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MAROŠ ŠEFČOVIČ

From energy islands to
an Energy Union – the
case of the Baltic region

ANDREJ PLENKOVIČ
EU-Ukraine relations
– parliamentary co-
operation perspective

YANA TOOM
EU-Russia
relations – a
view from
Estonia



**DOROTHEE JANETZKE-
WENZEL**

The Arctic Policy of
the Federal Republic
of Germany





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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BALTIC RIM ECONOMIES

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MAROŠ ŠEFČOVIČ

From energy islands to an Energy Union – the case of the Baltic region

Expert article • 1778

These are critical times we're living in. The year of 2015 will be remembered in history as a major milestone in the European transition towards low-carbon economy, and in the global fight against climate change. In December this year, global leaders will convene in Paris to negotiate an international framework for reducing our carbon footprint, right before it might be too late. The EU has set itself ambitious goals for reducing its own emissions, and through diplomatic channels we encourage our global partners to follow a similar path.

This year has also seen an aggravation in the Russian-Ukrainian crisis. Apart from the heavy humanitarian price, paid largely by civilian population, the ongoing crisis destabilised the energy market, and sent a strong message to European consumers of Russian energy that their supply might not be secure.

Finally, the year 2015 marks the launch of the most ambitious European energy project since the Coal and Steel Community of the 1950s. The need to decarbonise and to ensure energy supply, along with the desire to render the energy market more competitive has brought European leaders to a dramatic realisation that a profound change was needed. In February 2015, the European Commission therefore announced its five-year strategy for creating a viable 'Energy Union'.

The envisioned single energy market will provide Europe with energy which is secure, competitive, and sustainable. Security will be gained through diversification of sources and suppliers of our energy. Competitiveness of the market will be reached by removing barriers between energy markets and creating one European market. Sustainability lies in Europe's commitment to cut greenhouse gas emissions by at least 40%; increase the share of renewable energy to at least 27%; and improve energy efficiency by at least 27%.

Each of these three elements will have a significant on the energy market of the Baltic region. The Baltic countries are fairly interconnected among themselves; however, vis-à-vis the rest of Europe's energy market, the region is an "energy island". Energy security is therefore a major concern for the region whose current sole source of natural gas is the Russian Federation and whose infrastructure is still synchronised with the Russian electricity system (UPS).

The European Commission is addressing this energy isolation of the Baltic States by promoting large-scale infrastructure projects through what we call the Baltic Energy Market Interconnection Plan (BEMIP). The Plan, which has won the support of all Member States of the Baltic Sea Region, has already delivered concrete results. For example, since the entry into operation of the Klaipėda LNG terminal in Lithuania, the supply to the protected customers in both Lithuania and Estonia is ensured even in case of long-term disruption of imported Russian gas. Of course this is not enough, as it doesn't cover all customers, but it's a move in the right direction. Additional example is LitPol Link, which – once complete – will provide transmission of electricity between Lithuania and Poland.

It goes without saying that a region which is highly dependent on few dominant suppliers is by definition not competitive. Inter-connectivity between the Baltic region and Europe's continental network is crucial for providing the Baltic markets with competitive prices and service. Once energy flows freely across European borders, consumers will have access to more suppliers and can choose the best service and price.

But we are not stopping there. Citizens are no longer passive consumers; they are becoming 'prosumers' – consumers who can also produce energy and supply it into the energy grids. This will allow individuals to benefit from lower prices of energy produced by others. With smart grids in place, a sunny day in Riga should lower energy prices in Tallinn; and a windy day in Warsaw should lower energy prices in Vilnius or even in Minsk! (The Energy Union does not stop at the EU borders).

When it comes to the industry, the challenge is to retain Europe's leading role in global investment in renewable energy.

But the energetic transition is not only about the energy sector; the change we are bringing about will benefit all industries. Current wholesale gas prices are still more than twice as high as in the US. This reduces the competitiveness of our industries, especially those which are energy-intensive. And as if it's not enough that we pay higher prices, we are also highly dependent on too few dominant suppliers, making us vulnerable to disruptions and price distortions. Such market imbalances have recently made it necessary for the Commission to issue a Statement of Objection against Gazprom.

Finally, when it comes to sustainability, the three Baltic countries are all on track to meeting the EU's commitments, mentioned above. However, continued investment in renewable energies has great potential for consumer empowerment and for boosting their economies, by exporting their know-how to other emerging economies around the world. India alone is seeking to connect 300 million of its citizens to electricity grids. In a globalised world, the technological solution could come from anywhere; from Bangalore or from San Francisco. But also from Tallinn or Berlin!

The Energy Union is therefore a 'triple win' strategy; it will benefit our citizens, our economy, and our environment. The three go hand in hand in making Europe a better place to live in. We will make sure that 2015 will be remembered as the year which put us on the right track! ■

The envisioned single energy market will provide Europe with energy which is secure, competitive, and sustainable.



MAROŠ ŠEFČOVIČ
Vice President
European Commission

ANDREJ PLENKOVIĆ

EU-Ukraine relations – parliamentary co-operation perspective

Expert article • 1779

Crisis in Ukraine is a credibility test for a number of EU's policies: foreign, security, defence, neighbourhood, enlargement, trade and energy. Russia's hybrid aggression against Ukraine, its expansionist policy and creation of active or frozen conflicts in its immediate neighbourhood requires that the EU firmly stands behind its common values and respect of international law and global order that was built over past decades. The ongoing revision of European Neighbourhood Policy and the assessment of EU's External Security Strategy represent opportunities to come forward with solutions for a substantially altered global environment.

The simultaneous ratification of the Association Agreement (AA) between the EU and Ukraine on 16 September 2014 by the Verkhovna Rada and the European Parliament opened a new chapter in the EU-Ukraine relations. Establishment of an advanced political and legal framework for closer cooperation mirrors the European orientation and commitment of Ukrainians expressed at the 2014 Presidential and Parliamentary elections. It is worth recalling that the EuroMaidan protests started in November 2013 as a reaction to the refusal to sign the AA/DCFTA by the former President Yanukovich. Subsequent developments - illegal annexation of Crimea by Russia, separatists rebellion in parts of the Donetsk and Luhansk regions, fragile cease-fire after Minsk II agreement, along with the continuous 'information war' pursued by Russia – have emphasized the need for strengthening the relations between EU and Ukraine.

During past two years the European Parliament was very articulate in its numerous Resolutions on Ukraine. I chaired the first meeting of the new Parliamentary Association Committee (PAC) held in Brussels on 24-25 February 2015, which was clear in assessing the political, security and humanitarian situation, but also encouraging in terms of the implementation of the EU-oriented reforms. In the following years, the PAC will closely follow the progress of the overall relations between Ukraine and the EU. We will monitor, evaluate and suggest improvements in the process of comprehensive harmonization of Ukrainian legislation with the EU *acquis*. The economic questions such as financial stabilization package and political and security issues will be also discussed.

Realization of the both key objectives of the Ukrainian government, peaceful restoration of the territorial integrity within its internationally recognised borders and implementation of the necessary reforms in accordance with the AA and Association Agenda, is highly challenging.

In this regard on 16 March 2015 the EU-Ukraine Association Council accepted ambitious Association Agenda, which will serve as a guideline for the Ukrainian Government in legislative and institution-building activities. The priority reforms include enhancement of the constitutional and electoral system, judiciary and administration reforms, consistent fight against corruption and viable development of the energy sector. Also they entail priorities for action, in the fields deregulation, fiscal and audit reforms, trade, migration, asylum and visa facilitation, as well as cooperation on foreign and security policy, etc.

Over 6000 casualties, more than 1.1 million of internally displaced people and 600.000 refugees, huge destruction of infrastructure, military conscription throughout the country and economic pressure by Russia represent an enormous burden to the state budget. Therefore, the evolution of the crisis in Ukraine will be highly dependent on the Government's ability to stabilize its budget and strengthen its economy. In the situation of serious economic difficulties, the Ukrainian Government needs a strong financial and political assistance from the EU and other international organisations and financial institutions as a follow-up to the already allocated macro-financial, state-building and humanitarian assistance exceeding 11 billion euros.

In accordance with the UN Charter Ukraine has the right to defend itself and protect its territorial integrity. At the same time other crises show that the peaceful and political solution of the conflict should be the smartest way forward. The process of reintegration of the temporarily occupied territories should go in parallel with the constitutional changes and decentralisation, including free and fair elections in the occupied territories. It is necessary to reinforce the engagement of the international community, especially efforts of the EU and its Member States, to ensure favourable outcome of the diplomatic activities conducted in the Normandy format that will result in bringing parts of Donbas and Crimea back to Ukraine's constitutional order. The existing restrictive measures against Russia should be maintained until there is a complete adherence to the provisions of the Minsk II Agreement from 12 February. Namely, the 13-point peace plan has to be fully implemented. The ceasefire must be respected, the area demilitarized, Russia has to stop assisting the separatist rebels, as well as allow access to the border to OSCE Special Monitoring Mission.

Taking into account the unfortunate experience of my country - Croatia, which was more than 20 years ago also victim of aggression, just like Ukraine is today. I am continuously offering the useful knowledge based on the model of peaceful reintegration of our formerly occupied territories in Eastern Slavonia in 1998. This was a fully successful UN peace-keeping operation (UNTAES) with a precise mandate, strong leadership of General Klein and political and operational support of all sides in the conflict. In my view similar scenario, which would encompass: decentralisation, protection and inclusion of minorities, amnesty (but for war crimes), return of internally displaced persons and refugees, convalidation of documents, reconstruction of infrastructure and property could be the best way forward for Ukraine. Thus further casualties would be avoided and with the help of international community Ukraine could embark on sustainable road of confidence building, reconciliation and reintegration. Against this background the peaceful, stable and integral Ukraine will be in a better position to realise its European perspective. ■

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YANA TOOM

EU-Russia relations – a view from Estonia

Expert article • 1780

The relations with Russia have always been high on the political agenda in Estonia. After the restoration of independence, guarded attitude towards the Eastern neighbour was characteristic of Estonian politicians, even during the first presidential term of Yeltsin. Russia was always under suspicion for alleged latent imperialism or aggression, for manipulating Russian minority in Estonia in its own interests. As for Russian politicians, they often considered their Estonian counterparts to be “Rus-sophobes” who criticised Russia whenever possible. The truth was, as always, somewhere in between. However, it is quite obvious, that overall negative view of Russia from Estonia, as well as from other Eastern European countries, started to influence politics of the European Union long before well-known events in Ukraine in 2014.

When researchers begin to analyse today’s crisis in relations between Russia and the European Union, they will probably be surprised by the low level of expert evaluation, underlying political decisions adopted by both sides. In Brussels one can observe the lack of objective information, while experts feel colossal political and social pressure. Evaluation of political and social life in Russia carried out by Europeans is more and more influenced by emotions and ingrained phobias. Overall recession of journalism level in Europe has come to light at the time of Ukrainian crisis – numerous stories were overly biased or contained a critical number of factual errors and inaccuracies. Journalists’ expectations of prompt *maidan*, oligarchical revolution or economic collapse in Moscow, as well as the tendency to give the floor primarily to marginal Russian politicians and public characters, appear very naïve.

As the relations between the EU and Russia became more tensed, the lack of unity between different European countries was more obvious, for example on the subject of toughening sanctions against Russia. For some countries the problem is the lack of unity even within their societies. Thus, for example, in Estonia, according to the survey, carried out in January 2015¹, overwhelming majority of ethnic Estonians (66%) and only 27% of local ethnic Russians supported Estonian Government’s foreign policy.

Failures of diplomats and politicians bring military to the foreground, and this only aggravates the conflict. Military activities near the border already exceed everything we have seen after the collapse of the Soviet Union. Europeans, Americans, Russians – they all are sending each other signals. In Moscow, Washington and Brussels there are plenty of people who fuel a major military conflict because of Ukraine. Europeans might soon face the question: what objectives will be attributed to implementation of military pursue? What would serve as the red line, upon crossing which the military reaction will follow? What kind of role is reserved for NATO allies? Are Europeans ready to fight for the interests of “pro-European” Ukrainian govern-

ment, which is notorious for its corruption and merciless suppression of political opponents? With further deterioration in international relations these questions will form another challenge for the solidarity of the European Union. However, despite distressing international background, hawks remain in the minority, and this gives off sparks for reserved optimism.

The threat of the military conflict may be perceived differently by general population and by the elite. If we consider the results of the above mentioned survey, carried out in Estonia in January 2015, we can see that only a quarter of the respondents saw the threat of military conflict between their country and Russia. It is even more peculiar, as before national elections (March 2015) many politicians made alarming statements and the subject of security enhancement has not left mass media. It all came to the situation, in which absence of fear-mongering was interpreted as pro-Russian position and the opposite position - as Western and even pro-NATO (which is quite odd for the EU and NATO member state). Moreover similar, invariably false dichotomy was replicated even in international mass media.

The absence of pro-Russian parties in Estonian parliament does not mean that they are not represented in other European countries. These are, as a rule, marginal forces, but some of them have every chance of becoming mainstream. Pro-Russian rhetoric in internal political debates in European Union member states can be used either by opposition in order to criticise governments in power, or by Eurosceptics. Moreover, some European leaders display provocatively good relations with Kremlin at the time of crisis. All these activities are being extensively covered in Russian media and that does not enhance the popularity of the European Union among Russian population.

At any rate, relations between EU and Russia have not yet reached bifurcation point and can be restored. Upon that, one of the major tasks for EU institutions, after lifting or easing off sanctions, will not only be to restore economic positions of Europeans within Russia, but also to improve the image of united Europe among the Russian population. ■



YANA TOOM

Member of the European Parliament
Estonia

¹ National survey among Estonian population was carried out on representative sample, on the commission of Estonian Bureau of Yana Toom MEP in January 2015, by sociological firm Saar Poll. Financial support was provided by ALDE group of the European Parliament.

DOROTHEE JANETZKE-WENZEL

The Arctic Policy of the Federal Republic of Germany

Expert article • 1781

What happens in the Arctic has an impact far beyond the Arctic: The fragile and rapidly changing environment is effected by global warming. The sea ice coverage is retreating with negative effects on climate and environment. New challenges are arising as the Arctic is growing in strategic and geopolitical importance. However, new possibilities are opening up for the maritime transport sector, for extractive industries, tourism and fishing as well as for scientific research, economic development and new technological advancement. The Arctic nations together with the international community and the region's indigenous peoples will seize these new opportunities but they also have to share in the responsibilities for the region. Governance is the key factor and the coordinating role of the Arctic Council is of utmost importance.

In view of these developments and perspectives, the Federal Republic of Germany in 2013 drew up the Arctic Policy Guidelines which are subtitled: "Assume responsibility, seize opportunities". In spite of the fact that Germany is not an Arctic country she recognizes her responsibility for the Arctic in respect of global developments in geopolitics, climate and environment, research and trade. Germany as an observer of the Arctic Council underscores her commitment to international agreements including the UN Convention of the Law of the Sea (UNCLOS). She strongly advocates the peaceful use and sustainable development of the Arctic region. In view of Germany's commitment to the protection of the world's climate and biodiversity, she attaches great importance to the sustainable management of Arctic ecosystems, with particular consideration of the views and needs of the indigenous population. As a strongly export-oriented economy, Germany advocates the free passage of ships in the Arctic, including the Northern Sea Route, as well as seizing new economic opportunities. However, this requires the establishment of a binding disaster response mechanism for the Arctic Waters to provide early warning and damage prevention as well as plans for the remedy against damage. Germany also strives to maintain the freedom of research in the Arctic and is convinced that Arctic research findings are the basis for informed future decision-making on Arctic issues.

A wide range of activities in the areas of climate and environment, economic cooperation and research are already on the way. German companies are experts in specialized maritime and polar technologies that meet the highest environmental standards. Polar technology has increased in significance with wide spectra of applications in the offshore oil and gas engineering, shipbuilding, maritime supply industry, shipping industry and infrastructure, in civil engineering and maritime security. German Polar technology is particularly strong. The development and enhancement of further technologies applicable in the Arctic are being promoted by way of a National Master Plan for Maritime Technologies (NMMT) drawn up in 2011. Germany has been actively supporting the work of the International Maritime Organization (IMO) on the guidelines for vessels operating in ice-covered Arctic waters and on the "Polar Code".

Free research and enhanced favorable conditions for research cooperation are pre-requisites for quality results on Arctic issues. Germany is actively engaged in climate and environmental research – and consequently Polar research. German scientists are working together with international partners to study the effects of Arctic warming on the large Arctic permafrost soils. Germany hosts e.g. the International Arctic Science Committee (IASC). It shares in the responsibilities of the Svalbard Integrated Arctic Earth Observing System (SIOS) and other international multidisciplinary research programs. German research bodies like the Alfred Wegener Institute, Helmholtz Centre for Polar and Marine Research (AWI) and many others undertake internationally acclaimed climate and polar research. The AWI provides important infrastructure, e.g. the research icebreaker "Polarstern" as well as research stations in the Arctic and Antarctic.

Germany views the "Arctic 8", the eight countries on the Polar Circle, as the main guardians of Arctic regional policy. Political issues which are significant for the Arctic Region are discussed and decided upon within the Arctic Council which therefore is of great importance for the cooperation in the Arctic region. Being an observer of the Arctic Council Germany sees her role in assisting to shape new policies in an active and responsible manner. As a member state of the European Union, Germany fully supports an active EU Arctic policy. She also welcomes cooperation in the newly established Arctic Economic Council as an observer and stands ready to continue to provide her considerable expertise on all Arctic issues. ■



DOROTHEE JANETZKE-WENZEL

Ambassador of the Federal Republic of Germany to the Republic of Finland

ANDRII OLEFIROV

Affinity in historical ties and destinies is driving pragmatic co-operation between Ukraine and Finland

Expert article • 1782

Throughout its history, socio-cultural development of Ukraine was inextricably linked with the development of the Baltic Sea states. Even mere geographical alignment of several rivers in western Ukraine to the Baltic Sea basin over the years significantly contributed to development of people-to-people contacts between Baltic and Black Sea regions, laying ground for mutual enrichment and practical co-operation.

Finland is no exception. Both Ukraine and Finland became fully independent at the end of 1917 – early 1918, although in the case of Ukraine that initial period of state building lasted only a few years. The fact that at the dawn of independence, despite difficulties, our governments decided to establish diplomatic missions in Kyiv and Helsinki in summer of 1918 demonstrates genuine interest of both sides to explore all possibilities for development of bilateral ties. Even nowadays one could notice a small plaque on the side of the building in downtown Helsinki commemorating location place of the first diplomatic mission of Ukraine in Finland.

Obviously, talking about economic relations at a time when stability and peace in the east of Ukraine are still at great risk is not an easy task. Aggression against Ukraine has taken a grim toll on Ukraine's economy, especially in war-torn industrial eastern regions. According to the IMF, despite direct economic damage, Ukraine's economy will return to growth trajectory next year with 2% GDP growth in 2016.

Return to normalcy, providing necessities and settlement for internally displaced persons as well as speeding up of reforms process are immediate priorities. Tangible political and humanitarian support demonstrates solidarity and unwavering support of the international community to sovereignty and territorial integrity of Ukraine. Finland, being an active contributor of personnel and financial resources to operational activities of the OSCE Special Monitoring Mission, is also an important donor of humanitarian aid to Ukraine.

The Deep and Comprehensive Free Trade Area envisaged by the Association Agreement between Ukraine and the EU – to become effective in the nearest future – offers concrete framework for intensification of trade and economic activities by opening of markets, deepening of integration of Ukraine's economy into the European internal market. In 2014, the EU share in total volume of Ukrainian exports and imports was 31.5% and 38.7% respectively, marking 2.6% growth in comparison with 2013.

Removal of customs tariffs and barriers, introducing European standards in Ukrainian business and investment environment, accompanied by harmonization of laws, norms and regulations in various trade-related sectors, will create huge incentive for European businesses contemplating ideas to enter Ukrainian market of over 40 mln of consumers.

Without any doubt, the Finnish entrepreneurs will take that opportunity by strengthening of co-operation with Ukrainian partners. Existing business contacts demonstrate that agriculture machinery building, energy efficiency, environmental protection and development of renewable energy sources, as well as pulp and paper industry are the most promising areas for co-operation.

Energy strategy of Ukraine provides increasing the share of renewables to 20% in total energy mix. It is also one of the EU's condition in the context of approximation of Ukrainian standards in the energy sector. Rising prices for traditional energy makes usage of biofuels for domestic and industrial purposes increasingly attractive for local businesses. Having huge potential in agriculture for the production of solid biofuels, estimated at 21 mln tons in 2013, Ukraine has all capacities to advance in this area. Finnish companies united in the energy cluster of Ostrobothnia region already explore all possibilities for bilateral business co-operation. The Finnish experts share with Ukraine best practices in emergency response services, modernization of social protection system, provide consultative assistance in implementation of Horizon 2020 EU research and innovation programme, which became available to Ukraine at the end of March 2015.

The Strategy for Sustainable Development "Ukraine 2020" presented to the public in September 2014 determines concrete reform areas aimed at promotion and safeguarding of state interests of Ukraine in current international environment, as well as directions and priorities of state building. With highly educated labour force (Ukraine ranks 4th in the world by the number of people with higher education), unique geographic location, natural resources and advanced industrial base, Ukraine has all possibilities to further modernize its economy, deepen trade with the EU, thus creating preconditions for full-fledged political and economic integration into the Union. ■



ANDRII OLEFIROV
Ambassador of Ukraine to Finland

JARMO VIINANEN

Towards an ever closer partnership – enhanced security policy co-operation between Finland and Sweden

Expert article • 1783

Nordic societies are built on the same values and our administrative structures have similar characteristics, but especially our security policy arrangements differ from each other.

Denmark, Norway and Iceland are members of the North Atlantic Alliance. Denmark, Sweden and Finland are members in the European Union and Finland is the only Nordic country in the Euro-zone. Because of these factors, it is no wonder that bilateral security policy cooperation is especially important and natural for Finland and Sweden.

The *raisons d'être* for Finnish-Swedish security policy cooperation are to enhance stability in the Baltic Sea region and to augment the capability of defence forces in both countries.

The main driving forces for this cooperation are developments in international and regional security environment as well as cost-effectiveness considerations. Besides pure bilateral contacts, main venues for cooperation are EU, NATO and Nordic structures. Security policy cooperation is profoundly anchored in foreign policy considerations.

Both Finland and Sweden are contributors to the stability in Europe; we are not promoting our own security by undermining anybody else's security. Our societies are stable well-functioning democracies, our foreign policy is predictable and we maintain credible defence forces. Our cooperation is not targeted against anybody, but to further stability in our region.

Enhanced defence cooperation will increase the individual defence capacity of both Finland and Sweden. Joint exercises increase interoperability and thus provide also for augmented capacity in possible crisis situations.

Russia's illegal annexation of Crimea and continued support for separatist forces in Ukraine has called for response from international community; from the UN, the EU and NATO. Military activity and exercises have increased considerably in the Baltic Sea Region. Political tensions are running high in Europe. These developments are not the reason for FIN-SWE security policy cooperation, but have provided for further impetus for it.

Finland and Sweden see also, that closer cooperation provide for increased influence in the EU and other international fora. This is important for countries, which see themselves as subjects in international affairs.

Defence ministers of Finland and Sweden tasked in 2014 respective defence forces to prepare a report and come up with a plan on how to proceed with the cooperation. The joint report was presented in February 2015. Main proposals concern joint exercises, sharing of situation information at sea and in the air, possibility to rely on military structures in the other country and secure communication channels. Both governments are interested to proceed with the defence cooperation in accordance with the recommendations in the defence forces' report. From the Finnish side it has been said that there is no *a priori* limitation on how far the defence cooperation could go. Statements in Sweden tend to be a little more cautious.

Finland and Sweden were key drivers in developing EU's security policy in 1990's. This cooperation took form in peace keeping / crisis management operations. Both countries' commitment to this cooperation shows in the facts that Finland and Sweden have participated in all EU crisis management operations and are again together in the EU's *Battle Group* formation. It is therefore only natural that important part of FIN-SWE cooperation takes place within EU.

Another important forum for FIN-SWE cooperation is NATO. This of course somewhat particular as neither country is a member in the alliance. Both have though been members in NATO's partnership program since its inception and NATO standards and interoperability have guided development of their defence forces for years already.

A major step in this respect was both countries' adaption to the alliance's "Enhanced Opportunities Partners" program, with three other countries in Cardiff in September 2014. Finland and Sweden took similar approaches in preparation to be adopted and participate in the EOP. Same applies also to their actions concerning developing the EOP and using the program to advance their respective national defence forces.

An important dimension of FIN-SWE security policy the cooperation is participation in crisis management operations. A key issue in this respect is participation in ISAF operation in Afghanistan, where troops have had extremely close cooperation. As the ISAF operation comes to its conclusion, both countries need to find other appropriate venues crisis management cooperation.

FIN-SWE security policy cooperation is in a dynamic phase. This cooperation serves both countries and the whole region well. There is all need to widen and deepen this cooperation further. ■

JARMO VIINANEN

Ambassador of Finland to Sweden
since August 2014

KIMMO KÄÄRIÄINEN

The Evangelical Lutheran Church of Finland and its international co-operation in the Baltic Sea region

Expert article • 1784

The position of the churches of the Baltic Sea region has changed radically in recent decades. There was an aggressively atheistic policy in the eastern part of the region until the end of the 1980s, especially in those areas belonging to the Soviet Union. With the collapse of the communist regime and the independence of the Baltic States new opportunities for cooperation between the churches were opened.

During the communist period communication between the churches was possible, but it was limited and controlled. The Evangelical Lutheran Church of Finland's contact with the Russian Orthodox Church was for the most part effected through a series of theological dialogues that has taken place since 1970. These afforded an opportunity to become acquainted with each other's traditions and explore what the churches had in common. Alongside them the themes of contemporary social ethics and the practical life of the church were explored. The most recent dialogue – the fifteenth – was held in 2011. Contact between the churches today is effected through neighbourly cooperation work, theological exchange, and the Council of Christian Churches in the Barents Region.

In the communist period contact with the churches of the Baltic States was limited. Contact with the Estonian Evangelical Lutheran Church was mostly limited to church leaders' meetings and Finnish visits to Estonian parishes. It grew significantly during the late 1980s as the political climate changed, and increased exponentially with Estonia's independence. Numerous Finnish parishes signed friendship parish agreements with parishes of the Estonian church, Finnish mission organisations and Finn Church Aid were able to support the work of the Estonian church, and regular contact was developed with the church's leadership. Relations with the Lutheran churches of Latvia and Lithuania were significantly less developed, being confined to meetings of church leaders and specialist groups.

For historical reasons relations with the Church of Sweden are especially close. In addition to church leaders' meetings, there is contact and cooperation in many areas of the church's work. There is especially close collaboration through the Diocese of Porvoo. The bishops of the churches regularly participate in each other's episcopal consecrations.

There has been close cooperation with the Evangelical Church in Germany (EKD) for decades. The churches hold joint consultations every three years. These address theological topics as well as issues related to the churches' practical cooperation. An example of concrete cooperation is Finnish language parish work in Germany and German language parish work in Finland. There has also been cooperation between the churches in the area of research – the churches in Germany and Finland face many similar challenges.

The Polish Evangelical Lutheran Church constitutes a small minority in a mainly Catholic country. Contact with the Polish Lutheran church has increased in recent years. It is especially hoped to support diaconal and communications work, and cooperation in these areas has been developed.

The Evangelical Lutheran Church of Finland is involved in many of the combined ecumenical networks of the churches of the Baltic Sea region. The annual Nordic-Baltic Ecumenical Secretaries meeting coordinates the cooperation of the region's churches. At this meeting the churches' topical issues, joint projects, and links with international church bodies are discussed.

For its part the Porvoo Communion supports the cooperation of the churches of the Baltic Sea region. Signed in 1996, the Porvoo Common Statement's aim is to create a fellowship of the British and Irish Anglican churches and the Nordic and Baltic Lutheran churches. A variety of activities is being developed in the Porvoo Communion, e.g. consultations on various topics, theological conferences, and the biennial church leaders' meeting.

Theobalt (Theology in the Baltic Region) was established in the 1980s as a special network for the churches of the Baltic Sea region. Its members are the Lutheran and Orthodox churches, together with the Catholic dioceses, of all nine Baltic Sea states. Its original aim was to offer a platform where churches in the Baltic region could meet to discuss contemporary social issues from a theological perspective, to build bridges with the Eastern Block countries, and to strengthen the Christian tradition as a contribution to the building of society. Political change in the region opened many new perspectives. As early as the third Theobalt conference in 1994 churches from all the region's nine countries were represented. The purpose of Theobalt is threefold: (1) to further mutual understanding and strengthen relations between the three main Christian traditions; (2) to develop the contribution of churches to the life and culture of the nations and to the protection of the environment; and (3) to promote Christian values, reconciliation, democracy, and peace.

It is essential for the future of the cooperation of the churches of the Baltic Sea region that the Russian Orthodox Church is involved. The approach of the agreed theses of the 1992 dialogues between the Evangelical Lutheran Church of Finland and the Russian Orthodox Church might serve as a guideline:

"As the Body of Christ the church is called to build bridges between peoples. It should work for the unity of humanity, and fight against the nationalism that generates the hostility that divides people." ■



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Russian activities in Europe – the real and phantom kind

Expert article • 1785

Last month Polish authorities stripped¹ a Russian correspondent of his journalist accreditation and told him that he would be asked to leave the country. According to the Polish authorities, Leonid Sviridov, a correspondent for the government-owned RT channel, poses a threat to Poland's security.

Polish authorities have declined say exactly what sort of activities Sviridov has been involved in, but his case highlights the feeling now affecting most European countries: that Russia is everywhere, operating through political bodies, military means, commercial entities, and a fifth column of supporters. The Poles do have a legitimate concern. Last year a Polish army officer and a lawyer were unmasked² as agents for GRU, the Russian military intelligence agency. The new Zmiana party offers a pro-Russian interpretation of European affairs. Veteran Russia backer, member of the European Parliament and former presidential candidate Janusz Korwin-Mikke, meanwhile, recently suggested³ that the snipers who killed protesters during the Maidan protests had been trained in Poland.

Presenting pro-Russian opinions is, of course, neither illegal nor ethically inferior. But in a political environment where Russia appears to be using aspects of civilian society to advance its interests, its European neighbours face the dilemma of what to do about it. Would it have been better to ignore Mr Sviridov in the calculation that the value of his activities was negligible? Whatever their calculations, the Polish authorities felt they had no choice but to move against Mr Sviridov, who has vowed to take his case to the European Court of Human Rights. The irony is that seeing its alleged agents unmasked does not harm Russia all that much. On the contrary, it increases the public's feeling of being surrounded by mysterious Russian goings-on.

In the Baltic States, Russian influence needs no imagination. Pro-Russian parties form a strong part of the Estonian and Latvian political landscape, while organisations promoting Russian views receive support from the government agencies *Russkiy Mir* and the Committee of Trustees of the Fund to Support and Protect the Rights of Compatriots Living Abroad. And the countries' international images are already suffering as a result. Case in point: Latvia's annual Legion Day, when participants commemorate the Latvian Legion, which fought against the Soviet Union during World War II. The march had attracted a relatively small group of legionnaires until Russia took umbrage at it. *World Without Nazism*, which Baltic intelligence agencies allege is a Kremlin front organisation, then started organising protest marches against what it labelled a Nazi manifestation. Mention Latvia to an ordinary member of the public these days and there is a good chance that he will think of the "Nazi marches".

¹<http://news.yahoo.com/polish-authorities-russian-reporter-danger-poland-101313072.html>

² <http://www.bbc.com/news/world-europe-29664417>

³ <http://rt.com/news/251961-ukraine-maidan-snipers-poland/>

And who would want to defend a Nazi-glorifying country? Discrediting it as such is part of a concerted Russian action to portray the Baltic states as failed states unworthy of NATO support. Given recent joint NATO exercises in the Baltic states involving American troops, Russia's plan does not seem to have had any effect on political strategy, at least not yet. Indeed, the United States sent a strong signal when it dispatched a group of GIs stationed in Lithuania to watch the country's 25th independence anniversary celebrations in Vilnius this spring. Their presence allowed Lithuanians to say, "Look what kind of friends we have these days". Indeed, the independence day celebrations featured both EU and NATO flags in prominent positions.

Italy, Hungary, France, Britain, Germany: the list of countries with radical parties now praising Russia or maintaining close relationships with it goes on. And in Germany, the new word *Russlandversteh*er has taken root, suggesting an expert who is both knowledgeable about Russia and has sympathy for it. Lately, *Russlandversteh*er have been joined by *Putinversteh*er. Understandably, the public suspects that such experts are in Russia's pay – why, the thinking goes, would anyone want volunteer a sympathetic interpretation of Russian actions? But paradoxically, public vigilance against Russian perception warfare may further strengthen its influence. If the public feels surrounded by nefarious Russians and their helpers, Russia has won its information warfare, and very cheaply, too.

That is not to say that the situation is not serious. In the Baltic Sea, Russian vessels have been repeatedly disturbing crews laying the ScanBalt pipeline. The pipeline, linking the Baltic States with Sweden, will dramatically reduce Baltic dependence on Russian energy. State-of-the-art Iskander missiles now based in Kaliningrad can reach European capitals. And RT and its fellow news channel Sputnik open an ever-growing number of offices abroad, from which they broadcast information critical of the EU and the United States in particular. No wonder Poland took a vigilant approach to Mr Sviridov's activities. ■

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SERGEY KULIK

Ukrainian crisis – economic challenges for EU and Russia

Expert article • 1786

The Ukrainian crisis has greatly increased the economic and financial burden on the key players involved – Ukraine, the European Union and Russia with the newly formed Eurasian Economic Union (EEU). Even in case of a “frozen conflict” with a prolonged cease-fire regime new substantial dozens of injections for Kiev will be definitely needed.

Too much damage has already been done to the social and economic infrastructure of the Ukrainian state which was already seriously ill before the Maidan protests. Nowadays, no one is bound to brag about approximate levels of aid needed for returning to the pre-crisis situation, not to say about for meeting the obligations given to proceed with even slight economic modernization and GDO growth. Nevertheless it's clear for many that the already announced financial aid from the international and Western structures is inadequate.

Ukraine has made a strategic European choice and there can be no illusions in Moscow that the majority of it's citizens may change their aspirations for the sake of weakening the present and future hardships. But this brings a particular responsibility of the West and the European Union to jump over the rough period as quickly as possible. It's also a-must to demonstrate to the peoples of Ukraine and other participants of the Eastern Partnership along with the Western community first successful steps in the European direction. Sooner or later this is bringing considerations about the resource base available to the frontline, changing places with considerations with a purely political flavor.

On the way to the Association Agreement between Ukraine and the EU politicians and experts in their calculations have made at least two key mistakes. This can be traced in their scenarios of striking deep and comprehensive free trade agreement (DCFTA).

Firstly, they hoped for a smooth, though painful, integration transit under the umbrella of the EU's norms and standards. But these hopes have evaporated with the internal conflict and it's unexpected high waves over the Ukrainian borders.

Secondly, almost everybody involved in economic endeavors stemmed from the premise of no tough Russian reaction on the Association Agreement at least on the foreign trade track. Such a misperception has led to a severe blow on all calculations about scale of European economic and financial aid – calculations already taken into account in the EU budget framework for 2014-2020 adopted at the end-2013. Drastic shrinking of trade and economic cooperation between Moscow and Kiev afterwards has made all presented scenarios completely irrelevant.

But let's for a second assume them relevant. Just financial resources for meeting announced highlights of economic modernization and steady growth of GDP would be also definitely tremendous. It should be reminded that the Ukrainian economy with its currency reserves and internal and foreign debts was in a big trouble as of January 1, 2014.

Under the aegis of our Institute a group of experts have calculated different economic and financial gains and loses of the Ukraine's choice of DFTA under different scenarios, including a drastic freeze relations with Russia. One example: without any crisis Kiev would have needed as least \$190 bln for the necessary capitalization of

the economy and \$300 bln for seriously addressing the structural imbalances which accumulated in the economy for the last two decades. These figures provide at least a food for thought about overall requirements for the sake of modernizing the economic base much more complicated by the present realities with the substantial undermining of the industrial base in the Eastern Ukraine.

But this burden could be applied to Russia as well if Kiev would have chosen the Eurasian integration. It should be noted that the Eastern Partnership program with it's Association Agreements drastically changed the room for Moscow's manoeuvre. Looking at the door open for Kiev to return to the EU's proposals, Russia must have had to leave aside traditional aid instruments (subsidies, different privileges in energy sector, etc.) and to seriously concentrate on modernization in Ukraine. Thus, the financial and other obligations would have been drastic and more burdensome for Russia with its economic potential definitely weaker than of the EU. Not to say about the capacity to stimuli effective reforms with Russia's own problems and limitations.

In providing Ukraine the option “either-or” both sides showed that the economic scenarios were not adequately thought through. In turn, this indicates that their offers were largely political in nature.

Now the social and economic situation in Ukraine has been drastically deteriorating and approaching the boiling point. So far the majority of it's citizens are ready to suffer seeing the light in the end of the tunnel to Europe. But it can not last forever and one should acknowledge that neither side alone can take a very heavy burden. Without some compromises and rapprochments between the EU and Russia in helping Ukraine the economic losses of both sides will further increase.

The real challenge is that policy dominates economics. European sceptics of rapprochment point to Crimea, deadlocks in the South-East of Ukraine, overall frozen relations with Russia etc. Their Russian colleagues add Kiev's European choice and arguments against wide involvement in assistance. But it seems that economic considerations sooner or later would more soundly knock the doors of the high-level cabinets.

For Russia the challenges are high and may be higher than for the West. The economic deterioration enhanced by sanctions and oil prices' drops along with undesired consequences of these trends for the President's Putin's beloved Eurasian project. It to have a latter alive is in Moscow's one of the prime interests.

Having this in mind and given firm European choice of Kiev, Brussels should sent more serious signals about it's interest in creating bridges with the Eurasian Economic Commission responsible for the EEU. It would be useful to find compromises about some provisions in the economic part of the Association Agreement between the EU and Ukraine. This would stimuli Russian energy for restoration of trade cooperation with Kiev. As the implementation of the economic part has been frozen until the end of 2015 the time is running fast. Also the EU can advice Kiev to sign protocols with Moscow which give a way to accelerate the trade between them regarding, among others, the elimination of technical trade barriers.

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Again, sceptics may say that it's not a proper time. But it's a proper time for all sides to put the economic challenges for on a political table. At least not to repeat former mistakes of neglecting economic losses for the advantage of political considerations.

It's in interest of the EU to share burden with Russia to give a treatment for the seriously wounded patient. And it would be useful for Brussels at least to start analysing pros and cons of bridging with the Eurasian Commission and the EEU.

Just economy, no politics. But it gives better chances to find exits from the present deadlocks as well as to proceed further along the Minsk process. ■

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CHRISTOPHER J. WEAVER

Sanctions and weak oil add urgency to already overdue Russia reforms

Expert article • 1787

Russia's economy is expected to contract by between 3 and 4 percent in 2015 and while it is tempting to link this decline with the sharp drop in the price of oil and sanctions, this is not exclusively the case. Such an assumption underestimates the serious structural problems in the country, which, because of a decade and a half of hydrocarbon complacency, have been in the pending tray for far too long but which now are urgently in need of addressing.

It is fair to say that the geo-political crisis and this year's expected recession mark a turning point for Russia after more than a dozen years of vibrant growth. What is not yet clear is whether this combination will lead to a careless drift from the easy boom years to a lengthy period of stagnation or, whether it finally marks the wake-up call which the liberal factions in Russia have been hoping for.

Russia's economy grew by 4.5 percent in 2010, by 4.3 percent in 2011 and by 3.4 percent in 2012. These numbers were relatively good against the backdrop of uncertainty and sluggish growth in the EU, Russia's main trading partner, and in the broader global economy. But in 2013, as the rest of the world expanded by 3.3 percent, Russia's economy grew by only 1.3 percent. Last year, with the added pressure of sanctions and the consequences of lower oil revenues, GDP growth just managed to stay positive with an increase of 0.6 percent in real terms. That was a fourth straight year of declining growth. This year will see that losing streak extend to five years. So Russia's main economic problem is not all, or even materially, about the oil price decline or sanctions.

The key drivers of growth in the economy from 2001 have been the rapid expansion in the consumer sectors, and related service industries, and the steady increase in investment into manufacturing sector assets. The oil and gas wealth did not directly contribute a great deal to headline growth as it accounted for only about 20 percent of GDP. But oil and gas taxes contribute, on average around 50 percent of total budget revenues each year and two-thirds of the value of all exports. So the over \$2.5 trillion which the country earned from exporting energy since 2000 did completely change the country's balance sheet and allowed for a more than doubling of federal budget spending.

Therefore it is fair to say that hydrocarbon earnings have been the big indirect driver of the country's growth as the boost to budget spending was a major driver of the consumer story. The state increased public sector worker wages and pensions in real terms every year since 2000, which forced the private sector to follow suit, and the recapitalization of the dominant state banks was a key factor in the rapid increase in retail credit. By 2012 Russia was already the world's fifth biggest consumer market, in US dollar terms, and quickly catching up with Germany.

The double-digit increase in investment into the manufacturing sector was also an important driver of growth in 2000-2012 as both local and foreign businesses bought into the long-term Russia story. Of course another reason for the average double-digit growth in the consumer, service and manufacturing sectors was the very low base effect. Relatively little changed for the consumer and manufacturing sectors during the chaotic 1990's, i.e. most of the action was in the extractive industries and was very focused on ownership and restructuring rather than on growth.

It was also the consumer and investment spending which pulled Russia quickly out of the 2009 recession and delivered respective growth of 7.2 percent and 10.2 percent in 2011. By 2013 those numbers had deteriorated to 3.9 percent growth and a decline of 0.3 percent. Both are expected to be significantly negative this year.

Throughout this period, when Russia's economy expanded from \$200 billion at the start of 2000 to over \$2 trillion at the end of 2013, there has always been a great deal of discussion about the need to create a broader range of growth drivers and a more diversified economy. This was also been an underlying theme in President Putin's speeches during his first two terms as president, 2000-2008. But, in reality, there was perceived to be no great urgency and reform plans remained very much on the drawing board.

That started to change in 2013 as growth in the economy slowed while the rest of the world recovered and the price of oil averaged \$110 per barrel. It had become obvious that the country needed a new, or supplementary, driver of growth and that would have to be based on a sustainable increase in investment. President Putin acknowledged this at his annual Federal Assembly Address, aka the state of the nation speech, in December 2013. Unfortunately that was within weeks of the start of the conflict with the west over Ukraine. Today, and for much of 2014, the government is almost entirely focused on containing the crisis and preventing credit or bank sector problems. Strategies aimed at boosting growth will have to wait at least until financial sector sanctions start to ease.

The question is whether the slowdown in 2013 plus the impact of the sanctions and oil price collapse, will lead to a greater effort to attract investment and diversify the economy or, whether the events of the past year will hinder such efforts and steer Russia into a long period of low growth, even borderline stagnation? It also has to be asked if, even with a greater effort from the state, can foreign investors be persuaded to bring their money into the country and, more importantly, will Russian investors return some of the huge volume of capital flight which has taken place since 2008?

If the government does use this crisis period as an opportunity for more effective changes to the business and investment environment and can focus on deliverable industrial strategies, such as the much talked about import-substitution programme and infrastructure spending, then Russia's economy may again see 4 to 5 percent annual growth within three years and it will again be a vibrant contributor to EU growth. If the investment increase cannot be sourced, then relying on the previous drivers of growth will, at best, sustain 1.5 to 2.5 percent annual growth. For an economy of Russia's size and stage of development that will feel like stagnation. ■



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Russia and European Union – what can be expected in the future?

Expert article • 1788

At present the relations between Russia and the European Union are at extremely low ebb. The Ukrainian crisis has resulted in every latent problem and contradiction erupting to the surface and the negative trends gaining momentum to become predominant. At this juncture they are manifested in the following.

First, there are contradictions between the EU and the Eurasian Union, which was created on Russia's initiative. Initially, it was presumed that the EU and the Eurasian Union would be either two pillars of a single process of integration, or centers of two integrations with close relations of co-operation and partnership between each other. It is evident at this point, however, that this is not what happened. Despite the presence of some features in common, the nature of the respective integration processes proved to be qualitatively different. Moreover, the two unions came to regard each other not as partners or counterparts, but as competitors and rivals.

Second, Russia and the EU have increasingly often positioned themselves as opponents on the international arena. While the EU goes on posing as primarily civilian power, Russia has been paying increasingly greater attention to the military factor. In consequence, the behavior of Russia and the EU in international affairs cannot but differ appreciably.

Third, the ruling circles of Russia and the EU uphold predominantly pessimistic views of each other's future. Russia's ruling circles have got entrenched in their belief that the role and influence of the "historical West" is dwindling. In this context, it is widely predicted that the bonds between the EU and the US are to slacken, that a crisis or even a collapse of the EU and the Euro Zone is imminent. In their turn, the European political circles by and large share the doubt that Russia can in a foreseeable future (or ever) become a democratic European country.

The Ukrainian conflict will undoubtedly remain the main irritant in the relations between Russia and the EU. The Minsk agreement (of February 2015) stands little chance of implementation. In our opinion, its maximum possible achievement would be an effective ceasefire implementation. The European Union is unlikely to recognize the legitimacy of the referendum in the Crimea of the 16th March 2014, while Russia will maintain that the issue of the Crimean status has been settled irrevocably and is not subject to discussion. The EU's sanctions against Russia and the Russian counter-sanctions will most likely continue, although their volume may increase or decrease depending on the vicissitudes of political context. By the end of this year fresh complications may arise due to the coming into effect of the EU-Ukraine Association Agreement, which Russia objects to.

The Ukrainian crisis may become a protracted one because it has become a matter of prestige for the political elites of Russia and the European Union. The confrontation between the two has gone so far that neither party can make concessions now without a loss of face.

The political dialogue between Russia and Europe was frozen in the spring of 2014. It must be admitted that its effectiveness in the preceding years left much to be desired. The EU-Russia Corfu Agreement (1994) is unlikely to be abrogated, yet prospects for concluding a new agreement are practically non-existent. Russian diplomacy will

seek a dialogue with individual member states rather than with the EU institutes, trying to exploit any contradictions and differences within the Union.

On the global arena, the EU-Russian relations will be more complicated and equivocal. The EU will seek, in tune with the general Western sanctions, to ignore or isolate Russia on the major international fora. The ruling circles of Russia will respond to that rather harshly, for retaining the status of a great power is their priority. The two parties' vision of the world development trends will be different too, for the EU is on the whole satisfied with the ongoing processes of globalization, while Russia seeks a different role for itself. This does not preclude chances of cooperation on certain individual policies and issues.

Hard times are in store for the economic co-operation between Russia and the EU. The sanctions and counter-sanctions have already exerted adverse impact and their effect is unlikely to diminish. A great deal will hinge on continued dialogue and cooperation on issues of fuel resources. Russia is trying to increase the number of its gas and oil customers, especially in the countries of Asia. The EU in its turn wants to diversify its energy suppliers and have a greater control over the dealings of its member states with external partners in the sphere of energy. Russia and the EU will not be able to divorce from each other completely. Yet the share of Russia in the EU energy market is certain to diminish. In other lines of business their economic cooperation will most probably be gradually shrinking as well.

And last but not least, the general extremely strained atmosphere in the relations between Russia and the EU will persist. Propaganda campaigns against each other are likely to intensify. Mutual trust (which was deficient even during the periods of warmest relations) will be shrinking. This will adversely affect the development of contacts between people and cooperation in the humanitarian sphere.

Thus, the period when Russia and the EU declared striving for strategic partnership is over. The ensuing period will be characterized by relations based on strict pragmatism with elements of confrontation. But it will not be a return to the classical Cold War, which was waged by the two diametrically opposed socio-political systems on a global scale over every course and sphere. Nor will it be "a clash of civilizations", which some scholars and politicians predicted after the collapse of the bipolar system. It will most probably be confrontation between institutions, which will be possible to contain within certain bounds until conditions are ripe for a new rapprochement between Russia and Europe, which is currently undergoing a process of integration. ■

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The Baltic Sea Parliamentary Conference and the Ukraine crisis

Expert article • 1789

The conflict between Ukraine and Russia and its repercussions have seriously jeopardized the possibility of forging a Baltic Sea region. It makes it difficult to keep alive the vision of political cooperation based on a shared identity. Such a vision is the rationale of the Baltic Sea Parliamentary Conference (BSPC). According to the institution's website, the purpose of the conference is to "initiate and guide political activities in the region" and "strengthen the common identity of the Baltic Sea Region by means of close co-operation between national and regional parliaments on the basis of equality", which should endow the region with "additional democratic legitimacy and parliamentary authority."

Ever since the intergovernmental Council of the Baltic Sea States (CBSS) was founded in 1992, the BSPC's yearly resolutions have called for a parliamentarization of the relationship between these two institutions, and between the BSPC and the national parliaments of its member states. For example, in its 1992 Resolution, the BSPC called for governments to "take into account recommendations and proposals put forward by the conference." By 1998, it declared that the BSPC was a representative body "initiating and guiding governmental activities in the Baltic Sea Region".

These are very broad claims. In recent years, the formulation of the relationship between the inter-parliamentary and intergovernmental level of regional institutions has become more open and perhaps realistic. In their 2013 Resolution, the BSPC stressed "the mutually beneficial interaction between CBSS and BSPC at all levels and in all fields" and "a close coordination between the legislative and executive branches." Notably, these formulations did not indicate the direction of political power relations, and thus made it possible to consider the inter-parliamentary actors as having a listening rather than a demanding role.

Despite some organizational reforms over the years, the BSPC remains a conference of parliamentarians rather than a parliament. Its resolutions are based on consensus rather than voting, and it has no formal party groups, legislative powers or parliamentary control over national governments or over the CBSS. The members of the conference are nominated by national and local parliaments, not through popular elections.

Last year, the meeting of the CBSS was cancelled, while the BSPC did convene as planned. In its resolution, the conference held that it was "deeply concerned over the crisis in Ukraine" and that it welcomed "all steps that can contribute to a peaceful solution of the crisis." No other explicit mention of the crisis can be found in the document, although many accounts of the conference describe the serious differences of opinion at the meeting. According to a news item on the website of the Baltic Assembly, the Ukraine crisis was an important issue at the BSPC, which took place two days before the summit meeting between Russia, Ukraine, and the EU. It was reported that parliamentarians from the Baltic States and Poland adopted a hard line, while German and Nordic representatives counselled moderation. The Swedish delegation was the only one to back a proposal of Baltic and Polish parliamentarians that support of the territorial integrity of Ukraine be included in the 2014 BSPC Resolution.

Some would see this resolution as a sign of the BSPC's weakness. Consensual resolutions that have no formal effect on the ways in which political power is exercised and that are issued without being widely published make a political institution look ineffectual. However, if the purpose of the resolution is to keep the idea of the Baltic Sea region alive, it may have been thought better to forge a resolution that says very little than to play the conflict out. Perhaps a weak regional parliamentary forum is better than none at all.

While the weak parliamentary character of the BSPC and its lack of control over the executive branch may be problematic in terms of theories of transnational democracy, the same elements may have some diplomatic advantages for forums like the BSPC. The conflict between Ukraine and Russia might have paralysed the region-building process even more than what we see today, if the calls for greater parliamentary status and character of the BSPC would have been answered. Had the BSPC managed to gain substantial political power, it is possible that the conflict in Ukraine would have got an institutionalized political forum in the Baltic Sea region. ■

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Russia-Baltic energy relations

Expert article • 1790

Russia-Baltic energy relations inherited from infrastructural interdependencies, which take roots from Soviet legacies. Estonia, Latvia and Lithuania reliance on Soviet oil and gas infrastructures has been of crucial importance also since the collapse of the Soviet Union. An important distinction can be drawn between oil and gas supplies from Soviet Union and then Russia. The oil industry was mainly designed to supply the satellite states as well as Soviet republics and therefore disconnected from the world markets. Russia's commingled stream operation produced the Urals blend of heavy and light oils, which has been still favoured in some Eastern European and Baltic states because of the price discount involved. For example, Lithuania has been unhappy about Russian decision not to supply crude to the largest refinery in the Baltics Mazeikiu Nafta. The Lithuanian section was closed for technical reasons following Lithuania's decision to sell the assets of the refinery Mazeikiu Nafta to a Polish company, Orlen. Although the political dimension to these closures was of significance, it is also important to note that the oil pipeline had become something of a burden for Transneft in terms of maintenance and operational costs. In most cases, Russian oil companies have expressed only lukewarm interest in shipping oil through the terminals located in the Baltic countries. By contrast, oil transit through the area has been positively regarded by the three states.

Natural gas represents a different story. Natural gas supplies were designed for Western Europe, while satellite states were transit countries. Austria, Germany and Italy became longstanding partners of Russia in their attempts to develop the gas industry. Furthermore, the international corporate world integrated itself into the Russian energy industry so closely that business in Russia often became quite profitable. It is important to highlight the structure of EU-Russia interdependencies which have evolved over recent decades. Major gas flows have been set for Ukraine-Slovakia route as the Soviet authorities preferred then to avoid Poland and to reach neutral Austria. In this context, Baltic states were marginalised from the gas transit business. These three states have always been entirely dependent on Russian gas supplies and have had no access to alternatives. Therefore, they are often referred to collectively, in energy circles, as the 'Baltic energy island'. Moreover, since the collapse of the Soviet Union, Russia's Gazprom did gain shares in each of the gas companies of the three states. Therefore, the three Baltic states have often considered a need to decrease a dependency on Gazprom's gas and stakes.

Challenges emerged with the integration of the Baltic states into the EU and a subsequent requirement to introduce a market competition based on the Third Party Access, on unbundling between supplies and transports as well as on the market opening from monopolistic supplies to unregulated markets. EU legislation allows isolated markets to derogate from liberalization provisions, and in 2003

Greece and Finland obtained the status of isolated markets. By contrast, Lithuania decided not to opt for a derogation, while the two other Baltic states received one in 2009. Neither, Lithuania considered a softer measure for its implementation of the EU acquis, which is the establishment of an independent system operator. Instead, Lithuania opted for the full ownership unbundling, which was never liked by the investors, including the afore-mentioned Gazprom. Lithuania's decision in this regard stems from a politically motivated desire to create competition even before integrating its infrastructure with the

rest of the EU. This resulted into an arbitral case with Gazprom, who attempted to defy Lithuania's decision. However, in late 2014, a compromise on selling the assets was found. In April 2015, Gazprom suspended its demand on arbitration. Consequently, Gazprom's move gave a ground for the two other Baltic states to opt for the full ownership unbundling as well. The political compromise might signify the willingness of the Russian company to depoliticize the relations with its neighbours.

However, this still did not decrease Baltic reticence on Gazprom's dependence. In this context, development of the gas infrastructure linking the region to the rest of the EU is a matter of urgency. A number of competing LNG projects created a tough political competition between the states. A bilateral agreement with Norway salvaged Lithuania's LNG prospects. Indeed, a new terminal was built in Klaipeda on the strength of funds received from the European Investment Bank. Norway's Statoil agreed to supply 170 mcm of gas for the ten-year period ahead. However, the Norwegian gas for the terminal was contracted for at a price 10 per cent higher than Gazprom's price when the project began. Gazprom's ability to exert price leverage stems from the amortization of existing infrastructure, which is always more advantageous than to build new ones.

A full reliance on the LNG market also contains inherent market risks. Given that the Baltic states' 5 bcm of consumption do not warrant a hub, LNG imports would be bound to external hubs – TTF or NBP – with a price premium. In the context of the oil price decline, a reliance on bilateral oil-indexed contracts might even become more advantageous. Hence, the Baltic states would have even lesser leverage on price than with bilateral contracts with either Gazprom or Statoil. It could be argued that the most economically realistic scenario would be building export LNG terminals, allowing Russian gas companies to export gas to Europe via Baltics. Nevertheless, this would become politically possible only in case of Gazprom's export demonopolization. ■

The oil industry was mainly designed to supply the satellite states as well as Soviet republics and therefore disconnected from the world markets. [...] Natural gas supplies were designed for Western Europe, while satellite states were transit countries.

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The EU and Russia – searching to overcome the crisis

Expert article • 1791

Today the EU-Russia relationship is dominated by the Ukraine crisis. The progress that had been achieved during the last two decades of negotiations was forgotten; various areas of cooperation were undermined; multiple political and economic interests of both parties are now in danger. It is hardly possible to imagine that relations would be restored to the pre-2014 level. How to overcome this crisis and resume cooperation at least in the most important areas?

In fact, this is not the first time that relations between the EU and Russia are undermined. They were severely damaged in 1999 due to events in Chechnya and in 2008 because of war in South Ossetia. Both times the EU raised its concerns and tried to put pressure on Russia to transform its behaviour, but then in a few months relations got back to usual and even were upgraded to common spaces and partnership for modernization. This experience demonstrated us the necessary conditions for improvement of relations between the EU and Russia. In both cases, the EU and Russia continued to have different interpretations of particular events, they still had points of disagreement like perception of Chechnya-associated terrorist activities and independence of South Ossetia and Abkhazia, but major contradictory issues were solved. In the first case, Russia stopped its military activities in Chechnya, which was the reason for serious concerns of the EU about human rights violations. In the second case, military conflict between Russia and Georgia was terminated as a result of mediating activities of the French President Sarkozy. The EU and Russia were able to get back to cooperation and negotiations on the issues of new agreement, visa free regime, security and regional cooperation.

Today it is highly important to find a way out of the current crisis as it has caused multiple problems both to the EU and Russia. Of course, the crisis led to disproportional effects for Russia and different EU member states. The Russian economy, which started to demonstrate negative trends already by late 2013, has been further undermined: its GDP is shrinking, national currency is unstable, foreign trade has decreased, Russia's credit rating has got downgraded by major international rating agencies. In the EU, this crisis had negative consequences mainly for member states actively trading with Russia, particularly the ones that used to provide food products to the Russian market. In addition to economic consequences, the current crisis can undermine political cooperation in the areas of common interests, including negotiations with Iran, counter-terrorism, and fight against violent extremism. For the EU, it has become difficult to keep consolidated position on Russia. Multiple questions are raised about efficiency of sanctions against Russia and their potential effect on the conflict in Ukraine. The Russian authorities managed to ensure public support of their policy towards the EU, but further economic problems in the country can make Russia's position very vulnerable.

What could become a possible solution for the EU and Russia? Taking into account the previous experience of overcoming disagreements, it is necessary to make a deal on the core issue as a basis for general compromise. In this case, points of contradiction between the EU and Russia are Crimea, separatists in Eastern Ukraine, Russia's influence in Eastern Ukraine, and political transformation in Ukraine in February 2014. The last point is mainly a problem of interpreta-

tion of certain events as Russia agreed to recognize legitimacy of the new Ukrainian authorities after presidential elections. In terms of the first three points, the most complicated is the issue of Crimea as it is perceived as a zero-sum game and could be recognized as a territory either of one state or another, while the problems of Eastern Ukraine could be solved, for example, on the basis of Minsk II agreement, which determined principles, methods and schedule of ceasefire regime in the region and restoration of Ukrainian sovereignty in Eastern Ukraine. Concerning Crimea, the EU and Russia have opposite opinions and it is unlikely that either party can change its points of view. However, Minsk II agreement has demonstrated that the EU member states and Russia are searching for a compromise and eventually can find common ground.

In order to find a way out of the crisis, it is possible to concentrate on the problems of Eastern Ukraine and link development of relations between EU and Russia to the situation in the region. This solution would enable the EU and Russia to resume important areas of cooperation like security, trade, energy and environment. At the same time the EU could stay firm on the issue of Crimea and keep its Crimea-related sanctions against Russia. The EU started to apply this strategy in March 2015 when it decided to link sanctions against Russia with the implementation of Minsk II. This agreement can enable the Ukrainian state to ensure its control over state border and legitimate authority in Eastern Ukraine. Positive development of Ukraine would correspond to major concerns of the EU making it possible to scale down its sanctions against Russia and restore cooperation.

The current crisis has demonstrated multiple contradictions between the EU and Russia in terms of their understanding of the world order and its norms, their values and interests, their expectations towards each other. Due to these contradictions it is difficult to expect resumption of pre-2014 relations, but it is possible to resume fragmented EU-Russia cooperation in the areas of mutual interests. ■



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The Baltic States and EU-Russia relations – questions of security after the Ukraine crisis

Expert article • 1792

Arnold Wolfers, a prominent international relations theorist writing in 1962, classified the purposes of statecraft within two principal categories: “possession” (direct) and “milieu” (indirect) goals. While defence policy through NATO serves to safeguard the sovereignty possessed by the Baltic states – Estonia, Latvia and Lithuania, intelligent execution of foreign policy offers the opportunity to influence the wider regional environment and thus indirectly improve Baltic security circumstances. Where “milieu” foreign policy is concerned, the EU setting takes precedence. Of greater political complexity compared to the parallel formulation of defence policy within NATO, the Baltic three must work within challenging constraints in their effort to influence the EU’s policies concerning Russia and the Eastern Neighbourhood, both of which have become problematically inter-related. This article will analyse the challenges of contemporary EU-Russia relations for the Baltic three.

Frequently working together, it is often customary for smaller member states to exert considerable influence upon the EU’s foreign policy course. Driven by the initiative of Poland and Sweden and supported by the Baltic states among others, the establishment of the Eastern Partnership in 2009 as a means to enhance EU cooperation with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine remains a prominent example of this. However, as the Minsk talks called in recent months to mediate a ceasefire in Ukraine have perhaps indicated, there remains a tendency for France and Germany to dominate the EU’s crisis diplomacy and thus risk the unease of some smaller member states within the Union.

If the Baltic states are to squeeze greater influence over EU crisis diplomacy where it intersects with their individual eastern policies, then further persuasion aimed toward Paris and Berlin is required. Baltic relations with France and Germany have largely been cordial since 2004. However, where Russia policy is concerned, there has also been room for mutual doubts. As firm Atlanticists, the Baltic states strongly support greater convergence between the US and the EU in foreign policy matters. In this sense, French efforts to bridge relations between the EU and NATO since Paris’ reintegration with NATO’s military command structures in 2009 has, from the Baltic perspective, been a positive development. However, when it comes to Russia, France often retains autonomy in its actions regardless of the US position. For example, France’s 2009 agreement to supply Russia with two *Mistral* assault ships provoked much unease among many including the US, the UK and the Baltic states. In June 2014 – more than two months after Crimea’s annexation – 400 Russian naval personnel arrived at the French port of Saint Nazaire to receive the training required to operate the vessel. It was only after prolonged pressure that President François Hollande postponed the agreement indefinitely during autumn 2014. Grievances also exist on the side of Paris and Berlin. With Ukraine, the Baltic states have been open to Washington’s proposals for a more “deterrence-orientated” Western policy to include the arming of the Ukrainian military against Russian-backed separatists. In resisting this idea, France and Germany found themselves firmly on the other side of the argument.

France and Germany are major powers in the European context and often attempt to order the EU’s Russia policy in accordance with the idea of great power stability through accommodation. Finding its origins with the *Ostpolitik* pursued during Willy Brandt’s chancellorship spanning 1969-1974, German foreign policy has had a regular tendency to promote this stability through its advocacy of the EU’s need to integrate Russia closely. Meanwhile, German business in particular holds a significant stake in Russia’s economic progression. Berlin’s preference for pragmatic accommodation is often at odds with the Baltic position preferring punishment should Russia fall out of line with the EU’s objectives. Indeed, the Baltic states have regularly attempted to take the position of alarm raisers highlighting the need for stronger action against Russia within the EU. The penchant of some EU members for great power accommodation is often criticized on moral grounds. A prominent example has been Estonian president Toomas Hendrik Ilves’ past explanation that EU foreign policy can often be “ostrich-like” in downplaying its democratic values as it naively reaches out to a threatening authoritarian regime.

With the initiative in its original form now perhaps uncertain, the Eastern Partnership Summit in Riga in May 2015 will coincide with a particularly challenging time for the Baltic states’ eastern policy. The Baltic three can either attempt to influence EU policy by stressing the renewal of the Eastern Partnership, an effort unlikely to ease Russian ire, or simply remain as passive onlookers while Russia tightens a coercive grip over the region proximate to their borders. The former option is far more likely to be taken. However, should the Baltic three support Eastern Partnership renewal as a means to reduce Russia’s regional influence, the liberal moral arguments used in the past will likely prove contradictory. Effective implementation of this strategy would require a more geopolitical approach aiming to attract – with fewer conditions – authoritarian states such as Azerbaijan or even Belarus towards the EU and thus pry them further away from Moscow. Finally, convincing France and Germany, the states which anchor the EU’s foreign policy, to whole-heartedly commit to this strategy – which deviates considerably from the temptations of a great power accommodation approach – may prove very difficult indeed. ■



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Making the most of the Baltic Sea Region by promoting co-operation

Expert article • 1793

Centrum Balticum is a prominent voice for the whole Baltic Sea region. It accelerates ideas, acts as an information unit and co-ordinates a network of researchers and experts. In co-operation with different stakeholders Centrum Balticum generates new ideas for policy-making and sets public debate in motion. It contributes to wide-ranging co-operation in different sectors of the Baltic Sea region both in national and international contexts.

One of the main tasks we have designated ourselves here at Centrum Balticum is to promote co-operation between experts dealing with Baltic Sea region issues. It is an ambitious goal to work as the glue between themes and things, people and organizations. One of the practical tools we use in this relation is events. We organize different types of events for different kinds of target groups. They can be small, by invitation only events or large conferences.

How do we do it?

Organising events is time consuming and sometimes unpredictable things happen. In order to minimize the possibility of something going to the least wanted direction, events need to be carefully planned, preferably well in advance. When organising an event, whether small or large by nature, we need to take into consideration numerous things. What is the aim of the event, what do we want to achieve? We need to make sure all organizers share the same view and make it clear to the target group, the invited people, also. What is the budget for the event? What do we absolutely need and on the other hand, where can we save few euros? How do we get people to participate, what is the catch? What is the suitable timetable, agenda and location for the event? What is the nature of the event? This all we as the organizers have to decide upon. It is not a simple task.

Centrum Balticum started a series of luncheon seminars with ambassadors and other experts of Baltic Sea region issues in November 2011. To date we have organized seminars in co-operation with the Embassies of Latvia, Estonia, Lithuania, Denmark, Russia, Belarus, Germany, Norway, Sweden, Ukraine and Poland. Current themes related to the region are on the agenda of these informal meetings. Themes have included for example economics, energy policies, regional co-operation, functions and structure of the EU as well as benefits of customs union of Belarus, Russia and Kazakhstan for Finnish companies. Invited guests are representatives of cities, organizations working with Baltic Sea region themes, representatives of companies and the media.

The flagship event of Centrum Balticum is the annual Baltic Sea Region Forum, which will take place in Turku in June 2015 for the eight time. The theme for this year's event is "What does the Cold Peace between the EU and Russia mean for the Baltic Sea region?". Focus will be given to business and economics, environmental co-operation, regional co-operation and on questions of research findings. For the first time the programme is in English, thus attracting a large number of people outside Finland in addition to Finnish experts.

Amidst all hard work and staying on top of things, we must remember to take good care of our quests. Happy customers are always the best advertisement for business. That is how people come back again next time. It is not always about the things that happen in the event itself, but what happens after it between people and organizations. A conversation during a cup of coffee can be a start of a new and lasting partnership. These are the kind of success stories we want to witness and give support to.

Why do we do it?

Why do we want to do all this and run an extra mile for a successful event? We want to raise current topics to public discussion. It is crucial to utilize the full potential of the actors in the region. We need to work in co-operation with each other instead of repeating the same work in multiple organizations and locations. Therefore, it is important to meet partners face to face from time to time. In times of Skype and such we sometimes forget the need for personal meetings. Different kinds of events focusing on specific themes allow people to bring together their expertise and share it with others.

The Baltic Sea separates us from each other as well as brings us together. Today we have self-evident problems we need to tackle together. In the times of hardship the co-operation between non-governmental actors is even more important than during good times. ■



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Corruption in Russia – the heritage of the Communist regime

Expert article • 1794

In post-Communist Russia, a deliberately distributed myth says that no corruption existed under the Communist regime and especially not under the “effective manager” Stalin. However, many studies and documents bear witness to the contrary. Take, for example, the 1948 report of USSR General Prosecutor G. Safonov describing a Soviet judiciary rife with corruption as well as the books *Nomenklatura* (1970) by “new class” historian M. Voslensky and *Sumerki, or Twilight* (2003), by Perestroika ideologist A. Yakovlev. In his book, Yakovlev, among other things, writes that “corruption, trickery, and disinformation” ruled in the USSR and that “nepotism, bribery, and embezzlement infected nearly the entire nomenklatura to varying degrees.”

The USSR’s “nonviolent” revolution of the early 1990s, which put on the map a new state — post-Communist Russia—failed to achieve one of the main tasks of any revolution: changing the ruling social group. By the middle 1990s, the small democratic break in the clouds that had formed as a result of that revolution was again covered in the darkness of the nomenklatura. The rulers of the new Russia became direct inheritors of the Communist nomenklatura — the societal layer that had governed the USSR and whose creation dated back to the Stalin era.

Sociological research has shown that in 2001, former members of the Communist nomenklatura made up 77% of the leadership of the Russian state and 41% of the new business elite. Of the non-nomenklatura businesspeople, 59% were members of nomenklatura families or people acting on behalf of nomenclatural-oligarchical groupings.

As it was for the Communist nomenklatura, so it is for its successor: the Russian nomenklatura sees public authority as a means to satisfy its material and social desires, while its vital function is the institutional mechanism of corruption: the use of the powers of office and of government resources in the personal interest. The nomenklatura that Russia inherited from the USSR has thus become the key carrier of corrupt relationships and corrupt practices within the government.

This heritage of corruption left behind by the Communist regime is what explains the fact that research regularly shows high levels of corruption in Russia. Studies conducted by the World Bank and by international nongovernmental organization Transparency International since the second half of the 1990s place the level of corruption in Russia in the range of 0.72 to 0.79, with 1 representing the highest level of corruption.

Since the ascendance to power of President Vladimir Putin in 2000, the ruling Russian nomenklatura executed a corrupt “capture of state”. This capture of state represents the highest form of systemic corruption, one in which public authority has become privatized by ruling political-economic groups and one in which all executive powers and types of administrative resources are directed at the capture of natural resources and land, primary financial flows, public and private property, the most lucrative public and private companies, and the most influential media outlets—all with the aim of materially enriching members of the ruling groups.

As a result of this corrupt capture of government, the ruling political regime in post-Communist Russia has definitively formed into an authoritarian, kleptocratic, corporate regime that is based on political and economic corruption, while the dominant social class has become the Russian nomenklatura, rooted in its Communist predecessor. ■

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Dim outlook for the Russian economy

Expert article • 1795

The outlook for the Russian economy eroded significantly in 2014. However, the economy had descended into deadlock even before the Ukraine crisis, the financial sanctions of the West and the oil price collapse. Russia had hardly done anything to mitigate its unilateral dependency on energy exports when the prices were still high. Energy export revenues mainly increased consumption and imports (of consumer goods), not new corporate operations that would have diversified the economic structure. For example, the share of high technology exports (excluding weaponry) of the country's total exports is still non-existent compared with the country's size. Russia's insignificant share of new patents in global comparison also reflects its position as a raw material producer, not as a developed industrial country. The problems with subdued economic growth were anticipated by the fact that corporate investment was already down in 2013. In addition, the country's banking system was weak even before the Ukraine crisis.

Politically, Russia very quickly ended up in the wilderness as a result of its unfortunate activity in Ukraine. Due to Russia's breaches of the treaties it had made and of international law, the West was forced to react to Russia's actions. At the same time, Russia forfeited all its credibility as a country to investment in, and the situation cannot really be mended before its administration changes. The "states" created by Russia in East Ukraine, Moldova and Georgia and the illegally occupied Crimea have become nothing more than financial and political deadweights. The dismantling of sanctions will not become topical before Russia withdraws from its conquests. However, Putin's administration cannot do this, because it would mean that its power would collapse in Russia.

Towards the end of autumn, the Russian economy faced a catastrophe. The financial sanctions of the West and the Russian capital outflows caused the rouble to collapse. The decline of the rouble was accelerated by the halving of the price of oil in 2014. Due to the slide in oil prices, the Russian economy ended up in a much more awkward position than currently understood. Investment in the energy industry will contract due to financial difficulties, the export restrictions of the West and the poor profitability of investment. The loss of export revenues in the next few years will therefore be higher than the big drop in energy prices indicates. When the income basis of the national economy collapses, the public economy will descend into a deep deficit. The public economy will have to contract, as funding the deficits is not possible from abroad. As the administration is not ready to compromise on defence and security service expenditure, the public sector will have to cut wages extensively and dismiss employees. Cuts in social benefits are also looming ahead. Purchasing power will be depressed due to rocketing inflation.

The central bank has attempted to stabilise the plunge of the rouble and capital outflows by high key policy rates and currency interventions, but the high interest rates exacerbate further the weakness of consumption, housing acquisitions and investment. Companies cannot endure the steep drop in demand and record high interest rates, so a wave of bankruptcies will be followed by radical growth in unemployment and a significant outflow of immigrant labour. As a result, the real estate market will weaken, credit losses will grow and

a bank crisis will ensue. The bank crisis and the breakdown of confidence in the financial market will paralyse the supply of financing, and the state's reserve funds and the central bank's foreign exchange reserves will dwindle faster than expected. A new collapse could take place at the end of 2016, at which time there will be a high risk that the administration will force the central bank to print money to fund the deficits. This may give rise to hyperinflation and a complete collapse of the rouble. The only lifeline for the Russian economy is a significant and rapid rise in energy prices, which would give it slightly more time to tackle its financial and structural problems.

In parallel with these short-term issues, the long-term problems with the Russian economy are growing. The recovery of corporate operations and investment by international companies would require that a state subject to the rule of law in the Western tradition is created, where companies could be assured that the legal system is genuinely independent of political power. This is not on the horizon as long as Russia is unilaterally dependent on raw material exports and competition in the political system is not permitted. Ultimately, the Achilles' heel of the Russian economy is specifically exports based on fossil energy sources, which the rest of the world is attempting to detach itself from in the long term and the EU countries already in the medium term. ■



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U.S.-Russia trade development after the onset of a sanctions era

Expert article • 1796

The importance of Russia for the U.S. foreign trade rests upon Russia's high potential in resource-based commodities and the possibilities to sell U.S. engineering and agricultural products in the Russian market.

The Russian Federation and the United States have never been key partners to each other. In 2014, the United States accounted for 4.4% of Russia's trade turnover while Russia accounted for as little as 0.9% of the U.S. trade turnover. Nevertheless, trade relations between the two countries have been developing quite dynamically: over the last decade, average annual growth rates of Russia's exports and imports to/from the United States have been 9.9% and 17.3%, respectively.

In light of the political crisis in Ukraine early in 2014 and the situation around the Republic of Crimea, the U.S. Administration took measures which may have an adverse bearing on the development of trade and economic relations between Russia and the United States. On 7 August 2014, Russia, in response to sanctions against Russia, imposed a ban on imports of meat, fish and dairy products, as well as vegetables and fruits from the United States, Canada, Norway, Australia and the European Union.

As of 2014 year-end, the U.S.-Russia trade turnover decreased 9.3% compared to that in 2013. In addition, exports of Russia-made goods to the United States contracted by 11.6% while exports of U.S.-made goods to Russia decreased 3.6%.

Mineral products, above all, crude oil and oil products, metals and articles thereof, chemical products have in recent years been Russia's key export products to the United States.

In 2014, the United States reduced drastically, 27.9% less than in 2013, imports of mineral products from Russia. The reduction was caused by the growth in production of U.S. shale oil whereby the United States has cut imports of crude oil. The share of mineral products in the composition of Russia's exports to the United States dropped to 58.7% in 2014 against 71.9% in 2013.

Exports of chemical products contracted by 4.5% in 2014 compared to 2013. The contraction was triggered by a 15.2% decline in imports of Russian inorganic chemicals to the United States. At the same time, Russia's exports of fertilizers and organic chemicals increased 8.9% and 17.9%, respectively.

In 2014, the United States increased substantially imports of metals and articles thereof from Russia: exports of the foregoing products increased 76.4% compared to 2013. Exports of iron and steel increased 2.1 times, aluminum and articles thereof by 53.6%, articles of iron and steel by 41.8%, nickel and articles thereof by 39.5%, lead and articles thereof by 3.4 times.

Russia's exports of machinery and equipment to the United States increased 10.5% in 2014.

One can therefore note that sanctions have a insignificant impact on Russia's exports to the United States, which declined basically because the United States reduced imports of crude oil from other countries, including Russia. Note that this is why Russia's exports to the United States has been declining for the third consecutive year. At the same time, the composition of Russia's exports improved due to a decreased percentage of mineral products and increased percentage of machinery and equipment.

The composition of Russia's imports from the United States is made up of machinery, equipment and transport equipment (73.5% in 2014); chemical products (9.7%); food products and agricultural raw materials (8.9%); metals and articles thereof (2.5%); textiles, textile articles, footwear (1.7%).

Analysis of imports of U.S.-made goods to Russia shows that imports of food products was reduced most in 2014, 28.1% less than in 2013, due to lower volumes of imported to Russia goods listed in the so-called "list of sanctions", i.e., the goods whose imports to the Russian Federation is banned pursuant to the Presidential Executive Order of 6 August 2014 No. 560 *On Applying Certain Special Economic Measures to Ensure the Security of the Russian Federation*. For instance, in 2014, Russia's imports from the United States fell compared to that in 2013, by 10% for meat, by 73.3% for milk and dairy products, by 45.9% for fish and crustaceans, mollusks and other aquatic invertebrates, by 62.3% for edible fruit and nuts, by 40.7% for final products made of meat, fish or crustaceans, mollusks or other aquatic invertebrates.

Imports of chemical products contracted substantially in 2014, 22.5% less than in 2013. Russia reduced imports of U.S. organic chemicals by 76.2%, inorganic chemicals by 15%, fertilizers by 88.4%, plastics and articles thereof by 31.2%.

Russia increased imports of U.S. machinery, equipment and transport equipment in 2014, 2.9% more than in 2013.

Russia increased by 24.3% imports of U.S. raw hides and skins, furskins, articles thereof, textiles, textile articles, footwear by 16.5%, precious stones and metals by 15.5%, metals and articles thereof by 6.8%.

Hence the reduction of imports of U.S.-made goods to the Russian Federation is basically related to the Russian government's ban on imports of certain types of food products from the United States. ■



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Minority marginalization as an internal threat

Expert article • 1797

Since the beginning of Ukraine crisis Russians living abroad have become a key element in the official Russian rhetoric. “We will do everything possible in order to defend our compatriots”, stated the head of a Russian Foreign Ministry department Anatoly Makarov in an interview in October 2014. The annexation of Crimea was explained to the wider Russian public as a necessary measure taken to protect Russians in the territory of Ukraine. In a similar way, the support for the separatist forces in Eastern Ukraine was and still is presented as helping those who defend the rights of the Russian minority. In December 2014, President Vladimir Putin told the Federal Assembly that Russia had “proved that it can protect its compatriots”, referring to the events in Ukraine.

The claim of protecting Russians outside the national borders of Russia is not new. It has been an instrument in Russia’s foreign policy that has been used in border conflicts earlier – the most obvious point of comparison would be Georgia in 2008. This “diaspora rhetoric” is often interpreted in the West as growing Russian nationalism. However, the nationalism it promotes is peculiar in one particular sense: the definition of a compatriot is very vague. It can refer to persons who emigrated either recently or long time ago, or persons who have actually never emigrated, such as those who had Russian roots but ended up living in another post-Soviet state after the dissolution of Soviet Union. It can also mean persons whose only attachment to Russia is their passport, such as South Ossetians in Georgia, who were issued Russian passports by the local governors. The problem of definition is often diminished in media texts both in Russia and abroad by referring to Russian-speaking minorities, but not even language is necessarily a definite common nominator for all the Russian minorities in post-Soviet space. For example in Ukraine, many people who identify themselves as Ukrainian still speak Russian as their native language.

Therefore, the addresses defending the rights of Russians abroad should be approached primarily as a tool of Russian foreign policy and not so much as a signal of rising nationalism. What is clear, however, is that the aggressive rhetoric has intensified during the crisis, even though it can be argued that the tendency had begun already earlier, after the first cycle of so-called colour revolutions in mid-2000s. The comments concerning Russian compatriots have made the neighbourhood countries highly alarmed both in Europe and in other post-Soviet countries. Especially countries that have significant Russian minorities, such as Latvia and Estonia, have voiced their concerns.

The situation creates a risk of marginalization of the Russian minorities in neighbourhood countries. What is more problematic is that this marginalization happens gradually and unnoticed. As Michael Billig has pointed out already in 1995, nationalism is often reduced to be something that happens in the periphery and not in established nation-states, “normal” countries. This leads to a situation where nationalism is understood as a phenomenon that takes place always somewhere else. To explain this pattern Billig introduced his idea of *banal nationalism*, everyday nationalism that is omnipresent and therefore remains unseen. It is the form of nationalism that is being constantly reproduced in the aesthetics and actions of a nation state.

One crucial arena to reproduce banal nationalism is language. I apply the concept here to show that labeling some minorities as “others” among “us” is a slippery slope. In these circumstances it is possible to refer to Russian nationalism and at the same time fail to see these developments within national borders. When the leadership of the neighbourhood countries or their media speak about the Russian minority as distinctive entity and indirectly name it as potential security threat, the representatives of this minority become casualties of banal nationalism. This is what makes the position of Russian minorities troubled, and as a consequence, they might seek support from Russia and the Russian media.

Portraying Russian minorities as a distinctive and potentially destabilizing element within the neighbour countries is problematic not only because it strengthens the internal division lines, but also because it indirectly blames the Russian minorities for something they have no power over. When the current Russian leadership uses the concept of “Russian diaspora” in legitimating their aggressive actions, they do a disservice to that very diaspora. This being said, the political leadership of the neighbourhood countries both in Europe and in the wider post-Soviet space needs to guarantee the rights of their national minorities. This is the best – albeit not easy – way to make the Russian diaspora rhetoric superfluous. Finally, it is the banal, unconscious minority marginalization that might create an internal threat, not the minority as such. ■



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Ukraine 2015 – the challenges of governing from the center

Expert article • 1798

Ukraine in 2015 finds itself at a critical juncture. The path that Ukraine chooses may ultimately determine whether the current government in Kyiv – and indeed a sovereign Ukrainian state – survives to see 2016. Given the extraordinary internal and external threats that Ukraine faces, the only strategy that can ensure its survival is one of “governing from the center.” There are in fact two implied tasks in this statement: the first task is simply governing; the second task is doing so from the center.

The first task of fulfilling the basic functions of government is an immense one – failure to do so represents the most significant risk to the survival of the Ukrainian government today, a survival risk even greater than that induced by continued Russian military intervention in the East. With the economy in shambles, corruption rampant, and continued political infighting among elites, the government cannot afford to leave these critical problems without solutions for much longer. Should they fail to produce meaningful and transparent reforms to the economic and political sectors, they will be seen as illegitimate in the eyes of the Ukrainian people, a condition that could once again bring Ukrainians into the streets in protest.

While the recent IMF Extended Fund Facility for Ukraine offers a crucial financial lifeline that will provide resources that Kyiv needs to govern, it also comes loaded with painful conditions that could undermine the government’s survival. The government will be required to make deep cuts to spending (approximately 4.1 percent of GDP) while simultaneously raising taxes equal to 3.3 percent of GDP in 2015. These cuts will hit ordinary Ukrainians hard as spending on social benefits is scaled back. A second shock to Ukrainians will come with the reduction of government subsidies to Ukrainian gas and coal companies, ultimately resulting in higher prices paid by consumers.

Though there are crucial long-term benefits to cutting spending, history shows that such fiscal consolidation will have strong contractionary effects – the question is how deep the ensuing recession will be. Though the Ukrainian government – in desperate need of IMF support – has no choice but to accept these conditions, its ability to survive the shock of reforms is far from guaranteed as its last strands of public support evaporate amidst continued economic crisis.

Assuming the Ukrainian government in 2015 is able to fulfill its basic governance functions, the second implied task of “governing from the center” is finding a way to generate legitimacy and support across a wide swath of Ukrainian society. To be sure, governing from the center in a country as divided as Ukraine is a challenge as immense as those challenges noted above.

Despite the loss of Crimea and portions of the Donetsk and Luhansk regions, Ukraine retains a significant population of ethnic Russians and Russia-speaking Ukrainians. These populations run the risk of being alienated if the government pursues policies that are perceived as targeting the Russian-speaking populations of Ukraine. The interim authorities in Kyiv made a crucial mistake immediately after Yanukovich’s ouster when they passed a law eliminating Russian as a state language in Ukraine. Indeed, it was this measure (later repealed, but only after the damage was done) that touched off the protests in Eastern Ukraine that evolved into armed rebellion. The

Ukrainian government in 2015 must not only avoid such blunders in the future but must act diligently to restore its legitimacy among the Russian population of Ukraine such that they see their future in an independent, sovereign Ukraine.

The opposite end of Ukraine makes the balancing act of “governing from the center” all the more difficult. Parts of Western Ukraine, long known as the center of Ukrainian nationalism, pull the government in Kyiv in the opposite direction. The populations in Western Ukraine see their future not with Russia but with Europe; indeed, their European destiny was cut off by the Soviet “occupation” of Galicia that came during WWII. It was citizens from these regions that led the protests against Yanukovich after his rejection of the EU association agreement, and it was members of Ukraine’s nationalist parties that were overrepresented in the provisional government that passed the controversial language law.

Between these two ends of the spectrum sits a diverse population that has been wounded and divided by the painful events of the last year. Only if the Ukrainian government in Kyiv is able to govern from the center in a way that represents the interests of both sides of the political-cultural spectrum will it develop the public support and legitimacy that is required for it to become a stable, prosperous European nation. The hurdles are immense, but the Ukrainian people cannot afford for their government to fail them. ■

The views expressed in this article are those of the author and do not reflect the official policy or position of the Department of the Army, DOD, or the U.S. Government.



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The heart of the conflict in Ukraine

Expert article • 1799

The conflict in Ukraine is best understood as a conflict between indigenous communities that have very different notions of what it means to be Ukrainian. At its core it is about whether Ukraine should be a monocultural or bicultural nation.

For the Westernmost regions, being Ukrainian means suppressing Russian culture so that Ukrainian culture can thrive in its stead. Here, creating a Ukraine that is antithetical to Russia is commonly referred to as making a "civilizational choice" in favor of Europe.

For the Russophone regions of eastern and southern Ukraine, it means being a distinct nation that is still very close to Russia. They do not wish to join Russia, but neither do they wish to be forced to forsake Russian culture in order to be considered loyal Ukrainians. They do not accept the idea that there is any civilizational choice to make, but if forced to choose between a Ukraine in NATO or the EU and a Ukraine in alliance with Russia, they prefer Russia by a 2:1 margin.

This conflict has been simmering for generations, waiting for the right circumstance to explode. They finally did when President Yanukovich was ousted from office on Feb 22, 2014. For Western and Central Ukraine this was a "revolution of dignity," but for Donbass and Crimea it was a coup d'état.

The United States and European Union immediately accepted the coup as legitimate. Russia did not. But this is not the reason economic and political sanctions were imposed on Russia. The reason for sanctions was the annexation of Crimea, which is also viewed very differently by the West and Russia.

In the West the annexation of Crimea and Russian involvement in the rebellion in Eastern Ukraine is seen first and foremost as a violation of the rules of behavior in international affairs. For Russia, however, there was a previous violation of the rule of international behavior by the West.

On February 21, the foreign ministers of Poland, Germany, and France affirmed their support of a negotiated transition of power in Ukraine. The very next day, however, they embraced the president's removal. This suggests to Russia that they did not negotiate in good faith. It was these events that set in motion the rebellion of those who political voices had been nullified by the coup, which later grew into an outright armed rebellion in the East.

The first step in resolving this crisis is to recognize that there are actually two crises. One is the identity crisis within Ukraine, the other is the crisis in Western relations with Russia. The US has always insisted that the two are linked. Since the signing of additional Minsk agreements on February 12, 2015, however, Germany and France appear to be trying to de-couple the two.

A cease fire in Ukraine is necessary, but insufficient for resolving the crisis. There still needs to be a mutually acceptable political settlement of the status of Donbass. The latest Minsk accords propose that decentralization and respect for right of worship and language be affirmed in the Ukrainian constitution. So far this has not been accepted by Kiev, which refuses to negotiate directly with Donbass representatives.

To break this impasse, it is important to understand where the major external actors stand.

Russia seeks a politically stable and economically prosperous Ukraine. It is already coping with more than a million refugees, and more instability will only produce a failed state and millions more refugees. It would rather Ukraine rebound so that it can repay the 30 billion U.S. dollars it owes to Russia in private, corporate and government debt.

The European Union wants a return to the conditions that existed before 2014, and it now appears that many European leaders are willing to sacrifice Crimea to get it.

What does the US want? More than anything else, American political leaders want Obama to be perceived as victorious over Putin. Once Putin recognizes that he made a mistake in opposing US interests, and makes some sort of visible concession, the actual issues of contention can be negotiated.

A similar situation arose during the Cuban Missile Crisis. It is worth recalling that Soviet leader Nikita Khrushchev actually got everything he wanted out of the crisis—the removal of Jupiter missiles aimed at Russia from Turkey, the removal of intermediate range missiles in Italy, and a pledge by Kennedy not to invade Cuba—because what was most important to president Kennedy's and his advisors was that they could tell the American public that "the other fellow just blinked."

It is therefore possible that this crisis will become more intense before a comprehensive solution is reached. So far, like the Cuban crisis, neither side believes direct military conflict is likely, yet both are positioning troops and posturing in ways that make it more likely.

We can only hope that current leaders show the same skill at brinkmanship that their predecessors did. ■



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Monotowns in Baltic Rim countries and Ukraine

Expert article • 1800

The attempts of business-people and policy-makers to use the advantages of returns to scale quite often leads to the hypertrophied forms of urban-design – mono-industrial towns. Such types of agglomeration are rather varied in their nature, wherefore there are different economic terms to denominate them:

- *monotowns* (a calque from Russian “monograd”) – urban settlements with economic bases dominated by a single industry or core enterprise (typical for Post-Soviet type of spatial economic planning).
- *mill town*, also known as *factory town* or *mill village*, is typically a settlement that developed around one or more mills or factories (usually cotton mills or factories producing textiles).
- *company towns* – is a place where practically all stores and housing are owned by the one company that is the only employer. The company provides infrastructure (housing, stores, transportation, sewage and water) to enable workers to move there and live.
- *college town* or *university town* is a community that is dominated by its university population.

In this paper we will consider mostly first type of agglomeration – monotowns. From 1917 to 1990, socialist authorities built many so-called planned socialist towns across the Eastern bloc, both in the USSR and in the satellite socialist states of Central and Eastern Europe, including Baltic region. Recently the Ministry of Economy of Russia classified 467 cities and 332 smaller towns as monotowns—roughly two in five of Russia’s cities, with a population of 25 million, or a sixth of Russia’s people. With about 900 core enterprises, they produced more than 30 percent of industrial output.

Most of the towns were established in the poorly populated rural regions (Visaginas in Lithuania, Aizkraukle in Latvia, Sillamae in Estonia) and, they were usually inhabited by the growing migrant communities, which means absence any collective memories of shared past, except of the Soviet one. After the fall of the socialist system, however, the towns not only fell into a state of great economic uncertainty, but also had to try to redefine their place identity.

But monotowns are in line not only with the Soviet-style planning model but also with the Swedish model of “bruk”, i.e. one-company towns in traditional industries such as paper and steel. Rather common practice of company towns is also in Norway (Barentsburg, run by Arktikugol; Longyearbyen, run by Store Norske Spitsbergen Kulkompani; Ny-Ålesund, former mining, now research town run by Kings Bay; Sveagruva, mining town run by Store Norske etc.). These firms were often large and efficient in terms of economies of scale at the plant level. On the other hand, they were not surrounded by a multitude of related firms and industries, and entrepreneurship and new firm formation were unknown phenomena in these towns.

Practice of monotowns is rather common also for Ukrainian industry. According to some research there are 122 mono-industrial urban agglomerations selected by the criterion of 50% of the industrial specialization in the total output. The most common they are for coal-mining industry (70% of coal industry output in Donbas region are produced in such monotowns as Alchevsk, Lugansk etc.), nuclear energetics (Yuzhnoukrainsk, ghost city Prypyat), recreation (Truskavets).

Of course, this particular type of industry concentration has significant advantages (lower unit costs, the concentration of qualified specialists, proximity of suppliers, etc.) but the same factors can become the disadvantage of monotowns. High dependence on external demand usually lead to the collapse of the whole system.

Nowadays most of the monotowns face the problems of competitiveness, diversification, technological upgrading, unemployment and depopulation. The debate over monotowns does not involve a simple choice between further government interventions and market solutions. Nor will a single approach work in all monotowns facing different circumstances, structures, and prospects. The possible models of monotowns upgrading: cluster approach, development of creative capital, reinvention, adaptation, and improvement of processes and products. Innovation cannot be planned, but it can be fostered and encouraged. The primary factor to promote innovation is human capital: creating and maintaining it through education, health, and other basic services. Very actual for post-Soviet Baltic countries is Z.Dujisin’s (2007) famous quotation: “Forget communism...or to sell it.” The same principle is valid for old Scandinavian company towns. ■

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Will China form a new Anti-Western alliance with Russia?

Expert article • 1801

To the casual observer, Russia and China seem to have a lot in common. From an economic standpoint, the two countries have been grouped together under the BRIC acronym, a group of countries destined to surpass in economic terms the Group of 7 industrialized countries. Both Russia and China are still considered developing countries with links to the West. As shown clearly in the tables I below, both countries rely on international trade and investment. China and Russia are significant players in global trade, but China is much larger. China's economy is 5.2 times larger, inflows of foreign direct investment 2.5 larger, inward foreign direct investment 4.2 times larger, exports and imports 4.1 and 4.6 times larger. Both countries rely on trade for the acquisition of technology, raw materials, machinery, pharmaceuticals and other socio-economic building blocks. China consumes 6.8% of Russian exports (second largest consumer after the Netherlands), while Russia is not a major consumer of Chinese exports. The US consumes 16.7% of China's exports, the largest consuming market for its products. China's economic reliance on the US is much higher than that on Russia.

Table 1: Comparative Chinese and Russian economic statistics

Variable	Year	China	Russia	Units	Source
PPP GDP	2013	13390	2553	Billion, US\$	CIA
IFDI flows	2012	200.2	79.3	Billion, US\$	UNCTAD
OFDI flows	2012	192.5	94.9	Billion, US\$	UNCTAD
Net FDI flows	2012	7.7	-15.6	Billion, US\$	Calculation
IFDI stock	2011	2400.7	575.7	Billion, US\$	UNCTAD
OFDI stock	2011	1968.9	501.2	Billion, US\$	UNCTAD
Exports	2013	2414	588	Billion, US\$	WTO
Imports	2013	2124	466	Billion, US\$	WTO
Trade Surplus	2013	290	122	Billion, US\$	Calculation
Net Trade % GDP	2013	2%	5%	%	Calculation
Trade % GDP	2013	34%	41%	%	Calculation
Exports % global trade	2013	12%	3%	%	Calculation

From a political standpoint, the two countries also have a lot in common: a border of about 4300 km; corrupted authoritarian regimes; and regional superpower status. In addition, China and Russia share a wary towards NATO and Washington foreign and military policies; As both are on the UN security council and oppose American regional interference -- for example against Iran and Syria; deep ocean drilling sanctuary in Antarctica, the two countries, if united, can pose a geopolitical risk and a counter-weight to US policy. China and Russia have

made diplomatic efforts to cooperate. Mr Jinping Xi first trip abroad as President in March 2013 was to Russia. US and Western European sanctions against Russia has pivoted Russian foreign relations to the East, leading to increases in trade and investment between the two countries. As a result, in recent years, the relations between China and Russia have gotten closer.

The two countries also vowed to cooperate on building new international institutions including the New Development Bank (NDB) for infrastructure, the Contingent Reserve Arrangement (CRA) for financial crises, the Shanghai Co-operation for security, presumably to provide an alternative to the World Bank, the International Monetary Fund, and NATO, respectively.

Despite the apparent similarities and the mutual interest the two countries happen to share at a given time, the Sino-Russian relation maybe only skin-deep as the two countries differ from one another in both international interests and internal makeup.

To best understand the deep distrust the two nations share towards one another, one need to look back to the creation of modern China. While the Soviets have helped Mao in his struggle against the Nationalists, they also extracted a large prices with was not easily palatable for the Chinese, and led to outright border disputes as early as the 1960s. As seen through the eyes of the Chinese, the Bolshio Ussuriysky island was taken illegally by Russia (then Soviet Union) in 1929. In the early 1970s, Nixon and Kissinger help persuade China to turn against the Soviet Union. It was not until 2008 that border agreements were reached. Nationalists from both sides still complain. Russia's tactical nuclear weapons are pointed at China.

Perhaps some of the titles from recent issues of the Economist describe the political relationship that has recently emerged between these two nations best: "Best Frenemies" (May 24th, 2014), "Rising China, Sinking Russia" (Sept 14, 2013); one article described the relationship as one between "a rabbit and a boa constrictor" (Putin Pivots to the East, Economist, May 24, 2014). Russian side of the border is sparse in people, but rich in resources. Chinese immigration to the Russian side is seen with suspicion and xenophobia. Russians are wary of their large populations from China leaking over into Russian soil.

The relationship between Russia and China is asymmetric. China has morphed from being the little brother to being the big brother. Russia needs China to diversify markets for resources, oil and gas. Russia's reliance on Europe for sale of gas made it pivot towards and more dependent on China. China needs Russian resources especially since much of it oil now comes from the Strait of Malacca, which can be blockaded.

But China is now also a competitor to Russia, particularly in Central Asia. China has diversified its sources of oil in Central Asia, replacing some of the Russian investments and influence. Historically, Russia insisted on buying oil from Central Asia at below market-prices on the basis of providing the Soviet-era infrastructure. China has provided an alternative for these countries for both modernizing their infrastructure and for buying their resources at more attractive prices.

The Chinese recent deal with China may demonstrate the inequality. In May of 2014, for example, Russia and China signed a historic 30-year gas deal worth about \$400 billion. Under this deal, Gazprom, a Russian state-owned company, will sell China National Petroleum Corporation (CNPC), a Chinese state-owned enterprise, up to 38 billion cubic meters of gas per year, starting 2018. The Chinese drove a hard bargain for years and received rock bottom prices for the gas deal with Gazprom. CNPC will make \$1 billion selling Gazprom gas in China (Economist, May 24, 2014). Russia under sanctions is now more dependent on China's financial clearinghouses in Hong Kong.

Trade and investment with America and Europe dwarfs that which China has with Russia. And the dependence of both countries on Western powers for technology, economics and access is undeniable. The two economies, dubbed under the same acronym of BRIC, are fundamentally very different. Russian SOEs, lacking the exposure to global competition found by SOEs in China, are extremely inefficient and require protection from the rest of the world. The Russian kleptocracy prevents development of competitive enterprises, especially in SOEs closely tied to the system for dispensing gains to oligarchs. Compounding the lack of globally competitive firms is the extremely narrow basis of the Russian economy, with the dependence on oil, natural gas, and similar products. The recent collapse of oil prices

exposes this dependence and Russia to the need for a policy of extensive austerity. But such a policy conflicts with the core system of rule by a kleptocracy and therefore challenges the state itself. Russian integration with the global economy is substantial but narrow, leaving little capacity to fend off the constraints of the global economy, including sanctions from the West. The Soviet version of Russia tried to build an economy entirely apart from the Western system. That experiment clearly failed.

Given the deep historical divisions and the need for China to integrate with the West to continue its ascent, it is not likely that China will side with Russia against the West. More likely, if anything, China will use both Russia and North Korea as levers for geopolitical influence in the region and beyond. ■

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BALTIC RIM ECONOMIES

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Russia and China – different players playing different games

Expert article • 1802

Having broken its relations with the West following the events in Ukraine, Russia has also been increasingly pushed onto the sidelines in the context of the global economy. In order to remedy the economic and political losses caused by the breach with the West, Russia has announced its intention to increase cooperation with China.

Trade between China and Russia, which had remained very limited for many years, began to grow seriously in the early years of the new millennium. Chinese products rapidly increased their market share in Russian imports, rising from less than 2% in 2000 to 18% in 2014. China has already for some time been the most important single source for Russian imports. Admittedly, with its more than 40% share, the EU is still in a class of its own.

China's share in Russian exports remained at 4–6% for many years, but gradually grew so as to reach 8% in 2014. The reason for the growth in recent years is the oil pipeline opened at the beginning of 2011 and the resultant increase in supplies. However, more than half of total Russian exports go to EU countries.

Despite accounting for 10% of Chinese oil imports in 2014, Russia, with the exception of oil and some other raw materials, is a relatively small trading partner for China. Russia's share in Chinese exports and imports is around 2%, with no major changes recorded in these shares.

In the relations between Russia and China, Russia supplies raw materials to China, while China exports processed goods to Russia.

In May 2014, in the middle of the Ukraine crisis, Russia made a show of signing with China a new deal on natural gas deliveries from Eastern Siberia. This, together with the planned gas pipeline via Altai, will increase the content of raw materials in Russian exports. The negotiations on gas and oil pipelines were difficult and took over ten years. In the gas negotiations, Russia additionally had to reduce the price in order to reach an agreement that it considered important in the aftermath of the takeover of Crimea, which is a telling indication of the nature of the 'China card' propagandised by Russia.

Russia-China economic relations are also of interest for the reason that both countries' corporations are competing for the markets of the Commonwealth of Independent States (CIS). In the early years of the millennium, the market share of Russian enterprises was still fully dominant, but subsequently China's role in the region has strengthened significantly. This can be best seen in the Central Asian states.

Looking ahead, the situation will become increasingly interesting as the Silk Road project based on Chinese funding gathers pace. China is able to offer dynamics and prospects that are quite different from what can be provided by Russia, a country grappling with lack of viable long-run vision or strategy. Moscow-led CIS integration has made stumbling progress, and Russia's adventurism in Ukraine has already led to new tensions and growing mistrust even within the Eurasian Union. The old carrot and stick approach is gaining a peculiar character in the CIS region, as Russia offers the stick and China the carrot.

As global economic actors, Russia and China are in totally different leagues. China's economy is more than five times the size of Russia's and invincible in terms of its dynamics. China is a key global player, whereas Russia's economic role is diminishing even in the CIS region. The Chinese renminbi has risen close to the yen as the fifth largest international currency for payments, while the rouble's ranking on the same list has dropped to position 20, well behind e.g. the Swedish krona and the Norwegian krone. Statistics on R&D expenditure and patent applications anticipate that Russia will lag still further behind China in the future.

China is no perfect model for the market economy, but the country has understood the importance of openness and competition. China's development strategy has leant on the international rules of the game, and China has not questioned the WTO rules, although it repeatedly has disputes with the EU and the United States. China has adjusted to the common rules of the game and their development together with other member states.

Cooperation between China and Russia is constrained by the same problems as Russia's cooperation with other countries. Russia's introverted, state-led and protectionist policies have for a long time already acted as a barrier to development, and the situation has only worsened since the Ukraine crisis. Despite its accession to the WTO in 2012 following tough negotiations of about 20 years, Russia's reluctance to pursue genuine economic integration has been apparent.

Putin's Russia wants to play its own game with its own rules. In such a game, economic aspects barely carry any weight. China has understandably shown no interest in Russia's game playing, but naturally makes use of the rewards offered by Russia. ■

The views expressed in this article are those of the author and should not be taken to represent the official position of the Bank of Finland.

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Successful co-operation in the Baltic Sea Region has to be based on institutional underpinnings

Expert article • 1803

When analyzing and understanding cooperation around transport infrastructure and cooperation in other sectors between countries and regions in the Baltic Sea Region (BSR) it is crucial to bear in mind that even if the countries in the region are similar in many respects there are also profound differences. These differences have their origin in different “layers” of the societal fabric that constitutes societies.

Border crossing projects also often include rather separated and distinct markets that are served through common structures. This situation has the effect to lead to very different results for different countries and regions even if common structures are discussed.

One way of analyzing cross-border cooperation in the BSR is to make use of an institutional theoretical perspective. KTH Royal Institute of Technology (KTH) has recently carried out studies of a number of cooperation projects in the BSR based on an institutional theoretical approach. These include a report on the Öresund region covering a number of cooperation areas, and a report analyzing the East West Transport Corridor with transport system related cooperation between Sweden and Lithuania, and additional countries.

The above mentioned KTH reports have as their starting point an institutional theoretical perspective as reflected e.g. by Williamson, North and Ostrom. An example of a analytical framework describing the different layers of institutional aspects “framing” processes has been derived and used in these projects.

Institutions, according to Williamson, range from slowly changing informal structures such as culture and language to short-term marginal condition based decisions concerning e.g. resource allocation. The connections between the different “layers” of institutions are what define the “rules of the game” of e.g. cross-border cooperation.

In recent research on decision making and cooperation a stakeholder perspective has come to play an important role. The networked society of today is characterized by a variety of value preferences, unclear rules of the game and great challenges in shaping society. Dryzek points out five challenges for policymaking in the network society; the new spaces of policymaking, the conditions of radical uncertainty, diversity, interdependence and the dynamics of trust and identity. Dryzek also calls for activism in order to shape and reshape the institutional settings where action takes place. Here networks of different kind stand in the fore.

“If the traditional forms of government are unable to deliver – either because of a lack of legitimacy or simply because there is a mismatch between the scope of the problem and the existing territorial jurisdictions – then networks of actors must create the capacity to interact and communicate.”

Whereas representative democracy or bargaining democracy based upon aggregated interests, usually result in majority/minority situation or a winner/loser situation, a deliberative approach valuing pluralism and non-coerciveness, might give end results based on interaction, relationship building, shared meanings and shared learning. This latter form resembles important features of markets, where decentralized learning and spontaneity are central signs.

“Politics and policymaking thus is not simply about finding solutions for pressing problems, it is as much about finding formats that generate trust among mutually interdependent actors.”

The roles held and taken by actors on different spatial levels in society are often discussed in relation to the “multi-level-governance-concept” introduced by Peters & Pierre. In this literature, which has also been highlighted in the BSR Trans Governance project, the changing division of responsibility between actors on different levels is further discussed. There are similarities to the institutional perspective in this report where different layers or levels of societal processes are considered.

The time perspective was highlighted in the KTH report on the Öresund cooperation as one of the main explanatory factors and perhaps the most paradoxical factor. Although the differences in language, culture and traditions are often highlighted as obstacles towards developing cooperation and being aware that these are institutions change only very slowly over time, these very same differences are nevertheless often seen as restricting the possibilities for cooperation across the national border.

At the same time more short-sighted cooperation focusing on cost reduction or economizing in the present are often more fruitful, but at the same time less politically favored or sought for. Visions for the long run are often surprisingly disconnected from progress in the short run.

Successful cooperation in the Baltic Sea Region should take these insights into consideration. There are a number of different institutional layers that affect regional cooperation across borders. Some of them change only very slowly and support the persistence of national markets also in a deregulated environment. At the same time business driven short term cooperation often serves as conveyors of growing interdependence and understanding, also when cultures differ. Positive long-term effects might be based on short term success. ■



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Turku and St. Petersburg – interregional co-operation as a basis of international relations

Expert article • 1804

The relations between regions of different countries are the important part of international interaction of the governments. The history of establishment of the interregional cooperation is a significant stratum of study of events, affairs, thing of past activities of the states, the peoples, the mankind. It is essential reason for study of history of Finnish-Russian partnerships in context of interregional contacts between Turku and St. Petersburg, which is Northern capital of Russian Federation.

Turku and St. Petersburg are both “Western gates” of their countries, major marine ports, educational and cultural centers. It was an obvious choice for Leningrad to start the sister-cities program in 1953 from the former capital of Finland. Long standing cooperation on many diverse issues such as the environment, trade and industry as well as cultural exchange last for more than 60 years.

The highest importance of this partnership was emphasized by the meeting of Russian and Finnish presidents in Turku at the celebration of Turku and St. Petersburg 60th year anniversary as twin cities in 2013. In March 2013 Turku also hosted a meeting of the Finnish-Russian Intergovernmental Commission for Economic Cooperation and the Modernisation Partnership Seminar, which aimed to solidify economic development cooperation between Finland and Russia.

In its turn St. Petersburg in 2013 housed different events in frames of “Turku days in St. Petersburg”. 3 seminars were organized on the initiative of the Mayor of Turku and with the support of the St. Petersburg Committee for External Relations during the St. Petersburg International Innovation Forum. On 2nd of October there was a seminar dedicated to the project “The Northern growth corridor: Stockholm – Turku – Helsinki – St. Petersburg”, which is designed to gather the resources of these cities, their municipalities, enterprises and organizations in order to improve the competitive performance of the area and to promote its interests in a concerted effort on national and international levels. On 3rd of October the “Turku Technopark” and the St. Petersburg State University held the seminar “Russia-Finland: international cooperation in the commercialization of innovative scientific research results in biopharmacy and diagnostic testing”. On 4th of October there was a panel discussion titled “Small and medium enterprises and start-ups as the innovation drivers”. Russian-Finnish forum “Bridge” for the young leaders also became a part of “Turku days”.

Two cities actively develop scientific, educational and academic cooperation. First Cooperation Agreement between the Leningrad State University and the University of Turku was signed in 1987. Since then a lot of agreements were signed and different programs were implemented. For example Finnish-Russian University Cooperation in Telecommunications “FRUCT” program started as a collaboration project between Turku University and St. Petersburg State University of Airspace Instrumentation. Scientific society of Turku takes part in development of St. Petersburg Pharmaceutical Cluster, which includes education, researches, production and unites St. Petersburg

Chemical-Pharmaceutical Academy, Saint-Petersburg Technological University, St. Petersburg Pavlov Medical University, St. Petersburg Polytechnic University, Research Institute of extra pure biopreparations, Research Institute of cytology, Research Institute of toxicology, Research Institute of influenza and major manufacturers of drugs.

One of the most important cooperation topics is environmental protection. In frames of sister cities program Committee for Nature Use, Environmental Protection and Ecological Safety of St. Petersburg and Turku city administration implemented several projects since 1995. St. Petersburg is interested in modern green technologies in several spheres – climate, “smart city”, waste management, energy efficiency, ambient air monitoring, hazardous waste management, restoration of territories, environmental education. Experience of Turku in these questions is inappreciable for St. Petersburg, for example only 5% of all wastes are disposed on dumps. St. Petersburg plans to reduce this rate from 80% to 20% in next 5-7 years and surely needs support. Environmental problems do not admit state borders. Baltic Sea is our common home and during the “Baltic Sea days” 2014 head of the Committee for Nature Use, Environmental Protection and Ecological Safety of St. Petersburg Valery Matveev had a meeting with officers of Environmental Division of Turku and they agreed on terms of joint actions.

As cultural centers Turku and St. Petersburg carry out a lot of significant cultural events. One of the most fascinating ideas was to invite the Turku Philharmonic Orchestra to visit the world-renowned Mariinsky Theatre annually from 2014 to 2016. In its turn, the Mariinsky Theatre orchestra, led by maestro Valery Gergijev, played at the Turku Music Festival. Recreation Division of City of Turku and St. Petersburg Institute for Cultural Programs in association with the Committee of Culture of St. Petersburg conduct largest city events – festivals, theatre premieres, concerts, exhibitions, fairs and sport events.

At the context of interregional cooperation between St. Petersburg and Turku we should mention interparliamentary relations as in February 2015 parliaments of both cities have signed a Memorandum of understanding. Ceremony took place at the City Hall of former Finnish capital. Speaker of the St. Petersburg Legislative Assembly Viacheslav Makarov and Chairperson of the City Council of Turku Seppo Lehtinen mentioned after the ceremony that it was the first agreement between St. Petersburg parliament and representative body of one of the Finnish cities. Viacheslav Makarov promised to protect all the investments in St. Petersburg from Turku by the particular law. Heads of parliaments agreed to improve the regulatory framework to facilitate the work of business. Seppo Lehtinen promised to create strategic program of cooperation by autumn. Furthermore document assumes constant consultations between deputies on topical issues of international cooperation, support for initiatives in fields of culture, science and education, tourism, sport. A great contribution to the development of mutually beneficial relations

Expert article • 1804

made the meeting of Viacheslav Makarov and the mayor of Turku Aleksi Randell. During the meeting they voiced some positive proposals for improving the interaction between the two cities, in particular in the field of increasing the flow of tourists

Turku has a special centre in St. Petersburg to promote the City of Turku and the Regional Council of Southwest Finland in St. Petersburg and Northwest Russia. The Turku Centre collects and distributes information and also maps out opportunities for cooperation. It particularly emphasizes policy meetings, marine technology, cooperation between small and medium-sized companies and the supporting of cooperation between institutes of higher education. St. Petersburg's Turku Centre is situated in Suomi-talo (Finland House) on Bolshaja Konjushennaja street. St. Petersburg is represented in Turku with the Information and business center. Informational and Business Center in Turku operates as the permanent exposition with information about St. Petersburg and provides marketing and consulting services.

As we can see interregional relations remain "calm bay" in times of global geopolitical changes, preserve and multiply the potential of positive cooperation. Global confrontation does not exclude or diminish active cooperation in the fields of culture, science, education and of course tourism. ■

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BALTIC RIM ECONOMIES

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JAANA MÄKIKALLI

World Trade Centers enhancing the global economies

Expert article • 1805

Finally the world has become a truly global marketplace. This has been made possible by never before seen growth of information and communication technologies. People and goods move quicker than ever from one place to another. But the biggest change has been in moving the information.

Internet has revolutionised the international trade and doing business internationally. We at the World Trade Center Turku want to support and to be a vital driver of today's international business scheme.

WTC Turku is a part of The WTCA (World Trade Centers Association) network which is one of the most dynamic and interactive business networks in the world. WTCA was founded in 1970, and currently there are over 330 member World Trade Center's in 92 countries around the world. The members and countries represent all stages of industrial development. The World Trade Centers Association stimulates trade and investment opportunities for commercial property developers, economic development agencies, and international businesses looking to connect globally and at the same time prosper locally.

In Baltic Sea countries there are 31 WTC's. In Nordic countries there are seven in Sweden, three in Finland and one in Denmark. In Russia there are 11, and in Germany eight World Trade Centers. There is one WTC in Estonia. So all in all we are strongly represented in Baltic Sea area.

The World Trade Center of Turku honors the global values of service-oriented, responsive, collaborative, innovative, ethical and culturally diverse. WTC Turku works closely with other trade bodies and service providers in our area. Even though we are situated in Turku our home territory is the whole Southwest Finland.

We help our members to find new market areas and business partners through our WTC network. Forwarding business contacts between WTC members worldwide takes place frequently. We also arrange and receive business delegations to and from different countries. Providing international business information through training and seminars is one of our main functions, too.

The World Trade Center Turku building is home of some 30 companies that either do international business or support companies that are international. For them we provide different services that are helpful in their line of businesses.

Traditionally Sweden, Germany and Russia have been the most important trade countries for Finland. Those are also countries that are key players in Baltic Sea Region. It has been natural for many companies to start exporting to our neighboring countries. The cultural differences are smaller and the physical distances are short. The experiences from internationalization from "our front yard" are valuable when reaching out for further and new market areas.

A World Trade Center in the area is a strong indicator of current and future economic growth. ■



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ANDRZEJ RZOŃCA & LESZEK BALCEROWICZ

There are no reasons to fear deflation in Poland

Expert article • 1806

Deflation of consumer prices in Poland started in July 2014 and is forecasted to last until the 4th quarter 2015. It has already turned out to last longer and to be deeper than anyone predicted. Despite this, there is no reason to fear deflation in Poland.

For it is a good deflation. The price level is pushed down by a fall in energy and food prices, which increases the purchasing power of consumers' income and entrepreneurs' profits. In spite of only moderate nominal wage growth, the wage bill in real terms has been recently growing by about 6%. The serious increase of labor cost notwithstanding, the share of profitable companies has approached the highest level since the boom's year 2007.

True, the nominal GDP growth has decelerated, compared to previous years. However, it has remained clearly positive. Thereby it has still been easing the debt's burden of consumers, firms and government. Hence, there is no threat of debt deflation in Poland.

There is no sign of deflation spiral in Poland either (just as there was no such a spiral anywhere else in the history). Both consumers and entrepreneurs are using their purchasing power, increased by deflation to spend more, not less. For the last 3 quarters, domestic demand has been growing by about 5% (yoy) in real terms. The forecasts of its growth in the current year are revised upwards. If some forecasts for 2016 are revised downwards, this is mainly due to...the expected expiration of positive supply shocks, which are responsible for the deflation.

It is not deflation, but a fear of deflation, which might be a real threat for the Poland's economy. Such a fear might result in too loose monetary policy for too long, which would lead to macroeconomic imbalances. There are some early warnings that this accumulation has just begun.

Money supply is growing by almost 10% (yoy). Mortgage credit in domestic currency to households is contributing to money creation twice as much as investment credit to corporate sector. Its growth is about three times as strong as growth of households' disposable income, which determines their capacity to repay their debt. Mortgage loans in Poland are exclusively floating rate loans. If the central bank raised its reference rate from the current 1.5% to the level from before the easing cycle, i.e. to 4.75%, the installment of average mortgage loan taken out now would increase by about 40%.

The current account deficit last year could have exceeded 3% of GDP (instead of actual 1.3% of GDP), if there had been no improvement in terms of trade, which began in 2012 and has already lasted longer than ever. However, it cannot offset worsening of net export in real terms forever (which for the next three years is forecasted to be about 1% of GDP per year). Furthermore, the current account deficit

has been also reduced by low interest payments, by historical standards, on external debt (Poland is net debtor of other economies). However, this time is not different and interest rates in the World will not remain as low as now day forever.

Very low interest rates have also reduced interest payments on sovereign debt. The history should teach us that this windfall is unlikely to be saved. Indeed, this year pensions in Poland are to be increased by more than the law on their indexation implies. Hence, once interest rates increase, room for manoeuvre in fiscal policy will be narrowed: interest payments will increase, but expenditure introduced over the years of the windfalls from very low interest rates will not disappear.

Productivity growth is sluggish, although its recovery was systematically forecasted during last five years. Its sluggishness is closely related to the weakening of reallocation of capital and labor across industries. The reallocation, which had been a crucial factor behind fast productivity growth in Poland before the crisis, could suffer from a broad access of corporate sector to easy money. In Poland money has become extremely cheap for companies not only because of very low interest rates, but also due to the EU funds. And easy money does not promote efficiency.

Lastly, moderate nominal wage growth may blur tensions on labor markets. The number of vacancies relative to the number of persons unemployed has been steadily growing since 2013 and now it is even larger than in boom year 2007. Interestingly, its correlation with real wage growth has been kept. Thus, once positive supply shocks expire and inflation re-occurs, nominal wage growth may cease to be moderate quite soon. This would weaken cost competitiveness of Poland's economy and fuel the inflation. ■

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JERZY KAŻMIERCZYK

Human capital development in Polish banks

Expert article • 1807

For the Polish economy the past two decades were a period of accelerated growth, with the aim to catch up to the more developed countries. Currently the banking sector is one of the most developed and profitable sectors of the whole economy. A significant increase in productivity and changes related to the human capital, namely in career development were observed. Those included changes to staff training, training methods, training needs and banks' expectations.

Together with my colleagues (including A. Gorajska) we have conducted a survey of 768 employees of banks in Poland. The survey covered the issues of HRM, including professional development.

According to the survey, employees with inadequate skills most often have the opportunity to participate in training that allows them to raise their qualification (53.5% of all respondents). Despite its subjective evaluation of bank employers, the survey illustrates the climate of the banking sector in terms of its professional development. Most employees feel that they have a chance to develop. Interestingly, employees of commercial banks (24.5%) are more likely than employees of co-operative banks (10.8%) to answer that in the case of insufficient qualifications, employees were fired. Therefore, this vindicates the opinion that commercial banks are stricter in matters of HRM.

In the opinion of employees, amount (48.3%) and conscientiousness (45.3%) of training is growing. This raises the question, if the banks offer employees the opportunity to take part in trainings; do employees feel the need for training? According to the survey, the vast majority of employees of banks (81%) deem training to be necessary.

What kind of training is carried out by the banks? 73.8% of the employees of banks suggested that their bank uses e-learning to train them. It saves time, and money. The results confirm that the commercial banks (77.2%) are more likely than cooperative banks (59.1%) to use this tool. The second most-often indicated alternative was coaching (48.7%), and then specialized briefings (34.2%). The conventional use of lectures, which predominated several years ago, gained 28.4% of the responses.

Previously banks used to choose their type of training based on the "it seems to me" approach. It was obvious that the bank employee must know the product offer of his/her bank – and that has not changed. The choice of additional training was, thus, considerably less popular. On the other hand, nowadays, banks choose to compare the costs of training, cost of the time spent on training, and training results.

What is the future of training in banks in Poland? Probably e-learning tools will be used with increasing intensity. It can be expected that the cooperative banks that belatedly introduced modern concepts of HRM, will catch up with the present level of development of training in commercial banks, but commercial banks will manage to introduce

other novel solutions. Banks are working on the use of cloud computing, which is designed to provide cheap storage of data. Among the factors that influence the professional development of employees in banks in Poland, the most important will be:

- Growing discrepancies between knowledge taught at the university and the knowledge required by employees;
- The growing popularity and the falling cost of IT tools;
- The new solutions which offer new opportunities;
- The focus on efficiency of money spent on training.

What additional measures could the banks undertake? Perhaps there are other ways for banks to meet their overall objectives besides technology (profits, market share and market expansion). Let us remember that training is only a tool to increase efficiency. A modern bank's employee stopped being a clerk, who collected contributions and attributed loans, and became a specialist who works in a head office or seller who works in a branch office. It seems that anyone can sell, even those who have no specialized training (this is demonstrated by numerous examples of lack of competent financial intermediaries). Therefore, knowledge and expertise no longer suffice and an extra characteristic is required in a modern bank employee: motivation. Growing percentage of people who have a problem with work-life balance suggest, that an employee will need support with his motivation. Especially, when the number of young employees is decreasing (for demographic reasons), and the labor market has grown ever so closer to a worker-dominated market. In order to solve the problem of mental stress, the banks should first calculate the costs of providing psychological help to their workers and compare it to the loss in profit caused by the delays in work, and consequently lowered productivity. Hypothetically, the outcome should evince the necessity of using psychology in the professional development, to offer mental support to the employees. Mental health and stability should and will lead to greater economic success. ■

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VLADIMIR OLENCHENKO

Baltic States – the stages of investment activity

Expert article • 1808

One can single out several stages of investment activity in the Baltic countries since they gained independence following the collapse of the Soviet Union in 1991.

The first presented the period prior to the accession of the Baltic republics to the EU. During it European investors were cautious and didn't exclude attempts of the Baltic States to turn back to Russia. American business sought to acquire core assets, as it later turned out to be a profitable resale (Estonian railway complex, oil refinery in Lithuania). Capital of Russian origin became interested in regional investment opportunities. Local capital received benefits from privatization.

The second phase followed the fundamental decision of the EU (Treaty of Nice - signed 2001, in force from 2003) on enlargement to the East. On base of it application of Baltic States for EU membership was approved and implemented in 2004. It lasted until the global financial crisis 2007-2009. There has been a massive expansion in the local financial market by Nordic, first of all, the Swedish capital. The local capital turned out to be noncompetitive and gave their positions to investors from Northern Europe. American business sold previously acquired assets and left the Baltic market. Russian capital rushed into the real sector of the economy, in particular, has made considerable investments in the steel industry (Latvia), in the production of fertilizer (Lithuania), the transport sector (Estonia), energy branch (all three republics) with a view to ensuring EU market itself.

The next phase was characterized by mainly the after crisis effects caused by the global economic decline of 2007-2009 and the crisis in the euro area, which is still in process. Investment focus in the Baltic States has shifted to energy. The Nordic countries have begun connecting the Baltic countries to its generating capacity to replace similar connections with Russia, dating from the times of the USSR. So, two submarine power cable were installed from Finland to Estonia (Estlink 1 – 2007, Estlink 2 -2014). In addition, this year power cable from Sweden to Lithuania is planned to be completed (NordBalt - also known as SwedLit). Moreover the Finnish and Swedish companies have made in the Baltic States large investments in the construction of renewable energy sources, mainly wind turbines. In the field of gas supply Russian capital lost a part of the Baltic market, as it faced the pressure of fragmentation, produced by authorities of Baltic States. The Nordic capital, in particular, Norwegian took its place. There have been changes in another investment's spheres in Baltic States: Italian capital left banking market and German capital lost interest to real estate. As a result, Nordic capital got more investment presence in Baltic states.

A new period is coming. Obvious Baltic investment opportunities are nearly exhausted. Logic of progress demands their evolution. Otherwise, one can expect increased competition in the Baltic market. So, it's inevitable that each part of Nordic capital will become more egoistic. For example, one can admit that competition between the Finnish and Swedish energy suppliers will move gradually into more active phase especially with reference to Latvia.

It's worth to estimate the chances of participants. Sweden can take privilege of integrate financial structure of its own (banking, insurance, leasing, consulting) in Baltic States. Besides it, Sweden has positioned himself to be the leader in the Baltic Sea region. In its turn Finland in financial sphere has the same privilege. Finland can also use the ethnic affinity with Estonia, which can serve as a bridge to other Baltic States. So, their chances look like to be equal.

In a whole one can specify that in the Baltic States several trends of investment activity are developing simultaneously. The first one is crowding out the Russian capital from energy complex and non-admission it to financial sector. It's a long standing trend, now deepened by a slogan of quasi Russian hostility. The second one is the replacement capital from countries that do not belong to Northern Europe by capital of Nordic origin. Now it becomes increasingly visible one more trend-the rise of competition between the various representatives of the Nordic capital.

Finally, it is possible to make such a conclusion. Nordic capital became prevailing factor in the markets of Baltic States since they got independence and is still continuing to strengthen its positions. The future of investment activity in Baltic economies has definite options: movement to stagnant market, tolerance for other investors non-Nordic origin, increasing competition among the Nordic countries. Most likely one can observe combination of all three of them. At any case a lot will depend on countries of Northern Europe. ■

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RAIVO VARE

Estonian perspective – Russian transit

Expert article • 1809

Estonia has enjoyed a steadily growing flow of mainly Russian-originated transit cargo for a long time. It has started at the beginning of the regained independence in the early 90-es and has continued with a couple of backdrops since then, until the recent times.

If we look back at the history of the Russian transit in Estonia, we could divide it to four periods distinct by the structure of the cargo flows and partnerships along with the changes in modalities of their transportation. The overall basis for the rapid development of transit flows through Estonian channel was provided by basic transportation infrastructure already existent. First of all it consists of infrastructure of ports of the Tallinn Port Company and pretty capable railways. With the development of the infrastructure and general environment substantial portion of the truck carried cargo, including ro-ro, was added. One of the key success factors was liberal and transparent regulatory and taxation regime introduced in Estonia right from the beginning, including abolition of any taxes on transit and a low corruption level. But the most important driver was active involvement of a private interest into provision of respective logistical services and construction of modern service infrastructure.

The most rapid growth was taking place in transit of Russian oil products. Russia was basically forced to find most effective ways for export of its mass of oil products, especially dark ones, and metals. Competitiveness of the Estonian channel was supported by the lack of the capable infrastructure and very “unfriendly” service environment in Russian own ports. One should not forget the desire of Russian businesses to escape Russian jurisdiction also. And due to the existence of the traditional service channel for grain, cocoa beans and refrigerated goods these cargoes continued to grow as well. On top of that some coal flow appeared. That glorious growth period has continued until the beginning of 2000-s.

Things started to change then. The reason was related to the development of the Russia’s own ports infrastructure multiplied by the strong protectionist stance of Russian authorities and state-run companies supported by their respective tax and tariff policies. Another reason was related to the growing involvement of capable and motivated private group interests, which had started to develop their own vertically integrated logistical chains and respective transport infrastructure. But due to the overall expansion of Russian commodities exports and its imports with a pace exceeding Russia’s own logistical infrastructure capacity, the growth of the transit cargo flows continued along with the smaller scale growth of the Russian imports, mainly containerized. At the same time some structural changes started to appear. Some supply chains, which used to be the main sources for the Estonian transit channel, dried out because of sectoral consolidation in Russia, which has led to a migration of their flows to their own channels. Simultaneously, several new supply chains had started to develop, for example in the coal, fertilizers and chemicals, also some oil products and general cargo. Estonia’s entrance to the EU has played its positive role as well. And the brand new greenfield project of the private port and FTZ in Sillamäe started well only 28 kilometers from the Russian-EU border. Same applied to the two port developments in Paldiski.

The first dramatic changes took place after so called “Bronze soldier” events in April, 2007. Russia, in order to “punish” Estonia and at the same time to speed up development and feed with cargo yet not so competitive Ust-Luga Port, started to limit heavily cargo flows through Estonian channel. Most visibly it has been witnessed since then as coal flows have been practically entirely cut off by Russia via smart way of not accepting loading plans for railway deliveries to the brand new and most advanced coal terminal in Muuga Port. After a short, other cargo flows, except metals, had recovered by 2011. And on top of that volumes of containerized cargo continued accelerating growth.

But meanwhile Ust-Luga, with enormous support from the State, started to gain a pace. Even rising star Sillamäe Port had to rely on new supply chains, especially in oil products, as the traditional ones (for Estonia so far) were switched over mainly to Ust-Luga. It has hit first of all railways supply in the traditional scheme “land-to-sea”, but until last year it had less hit Muuga Port, as it possessed competitive advantages in the “sea-to-sea” scheme. But still transit cargo volumes started to drop in Tallinn Port, due to the shrinking volumes of the main cargo - oil products, which could not be compensated by some modest growth of some other groups of cargo. As Sillamäe Port is working with different sources both in oil products and chemicals and fertilizers and has managed to attract also other cargo, its volumes have grown until recently.

But these good times are over now. After annexation of Crimea and a great game of sanctions, Russian actions and substantial drop of the market, especially after saturation of world commodities markets and steep devaluation of ruble, both have lead to the overall decline of the Russian transit cargo flows through Estonia. Even more, it has speeded up substantially. Taking into account all the trends and developments in the political and economical environment in foreseeable future it is hard to believe that this decline would get reversed in general. But there is still plentiful of possibilities in particular niches and certain partnerships for the business. Provided that things would not get worse in the politics. ■

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Gross domestic product and exports versus domestic value added – Ericsson Eesti As in the Estonian economy

Expert article • 1810

The spatial disaggregation of Global Value Chains (GVCs) continues. This disaggregation has not been short-term, but rather is a long-term, multi-year process for many multinational enterprises (MNEs). For many national economies, it is crucial to understand these transformations, especially the extent of the role of domestic value added in exports when processing new policies, as well as their contributions to upgrading single economies' positions in GVCs.

This article considers GVC analysis and GVC upgrading perspectives to understand the relations between Gross Domestic Product (GDP), international trade statistics, e.g., exports, (imports), and trade in value added that regularly pose continuous, but also immense, conceptual and empirical difficulties in understanding. In linking GVC analysis and upgrading, this article specifies an empirical foundation for discussing exports, (imports) and domestic added value and a single firm's role in a national economy. This discussion is important for an understanding of how firms fashion their development strategies in different economies to attempt to move more value added activities and respective functions between a number of different economies in the contemporary global economy.

An unambiguously strong export sector often continues to be considered as synonymous with economic growth. Hence, the share of domestic added value in exports is increasingly as important as the economic geography of cost of inputs (cost of employees, rents, and depreciations & amortizations) and operating profits continues to geographically separate as multinational enterprises drive disaggregation value creation and value capture. Moreover, it is increasingly important that the measures, such as exports (and imports) of a single firm, need to be quantified to describe the composition of domestic value added.

Ericsson Eesti As in the Estonian economy

Many multinational enterprises (MNE), such as Ericsson AB, are globally dispersed, and different functions (e.g., Research and Development, Manufacturing, After Sales Services, etc.) of the organization are located across many different national economies. In many MNEs, this situation has led to different value adding activities becoming increasingly distributed.

The empirical focus of this article is on electronics manufacturing, with an emphasis on the Estonian economy, and with a special focus of one of the biggest exporters, Ericsson Eesti As. According to the Estonian Ministry of Economic Affairs and Communications, in 2012, Ericsson Eesti was the source of 8% of Estonia's total exports. Furthermore, it is important to recognize that in 2012, Eriksson Eesti

As revenues in Estonia were 1.33 billion € and Estonian GDP was 17.6 billion € (in current prices). These numbers are a clear motivation to understand Ericsson's role in the Estonian national economy and Ericsson's value added in Estonia as part of Estonian exports.

By my calculations, Ericsson Eesti As's domestic value added (cost of employees, operating profit, leases, and depreciations & amortizations) was 64.5 million € in 2012. In other words, domestic value added divided by total revenues gives you a figure of 4.8%. Furthermore, this means that Ericsson's contribution to the Estonian national economy was 0.37% of 2012 Estonian GDP (in current prices). These results (high exports, low value added) are very typical in electronics manufacturing, as the manufacturing units acts as sub-suppliers to the corporation, as in this Ericsson Eesti As case.

Discussion

As the GVC analysis above explains, high exports do not always translate into high value added. Furthermore, changes in the share of exports do not necessarily lead to significant changes in national GDP, as the Ericsson Eesti As case demonstrates.

Many emerging economies have shifted their development strategies from simple export-oriented manufacturing to an emphasis on gaining access to higher value adding activities in global value chains. This shift is going to be difficult because the spatial disaggregation of global value chains continues, there are numerous stages of added value in global supply chains, and each stage is getting increasingly more pressure from global competition. The current architecture of the MNEs and of such tools and systems is being designed and built to manage single tasks and operations.

Over time, policymakers will need to understand not only how goods and services affect GDP, but also alternative measures like GDP with and without profits. Policymakers will especially need to understand the future role of corporate profits and losses as part of GDP statistics and measures, and in respective national economies. The key lesson from all of our 44 GVC analysis cases is that in contrast to what occurs today, profits should not be valued as part of the GDP as valued today. ■



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ALEXANDER PAKHOMOV

Russian outward investments – lost chance or a new stage

Expert article • 1811

Though a large-scale and sustained export of the entrepreneur's capital started only in the mid of the last decade, total volume of the FDI outflow in 2013 from Russia hit the record (\$94 bn) and rated №4 in the world (as for UNCTAD data), while its share in the global FDI outflow reached 6.7% as compared to the 27th place and 0.3% share in 2000.

It is important to stress that the extent of the country's involvement in the transborder movement of the capital (as a source of innovations and know-how) in the post-crisis period was steadily ahead of other macroeconomic indices of the country's positioning in the international dimension (dynamics of GDP, export-import of goods, services and technologies). It demonstrates the growing investment component of Russia's participation (crucial for development) in nowadays globalization processes.

Russian investors show more interest in buying (including M&A deals) strategic assets on EU markets and other region, i.e. refining and sales enterprises of the energy industry, as well as manufacturing primary metals factories. Therefore using vertical integration they are anxious to build global and regional productions as well as sales networks.

At the current stage, Russia faces with new obstacles of the entrepreneur's capital outflow, which primarily related with complicated financial and economic situation in the country and wrong business strategy conducted abroad. Record-high capital leak in 2014 was the direct consequence of the existing negative processes.

Under such conditions, leaders of the investment expansion – Russian energy and primary metals corporations (owned 85% of total foreign assets) – radically changed their overseas strategy. The priorities of new policy were a large-scale sale of loss-making and low-profit foreign assets, as well as adjustment of business plans in order to considerably raise the efficiency of international activities. Also, by virtue of a threat posed by sanctions, some Russian oligarchs get rid of their European and US assets in advance.

Russian metallurgical companies (for example, Mechel and Severstal in 2013-2014 sold almost all their enterprises abroad) were in a more complicated situation as their corporate foreign and domestic debts reached the critical level. Such situation justifies great extent by the ill-conceived strategy of an overseas expansion both of the pre-crisis and post-crisis periods (commercial miscalculations in purchasing of assets, inefficiency of management and low business environment of profile markets).

Though Russia's overseas assets of oil and gas companies are not much dependent on foreign debt but also change business strategies in order to raise efficiency of their international activities (Lukoil & Gazprom sold some risky assets). Due to sanctions, M&A deals abroad of Russian banks (Sberbank, VTB, etc.) greatly reduced. In addition to that, an expeditious sale of subsidiaries and affiliates of Russian financial and non-financial companies in Ukraine has begun.

Russian private companies greatly reduced their direct investments abroad – there are virtually no accomplished large deals (except LetterOne company), just a number of small contracts in different sectors which situation justifies the general dynamics. State-owned companies are ready to enter foreign markets, but only with a financial support of the government. So, \$3bn worth of financing out of the National Welfare Fund was approved for the Rosatom's project to build the Hanhikivi-1 Nuclear Power Station in Finland. It demonstrates the example of new instrument of state support.

We can say that the current stage of investment expansion by the Russian business abroad, where corporations – «national champions» - of the energy and primary sectors dominated, is over. Most of them lost the chance to become really transnational. As a result, only Lukoil and Gazprom in 2014 were in the list of 100 non-financial TNCs from developing countries, ranked by foreign assets as compared with ten Russian corporations in 2010.

A new stage of engagement of the Russian business in global capital investments is coming with participation of the «second echelon» companies using more fluent strategies from other sectors of the Russian economy. At the same time, a tough version of the «de-offshorization» policy in Russia can considerably complicate legal operations related to the FDI outward. Also international sanctions can for a long period of time seriously limit investment activities of Russian companies abroad.

Due to which situation, the above factors create an adverse synergetic effect on the prospects of expansion and development of international activities of the Russian business which makes integration of Russian economy in modern globalization processes more complicated. ■

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DANIEL GÖLER

A country on the move – migration and demographic crisis in Latvia

Expert article • 1812

Since regaining independence in 1991, Latvia has suffered massive population loss. At that time, the country had roughly 2.7 million inhabitants. Today, officials count almost 2 million. Between the censuses in 1989 and 2011, this decline was approximately 600,000 people, representing 22.5% of the population. This is by far the highest value in Europe. Latvia's shrinking population is a result of the interplay between natural and spatial population movements (Fig. 1 and 2). Both items are negative since years. Latvia is facing a persistent demographic crisis with problems such as fertility decline, ageing, out-migration, brain drain and regional polarization.

The decline of fertility is, similar to other post-socialist countries, a result of individual uncertainties in the early transition period. Since the end of the 1990s, the number of births and deaths evened on a constant level. The natural population loss is slightly less than 10,000 per year. Migration as the more volatile part of the demographic balance can be distinguished in several phases. The Soviet decades have been characterized by immigration by Slavic population. Vice versa, ethnic Russians were involved in the first emigration wave to Russia and other CIS. Due to declining emigration the migratory balance tended almost to compensate by the end of the 1990s. Then, the EU-perspective led to another increase of emigration. Destinations shifted to Western EU-countries. The loss of population by emigration between 2000 and 2008 amounted to more than 100,000 people.

However, annual GDP growth rates of up to 10% or even more indicate a dynamic economic development after Millennium. Then, the global crisis meant a dramatic break. The former Baltic Tiger was one of the most affected economies in Europe. 2009, the GDP dropped by almost 19%. Recession served as a push-factor and accelerated emigration; the full implementation of unrestricted movement inside EU in 2011 as another pull-factor did the rest. Intensified emigration, along with the natural balance, led in the crisis years 2008 to 2013 to a loss of population of another 200,000. A reversal of this trend is not in sight, just the opposite. Young, qualified and flexible Latvians search their perspective abroad. The related brain drain will show long-term consequences for the country's national economy.

Obviously, Latvia lived at the beginning of the new millennium far beyond its means. During the economic boom unemployment rate dropped to less than 5%. Incomes rose rapidly. Inflation and debt did the same. That's why Latvia was hit so hard by the crisis. In the light of economic downturn unemployment exploded to 20%. At the same time, the value of real estates plunged to almost 50%. The bursting of the housing bubble accelerated emigration. Mortgage loans at home now are covered with income gained by migrants abroad. However, the principal push factor for Latvian migrants is still the poor perspective on the domestic labor market.

There are several shifts regarding the main destinations of Latvian migrants. Of course, the CIS are, due to the 27%-minority of Russian population, still a relevant part of the migration system. But, after 1991 Latvia has quickly emancipated from the SU. A complete reorientation from an East- to a Western-centric migration system took place. Today, the majority of Latvians abroad live in the UK and Ireland as both granted full access to the labor market since 2004. Nevertheless, immigration of Latvians to Germany – well known for its restrictive immigration policy, but also for a robust labor market – has experienced an increase, due to the opening of the labor market for migrants from EU-8-countries in 2011. Until then, Latvian migration to Germany was predominantly female, not at least because of the demand for qualified workforce in health care. Now, this gender bias will be compensated by intensified immigration of males. Generally surprising may be the ability of Latvian migrants to adopt all these emerging challenges. From a scientific point of view, the elusive Latvian migration system may serve as a good example for the phenomenon of "liquid migration".

At least, spatial polarization inside the country is critical as well. Rural and peripheral areas are marked by emptying and ageing, accelerated by selective out-migration of young people. The provision of basic needs for a diminishing demand is put at risk. This is contrasted by rapid growth in the Riga agglomeration, mostly in the suburban fringe, where the need of spatial planning and regulation is obvious. All in all, the interdependencies of economy, migration and socio-demographic change constitute a geographic field of conflicts, which defines an enormous challenge for regional policy and spatial planning not only in Latvia, but also on the European level. ■



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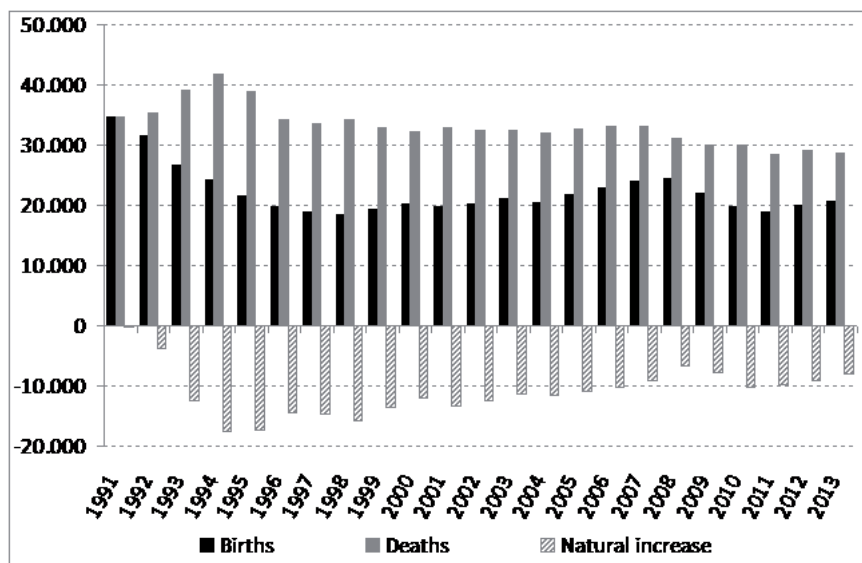
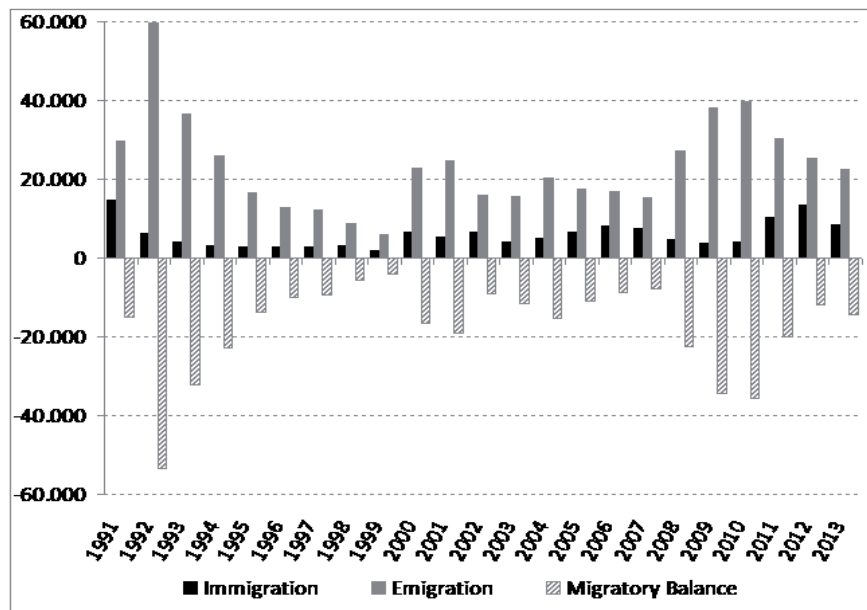


Fig. 1 and 2: Migratory balance and natural population development in Latvia 1991-2013 (data: Central Statistical Bureau of Latvia).

NIKITA MKRTCHYAN

Main directions of internal migration flows in Russia

Expert article • 1813

During the last decades Russia's inter-regional internal migration had a "western drift", taking people from the east of the country to its central provinces, Volga Region and the south of the European part of the country. The last strong upsurge towards the west occurred in the early 1990s when Russia's Far East and Siberia suffered the strongest migration outflows.

Over the past decade, the population has tended to gravitate toward the Central, Northwest and Southern Federal Districts, whereas the rest of the territories registered net migration losses (Table 1). The Central Federal District attracted population from all other districts without exception. The least popular on the list was the Far-Eastern District which lost population to all other provinces.

Table 1. Net migration across Russia's federal districts in 2001-2010, in thousands

Exchanges:	Gains or Losses:								
	Russia	Central	North western	Southern	North Caucasian	Volga	Urals	Siberia	Far East
Russia	0,0	843,8	62,4	72,6	-164,5	-251,5	-40,9	-267,9	-254,0
Central	-843,8	0,0	-91,8	-95,2	-88,7	-230,6	-83,6	-135,0	-118,9
North western	-62,4	91,8	0,0	-2,9	-22,6	-27,2	-25,0	-42,1	-34,5
Southern	-72,6	95,2	2,9	0,0	-30,4	-24,3	-24,6	-50,9	-40,4
North Caucasian	164,5	88,7	22,6	30,4	0,0	4,0	23,4	-2,0	-2,5
Volga	251,5	230,6	27,2	24,3	-4,0	0,0	23,7	-26,4	-24,0
Urals	40,9	83,6	25,0	24,6	-23,4	-23,7	0,0	-32,5	-12,7
Siberia	267,9	135,0	42,1	50,9	2,0	26,4	32,5	0,0	-21,1
Far East	254,0	118,9	34,5	40,4	2,5	24,0	12,7	21,1	0,0

Sources: Rosstat

Both redistribution of population among districts and the magnitude of the western drift slowed down in the 1990s, and the negative net migration in the eastern provinces is dropping as a result (Table 2). The migration potential of the eastern provinces has contracted substantially, and this is the key underlying factor behind the slower outflow of population westwards. The western drift today involves largely those regions that have still retained their migration potential, such as the Altai Region. They can hardly compensate for the failing outward migration to western provinces. For the European area of the country, this means a shrinking "source of migration" in the east of the country: reaching almost 1 million in the 1990s, this migration has practically halved in the 2000s.

Table 2. Western drift in 1991-2010, in thousands

Year	Net migration surplus (deficit)					
	European regions* exchanges with Asian regions** of the country	Urals' exchanges with European regions	Urals' exchanges with Asian regions	Siberia's exchanges with European regions and the Urals Federal District	Siberia's exchanges with the Far East	The Far East's exchanges with the European and Asian regions
1991-2000	929,4	-142,1	68,3	-294,6	108,8	-669,7
2001-2010	562,8	-86,0	45,1	-289,0	21,1	-253,9
of which:						
2001-2005	274,1	-37,1	23,9	-139,9	6,3	-127,3
2006-2010	288,7	-48,9	21,2	-149,1	14,8	-126,6

* Central, North western, Southern, North Caucasian and Volga federal districts

** Urals, Siberia and Far East federal districts

Northern territories, including the North of the European part of the country, continue to lose their population. In the 2000s, migration outflows shrank almost by half compared to the 1990s, and stabilised at 40,000-50,000 a year. The highest net migration losses were registered by the northern regions of the Far East (Magadan, Kamchatka, Sakha Republic, and Chukotka), and these regions today show record outflows among all other provinces; their population is shrinking by 0,5-2 percent yearly through migration.

Actual magnitudes of outflows from eastern regions surpass the recorded statistics. The initial 2010 census results suggest that eastern population outflows were actually more extensive than those recorded by contemporary statistics; many regions there had missing population compared to Rosstat's estimates for the 2010 census data, and the 2002 census data showed the same.

People continue to leave the North Caucasus republics. Apart from such key drivers as agrarian resettlement or labour market pressures, since the 1990s there has been an armed conflict in Chechnya and neighbouring territories. The outflow of ethnic Russians and other "non-titular" ethnicities continues.

The other general pattern in internal migration is the rural-municipal urbanisation trend: the flow of rural population towards cities, which during the 20th century helped transform the peasants' Russia into an urban country on par with developed countries. Although this urbanisation trend almost collapsed in the 1992-1993 (Table 3), it reasserted itself quickly, albeit on a smaller scale. However, internal migration in Russia contributed little to the overall net migration surpluses, accounting for 22 percent in 1992-2000. Gains in population came from international migration. In 2001-2010, the input from internal migration increased to 45 percent due to the lower recorded migration from outside the country.

Table 3. Net migration gain (loss) in the urban population in Russia, in thousands

Year	Total	of which:		
		Inside Russia		International
		Inside regions	Among regions	
1992-1995	1294,9	129,1	-33,7	1199,6
1996-2000	1302,3	324,4	161,4	816,4
2001-2005	631,1	244,0	106,0	281,4
2006-2010	1195,1	327,4	153,5	714,0

Sources: Population of Russia, 1993. Annual Demographics Report / Ed. A.G. Vishnevsky, S.V. Zakharov. Moscow: Eurasia, 1993. P. 69; Population numbers and migration in the Russian Federation in 1993-2010. Moscow: Rosstat, 1994-2011. (in Russian)

As a result, the rural population, having gained over 1 million people in the early 1990s due to migration from post-Soviet countries, in the 2000s started to dwindle due to migration. The inflow of international migrants was sufficient to compensate for or even surpass urban outflows only in the 1990s.

In the 2000s, the village-to-city migration trend was closely linked to flows from the regional periphery to regional centres. Everywhere, through internal migration, the population tends to

gravitate towards larger cities, and big cities with a population over one million act as interregional centres of gravity. The key gravitation centre in Russia is Moscow, or, more broadly, the Moscow metropolis (including the Moscow Region); St. Petersburg follows significantly behind. Other large interregional centres of gravity for migrants are Nizhny Novgorod, Kazan, Samara, Tumen and Novosibirsk. Krasnodar, Belgorod and Kaliningrad regions also are somewhat attractive to internal migrants. ■

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**BALTIC RIM
ECONOMIES**

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TOMASZ MICHALSKI

Demographic situation in the southern and south-western part of Baltic Europe

Expert article • 1814

European post-Communist countries are characterised by an ongoing fall in the population numbers. It is caused by both a negative rate of natural increase and a negative net migration rate. In terms of adverse changes in the rate of natural increase these countries have become part of the second demographic transition theories. Yet the adverse processes here are even greater than this theory expects, particularly in reference to the countries which have not conducted the necessary political, economic and social reforms (e.g., in the period from 1990 to 2014 Ukraine's population decreased to the level of 87.6% of the number from 1990). In addition, in most of the area one can observe a clear negative net migration rate, which grew even stronger after the expansion of the EU.

Looking at the area of Baltic Europe which in the past was directly or indirectly under the control of the USSR: from the land of Mecklenburg-Western Pomerania (in the former GDR), through the three northern Polish Voivodeships (West Pomeranian, Pomeranian, Warmian-Masurian) and Lithuania, Latvia, Estonia, till the Baltic regions of Russia (Kaliningradskaya and Leningradskaya oblasts and the federal city of St. Petersburg), we see the same processes as in other areas of the so-called post-Communist countries.

One can see a clear dichotomy of the situation of this area as regards the rate of natural increase during 2002–2011. If in regions belonging to Poland it was positive, in the remaining ones it was negative. However, the trend of changes indicates that in future years it will improve in the Russian regions and Estonia and deteriorate in the Warmian-Masurian Voivodeship, the West Pomeranian Voivodeship, and especially in Mecklenburg-Western Pomerania. But while in the richer regions the drop in the rate of natural increase is mainly influenced by a decline in the birth rate, in the Russian regions it is both a decrease in the birth rate and an increase in the death rate.

In addition, the population in most of the analysed area is adversely influenced by the negative net migration rate. Initially (after 1989), it was primarily the emigration of Germans from the former GDR to richer regions of Germany and emigration of Russians from Lithuania, Latvia and Estonia to Russia. While the former was economic in nature, the latter was typical of the so-called post-imperial migrants. After the expansion of the European Union in 2004, economic migration to rich countries of the EEA began to dominate in Poland, Lithuania, Latvia and Estonia. For example, it is estimated that at the end of 2012, 2,130,000 (i.e., as much as 5.5%) of Polish residents were staying temporarily abroad for longer than 3 months. The situation is slightly different in the Russian part of the analysed region, as the three areas described here are attractive for migrants from other parts of the country (the average net migration rate in the period 2005–2012 for the three analysed Russian regions is positive, amounting to: 5.8‰ in the Kaliningradskaya Oblast, 13.6‰ in the Leningradskaya Oblast and 12.3‰ in Saint Petersburg).

The negative effects of the demographic transformation already cause adverse changes in the demographic situation of the population inhabiting the analysed area, manifested in its progressing ageing. Also demographic forecasts assume a further steady decline in population numbers for most of the regions. For example, the demographic forecast for Estonia (assuming no changes in the existing demographic indicators) estimates that by 2050 its population will amount to only about 993,500 (compared to 1,370,100 in 2000). The Pomeranian Voivodeship is a partial exception here, for which it is predicted that the number of its population will initially increase from 2,172,300 in 2000 to 2,335,800 in 2027, and only then will start to decrease (to 2,265,700 by 2050).

These disadvantageous trends may result in detrimental changes of both economic and political character already in the near future. A decrease in the population in an economically productive age will result in hampering the economic development of the analysed regions due to lack of people on the labour market, on the one hand, and an increase in the financial burden because of ageing of the population, on the other hand. Of course, these unfavourable trends can be remedied by reversing the existing negative trends in migration, but at the moment it seems to be little possible. In addition, in the case of the Baltic Assembly countries, their compactness of nationality is already small at present, as in 2011 Estonians constituted 69.7% of the their country's population, Latvians 62.1%, and the Lithuanians 84.2%. A further decrease in the percentage of indigenous people, especially in the context of the use of national issues by the current Russian authorities to exert the political and military pressure on the neighbouring countries, may prove very dangerous for those countries. ■



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HANNU NIEMI

The Donelaitis Society and its role in building bridges between Finland and Lithuania

Expert article • 1815

The Donelaitis Society – Friends of Lithuania in Finland was founded in April 1990, only one month after the independent Lithuania was reestablished. Actually, the new society in many ways continues the activities of the Finnish-Lithuanian Society, which was founded already in 1931 and closed down in 1945. The Donelaitis Society is based in Helsinki. It is not the only Finnish-Lithuanian friendship society, it has sister organisations in Turku, Tampere and Joensuu.

Because of the new geopolitical situation in the three neighboring countries in the late eighties a great interest and enthusiasm arose also among the Finns. However, it is certainly true that for most of the Finns Lithuania was, and still is, the least well-known of the three Baltic countries. Therefore, there was a real need for many-sided and up-to-date information especially for public media as well as Finnish authorities, and gradually also for tourists and business people. Taking into account that the Lithuanian Embassy was opened in Helsinki only in 1994, it was clear that the new friendship association took a central role in communicating general information on Lithuania. At that time this was not an easy task, the printed Finnish material on Lithuania was in many cases published already in the twenties or thirties and therefore outdated.

The basic activities of the Donelaitis Society were formed already just after it was founded: to regularly publish a journal distributed mainly to all the members; promote Lithuanian culture in Finland by organising art exhibitions, film evenings, theatre performances and seminars for example on Lithuanian literature and history; organise joint bus trips for its members to Vilnius, Kaunas, Curonian spit and other attractive sites in Lithuania. In fact, the list has always been very long. Although the main task of the Donelaitis Society is to promote cultural exchange and tourism, in the early nineties it also offered help to Finnish tourists to obtain a Lithuanian visa as well as to business people to find good contacts in Lithuania, since the Finnish-Lithuanian Trade association was founded only in 1994.

The Finnish friendship associations are NGO's. Therefore, one may ask how it was possible for a newly established small organisation to fulfill all the various tasks. The fact is that many Finnish friendship associations can obtain financial support from the Finnish ministry of education and culture. The support granted to the Donelaitis Society, together with the membership fees, has made it possible to maintain a small office, hire a part-time office worker, cover the printing costs of the journal and, in many cases, cover at least a part of the travelling costs of Lithuanian guests like Lithuanian artists performing at some cultural event organised by the society. During the early years society's office was also a meeting place for the, at that time, still small Lithuanian community living in Helsinki.

The main activity of all the friendship associations is to promote cultural exchange. Thus, every new friendship association should create good contacts to its partner country. In the case of Lithuania and the Donelaitis Society this was not at all difficult. In the early nineties the whole world was suddenly open to all the Lithuanians and they were very active in making use of this new opportunity. The Lithuanian-Finnish Society was founded already in January 1990. Actually, it was refounded since the first Lithuanian-Finnish Society started already in 1928. However, it was closed down in 1940 when Lithuania was for the first time occupied by the Soviet Union. In Lithuania, unlike in Finland, the government does not offer any support to the friendship associations. Therefore, the Lithuanian-Finnish Society has very limited financial resources. In any case, it has been a very great help in finding important contacts and partners in Lithuania.

Both of the friendship associations, the Donelaitis Society as well as the Lithuanian-Finnish Society, organise some of their cultural activities also together with the Embassies. The Lithuanian Embassy in Helsinki and also the Finnish Embassy in Vilnius is an important partner for the Donelaitis Society in organising cultural events in Finland, for example art exhibitions and film evenings.

The Donelaitis Society was founded 25 years ago. Since then Lithuania has experienced a tremendous development on all areas, from a post-soviet country to a member of the EU and NATO. One may ask whether there is still any need to maintain friendship associations. The answer is YES. A friendship association is still needed, not only as a meeting place for the friends of Lithuania, but especially in deepening mutual understanding between our countries via cultural exchange. ■

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Åland Islands from a Russian perspective

Expert article • 1816

Aland Islands is small archipelago in the northern part of the Baltic Sea. Now these islands are one of the most prosperous parts of Finland. In many scientists opinion, prosperity of Åland islands its "unique economic model" and "autonomous status". Is it truth? Try to see.

The simplest and most obvious indicator of economic development is the population. The area attracts people to have a higher level of development and develop faster than the parts, reducing population.

In 1970, the population of the island was less than in 1910. This is due to a sharp reduction in the volume of the previous activities, such as fishing, and finding new ones. This is primarily a maritime transport. Passenger ferries are beginning to run between Finland and Sweden since the late 50s. One of the main ports of ferry lines becomes Mariehamn.

Formation of the transport complex on the islands leads in the 70-ies to radically improve the economic situation that determines population growth, continuing nowadays. In the 80-ies the second leading sector of islands economy becomes banking. Banks always easy to find a place in the nodal points of transport communications. In the 90-ies value of the third sector of economy Islands became tourism.

In the 70-ies XX century begins the real involvement of the Åland Islands, together with Finland and Sweden in European economic integration, which was legalized in the 90s with the accession of these countries to the European Union.

Integration of islands in the communication system of "United Europe" leaded to improvement in the socio-economic situation and population growth on the islands. Despite the population of the islands from the 70-ies growing very rapidly, population of indigenous Ålanders changes a little. Their part in the population of the island is constantly and steadily declining.

The indigenous population of the Åland Islands, until the 70s are working in fishing and agriculture. But they do not always correspond to the requirements imposed new economic activities. Consequently, the islands characterized by growing migration flows, while emigration from the islands grows faster. If the total volume of immigration increased from 1990 to 2012 in 1.8, the emigration has increased in about 2.5.

The population of Mariehamn for 1910-2012 years has increased in approximately 11.2. The part of "capital region" (Mariehamn and Yomala) in 2012 was about 55%. Nowadays, proportion of Mariehamn and Yomala reached the maximum possible values, so that begins to develop other areas of the Main Åland. However, in development of foreign Åland at this time there were no positive changes.

Formally, the status of the islands last 10 years has not changed, but during nowadays in Finland reform of the administrative-territorial division of the country led to the fact that the control system of continental Finland and Åland different now much smaller than it was during the XX century. Province of Finland during the running since 1997 administrative reform got in his keeping most of the local issues and their powers do not differ much from the powers of the authorities of the Åland Islands.

Studying of the problems of Åland Islands shows that there is no unique economic model on the islands, and they have not significant differences in the economic and social sectors from the rest of Finland.

The main reasons islands developing are explained by spatial analysis, ie from the perspective of economic geography. The main factor in the success of their development - economic and geographical location. Its impact for Mariehamn can be assessed as extremely, favorable for the Main Åland – suitable, for Archipelago – adverse. It is very well reflected in changing population of these three parts of the Åland Islands.

The second factor in the successful economic development of the island - "concentration effect", realised in the high growth of their capital Mariehamn and the surrounding area. However, after reaching the threshold concentration of its impact can either change the sign or replaced deconcentration that is currently happening in Åland.

The third factor is emigration. Emigration as a factor of economic development is well known. But if the impact of this migration on the political, social and cultural development of the islands will positive in the future? Now it is a question, especially this emigration are the same time growing outflow of the indigenous population of the islands.

It is often assumed that the change in the political or administrative status, administrative boundaries, national or local legislation can lead to dramatic improvement of the economic situation in a region. Of course not. It seems to can not change the trajectory of states or regions by any laws, regulations and treaties. We can only wait until terminated the adverse conditions and factors of development, or hope, that the effect of favorable factors and conditions will be as long as possible.

If we try to summarize, the economic well-being of the Åland Islands continues as long as the ferries between Finland and Sweden, come in Mariehamn and Långnäs. If these approaches will stop, the economy fall in depression, which was there for most of the XX century.

Modern Åland Islands with economic, political and social positions is interesting mainly for themselves, at last – to Finland, where they belong, and Sweden, as a native population of the islands is ethnic Swedes. For other countries, including Russia, these islands are interesting as a tourist attraction, and nothing more.

Very interesting political system of islands and their interaction with the central authorities of Finland. The use of this system may be useful for other unitary states in Europe within which national minorities live who can not or do not want to use one official language. Recognition of the rights of national minorities to use their language in all spheres of activity despite the fact that this language is clear a large part of the national majority, as is done in Finland on the Åland Islands, would dramatically reduce the tensions of ethnic relations in many states of modern Europe - for example, in Estonia, Latvia and Ukraine. Unfortunately, this experience remains unclaimed. ■

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Kaliningrad region development and corruption perception

Expert article • 1817

Russia's Kaliningrad region is Russian exclave located on the shore of the Baltic Sea and inside the EU territory. There are a number of factors that have an impact on its economic development. First, there are the mechanisms for stimulation of economic growth established by Russian authority. Until recently, region has two special economic zone (SEZ) regimes. First one contributed to the development of co-operation of the region with neighboring countries, through the use of free customs regime. In addition, the condition of sufficient processing acted under which produced in the region of goods imported components can be exported to other parts of Russia without paying customs duties. The SEZ regime will be finished from 1 April next year for economic and now political reasons. Termination of the SEZ regime could lead to a significant loss of production in the region and reduce employment.

Another SEZ regime is valid until 2031. It provides tax incentives for firms which invest more than 150 million rubles (approximately EUR 2.5 million) in the Kaliningrad region. However, this regime has a limited effect.

As a substitute of the SEZ regime encouraged to use the mechanism of Priority Development Territories (PDT) which can provide tax preferences and simplification of the administrative procedures. However, Federal law provides for their creation only in Siberia and the Far East of Russia. Thus, for the implementation of the mechanism PDT in Kaliningrad region Federal law must be changed.

The second is the impact of the current crisis. This impact is compounded by the strong sensitivity of the region's economy to the RUB exchange rate against the EUR, due to the higher volume of international cooperation in comparison with other regions of Russia. Economic recovery in the region, after declining growth in 2008-2009 lasted until 2012, and then was replaced by a slowdown that continues this year. The expected termination of the SEZ regime does not allow forecasting the start of recovery in 2016.

The increasing of the government role in economy illustrates the negative trend. Share of the consolidated budget in gross regional product, reached the 2009 level of 23.2%, and then decreased to 18.9% in 2012, and in 2013 began to grow again, as 2014 estimation. A similar trend shows the value of GRP per capita in the Kaliningrad region, calculated in EUR at the year average exchange rate. This figure declined in 2009, then increases until 2012 and began lowering in 2013 and 2014 (estimation). However, unlike in 2009, the decline was due to a decrease in real incomes, because a significant reduction in industrial production was not observed.

The third important factor is corruption, which poses significant risks to the economy. Despite the fact that there are no objective gauges the level of corruption is possible to assess the level of corruption by examining the perception of corruption. The most famous is the Corruption Perceptions Index, issued annually by Transparency international. Russia ranked 136th in the index 2014, 127th in 2013, 133th in 2012 and 143th in 2011.

Perceptions of corruption study in the Kaliningrad region were conducted in 2011, 2012 and 2014. In 2012, a study conducted interviews with foreign investors, according to which the five most corrupt spheres of activity were as follows: registration of right in land; building permission; permission to open shop, branch, etc.; different approvals, approval for activity arrangement; custom. All of these areas of activity directly affect business activity.

A study in 2014 showed some changes in the assessment of corruption compared to 2011 and 2012. Thus, compared to 2012, 33.2% of the respondents estimate that corruption level was increased and 11.3%, that corruption decreased. In 2014, only 13.9 percent of respondents note the growth of corruption and 27.4% said it decreased. There was recorded a growth of confidence in Federal institutions. However, you should consider the impact of political factors that had been in 2014 and could lead to biased estimates of the respondents. Overall assessment of corruption in the region has changed slightly. The level of corruption in local government in 2012 was assessed as high by 39.6% of respondents, and in 2014, by 37%, as the average, respectively by 43.1% and 46.5%. The corruption level of the regional authorities is considered high in 2012, by 39.5% of respondents, and in 2014 by 34.2%, as the average, respectively by 45.1% and 46.5%. Thus, it is clear that regional and local authorities are perceived by region's residents as corrupt.

Thus, the necessary conditions for the development of the Kaliningrad region requires the establishment of clear federal and regional rules for businesses operating in the Russian exclave and reduce corruption at regional and local level. ■



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ALEXANDER BARINOV

The exclave of Kaliningrad and the problem of its economic development

Expert article • 1818

It has been 25 years since the concept of a free economic zone in the Kaliningrad region was first proposed and introduced.

The main result of the economic development of the region is a transition from a closed economy oriented exclusively towards Russian (Soviet) domestic market to an economy integrated in the international division of labour. As a result, the Kaliningrad region began to experience a rapid growth of food retail chains and fashion industry, as well as furniture-making industry built on a new technological foundation. Food industry and agribusiness also showed considerable progress. A number of new assembly enterprises specializing in household electronics and machine engineering were set up in the region.

This development of new industries was accompanied by elimination of a number of industrial enterprises and a sharp drop in production in sectors which used to be traditional for the region's economy, such as fishing, fish processing, heavy engineering, shipbuilding, cellulose and paper manufacturing.

These two divergent tendencies formed the existing structure of the region's economy, which is characterized by: 1) low added value of goods manufactured in the region; 2) excessive dependence on imported goods and components; 3) high dependence of operating efficiency on the stability of the national currency; 4) low level of in-traregional consumption, with relatively high consumer prices of food and consumer durables.

What are the reasons of such an imbalanced economic growth in the region?

Firstly, the free economic zone failed to attract big investors due to instability of the legal framework for the Kaliningrad region. The existing legislation did not reflect a well-defined regional development strategy, nor did it offer adequate tools for boosting economic growth. Another issue was a low entrance threshold for becoming a resident of the free economic zone. This led to the fact that most of the investments were made by Russian companies, including those operating in Kaliningrad, in region's small and medium-sized enterprises, which caused no considerable structural change in the economy. Consequently, the region failed to achieve a positive qualitative growth by increasing value added production.

Secondly, the closure of industrial enterprises in the 1990s resulted in the development of trade, which became a major driving force of the region's economy and provided jobs for locals. The dominance of trade resulted in a loss of professional skills and competences in blue-collar jobs, which is one of the main limiting factors for the development of production in all sectors.

Thirdly, the struggle of food retailers for higher profits, based on low entry prices, led to a situation when their purchasing policy became oriented towards large Russian wholesale companies rather than manufacturers. As a result, considering costly transportation to Kaliningrad, the final prices of many goods in Kaliningrad were as high as those in Moscow whereas the average salary in the Kaliningrad and Moscow regions were incommensurate.

Given these circumstances, professional training of both blue collar and managerial staff becomes particularly relevant.

The transition from a centrally planned economy to market oriented management demanded speedy preparation of a new generation of managers. The lack of qualified managerial staff is still acute for Russian businesses. Specialists for local companies are mostly trained by Russian universities and business schools, while only a limited number of companies can afford training their staff abroad.

The problem of Russian business education seems to be manifold. Firstly, the teaching staff in education institutions continue working long after their retirement, whereas younger lecturers feel reluctant to come and teach due to low prestige and low salaries. There has been no intergenerational continuity in management training. The number of education institutions doing research in business is insufficient and the quality of research is not high enough. No serious research has been done studying development patterns of Russian enterprises. There is also no coherent system of advanced in-service training for teaching staff.

Secondly, the content of business education does not take into account the needs of everyday business practice. This problem stems from the first one. Training programmes and their contents are purely theoretical: universities seldom cooperate with employers and rarely understand their requirements.

Thirdly, there is a need for international cooperation in business education, for closer ties of Russian and international education institutions aimed to improve the quality and practical orientation of education offered to Russian students and entrepreneurs.

A new culture of business management adequate to current challenges can only be created provided viable solutions to these issues are proposed. ■



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Population of the Kaliningrad region – development stages and characteristics of the ethnic structure

Expert article • 1819

Serving the policy objective of European Territorial Cooperation (ETC/INTERREG), the South Baltic Programme offers funding for cross-border cooperation between the coastal regions of Denmark, Germany, Lithuania, Poland and Sweden. The chosen motto “going local – meeting your needs – connecting people and ideas” underlines the soft cooperation character of the Programme that enables local and regional actors to boost regional development processes through know-how exchanges, good practice transfers and the joint testing of innovative solutions.

Made available by the European Regional Development Fund (ERDF) since 2008, the Programme budget of EUR 60m allowed nearly 450 partner institutions to join forces in 69 project partnerships. In the fields of Liquefied Natural Gas technologies (LNG), tourism marketing, vocational training, culture and forest management, the South Baltic Programme directly contributed to the implementation of the Action Plan for Baltic Sea Strategy. Having reached the final stage of programme implementation, should we thus lean back and rest on the earned laurels? By no means! In fact, while the implementation of cross-border projects undoubtedly benefits from the enthusiasm and motivation of highly committed stakeholders, cooperation often still remains a niche in local and regional development policies, perceived by decision-makers as “something in addition” requiring significant resources without guaranteeing visible results. Indeed, one may correctly argue that networking is not an objective in itself. Without question, cooperation projects shall thus be measured against their capacity to achieve tangible results for the benefit of citizens, businesses and the environment.

Looking back at the Programme’s trial phase between 2007 and 2013, the first generation of projects has indeed not been without success in this regard. Already purchased by more than 7.000 customers, the InterCombi Ticket developed by the Interface project allows for travel between Germany and Denmark with just a single ticket, covering public transport in Rostock, the ferry passage between Rostock and Gedser as well as public transport to Nykøbing on the Danish island of Falster. In the field of cultural heritage promotion, the multimedia tools, ticketing systems and digital guides jointly developed under the label of “Baltic Museums” significantly raised the attractiveness of the four participating oceanographic museums in Gdynia, Kaliningrad, Klaipeda and Stralsund for international visitors and thus became best practice examples for the added-value of museum cooperation, acknowledged within the programme area and beyond. Turning towards business opportunities, the information, advisory and training services provided by the consortium of MarTech_LNG clearly met the needs of local maritime industries, effectively putting companies from the South Baltic area in the position to benefit from the increasing demand for LNG-driven products and services.

Building on initial success stories like these, the South Baltic community paved the way for the second edition of the South Baltic Programme, equipped with EUR 80m of ERDF funding for the programming period 2014-2020. Following the European Commission’s call for increased thematic concentration and result orientation, the available funds will be streamlined towards cooperation for blue and green growth, putting the economic potential of the sea (blue growth) and the need for sustainable solutions at the heart of the Programme (green growth). Consequently, an increased impact on blue and green economy sectors which are key for the future of the South Baltic area shall be achieved, in particular by facilitating cooperation for increased internationalisation and innovation capacity of local companies, sustainable tourism beyond seasonal mass phenomena, an increased uptake of green technologies and renewable energies, sustainable mobility and the availability of skilled labour force. In the spirit of multi-level governance, the Programme will furthermore provide incentives for local actors such as municipalities and NGOs to join small-scale projects with simplified procedures, thus allowing them to “trial and error” the challenge of cross-border cooperation in practice.

Of course, looking at the Programme’s total budget, miracles cannot be expected. The Programme will neither double economic growth nor cut the unemployment rate by half. Nonetheless, the power of soft cooperation to unlock unexploited development potential should not be underestimated, especially if used complementary to local activities and supported through broad and continuous stakeholder involvement. At Programme level, targeted advice to beneficiaries, result-oriented monitoring and the creation of synergies with other stakeholders and Programmes in the Baltic Sea Region will accompany the path towards tangible results for blue and green growth, thus emphasising the South Baltic Programme’s ambition to strengthen the impact and value of cooperation policies in times of limited resources and global competition. ■



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Recent development of economic well-being of rural areas of the Kaliningrad region

Expert article • 1820

The current administrative-territorial structure of the Kaliningrad Region was established in 2010 in accordance with the reform of local governance. At present, there are 22 municipalities in the region, 13 out of which are rural ones.

To assess their current economic well-being, a range of indicators was employed comprising both demographic (general rate of natural increase and migration increase of population) and economic aspects.

In 2009, death rate exceeded birth rate in all rural areas except Gurievsky (suburban). Over the past five years the situation has improved: half of the rural areas have had a steadily positive rate of natural increase, while in the others it is close to zero. The analysis of population migration in rural areas over the past five years has revealed that the most stable increase in migration occurs in the suburbs of the regional center as well as one of remote municipalities (Gusev) having highly diversified economy among rural areas.

Economic indicators of well-being are just as important as demographic ones. Economic conditions of a municipal area, the level of territory utilization affects all demographics and, more importantly, determines the character of the area and the comfort/amenity level of its inhabitants. For rural areas, agriculture is the most important economic sector.

Currently, there is a steady growth in agricultural production in the Kaliningrad region. In July 2014 cultivated land area was 222 thousand hectares (in 2009 it was only 165.2 thousand hectares). Involvement of abandoned lands into agricultural utilization is a priority for the agricultural sector of the region. To solve the problem, in 2011 the Government of the Kaliningrad Region adopted a target Program "Involvement of agricultural land unused according to the intended purpose in agricultural production for the period 2011-2016". As part of the program, over 100 thousand hectares of agricultural land was involved in economic utilization during 2011-2014. In four years the cultivated area increased by 1.5 times or 78.4 thousand hectares. It is planned to increase the share of newly involved farmland up to 75% by 2016.

Crop yield is an indicator of the farming intensity. In 2014, thanks to favourable weather conditions an average yield of pulse crops in the region reached 41 dt/ha which placed Kaliningrad region at the top ten regions of Russia on this indicator while oilseed rape yield (25 dt/ha) was ranked first. Common crop yields have also increased lately. According to data of November 2014, grain and pulses crop was 438,000 thousand tons and including oilseed rape – 530,000 thousand tons.

In recent years, along with traditional dairy farming in the area, cattle-breeding which is a new agricultural branch has been developing. In Nesterovskiy district livestock (dairy cattle) had increased from 9.2 to 15.4 thousand heads from 2009 to 2013 while in Ozersky district similar increase was from 3.2 to 27.6 thousand heads. Due to this fact, there has been an increase in forage crops, hayfields and pastures. The largest areas of forage crops were seeded in Bagrationovskiy and Nesterovskiy districts with corresponding 42.7 and 42.9 % of the total cultivated land. Dairy farming in the region has been developing: average milk yield per cow in 2013 reached 5486 kg compared to only 4285 kg in 2009.

Spatial differences in agricultural development among rural areas are insignificant and continue to level out. It is worth noting that while the areas of cultivated land and number of people employed in agriculture have declined compared to 1990 data, the croppage has increased due to intensification of agriculture. However, not all agricultural areas abandoned as a result of the 1990s crisis should be re-introduced into agricultural use again. Over decades, many of these territorial complexes have turned into a type of "nature reserves". They favourably affect biodiversity of surrounding areas and serve as major nodes of ecological framework of the region.

Compactness of the Kaliningrad region, a high transport accessibility of the most remote areas provide more employment opportunities for rural population: many people continue living in the countryside but commute to work to the regional or district centers. This strengthens the economy of households and contributes to stability of the settlement system in the region. According to the 2010 census data, the share of abandoned and sparsely populated rural settlements in Kaliningrad region was only 7.9% while, for example, in the Pskov region it was 46.6%.

On the whole, the standard of social welfare in rural areas of the Kaliningrad region is high and most rural municipalities have succeeded in making a transition from depression to sustainable development. ■

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Kaliningrad region on the EU borderland – from the “unsinkable aerocarrier” to the “laboratory of collaboration”

Expert article • 1821

Kaliningrad region is Russian exclave in the European Union and NATO. On the one hand, such position explains principal concern expressed by federal government especially in the condition of sanction confrontation. Even before the federal and regional authorities had made efforts to mitigate the exclavity through preferences in terms of taxes and customs duties, as well as transport support, large investment from the state and state-controlled companies and so on. Some politicians from Russia incline to take Kaliningrad region as “unsinkable aerocarrier” with ballistic missiles “Iskander” and other weapons. The same way of thinking is characteristic feature for some Lithuanian and Poland political figures.

On the other hand, geographical position of the region makes the regional authorities and other local actors incline to collaboration with the neighbouring countries. More 30 in-depth interview with regional representatives of government, research community and business, which was conducted by Centre for Geopolitical Studies (Russian Academy of Sciences) in 2012 and in the end of 2014, shows the changes of cross-border cooperation (CBC) and its appreciation by key actors from Kaliningrad part. CBC that was initially looked as a method of compensation of a big socio-economic crisis today is taken as a great value and as a chance for the future development.

According to official reports of the Russian Ministry of Foreign Affairs Kaliningrad region is a champion among other Russian border regions when it comes to measure of the results of CBC. It participates in five Euroregions, Russian-Polish and Russian-Lithuanian Councils. After enlargement of the EU Kaliningrad region took active part in CBC programs realized by INTERREG, PHARE, TACIS, and ENPI. Last one has a lot of new trends and features.

Firstly, the asymmetry of CBC became less remarkable although it still exists. The asymmetry is built in the existing models of institutional collaboration, general priorities of which are defined by the EU, having decision-taking centers situated in the territories of European countries. Only the European part has right to define strategic tasks of CBC, meanwhile the eastern partners are only allowed following the policy set-up by the EU, choosing from the already formed list of priorities. On the other hand, even this not equal cooperation with all its risks and expenses is a source of new opportunities for both partner. It allows changing life quality in the border regions and it contributes to stereotypes rupture, growth of mutual confidence, forming of joint business processes, which in its turn may lead to formation of cross-border functional regions.

Secondly, CBC became “more border”. ENPI program touch upon directly the border regions even more than earlier. Until recently, in particular in Kaliningrad region, most part of the projects was aimed at the region’s capital and a couple of big towns.

Thirdly, in the programs of cooperation relatively small “soft” projects, more often are completed by larger projects aimed at modernization or creation of modern infrastructure. Such type of the projects was aimed at improvement of transport accessibility and enlargement of checkpoints (reconstruction of parts of the route Kalin-

ingrad-Mamonovo, construction of indirect route Panemune-Sovetsk with a bridge across the Neman river etc.) as well as protection of cross-border water objects (construction of treatment facilities in Sopot (Poland), Mamonovo and Slavsk (Russia) etc.

The main dynamic of everyday cross-border interaction is caused by introducing regime of the Local border traffic on Russian-Polish border (July 2012). According to the data of Polish cultural and business center about 50% Kaliningraders come into Poland, using LBT permission (from July 2012 till July 2014 the consulate of Poland in Kaliningrad issued more than 200 thousand permissions). The most part of interviewed experts emphasized that the LBT project has been particularly successful for Warmian-Mazurian voivodeship – the most depressed region of Poland. In Kaliningrad region the main beneficiaries of LBT were the average citizens who got access to cheaper and better goods. Another positive result of LBT is gradually changing image of Kaliningrad region that perceived as a model region for visa free regime with EU. Goods producers and sellers have vice versa felt the increasing competition with the European business. The expectations of Kaliningrad businessmen of a Polish tourist stream were deceived as well.

Despite of escalation in Russian connection with European countries no one Kaliningrad expert we interviewed inclined to displace CBC. On the contrary, borderland seems is some kind of a laboratory where perspective models and forms of interstate cooperation might be tested and implemented. It is indicative that neither Russia nor the EU have not reduced cooperation in border regions, saved the LBT regime on the Polish-Kaliningrad part and in 2014-2015 started to elaborate new CBC programs for the period until 2020. ■

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The “Baltic Region” research journal

Expert article • 1822

Research periodicals are essential for the development of scientific thought, ensuring continuity of mutually beneficial exchange of information and contributing to scientific and technological progress of modern society. The “Baltic Region” research journal was founded on the initiative of the Immanuel Kant Baltic Federal University (Kaliningrad) and St. Petersburg State University in 2009. Back then, Dr. Gennady Fedorov and Dr. Nikolai Kaledin were elected co-chairs of the editorial board.

The journal is designed to cover current issues of socio-economic and political development of the Baltic Sea region. The editorial board of the journal and the editors group are headed by well-known political scientists - Andrey Klemeshev, rector of the I. Kant Baltic Federal University and Konstantin Khudoley, head of the Department of European Studies, St. Petersburg State University. Members of the editorial board are well-known scholars from Russia and abroad.

The two universities chose the Baltic Sea region as the focus of research for a number of reasons:

- firstly, there had been no research journal in Russia dedicated to the Baltic Sea region, which a challenging macro-region, actively promoting international and cross-border cooperation, as well as economic, cultural and political integration. Research topics that are connected with these issues are numerous and complex in character. The “Baltic region” journal was founded to fill in this gap.
- secondly, the I. Kant Baltic Federal University and Saint Petersburg State University are major research and higher education centres, located in two Russian cities on the Baltic Sea. The universities accumulated significant research potential and were engaged in doing research into various aspects of the Baltic Sea region, ranging from ecological, historical and political to economic and social ones. It is only natural, that the idea of founding this journal appeared in these two higher education institutions.

The aim of the journal is to create an international discussion platform designed to consolidate scientists from around the Baltic Sea in their study of the socio-economic and political situation and present different points of view on current processes in the Baltic Sea region. Particular attention is given to various aspects of international and cross-border cooperation, as well as the past, the current state and prospects of socio-economic and political development of the Baltic Sea region.

The journal is published in Russian and English, which allows for a better international access to research done by Russian scholars and at the same time familiarize Russian scientists with the works of authors from other countries since research periodicals published in Russian are much more common wide-spread.

“The Baltic Region” is a quarterly journal. High quality of publications is ensured by the efficient work of the editorial board and independent reviewers. The editorial board is composed of representatives of various research centres from Russia (Kaliningrad and St. Petersburg), Poland, Lithuania, Latvia, Finland and Germany. All independent reviewers are well-known and highly reputed experts. An important task of the journal is to invite new authors to collaboration and expand the geography of its publications. This contributes to a comprehensive assessment of the socio-economic and political situation in the region, including debatable issues, which are commented upon from different standpoints.

The editorial board of the journal considers ensuring maximum transparency and accessibility of the journal as its priority. The full-text version of the journal is available on the website of the Scientific Electronic Library eLIBRARY.ru (in Russian), EBSCO, SSOAR, Directory of Open Access Journals (DOAJ), and in other databases.

Russian and English editions of the “Baltic Region” journal are included in the largest database accumulating the global flow of periodicals on all topics, the Ulrich’s Periodicals Directory.

During the 5 years of its existence, the journal has gained a high reputation, especially among Russian scholars. This is reflected in the growth of its bibliometric indicators. According to the Russian Science Citation Index, the five-year impact factor of the journal is 0,484 (2014). According to this indicator, the journal takes the 400th place in the overall ranking of Russian journals containing 3,000 titles.

“The Baltic region” fully meets the formal criteria of Scopus and the Web of Science periodicals and the editorial board is committed to making it included in these two citation databases.

The editorial board of the journal, reviewers and translators are doing everything possible to make sure that readers get an objective expert assessment of socio-economic processes in the Baltic Sea region and familiarize themselves with the latest research in the theory and methodology of social sciences.

The strategic goal of the journal is to become one of the platforms of active international cooperation in the study of the Baltic Sea region, regardless of political trends. ■



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How to increase the value of Slovenia's exports of goods and services to Estonia, Latvia, and Lithuania?

Expert article • 1823

Slovenia is one of the smallest countries in Central and Eastern Europe (CEE). In 2013, the value of Slovenia's gross domestic product (GDP) per capita amounted to €21,800 (an increase of 0.9 % over the previous year), which is higher than the value of GDP per capita of most other countries in CEE, including Estonia, Latvia, and Lithuania. Slovenia is, like most other countries in CEE, including the aforementioned ones, highly dependent on its trade in goods and services with the world (mainly Europe). There are many reasons for this, such as the small size of Slovenia's economy/domestic market for goods and services. In 2013, the value of Slovenia's trade in goods and services with the world amounted to €52,178.9 million, 144.4 % of the value of Slovenia's GDP and an increase of 0.6 % over the previous year. In the same year, the value of Slovenia's exports of goods and services to the world amounted to €27,392 million, 75.8 % of the value of Slovenia's GDP and an increase of 2.5 % over the previous year, while the value of Slovenia's imports of goods and services from the world amounted to €24,786.9 million, 68.6 % of the value of Slovenia's GDP and a decrease of 1.5 % over the previous year. In 2013, services accounted for 16.8 % of the value of Slovenia's trade in goods and services with the world.

Slovenia's trade in goods and services with Europe

Europe is Slovenia's main trading partner in goods and services. There are many reasons for this: economic, political, social, among others. In 2013, the value of Slovenia's trade in goods and services with Europe amounted to €46,947.3 million, 90 % of the value of Slovenia's trade in goods and services with the world and an increase of 0.5 % over the previous year. In the same year, the value of Slovenia's exports of goods and services to Europe amounted to €25,075.2 million, 91.5 % of the value of Slovenia's exports of goods and services to the world and an increase of 2.6 % over the previous year, while the value of Slovenia's imports of goods and services from Europe amounted to €21,872.1, 88.2 % of the value of Slovenia's imports of goods and services from the world and a decrease of 1.7 % over the previous year.

Other regions (including Asia) are Slovenia's minor trading partners in goods and services. Asia, for example, accounted for only 3.7 % of the value of Slovenia's exports of goods and services to the world in 2013, which is relatively low in relation to the size of the Asian market for goods and services. China, for example, accounted for only 13.9 % of the value of Slovenia's exports of goods and services to Asia in 2013 and 0.5 % of the value of Slovenia's exports of goods and services to the world in the same year.

In order to increase the value of its exports of goods and services to the world (especially Asia and some other regions), Slovenia should increase its competitiveness, which is lower than that of some other countries in CEE (for example, Estonia, Latvia, and Lithuania) and some other regions. Additionally, Slovenia should also increase its export promotion and take some other measures, such as: increasing the competitiveness of Slovenian (exporting) enterprises (especially small- and medium-sized ones) in foreign markets for goods and services; increasing the inventiveness and innovativeness

of Slovenian (exporting) enterprises and their employees; increasing networking of Slovenian entrepreneurs/enterprises with their foreign counterparts; increasing cooperation of Slovenian (exporting) enterprises with their foreign counterparts in areas such as science and technology; increasing cooperation of Slovenian exporting enterprises with their non-exporting counterparts in the aforementioned areas; etc.

Slovenia's trade in goods and services with Estonia, Latvia, and Lithuania

Estonia, Latvia, and Lithuania are Slovenia's minor trading partners in goods and services in Europe (and the world). In 2013, the value of Slovenia's trade in goods and services with these countries amounted to €210.1 million, slightly more than 0.4 % of the value of Slovenia's trade in goods and services with Europe and an increase of 12.8 % over the previous year. In the same year, the value of Slovenia's exports of goods and services to these countries amounted to €137.4 (a decrease of 1.4 % over the previous year), while the value of Slovenia's imports of goods and services from these countries amounted to €72.6 million (an increase of 53.6 % over the previous year), which means that Slovenia was a net exporter of goods and services to these countries. However, in the same year the value of Slovenia's net exports of goods and services to these countries decreased by 29.3 % over the previous year. Therefore, Slovenia should take some measures to increase the value of its exports of goods and services to these countries.

In order to increase the value of its exports of goods and services to Estonia, Latvia, and Lithuania, Slovenia should increase the competitiveness of Slovenian (exporting) enterprises (especially small- and medium-sized ones) in the Estonian, Latvian, and Lithuanian market for goods and services. Additionally, Slovenia should also: increase its cooperation with the aforementioned countries in areas such as science and technology (Estonia, for example, is one of the leading countries in the field of information and communication technology in Europe (especially CEE), it is also one of the leading countries in the field of e-services); increase networking of Slovenian entrepreneurs/enterprises with their Estonian, Latvian, and Lithuanian counterparts; increase cooperation of Slovenian enterprises with their aforementioned counterparts in areas such as e-business (B2B, B2C, B2E, B2G), e-government (G2B, G2C, G2E, G2G), and e-health; increase the promotion of Slovenia and its brand 'I feel Slovenia', Slovenian enterprises, and their brands, Slovenian goods and services and their brands, and Slovenian culture in Estonia, Latvia, and Lithuania; etc. ■



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The times they are a-changing – Baltic Sea research and funding in support of sustainability action

Expert article • 1824

If BONUS would not exist, it would have to be invented, said the Finnish Baltic Sea Ambassador Ms. Erja Tikka, responsible for Finland's overall Baltic Sea policy and EU Strategy for the Baltic Sea Region (EUSBSR) relations, when interviewed for a recent interim evaluation of BONUS, the joint Baltic Sea research and development programme.

Indisputably, times are changing along with the research and funding landscape of the Baltic Sea region, and how science supports better sustainability policy. The encouragingly positive outcome of the interim evaluation provides clear signals to the BONUS community about the right direction of the change that this 'BONUS approach' introduces and the benefits it brings to society.

BONUS advances the solutions needed for the challenge of true integration of science and society's knowledge, not just within the usual policy horizon, but also with an eye towards the future in 25, 50, 100 years and more. There is a necessity to transit to ecosystem-based management beyond national boundaries, which is a matter that has been discussed for decades, yet progress has been far too slow.

Even globally, BONUS is a unique macroregional programme with a virtual common pot and common funding rules. On the European level, its existence is based on a co-decision of the European Parliament and the Council. Through its projects funded from the EUR 100 million by the Baltic Sea EU member states and the EU for years 2011-2017, BONUS generates fit-for-purpose knowledge for policymakers and for instance ensures that many aims of the EUSBSR are met, and that new, innovative tools are developed.

An integral part of production of knowledge by the 28 ongoing BONUS research and innovation projects is the strategic research agenda on which the projects are based. Over 800 stakeholders across the region have contributed to it to date, and many knowledge gaps identified by policymakers and other end-users have been incorporated, most recently last year.

Last month eight projects funded from the BONUS call 2014: Sustainable ecosystem services worth EUR 17 million started their implementation and joined the seven viable ecosystem research and 13 innovation projects commenced in 2014 worth EUR 33 million funded from the calls open in 2012.

A total of six overarching themes emerge from the projects that complement each other and support the long term sustainability agenda: four projects determine ways to reduce nutrient loads from agriculture, three projects work to boost sustainable fisheries while seven projects look for solutions for environmentally safer maritime activities. Developing methods and approaches to tradeoff between various sectors and interests is in the core of five projects while seven projects develop new methods for monitoring, surveillance and assessment. Creation of new knowledge about marine ecosystems is in the core of two projects.

BONUS, and to a large extent its portfolio of projects and the scientific community involved, will be an integral part of the EU Council's Latvian Presidency event and the leading conference on the Baltic Sea research, namely the 10th Baltic Sea Science Congress (BSSC), next month in Riga. On the third day of the congress, the BSSC will join forces with the 5th BONUS Forum and continue a string of high profile Latvian presidency hosted science-policy interactions. In fact, having a policy day on the science arena will be the first time of its kind in the history of the BSSC. It sets out to define a common understanding of the links between research and innovation, regional prosperity – and – sustainability in the long term. The most desirable next steps in jointly developing sustainable blue economy in the Baltic Sea region – in a way that can also act as a model in wider context of the European regional seas – will form the day's declaration.

Furthermore, taking place just 30 km away from Riga in Jurmala the same week, the programme of the 6th Annual Forum of the EUSBSR will also consider in its deliberations the necessity of critical advancements needed in the science-policy interface and the sustainability agenda.

Examples and advancements are manifold, as are the current and future demands on the scientists as they face more and more obligations to generate knowledge needed by the society. In the months and years to come, BONUS continues the 'change movement' and shares its experience with other regional seas and their macroregions in Europe and beyond. The next BONUS, beyond year 2017, is now under consideration, and based on the BONUS model, a broader geographic scope encompassing the concept of 'Northern European Seas', namely a joint Baltic Sea and the North Sea programme, is a definite option under exploration.

The times of BONUS being just a set of projects of a short-term effort are long gone. Today its voice is heard around the same table with high level intergovernmental regional policy organisations such as HELCOM, VASAB, and CBSS. When the next joint research and innovation agenda of the future BONUS is drafted, sustainable development, including blue growth, will no doubt provide the self-evident base line for the future. ■



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To make BSR maritime cultural heritage count

Expert article • 1825

“*Viking is one of the most branded words in the world – on the same level as cowboy*”, was concluded at a conference on Baltic Sea Region cultural routes in Maritime Centre Vellamo, Kotka, last year. Although the Vikings are the most famous sailors of the region, the Baltic Sea has been navigated as long as humanity has been present in the area. This water basin has been for centuries a diverse source of livelihood and busy area of communication.

For thousands of years the Sea claimed its toll of men and ships. Unlike other Seas, the low salinity of the Baltic Sea creates very good conservation conditions. The absence of shipworms and large areas of oxygen-free bottom layers has kept the organic material intact. This has made the Baltic Sea one of the world's richest areas for shipwrecks. Their number is estimated to be around 100 000. This maritime heritage documents histories, narratives and cultural influences representing both the region and its connections to the rest of the world.

When we survey the Baltic Sea as an entity, there are wrecks and other remains from prehistoric times – like remains of underwater Palaeolithic and Mesolithic settlement sites in the south-western part of the Baltic Sea – up to day. No single country possesses this coverage. The sea floor of Baltic Sea could be nominated as an ‘underwater-open-air museum’ of the region. This is unique in a global scale.

The development and cheaper prices of search technology generate new discoveries in previously uncharted seabed areas. With the latest technologies, it is easier and cheaper to record the underwater landscape and make wrecks accessible for the public. At best, only one day of diving work might be needed for 3D modelling of a ship wreck. In the past, the collection of corresponding information by measuring and drawing could take several years. Generated digital data can be utilized, for example, in addition to researches and public, also by creative sector, including film and game industries.

A vulnerable ecosystem and fragile treasure of maritime heritage

The Baltic Sea is a common resource with intense exploitation by busy traffic and large-scale trans-border projects; cables and tubes, tunnels, bridges and windmill parks. Today, the coastal areas are probably the most rapidly changing environments. Historic harbours, waterfront areas, fisherman villages are all facing transformations, and not too often by acknowledging their fascinating historic potential.

The fragile underwater heritage in the BSR has different conditions, some protected by national laws, while wrecks in exclusive economic zones might be without any protection. Only Lithuania has ratified the UNESCO Convention on the protection of underwater

heritage. Germany has started this process recently. In Finland, the National Board of Antiquities aims at launching the ratification process in the next government period.

The BSR Working Group on Underwater Heritage, where the members are experts at the state agencies on cultural heritage, has agreed a list of the 100 most valuable and important underwater sites in the Baltic Sea, covering prehistoric and historic periods. These sites

illustrate the unique conditions of the Baltic water and the specific kind of culture of this region. The Working Group has, together with the Monitoring Group on Cultural Heritage in the Baltic Sea States, also drawn up a regional agreement on underwater heritage management in 2008. It's called the Code of Good Practice for the Management of the Underwater Heritage in the Baltic Sea Region (COPUCH).

A topical tool for integrating the protection of underwater heritage to cross-sector approaches is the Maritime Spatial Planning (MSP). It is based on UNESCO initiative and now part of Integrated Maritime Policy of EU. In the BSR a joint co-chaired Working Group on MSP was launched in October

2010 by HELCOM and VASAB (Vision and Strategies around the Baltic Sea). Within the Plan Bothnia pilot project between Sweden and Finland the underwater cultural heritage is for the first time considered and taken ‘on board’, acknowledging at the same that only very small parts of the sea have so far been investigated for wrecks.

When creating best practices for implementing the MSP in the region, it's necessary to recognize that the Baltic Sea is not only a vulnerable ecosystem but also a unique and fragile treasure of marine- and underwater heritage. Heritage sector has a huge task to integrate the relevant heritage data timely and in proper format in to common MSP approaches. Counting the heritage is not enough, since, quoting Professor Mike Robinson, for common processes it is necessary even to make heritage to count. ■



The first underwater heritage park in the Baltic, the *Kronprins Gustav Adolf* 18th century wreck situates off Helsinki in Finland. Photo: Riikka Alvik, the National Board of Antiquities.

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Augmented reality ahoy! There is more than cleantech innovations coming up for the Baltic Sea seafaring!

Expert article • 1826

Lately, the discussion topics concerning innovations in shipping might have been slightly biased by the implementation of the EU Sulphur Directive. From the beginning of this year, stricter provisions on sulphur emissions from shipping came into force in Baltic Sea. As the ship-owners struggle with the added costs of the implementation, the Finnish government tries now to compensate the economic effects by funding new green technologies for shipping, creating jobs in the cleantech sector and helping Finland's shipping industry as it copes with the increased costs.

The relevant outcome has been a myriad of new technologies and innovations in cleaning technology as well as in ship automation utilizing Industrial Internet. However, slowly but steadily, there is a new wave of innovations appearing to the horizon which are based on the concept of Augmented Reality. In this article, two future AR-concepts are briefly presented.

Augmented reality?

Augmented reality (AR) technology enables overlaying virtual information – like plans, models or instructions – on real environment. The user can either see the augmented view on computer's, tablet's or smartphone's display, or ultimately the augmented reality can be viewed through a transparent head-mounted display. An electrician, for example, can simply look at the wall and see the yet uninstalled wiring as it is marked in the blueprints

Several projects have studied industrial use of AR applications for visualized service, maintenance and assembly instructions and renovation work. The Technology Research Centre within the University of Turku is one of the public research institutions, who is actively studying the AR-concepts especially for the shipping industry. The collaborative research with the Industry has already found many suitable concepts and even demo-applications have been made for augmented reality in maritime industry and operations.

AR in shipbuilding

Potential benefits of AR range from various phases of shipbuilding to its actual operation. It is notable that streamlining processes throughout the life cycle brings also positive environmental impacts, bringing the concept closer to Cleantech. This is especially the case with route optimization. During shipbuilding it streamlines the production process by minimizing design-implement-redesign –iterations. AR allows keeping the most up-to-date CAD model and design information always available and visualized intuitively in real environment. This reduces the need for paper blueprints, which may be outdated. Information from actual construction site, referring to the details in a CAD model, can also be transferred quickly to designers and reviewers and used for documentation purposes.

Various inspections and reviews can also benefit from AR. The inspector can check 3D CAD models against existing reality to see if construction has been done according to plans, and to document actual construction. User can also attach on-line notes and remarks to a specific part or model during construction and review.

An augmented reality tool can also be used to check routings during e.g. retrofitting of new equipment. A suitable route can be planned in advance by virtually transporting the model of the equipment through the anticipated route.

AR in ships operations

When the ship is in use, the new concepts help crew, VTS and other stakeholders to contribute even higher level of safety. In 2014, one future concept of autonomous cargo ships was introduced by VTT Technical Research Centre of Finland and Rolls Royce - including augmented reality bridge they'll use during operation.

With AR, The traditional control consoles can be replaced with minimalist workstations facing floor-to-ceiling windows that serve as a vast head-up display. The ship's navigation information is overlaid in front of the crew, along with other vessel's routes and obstacles that could be obscured by fog or rain. At night, thermal cameras display live video over the window to let watchmen keep tabs on what's ahead. After inputting the ship's destination, the navigation system determines the most economical route and uses external sources of information to ensure the safety of the selected route

The bridge of the future also extends to tug boats, with the concept that automatically detects the captain and then configures the workstation to both their size and needs. The user interface is fully adjustable for usability and visibility, and places augmented reality markers on the ship it's towing to help with deckhand placement, predict the route of the vessel, and get real-time winch information.

Autonomous systems are going to make their way into large vessels in the near future, and innovative companies are already working on the first round of systems, which initially include remote controls that can be commanded from the bridge or on land. However, before fully unmanned vessels can be launched on seas, widespread public approval is also required. ■

Relevant publications:

Tomorrow's Cargo Ships Will Use Augmented Reality to Sail the Seas: (<http://www.wired.com/2014/03/rolls-royce-ship-bridge/>)

S. Helle, S. Korhonen, A. Euranto, M. Kaustinen, and T. Lehtonen: Benefits Achieved by Applying Augmented Reality Technology in Marine Industry 13th Conference on Computer Applications and Information Technology in the Maritime Industries COMPIT'14, Redworth, UK May 2014



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Protection Fund for the Archipelago Sea – funding practical work towards achieving a healthier sea

Expert article • 1827

The Finnish Archipelago Sea is a vital part of Finland's national landscape with its 40 000 beautiful islands and diverse nature. For us the Baltic Sea has been the source of recreation, transport, tourism and fisheries. The Archipelago Sea is special in the sense that it is very shallow; the average depth is only 23 meters. The Sea is almost enclosed basin of brackish water, shallow and cold, supporting both saltwater and freshwater species. In addition, the water changes very slowly in the whole Baltic Sea which makes the Archipelago Sea vulnerable and accumulate nutrients. These characteristics make it not only unique but also extremely sensitive. The water in the Archipelago Sea isn't as clear as it used to be and in the summer the algal blooms create unpleasantly large rafts at the sea.

In 2007 the Centrum Balticum Foundation founded the Protection Fund for the Archipelago Sea. The Protection Fund's basic idea is to finance water protection projects in Archipelago Sea and its catchment area in Finland with donations received from individuals, companies and associations. In order to be financed, the projects must meet the criteria set by the Protection Fund's board: the projects aim must be in a) reducing or removing nutrient burden running into the sea and/or b) raising awareness on practical protection projects and promoting civil activity.

The Protection Fund for the Archipelago Sea keeps water protection issues on the agenda by cooperating with local partners, organizing events and distributing for example information on the achievements of the projects it has financed.

Supporting projects in the grass-roots level

Since its beginning, the Protection Fund has financed over 40 water protection projects ranging from projects building wetlands and repairing streams to projects developing mobile applications. Recently the Protection Fund has financed especially projects that work in the Archipelago Sea's catchment area. This might be stem from the fact that the civic activity in water protection associations in that area is rather lively and numerous. Also the protection tasks that are done in the catchment area have a positive effect to the whole Archipelago Sea.

Although the Protection Fund has not decided to limit the project funding only to the catchment area, it can be stated that it is important to give these small and local associations the opportunity to implement concrete projects. Otherwise these kinds of projects wouldn't necessarily have the possibility to run. It can be also said that this is one of the most important tasks of the Protection Fund for the Archipelago Sea: it provides leverage by granting seed money funding that enables the smaller project actors to apply for example larger EU-projects.

Boosting up the donation flows!

The Protection Fund for the Archipelago Sea gives an easy opportunity to anybody to take part in practical water protection work. It is easy for example to send an SMS donation or enroll as a monthly donor. The Protection Fund seeks constantly new ways of collecting funds to be given out as project financing. An example of this kind of new thinking is the work of art 'Symbiosis' that was revealed in June 2014. The artwork Symbiosis was done by the artist Stefan Lindfors and it is a hybrid of a fish and a bird, representing the fauna of the Archipelago Sea. The sculpture is to be covered with steel nameplates that individuals, associations and companies can buy for themselves. The nameplates then form the fish's scale and the bird's feathers.

The artwork Symbiosis in its part is a continuation for the Archipelago Sea square that was initiated in 2011. The square in front of the Forum Marinum museum in Turku was filled with nameplates of individuals and also heads of states. The nameplates at the square were quickly sold out. So, if you want to have your name, or your company's name welded in to the Symbiosis, act quickly!

The waters at the Archipelago Sea were clear only a few decades ago. The Protection Fund for the Archipelago Sea continues to work towards achieving a healthier sea and making the waters clear again. ■

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Regulation of food taxes in the light of market disturbances

Expert article • 1828

Introduction

The EU's agricultural- and food sector obviously depends on the export activities; which has been also proved by the immediate effects of the recent Russian embargo. The disturbance is understandable, as Russia represents an important export market for the EU.

Russia is major importer of meat and fruits – more than 20% of the meat and approximately 69% of the fruit products are imported. Further that, the level of import in case of milk and milk products reaches approximately 20% of the domestic demand. In total, shares of imports from the EU affected by the ban in Russia's total imports in 2013: beef 4.6%, pork 58.9%, poultry 10.6%, fish and seafood 7.5%, milk and milk products 37.4%, vegetables 31.9% and fruits 23.5%.

European producers can be compensated, new markets can be found and of course the internal consumption can be increased. Whatever future brings, one thing is certain: such interactions have a long-term impact and large scale surpluses on the markets and impacts on the mutual confidence. Meanwhile, there are more than 120 million people living in poverty, or around the minimum living standard in the EU. The EU spends billions of euros on supporting agriculture; nevertheless there is no sufficient food available at a reasonable price fulfilling certain quality requirements. This means in fact the CAP fails one of its most important objectives.

Food tax rates in the European Union

Various VAT rates apply to food in the EU, varying from 0 to 27%. In certain countries we see VAT-exempt or levying 0% VAT on certain categories of food articles. The average of the primary VAT rates of food is 17%, and the lowest primary rates: 0% in Malta, the United Kingdom and Ireland; 3% in Luxemburg; 6% in the Netherlands; 9.5%, in Slovenia; 10% in Spain, Italy and Austria. The average of the referential VAT rates is 8% (source: European Commission, 2015). The analysis of the VAT rates of food articles shows that the average of the lower third of the VAT rates is 5%, while the average of the lower two third is 9%. Therefore the introduction of a minimum VAT less than 10% in case of these articles may be justified.

As we have been able to lessen the tax burdens on medicines (the VAT on medicines is below 10% in most of the EU Member States), would it not be fair to act similarly with regard to articles which represent a sheer necessity to ensure human dignity and a fair standard of life?

Possible effects of lifting VAT

There are already known evidences showing that lower VAT on certain categories have positive effects on social welfare and on the market positions of the producers and farmers, while offering an EU-wide solution to widespread VAT fraud. Fraud groups sought to avoid VAT charges by making articles travel through borders and importing non-European countries, moreover there are also governmental officials in certain cases who are allegedly involved in the fraud scheme. The fraud schemes with the VAT all over the EU inflict damages to the countries' financial balances and economic health, including their farming industries and their food sectors. The main solution recommended by different experts is to reduce the lucrativeness of VAT fraud by reducing VAT to less than 10%.

Conclusions

There seems to be a simple solution to dissolve this conflict, which could solve consequently several problems at the same time: 'No tax on food' initiative in the EU, which has been raised also in the EP. Maybe not be the first time, but there are convincing theoretical and empirical evidences for extending reduced VAT rates in certain sectors.

Elimination of VAT and other fiscal burdens on food could result in a drop of food prices, which could develop to the capability to absorb surpluses caused by market disturbances. It could address certain fiscal sources of poverty related malnutrition, particularly among children. Food taxes are regressive, and a tax that raises the price of food and beverage products would disproportionately hit the living standards of lower-income households. As a general observation, families spend a much larger share of their budget on food than the higher income families; therefore its socioeconomic impact is uncountable.

Further that, reduced VAT can increase the efficiency by increasing productivity or by reducing structural unemployment and enhance equity by improving income distribution (source: European Commission, 2007).

This initiative has been raised in different forums, such as the European Parliament, but the final implementation has to be preceded by a thorough preparation, involving academic research, political and social reconciliation, targeting a fair tax system to enable us to provide food at reasonable prices. ■



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Integration and inclusion and the continued promotion of the Estonian language

Expert article • 1829

Since independence in 1991, Estonia has had language policy in place with the aim of reversing the language shift that occurred in the Soviet occupation when Russian became the language of prestige and mobility and the proportion of Estonian-speakers in the country dropped considerably. While there is evidence of integration having occurred hand-in-hand with a gradual switchover to Estonian as *lingua franca* and national language (normalisation), unresolved issues related to language use in Estonia, nevertheless, remain.

The continued growth in Estonian proficiency is likely to develop further, yet for policy to be successful, it needs to be sensitive to local contexts. If we take citizenship to be a marker of participation in being “Estonian”, for example, waning naturalisation rates in recent years then suggest that further integration requires a more nuanced approach. Specifically, making what it means to be a member of the Estonian nation more inclusive is more likely to be seen as an *invitation* to take part in the Estonian nation-state than a *demand*.

This could include lowering the age at which non-citizens become exempt from taking the language test for naturalisation, or gradually removing the naturalisation requirement for non-citizen Soviet-era immigrants. This would serve to increase the feeling of belonging in Estonia and attenuate risks associated with the large and increasing number of permanent residents who are Russian-citizens, particularly with Russia’s ongoing policy of recruiting loyalty from “compatriots” in neighbouring countries, that is, the policy of the “Near Abroad”. Another strategy would be to increase the status of Russian in the north-east, Russian-speaking-dominated region of Ida-Virumaa. Russian as a second *national* language is simply inconceivable at present and would not be helpful. Given that Ida-Virumaa seems to already enjoy *de facto* acceptance as a Russian-speaking area, however, it follows that some form of greater regional recognition would be acceptable to ethnic Estonians and is sure to have integrative value for Russian-speakers. And integration is conducive to normalisation. Estonianisation of schooling, for instance, could still go forward, but within an atmosphere of increased tolerance.

While the recent reform increasing the proportion of Estonian-medium classes in Russian-medium high schools to 60% surely promotes normalisation, it is unclear whether the model will be effective in areas such as Ida-Virumaa, where students currently only receive any significant exposure to Estonian from year 10, the third last year of schooling. What is more, the blanket implementation of high school language reform, although slower and more careful than in neighbouring Latvia, has met with resistance. Inclusive practices that empower local teachers to participate more in the process, take Russian-speaking teachers’ and students’ practices into greater account, test the adequacy and appropriateness of methods through ongoing action research, and are flexible enough to incorporate change are more likely to see cooperation and willingness to participate in the practical change that would bring Russian-speaking and ethnic Estonians

closer together, in both a societal and a linguistic sense. To support this, a greater sense of legitimacy of the history of Russian-speakers in Estonia in textbook materials, as used by both ethnic Estonians and Russian-speakers, would promote a common, integrative discourse.

Further work into the creation of a media space that supports tolerance and inclusion would also be conducive to change and progress towards a common discursive environment. This would also need a greater sense of multiculturalism in Estonian-language media and more support for the training of Russian-speaking journalists.

If a language is endangered, it should not be allowed to die. There was a point, however, towards the end of the Soviet occupation, when Estonian faced a moment of danger of complete official domain invasion from Russian, which would have left the language solely for informal purposes, and thus, facing endangerment. Policy and the contemporary context provide a safe and secure environment for the continued reversal of that shift. Nevertheless, in the process of language revival, we need to embrace diversity in order to ensure a language’s ongoing relevance to its speakers and contexts of usage. This means inclusiveness and greater tolerance. History and its attendant discourses are still very fresh in the minds of the inhabitants of Estonia, yet the country has certainly come a great distance in relatively few years in a peaceful and purposeful manner. The potential for a more inclusive environment more conducive to the wider use of Estonian is, indeed, great. ■



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The “Inevitable future” scenario-building methodology

Expert article • 1830

In traditional scenario-building the number of scenario possibilities is limited by the offered set of scenarios. Usually you get either an inertial scenario with possible deviations, or limited set of scenarios determined by the models used. Each scenario normally encompasses a “window of possibilities” to make decisions necessary to turn system from the inertial scenario towards a new scenario. It is implicitly supposed that when the «window of possibilities» is closed, it is impossible to alter the choice and the scenario until the next “scenario fork”. This is often claimed to be far from reality, as policymaking, long-term investments and combined strategies do not depend on one single «window of possibilities» or exact single choice. Another known bug in scenario-building is that the scenarios often look like more or less desired “visions”, than like real alternatives derived from real life. The “Inevitable future” scenario-building methodology allows to overcome these problems in scenario-building, making both realistic and varying versions of the future.

The “Inevitable future” methodology was developed in Russia for state strategic foresight initiatives by The Future Designing Research group. It is a think-tank focused on long-term forecasting and scenario planning for state and non-state bodies. This scenario-building methodology was thoroughly tested on a number of foresight projects, including “Science and Technology - 2050” (2008) and “Future of Health” (2009) foresights made for governmental authorities of the Russian Federation, and “Future of Global Nuclear Power - 2050” foresight for Rosatom state corporation (2010), as well as on foresights made for several Russian cities.

This methodology differs from other scenario techniques in its understanding of scenario space. Its main feature is the «inevitable future» - a set of events defined by uncontested trends, that has few variations and doesn't depend on your actions at all. Try as you may, the “Inevitable future” would happen in any scenario. The examples of the inevitable future trends and features may include large hard infrastructure and investment projects, incontestable long-term trends such as urbanization, and, sometimes in short and mid-term, market-driven technology development (say, coming era of augmented reality and personal wearable devices in ICT).

The opposition for the inevitable future which is also leaning on uncontested trends and not depending on decisions made, is «the impossible future». It encompasses development scenarios and variations, incompatible with real life. The examples might be total and permanent abandonment of carbon and nuclear energy, world without military conflicts, awaking of Cthulhu, etc. Again, try as you may, any scenario with elements of the “impossible future” can't be made reality. The shorter the forecasting horizon is, the closer are the boundaries of inevitable and impossible and the narrower is the scenario space.

Any area that encompasses the “Inevitable future” but does not touch the “impossible future” is a technically possible version of future development that can be associated with a scenario. The scenario space is a set of all variations of the future with acceptable probability of realization (in other words, those scenarios that could be brought up by administrative and other activities). Within this framework, you may use any method you like to develop scenarios – from Delphi to gaming models.

In this approach to scenario-building the actor is to make a choice of subjectively most acceptable development version. It must rely on «the inevitable future», but it is not limited to it. Moreover, the resulting strategy may encompass elements from different scenarios, say, gradually shifting from one to another.

The results of scenario-building exercise include the following:

- The description of «the inevitable future» and «the impossible future» in the chosen area.
- Descriptions of the most probable scenarios.
- An outline of strategy to bring up a chosen scenario version

The key features of this methodology are:

- It combines real-life hard trends with future scenario possibilities and variations
- Compatibility with any scenario-building method
- Large spectrum of possibilities and strategies for decision-makers
- Built-in scenario reality check. ■



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Germany's economic presence in the Baltic Sea region

Expert article • 1831

Baltic waters were once the dominion of wealthy merchants from Northern Germany, allied under the banner of the Hanseatic League and kept powerful through unprecedented levels of international trade. Laden with amber, furs and salt-fish, their cogs roamed from Novgorod to London. The League has long since vanished, but an echo remains: Germany is still the economic engine that keeps trade in the Baltic Sea region running. But just how important is Germany for the regional economy? Germany's importance stems from the enormous size of its economy. With a nominal GDP of 3859.6 billion dollars in 2014, according to the IMF, it is not only the largest actor in the region and the whole EU, but also the fourth biggest economy on the planet. Yet only a portion of Germany's economic might comes from or is directed to the Baltic Sea region.

Trade with Germany is crucially important for all the other Baltic Sea region states. In 2014 Germany was the biggest trading partner of Finland, Sweden, Denmark and Poland, as well as one of the top partners for Norway, Russia and the three Baltic states. Imports from Germany hover around eleven percent of the total in the three Baltic states, and nowhere in the region is the share lower than this. It goes as high as 17.3 percent in Sweden, 21 percent in Denmark and 22 percent in Poland. Trade also flows to Germany. The high mark is again Poland, with 26.1 percent of its exports going to Germany, while

at the low end Estonia only ships 4.9 percent of its exports there. Around 7 percent of Latvian, Lithuanian and Russian exports go to Germany, as do 10 percent of Swedish, 11.9 percent of Finnish, 16.9 percent of Norwegian and 17.9 percent of Danish exports.

For Germany itself, however, trade in the Baltic Sea region is not equally important. According to the German Federal Statistical Office, Germany's trade with all the other countries in the region, including Russia, constitutes only 13.3 percent of the total German trade. Poland is Germany's most important trade partner in the region, but only its eight biggest trade partner overall. Russia is number twelve, Sweden number sixteen, Denmark number eighteen, Norway number nineteen and Finland is number twenty-four. None of the three Baltic states make it into top fifty.

As for investments, the Baltic Sea region is not that central to German activity either. According to the IMF's Coordinated Direct Investment survey, only 6.8 percent of German direct investments in 2013 went to countries in the region. Yet for the recipients, this can be significant. The main benefactors of German investments in the region were Poland and Lithuania, with 17.1 and 10.1 percent of their respective inward direct investments coming from Germany. For the other countries in the region the numbers range from 2.1 to 6.3 percent of inward direct investments.

Trade	Exports to Germany in 2014 (million €)	%	Imports from Germany in 2014 (million €)	%
Denmark	14 768	17.9	15 166	21.0
Estonia	588	4.9	1581	11.5
Finland	6693	11.9	7774	13.5
Latvia	710	6.9	1404	11.2
Lithuania	1767	7.2	2899	10.9
Norway	18 191	16.9	7961	11.9
Poland	42 595	26.1	36 350	22.0
Russia *	27 771	7.0	28 437	11.9
Sweden	12 402	10.0	21 194	17.3
Accumulated outward FDI to Germany in 2013 (million \$)		%	Accumulated inward FDI from Germany in 2013 (million \$)	
Denmark	14 707	7.1	4842	4.9
Estonia	86	1.3	447	2.1
Finland	5623	3.7	3506	4.0
Latvia	11	0.7	754	4.7
Lithuania	43	1.5	1715	10.1
Norway	19 370	8.7	5500	3.0
Poland	1207	4.2	37 816	17.1
Russia	9617	2.5	18 898	4.0
Sweden	22 692	5.4	24 482	6.3

Note: Russia's trade figures are from the year 2013

Sources: national statistical agencies, central banks and IMF Coordinated Direct Investment Survey

There is a case to be made for getting Germany more deeply engaged in the economic networks of the Baltic Sea region. Like most of Europe, the region is recovering from a long period of economic hardship and Germany could be the engine that gets money and goods flowing once again. There are promising signs already. According to the German Federal Statistical Office, Germany's GDP grew by 1.6 percent last year, thanks largely to a boost in growth in the last quarter. Overall German exports grew by 3.7 percent and imports by 2.1 percent in 2014. Increased trade with the resurgent Germany could help struggling countries like Finland overcome their troubles. For the EU countries in the region it could also help to offset the losses incurred due to sanctions and counter-sanctions between the EU and Russia.

The future of German economic relations with Russia is harder to predict, yet crucially important for the overall development of the region. Russia's trade with Germany started falling in 2013 and in 2014 the situation only got worse. The current political climate of mistrust, coupled with a shrinking Russian economy makes rapid changes in this trajectory unlikely, but not altogether impossible. For Germany, an important part of the allure of the Baltic Sea region has always been that it is a gateway for trade to Russia. It is probably better for everybody if the gate stays open.

Today's Germany is not the Hanseatic League. Rather it is a truly global economic power, and as such also looks to shores beyond the Baltic Sea for trade and prosperity. For other states in the region, trade with Germany is absolutely essential; for Germany the Baltic Sea region is merely important. This asymmetry is not a problem in itself, but it points to further opportunities. There is always room for more trade, and with each transaction the relative importance of the Baltic Sea region for Germany increases. ■

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