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Increased regional tensions in the Baltic Sea



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The promise of a Russia-EU continental fulcrum

MIKKO (MIKHAIL) NESVITSKI

Present and future of minority language media in the Republic of Karelia





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KARIN ENSTRÖM

Increased regional tensions in the Baltic Sea

Expert article • 2212

Common cultural, historical, political and economic ties link the Baltic, the Nordic countries and the other countries around the Baltic Sea together. The Baltic and Nordic countries have enjoyed ongoing cooperation since early 1990s. In 2009, the cooperation took further steps when the Strategy for the Baltic Sea Region, EUSBSR, was adopted. The focus of the strategy is clean and safe shipping, reliable energy markets and better cooperation in fighting cross-border crime.

The countries around the Baltic Sea share an interest in the provision of stability, security and welfare in the Baltic Sea region and beyond. However, as the security policy situation in the world has continued to change for the worse, this is also the case for the Baltic Sea region. As a result, Sweden needs to strengthen and deepen its cooperation with the countries around the Baltic Sea to stabilize the region. We must also strengthen the Swedish security and defence capabilities through a Swedish NATO membership and by strengthening our defences.

For nearly 25 years, states in the European security system treated each other as sovereign equals and respected each other's independence. With its illegal annexation of Crimea and its ill masked aggressive action in eastern Ukraine, Russia has torn a hole in the fabric of European security. Russia's actions in Ukraine are a fundamental violation of the core principles of the security of Europe.

The present situation in Russia is worrying and very troublesome. As the Russian defence reform has been implemented, the pattern of Russian military exercises in our region has changed. They have become more and more complex and have been carried out in a more aggressive manner which leads to confrontations with almost all countries around the Baltic Sea. Russian aircraft activity along NATO's border has increased. In 2014 and 2015, NATO fighters went up to meet Russian aircraft more than 400 times, an increase of 70 percent from 2013. The pressure is particularly hard on Estonia, Latvia and Lithuania.

This fall, Russia is likely to violate the 2011 Vienna Document by conducting several other exercises simultaneously outside the joint strategic exercise Zapad 2017 with Belarus. This will raise troop numbers substantially above 13 000 and has been done so in the past.

Another big cause of concern is Russia's rhetoric regarding its nuclear weapons. According to Swedish researchers, Russian rhetoric on nuclear weapons has reached levels unthinkable even during the height of the Cold War. Moreover, Russia has maintained and developed its arsenal of tactical nuclear weapons, i.e. smaller nuclear weapons suited for use on the battlefield, unlike the strategic ones intended to erase major targets, for instance, cities.

The tactical nuclear missiles are no news. In a recent report, The

Swedish Defence Research Agency (FOI) writes that NATO and The US also have retained their tactical nuclear weapons. The big change is Russia's policy.

The importance of tactical nuclear weapons in Russia has increased. A large number of Russian military units have weapon systems that can be equipped with tactical nuclear warheads. In the military doctrine, Russia reserves itself the right to carry out preventive nuclear strikes if the country's existence is threatened. Russia also reserves itself the right to face conventional attacks with nuclear weapons.

Due to Russia's actions, the importance of Sweden's military strategic position has increased.

On the Baltic Sea, important trade routes go to and from all countries in the region. The Baltic Sea is also an important arena for receiving and providing military assistance. We must therefore continue to deepen Nordic cooperation in the security policy area. We must also cooperate more between the Nordic-Baltic countries both bilaterally and multi-

The countries around the Baltic Sea share an interest in the provision of stability, security and welfare in the Baltic Sea region and beyond.

laterally within the EU and the UN.

Cooperation is needed in other areas as well. My party strongly supports increased trade and energy cooperation in Europe and the European energy union but not at the cost of deteriorating security and increased dependence on Russia. The gas pipeline Nord Stream 2 goes against the principles of the energy union and would result in an increased European dependence of Russian gas. Sweden and its neighboring countries must put pressure on the EU Commission to stop Nord Stream 2.

When the situation in the Baltic Sea is becoming more insecure, Sweden must seek further cooperation with the countries in our immediate vicinity. The importance of the Baltic Sea for trade and other issues such as the environment in the region cannot be emphasized enough. Sweden needs to strengthen the security policy cooperation with the countries around the Baltic Sea in order to restore the stability in the region. At the same time, we must strengthen Swedish defence capability through a Swedish NATO membership and by strengthening the Swedish defence. ■



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IVETA GRIGULE-PĒTERSE

Social tension and national security interests

Expert article • 2213

The exacerbation of the security situation in Eastern Europe, in Latvia and other Baltic States has created anxiety and concerns about external security. Given the current geopolitical situation, as well as the historical experience of the inhabitants of all three Baltic States, there is nothing surprising about this. It would require several decades of great relations with neighbouring Russia for the Baltic people to overcome the past memories and dismiss present concerns, but unfortunately the conflict in Ukraine has further eliminated this prospect.

Latvia reacted to the events by significantly increasing the defence budget, as well as calling on NATO allies to ensure the inviolability of the external borders. The result is a significant increase in NATO's military presence. Without compromising the role of the force in guaranteeing security, I would however like to draw attention to the fact that focusing mainly on the use of military assets shows an overly narrow understanding of the problem.

In order to guarantee safety, not only tanks, aircrafts and assault rifles are needed, but also a significant willingness of the population to defend the state as well as their refusal to cooperate with opponents in the event of a conflict. In circumstances of hybrid warfare, for example, in Ukraine one of the problems was the lack of loyalty of the people of the eastern regions of the country, manifested in the friendly welcome of the so-called "green people" to Crimea and support for separatists in the Donbass.

I believe that the problem of citizens' loyalty in Ukraine is rooted not only in the national composition or ideology of these territories, but also in the social problems, which upon exacerbating, resulted in people searching for a solution and an attempt to join a neighbouring country where the standard of living is still higher. At one point following the divide of the USSR, a leading Ukrainian politician said that his country would achieve that Russians would live better there than Russia. Unfortunately, this did not happen, and the already struggling social problems in Ukraine began to negatively affect the security situation as well.

It would be very unfortunate to allow for a similar situation to occur in Latvia. However, it cannot be denied that the rapid redistribution of budget funds in favour of a defence budget poses a risk of social problems, and hence a threat to national security.

In the summer of 2017 it became clear that healthcare system is on the verge of collapse, requiring substantial financial investment. For the first time in history of independent Latvia family doctors are on strike, teachers and policemen are dissatisfied, but residents of the outermost regions believe that the country has left them to fate - unemployment is high, roads collapsing, and rural schools are being closed. However, the government has limited financial capacity to reduce social tensions.

In addition to this, wrong decisions could make it worse. Throughout Eastern Europe, the decision of allocating quotas for asylum seekers does not encourage loyalty to the institutions of the European Union, and often also for national governments. In the Baltics, many perceive it as a threat to the existence of their nation, opening the door to Islamist terrorism, or simply as a socially unfair decision.

In Latvia, social problems are most painfully felt in the Eastern border region of Latgale. It is also the only region where the proportion of Latvians is less than half (about 46 percent). In Latgale's largest city Daugavpils, Latvians make up less than 19 percent of the population. It should be noted that in the ambiguous BBC movie "World War Three: Inside The War Room" it was anticipated that the next armed conflict in Europe could start exactly there.

We can argue whether or not national minorities in Latgale are loyal to the country. However, one should not disregard the fact that it is precisely here, at the EU's Eastern border that the greatest social problems exist.

Here is a much higher unemployment rate than elsewhere in Latvia (In June 2017, 16.6 percent of the registered unemployed were able-bodied citizens, compared to 7.2 percent in Latvia). Here is also a lower income level. According to the data of the Central Statistical Bureau, the poverty risk index in Latgale in 2015 was 39.2 percent, while in the capital city Riga - 13.5 percent; but the national average - 21.8 percent.

For now, the social tensions in this region and elsewhere are being relieved by the active emigration of people to other EU countries, where the emigrants find work at much higher remunerations, but this will not be forever. Social problems not only remain, but are often aggravated in Latgale and elsewhere in Latvia, and one can only hope that no external forces will use them in their own interests.

I think that the described aspect cannot be ignored by politicians when creating defence strategies and planning national budget expenditures. It is of course tempting, rapidly and at all costs, to reach NATO's 2 percent target of the national budget expenditure on military needs, and then rely on NATO forces. However, it may then turn out that, at the forefront appear security problems that cannot be resolved even with the most advanced weapons and powerful armies. ■

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HANNA KOSONEN

Baltic Sea is a complex hotspot

Expert article • 2214

Innovative Science, Sustainable Tourism – Participation and Cooperation in the Baltic Sea Region' was the title of the 26th Baltic Sea Parliamentary Conference that took place in Hamburg in early September. Interest in sustainable tourism is not a niche anymore.

The states around the Baltic Sea have achieved great progress in sustainable tourism. However, we need joint strategies and activities as well as real cooperation in order to make sustainability and nature relevant trends for international tourism in the Baltic Sea Region.

With the unanimous adoption of the resolution on sustainable tourism, the 26th Baltic Sea Parliamentary Conference in Hamburg was a great success. Particularly, the resolution of the conference suggests that as far as it is possible, obstacles of cross border travelling are to be reduced to promote the freedom of travel. Furthermore, the resolution encourages the Baltic Sea Region States to improve the sustainable transport and touristic infrastructure. By adopting the resolution, the delegates pointed out that the Baltic Sea Region is a role model for sustainable tourism as well as for parliamentary cooperation in the region.

On the other hand, the cooperation and activities in the Baltic Sea Region are very complex by nature. The Zapad 2017 military drills of the Armed Forces of the Russian Federation and the Sweden's international large-scale training exercise Aurora were held approximately at the same time in the Baltic Sea Region. Military drills are essential for the nations' security and military capabilities. Unfortunately, they do not ease the seriously arisen tension in the Baltic Sea.

Russia and NATO have both increased their military presence in the Baltic Sea. The Baltic Sea has a strategic position in many ways, not the least as a transportation route. There is definitely no lack of the elements of tension in the region.

If we take a look at the past, still about 25 years ago the Baltic Sea was the borderline between two opposing political and ideological systems. The Iron Curtain took the form of the Sea in the region, and interaction across it was very limited.

However, as soon as the political landscape started to reshape with the collapse of the Soviet Union as well as the fall of the Iron Curtain, the situation began to change rapidly. New institutions and cooperation frameworks arose. For instance, at the governmental level, the Council of Baltic Sea States was founded in 1992, and the parliamentarians established particularly the Baltic Sea Parliamentary Conference in 1991. Cooperation began to flourish at various levels and sectors.

In 2017, we cannot say that the Iron Curtain is back but both the

tension and polarization have increased in the Baltic Sea. The implementation of the Minsk Agreement has not progressed the way we have hoped. The negative circle of military activities in the Region is an unfortunate fact that should be cut off as soon as possible.

Reconciliation, dialogue and cooperation are currently needed more than sabre-rattling. At the same time, the cooperation can be both strategic at the high level and very practical at the grass-root level. It should cover the economy, trade, environmental matters, science, culture, as well as interaction with the civic society, to mention a few.

Isolation is not a solution. Enhancing the cooperation in the context of the Baltic Sea Parliamentary Conference is one good channel. The more practical the questions are, the more grass-root level gets involved in the cooperation.

A case in point in Finland, we are starting a cooperation with Russia on the elimination of leakage of hazardous substances from the Krasnyi Bor landfill into the Baltic Sea. Located near St. Petersburg, Krasnyi Bor has caused a lot of concern around Baltic Sea because the unmanageable leakages of waste dump. This is an important example that

despite of the sanctions – which we must and do respect – there is plenty of room for cooperation and interaction even with Russia.

Peaceful measures and interaction are greatly needed. Only in that way we can genuinely describe the Baltic Sea as the sea of cooperation and hotspot in a positive sense also in the future. ■

The Baltic Sea has a strategic position in many ways, not the least as a transportation route. There is definitely no lack of the elements of tension in the region.



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OUDEKKI LOONE

Is Germany aiming at French Force de frappe?

Expert article • 2215

In September 2016, French and German defence ministers issued a plan calling for closer EU defence cooperation, with a joint HQ for EU military missions; a single EU budget for military R&D; joint procurement of air-lift, satellite, cyber-defence assets and surveillance drones; and operational EU battlegroups with common military academies. Emmanuel Macron in his presidential campaign supported that plan, pledging once again the creation of permanent HQ. In July 2017, the newly-elected Macron and Angela Merkel announced their plan "to develop a European (read Franco-German) air combat system to replace both German Tornado and Eurofighter, and French Mirage 2000 and Rafale."

It is not the first time France and Germany seek to create European defence framework under their own lead. After WWII, French politics towards Germany could be described by the motto "If you can't defeat them, join them". In 1945, the architect of the European Union, Jean Monnet, conceived a plan to dismantle German industry, annex Ruhr and Saar and exploit German POWs to rebuild French economy. Less than 3 years later, having realized that Washington preferred a strong Germany, he switched to a "Carolingian Europe", based on Franco-German *entente*: the Schuman and Plevin Plans were born. In this framework, the German nationalism would be tamed and French moral leadership secured for decades. While French élites have been loyal to this vision ever since, the French public has always looked at it with suspicion or outright hostility. In Germany, on the contrary, both the élites and the public have supported it.

In 1954, the French National Assembly refused to ratify the Plevin Plan (European Defence Community) and, by the same token, the European Political Community. It wasn't until 1987 that Franco-German *entente* had a renewed opportunity, when Kohl and Mitterrand created the Franco-German Brigade, and then the Eurocorps: Italy and UK refused to join in, though. Italian Prime Minister Andreotti's distrust for Germany was encapsulated in a joke, "I love Germany so much that I preferred two of them", while Mrs. Thatcher was slightly more cautious. Not like her Minister Nicolas Ridley: *'This is all a German racket designed to take over the whole of Europe. It has to be thwarted. This rushed take-over by the Germans on the worst possible basis, with the French behaving like poodles to the Germans, is absolutely intolerable.'*

In 2004, Berlin and Paris attempted a new *fuite en avant*, this time by means of a "European Constitution". The European (read Franco-German) defence capacity became the "Common Security and Defence Policy". In 2005, though, the French people put all this to rest in a referendum. Totally undeterred, the Franco-German élites chose to simply ignore that, and by cancelling the word "Constitution", cobbled together the Lisbon Treaty (2007).

French belief in the Carolingian dream is beyond doubt. Question marks arise about Germany. German sociologist Ulrich Beck, among many, maintains that Berlin just wants a "German Europe". The ongoing Euro saga seems to suggest that the dream has failed. Mitterrand hoped to tame German economic prepotence with "common

currency". Today, Euro has made Germany stronger than ever, while France amongst others is engulfed in stagnation, unemployment and trade and budget deficits. European Commission that is supposed to fine both economies that go in excessive deficit and excessive surplus, has been very rigorous in cases of deficit, but not on the only case of surplus – Germany.

If Euro is a blueprint for the future of European (read Franco-German) defence cooperation, what could be the goal of Berlin? Sure, Rafale is a fine bird, and its Snecma engines are state-of-the-art, and the MBT Leclerc is great, too. However, Germany already has Eurofighter, Eurojet and Leopard II. So, what has been definitely outside German technological reach, so far? The *force de frappe*, with its M-51 missiles, *Le Triomphant* strategic submarines, and multiple independently targetable reentry vehicle TN-75 nuclear warheads.

A "European nuclear weapons" program means putting French nuclear capabilities under a common European (read: Franco-German) command. Following Euro's footsteps, a "common European" (read: Franco-German) nuclear capability would eventually turn into a "German European" nuclear capability. This could lead, as already suggested in some circles, to substitute the French seat in UN security council for "European", making Germany the heavyweight player in international politics. In addition, using "European" battlegroups and investing into "common" defence makes it easier to German élites to enlarge military spending despite its generally pacifist public opinion.

The "simple" idea of a German conventional rearmament is already quite scary in itself. But if the Union is to survive as a community of equals, then a nuclear armed Germany (whatever the umbrella) has to be avoided. If this will not be the case, Baron Ridley of Liddesdale would have been sadly right, and the days of the European Union would be numbered. ■

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VLADIMIR CHIZHOV

The promise of a Russia-EU continental fulcrum

Expert article • 2216

In December 1994, only months after Russia and the EU had signed the Partnership and Cooperation Agreement, which was to guide their relationship for decades to come, the CSCE Budapest summit proclaimed the creation of a “genuine partnership” of states in a Europe “whole and free”. This mirrored the emerging post-bipolar philosophy of a more cohesive pan-European order devoid of dividing lines, in essence a “common European house”.

Sadly, today this venerable objective seems utopian at best. In the Russian view, the subsequent policies of NATO and EU enlargement, export of democracy and erosion of continent-wide arms regimes have put to rest any hopes for a truly inclusive governance of Europe. The 2013-2014 Ukrainian crisis, provoked in part by the divisive “Eastern Partnership” initiative (and its inherent politicised choice between Russia and the EU), exemplifies this. The resulting sanctions standoff has disproportionately affected European, rather than US, economy, shredding local jobs and disrupting trade. Above all a sense of instability is once again looming large in the people’s minds on our war-torn continent. Even the seemingly more secure Western Europe is struggling, with Brexit and elevated Euroscepticism highlighting the loss of continental balance.

Could this lamentable development have been avoided? Back in 2005 Russia and the EU charted a course towards a set of common spaces, ranging from the economy to research and education to security and international cooperation. The relationship, while not without its difficulties (then again, no third country has so far claimed to enjoy an unproblematic relationship with the EU), has underpinned booming trade, with bilateral turnover growing over ten-fold since 1994, reaching 338.5 bln. euros in 2012 – practically a billion euros a day. Even coordinated Russia-EU crisis management in troubled regions of our shared neighbourhood was picking up steam. We were also on the verge of further slashing red tape for bilateral travel of Russian and EU citizens with a visa-free regime in sight. Just imagine a future of borderless travel from Lisbon to Vladivostok, with a state of the art continent-wide economy powered by a highly-educated workforce and low-cost fuel.

Certainly, today’s nascent polycentric world offers alternatives to the more traditional European vector of Russian diplomacy. The past years have witnessed a flurry of economic and diplomatic multilateralism, with trend-setting formats like the G20, BRICS and the Shanghai Cooperation Organisation (of which all Russia is part), at times eclipsing the more exclusive Western-dominated clubs. And where European exporters have been prevented, either by EU unilateral restrictions and Russian countermeasures, or the extraterritorial effect of US sanctions from accessing the profitable Russian market, their competitors from Asia and Latin America have quickly stepped in. In the agricultural sector, for instance, Russia has posted record growth, becoming a prime exporter of wheat (which in the 1990s the country was busy importing).

Nevertheless, even in these troubled times Russia-EU relationship retains considerable potential. Cumulatively the European Union will remain Russia’s No 1 trading partner and investor for the foreseeable future. The Ukrainian crisis may have hindered decisive convergence between our countries but has not removed its underlying motives and benefits. Ever since Peter the Great’s foray into Western Europe in the late 17th century via the “Baltic portal”, Russia and other European nations have converted their civilizational, cultural, linguistic and religious proximity into economic interdependence, social modernisation and technological progress. Even the tumultuous 20th century, with its ideological zigzags, has not bucked this trend.

Today Russia and the EU as key European actors must assume responsibility for both eliminating dividing lines in our continent and working to bring stability and prosperity to our shared neighbourhood. Differences will remain, for sure, and a return to a “business as usual” model is unlikely. Rather than trying to reinvent the “strategic partnership” formula, which in the end was not backed up by a partner-like treatment of mutual interests, we should aim for a more sober pragmatic mode of cooperation, based on equality and respect.

Economic interdependence remains an important cohesive factor. The spurt of mutual Russia-EU trade, averaging 28.7%, which was recorded in the first half of 2017, should be used as a stepping stone towards further amplifying coordination, both on a bilateral level, and in the promising relationship between the European and Eurasian bodies of integration. Above all, we should keep our eye on the prospect of a Greater Europe from Lisbon to Vladivostok, unavoidable if we are to finally bury the demons of the past. As President of the European Commission Jean-Claude Juncker correctly observed recently, “there is no European security for centuries to come without Russia”. ■



VLADIMIR CHIZHOV

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MYKOLA TOCHYTSKYI

Ukraine-EU relations: what's next?

Expert article • 2217

The year 2017 will have a symbolic significance for the Ukraine-EU relationship. Ten years since the launch of the first round of talks on the Association Agreement (AA), almost four years after the Ukrainian people defended the Association Agreement during the Revolution of Dignity, surmounting a daunting challenge of the Dutch referendum, it finally became fully operational this September. Introduction of the EU visa-free regime for the Ukrainian citizens earlier in June was another major milestone in our bilateral relations.

Ukraine-EU Deep and Comprehensive Free Trade Area (DCFTA), an integral part of the Association Agreement has already been in place for almost two years. Throughout that time it considerably helped Ukraine diversify its exports. In the course of last two years the EU market has become the premier destination for Ukrainian goods, absorbing almost 40% of the Ukrainian exports in the year 2016 alone. The first semester of 2017 demonstrates even stronger performance, with Ukraine's exports to the EU growing by 24.2%.

At the same time, the DCFTA is much more than just a tool to access markets. It is about legal approximation to the EU technical and safety standards for products, strengthening consumer protection, modernizing the rules for competition, public procurement and state aid. In other words, for Ukraine AA/DCFTA is a comprehensive blueprint for political, social and economic reforms.

The Ukrainian President and the Government are strongly committed to make it a success story. The progress in AA/DCFTA implementation will pave the way towards reaching Ukraine's strategic goals – greater political association and deeper sectoral and economic integration with the EU, opening in the long run prospects for Ukraine's potential accession to the EU Customs Union, participation in the Internal market based on four freedoms and hopefully opening EU membership perspectives.

The EU visa-free regime is not only about simplifying border procedures for ordinary Ukrainians. It is the most tangible successful result of Ukraine's reform efforts over the last three years. It is evidence of profound progress with anti-corruption policy, reform of law-enforcement agencies, the launch of ambitious transformation of judiciary system. An unprecedented e-declaration system was launched. The creation of a new Supreme Court has almost been completed. A new transparent and effective system of recruitment of judges excludes the possibility of political influence on this process. The new electronic procurement system "ProZorro" limits abuse in this sphere, saving millions of dollars of budget funds. As such it has been recently recognized as one of the best public procurement systems in the world.

Decisive anti-crisis actions, comprehensive macrofinancial stabilization, reduction of tax burden, business deregulation, opening of new markets paved the way to resumed economic growth. The credit rating of Ukraine was improved by a number of rating agencies. Ukraine has achieved an unthinkable – energy independence from Russia. Since November 2015 we have not bought a single cubic

meter of natural gas from Russia. There is a general consensus that in the last three years Ukraine made much more in the field of reforms than in the previous 23 years.

These positive results were achieved despite unprecedented security challenges. For more than 3 years Ukrainians have been standing up to the Russian aggression defending its European choice. More than 11 thousand compatriots paid the highest price, their life. Minsk Agreements have laid a solid ground for achieving a stable settlement in Donbas. However, the lack of Kremlin's political will to implement its part of the commitments remains a main obstacle for a peaceful solution. Moscow keeps supplying heavy weapons, opposes to the establishment of the OSCE permanent control over the Ukraine-Russia border, supports gradual economic integration of the occupied territory into Russia by introducing rouble, recognizing illegal documents, confiscating Ukrainian enterprises, banning humanitarian organizations and blocking the exchange of prisoners.

In the years of occupation of Crimea the situation with human rights there has deteriorated at an alarming rate. Crimean Tatars and ethnic Ukrainians continue to face constant discrimination and, in many cases, murder, tortures and illegal detentions under fabricated charges. Among recent worrying examples - the sentencing of the Deputy Chairman of the Mejlis of the Crimean Tatar People, Ahtem Ciygoz by the occupation authorities to eight years in prison for protesting against Russia's takeover of Crimea. The situation shows no signs of improving. On the contrary, the unprecedented militarisation of the occupied Crimea overturned the security landscape in the region and constitutes a direct threat to Europe as a whole.

In this regard Ukraine highly values the support of its sovereignty and territorial integrity by international partners, in particular a strong and united position of the European Union. Relentless political and sanctions pressure on Moscow are important but not sufficient. If we want to see Minsk agreements implemented and Ukraine's territorial integrity restored, the international engagement must be stepped up. Key tools of this pressure could be the deployment of the UN peacekeeping mission in the Donbas and the adoption of Crimea de-occupation mechanism.

If we hope to succeed in the struggle on two major fronts – with the Russian aggression on the one hand and implementation of the AA/DCFTA ambitious reform agenda on another – we must develop a strategic vision of the future of Ukraine-EU relations. This vision should strive to set up ambitious and yet realistic mid- and long-term goals which would go beyond the current framework.

During the 19th Ukraine-EU Summit in July 2017, Ukraine presented a number of new initiatives: long-term integration to the EU Customs Union, EU Energy Union, EU Digital Single Market as well as Schengen association. Defining concrete and tangible goals in the process of Ukraine's rapprochement with the EU would help streamline the reform efforts of Ukrainian Government and civil society. Implementation of these initiatives would also be beneficial for the EU.

Expert article • 2217

We are fully aware that it would be a long and difficult path. Nevertheless, we are ready to start a dialogue and seek a common ground about the vision of the future development of Ukraine-EU relations.

The upcoming Brussels Eastern Partnership (EaP) Summit in November will be a great opportunity to exchange views on these and other ideas, to give fresh momentum to the EaP initiative. Since Georgia, Moldova and Ukraine concluded the EU Association Agreements and established visa free regimes, we need to know what the next step is. We expect that this Summit will set up a concrete road-map filled by measurable and visible projects aimed at more focused cooperation and oriented on practical results for the citizens.

At the same time we must keep the political importance of the EaP and ensure its forward looking approach by setting the vision for the future of the EaP. The EaP dynamism can only be maintained when we are able to respond to the needs, expectations, common security challenges in the region and interests of all partners. ■



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BALTIC RIM ECONOMIES

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ELENA TIHONOVA

Heading to the Arctic: the Murmansk region today and tomorrow

Expert article • 2218

The Murmansk region is a sustainable, dynamically developing region, situated in the North-West of the European Russia. Almost the whole territory lays north of the Arctic Circle in the Kola Peninsula, which is washed by the Barents and the White Seas. The Murmansk region borders on Finland in the West, on Norway in the North-West, it is a part of the Barents Euro-Arctic region and an active member of international cross-border cooperation programs.

The Murmansk region is rich in large deposits of ferrous, non-ferrous, rare and precious metals, non-metallic mineral resources (phosphate and ceramic raw material and natural mica). Deposits of major natural resources have all-Russian value, and as for apatite and nepheline minerals and rare metals – the world value.

The regional economy is based on rich natural resource potential and advantageous geographical location.

Strong mining, fishing and transport complexes are located here. They provide 100 % of all-Russian production of apatite, nepheline, baddeleyite concentrate, 10 % - iron-ore concentrate, about 7 % - refined copper, 16 % fish catch and more than 14 % of marine cargo shipping. World-wide known companies work in the region – Nornickel, PhosAgro, EuroChem, Acron group, state corporation Rosatom.

Murmansk sea port is the main regional port, located in the water area of ice-free Kola bay, it is a top ten Russian largest ports with regards to volume of cargo transshipments and it has the highest indicators of cargo turnover – about 40 million tons of cargo per year – among the ports situated along the Northern Sea Route. A unique nuclear icebreaking Russian fleet plays a key role in escorting vessels along the Northern Sea Route.

The Murmansk region is an energy surplus area. General installed capacity of the regional energy system is more than 3,700 MW. Produced electric energy completely keeps up with the domestic demand, more than a quarter of the produced electric energy passes to the Russian united energy system and is exported to Finland and Norway.

Tourism is an important field of the regional economy. Murmansk regional tourist brand is formed by such exciting natural, cultural, historical and industrial objects as the Rybachiy Peninsula – the most northern Russian point of land, like the Norwegian Nordkap; the Khibiny mountains; the Botanic garden-institute – the largest in the world above the Arctic Circle; three natural reserves, one of which is located on the territory of three countries (Russia, Finland and Norway); Umba stone labyrinth; assembly of Kanozero petroglyphs under a specially raised glass dome; monuments of wooden architecture of the XVII century; nuclear icebreaker Lenin and many others.

Recently the Arctic tourism has got a significant impulse for development: Murmansk, a modern and the largest city above the Arctic Circle, was included into routes of the leading European cruising companies. This is the only place in the world where unique expedition tours to the North Pole, islands and archipelagos of the Russian Arctic aboard the nuclear icebreaker "50 Let Pobedy" start from.

The Murmansk region is one of four Russian regions, the entire territory of which is included in to the Arctic zone of the Russian Federation. Future of the Murmansk region is closely connected with the Arctic development.

Regional companies are engaged into such large-scale Arctic projects as construction of Sabetta port and LNG plant on the Yamal Peninsula.

Due to the geographical position close to offshore fields of the Western Arctic, unique natural climatic conditions of the Kola bay, significant infrastructural opportunities and considerable HR potential the Murmansk region is an ideal platform for placing modern bases of the Arctic shelf development and localization of high technologies.

Today large projects have been started in the region: NOVATEK builds a center for the construction of large-scale offshore structures, and Rosneft oil company builds a support base for its offshore projects. Implementation of these projects will have a high multiplicative effect for development of the relevant and supporting industries, making new highly-efficient work places, it will contribute to development of a new regional economic specialization – service support of development of oil & gas deposits in the Arctic.

The Murmansk region is a modern, comfortable for life, advantageous for business, promising for investments and open for cooperation region. ■



ELENA TIHONOVA

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URMAS SUKLES

Haapsalu – the Nordic Venice

Expert article • 2219

Haapsalu is a resort town on the western shore of Estonia with a long history. It boasts a 13th-century Episcopal castle which is well preserved and attracts thousands of tourists annually. In autumn 2017, major repairs of the castle began and 3 million euros will be invested to build a year-round medieval centre. The castle is also linked to the legend of the White Lady of Haapsalu, who appears in the castle window every year on the night of a full moon in August.

The Haapsalu Old Town is characterised by timber-laced architecture, the best example of which is the Resort Hall built in the beginning of the 20th century. During the second half of the 19th century and beginning of the 20th century, Haapsalu was one of the most popular resort towns of the Russian Empire, and even Russian czars came with their families to spend their vacations here. In 1905, the Haapsalu–St. Petersburg railway line was also completed, and a new beautiful railway station with a long wooden-roofed platform was built.

Unfortunately, railway traffic towards Tallinn was interrupted in 2004 and the railway was pulled up, but now the Estonian government has started to restore rail transport.

There were many military bases near Haapsalu during the Soviet Union. The largest of these was Kiltisi Airfield, which held 51 fighter aircraft. There were also missile sites and border guards. At the time, more than 10,000 Soviet soldiers lived in Haapsalu. After Estonia regained independence, the army left for Russia, but many families remained, and even now almost a quarter of Haapsalu's 10,200 inhabitants are people whose mother tongue is not Estonian.

The population of Haapsalu has decreased year by year, as many move to Tallinn, the capital of Estonia, or abroad in search of a better life. We have worked hard with the town government to stabilise the population, and in the last year the rate of depopulation has indeed slowed. We have established very good living conditions in Haapsalu – it's a safe town with good kindergartens and schools for children. Here you can find one of Estonia's best sports complexes, equipped with a stadium, swimming pool, shooting range, sports halls, fencing hall, and tennis hall. There is also a 500-seat 3D cinema and a theatre hall in Haapsalu, and children can study at the music and art school.

Haapsalu is famous for its therapeutic mud. The first mud baths was built in 1825, but currently the Fra Mare Thalasso Spa and Spa-Hotel Laine offer great mud therapy services. During the 1960s, when there was an outbreak of polio in Estonia, a hospital was built in Haapsalu to treat this serious disease, and today it has evolved into a cutting-edge European neurological rehabilitation centre, treating patients with severe neurological damage.

Haapsalu has no large-scale industries. We have medium-sized businesses typical of resort towns, such as a textile factory, door fac-

tory, and log house manufacturer. As a seaside town, Haapsalu has one company in the fishing and packaging sector as well – Morobell. There are three marinas in Haapsalu providing moorage for hundreds of yachts from Finland, Sweden, and Germany each year.

In 2017, administrative reforms will be carried out in Estonia, and the so-called ring parish of Ridala will merge with Haapsalu. This merger will result in a relatively large new town – Haapsalu. The synergy arising from the merger should be especially beneficial for coastal areas, where the development of tourism can be kick-started. After all, a large part of Ridala Parish is located within Matsalu Nature Reserve.

Haapsalu is evolving and becoming very popular both in Estonia and abroad. We take pride in our extremely eventful summer cultural programme, with festivals for blues and rock, as well as early music lovers. The Tchaikovsky Festival is held in honour of the famous Russian composer Tchaikovsky, who once spent his vacations in Haapsalu.

In July, the Old Town of Haapsalu is packed with old American cars, as we have organised an American car festival since 2004.

There are activities in Haapsalu all year round. Driving on the ice road that forms during cold winters is especially engaging and thrilling. Every now and then, there is even a 30-kilometre-long ice road to the island of Hiiumaa that opens.

Haapsalu is sometimes also called the Nordic Venice, as nearly all our streets end at the sea, and you get the feeling that the sea surrounds almost the entire town. Come and experience this wonderful feeling! ■



URMAS SUKLES

Mayor
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VYGANTAS VAREIKIS

The Baltics and Europe

Expert article • 2220

The ports of the Baltic Sea are an important gateway to economically successful regions, as well as a gateway of trade between East and West. In Latvia, Estonia, and Finland, the political, cultural, and intellectual elites have concentrated in Riga, Tallinn, and Helsinki. Meanwhile, the only seaport of Lithuania, Klaipėda, is not the capital city of the state. In the Middle Ages, the Teutonic Order closed the access to the Baltic Sea for Lithuania, therefore, Lithuanians acquired a geographically safe port as late as in the 20th century and finally established their rights to it after the Second World War, when Klaipėda went to Lithuania.

The Baltic Sea, which appeared in early historical sources under the name of *Mare Suebicum*, connected Rome with the north of Europe through amber trade. Two thousand years ago, Goths and Vandals dominated Baltic Sea area, gradually pushed by other tribes. In the 10th through the 12th centuries, the Baltic Sea was divided into the "spheres of influence" of Vikings, Veneti, Curonians, and Estonians. The population of the Baltic Sea islands and coasts not merely fished and traded, but also looted and pirated.

In the 10th through the 13th centuries, Danes actively represented their military and commercial interests in the Baltic Sea and founded the city of Tallinn. Poland's movement towards the coast was blocked by the Teutonic Knights' Orders who started the colonisation of the Baltic region in the early 13th century. The Livonian Order founded the cities of Klaipėda, Riga, and Ventspils. Although Klaipėda was located at the intersection of active trade relations and covered the only safe and convenient route between the Teutonic and Livonian Orders, it was a military city and could take a more active part in trade as late as in the 15th century, when the wars abated.

In the 13th century, the first maritime trade-based empire, i.e. the Hanseatic League, formed around the North and Baltic Seas. In the period between the 13th and 17th centuries, the Hanseatic League connected almost 200 cities from Bergen on the Norwegian coast of the North Sea to Novgorod in Russia. It was a united confederation with a common language, currency, and legal system, as well as with strong civil traditions and individual rights. In Gothic, *hansa* meant 'a group of merchants' whose governance and affiliation system was somewhat similar to the European Union: it sought to have open borders, a single currency, and a common, unified market that Europe had not yet seen. The members of the League did not have any state borders and concentrated around the towns, affiliated by common trade and city charters.

Wealthy merchants of the Baltic ports were fastidious consumers: they demanded the best Chinese silk products, the best food and wine, they built churches and commissioned works of art. Baltic seaports were noisy and lively places. Each port had its own brewery. German port cities used to export their beer to Scandinavia and the Baltic region; a sufficient amount, as a historian noted, so that every Swede would be constantly tipsy. The reason for the prosperity of the Hanseatic and Baltic ports was cheap transportation of goods

between East and West. The cereals of the Grand Duchy of Lithuania and of the Kingdom of Poland, salted Baltic herring, Swedish timber and iron, Russian wax and furs were transported from the East to the West. Lüneburg's salt, Flemish woolen felt cloth, Rhine wine and ceramics, and rolls of linen and wool from the cities of England and the Netherlands were brought to the eastern Baltic ports from Western Europe.

From the 16th century, the competitive struggle for the profitable trade control between East and West was joined by the Netherlands, who, due to an upturn in fishing and commercial shipbuilding, felt a lack of suitable timber and other raw materials. Via Klaipėda, ropes, cannabis, resin, potash, and raw material for the rigging of ships were taken to Amsterdam, while the ships from the Dutch ports transported barrels full of herrings.

In the early 17th century, when the dynastic war with the Polish-Lithuanian Commonwealth broke out, Swedes appeared in the Baltic Region. Under the Truce of Altmark, in 1629, Klaipėda together with other ports of Prussia went to Sweden for the period of six years. The short Swedish rule (1629-1635) freed Klaipėda from its dependence on Königsberg. Riga became the second city in Sweden that was to be declared its capital.

In the 17th century, Dutch ships were crossing the Baltic Sea and making stops at the ports of Lübeck, Copenhagen, Stockholm, Riga, Klaipėda, and Liepaja. However, the German influence in the Baltic did not disappear: not for nothing the Flemish cartographer Gerhard Mercator called the Baltic Sea the German Sea.

Since the 18th century, after the influence of the Russian Empire on the Baltic Sea had intensified, the competition between the empires and the seaports controlled by them became increasingly fierce.

Several fundamental changes in the 20th century radically changed the significance of the Baltic ports. After the Bolshevik revolution, St. Petersburg lost its exclusive role in the region, since the Bolshevik power moved the capital city back to Moscow in the centre of the state. The influence of Germans who had controlled the economy of the south-eastern cities on the Baltic coast weakened. Upon separation from the German Reich, Gdansk received the status of a free city and Klaipėda was connected to Lithuania. Liepaja lost its role of a transit port: the capacities of the port of Riga were sufficient to meet the economic needs of Latvia. Before the Second World War, Riga was the fourth city in the Baltic region after Stockholm, Leningrad, and Copenhagen. Klaipėda, controlled by Lithuanians and the only Lithuania's gateway to the Baltic Sea, was economically developing more actively than in the German times.

At the end of the Second World War, quite a few of the Baltic seaports turned into ruins. After the war, on the Baltic coast from Leningrad to Wismar, the Soviet power was established, *Pax Sovietica*. The German ethnicity almost disappeared from the demographic map of the northern Baltic cities.

Expert article • 2220

After the war, thousands of chemical bombs were sunk in the Baltic Sea and still continue to pose a significant threat. The Soviet Union-managed Baltic seaports had to serve the imperial needs. Klaipėda became the main fishing port in the Baltic Sea, while Cuban sugar, cereals, and coal were transported via Riga and Tallinn. The pipeline laid to Ventspils pumped Siberian oil to the West, and in Liepāja and Kaliningrad, Soviet Baltic naval bases were established.

Only after the fall of the Iron Curtain, the port cities of the Baltic states – Klaipėda, Riga, Ventspils, and Tallinn – regained their historical significance and became important transit centres which account for a considerable part of the budgets of the Baltic states. The ports undergo changes: Eastern Baltic seaports turn from gloomy dock areas into attractive cities and, due to the global communication and the economic growth of the Baltic states, the Baltic Sea has all the opportunities to become a new Hanseatic Sea, the sea of communication. ■

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GREGORY OLEVSKY & TIMURS SAFIULINS

Riga's stakeholder identification and prioritization in the planning process of sustainable energy development of the city

Expert article • 2221

Sustainable energy development of the city must be based on the plan. The energy actions described in city Sustainable Energy Development Plans (SEAPs) will be difficult to successfully implement without strong support from city leaders and commitment from public and private stakeholders. By bringing multiple stakeholders and projects together it is possible to create integrated solutions that have the scope to speed delivery, enable new projects, improve economic viability, increase availability of public and private investment, maximize positive impacts and reduce deployment risks. The long-term success of any sustainable city strategy is likely to depend critically on the support and input of key stakeholder organizations. This sub-task assists cities in identifying the various stakeholders that they need to engage with to deliver ambitious sustainable city plans, including businesses, citizens, public companies and political decision makers. These stakeholders need to be engaged throughout the process: in vision building, the analysis of actions, planning for implementation, the development of innovative projects, up to the actual deployment of the enhanced SEAPs. The long-term success of any sustainable city strategy is likely to depend critically on the support and input of key stakeholder organizations. This sub-task assists cities in identifying the various stakeholders that they need to engage with to deliver ambitious sustainable city plans, including businesses, citizens, public companies and political decision makers.

The objective of this study is development of sustainable energy action plans that are actively supported by key stakeholders and that are aligned with their objectives. The object of study is the city of Riga – the capital of the Republic of Latvia. Key stakeholder groups that have been identified include academia, local and regional administrations, industry and commerce, finance, energy suppliers and citizens. The researchers proceeded from the fact that are working to engage all relevant stakeholder groups to help them move towards smart cities status including Information and Communication Technology (ICT) partners, communication companies, innovation bodies and international companies – in the process of developing their enhanced SEAPs. As a result, Riga are making connections between energy, transport and ICT and their role in CO₂ emissions reduction, and recognizing that this can be brought about through cross-sectoral actions and best practice projects in conjunction with relevant local stakeholders, international companies and banks all working together to roll out innovative sustainable energy solutions at scale.

During the study it was necessary to:

- identify potential stakeholders and conduct analysis to identify stakeholders for engagement;
- organize stakeholder interviews;
- review stakeholder prioritization;
- agree on a stakeholder engagement plan; and
- proceed with the implementation of the engagement plan throughout the project and ongoing implementation of enhanced SEAPs and beyond.

Riga had already developed formal, legally binding relationships with a number of the most important stakeholders.

City has identified internal, external and international stakeholders and the variety of sectors covered provides a good opportunity for a successful development and implementation for enhanced SEAPs. Identified stakeholders cover city departments, organizations, groups and businesses that are affected by the SEAP, as well as those whose activities can affect the city's SEAP, who possess or control information, resources and relevant expertise for the SEAP and whose participation is needed for the implementation of the SEAP.

During the implementation and monitoring of the current SEAP, Riga's initial long list of stakeholders has been growing due to regular contact with local and international businesses, banks, universities, national administration representatives and neighboring municipalities, as well as professionals and citizens and their organizations. Regular communication tools such as an actively used website (with an average of 1,200 unique users a month), Riga Energy Agency's Facebook profile and Twitter account, monthly discussion groups, quarterly newsletters and regular events such as „energy days” have created a network of more than 300 representatives of various local, national and international groups that are influencing the process of SEAP development. Stakeholders were prioritized by plotting them on a matrix according to their power, influence and interest. Following this, the potential role of each stakeholder in the SEAP process, from development to reporting and ongoing revision, was assessed. ■

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Warmińsko-Mazurskie and Kaliningrad – neighbours, partners

Expert article • 2222

The Polish-Russian border is a space in which interregional, intermunicipal and cross-border collaborations have emerged over the past years. Therefore, the cooperation linking the Warmińsko-Mazurskie region and the Kaliningrad region¹ is a phenomenon worth observing.

On 19 September 2001 *The Agreement on Cooperation between the Warmińsko-Mazurskie Voivodeship and the Kaliningrad Oblast* was signed and indicated a strategic framework for common initiatives. Since then, the partnership has been developed in chosen areas.

First of all, there are a couple of forms of political cooperation which are realized on different platforms. The flagship initiative that has been co-organised by the two regions is a huge exhibit held in Poland one year (*Days of the Kaliningrad Region in the Warmińsko-Mazurskie Region*) and in Russia in the next one (*Days of the Warmińsko-Mazurskie Region in the Kaliningrad Region*). Usually taking place in spring, it covers different areas of mutual interest gathering different actors from both countries. Among the numerous elements, there are always official meetings of heads of both regions, local business-orientated B2B meetings, sports events and science sessions. It is also accompanied by a very rich cultural programme. These activities are not limited to main cities (Olsztyn, Kaliningrad), as the *Days* events are spread throughout the territory.

Another official meeting held regularly is *Forum of Partner-Regions of the Kaliningrad Region*. Each year it offers space for thematic discussions, best practices exchanges and meetings of experts. The Warmińsko-Mazurskie region always actively participates in the event.

Also the regional parliaments collaborate in different contexts. Firstly, their committees responsible for international cooperation hold a joint meeting every year. Secondly, the two bodies are members of Forum of the Parliaments of the South Baltic.

As far as the Baltic Sea Region is concerned, both the Warmińsko-Mazurskie and the Kaliningrad region were among the founders of the Euroregion Baltic. This structure contains regions from Poland, Denmark, Sweden, Lithuania and the Russian Federation which collaborate to promote sustainable development around the Baltic Sea. It is the first Euroregion officially involving a Russian partner.

Although official political contacts are indispensable, people-to-people meetings play an important role as well. Therefore, regional administration supports local initiatives using different tools. For instance, each year in Warmińsko-Mazurskie an open call of interest is

¹ In this text I use the word „region” as I believe it is internationally recognised the most. Nevertheless, such terms as „Warmińsko-Mazurskie Voivodeship” and „Kaliningrad Oblast” are often used as well.

announced for NGO's which may apply for grants. Local Polish-Russian events always make up to a noticeable number of all applications and some of them are chosen to be co-financed.

Tourism is another field of cooperation that involves a significant number of subjects on both sides of the border. Local and regional authorities together with business partners have been striving to make the Polish-Russian borderlands fruitful in terms of tourism development. It embraces such forms of cooperation as participation in various fairs and presentations, promotion of local tourism initiatives or creation of products for transborder tourists.

A separate category of actors contributing to bilateral cooperation are various regional institutions working together in their specialised areas: labour offices, hospitals, theatres, museums or philharmonic orchestras. Generally speaking, most regional institutions develop partnerships and projects in conjunction with their Russian counterparts.

One must underline Polish-Russian regional cooperation has gained a new dimension in July 2012 when the Small Border Traffic (SBT) regulations entered into force. This agreement on SBT is atypical, as it covers the area going significantly beyond the standard framework (30 or 50 km from the border) indicated in the EU regulations. It soon proved to be a mechanism of the utmost importance, especially for trade and people-to-people contacts. Unfortunately, although well regarded by local citizens and regional authorities, SBT was suspended in July 2016 when the Polish government decided to do so recalling security reasons. Such situation has been contested by many in Warmińsko-Mazurskie.

Currently, despite the political crisis dividing EU and Russia and the cooling of official Polish-Russian contacts, the cooperation between the Warmińsko-Mazurskie region and the Kaliningrad region seems solid and with a potential for growth. While demanding the reintroduction of the Small Border Traffic, high expectations are linked to Poland-Russia CBC Programme 2014-2020. It should create space for further deepening bilateral collaboration and promoting even greater institutional engagement. ■



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Neighbors – Poles on Polish-Russian relations and Russians

Expert article • 2223

Poles' views on Polish-Russian relations and Russians are shaped mainly by: media and their own experiences related to both contemporary and historical events. How they have changed over months and years is presented in reports of the Center for Social Opinion Research (CBOS) which analyze, among other things, the attitude of Poles to other nations. Based on the analyzed reports, two main trends can be observed.

The first, resulting from the comparison of the CBOS survey results from 2000-2015 shows that Polish respondents, having four choices to evaluate Polish-Russian relations: good, neither good nor bad, bad, hard to say, most often rated them as 'neither good nor bad'. In the other cases they were more likely to rate them as bad. February 2002 and May 2010 were an exception. In 2002, the improvement of the assessment of Polish-Russian relations was connected with the visit of President Vladimir Putin in Poland and the so-called 'rapprochement between the Russian Federation (RF) and the West. In 2010, the change of views resulted from the initial positive assessment of reactions and actions taken by the Russian authorities just after the crash of the plane with the President of Poland, Lech Kaczyński, aboard. Later, the assessment of the Russian side's actions severely deteriorated, mostly due to the circumstances of the investigation carried out in the case and excessive lengthiness of the proceedings, and especially after presenting the report prepared by the Interstate Aviation Committee .

A remarkable deterioration of the assessment of Polish-Russian relations in the 21st century, however, occurred in 2014 with the development of the conflict in Ukraine. At that time, 65% of respondents rated them as bad, of whom 18% rated them as definitely bad. Only 3% saw them as rather good. The results of subsequent surveys conducted throughout that year also showed that intensification of fights caused an increase in the sense of threat to Poland's security (69%) and concerns about the disturbance of pan-European order (71%) and, in general, peace in the world (52%). It is also significant that despite escalation of the conflict and sanctions imposed on the RF, the respondents continued to declare that maintaining good relations with their neighbors was a priority of Poland's foreign policy in dealing with the former USSR states .

The other tendency which can be observed in the analysis of research conducted by CBOS shows that the political situation influenced the perception of Russians as a nation and neighbors. At times when the assessment of relations between the two countries deteriorated, the decrease in sympathy for Russians was observed. It is also important that the respondents themselves felt not accepted by Russians. The surveys show that the attitude of Poles to Russians

as neighbors can be described as ambivalent. In one of the CBOS reports, the respondents' opinions on Russians were summarized in a simplistic way by the words: 'good people – bad authorities'. The respondents also declared that among all the neighbors, the Russians are the second nation (after the Germans) most distant culturally, which also has a bearing on sympathy felt for a particular nation.

The research carried out from 1993 to 2015 shows that the last years, and especially 2014, are characterized by a deterioration of Poles' opinions on Russians, to whom more often than to other neighbors a negative attitude has been declared. It is also disturbing in the reports that, although these relations have never been considered by the majority of respondents as good, yet, by 2014, most respondents felt that there was a chance for them to improve. However, as a result of growing tensions, this indicator has also declined considerably and the number of believers in improvement of the relations actually equaled the number of respondents who said it was impossible (46% to 43%).

To sum up, Poles' views on Polish-Russian relations reflect primarily current trends at the level of official interstate relations. These, in consequence, determine essentially the rate of sympathy or antipathy towards the Russians as a nation and neighbors. It should also be noted that the CBOS research results reflect the nationwide trend. However, they lack a regional perspective, and precisely speaking a cross-border perspective, in describing Polish-Russian relations concerning contacts and cooperation of the north-eastern Polish voivodeships and the Kaliningrad Region of RF which, although depend a lot on the situation at the level of state authorities, have their own characteristics and willingness to cooperate. The specificity of these contacts at the level of regional authorities and the attitude of the inhabitants of border voivodeships to the inhabitants of the enclave are rendered to a large extent by scientific publications and reports of regional media. It is important in them that the willingness to cooperate is declared, both at the level of local governments of the two countries and contacts between the inhabitants of border areas. ■

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ZANE ŠIME

Delivering Vilnius Vision for the Baltic Sea Region by 2020

Expert article • 2224

On 1-2 June 2010, the Heads of Government and other high-level representatives of Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia, Sweden and the President of the European Commission gathered for the 8th Baltic Sea States Summit in Vilnius and adopted a joint strategic guidance titled 'A Vision for the Baltic Sea Region by 2020'. Perhaps at first glance it might seem rather odd to bring to wider attention a seven-year-old perspective, when for the last two years the global debates pivot around 2030 horizon tied to the implementation of Sustainable Development Goals. Indeed, such a choice might seem rather odd when considering the latest Council of the Baltic Sea States (CBSS) developments in crafting its path towards implementation of Sustainable Development Goals through the Baltic 2030 Action Plan endorsed just roughly three months ago, during the CBSS Reykjavík Ministerial.

The reason for wiping off the dust from the Vilnius Declaration is related to the pride in the on-going activities of the CBSS Science, Research and Innovation Agenda. It keeps this pivotal CBSS document going full steam ahead through delivering results anticipated by the political leadership across the Baltic Sea Region in terms of "fostering investment-friendly economies and innovation driven production", as well as shared public-private ownership of sustainable development.

A lion's share of gratitude towards delivering this vision goes to Baltic TRAM (Transnational Access in Macro-Region) partnership. In the framework of an open call, which offers companies free access to state-of-the-art analytical research facilities across the Baltic Sea Region, this notable project supports closer cooperation between science and business, thus providing further impetus for innovation driven production.

This practical cooperation is complemented with policy analysis aimed at mapping the Baltic Sea Region-wide smart specialisation landscape. The first findings focusing on Denmark, Estonia, Finland, Latvia, Lithuania and Poland are accessible in the BSR Policy Briefing 4/2017 'National Innovation and Smart Specialisation Governance in the Baltic Sea region: Laying Grounds for an Enhanced Macro-Regional Science-Business Cooperation' published by Centrum Balticum. This initial policy mapping will enable subsequent exploration which nationally defined smart specialisation priorities hold relevance in terms of matching the business sector demand for innovation driven services.

Likewise, Baltic TRAM policy thinking gravitates not solely around national smart specialisation priorities, but also follows the current transnational thinking on sustainability through its support to the CBSS Baltic 2030 Action Plan's implementation and project's alignment with the EU-wide understanding of globally set goals, enshrined in the European Action for Sustainability.

In the context of the upcoming closure of the first Baltic TRAM open call, it is a pleasure to see the inclusive way in which the Vilnius Vision is brought to life through close cooperation of the CBSS entities and stakeholders of the EU Strategy for the Baltic Sea Region (EUS-BSR). Although Vilnius Declaration doesn't refer to the EUSBSR, it does note the value of Baltic Sea Region-wide advanced networks. This pattern of thinking is also present in the subsequent CBSS high-level guidance, such as the Warsaw Declaration 'Regional Responses to Global Challenges', with encouragement to embrace the macro-regional aspects in the Council's supported cooperative ties. Thus, Baltic TRAM activities serve as one of the best examples of such inclusive approach, since Baltic TRAM science-business cooperation is based on the model crafted by the EUSBSR flagship Baltic Science Link.

To conclude, with a remark on the most recent developments, it is worth outlining the lasting topicality of science-business cooperation mirrored by the Chair's Conclusions adopted last summer on the occasion of the first CBSS Science Ministerial held in Kraków and followed by Baltic TRAM being endorsed also during the 26th Baltic Sea Parliamentary Conference in Hamburg. ■



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MARTIN RUSSELL

Media freedom in Putin's Russia – back in the USSR?

Expert article • 2225

Russia's media landscape¹ has certainly changed since the days of the pre-glasnost Soviet Union. Back then, there were only four State-controlled TV channels, plus a handful of newspapers, sparsely illustrated with grainy black and white photos, also under the strict supervision of the Communist Party. News coverage was dominated by unrelenting propaganda, and criticism of the authorities was unheard of. Foreign radio stations such as Voice of America or BBC World Service were usually jammed, and few foreign papers were available from newsstands other than the Morning Star of the British Communist Party and its French counterpart, *L'Humanité*. With glasnost and the end of censorship in the late 1980s, new media outlets mushroomed, and Russians can now choose from over 80,000 registered newspapers, magazines, radio and TV channels, and online news portals.

Of course, quantity does not necessarily mean quality, and an obvious question arises: are the Russian media really much freer than in Soviet times? A parallel might be drawn with the electoral system, which provides an appearance of pluralism, while in reality serving to perpetuate Putin's regime. Once the Soviet Communist Party was the only legal political party; Russia now has over 70 of them, of which 14 competed for a parliamentary majority in 2016 — and yet, since 2000, every single national election has been won hands-down by United Russia.

In television at least, little has changed since the days of Soviet broadcasting. One of Vladimir Putin's first steps towards consolidating his regime in the early 2000s was to seize control of private channels from oligarchs such as Boris Berezovsky, and since then all five national TV channels (the main source of news for 86% of Russians) are controlled by the State, either directly or indirectly (for example, through Gazprom, which owns a vast media empire). TV bosses have regular meetings with the presidential administration to decide on the 'right angle' to take on news stories (or indeed, as in the case of anti-corruption protests in March this year, whether to report on them at all). News broadcasts are full of propaganda, or downright lies — such as the infamous fake news in 2014 that Ukrainian soldiers had crucified a three-year old Russian boy. Dissenting voices are often heard from talk show guests, but then only with the intention of ridiculing them, rather than presenting a balanced view.

Outside national television, the situation is a little better. Though owned by Gazprom, popular *Ekho Moskvy* radio station regularly criticises Vladimir Putin. Other outlets which have managed to keep a relatively independent line include investigative paper *Gazeta Novaya* (former employer of murdered journalist Anna Politkovskaya) and the English-language *Moscow Times*. There are plenty of other

newspapers which, though less outspoken, do at least produce high-quality, balanced journalism, such as *Kommersant* and business paper *Vedomosti*.

Above all, the Internet is a breath of fresh air for those looking for an alternative to Kremlin propaganda. Russia does not have a Chinese-style firewall blocking out 'undesirable' content, and indeed it would be technically difficult to construct one, given that the Russian Internet is closely integrated with global networks. Internet freedom has come under some pressure, with users facing jail sentences of up to five years for 'crimes' such as posting or even sharing criticisms of Russia's annexation of Crimea; in addition, government-employed Internet trolls frequently disrupt online discussions. Nevertheless, younger Russians, like their peers in the rest of Europe, are increasingly turning to social media as a source of news, and over 20 million of them watched Alexei Navalny's YouTube video accusing Prime Minister Medvedev of corruptly accumulating wealth.

Still, the threats to media freedom, whether online or in the printed press, should not be understated. Over the years, the space for dissenting voices has been progressively squeezed, not least by legislation which has made everything from 'promoting extremism' to 'insulting a state official in public' into a crime. Vaguely worded and inconsistently enforced, such laws create constant uncertainty. In Soviet times, the rules were at least clear; now, journalists know they can get away with a certain amount of criticism, but always at risk of crossing the Kremlin's invisible red lines — a situation which can only encourage self-censorship. Those who fall foul of the authorities risk losing their jobs, like three editors from RBC media group after stories revealed that members of Putin's inner circle had been involved in the Panama Papers scandal; since then, RBC has been taken over by a more Kremlin-friendly owner. Nearly 100 journalists have paid the ultimate price since 1992; Chechnya is a particularly dangerous subject, as Anna Politkovskaya found out. Eleven years after her murder, a reporter from the same newspaper was forced into hiding after threats of 'retribution' for a story on arrests of gay men in the region. ■

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¹ See: Media freedom trends 2017: Russia ([www.europarl.europa.eu/RegData/etudes/ATAG/2017/603898/EPRS_ATA\(2017\)603898_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2017/603898/EPRS_ATA(2017)603898_EN.pdf)), Russell M., European Parliament Research Service, 2017.

MIKKO (MIKHAIL) NESVITSKI

Present and future of minority language media in the Republic of Karelia

Expert article • 2226

”Kello viisitoista viisitoista. Täällä Petroskoi.” (“It’s fifteen past three. This is Petrozavodsk.”) These words refer to the 1970s and 1980s when the news in Finnish was broadcasted several times a day on Karelian radio and television, and the Neuvosto-Karjala newspaper (the predecessor of Karjalan Sanomat) was published five times a week. They refer to the time when we were one of the many symbols of Finnish-speaking culture and, more broadly, Finnish milieu in the Republic of Karelia, in other words a part of the Republic of Karelia’s originality. The bilingual signs are now a real rarity and the Finnish language can be hardly heard on the streets. However, we are still one of the few symbols that make the Republic of Karelia nationally unique.

The newspaper Karjalan Sanomat is as old as the Republic of Karelia itself: both celebrate their 100th anniversary in 2020. When the newspaper was founded in 1920, its task was to “carry the light of the Communion to every distant corner of Karelia”. To make this purpose easier to implement, eight years later the Punakantele magazine was founded. Many older people may know it as Punalippu, now Carelia.

In almost 100 years national language media published in Karelian Republic have passed a thorny path. The Finnish language was banned twice in the 1930s and 1950s, many journalists were subjected to Stalin’s persecution in the 1930s, newspapers experienced ups and downs, but both Karjalan Sanomat’s and Carelia’s history reflects the history of the whole region: the achievements and losses of republic as well as the short-sightedness and wisdom of political decisions.

When Karjalan Sanomat appeared in the 1980s five times a week, its circulation was the largest in its history: 13,000 copies, of which 9,000 were sent to Finland. Now it’s a weekly newspaper, and the circulation is not praiseworthy. The emigration or return of Finns and Ingrian Finns to Finland was probably the worst blow to the newspaper: 1990 it has taken most of the readers and authors as returnees back to Finland.

On the other hand, in the early 1990s the Karelian and Veps language and culture experienced a strong rise: Karelian and Veps magazines began to appear, and the local television and radio company began to produce news and programs in both of languages.

In the printed media market of Karelian Republic there are currently five so-called national language or minority language media. In addition to Karjalan Sanomat and Carelia, there is a Karelian newspaper Oma Mua (Own Country), Vepsians newspaper Kodima (Homeland) and a children’s magazine Kipinä (Spark).

Oma Mua is a weekly newspaper, Kodima and Kipinä both appear once a month in Petrozavodsk. Kipinä is published monthly in a different language: alternately in Finnish, Karelian and Veps. All of these media is supported by funding from the budget of the Republic of Karelia under the Karelian, Veps and Finnish Language Support Act.

Despite the technical innovations of the 21st century, the aims of the minority language media have remained the same: fostering the

preservation and development of the Finnish, Karelian and Veps languages and cultures as well as supporting Finns, Karelian and Veps in the Republic of Karelia.

During the 1990s–2000s the teaching of the Finnish language has experienced a strong rise and then a slight decline. The number of pupils studying Karelian and Veps has remained almost unchanged in recent years. The reason has been mainly in the status of language. In Russia, language can be taught in the elementary school either as a mother tongue or as a foreign language. Officially foreign languages at school are English, German, French and Spanish. Since the Finnish language is not among them, the upper classes do not have a possibility to pass a final exam in Finnish. This in particular reduces the interest of upper classes’ pupils in studying Finnish. On the other hand, in Petrozavodsk there is only one school where the Finnish language is taught as a mother tongue. In contrast, Karelian and Veps are taught as a mother tongue or as a national language throughout Karelia.

During the last academic year more than 4,300 students learned Finnish, slightly more than 2000 Karelian and around 300 Veps in almost 50 schools across the republic. The permanent popularity of Finnish is explained by the fact that many consider the Finnish language to have practical benefits. It is easier for a Finnish-speaking person to find work, especially in the border region. Instead of it, the use of Karelian and Veps is more limited to language teaching, language researching, writing of books and making mass media. The situation of the Veps language is the most worrying. During the last couple of years, no applicant has applied to the State University of Petrozavodsk for studying Veps. This year there were a few.

The future of national media crucially depends on whether the interest of students in studying national languages will grow or decline over the next few years. Minority-language newspapers and magazines have been used in language lessons at schools and university. It does not only mean that we have readers and authors now and in the future, but it also means that we have live interaction with our target audience. Without live interaction, without use of languages in everyday life there is no future in either national media or teaching of national languages. ■



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Are the two different information spaces in Estonia getting closer to each other?

Expert article • 2227

Sociological surveys of the early 1990s described Estonia as a country of “two societies in one State”. An aggressive Soviet migration and colonization policy ensured by 1989 that a large proportion (35.2%) of the population were Russian speaking migrants. Today, Russian is the native language for 27.9% of Estonia’s population, of whom about a third cannot communicate in Estonian.

Due to political and historical circumstances, the two language communities have very little in common, including their media consumption patterns. Furthermore, during the past three decades, two different information spaces emerged in Estonia – one in Estonian, the other in Russian.

In the Soviet Union the state subsidized all the media providing unlimited access to the press and broadcasting in Russian throughout the Soviet empire. The collapse of the USSR radically changed the situation for the Russophone population in Estonia. Increasing prices stopped subscription for newspapers and magazines from Russia in the early 1990s. However, like the Estonian press, domestic Russian language press flourished during the 1990s – early 2000s. In 2003, 84 newspapers and magazines in Russian appeared. However, Estonia’s competitive *laissez-faire* market was not favourable for the domestic Russian language press, which collapsed during the economic crisis of 2008–2010. Only three national and some local newspapers, appearing 1-3 times a week, and two free papers appear in Russian today. News portals (e.g. rus.delfi) and online versions of newspapers are filling the gap left by the press. Over 80% of the Russian speaking population uses the internet today.

The re-transmission of TV and radio channels from Russia was terminated in 1993-1994. Cable operators then started re-transmission of Russian channels available on satellite. Today, Russian TV channels dominate as the main information sources for over 70% of Russian speakers in Estonia. Media content from Russia creates certain specific frames for understanding and interpreting Estonia’s reality.

A ground-breaking study on Estonian society, *Estonian Society in an Accelerating Time*, 2017, reveals four disparate Russian speaking groups concerning levels of integration and media consumption.

Well integrated Russian speakers (circa 20%) have Estonian citizenship, all are fluent in Estonian, and have a high standard of living. Interested in Estonian media and domestic Russian media, they are regular news consumers. Indeed, they are the only group sufficiently familiar with the Estonians’ information space.

Median integrated 33% have Estonian citizenship, about 40% of them can communicate in Estonian, have sufficient income and education and are active in elections. They have some interest towards Estonian media and are sporadic news consumers.

Poorly integrated 26% are oriented towards collective and religious values and Russian information channels. 70% have Russian citizenship or the grey (foreigner’s) passport, which allows them to participate in local elections but 90% neither speak Estonian nor follow Estonian media.

Poorly adapted 21% do not speak Estonian, have low living standard, and are mostly unemployed, either Russian nationals or grey passport holders. They are not interested in Estonian issues, do not follow Estonian media and have little interest in domestic Russian media.

The Estonian nation state and related values are distant to all these groups. Their attitude towards Estonian issues and developments is mostly negative. They live primarily under the influence of Russian (and to an extent also global) information flows, though the interest towards domestic Russian channels is slowly growing. The studies show the limited extent (below 10%) of the two information spaces’ overlap. The findings of a 2014 survey indicated that they also carry completely different values: Estonian-language space promotes European values, whereas the Russian-language promotes “Putin’s values”.

The decision of Estonia’s government in 2014 to establish a Russian language TV channel as a part of the Estonian National Broadcasting was an attempt to build a bridge between the two information spaces. In September 2015, ETV+ went on air and its weekly reach is steadily increasing, reaching 40% of Russian speaking population in May 2017. Approximately 10% of Estonians also watch ETV+ weekly. The channel focuses on Estonian news, producing about 20h original programming per week, and broadcasts films and documentaries produced both in Estonia and abroad.

The case of ETV+ confirms that the state-supported public service broadcasting alone is able to maintain Russian language channels and provide Russian-speaking minority with adequate information about life in Estonia. Today, the overlap of the two information spaces is still limited, and a common *Estonian media space* for the two main groups of Estonia’s population does not yet exist. ■

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Interdependence – an obsolete concept?

Expert article • 2228

As far as many of us can remember, internationalism and the emergence of a global consciousness have been self-evident realities. The Cold War, environmentalism, the “oil crisis” and, then, the dramatic collapse of East-West confrontation all made us aware of just how interconnected our national societies and communities are. To think globally, and holistically, was logical. It just made sense.

For those of us who study International Relations, borders, conflict resolution and matters related to security, there seems no way of escaping the reality of mutual reliance in an interdependent world. And yet, what we now see in the world, and read in social media, among other places, is an increasing denial of interdependence, as if we could just shut out the noise from the outside world and get on with our everyday lives. What many appear to desire, in other words, is independence, not interdependence.

Why is this? Why this dramatic shift in focus? And how could it affect us? The GLASE consortium (www.glase.fi), funded by the Academy of Finland’s Strategic Research Council, is addressing this and other questions regarding security in the contemporary world. As GLASE seeks to better understand the interrelated nature of local, national and global security, the move to a more insular view seems at first glance counter-intuitive. But we can find reasons for it in a wider globalization backlash which involves fear of a loss of local control and domination by transnational economic interests. In addition, as Paul Arbair forcefully argues, we are facing a crisis of complexity (<https://paularbair.wordpress.com/2016/07/05/brexit-the-populist-surge-and-the-crisis-of-complexity/>), in which a desire for clear and decisive action based on simple solutions has complicated political debate. This helps explain the “Brexit” referendum, Donald Trump’s surprising electoral victory as well as increasing populist sentiment within the EU.

Turning away from interdependence may have major consequences for security, both locally and more globally. For example, without global action, the repercussions of a deteriorating environmental situation many threaten the stability of many states: drought, flooding and rising sea levels could translate into more forced migration and regional conflict. While emerging countries are certainly more vulnerable, Europe and North America will not be shielded, even by higher walls or border fences. Furthermore, the industrialised countries are facing unprecedented economic challenges. Many of the promises of job creation, e.g. through protecting local markets, simply cannot be kept, and popular frustration over decreasing material security could play into the hands of authoritarian leaders. For this reason, a major security threat lies in the institutionalisation of culturalist and nationalist reactions to globalization. In national conservative circles particularly, internationalism and globalisation are seen as threats to cultural diversity, drivers of a global monoculture that

is wiping out diversity rather than increasing it (see Deneen 2009). This view of the world (and diversity) is founded on an identitarian (neo-Herderian!) and highly distorted ideal of the world as composed of countless cultural monocultures and clearly bounded, and often incompatible, cultural spaces. For example, both European and national identity are understood as organic and primordial rather than constructed. Identity is destiny rather than choice. In addition, much quasi-identitarian, national-conservative sentiment closely associates Christian faith with cultural concepts of Europe. Historical experience, including the emergence and spread of Christendom, but also the common experience of the Enlightenment define what is, what is not, and what can never be Europe.

National identity and patriotism are not by definition negative sentiments. However, nationalism becomes a problem when, exacerbated by socio-economic stress and geopolitical instability, it results in obscurantism, identity bordering and an aggravated accentuation of perceived difference between people, cultures and states. Revanchism, therefore, is anything but benign and, at heart, revanchist identity politics are anti-democratic and authoritarian. To quote O’Meara (2013: 168), a follower of identity ideas who does not cloak his opinions in mainstream conservatism, by the ‘democratic levelling of liberalism’ that ‘suppresses very healthy expressions of authority and superiority’ and that robs national societies of the ‘the collective liberty of a people of nation to pursue its destiny as it took cultural, historical and biological form rather than merely economical.’

Political xenophobia needs to be understood in political terms and within this context, the concept of ontological security (Rumelili 2015) is particularly salient, as it emphasizes aspects of national identity that are prone to radicalization as well as equates bordering processes to securitization. The revanchist link between identity bordering and ontological security involves an amplified insistence on the ethics of the particular – ‘a metaphysical struggle for the meaning of space and locality’, to quote Drenthen (2010, 323). Nationalist populism has achieved a degree of commonsense status through threat scenarios of terrorism, increasing social burdens, and islamophobia as well as a general dislike of the European Union. In terms of extreme geographies, it engenders and justifies practices of everyday border-making that transform individuals and groups into ‘security subjects’ merely on the base of personal traits. Securitization is the process by which specific issues, phenomena and/or groups are framed in terms of security (see Waeber 1995, Balzacq 2005). However, states and state-like institutions have no monopoly here; one of the most salient and potentially problematic aspects of securitization is the framing of threat in ways that emphasize national and cultural uniqueness in everyday terms (Larsen et. al. 2009) and through the appropriation of ‘popular geopolitics’ that emphasise cultural clashes and outright religious wars. (Shim 2016, Williams and Boyce 2013).

In conclusion, the consequences of weakened democracy could in fact be dire. In a rather alarming tone in an ..article in the Guardian George Monbiot of the Guardian (<https://www.theguardian.com/commentisfree/2016/nov/23/donald-trump-climate-change-war?INTCMP=sfl>) writes: “Eventually the anger that cannot be assuaged through policy will be turned outwards, towards other nations (...) I now believe that we will see war between the major powers within my lifetime.” Alternative scenarios to increasing conflict require an honest political debate about the global impacts of local action and the commitments and responsibilities that we share. Independence, if understood as greater citizen participation, democracy, inclusion and capacity-building could in fact be a vital resource. However, denial of mutual reliance and reluctance to engage in common action will have higher social, economic and environmental costs that we perhaps presently imagine. ■



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Russia 2018: no changes on the horizon

Expert article • 2229

Before the forthcoming presidential election in Russia (March 2018) the Putinist regime faces serious economic challenges which in theory should trigger the authorities to launch systemic reforms. Dysfunctional economic model based on raw-material export, poor investment climate, lack of innovative sources of growth together with dramatic collapse of foreign direct investment and low level of oil prices since 2014 make experts forecast a long-lasting (over ten years) stagnation, with GDP average yearly growth not exceeding 2%. The most serious problem is the steady decline in citizens' real incomes (over 19% from 2014 to 2017). All of these factors will worsen Russia's backwardness when compared to developed countries.

The Kremlin also faces political challenges: growing fight for decreasing financial assets among the Russian elite (on federal and regional level) together with growing discontent among the society (increased number of social protests) may destabilize the political situation in the country in a longer term. The geopolitical confrontation with the West and a partial self-isolation of Russia on the international arena make it practically impossible to improve bad economic situation with the help of Western investors.

However, the Kremlin will remain determined in the coming years to avoid systemic reforms at any cost, fearing the same political destabilization which the lack of reform can bring. This paradox can be explained by the very logic of the Russian de-institutionalized model of rule.

The carcass of the Russian authoritarian regime is formed by specific institutional framework which make the system biased towards some kind of feudalism rather than a modern state pattern. Official institutions and legal norms often constitute merely a façade that conceals a complex network of informal, opaque and often illegal mechanisms of exercising power, based on personal loyalty and exchange of "favours". Absolute dominance of the executive power and secret services in the state institutional system is of particular importance. Russian economic model remains skewed towards the individual interests of the power elite and burdened with omnipresent systemic corruption; the Russian state has long ago become a de facto property of the elite, above all the cronies of the Russian president, at the cost of the society as a whole.

The main dilemma for the Kremlin is how to maintain this parasitic economic model, while the financial assets dwindle and citizens' living conditions constantly deteriorate which may create political risks in a longer run. Any real, comprehensive reforms are out of the question: even partial modifications to the authoritarian construction may undermine it in a longer term, as sooner or later they would create demand for political changes. The latter are a nightmare of the Putin's team, as its members consider political power to be the only guarantee of their financial security and personal safety. Fortunately for

the Kremlin, so far there is no strong bottom-up reformist pressure. Liberal-democratic opposition is too weak to influence government decisions and major part of the Russian public seems to be as anti-reform oriented as the authorities, although for different reasons. They still remember pseudo-democratic, predatory reforms of the nineties; the majority of citizens, dependent on government financial transfers, show strong, Soviet-inherited paternalistic life stance.

In this context the Kremlin will most probably continue its tactical, manual mode of state governance and their principal aim will be to maintain stability and control at the cost of development. The mobilization of pro-governmental social support will be further exercised through pseudo-conservative ideology and neo-Soviet anti-Western superpower nostalgia, where the figure of a strong leader plays central role. Growing repressions will continue to hit not only overt regime critics but also any independent groups within the society (NGOs, social and cultural activists), while selective financial transfers into the most crisis-affected sectors of economy and social welfare system will be designed to help avoid major social turbulence. The elite groups will be disciplined mainly by repressive methods, like so-called "fight against corruption" (with the FSB most active on this front). Being above all a form of political fight and of concentration of budget money in the hands of selected regime representatives this "anti-corruption" campaign has already brought significant number of high-rank victims on federal or regional level. However, this repressive mobilization can further hinder the performance of already inefficient institutional system. The Kremlin will also remain unwilling to change its confrontational geopolitical course, hoping to convince some Western business and political circles to offer Russia investments and loans in exchange of no Russian concessions. ■

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Do we see better in an age of transparency?

Expert article • 2230

In the last two decades, transparency has entered the lexicon of policy makers, academics, experts and practitioners as a term synonymous with more accountable, efficient and democratic governance. Transparency promises to make visible what goes on inside institutions and corporations; it can reveal to the public the inner operations of power. It is often represented as a glass surface which allows onlookers to see inside a particular object or domain. Transparency renders the activities of public agents visible and by doing so, encourages virtuous behaviors. It allows the public scrutiny of government bodies and is associated with notions of truth and honesty. However, as transparency can never be total, it is ultimately selective; it offers only a “glimpse” of a certain reality. Furthermore, what “transparent” institutions provide to the public, in terms of data and information about their activities, is but a reflection or representation. One cannot literally see inside an institution – as in the metaphor of the glass surface – but has access only to selected information provided by intermediary bodies such as audit agencies. The glass surfaces that characterize modern architecture can thus be perceived as an invisible barrier instead of being inclusive. Transparency does not necessarily correspond to greater public trust in government institutions.

Post-revolutionary Georgia under the leadership of Mikheil Saakashvili provides an example of how transparency promises failed to translate into increased public trust in the government. Indeed, the literal proliferation of glass architecture after the revolution, and the government’s related commitment to Western ideals of transparency and democratic accountability, were met with suspicion. The new glass surfaces that adorned new constructions such as the Parliament building or the see-through Interior Ministry were seen as concealing something. They did not convey a feeling of greater proximity to power and inclusiveness; instead, power appeared opaque and remote. Official claims of transparency gave rise to rumors, conspiracy theories and accusations of corruption against the Saakashvili government.

In the last two years, the ability of governmental transparency to allow the interested public to “see better” and to become active participants in the business of government has given way to a more broad-based uncertainty about what it is that we actually see. Following the election of Donald Trump as US President and Brexit in the

UK, new concepts have gained currency such as “fake news”, “alternative facts” and “post-truth”. What these concepts seem to imply is that instead of not seeing enough, we are now in fact seeing “too much”. Hence, we are overloaded with information that challenges our capacity to discern the “truth” from “fallacies” or “inaccuracies”. The new danger for democracy is no longer secrecy and the difficulty to access information, but rather an overload of “data” and pieces of news that do not provide for a clear narrative. As an example of the

fact that access to data alone does not provide clarity, some have criticized the lack of transparency in the release of the Panama Papers this year. Indeed, questions have emerged about the choices made by international newspapers to give priority to certain scandals over other kinds of stories: by exposing certain wrongdoings and shedding a light on particular countries, journalists have shielded from

view other unethical behaviors, sometimes closer to home.

Just as transparency can have little effect if it is seen as an empty gesture, an overload of information can have the same effect as an absence of knowledge. It clouds our vision and creates distrust. Promises to increase transparency and fight against attacks on the “truth” will do nothing to reestablish trust in democratic institutions, if this trust has already been eroded in the first place. ■

Just as transparency can have little effect if it is seen as an empty gesture, an overload of information can have the same effect as an absence of knowledge.



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About the significance of free trade to the vitality of the forest sector in northwest Russia

Expert article • 2231

Free trade has played an important role in the economic development of Russia since the collapse of the Soviet Union. The Russian forest sector has likewise played a significant role in economic development, especially in northwest Russia, which has become Russia's most important forest industry centre over the years. Still, the region holds much potential for further development.

Less than 50 million cubic metres of the region's forest resources are used each year while annual forest growth amounts to almost 130 million cubic metres.¹ The pulp and paper industry's production in northwest Russia has been modest. Finland, which is over three times smaller than the region in question, has about ten pulp mills alone. Roundwood exports, however, have kept the wheels turning. The functioning of the timber trade and demand for wood are both largely based on exports. Thus the prerequisites for the profitability of the timber trade have been created by the demand for products manufactured from different tree species. For instance, birch pulpwood exports to the EU, and especially to Finland, have increased the availability of birch log and other timber species from forests in the Vologda and Novgorod regions that are important to Russia's internal markets. Free trade has also promoted timber origin verification as well as improved forest-related environmental awareness. Healthy pressure from the market has led the Russian forest sector to certify forests. Russia has the second-highest number of FSC-certified forests in the world.²

Northwest Russia has gained expertise and new entrepreneurs thanks to free trade. Unprofitable manual work in, for example, wood harvesting, has been made profitable thanks to the adoption of machines and automation. Forest roads have been built and other infrastructure has likewise benefitted from free trade. Over the past 10 years, Finnish companies alone have built or repaired over 100km of roads a year in remotely-populated wilderness regions.³ Railway terminals have been developed and train wagons have been modified. Russia is quickly becoming the world's biggest sales region for forestry machines. Because of the active trade in forestry machines, a great deal of maintenance activity and expertise has developed in Russia.

¹ Metla 2014, www.idanmetsatieto.info

² <https://ic.fsc.org/en/facts-and-figures>

³ Interviews Stora Enso, Metsä Group and UPM-Kymmene

Co-operation related to training and research has also been sped up thanks to free trade. Best practices in, for example, forest management, have changed old, one-sided guidelines. Economic dependency relationships have often played a significant role if the political situation between countries has weakened. Hundreds of thousands of Russians have benefitted from free trade directly and indirectly and the region's forest sector could not have developed without it either. Free trade has offered a channel for investment, even though it is not the only guarantee for investments. A stable and predictable operating environment, together with other factors, boosts the realisation of projects.

Bilateral trade cannot replace free trade as the engine of demand, supply, development, or investments. With the help of free trade, developing economies can compete with industrial countries on the market with products that a closed economy would never manage to get onto the market. Development is sparked through the removal of trade barriers. ■



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Russia and ‘Russian-speakers’ in the Baltic

Expert article • 2232

As I write these lines, 26 years have passed since Estonia, Latvia and Lithuania were restored to existence as sovereign states. For more than half of this time, they have been members of the European Union and NATO. Yet, even today, the three countries are typically referred to collectively as the ‘Baltic States’. While this label in part reflects the genuine mutual solidarity and cooperation that continue to unite them, it owes more to the shared geopolitical fate that they suffered during the darkest days of the 20th century than it does to commonalities in their internal cultural, social and political development. The continued use of this term also arguably reflects a preoccupation with regional security that has never gone away following the end of the Cold War.

In the same period, much academic and political attention has been paid to the large Russian-speaking populations in Estonia and Latvia. Too often, this has led to an outside perception of countries divided into parallel linguistic communities with inherently different identities, affiliations and outlooks. As anyone who has visited will confirm, however, this is an over-simplification of a complex reality. The mainly Russian-speaking Soviet citizens who settled in these countries during 1944-91 lived under a regime that never required or encouraged them to integrate linguistically or culturally into local society. Nevertheless, in most cases, they acquired a distinct ‘Baltic Russian’ identity already during the Soviet period. Sizeable numbers voted for Baltic independence during 1990-91, while only a tiny minority actively opposed national movements that were entirely peaceful in their approach. A quarter of a century on, research shows that Estonia and Latvia remain the primary focus of identification for Russian-speakers when talking about belonging. This same research suggests that, for all the continued talk of ethno-politics and international security, linguistic majorities and minorities alike are today far more preoccupied with more everyday issues of economy, social provision and good governance.

To say this is not to deny the sociological reality or political salience of ethno-linguistic boundaries shaped by the preceding 50 years of Sovietisation. The experience of forcible annexation by the USSR and accompanying Stalinist persecutions during and after World War II gave rise to a powerful collective memory of injustice amongst Estonians and Latvians. Subsequent Moscow-dictated Soviet policies of industrialisation and migration also saw these titular nationalities shrink to narrow majorities within each state, fuelling fears as to the longer-term survival of the Estonian and Latvian languages. These factors do much to explain the mass mobilisation behind the campaign for restored independence during the late 1980s and the later decision by both countries to apply the principle of state continuity (a cornerstone of the independence drive) in their policies on citizenship. Accordingly, citizenship was granted automatically only to citizens of the pre-war Estonian and Latvian Republics and their descendants, whereas Soviet-era settlers and their descendants could obtain it only through naturalisation. It is citizenship policy above all that explains the heightened attention given to ethno-political issues in Estonia and

Latvia during the 1990s; for, while the international community did not question the legality of the approach taken, it was widely feared that the political disenfranchisement (in the immediate term, at least) of much of the ‘Russian-speaking population’ might become a source of conflict, especially when combined with state- and nation-building processes that inverted the previous status of Russian compared to the majority languages.

One key factor that mitigated tensions during the next decade was the external role of international organisations and – especially – Estonia and Latvia’s rapid progress towards EU membership. The accession process entailed the adoption of more active measures to encourage the naturalisation of non-citizens. More broadly, the EU supported a strategy of integrating all residents around the idea of states that are national (i.e. have an Estonian/Latvian ‘cultural core’) but which allow space for cultural pluralism (e.g. through bilingual schooling). Thirteen years on from accession, the number of non-citizens remains a focus of attention. Nevertheless, the size of this category has declined considerably in both countries, while legal changes have made access to citizenship moot for younger residents born to non-citizen parents after 1992. Growing political participation by Russian-speakers has led to increased votes for parties that articulate the concerns of this group yet position themselves as cross-ethnic and mainstream – the Centre Party and Social Democrats in Estonia and Harmony Centre in Latvia. The entry of the two Estonian parties to government in late 2016 has brought a renewed public debate on making full citizenship freely available to those who currently reside permanently in Estonia on the basis of Alien’s (so-called ‘Grey’) passports. It has been suggested, though, that not everyone is necessary anxious to trade in a document which offers the possibility of visa-free access both to Schengen and to the Russian Federation.

Regular integration monitoring reports, meanwhile, suggest that the ethnic boundary continues to soften in many important respects, in societies where, despite post-2008 economic problems, EU membership is still largely viewed in positive terms by all segments of the population. Knowledge of Estonian and Latvian has increased markedly amongst the younger generation of Russian-speakers, while the bilingual model of education is broadly accepted despite continued discussions about the pace and terms of reform. While concerns persist (e.g. regarding labour market access), slow and uneven progress towards integration is hardly surprising given the scale of the Soviet legacies both countries have faced. Comparatively speaking, ethno-political divisions have also remained more visible in Latvia, where the refusal by other parties to admit Harmony Centre (the largest party in parliament and in power in Riga since 2009) to coalition government in 2011 prompted a divisive referendum on making Russian a second official language. What sustains and securitises ethnic boundaries above all in today’s setting – especially following events in Ukraine – are Russia’s more assertive claims in relation to what it calls its ‘compatriots’ abroad. These have intensified over the past decade, as part of an official Great Power narrative that sacralises the Soviet victory

over Nazi Germany and seeks to shut down any critical discussion of the Stalinist past, including the 1939 Nazi-Soviet Pact and subsequent annexation of the Baltic States. The impact of this shift was felt early on in Estonia, during the 2007 disturbances surrounding the relocation of the 'Bronze Soldier' monument. These events served as a wake-up call in many respects. Not least, they highlighted divergent collective memories as a further key challenge to be addressed within a process of societal integration.

Russia's current strategy deliberately seeks to undermine the integration of Baltic societies. Its aim is instead to *diasporise* Russian-speakers abroad and deploy them in support of the geopolitical and domestic objectives of the Putin regime. Most Baltic Russians, however, long ago understood that Russia has no intrinsic interest in their own welfare or specific concerns, and recent efforts by Moscow to extend its control over local civil society have not met with success. Public awareness of new coordinating organisations for 'compatriots' is very low, while Russian-speaking elites understand that Russia's external role hampers their efforts to build trust and attain greater agency within the existing political system. A more significant issue is Russia's continued ability to exert influence via its state-controlled media, which seek to undermine faith in the EU and in institutions of liberal democracy and warn of a 'revival of fascism' in Europe even as the Kremlin extends support to radical right parties abroad. One obvious way of countering this divisive message in a Baltic context is through intensified efforts to reach more local Russian-speakers via domestic media, something which both Estonia and Latvia have undertaken in recent times. Long-term security and resilience will also be enhanced if politicians focus their attention on the socio-economic issues of common concern to all residents rather than the identity issues that divide them. ■

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Cluster policy in Russia: do state-supported clusters leverage self-organized clusters?

Expert article • 2233

Many observers have pointed out that Russia needs to reduce its dependence on oil and primary goods and improve its manufacturing productivity, the growth of which is lagging to the point of declining. According to Deloitte's 2016 Global Manufacturing Competitiveness Index, Russia ranks 32nd out of 40 countries—lower than Brazil, South Africa, and Poland—and is 4 ranks down since 2013. This trend is somewhat alarming as Russia is projected to stay in this ranking in 2020.

During periods of stagnation, geographic clusters are considered attractive policy levers in many countries. Russia is no exception and cluster policies have been implemented from the early 2010s on. 2016 marks the fifth anniversary of Russia's Government Program 'Pilot Innovative Territorial Clusters'. The challenge of the first stage (2012-2016) of that program was to support joint projects of cluster participants. Several additional initiatives, like the program by the Center for Cluster Development for supporting small and medium-sized enterprises and the industrial clusters from the Ministry of Industry and Trade go in the same direction.

One of the key objectives of cluster policy is certainly innovation. Yet, while innovation is crucial and linked to productivity growth, it seems more important for economies operating close to the technological frontier. For countries that are arguably farther away from that frontier, catching up with the frontier may seem more important as the first objective. Developing new and targeting existing manufacturing clusters may serve to improve productivity because of the well-documented existence of agglomeration economies: doubling the size of an industry operating in some geographic area increases productivity by about 2%-5% on average.

The key questions of any cluster program are: what industries to support and where to support them? It is hard to build clusters out of 'thin air'. There needs to be already a cluster base in a region—which emerged in a self-organized way to exploit some comparative advantage—and successful policy should build upon those self-organized clusters to reinforce their activity. To what extent do Russian cluster policies actually leverage existing clusters? Which are the key industries that are targeted? Do cluster policies pick industries that are already 'winners'? Answering these questions is important to understand the processes underlying cluster policies and to get a better idea of how successful these policies may be in the long run. Given their substantive costs (overall 100 bln. rubles of investments, including 5 bln. rubles of subsidies, during 2013-2015) evaluating the potential of those policies—especially in periods of tight budgets—is a first-order issue.

While cluster definitions are subject to debate, as a first pass we can look for statistically significant concentrations of specific industries in specific areas. We detect self-organized clusters using a statistical procedure applied to a set of more than 320,000 geocoded manufacturing firms from the Ruslana database in 2012-2014 at the 3-digit industrial classification level. The official clusters are those that receive government support (this list is provided by the HSE Cluster Policy Unit; see <http://www.cluster.hse.ru>). Since our focus is on manufacturing, we only look at the composition of state-supported clusters using the main activities of the largest manufacturing firms that are officially participants to those clusters.

The first finding is that there are many self-organized manufacturing clusters in Russia. We detect about 2000 such clusters. Half of them are large and contain more than 50 firms in the same industry. How do those self-organized clusters line up with state-supported clusters, both in terms of their location and manufacturing composition?

Starting with industrial composition, only 45 out of 100 industries are actually targeted by cluster policy. Hence, about half of Russian manufacturing industries have no cluster support. It is worth noting that cluster policies seem to target high wage industries. The average wage in the 45 industries that are the target of cluster policies is close to 30 ths. rubles while that in the other 55 industries is slightly above 24 ths. rubles. The three main targets for cluster policy in Russia are 'Manufacture of basic chemicals' (OKVED 201, targeted 12 times), 'Manufacture of instruments and appliances for measuring and navigation' (OKVED 265, targeted 9 times), and 'Manufacture of pharmaceuticals' (OKVED 211, targeted 8 times). These industries also rank 11th, 14th, and 6th out of 100 in terms of the average wages they pay. Hence, cluster policies pick 'winners', i.e., high-wage industries.

Looking at the geographic overlap between self-organized and state-supported clusters, 42%, 37.5% and 56% of the state-supported clusters for OKVED 201, 211 and 265 actually do overlap with a self-organized cluster in the same industry. In words, within these three industries about 40-50% of the state-supported clusters are located in areas in which we also detect a large amount of clustering. This suggests that for the top-targeted industries, there is potential to leverage favorable local conditions. One should nevertheless keep in mind that this good matching is only for the top of the distribution. Across all 45 industries that are the target of cluster policy, the average share of geography-industry matches stands at 30%; and for 20 out of 45 targeted industries there are no matches at all. Some industries are also disproportionally targeted by cluster policy compared to the number of self-organized clusters that we detect. For example,

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'Manufacture of aircraft and spacecraft' (OKVED 303) is targeted 7 times, but there are only 12 self-organized clusters. The match share stands at 0%, meaning that we do not detect any overlap between state-supported and self-organized clusters.

To summarize, cluster policies in Russia seem highly selective in terms of the industries they target, and strategic considerations may explain why some industries (e.g., weapons, aircraft) are disproportionately targeted with little consideration of existing clusters. While the policies generally provide a reasonable overlap between state-supported and self-organized clusters at the top of the distribution of targeted industries, the general picture is worse. About half of the industries are not targeted at all, and about half of the targeted industries are located in areas without a self-organized cluster base. Hence, about half of the targeted industries do not seem to leverage local comparative advantage, which is worrisome. Building more off existing clusters—existing comparative advantage—is likely to pay off, provided that these clusters are not a pure left-over from the planned economic system and just reflect inefficient historic patterns. Since the early 1990s, much has changed in Russia, so the patterns of the mid-2010s should reflect a combination of history and optimal location choices. To improve manufacturing productivity, cluster policy should be more broad-based across industries and leverage the most promising self-organized clusters. ■



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Trends in the development of banking business in Russia

Expert article • 2234

Global economic changes, which began in 2008, still continue to affect the banking sector, constantly encouraging it to change. Along with the crisis of 2014-2016 in Russia, which affect the trust to banking system as a whole, innovation plays an enormous role, which captures all spheres of society, including financial life. The Central Bank of the Russian Federation, along with the regulators of financial sectors around the world, simultaneously tightens the requirements for banks, trying to prevent another systemic crisis, and at the same time trying to adapt to the new conditions in which modern financial and credit institutions exist.

The main measure taken by the Central Bank of Russia in order to slow down the inflationary process in the conditions of the crisis is a raise of the key rate to 17 pp. in December 2014. Nevertheless, as the country emerged from their crisis, it was gradually dropped (8.5 pp on September 18, 2017). However, tightening of the policy in the field of banking regulation could not positively affect the growth of such indicators as lending and net aggregated liquidity of the banking sector. The difference between loans and deposits of the banking sector from a deficit of 4.2 trillion of Rubles in 2015 has been transformed into a liquidity surplus of 8.7 trillion of Rubles in 2017. In addition, the Central Bank withdrew 321 licenses for banking activities from 2014 to September of 2017. Increasing the stability of the banking sector by reducing the number of troubled credit institutions and the reorganization of a number of commercial banks has led to the fact that the Russian banking system has become characterized as concentrated.

As we have already said, the anti-crisis measures of the Bank of Russia have negatively affected the volume of lending, especially in the conditions of the economic crisis, when this indicator has already decreased. But the Bank of Russia is still positive in its forecasts. It has chosen the innovative course of development of the financial sector. Moreover, Central Bank acts in accordance with international standards. Thus we assume that in forecasting of the development of the banking sector of Russia, we can rely on world practice.

So, at the current stage of the development of the financial sector at the global level, the following trends can be identified. Firstly, we can note the virtualization of banking business. This trend can really increase the profits of banks by the reduction of offices and transfer banking system to online-regime. Due to it, banks will be able to make more attractive conditions of crediting the corporations soon. And this should stimulate the economical growth.

Second trend is the increased popularity of the use of Bitcoin all over the world: capitalization of the currency on September 19, 2017 - \$ 66 billion. We see the increasing speculative activity around this currency which influence on the financial markets. Positive feature, which we see in the development of this tool, is the development of the Blockchain system, which is a technology for cooperative self-organization in the context of a decentralized regulatory system.

At the moment, Russia has established the "Masterchain Association", which includes the Bank of Russia, Sberbank, Bank "Opening", Alfa Bank and QIWI payment system. The aim of the association is the joint development and further use of the latest technologies.

The third trend in the development of the banking sector is the transition of banks to "open banking". In accordance with the new business model, banks will not protect their databases from competitors, but rather open their interfaces and cooperate with outside organizations, giving clients free access to their services through a variety of Internet platforms. This system of banking business dictates the need for changes in the field of banking regulation and supervision. The Central Bank in the future should move to a single decentralized system of regulation and supervision based on the technology of Blockchain platforms, protocols and applications.

Thus, the negative impact of the crisis on the banking sector of Russia should be completely eliminated in the near future by global trends in the banking business, which include the development of innovations, cutting costs through virtualization of banks and the transition to cooperative self-organization in a decentralized regulatory system through the use of Blockchain technology. ■

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Russian banking sector – where to now?

Expert article • 2235

After a 2-y long recession the Russian economy is finally showing signs of moderate growth. The economy is expected to expand by 1.5 % this year and most analysts forecast similar growth rates also for the coming years. There is a wide consensus among both Russian and foreign researchers that without major structural reforms Russia's potential growth rate will remain at around those levels. This implies that the Russian growth rates will remain much below global average for the foreseeable future.

Structural reforms are everywhere notoriously difficult to implement, and Russia's track record during the last 15 years leaves much to be desired. There are, however, two sectors of the Russian economy where much progress has been made recently; the military and the banking sector. Whereas analysis of the reforms in the armed forces and the military-industrial complex is seriously hampered by the lack of open access data, information on the Russian banking sector is becoming increasingly transparent. Several reforms improving banking and financial markets supervision have been put through since summer 2013. The visible outcome of these has been increasing number of licence withdrawals both from banks and from non-bank financial institutions as well as microlenders and other financial markets participants.

Since the summer 2014 the Central Bank of Russia (CBR) has also overseen implementation of various initiatives creating new financial markets infrastructure. These initiatives have their origins in the import substitution policies undertaken in many sectors of the Russian economy, but progress in payments systems, national payment cards and national system of rating agencies has been remarkable. These ideas were not completely new in spring 2014, but a real push came with the (perceived) threat of tightening Western sanctions on the Russian financial markets. This year the responsibility for restoration of troubled banks was shifted from Deposit Insurance Agency to CBR where a new Banking Sector Consolidation Fund was created. The new bank restructuring laws include bail-in rules that were first implemented when Otkritie Bank, one of the 10 systematically important financial institutions, was placed into resolution at the end of August 2017.

In line with the overall economic development in Russia, after several weaker years the performance of the banking sector has recently started to improve. The lending activity is picking up and accounting for the changes in the exchange rate increased by 3 % during the first seven months of this year. In comparison, there was no growth in the corresponding period last year. Thanks to the lending growth, the share of nonperforming loans in total loans has not increased and currently stands at 6.5% for corporates and 7.8% for households. This level is higher than the levels reported following the 2009 crisis but it is expected to stabilize as a result of positive economic development. The capital adequacy ratio remained relatively

stable oscillating around 13 % which is above the regulatory requirements but below pre-2009 crisis levels. On the liabilities side, both the deposits of households and corporate deposits have been growing. Currently each of them accounts for about 30% of total liabilities which constitutes a fairly solid funding source for banks. The profitability of the banking sector as a whole has increased as well. In the first seven months of this year the banks posted profit of RUB 927bn; the level corresponding to the profits for the whole of 2016. The profits are however not evenly distributed within the sector as the largest state-owned banks account for the significant part of them.

The clean-up of the banking sector that started when Ms. Nabiullina became CBR governor has reduced the number of operating banks from 951 in July 2013 to below 582 in July 2017. Even if the large majority of the banks that have lost their licences were very small, also a non-trivial amount of top-100 banks have lost their licences. Last year, six of the top-100 banks were closed and at least two ended up in restructuring. By early September 2017, 38 banks had lost their licences, four of which were among the top-100 banks. By far the most significant of those was Yugra Bank, a regional bank that had very rapidly grown into being among the largest 40 commercial banks in Russia.

The consolidation of the banking sector will continue in the near future even if with lower intensity. This leads to increasing concentration in the sector where already today the five largest banks account for 56 % of total assets. Moreover, dominance of the state-controlled banks, which account for 2/3 of the sector's assets, will increase. Improving financial situation of the banks, dominant role of the state banks and relatively small size of the sector mean that any big turmoil is highly unlikely. At the same time however, the sector as it is, is not capable to fully support the economic growth. ■

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Import substitution and effective protectionism in Russia

Expert article • 2236

In 2014-2017 a large number of countries introduced economic sanctions on Russia in response to so-called Ukrainian conflict and related events. Among those were US, EU nations, Norway, Switzerland, Ukraine, Canada, Australia, New Zealand, and Japan. These sanctions in March 2014 were targeted at some individuals and a handful of enterprises involved in Crimea events, but in July 2014 were expanded on several significant sectors of Russian economy. In addition to that in July 2017 US Congress initiated a new wave of sanctions against Russia in technological and financial sectors. In its turn, Russia initiated reciprocal measures in form of embargo on certain types of agricultural imports from the aforementioned countries.

As a result of these events Russian economy was placed in a brand new reality with serious limitations on its international relations, both in trade and in investment areas, which created an externally-induced protectionist agenda for the Government. The main points of this agenda were import substitution and effective protectionism as forms of economy's adaptation to this new reality. Another fact was especially important: nations implementing sanctions against Russia had huge share in the country's foreign trade. The share of so-called «collective West» (EU, Norway, Switzerland, US and Japan) in Russian exports and imports in 2013 was 57% and 52% respectively. Ukraine was in 2013 the biggest Russia's trade partner among former Soviet republics having a share of almost 5% of Russian foreign trade in accordance with Rosstat data.

In addition to that Russia's relations with EU and US in sectors of technological transfer and finance were even bigger, taking into account the dominant position of EU and US in these areas worldwide. Moreover, the so-called "sectoral sanctions" of Western countries were targeted especially on long-term investment and financing and on fuel sector technologies. All that circumstances obviously required strong actions from Russian authorities in order to implement effective import substitution policies aimed at struggling with the new economic challenges.

Our company, namely Seismo-Shelf, was founded in 2009 as a technological start-up in marine geophysical exploration by a number of venture investors. Being initially targeted at supplying Russian-made subsea equipment and related services to offshore projects implemented by Russian oil giants (Rosneft, Gazprom, Lukoil, etc.) in co-operation with their foreign partners (Exxon Mobil, BP, Statoil) our company in 2014 faced a sudden negative change of business environment in marine oil sector which resulted in dramatic fall of oil price and consequent contraction of this market segment. On the other hand, Seismo-Shelf appeared to be the only company in Russia producing specific type of subsea equipment used for oil exploration, namely sea bottom seismic nodes. Supply of this equipment to Russian consumers was prohibited by US and EU, while US and EU-based companies were the main producers of this type of equipment. As a result Seismo-Shelf could be observed as an example of Russian import substitution policy effectiveness, especially in technological sector.

Running ahead I want to say that practical effectiveness of existing policies of import substitution in our industry appeared to be very low. On the contrary, some of supportive instruments for technological companies which existed before 2014, e.g. innovation programs of large industrial giants or state-financed grants, disappeared after 2014 due to budget cuts and optimization of expenditures by large oil companies. Moreover, we can conclude that state financing of import substitution in our industry has wrong objectives and sometimes is just a waste of money. This is especially surprising taking into account existing lag between technologies used in Russia and those applied in developed economies. But general ineffectiveness of economic governance in Russia makes it hard to cope with this lag. Opposite examples could be observed in Norway where companies developing similar technologies achieved market success much faster and without any import substitution policies, but just due to developed business environment.

Taking a broader view of Russian economy we can see the same picture in most of the technologically advanced industries. Situation is same in machine building, except military sector. Some cases of successful import substitution could be found in companies focused on domestic consumer market, especially in food production. Their success was based on food embargo implemented by Russian authorities. This refers to, e.g., cheese and pork production which increased 38% and 52% respectively since 2013 according to Rosstat data. But here we deal with industries producing goods with low added value compared to technologically advanced sectors. Besides, this growth had compensatory nature and almost stopped in 2016-2017 due to consumer demand limitations.

In conclusion it is necessary to say that import substitution policies existing in Russia today cannot compensate the negative impact of sanctions on economy. While impact of those sanctions was in a way "softened" by overall decrease of Russian economy in 2014-2016 which reduced economic activity in target sectors, any further development would be suppressed by the lack of effective national policy in import substitution. This is even more important for technologically advanced industries of economy, because under absence of effective policies the technological gap between Russia and Western countries would continue to enlarge. ■



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Russia: trends in inward foreign direct investments

Expert article • 2237

The proliferation of globalization makes foreign direct investments (FDI) an integral part of political-economic development and growth. In 2016, the world registered \$1.75 trillion in total inward FDI, comprising 9.4% of all gross fixed capital formation. While generating economic benefits for host countries, FDI also affects their political-economic systems in numerous, sometimes controversial ways. Predominant national political and cultural attitudes toward FDI vary across the world, ranging from wide support under the free market system (Hong Kong and Singapore being examples of free economies) to fundamentally rejecting the idea on ideological grounds or self-imposed isolation under a command economy (North Korea as an opposite example) (Index of Economic Freedom, 2017).

During 2005-2007, the years preceding the latest global recession, Russia has averaged robust \$35.6 billion annual FDI inflows. Over the past few years, however, inward FDI have declined. After peaking at \$53.4 billion in 2013, Russia's inward FDI abruptly plunged four-fold to just \$11.9 billion in 2015, somewhat recovering to \$37.7 billion in 2016. In contrast, Russia's outward FDI peaked at \$70.7 billion in 2013 and decelerated to \$27.2 billion by 2016. Accordingly, Russia's inward FDI as a percentage of gross capital formation comprised 13.9% and outward FDI – 10.1%. In comparison, China's FDI inflows in 2016 reached \$133.7 billion, while the U.S. registered \$391.1 billion. As a percentage of gross capital formation, inward FDI were only 2.8% in China and 10.8% in the U.S. (UNCTAD, Country Sheet: Russian Federation, 2017).

Russia's top five inward FDI source countries in Russia in 2015 were: Cyprus - 34%, Netherlands - 13%, Bahamas 8%, Bermuda 5%, and Germany 5% (Russia: Investment Climate Statement; U.S. Department of State, 2017). There has been a broad consensus among Russia's observers that these FDI inflows are largely Russian-owned money parked overseas, which, when times are good, return to Russia under the guise of foreign investments after being circulated through legitimate business transactions in the West, or just through offshore centers such as Cyprus, Bahamas, or Bermuda.

The lion's share of the incoming FDI inflows goes to the Central Federal District (CFD), the leader among 12 economic regions of the Russian Federation. In 2013, the CFD controlled 32.1% of the total fixed capital formation and contributed 35.0% to the Russian GDP nationwide (Zhuplev, 2017). In 2014, the CFD attracted \$12.5 billion, or 55% of the total FDI inflows in Russia. The City of Moscow and Moscow Oblast, as part of the CFD, together contributed 26% to the GDP and controlled 23.6% of the total fixed capital formation nationwide. In stark contrast, these federal cities combined account for less than 1% of the country's territory and 13.2% of the total population (Zhuplev, 2017). In 2014, the City of Moscow attracted \$11 billion, or 16% of the total FDI inflows in Russia (Регионы России, 2015).

A combination of falling oil prices, international sanctions, and structural limitations pushed Russia into a deep recession in 2015, with GDP falling by close to 4%. The downturn continued through 2016, with GDP contracting by 0.6%. Recently, government support for import substitution has increased in an effort to diversify the economy away from extractive industries. Russia is heavily dependent on the movement of world commodity prices, and the Central Bank of Russia estimates that if oil prices remain below \$40 per barrel in 2017, the resulting shock would cause GDP to fall by up to 5% (World Factbook, 2017). Critical dependency on commodities and other relatively low value-added items is particularly illustrative in Russia's exports: in 2015 63.8% of Russian exports comprised oil, fuel and gas, 11.9% - metals, 7.4% - chemicals, only 7.4% - machinery and equipment, and 9.5% - other. In contrast, Russian 2015 imports were as follows: 44.8% - machinery and equipment, 18.6% - chemicals, 14.5% - food and agricultural products, 6.8% - metals, and 15.3% - others (Country Report: Russia; Economic Intelligence Unit, July 2017). While highly dependent on commodities and low value-added products in exports, Russia is heavily reliant on imports of machinery and equipment that are critical for industrial development, technological innovations, and global competitiveness.

Russia's continuing stand-off with the West has fortified statist and protectionist trends within the government. Economic sovereignty - understood as insulating the economy from external shocks - is expected to remain a strategic priority. The main elements of this strategy include: a large positive sovereign external asset position (low public debt combined with substantial foreign-exchange reserves); protectionist measures to encourage import substitution and support to domestic manufacturing, which coincides with Russia's import ban and is supported by the powerful agricultural lobby; and a cautious approach to globalization and foreign investment, which in "strategic sectors" such as the extractive industry is likely to be permitted only in partnership with state-controlled companies. The Economic Intelligence Unit (EIU) predicts that in the medium term, outdated capital stock, a declining workforce, dependence on natural-resource sectors, institutional weaknesses, and low investment and statist policies will limit real GDP growth. According to EIU, forecast real GDP growth will average about 1.6% per year in 2018-2021 under the current institutional and macroeconomic framework. There currently seems to be little prospect of far-reaching domestic institutional reform. High political risk and the poor business environment will continue to depress investment below the level needed to develop a higher trend growth rate (Country Report: Russia; EIU, July 2017).

A law on public-private-partnerships adopted in 2016 allows an investor to acquire ownership rights over a property; in previous approaches to public-private-partnerships, the public authority retained ownership rights. Russia's Special Investment Contract program, launched in 2015, aims to increase investment in Russia by

offering tax incentives and simplified procedures for dealings with the government. These contracts, generally negotiated with and signed by the Ministry of Industry and Trade, ostensibly allow for the inclusion of foreign companies in Russia's import substitution programs by providing access to certain subsidies for foreign producers if local production is established. In principle, these contracts may also aid in expediting customs procedures. In practice, however, reports and anecdotal evidence suggest even companies that sign such contracts find their business hampered by politics and case-by-case decisions biased in favor of local producers. Russia's Strategic Sectors Law (SSL) establishes a list of 45 "strategic" sectors or activities in which purchases of controlling interests by foreign investors must be pre-approved by Russia's Commission on Control of Foreign Investment. In 2014, the Russian government expanded the list to include companies, investments, and transactions. In 2015 Russian law was amended to give the Russian Constitutional Court authority to disregard verdicts by international bodies, including investment arbitration bodies, if it determines the ruling contradicts the Russian constitution (Russia: Investment Climate Statement, U.S. Department of State, 2017).

Russia's global technological dependency and economic interdependency on the one hand, and the limitations of the domestic economy that is necessary to fuel growth and development on the other hand, propel inward FDI to the top of policy and strategic imperatives on the national agenda. A recent World Bank study found that in 2015 general government expenditures in Russia reached about 35% of GDP in 2015, well below the OECD average of 45% of GDP and 48% of GDP for EU-28. A breakdown of expenditures shows that, compared to Russia, other countries across OECD and EU-28 spend more in social sectors (social protection, education and health) and less in defense as well as housing and community amenities (From Recession to Recovery, 2017).

The near- to medium-term trends indicate that the role of FDI in the national domestic strategic agenda and foreign policy in Russia will be

particularly critical in such areas as energy, defense, social protection, health care, education and others. The government is facing difficult political and strategic choices in prioritizing and channeling FDI toward conflicting social, defense-related and industrial/innovation-driven developments. Another important dimension that has not been discussed in this short analysis is FDI and regional development and growth: enormous territory and vast demand for infrastructural development as well as urgent social-economic priorities across Russian regions require significant investment. And yet the Russian investment climate, worsened by external political sanctions, remains un hospitable. ■

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Craziest pitching competition in the world attracts Russian startups

Expert article • 2238

Every February in the city of Oulu, Finland takes place the world's strangest startup event. It is Polar Bear Pitching - literally the coolest startup pitching competition in the world with no time limit for pitches or a strict dress code, but with one condition only: you have to pitch your project to investor while chest-deep in the icy waters of an ice hole.

The end of winter is a time almost unbearable for any human being. To look at the snow, to maneuver between icicles on the slippery roads and to wait for the spring warmth is already quite exhausting - the more unusual seems the idea to travel to the north of Finland. In Oulu, a city on the shore of the Gulf of Bothnia, which is considered to be located on the southern boundaries, but in Arctic nevertheless, in winter it is dark, windy and moody, but very beautiful, especially when the setting sun lits a few churches, wooden houses and pines and casts them in red gold.

Polar Bear Pitching is the name of the event which attracts every February a bunch of fearless high-tech specialists from all over the world, including Russia, to brave the zero degree waters of the ice hole. Participants are free to take along any pitching equipment they desire: last years they were e.g. a blue ballet skirt, a yoga mat, a rubber ducklings, beach balls, feather boa and all sorts of other items. Most importantly - the combat readiness to descend up to the chest to the hole in the ice, so that from there, from the depths of this freezing hell, shivering from the cold and not feeling the legs, to give out a short and concise (because somehow it's never long) pitch to investors. That is, to make a brisk business presentation, filled with concrete facts and peppered with witty jokes, in order to touch the hearts of the jury and in general, do everything that is done during the standard startup pitching competition. No wonder that Polar Bear Pitching is dubbed by its participants as "different", "unique" and "somewhat crazy".

Despite the fact that Oulu for decades has been the technological mecca of Finland, it only has quite recently become a startup hotspot. Since the downfall of the city-forming enterprise of Nokia due to a sharp drop in the popularity of its gadgets and major structural changes of the mobile market, it eventually abandoned the production of smartphones, focusing on software and wireless technologies development, many engineers were out of work. Talented inventors, but inept businessmen needed support and promotion - and then a non-governmental organization emerged, which figured out how to help them to boost their ideas and attract funding for their projects. All was needed to be done is to get startups to climb into the ice hole. According to the plan of the organizers, this allows novice entrepreneurs to demonstrate that nothing is impossible. In Finland, the event is taken seriously - because it can help tech startups if not to land with an immediate investor deal, but at least to attract excellent publicity from the prominent national and international media, such as e.g. The Economist, The Newsweek or TechCrunch, which is something that can't always be achieved when participating in business conferences of a bigger scale.

This unusual experience has attracted quite a few Russian startups over the years and keeps making waves on the Russian media scene drawing participants, media and spectators and influencing the city's tourism industry overall, as it is slowly and steadily becoming a part of the city brand. As it happens, Russian tourists know little about Oulu: the attention of travelers in the winter is pulled strongly towards the more popular Rovaniemi with all its seasonal entertainment, like Santa Claus, reindeer farms, husky safaris and whatnot. Of course, there is nothing wrong with this: Lapland is indeed the most popular destination in Finland.

Oulu is not falling far behind: a modest northern city attracts plenty of tourists and Russia ranks fifth among the countries whose residents come here to rest after Sweden, Norway, Germany and the United Kingdom. However, Russians differ in preferences: if Swedes, Norwegians and Finns come to Oulu in summer, when the temperature can reach up to 28°C, and water - as much as 25°C, then Russians see in Oulu a place where urban winter glory with low temperatures, lots of snow and frost-caramelled trees and buildings are causing a delight rather than annoyance. From the Russian border to the city is 300 km, but the way to Oulu lies still through Helsinki. At the same time, many Russians prefer getting here by land: it's easy to get to Helsinki by car, and then continue north by train.

What started several years ago as an extravagant project by several startup enthusiasts, nowadays outgrew significantly its initial proportions and evolved into a true community effort by becoming a joint venture of the Oulu entrepreneurial ecosystem with a mission of creating "snowballs" for success and stripping down the barriers that hinder development and growth of the whole city of Oulu and that now has the power to affect even its economic development and tourism. ■



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Russian FDI in Germany: a firm-level analysis

Expert article • 2239

New economic powers like BRIC countries (Brazil, Russia, India, and China) are important direct investors in Germany with Russia being the biggest investor among this group: Russian investments totaled 4.6 billion USD in 2012, twice the amount of Chinese investments (1.9 billion USD), and eight times that from India (0.5 billion USD) and Brazil (0.3 billion USD).

Political and economic relations between Germany and Russia were always faced challenges, and are at a low ebb after Russia's annexation of Crimea, but as the firm-level analysis of Russian FDI shows, Russia was and is an important partner for Germany beyond current political and economic turmoil.

An interesting question in this context is why Russian individuals and institutional investors withstand the current challenges and invest in Germany rather than in Asia? By now the Russian government has more economic interests in Asia, yet, Russian investors look at Germany as an attractive place to invest.

There are different reasons why: Germany is the biggest market in the EU, has a well-developed infrastructure to exploit - some companies seek for opportunities to open new deposits, others are more interested in a better and simpler access to technology for easing the tariff and non-tariffs barriers. (Hones and Bozoyan, 2014)

As another reason, which is also linked to the tariff issue, Russian investors use the financial tool "round-tripping", where the financial transfer from Russia to another country is made to re-invest the funds transferred back to Russia, it is used as a relief and other further fiscal benefits for investors. (UNCTAD, 1998) Therefore, the answer is laid mostly in using German beneficial conditions.

Obviously, not only the economic part is attractive for investors but also the sense of safety. Germany is considered as a stable country for investments where the investors can protect their companies. Moreover, the historical and cultural ties play the role here. Therefore, most of the direct Russian investments are usually nested in specific regions, for now, our statistics with almost 1,300 Russian companies shows that Bavaria (20.1% of companies), Berlin (18.8% of companies) and North Rhine-Westphalia (16.9% of companies) are the most attractive regions for investors from Russia. And among cities, the top place was taken by Berlin (229 companies), followed by Munich (102 companies), Hamburg (66 companies) and Frankfurt am Main (60 companies).

While the firm-level database (RIM = Russian Investment Monitor) which has been developed at the Stralsund University of Applied Sciences is comprehensive, it must be mentioned, that it is by no means complete. Experts consider that between 800 and 3,000 Russian companies are based in Germany of which 1,600 have "25 per cent + 1 share held by a natural or legal person of Russian origin". (Tirpitz et al., 2011)

Interestingly, the East German Länder have a weak position comparing to other German regions. Brandenburg, Mecklenburg-Vorpommern, Saxony, Saxony-Anhalt, and Thuringia account for only 12.1 % of the Russian companies, where the investment hotspots are Leipzig and Dresden. This small amount of investments can be explained that the regions are not ready for Russian investments, as traditionally only Bavaria and Berlin are well-known in Russia as places for investment.

The importance of Russia as a partner is significant: the existence and development of investments by Russian private and institutional investors underline it. Above all, Russia still occupies an outstanding position in comparison with other emerging economic powers such as Brazil, China, and India. And if the political woes lead to declining the investments, they do not slope to zero. ■

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Prospects of development of domestic and foreign tourism in Kaliningrad Region of Russia

Expert article • 2240

Starting from middle of 90-th of 20-th century and until now tourism is one of economic priorities of development in Kaliningrad Region. First and foremost it depends on favorable and various natural conditions, unique water resources, availability to visit balneotherapeutic health resorts and a big number of cultural heritage sites. So, the Region is considered by state authorities as quite prospective for development of domestic and foreign tourism. However, it is important to take into account its geographical exclave location. Kaliningrad Region is surrounded by foreign countries and has an access to the Baltic Sea. But, omitting foreign borders Russian citizens can arrive at Kaliningrad only by air-planes. If they are travelling by train, they must receive an international passport, and those, who are travelling by car, in addition, must have the EU visa. In fact travelling from Russia to Kaliningrad tourists have to go through all tourists' formal procedures, what creates psychological discomfort. Such conditions result in an increase in a value of tourist products being offered by Kaliningrad tourists agencies, and put them in tougher competitive environment. Nevertheless, analysis of statistic data for last twenty years has shown a stable growth in the number of coming tourists.

The major of tourists are Russian citizens (87 %), primarily from Moscow, St. Petersburg, Smolensk and Murmansk oblasts, also from Siberia and Ural. The main objective of travels is health and culture-related tourism. In 2014 due to negative political events there was moderate decrease of tourist flow EU and other foreign countries. But in 2015 Kaliningrad Region regarding the number of coming foreign tourists took 11 place, among 85 Federal subjects of Russia. And according to 2016 results, Kaliningrad became 7-th in top tourist cities in Russia.

So, the growth of domestic tourism is a needed precondition for development of foreign tourism. Their link is obvious. Because, as a rule, one foreign tourist comes after four Russian guests arriving. The domestic tourism, first, encourages the development of the newest recreational resources and areas for formation of basic tourist infrastructure. And second, it prepares conditions for integration processes and for improvement in the whole Regional tourist field.

The foreign tourists still take enough small part at the Kaliningrad tourist market (13 %). About one-half of them come from Germany (nostalgic tourism). Other part includes tourists from Poland, the Baltics, Nordic countries, Belorussia. Culture-related tourism (46 %) and business tourism (35 %) dominate in the structure of foreign tourism. If in 2013 the number of foreign tourists reached 12,447 people, in 2016 this figure dropped to 9,495.

The tourist flow from Poland significantly fell down in the beginning of 2016 after Polish cancellation of Russian-Polish cross-border movement.

Decline in the number of foreign tourists deepens due to significant seasonal fluctuations that related not only to natural and climatic conditions, but to a low level of development of tourist offering. So, in current situation Regional authority is looking for new opportunities to enhance Regional attractiveness.

One of steps is an attempt to introduce electronic visas for foreigners. Russian Government initiates to set up a simplified procedure for getting single ordinary business, tourist and humanitarian visas in the form of an electronic document. Such measure is provided by the Project of Federal Law on Kaliningrad Region.

Also, there are plans to extend the geography of foreign and engage Chinese tourists to visit the Region, because currently they actively visit Moscow and St. Petersburg. Considering their interest to amber products, there are thought to establish special two-three day's tours from capital cities to Kaliningrad. For the purpose the appropriate infrastructure should be prepared such as menu cards in Chinese, a fair number of translator and so on.

But the crucial issue here is attraction of well-trusted and solid investment and long time for increase of hotel room supply, development of infrastructure, modernization of lines of communication, means of transport, etc. In parallel, new tourist routes should be created, pieces of architecture should be reconstructed. Also, such public events like «Herring day», «Long sausage day», «The Baltic debuts» have to be advertised more effectively and get all-Russian spread.

And finally, the practice of 2018 World Football Championship hosting will show to what extent the tourist infrastructure is matching with modern requirements. ■

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Nordic Studies in Karelia: results and prospects

Expert article • 2241

Some background notes

Establishing of the Nordic studies as an integrated discipline in Russia is usually referred to the end of the 1950s - 1960s. It was marked with the emerging of a solid platform for cooperation of all specialists in the field in the USSR, i.e. the yearly "Skandinavsky Sbornik" ("Scandinavian Collection", University of Tartu, 1956-1990) and a regular Conference on Economics, History, Languages and Literature of Scandinavian countries and Finland (1963-2008). Basic research centres were formed in Moscow, Leningrad, Tartu and Petrozavodsk. During that period, Petrozavodsk became a leading centre in the field of Finnish Studies, i.e. interdisciplinary research of the language, culture, literature and history of Finland and Russian-Finnish relations. In the second half of the 20th century, numerous works on the history of Finland, Finnish literature and Russian-Finnish cultural ties, academic Russian-Finnish and Finnish-Russian dictionaries, studies of the language and culture of Russian Ingrian Finns were published.

Finnish studies in Karelia continued to actively develop even in the economically unstable 1990s and 2000s, i.a. owing to a systematic training of young researchers and international cooperation. Training in Finnish philology is conducted at Petrozavodsk State University (PetrSU) starting from its establishing in 1940. Since 1970, systematic training in the history of the Nordic countries was launched. Over the past decades, more than 50 unique courses on Nordic history, culture and literature, Russian-Finnish relations and historiography were developed, accompanied with dozens of course study guides. Hundreds of qualified graduates are working in a variety of spheres of expertise both in Russia and abroad.

Growing authority of Karelian researchers is affirmed also by the results of international projects carried out with Russian, Finnish, European and American partners. Their outcomes have been published in leading publishing houses in Russia, Finland, Sweden, Norway, Estonia, Germany, Canada, USA etc.

Current realities

PetrSU and the Institute of Language, Literature and History of Karelian Research Centre of the Russian Academy of Sciences, as well as Petrozavodsk State Conservatory, continue to be major centres in Russia, where the languages, folklore, literature and culture of Balto-Finnish peoples are systematically studied and where highly qualified specialists in these areas are trained.

Unfortunately, latest reforms in Russia do not conduce to retaining of research and educational schools in the periphery. This is especially evident in humanities. Structural changes, which universities and research institutions are forced to undertake, lead to serious losses, many of which are irreversible.

In 2013, the Faculty of Baltic-Finnish philology and culture, a brand of PetrSU for 20 years, ceased to exist as a separate institution. In 2014, merger of the Faculty of History and the Faculty of Political and Social Sciences led to the end of independent functioning of Department of Nordic history (2003-2014), the only one in Russia.

Annual enrollment is being reduced. New educational standards require abandoning, or significantly reducing many unique courses,

including language training. The number of full-time teachers is rapidly declining and the university loses irreversibly its unique specialists. Due to the lack of funding, academic mobility, an essential component of the modern research and education, is curtailing.

In short, instead of strengthening of training specialists in these areas of humanities, promoting the development of unique specializations and research schools, today we are witnessing their systematic destruction.

Our prospects

Nevertheless, we want to believe that Petrozavodsk, with its traditions in Nordic and Finno-Ugric studies and strong academic expertise, still has chances for further development.

In 2012, an interdisciplinary research and educational Centre of Baltic and Finnish Studies «Fennica» was created at PetrSU. It is quite evident that in the borderland Karelia this direction in research and education is more than essential. Research in the history of the neighboring countries, Baltic-Finnish philology, international relations in Northern Europe is important not only for the knowledge increment, but also for the expert and analytical work in regional and cross-border cooperation.

It is also promising that in 2016, «Fennica» has got a new partner, Centre for Nordic Studies «Nordica» at the Institute of Language, Literature and History of Karelian Research Centre of Russian Academy of Sciences. These units are aimed at combining efforts of Russian and international experts to promote up-to-date research and training, also for the needs of international cooperation in the North.

With all these in view, in 2016, we have launched a new international multidisciplinary peer-reviewed "Nordic and Baltic Studies Review" (<http://nbsr.petrSU.ru>). The Review is designed as an international academic electronic platform reflecting the current state of research and defining perspectives of studies and teaching in relevant fields. And we are sure that by joint efforts our undertakings will be a step towards further promoting of Nordic studies in Russia. ■

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Applying best Finnish practices in Russian regions: Occupational Barometer

Expert article • 2242

The challenge of labor market imperfection, and the mismatch between supply and demand is typical for both European countries and Russia. Poor matching between supply and demand has many negative consequences experienced by individuals and companies and also influence the country's economy and the society more generally. It has negative influence on wages and job satisfaction, causes hiring difficulties and lower productivity at company level and lowers the competitiveness of the country. To address this challenge, an "early warning system" approach is being developed in Europe. This system includes collection, analysis and provision of information about the past, current and future of the labour market in an understandable and accessible way for end users. Within this approach, separate tools for simple and clear informing of population about the labor market are being developed.

One of such tools is the Occupational Barometer (OB), initially developed in Finland by the Center for Economic Development, Transport and the Environment (ELY Center) for Southwest Finland, based on Swedish experience.

Today OB in Finland is the perfect tool for raising public awareness about labour market situation.

Nowadays ELY Centres in each region of Finland estimate the market situation for 250 occupations each falling in one of the following five categories: Great shortage/Shortage/Balance/Surplus/Large surplus of job seekers. The results are presented on the map of Finland, where the shortage, balance and surplus areas are reflected by five colors.

The occupational barometer is compiled twice a year. It aims to increase the balance between job seekers and vacancies and promote occupational and regional mobility. Another OB advantage is demand anticipation for labour force. As a result, users can see increase or decrease of demand for each occupation.

Barometer is typically used for providing the following services: vocational guidance, employment services, regional and occupational promotion of the labour force mobility, planning of adult and vocational training, planning of immigration, labour market analysis, etc.

The effectiveness of this tool is confirmed by its rapid development in Finland, the Nordic and the Baltic countries.

Thanks to the cooperation and openness of the Finnish colleagues from the ELY Center for Southwest Finland (Turku), OB was studied and applied in the Republic of Karelia (Russia) – the region, adjacent to Finland. After its successful application there, it was disseminated to 8 other regions of the Russian Arctic zone and Rostov region (the Southern Federal District).

Occupational Barometers for Karelia as a whole and for each municipality are presented as special posters that vividly and graphically represent information on the deficit, balance and surplus of occupations in the regional labour market. A similar approach has been used for the Arctic and Rostov regions.

The developing of OB for each administrative unit and their dissemination among the population and executive bodies contribute to improvement of the regional labour market balance.

In addition to posters, as a results of analysis and processing of the OB data, a regional map of the demand for occupations is made, where the balance of supply and demand for a particular occupation for each municipal district is presented using infographics.

The nearest development prospects for OB in Russia are – design of short-term forecasting and results mapping methods, similar to those currently used in Finland.

So, Occupational Barometer is an easy to use and simple tool, which can be used for multiple purposes.

Undoubtedly, OB implementation in selected regions of Russia is an important step towards raising public awareness about labour market.

Furthermore, making OB for several years will provide an opportunity to track the "life cycles" of occupations and in particular – to identify "retiring occupations", for which the demand of employers is gradually decreasing until the occupation disappears from the labour market. Similarly, conclusions can be made about occupations stably demanded by the economy. This information should be used for career guidance to young people and whole population as well as for adjusting curricula.

As the foreign and Russian experience shows, Occupational Barometer is a tool to effectively inform various target groups about the labour market.

So, the study and application of advanced Finnish experience in other countries helps to improve the situation on the labour market and the society in general.

Overcoming weak awareness of the population about demanded occupations will help to address not only economic challenges by means of filling vacancies and rational allocation of labour resources, but also to solve social tasks – reduction of youth unemployment, successful employment of graduates, and increase of personal incomes of citizens. ■



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The 150th anniversary of the sale of Russian Alaska

Expert article • 2243

On March 30 1867, U.S. Secretary of State William H. Seward agreed to purchase Alaska from Russia for \$7,2 million and on 18 October 1867 the territory was formally transferred to the United States.

Russian America was the easternmost outpost of the Russian empire and its only maritime colony. The occupation and settlement of Alaska in the late eighteenth century was part of a long and far-reaching process of eastward expansion that was instigated by the Grand Duchy of Moscow in the mid-sixteenth century. Yet this venture represented something new and unique in Russia's colonial experience. Alaska differed from other parts of the Russian empire both geographically and administratively, as well as in the way its territory and resources were contested by foreigners and their governments.

The first permanent settlement was established in 1784 on Kodiak Island by the merchant Grigorii Shelikhov and his crew of 300 men after the massacre of a large number of Alutiiq people. A number of small trading companies operated in Alaska at the time, but Shelikhov, together with his partner, Ivan Golikov, tried to secure a monopoly on all trade. In the end, it was his widow, Natalia Shelikhova, who together with her son in law, Nikolai Rezanov, convinced tsar Paul I that it was in Russia's interest to have a single strong company in Alaska. Thus the Russian-American Company (RAC), a chartered joint-stock company, was founded in 1799 and granted the right to administer all the territories claimed by Russia in North America. In 1804 the settlement of Novo Archangelsk, or Sitka, was established. Sitka would become the colonial capital for the duration of Russia's possession of Alaska. The Tlingit Indians, who inhabited the area, were defeated in the Battle of Sitka (1804), but were never completely subdued and continued to live alongside the Russian population.

There were several reasons behind Russia's decision to sell its remote outpost in America. Some of the leading figures in Russia began to doubt whether the colonies could be defended against an invading force (British or American). They also argued that the cost to maintain the colonies was too high. The RAC used Alutiiq people to hunt valuable furs for them, which yielded a considerable income, but the colonies were also costly. Communications were difficult and the inhabitants were dependent on the Tlingits for food supplies.

The transfer ceremony took place in Sitka 18 October 1867. Two hundred and fifty American soldiers and eighty Russian soldiers waited on the parade ground in front of the Governor's House. As the Russian flag was lowered, it was caught by the wind and entangled around the flagpole. After several attempts to tug it loose, a Russian soldier was ordered to climb up and disentangle it. It took three attempts before it

was finally brought down and when it was, it landed on the bayonets of the soldiers below. The whole event was nerve-wrecking for the Russians present. After a brief declaration by Captain Peshchurov, whereupon the territory of Russian America was transferred to the United States, a dual cannon salute from the Russian batteries and the American warships was fired. General Rousseau accepted the delivery of the territory on behalf of the United States government. The American flag was hoisted and a second salute fired.

The American army, led by General Davis, took over the administration of Alaska. All the property of the Russians not belonging to the Orthodox Church was turned over to the American government. The American troops occupied the barracks and Mr. and Mrs. Davis moved into the Governor's House. In January 1868, Maria Maksutova, the former Governor's wife, left Sitka with the children. Her husband stayed on to assist with the transfer and the emigration of Russians. The Governor's House continued to serve as the focal point of Sitka's social life, but life in Sitka changed after 1867. Job opportunities were few, land was expensive, and commodities were costly and scarce. The town had no civil government and it was populated by rowdy troops and armed pioneers.

The Russian population, including Finns and Balts, had a choice of staying in Alaska and becoming American citizens, or accepting a free passage to Russia within three years. A number of Russian citizens chose to remain after the transfer, but soon most of them left. Some returned to Russia, others migrated to California or British Columbia. Three years after the transfer, there were only about 15 Russians left in Sitka. Things were so bad that members of the Russian community were given rations from the Army's commissary department during the winter months to keep them from starvation. Contrary to what some Americans had expected, the Russians were not replaced by American settlers. Five years after the transfer, there were only a handful of American soldiers and civilians left, as well as a few Creoles, Aleuts and Tlingits. ■

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Poland: how to sustain good economic performance?

Expert article • 2244

Notwithstanding political tensions Polish economy is doing remarkably well: the unemployment has hit a historic low of 7.1 per cent (the lowest figure since the collapse of the communist dictatorship); GDP rose by 4.2 per cent in the first quarter of 2017 (compared to the same quarter of the previous year) which is well above the EU average (2.1 per cent); budget deficit is below the Maastricht threshold of 3 per cent and on the downward trend. What might be also telling, rating agencies upgrade their forecasts on the country economy's strength.

This obviously provokes questions about the drivers of this good performance and about factors which can sustain it in the coming years. There is no doubt that Polish economy benefits from the fact that, after the recent financial crisis, global economy is doing better and better. Yet, one may also wonder whether some interaction between global causes and national factors could play an important role for ensuring this good performance also in the future. In this context one can point to several issues which need to be addressed in order to achieve it.

The first one relates to innovations. As widely acknowledged, innovation is one of the most important drivers of productivity growth. Further, innovation, especially after some time, diffuses and can be widely shared within the economy. This in turn helps to assure that the circle of those who may potentially benefit from innovation is not that small. That said, Poland has been ranked low in various reports assessing the level of innovativeness within a given economy. While the current government seems to be aware of the need to catch up in this respect, how to change the current state of affairs is a big unknown. For example, we still have at most imperfect understanding of what type of innovations Polish economy would or should generate and what the implications of these innovations might be for factor prices and the factor distribution of income. In this context, one thing appears to be certain: while the quest is often of radical innovations, in the case of Poland a lot can still be improved through incremental innovations.

A related but distinct issue is the following: innovation is facilitated by economic institutions that create a level playing field and encourage and allow the entry of new businesses that can bring new technologies. This in turn implies that innovation is almost always associated with the process of creative destruction. In this context an important question is to what extent, the government (no matter whether left, centre or right) is willing to accept this disruption (knowing that those negatively affected will be unlikely to vote for politicians responsible - at least indirectly - for their welfare loss). An opposition from the interest groups who are the biggest winners from maintaining the current status quo is yet another dimension that needs to be taken into account here. Ensuring that the government budget is balanced is another challenge.

Similar insights arise when one considers the recent phenomena characterising the development of world economy which gave the rise of the so-called global value chains. In recent decades we have experienced a gradual fragmentation of production processes across borders. This implies that more and more often imported inputs are used to produce exports. While the fact that participating in these global value chains seems to be indispensable to sustain good economic performance is beyond dispute, disintegration of production processes across borders poses three key challenges for a government (regardless of its ideological affiliation). First, promoting export behaviour of domestic companies will almost surely contribute to moving some of the value added abroad (to countries supplying inputs), an issue which may potentially backfire on governing parties during next elections. Second, fragmentation of production processes changes substantially the way we should approach the issue of country's exposure to various risks related to participating in international exchange. This is because the way the value added is distributed in trade relations might be (and almost surely is) different from what we can infer from studying what a given country sells in particular destinations. Public administration needs to adjust to these new circumstances. Third, while integration into global value chains is likely to rise aggregate income it is also likely to increase income inequality. This in turn creates the pressure for redistributive transfers.

All the things mentioned above should be wisely incorporated in governmental policies. To cope with these issues however is not an easy task, especially in the presence of sharp partisan divisions which, in case of Poland, are at the centre of every voting, every appointment, and almost every initiative (not necessarily political one). One thing is certain: good intentions are not enough. Good ideas, which for whatever reasons are not applicable and remain only on the paper, will not suffice either. ■

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Transparency improves sustainability in Baltic short-sea logistics

Expert article • 2245

The European Union has placed increased efforts on the use of sustainable sea freight by moving freight from land to sea. Visions channelled through such programs as Motorways of the Sea and TEN-T emphasize development and renewal of the seaborne logistics within the EU. Still, today sea freight is not sustainable. Low utilization of ships including long waiting times in ports and sailing empty causes an unnecessary burden to the environment and increases costs. The new sulphur directive is a step in the right direction, but it does not remove the lock-ins in the mature logistics industry that cause inefficiency.

Short sea counts for 60% of the seaborne logistics in the EU. In the Baltic Sea area, short sea logistics are a lifeline for countries like Finland and Sweden, and are important for the Baltic countries. Short sea shipping is coastal or inland waterway shipping like, for example, shipping between Finland and Germany. In 2013, general cargo vessels in short sea shipping serving Finland sailed empty approximately 40% of the time. In addition to low profitability and high freight costs, this leads to high emissions. However, even with these shortcomings, CO2 emissions in road transport are approximately four times higher than in sea freight.

Low utilization in sea freight is due to old-fashioned ways of working and lack of transparency in the industry. The combination of cargoes with ships, trading freight space and monitoring the business is controlled in the present day by shipbrokers. Available cargoes do not fit the ships for the following reasons: Information is withheld and delayed during transactions causing inefficiency, sea-freight is not integrated into the overall logistics chain, the timing of ship circulation is not suited to production - the cargo transportation need does not fit the circulation of the vessel or the fleet, old-fashioned freight contracts force ships to rush-to-wait, port slot systems and labour union restrictions and technological challenges in cargo handling cause inefficiency.

Much of the root cause to these problems is in the work flows and how information is generated and distributed. Similar challenges have been identified and partly solved in other mature industries and businesses. A key element in releasing the lock-ins and constraints is increased transparency and handling of information. This is in the core of the digital era. Real-time information that is generated by sophisticated sensors and analytics that enable new forms of workflows and thereby business models based on a high level of automation are formed to enhance existing assets. Examples of these transformations are in media, financing, retail and the energy business to mention a few. In the seaborne logistics, one key to solve the above-mentioned problems is the implementation of a digital marketplace. A digital marketplace could integrate industrial companies, ship operators, ports and land transport companies to trade shipping services and coordinate freight needs and ship movements in a market-oriented way.

A digital marketplace would enable industrial companies (cargo owners) and ship operators to: dynamically and interactively schedule transportation, trade shipping opportunities, benefit from a dynamic pricing model and optimize their production and shipping processes.

How does a digital marketplace work then? Would digital marketplace industry companies be able to simulate how their cargoes would fit with other companies' cargo flows and the routing of ships? Based on this, companies can adjust their production planning and just-in-time processes with their suppliers and clients and ensure optimal end-to-end functionality. They can also coordinate with other companies so that their cargo flows complement each other, and in doing so, keep the ships full and ensure low freight costs. Similarly, ship-operators can simulate the circulation of ships and position them in such a way as to capitalize on imbalances in freight demand and supply.

When the parties find a suitable freight combination, they can make an offer to the others, negotiate and contract the freight. In this manner, industrial companies will be better placed to adapt their sales and production processes to the freight market. They will also be able to develop their offering and offer additional value-adding services like logistical services.

The heart of a digital marketplace is an algorithm that simultaneously calculates the optimal configuration based on the cargoes and ship routes submitted by the users.

A digital marketplace would enable industrial companies, ship operators, port operators and land operators (truck and rail) to do business directly with each other and to monitor the status of the freight market.

The primary beneficiaries are industrial companies that ship goods and can provide overall logistics solutions to their customers. Ship operators get a maximized utilization and earning rate of the ship through the route optimization service. Technology providers stand to gain by getting detailed information on the performance and functional requirements on the logistics chain so that they can improve solutions. Society stands to benefit from more profitability and employment and lower emissions. ■



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Estonia plans to bring more ships under Estonian flag

Expert article • 2246

Estonian government has started a project “Ships under Estonian flag” aimed for restoration of merchant fleet sailing under Estonian flag. At the start of nineties, around 100 merchant vessels with gross tonnage (GT) above 500 sailed under Estonian flag. In 2003, this number was decreased to 11 vessels and in 2012 to 4 vessels. From April 2014, there are no above 500 GT merchant vessels sailing under Estonian flag in international traffic.

This does not mean that cargo ships have disappeared from Estonia. Estonian ship owners are operating around 60 merchant vessels but these are registered in ship registries of other states than Estonia. Most of these vessels are currently sailing under the flag of Malta (ca 20 ships).

The law of the state flag of which it sails under, that includes the administration and tax policies, governs vessel. In Estonia, there are more than 10 000 seagoing seafarers. Of them, ca 4000 are working on ships sailing under Estonian flag. The rest are working on vessels sailing under foreign flags. Estonian government is therefore unable to collect relevant taxes from these 60 Estonian capital owned vessels and more than 6000 sailors. Additionally, many seafarers, sailing on vessels under foreign flags, have no social insurance.

The reason of mentioned problem is simple to maritime experts – apart from other Baltic Sea countries Estonian government is not offering any tax exemption for ship owners. In EU, making tax exemptions is allowed only for agricultural and maritime sector. EU Commission allows its member countries to support their maritime industries and, therefore, member states have the right to apply for “state aid” conditions that have been stated in Commission document “Community guidelines on State aid to maritime transport” [Commission Communication C(2004) 43]. During 2002-2016, the leading coalition partner in Estonian governments has been Estonian Reform Party (EPL), political party representing liberal ideology. Concerning their economic policy, EPL has principally been against creating any tax exemptions, standing up for equitable and proportional taxation environment. Simple and equitable tax system can be very reasonable in free competition environment, but in the situation of state aided international business, competition may run to serious competitive disadvantage for entrepreneurs being the residents of country not applying fiscal incentives.

Therefore, the current tax levels are too high for Estonian ship owners and operators, who are not able to compete with other enterprises operating their vessels under flags with more favourable taxation environment. For clear economic reasons majority of Estonian ships have registered under the flags of other states having notably more advantageous shipping related fiscal policies and better possibilities for retaining international competitiveness.

Estonian Maritime Administration has dealt with the development of a plan aiming to bring more cargo ships under Estonian flag

already more than five years (since 2012). Currently this has also become one of the priorities of the new Estonian governmental coalition (since November 2016). For fulfilling this task, governmental working group was created connecting representatives from Estonian Maritime Administration, Ministries of Economic Affairs & Communications, Finance, Justice and Social Affairs. Working group findings and proposals about which changes are needed for increasing the number of ships in Estonian Ship registry and how these will affect state economy and social expenditures both in short and long term perspective were presented to Estonian government in May 2017. On 17th of July 2017 Estonian government decided to bring to effect necessary cardinal changes for shipping sector development.

The analysis of the working group has showed that Estonian Republic has expectations to be much bigger flag state and have much more shore sector than today. One average merchant vessel sailing under Estonian flag could bring up-to 20-25 thousand euros yearly to Estonian economy through the register fees, issuance of certificates and other activities.

Conditions of Estonian flag state will be made attractive to ship owners and operators in three aspects: ship registry conditions and operations, taxation of maritime labour and simplified use of foreign workforce.

Principally, ship registers are divided into two groups. At first, open registers where, in addition to resident ship owners, also foreign ship owners can register their vessels. Secondly, closed registers, registering of vessels that should be administrated by a greater or lesser extent from the territory of the flag state. Currently, Estonia uses closed register system, high workforce taxes and complicated use of foreign workforce, which all make up quite an unattractive package for ship owners.

The governments’ decision foresees principal reconstruction of current system so that two ship registers – both open and closed – will be created. Different conditions concerning the ship owners’ residency country, amount of registry fees and tax exemptions will be implemented. Therefore, the ship owners outside Estonia can also register and manage their vessels under Estonian flag. At the same time, ship(s) owning company should be registered in Estonia. This dissention is solved with the Estonian e-residency, simplifying establishment of companies in Estonia, simultaneously retaining control possibilities for government institutions and retaining the genuine link as required by UNCLOS.

In the future, Estonian ship register should be digital, meaning that vessels’ data is available via cloud computing, submitting and processing of registration and survey applications is digital / remotely accessible both for Estonian and foreign clients. This eliminates the need for physical travelling for representatives of ship owner for registration purposes and also having permanent physical representative of ship owner in Estonia is not required.

Additionally, maritime labour taxation will be lowered. The lower level taxable base will be applied. This means, that income and social taxes will be charged only from base ceiling of 750 euros instead of full salary. Employers would not pay for health insurance, only seafarers would be given the opportunity to purchase state health insurance for themselves.

In addition to Estonian citizens, these tax changes will also affect seafarers from the other regions of European Economic Area because of EU equal treatment rules. Also the requirements of international conventions regulating rights of seafarers from third countries should be followed.

A tonnage tax will be introduced as an alternative to corporate income tax for shipping companies. While this would be exceptional in the current Estonian tax system, it is already commonplace elsewhere in Europe. Shipping companies could thus decide whether to pay the typical 20 percent tax on withdrawn profits or a tonnage tax at yet undetermined rate based on a vessel's gross tonnage. Estonian regular corporate tax system, where only distributed dividends are taxed, is attractive for the young, rapidly growing companies and tonnage tax system is attractive for mature companies paying regular dividends.

These principal decisions of Estonian government will be followed by related legislation and administrative changes. New ship registry and taxation environment is planned to start from 1 January 2019.

Proceeding from the fact that each seafarer creates 2-3 jobs on the shore, the enlargement of number of ships sailing under Estonian flag benefits the whole local maritime sector. In longer perspective, planned changes will contribute to increasing labour tax revenues from shore sector and overall development of Estonian maritime sector. ■

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Economic growth and convergence in the Baltic States

Expert article • 2247

The Baltic states regained independence from the Soviet Union in August 1991. The years before had been marked by economic hardship, food shortages and high inflation. When the new governments set out to reform the economies and introduce market-based economic systems a key objective was therefore to support economic growth and raise living standards towards levels in Western Europe. The convergence path turned out to be more twisted and challenging than anticipated.

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The early transition phase saw very large declines in output. The exact magnitudes remain unclear due to the structure of the economics changing and deficient reporting to the statistical authorities. The output declines in the early transition period were tied to the switch from planned to market-based economic systems, but also to the disruption of ties to the former trading partners, very high inflation and changing demand patterns.

Reliable data are available from Eurostat, the statistics service of the EU, from 1995. That year GDP per capita PPP (i.e. adjusted for different purchasing powers or price levels in the countries) amounted to 26-30 percent of the level in the EU15, the 15 Western European EU members. The income gap started however to narrow in the following years, driven by rapid economic growth in the Baltic states.

The picture was abruptly disrupted when the Russian financial crisis broke out in 1998. As the Russian economy contracted and the value of the rouble plunged, export to Russia slumped and confidence waned. The result was economic setbacks in the Baltic states in 1999, though with some variance across the countries.

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The slowdown after the Russian crisis was short-lived and from 2000 the Baltic states entered a period of unprecedented growth lasting until the outbreak of the global financial crisis. Over the years 2000-2007 the average annual rate of growth was 8 percent in Estonia, 8.5 percent in Latvia and 7.5 percent in Lithuania. Commentators began referring to the three countries as the *Baltic tigers*, in reference to the previously successful South East Asian countries.

Many factors contributed to the boom from 2000 to 2007. Consumer and investor confidence improved as negotiations about membership of the European Union and Nato progressed. Large inflows of capital from abroad meant that the Baltic households and businesses could borrow easily and at low interest rates. Meanwhile, tourism, transport and other service sectors thrived.

The rapid economic growth meant that the income gap between the Baltic states and Western Europe shrank rapidly. While income

per capita PPP was around 30-34 percent of the EU15 level in 1999, it was 52-62 percent in 2008. Income levels were still substantially below those in neighbouring Sweden and Finland, but they were rapidly approaching those of several southern European countries.

The boom led to great optimism. The Estonian prime minister, Andrus Ansip, proclaimed in 2007 that Estonia would be one of the five richest countries in Europe within 15 years. The global financial crisis ended these lofty hopes.

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The global financial crisis hit the Baltic states exceptionally hard. The output loss was around 14 percent in 2009 alone and Estonia and Latvia also saw large losses in the years before or after. The Baltic states were subject to *sudden stops* as capital inflows ceased abruptly, making it difficult to borrow for consumption and investment. Export was severely hampered by declining foreign demand. Moreover, business confidence waned and investments collapsed. The crisis led to very high unemployment and economic hardship in turn spurring mass emigration from especially Latvia and Lithuania.

The Baltic states returned to economic growth in 2010-2011 and have since had positive growth rates. Economic growth has however been relatively modest, amounting to around 2-3 percent per year throughout the years 2012-2016. The convergence process has slowed down and this is particularly the case if the income level of the Baltic states is compared to the one of Sweden or other western Baltic rim countries. In 2016 GDP per capita PPP was 60-71 percent of the EU15 level and 52-61 percent of the level in Sweden.

The somewhat unsatisfactory growth performance following the crisis is particularly concerning given the very large output declines during the global financial crisis. Empirical analyses show that economic growth in the Baltic states in the post-crisis period can be explained almost entirely by growth in the capital stock and employment while there has been virtually no growth in the efficiency with which these resources are used. The development has led to the question whether the Baltic states may be caught in a *middle income trap*, i.e. a situation where income convergence ceases at the time per capita income reaches say half of the US level. Some middle-income countries in Latin America and Asia appear to have been caught in such a trap marked by low investments and slow technological advancement.

The economic prospects for the Baltic states have improved in 2017, and forecasts of economic growth in 2017 and 2018 have been raised as new data have become available. The upturn is largely driven by domestic demand, in particular demand from the construction and retail sectors. It is still too early to establish whether the improved

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growth performance is broad-based and sustainable or whether it is a short-lived cyclical upturn.

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This panoramic account of economic developments in the Baltic states since they regained independence in 1991 has highlighted the rapid but also very volatile economic growth. Production and living standards have improved greatly, narrowing the gap to their Western European peers, including its Baltic rim neighbours Finland, Sweden and Denmark. Booms have however not been sustainable and the ensuing recessions have been exceptionally deep causing great economic hardship. Looking ahead, the goal must be to ensure high rates of economic growth and a continuation of the convergence process while at the same time seeking to reduce excessive business cycle dynamics. The economic achievements of the Baltic states in the last quarter century have been impressive but challenges remain. ■

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MAGNUS FELDMANN

The Baltic States and the euro crisis: learning the right lessons

Expert article • 2248

The euro crisis has had profound effects on the three Baltic States. They experienced some of the deepest downturns in the world, with GDP contractions of almost 15% in 2009. While some have argued that the crisis exposed severe weaknesses in these economies, others have seen them as role models for managing the crisis. Given these conflicting interpretations, it is important to learn the right lessons.

First, in the case of the Baltic States, the very success of these economies contained seeds of crisis. EU accession in 2004 was the culmination of a long process of economic reform and a strong commitment to macroeconomic stability. This success fuelled optimism, over-confidence and a real estate boom, as Nordic banks wanted to make profits in the lucrative and seemingly safe Baltic markets. Yet the Baltic economic regimes with fixed exchange rates, current and capital account convertibility and a highly internationalized banking system left few opportunities for addressing the boom, not least since the international banks had signalled that any restrictions could be circumvented by having the mother banks lend directly.

The fact that especially Estonia had a tight fiscal policy and budget surpluses shows that an emphasis on macroeconomic stability, as in the Stability and Growth Pact or the Maastricht convergence criteria, is insufficient to avert crises. This is partly due to the asymmetry of these fiscal rules, which focus on deficits without specifying targets for surpluses in good times. While greater surpluses in good times could have been helpful, the Estonian experience suggests that this would not have been sufficient, if private borrowing is more important. There should be more attention to financial policy regulation and policy - not just at the national level, but at the supra-national level in the EU and by international organizations. It is an open question whether the tentative steps towards banking union are sufficient to crises similar to those in the Baltic States.

Second, the Baltic crisis response based on internal devaluation (adjustment of the real exchange rate based on changes in wages and prices without a nominal devaluation) has generated great controversy. Some observers have touted it as a role model for the rest of Europe, given that nominal devaluations are not possible within the euro area. The appeal of this approach is underscored by the fact that, although the crisis was sharp, growth resumed quite quickly. The Baltic adjustment paths have been controversial, and the jury is still out on their long-term viability in terms of facilitating sustainable growth and avoiding future crises. Now that growth has resumed, much will depend on how durable it will be. Yet this experience merits attention. In the absence of European-wide countercyclical fiscal policy (and given that nominal devaluation is not possible in relation to other eurozone countries), the elements of the Baltic strategy may be relevant to other eurozone countries experiencing crises.

Many observers did not think devaluations could be avoided, but it is not clear whether this experience can be generalized. Especially

in Estonia, but also in the other two states, the crisis was a good opportunity to adopt the euro – an objective which had eluded them until that point due to inflation rates that exceeded the convergence criteria – indeed Lithuania was narrowly turned down in 2007. Estonia adopted the euro in 2011, Latvia in 2014 and Lithuania in 2015. Macroeconomic policy-making has been associated with high depoliticization, and the high levels of private debt made many people and firms very worried about a devaluation as well. All of this meant that an internal devaluation may have been more feasible in the Baltic States than elsewhere. While the Baltic experience shows that internal devaluations may sometimes be possible, the combination of factors that contributed to this may be hard to replicate.

Therefore, the lessons for the eurozone are complex. As it is unclear whether the Baltic crisis response can be replicated elsewhere, eurozone countries need to think more about adjustment. If European crisis responses in the form of fiscal transfers or Eurobonds are not forthcoming, a broad consensus on adjustment strategies at the national level is essential. Much like other European countries that adopted social pacts in the 1990s to ensure competitiveness and macroeconomic stability in anticipation of EMU membership, the Finnish competitiveness pact (*kilpailukykysojimus*) has facilitated negotiated adjustment to a protracted crisis. For countries with higher unionization rates and organized employers, where governments struggle to enforce an internal devaluation, Finland's competitiveness pact may provide an alternative model of adjustment. ■



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Current care guidelines for the Baltic Sea

Expert article • 2249

The Baltic Sea suffers from a kind of metabolic syndrome, called eutrophication, manifesting itself as algal blooms, hypoxic waters and altered biota. Similarly as in the syndrome's human version, there has to be both an inherent susceptibility and something that triggers the illness. Salinity stratification that prevents aeration of near-bottom waters makes the Baltic Sea naturally sensitive to human perturbations, but its state would not aggravate without nutrient load. Those concerned about this brackish-water patient and seeking for more specific diagnosis and cure are themselves at a risk of catching a disease: infobesity. Baltic Sea ecology, together with the economic, social and political dimensions of its protection, is the topic of numerous scientific articles. Some say that saving the Baltic Sea is not anymore a question of lacking information, but lacking actions.

In Finland, there is a continuously updated system called Current Care Guidelines. It consists of independent, evidence-based clinical practice guidelines on health, medical treatment and prevention of diseases. In the case of metabolic syndrome, the cure includes slimming down the waistline; a goal not without its challenges. As for the Baltic Sea, the guidelines towards a better state have been created under the banner of the Baltic Marine Environment Protection Commission, HELCOM. Here, too, the treatment includes a strict diet. Based on ecosystem modelling, maximum allowed inputs of phosphorus and nitrogen have first been estimated for each of the Baltic sub-basins and then translated into country-allocated load reduction targets. These targets form part of the Baltic Sea Action Plan, agreed on by most of the Baltic Sea countries.

According to the diet, Finland should reduce the load of phosphorus into the Gulf of Finland by about half of its current level. Out of the different nutrient sources, the remaining potential falls on the agricultural sector. Controlling land-use based losses is a challenge of its own, but there is also an unanswered question about the composition of the diet. Basically, there are two major forms of phosphorus: particulate phosphorus and dissolved phosphorus. While dissolved phosphorus is largely available to algae, particulate phosphorus has to be released into a dissolved form in order to contribute to eutrophication. Unfortunately, there is no simple methodology to determine the bioavailability of particulate phosphorus. The complex processes that take place after burial of the particles in anaerobic sediments are especially difficult to predict. Thus, a practical decision might include reducing all phosphorus, independent of its form. In fact, this is the approach preferred by most national and international protection programmes, including the Baltic Sea Action Plan. However, this practice may not necessarily lead to clearer waters.

The majority of phosphorus entering the Gulf of Finland from Finnish agricultural fields is attached to eroded soil particles. The

dominance of particulate phosphorus is the obvious reason why the measures of choice in Finland (and elsewhere) prefer winter crop cover to traditional autumn ploughing. Various variants of reduced tillage, including no-till, have been subsidized by the Finnish agri-environmental programme, but whereas these measures effectively cut down the losses of particulate phosphorus they tend to increase the losses of dissolved, readily available phosphorus. Whether the general effect is positive or negative depends on the availability of particulate phosphorus, which is uncertain. In other words, the patient or the doctor does not know how much particulate phosphorus the diet should contain?

An option for Finland to meet the requirements of the Baltic Sea Action Plan, and to avoid phosphorus controversy, might include gypsum treatment of agricultural fields. The method is being tested in southwestern Finland, where gypsum, a side-product of fertilizer manufacturing, was spread on 1550 hectares in 2016 (organized as part of the SAVE and NutriTrade projects). According to the results from an earlier pilot (the TraP project), gypsum effectively cuts down both particulate and dissolved phosphorus. If the current test confirms the good performance of gypsum, the aim is to promote application of the measure to larger areas in Finland. Perhaps it could also be used elsewhere around the Baltic Sea; testing the performance of gypsum in e.g. Poland would be highly interesting. In addition to gypsum, several other novel methods may prove to be helpful, even necessary, in mitigating eutrophication in the Baltic Sea. Paradoxically, the more traditional agri-environmental measures, such as erosion control, seem to involve more uncertainties in terms of their effectiveness. All in all, the phosphorus issue shows that there is still need for science in eutrophication abatement. Let's keep updating the Current Care Guidelines for the Baltic Sea. ■



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Maritime museums: the custodians of our common Baltic heritage

Expert article • 2250

The Baltic Sea has always served as a link between our countries, a link that is particularly strong between the islands and coastal communities of the Baltic region. For centuries, we have traded with each other and as maritime peoples we have shared an understanding of the sea that those living further inland do not comprehend. They may perceive us as living in the periphery, but these are peripheries of importance.

Heritage is our legacy from the past; it is what we live today and what we pass on to future generations. It is an ongoing process of interpretations, additions and omissions, as each generation makes its mark on its legacy before passing it on to the next one. And whereas rituals may keep their structural format, the symbolic meaning continues to change. The tangible maritime heritage is the physical manifestation of our culture. It can be a ship, a lighthouse or a harbour, as well as sea charts or a sailor's personal belongings. The intangible maritime heritage is made up of those aspects of our culture that lack a physical body; such as the skills of sailing and boatbuilding. Sea shanties, tattoos and rituals, for example those associated with crossing the equator, are other representations of the intangible maritime heritage. More specifically, old trade routes plied by the Vikings, the Hanseatic League and Åland peasants are all parts of an intangible Baltic maritime heritage.

Maritime museums play a significant role as custodians and campaigners of maritime heritage. The primary means is through traditional museum work; by collecting and conserving artefacts and archival material, by documenting the skills, traditions and experiences of maritime life and by disseminating the results in exhibitions, in which the collected artefacts are contextualised through the documented stories. It is only by linking the tangible with the intangible that the extent of our maritime heritage can be fully comprehended. There is little point collecting half models, drawings and ship building tools if we don't record the skills relating to ship building, the customs associated with the launch and the experiences of those involved in the process.

To reap the full effects of the efforts that are being invested in our common maritime heritage, co-operation is vital and this is where the maritime museums come into their own right. As maritime heritage custodians, the museums work closely with their local communities, offering support to all those actors who, in their own ways, contribute to our maritime heritage; be it large-scale boat-building projects, sea shanty festivals or a single genealogist tracing her maritime roots. The museums broadcast the results of community heritage projects as well as those of academic research for a wide audience. Furthermore, maritime museums can take the lead in promoting maritime heritage as a resource for social cohesion, area regeneration and economic growth.

By way of example, the Åland Maritime Museum Trust has in recent years become a dynamic actor in the local community, both within and without the sphere of traditional museum work. In 2016 the Trust was awarded the title "Museum of the Year" in Finland. The award was not won for the maritime museum's interesting and well-presented exhibitions alone, but also for the massive rise in visitor figures and the Trust's exemplary activities within its local community, of which the volunteer scheme was particularly commended. In another endeavour to promote awareness of the maritime heritage, the Trust has teamed up with local businesses to offer educational activities to schools and nurseries free of charge.

The Åland Maritime Museum Trust's next big project concerns the historic four-masted barque Pommern, the last ship of her kind that has remained unaltered since the day she left the shipyard. What began as a long-term conservation plan for the ship has now grown into a high-profile 8.5-million-euro project involving the entire community with considerable backing from the private sector and through crowd-funding. In addition to building a safe haven for the ship, the project will also comprise a ground-breaking onboard visitor experience and bring about a renaissance of the Western harbour district. In a wider context, the project will strengthen Åland as a tourist destination and contribute to the Island's economy.

With our eyes on the future, it is important that all of us who are engaged in maritime heritage issues; as museums, academic institutions or individual actors, work together to strengthen the awareness of our common maritime heritage and to promote it as an asset for the common good. Apart from leading to sustainable economic and societal development, investments in maritime heritage project, for which maritime museums can act as custodians, will safe-guard the tangible and intangible maritime legacy of this generation to those that will follow. ■



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Entrepreneurial ecosystem: the case of Belarus

Expert article • 2251

The business sector is an important and actively developing sector of the economy. SMEs affect economic growth, scientific and technological progress, the saturation of the market with high-quality goods, and also supports an optimal competitive environment, introduces innovations, creates additional jobs and expands consumer demand. The relevance of the topic of the article is due to the fact that in a market economy, sustainable socio-economic development directly depends on the level of activity of entrepreneurship and its ecosystem. The development of the entrepreneurial ecosystem is one of the most important factors ensuring a consistently high level of employment and economic growth.

Focusing on the notion of “entrepreneurial ecosystem”, mentioned back in 2010 by Professor D. Isenberg, and consisting of several elements (politics, finance, culture, support, human capital, market), we will consider some components on the example of Belarus.

Developing Entrepreneurship in Belarus. SMEs are 107.4 thousand legal entities and 240.8 thousand individual entrepreneurs. The share of SMEs in the Republic of Belarus is about 24% of the gross domestic product, 40% of proceeds from the sale of products, 37% of investments in fixed assets, 28.5% of tax revenues, and 42% of foreign trade. In the SME sector, more than 30% of the employed population currently work. These data indicate a significant contribution of SMEs to the economy of the country. At present, the density of SMEs (including individual entrepreneurs, per 1,000 inhabitants) in Belarus is 38.3 units per 1000 inhabitants and is comparable with foreign indicators (the Russian Federation - 39 units, the Republic of Poland - 37 units, the Republic of Latvia - 35 Units, the Republic of Lithuania - 32 units).

Policies and Leadership. The current stage of SME development began with the adoption of the Law of the Republic of Belarus of July 1, 2010 “On Supporting Small and Medium-Sized Enterprises” and the Directive No. 4 of the President of the Republic of Belarus of December 31, 2010 “On the Development of Entrepreneurship and Stimulation of Business Activity in the Republic of Belarus”.

Financing Entrepreneurship. Lending to SMEs is one of the important activities of banks. In 2015, the share of loans granted to SMEs by the banks of Belarus was 31.6% of the total volume of loans granted to business entities. The share of short-term loans in the total amount of loans extended to SMEs in 2015 was 75.9%. State financial support from the funds provided for in the programs of state support to SMEs is provided through the provision of financial resources on a refundable or free of charge basis; guarantees for concessional loans, including microcredits provided by banks, etc. With the aim of increasing the volume of financing since August 2014, the Development Bank of the Republic of Belarus has developed a program for financing SMEs that is designed for a long-term perspective and aims at supporting SMEs in the production and services. The main tool of

the program is the provision of credit resources at an affordable cost and with transparent and understandable requirements for borrowers. Practical implementation of the program is carried out with the participation of 11 partner banks. The largest share in the overall portfolio of SME support provided by the Development Bank is occupied by production (metal products, plastic products, furniture, clothes, etc.) - 39.0%, then projects related to transport activities - 29.0%. Less than all projects were financed in the field of agriculture and forestry, 1.0% and 2.0%. Comparing the financing of SMEs in Belarus and Sweden, it can be noted that Belarus does not have a large number of financial organizations such as ALMI, Vinnova (analogous to the Belarusian Innovation Fund), Business Angels (the association of Belarus ceased to exist in a few years), etc.

Cultural Disposition. Entrepreneurial culture is not homogeneous. The Government is now facing the task of raising the entrepreneurial culture of the nation. One of the main tasks in the Program “Small and Medium-sized Entrepreneurship in the Republic of Belarus” for 2016-2020 is the formation of a positive attitude towards the entrepreneurial initiative of citizens, as well as the enhancement of the entrepreneur’s image. This is due to the fact that the inhabitants of the country don’t want to be entrepreneurs in recent years.

Institutional Support and Infrastructure. There are 88 business support centers, 19 business incubators, 10 science and technology parks, and 8 centers of technology transfer in the republic. Accelerators and business hubs are just starting to appear in Belarus. Unfortunately, there are no clusters and innovative university systems like the Lund University Innovation System.

The entrepreneurial ecosystem of Belarus is in development, corresponding to world trends, and entrepreneurship will receive a new impulse of development. ■



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Conceptual directions for the development of cooperation between the EAEU countries and Germany

Expert article • 2252

At present, the pace of development of foreign economic cooperation between Germany and the CIS countries remains insufficient. Enhancement of integration processes within the EAEU has not resulted in the significant increase in the attractiveness of the new alliance for Germany as a trading partner. The importance of the CIS as Germany's trading partner is insufficient. The CIS countries form only 2.05% of German export and 1.34% of German import¹.

The most promising partner for Germany among the CIS countries is the Russian Federation. The conceptual directions for the development of cooperation between Russia and Germany developed by N.P. ERMAKOV² may be of practical interest for other EU countries with regard to the post-Soviet countries:

1. *Simple strategic partnership.* This scenario is based on the model that assumes insignificant requirements of partners to each other (plans for joint energy cooperation, environmental protection, and projects on infrastructure and communications improvement).

2. *Pragmatic cooperation (union of interests).* The second scenario involves cooperation as "supportive interaction" or "partnership without properties", which is characterized by common goals and objectives, and important joint projects in the field of information and communication technologies, energy and other sectors of economy.

3. *New competition.* The third scenario is based on the competition or opposition of relations between Russia and Germany. It is implied that both parties have their own allies and pursue only their own interests. With this development of relations, it is possible to avoid accidental conflicts and tense situations.

Russia's integration partner - the Republic of Belarus - is also interested in cooperation with Germany. The sustainable development of the Republic of Belarus depends to a large extent on the qualitative expansion of its relations with the outside world. The most promising direction of the development of the relations between Germany and Belarus is the increase in the export of services (mainly - ICT services), as well as the growth of export of transport services. The transport sector provides significant foreign exchange incoming to the country, contributes to the development of the country's foreign trade and the solution of the problem of the trade deficit.

1 UNCTADstat, <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>.

odczyt z dn. 19.12.2016.

2 N. ERMAKOV, Evolution and interrelation of foreign trade and investment activity as a form of development of Russian-German foreign economic relations in the age of globalization of world economic relations: the author's abstract of Ph.D. thesis: 08.00.14, Rostov-on-Don, 2008, p.17.

The Belarusian export of freight transport services directly depends on Russia's and Germany's turnover, and the export of road and railway freight depends on Russia's import from Germany. Belarusian cargo companies get about 7-8 million USD from every billion of the cost of Russian imports from Germany.

According to long-term forecasts, a significant growth of cargo flows from China through Kazakhstan, Russia, Belarus to Germany and other EU countries is expected. Its decline due to the development of the Silk Road branch bypassing Russia through Kazakhstan, Georgia, and Azerbaijan is economically unlikely.

It should be taken into account that due to the adopted plans for the development of Western China and the super project of the Silk Road Economic Zone, Chinese logisticians are already active in developing land transport connections between China and Germany (one of the branches of the Silk Road is to pass through Belarus). International experts from the Eurasian Development Bank predicted a steady increase in freight traffic activity between the EU and China, starting from the second decade of the 21st century.

Therefore, the main economic interest of the Republic of Belarus in the creation of the EAEU is the development of transit opportunities, that is, an increase in the export of transport services. This will require, within the framework of the EAEU:

- harmonization of the national transport legislation;
- development of the EAEU transport corridors;
- elimination of non-physical barriers and integration of the EAEU transport policy.

The development of trade and economic relations between Germany and the Republic of Belarus is beneficial to both countries. Germany sets up joint ventures in Belarus, obtains access to the EAEU market, and Belarus, in its turn, attracts foreign investment and gains access to modern production technologies. ■

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JEFF SCHUBERT

Putin's unrealistic dreams about Russia in Eurasia

Expert article • 2253

The Silk Road Economic Belt (SREB) part of the Chinese Belt and Road Initiative (BRI) announced in 2013 has focused increased attention on Eurasia, whether it be some narrow definition based on the Central Asian countries and their larger neighbors or some wider definition.

At their July 2017 meeting in Moscow, Vladimir Putin and Xi Jinping respectively spoke about the formation of a "broad Eurasian partnership" and "coordination of the BRI with the Eurasian Economic Union (EAEU)".

Putin also referred to this issue several times at the May 2017 BRI Summit in Beijing, saying that "by adding together the potential of all the integration formats like the EAEU, the BRI, the Shanghai Cooperation Organization (SCO) and ASEAN, we can build the foundation for a larger Eurasian partnership".

The EAEU consists of Armenia, Belarus, Russia, Kazakhstan and Kyrgyzstan. The present members of the SCO are China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, and (since June 2017) India and Pakistan.

In December 2015, Chinese Premier Li Keqiang and Russian Prime Minister Dmitry Medvedev signed a "Joint Communiqué" stating "the parties hold that the SCO is the most effective forum for aligning the construction of the SREB with the building of the EAEU". However, in reality there are many issues standing in the way of such a linking.

The EAEU is being held together by Russian will-power, but will eventually fade because of its own internal contradictions and Central Asian countries members will increasingly see their future connected to closer relations with China.

The SCO at one stage could have possibly been the basis of greater economic cooperation, but Russia was against this – preferring to try to develop the EAEU as the main Eurasian supranational organization working as a "partner" with China. However, it is increasingly clear that China's growing confidence in its BRI is reducing its interest in the SCO. China's actions and documents produced both by the SCO and at BRI Summit make it clear that China much prefers bilateral interaction with other countries. The succession of India and Pakistan to the SCO will greatly increase its diversity of interests and it will become little more than a leader's discussion club.

A mid-2017 joint report by the Chongyang Institute for Financial Studies, Valdai Discussion Club, and the Kazakhstan Council of International Relations correctly says that "the BRI in itself remains very abstract and subject to ambiguous interpretation: even Chinese experts often hold to opposite views on its essence".

Given all of the above, it is difficult to see a process in which the SREB part of the BRI, the EAEU and the SCO can be linked in any substantial way.

Underlying the enthusiasm of Russia for both the EAEU and a "Eurasian partnership" is an idea of Greater Eurasia as a region that can be developed as a distinct economic area and resist the "hegemonic" policies of the US. The EAEU is partly based on Russia's conviction that globalization would gradually outlive its usefulness and the perceived opportunity for it to form a center of power and promote

re-industrialization. China, however, launched its BRI as a way of taking further advantage of globalization and in the process boosting its own security.

Some Russians hope there could be a "division of roles" in Eurasia, with Russia being in charge of security and China being in charge of economic issues. This would hardly appeal to China which has recently formed a Quadrilateral Cooperation and Coordination Mechanism "anti-terror alliance" that includes Pakistan, Afghanistan, and Tajikistan, but not Russia.

Russia and China will remain the main players in Greater Eurasia for many years because India has neither the Russian historical involvement nor the Chinese financial power. However, the Russia-China relationship is not deep and shows little sign of becoming so. Both countries have a natural inclination to look in opposite directions.

The present relationship reflects that between Presidents Putin and Xi and the difficulties both countries are having in their external security environments. Barring health issues, both are likely to remain the most powerful figures in their countries into the early 2020s. Both see themselves as historical figures leading the rejuvenation of their countries.

Xi is likely to be more successful in the international arena than Putin. China is showing a much defter hand on the international public relations (PR) front and acts to avoid unnecessary conflict, whereas Russia seems to bask in it.

It is not clear that either Xi or Putin will ultimately put economic effectiveness ahead of domestic political goals, and this will slow the development of closer economic ties between Russia and China because business decision makers will much prefer to deal with countries where business is less political.

Without Western pressure resulting from the Crimea and South China Sea issues, the present leader-centric Russia-China relationship would quickly show sign of fatigue due to the absence of support from more fundamental deep ties between the two countries and due to their competition in the central Eurasian region.

China seems in no hurry to change present trends in Eurasia (however defined) because it has the upper hand, and will continue to pay lip-service to ideas of greater cooperation with Russia in order to prevent it playing a SREB spoiling role. Russia will continue to try to figure out what it can do to hold its position in Eurasia and – unrealistically – engage in EAEU and Greater Eurasia dreams about how it can enhance it! ■



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CSCO – an important C-suite to the executive committees

Expert article • 2254

Baltic Sea Region is known for its intelligence and boasts a well-established education system at both foundation and advanced university level. The higher education sector has in particular been able to produce top level practitioners in multiple industry sectors such as engineering, economics and legal profession. The vast amount of these expert personnel are imbedded as in-house experts, advisors and have subsequently achieved the prominence of COOs; CFOs and CEOs of some of the leading global firms. These experts have achieved phenomenal results by posting consistent record high quarterly corporate results.

Discussion topics are centred on the increasing prominence of e-commerce, the utilisation of unmanned vessels and cars, Internet of Things (IoT), Artificial Intelligence and the rapid pace of technology improvements in all fields of business.

Companies are facing the complexities and challenges of recruiting adequately equipped CDO (Chief Digital Officer), CTO (Chief Transformation Officer), CSO (Chief Security Officer) etc. who have the robust skills sets required to make that quantum leap into the digital arena and have the business acumen to face the technology transformation.

It seems, there is generally a “skills knowledge vacuum” designed to ensure that today’s companies can build sustainable corporate compliance by embracing the environmental regulatory policies that have immensely impact the supply chain network. In retrospect, companies may now need to assign a functional role of a CGO (Chief Green Officer) to deal with such emerging environment challenges.

While digitalisation and new commercial structures are gathering technological momentum, at accelerating speed, the consumer hardly realises what this all can mean in the consumer prices, if transparency and cost efficiency and the benefits of digitalisation would really be rolled out to the end price of a product. Do the COOs, and the Sales Directors understand all this and align the pricing strategies to meet consumer expectations per se? Traditional Retail chains are competing against e-commerce business models that are willing to invest a large proportion of their budgetary expenditure on building tighter bonds with their customer base in order to achieve a higher customer retention ratio. This in particular has been achieved by paying more of the deliveries they ever budgeted in the product sales price.

A person articulating this strategically essential part of the business, must understand the financial impact of the mentioned compliance of environmental regulations, changes in the oil price, currency risks, insurance coverages and premiums, cyber security throughout the whole chain, blockchain and what will this mean in the future, impact of autonomous vessels in manning costs, and thus an opportunity to capture cost savings, legal thorough understanding of international contract laws and national bribery acts and much more.

If the supply chain network is not steered as it should be, it can result to non-budgeted costs and ultimately even loss of a critical key account.

In retrospect efficiently and robust designed and well-integrated supply chain, including sufficient continuity management strategy,

provides a viable vehicle of achieving corporate level performance. Guaranteeing the deliveries and eliminating additional surcharges for customers, and at the same time securing own profitability could lead to sustainable competitive advantage, resulting in sound profitability and increase in share price earnings. Surprisingly, in this world of digital disruption era, we still are struggling in many companies with the basics. We think Supply Chain Management means logistics.

In order to lift supply chain management to the strategic importance it deserves, a new role of a Chief Supply Chain Officer (CSCO) as a right hand of the CEO should be adopted.

Not any one single person can have such a multitude of skills-set required for such a demanding corporate role. Building such a position the future CSCOs should have expert advisors as right hands covering all the above mentioned areas, and only one of those experts should be a logistics director. The only definitive skill such a CSCO should possess self is leadership and understanding of sourcing, i.e. what skills do I lack or need, and how can I mobilise support in order to successfully accomplish the prescribed goals.

There is a C-suite position existing already called CSCO, but it has not so far been widely adopted in the BSR, and not given the corporate status this position deserves.

The CSCOs should embrace social capital, i.e. trust and have power and mandate, they should be the advisors of the whole Executive Committee and providing key impetus to support the CEO. Eventually, Supply Chain Management will be understood as the core strategic competence of the digital era. ■



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The healthy and ecofriendly roach

Expert article • 2255

The common roach (*rutilus rutilus*) is the third most common fish in Finland, a well-known and frequent catch for summertime fishermen. As a food fish this silvery, red-finned species of the *Cyprinidae* family is very underrated, labelled rough fish, bony and distasteful. As a side product of fishing, tons of roach have been wasted annually, either thrown away or fed to fur animals. But now its rehabilitation seems to be underway. Domestic lake fish is in buoyancy and the healthiness, inexpensiveness and environmentally friendliness of roach have been noticed.

Eutrophication of water systems has benefited the distribution of roach – Cyprinid fishes themselves being a part of the problem when they stir the water while searching for food in the bottom. Schools of roach may decrease the amount of zooplankton effectively, which may increase the amount of algae in water systems. In many parts of Finland, the condition of lakes has been improved successfully by the fishing of roach and common bream. It has been calculated that removing 20 tons of roach from the water systems of a country may result in removing as much as 160 kilograms of phosphorus from the system. This means that in the new trend roach has been named a climate friendly foodstuff – it is local, wild and thus naturally raised season food. Eating roach is an alternative to consuming slightly less ecologically caught salmon or tuna fish and thus may help decreasing one's carbon footprint.

A good example of effective fishing of the Cyprinid fish is The Local Fishing Project, started in 2015 by the John Nurminen Foundation. According to the foundation, the objective of the project is to recycle nutrients from the Baltic sea to land through targeted Cyprinid fishing and by helping bring the fish to the plates of the Finns by creating a permanent foodstuff chain and creating demand for cyprinid fish products from institutional kitchens and consumers. The first products include patties made of bream.

Last year I had the privilege of giving a little tongue-in-cheek presentation to the Savonia-Karelian Student Nation of the University of Turku about roach's appearance in Finnish cooking literature. Despite the playful nature of the presentation, my findings were quite interesting. Based on the collection of books I had found in local libraries, I found out that roach rarely made an appearance – thanks to its already poor reputation, according to the famous chef Sami Tallberg in the interview for the project – but that there are plenty of ways to cook it such as frying, making it tartar or preserving it.

The Cyprinid fishes usually have a lot of small bones, especially in their flanks. However, removing the bones from a cooked fillet should be easy. Another way to get rid of the bones is preserving the fish in a jar under pressure, which has become quite a popular recipe, both in cookbooks and on internet food blogs. For example, a glass jar can be filled with pieces of fish, vegetables and wine, vinegar or tomato sauce, and put into the oven for some hours. Matti Särömaa stated in *Kalamiehen keittokirja* ('Fisherman's cookbook', 2000) that the preserved roach is not worse than the good sardines. There really

is some indication of a new demand for this former rough fish in preserved form: Komppa-Seppälä Farm in Korpilahti has launched Järki Särki, a brand of preserved roach with different kinds of seasoning which can be found in grocers all over the country.

Professional chefs do not agree with the common opinion that the roach would taste nothing but mud, provided that it is not caught in the middle of summer, during the time of warm waters. The taste of the roach is quite mild and, in fact, the roach is a good fellow to many spices, such as rosemary, garlic and ginger. Cookbooks and bloggers encourage us to try even cajun, curry sauce or lime marinade with the roach. This means that roach is an excellent raw material for ethnic dishes. Author Juha Jormanainen has described in his cookbook *Kotimaiset kalaherkut* ('Domestic Fish Delicacies', 2015) that roach is as delicious as the more appreciated whitefish, but cheaper. You can only rarely find roach in grocers, but it may cost less than two euros per kilo.

In general, fish is healthy. It includes more diverse nutrients than meat and it more easily digested. Roach includes proteins, different vitamins and minerals. It includes approximately two percent fat, the quality of which in the small lake fishes is also good. This makes these fishes an ideal part of your diet if you wish to avoid diabetes, obesity, cardiovascular diseases and dementia. Moreover, big fish such as salmon tend to amass greater amounts of environmental toxins, whereas smaller fish like roach and tench are cleaner in this regard.

It is likely that the Finns have eaten roach since time immemorial. The assortment of fishes and other raw materials having become greater since the agricultural times and modern people's wish to avoid foodstuff that might require processing may have ruined the name of this fish, at least temporarily, but our new ways of thinking, such as growing appreciation of health and environment, seem to make the return of the roach possible. ■

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Future technology

Expert article • 2256

The science of today - or even the science fiction of today - is the technology of tomorrow. This phrase is not entirely true since there are many science books and science fiction films that are simply non-scientific nonsense. We therefore need to find out how to discover the best science books – the ones our decision-makers would read – and how to find the most visionary science fiction films they would watch, in order to be ready for the future.

Predicting the future technology accurately is not easy, but you can facilitate this task by anticipating global megatrends, since technology has a tendency to adjust to the needs of mankind. As an example, I will look at 10 megatrends that may shape future technologies.

(1) Population growth continues: population is expected to grow by 1 billion by 2035. By 2050, the global population may reach 10 billion, unless we are hit by a pandemic before this time.

(2) Urbanisation intensifies: some 80% of people will live in cities in the developed world by 2035. The respective share globally will be approximately 60%. Most probably, the world's major cities will continue to expand and will become megapolises.

(3) Population aging continues: in 2035, around every third inhabitant living in the developed world will be older than 60 years of age.

(4) Climate change: some experts estimate that the number of climate change-driven refugees could vary between 50–200 million by 2050.

(5) Green energy revolution speeds up: in 1995, renewables covered 5% of energy consumption of the EU-28. In 2014, the respective share was 13%. By 2050, renewables may cover 40% of the world's energy consumption. Currently, the share is less than 15%.

(6) Increasing competition for raw materials: it is evident that the recycling of raw materials increases when the natural resources become scarcer. Competition for potable water may even create conflicts.

(7) Gap between developed and underdeveloped countries may become greater: thus causing economically-motivated migration flows from the underdeveloped world towards Europe to increase.

(8) Global tensions may become more severe: despite the fact that global cooperation, coordination and control would be the most appropriate responses to future challenges, I believe that the self-interest of countries will expand.

(9) Further progress in globalisation is not self-evident: competition between political blocs and tensions between them may increase.

(10) A revolution in the workplace is inevitable: in the developed world, we will have less work to do and more free time to spend. The ultimate question will be what shall we do with our extra time?

It may sound like these megatrends have escaped from Pandora's box. However, I am optimistic that we will be able to discover a technological solution to the majority of future problems. In fact, we are already experiencing the digital revolution, and its consequences may be more influential than those of the industrial revolution or the electrification of our societies. Some experts have even predicted that the next 30 years will change the world more than the previous 300 years.

In the following, I will name 10 technological trends that may have a substantial impact on our future.

(1) Digitalisation: we have already entered the era of 'big data'. The Internet of Things is now a part of everyday business. With the help of digitalisation, companies have created remote control systems that help corporations serve their clients online globally. In addition, households can enjoy the benefits of digitalisation. For example, we can get our clothes, food, entertainment and even medical services through the digital system, and the system could respond before we have even recognised our own needs.

(2) Virtualisation: we have started to use virtualisation in building cities and marketing real estate or travel destinations. Only our imagination sets the limit for further progress.

(3) Robotisation: the word "robot" appeared in Czech science fiction almost 100 years ago and, thus far, robotisation has taken place within the factory walls. Soon we will enter into a new level of robotisation. As an example, I could use the robotisation of transportation. I am sure you are aware of driverless taxis in Singapore and test buses navigating without drivers in Finland. Most likely we will have ocean vessels sailing without crews in the next decade – and the transport industry is simply paving the way for other industries.

(4) Artificial intelligence: and I am not talking here about electronic chess, but artificial intelligence, which could be used in less standardised situations. As an example, I could refer to artificial intelligence used in brokering. Someone has even proposed that we introduce artificial intelligence in political decision-making or national defence. This may sound like a joke, but it actually is not. In my opinion, it is better to have a less clever person than a too clever computer in charge. The challenge is not whether machines will start to think but whether men will do the same before giving any decision-making authority to machines.

(5) Biotechnology: genetic manipulation is already with us; simple DNA simulations are being used to produce synthetic life; viruses have been programmed to produce light and many other science-fiction-like discoveries have already been tested in our laboratories. Our laboratories have taken steps towards the future that our science fiction writers dare not even dream about.

(6) Health revolution: laboratory techniques have become less expensive. Soon we may install programmes in our mobile devices that could advise us about the state of our current health. Moreover, implant technology and 3D printing of organs will probably advance in forthcoming decades. It seems that it is not technology that sets the limits, but rather legal, ethical and even religious considerations.

(7) Environmental technology: with a growing population and larger urban centres, environmental challenges will become so significant that I am convinced that environmental technology will have to make multiple breakthroughs. If not, the citizens of global megapolises, including Moscow, will be in serious trouble.

(8) Energy technology: battery technology has developed rapidly and, sooner than we anticipate, we will be facing a revolution relating to our petrol-consuming cars. I also foresee that solar technology will become cheaper and more effective, and will therefore spread rapidly across the globe.

(9) Nanomaterials: the discovery of plastics changed our industries in the past. Nanomaterials will do the same. For example, nanocellulose could replace the cotton in our clothes. Moreover, nanocellulose could be used as a material for plastics instead of oil. In addition, it will be interesting to witness how the utilisation of nanoparticles in medical science advances. Hopefully, Rusnano will find its role in this global game.

(10) ... and finally, Black Swan, an unexpected phenomenon causing large-scale disruption is possible: even if we move rapidly forwards on the technological highway, we should not rule out the possibility of retrograde steps, if the legal environment or ethical climate become more restrictive due to the unnatural consequences of new technologies.

The French scientist Louis Pasteur once said that *“science knows no country, because knowledge belongs to humanity, and is the torch which illuminates the world”*. I guess that Pasteur, who died before the First World War, was not fully aware of the existence of organisations that systematically utilise science for the development of weapons of mass destruction. In the hands of such organisations, science is not the torch which illuminates the world, but a lighter that may set the whole world ablaze.

In my opinion, human beings and our sense of responsibility have developed in a much slower speed than the technology we are using. Therefore, we should continue the ethical discussion relating to the potentially unwanted consequences of new technological innovations. The core question in this discussion should not be whether we are able to do it, but rather, should we do it?

To conclude, no-one is capable of predicting future technology precisely, but we may well assume that future development will not be linear but exponential. To put it differently, if you take 30 steps linearly, you will move 30 steps forward. However, if you take 30 steps exponentially, you will reach one billion.

If we wish to predict the future more accurately, we should actively start creating it. In order to create a better future, we do not always need to innovate new communication technologies, but we need to learn how to communicate better between nations.

In Finland, we have an old proverb that says: *“the forest answers in the same way you shout at it”*. The equivalent in English would be close to the saying: *“You reap what you sow”*. Therefore, it would be wise to start searching for solutions to break free of the current vicious circle of sanctions before we end up re-introducing the CoCom policy, which aimed at restricting the transfer of state-of-the-art technology from the West to the East during the Cold War.

I would like to end this column with the words of John F. Kennedy, who stated the following on the 25 June 1963, after less than one year had passed since the Cuban Missile Crisis. President Kennedy said: *“Change is the law of life. And those who look only to the past, or the present, are certain to miss the future”*. These words also apply to future technology – regardless of whether these words are echoed in the West or in the East. ■

A summary of Liuhto's speech at the Primakov Readings Moscow, June 30, 2017.

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The Pan-European Institute organises the 30th anniversary seminar dealing with the Russian economy in Turku Finland on the 21st of November 2017.

<http://www.utu.fi/en/units/tse/units/PEI/events/Pages/Russian-Enigma-30th-Anniversary-Seminar.aspx>



BALTIC RIM ECONOMIES

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