emigration of the Estonian population from the last quarter of the 19th century onwards totalled to 17% of the population.

The natural course of the Estonian population development came to an abrupt halt with the Molotov-Rippentrop pact between Stalin and Hitler. This allowed Stalin to establish Soviet military bases on the Estonian territory in 1939 and lead to deportation of part of the population during the first Soviet occupation in 1941. Following German occupation and looming second Soviet occupation gave way to an emigration wave of about 70 000 persons. Since 1939 Estonia lost almost all of its pre-war national minorities: Germans, Swedes, Jews and a great part of its Russian minority, the latter being deported alongside with Estonians both in 1941 and the rest in 1949 deportations. The second Soviet occupation which started in 1944 lasted for half a century, and has had a significant effect to the population development of Estonia.

In mortality Estonia was in line with developed countries until the 1960s when the first stage in health transition of infectious diseases came to an end. The combat with health behaviours responsible for the so-called man-made diseases (heart diseases, cancer) should have become central. However, in Estonia this stage remained for a long time out of any attention, and with the general stress from a totalitarian regime where an individual with its free choices was disregarded, mortality stagnated for the next four decades at the level achieved by the 1960s.

Estonian fertility, contrary to most western countries that experienced modernisation in demographic development in terms of low fertility by the beginning of the WWII, did not have a baby-boom effect after the war. Fertility reached near-replacement levels only by the end of the 1960s. Just before regaining the independence in the beginning of the 1990s, Estonia was characterised by one of the highest levels of fertility in Europe.

Another feature shaping the development of the population in Estonia after the WWII has been huge immigration from the countries on the territory of the former USSR. Aside that there were remarkable military bases on the territory of Estonia - the amounts of military personnel transfers to Estonia was unknown - there was also civil migration. This was channelled centrally within the Soviet Union to economically more advanced regions such as Estonia. The flows reflected firstly the loosening of migration potential in Russia, followed by other Slavic countries, then countries in the Caucasus and by the collapse of the regime from the Central Asian countries. Altogether over 5 million people migrated through Estonia during the Soviet period, of which only every fifth remained in the country. By the end of the 1980s there were more than 140 ethnic groups residing in the country. After Estonia regained independence in 1991 several population groups who came to Estonia during the Soviet period emigrated to their ethnic homelands such as Jews to Israel, Germans to Germany, Ingrian Finns to Finland. One of the largest emigration was that of immigrants of Slavic origin, including Soviet army personnel who left in 1994. Despite the return migration of Soviet time migrants, Estonia is still characterised by a 30% of people with different ethnic background than Estonians.

All these trends described above have shaped today's population in Estonia. Since the regained independence Estonia has rapidly recovered its life expectancy starting from the end of the 1990s. The infant mortality rate is fluctuating around the lowest levels together with other Nordic countries, for example. The gap in female life expectancy has significantly diminished between Estonians and Nordic countries. However, for male population the impact of totalitarian regime is still visible (as the gap reinforced in the 1960s). It is most manifested in very low values of healthy life years for men - where Estonia shares together with the two other Baltic states (and Finland) the lowest positions within the EU.

After the sharp decline in fertility in the 1990s from the peak levels of the end of the 1980s, fertility has also somewhat recovered and fluctuates around 1.6 children per woman. As the period can be described by postponement of childbearing into later age, the low levels of fertility to a great extent reflect Estonia's age at first birth being 2-3 years below the Nordic average.

As to mobility, after the huge volumes of return of Soviet period migrants in the 1990s to their homelands, the first 10-15 years of the 21st century have been described by out-migration of Estonians. Finland has largely been the main destination for Estonians. Although according to the Finnish population register more than 40 000 Estonians reside in Finland, quite a part of them are actually commuting to work to Finland. 84 km between Tallinn and Helsinki is a lot less than the distances people cover within our own countries when travelling for work. At their centennials Estonia and Finland still remain intertwined. ■

**LUULE SAKKEUS**

Head and Senior Researcher
Estonian Institute for Population
Studies
School of Governance, Law and
Society
Tallinn University
Estonia

Pan-European Institute

**BALTIC RIM
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ANNE KOVALAINEN, SEPPO POUTANEN & JATTA JÄNNÄRI

Gender equality in the Baltic Sea region – similarities and differences

Expert article • 2332

One hot topic that has entered into the global awareness – time and time again, and now with considerable force – is women's role and position in economies, and especially those mechanisms that hinder or promote women's employment and careers as experts. Most governments have both legislation and action plans for gender equality in place, and most equality action plans include economic activities as one of the top priorities. Indeed, it has been predicted that an era of growth in importance of women in the economy will occur, as the Catalyst report in 2016 announced, backed up by International Labor Organization 2015 report on gender equality across the globe (2015). According to the ILO, women now hold over 40 per cent of jobs worldwide, though often at lower pay. They also run one third of all businesses, although concentrated in micro- and small enterprises. But is the current slow progress a trend that accelerates? The picture may not be so simple.

The global results in numbers naturally disguise several national differences. When we look into gender balance e.g. in managerial positions within the Baltic and Nordic countries, there are some interesting differences. The most recent comparable figures from Catalyst and the ILO show for example that Poland has higher number, 37 per cent of senior management jobs held by women, than in many other EU countries. This is despite the rather wide differences between women and men in the active participation in employment. The Baltic States – Latvia, Lithuania and Estonia – follow Poland in the proportion of women in senior management positions. Very often, the Nordic countries are regarded as standing out in terms of gender equality, and differ from Baltic States, for example, but are there big differences? In the Nordic countries, the proportion of women in senior management positions has been rather stable over the years: in Norway, Iceland and Sweden, women occupy over 35 per cent of management positions. Denmark, surprisingly, has the lowest share, at around 29 per cent. The number of women in senior management positions in Finland has risen. Depending on the measurement used (middle management or solely senior management positions), the proportion ranges from 25 to 31 per cent. Indeed, recent research globally, including the ILO report, underlines the need for a closer analysis of the career paths of women and men to ensure that both visible and more subtle gender biases are eliminated with the help of government policies and legislative measures. Furthermore, an array of initiatives should be implemented that challenge gender stereotypes and prevailing tendencies within corporate cultures.

We have researched several gender and decision-making aspects, not only numbers but the ways gender equality is made possible. Our work includes an interesting analysis and publication of the "global manager" portrayed in the Economist newspaper magazine (Poutanen, Kovalainen and Jännäri 2016). Of the countries around the Baltic Sea, we have analysed Finland and Estonia the most closely, and we claim that an integral part of the issue of gender, careers and equality is the question of how the available jobs for experts are framed. We asked the question of how the framing of advertisements for jobs for experts directs applicants to think of the prospective jobs as female or male expert jobs in Finland and in Estonia. The legislation on equality and on discrimination is quite similar in these two countries, but the ways in which available experts

jobs are labelled as female and male differs between the two countries. We analysed close to 450 expert job advertisements in Finland and in Estonia.

According to our results, Estonia and Finland are similar in the ways the jobs for experts are advertised, but there are also clear differences between the two countries. Of those differences, we take up just one here: in Estonia, expert job advertisements clearly emphasize more the appearances than in Finland, thus bringing out the "suitable" gender of the expert indirectly in the advertisement. This is done in more subtle and indirect ways in Finnish job advertisements. We did not anticipate finding, nor did we find, any direct violations of gender legislation or the discrimination legislation. However, we found evidence of overstepping the boundaries taking place in how discrimination legislation is interpreted for job advertisements, in terms of the prospective job applicants' gender and ways of making expert jobs implicitly male or female. The path to gender equality is thus not only about the numbers of men and women in positions but it is also about how we, as societies, frame the prospective expert positions and make them available to qualified applicants, irrespective of gender.

This part of the larger research is forthcoming in one of the articles by the authors, and it will also appear in Jatta Jännäri's doctoral dissertation. ■

**ANNE KOVALAINEN**

Professor
School of Economics
University of Turku
Finland

**SEPPO POUTANEN**

Senior Research Fellow
School of Economics
University of Turku
Finland

**JATTA JÄNNÄRI**

Doctoral Student
School of Economics
University of Turku
Finland

EMIL EDENBORG

Has the Baltic Sea become a frontier in a global conflict over sexuality?

Expert article • 2333

In 2015, after alleged Russian submarine activity in Swedish waters, the Swedish Peace and Arbitration Society jokingly responded with the "Singing Sailor Underwater Defence System", a neon sign of a topless sailor with the text (in Russian and English): "Welcome to Sweden. Gay since 1944" (referring to the decriminalization of male homosexual relations in Sweden), sending out underwater Morse signals saying: "This way if you're gay". This incident points at a geopolitical imaginary that is increasingly common in both Swedish and Russian discourse, of the Baltic Sea as not just constituting a territorial boundary but also a border between two sexuality orders: a "gay-friendly" West and a Russia cherishing "traditional values". In Russian media, Sweden is sometimes depicted as embodying "Gayropa", a place where gender roles and family norms are said to have entirely collapsed.

The Baltic Sea region encapsulates a global trend of increased polarization around LGBTI rights. From having been largely considered a private matter, questions relating to sexual orientation and gender identity (SOGI) have in a short time become hot topics of international political contestation. After the 2014 Sochi Olympics, when Russia was condemned by Western leaders for its treatment of LGBTI people, some have even described the topic of sexuality politics as an emerging dividing line in a new Cold War. While that characterization appears exaggerated, overlooking that few state leaders would set aside economic and security priorities due to concerns about LGBTI people, it is undoubtedly the case that questions relating to SOGI are increasingly becoming part of states' foreign policies and have entered international political arenas, including the UN. The rights and status of LGBTI people are invested with highly symbolic meanings and tied to questions of geopolitical, religious and national identity. However, the symbolism surrounding SOGI politics should not make us forget the grim reality where thousands of people across the world are harassed or killed every year because of homo- and transphobia.

During the last decade, peaking in the 2013 law banning "propaganda for non-traditional sexual relationships", the Putin regime has led a systematic campaign to stigmatize and scapegoat LGBTI people, exploiting widespread homophobic attitudes among the population. Also in its foreign policy Russia is now profiling itself as an international protector of "traditional values". Of course, state policy does not always translate immediately into lived reality; some queers not involved in activism continue to live their lives largely unaffected. However, possibilities to politically argue for expanded LGBTI rights are effectively quelled by the ban, Russian LGBTI rights organizations point at an increase in homo- and transphobic violence, and the Kremlin's position has been perceived as a *carte-blanche* to persecute LGBTI people, most gravely seen in Chechnya in 2017.

On the other side of the Baltic Sea, Sweden is often described as one of the most "gayfriendly" countries in the world, and actively works to promote LGBTI rights internationally as part of its "feminist foreign policy" (although that work preceded the label). Sweden ranks highly in value surveys of popular attitudes to homosexuality, and has been an international precursor when it comes to introducing legal

protections for homosexual and (to a lesser extent) transgender citizens. Introducing same sex marriage in 2009, Sweden is a good example of how rapidly attitudes and legislation towards LGBTI people have changed in some countries, primarily in Western Europe and in South and North America. Swedish public discourse has changed dramatically in a short time: as late as 1999, the leader of the conservative party and former PM Carl Bildt likened a photo exhibition of Jesus surrounded by gay and transgender people to an exhibition of Pol Pot. Importantly, LGBTI freedom remains unequally distributed in Swedish society. Same-sex marriage, while vital to many, does not automatically mean an end to discrimination. The far right Sweden Democrats, polling at 15-20%, has opposed all legal steps toward LGBTI equality, and in near history, its leaders have repeatedly made homophobic remarks. Still, the party occasionally instrumentalizes pro-gay rhetoric when depicting Muslim immigrants as a threat to egalitarian "Swedish values".

As we see, when discussing SOGI issues, a geopolitical language seems near at hand. Both proponents and opponents talk of sexuality politics in terms of "East-West divisions", national identity and Europeaness, or a presumed gap between "traditional" and "modern" societies. Crucial as it is to understand how conflicts over sexuality are invested with geopolitical meanings, one should not uncritically buy into a simplistic scheme of a tolerant West confronting an intolerant Rest. Categorical explanations that reproduce rather than interrogate imagined national and geopolitical lines of division obscure more than they illuminate. When it comes to the global situation for LGBTI people, realities are more complex than what can be captured by binary models of certain countries "moving forward" and others "going backward". The dichotomy of "gayfriendly Sweden" and "homophobic Russia", while it to some extent accurately describes contemporary state policies, leaves no room for the possibility that for a middle-class gay man in Saint Petersburg, life may in certain respects be significantly "freer" than for some queers in Sweden, perhaps living in the countryside or in religiously oppressive communities. Also, a quick look at history rebuts the depiction of Russia as an inherently homophobic place: for example, in 1917, Bolshevik Russia was one of the first countries in the world to decriminalize male same-sex relations.

To understand complexities and nuances, and find productive ways forward, we should understand the current polarization around SOGI in the Baltic region – and beyond – not as a clash of civilizations between internally homogenous and static cultures. The recent development in Russia is not a spontaneous eruption of culturally deep-rooted homophobia but a state-led political project which is more about ideology, regime consolidation and geopolitical positioning than anything else. When it comes to LGBTI questions, Russia is not isolated or "behind", but part of a very contemporary transnational movement of conservative gender politics which stretches across the globe (also within the West). Possibly, the 2018 World Cup in football will, like Sochi 2014, provide a highly visible scene for playing out international LGBTI polarization.

Global solidarity with Russia's targeted queer population is crucial, but it is important that the issue is not instrumentalized for geopolitical positioning or self-centered identity building. While the Putin regime should be criticized for its treatment of LGBTI people, high-profile public condemnation by Western leaders is not necessarily always the best strategy as it may lead to cementing Russia's positions rather than change them. Transnational activism must take the perspective of the local LGBTI population and adhere to a "do no harm" principle, which is best achieved by close cooperation with LGBTI and human rights activists in Russia, listening to and respecting their needs and wishes. ■

**EMIL EDENBORG**

SFP Researcher
Swedish Institute of International
Affairs
Sweden

Postdoctoral Researcher
Södertörn University
Sweden

Email: emil.edenborg@ui.se

ALEXANDER KONDAKOV

Hate crime against LGBT individuals in Russia

Expert article • 2334

Russia has become a focal point of attention regarding its policies of sexuality in 2013. Despite global trend in recognising LGBT rights across Europe and in other countries (with many exceptions, though), in Russia, legislators decided to tighten legal regulations of sexuality, most importantly representations of queer voices in public. It was in 2013 that notorious bill banning “propaganda of non-traditional sexual relations” was adopted and signed into law by Putin. As the Supreme Court of Russia explained earlier when it considered cases on similar regional legislation, the “non-traditional sex” included male homosexuality, bisexuality, lesbian and transgender experiences. Topics associated with one or all of these phenomena should be withdrawn from public domain under federal law of “propaganda,” otherwise monetary fines shall apply to those who disseminate this content (people and legal entities likewise).

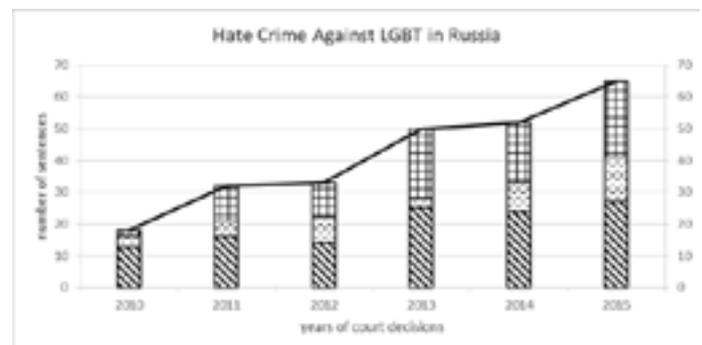
One of the effects of this law is its influence on public discussions. Both governmental and oppositional media started to explore the experiences of LGBT people in Russia: the former blaming them for moral decline and decadence, the latter showing actual everyday life of Russian queer citizens. Thus, rhetoric of homophobia and of support came together and generally contradicted to the idea of legislators who sought to silence homosexuality rather than paving a way to these controversial discussions.

Yet another effect of the law, as well as the homophobic discussions, was claimed to be the raise of hate crimes against LGBT people in Russia. Many human rights activists declared that gay bashing and abuse has become more popular since the adoption of the law on “propaganda.” However, these claims were unsubstantiated, because no particular evidence on the number of hate crimes against LGBT in Russia has ever been systematically collected and presented to the public.

The Centre for Independent Social Research in St. Petersburg has set the goal of generating comprehensible, reliable, and official data on hate crime against LGBT individuals in Russia before and after the adoption of the law on “propaganda.” I coordinated a team of researchers (Evgeny Shtorn, Anastasia Tveritinova, Ekaterina Ivanova) who have done the job of collecting data in this regard. We have accessed public records from courts all over the country to download criminal sentences that involved LGBT people. State offices do not take into consideration victim’s sexuality when composing official statistics (Russia has even stopped providing data on this to OSCE). Consequently, our findings are unofficially generalised numbers from official sources. I have done the analysis basing my statistical calculations in official court documents.

We have got access to court sentences from 2010 to 2015 and eventually selected 250 relevant criminal law cases considered by courts of the first instance. All the decisions were accusatory for perpetrators who targeted specifically gay victims. Hence, these are 250 unique cases of proven violations of criminal law against LGBT population in Russia for six years. The number is not shockingly huge, but one has to keep in mind that these are only those cases that went through the legal system to its very end: the case was reported, registered by the police, investigated, prosecuted by public prosecutor, and regarded by court. Certainly, many episodes of violence do not get even to the first step in this sequence.

The resulting numbers accurately show the dynamics of crimes against LGBT citizens in Russia (fig. 1). Evidently, the law on “propaganda of non-traditional sexual relations” contributed to the growth of hatred: before the law there were about 30 cases of hate crimes against LGBT in Russia, while already in 2013 there were 52 such cases, and in 2015 the number raised more than twofold to 65 cases of hate crimes. The tendency is very clear and it shows that gay people suffer more as a result of the policy of hatred.



All the analysed cases were also categorised on the substance of criminal offence committed against LGBT individuals. I distinguished three types of cases: murder (lower bar on fig. 1), violence not resulted in death of victims (middle bar), and targeted robbery when perpetrators specifically selected a gay victim hoping that s/he would not report their crime to the police (higher bar). The figure shows that more murders are committed after 2013, so more queer lives are taken away because of the law on “propaganda.”

This research demonstrates the power of law in Russia as an ideological tool designed to convey certain ideas to the public. Many different people have had many different reactions to the law on “propaganda.” Yet, one of these reactions is amplification of hate that results in violence against people only because of their sexuality. All those criminal acts would not happen if LGBT people were considered simply an integral part of the society. And this is the task of the law to promote this vision, rather than initiate hate. ■

ALEXANDER KONDAKOV

PhD, Post-Doctoral Research Fellow
University of Wisconsin-Madison
USA

Assistant Professor
European University at St. Petersburg
Russia

Researcher
Centre for Independent Social Research
Russia

Deputy-Editor-in-Chief
Journal of Social Policy Studies
Russia



XUE FUQI

An interpretation of deficiency of development in Russia

Expert article • 2335

It is the obvious fact that Russia is deficient in development 25 years after independence. On one hand, Russia has made great progress in social, economic fields and many other fields; it has established a framework for a series of basic systems; there is no shortage of supplies. What's more, Russia does little to highlight the achievements made in economic development. Relying on the existing model of development which is clearly unsustainable, it is difficult for Russia to attain the status of a global power it has been pursuing for. Tensions or contradictions exist between Russia's model of development and its global power positioning. For example, Russia accounted for 0.8% of the global GDP in 2000, and 2.8% in 2013, but 1.8% in 2016, and at the same time, the government accounted for more than 50% in the sectors of real economy, and as high as 60% in the banking sector, which indicates underdevelopment of small or medium-sized enterprises¹.

Development is a complicated process in modern times. The government exerts the decisive influence in a country's economic development. Capital is one of the key elements for economic development. And social vitality is equally important too. The result of development is, to a great extent, decided by the relationships between the government, capital and social vitality. Seen around the globe, since World War II, only those "developmental countries" which had higher autonomy achieved obvious result of development because they realized the guidance of the process of economic development and mobilized the capital and social forces to participate in the process. And at the same time, many countries fell into prolonged stagnation or even decline, and some countries still couldn't come free from various types of "traps" in the development process. As a classic writer said, countries which developed successfully were basically the same, i.e., they correctly did many things while the undeveloped countries had various reasons.

In the case of Russia, it may fall into the category which is characterized by a strong government, weak capital and weak society. Take one of the obvious evidence as an example: According to data released by the Russian anti-monopoly agency², the Russian government accounts for 70% in the economic sphere. The government exercises rigorous supervision of the economic activities in Russia (there are over 70 supervisory agencies now in Russia). The business environment is unsatisfactory in Russia. It is unfriendly to direct foreign investment. According to scholars, Russia may be understood as a combination of power with the capital (сращение власти и бизнеса), with one of the consequences being that small and medium-sized countries only account for about 20% in the economic sphere, which is well below the average of 60%-70% in developed economies. Many scholars hold the view that Russia is developing crony capitalism (блатной капитализм). The Russian government control of capital can be clearly divided into 2 different phases: big capital was eager for active participation in politics before 2003; it was subjected to restriction or segregation after 2003(равноудаленность).

1 <http://m.rosbalt.ru/amp/posts/2017/12/12/1667667.html>

2 <https://www.vedomosti.ru/politics/articles/2017/12/08/744578-tretii-srok-putina>

Russian scholars³ believe that according to related estimates, only 1/4 of Russians have improved their living conditions in the 25 years. At present, the macroscopic economy is stable in Russia, and the currency inflation is at the bottom, but Russians' living conditions sees no improvement. The conclusion made by the economic research institute of Russian Academy of Sciences: Firstly, the government should be the real, active participant in the process of construction of market economy rather than the arbitrator which only satisfies to maintain the game rules because sometimes the market or the government functions would fail. To reduce the adverse effects produced by failure of governmental functions to the least degree, it is necessary to try to improve the efficiency of government investment, change the monetary and credit policy, and reduce the fluctuation of ruble's exchange rate by interfering into the foreign currency market and exercising control of foreign exchange. The public expenditure should be tilted towards the health care, cultural, scientific, technological, educational fields and other fields. It is also necessary to enhance the share of small and medium-sized enterprises in the economy to 60%-70%, which is the average in developed countries. Moreover, it is also necessary to improve the national governance, solve the issue of monopoly, reform the political structure to expand the scope of competition, and strengthen the supervision of the government by the society. Generally speaking, creation of market is key to economic development, and only the government is capable to create the market. "Combination of power with the capital" means that in the established framework of market economy, the government sometimes mismatches its functions, sometimes the government exceeds its functions, and sometimes the government is absent from playing its functions. Should the government fail to provide a public product – the market, which is sufficient to stimulate the activities of economic subjects, there would be no hope that economic activities would produce the desired effect which can ultimately benefit the majority people, and there is either no hope that a positive cycle of social and economic development can be achieved: economic development contributes to social harmony while in turn, social harmony would provide a satisfactory social environment for further economic development.

In recent years, by reforming the administrative procedure and governmental functions, such as examining activities related to administrative licensing, corporate registration, enterprise operations and other activities, the Russian government tries to regularize the relationships between the government and the business. It also tries to clarify the boundaries of power through legislation, such as establishing the "one window" system for corporate registration and other systems to reduce administrative barriers and rent-seeking space. But from a practical point of view, the reform measures or adjustments do not make obvious achievement. Apart from formal or legal stipulations, plenty of informal institutions are in fact adjusting the economic relations. Of course, the fact may be attributed to the unsatisfactory environment or regulations for market economy. Some

3 <http://www.ras.ru/news/shownews.aspx?id=20dd5b1f-fe3a-456f-8024-519592234c63>

Russian scholars suggest the Russian government replace the power of the regional governments to break the former relationships between the politics and the business, and the Russian government remarkably reduce the administrative barriers if it wants to build a normally-running market mechanism (game rules). ■

XUE FUQI

Professor
Institute of Russian, Eastern
European and Central Asian
Studies
Chinese Academy of Social
Sciences
Beijing, China

Pan-European Institute

BALTIC RIM ECONOMIES

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NIS HØYRUP CHRISTENSEN & ARI KOKKO

Chinese FDI in the Nordic and Baltic countries

Expert article • 2336

China has been high on the European debate agenda for a long time, although the focus of attention has shifted gradually, in line with the development of the Chinese economy. Twenty years ago, the debate concerned the effects of increased offshoring of labor-intensive manufacturing to China. Ten years ago, China was recognized as a major destination for exports and market-oriented FDI. Now, attention has turned to outward FDI from China. Over the past few years, China has emerged as a major outward investor and the leading Chinese enterprises have become global players, adding market-seeking and strategic FDI in Europe, the US, and Japan to their list of international activities. This development is not only driven by growing firm-specific capabilities and ambitions, but also supported by national policy. Since the late 1990s, Chinese firms have been encouraged to “Go Global”, initially to secure access to raw materials, but with gradually stronger emphasis on market access and the acquisition of technology, brand names, and other strategic assets. FDI has also become a favored alternative to low-yielding US government bonds when China’s massive trade surpluses are reinvested. The Belt and Road Initiative (BRI) from 2013 has added compelling political motives for FDI in infrastructure and other investments aiming to integrate the Chinese and European economies.

The wave of Chinese FDI has also reached Europe and triggered both hopes and fears among European decision-makers. Since 2011, China has emerged as one of the main foreign investors in the EU, and governments across the region are now competing to attract more Chinese capital. Yet, worries related to China’s strategic investment objectives (heightened by the fact that much of Chinese FDI is carried out by SOEs) have resulted in calls for new security screening measures and protection from unfair competition.

The Nordic and Baltic countries have also been affected by these contradictory sentiments, but less so than many other parts of Europe. One reason is that the region has not been the main target of Chinese FDI flows. Accurate statistics on Chinese FDI are scarce and inflows vary widely from year to year, depending on individual transactions. The Nordic countries have been visible in aggregate data only in connection with events like Geely’s acquisition of Swedish Volvo in 2009, Tencent’s investment in Finnish gaming company Supercell in 2016, and a series of acquisitions of Norwegian energy and chemical firms by CNOOC and BlueStar since 2008. So far, Chinese FDI in the Baltics has been small but there are hopes, particularly in Lithuania, that the BRI will result in Chinese FDI in infrastructure and logistics.

This pattern of FDI reflects the investment motives of Chinese firms, with technology, R&D, and market access at the center. Bilateral political relations appear to be less important. A comparison between Denmark and Norway is instructive. Denmark is arguably best-in-class when it comes to the bilateral relationship with China, with strong diplomatic presence in Beijing, a formalized Sino-Danish strategic partnership since 2008, with collaboration in areas like climate, energy, and environment, and a joint Sino-Danish university

in Beijing. However, despite these efforts, Chinese investment remains small, not even reaching one percent of the stock of inward FDI in Denmark. The simple reason appears to be that there are few acquisition targets of suitable size and quality in Denmark – the Danish ownership structure, with many foundation-owned companies, also complicates acquisitions. Meanwhile, the Sino-Norwegian relationship was frozen for several years after the Chinese human rights activist Liu Xiaobo received the Nobel Peace Prize in 2010. Yet, Chinese SOEs continued investing billions of Euros in Norway. There is little support for the belief that Chinese investments are politically motivated or centrally orchestrated by top-leaders in Beijing. All countries in the region spend substantial resources on promoting Chinese investment inflows – it seems wise to focus these promotion efforts on commercial rather than political arguments.

Critical views regarding increasing Chinese FDI have been heard also in Nordic and Baltic debates – in particular, observers have pointed to security concerns and the lack of European access to many of the same industries that China targets in Europe – but there is not much general support for tougher EU-wide restrictions on Chinese FDI. Apart from the free-trade oriented policy preferences in the region, it is clear that the largely positive experiences from past acquisitions are important. For example, Volvo has thrived under Chinese ownership, with Geely providing significant funding for R&D and production in Sweden. China should have an interest in sustaining a welcoming investment climate in the EU. The best strategy for achieving this is perhaps to make sure that Chinese investors in Northern Europe continue acting in a responsible manner, confirming that Chinese FDI remains a win-win proposition. ■

**NIS HØYRUP
CHRISTENSEN**Assistant Professor
Asia Research Centre
Copenhagen Business School
Denmark**ARI KOKKO**Professor, Director
Asia Research Centre
Copenhagen Business School
DenmarkEmail: ako.int@cbs.dk

GALINA GAVRILKO

Chinese version of the Marshall Plan

Expert article • 2337

In the West, China's new attack within the framework of the Belt and Road Initiative is called a Chinese version of the Marshall Plan. At the current stage, B&R is not only an investment strategy but rather a geopolitical strategy. By means of the infrastructure created along the ancient Silk Road it suggests not only stimulating bilateral trade and economic relations in South, Central and West Asia, Central and Eastern Europe and boosting China's direct foreign investment and trade but also strengthening the influence of the country in this gigantic region.

The following major investment projects are envisaged in the Silk Road Economic Zone.

Railway project. China is the world's most important manufacturer of equipment for high-speed railways. The length of its own high-speed railway lines is 18,000 km, ranking first in the world both in terms of volume and speed, and the created capacities should be turned to the construction of these roads abroad. The Chinese believe that now is a favorable moment for the promotion of Chinese railway equipment along the Silk Road. The project will contribute to the improvement of the weak transport infrastructure in Central Asia and Eastern Europe.

Marine project. China offers the Marine Silk Road of the 21st century. For this purpose, the country has rented part of the Port of Darwin in Australia, part of the port of Gwadar in Pakistan and has signed an agreement for the port construction in Algeria. China has taken up 67% of shares in the Greek port of Piraeus and launched the construction of a container anchorage terminal in Canada.

Nuclear project. China began developing nuclear power industry late, and today only 2% of electricity is generated at nuclear power plants (France - 78%, South Korea - 35%, the United States - 19%). In China, 8 nuclear power projects are planned for a total cost of about \$ 80 billion (43% of the world's nuclear power plants under construction are located in China). In 2020, China plans to produce 58 million kW at 110 nuclear power plants. According to the IAEA forecast, in the next 10 years, 60-70 nuclear power units of high power will be built all over the world not counting the PRC. According to preliminary estimates, the nuclear power market in the world will reach \$ 150 billion, and China can get a significant share of it. Chinese companies plan to build 30 nuclear reactors in the countries of the Silk Road by 2030.

Electronic project. The success of the Chinese retailer Alibaba (in 2013, its turnover exceeded the total turnover of American e-commerce pioneers eBay and Amazon) makes the Internet economy an important priority for the period from 2016 to 2020, and the B&R project will help Alibaba go to the countries of Central Asia and Eastern Europe more actively and make shipping cheaper and the delivery speed higher.

For China, the EAEC countries are mostly suppliers of raw materials and fuel and energy resources, as well as a market for the sale of finished products. Trade between China and the EU has a fundamentally different character, which is expressed in the predominance of non-resource-based goods with high added value in the trade structure. European countries sell mainly technically sophisticated goods to China (cars, aircraft, spare parts, electric machines and equipment, tools, microcircuits, etc.), pharmaceutical and chemical products, as well as metal waste and scrap. The basis of China's exports is mechanical and electrical machinery and equipment, clothing and footwear, furniture, photo equipment.

It is also important to note the difference in the scale of the markets of the EAEC and the EU for the PRC. While the market of the Eurasian Economic Union is 3% of China's export sales, the European market -17%, for imported supplies, this ratio is respectively 3 and 12%.

Thus, starting from the declared goals of the One Belt, One Road strategy, there are several directions for the involvement of the Republic of Belarus in the project:

- participation in the creation of a modern transport and logistics infrastructure, oriented towards the development of the appropriate trends of services to ensure the efficient delivery of predominantly non-resource-based goods from China to the EU, and vice versa;
- development of assembly and packing plants in Belarus, initially focused on Chinese components and raw materials, followed by localization, and supplying products to the markets of the EAGE and the EU countries. ■

GALINA GAVRILKO
Professor, PhD
Department of International
Relations
Belarusian State University
Belarus

KONSTANTINAS ANDRIJAUSKAS

The Baltic States and China's infrastructure push: appreciation of insecurities

Expert article • 2338

This year the three Baltic states of Estonia, Latvia and Lithuania are celebrating a centenary of their modern statehood. The period was marked by later interwar attempts to remain independent during a power struggle between two totalitarian regimes of the USSR and the Third Reich, almost half a century of the Soviet occupation, full embrace of a fortunate window of opportunity leading to their liberation, integration into the Euro-Atlantic political and economic community, and several years of remarkable "tiger"-style growth, moderated since the global financial crisis of 2007–2008.

On the other end of the Eurasian landmass, a resurgent China proved to be surprisingly resistant to the Great Recession across the world, and apparently has gradually come to a conclusion that the often-quoted advice to "keep a low profile and bide its time" left by Deng Xiaoping to the future generations of the party-state's leadership expired. The relative assertiveness in its maritime territorial disputes since 2010 has been supplemented and counterbalanced by new multilateral megaprojects addressing China's domestic and foreign comprehensive development needs. The flagship Belt and Road Initiative (BRI) was first unveiled in late 2013, and is widely considered to be a personal grand design by Xi Jinping, the party-state's most powerful leader since Deng or even Mao Zedong himself. By focusing on connectivity provided by critical hard infrastructure (particularly transportation, telecommunications and energy transmission), the BRI aims to build upon China's recognized qualitative advantages a "grand strategic" blueprint that would eventually allow it to realize Xi's peculiar "dream of Chinese rejuvenation", widely interpreted as none other than (re-)establishing the "Middle Kingdom's" correspondent position in the world affairs, although this time not only figuratively, but also quite literally through railways, highways, fibre optic cables and pipelines.

The European Union (EU) as China's largest trade partner is a logical final destination for many of the BRI-related projects, although a plethora of socio-political, economic and security risks have to be addressed in order for them to succeed. The three Baltic states are the only ones to share a peculiar experience of former (coercive) belonging to the USSR and current (voluntary) membership in both the EU and China's 16+ format, established short before the initiation of the BRI to pursue deeper relations with post-socialist states in "Eastern" Europe. Although Estonia, Latvia and Lithuania lack in numerous competitive advantages in comparison to most of their fellow thirteen Central and Southern European partners within the latest format, such an experience forces them to be especially sensitive in matters related to critical infrastructure.

Indeed, besides other things, the Soviet rule in the Baltics was characterized by build-up of what I call "hegemonic interconnections", or tightly-knit links between the quasi-imperial centre in Moscow/Russia and its distant regions based precisely on transportation, telecommunications and energy infrastructure. The dissolution of the USSR, although much less violent than that of Yugoslavia, also witnessed military blockades of transport hubs and gateways, and economic blockades of energy delivery, most infamously used as a punishment against the first republic to break off, Lithuania. Hegemonic interconnections proved to be a source or at least an important supplement of many post-Soviet transnational issues, ranging from the Baikonur Cosmodrome in Kazakhstan to the multi-dimensional problem of Crimea. Russia as the successor of such "infrastructural privilege" retained plenty of incentives for its influence projection by these means.

In the case of the newly independent Baltic states, each of them acquired additional specific traits. Estonia's emergence as one of the most digitalized countries in the world is a justifiable source of pride, but also potential threats, as was clearly shown by the 2007 cyberattacks during the Bronze Soldier controversy. Latvia as the country with the largest proportion of ethnic Russians is widely recognized as most prone to manipulation of telecommunications and propaganda attacks. And Lithuania is a special case due to its border with the Kaliningrad exclave. All of the Baltic states are particularly sensitive about energy security, and observe closely the Ukrainian crisis, familiar for its economic, cyber- and information warfare as well as struggle for control of major transportation hubs.

To conclude, China should be aware of the Baltic states' experience. Not only would it provide Beijing with much needed appreciation of local insecurities, but also offer important lessons that could be applied while pursuing its infrastructure push to other places across Europe and the rest of the world. ■



KONSTANTINAS
ANDRIJAUSKAS

Associate Professor
Asian Studies and International Politics
Vilnius University
Lithuania

Email: konstantinas.andrijauskas@tspmi.vu.lt

ENN LISTRA

Slowing leaptigers contested by skilled elephants

Expert article • 2339

People in many countries of former socialist block have at present the highest standards of living over their countries' histories. The countries achieved this development during two decades surrounding the year 2000 and the growth rates of GDP per capita have been remarkably higher in Baltics and Visegrad compared to the neighbouring bigger and more advanced economies. The rate of convergence has recently decreased and the relative competitiveness has deteriorated despite of rankings achieved in competitiveness tables. It is unclear whether the countries can sustainably continue with the existing development model.

There are many causes behind this growth story. Most visible of these factors are the amounts of domestic and foreign investment and changes in human capital, mostly learning by doing. However, the most important factor of fast growth has been the economic transformation itself. Many institutional and structural reforms improved productive organisation of countries being the most important value-creating factor. Adaptation to changes and learning of how to benefit from the new environment took their time.

However, the growth rates in these "tiger" countries have been lower during recent years only marginally exceeding the growth rates in bigger and slower "elephant" countries. The institutional and structural changes boosting growth seem to have exhausted their marginal ability to create excess value compared to stable economies. The productivity has increased mainly because of the introduction of new processes and because of the investments. The changes in human capital have been more modest in relative terms.

In the beginning of reforms new ways of intermediation of goods (buy-sell-exchange strategy) and creating simple production of simple products under the huge unsatisfied demand were creating value and became the basis of first business successes. Frequently, special skills and knowledge were not needed to over-perform old socialist units of production. Success stories during this period created widespread feeling that economic and business processes are simple, starting the business brings success almost automatically and that no special skills and knowledge are necessary. Discussions about the higher education policy in these countries still tend to stress the need for technical skills in engineering and IT as priorities and to leave aside organisational and business skills, as somewhat unimportant.

Several problems in economy create slowdown. The ability to cooperate is much lower than in developed countries, the decision makers have remained the same for a long time, in many cases the educational background of decision makers does not fit with the requirements of the new environment, and the economic environment itself is increasingly sophisticated.

The problems are most visible in the case of cooperation between enterprises. The low level of disclosure of information to the partners is a big obstacle for optimising joint business processes. Internal planning and coordination of activities inside the firms requires much more attention compared to their present level.

As the decision makers have been widely the same during last decades, the subconscious idea of simplicity of business has wide support in societies. It brings about continuing attempts to apply simple solutions with the premise that processes themselves can be easily influenced by the decisions of managers. Another problem is that success-creating patterns of behaviour from the transformation period are carried over to present environment.

In addition, the special skills needed in today's environment are not valued on the level that is necessary for excellent performance. The economies are much more complicated, they are part of common economic area with free movement of factors of production and goods. The abysmal demand of the beginning of transformation has been replaced by the fierce international competition by the huge amount of skilled firms from older developed economies that supply the abundance of goods.

The long-term slowdown of these economies is unavoidable if the problems persist. Fundamentally, there are two ways to boost the growth. The first possibility is to find unused factors in societies and the second is to work with existing problems.

The possibility to overcome the existing and persisting problems is (life-long) education. The countries must reshape their priorities and turn to the balanced approach to education policies. Internationally oriented high-level business education should be one of the priorities in these countries. Continuing the use of old models, denying the need of specific business skills and knowledge, weakness in International networks and low ability for cooperation are major problems in complex economies.

The countries have started their economic leap as (small) tigers. They should take care that the jump would not end with the frog's landing. Only persons and organisations with new high-level skills can increase the competitiveness in new much more developed and complicated world. ■



ENN LISTRA

Professor, Dean
School of Business and
Governance
Tallinn University of Technology
Estonia

VELLO PETTAI

Taking stock of Estonia's political left turn

Expert article • 2340

For two decades, observers of Estonian politics remarked upon how limited the country's political landscape seemed to be with one of its largest parties – the Center Party – perpetually relegated to the opposition because of a rejection of what seemed to be its pro-Russia sympathies, the overbearing style of its leader Edgar Savisaar, endemic reports of corruption among its officials in the Tallinn city government, and its general call for a shift away from Estonia's long-standing market liberalism.

Despite polling regularly between 23 and 27 percent of the vote in national elections, the party was rejected as 'uncoalitionable', so long as it didn't clean up its act – at least in the minds of its competitors. Instead, political weight coalesced around the center-right liberal Reform Party, which billed itself as the main competitor to the Center Party and consistently became the lead governing party for more than a decade beginning in 2005. Other parties, such as the conservative Pro Patria and Res Publica Union (PPRPU) or the center-left Social Democratic Party (SDE), knew that they could only team up with the Reform Party. It was a revolving door in terms of which of these two parties became the Reform Party's partner. This was the margin of maneuver in Estonian politics.

In November 2016, all of this changed. Challengers to Edgar Savisaar in the Center Party finally succeeded in pushing him aside, and a new generation of leaders took over. At the helm was now the 38-year-old Jüri Ratas, long a deputy-speaker of parliament and one-time Mayor of Tallinn, together with two other young musketeers Kadri Simson and Mailis Reps.

With almost breakneck speed, the winds of Estonian politics reversed completely. Both the SDE and the PPRPU saw their opportunity to break loose from their dependence on the Reform Party. They announced their departure from the existing government run by the Reform Party leader Taavi Rõivas. They quickly struck a deal with the Center Party to make Jüri Ratas prime minister. And within the space of a month Estonia had what seemed to be its first, mainly center-left government since re-independence in 1991.

How has Estonia's 'left turn' fared? To be sure, having the current government include the conservative PPRPU has meant a range of compromises. One of them was a November 2017 decision to slow the increase of excise taxes on alcohol, which the SDE in particular had been pushing for as a measure to improve national health, but which also led to considerable alcohol tourism to neighboring Latvia, where prices were up to a third cheaper. The result was a marked decrease in excise tax revenues, forcing the government to re-think its zeal on this issue.

Another coalition compromise was to implement an important income tax reform, raising the base tax deduction for lower incomes, but also phasing it out completely for higher incomes. Thus, while in theory the reform did not end Estonia's venerable flat-rate income tax policy (pushed by the PPRPU already in the 1990s), it did introduce an important gradation into the system, making higher wage earners pay more than before.

In 2017, the government also approved a long-planned pension reform making future pension rates more linked to a person's number of years in employment as opposed to their earned income. This

would make the system more equitable across all retirees. Lastly, the government has pushed for increases in teacher's salaries, a renewed focus on Russian minority integration programmes, and an expansion of public transport subsidies.

On foreign and security policy, the government has held firm to Estonia's established pro-NATO and pro-EU orientation – not least with Estonia taking up the EU's rotating presidency during the second half of 2017. Prime Minister Jüri Ratas has also firmed up his party's previously somewhat equivocal stance on Russia, saying that relations with Estonia's eastern neighbor will not normalize so long as issues involving Ukraine and other Russian threats are not dealt with.

Meanwhile, within the Center Party Ratas began a slow clean-up. In this he was helped by Edgar Savisaar himself, when Savisaar decided to form his own electoral list for municipal elections in October 2017. Not only did Savisaar's list prove to be a failure, it also allowed Ratas to throw out from the Center Party all of his followers for disloyalty. This bode well for Ratas's second internal political front – reducing patrimonial politics and corruption in the Center Party-controlled Tallinn city government. Here, Ratas would rely on the new mayor of Tallinn, Taavi Aas, to tighten up the party's behavior. However, because the Center Party retained an absolute majority in the Tallinn city council after the election, it would be difficult to bring more openness to that system.

As Estonia entered its centenary independence year in 2018, it was not just national pride or goodwill that were likely to keep the country's center-left parties in power. After having had the Center Party not only in government, but literally in the prime minister's chair for over a year, Estonia saw that having a moderated left turn in politics did not mean a wholesale cataclysm. Even leaders of the opposition Reform Party acknowledged that the coalition was likely to hold until the next parliamentary poll in March 2019.

By that point, however, Estonia's political landscape would enter an entirely new form of competition with two strong and now equally credible parties – the Reform Party and the Center Party – vying to play the lead fiddle, while the remaining parties would be able to choose equally, whether to lean left or right. A new balance in Estonian politics was beginning to take hold. ■



VELLO PETTAI

Professor of Comparative Politics
Johan Skytte Institute of Political
Studies
University of Tartu
Estonia

HENNING STEN HANSEN, LISE SCHRØDER & MICHAEL KULL

BONUS BASMATI

Expert article • 2341

Maritime Spatial Planning (MSP) arose in the beginning of the millennium both as a response to shortcomings in protecting the marine environment and to increasing competition for marine space while simultaneously and sustainably utilizing the opportunities for economic growth based on marine resources (e.g. Kerr et al., 2014¹). Recently, blue growth has become a long-term strategy for European marine and maritime sectors and is highlighted in the EU Strategy for the Baltic Sea Region (BSR). While improving the environmental status is a key priority, conflicts between economic sectors need to be addressed, especially with the emergence of new activities in the Baltic Sea.

New ways of exploiting the sea include aquaculture, marine mineral resources, and marine biotechnology - rapidly growing areas supported by the EU Strategy for growth and jobs. Coastal and maritime tourism, cruise tourism and recreational activities are increasing, too. In order to enable to manage and plan these trends sustainably and in a coherent manner, the European Commission adopted the Directive on establishing a framework for maritime spatial planning in 2014. Thus, through the allocation of marine space based on an ecosystem-based approach and integrating different interests, maritime spatial planning (MSP) has become an important basis for decision-making. On that background, the overall objective of the BONUS BASMATI project is to develop integrated and innovative solutions for MSP from the local to the Baltic Sea Region scale. This is to be realised through multi-level governance structures and interactive information technology aiming at developing an ecologically and socio-economically sound network of protected marine areas covering the Baltic Sea.

Based on the results of former MSP projects, the BONUS BASMATI project sets out to analyse governance systems and their information needs regarding MSP in the Baltic Sea region in order to develop an operational, transnational model for MSP, while maintaining compliance with existing governance systems. It also develops methods and tools for the assessments of different plan proposals, while including spatially explicit pressures and effects on marine ecosystem services in order to create a spatial decision support system (SDSS) for the Baltic Sea region to facilitate broad access to information: The 'Baltic Explorer'.

The 'Baltic Explorer' tool will be developed and built on interactive information technology. It will support an ecosystem-based and integrated approach to maritime spatial planning and take advantage of the interdisciplinary partnership in the project team, combining competences from natural, social and technical sciences. While the 'Baltic Explorer' will support the collaborative setting of values for different uses of marine space, it will also facilitate the negotiations between the regional stakeholders.

During the project running until 2020, new data will be produced and tested in assessments corresponding to policy goals. The data will support analysis regarding ecosystem services: provisioning, regulating, and cultural services. A central aim of the project is to facilitate cross-border collaboration and the project is carried out in close cooperation with relevant stakeholders in the Baltic Sea Region. The impact of the project will be facilitated and assessed in transnational case studies, where integrated solutions are required. The local scale will consist of case study areas in the South-West Baltic, the Latvian territorial and EEZ waters including open part of the Baltic Sea and the Gulf of Riga, and across the region, a pan-Baltic case study will be performed.

Project partners:

Denmark: Aalborg University (coordinating partner) and Aarhus University

Latvia: Latvian Institute of Aquatic Ecology, Riga

Finland: National Land Survey of Finland, Helsinki, and University of Turku

Germany: Leibniz Institute for Baltic Sea Research Warnemünde, Rostock

Sweden: Nordregio, Stockholm

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BONUS BASMATI homepage: www.bonusbasmati.eu
www.bonusprojects.org | www.bonusportal.org/basmati ■



HENNING STEN HANSEN
 Coordinator, BONUS BASMATI
 Professor
 Department of Planning
 Aalborg University Copenhagen
 Denmark



LISE SCHRØDER
 Co-coordinator, BONUS BASMATI
 Associate Professor
 Department of Planning
 Aalborg University Copenhagen
 Denmark



MICHAEL KULL
 WP Leader, BONUS BASMATI
 Senior Research Fellow
 Nordregio
 Sweden

Adjunct Professor
 University of Helsinki
 Finland

¹ Kerr, S., Johnson, K & Side, J.C. (2014). Planning at the edge: Integrating across the land sea divide. *Marine Policy* 47: 118-125.

THOMAS BACKHAUS

Chemical pollution of the Baltic Sea – a brief overview and assessment

Expert article • 2342

The Baltic Sea is one of the world's most contaminated regional seas, as it is enclosed by heavily populated areas and only has a limited water exchange with the North Sea. It is hence not surprising that monitoring efforts often detect unacceptably high levels of legacy pollutants such as DDT, dioxins, PCBs and various heavy metals, even these days. Toxic chemicals also continuously enter the Baltic Sea via atmospheric deposition, agricultural run-off, discharges from sewage treatment plants and other land-based emission sources. Additionally, shipping activities emit chemicals into the Baltic Sea, e.g. in gray- and black-water discharges, leakages from antifouling paints, accidental or even deliberate oil spills, and engine exhausts. In order to get a feel about the scope and complexity of the issue one only has to look at the list of roughly 2 700 potential marine contaminants, most of the relevant for the Baltic Sea, that the European Commission's Joint Research Centre recently compiled. And still, this list excludes many of the so-called "emerging pollutants", such as pharmaceuticals and personal care products.

The brackish nature the Baltic Sea renders it vulnerable to the effects of chemical pollution, as many marine organisms live at the very limit of their adaptability. Observed effects of chemical pollution include, amongst others, embryo malformations in amphipods, re-appearing egg deformations in sea eagles, lead poisoning of white-tailed sea eagles and imposex in marine gastropods. Also the limited suitability of fish caught in the Baltic Sea for human consumption, due to excessive concentrations of dioxins, dioxin-like PCBs and brominated flame retardants, causes concern.

Nevertheless, several positive trends have been observed in previous years, e.g. declining concentrations of methylmercury in mussels, fish and top-level predators. Local impacts caused by point sources (e.g. effluents or oil spills) are often well known and appropriate measurement and management methods are usually at hand. Due to biomonitoring efforts, we also get a better and better overview of the toxic body burden in various organisms, and monitoring studies using molecular biomarkers give indications of the potential physiological effects of chemical exposure.

However, cause-effect relationships that directly connect chemical exposure with overall ecosystem health remain elusive. Unravelling such links is challenging especially in the complex and dynamic system of the Baltic Sea, with its steep salinity gradients from the marine area of the Skagerrak-Kattegat region to the semi-limnetic conditions in the inner parts of the Gulf of Bothnia and Gulf of Finland, and its large seasonal changes in water temperature.

Ecosystem diagnosis therefore remains a major challenge, i.e. the retrospective identification and quantification of links between observed ecological impacts and the cocktail of pollutants that moves the system away from a good environmental status. New effect-based monitoring tools, high-throughput screening methods, molecular (OMIC) technologies and prospective mixture-modelling approaches provide promising new venues for unravelling the interlinkages between chemical exposures and environmental consequences.

Due to its underlying chemical, ecological and hydrological complexity, assessing the impact of chemical pollution is already a daunting task in itself. However, in the end, we nevertheless need to go further. Marine life in the Baltic Sea and elsewhere is rarely, if ever, exposed to chemical stressors alone. Instead, marine organisms are

exposed simultaneously to a variety of stressors, including broad-scale unmanaged stressors (e.g. temperature increases and ocean acidification as climate change consequences), as well as local, managed stressors (e.g. noise from underwater installations and shipping). The joint impacts of such complex multi-stress situations is often higher or even qualitatively different than the impact of

the individual stressors. We therefore need to develop and validate assessment and management approaches that adequately consider multiple stressors and their cumulative impacts.

Up-to-date scientific knowledge is an indispensable prerequisite for adaptive management, easily the most effective approach for a highly dynamic, multi-stressed system such as the Baltic Sea. Also, only by understanding the causal chain of events from chemical exposure to ecological effects will we be able to envisage future developments. Thus, if we want to be pro-active rather than merely reactive, we need to commit to continuous monitoring efforts and scientific research in the Baltic Sea. It is the only option to avoid intuitively appealing, seemingly straight-forward but utterly wrong short-term solutions that cause massive problems in the long run. ■

Up-to-date scientific knowledge is an indispensable prerequisite for adaptive management, easily the most effective approach for a highly dynamic, multi-stressed system such as the Baltic Sea.

THOMAS BACKHAUS

Professor
Department of Biological and
Environmental Sciences
University of Gothenburg
Sweden

VLADISLAVA VLADIMIROVA

The green economy in Russia

Expert article • 2343

The green economy has become a key global paradigm in climate change politics and in economic development. It prioritizes low-carbon, resource efficient, and socially inclusive practices, and seeks to generate economic growth through public and private investments while at the same time reducing carbon emissions and pollution, enhancing efficient use of energy and resources, and preventing the loss of biodiversity (UNEP, 2011).

Russia has signed more than one hundred international documents in support of the green economy, including UNEP (2013), when it also contributed US\$1.5 million to the Environment Fund. UNEP is also the Program Coordination Agency for the Arctic Agenda 2020, a Russian-government project that aims to develop long term Sustainable Environmental Management in the Russian Arctic under conditions of Rapidly Changing Climate¹ (Facility, 2009). Russia is also expected to ratify the Paris Agreement that came into force 4th November 2016, but will not do so earlier than 2019, after agencies have assessed its socio-economic effects. The Russian commitment will be to reduction of greenhouse gas emissions to 70% of the 1990 level by 2030.

Reports about the Russian green economy, including those from UNEP's advisory service to the Russian Federation, are optimistic, and agree that thanks to its extensive natural resources and current economic growth, Russia has "a favorable opportunity" to even "take a leadership role" in the global green economy (UNEP 2011). Favorable conditions for Russia's green sector exist in a number of spheres, such as wind energy, agriculture, forestry, and tourism (Porfiriev, 2013, p. 10). Russia has also a role as a 'supplier' of natural areas like forests and tundra, defined in terms of ecosystem services. Fully 65% of Russia's territory can be described as natural, and the country encompasses 22% of the world's natural forest resources (UNEP). Representatives of the country have already raised questions about possible economic compensation for the ecosystem services that Russia provides the rest of the planet (Centre, 2011).

The European Environment Agency emphasizes that green economy assessments in each state should give different weights to different areas of action. Expectedly, energy and fossil fuel are central concerns in regard to Russia, where the energy sector is the foundation of the economy, as well as the primary cause of pollution and natural degradation (Agency, 2011, pp. 113-114). Thus, the most important measures being sought are the increase of energy efficiency and of the energy conservation sector, and the development of renewable energy sources. At the moment, the energy inefficiency of the country equals the annual consumption of France (Centre, 2011). Hindrances to the fulfillment of green economy objectives include the predominance of export production, ineffective political and administrative instruments for enforcement, poor coordination in management and environmental monitoring, vague legal language with unclear responsibilities, and finally inadequate financial and

informational support (Centre, 2011, pp. 56-57). Russian analysts are critical of the political system in which the national economy and political power are largely controlled by extractive industry elites, the oligarchs (Danilenko 2013; Zakharova 2015). The green economy is perceived as a threat to the interests of the energy sector and consequently to the policies of the state that derives its resources and authority from it (Gushchina and Badrak 2013). In Russia, strong forces prevent the efficient political participation by civil society that is crucial to promoting the green economy. The state thus needs to develop the necessary legal, political, administrative and economic resources to facilitate greening the economy (Kuzhelev 2014; Zakharova 2015).

The green economy is a relatively new term and receives little attention inside the country (Zakharova 2015). Russia sits in very low positions in international rankings of environmental policy (Kravchenko 2009). Local scholars explain this as the result of the post-Soviet economic crisis, but such explanatory rhetoric favors continued inaction by political and business stakeholders (Pakhomova, Rikhter, and Malyshev 2013: 119).

Two concepts summarize the key processes of green economy ideology in Russia: green growth and modernization. Although these are also part of global trends, what is noteworthy is the extent to which Russian activities tend to neglect other dimensions of the green economy, such as nature conservation, sustainable agriculture, waste management and recycling, and urban planning. Green growth appears in the government-commissioned report from 2012, *Strategy 2020: new growth model – new social policy*. The document aims at reorganizing the Russian economy, and it tackles green growth in the subsection about environmental protection and ecological security (pp. 421-423). The main stress is on the principle of "double benefit" through which solving socio-economic problems also lead to positive environmental effects, but provisions for specific actions are not included (Mau and Kuz'minova 2013).

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¹ The Russian domestic Strategy for Arctic Development, signed by Putin in 2013, however, pays attention first and foremost to the economic exploitation of the region, promoting a vision of it as 'an enormous store of carbon fuels' that people can extract and process through large scale investment projects in order to insure the wellbeing of the whole country (Dmitriev, 2013). The strategy tackles economic development primarily through expansion of oil and mineral resource extraction, supporting scientific exploration in service of the oil and mining industry, improvement of the transport and communication systems, and militarization in service of national security. Environmental security is listed as one of the areas of development, with suggested measures in terms of scientific, ecological, and economic innovations which would enable nature security in the context of the future planned intensification of economic exploitation (Strategy, 2013).

VLADISLAVA VLADIMIROVA

Associate Professor

Uppsala University

Sweden

Email: Vladislava.vladimirova@ires.uu.se



JØRGEN JØRGENSEN

European Humanities University – bridging Belarus to Lithuania and the West

Expert article • 2344

Following the collapse of the Soviet Union, liberal thinking and free academic development suddenly became real alternatives to the former dogmatic traditions of Communism. As a result, liberal arts universities were established among others in St. Petersburg, Budapest and Minsk.

The European Humanities University (EHU) was established in Minsk in 1992 by the renowned Professor of Philosophy Anatoli Mikhailov. The mission of EHU was to develop free and critical thinking and bring Belarusian academia back to Western academic tradition. While operating in Minsk, EHU managed to educate 850 graduates.

The activities of EHU were not appreciated by the Lukashenko regime, however. The goal of EHU is to educate independently thinking youth in a way that was not supportive of the ruling regime resulted in a decision by Mr. Lukashenko personally to close down the University in 2004.

However, the closure of the Minsk facilities of EHU did not deter its Rector, Professor Mikhailov, and his dedicated fellow faculty members from continuing to promote and develop the University. Thanks to a generous offer from the Lithuanian Government, EHU was reestablished in Vilnius in 2005 and was thus able to continue its struggle to bring Belarus back to the Western intellectual tradition in the fields of humanities, social sciences, and arts.

For 13 years of its operation in Vilnius, EHU has educated a significant number of mostly young Belarusians. 2124 of them have graduated from EHU as Bachelors, Masters and PhD's. In its activities, EHU adheres to the Bologna process and is regulated by Lithuanian legislation. At the present moment, EHU has 850 active students, half of which study in Vilnius and the other half study low-residency programs from Belarus with some activities taking place in Vilnius. The University offers 9 unique study programs in humanities, social sciences and arts and as an active research center, EHU has established 8 research centers. 95% of the EHU students are Belarusians while the remaining 5% mostly come from other Eastern and Central European countries. The vast majority of faculty are from Belarus. Lithuanian Government has granted EHU a rent-free housing at the campus of Mykolas Romeris University in Vilnius. And in the upcoming months, EHU is going to be relocated to the Old Town in the premises of a former Augustinian monastery, which has been extensively and beautifully renovated by the Lithuanian state. EHU is firmly located in Lithuania, but the mission of EHU continues to be to return – also physically – to Belarus, once the conditions for entirely free academic activities are allowed and encouraged there.

EHU has primarily been financed through Transatlantic donations from governments, organizations, and foundations. Student payment, i.e. tuition fees, represents less than 20% of the income and considering the economic situation in Belarus, this source of income cannot be expected to increase substantially. Whereas the number of donors was significant in the first 20 years of EHU's lifespan, the recent developments in donor-countries have forced them to redirect their financial currents – and unfortunately, not to the benefit of EHU. The European Commission, Sweden, and Lithuania are currently the most generous and solid donors of EHU. Lithuania provides support both in cash and in kind.

Beyond any doubt, EHU portrays a picture of success. More than 60% of the EHU students, who graduated from EHU in Vilnius, returned to Belarus. The majority of them work in private companies, start-ups, organizations, incl. NGOs, and even in public institutions. They are paid above the average salary in Minsk and no less than 90% of them explain their success as a consequence of their education at EHU. This success is possible in spite of the negative demographic and economic situation in Belarus. EHU is something that makes a difference.

Recently, we have observed the deplorable development of our partner Universities in St. Petersburg and Budapest. The pioneer Higher Education Institutions, which entered the academic scene a quarter of a century ago and have been promoting the values of free speech and creative thinking, unfortunately, have to stand against strong powers, who currently have the upper hand. In this context, we can clearly state that the European Humanities University - which celebrated its 25th anniversary in November 2017 - is still a vigorous University committed to struggle to connect the Belarusian people to the ideals of the Western intellectual tradition and civilization. ■



JØRGEN JØRGENSEN

Acting Rector
European Humanities University
Lithuania

VLADIMIR CHAPLYGIN

Russian and Belarus monetary union: experience, problems and perspectives

Expert article • 2345

It is supposed that development of interstate integration processes both in breadth, and deep into brings closer the integrated parties to a certain determinant – a final point of the movement. In practice, however, each stage of integration generates some sort of threshold situation which differs in fundamental uncertainty and within which direct economic incentives of further development of integration processes cease to work or are replaced with anti-incentives. Such effect is well visible on a way from trade integration to a monetary one. Following this logic, after a trade and financial markets integration, a creation of the monetary union is not closer, but very far from the final point. The obligation to maintain a currency transparency by market methods forces the governments to realize vulnerability of national economy and can result in not coordination in realization of interstate monetary policy.

In our opinion, the Russian-Belarus economic association provides complex understanding of the principles of functioning of future currency association between not completely meeting and asymmetric economies. Now we have to note that real mechanisms of association work badly for a number of reasons: 1) the pursued integration policy is connected with the prices and the salary in national states; 2) the declared purposes do not draw any attention upon the achievement mechanisms, and in particular, economic measures of management of inner-union migration; 3) there are no working approaches to unification of tax and exchange systems. The final goal is not yet determined. Understanding of the similar facts is important that without full and volume understanding of all arising problems management of the economic and currency union will be extremely difficult business, but only it is capable to lead to realization of the policy which isn't so strongly depending on factorial movements.

It is possible to assume what to uniform economy of Russia and Belarus will be свойствен the scale effect leading to bigger specialization and price transparency. If it doesn't occur, then losses from specialization of association will be big, than acquisitions from introduction of single currency.

Asymmetry of interstate economic development assumes confrontation of two opposite tendencies: on the one hand, economic systems strive for stability (balance); with another – to variability (balance violation). If the first tendency is caused by communication of social and economic selection (as well as any selection) with the principle of stability, then the second – generation as a result of overcoming old social and economic contradictions of the new contradictions giving an impulse to development. The asymmetry can take place in various spheres of economy of the monetary union: first, in elasticity of the demand / supply of a single currency in various countries of the union; secondly, the leading state of a union (anchor state) is always more subject to deflationary processes, than inflationary; thirdly, in the markets of labor when the former prices dominate over the current, rigidity of the prices levels of demand / supply in the market does not fulfill the needs of the financial stabilization (asymmetry of efficiency of assets in economy).

Before the creation of the monetary union, both Russia and Belarus need to measure all the arguments pros and cons and to designate the position: what will the monetary union bring to an every state. The author considers that if the management of the proposed union will be based on the market principles, the member states will be able to keep and to obtain the benefits from such an association. Should the non-market managerial principles dominate, the possible proposed monetary union will comprehend a fate of a ruble zone of the former Soviet Union. ■

VLADIMIR CHAPLYGIN

Dr. Hab. Econ, Professor
WSB University in Gdańsk
Poland

Email: chaplygin.vladimir@gmail.com

VITALY ZINOVCHUK

Ukrainian agriculture is on the threshold of a cooperative boom

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In accordance with the Law of Ukraine "On Agricultural Cooperation" (1997) the Western type market-oriented cooperatives in Ukraine are defined as servicing cooperatives, though in fact they comprise marketing, purchasing, input supply, service, processing cooperatives and some others. Their special feature lies in the fact that they are set up not for manufacturing the agricultural produce but for providing agricultural producers with services which are linked with their main line of business.

The creation of the legal framework for developing the cooperation was welcomed by Ukrainian agrarians, private farmers in particular. The parallels between developing farm cooperation in Western countries and Ukraine were actively drawn. The historic experience of Ukrainian cooperatives which had existed before the forced collectivization was addressed to as well. Many international projects of technical assistance (incl. countries of Baltic region) for those who were entering the Ukrainian cooperative movement had been started. All this became a certain impulse for a wide acknowledgment of agricultural cooperatives as a component of the agricultural sector market transformations.

The development of agricultural cooperation in Ukraine cannot be considered out of the context of profound transformations which take place in the agrarian sector. On the one hand, the existence of the so-called "critical mass" of independent agricultural producers who can potentially count on getting the synergetic effect of the group interaction might be a favorable prerequisite. According to official estimations Ukraine has about 45 thousand private farmers and about 4.0 million small family plots. The Ukrainian agrarians are participating in cooperative movement because of the necessity to resist the uncontrolled expansion of intermediary (speculative) business as well as ever-increasing aggressive competition on the part of agriholdings.

However, the new Ukrainian cooperatives are still very weak economically. Quite often producers start their joint actions on setting up their cooperative enterprise without any clearly formulated idea, simple business plan, resources and management skills necessary for such a business. They intuitively feel that the cooperation is appropriate but they have no idea how to put their initiative into practice. That is why a great number of Ukraine's new cooperatives are registered only, others are dragging out a problematic existence, and some of them are violating the fundamental cooperative principles, thus turning into a pseudocooperative or even adapting to shadow business.

Despite these negative moments, in the country there is a steady increase in the understanding that agricultural cooperatives are an inherent part of a market economy and a democratic society. There are several facts that support this idea. Firstly, promoting the development of agricultural cooperation is foreseen by the Coalition Agreement of the majority in the Ukrainian Parliament, which is increasingly and essentially considering issues concerning assistance to private farmers and their cooperatives.

Secondly, the Cabinet of Ministers of Ukraine approved the Concept for the Development of Private Farms and Agricultural Cooperatives for 2018-2020 which specifies measures to strengthen the cooperative movement in the agricultural sector. For the implementation of this concept, for the first year, an unprecedented level of state financial assistance has been allocated to private farmers. The government is actively working on creating an effective mechanism for allocating these funds and monitoring the effectiveness of their use.

Thirdly, in accordance with the adopted legislative documents, the government is trying to increase the number of registered private farmers (as legal entities) and motivate them to create their own structures for the marketing of products. To this end, there is an intention to introduce certain restrictions for processors on the purchase of some types of raw products (starting with milk) directly from individuals. It is anticipated that such a policy will have a positive impact on the quality of agricultural raw materials that will be marketed.

The last but not least, the involvement of rural communities into the cooperative movement could be considered another marked achievement in the development of farm cooperation. The above communities are the most important social institute in the rural life which greatly influences the cooperation movement. Under the pressure of current conditions caused by certain destructive processes in the agrarian sector, unfavorable demographic situation and social indifference of the rural population, community-based cooperatives are the most promising instrument of rural development as a whole.

The ever increasing communicative possibilities of the civil society might become a prerequisite and a social environment for the development of agricultural cooperation. These include increasing the number of foreign trips for rural youth, the spread of modern media and media, and open access to the study of foreign experience. The course on agricultural cooperation is taught at Ukrainian universities. More and more research projects are joining the study of common developmental issues. Ukrainian co-operators hope for fruitful cooperation with their colleagues from the Baltic region. ■



VITALY ZINOVCHUK

Dr., Professor, Chairman
Department of Marketing
Zhytomyr National University of
Agriculture and Ecology
Ukraine

Email: zinovchuk@yahoo.com



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