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Finnish relations with Russia 1991-2001: Better than ever?

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The opinions expressed in this paper are those of the authors and do not necessarily reflect the views of the Bank of Finland.

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First Foreign Minister Erkki Tuomioja and then Ms Tarja Halonen, the recently elected president of Finland (2000-) raised a few eyebrows when claiming, in a programmatic speech (available through www.tpk.fi/netcomm/news) in Berlin in November 2000 that the relations between Finland and Russia were better than ever. A somewhat similar pronouncement by her predecessor President Martti Ahtisaari (1994-200) that during his rule Finland for the first time in its history had good relations with all of its neighbours had caused more questioning. But in the end both of them were right: the relations between Finland and Russia have indeed been better in the 1990's than ever before, and the Ahtisaari claim had been true as well. In retrospect, the 1990´s are unquestionably a decade of success in Finnish-Russian relation. Various practical, often quite technical problems naturally remain, but there are no major open questions between the countries. Official and private relations on various levels are numerous and still increasing. The largely reached goal is that all levels of administration should have direct and working relations with their Russian counterparts. At the same time civil society contacts grow in importance.

The decade was in this respect started when President Yeltsin gave a clear-cut acceptance to Finnish neutrality, apologised for the Soviet aggression against Finland in 1939 and promised that Russia would no longer meddle in internal Finnish affairs. The decade was capped when President Putin, following the normal protocol of visiting heads of state, laid the wreath not only at the National War Memorial (Gorbachev never did that, but Yeltsin did) , but also at the tomb of Marshal Mannerheim. A Russian newspaper quipped that Putin had crossed the Mannerheim line, still a source of dubious legends in Russian consciousness. In fact, he laid to rest yet another taboo of joint Russian-Finnish history. The separateness of histories is accepted, even underlined, but still the knowledge of the commonness of history is always in the background, as it should.

One should start by stating two of the limitations of this paper. It is obviously written from the Finnish perspective, also because there does not seem to be a consistent Russian strategy or policy vis-à-vis Finland to write about. Quite understandably, given the turbulence of the Russian 1990´s, the leaders of the country seem to have been content with letting Finland take the lead. Russia has had sufficient challenges both domestically and externally to let this part of their borders take care of itself as long as no major problems arise, and that has indeed been the case. Finland has been the neighbour causing no trouble, and that has satisfied the Kremlin. Any particular interest there might have been is primarily due the Finland's 1995 membership in the European Union.

Even the geographical proximity is of more interest to the elites and people of Northwestern Russia than to the Moscow decision makers now that the military dimension of Russia's Western relations has been of less pronounced importance than before. That indeed is the second conscious limitation of the paper. The military security dimension of the relation is bypassed almost completely, mostly because there would be little if anything to write about.

1 The background

Finland has independently or as a part of Sweden waged at least a score wars with Russia, and lost many of them. Still, only one of the states newly established in Europe after the First World War emerged through the 1930´s and 1940´s without having ever been a dictatorship or an authoritarian state and without having been occupied by a foreign army. In fact, among the capitols of European nations engaged in the Second World War, only Helsinki, London and Moscow never saw an alien flag.

Still, the 1947 Peace Treaty of Paris set its mark on Finland. As President Paasikivi (1945-1956) said, the 1948 Agreement on Friendship, Co-operation and Mutual Assistance with the USSR (the YYA Pact), though never a military pact in the strict sense of the word, gave Finnish neutrality a shade that was not easily in line with the accepted interpretations of international law. The Moscow route was used – as the St. Petersburg route had been used under autonomy – by President Kekkonen (1956-1982) and others as a weighty weapon in internal policies. Historians will continue to debate, to which degree the negative connotations of the term “Finlandisation” are appropriate for the particular case of post WW-II Finland. The fact remains that over time the degrees of freedom in Finnish external and internal policy grew more, not less.

The foreign policy line of President Mauno Koivisto (1982-1994) was characterised by caution and judgement. While many earlier presidents had had rich practical experience in Russia, Koivisto has been a serious student of Russia and Russian since the 1950´s. He recently published a book on Russia (Koivisto, 2001) which probably shows the framework in which he analysed Russia even earlier. Koivisto belongs to the last generation of political leaders who were World War II front-line soldiers. This fact together with a deep interest in intelligence and various shared personal traits helped him to establish a friendly relation with another similar person, President George Bush. In essentials, Finnish Russian (and Baltic) policy was during Koivisto’s time co-ordinated with the Americans probably to a higher degree than is commonly known.

For Koivisto, “the Russian idea” is greatness and the country is therefore, like other empires, always bent on expansion. This view is naturally shared by most Finns, especially of Koivisto’s generation, and by many others as well. Against this background, Koivisto used a large share of his time in office to ponder about the probabilities of Russian reactions and decisions in a security policy framework. Most Finns believe strongly – probably too strongly – in the immutability of Russia and Russianness. Koivisto is no exception. Historical experience together with the extent of available information led Finnish authorities into concluding that a cautious approach was indeed appropriate in the uncertain circumstances of the late 1980´s and early 1990´s. Stability and therefore even continuity was the foremost value sought. Consequently Koivisto – together with Bush – tended to side with Gorbachev in his fatal struggle against Yeltsin. The prevailing Finnish military view was that Russians would never voluntarily give up the Baltics. The Finnish business establishment also wished to continue the special trade and payments arrangements with the USSR even after it should have been obvious that history had in deed changed. A few went as far as to hope that the August 1991 coup – if successful – would bring back the glorified days of privileged trade with the USSR. In fairness, one should add that the calls for any special trading arrangements between the countries soon disappeared. Not even in the wake of the 1998 crisis did they reappear. Finnish companies and banks had taken a very cautious position in Russia and hardly any major losses were incurred.

The belief in the immutability of Russia may thus have made Finns behave in ways that in retrospect seem overly conservative. But there is another side as well. Finnish decision-makers and the nation more generally have never been subject to those wide swings of the pendulum between deep pessimism and glorious optimism that have to such a high degree characterised discussions on Russia in many other countries. There was no Gorbymania in Finland; neither has there been any discussion on Russia as a grand failure. Russia has been in the 1990´s, many Finns would argue, just as one would expect it to be.

The attempted coup of August 1991 paved the way to the collapse of the USSR and to a redefinition of Finland's place in the world. The country had always seen itself as a Western nation. Now the road was open for acting the way. Russia, as already mentioned, soon apologised for the 1939 aggression, promised not to meddle in internal Finnish affairs and did not object when Finland joined the EU. During his visit to Helsinki in September 2001 President Putin broke another barrier when he said that the eventual NATO membership of the three Baltic countries is their own decision, not a cause for "hysterical campaigns" by Russia. That may well now be a small minority view in Russia, but it should be bound to become the consensus view in due time. There are, after all, few alternatives to Putin's view. Whether that prompts a reconsideration of the NATO option in Finland, is a different issue not to be addressed in this paper.

Contrary to the Finnish attitude, the beginning of the 1990´s was not marked by a search for stability, but by an abrupt redefinition of the European stage. To a degree the collapse of the USSR must have met the Finnish leadership with surprise. Stating that the 1920´s recognition of the independence of the three Baltic states was still in force – perhaps somewhat surprisingly Finland had never recognised Soviet power there in jure – did not take long, but settling the relation between the USSR and Russia was somewhat more complicated. As Koivisto recounts in his memories, he went into great lengths to remind others in Finland and abroad that Russia, even if weak now, would soon regain its great power pose. Therefore, particularly its neighbours should be cautious (Koivisto 1997, p. 210-211). The decision, based on this analysis, was to amend the 1948 YYA Pact for current circumstances. In September-November 1991 Finland had negotiations with the USSR on a new "treaty on good neighbourliness and co-operation". The treaty had been finalised, when President Yeltsin on the morning of the day when signing had been agreed to take place simply forbade the USSR to proceed with it. In stead, Russia itself signed the same treaty in January 1992, laying to rest the YYA Pact (which Yeltsin characterised as "unfair to Finland") and the previous special relation between the countries as well. Just a few weeks later Finland applied for membership in the EU.

There were other, even if less important aspects to Finland's "liberation" from the shadow of the YYA Pact as well. The history of Finnish Russian studies is a good example of the change underway in the 1990´s. During the Soviet times, Soviet and East European studies had not been repressed, but neither actively encouraged or organised in Finland. In the 1980´s, in particular, a number of social science and other PhD dissertations in the field had been published, but they were all the result of isolated efforts, perhaps also bearing the marks of that. The situation only changed in the 1990´s, partially because the claims made for Finnish Russian expertise in the EU and other international contexts had to be substantiated. Already in 1991, the earlier largely operational department for Eastern Trade at the Bank of Finland was transformed into a monitoring and analytical unit for Russian and the Baltic economies. Over years it became the Bank of Finland Institute for Economies in Transition (BOFIT, see www.bof.fi/bofit), the major centre for research and analysis of Russian and Baltic economies in Finland as well as within the framework of the European System of Central Banks (the Eurosystem).

Since 1995, the Ministry of Education has been supporting a major research and education effort in Russian and East European studies both through the different universities and through research finance channelled through the Academy of Finland. Given the Finnish scale of matters, this has been a major input into social and cultural studies, including a PhD programme of more than twenty students and an MA programme of more than a hundred and fifty students. Aleksanteri Institute, The Finnish Centre for Russian and Eastern European

Studies was established for co-ordinating these efforts, and it is in the process of emerging as a major research institute as well (see Kivinen and Sutela, 1999). Its publications arm, Kikimora publications, publishes a dozen of monographs annually (see www.helsinki.fi/aleksanteri). Altogether, the number of PhD dissertations in Russian and East European studies has in the second half of the 1990´s varied annually between ten and twenty. The increasing activity of the Finnish Institute for International Affairs as well as of the Department of Security Studies of the National Defence College in the field should also be noted.

On the other hand, new freedom of speech was bound to raise into visibility a few traditionally suppressed topics. The foremost among them was the so-called Karelian question. Many Finns, particularly those who originated from the regions involved, felt and still do that the accession by the USSR of about ten per cent of Finnish territory by armed force was a major injustice that should be rectified. A public debate ensued. Officially, the issue does not exist between the countries, because neither one has any wish to open the Pandora's Box of Europe's post-war (any war!) borders. On the other hand, both President Ahtisaari and more recently President Putin have said that they do understand the people raising the issue. The support for revising the borders is quite limited and possibly declining in Finland. The debate was opened, and it will continue. Probably against the wished of the originators of the debate, it has actually tended to diminish the support for revising borders.

Contrary to President Koivisto, President Ahtisaari (1994-2000) does not a have a special interest in Russia. His scope is global, most previous experience coming from Africa and the United Nations. He is not a scholarly thinker like Koivisto, but a man of initiative and action. Only rarely did that initiative concern Russia. Ahtisaari seems to have been content with leaving Russia primarily to Paavo Lipponen, the forceful Prime Minister since 1995, and to Tarja Halonen first as Minister of Foreign Affairs (1995-2000) and then as President. However, as the amendments to Constitution coming into force in 2000 much weakened the foreign policy position of the President, the main responsibility for foreign policy has shifted to the Prime Minister. Lipponen, for his part, has been active vis-à-vis Russia, but always sees matters in an EU context.

This change in the foreign policy division of labour took place in a subtle way, as EU matters were defined as no longer foreign policy – still in letter of Constitution the main responsibility of the President – but as the "normal" field of activity of the Government. This might seem to leave open the possibility that the President would still manage Finland's relation with the non-EU world. That may have been Halonen's position when becoming President. But in fact such a large part of Finnish policy vis-à-vis a country like Russia is designed and executed as a part of EU's common foreign and security policy that little leeway is left for the President. The question has been raised whether Finland could and should have a Russian policy of its own. The official answer has been that there can be no Russian policy separate or contrary to EU policies; that Finland best pursues its interests by being active in the EU context; that various technical details can and should be handled bilaterally to the degree it is purposeful; and the less talk there is of a special relation between Finland and Russia, the better. The last point is conditioned by the post-war history and differs from, for instance, the German attitude.

Many aspects of Russian development in the Yeltsin decade and before have been difficult to forecast. The Finns easily boast – as do the Estonians and others – that common history has given them an understanding of Russian affairs that is greater than the one usually met with elsewhere. That probably has some grounds in reality, but surely the Finnish analy-

sis has been – like that of others – rather less than perfect. Thus, there were Finnish analysts and officials who thought that a break-up of Russia is imminent. Large inflows of refugees were also expected by some.

If the deeply-rooted belief in the immutability of Russia has been one foundation of the Finnish attitude towards Russia, then the second and equally important one is the existence of a wide incomes and welfare gap along the eastern border of Finland. This may not be the widest gap in the world – the one dividing Koreas if also huge – but it is truly remarkable. In the cases of low level public sector employees, the relation in incomes, on current exchange rates, is easily one to fifty. Such divergences have huge potential impact on movement of people, social, health and environmental problems, as well as on criminality. A strong need was felt, already in the early 1990´s, both to take various precautionary steps and to think of ways in which Finland could contribute to economic and social progress, particularly in the areas geographically near to Finland.

Finland has also been vitally interested in trying to prevent the welfare gap of turning into a normative gap as well. Therefore, promoting increased contacts and integration between Russia and the rest of the Europe has consistently been on top of the Finnish foreign policy agenda.

2 Aspects of the relation

2.1 The Northern Dimension

As a new member of the Union, Finland was anxious to leave its mark on the EU. Finnish membership gave the Union for the first time a common border with Russia, and some 1300 kilometres of it. Therefore, the relation between Russia and the Union gained new urgency and practical implications. One answer to this was the Northern Dimension, first as a Finnish initiative and then as a jointly decided EU policy.

EU and the USSR had already in late 1989 signed an agreement on trade and co-operation. In the increasingly chaotic circumstances of a collapsing great power, the agreement could not play any major role. The Soviet Union had traditionally regarded the Union as a mere free trade area with some architectural additions. The EU countries were worried about the potential catastrophic implications of the Soviet collapse, but had little clue about what to do. Germany as the leading EU nation had its special relation with the USSR: Gorbachev had made peaceful re-unification possible, and the German reciprocated with economic assistance and political goodwill. The lead in the Russian policies of the international community was however taken by the United States, first under President Bush and then under President Clinton. Many Russians, as well, looked at the USA as the natural economic and partially also political model to emulate. Russia lacked a clear orientation towards the EU, and one is abound to conclude that the European leaders were, for the most part at least, thankful for not having to take the responsibility of leadership.

Over time, and in particular in the wake of the 1998 Russian economic debacle, when the future of the Russian polity again seemed endangered, when the economic policies adopted by the Russian leaders in 1992-1998, usually in consultation with the international financial institutions, largely controlled by the USA, seemed to have failed rather gloriously, and when various Russian entities were found engaged in dubious or criminal activities, the Russian policies of the US administration were widely judged to have miscarried. These suspicions were strengthened by the soul-searching of Russian reformers themselves (Gaidar, 1995) as

well as by critical analyses penned by prominent outside experts (Gaddy and Ickes, 1998). The interested US establishment immersed itself in a "who lost Russia" –debate (as if Russia had ever been anybody's to lose), the incoming administration of George W. Bush seemed inclined to unilateralism and downplaying of the Russian connection: Europe was offered the leadership in the Russian policies of the international community. It in unclear to which degree this is still true after September 11, 2001.

EU and Russia had substituted their 1989 agreement on trade and co-operation with a Partnership and Co-operation Agreement (PCA) on Corfu, Summer 1994. In the works since 1992, this agreement is the basic document on economic relations between EU and Russia. It had been concluded that Russia could not become a member in the EU in the foreseeable future. It stead, it should be made into a "partner", later into a "strategic partner". Neither of the terms has been defined very clearly. The main goal of the agreement is free trade between the partners. The first Chechen war caused the agreement to take force only in December 1997.

After Finland became member of the EU, handing over trade policy competence to the Union, this also became the vehicle for Finland's trade policy with Russia. The central, perhaps the only major, practical goal of strategic importance in the PCA is free trade between the partners. The PCA foresaw that the two partners would consider in 1998 the possibility for that. In practice, the preconditions were missing and still are, as in October 2001 Russia is still a long way from joining the World Trade Organisation, the natural precondition for considering free trade between Russia and the EU. In fact, though President Putin has repeatedly called for speedy accession, even setting the end of 2001 as the time limit, ongoing vertical integration into large Russian conglomerates sets a question mark over the existence of such major Russian interest groups in whose interest a speedy accession might be.

The existing scheme for the development of EU-Russian relations reminds in a peculiar manner the quasi-Marxist order in which the EU itself has developed over the years. It started with a political recognition of mutual interdependence (in energy on one hand and steel and coal on the other), passed through a basic agreement (PCA and the Treaty and Rome), then through expected free trade perhaps to the four freedoms and in the very long run possibly even into membership. It is unclear, however, why the sequence should be the same in these two very dissimilar cases. It may well be that concerns of urgency might well front-load the weight to be given to co-operation in education, environmental matters, political and even security issues. Free trade, anyway, is not a matter of even medium-term reality. Such considerations may have played a role when the EU started to draft a Russia strategy in Autumn 1998, during the Austrian presidency.

The common strategy on Russia (www.europa.eu.int/comm/external_relations/ceeca/com_strat/russia_99.pdf)is based on a very similar thing as the PCA, but it clearly upgrades the importance of co-operation in such sectors as energy and nuclear safety, the environment and health, internal and juridical matters, regional and cross-border co-operation and infrastructure projects. The strategy is a kind of a shopping list, with which the EU enumerates all the positive processes that it wants to support and strengthen in Russia. On the other hand, the strategy is very quiet on possible risks and threats. Clearly, the strategy lacks in analytical clarity and clear goals. But it did force the Union to study its own structure and activities for the purpose of checking for possible fields of co-operation with Russia.

Whatever the deficiencies of the EU strategy on Russia, it's very existence forced the Russians to reconsider their relation with the EU. Much, after all, had happened since the PCA. Russia answered in Autumn 1999 with their own medium-term EU strategy (www.eur.ru/eng/euru/docs_rcs.html). Russia, with its emphasis on security policy and immediate eco-

nomic gain, had long had serious problems in comprehending what the EU was all about. In that respect, Russia´s EU-strategy marks clear progress. Moscow had been forced by developments to reconsider. Still, room is left for improvement.

Thus, both sides are talking about strategic partnership, but still the approaches are quite different. The EU sees the partnership as serving the goal of reforming Russia’s economy and society. Russia see its as a vehicle for creating a multipolar world to counterweight US preeminence (Gowan, 2000). The EU (while denying the prospect of Russia’s EU membership) has few positive incentives to offer Russia. Neither has it (nor being willing to exclude Russia from international forums) many negative sanctions to use. The most important practical tool, the Tacis-programme, has had both its successes and problems.

The Russians, on the other hand, probably initially overestimated the possibilities of using the EU to counterbalance US influence. They seemed to shift their approach in early 2001, when President Putin (in his famed internet-interview) unambiguously stated that consistency with the EU acquis should be made the criterion for legislation and institutional development in Russia. Seemingly, he wanted to rectify the problems widely diagnosed as a main reason for the divergence of economic performance in Central Europe on one hand and the former Soviet Union on the other. For former countries, phrasing their transformation as a “return to Europe”, could design and execute their legislation and institution building so far to maximise the probability of a fast accession to the EU, NATO, OECD and the rest of the Euro-Atlantic alphabet soup. This gave their policies credibility and consistency, delivering good economic performance. The latter countries, on the other hand, did not see a “return to Europe” as a credible and perhaps not even as a desirable goal. Therefore, their policies tended to lack in consistency and were more easily captured by vested short-term interests. By putting acquis-consistency in the centre, Putin tried to make what could be done to remedy the situation. But his remarks failed to have a major impact, either in Russia or outside it. Perhaps the idea was seen as totally lacking in credibility. But something remained. The October 2001 EU-Russia summit decided to establish another high-level working group, this time to study establishing something called Common European Economic Space. One aspect of that would seemingly be the convergence of legislation (Nezavisimaja gazeta 4 October 2001).

The Finnish foreign policy establishment shared the view that Russia would never become a member of the EU. More than one speech by President Ahtisaari noted that the forthcoming expansion of the Union to the Baltic states would mark its geographical finalité in this part of the world. But the Finns were, for perfectly good reasons, more interested than some other Europeans to see the Union and Russia to draw into closer co-operation. There was the fundamental security policy argument that countries recognising their mutual dependence do not usually engage in aggression against one another. There was the quite as obvious motivation that Finland itself would stand to benefit – economically as well as otherwise — from closer ties between its Western and Eastern neighbours. And there was the understandable wish to show that even a small, new member of the Union could leave its mark on common policies.

This, then was the background when Prime Minister Paavo Lipponen proposed in September 1997 in a speech (available through ww.vn.fi/vnk/english) held in Finnish Lapland that the EU should adopt a Northern Dimension Policy. Lipponen described Northern Europe and especially North-western Russia as a region of great hopes and expectations but potential dangers as well. To exploit the possibilities and to solve the problems a co-ordinated policy was needed. The success of the idea was fast. It was accepted as a part of the external relations of the Union a year later at Vienna. There the Northern Dimension also saw its first

official document, the European Commission's communication on the Northern Dimension. The communication, like Lipponen's speech a year earlier, characterised the policy mainly through a list of negations. The Northern Dimension was not to mean new institutions, new monies or new forms of regionally-based co-operation. In stead, the communication was very long in enumerating a large number of threats, possibilities and risks in the regions, while it was very short in concrete proposals (Haukkala, 2001).

The June 2000 Feira European Council finally adopted the action plan for the Northern Dimension. Meanwhile, the geographical focus had tended to shift somewhat south. While Lipponen had introduced the concept in a conference dedicated to Barents Sea co-operation, the improving accession prospects of the three Baltic states tended to lead into an enlargement-related Northern Dimension. On the other hand, if Finland as the EU Presidency tended to emphasise "the gas pipeline", that is EU-Russian co-operation in securing energy supplies from North-western Russia, Sweden as the Presidency was much more interested in the position of the Kaliningrad region and in the international fall-out of Russian criminality. These two countries have so far been the ones that have made clear contributions to fulfil the concept with contents. It is only natural that both would emphasise the aspects close to their own interests.

The Feira action plan was a disappointment for many observers (Haukkala, 2001). It was again described as being long in generalities and short in concrete proposals. The plan again emphasises that added value is to gained through improved co-ordination and complementary of different programmes. The idea is not to have a specific EU budgetary appropriation. This had originally been Finland's bait to have the idea accepted. While accepting the idea, in particular some of the Southern members of the Union emphasised the need to stick to such original conditions. But remembering that the EU budget had already been agreed upon for 2000-2006, this had been the only feasible strategy to adopt.

What to conclude? There is no doubt that the Finnish proposal was contradictory from the very beginning (Ojanen, 1999). A great number of possibilities, threats and risks were enumerated, but new monies rule ruled out. The need for better co-operation of existing programmes both within the Union (Tacis, Phare, Interreg..) and outside (EBRD, IBRD, NIB…) was emphasised, but no body or new wisdom to do the co-operation was proposed. The relation between the Northern Dimension and the EU Russia Strategy has always remained less than clear. One could also question some of the conceptual basis of the proposal (Sutela, 1999). Does this imply that the Northern Dimension is and remains a useless umbrella concept, one that anybody can fulfil with the contents of her own choice, one that is therefore void of contents of its own and one that should therefore fall victim to Occam's Razor?

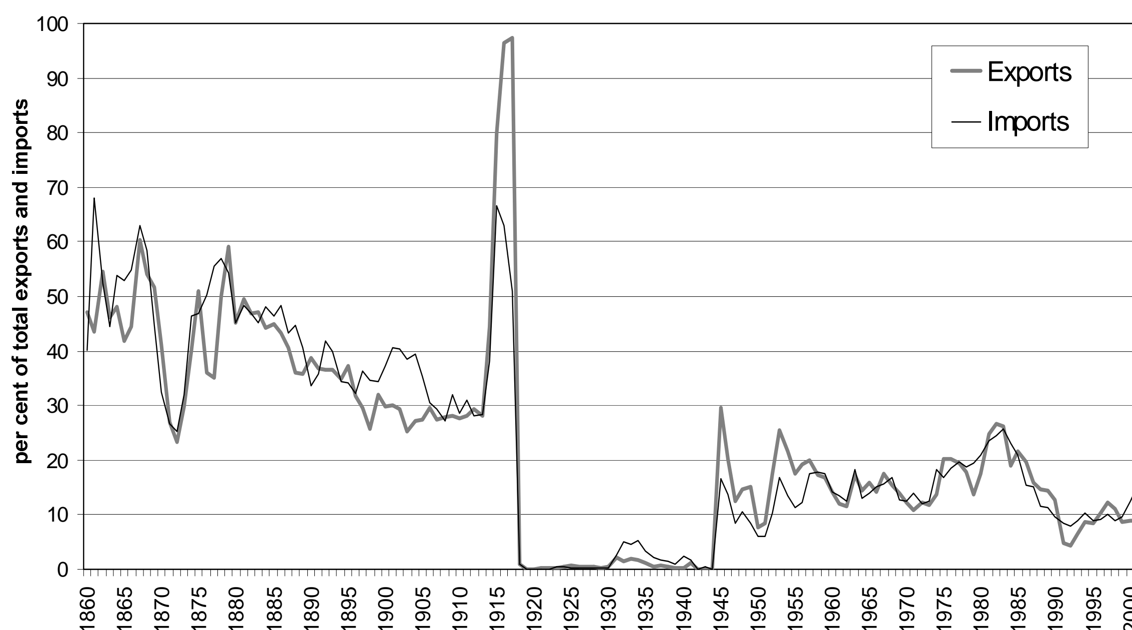
While such a response might be justified on philosophical grounds, politics is not about philosophical purity. The Northern Dimension has been an extremely useful tool to keep the northern and north-eastern relations of the Union in focus. Without the use of this catchword, the interest of the Union might have concentrated even more in other – and well-financed — dimensions than has been the case so far. One may also question whether the improved co-operation of the IFI's in the region – as evidenced by the EBRD-led Northern Dimension Environmental Partnership – might have taken place without the political clout offered by the Northern Dimension, and of the Action Plan in particular. And naturally, the discussion will return to the issue of a separate EU budget line for the Northern Dimension (Lipponen, 2001). If there will be separate finance for the Northern Dimension in the next EU budget frame after 2007, even the most sceptic observers will have to admit that the Finnish initiative has indeed been a success.

2.2 Economic Relations

During the post-war period, the USSR accounted on the average for 15 per cent of Finnish foreign trade. The export share peaked at about 26 per cent in 1983-1985, but declined after that steadily to be just 11 per cent in 1990. There were three reasons for the relative decline. Finland's exports to the world markets grew fast. On the other hand, the price of oil – the major Finnish import good – declined since 1986. That was relevant as the trade was based on annual and five-year agreements on exchange of commodities combined with a bilateral clearing mechanism. A decline in Finnish import value therefore implied the need to cut exports. Finally, the value of the dollar, the pricing currency for oil, declined since 1985.

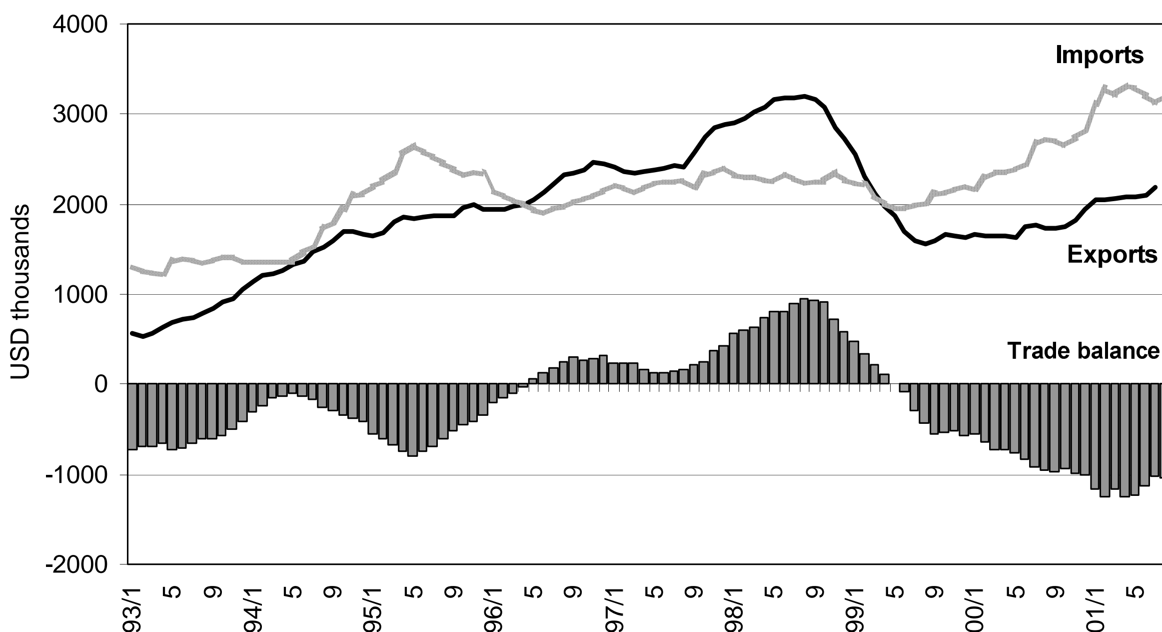
Though sufficient research is still missing, it is thought that the "Eastern Trade" helped Finland to industrialise, smoothed some fluctuations in export demand, tended to increase the profitability of export industries, and thus contributed to Finnish welfare in various ways. But being state trade, it also introduced non-market elements into the Finnish economy, and helped in the use of the Moscow route in Finnish internal politics (for a discussion on some of the issues, see Sutela, 1992-1993). The perceived profitability of the trade induced many representatives of Finnish business and state interests to press for the continuation of the state trading system even when it was obvious that the Soviet capability and willingness to maintain such a system was fast disappearing. In the end, the system was abolished in the beginning of 1991. This, but even more the collapse of the Soviet economy, caused a steep decline in trade (Graph 1). This contributed, but did not primarily cause, the Finnish economic crisis on the early 1990´s. This was the deepest crisis a developed market economy has experienced after the Second World War, as the country lost some 14 per cent of GDP (Kiander – Vartia, 1996). Various research shows that the contribution of the decline in Eastern Trade was about one third of that (as the latest example, see Linden, 2000).

Graph 1. Share of Russia/Soviet Union/Russia in Finland's Foreign Trade in 1860-2001(June), %



In the 1990's, after the initial collapse, trade again started to increase (Graph 2). As Finland approached EU membership, Russian authorities started demanding compensation. They claimed that Russia would lose as lower Finnish tariffs would be increased to EU levels. The claim was not completely groundless, but Finnish calculation on the "Russian loss" reached only levels that were about one tenth of the claims made by the Russians. At the same time Russia was increasing some of its own tariffs, with expected losses much larger. Finally, as a non-member of GATT/WTO, Russia was legally not entitled to any compensation. The Russian side soon dropped the claim. Similar claims were assumedly made to Sweden and Austria as well, though their trade with Russia was much less. This should be seen as one instance of the way in which Russian trade policies have been dominated by fiscal and protectionist considerations, not by an aim at free trade.

Graph 2. Finland's trade with Russia (12-month moving sum)



The same issue is coming back with the expected Eastern enlargement of the EU. Again, Russia is demanding compensation, also referring back to the earlier Finnish experience. Some Russians go further, claiming that Finland's EU membership causes Russia an annual loss of 350-400 MUSD, due to "higher tariff barriers, anti-dumping measures, limitations of industrial construction and freezing of military technical co-operation" (Andrei Trapeznikov, member of leadership of RAO EES, cited in Kauppalehti 18 April 2001. Anatoly Chubais, the CEO of RAO EES, has verbally made similar claims). The claimed loss amounts to 11-13 per cent of the 2000 value of Finnish imports from Finland. This is supposed to hold in spite of the fact that 80 per cent on Finnish imports from Russia have zero tariffs. But that, Trapeznikov retorts, only shows that Finland mainly imports fuels and raw materials, which face no tariffs anywhere.

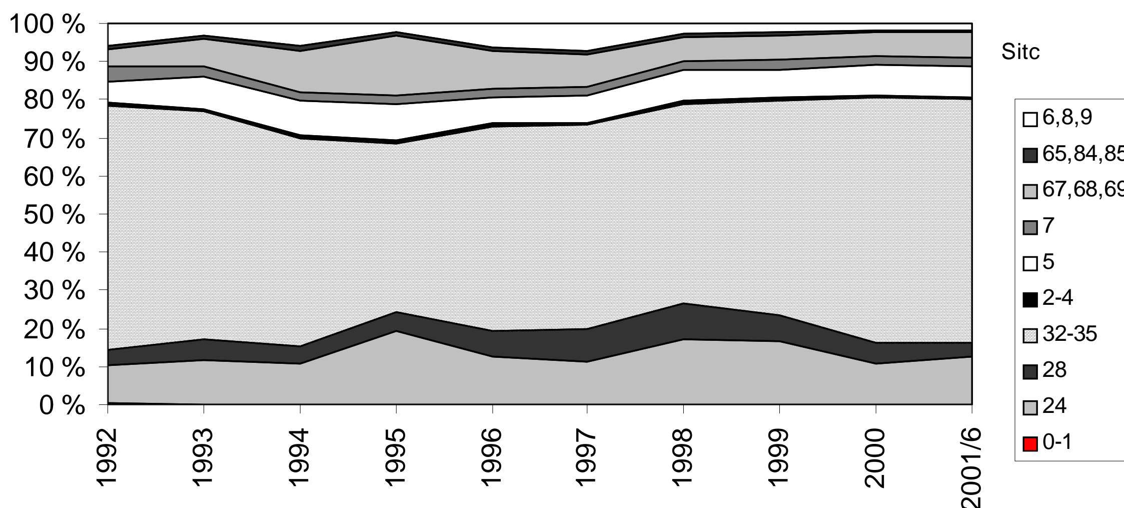
Such Russian voices fail to recognise two crucial matters. First, as the official Russian position also emphasises, EU enlargement is good for Russia if it leads to more economic dynamism in the new member countries. Second, the wider application of EU rules and

procedures adds to clarity and uniformity in market relations. Third, the access to EU finance and co-operation programmes will have a fall-out on trade as well. These arguments are surely relevant in the case of Finland. In particular the second one is important. Though a new trade agreement was signed between Finland and Russia already in January 1992, it was very general and for instance referred to old Soviet-time agreements in ways, which helped little. Overall, the fluidity of the Russian situation was also reflected in trade relations. After Finland became a member of the Union in January 1995, the PCA provided a much-improved institutional and legal framework for trade relations. Though Finland lost its sovereignty in trade policy, the frequent and various problems in customs, tariffs, traffic, certificates and elsewhere have been negotiated both via Brussels and directly.

Finland expected with good reason that the net impact of EU membership would be positive on Finnish-Russian trade and relations in general. In retrospect, developments have been even better than could be foreseen. There have been mostly practical problems in Finnish-Russian trade, but it would be difficult to argue that they have been caused by Finnish membership in the Union. No similar problems have been visible in, say, the trade between Finland and the Baltic countries, which also emerged from Soviet past.

Clearly, Finnish imports from Russia did not increase in 1994-1998. The world market prices of the major Russian exportables were then low. More recently, the value of Finnish imports from Russia has naturally boomed, and now accounts for some ten per cent of total Finnish imports. True enough, the structure of Finnish imports is skewed towards energy and raw materials (Graph 3), but that is true of all Russian exports. Finland is no exception here, the major difference being the greater weight of roundwood in Finnish imports than in overall Russian exports. This is explained by geographical proximity, the state of the Russian forestry sector and the traditional specialisation of Finnish industry.

Graph 3. Structure of Finland's imports from Russia in 1992-2001 (June)

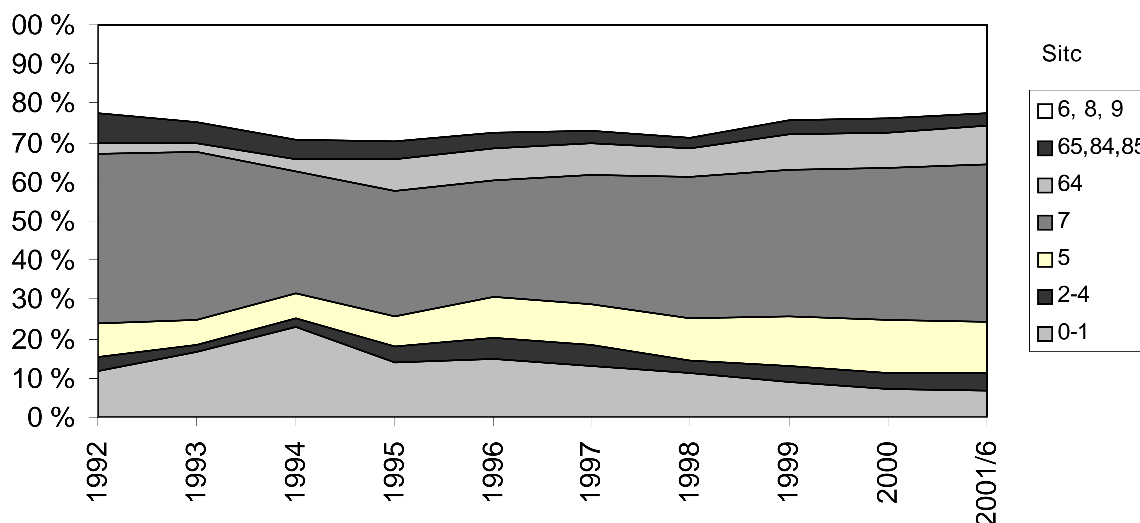


Structure of imports (Sitc-classification)

Food and beverages (0-1)	Chemicals and related products (5)
Wood (24)	Machinery and transport equipment (7)
Metalliferous ores and metal scrap (28)	Iron, steel and non-ferrous metals (67,68,69)
Energy (32-35)	Textiles and clothing (65,84,85)
Crude materials (2-4, except 24,28,32-35)	Other manufactures and articles (6,8,9)

Looking at Finnish exports, there are two major differences from Finland's overall export structure. Finland exports less paper and paper products to Russia than to many other markets. This is due to Russia's resource endowment and the low level of paper consumption there. On the other hand, Russia (and partially the Baltic countries) are the only countries were Finnish food (and beverage) exports are competitive. This is partly due to geographical proximity, partly it can be explained by the presence of Finnish foodstuffs in the Soviet markets. Finnish producers do not have internationally recognised brands in this field. In Russia, the case is to some degree different.

Graph 4. Structure of Finland's exports to Russia in 1992-2001 (June)



Structure of exports (Sitc-classification)

Food and beverages (0-1)
Crude material and mineral fuels (2-4)
Chemicals and related products (5)
Machinery and transport equipment (7)
Paper and paperboard and articles thereof (64)
Textiles and clothing (65, 84, 85)
Other manufactures and articles (6,8,9)

Most recently, trade has increased fast. Table 1 gives the breakdown in per cent of Finnish exports to Russia by SITC groups, together with growth rates for the groups in 2000-2001 (1-5). It is easy to conclude that as the competitiveness of Russian foodstuff production has increased, growth rates of Finnish exports in the branch are modest. On the other hand, export of paper is increasing fast, and the same is true for machinery as well. The latter includes electronics.

Imports from Russia, on the other hand, continue to be dominated by energy and raw materials. Wide fluctuations in world market prices cover any structural change there might recently have been. The interesting group of machinery, equipment and transport equipment is so small, 1-2 per cent, in absolute size that short-term variation is uninteresting.

Table 1. Finnish exports to Russia, the main commodity groups.

SITC group	2000			2001(1-5)		
	MFIM	share%	change%	MFIM	share%	change%
01-09 food	884	6.9	+15	340	6.0	+2
33 oil products	196	1.5	+15	84	1.5	+34
5 chemicals	1686	13.4	+42	768	13.5	+28
63 wood products	185	1.4	+20	78	1.4	+35
64 paper and cardboard	1144	8.9	+32	586	10.3	+42
65,64,85 textiles etc	451	3.5	+42	179	3.2	+20
66 ceramics, glass etc	276	2.1	+14	138	2.4	+74
67-69 metals	851	6.6	+29	341	6.0	+17
7 machinery	5020	39.1	+40	2229	39.3	+31
82 furniture	164	1.3	+13	65	1.1	+11
87 instruments	215	1.7	+61	85	1.5	+6
892 printed matter	560	4.4	+35	242	4.3	+20
others	1193	9.4	+32	548	9.6	+39
total	12825	100	+34	5683	100	+28

Memo: 5.95 FIM = 1 EUR
Source: Customs Board

Table 2. Finnish imports from Russia, the main commodity groups

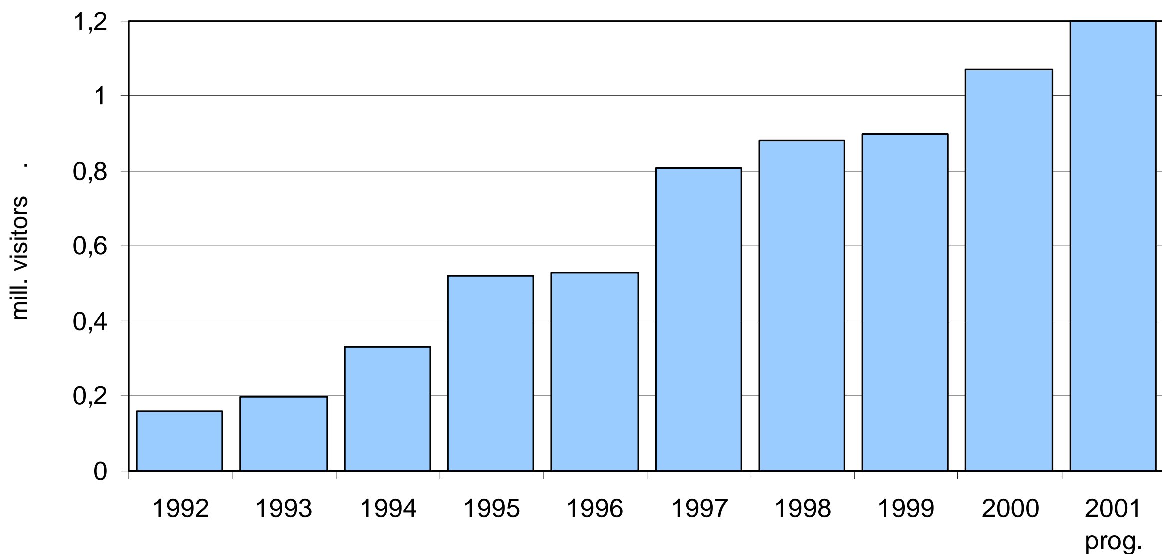
SITC group	2000			2001(1-5)		
	MFIM	share%	change%	MFIM	share%	change%
24 wood	2158	10.5	+4	1168	12.6	+28
28 ores and scrap	1128	5.5	+28	342	3.7	-26
32 coal	549	2.7	+85	299	3.2	+50
33 oil and products	9546	46.4	+99	3866	41.7	+13
34 natural gas	2726	13.2	+79	1475	15.9	+14
35 electricity	439	2.1	-26	352	3.8	+86
5 chemicals	1672	8.1	+76	746	8.1	+27
67,68 metals	1241	6.0	+53	608	6.6	+14
7 machinery	500	2.4	+59	134	1.4	-39
others	619	3.0	+23	276	3.0	+31
total	20578	100	+61	9265	100	+16

Memo: 5.95 FIM = 1 EUR
Source: Customs Board

One important implication of the transition from state to market-based trade is that the number of enterprises involved trade has multiplied on both sides of the border. On the Russian side that is obvious as the state foreign trade associations lost their almost-total monopoly position. On the Finnish side, though component suppliers may not be completely accounted for, an estimated thousand companies took part in Eastern Trade in the late 1980´s. This number

already more than doubled by 1993. As en estimated 230´000 different Russian travellers came just to South-Eastern Finland in 2000 (see below), and most of them did some shopping, often for resale, the total number of traders has become simply huge.

Graph 5. Russian entries to South-East Finland, 1992-2001



There is no reliable information available on Finnish direct investment in Russia. According to trade promotion authorities, there are several hundred active Finnish-owned enterprises in Russia, mostly in Moscow and St. Petersburg. Most of these investments are quite small, and none amounts to a truly big scale. The nearest exception is the Baltic Beverages Holdings, a Nordic company whose beer business in Russia, Belarus and Ukraine is technically run by Finns. Probably the most successful FDI in Russia of them all, BBH has through Baltika and other brands a share of more than a quarter of a market that has risen by at least a quarter annually. Fortum, the Finnish energy company, has been active around Russian oil and gas for years, but without major investments. Even in the forestry sector small investment prevails, the largest one being a veneer plant in Veliky Novgorod.

When asked, Finnish businessmen give the same answers for why not to invest as everybody else. The unstable environment created by the authorities is the major problem. Given geographical proximity and the potential possibilities for just-on-time forward contracting – so successful in Estonia and elsewhere – the unpredictability and arbitrariness of the Russian customs authorities becomes a major problem. Though much hard work has been done and progress has been made, problems still remain. The same is true of tariffs and some aspects of taxation. Competition by gray imports often through Belarus or Ukraine, is also a major impediment to investment in Russia.

As a comparison, it should be pointed out that according to incomplete information, in 1998 the ratio of Finnish outward direct investment to export trade was 43 per cent. The ratio of investment to Russia to exports there was just 3 per cent. Though a crisis year for the Russian economy, this was not an exceptional year concerning FDI. Earlier ones were similar. A Bank of Finland survey found that Finnish FDI into Estonia (980 MFIM) at the end of 1997 was clearly larger than the flow to Russia (650 MFIM). Perhaps surprisingly, the unit size of investment in Estonia was larger than in Russia. The share of loss-making investment was also smaller in Estonia (Rautava, 1998).

Contrary to Estonia, Finnish tourism to Russia – traditionally quite strong — has remained very small in the 1990´s. The exception are short-term visits to very near-by towns, usually for securing cheap gasoline or other goods. According to Finnish Border Guards, the total number of crossings on the land border has increased from 4.6 million in 1998 to 5.6 million in 2000. As the figure is already 4.4 million for the first nine months of 2001, the total will again increase in 2001. At the same time the share of Russians among the travellers has increased from 46 to 52 per cent. Contrary to some fears, the Finnish introduction of the Schengen regime in March 2000 has been far from harming travel between the countries.

Thus, increasing numbers of Russians have been coming to Finland. Many of them come several times in a year. Thus, the figure of crossings from Russia into South-Eastern Finland only is reported to have increased from 200'000 in 1993 to an estimated 1´200´000 in 2001 (Helsingin sanomat 5 October 2001). The estimated number of separate people in this number is 230´000. Most of the Russian travellers come from St. Petersburg. The most popular destinations are Helsinki or South-Eastern Finland. Earlier on, most Russians came to Finland for business, that is for shuttle trade, but their share has been decreasing. A survey made in August 2001 showed that almost half of shopping was for own or family use, just over half for resale.

Cars, their service and spare parts are the major shopping item, but clothes, furniture, sports equipment and food are important items as well. The budget of the average traveller is about 3000 FIM. The traders use almost 6000 FIM, ordinary tourists about 1000 FIM. In addition, services are bought for about 500 MFIM. Russians come to cities and towns, but also to spas, ski resorts and rented summer cottages, all services that are generally not available in Russia. Altogether, the revenue from Russian travellers to South-Eastern Finland is 3.2-3.5 BFIM, not a minor sum of money.

Unfortunately but perhaps understandably, many Russians finance their trips by selling goods like alcohol or services like sexual ones. The latter activity is dominated by thousands of Russian or Russian-language women (from Estonia), who can easily earn a month's salary by a week-end's work.

Transit between Russia and (mostly European but also Asian and North-American) markets is of primarily local importance for the Gulf of Finland harbours. For cost reasons, most traffic is by lorries registered in Russia. It is estimated (Laurila, fortcoming) that the transit turnover in 1999 was 2.4 BUSD for Finland, 10.6 BUSD for Latvia, 3.8 BUSD for Lithuania and 3.7 BUSD for Estonia. In tonnes, the share of Finland would be even smaller – less than tenth of that of Latvia, for instance, as Finland has sought to specialise in higher value commodities to transport. While most Latvian transport is transit, the share of transit in total Finnish transport is just three per cent.

In 1991, Finland´s collapsing trade with the USSR was a major factor in the coming of the economic crisis. In 2001, exports into Russia are among the most dynamic parts of aggregate exports. During the first five months of the year, total Finnish exports only grew by four per cent, those to Russia by thirty per cent. Still, the Russia's export share is little more than five per cent, but even that together with the higher import share makes Russia the fifth most important country for Finnish foreign trade after Germany, Sweden, Britain and the United States. That, together with Putin's visit and Russia's foreign policy role after 11 September, is also reflected in current public opinion towards the country.

Another perspective is given, if trade figures are combined with data on investment and tourism. In this comparison, Russia (with 146 million inhabitants), is about equally important economically to Finland as China (1460 million inhabitants) and Estonia (1,45 million inhabitants).

2.3 Policies on Near-By Areas

If there was an innovation in Finnish-Russian co-operation, that was the early decision to concentrate much of the efforts on the near-by Russian areas. The motivations for this were several. First, given the scarcity of Finnish resources, there was an obvious need for some concentration. A decision based on branch or functional basis would have excluded a large part of Finnish business and society at large. With a geographical concentration that was less of a problem. Second, other Russian regions would have been better endowed with resources and thus perhaps more promising business environments, but they tend to geographically far from Finland. That would because of transport costs have increased the necessary scale of activities, and excluded a large part of small business and civil society from the activity. There was, however, a clear political gain to be reached by encouraging grass-root civil society contacts. The idea was to make the border more porous, without opening it to uncontrolled movements of people and commodities. Third, given the geographical and resource similarity, Finland could be expected to have specific knowledge relevant just to these Russian regions. Fourth, some of the problems to be addressed, like airborne pollution and potentially crime and health problems, had an immediate transboundary character. Fifth, Finns had specific knowledge about just these regions, largely for historical reasons. Finally, concentrating on the near-by areas, some of which had been part of Finland until 1944, gave the possibility to recreate the largely lost connection without any chauvinistic implications.

A truly surprising amount of activities sprang up with the very limited official finance of 200-300 MFIM annually. It has included the participation of literally all sectors and layers of the Finnish society, from ministries up to regions, localities, hobby clubs and schools down. Nobody has or will be able to count the number of personal contacts created, but the number of immediate participants must be tens of thousands on both sides of the border. Primarily but not only due to Policies on Near-By Areas, literally any Finnish ministry has working relations with their Russian counterparts both in Moscow and in near-by localities. Most of the ministries have tens of employees with practical knowledge of working with the Russians. In regions, this is primarily but not only true of the eastern and northern regions immediately bordering on Russia. And most importantly, a very large number of Finns, and Russians, now know their neighbours much better than before. Neighbours as human beings, but also as members of communities and actors within the given rules of each society. Policies on Near-By Areas have been criticised for their lack of visible economic result, but that fact is part of the benefit that has been paid. For one should ask, what is more valuable for a Finnish farmer or local farmer's association to learn: that they can help to reform Karelian agriculture, or the reasons why they are unable to do that? To say the least, the answer is not self-evident.

2.4 Environmental Co-operation

Famously, most environmental problems do not recognise the sovereignty of individual states and travel across borders unhindered. This is particularly true of the Baltic Sea Rim area, which has become the focal point in Finland's environmental co-operation with Russia. This has been the case particularly after the early shock of transboundary flows of sulphuric air flows from North-Western Russia to Northern Finland was dampened. This took place for two main reasons. The emissions of the worst sources, Kola Peninsula mining and metals industry, declined sharply together with economic activity there. On the other hand, scientific proof of the impact of acid rain on Northern forests proved rather less than perfect. Research continues (Helsingin sanomat 9 October 2001).

Another environmental problem is international in a different way. That concerns the preservation of old forests in North-Western Russia. Though most European forests are cultivated or have at least been subject to economic exploitation in recent history, Russia still has a large amount of old-growth forests. The suspicion has grown repeatedly – in at least a few cases with good grounds – that among the round-wood imported by Finnish forestry companies from Russia are cuttings from such forests. That has given rise to protests and threats of boycott in the environmentally conscious Western European markets. Between the need of North-Western Russia for export revenue and Finnish companies for raw materials, it has taken some time since the mid-1980´s to find ways of certifying the wood sources so that all interests can be satisfied to a sufficient degree.

The Finnish Ministry of the Environment established its Eastern Europe Programme in 1990, the year when the Baltic Region prime ministers agreed on the writing of a joint environmental protection programme. Already in 1992 the St Petersburg water utility (Vodokanal) became the principal partner for co-operation between Finland and Russia. The reason is evident. The Baltic Sea remains one of the world’s most badly polluted seas. Though the nutrient pollution reaching the Gulf of Finland has decreased by some 20-25 per cent since the end of the 1980’s, it still exceeds the biological capacity of the sea. The nutrient loads discharged into the Gulf of Finland is three times higher than the average for the Baltic Sea as a whole (United…, 2000). The main source is clear: the city of St. Petersburg with some 5 million inhabitants only treats two third of its waste water. The construction of the third, South-Western Water Treatment Plant, was stopped many years ago due to financial problems. The waste water of 1.5 million city residents is discharged directly into the Gulf of Finland.

St. Petersburg and the Neva brought in 1995-1998 into the Gulf of Finland 70 per cent of the total phosphorus and almost 50 per cent of the total nitrogen burden (Kiirikki et al, 2000).

The fact that the construction of the plant – estimated to cost 150-180 MEUR — still remains to be restarted, is due to a number of problems. The lack of Russian counterpart finance, the low value given to environmental concerns in Russia, and the organisational problems in dealing with Western financier are probably foremost among them.

2.5 Security: selected aspects

The 1300 kilometres of Finnish-Russian border are unique in two respects. This is one of the few Soviet borders, which also remained Russia’s border. That has much facilitated the maintenance of border controls, as there has been no need to build new installations. Second, as this is the only border Russia shares with the EU, it has been something of a matter of honour for the Russian border guards to maintain as high a surveillance level as necessary. On the other hand, EU money has recently been available for building new installations. Further, the maintenance of the border controls has been helped by the fact that the basic function of both border guards still remains the same. Both sides look at the same direction and try to prevent unauthorised movement from the east to the West. Matters remain as they were in Soviet times. For this purpose, Russia has even been willing to engage in controls that are not necessarily to the liking of all human rights watchdogs.

The border has remained peaceful. The number of incidents has increased, but is still very low. An individual serious case, like an escaped, armed and violent Russian soldier running wildly on the Finnish side, underlines this. There is evidence of organised smuggling of third-country citizens onto the Finnish border up in the Karelian forests, where controls are

thin. Even these cases are rare, given the estimates of possibly hundreds of thousands of third-country citizens that are estimated to spend time in Moscow and St. Petersburg for finding a way to EU countries.

Finland has been self-interested in promoting the capabilities and motivation of Russian border guards through various modest forms co-operation. But Finland has also been interested in building its controls and procedures onto a level that could be used as an example of the way in which EU and Schengen outer borders should be controlled. A cheap and sufficiently fast availability of multiple-entry visas is an important aspect of this policy. As Graph 5 shows, the entry of Russians into Finland by no means declined after the country joined the Schengen agreement in March 2000. On the contrary, the demand for visas increased. A new building for the consulate general will soon be built in St. Petersburg. The consulate general is already by far the largest foreign representation of Finland, even larger than the one in Brussels.

The threats here are obvious. It is probable that the old physical installations on the Russian side have been largely neglected and may fall into disrepair quite soon. The increased demand of border guards on the southern borders of Russia implies that personnel on the Russian side may be cut notably. At the same time the progressive depopulation of the Finnish eastern regions means that there will be fewer eyes noticing potential alien travellers. The main issue, however, is whether the major routes to South-eastern Finland will remain well guarded. There seems to be less reason for worry here.

The lessons learned in the maintenance of the control standards – while facilitating swift formalities — on the Finnish-Russian border have been later transferred with trilateral co-operation onto the Russian-Estonian border. More recently the co-operation has moved onto the Latvia-Russian border.

Fear for Russian organised crime was a major public issue ten years ago. The preconditions for an avalanche of Russian criminals were however not good at the time. There was almost no Russian-speaking population in the country; the small and homogenous population of the country also limited the possibilities of infiltration and covert action; the market for criminal services remained very small compared with larger countries; and the low educational and organisational level of Finnish crooks limited their potential for co-operation, even if it also restricted their capability for resistance in any turf war.

Such lack of preconditions has probably limited the extent to which Russian crime has taken over the Finnish market for crime services. Most drugs however come via Russia (and the Baltics) and the same holds for prostitution. Foreigners, primarily Russians and Balts, have taken over the larger-scale Finnish drug market. There is increasing evidence of money laundering, also due to the introduction of cash euros, but even here the size of the market is a limitation. The number of Russian-speaking residents has risen to low tens of thousands. There are some 20’000 more so-called Ingrians waiting for immigration permit in and around St Petersburg. They are supposed to be descendants of Finns, who moved to the region in the 17th century and have been given immigration rights as return movers, but in many cases they are completely russified. They will further add to the Russian-speaking population in Finland.

A further aspect of security problems concerns ship traffic in the Gulf of Finland, especially as the building of new Russian harbours at the bottom of the gulf will much increase east-west traffic. It will inevitably intersect with the south-north traffic between Tallinn and Helsinki, with tens of departures and arrivals daily in summertime, many of them with very fast boats and ferries. The risks will be reigned again with trilateral co-operation between Estonia, Russia and Finland, who will create a common sea traffic control system.

Trilateralism is obviously needed for problems like sea traffic control in the Gulf of Finland, but for Finland there is also an intrinsic value in enhancing co-operation between Russia and Estonia.

3 Conlusions

One therefore has to, this author argues, conclude that the history of Finnish-Russian relations in the 1990's has been a success story. Though the argument is often heard – and there is some truth to it, especially concerning the private business sector – that EU membership attracted so much interest and absorbed so many resources that the Eastern direction was relatively neglected, the story unfolding above should show that this argument is far from being the whole truth. Finnish-Russian relations are indeed better than they have been ever before. President Paasikivi's (1945-1956) old dictum that if one bows to the West one is bound to turn one's bottom to the East – and visa versa — is no longer true. It is no longer true post September 11 2001, but neither has it been true for the previous ten years. Bowing, naturally, not meaning subservience, but co-operation.

During the last year and more, the presidents of the countries have met twice and the prime ministers thrice. The Finnish Minister of Foreign Trade was in different regions of Russia seven times in 2000 alone – and this in a time when trade policy if the prerogative of Brussels. Most of the visits are not for protocol, but for strict business. State leaders in general travel more than before, but still this is veritable proof of good relations. Banal even to say, but there are no opens questions between the states.

But surely the major new factor is the wide and deep involvement of the civil society. This was naturally absolutely unthinkable during Soviet times. It is one more proof that nations do change, and so do their relations. That does in no way imply that problems or risks would not exist.

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