



Review of Economies in Transition

Idäntalouksien katsauksia

1996 • No. 4

10.7.1996

Reprint in PDF format 2002

Elena G. Efimova - Sergei F. Sutyurin

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Bank of Finland
Institute for Economies in Transition, BOFIT

ISSN 1235-7405
Reprint in PDF format 2002

Bank of Finland
Institute for Economies in Transition (BOFIT)

PO Box 160
FIN-00101 Helsinki
Phone: +358 9 183 2268
Fax: +358 9 183 2294
bofit@bof.fi
www.bof.fi/bofit

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Elena G. Efimova – Sergei F. Sutyurin¹

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Abstract

This paper provides a general assessment of transport network of the St. Petersburg region and examines the possibilities for collaboration between Russia and Finland in utilizing and enhancing the function of this network. Treating transport infrastructure as a precondition to certain forms of international economic relations, the authors argue that in recent years the transport network under review has become increasingly inadequate to handle the changing and growing needs of economic collaboration between the two countries.

Nevertheless, prospects for the future are not entirely gloomy. Russia, Finland and many other countries stand to benefit substantially from the development of the transport infrastructure in the St. Petersburg region. Therefore a number of joint projects have currently been started to remedy the situation.

Keywords: Russia, St.Petersburg, infrastructure, transportation, international economic cooperation

¹ Elena G. Efimova - Candidate of Economic Science, Senior Lecturer and Deputy-head, Department of International Economics (St. Petersburg State University, Faculty of Economics)

Sergei F. Sutyurin - Doctor of Economic Science, Professor, Head of International Economics Department (St.Petersburg State University, Faculty of Economics)

1 Introduction

A number of studies have dealt with issues related to transport infrastructure in the St. Petersburg region and the prospects for its future development from the point of view of economic cooperation between Finland and Russian Federation. Among the more important studies, the 1993 survey by Finland's Finnish Ministry of Transportation and Communication is probably best known.² Other recent studies of the transport network have tended to treat the issue in a broader context as part of discussion of economic development in the region,³ or if they do concentrate on transport infrastructure per se,⁴ they treat international economic cooperation as an external factor. In any event, most studies do not include the developments of the last two or three years, which have brought with them significant changes.

The most relevant publications for our purposes deal with "Gateway" concepts,⁵ although even these treat the problem from a slightly different angle and do not cover all the aspects we are interested in.

² Liikenneministeriö. A Study on the Transport Infrastructure of St. Petersburg and the Leningrad Region. Liikenneministeriö. 1993.

³ Eronen J. St. Petersburg - Manpower Prospects and Economic Potential. VATT. 1994. VATT-keskustelualoitteita No.75.

⁴ Liikenneministeriö. North-Eastern Europe Transportation Study. Liikenneministeriö. 1993.

⁵ See, for example: Foxx Oy Logistinen Gateway. Suomi välittävissä liiketoimintatehtävissä Venäjän ja IVY-alueen osalta koskien erityisesti Yhdysvaltoja ja Englantia. Kauppa- ja teollisuusministeriön rahoittamat tutkimukset 37/532/93. 1993; Kivikari U. From a Giant to a Gateway in East-West Trade: Finland's Adaptation to Radical Changes in Eastern Europe. Turun kauppakorkeakoulu, Itäkaupan tutkimus- ja koulutusyksikkö. Sarja C Keskustelua 2/95. 1995; Kojo A., Kögäs M. Suomen Gateway-asema lännestä arvioituna. Turun kauppakorkeakoulu, Itäkaupantutkimus- ja koulutusyksikkö. Sarja B tutkimusraportteja 1/95. 1995.

2 The Role of Transport Infrastructure in International Economic Cooperation

A transport network represents one of the major elements of general infrastructure, and by definition constitutes a necessary precondition for efficient function of any modern economy. Moreover, infrastructure as a whole, and the transport network in particular, is not a purely passive feature of the economy with its characteristics predetermined by the level of economic development in a specific country. Quite often infrastructure can play an important, if not crucial, role in cost reduction, transfer of resources, improvement of market structure, and, ultimately, acceleration of economic growth.⁶

The above-mentioned is especially pertinent to international economic relations. Almost any form of cooperation within the framework of world economy relies heavily upon infrastructure, and the transport network is the most closely tied to the sphere of international trade.

Yet, in spite of the fact that it is transport that makes any physical trade between countries possible, traditional theory has tended to treat the transport infrastructure as a thing either self-evident or counterproductive to mutually beneficial economic cooperation. Models explaining rationality and the benefits of foreign trade in line with the theory of comparative advantage assume transportation costs equal to zero. Indeed, insertion of a "transport factor" in an analysis could lead to the peculiar conclusion that transport is a drag on economic performance.⁷

⁶ See eg Gramlich F.M., Infrastructure Investment: A Review Essay. *Journal of Economic Literature*. 1994. vol. 32, pp. 1176-1196; Aschauer D.A., Why Is Infrastructure Important? in the Proceedings of June 1990 Conference, ed. A.H. Munnell, Conference Series No.34, Federal Reserve Bank of Boston. Boston, 1991, pp.21-50; World Bank. *World Development Report 1994, Infrastructure for Development*. Oxford Univ. Press, Washington D.C., 1994. For publications closely related to the subject of the present paper, see eg: *Baltic Regions and Baltic Links*. Ed. by L. Lundqvist & L.O. Persson. NordREFO. 1995.

⁷ See eg: Asheghian P. *International economics*. 1995. West Publishing Company. New York. p. 84-87.

Admittedly transportation costs really do constitute a barrier to development of foreign trade in certain cases,⁸ but this is far from a universal truth. In fact, under certain circumstances, the "transport factor" can result in a substantial increase in the volume of international commodity flow. There are at least two effects driving this phenomenon.

The first is a *substitution effect*. This means that if we look at neighbouring areas of two countries (especially two countries with large geographic areas) transportation costs for international transactions, *ceteris paribus*, could be definitely less, in comparison with transportation costs for a similar transaction between domestic firms. Rational economic behaviour would dictate that buyers substitute their purchase on the national market with imports from the foreign company.⁹

The second is the external economy of scale effect of international trade, whereby development of infrastructure as a whole, and the transport network in particular, is stimulated. This may result in the emergence of comparative advantages that make the foreign transaction more beneficial to both parties than initially, stimulating a positive feedback loop that encourages more trade and rewards further transport network development. The big question here is how to enter this virtuous circle. Basic theory tends to start with trade as the initial momentum. But in certain cases, as will be shown, we can just as easily start with the transport network.

Theoretically, there are at least three approaches to analysis of transport infrastructure within the framework of international economic

cooperation. The first approach, as mentioned above, sees transport infrastructure as a necessary prerequisite to securing smooth and efficient international trade. The transport network itself is assumed to have been built, maintained and operated entirely without international inputs.

In the second approach, the transport network is regarded as a basis of international cooperation. Several countries combine their resources in order to either create or maintain and use certain elements of infrastructure, like roads and seaport facilities. A recent example of this approach is the contract between French company Thomson and Republic of Tatarstan to install an air traffic control system at Kazan airport.¹⁰

In the third approach, transport services, which of course cannot be treated entirely separately from transport infrastructure, are seen to constitute an important, but invisible, aspect of trade. According to Goskomstat of the Russian Federation, Russia exported transport services including insurance worth a total of USD 4,194 million, and imported respectively a total of USD 2,991 million during the first nine months of 1995.

All these three approaches are relevant to the present paper.

3 Transport in the St. Petersburg Area: Current Problems and Future Possibilities

One is free suggest a whole set of explanations as to why Russian transport infrastructure has traditionally been so lousy, (eg climate, geography, ideology¹¹), but no matter what the reason, the fact of poor road quality is one of the few unanimously accepted notions in this highly opinionated country.

The situation in the St. Petersburg region traditionally has been slightly better than in the whole country on average. Some western experts

⁸ The possible negative impact of transportation costs on international trade is quite often used by national governments arguing for protectionist policies against foreign competitors. In a famous example from the second half of the 1980s, the Italian authorities put a ban on the sale of mineral water in plastic bottles and thereby virtually closed their national market to most foreign companies.

⁹ A typical example would be calculations made in the early 1980s regarding provision of Soviet Far East regions with grain. The alternatives were to transfer grain from main grain-producing areas of the Soviet Union or ship it from the west coast of the United States. From the point of view of transportation costs, the second option was far more attractive.

¹⁰ Business Eastern Europe. March 4, 1996, p.8.

¹¹ See, for example The Cambridge Encyclopedia of Russia and the Former Soviet Union. Ed. by A. Brown, M. Kaser and G.S. Smith. Cambridge Univ. Press. 1994, p.416.

might argue that during the Soviet period, due to the strong emphasis on the development of military-industrial complex in the northwestern region of the USSR as a whole, and the City of Leningrad and the Leningrad region in particular, the transport network had been developed in a way that had made it ill-suited for expanding economic ties with neighbouring countries.¹² While true, one should not overestimate the negative impact of military-industrial specialization on transport infrastructure.

After all, the defence industry really was the most developed sector of the Soviet economy: it enjoyed top priority from the state authorities and it consumed the best available resources regardless of the needs of other sectors of the economy. As for the industries directly related to production of armaments, they also, at least partly, benefitted from the preferential treatment enjoyed by the defence industry. Thus, those regions which had a larger share of defence industries generally had better infrastructure.

Leningrad actually depended on a fairly developed inter-regional transport network, because a substantial part of the raw resources for weapons came from other regions, and once produced, the armaments needed to be distributed throughout the country. Besides, Leningrad also enjoyed its historical reputation as a centre for culture, education and science and was never totally cut off from international contacts. During peacetime, Leningrad was in principle "open" to foreigners. Thus, as far as we can gather, a strong emphasis on production of armaments did not result in a relative deterioration of the transport infrastructure in the region.

During the first half of the 1980s, Soviet-Finnish trade reached its highest historical levels. In spite of certain unavoidable day-to-day problems, the transport network in the Leningrad

region was generally adequate for dealing with its share of trade volume between the two countries.

Since then, one could assume that the transport infrastructure of the St. Petersburg region continued to exert a positive influence on Russian-Finnish trade. Indeed, because the volume of trade is less than it was 12 or 13 years ago, there should be substantial reserves available in regard to the transport network. These reserves would be available to stimulated growth of trade or, at least, eliminate the need for any concern about the "transport factor"¹³ for some time to come.

Unfortunately, such an assumption, although tempting, has almost nothing to do with present day reality. The current state of the transport network in the region has been degraded for several reasons.

In the mid-1980s, many components of regional transport infrastructure were allowed to deteriorate substantially. The lack of financial resources, which gradually became more acute, expressed itself as insufficient maintenance of railroads, motorways, bridges, etc. This process was cumulative. Bottlenecks in one spot redistributed traffic flows to alternative routes which eventually soon proved inadequate to handle the additional load and deteriorated even faster. By the start of this decade, Leningrad had widely come to be known as the city with the lowest quality of streets and roads in the USSR.

Substantial changes occurred in the structure of international cooperation. During the Soviet period, both Finland and the USSR were mainly represented by major companies or organizations, eg Polar, Kone, Valmet, Neste, Rautarukki, Enso for Finland; various international trade associations

¹² See eg Bradshaw M. Russia's window on the West. Business Russia. January 1996, p. 7. The same point of view is shared by J. Eronen, according to whom "during the Soviet periods the city was primarily turned inland, it had limited functions in foreign trade and international transport. Decision making and key operations in foreign relations were concentrated in Moscow". (Eronen J. St. Petersburg - Manpower Prospects and Economic Potential. VATT. VATT-keskustelualoitteita No.75. p.23.)

¹³ According to some estimates, total cargo volumes shipped by all types of city transport (gas pipelines excluded) in 1995 equalled only 32-35% of the 1990 level. This decline appears to be greater than in many other sectors of St. Petersburg economy, including manufacturing, public passenger transport and investment.

-- *vneshnetorgovye ob'edineniya*¹⁴ – for the Soviet Union.

With the collapse of the Soviet Union and the abolition of a bilateral clearing system in Soviet-Finnish financial and trade relations,¹⁵ this was no longer the case. Today trade contracts are often executed by small and medium-sized firms on both sides of the border. Because of this switch the old transport network is becoming inadequate to new trade pattern.

Additionally, the commodity structure of trade between the two countries, especially in the case of Finnish exports to Russia, has switched from investment goods to consumer goods. While difficult to quantify, we make the hypothetical assumption of correlation between commodity structure of foreign trade and level of adequacy of transport network in the region. Nevertheless, evidence seems to indicate that this correlation not only exists, but is, in fact, quite strong.

To match a new foreign trade commodity structure where large share of the contracts are executed by an ever-growing number of small and medium-sized companies, there is far greater reliance on short and medium-haul, low-weight lorry deliveries, at the expense of traditional long-haul, heavy rail transport. This change places

¹⁴ The reader should bear in mind that the centrally planned economy of the USSR assumed, side by side with other components, a state monopoly on foreign economic relations. This meant that all export-import contracts had to be accomplished by special authorized entities, not by the ultimate producers or consumer themselves. *Vneshnetorgovye Ob'edineniya* (VTO) were such entities. Good example of a VTO in the context of the present paper was *Lenfintorg*, which was supposed to deal with "trans-border" trade between the Leningrad region and Finland.

¹⁵ According to some Finnish studies during the period of clearing trade and payment system under operation small firms were constantly discriminated in a sense of access to export-import contracts. The latter were normally allocated between the largest Finnish companies. (See: Sutela P. *Clearing, Money and Investment: The Finnish Perspective on Trading with the USSR. Review of Economies in Transition*, Bank of Finland, Unit for Eastern European Economies, Helsinki 5/92, pp.24-25; Laurila J. *Finnish-Soviet Clearing Trade and Payment System: History and Lessons*. Bank of Finland Studies A:94, Helsinki, 1995, pp.107-108.)

further stress on a comparatively underdeveloped motorway network.¹⁶

3.1 Shifting structure of transportation

To gain some frame of reference for the following discussion, it might first be worthwhile to take a brief look at shift in the structure of transportation in regard to the whole Russia. One should bear in mind, that available official statistical data, as well as calculations of western experts are not entirely consistent.

In 1940 railroads provided 85.1% while roads only 1.8% of all freight transportation in the Soviet Union. Respective figures for 1975 are 62.2% and 6.5%¹⁷. Development for the period of 1985-1991 in regard to Russian Federation is reflected in Table.1¹⁸.

Arguably, the trend would seem to have been slowing, but the two most recent years, according to Goskomstat figures, the share of railroads transporting total freight transportation was 26.0% in 1994 and 29.9% in 1995, while the respective

¹⁶ Finnish sources regarding this point are really unanimous. They emphasize crucial importance of E18 road, connecting St. Petersburg with Finland (it should be improved considerably), ring road around St. Petersburg and first category toll road to Moscow (both latter in fact do not exist at the moment). (See: Ministry of Transport and Communication of Finland. *A study on the Transport Infrastructure of St. Petersburg and the Leningrad Region*. Helsinki, May 1993; Eronen J. *Op.cit.*)

¹⁷ *Bol'shaya Sovetskaya Entsiklopediya*. 3-e izdanie. M.1977. Tom. 24, kniga 2. s.228.

¹⁸ Authors' calculations on the basis of: *Strany-chleny SNG. Ezhegodnik. Statkomitet SNG*. M., 1992.

Table 1 Share of rail and road transport in total Russian freight transportation (%)

	1985	1986	1987	1988	1989	1990	1991
Railways	35.6	34.5	33.5	33.5	33.4	33.9	33.7
Roads	44.1	45.9	47.0	47.0	47.0	46.6	47.1

figures for road transport was 48.8% and 41.3%.¹⁹ Clearly, a change in transport structure is under way.

Indeed, long-term forecasts anticipate further redistribution of the freight transportation in favour of roads. According to the study made by Ministry of Transport and Communications of Finland, the share of lorries in Russia freight transportation in 2015 should be 52% higher than in 1998.²⁰

With the collapse of the Soviet Union and the independence of Estonia, Latvia and Lithuania, the role of St. Petersburg as the centre of international cooperation has increased substantially. Today, it is the only commercial Russian seaport on the Baltic.²¹ Much of the cargo previously handled at the ports of Klaipeda, Liepaya, Ventspils and

especially Tallinn²² has been redirected St. Petersburg.²³ One should bear in mind that total Russian foreign trade volume for the last several years has been at relatively sustainable and steady levels, at least, in comparison with the ups and downs in Russian-Finnish trade. This implies, that due to the above mentioned reasons, St. Petersburg gained some additional traffic load both as the ultimate point of input and output as well as an international transit trade centre. According to some estimates, at the moment upwards of 30% of total Russian imports and 25% of total Russian exports pass through St. Petersburg.

From the beginning of 1990s, especially after the start of economic reforms in 1992, the municipal authorities have constantly attempted to change the pattern of social-economic activity of St. Petersburg, as well as its image both inside and

¹⁹ Author calculations on the basis of *Sotsial'no-ekonomicheskoe polozhenie Rossii: 1994. Goskomstat. M. 1995. s.63; Sotsial'no-ekonomicheskoe polozhenie Rossii: 1995. Goskomstat. M. 1996. s.100*. It should be emphasized that these figures do not entirely correspond to the figures in Table 1 because the latter is calculated on the data of total freight transportation excluding gas pipelines transport. If one looks at freight volumes in terms of tonne-kilometres (in contrast to total volume of freight transportation measured in tonnes), the picture would be quite different. According to "The Cambridge Encyclopedia of Russia" (p.416), the roads of the USSR in 1990 carried in terms of tonne-kilometres of traffic about 6% of all freight transportation. As for 1995, Goskomstat gives a respective figure of 0.1% (!).

²⁰ North-Eastern Europe Transportation Study. Ministry of Transport and Communication of Finland. Viatek Group. VTT Technical Research Center. Helsinki 1993. Appendix 4.

²¹ Of course, there is the port of Kaliningrad. However, its enclave nature makes it a special case.

²² Tallinn should also be mentioned separately. Much of its port infrastructure was constructed quite recently; it was designed to meet the demands of the Soviet Union, not just Estonia; and it is well adapted to container shipping.

²³ The problem of allocation of cargo between the former Soviet ports on the Baltic is both controversial and complex. Indeed, strong arguments may be made in favour of further growth of the role of ports in the St. Petersburg region. At the same time, one should bear in mind that at the moment a very large amount of Estonian and Latvian transport infrastructure (both the ports and railways) deal with transit transportation to Russia. From that point of view, any substantial reallocation of the shipping towards St. Petersburg region ports could have serious repercussions for the transport industries of the Baltic countries.

Regarding transshipping to Russia, there is also a division of labor as well as competition among Baltic states, on the one hand, and Finland on the other. Under these circumstances, Finnish interests are also at stake.

outside the country in the direction of greater international "openness".²⁴ The apparent redistribution of power from the central authorities to the regional administrations acted as both an impetus and impediment to transport infrastructure development. As Moscow loosened control, St. Petersburg was given new possibilities to choose its own development strategy. In exchange, the city had to accept reduced financial support from the central budget.

Several ambitious non-transport projects of recent years have aimed at closer integration of St. Petersburg with the European and world economy. These include the construction of a huge entertainment centre, a sort of Russian Disneyland,²⁵ establishment of a Free Economic Zone (either in the city or in the whole St. Petersburg region) and transformation of St. Petersburg into a national and international financial centre. While the projects themselves have failed, the number of international contacts of different types for the region has definitely increased substantially in the last few years. St. Petersburg is more open towards the outside world.

Finally, one should not entirely ignore psychological factors. During the Soviet era obvious shortcomings of transport network, its inadequacy in regard to Western standards were recognized by Russians and foreigners, especially those making business in the USSR. These shortcomings were often considered to go with the territory; people were expected to put up with the situation more or less as it was.

This has changed now that officially Russia's leaders are committed to pursue the standards and

rules of Western democracies. The official attitude in the country to the Soviet period history presents a "prodigal son" dilemma, whereby the myriad of holes in the roads and obsolete seaport facilities can no longer be treated as "quaint national features". As part of the "Communist legacy", they are candidates for urgent correction or eradication.

Based on the above discussion, we state that, in spite of St. Petersburg's opportune geographic location, the transport infrastructure of the region is inadequate for effective international cooperation as a whole and Russian-Finnish relations in particular.

3.2 Slow deliveries of goods

Probably one of the most clear manifestations of this inadequacy are delays in deliveries. For example, the *St. Petersburg Business Guide* reports in the section on sea transport that "slowness of loading cargo due to old-fashioned port technology and machines... can cause unexpected delays."²⁶

At the moment, however, it is the road transport which is of the most concern in the context. Traffic jams and resulting long queues of lorries on both sides of Russian-Finnish border have become a serious problem. Several recent studies have tried to quantify the size of the problem. One study reports that the average waiting time per truck at the two main crossing points on the border between two countries (Torfyanovka and Brusnichnoe) are 4 hours and 2 minutes and 4 hours 5 minutes respectively²⁷. Another survey gives slightly different figures. At Torfyanovka and Brusnichnoe "the average waiting times are 5 hours and 20 minutes and 4 hours and 11 minutes from Finland to Russia and 1 hour and 58 minutes

²⁴ In contrast to Peter the Great, who founded St. Petersburg in 1703 as "a window to Europe" (somewhere in line with the famous modern notion of "the gateway", widely discussed by Finnish experts in regard to specific role of Finland and by many people in St. Petersburg in regard to their own place), city officials currently tend to convert it up to the end of the century into "a part of Europe."

²⁵ One of the authors of this paper personally participated in the project feasibility study. At least at the initial stage of the study, when the idea was to build a huge entertainment complex some 20 km from the city in Lisiy Nos settlement, it was precisely the inadequacy of the transport network that emerged as one of the project's main constraints.

²⁶ Liuhto K., Akhobadze D., Samokhin Y. *St. Petersburg Business Guide*. Information and recommendations for foreign companies. Institute for East-West Trade. Turku School of Economics and Business Administration. Turku. 1993, p.89.

²⁷ Hernesniemi H., *Barriers to Economic Co-operation of Baltic Rim Countries*. Report for the Finnish Ministry of Trade and Industry. Etlatiesto Ltd. Forthcoming.

Table 2 Selected indicators for Russian freight transport in 1993-1995

	1995 (million tonnes)	1995 (in % to 1994)	1994 (million tonnes)	1994 (in % to 1993)	1993 (in % to 1992)
Total volume of freight, including:	3425.0	90	4049.5	76	75
Railways	1025.0	97	1052.9	78	83
Roads	1416.0	82	1975.0	70	60*
Sea transport	62.0	91	67.9	83	93

* - for enterprises in general use.

Source: Sotzial'no-ekonomicheskoe polozhenie... 1994, 1995.

and 3 hours 59 minutes from Russia to Finland.”²⁸

It is quite obvious that one cannot attribute all these hours spent in queues to the inadequacy of the transport infrastructure. Rather customs and border formalities contribute to the problem. At the same time, queuing has its explicit economic dimension resulting in higher transportation expenses. According to the above survey, average monthly waiting time at the border costs FIM 5,400 per truck. The total annual expenses for Finnish transport companies adds up to approximately FIM 75 million.²⁹

Two factors seem to be of general importance and relevance in the context of this discussion: the continued economic turmoil in Russia and Finland's membership in the EU.

²⁸ Nokelainen A., Segercrantz W., Problems Related to Border Crossing and Custom Clearancy in Lorry Traffic across the Borders to the Eastern European Countries. Publications of the Ministry of Transport and Communications. Helsinki. 1996.

²⁹ Ibid. The authors of the survey emphasize (with evident uneasiness) that the situation is so difficult that a number of companies have already refused to engage in transport business to and from Russia due to problems relating to border crossing, insurance, crime and road conditions. Thus, transportation income may be lost to foreign companies.

The continued deterioration of major macroeconomic indicators for Russia in 1994 and 1995 hold serious implication for the transport infrastructure. The crisis expressed itself as a substantial decline of total volume of transportation. Table 2 shows this trend clearly.

At the same time, in regard to international transportation the situation was quite different. Thus, in 1994 amount of export freight carried by railways was, according to Goskomstat, 4% higher than in 1993.³⁰ As for 1995, railways delivered during January-November 23% more export freight in comparison with the same preceding period. International road transportation, excluding the CIS member states, also flourished. The volume for January-September was 23% higher than for the same period in 1994.³¹ In other words, the transport industry experienced within itself a substantial reallocation of resources and activities in favour of international traffic. This, in particular, means that further pressure was put on certain overloaded sections of the transport network.

³⁰ Sotzial'no-ekonomicheskoe polozhenie Rossii. 1994 ... p. 65.

³¹ Sotzial'no-ekonomicheskoe polozhenie Rossii. 1995 ... pp.104-106.

Table 3 Selected macroeconomic indicators for the Russian economy
Percentage in relation to preceding year

	1995	1994
GNP	96	87
Industrial output	97	79
Agrarian output	92	88
Freight turnover	98	86
Investments	87	76

Source: *Ibid.*, p.3.

One of the most dramatic dimensions of the crisis is the decline of investments. For the last two years, this sector of the national economy has suffered more than other major ones. Table 3 gives a general picture of this decline.

The situation appears to be even more threatening in the case of the "Federal investment program". According to Goskomstat, with regard to industry, transport and communications, the 1995 level was only 15% of the 1994 level.³² Under the circumstances it is quite obvious that, at the moment, even maintenance of existing transport infrastructure, not mentioning the construction of new roads and facilities, is seriously threatened.

3.3 EU impact on economic relations

Finland became a member of the EU on January 1, 1995. Assessing the impact of the new status of the country on the development of Russian-Finnish economic relations, two main options seem to be available.

The first option theoretically assumes that after joining a trade alliance, a country should somehow switch a certain part of its international economic activities from outside partners towards other member states.³³ That should make its economy

more "open" in regard to the countries within the alliance and simultaneously more "closed", in relative, or quite often even in absolute terms, in regard to the countries outside the alliance.³⁴ Thus an EU Finland is much less interested in the development of economic cooperation with its "Eastern Neighbour".

The second option is quite opposite. Drawing on both theory and empiric experience, it is argued that Finland is on the periphery of the EU, due to its geographical location and the size of its economy. Under the circumstances development of the integration process might result in a gradual outflow of resources from the country towards economic and political centre of the union. Thus, to counteract this negative aspect of the EU membership, Finland should intensify its economic ties with Russia. Indeed, the country must exploit its comparative advantage as the only EU country sharing a common border with Russia. It is absolutely rational for Finland to secure for itself the role of intermediary between Russia and the other EU countries. The often touted "Gateway concept"³⁵ is based upon this idea.

³² *Ibid.*, p.63.

³³ The basic concepts of "trade creation" and "trade diversion" are clear examples in this context.

³⁴ One might argue that it was precisely this type of thinking in its political and economic dimensions that was behind the traditionally critical position of the Soviet leadership towards Finnish participation in the process of West European integration.

³⁵ In a more general perspective both Finland and Russia might be seen as one huge gateway between the EU, on the one hand, and countries of Southeast Asia

From the second point of view, the available data at the moment indicating substantial growth of certain types of transit transportation via Finland (both to and from Russia) is quite understandable. According to Segercrantz, for example, in 1995 the total volume of transit freight carried to Russia by sea was 38.6% more than in 1994. Road traffic transit from Russia via Finland increased by an even more impressive 41.6% in comparison with 1994. These data imply that, in general, both Finland and Russia have a common interest in the development of the transport network of St. Petersburg region. Such cooperation could confer substantial benefits on other members of international community, especially the EU member states and non-EU countries on the Baltic Rim.

3.4 The logic of joint investment

This brings us to the notion of joint investment project, which in the region under review seems to be reasonable short-term as well as medium-term alternative to prevent further deterioration of the transport infrastructure.³⁶ It is interesting to note that large part of St. Petersburg businessmen as well as local officials consider joint investment project to be a natural, even self-evident, approach towards construction and repair of seaports, warehouses and motorways and the rail system between St. Petersburg and Helsinki.³⁷

Many such projects are currently under consideration. One is the construction of a high-speed railroad between Moscow and Helsinki via St. Petersburg. This line is already seen as an element of Pan-European transport network and the EBRD has expressed its willingness to participate in financing. Although the project has a long history and has progressed rather slowly, there is a

and the Pacific Rim on the other.

³⁶ One of the most impressive examples here is situation around Brusnichnoe crossing point. The road there (which in fact was initially intended to provide technical maintenance of Saimaa channel) at the moment is under the process of physical demolition.

³⁷ See, for example: Pietarin Kahdet Kasvot. Suomi ja EU Pietarista katsoen. EVA-raportti pietarilaisten asenteista. 1996. p. 21.

relatively high probability that it will be implemented in the foreseeable future. According to some estimates both parts of the route, from Helsinki to St. Petersburg and from St. Petersburg to Moscow, could be operational by 1999.³⁸

4 Conclusions

Finally, the eventual scope and extent of Russian-Finnish economic cooperation in development of the St. Petersburg region transport network is estimated. At the moment several relevant forecasts are available. In spite of their inbuilt "forecasting error"³⁹, they still provide some useful insights.

Most of the forecasts contain general analysis, eg macroeconomic aggregates for total exports and imports. In regard to Finland⁴⁰ and Russia⁴¹ they are reasonably optimistic. There are also more specific forecast in regard to trade within the Baltic

³⁸ *Ekonomika i zhizn'*. Sankt-Peterburgski regional'ny vypusk. 1995. No 14.

³⁹ It is worth noting that error in forecasting in regard to transitional economies, as some experts rightly emphasize, is substantially larger than in the case of Western market economies. (See, for example: Glogorov V. Figuring Out. The Vienna Institute Monthly Report. 1996/2 pp.17-20). Indeed, although the overwhelming majority of the forecasts predicted that Russian economy reached its lowest point in the middle of 1995 and afterwards should start growing, the latest figures do not support this belief. Monthly data issued by State Statistics Committee of Russian Federation showed that GDP (in current prices) in January 1996 was lower than in any of the last 5 months of 1995.

⁴⁰ For example, according to one of the forecasts made by The Research Institute of the Finnish Economy (ETLA), in 1996 both Finnish export and import would increase within the limits of 5-10%. (Current Economic Outlook. The Finnish Economy 1995/4 p.9.)

⁴¹ The table below presents two similar forecasts made by The Economist Intelligence Unit (EIU) and the magazine "New Horizon Economies" (NHE) in regard to Russian foreign trade.

Table 4 Russian foreign trade (in USD billion)

	1996	1997	1998	1999
Total turnover:				
EIU	109.2	118.5	130.2	140.5
NHE	113.5	132.3	–	–
Export:				
EIU	61.7	65.0	69.6	74.5
NHE	63.5	71.8	–	–
Import:				
EIU	47.5	53.5	60.6	66.0
NHE	50.0	60.5	–	–
Trade balance:				
EIU	14.2	11.5	9.0	8.5
NHE	13.5	11.3	–	–

Sources: Business Russia. Sept. 1995. p.6; New Horizon Economies. 1st Quarter 1996. p.62

Rim. These predict relatively substantial growth in Russian-Finnish trade.⁴²

Another valuable source of information concerning future developments is provided by different surveys of Finnish companies which either are already involved or plan to get involved in economic cooperation with Russian counterparties. According to one of the recent surveys covering more than 100 Finnish businessmen a modest boom, is expected in such cooperation with counterparties in the St. Petersburg region in the near future. About 30% of the respondents suggest that by the end of the century Russian-Finnish economic ties will have doubled

over the present situation.⁴³

Even if all these prognoses are overly optimistic, we can safely assume that some part of the projects under discussion or under way will be successfully implemented. The compelling economic logic is that the infrastructure in the St. Petersburg regions must be able to match the growing demand resulting from the future development of economic cooperation between Russia and Finland. As far as we gather, while the transport infrastructure under review is unlikely become the sole impetus for this cooperation, but it probably won't constitute any serious obstacle to international economic collaboration either.

⁴² On the basis of a gravity model, experts from ETLA calculated that actual size of Finnish export to Russia in 1994 was 80% lower in comparison with potential export. Assuming average annual growth of GDP for Finland to be 2.5% and for Russia - 5% (likely a bit of exaggeration) they estimated potential Finnish export to Russia in 2000 to reach in constant 1994 prices USD 5,046 million, and in 2010 - USD 13,785 million. In 1994 the actual size of export was USD 1,537 million. For Russian exports to Finland the respective figures are USD 3,622 million, USD 9,895 million and USD 1,950 million. (Hernesniemi H. Op.cit.)

⁴³ Sankt-Peterburgskie Vedomosti. 28.02.1996.

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