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CORINA CREȚU
The EU Strategy for
the Baltic Sea Region



TANELI LAHTI
Economic reforms –
are they worth it?



ANNE PAASI
University Communications
full of opportunities



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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CORINA CREȚU

The EU Strategy for the Baltic Sea Region

Expert article • 1832

The EUSBSR; an acronym behind which you will find the will of the eight countries that make up the Baltic Sea Region – Sweden, Denmark, Estonia, Finland, Germany, Latvia, Lithuania and Poland – to pool their resources together and find joint solution to common challenges. Through the EU Strategy for the Baltic Sea Region, these eight countries benefit from enhanced cooperation contributing to the achievement of economic, social and territorial cohesion, with the participation of non-EU countries from the region – Belarus, Iceland, Norway and Russia – in projects of common interest.

The EU Strategy for the Baltic Sea Region is a macro-regional strategy, the first of its kind. It has become one of the main tools for the region to reach the objectives of the Europe 2020 Strategy, and now it is also key to deliver on the priorities of the Juncker Commission, namely the Digital Single Market, the Energy Union or the growth and job creation targets of the Investment Plan for Europe.

Approved by the Council in 2009, the success of this new framework paved the way for new macro-regional strategies to emerge throughout Europe - the EU Strategy for the Danube Region, for the Adriatic and Ionian Region and, very recently, the EU Strategy for the Alpine Region.

The main objectives of the EU Strategy for the Baltic Sea Region are threefold: the first one, "Save the Sea", aims to ensure clear water in the sea, a rich and healthy wildlife, especially with the reduction of emissions of the nutrients, and safe shipping.

The second, "Connect the Region" will improve regional connectivity, not only with sound transport systems, but also with reliable energy markets and the creation of links between the region's inhabitants, and between generations.

Finally the third objective, "Increase prosperity", focuses on boosting the global competitiveness of the Baltic Sea Region and adapting to climate change.

And for the past six years, the EU Strategy for the Baltic Sea Region has delivered on each of these objectives, for the direct benefit of its 85 million citizens. The examples are abundant; I will mention one, the creation of the "Baltic Sea Region Stars" project. It perfectly embodies the Strategy's ambition to link research institutions, clusters and SME networks into innovative hubs, able to give the region the competitive international position it deserves.

A macro-regional strategy like the Strategy for the Baltic Sea Region does not come with new EU funding. It primarily functions on the active involvement and leadership of its stakeholders at local and national level. But the European Structural and Investment Funds are here to support the Strategy's achievements.

For the 2014-2020 programming period, the new transnational programme for the Baltic Sea Region is worth more than €260 million from the European Regional Development Fund and directly supports macro-regional cooperation. In addition to this programme, more than

10 cross border cooperation ("INTERREG") or transnational programmes will contribute, directly or indirectly, to the implementation of the EU Strategy for the Baltic Sea Region.

In an ever-changing global context, the region, its needs and its priorities are evolving and the Strategy has to evolve with them. That is why on 16 June a revised Action Plan was presented at the 6th Annual Forum of the EU Strategy for the Baltic Sea Region, following an extensive consultation with Member States concerned and stakeholders in the region. The outcome? A more streamlined and focused Strategy, with stronger links with regional organisations.

The review process has shown that three major challenges remain and should be overcome, if we want to fully exploit the potential of the Baltic Sea Region Strategy. The first challenge is to make sure that we mobilise all resources available, with enhanced synergies between local, national and EU policies relevant to the macro-region. This should allow for a more prosperous

and connected region.

The second challenge consists in improving the communication on the strategy, for example by using concrete projects for storytelling but also the exchange and the promotion of good practice.

And finally, the third challenge we identified was to ensure the full involvement of all stakeholders, at all levels. Much has been done in the past six years, but now there is a need for an even stronger commitment of national line ministries and for a closer involvement of relevant Commission services in the implementation of the strategy, especially with increased exchange of knowledge and networking opportunities.

The Baltic Sea is a magnificent region and deserves that it be one of the most attractive and prosperous places in the world. The Commission will always support efforts to improve coordination, strategic vision and impact.

But at the heart of successful strategies lies commitment and I want to reiterate that we need the active involvement of all members of the Strategy to make it a lasting success. ■

In an ever-changing global context, the region, its needs and its priorities are evolving and the Strategy has to evolve with them.



CORINA CREȚU
Commissioner
European Commission

URMAS PAET

Kazakhstan's economic limbo between the EU and Russia

Expert article • 1833

Kazakhstan as a former Soviet state has been independent since the collapse of the USSR in 1991. The country is under an authoritarian rule of the incumbent president Nursultan Nazarbayev, who was just re-elected in April 2015 by a not surprising absolute majority of 98%. The first independent years passed by with struggles as the economic growth was relatively poor and social policies criticised by the lack of human rights and equality questions in the country.

Despite the slow beginning from the 2000s, the situation has changed. Since the further development of exporting natural resources, mainly oil, gas and uranium, the country has gone through a remarkable economic and social development. According to the United Nations Procurement Division Kazakhstan has managed to increase the Human Development Index by 10% between 1990 and 2013 and reduce its poverty level for more than 40% (World Bank) within the last decade. Moreover, the economic measures have increased as the CIA World Factbook considers Kazakhstan an upper-middle-income country, and held the 43rd position in terms of GDP at purchasing power parity according to 2014.

Geopolitics play a crucial role in Kazakhstan's external relations as the country is sandwiched between the European Eastern Partnership members on the one hand and the Russian Federation on the other. Since the re-independence both external actors are developing independent economic and social integration programmes for the authoritarian regime. In addition, bordering China being one of the founding members of the Shanghai Cooperation Organisation with Kazakhstan, actively participates in the regional economic politics to strengthen the Organisation's market power. A prominent example of China's role can be the discussions over the New Silk Road through Central Asia.

In recent years, there has been active development on the field of enhanced cooperation and securing cross border relations. The history between the EU and Kazakhstan bilateral relations date back to 1999, when the first Partnership and Cooperation Agreement was ratified. Ten years later, once the country became under closer observation by the EU, the negotiations for further economic and political cooperation were underway. Now, the EU is Kazakhstan's primary bilateral trade partner as one third of its total trade and the EU accounts for half of Kazakhstan's foreign direct investment.

The most recent Enhanced Partnership and Cooperation Agreement has been concluded in October 2014, whereas coordination in 29 policy fields have been agreed upon. The EU, being Kazakhstan's primary trading partner, accounts for almost a third of its total trade and has secured over half of Kazakhstan's total foreign direct investment. In return, Kazakhstan is regarded as an important energy partner as 5-6% of the EU's oil demand is supplied by the partner country; this, in turn, constitutes about 93% of total EU imports from Kazakhstan.

Furthermore, the Union has voiced its strong approval for Kazakhstan to become a member of the World Trade Organisation (WTO), as the Union does not negotiate full trade agreements with countries who do not belong to the WTO. The negotiations were concluded just

this summer of 2015 when WTO General Council approved Kazakhstan's membership request, the agreement must be ratified by the Kazakh government by October 31. This means dismantling remaining trade barriers and boosting further bilateral trade. Therefore, the EU has supported the strengthening of Kazakhstan's relations with other democratic organisations such as the WTO to encourage the country's further integration into Western lead organisations.

While the EU has made significant effort to strengthen the relations with Kazakhstan, the country's Northern neighbour, Russia has also secured an important position for the Kazakhstan as post-Soviet economic integration projects like the Eurasian Economic Community and the Single Economic Space have been the predecessors by paving the way for the current Eurasian Economic Union (EAEU) while securing the strong bonds within the members.

The past economic developments have placed Kazakhstan in between of the Western democratic ideals and the Eastern communist regime. Recently though, the figures show that the sanctions issued against Russia are starting to heavily influence Russia's neighbouring countries as well. Also, the World Bank predicts that due to the drop of oil prices and complex geopolitical situation influenced by the crisis between Russia and Ukraine as well as the recession in Russia, Kazakhstan's economy is expected to stagnate in the next years. Hence, the political situation is relatively difficult to predict also is the economic one equally suffering in instability and uncertainty.

Kazakhstan faces the task to make right decisions to balance economic limbo to keep the oil-rich nation the power to negotiate wisely. As the Russian recession was predicted, perhaps the concluding membership agreement with the WTO is planned for the right time to ensure better relations with the West but to also gain more independence while opening other windows of opportunity. On the other hand, the president has made clear that the priority should be no economic discrimination between trading blocs meaning the EAEU on the one hand and WTO and the EU on the other, as the latter ones have opposed sanctions against Kazakhstan coalition partner Russia.

Keeping in mind that Kazakhstan's economic interests are the strongest to be developed with the EU, it is also important to note that security cooperation carries an increasing role. For instance, when following the unexpected actions of the ISIS and its increasing influence over security issues as well as the attempts of stabilising the situation in Afghanistan's northern spill over. Despite the geopolitical complexity, the outlook for Kazakhstan and the EU relations promises to grow, but the affairs between third parties also dictate the development of the resource wealthy country to a certain degree. ■



URMAS PAET

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ASHOK KUMAR SHARMA

Opportunities for Finnish companies in 'Make in India' Programme

Expert article • 1834

The manufacturing sector in India has received a huge boost after the launch of 'Make in India' campaign in September, 2014. This sector is expected to grow at 14% year-on-year (YoY) for the next 7 years. Under this initiative, 25 sectors of the economy have been identified for special emphasis.

Finland has good expertise and capabilities in some of these sectors viz. information and communications technology, chemicals, pharmaceuticals, medical equipment, design manufacturing, renewable energy, clean technologies, mining, bio-technology, electronics and smart manufacturing.

With a population of almost 1.3 billion, India provides not only a large pool of labor but also a huge local market. At a time, when many countries are facing recession, India has been shown at 1st place in the Baseline Profitability Index (BPI) carried in the latest edition of the Foreign Policy magazine for investment among 110 countries for the year 2015. India's growth rate for the current year is expected to be above 7%. At the same time, Finland has been adjudged as the most innovative country by the World Economic Forum's annual Global Competitive Report. Finnish innovators can use India as a launching pad for the commercialisation of their innovative ideas and technologies.

IT-BPM (business process management) sector

Information Technology sector in India generated revenue of USD 118 billion in 2014 and had 600 offshore development centres in 78 countries. The total revenue of Indian IT sector is expected to be USD 300 billion by 2020 with exports worth USD 200 billion. India's IT industry amounts to 7% of the global market. This sector contributes 8.1% to the country's GDP. In addition, engineering and R&D have great scope in telecom & semi-conductors.

Biotechnology sector

At present, India is amongst the top 12 biotech destinations in the world and ranks 3rd in the Asia Pacific region. India has the 2nd largest number of USFDA approved plants. The biotech industry in India is likely to become a USD 100 billion industry by 2025. It is likely to grow at an average growth rate of around 30% a year. India and Finland have signed a Memorandum of Understanding for cooperation in the field of biotechnology in October 2014, which can become a basis for fruitful cooperation in this sector.

Renewable energy sector

At present, India has the fifth largest power generation portfolio worldwide with a power generation capacity of 245 GW. Renewable energy contribution stood at 31.70 GW of the total installed capacity in March, 2014. India has set a capacity addition target of 30 GW, which will take the total renewable capacity to over 60 GW by the end of 2017. This includes 15 GW from wind power, 10 GW from solar power, 2.9 GW from biomass power and 2.1 GW from small hydro-power. India aims to generate 20,000 MW of solar power by 2022. Hence, the country offers unlimited growth potential for the solar photovoltaic industry. At present, wind energy is the largest renewable energy source in India.

Government of India is planning to promote deployment of offshore wind farms up to 12 nautical miles from the coast. Finland has the latest technologies available in this sector. India and Finland have signed a Memorandum of Understanding for cooperation in the field of Renewable Energy in October, 2014. The Finnish company FORTUM has already set up two solar power plants in India.

Pharmaceuticals and medical equipments

India is expected to rank amongst the top three pharmaceutical markets in terms of incremental growth by 2020. In terms of size, it is already the sixth largest market. India is the largest provider of generic medicines globally, accounting for 20% of global exports. The healthcare sector which stands at about USD 75 billion is expected to grow to USD 250 billion by 2020. The medical devices and equipment industry is growing at the rate of 15% per annum. This sector is expected to generate a business of USD 15 billion per annum by 2020. Finnish companies in this sector can achieve economies of scale by tapping the huge Indian market.

Smart manufacturing

By combining components of the cyber and physical world, Indian industry is moving towards making manufacturing systems flexible and integrated, with an increased focus on collaboration. A range of technical changes, including advanced robotics, large-scale factory digitization, 3D printing, etc. are going to shift the manufacturing paradigm in times to come. Indian businesses are very enthusiastic in taking up and using the IoT (Internet of Things) technology. Indian manufacturing industry is trying to consistently integrate information and communication technology into its traditional high-tech strategies and Finland can become a supplier of smart manufacturing technologies to India.

The Indian manufacturing sector is at an important juncture today. It provides an amazing window of opportunity to innovation oriented Finnish companies as India enjoys favorable demographics, availability of natural resources and huge domestic market. As India is increasingly becoming the cynosure of global investment attention, this is the best time to enter the Indian market with new ideas, technologies and innovations. ■

ASHOK KUMAR SHARMA
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TANELI LAHTI

Economic reforms – are they worth it?

Expert article • 1835

EU economy Today, the EU economy as a whole is recovering from a deep and prolonged crisis. The European Commission's spring economic forecast projects EU real GDP growth at 1.8% in 2015, increasing to 2.1% in 2016; and 1.5% in 2015 in the Euro area, increasing to 1.9% in 2016.

The recovery is due to a combination of deep reforms implemented by EU Member States since the crisis, and robust tools and instruments set up at EU level, in a short space of time, to avoid a repeat of the events leading up to 2009 and to ensure EU economies can withstand future shocks.

Prior to 2010, coordination of economic policies across the EU was fragmented and ineffective, allowing a build-up of imbalances that essentially caused the crisis of the EU economy to turn close to existential for the Economic and Monetary Union. To address this, an integrated and synchronised policy coordination mechanism called European Semester was introduced in 2011. In it, Member States share their budgetary and economic plans with their EU partners at specific times throughout the year, enabling the Commission to offer targeted policy guidance and monitor their implementation. This mechanism has facilitated a coordinated consolidation of Member States' public finances and promotion of competitiveness enhancing reforms.

At the same time, the legal framework of the EU economic governance framework was strengthened, not least with the introduction of '6-pack' and '2-pack' legislation. It is now possible to better monitor, prevent and correct problematic economic trends and emerging macroeconomic imbalances earlier than in the past.

A Banking Union has been created to stabilise the banking sector in order for it to withhold shocks of the future and be again in a position to lend to the real economy. As a result, the banking sector in the EU is now far healthier than only a few years ago.

Firewalls such as the European Stability Mechanism, with a lending capacity of €500 billion, were built to allow economies that can no longer access market financing to urgently implement deep fiscal and structural reforms in order to restore confidence so that market financing could resume.

In recent years, there has been overwhelming evidence that the implementation of bold, decisive, frontloaded fiscal and structural reforms pay off. Most Member States that carried out major, often politically difficult, fiscal and economic adjustments in the midst of, and in the aftermath of, the crisis – countries such as Ireland, Spain, Portugal and the Baltic States – are not only growing again, but are outpacing many other EU economies. In these countries, reforms have instilled confidence, often resulting in reforms delivering their benefits

even earlier than expected.

In **Ireland**, for example, an intense process of reforms was launched in 2010-11, as part of a 3-year EU-IMF economic adjustment programme. It amounted to €85 billion against specific conditionality to facilitate growth and employment opportunities, while shielding the most vulnerable from the severe effects of the crisis.

During this time, the Irish authorities repaired its banking system, consolidated its public finances and implemented far-reaching structural reforms required to improve the competitiveness of the Irish economy.

The results speak for themselves. Ireland's real GDP surged by 4.8% in 2014, after a near zero growth a year earlier. This provided strong foundations for solid and sustainable growth. In fact, the Irish economy re-emerged in 2014 as one of Europe's top performers. Looking ahead, Economic activity is forecast to remain resilient in 2015 and 2016, with y-o-y growth at 3.6% of GDP in 2015, falling slightly to 3.5% in 2016.

Graduation from the programme at the end of 2013 sent a clear signal to markets and international lenders

that the adjustment effort undertaken in Ireland, with the support of its European and international partners, paid off.

It provided clear evidence that determined implementation of a comprehensive reform agenda can decisively turn around a country's economic fortunes and put it back on a path of sustainable growth and rising employment, and can again stand on its own feet in terms of market financing.

There is ample recent evidence of the benefits of economic reforms also in the Baltic Sea Region.

During 2008-09, **Estonia, Latvia and Lithuania** experienced some of the deepest recessions in the world. Repairing the damage required very deep, often unpopular, economic reforms. Today, they are among the fastest growing economies in the EU. This is a tribute not only to the determined policy action that all three took in the wake of the financial crisis, but also to their remarkable transition since regaining independence in 1991.

Added to this, their aim of adopting the euro provided a sense of stability internally and credibility internationally. Estonia joined the Euro area in January 2011, Latvia in 2014 and Lithuania in 2015.

During the financial and economic crisis, **Latvia** was one of the hardest hit countries. Latvia lost around 25% of GDP with -18% of GDP in 2009 alone. To turn around the economy, the Latvian governments introduced fiscal consolidation measures amounting to 16.6% of GDP and an impressive programme of structural reforms.

As a consequence, Latvia had already returned to y-o-y growth in the second half of 2010; today it is one of the fastest-

In recent years, there has been overwhelming evidence that the implementation of bold, decisive, frontloaded fiscal and structural reforms pay off.

growing economies in the EU.

The reason for this turnaround is threefold.

One, Latvia largely frontloaded the necessary adjustment and reforms, thereby allowing financial stability and, hence, economic growth to be restored quickly.

Two, social partners were closely involved in throughout the reform process.

Three, while undergoing the adjustment, an additional social safety net was created to address the social consequences of the crisis.

Perhaps surprisingly, another good example of the impact of reforms is **Greece**.

In 2010, under extreme market pressure and on the brink of a disorderly default, Greece applied for an EU-IMF economic adjustment programme. In doing so, it prevented an economic catastrophe and its related social consequences.

Since then, the track record of implementation of reforms has been mixed. But, when reform implementation improved, they quickly started to bear fruit. In 2014, Greece was broadly track with its programme; Greece was delivering on agreed fiscal targets; its economy was finally growing; investment started to pick up; unemployment was declining; employment again being created; and the country was even looking towards returning to the financial markets.

At the beginning of this year, the European Commission was forecasting 2.5% growth for Greece in 2015. Since January, progress unravelled spectacularly. Now the forecast for 2015 is 2.3% recession.

Having said this, the underlying growth potential is still there. In August, Greece signed a third economic adjustment programme with the EU and IMF. If the new Greek government implements swiftly and decisively the reforms it has promised in its new Memorandum of Understanding, Greece can restore confidence, financial stability, economic recovery, job creation and deliver an improvement in social standards in the country.

While the EU economy is growing again, the pace of recovery is slow, protracted and differentiated. It is backed by temporary tailwinds: falling oil and energy prices, favourable exchange rates, the ECB's accommodative monetary policy and a broadly neutral fiscal stance.

They obviously do not replace the need for continuation of far-reaching structural reforms, not only in the labour market, but also in the product and services markets.

A further crucial element to solidify the economic recovery is investment. Investment in the EU has fallen by 15% since the crisis. To help fill this shortfall, the European Commission's Investment Plan for Europe is mobilising €315 billion of public and private investment over

the next three years. Its financing instrument, the European Fund for Strategic Investment will support projects in, for example, infrastructure, research and innovation, with a substantial part directed to support lending for SMEs.

A combination of structural reforms, fiscal responsibility and further public and private investment is the only way to ensure credible and sustainable economic growth in the EU, not least against the backdrop of a possible slow-down in the global economy.

It takes time for the positive effects of reforms to filter through to the real economy. But, by and large, Member States that have carried out deep reforms are seeing their growth rates and employment levels first stabilising and then increasing earlier than expected at the launch of reforms.

In parallel, work is underway to make the foundations of the Economic and Monetary Union more solid and more permanent. In June, the Presidents of five EU institutions presented a report that set out their common vision to complete the EMU in stages. The report presents measures to stabilise and consolidate the euro area by early 2017.

Measures proposed for implementation in the short term focus on completing and improving the instruments already available. The intention is to make best use of the existing Treaties in a way that is conducive to boosting competitiveness and structural convergence, completing the Banking Union, achieving and maintaining responsible fiscal policies, and enhancing democratic accountability.

In the longer term, on the basis of a renewed convergence of our economies, the intention is to move gradually towards an even more closely integrated EMU, to make it more resilient and fair, as well as more conducive to growth and job creation.

The Economic and Monetary Union was created to become an area of stability and prosperity for all Europeans sharing the single currency. With the ongoing recovery, we are again on track to get there. ■



TANELI LAHTI

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ARTO RÄTY

The Baltic Sea – a geostrategic playing field?

Expert article • 1836

From a geostrategic point of view, the Baltic Sea region is both an opportunity and a challenge for the Nordic and Baltic States, as well as for Russia.

The Baltic Sea, a busy trade route and a lifeline for most nations along its shores, has always been a natural area for cooperation, also in the field of multinational military training and exercises. In recent times, the frequency and the political symbolism of military exercises have grown. The region has become a stage to demonstrate military muscle - even while there may not be a direct need to do so. Strategic bombers have returned to the area, Russian military aircraft fly extensively without transponders and Russia has conducted large scale snap-exercises in the region. As a result, the region has become a focal point for NATO activity, at a time when the Alliance was already turning its focus from crisis management to improved collective defences. During the last year, recurring violations of Baltic and Nordic states' air space became a "new normal". In addition, speculations have flourished around violations of territorial waters. Russian exercises and their possible scenarios have created discussion. Is this just a show of force, or is there really a risk of this play spreading into a real action? For their part, Nordic defence ministers expressed their concern on the increasing military activity in the Baltic Sea region in their common article in April 2015. Concern has been even more tangible in Baltic States, where history casts its long shadow.

The Baltic Sea and Kaliningrad are areas of strategic importance for Russia. For Finland and her security of supply, freedom of movement on the Baltic Sea is essential. Finland promotes good cooperation with the coastal states also by taking care of her maritime defence capability. Finland is about to launch a project to procure a new naval vessel class that should have operational capability by early 2020's.

The coastal states of the Baltic Sea include militarily non-aligned Finland and Sweden. One year ago at NATO's summit in Wales, Finland and Sweden were granted a special NATO Enhanced Opportunities Partner status. The status means an enhanced possibility to cooperate with NATO in training and exercises after the ISAF operation ended. It may be that the participation of these two states in multinational NATO-led exercises will increase Russian interest towards the defence policy orientations and aspirations of Finland and Sweden, while the exercises are only a continuum of the training and exercise policies Finland and Sweden have practised for two decades.

Both nations' governments are warmly supporting the ongoing process of deepening the Finnish-Swedish bilateral defence cooperation. Both also continue to be active in Nordic Defence Cooperation, NORDEF, within the EU and maintain close bilateral relations to the United States.

Finland's geostrategic position sets the basic requirements for her defence. This means Finland has and will maintain a sufficient defensive capability. Our defence solution consists of three principles - territorial defence, general conscription and military non-alignment. These cornerstones could, however, be threatened as demands for the defence grow at the same time with the increasing financial pressures.

So called "hybrid threats" are a growing challenge of both conventional and unconventional nature, including political, economic, informational, cultural and military means. In order to counter these threats, there is a need for hybrid responses and deeper cooperation. The main responsibility in countering hybrid threats remains first and foremost at the national level. However, there is now a new window of opportunity for cooperation between the European Union and NATO, as both are considering strategies to answer coherently to the phenomenon at hand. Developing better strategic communications and situational awareness are two means that could lead to a concerted and effective action.

One of Finland's strengths is the long tradition of comprehensive approach to security - different authorities, private sector and NGO's cooperating with each other in security and defence issues. Our comprehensive security concept responds well to hybrid threats. The key is the ability of different authorities to work together and this would also apply for international action.

Even if our defence solution remained the same, one element of our defence policy is constantly evolving - the scope and nature of defence cooperation. Cost-efficiency and capability can only be created through deepened defence cooperation, both bilateral and multilateral. National defence capability is secured by cooperation, not isolation. The objectives of our defence policy will - and should - remain the same, but the means of achieving those may vary as the characteristics of the operating environment and warfare will change. The best way for Finland to contribute to the security of the Baltic Sea area is by taking seriously her national defence, also in the future. ■



ARTO RÄTY

Permanent Secretary
Ministry of Defence of FinlandChairman
Security Committee of Finland
Finland

TOMAS JANELIŪNAS

Cyber and information security challenges – in search for a joint concept

Expert article • 1837

After the annexation of Crimea that triggered a major shift in the relations between the West and Russia, a perception of security challenges in Europe also changed. More attention to military security, higher defense spending and intense securitization of informational security. With a few exceptions, it has been common tendency in Central and Eastern Europe (CEE). The securitization of public information sphere is not a new thing in CEE. Damaging effects of propaganda, disinformation or attempts to affect political attitudes of society is included in national security strategies or other official documents more often in recent years. On the other hand, cyber security has already become a top priority of national security agendas all over the world.

Both these tendencies are reflected in strategic documents of the countries in Central and Eastern Europe, but curiously enough, they are usually seen as separate threats or even different domains of security field. Definitions of cyber security and info-wars (or information security) have had separate evolutionary paths.

Definitions of cyber security (or cyberspace security) are quite similar within various strategic documents in different countries. Formal definitions vary in extent and explicitly, but the main emphasis is placed on protection of communication (IT) infrastructure and data.

Quite a different story is about the concept of *information security*. Two different traditions defining the concept of information security can be traced. According to Western tradition, in democratic countries, the concept of information security refers to confidentiality, integrity, and availability of information (in any form). For example, in the U.S. this term means “a protection of information and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide confidentiality, integrity, and availability.” Different approach of defining the term of Russia and some other Eastern countries (Belarus or China, for example). Therefore, the protection of information and ICT is understood by some Eastern countries as the need to protect the public information space from, so called, damaging influences. In short, the main conceptual difference with Western perspective is an emphasis on the need to protect not only the data or information infrastructure, but the *content of information*.

However, this is not only a matter of definition. The perception differences affect domestic and foreign politics as well. States (like Russia), which are concentrated on the protection of their own informational space, attempt to influence informational space of other countries, especially their neighbors. Quite naturally, the intrusion into information space by adversary country provokes particular reaction. Consequently, foreign intrusions increase the vulnerability of information space and aggravate the securitization process of it. For instance, we may find a very specific term of a “psychological defence” in the National Security Concept of Estonia as a requirement for enhancing protection from outside influences.

In one way or another *information* is at the core of security in both cases. Would it be valuable to analyze cyber and information security challenges together rather than separately?

I presume that we can get a better understanding of both these phenomena by applying a joint conceptual view. In the CEE, we can observe practical examples of overlapping cyber and information security threats when vulnerabilities in both sectors are targeted at once. This broader definition could be useful in cases, when there is a need to stress a conjunction of both sides of information: data, infrastructure of communications/ICT and content of the public information. This field of security could be titled as *communicational security* with an emphasis that its main object is a communication medium connecting two security domains: cyber security and security of information content. However, there should be a clear understanding that the aim of communicational security is not to ensure restrictions on information content, but to preserve a genuine, undistorted communicational flow in an open public or classified information sphere.

In all, a need to ensure a communicational security would mean both: a) to ensure a proper functioning of cyber infrastructure and services, to protect cyberspace from illegal intrusions, stealing, damaging or changing data and technologies; b) to prevent, actively confront or to disclose actions of propaganda or psychological manipulation, deceptive actions in cyber and public information space, when there are attempts to hide or imitate a real source of information or methods of information spreading. ■



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MAGDALENA KOTNIS

The right time to use the potential of the West Pomerania Region to develop the Baltic Sea Region

Expert article • 1838

From the perspective of Poland and the Baltic Sea Region, there is a very important question to be answered: How to use the potential of the Polish Pomeranian Regions to support and develop the international European regions? For the West Pomerania Region, it is a case of what the region can offer the Baltic Sea Region. Is it known what the strengths of the West Pomerania Region are and how to use them to support and develop the other Baltic regions?

West Pomerania is evaluating

Ten years ago, the potential of the West Pomerania Province was based on the maritime economy and agriculture. At present, the trends of transformation in the maritime economy and agriculture are mostly dictated by the need to optimally use global manufacturing resources and the direct impact of the economies of the Europe and world's regions. The former market advantages of the West Pomerania Province have changed structurally. The number of big farms has decreased, while the number of small and medium-sized shipbuilding companies has increased significantly. At present these companies and modern farms offer top-quality services and products, manufactured in line with global standards.

In the region, there are many private shipbuilding and offshore companies. They deal, among others, with the construction of yachts and motor boats, the manufacture of the hulls of sea-going ships as well as repairs to ships and boats. Maritime operations and logistics are still a very important factor of the region's economic growth. The geographical location, cross-border cooperation and access to multimodal transport have helped the maritime sector regain its potential thanks to small and medium-sized shipbuilding companies, which, while changing the scope and type of their manufacture, have also adjusted their production facilities.

Entrepreneurship and investments

A characteristic feature of the local economy is the constantly growing number of commercial companies with foreign capital. Interest in the region among foreign investors, mainly from Germany and Scandinavia, has been growing for several years. The region is becoming attractive to investors, especially due to the advantages of its transport accessibility (multimodal transport), the continuously developing business infrastructure and the high activity of the region in relation to investors. These are the major features of the attractiveness of West Pomerania; they represent one of the greatest potentials for development in Poland.

The perspectives of development in West Pomerania

The 2014-2020 financial perspective creates great opportunities for strengthening the strong sectors and building a new business quality in the region. On the basis of the guidelines of the European Commission and market analysis, five regional specializations have been specified for West Pomerania which highlight its development potential. These are: (1) bio-economy, (2) maritime and logistics, (3) metal and the engineering industry, (4) knowledge-based services and (5) tourism and healthcare.

The leading sectors in the West Pomerania Province are the maritime industry and logistics, the metal industry (metal structures) and tourism. For example, entrepreneurs from the automotive industry develop, among others, innovative technologies for the shaping and processing of glass, production of windscreens and the manufacture of springs. They also raise support for the design of innovative vehicle simulators and the manufacture of specialist vehicle trailers.

Innovative research in the area of biotechnology is also carried out in the region. This relates, among others, to the development of materials for the manufacture of packaging with specific properties, manufactured from environmentally-friendly, renewable and biodegradable raw materials.

Implementations developed on the basis of the experience and knowledge of entrepreneurs from the shipbuilding industry are essential for the region. These are, among others, innovative solutions concerning metal cutting and welding technologies, as well as the design and construction of metal structures. Innovative research and implementation actions are also focused on the manufacture and upgrading of vehicle and vessel simulators, didactic and research stations, as well as schools and training facilities.

The West Pomerania Province is well-known for its very high potential for development of the IT sector. At present, over 4000 IT companies are operating there. It is a market for micro, small, medium-sized and large businesses.

Moreover, West Pomerania has a wide variety of tourist attractions concentrated mainly on displaying the natural advantages of the region. For water sports lovers, the region offers kitesurfing, windsurfing, sailing, canoeing, as well as all forms of recreation in the forests, on the water and in the sea. ■

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KIMMO JARVA

Lappeenranta is building a future at the gate between East and West

Expert article • 1839

In May 2010, Vladimir Putin, then Prime Minister of Russia and now its President, arrived in Lappeenranta for the first EU-Russia Innovation Forum and to meet the Finnish Prime Minister Matti Vanhanen, causing a flurry of media attention. High expectations were raised by the prospect of innovation cooperation between Russia and Europe, and Lappeenranta was growing into the key hub of such cooperation.

Broad-based cooperation was blossoming along Finland's eastern border and shopping tourism from Russia was bringing money into Lappeenranta.

Despite this promising start, the series of innovation forums was interrupted after only four years: the 2014 forum was cancelled at the last moment because several seminar participants and some lecturers announced their inability to participate. Their cancellations were undoubtedly due to the Ukrainian crisis, which also hindered cooperation between neighbouring regions and lowered the volumes of cross-border traffic.

During this and the previous year, Lappeenranta has mainly attracted international media attention due to its diminishing volumes of Russian tourism. It is true that we have spent years developing our commercial services on the assumption, for example, that shopping tourism from Russia would continue to increase. We are repeatedly asked how global events – including the weakening rouble and sanctions – are affecting local livelihoods and Lappeenranta's future.

The background to these concerns cannot be understood without an appreciation of our unique geographical position.

Located in southeastern Finland, Lappeenranta shares a 70-kilometre-long border with Russia, which was drawn up in 1944 in the aftermath of the Second World War. Road, rail and lake traffic between Finland and Russia mainly runs through the three border crossings located in Lappeenranta. We have also worked hard to keep our international airport, in order to provide the region's Finnish and Russian inhabitants with flight connections to Europe.

It is worth remembering that, when Finland became independent in 1917, the border was located further east and southeast, in Karelia – Finland controlled a broad area of the Karelian Isthmus between Lake Ladoga and the Gulf of Finland, included the trading town of Vyborg on the shoreline of the gulf and only 55 kilometres from Lappeenranta.

Despite tumultuous periods in the history of the border region, the City and inhabitants of Lappeenranta have always had natural everyday ties with Vyborg and Saint Petersburg. The Second World War transformed this situation: it cut our close financial relations and cultural cooperation.

We have spent recent decades making a huge effort to revitalise our cooperation with both cities, Vyborg and Saint Petersburg. This is beneficial not only to local inhabitants and businesses, but also to tourists from farther away for whom the border region of Lappeenranta, Vyborg and Saint Petersburg offers an exotic selection of experiences.

Vyborg and Lappeenranta have signed a neighbouring city agreement, to which civic organisations made a major contribution. Our city has also opened a customer service point in Saint Petersburg, one of the aims of which is to help businesses to expand abroad.

Our internationally oriented universities – Lappeenranta University of Technology and Saimaa University of Applied Sciences – cooperate with institutions of higher education in Russia and other countries, promoting the internationalisation of the city and attracting exchange students from abroad.

For us, the people of Southeast Finland, Russia remains one of our strengths. The success of Lappeenranta and its home region of South Karelia is and will continue to be based on the massive Russian market. In our current political situation, the City of Lappeenranta, our universities and local businesses are committed to the sanctions imposed on Russia in line with Finnish and European policy, in spite of the fact that they are harmful to business and are impeding the development of cooperation and tourism.

However, we are not reliant on Russia only. We are seeking to balance monthly variations in Russian tourism by marketing our region in Central Europe and Asia. Promoting Finnish tourism is also important – this has enabled spas and hotels in the area to do reasonably well, despite the falling number of Russian visitors.

Home to 73,000 people, modern-day Lappeenranta is an international university town and tourist attraction that has also received acclaim as one of the leading green cities in Europe. Our fabulous location on the southern shore of Lake Saimaa, the fourth-largest lake in Europe, the region's unique culture and its business-friendly and innovative atmosphere are assets that guarantee our prosperous future. ■



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KRISTINA PINGOUD

Council of the Baltic Sea States, more coherence to the regional cooperation

Expert article • 1840

The Council of the Baltic Sea States, CBSS, was established in 1992 as a forum for multilateral intergovernmental cooperation between the states in the Baltic Sea Region (Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia and Sweden). Its role was first to promote democratic and economic development. Today almost all CBSS Member States belong to the European Union and the Council plays an important role as a political forum for discussion where also the EU participates.

The significance of the CBSS as a regional organization involved in various projects, such as the implementation of the EU Strategy for the Baltic Sea Region (EUSBSR) is growing. The CBSS Secretariat is a coordinator in HA (Horizontal Action) Neighbours and Climate as well as in PA (Priority Area) Secure together with other partners.

For the first time, initiated by Finland, the contributions of a considerable number of regional organizations, structures and initiatives are included in the newly revised Action Plan of the EUSBSR. The EUSBSR can also be used to enhance the coherence of cooperation in the region. The role of the CBSS, on the basis of the jointly agreed priorities, is crucial in this sense.

Promoting synergies between the regional councils, the Northern Dimension and the EUSBSR have been the guiding principles of the on-going Finnish chairmanship in the Barents Euro-Arctic Council (BEAC), which will end in October this year. To increase the efficiency of regional cooperation, it is important to avoid overlap, to learn from experiences of other regional actors, and find ways to complement each other's work.

Finland held the Presidency of the CBSS from July 2013 to the end of June 2014. The Presidency focused on three key areas; Maritime Policy, Civil Security and People-to People Cooperation. The three principles guiding our work were coherence, cooperation and continuity. The Finnish Presidency concluded with the enactment of three new long-term priorities for the CBSS; Regional Identity, Sustainable and Prosperous Region and Safe and Secure Region. These new priorities better reflect the role of the CBSS in the regional architecture.

During the Estonian presidency (2014-2015) the work of the CBSS concentrated on Practicality, Efficiency and Good Cooperation and on the implementation of the three long-term priorities.

In July 2015 Poland took over for one year both as President of the CBSS and as Chair of National Coordinators (NC) of the EUSBSR. It continues the work started during the Finnish Presidency for enhanced coherence in the Baltic Sea Region by organizing back-to-back meetings between the CBSS and the EUSBSR. The theme of the presidency is Synergy in Diversity. The Polish priorities are Sustainability, Creativity and Safety.

The 24th Baltic Sea Parliamentary Conference (BSPC) assembled in Rostock, 30 August-1 September 2015, called for a resumption of the ministerial meetings of the Council of the Baltic Sea States. Poland strives to answer to this appeal by organizing sectorial ministers' meetings.

The welfare of the Baltic Sea Region is one of the key priorities of Finland and it is of great importance that, in spite of political uncertainties, the cooperation at expert and authority level continues well at different fora. CBSS has traditionally played an important role in the comprehensive security in the Baltic Sea Area. Good examples are the expert groups on Maritime Policy, Task Force Against Trafficking in Human Beings, Nuclear and Radiation Safety, Border Control Cooperation and the Civil Protection Network.

Rich people-to-people contacts and well-functioning civil society are also essential elements of the regional cooperation. At the same time the Baltic Sea still has many challenges when it comes to its ecological condition even if the ecological state of the sea is improving gradually. Poland has plans to organize a CBSS environmental ministers' meeting during its presidency. HELCOM and the implementation of its Action Plan play a central role in protecting the marine environment of the Baltic Sea. It is important to enhance interaction between HELCOM, CBSS and EUSBSR.

All in all, Poland has developed a very ambitious CBSS Presidency Programme and Finland actively supports its implementation. It is vital, that we keep the structures and channels of the regional cooperation in the Baltic Sea Region alive and working, even in internationally rough times. ■



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OLGA PAVUK

The Baltic States and social integration

Expert article • 1841

Over 25 years of independence in three Baltic States the issues of social integration have been solved. The process is complicated. Boundaries divide the native population and those who happened to inhabit Estonia, Latvia and Lithuania during the USSR occupation. The split in society has not been overcome yet.

The major issue is citizenship. Each of these countries solved this problem on its own. Already in 1993, Lithuania took the most reasonable decision, so-called “zero variant”, offering citizenship to all inhabitants. In Estonia and Latvia, lawmakers chose a different path to go — granting citizenship only to those whose predecessors had lived in the countries before 1940, in principal, to native population. All others received the “alien” status which was most painfully perceived in Latvia as here the number of non-citizens amounted to 700 thousand. These are mainly Russian-speaking people, deprived of the voting right at the parliament and municipal elections, as well as of access to certain professions. Regardless a statutory possibility to acquire citizenship by passing the language and Latvian history exam, over the years of independence citizenship has been acquired by 142.6 thousand people. So far due to various reasons 262.6 thousand people remain “alien”. This state of things is being employed by all kinds of politicians during their electoral campaigns. Leading political parties are also divided under the principle of the language belonging, no matter how hard they try to hide it. Even a social organisation “The Congress of Non-citizens” was established. One thing is obvious this situation does not encourage the unity of Latvian society.

Another important issue of social integration lies in education. In Latvia around 40% of population are so-called Russian-speaking people. The system of school education that is based on the division into Russian and Latvian schools and preserved since the Soviet times has little changed. According to the law at schools of indigenous minorities, 60% of school subjects have to be taught in the official language. However, in reality, with the existing staff of teachers who have been working at schools since the Soviet times and who are not fluent in Latvian, Russian school-leavers do not speak the official language fluently. In its turn, it prevents them from studying at state universities where studying is possible in Latvian. As a result, a lot of private higher education institutions with teaching in Russian has mushroomed. In part, Russian as a school subject has almost disappeared from Latvian schools. Latvian schools' graduates lose their competitiveness in the areas of transit, tourism and finance that require fluency at least in three languages: Latvian, Russian and English. However, at the same time, business environment, being most tolerant in this issue, is ready to invest in teaching languages to employees.

The absolute majority of politicians along with the population nowadays support the idea of dividing schools under the language principle. Just over a year ago, we introduced the idea of united national school instead of turning Russian schools into Latvian ones.

The idea of establishing a united school at which both Latvian and Russian forms would coexist together was taken on board by one of new opposition parties before the election to the Saeima. The idea of a school at which children of various nationalities would be able to communicate on everyday basis bringing cultural peculiarities to their intercourse. However, this idea remained on paper.

Another watershed is mass media. Over the years of independence, public television and radio have been broadcasting mostly in the official language still uncomprehended by the significant part of population. Private TV and radio channels broadcast in Russian insufficiently due to the lack of finance. This vacuum is filled with Russian television that is widely broadcasted by commercial providers. Around a year ago, just before the election to the Saeima, the issue of widening the broadcasting in Russian on public television was raised. Analytical programmes and morning news came on air. However, already in several months, the morning news programme was closed. Then a new idea occurred — to create an independent national TV channel with broadcasting in Russian that requires large resources, both financial and human. Neither of them is available in Latvia. In our opinion, it would be logical if programmes on public television would be broadcasted in both widely spoken languages in Latvia, either by way of simultaneous interpretation or news tickers. Consequently, a united information environment would be created and people would be able to learn more about how both societies live in Latvia.

Today, even the authorities admit that the plan of social integration in Latvia has failed. The previous president Andris Berzins tried to improve this situation for what he faced criticism from the ruling forces. In the opening speech, a new president Raimonds Vejonis highlighted that “in Latvia the lack of unity in society is being widely discussed. However, we do not have to encourage this discord ourselves.” Time will show whether he succeeds in implementing profound changes in uniting two communities. ■

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ANTTI KURONEN

Increased pressure on journalists in Eastern Ukraine

Expert article • 1842

As of writing the weapons have fallen silent in Eastern Ukraine. I have covered the war as a TV-reporter extensively in Donetsk, Luhansk, Sloviansk, Mariupol and in the numerous villages in between. For all the people I have met there I'm truly glad, and wish that this silence isn't just a fleeting moment.

But daily bombardments or not, the fact remains. Eastern Ukraine is truly divided by a de facto border that separates people, businesses and a common future. As a journalist I have also experienced this Iron Curtain fall down in front of me.

In August when I was once again going to the rebel controlled areas in Donetsk, I was denied press accreditation. This has never been a problem; on the contrary it has been quite easy to get access.

All journalists working in the area need a kind of "press card" that is given out by the authorities of the so called Donetsk Peoples Republic. As you move around, the press card is checked on every check-point. It's like a Visa, without it it's impossible to work or even go there.

So, why was I denied access? One reason is that in August 2015 the separatist authorities started denying many journalists accreditation. Local contacts have told me that it's connected to the new and more effective secret service that has been built in the Peoples Republics.

In June I saw them in action for the first time. A demonstration took place in the city center of Donetsk. People tired of the bombardments came to protest. Some of them even criticized the Donetsk leadership for using their suburb as a launching pad for multiple rocket launchers.

At the demonstration my local friends spotted out some people in civilian clothes. "Look, those are secret service guys." In late summer I started hearing about journalists being denied access, as the authorities started checking the media people's products closer.

But how could they read what I have written in Finnish, or what's on the main TV-news in Finland? My colleague Nina Leinonen from the tabloid *Ilta-lehti*, soon found out. When she went to Donetsk and was denied accreditation, the press secretary told her that she should talk to a Finnish guy, Janus Putkonen, who has started a news outlet, *Doni News*, in Donetsk.

At the meeting Mr. Putkonen told her that he had made the recommendation. He was dissatisfied with Nina's work, because she used the word separatist and wrote about the annexation of Crimea. The correct wording according to him is "liberation" of Crimea.

That happened a couple of weeks before my trip to Donetsk, so I knew what to expect. I don't know the role of Mr. Putkonen in my case, but he was able to quickly find out all facts about it. I only spoke to him on the phone, as I never even reached Donetsk.

It is a shame that YLE and *Ilta-lehti* can't work in Donetsk. By hindering the work of big media organizations, the rift between the rebel and the Ukrainian controlled areas just keep growing. It forces the media companies to report only from one side.

So, what lies in the future for these areas. The one thing I have learned after reporting in Eastern Ukraine is that you never know what happens next. Who for example foresaw the Russia military operation in Syria?

I have been going to Eastern Ukraine since April 2014, when there still were both pro-Ukrainian and pro-Russian demonstrations in the city, and been surprised time and again.

In August this year I went to report about the intensified fighting. At first there was some fighting, but suddenly there was complete silence in Mariupol, and talk of a new cease-fire from the 1st of September. To everyone's surprise it has been holding fairly well.

In August 2014 I went to Donetsk to report about how the Ukrainian troops were winning back areas lost to the separatists. In Donetsk I saw a different reality. The rebel fighters were relaxed and confident. I even went with them to Yasynuvata, a small town just outside of Donetsk that was supposed to be controlled by Ukrainian troops. There were no Ukrainian soldiers in sight!

Soon I, and the world, realized that Russia had started a counter-offensive that led to battles like Ilovaisk.

Everything is unpredictable, because decisions made in the Kremlin, change the show. And who knows what the Kremlin is thinking. Will the rift in Eastern Ukraine ease, I don't know.

The best thing you as a reporter can do is to try and find out the facts on the ground. Try to see what is happening in reality, not what is being said by the Kremlin or the military. Try to find out who is shooting where. Also Ukrainian information about casualties is usually wrong.

So, I will not make any predictions about the future, just share a feeling I get, looking at the events unfolding in Syria. I ask myself, why is Russia again conducting a military campaign? Could it be that the leadership is getting a little bit too used to war? I hope not. ■

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JOAKIM EKMAN

Popular support for democracy in the Baltic states

Expert article • 1843

Most observers would agree that democracy has come to the Baltics to stay. At the same time, Estonia, Latvia and Lithuania have been subjected to considerable strain in recent years, which may pose a threat to democratic stability in the region. In an ongoing research project at Södertörn University, funded by the Foundation for Baltic and East European Studies (Sweden), we have collected public opinion data among the majority populations and the ethnic minorities in Estonia, Latvia and Lithuania. The data was collected in the spring of 2014, and a follow-up survey in Latvia was conducted in the fall of 2015. The project analyses attitudinal differences between the ethnic majorities and the Russian-speaking minorities in the three countries, including the Polish minority in Lithuania, trying to assess the democratic political culture of the region, some 25 years after the end of communism, after a decade of EU membership, a few years after the financial crisis, and in the midst of the recent Russian–Ukrainian conflict. The data demonstrate widespread public dissatisfaction with the performance of democracy throughout the region, and especially in Latvia, the country that experienced the hardest blow from the crisis that started in 2008. As a rule, the ethnic minorities tend to be more critical towards democracy than the titular populations.

In order to assess popular support for democracy and potential support for non-democratic regimes we used, among other measures, a standard survey question where respondents are confronted with three statements, and asked which one they agree most with: 'Democracy is preferable to any other kind of government'; 'Under some circumstances, an authoritarian government can be preferable to a democratic one'; and 'For people like me, it does not matter whether we have a democratic or a non-democratic regime'.

The strongest support for democracy is found among the majority populations in Estonia and Lithuania, where an average of 51 per cent agreed with the statement that democracy is always preferable. In Latvia, the corresponding figure was 43 per cent. In all three countries, the pattern is basically the same: the minority groups are less likely to express support for democracy, and more likely than the majority groups to express support for a non-democratic alternative. In Latvia, such conditional support for authoritarian rule is particularly high; some 35 per cent of both ethnic Latvians and the Russian-speaking minority agree that authoritarian rule may be accepted under certain circumstances. Also, a lot of political apathy is to be found, ranging from 17 per cent among ethnic Lithuanians to 32 per cent among the Russian-speaking minority in Estonia.

The data collection also includes questions that more specifically address support for non-democratic regimes. One question asks respondents to which extent they agree to the following: 'We should return to communist rule' and 'Best to get rid of parliament and elections and have a strong leader who can quickly decide everything'. There is actually quite a lot of support for the 'strong man' alternative: 19 per cent in Estonia, 29 per cent in Lithuania, and 42 per cent in Latvia. Among the minority groups, the figures are even higher, ranging from 39 per cent (Estonia) to 45 per cent (Lithuania) and 62 per cent (Latvia). Support for communist rule is much less pronounced, ranging from 5 per cent among ethnic Estonians to 24 per cent among Russia-speakers in Latvia.

At the same time, it should be kept in mind that democracy is still the preferred option among people in the Baltics. Popular support for democracy is not overly strong, but the crucial point is that support for democracy is still relatively stronger than support for non-democratic alternatives, among both majorities and minorities in all three countries. Democracy thus has sufficient legitimacy among citizens, and the risk of a democratic breakdown from within must be regarded as small. However, even if democracy is not directly challenged, there is a risk that widespread political dissatisfaction may pave the way for populism and increased ethnic tension.

Finally, the external dimension should be mentioned. Russia remains a serious threat, especially to Estonia and Latvia where the large Russian-speaking minorities provide Putin with a possibility to engineer a crisis. Attitudinal differences between the groups are already very pronounced. When asked explicitly about Russia, 42 per cent of Latvians and 64 per cent of Estonians agree that Russia poses a threat. The corresponding figures among the Russians-speakers in the two countries were only 5 per cent (Latvia) and 4 per cent (Estonia). It is not inconceivable that we will witness further deterioration in relations between the Russian-speaking minorities and the national majorities, considering that the Russian rhetoric against the Baltic states has taken a more strident tone in recent years. ■



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Divided by history – the reactions of the Baltic Sea countries to the refugee crisis

Expert article • 1844

The current refugee crisis has taken the countries around the Baltic Sea by surprise. The governments of Germany, Sweden, Denmark, Poland, Estonia, Latvia, Lithuania and Finland are trying to grapple with the sudden increase in the number of refugees from the Middle East and Africa, but their approaches to the problem are very different from one another. The Baltic Sea seems to divide these countries into two groups. Sweden and Germany, and to a lesser extent Denmark, seem to be willing to accept a large number of refugees, but the countries east of the Baltic Sea seem much more reluctant to do so. Why?

The different historical experiences explain the variations in the attitudes of these countries. The countries east of the Baltic Sea – Poland, the Baltic States (Estonia, Latvia and Lithuania) and Finland – have a very different history than the countries west of it – Germany, Sweden and Denmark.

The Baltic States have throughout their history been colonized by other countries. In the Middle Ages the German princes conquered the territories now belonging to Estonia, Latvia and Lithuania, and in the following centuries several great powers fought over the domination of the area, particularly the Swedes, Germans and Russians. In the aftermath of the First World War these countries finally gained independence, only to lose it during the Second World War.

These events have greatly influenced the way these countries see themselves. The small nations on the Baltic coast have always had substantial ethnic minorities, particularly Germans and Russians, which have often enjoyed privileged positions in the societies of these countries. During the Soviet occupation, the small Baltic nations faced a substantial threat of becoming minorities in their own countries. The Soviet authorities did not hesitate to transfer a large number of the inhabitants of these countries to distant parts of the Soviet Union, nor did they ask the opinion of the local population before relocating a significant number of soviet citizens to the Baltic States. Consequently, it is not surprising that the Baltic States do not feel obliged to accept refugees from other countries.

Finland shares some similarities with the Baltic States. Even though the status of “Finland” in the state of Sweden was equal to the other parts of the Swedish kingdom, many Finns look back on the period of time when Finland was part of Sweden as one of Swedish domination. The relationship between Swedish speaking minority and Finnish speaking majority in Finland has also at times been less than harmonious.

Indeed Poland, the Baltic States and Finland see themselves as victims of oppression and invasion by other nations. The influx of foreigners arouses old fears of national extinction or unwanted cultural transformation in the Baltic States and Finland. These fears are greatly exaggerated, since the EU estimates that the number of refugees only amounts to several hundred. What is more, Estonia, Latvia and Lithuania tend to forget that during the Second World War thousands of their inhabitants fled to Western Europe and the United States, so these countries are indebted to help other refugees.

The Swedes, by contrast, have a long history as an independent nation. In fact, instead of being conquered by other nations, they themselves have been invaders. Indeed, for 700 years Finland was part of Sweden, and the area currently belonging to the Baltic States was conquered by Sweden in the 17th century and held until the beginning of the 18th century.

Surprisingly, though Sweden was able to stay out of the Second World War, the Swedish memory of the war includes some traumatic points. Professor Vesa Vares has concluded that the Swedes suffer from a collective bad conscience because the Swedish economy actually profited from the war. Sweden was the largest outside supplier of raw materials to the German war economy. Even though Sweden helped other countries during the war, for example, by giving temporary shelter to tens of thousands of children from Finland and accepting Jews from German occupied countries, the Swedes feel that they should have done more. The feeling of bad conscience has been one reason for Sweden’s very lenient immigration policy. Sweden has received thousands of immigrants and refugees over the years. Another important contributing factor to the lenient immigration policy has been the constant hunger of Swedish industry for new labor.

The trauma of the events in the Second World War obviously affects Germany as well. The country that committed the Holocaust will continue to repay its debt to humanity for decades to come. Not surprisingly Germany has been willing to take the largest number of refugees among the European Union countries. The decision is made easier by the fact that the German economy craves new labor. In the 1960s immigrants from Turkey significantly helped with the lack of labor in Germany. By contrast, the countries east of the Baltic Sea have a history as countries of relative poverty compared with the countries west of the Baltic Sea.

In sum, even though the Baltic States and Poland have in many respects proven to be enthusiastic Europeans, the European Union is going to have a hard time getting the states east of the Baltic Sea to accept their fair share of the refugees. ■

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Four countries – four stories: how macroeconomic outcomes vary

Expert article • 1845

The north-western rim of the Baltic contains some of the most prosperous and successful countries of the European Union. The three Nordics of the region – Sweden, Denmark and Finland – have consistently scored highly in almost every cross-country comparison of wellbeing. Germany, while ranking somewhat below the Nordics in such comparisons in the past, has become a definite power-house of the European economy in recent years.

However, the economic fortunes of the four countries have been far from uniform but varied a great deal over time. The economies have differed in terms of demographics, production structures, shocks that have hit them and also policies pursued. Comparing the outcomes and their proximate causes could therefore be instructive about what it takes to be successful and also what might derail such a process.

As in most other European economies, the years before the global crisis were good for all of the four countries in terms of GDP, productivity and employment growth. Sweden and Finland had embarked on a path of rapid growth already in the mid-1990s following their financial crises and deep recessions in the early 1990s. GDP in Denmark and Germany was almost flat in the first years of the new millennium, but started to grow in late 2003 in Denmark and in 2005 in Germany.

The composition of growth before the crisis differed in an important way, however. Germany started a strong period of export growth in 2004, following a substantial improvement of costs competitiveness based on wage moderation and significant labour market reforms. Ever since that period Germany's export performance – measured by the difference of export growth and market growth – has been the best by far among the four countries. At the same time domestic demand and in particular consumption has grown slowly.

The three Nordics also displayed strong export growth, which in the case of Sweden and Finland stemmed from the exchange rate depreciation in the 1990s, wage moderation and rapid growth of productivity. However, unlike in Germany, consumption grew rapidly in the Nordics. Especially Denmark experienced a consumption boom from about 2005 to 2008, fuelled by rapid growth of household debt.

All countries were obviously hit by the common global financial market turbulence and export demand shock. However, the economies had different strengths and vulnerabilities and these have affected the performance of these economies fundamentally ever since the crisis started.

Finland has done worst of all the four. GDP volume per capita is still some 9 % below the pre-crisis peak. This stems essentially from a very weak export performance, as particularly the ICT sector's exports have plummeted; export volume still remains almost 20 % below the pre-crisis peak. In 2011 the initial export recovery stalled leading into a steep decline of investment and stagnating consumption. Some of the reasons for the weak export performance are external, like reduced demand for paper or Russian demand but more important is weakened competitiveness due to loss of productivity (Nokia's failure in competition with Apple and Android) and rapid relative wage growth.

GDP volume has developed almost equally badly in Denmark as in Finland. However the reasons are different and so are the implications. In Denmark export volume has reached the pre-crisis level. It is thus domestic demand, both consumption and investment, that first declined and then remained almost flat. The weakness is easy to link to the high indebtedness incurred during the boom years, very much in line with what was seen in Ireland or Spain recently or in Sweden and Finland in the early 1990s. Fortunately for Denmark, its terms of trade has improved by some 4 % from 2007, while Finland's terms of trade has weakened somewhat. As a result Danish purchasing power has evolved much better than that of Finland in spite of similar volume developments.

In Germany exports have continued to boost growth, but recently also consumption growth has started to pick up. While productivity growth has remained mediocre, employment has increased rapidly, and the employment rate has become the second highest in the group.

Sweden in turn has displayed the most balanced growth pattern in the recovery phase. Consumption has grown steadily ever since the crisis and investments have developed the best among the four countries. On the supply side it is noteworthy that productivity growth has been marginally better than in other countries while employment has grown strongest. Sweden has overtaken Denmark as the country with the highest employment rate.

It seems clear from the experience of the four countries that maintaining a competitive export sector is a necessary condition for sustained growth of an open economy. For that to happen one does not need to have independent monetary policy or exchange rate as a policy tool, even though it might make things easier. Both Sweden and Germany have done well in their export markets despite their different monetary arrangements. Both countries have labour markets which seem to have internalised the need to maintain cost competitiveness and display substantial flexibility at the firm and plant level. The case of Finland, on the other hand, suggests that being in a monetary union can be a significant handicap in the presence of asymmetric shocks, if the labour markets lack on flexibility.

The Danish case in turn is a reminder that a boom-bust cycle is possible and can have long lasting impacts on growth and employment even in a country that has in many ways pursued successful structural policies. Denmark is after all renowned for its well-functioning labour markets, and has managed to specialise on goods and services with increasing relative prices.

A third observation is that labour supply does not determine unemployment. Sweden has seen the strongest growth of working age population but the unemployment rate has been on a slightly declining trend while the employment rate has increased. In Denmark and Finland the growth of working age population has been almost identical. Still, unemployment has been on a steadily declining path in the former since 2012 while it has increased in Finland. These differences underline the importance of labour market flexibility as a precondition for good employment and unemployment outcomes.

Expert article • 1845

The varied macroeconomic performance of the four countries shows that no country is destined to great success and no country is destined to failure. Sweden and Finland were in great difficulties in the early 1990s. Both countries recovered strongly and particularly Finland was considered a front-runner of high-tech production. Sweden has maintained its strong position while Finland has not. Germany was considered the sick man of Europe only a little bit more than a decade ago but is now one of the most dynamic economies in Europe. Denmark has been example well-conducted structural policies, but it, too, failed to prevent a financial boom leading to long-lasting bust. ■

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ECONOMIES**To receive a free copy,
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KARI KAUNISKANGAS

YIT in Russia and the Baltic Sea Region

Expert article • 1846

YIT Corporation is a construction company operating in Finland, Russia and Central Eastern Europe. The Group's annual revenue is 1.8 billion euros and it has approximately 6,000 employees. YIT's operations outside Finland consist almost entirely of the Group's own housing development projects. This means that YIT acquires plots of land, designs and builds apartments, and then sells them to consumers through its own housing sales organisation.

In Russia, YIT operates in seven cities, each with a population of over one million, and currently has approximately 9,400 apartments under construction. There have been rapid market changes in Russia and the economy slid into recession last year. The recession is primarily due to a decline in the world market price of oil and secondarily due to economic sanctions imposed by the West.

There is no easing of these political tensions on the horizon. Instead, the chasm between Russia and the West appears likely to grow deeper, resulting in Russia clearly turning towards China. For China, Russia is seen primarily as a source of resources, which means that the pressure to diversify the economy will grow. Some signs of this are already apparent, and products by domestic companies are growing in popularity. Russian products have a good level of price competitiveness in the international market. A quick upturn in the economy could only be achieved through a rapid increase in the price of oil, but such a change is unlikely due to the prevailing global economic outlook.

In the case of Russia, it is important to understand the discrepancies in economic development between different regions. Trying to form a single big picture would require too much generalisation. The St. Petersburg area differs from Yekaterinburg in terms of its industrial structure and economic development. In spite of the bleak overall picture, domestic air traffic is growing at a rate of 15%, as is domestic tourism. Private consumption is also increasing.

It is possible to operate profitably in the housing business as long as you carefully select cities and microlocations while also recognising changing consumer needs. There is a shift towards smaller apartments underway, with people preferring to move close to their previous home. At the general level, demand is supported by the poor condition of housing stock as well as the trend of urbanisation. A key condition for success is acquiring plots of land with a clear ownership history and for which effective infrastructure is available. If these aspects are in order, the various permit processes are predictable and transparent.

People often talk about the Baltic countries as a whole, and they certainly do have a lot in common. One thing they have in common is that all three economies are developing very favourably at present. All three countries use the euro and they have, relatively quickly, developed Western legal practices and principles, which creates predictability. It should, however, be noted that Latvia differs from the other two in terms of political instability, which is reflected in the form of fluctuating regulations. Interest rates are low throughout the region, and the financial markets operate effectively. The Baltic countries' links to the Russian economy have become weaker, which in turn mitigates the negative impacts of the recession in Russia.

All of the Baltic countries are small economies, which is reflected in low interest among international investors and operators. Declining population figures resulting from emigration also contribute to lower interest. This is particularly a problem for Lithuania, but also for Latvia. The Baltic countries' populations are generally highly educated and hardworking, and the growth of labour costs has been moderate.

The housing market in each of the Baltic countries is relatively small, but demand is increased by the need for improved quality as well as the trend of urbanisation. The ageing of the population, in turn, leads to new solutions that allow senior citizens to live at home, while also underlining the significance of accessibility features considered standard in many countries, such as lifts. Instead of the size of apartments, attention is increasingly focused on functional solutions and layouts. Apartments located close to services and public transport are highly valued, with rail transport particularly popular. Especially in Lithuania and Estonia, zoning and permit processes are predictable and land ownership conditions are well-defined. YIT currently has approximately 1,200 apartments under construction in the CEE countries¹.

Over a period of less than two decades, YIT has expanded in Russia from St. Petersburg all the way to Tyumen, and in the Baltic Sea Region, to all three Baltic countries, and most recently Poland. These countries have offered, and continue to offer, potential for business growth. It is important to look beyond trends and operate on a long-term basis. ■

¹The CEE countries include the Baltic countries, the Czech Republic and Slovakia. The Baltic countries are not reported separately.



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Perspectives of building industry in Russia

Expert article • 1847

Russian construction market has flourished during the whole 21st century with minor decline in the years of worldwide economic crisis 2008-2010. Constructed volumes have tripled since 2000 and they have mostly evolved in residential segment, making over 90% of total volume of completed square meters.

There are certain market drivers behind this development such as lack of housing, high level of urbanisation, positive demographic development, and also recent creation of mortgage market. In Russia housing provision is extremely low – only 24m², while in European countries it varies from 40 to 80m² per capita, therefore, there is an opportunity to grow.

Retail construction has boomed thanks to positive purchase power and consumer needs development. Industry has been subject to major share of local and foreign investments for creating new or increasing existing production capacities. Infrastructure has been facing continuous investment deficit since it is mostly funded by the state budget, but also some public private partnership concepts have been created.

Fairytale gone bad?

Since 2014 Russia's political and economical development has seriously affected not only building industry but also customer behavior. Foreign investments and financing sources have disappeared leaving very limited opportunities for company credits and mortgage loans, also the scrutiny and solvency rules for granting credits have become stricter. Government has started to subsidize mortgage loan interest for residential projects under construction to avoid uncompletedness of them due to lack of liquidity by developer.

Economy class (incl. social housing) makes over 60% of the total residential segment and most apartments in such class are purchased on basis of mortgage loans. Number of given mortgage loans is anticipated to drop by 50% as happened in 2008-09. This shall eventually lead to less start-ups of new projects and widening gap between regional volumes in favor of growth regions and hubs.

In comfort, business and elite segments majority of customers acquire their apartments by own financing and without fit out due to their urge for tailored design. In these segments customers have greater solvency, but have started to require also individual terms such as discounts, installments etc. They have also become very sophisticated purchasers thanks to housing and pricing data available on public sites of developers. Also bulk and private investors have started investing in high-end housing with excellent location, value of which shall at least remain if not grow in rubles. Despite the overall declining scenario, there shall remain certain demand for high quality apartments with individual design and a full range of services in mentioned segments.

Since the crisis started, customers have invested their reserves in fixed or tradeable assets in order to avoid impact of ruble devaluation on their wealth and savings. First wave of investments was seen in springtime 2014 and second in December when ruble rate collapsed.

Naturally, if the ruble fluctuation continues and internal financial market remains limited, it shall have a significant impact on construction industry, customers' purchase power and eventually on apartment pricing development. Construction industry is most likely to undergo major changes. All purchases are localized and based on ruble, and share of imported goods is minimized to maintain anticipated cost level. However, due to lack of liquidity on the market there will be alternative financing solution introduced to pay subcontractors and suppliers by square meters i.e. barter schemes. Unfortunately, this shall result in financial problems and bankruptcies of small and medium companies on the supply chain.

Invasion or extension of existing operation of Asian and Middle Eastern players, which are out of the sanction policy, can be recognized. Thanks to economy of scale, their production and operations are cost effective and most likely they shall overtake market shares from European companies and affect price and profit level permanently.

Russian government policy about import substitution may boost development of domestic food industry on a long run, but foreign investment activity shall remain on low level until the prevailing political situation has been dissolved. Depending on oil price fluctuation, infrastructure budget may be decreased and remaining funds to be re-allocated to construction of Crimea and venues for international events such as FIFA 2018 championship.

How to survive?

Foreign companies, running local operation or production, shall overcome the economic decline, since their activities are less affected by ruble fluctuation than those having import operations. Companies have optimized their structures to keep them lean and agile for better capability to face any market changes. Companies' level of awareness has risen and weak signals are constantly monitored in order to foresee and react not only to changes, but also to opening opportunities on the market.

One should remain awake and constantly review different scenarios based on economical and political development, facts and trends on own field of business but also assess and mitigate risks and opportunities within one's control and appetite. These years of slow pace survival shall require most of all inspiring leadership, strategic and visioning skills of management. ■

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We need more leadership and less management in organizations for new innovations, productivity rise and economic growth in the future

Expert article • 1848

The companies and organizations need more "Leadership" (doing the right things) and less "Management" (doing things right) for enabling new innovations and economic growth in the dynamic global economy at the present and even more so in the future.

Leadership focuses on the people and their information, imagination, inspiration, knowledge, understanding and development potential, which is at the heart of it. People's activity, actions and impact in leadership process happen from bottom-up rather than top-down. Leadership provides clear vision (goal), mission (purpose) and sets targets for steps and path forward. Leadership trusts and relies on and ensures the best resources and conditions for people to find and do needed things to achieve results and make an impact.

Management focuses on the process, which includes clearly defined predetermined steps, ways and actions. These are at the heart of it. The process works and executed from top to bottom. Management is concerned mostly with having the correct ends-means process, measurement and updating. In management process and actions are not too much concerned with the aim and purpose of doing something rather than it is done in particular and predetermined way defined from top-down. People are just parts of the execution process.

Visionary and responsible leadership is the way forward

Dynamic and fast evolving global economy require similar responses within the companies and organizations. We cannot think anymore that all and best information, knowledge, understanding and wisdom is only at the top of companies and organizations and act only based on top-down guidance process, if we want to keep up with the world. The typical top-down management process solution is that we need to think and do things just better and faster to keep up with the competition around us. It does not work and solve the problems in most cases in the present world. But the management focus and process is still the main way of doing things in many companies and organizations. We need change it and fast.

We want more visionary and responsible leadership in the companies and organizations. Visionary leadership means that there is clear vision, mission and targets based on dynamic foresight in guiding the company and organizations forward. Responsible leadership means that the people and their resources and enabling conditions are in place for them to make things happen to achieve results. In responsible leadership organization the directors and executives set their employees and organizations interests always before their own.

Responsibility is always more important than power. The Power is used to ensure that the organization and its employees have the best resources and conditions to ensure successful results. Responsible leaders look always ahead and around along with acting proactively and progressively nor leave difficult decisions to be made on time. Responsible leaders do not take the honor that belongs to the employees to him or her. Responsible leaders carry always the full responsibility of failures and mistakes of all and organization.

We need to release the vast human capital potential in Finland now

We have a vast amount of well-educated, well-trained, skillful, knowledgeable and tremendous learning potential having people and employees in many companies and organizations at the present time. There are also more of them idle outside of the companies and organizations waiting for opportunities. These people are tremendous unutilized human capital and natural renewal resource, which we should set free and allow them to create flow of mass flourishing in Finnish and global economy right away.

The management constrained and underutilized human capital reserves are the key for our new sustainable economic growth in the future. This means and leads to turning our Finnish top global innovation and competitiveness index numbers or achievements in actual financial results and financial figures to the top.

Our companies, organizations and whole society needs much more visionary and responsible leadership in the future. We need to release ourselves from our great management and managing tradition to leave more room for responsible leadership, better utilization of our tremendous human capital natural renewable resources, bolder questioning and actions about changing the way we are doing things traditionally, focus and encourage people to do the right things rather than doing them right. This is the best way for getting the mass flourishing going and new innovations moving forward, which leads to faster productivity rise and economic growth in Finland in the future. ■



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Finnish SMEs are still seeking growth – who is willing to carry the risk?

Expert article • 1849

In Finnish public discussion, SMEs are commonly entrusted to be responsible for further economic growth. At the same time their conditions for doing business have not developed favorably. Overall economic atmosphere is weak and continuously widening duties and regulations frustrate small firms. Due to the financial crisis several years ago, tightening of financial market has been remarkable, especially from the SMEs' point of view. Borrowing with poor equity capital seems to be extremely difficult. It is relatively easy to get public funding for the product development, but this is not the case for the risky operations.

In recent years, there has been wide public debate on the lack of competitiveness of the Finnish export sector. Slack wage policy in the public sector has spread over all industries and the productivity has decreased at least when comparing to other export oriented economies around the Baltic Sea. Development in the Finnish labor market varies remarkably in comparison e.g. to Germany and Sweden. These two countries are our important trade partners, and the competitiveness of their export sector has notably improved due to the moderate wage policy, increase of labor supply and flexibility at the company level agreements. There is no doubt that we have to follow our competitors within this route.

Finnish Industry Investment recently celebrated its 20 years anniversary. Within the ceremony seminar took place an interesting panel discussion "Do Finnish SMEs have an intention to grow?" The panel consisted of the representatives from some growth-oriented SMEs, a venture capital fund manager and a pension fund. Perhaps a bit surprisingly, the competitiveness question did not take major role in the discussion, although it was noticed as one factor. The most challenging problem seems to be the lack of middle-sized enterprises comparing for example to Sweden. How could we identify the most promising companies? Do we have appropriate actors and instruments to support these growth-oriented firms? Do we even have enough promising business ideas? In any case, company-level agreements and flexibility of using workforce seem to be more important factors than simple unit price of working hour. It was also stated that the company operating internationally has to be strongly and pro-actively networked with its customers, with a deep understanding of the processes within the industry. You have to be creative and quicker than your competitors in order to get a deal. The old fashioned way for internationalization was to develop and prepare a product as long as it is totally ultimate, and just at this stage to evaluate the potential for the export market. But this does not work anymore. The companies need a lot of courage, right attitude, real will and also an ability to take more risk.

We could argue that the availability of venture capital is currently at quite good level for the promising start ups, especially for the companies operating in the IT sector. The rapid growth of game industry has been strongly supported by domestic and international

venture capital funds. In addition, private equity capital is quite easily receivable for those middle-sized companies which are seeking fast growth via ongoing consolidation in its industry. But there is a lack of risk capital for many small-sized players which are operating in more traditional business fields, with a great potential in it. Further economic growth will and has to be based on the growth of innovative and quickly moving SMEs in all industries. The IT innovators cannot be the only drivers for new economic growth. I believe there are several entrepreneurs and companies in all industries that can make things better than the others, they have a great potential to grow up to be much bigger players. Finding and supporting these companies on their growth track is the key element for new economic growth.

It has been argued in some discussions that Finnish SMEs are not eager to seek growth. I claim more serious problem is to find funding for the promising businesses. Without strong equity capital and already profitable business the company will not get financing from the banks. At least the bank requires warranties from some institutional warrantor. However, for example Finnvera reports that it may allow warranties only for the profitable firms. So, how to go forward? We need more risk tolerance from public financing units. Moreover, many growth-oriented SME needs a professional partner and risk investor by its side, which is capable carrying major part of the risk, is able to arrange sufficient external funding and will build the business hand by hand with the company's key persons. This partner should have a patience to seek long-term growth, not aiming to make quick profits. ■

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‘Multipolar world’ as perceived by Russia

Expert article • 1850

The president of Russia Vladimir Putin addressing the UN General Assembly in September 28, 2015 pointed out – it is not acceptable that US acts as a global leader and exercise exclusive rights in the international arena. Instead of this V.Putin urges to follow the UN principles in the international relations and to strengthen the multipolar world order.

What is official Russia’s perception of this ‘multipolar world’? One should distinguish two dimensions here – the judicial and the ideologically cultural ones. The current international law does not confer exclusive rights or privileges in the international arena to any particular country regardless of its regional or even global influence. Straight after the annexation of Crimea, the Russian representatives often talked about the necessity of Yalta 2.0 or Helsinki 2.0 meaning by that a new agreement about the order of the international relations. The Russian politicians and diplomats used to express the idea that the current rules did not work, therefore “it is necessary to sit down around the table and negotiate the new rules of the game”. What would they be in Kremlin’s perception?

Already in its foreign policy concept paper of 2008 Russia offers a world order where the leading great powers together steer the global processes. In such a model the great powers “must be represented in the sense geography and civilization”. In fact, Russia offers a new type of actor in the international policy – the civilization. A similar wording can be found in Russia’s foreign policy concept paper of 2013. You might believe that the ideas of Samuel P. Huntington that provoked a great stir a time ago are topical only in academic circles, but the main document of the Russian foreign policy displays an attempt to implement these ideas in the country’s normative foreign policy.

Another concept paper of Russia’s foreign policy – ‘The main policy directions of the Russian Federation in international cultural and humanitarian cooperation’ also speaks about a multipolar order. This document of 2010 states that the humanitarian links should serve the goal of strengthening the multipolarity in the international policy, and according to the authors of the paper, the global competition has *inter alia* also the dimension of culture and civilization. A fight for the cultural influence takes place globally while more and more new centres of power join in it.

Both Russia’s foreign policy concept papers and speeches by politicians or propagators make much emphasis on the cultural dimensions, stating that Russia is the centre of a separate Eastern-Orthodox civilization, which should not abide by the Western norms. Stress on the cultural differences helps the Russian authorities to mobilise the population patriotically, to gain the support for V.Putin and to block the Western influence in Russia and its neighbouring countries.

What Latvia and the Baltic countries in general should make out of it? Even if Russia’s policy has been much more aggressive against Georgia and Ukraine, the Russian perception of a multipolar world creates certain problems also in the Baltic area. Like Huntington, the official Russia believes that the communication among ‘centres of civilizations’ only, which also represent the small nations on the edge, is needed for the conflict prevention. Following this logic Moscow shall

represent the ‘Orthodox’ Ukraine, Moldova, Belarus and Georgia in the international scene... The Russian perception of the multipolarity coincides with the idea that the great centres, including Russia can have their own national interests and consequently – exclusive rights in the neighbouring countries. The Russian diplomats love to talk about an independent foreign policy of Russia, but as soon as Ukraine is in question, it has no rights to a similarly independent policy. Due to their membership in EU and NATO Russia cannot subdue the Balts in the same manner it tries to subject other post-Soviet countries. Still the idea about Russia as the consolidating factor of ‘the Russian world’ has consequences also on the Baltic states. ‘The Russian world’ is linked to the Orthodox civilization, so it includes also many Russians living in the Baltic countries. This integrationist project appealing to unite the people around Moscow as the spiritual centre of all Russians hinders the integration of Latvia’s and Estonia’s Russian speakers in their respective countries of residence.

What shall be done? The Baltic countries must continue to integrate the Russian immigrants from the Soviet era not allowing them to remain victims of Russia’s propaganda and disinformation. On the regional level the free world has to support decisively the rights of Ukraine, Moldova, Georgia and other countries to an independent foreign policy. Moscow should not decide on the fate of these countries ignoring the choice of their peoples. The global level actions would include a renewed discussion on the UN reform, leading to enlargement of the Security Council and limitations of the veto rights. Otherwise the UN is not able to perform effectively and the member states, when dealing with the problems, violate the international law and ignore the UN principles. ■



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The new Greek-Russian relationship – rhetoric or reality?

Expert article • 1851

The rise to power of Syriza in January 2015 has provoked a debate about the possible re-orientation of the Greek foreign policy. More specifically, there have been many media reports about the new emerging relationship between Athens and Moscow. In spite of Greece's full integration into the Western community of nations, the pro-Russian tendencies of several Greek ministers have raised eyebrows in European capitals. Albeit their fundamentally different ideological viewpoint, both foreign minister Nikos Kotzias (a former communist) and defense minister Panos Kammenos (a right-wing populist) have advocated a closer relationship with Moscow. Other key ministers have also expressed their personal affection for Russia. In fact, all Greek political parties have favored, more or less, an improvement of relations with Moscow.

While the common Orthodox faith has often been mentioned as an important factor in the convergence of Russian and Greek interests, religious affinity rarely dictates foreign policy decisions. Actually, division is more common than unity in the Orthodox world. There is a long history of antagonism between the Greek-speaking Ecumenical Patriarchate of Constantinople and the Moscow Patriarchate for the spiritual leadership of the world's Orthodox Christians, with Ukraine being one of the battlefields.

Tsipras is hardly the first Greek leader attempting to improve relations with Moscow. During 2004-2009, the former Conservative PM Kostas Karamanlis invested diplomatic capital in two strategic areas of bilateral cooperation: energy and defence. Yet, the relationship never took off; US concerns and Russian over-enthusiasm forced Athens to reconsider its opening to Moscow. Moreover, Greek and Russian interests have rarely aligned. In fact, Greek political elites have always viewed with great suspicion the Slavophile tendencies of the Russian/Soviet foreign policy in the Balkans. The fact that Russia was one of the first countries to recognize the former Yugoslav Republic of Macedonia with its constitutional name confirmed in the eyes of many Greeks these tendencies. As non-Slavs, most Greeks feel closer to fellow Mediterraneans like the Italians and Spanish.

Having said all that, Russia and Greece do share common interests and goals. The large Russian-speaking Greek community that resides in southern Russia acts as a bridge between the two countries in a fashion similar to that of Russian Jews in Israel. One of its most well-known members is Ivan Savvidis, a pro-Kremlin businessman who has invested in the Greek economy. Both Athens and Moscow have supported diplomatically the internationally-recognized government of the Republic of Cyprus and have called for a peaceful resolution of the Cyprus Problem, but for different reasons. Greece has traditionally played the role of protector for the island's large Greek population, while Russia has felt obliged as a permanent member of the UN Security Council to defend international law. Finally, potential benefits deriving from the export of Russian gas to European markets have been perceived by both countries as crucial to their economic prosperity.

While it is true that the Tsipras government has indicated a willingness to improve relations with Moscow, Athens cannot afford to alienate its EU and NATO partners. To the surprise of many, the governing party even acknowledged the important role of the Obama administration in keeping Greece in the Eurozone. Tsipras' recent trip to the United States aimed at securing political support and investments. This renaissance of the US-Greek relations could come at a heavy price for Syriza's new Russian policy. Despite its much-publicized effort to join the Russian-led Turkish Stream gas pipeline project, the Greek government is unlikely to ignore Washington's views on the issue.

The victory of Alexis Tsipras in the September 2015 elections reaffirmed Syriza's gradual transformation into a pro-EU left-of-center party. The Greek Prime Minister has committed himself to the implementation of a series of painful reforms. Despite all the harsh rhetoric against the EU, Tsipras is about to launch the biggest ever privatization program. More importantly, the geopolitical orientation of Greece will not change anytime soon. Athens cannot distance itself from Brussels, Paris and Berlin. Greece's future is tied to the rest of Europe, for better or worse, and Tsipras came to recognize it. ■

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Regional councils and the EU-Russian crisis

Expert article • 1852

The Ukrainian crisis, and the following deterioration of the EU-Russian relations, have raised some important questions for the regional councils in Northern Europe, most notably for the Council of the Baltic Sea States, the Arctic Council, and the Barents Euro-Arctic Council, as both EU countries and Russia are their full-fledged members. There are at least three different scenarios.

In the shadow of the security dilemma

While no one speaks about closing down the regional councils, the realistic logic would suggest that the current geopolitical crisis will sooner or later overshadow also this traditionally low-politics regional cooperation. The New Cold War between "Russia and the West" is in the making, with no solution in sight. Therefore, the wider security dilemma is bound to dominate the situation also in Northern Europe. A clear sign of this development is the increased military activity in these regions of both Russia and NATO.

Indeed, while this development cannot be disregarded, it has so far not reached the regional councils. To be sure, during the Canadian chairmanship of the Arctic Council, right after the annexation of Crimea, there were problems of organising working group meetings in Russia. Russia, in turn, has been opposing the plans to accept the EU's observation status in the Arctic Council.

Beside these weak signals, the councils seem to have been able to minimize the harmful consequences.

Bridge-builders

An opposite scenario would instead see the regional councils as mutual transmission mechanisms and communication channels on a range of issues going beyond traditional regional cooperation; the councils should replace broader European mechanisms, which are likely to remain stagnant in the forthcoming period.

These types of ideas are usually proposed by people with rather academic than policy background.

This would virtually mean adding a range of high politics issues onto the regional councils' agenda, thus transforming them as platforms for confidence building in these difficult times when other channels do not work. Effectively, the regional councils should become bridge-builders in EU-Russian relations.

However, there are several reasons, why this strategy would not work. It does not, and cannot, have any mandate from the EU. It has neither any institutional basis or existing mechanism in the regional councils themselves. The main political bodies of these organisations, committees of senior officials, clearly are too low-level forums for any real high politics discussion. The annual foreign ministerial meetings, and every second year prime-minister-level summits, say, those of the Council of the Baltic Sea States, are by contrast traditionally decorative short meetings, approving joint statements prepared by the senior officials during the previous months. They are more like showing the direction for the organisations' lower levels, rather than any negotiation or decision-making platforms.

Moreover, bringing in high politics bridge-building into the regional councils during the time of a severe EU-Russian crisis would most probably, as an unintended side-effect, paralyze some otherwise useful cooperative activities on low politics level.

Damage limitation with business as usual

What is then left is the business-as-usual scenario, a kind of damage limitation strategy to isolate as much as possible the wider geopolitical developments from the Baltic and Northern cooperation. This scenario is the most realistic one, considering the perceived interests of at least the majority of the respective countries. This cooperation is seen as a win-win activity, unlike the zero-sum dilemmas concerning Ukraine.

Cooperating with Russia in the regional councils on equal footing is rather a prerequisite for any real success in most of the areas the councils have been established for. Moreover, the low politics priorities help at least partially shield the existing good cooperation from spill-overs of the general EU-Russian crisis.

This strategy as such mitigates the consequences of the high politics crisis. It signals that the respective countries do not want to isolate Russia beside high politics tensions, emphasising that low politics cooperation goes on.

But who knows, perhaps this is exactly the wrong message, just to make Russia's appetite for a revanchist politics to grow? ■

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Reversed the vector of 30th years reforms in Russia is the one way ticket

Expert article • 1853

Thirty years ago, in 1985 Mikhail Gorbachev began the changing economic policy of the USSR, six years later in 1991 Russian president Boris Yeltsin started radical market reforms. Centralized planning economic system was transformed in market system of resources distribution. In 1990th years the infrastructure of goods and services market was created, the majority of enterprises were privatized, broad private banking sector appeared. New contemporary tax system was created. Russian government took course to the integration in world economy and to cooperation with west developed countries. The way of Russia to market economy and democracy has begun.

At the same time the realization of choosing in 1990th years methods of market reforms created significant social-economic problems: big private companies and banks monopolized markets of goods and services; the diffusion of government authority and entrepreneurial function distinctly revealed; great differentiation of property and incomes has appeared; system of state institutes and laws realization became dramatically weak. Reformers were unable to create strong sector of small business.

In early 2000th Russian president Putin managed to enforce state apparatus, weak the power of "oligarchs", but creating him economic model of centralized manual control of big state and private diversified companies didn't become the effective tool for the solving arisen economic problems. Enforcing state apparatus and improving the mechanism of its function was neutralized by increasing level of corruption.

In fact created economic model resulted in the slow of economic growth in spite of the high level of oil prices on the international market – key driver of the Russian economic growth in 2000th years. The rate of the economic growth came down from 4,3 % in 2011 year till 1,3 % in 2013 year.

The substantial drop of oil prices in 2014 with connection the annexation of Crime, "hybrid war" on the East of the Ukraine and sharp confrontation with West countries led to worsen of the investment climate, outflow of capital, decline of investments, limitation of cheap western credit resources and finally to the economic crises in 2015 (-4,6 % in September).

The coming out of the crises is demanded the return the policy of détente, new "perestroika", structural economic reforms, etc.

The main measures of the solving economic problems of Russia – demonopolization, diversification, increasing the competitiveness are well known – separation the government authority and entrepreneurial function, basic democracy institutes and structural reforms.

The main drivers of economic growth should be small and medium-size private business, direct foreign investments in the condition of good economic climate.

To my mind, Russian president Putin is not ready to above mentioned measures. The priorities of the budget policy, the tendency of the enforcing authoritarianism, confrontation with leading developing countries evidently prove it.

According to SIPRI data Russian military expenditures increased from 3,7 % GDP in 2011 till 4,5 % GDP in 2014. Russian share of

military expenditures is highly more than the share of military expenditures of European countries, USA, China.

During the governance of president D. Medvedev Russia left the group of countries with "hybrid" political regimes. According to the "Economist" democracy rating Russia slowed down from 102 place in 2006 to 132 place in 2014. In 2010 in Russia the authoritarian regime was established.

In 2014 nine participants of authorized peaceful street demonstration at the 6th of May 2012 on Bolotnaya square took real terms imprisonment. Russian parliament adopted several odious laws which shortly restricted the activity of public organizations, which defend civil rights of Russian people. At the 1st of March 2014, when Federation Council of Russian Parliament gave to the president Putin the rights to use military forces on the territory of foreign countries (read Ukraine) we can say that the political regime in Russia acquire the features of "smooth" dictatorship.

In February 2015, one the most famous leader of opposition - Boris Nemtsov was killed near the Kremlin.

I think that the changing of economic policy is unable without changing power elite, solving the problem of transition authoritarianism to democracy.

But in this way we have one essential problem: according to sociological surveys 85 % Russians support Vladimir Putin.

We can explain this fact by power elite monopoly on TV, aggressive propaganda, brutal suppression of opposition, using "dirty" technologies in elections etc.

Nowadays in Russia there are five real opposition parties: "Civil platform", "Alliance of greens", "Party of progress", "PARNAS", "Yabloko".

According to sociological surveys every party has the peoples support no more than 1 %, at the same time power elite political party has the support more than 20 % of Russians.

We can say that oppositional parties are not very popular among electors: one of them has radical "right" course, refusing from active social government ideas, another try to convert his "political capital" in comfortable place in power structure.

As for me, the effective public management of opposition: choosing correct program and strategy, intensive cooperation with oppositional activists, creative methods of public marketing, fund raising - is one of the crucial measure in fighting against authoritarian regime in Russia. ■



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Less bread means more circuses

Expert article • 1854

So it's back to show trials again in Russia. The starting signal sounded three years ago, when two members of the performance group Pussy Riot were condemned to two years in prison for a few dancing steps on the altar steps of an Orthodox cathedral in Moscow. But now the sentences have been cranked up tenfold.

The absurdity of the accusations against Pussy Riot and the farcical trial in the autumn of 2012 led to large-scale protests in Moscow and huge publicity, not only in Western media but also on Russian state television. There the case was used as one of the tools in the campaign the Russian ruling elite was waging in order to discredit the opposition, split the protest movement that had sprung up in Moscow and demonstrate that the patriotic state leadership was doing everything possible to defend Orthodox Russia against the menace from the godless West.

After that came the Bolotnaya case, where a couple of dozen carefully selected persons were accused of rioting and violence against the police during a protest in Moscow on 6 May 2012. After a long trial, which received plenty of attention in Russian media, several people were given long prison sentences.

Now is the time for the next instalment. In 2015 not many are openly protesting in Moscow against this autumn's new series of absurd trials. Few Russians are prepared to be the next to be made an example in a court of law. Somewhat more surprising is the relative lack of interest in Western media, compared to the headlines Pussy Riot created just three years ago.

The 15-year sentence Eston Kohver, an Estonian police officer, received in August for allegedly spying on Russia, didn't make many front pages. Neither has the Ukrainian film-maker Oleg Sentsov been in many headlines. He was recently sentenced to 20 years in prison as a "leader of a terrorist cell" in Crimea. His trial was held behind closed doors in a military court in Rostov.

Next in line is Nadiya Savchenko, the Ukrainian military helicopter pilot who was captured by pro-Russian rebel forces in Eastern Ukraine, transported to Russian territory in handcuffs and with a sack over her head. Now she is charged not only with "conspiracy to murder" but also for illegally entering Russian Federation territory.

These three cases have not received the same attention in the West as the Pussy Riot trial partly because that is not in the Russian authorities' interests. The target group for these new show trials is not the whole world, and maybe even not the whole Russian population, but more precisely defined groups.

The Kohver case probably pursues the objective of sending a warning signal to the Baltic countries, primarily Estonia. Having spent a full year in captivity, Kohver was finally in September used in a prisoner swap in order to free a convicted Russian spy in Estonia.

The Sentsov case appears to be a warning to all Crimeans who might contemplate protesting against the Russian annexation, but it also sends a more general signal to many people in Russia.

Yekaterina Shulman, writing in the business daily *Vedomosti*, compares the Sentsov trial with the Industrial Party trials, which in 1930 marked the beginning of Stalin's terror. This time, however, there is no need to put dozens of people on trial – the same terrorizing effect can be achieved by putting one person before the television cameras, Shulman writes, and calls the Sentsov trial for "demo-Stalinism".

In the Industrial Party trials the accused had allegedly plotted a coup against the Soviet government with the involvement of the governments of France, Britain, Latvia and Estonia. France had suppos-

edly been promised a piece of Soviet Ukraine as a payment for its support, while Britain was to receive access to oil wells in the Caucasus.

The accusations directed at Oleg Sentsov are on the same level of credibility. No evidence has been produced to show that he was in any way connected to the two minor arson cases that were observed in the Crimean capital of Simferopol in the spring of 2014, nor has any evidence been presented to show that he could be the leader of an alleged terror organisation which was said to be preparing to bomb the Lenin statue and other symbols of Soviet and Russian power in Simferopol. The case seems to rest solely on the testimony of two witnesses. One of them retracted his testimony during the trial and said he had given it under duress.

Sentsov himself has said he was tortured during questioning, but the court didn't find this credible. Bizarrely, the court found it more plausible that Sentsov had himself caused the bruises he could point to while he was having sadomasochistic sex. In that way the Russian-speaker Sentsov could be shown to be not only a dangerous Ukrainian nationalist terrorist but also a sexual pervert. And sentenced to 20 years in prison.

The deterrent effect of the fact that anybody who in any way acts against the powers that be can demonstrably be sentenced to decades behind bars with no conclusive evidence whatsoever is naturally considerable. Anybody who is thinking about openly supporting the opposition or participating in protests is bound to think twice.

In a way it is understandable that the new Russian show trials have received limited attention in the West. Not only are they held in distant locations and behind closed doors, they are also considerably more difficult to grasp than the Pussy Riot case, and even more difficult to summarize meaningfully without drowning in details.

However, the absurd arbitrariness of the decade-long prison sentences clearly shows that the balance of power in the Russian ruling elites has yet again shifted in a more totalitarian direction. As all non-democratic regimes, the Russian system stands on three pillars: money, lies and control. During Putin's first ten years in power money was not a problem, the price of oil was high, and most people in Russia knew that every year they would be at least a little better off than the year before. But this year, for the first time since Vladimir Putin came to power, most people will be considerably poorer than the year before. Less money means more lies and more control. ■

Kalle Kniivilä is journalist at *Sydsvenskan*, a major regional newspaper published in Malmö, Sweden. He is also the author of two books, *Putins folk* (Putin's people), on the nature of the popular support for Vladimir Putin, and *Krim tillhör oss* (Crimea is ours) on the Russian annexation of Crimea and popular attitudes to it in Crimea and Russia. The books are based on a large amount of interviews in Russia and Ukraine. The Finnish version of *Putins folk* (*Putinin väkeä*), received the Kanava award as the best Finnish non-fiction book of the year 2014. Kalle Kniivilä is now working on a forthcoming book based on interviews with Russian speakers in Estonia, Latvia and Lithuania.

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VATANYAR YAGYA & JULIA DROZDOVSKAYA

The role of St. Petersburg in the development of Russian-Finnish relations in the 21st century

Expert article • 1855

Today Russia and Finland have about 90 interstate and intergovernmental agreements in the field of economic, humanitarian, transport, cultural and environmental cooperation, as well as dozens of agreements of a regional nature, which were concluded between cities and regions.

Of particular importance is arrangements within the "Northern Dimension", the Baltic Sea Parliamentary Conference, the Council of Baltic Sea States, the Barents / Euro-Arctic Council and other integration projects. In July 2014 Kaj Turunen, the Finnish member of the Parliament from the 'Finns Party' (the former 'True Finns'), declared: 'Finland does not have to join the EU sanctions against Russia.'

Our country should raise the relations with Helsinki to a new level, so that Finland, trying to find a balance between political and economic interests with the EU and Russia, would clearly mark the EU interests in relation to Russia and would be ready to promote them. Inter-regional and cross-border contacts play an important role in achieving this aim. St. Petersburg holds a special place in these relations, whose cooperation is based on the basis of agreements signed with the sister city of Turku, the partner cities, including Helsinki, and regions, as well as the active participation of the city in the activities of international regional organizations. The Northern Dimension Forum was held on March 26, 2015 in St. Petersburg. Georgy Poltavchenko, Governor of St. Petersburg, noted that the Forum is being held under new, quite unfavorable economic conditions and new approaches are needed in cooperation with regions of North-West Russia and neighboring countries.

To a great extent, when Russia is under EU's sanctions, St. Petersburg plays pivotal part for developing bilateral inter-regional relations. The Finnish establishment is not unanimous over the issue of Finland joining the EU's sanctions, the country is suffering from Russia's just counteraction.

Finland, maneuvering between the interests of Russia and the EU, endeavours to set off losses by means of regional ties, and to avoid cooling-off in the tourist flow, people's 'person-to-person', 'heart-to-heart' contacts, as well as the narrowing of cultural exchange. It must be noted that the House of Finland, opened in St. Petersburg in October 2009, plays an important role. The House promotes awareness-building, cultural and scientific exchange between residents of the city on the Neva and Finnish cities, thereby building not only people's trust in each other, but also the trust-based impact of interpersonal and interregional relations on the interstate ones.

The joint program of trade and economic, scientific and technical and humanitarian cooperation, successfully implemented in 2008-2011 by the Government of St. Petersburg, Russian Federation, and the Council of Turku, Finland, is essential to the cross-country relationship.

Firms, organizations and universities can be involved in common economic enterprises. Thus, 'Business Contacts', LLC., plays an active role in the business area; Saint-Petersburg State University, the Herzen State Pedagogical University of Russia, University of Turku

are successful in the educational area; the 'Baltic International Festival Center', the foundation for Promotion the Culture Programs Development, the F.M. Dostoevsky Literary-Memorial Museum, the 'Kukfo Theatre' are prosperous in the cultural area; in the framework of cooperation between non-profit organizations, St. Petersburg House of Nationalities, the 'Turku-St. Petersburg' Association, etc., are to be mentioned. Co-operation with other Finland's cities is organized along the same lines. A cultural program involving Imatra have been operating for many years.

The role of parliamentary ties between the parliaments of St. Petersburg and Finland is quite important, in particular, of paramount importance, is last year's visit of the parliamentary delegation of St. Petersburg to Helsinki, headed by Speaker V.S. Makarov, during which our parliamentarians and the political and public figures in Finland reached substantial agreements in the field of mutual political dialogue, environmental partnership for cooperation in the Baltic Sea Parliamentary Conference, tourism and culture. The binding documents signed by the Legislative Assembly of Saint Petersburg and the Althing of Aland Islands have brought considerable advantage to both countries, as well as the memorandum between the Parliament of St. Petersburg and the Council of Turku, signed in February 2015.

We would also like to emphasize the environmental issue in the relations between Finland and St. Petersburg. Owing to the interaction with Finland, a number of major environmental protection measures were taken: for example, South-West Wastewater Treatment Plant was put into operation, the projects of the Year of the Gulf of Finland were successfully implemented, in St. Petersburg 98,5% wastewater is treated for discharge to the Baltic Sea. All the ongoing projects started in the Year of the Gulf of Finland will be completed. The Governor of St. Petersburg reported at the 'Northern Dimension' VI Forum that today Russia has allocated Euros 40 million to the special fund of the Environmental Partnership (out of Euros 337,7 million of total contributions).

St. Petersburg is a platform for many joint Finnish-Russian scientific conferences. The intercommunication of scientists of two countries continues in our quite difficult time. Thus it is creating an atmosphere of friendliness, mutual intimacy of two neighboring nations. From the geopolitical position, it functions as one of the instruments of soft power in the foreign policies of both countries. ■

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The House of Finland concept – the key asset to maintain Finland’s position in St. Petersburg area

Expert article • 1856

Why do Finns have a unique position in Russia and St. Petersburg area? It was August 2013. I was offered Finnish cheese in the flat of my new Russian friends in Ekaterinburg after I had just visited my favorite Finnish supermarket in the very same Siberian city. My new Russian friends described both brands as the western high quality from Finland. I was really astonished. The Finnish cheese is barely known to exist and one might mention other supermarkets before the Finnish one in a global scale, I thought. At that moment, I started to understand what many Finns fail to see – Finland and the Finnish brand are extremely valued in Russia. The secret behind this lays in the history. In the Soviet era only few western products were allowed and many of them were Finnish products. The Russians are simply used to take Finnish products as high quality from the west.

Not only the Finnish brand, but also bigger factors make Finland a significant player in Russia, especially in St. Petersburg area. Most Finns do not remember that in 19th century, the second biggest city by the population of Finns was not Turku or Tampere, but St. Petersburg. The Russians have not forgotten the presence of Finns and their culture. Besides the history, the geography cannot be changed as we know.

Such factors create Finns a unique position in Russia and especially in St. Petersburg area, only a milestone away from Helsinki. This is a huge asset but also can be seen as a threat. It leads us to the key question for Finland’s success as a nation, how to maintain this asset in Russia and how to keep the threat at bay?

One answer is the House of Finland. The concept was created in 2006–2010 together with the St. Petersburg foundation and the Finnish government. The idea was to put Finland’s nongovernmental presence in St. Petersburg under one roof – make a window to Finland, its culture and business for Russians in their own soil.

Over 4000 square meters in the hearth of St. Petersburg clearly fulfill the duty and maintain the precious Finnish brand and image in the area. It also makes for Finns easier to operate in the area. Nowadays, the House of Finland is home for numerous Finnish companies, Finnish city representative offices, art, culture and science societies as well as for the Finnish institutional entities for corporate funding and consultation.

For the Finnish companies the concept provides, first and foremost, a good PR-value. Having an office in the House of Finland is a clear signal of the Finnish quality boosting the sales. Secondly, as the Finnish institutional entities for funding and consultation are also located in the building, the help in extremely difficult market area is near.

For the Finnish cities, such as Helsinki and Turku, the House of Finland allows a platform to maintain relations to the city of St. Petersburg and its bodies. The City of St. Petersburg is obviously more willing to co-operate in one address rather than in separate offices. The work of representative offices is also widely linked with the companies and institutional entities in the house. The aforementioned benefits

also often concern the culture and science operators. To sum up, the entities in the House of Finland formulate an excellent Finnish pack with a huge synergy benefits making the presence and acting in the area much easier.

The House of Finland is not only a window to the Finnish brands and entities operating in Russia, but also to the country itself. When the Russians enter the house, they immediately get a view of what is Finland, its culture and business life – and most importantly how to co-operate with Finns and work in Finland. In these immigration phobic times, it should always be remembered that the most prosperous countries in the world are those who manage to attract the most talented work force. Finland is in the same need of talented work force with the problem that nobody wants to move to cold northern country with an elvish like language – except talented Russians. In this sense, the House of Finland is an easy first step.

Moreover, the concept has a political dimension as the house is a strategic platform to develop Finland’s relations to important neighbor in nongovernmental level. Most of the co-operation between two countries and their societies take place in nongovernmental level while governmental level in many cases exists only for support. Thus, it is more efficient to establish straight nongovernmental connections between the societies passing the governmental level. Being a powerful center of Finnish nongovernmental activities, the House of Finland is an excellent platform for creating such connections.

On the other hand, nongovernmental relations often support or even substitute the governmental relations. Ever since my visit to Ekaterinburg, the political climate has changed and my friends are not served Finnish cheese anymore. Official visits to Russia are widely banned for politicians in the same time when it is crucial for Finland to maintain relations with Russia, not only for the national security but also for business, environmental issues etc. In such critical situation the value of the House of Finland and its nongovernmental relations with the Russian society is priceless for Finland. ■



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Russia – a holographic culture

Expert article • 1857

A friend of mine who has served as a US diplomat to Russia and China 8 years each keeps saying that the Western attitudes towards these two peoples are very different. The Chinese do not look like Europeans - their faces are different, until recently they used to be dressed their own way, etc. – and naturally enough they are not expected to behave like Europeans. It is not so with Russians: we look pretty much the same as the Westerners – and so are expected to act. When we don't conform to 'normal' standard the deviations are attributed to bad manners, lack of education, laziness and so on. However the truth is that Russian culture is also very different in some basics.

If you take a Russian firm and compare its corporate culture with a Western analog you will see many deviations which might be looking as deficiencies. A clear-cut behavior standard is lacking and you can see a large variety of individual habits and ways. Peoples' spheres of responsibility are not specified; everybody is both helping and interfering into one another's business. Transparency is lacking and the people who would try to maintain universal standards – especially by reporting to the superiors – are looked upon negatively. Personal and business relations are intermixed and family atmosphere is prevailing in the working place, professional ethics is poor and there is no privacy (by the way, there is no word for 'privacy' in Russian language!). Peoples' statuses and reputations are based not on the results of their work but are shaped by the multiplicity of formal and informal factors. Obligations are not fulfilled. More generally, formal rules are considered a bad thing and especially when they contradict the ad hoc rationality. To sum up, it is a mess – which sometime can be creative and produce unexpected results.

Can we see a system in this mess? My answer to this question is in terms of cognitive science which is dealing with how people come to have, represent, and communicate knowledge. Cognitive science knows two principal ways of dealing with knowledge: by means of *sign systems* (analogous to languages) and through so-called *parallel data processing* (or *PDP*) *systems*. Russia is a PDP or *holographic* culture as different from what might be called *articulate* Western culture. Looking back at the two thousand years of Western Europe we see that it has developed a technique for organization of social entities in the form of *sign systems*, of which the principal one is the law. This allows, as if with children's construction set, to easily build an infinite number of new, complex relationships, behaviors and things out of available cognitive and institutional 'components'. Most important is that knowledge, i.e. mental, ideal objects are transformed – or *re-coded* - into real things. This technique is similar to the invention of writing, and is of no less fundamental consequences; it makes possible disposing of, storing and accumulation of knowledge – that is, progress.

In contrast, information development in the Russian society takes place in a very different *holographic form*: knowledge gets 'spread out' across the social system. Recall so that the hologram has the key property that each its part contains information about the entire represented object. Therefore, when, for example, a film on which an object is depicted holographically, is cut into several pieces, *each* of these fragments will yield an image of the *whole* object, although less clear. This approach to dealing with information is exactly what makes Russian behavior look like 'a mess'.

The difference between the articulate Western culture and the holographic Russian culture is of fundamental importance, it dates back to the ancient split between the Catholic and the Eastern Orthodox Churches and can be traced through to the present-day conflict in Ukraine where – among many other factors – the western Ukrainian more articulate tradition clashes with more holographic eastern Ukrainian tradition. This articulate-holographic difference makes it so difficult transferring Western institutions onto the Russian soil and results among other phenomena in repeating disappointments with establishing democracy, law and property rights. It is manifest in Russia's international relations. At the same time, Russian holography is a source of the strength of our literature because another property of the hologram is that the resulting image is not flat but three-dimensional. Understood more generally and applied to literature this non-flatness might be seen in the works of Dostoyevsky and Chekhov. To sum up, it is something worth thinking about. ■



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Overview of the Russian tourism in the summer of 2015

Expert article • 1858

According to the Federal Agency for Tourism, Russians made 6.5 million trips abroad between January and March in 2015, which shows a decline of 31 percent from last year. Despite a decline of 37 percent in trips to Finland, it has retained its place as the most popular foreign destination for Russians with 786,000 trips during the three-month period. The other top destinations, Egypt and Estonia, saw their numbers decline by 19 and 28 percent respectively.

If we take a closer look at Finland, 237,000 and 256,000 Russians arrived through southeastern border stations in June and July respectively, including truck drivers and other commuters. The comparable numbers in June and July in 2014 were around 27 percent higher at 318,000 and 351,000. This June's number was also smaller than the one in May, even though June has been the busier month of the two in the previous years. This means that the positive development turned into a decline in the beginning of June, which was caused by the decline of the Ruble-Euro exchange rate. The exchange rate declined from 56.3 Ruble per Euro in May to 61.2 in June and 62.8 in July.

According to a yearly survey by the Levada institute, Russians' summer holiday plans for this year have not deviated significantly from the previous years. Around one fifth of Russians was planning to spend their holidays at a summer cottage, five percent at the Crimean peninsula (compared to three percent in 2014) and seven percent somewhere else in Russia. Six percent were planning to spend the holidays abroad (five percent in 2014), whereas 27 percent said they would stay home (21 percent in 2014). Around one fifth said they would spend no holiday at all (16 percent in 2014).

Factors, other than the exchange rate, that affect tourism between Russia and Finland, are the economic situation within Russia and the attitude towards foreign countries in general. According to a study by the Levada institute, which measures the mood of the Russian population, in November 2013, the majority of the people thought that things were getting worse in Russia (41 percent) rather than better (40 percent of the respondents). In June 2015, however, the trend was reversed with 59 percent of the respondents feeling that things in Russia were getting better, while only 23 percent thought that it was getting worse.

Surveys made in 2015 show that 85 to 90 percent of Russians accept Putin's actions, while a year prior to that, in January 2014 only 65 percent had a positive attitude towards his actions. Meanwhile, the amount of respondents with a negative attitude towards the USA was 70 percent (44 percent in January 2014), whereas the amount of people with a negative attitude towards the EU was 62 percent (34 percent in January 2014). Russian tourists' attitude towards Finland in January 2014 was still extremely positive. During the autumn, TAK will be researching whether the attitude towards Finland has changed.

The consumers' trust in financial development in Russia had declined this July from the peak level in March of 2008 by 31 percentage points. In January the trust index was at an even lower level (-37 percent compared to March 2008). Future developments in the Ruble-Euro exchange rate will influence the development of Russians' trust and their consumption decisions.

In case the Ruble-Euro exchange rate remains at the level of July for the rest of the year and no other travel restricting factors emerge, the amount of trips per month to Finland by Russians can be predicted to reach last year's level in November. Under the same assumptions, the amount of overnight stays per month will remain lower than last year until November, but should reach a level higher than last year in December. However, the fingerprint identification, which will be introduced to visas, during the autumn this year, should restrict the amount of visa applications, which in turn could reduce Russians' traveling to Finland. Hence, in case the Ruble-Euro exchange rate retains its July's level, the amount of monthly visits and overnight stays in Finland might just reach the last year's level in December. It is worth noting, however, that any further change in the Ruble, in comparison to the Euro, will influence the amount of tourists to Finland as compared to this forecast. ■



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The Helsinki–Tallinn tunnel – possibilities for Finnish and Estonian tourism

Expert article • 1859

The Helsinki–Tallinn tunnel is the proposed undersea tunnel which would connect the capital cities of Finland and Estonia into a large metropolitan area of Helsinki. According to the preliminary report by Sweco, the most feasible option would be a railway tunnel, especially if connected to the intended Rail Baltic project, aiming to open a fast rail connection all the way to Poland. The tunnel could be completed in 2030, at the earliest, and cost an estimated €9–13 billion. The reduction of the travel time between Helsinki and Tallinn to 30 minutes would have remarkable effects on the development and integration of the two capitals. Furthermore, the tunnel would offer a great potential for increasing international tourism, not only between Finland and Estonia but also from the other Baltic countries as well as from Central and Eastern Europe. On the other hand, the Asian tourists flying to Helsinki could continue their trip to other European capitals by train.

The planned length of the tunnel is about 85 kilometers, which would make it the longest underwater tunnel in the world. Both passenger and freight trains would run through the tunnel and cover its operation and maintenance costs. Public funding would, however, be needed to cover about half of the estimated construction costs. Currently, ferries carry about 8.2 million passengers annually across the Gulf of Finland. According to the estimates, the tunnel would be used by 5 million annual passengers during the first years, increasing to 15 million annual passengers in 10 years.

The leading Finnish newspaper, Helsingin Sanomat, has interviewed various professionals who emphasize the positive effects of the tunnel. As the differences in the living and labor costs between Finland and Estonia will further diminish, the future labor mobility does not only apply to low-wage jobs. Instead, the fast rail connection between Helsinki and Tallinn would enable the mobility of various professionals and form a more interesting destination for international companies and investments. Furthermore, the tunnel would reduce the greenhouse gas emissions caused by transportation.

In 2014, foreign tourists spent about 5.7 million nights at accommodation establishments in Finland. Russian tourists formed the largest market with 1.3 million over-night stays, followed by Swedish and German tourists, both with more than 500,000 stays. Of the Baltic tourists, Estonians stand out with nearly 200,000 nights while Latvians (47,000) and Lithuanians (30,000) clearly fall behind. In addition, nearly 80,000 over-night stays were measured for tourists originating from the more heavily populated Poland. In Estonia, the corresponding figures for foreign tourists were 3.9 million nights in 2014. Finland formed the largest market with 1.7 million stays, followed by Russians with 610,000 and Germans with 240,000 over-night stays. The nights spent by Latvians (170,000) exceeded the stays of Swedish tourists

(150,000) and the figure for Lithuanians was 93,000 nights. Interestingly, tourism from Latvia and Lithuania has grown during the last years. Finland has maintained its number of accommodation nights while tourism from both Russia and Sweden has decreased.

The Baltic Sea and its archipelago form one of the most valuable assets of the Finnish tourism potential. However, from the perspective of European tourists, the Baltic Sea also separates Finland from the rest of Europe. The fact that Finland needs to be reached by plane or ferry remarkably decreases our accessibility. At the same time, the tourism industry is blamed for increasing greenhouse gas emissions caused especially by air and sea traffic. New technologies, such as liquefied natural gas-powered engines in cruise ships and high-speed trains, reduce the environmental effects and decrease the dependency on air travel. The Helsinki–Tallinn tunnel would make the leap into this development as well as bring us much closer to Central Europe. Furthermore, the combined attractiveness of Helsinki and Tallinn would certainly interest tourists also beyond Europe.

At the moment, VisitFinland (former Finnish Tourist Board) invests heavily in the development and marketing of tourism products related to Finnish wellbeing and archipelago as well as stopover tourism. The first two especially target Central European tourists while Japanese, Korean and Chinese transit tourists form the potential customer segment of the third. The Helsinki–Tallinn tunnel, combined with the fast Rail Baltic connection to Poland, would open a new potential route for German tourists who already form one of our main markets. The tunnel would also significantly boost tourism from Latvia and Lithuania, which we do not seem yet to consider as potential tourist segments, even though tourism from these countries to Estonia is increasing year by year. On the other hand, the fast Rail Baltic connection might just as well invite them to the attractions of the Central European tourism destinations. ■

The Baltic Sea and its archipelago form one of the most valuable assets of the Finnish tourism potential.

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ANNE PAASI

University Communications full of opportunities

Expert article • 1860

The University of Turku celebrates its 95th anniversary this year. The University was founded with an extensive fund-raising campaign by the Finnish people at a time characterised by a strong sense of nationalism. In 2015, we are an international university and our students, staff and partners are not connected by the Finnish language but by research and the global language of science.

The changing field of communications

In the last few years, the role of the University Communications as the supporter of the science community and spokesperson for the university has changed radically with the arrival of digital and social media. We still produce news and press releases on research, but often the researchers themselves tweet and blog about their studies and are contacted directly by the media. At the University Communications, we invest more and more in training researchers on how to interact with the media.

Among other things, the University has adopted the Science Slam concept from Central Europe. In the Science Slams, young researchers present their research topics as popularly and engagingly as possible in ten minutes. At the University of Turku, Science Slams have expanded into a course for doctoral candidates, which includes lectures on popularising science as well as workshops on writing an understandable and popular press release about the doctoral dissertation.

Interpreting the language of science

The 21st century communications is characterised by a demand for ease and speed. Journalists have little time for writing stories and even less for background research on a science feature. They seek ideas and tips about topics and experts – even ready-made stories. Their readers on the other hand click captivating and striking headlines and read entertaining stories designed for quick consumption.

From this point of view, the role of the communications expert is even more important. University communications is needed when interpreting the language of science, both in Finnish and English. In a global world, the language of science has to be interpreted to the public in their media and "language". People prefer photos, videos and action, and the essential message has to fit in 140 characters in the social media.

We offer topics and experts actively to both national and international media. In this, we collaborate with the Academy of Finland and especially in their Xpert Search, which is an electronic expert search service that conveys reporters' requests to all the Finnish universities as well as to the most important research institutes. The University Communications of the University of Turku was recently awarded for being the most active participant in the Xpert Search during its 10-year history.

Supporting management, internal communications and profiling

In addition to our services and training for researchers, one of the key tasks of the University Communications is to support the management and supervisors in communications and carry out the University's strategy.

The Finnish higher education institution is undergoing great changes and it requires that we support the management, develop internal communications and launch new modes of operation. For example, our management has a blog and the Rector discusses current topics with members of the University community in campus meetings. The supervisors are trained in communications and they receive

a newsletter that highlights the most important news and topics for the supervisors.

This autumn, we are launching the University of Turku as a university for entrepreneurship. We want to train entrepreneurial humanists and natural scientists who understand business economics. We have entrepreneurial education, research as well as company collaboration. At the same time, an entrepreneurial attitude is needed

in Finland and it is a message we want to promote: the better future Finland needs entrepreneurs – creativity, agility and innovative spirit.

In addition, we are profiling in the international export of education based on top research in the next few years. Especially the developing countries have a high demand for high-quality education, which the University of Turku can supply. Together with the University's company specialised in transnational education, Finland University, we support the profiling of the University with communications.

The Finnish Government requires that the universities profile themselves better in selected fields of science. For a multidisciplinary university, it is a particular challenge as we see the variety of subjects and interdisciplinary research as our greatest strength. In our marketing and communications, we want to share and highlight our several definite strengths and where we are genuinely at the top – an international University with strong, multidisciplinary research and high-quality education. ■

In 2015, we are an international university and our students, staff and partners are not connected by the Finnish language but by research and the global language of science.



ANNE PAASI

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ULLA NYGRÉN

Less is more – how a university library turned rationalizing process into a new service concept

Expert article • 1861

A couple of years ago Turku university launched a project which aimed at streamlining of administrative and support services. The main objective was to make services more effective by e.g. reorganizing functions and to reduce the administrative costs of the university in relation to its total expenditure.

The special assignment to the library was to present a vision of Turku University Library in 2016. The library should recognize and decide upon an ideal operations model regarding its premises, supply of services, skills needs, personnel structure and operational processes. To steer the process, a preparatory group was founded with representatives from the library, different subject areas within the university and the student union.

The core process of the library was identified as offering information/ sources of information and conveying them to the customer. There are several supporting and sub-processes backing its realization. The starting point is that the library processes are always connected to the customer and are of value to him or her.

In 2012 when the project started, the library consisted of a main library and 16 separate physical units scattered round a relatively limited geographical area, and one in Rauma, some 50 km away. Some of the library units were very small and had restricted opening hours. The problems with this kind of structure were obvious: the service given to the customers differed between the units because there weren't enough resources to distribute personnel evenly; there was a quite lot of overlapping work done, silos tended to build up between different libraries and last but not least, the total expenditure of the premises took a vast part in the library budget. The operating model was resource-consuming and not very cost-effective. Something had to be done.

The solution was a model of centralizing the library services to six larger physical units. In all the new or renovated libraries premises were developed in a way that makes it easy to modify them according to the ever-changing ways of conducting research, teaching and studying. Moving to electronic materials has partly released facilities from previous collections and given way to innovations. In the new vision the quiet library has become loud! Other guiding lights have been transformability and multifunctionality. The customer facilities are turned into meeting points, where comfort and flexibility are the focus of attention. The library also provides facilities in which different levels of silence are taken into consideration. Today, the library provides 24/7-learning environments around the campus and aims at an unobstructed use of all library services. These reforms hopefully encourage versatile use of the library. The feedback from the customers has been very positive. Their experience seems to be that with the renovations more space has been achieved. In fact the facilities have declined with 17 %.

At the same time the library has reformed and diversified its service concept and advanced the accessibility and usability of its services. RFID-technology has been applied and self-service in borrowing and returning taken in use. In the direct customer service, an interactive and seeking service model has been introduced. It has been facilitated by taking off circulation desks and creating a more sociable customer area where library staff and customers meet. For smooth service two service teams have been created, who circulate in three units each. When teams take responsibility of customer service, the vulnerability caused by individual absences diminishes. The automation helps, too: over 80 % of borrowing is already done via the automats.

In addition to its basic services the Library offers competitive expert services such as information literacy instruction, bibliometrics services, tasks related to the research information system and access to relevant and high-quality information resources. The Library develops its services in collaboration with the academic community. It is obvious that the customers expect the library to be proactive and innovative when creating new services.

The reforms described above have caused a change in the personnel structure: the share of specialist tasks is growing and the share of traditional, basic library tasks is respectively decreasing. The library's person-years have decreased each year since the year 2010, when the library had 94 person-years. The goal for 2016 is 70 person-years, resulting in a deduction of 24 person-years (over 20 %).

The new organization is still in the beginning. We are eager to learn from our experiences and ready to evaluate, make corrections and move further. There is one thing we are quite sure about, however: despite the diminished resources, we are on our way to satisfy the needs of the university more accurately than before. Less is becoming more. ■



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VILLE LAAMANEN

Integrating academic analysis with topical issues of the Baltic Sea region

Expert article • 1862

The skills of navigating cultural boundaries, identifying common interests and working together in a regional context have been at the forefront of European cross-border interaction and governance since the end of the Cold War. Amidst current challenges, we need these abilities just as much as ever.

Since 1997, the Baltic Sea Region Studies programme at the University of Turku, Finland has educated future professionals with a profound understanding of the area that the European Union has promoted as a model macro-region. With over 90 million inhabitants living in the vicinity of the Baltic Sea in the eight littoral EU countries as well as the city of St. Petersburg and the Leningrad and Kaliningrad regions, opportunities and obstacles arrive hand in hand.

Building on the tradition of international academic collaboration

From its beginnings in 1997 and the launch of a two-year Master's programme in 2005, Baltic Sea Region Studies, or BSRS, has trained students to cross disciplinary boundaries between humanities and social sciences. A more in-depth introduction to the programme, written by Markku Jokisipilä and Tarja Hyppönen, was published in [BRE 4/2012](#). During the past three years, the overall structure of BSRS has remained similar, and it continues to include the degree programme and a selection of non-degree studies that are available to other degree students and exchange students from both the University of Turku and the neighbouring Åbo Akademi University. The diverse background of the students illustrates global interest in the region: those so far enrolled in the Master's programme represent some thirty different nationalities.

Another element of BSRS, its contribution to an Erasmus Mundus double degree programme in Russian, Central and East European Studies (IMRCEES), coordinated by the University in Glasgow, has since developed into full partner status, and the first student who earned her degree from both Glasgow and Turku graduated in the autumn of 2014. Partnership in the IMRCEES consortium, alongside 5 other universities in EU countries and 6 outside the Union in Azerbaijan, Canada, Georgia, Kazakhstan, Russia and Ukraine, continues the very tradition of international academic collaboration where BSRS owes its existence.

Examples: comparing immigrant integration policies and tracing seaport innovation practices

As examples of how BSRS students integrate academic analysis with topical issues critical for the region's current functionality and future development, I take pleasure in introducing two Master's theses recently completed in the programme. Charlotte Junnila's *Promoting Labour Market Integration: A Comparative Analysis of the Immigrant Integration Policies of Finland and Sweden* (2015) argues that although the integration measures of the two countries are very similar,

there are significant differences in administrative approach and oversight. Ms Junnila's thesis contains several clearly formulated suggestions for improving the integration measures in both countries, such as improving employee training, incorporating volunteer work and community service into integration programmes, and tailoring them to suit the immigrants' skill and education levels. The Finnish Institute of Migration has published the thesis as a [web report](#).

Igne Stalmokaite's award-winning thesis *Tracing Innovation Practices in Seaports: The Ports of Klaipeda and Stockholm as Case Studies* (2015) explores how ports have become increasingly entangled in the planning logic of neoliberal innovation-driven economy. When highlighting environmental innovations, Ms Stalmokaite argues that business-based development planning, ambitious goals and a proactive approach enable the port of Stockholm to have a leading role in adopting innovative environmental solutions. In comparison, she illustrates how the narrative of environmental innovations is emerging but not as firmly rooted in governance practices and development activities of the port of Klaipeda. Ms Stalmokaite's thesis is expected to be published in the University of Turku [online thesis archive](#).

Bridging the distance between higher education and working life outside academia

As a multidisciplinary programme, Baltic Sea Region Studies has both special opportunities and responsibilities to bridge the distance between higher education and working life outside academia. On its foundations in culture studies, history, human geography, international relations and social science, BSRS is constantly evolving and utilising new approaches. In recent years, we have added emphasis on project management and various transferable skills.

Throughout the curriculum, we encourage our students to cherish intellectual creativity, critical debate, reasoned judgement and independent thinking. We strive to help each student to find out what inspires them professionally, and where they can make the most of their skills and interests. ■



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BO ÖSTERLUND

Does Finland have enough sea transport capacity?

Expert article • 1863

Finland is more reliant on seaborne transport of goods than its neighbours. Nearly 90% of the volume of Finnish foreign trade is transported by sea. The volume of seaborne import and export also reflect our dependence on maritime transport. The Nordic countries import 7.9 tonnes of goods per capita by sea, while the figure for Finland is 8.7 tonnes.

In normal conditions, the commodity flows of foreign trade are transported on commercial terms. Finland's *security of supply* is based on a functioning market and a competitive economy. But the markets may not be sufficient to uphold the basic economic and technical functions of society in the event of severe disruptions or emergencies. This is why *security of supply measures* are taken to prepare for the maintenance of functions vital to society as close to normal as possible, even in such circumstances.

Under normal conditions, the flag flown by a merchant vessel is not a key consideration. Should market forces be disrupted or cease functioning altogether, however, Finland will be forced to evaluate the *performance and sufficiency* of its merchant fleet for its trade. The maintenance of security of supply requires special measures in order to ensure the availability of *adequate ice-strengthened tonnage sailing under the Finnish flag* to secure the crucial transport required by society and industry in all circumstances. *Energy, chemicals and food deliveries* are the most important types of transport that require securing.

The possibility of an armed conflict is less likely than being forced to actively protect shipping that is vital to security of supply or to undertake transport in exceptional weather or ice conditions. In the 2010-2011 ice winter, transport on the Gulf of Bothnia was transferred under the control of the authorities. That winter traffic was restricted due to the ice situation for 174 days on the Bay of Bothnia and 155 days on the Gulf of Finland.

The capability of the Finnish merchant fleet required for security of supply has been discussed in strategies and the justification sections of the state budget, from 2000 onwards. The transport capacity of the Finnish merchant fleet has not been discussed. The legislative proposal on the competitiveness of vessels used for maritime transport states that *the perspective of security of supply alone requires an adequate amount of domestic tonnage*. *In general, however, the consensus is that the current tonnage (in 2008) is approaching the risk threshold with regard to security of supply*. In 2008, this "risk threshold" tonnage sailing under the Finnish flag comprised 120 vessels with a total displacement of 1,2 million tonnes. The share of Finnish vessels was 30.4 % in all seaborne transport.

Is the security of supply of Finland's seaborne transport realised in the manner and at the level specified in the targets and declarations of intent set for it?

Seaborne trade of Finland

Finland's seaborne trade in the "risk threshold year" of 2008 was 102,4 million tonnes. Of this, seaborne imports accounted for 58.1 million tonnes. 39.1% of this import was carried by Finnish vessels. Exports by sea accounted for 44,3 million tonnes, and 20,3 % of this was transported by Finnish ships. The total share of Finnish ships of trade volume equalled 31,0 %.

According to the *Baltic Port List 2013*, the total volume of international shipping on the Baltic Sea amounted to 839 million tonnes, of which 777 million tonnes was international traffic and 62 million tonnes domestic traffic. The countries bordering the Baltic Sea imported 285.48 million tonnes, with *Finland (44.7 million tonnes) being the second-biggest importer* after Sweden, and exported 491 million tonnes.

In the assessment of Finland's transport needs, it should be noted that the majority of our imports come from the Baltic Sea sphere, a total of 29.3 million tonnes or *65% of our total maritime imports in year 2012*. Imports from Europe as a whole amounted to 39 million tonnes, or 87% of Finland's total imports. Russia's ports on the Gulf of Finland accounted for roughly 9.1 million tonnes of Finland's 11 million tons of crude oil imports. A total of 1.3 million tonnes of crude oil was imported from Norway. The share of energy products in our imports from Russia was 83%, consisting of crude oil and petroleum products. The other major import categories were fertilizer and chemicals.

The share of Finnish vessels in the import of crude oil and petroleum products approached 70% in year 2012. A similar pattern is also seen in Finland's import of raw materials used in fertilizer production.

The harbour strike in 2010 halted 80 % of our international shipping for 16 days. In their 2011 study "Finnish Critical Industries etc", Yliskylä et al. used an extensive survey to chart the bottlenecks of Finnish industries in the event of a total cessation of imports.

Of Finland's *imports, more than 60% consists of raw materials and unrefined commodities* for the domestic market and processing for export (FTA 2014).

On average of 163 ships arrived or left Finland every day in year 2012, with an average cargo of 2,000 tonnes per vessel. Transferring the *total daily goods volume of shipping, 320,000 tonnes*, to road or rail transport would require 7,000 railway carriages or 8,000 full trailer lorries.

Finnish tonnage is not enough

According to the 2012 ship list, our merchant fleet comprised 116 vessels with a total displacement of 1,083,202 dwt, *which falls short of the "risk threshold"* by 77,169 dwt. Altogether Finland would require a general cargo-carrying capacity (excluding oil, oil products and dry bulk) of 400,000 dwcc (dead weight cargo capacity) for import and

export. If it were necessary to conduct seaborne transport using vessels under Finnish command, this would require *approximately two voyages weekly* for the whole Finnish maritime transport capacity. At the end of February 2014, a total of 116 ships sailed under the Finnish flag: one passenger ship, 17 ro-ro passenger ships (Ropax), 32 ro-ro vessels, 5 bulk carriers, 32 other bulk carriers, only 3 container ships, 8 tankers and 18 specialised vessels.

This is a technical impossibility, even within the Baltic Sea area. For exports, this theoretical calculation method results in just two voyages each week. The merchant fleet under Finnish ownership and sailing under the Finnish flag is not capable of this.

Satisfying the needs for goods shipments and shiploads and meeting temporal transport needs in a manner required for *security of supply* would require a complete itemisation of all factors and efficient utilisation of the fleet. Importing commodities in containers once per week or as 16,000-tonne monthly shipments and daily imports of perishable goods would require functional connections and efficient use

of merchant vessels appropriate for the cargo being transported. The increasing size of ships intended for larger waters makes it necessary for us to maintain a fleet of merchant vessels suited to the short distances and smaller shipments of Baltic transport. The question is fundamentally one of demand, transport needs and supply, and the available fleet. Ship size, transport frequency, packaging sizes and the goods being transported all influence the upkeep of the transport system to varying degrees. Keeping emergency stores of vital commodities creates a temporal buffer for the management of the transport chain. When the availability of goods is disrupted, we need time to carry out the corrective measures planned in advance. ■

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BALTIC RIM ECONOMIES

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MIIKO PERIS

Rail Baltic will influence the development of the entire Baltic Sea region

Expert article • 1864

Nowadays, no one can apparently imagine life and business in contemporary Europe and in the world without fast and comfortable transport connections. However, there are still numerous countries in Eastern Europe that have retained the railway infrastructure of the Soviet times but lack modern railway links to the rest of Europe. This is why Rail Baltic can be considered a milestone connection which is to change the paradigm of railway transportation development in the entire Baltic Sea region.

A very sound foundation has been laid for the success of Rail Baltic in the course of the past five years. In Estonia, preliminary route surveys have been performed, the route corridor option has been approved, architectural solutions of passenger terminals have been completed, and more detailed route corridor design is under way. Other Baltic States have made similar progress. The Rail Baltic railway connection concerns and affects the whole region. Railway connection will also have a significant and direct influence on Finland and Poland, so the representatives of these countries have been involved as partners.

Rail Baltic will become an important transport link between Eastern and Western Europe. The objective of European Union's TEN-T infrastructure policy is creating a pan-European transport network covering all the Member States by 2030. Rail Baltic is a part thereof, which will contribute to the emergence of a seamless and borderless economic space and to 500 million consumers' access to the EU market. I am not referring only to the broadening of opportunities for the people and businesses of our region here, but also to better access for Eastern Europe to our region. The interoperable north-south rail corridor will be of central importance for the railway transport development and the economic growth of the countries in the region.

As this is a significant link in the European transport network, the construction of Rail Baltic is largely to be financed by European Union funds. The sum of TEN-T transport investments for 2014–2020 is 26 billion euros, and financing will be organised through the Connecting Europe Facility. In the first application round in the summer of 2015, about 540 million euros were allocated to the three states for the implementation of Rail Baltic. This being said, this investment cannot be regarded as a mere financial injection to our economy; it will generate jobs and contribute to economic development on a larger scale. In June 2015, German experts Dr M.Krail and Dr W.Schade published the research on "Cost of non-completion of the TEN-T", according to which a 1 billion investment alone will create 20,000 new jobs. An amount slightly larger than that – 1.3 billion – has been planned for the construction of the Estonian part of Rail Baltic alone. Thus the effect on the entire region's economy will be remarkable.

According to the feasibility study performed by AECOM in 2011, the mere period of the Rail Baltic construction lasting for over five

years will create 10,000 jobs, and another 300 full-time jobs will appear when the services are commissioned. Together with our companies in the tourism, logistics and transit sector that will profit directly, the influence will be even more substantial. Indirect income will be generated by the emergence of logistics and distribution centres, employment growth, increased tax revenue and overall improvement in competitive advantage. It can be safely claimed that Rail Baltic will create a new transport and logistics mentality in the entire Baltic region.

One of the key issues concerning the cost-effectiveness, relevance and impact of Rail Baltic is undoubtedly the demand for trade. As Rail Baltic starts operating, it will most likely boost export in the connected countries. Freight transportation can be mainly expected to focus on food items, electronics, mechanical engineering, timber, chemical and metal industry products. Rail Baltic could, for example, become a good option for transporting the products of Finnish timber and paper industry.

A separate larger scale of impact concerns the tourist sector of the entire region, which is bound to be re-energised by fast railway connection. Significantly faster, environmentally cleaner, safer and more comfortable than road transport, Rail Baltic, making it from Tallinn to Riga in under two hours and to Kaunas in 3.5 hours, will undoubtedly result in an increase in passenger numbers. Tourists from Central and Western Europe as well as Scandinavia will also be able to use new opportunities and travel to Estonia and its neighbouring countries. With another link in the form of the Tallinn-Helsinki tunnel to be added in the long term, these two projects will further amplify each other.

To sum up, Rail Baltic is not only an important investment in the broadening of transportation opportunities for the people and businesses in Estonia, Latvia and Lithuania, but a strategic contribution to the development of the entire Baltic Sea region and the creation of the common European transport network. The new railway will create better opportunities for the transportation of people and goods to the neighbouring countries as well as Central and Western Europe and vice versa, which, in its turn, will generate the emergence of new industry, production and tourism and, in the long term, economic growth. According to the current schedule, Rail Baltic construction is to start in 2018-2019, and the railway is to be completed by the end of 2025. ■

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JARMO KOSKINEN

Requirements for the port's competitiveness are changing

Expert article • 1865

Major changes have taken place in the cargo traffic through ports in recent years and at the same time the ports continue to specialise. The trend is emphasised particularly in a ferry and ro-ro harbour like the Port of Turku.

More and more of the goods trade is electronic, which has decreased the size of the transported units but on the other hand has considerably increased the number of individual shipments. At the same time, mostly environment-based changes concerning the fuel and engine technology of vessels have significantly affected the speed and operating frequency of the vessels. The change in the method of trade has not, however, eliminated the need for fast deliveries to consumers, but instead the requirements to transport and distribution organisations have increased.

Regarding passenger traffic, competition with e.g. air traffic has increased, creating pressure on the shipping companies to develop and diversify the services on board. At the same time, the need for developing the services of passenger harbours have increased as a result of growth in car traffic and more demanding passengers.

Due to the speed and operating frequency of vessels, the fast and reliable services of ports are pronounced. Efficient and uncongested access to the national road and rail network has become particularly important. Vessel speed must be optimised due to requirements regarding fuel consumption and the environment, which calls for new kind of thinking from ports like Turku in terms of port operations and connections. Co-operation in ports is not limited to appointing a berth, but the operations require close co-operation between the shipping company, operators, transport companies, and the port. Fast and efficient working requires the use of electronic tools ranging from booking to supervision of shipments and advanced automated functions in the ports. A particular challenge to the port is presented by the different operators' own systems which it should be able to utilise as efficiently as possible. For example, in the Port of Turku the high-frequency ferry traffic between Turku and Stockholm requires smooth and close co-operation between the Port and the shipping companies operating the route to keep the vessel services, as well as terminal and field services running faultlessly and fulfilling the requirements of the tight schedule.

As for passenger traffic, online sales and booking have facilitated the development of new systems for passenger terminals. At the same time, the Port has the opportunity to use e.g. new methods of payment and traffic control in parking. The ongoing changes in competition concerning train and coach traffic will cause needs to develop guidance and booking functions related thereto.

Close co-operation between parties involved in the development of the road network has become an important factor. The Port of Turku has for 10 years actively aimed at developing the port connections together with the City of Turku and the authorities in Southwest Finland as well as the Finnish Transport Agency. Completed two years ago, the four-lane road connection along Suikkilantie to

the national road network has created a good basis for directing the traffic to the national road network. After the completion of the basic repair of Highway 8 the connection from the Port of Turku to the main road network will work efficiently and mostly free of traffic jams. Restrictions are expected to be imposed on the streets close to Turku city-centre, which will increase the need to extend the broadening of Turku bypass road to the E18 road. After that the Port of Turku will have excellent, fast and uncongested connections to the national road network, and in terms of schedules, the Port of Turku already has good opportunities to compete with e.g. the congested port traffic in the Helsinki metropolitan area.

The reliability, convenience and speed of the Port's operations are increasingly important competitive factors that form the basis for the entire development trend of the Port's cargo and passenger traffic. Reaching the goal requires more intensive and longer term co-operation with the shipping companies, operators in the port, transport companies and different authorities, especially road administration. ■

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GUNNAR PRAUSE

Industry 4.0 – new perspectives for smart production and logistics in the Baltic Sea Region

Expert article • 1866

After two decades of decline, manufacturing and re-industrialisation are enjoying a renaissance on the Western agenda because politicians, business leaders and scientists recall the role of the industrial sector as a key driver of research, productivity, and job creation. Industry generates 80% of the EU's private innovations and 75% of its exports, but a closer look reveals that the global share of European manufacturing value added dropped from 36% in 1991 to 25% in 2011. Currently, EU industry accounts for only about 15% of the total gross value added, and by zooming into EU manufacturing statistics it turns out that the manufacturing value added of all BSR countries lies above the European average with the exception of Denmark and Latvia.

The EU statistics also show that only Germany, Latvia, Lithuania and Poland were able to keep or increase their manufacturing value added over the last decade, in contrast to all other BSR countries, which lost value added significantly in the industrial sector. Consequently, a weakening industrial base in the BSR is threatening its wealth and future innovation performance despite the fact that the BSR is well known within Europe for its innovation performance, quality, and high-tech products as well as for its competitive design.

Recently, many manufacturing initiatives have been started all over the world, driving for re-establishing and regaining an industrial share in the economy. A very promising approach seems to be the fusion of the virtual and the real world, i.e., the linkage between internet and manufacturing leading to concepts of smart production and logistics. In Germany, the most important industrial EU country with an industrial gross value added of about 30%, this approach has been called "Industry 4.0," whereas comparable initiatives outside Europe are called "Advanced Manufacturing Partnerships" for the USA or "Made in China 2025" for China.

Industry 4.0 aims to develop cyber-physical systems and dynamic production networks in order to develop flexible and open value chains in the manufacturing of complex mass customisation products in a small series up to lot size 1. But Industry 4.0 has even higher ambitions, targeting energy and resource efficiency, the shortening of innovation and time-to-market cycles, as well as a rise in productivity.

In this sense, Industry 4.0 represents nothing less than the fourth industrial revolution, comprising 3D printing, big data, Internet of Things and Internet of Services, i.e., all of the ingredients needed to facilitate smart manufacturing and logistics processes. Thus, Industry 4.0 shall bring the competitiveness in the manufacturing and high-tech sectors back to Western countries with particularly promising perspectives for the BSR due to their high innovation level, sophisticated ICT infrastructure, and highly qualified workforce.

This special chance of the BSR has been stressed by Roland Berger Strategy Consultants, who placed the BSR in a leading position in "Industry 4.0 readiness," due to its more advanced use of

industrial robots, mobile connections and employment in knowledge-intensive sectors compared to the rest of the EU. In particular, Denmark, Finland, Germany and Sweden are ranked in top positions in Industry 4.0 readiness and all other BSR countries are placed above the EU average. So the preconditions for benefiting from Industry 4.0 in the BSR are favourable and the expected productivity gains in the industrial sector, together with the enhancements of competitiveness in the area of high tech products, will provide the chance to safeguard the economic prospects to pay high and increasing salaries, as well as to continue further innovations and qualifications in the BSR.

So far everything sounds promising, but unfortunately smart production is still a concept and there are still many problems which can only be solved through cooperation and the sharing of knowledge to establish solutions and standards for Industry 4.0. One important step forward was taken in May 2015 in Tallinn, where the first Estonian international conference about Industry 4.0 took place, which brought together experts from Germany and Estonia to increase awareness and to share knowledge. The conference revealed that in addition to sophisticated production expertise, the implementation of Industry 4.0 will also require ICT knowledge in cyber security, e-commerce and e-government as well as the integration of the SME sector.

Especially the Baltic States can significantly contribute to these issues since their manufacturing backbone is dominated by the SME sector, which combines highly developed ICT skills with high flexibility and innovation. So the main result of the Industry 4.0 conference in Tallinn was the realization that more common initiatives concerning Industry 4.0 are needed in the BSR in order to facilitate cooperation and to combine the strengths of the BSR. ■



GUNNAR PRAUSE

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JOSEPH DUTTON

The Energy Union and gas (in)security in the EU

Expert article • 1867

Securing EU gas supplies has become an increasing priority for the European Commission in recent years due to a combination of declining indigenous production and growing import dependency, disruptions to gas imports from Russia and the Maghreb, and wider instability in North Africa and the Middle East. These and other energy challenges – such as climate change, domestic energy prices, and the completion of the internal market – led the Commission to produce a policy framework for the European Energy Union in February. Despite attempts to wean the EU off fossil fuels, gas has a central role in the framework. Proposals were made on a range of measures including the diversification of gas sources, suppliers and routes, a stronger European role in global markets, the completion of the internal market and regional cooperation with EU neighbours.

The Energy Union framework is an ambitious set of policy proposals and it reflects the Commission's recognition of the need to have secure, resilient and diverse gas supplies. But there is incoherence in the framework and it is unclear to what extent it can sufficiently meet its aims. Core security of supply mechanisms are to be announced by Commission later this year but some are expected to be introduced on a voluntary basis only, reflecting continuing member state strength and prominence in determining energy policy. Countries such as the UK and Netherlands have well-established wholesale markets and would likely oppose measures that interfere with their operation; member states in eastern and central Europe that have been the most exposed to transit crises are expected to sign up to collective measures. Failure to implement a well-defined set of goals and governance package could ultimately negate the Energy Union's securitisation aims. This extends to the foreign energy diplomacy aspect of the framework, which is also likely to face opposition from some member states. It is also unclear how features such as the proposed central gas buyer mechanism will work in a legal and commercial sense. The Commission has pursued energy market liberalisation for a number of decades, and the completion of the internal energy market is a stated aim of the Energy Union. But a collective gas purchasing mechanism could fall foul of the EU's own anti-trust laws regarding buyer cartels, leaving this aspect of Energy Union on uncertain ground. Following successive Russian transit crises diversifying supply routes is regularly touted as a means of increasing supply security. The Southern Corridor, importing gas from the Caspian and Mediterranean, has Commission backing, but the progress of pipeline projects in this region is slow. An agreement on phase two of the Nord Stream pipeline from Russia to Germany was signed in September – outside of the Energy Union process – but the Commission has been unsupportive of the project. It reiterated its desire for Poland to remain a key transit state despite – or indeed because of – geopolitical tensions in this re-

gion. Much has been made of LNG reducing dependency on pipeline imports and, simplistically, the Energy Union suggests that LNG could be used as a back-up in situations when insufficient pipeline gas is being delivered. But generally the frequency of cargoes arriving is dependent upon demand elsewhere; for example, deliveries to the UK – the second largest EU importer of LNG after Spain – from Qatar increase when Asian demand weakens during the March-May shoulder season. Further, not all markets are as attractive as others. The UK and Dutch markets have sufficient depth for participants to hedge or sell whole cargoes, and are highly interconnected allowing gas to be exported to other markets. The framework and Commission statements on an LNG strategy suggest it views it as a means of increasing security for countries that as yet have little or LNG import capacity and have low cross-border interconnection, regardless of how wholesale markets operate. And despite the Commission's desire for more LNG, imports of Russian gas increased 20pc in August compared to a year earlier. Contract prices for Russian gas have fallen on lower oil prices as they have an oil-indexation built into them, and this has contributed to a fall in LNG cargoes. The US has been identified as a potential LNG supplier but the expected volumes – and price – will not displace Russian supplies, regardless of political will.

The Energy Union is still in the early stages of development, but there are set to be difficulties in meeting its gas security aims. With a predominantly supply-side focus it does little to address demand insecurity in the EU; weak demand has dampened the investment climate for storage facilities, power stations and upstream production – with low oil prices also affecting the latter. But the proposals of the framework do little to suggest the Energy Union will be any more successful at ensuring gas supply security than previous Commission policies. ■



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