

Cooperation between Saint-Petersburg and Finland

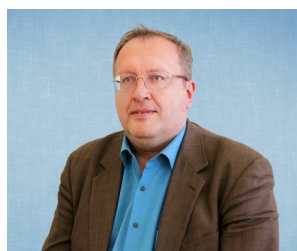
Some recommendations for the policy-makers

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Abstract

For five previous years, leaders of the European Union and Russia have repeated multiple times that there will be no 'business as usual' in bilateral relations. In practice, it meant that there would be no relations at all, except of minimal contacts in those areas, where some EU member states and Russia (including regions of Russian Federation) have become interdependent in a true sense of the word. Nowadays EU-Russia relations are worse than in any period after collapse of the USSR. Existence of sharp and systemic crisis in EU-Russia relations is widely recognized by both sides, including structures of public management, business, civil society and academic community. The challenge for political elites and academics is to secure few existing fields of common interests (security, trade, people-to-people contacts) and develop a set of new ideas on ways for return of mutual trust. The regional dimension (contacts between EU member states and Russian regions) is the most promising nowadays for fulfillment of this mission since there is no need to discuss sensitive issues of military security, conflicts outside of Europe, etc. Tactics of 'small steps', which is designed to preserve institutional structure of bilateral relations, should become priority to national and regional parliaments, institutions of executive branch of power, businesses and civil societies of the two states. This Policy Briefing argues that Finland and Saint-Petersburg should enlarge business contacts, regular meetings of public servants and exchanges in frameworks of public diplomacy programs, including visits of researchers and journalists, number of publications in printed editions on partner-state, its business climate, opportunities for tourism and education. Prospects for facilitation of visa regime, support of joint projects in cross-border cooperation and tourism should enlarge opportunities for peoples of two states to cooperate.

Keywords

Saint-Petersburg, Finland, trade, investments, cross-border cooperation, business environment, paradiplomacy.

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1. Introduction

History of joint being of Russia and Finland as parts of the same empire is not so longstanding: little bit longer than one century, from 1809 to 1917. During that period of time both states went through the First Industrial Revolution, established basic foundations of contemporary economic model, competitive systems of education and research. In 19th – early 20th centuries an average level of socio-economic development of regions in European part of Russian empire was about the same as in Finland being part of the same empire. Signature achievements, for which contemporary Finland is proud of (post-modern economy, the best education system in the world, high living standards of people) have been attained after December 1917, during century-long independence period. That's why in 20th – 21st centuries two states broke apart far away from one another. Today we may consider their economies as being located at different levels of economic development but still as having essential potential for complementing one another and for developing positive interdependent relationship.

Due to geographic proximity to Russia as well as remarkable period of 'common history', Finland has developed world-wide image of a 'specialist' on the Soviet Union. After collapse of the USSR that knowledge on neighboring state has been rather successfully transferred by Finland on the contemporary Russian Federation. Today this image is important foreign policy advantage of Helsinki, its remarkable diplomatic asset.

Another prominent element of bilateral relations is membership of Finland in the European Union. Despite of geographic proximity and existing high level of economic ties, nowadays relations between the EU and Russia are characterized by remarkable de-institutionalization and mutual alienation. These negative factors are the key for understanding in full major aspects of political, economic and cultural agenda, which dominate relations between Finland and Russia.

The aim of our research is to discover escape routes from current crisis in EU-Russia relations for regions of Russia and Finland, which are along the EU borders and at the shores of Baltic Sea. We will not look deeply into causes of the crisis since a lot has been written on that in Finnish, Russian and international academic literature (e.g. Ashford 2015; Connolly 2016; Connolly & Hanson 2016; Dreger et al. 2016; Fischer 2017).

Existence of sharp and systemic crisis in EU-Russia relations is widely recognized by both sides, including structures of public management, business, civil society and academic community. There are two dominating views on ways of how to deal with it:

- 1) Necessity to take an immediate try to resolve crisis and find way out of it;
- 2) Recognition of inability to solve it and need to come to terms with it while waiting until a moment when one of two sides in the conflict will be able to dictate another conditions (terms), which should be fulfilled for full-fledged rehabilitation of relations.

Nowadays, neither the European Union nor Russia is willing to change existing status quo, which is seen by both of them as the most admissible among all other realistic scenarios for bilateral relations. That is why our task for this research is to suggest an option to replace current status quo by another more cooperative strategy of Finnish-Russian relations, even if at the subnational level.

As a preliminary note we should also strengthen that for the European Union problems of 'relations with Russia' are getting less immediate compared to Spring 2014, when in the days of the Crimean Crisis they have been seen as the highest priority for the EU foreign policy and major threat to peace in Europe. At the same time, there is growing conviction in Russia that the European Union, being under pressure of domestic disturbances and growing interest to restoring economic ties with Russia, would be forced sooner or later to mitigate its stance on Ukraine, economic sanctions and other issues in dispute.

We proceed from the premise that none of two above-mentioned positions (to resolve conflict right now or to ignore it while waiting decline of its imminence in indefinite period) is realistic and/or achievable in a near future. Meanwhile, there is a trend of declining number of supporters for the second option ('wait and see' strategy) and growing number of protagonists for the first option: to start search for 'way out of the crisis' right now.

This is macro-level' remarks for our research. We will touch upon several more macro aspects in the first section. Later on, in second and third sections, we will concentrate on micro aspects of bilateral relations since due to existing organizational and institutional structure of public management systems in the EU and Russia, neither Finland nor Saint-Petersburg is not able to commit decisive influence on activities of EU communitarian institutions and of federal authorities in Russia. Meanwhile, regional authorities and business communities in the two states have enough power for encouraging and further development of mutually-beneficial bilateral relations.

2. External factors, affecting relations between Finland and Russia

Proximity to Baltic Sea littoral states has been of crucial importance for post-industrial development of regions in South Finland and North-Western Russia. It includes high-tech sectors of industry and rapidly growing services. Russia with its huge natural resources has always been and will stay in future the key supplier of raw materials to all states of the Baltic Rim and elsewhere in Europe.

Today, threats for the EU are both political and economic: growing xenophobia, trade protectionism, BREXIT and its negative impact on EU institutions and integration process, geopolitical tensions from Russia and from the Global South, other challenges/uncertainties of global and regional dimensions. Current crisis in the EU-Russia relations, which has started from coup d'états in Kiev in February 2014 and has continued by Russia's intervention into U.S. 2016 elections, The Skripals Affairs, issues of cybersecurity, Kremlin's support to ultraconservative political parties in Europe, has destroyed organizational and institutional foundations of bilateral relations.¹ They have been established in 1991-2010 and the most important formal step on the way were: the Partnership and Cooperation Agreement (PCA, 1994), package of Road Maps for the creation of the four Common Spaces between the EU and Russia (2005), The EU-Russia Partnership for Modernisation (2010). The statutory framework of bilateral cooperation is troglodytic but both Brussels and Moscow are securing it since they are not able to replace by something better and more up-to-date.

In our view, deterioration of EU-Russia relations has begun in 2004-2007, as a side-effect of the EU eastward enlargement towards 10 states of Eastern and Southern Europe. A number of them during Imperial and Soviet periods of Russian history have seen it as non-European 'other' (Neumann 1998). Their new identity has been based to a great extent on Russophobia and vision of post-Soviet Russia as their historical adversary and threat. It took some time for Russian leaders to acknowledge fundamental changes in the EU policy. Still, inability of two parties to raise relations to a new level in such spheres as free trade zone, visa-free regime and recognition of integration among several post-Soviet states by Brussels, clearly indicated that relations are in stagnation stage. The Five Days War between Russia and Georgia (August 2008) has shaken foundations of European security. It opened a new stage of Russia's confrontation with Europe.

Programing documents, which has been adopted by the two sides since beginning of current crisis (i.e. since February 2014), are 'Five guiding principles for EU-Russia relations' (March 2016)² and the Foreign policy concept of Russian Federation (November 2016).³ These documents repeat like mantra that 'there will be no business as usual' in mutual relations. In fact, above-mentioned documents as well as many other decisions, which are currently in force, have transformed bilateral EU-Russia ties into a set of reactive measures where at each new stage of conflict stakes were growing and prospects for conflict resolution were disappearing.

Nowadays, the European Union is developing its global strategy on a conviction that liberal international order is the most efficient model of global governance, especially if compared to multi-polar model of competing great powers (Russia's global governance priority). The European Union also demonstrates open enmity to intergovernmental and inter-parliamentary institutions, which have been established in the CIS under auspices of Russia. For Kremlin, positive changes in its relations with the EU will become irreversible at the moment when Brussels and EU member states recognize the Eurasian Economic Union (EAEU), The Union State of Belarus and Russia (USBR), the Shanghai Cooperation Organization (SCO) and begin equal and mutually respectful dialogue. Meanwhile, the EU and Russia should clarify their approaches to 'zones of privileged interests' of each other and express readiness to take them into consideration in foreign policy actions, including plans for further expansion

¹Popescu, Nicu and Stanislav Secieru (eds.) 2018. Hacks, Leaks and Disruptions: Russian Cyber Strategies. Chaillot Paper 148. Paris: European Union Institute for Security Studies; Klapsis, Antonis. 2015. *An Unholy Alliance. The European Far Right and Putin's Russia*. Brussels: Wilfried Martens Centre for European Studies, available from: <https://www.martenscentre.eu/sites/default/files/publication-files/far-right-political-parties-in-europe-and-putins-russia.pdf> [17 December 2018]; Polyakova, A., 'Strange Bedfellows: Putin and Europe's Far Right', *World Affairs Journal*, September/October 2014, available from: <http://www.worldaffairsjournal.org/article/strange-bedfellows-putin-and-europe%E2%80%99s-far-right/> [6 February 2019].

² These five principles are: insisting on full implementation of the Minsk agreements before economic sanctions against Russia are lifted; pursuing closer relations with the former Soviet republics in the EU's Eastern Neighbourhood (including Ukraine) and Central Asia; becoming more resilient to Russian threats such as energy security, hybrid threats, and disinformation; despite tensions, engaging selectively with Russia on a range of foreign-policy issues, among them cooperation on the Middle East, counter-terrorism and climate change; increasing support for Russian civil society and promoting people-to-people contacts, given that sanctions target the regime rather than Russian people.

³ Bystritskiy, Andrey , Fyodor Lukyanov, Andrey Kortunov, Timofei Bordachev, Oleg Barabanov. 2016. *Russia's New Foreign Policy Concept: We Need Friends, Not Enemies*. Moscow: Valday Club, 12 December. Available from: <http://valdaiclub.com/a/highlights/russia-s-new-foreign-policy/> [6 February 2019]

of integration blocks. If that will not be done, than conflicts, like current one in Ukraine, could be repeated in such states as Armenia, Georgia and Moldova in a very near future.

I.e. nowadays, Moscow and Brussels, following possible initiative of Finland and one of post-Soviet states (Belarus), could initiate negotiations on the highest political level between the European Union and the EAEU. Their end-product should be framework documents, which establish channels for communication and lay institutional foundation for cooperation. Top priority goals for such cooperation could be: all-European economic space; European security; response to Chinese 'Belt and Road Initiative'; establishment of three-lateral trilateral talks between the EU, the EAEU and China.

Even taking into account existing political and diplomatic tension, which has piled up in EU-Russia affairs, this relationship makes a real difference with much more confrontational US-Russia relations. For Kremlin, the European Union is favorable and indispensable partner in both economic and security spheres of foreign policy.⁴ Therewith, business structures of the EU and Russia are the principal proponents of improvement of bilateral relationship and protect them from further deterioration nowadays. Besides of these spheres, there are ongoing trans-border contacts between European and Russian organizations of civil society, people-to-people contacts.

Russian economy stays in stagnation mood since 2012.⁵ Crisis of 2014 and the sanction war, which the USA and their European allies has declared to Russia 5 years ago, led to dramatic devaluation of Russian rouble⁶, as well as sizable growth of poverty of its population.⁷ Still, Russian authorities have been able to contain basic macroeconomic indicators of national economy. There are record-low annual inflation (2.5% in 2017), insignificant deficit of budget (minus 1.3 % of GDP in 2018), miserable public debt (14.1% of GDP in 2018), low level of unemployment (4.8 % in 2018). Relative stability of national economy allows Russian authorities to ignore Western sanctions, reject any concessions in its foreign and security policy.

For many years Moscow's "Pivot to Asia" has been seen as ideational construction. Nowadays, it gets firm foundations and lead to fundamental changes in Russian foreign policy. There are several drivers for growth in Russia-China trade, including following: 1) overall growth of Chinese economy and its emergence as the largest national economy in the world since 2014, if measured by using purchasing power parity (PPP); 2) rising demand for supply of natural resources and raw materials from Russia to China; 3) the 2013 Belt and Road Initiative of China, which has Eurasia, including Russia, as its main zone of activities; 4) growing ability of Chinese companies to produce cutting-edge technologies and export them to Russian market, replacing there U.S. and European producers. Still, genuine pivot of Russian economy towards China is far away due to very low level of investment relationship between them. The main reason for that is unwillingness of Chinese capital to avoid possible U.S. and EU penalties for violation of sanction regime, which was imposed on Russia's actions towards Ukraine in 2014.

Statistics of Russia's bilateral trade with both partners in previous decade may confirm that observations.

Table 1: Trade of Russian Federation with the European Union and China in 2007, 2013 and 2018 (U.S. dollar million)

	European Union	China
Trade turnover in 2007	283 088	40 319
Trade turnover in 2013	375 394	89 210
Trade turnover in 2018	294 167	107 050

Source: Eurostat, 2018.

Some positive processes in Russian economy in two previous years could be seen through the example of Saint-Petersburg.

⁴ Tkachenko, Stanislav. 2016. The EU-Russia relations and their reflections in the Baltic Sea region: Some recommendations for policy-makers. Baltic Sea Region Policy Briefing series, No. 2. Turku: Centrum Balticum Foundation.

⁵ Dabrowski, M. 2015. The systemic roots of Russia's recession. Bruegel Policy Contribution Working Paper 2015/15: 1-11.

⁶ According to the Bank of Russia statistics (http://www.cbr.ru/currency_base/dynamics/), average monthly exchange rate of Russian rouble dropped from 33,24 RUR per 1 USD in March 2014 to 77.93 RUR per 1 USD in January 2016.

⁷ According to the World Bank data, poverty in Russia (i.e. number of people, who live below the national poverty line – 1.9 USD per day, 2011 PPP) was at 10.8 percent of population (15.3 million of people) at the end of 2013 and increased to 13.3 percent (18.5 million of people) at the end of 2015. Available from: <https://data.worldbank.org/country/russian-federation> [5 February 2019]

Table 2: Foreign trade of Saint-Petersburg (U.S. dollar million)

	2016	Share 2016	2017	Share 2017	Change 2017 vs 2016
Foreign trade	37 180.5	100%	44 589.5	100%	19.9%
Exports	15 839.7	43%	21 764.7	49%	37.4%
Imports	21 340.8	57%	22 824.8	51%	7.0%
Net balance	-5 501.2		-1 060.2		

Source: Government of Saint-Petersburg, official statistics. Available from: https://www.gov.spb.ru/gov/otrasl/c_foreign/statistic/

In distinction from Russia as a whole, for which significance of the EU is slowly spiraling down in previous five years, in structure of Saint-Petersburg's economy foreign trade with the EU stays very important.

Table 3: Key foreign trade partners of Saint-Petersburg in 2017 (U.S. dollar million)

Partner state	Trade turnover	Share
China	5 857.5	13.1%
Netherlands	5 503.5	12.3%
Germany	3 703.1	8.3%
Republic of Belarus	2 190.6	4.9%
United States of America	2 128.3	4.8%
The Republic of Korea	1 761.3	4.0%
Finland	1 589.8	3.6%
Japan	1 494.2	3.4%
Italy	1 446.0	3.2%
United Kingdom	1 344.2	3.0%
Total of 10 largest trade partners	27 018.5	60.6%

Source: Government of Saint-Petersburg, official statistics. Available from: https://www.gov.spb.ru/gov/otrasl/c_foreign/statistic/

Trade development between Finland and Saint-Petersburg in previous years have seen different trends.

Table 4: Trade between Finland and Saint-Petersburg in 2010-2018 (in U.S. dollar million)

Year	Import to Finland from Saint-Petersburg	Export from Finland to Saint-Petersburg	Total trade
2010	324	1 367	1 691
2011	1 152	1 613	2 765
2012	2 365	1 601	3 966
2013	1 766	1 766	3 566
2014	1 213	1 276	2 489
2015	408	731	1 139
2016	338	601	939
2017	369	1 221	1 590
2018 (January-September)	225	657	882

Source: North-Western Custom Bureau of the Federal Custom Service of Russian Federation. Available from: <http://sztu.customs.ru/>

Recovery and further growth of EU-Russia relations is in the long-term interests of two parties. Russia is not able to deal with challenge of modernization of its economy and society, including upbuilding efficient institutions of market economy and civil society, without close cooperation with the EU and its member states. The EU needs access to the Russian market as well as close cooperation with Moscow in providing safety and security arrangements to Europe and Eurasia. Therefore, intensification of EU-Russia conflict should be stopped. Both parties have to deploy efforts to identify and contain those spheres of political, economic and socio-cultural cooperation, where progression is feasible.

3. Infrastructure of cooperation between Finland and Russia: structures and institutions

Upper-level management of Finnish-Russian economic relations including those between Finland and North-Western Federal District (NWFD) is carried out by two structures of executive branch of power:

- 1) The Finnish-Russian Intergovernmental Commission for Economic Cooperation (co-chairpersons are Russia's Vice Prime-Minister and Finland's Minister of Foreign Trade);⁸
- 2) The Intergovernmental Commission on cross-border cooperation (co-chairpersons are Deputy Minister of Economic Development from Russia and State Secretary of the Finnish Ministry of Transport and Communications).

It should be strengthened that among all foreign economic partners of the Russian Federation, it is only Germany, which has the same widely diversified network of structures for micromanagement of bilateral cooperation, as Finland.

From the standpoint of business environment and practice of law enforcement, Finland is one of global leaders, being far ahead of Russia in the majority of areas.

⁸ There are following working groups in this Commission: on cross-administrative border traffic and infrastructure development; on inter-regional cooperation; on entrepreneurship (small and medium enterprises); on investment cooperation; on shipbuilding; on forestry cooperation; on customs procedures; on standardization and conformity assessment; on oil and natural gas; on cooperation in agro-industrial complex and rural economy; on communications and information technologies; on sustained yield forest management; on electric grid industry and energy efficiency; on transport; on construction.

Table 5: Ease of Doing Business Score, May 2018

	Finland	Russia
Ease of Doing Business Rank	17	31
Starting a Business	43	32
Dealing with Construction Permits	34	48
Getting Electricity	25	12
Registering Property	28	12
Getting Credit	60	22
Protecting Minority Investors	72	57
Paying Taxes	11	53
Trading Across Borders	34	99
Enforcing Contracts	46	18
Resolving Insolvency	2	55

Source: Doing Business: Measuring Business Regulations. May 2018. Available from: <http://www.doingbusiness.org/>

Analysis of Table 4 shows that despite of significantly more favorable business environment in Finland, both states have something to learn from one another. For example, in sphere of paying taxes and in resolving insolvency Finland is one of the global leaders and may transfer its know-how to Russia. At the same time, Russia created favorable business conditions compared to Finland in such spheres as getting electricity and registering property, and that is could be attractive for Finnish investors.

Table 6: Doing Business rating of North-Western cities in national rating of 30 cities, May 2018

	Saint-Petersburg	Kaliningrad	Petrozavodsk	Vyborg
Ease of Doing Business Rank	22	19	11	14
Starting a Business	1	11	6	10
Dealing with Construction Permits	9	3	16	23
Getting Electricity	24	22	21	12
Registering Property	27	22	8	8

Source: Source: Doing Business: Measuring Business Regulations. May 2018. Available from: <http://www.doingbusiness.org/>

As we see in Table 5, the largest urban centers of Russia's NWFD have not been able to develop favorable ecosystem for business milieu until now. That is why improvement of market economy's institutions is focal area for cooperation of regional and municipal authorities with their foreign partners, especially in Finland.

Nowadays, there are about 900 Finnish companies, which are functioning in different spheres of Russian industry and services. They utilize different forms of business operations: technological cooperation; subcontractive and distributive networks; gradual or total localization of production in Russia; complex projects of estate property. The Russian Government has declared increase in labor productivity, improvement of living conditions, and development of education and public health services as its top priorities for coming years. Finland is acknowledged leader in some of these spheres, and because of that there is plenty of space for cooperation of its companies with structures of executive branch of power in Russian regions.

Economic cooperation between Finland and Russia to a great extent is stand upon a number of external factors. Two the most important, which confirm 'resource curse' features of Russian economy, are:

- 1) Petroleum and natural gas price. Russia's exports to Finland is highly dependent on these prices. I.e., being stayed more or less constant in physical quantity, exports of energy resources may bring widely

different profits to Russian companies and tax revenues to federal and regional budgets as a result of price alterations at global energy market. Russian Government and national companies are not able to influence energy price behavior. Thereby, in its domestic economic policy its Government is limited in capacity to apply traditional tools for regulation of national economy since it is not able to control financial parameters of natural resources' exports and associated revenues for federal budget and different extra budgetary funds;⁹

- 2) Exchange rate of the Russian ruble (RUR) against Euro. Every devaluation in the exchange rate of RUR leads to shrinkage of Finnish exports to Russia and decline in the spending of Russian tourists in Finland or their visits to Finland. Since Spring 2014, a new image of Russia as aggressor in Ukraine and the main threat to security throughout Europe have formed negative 'news context' for RUR. Devaluation of RUR against Euro since early autumn 2014 led to dramatic drop in volumes of Finnish exports to Russia as well as decline in tourism, retail and other service industries.

Finland is geographical and logistical center of the Northern Growth Zone (NGZ), a very far reaching concept of a territory stretches from Stockholm to Saint-Petersburg via Turku and Helsinki.¹⁰ The NGZ brings together regions with annual 330 billion euros of gross regional product (GRP) and more than 13 million people. The centerpiece of the Zone is an outstanding concentration of people, labor, education, research, which is unprecedented even at the global scale. It is also a potentially tremendous platform for innovations and international business/research activity. Regions of Russia's NWFD should be concerned in implementation of innovative projects of trans-border 'space of growth', while reinforcing it by appropriate managerial procedures and legislative solutions. Russia's North-Western regions and Finland are unable to overcome existing state of hostility between Moscow and the West, meanwhile nothing prevent them to initiate pragmatic cross-border cooperation. While interstates' political relations and issues of international security in Russia are under strict control of its 'Federal Center' (the Presidential Administration and Government), Russian regions, their public and private companies do benefit nowadays from post-Soviet decentralization of economic relations with foreign states and their companies. Russia's North-Western regions and Finland are able to transform the Baltic Sea area into paradigm example of all-European cooperation, a sort of engine, which would be able to boost cooperation between Europe and Russia in future.

Another strategic priority for Russian authorities is support of small and medium enterprises, including small innovative enterprises. Relatively small domestic market of Finland has forced its national companies to look for new markets and customers across the border. It is especially important for the most dynamic and innovative segment of Finnish business ecosystem – small and medium enterprises. Success in the Baltic Sea region automatically guarantees good prospects for their global expansion. Possibility to get into Russian domestic market is a mark of opportunities for sustainability of business in a long run.

In consideration of prospects for development of relations between Finland and Saint-Petersburg, we are not able to present a single scenario. Below we suggest two options, which Finland and Russia may face until 2030.

3.1. Scenario 1: Survival

Political dimension

Both Finland and Russia may agree that current economic and diplomatic sanctions will stay for many years while new restrictions should not be imposed. Following preliminary consultations with Russia, the Government of Finland may declare that it is interested in developing better economic ties with Russia and would apply power of veto to any new anti-Russian sanctions, suggested by the European Union or its member states. On its part, Russia should declare that current round of sanctions and anti-sanctions, originated from 2014 crisis in Ukraine, is over and it will not seek further measures to retaliate the EU for sanctions already in place. That is why Moscow will continue its policy of ignoring suggestions to discuss Western sanctions, but will not escalate its own counter-sanctions.

⁹ For example, the Pension Fund of Russian Federation, the Social Insurance Fund of Russian Federation, the Compulsory Medical Insurance Fund of Russian Federation.

¹⁰ The Northern Growth Zone covers Stockholm metropolitan area, the 13 major cities and the 6 regions of the Southern Finland as well as Saint-Petersburg and Leningrad oblast. The NGZ is initiative of Finland, which is designed to bring together governmental, NGO and business actors from Sweden, Finland and North-West Russia to boost the region's attractiveness and competitiveness in the global arena through the creation of a single, internationally recognized market, a single commuter belt and a world class industry and business cluster. See: Northern Growth Zone: Objectives and areas of focus. Accessed at <https://www.turku.fi/en/northern-growth-zone/objectives-and-areas-focus> on 5 February 2019.

Public opinion and media

Both Finland and Russia should keep exchanges in frameworks of public diplomacy programs at current rather high level, including visits of researchers and journalists, number of publications in printed editions on partner-state, its business climate, opportunities for tourism and education. Citizens and businesses of the two states should exercise the right to obtain information on partners, and national media have to provide required information freely.

Institutions and frameworks for cooperation

Implementation of 'survival' scenario assumes utilization of already existing opportunities for economic and social cooperation between Finland and Saint-Petersburg, evolutionary development of cross-border transport infrastructure, maintaining dialogue between experts and civil societies, 'summit diplomacy' as well as paradiplomacy of regional leaders.¹¹ Economic sanctions in place have almost no real impact on economic systems of Finland and Russia, including economic consequences for regions of the NWF. That is why building up of economic cooperation, regulated by PCA of 1994, guarantees steady increase of bilateral trade, growth of direct and portfolio investments, renewal of state of mutual dependency between Finland and Russia as major economic partners to each other.

Developments on the ground

At the present time, the dynamics of Finnish-Russian economic cooperation indicators are positive and it includes Saint-Petersburg.¹² In 2017, value of trade transactions between Finland and Russia has grown on 37 percent and reached \$12.3 billion. According to the Customs Finland, Finland's exports to Russia in January-November 2018 has declined by -3% and imports increased by 12%. Russian official statistics for the same period of time indicates that exports of Russian Federation to Finland has increased by 33% and imports from Finland decreased by 6%.

There are good prospects to overtop \$15 billion annual trade milestone in 2019 due to rather high oil price and speeding up of economic growth in Russia (+2.3 % of GDP in 2018). Russia still is the third largest trade partner of Finland, following Germany and Sweden, mostly due to its energy and raw materials' export. Meanwhile it is only sixth in Finland's export, after Germany, Sweden, the USA, the Netherlands, and China.¹³ Finnish direct cumulative investments into Russian economy has reached \$5.0 billion in mid-2018. According to President of Russia Vladimir Putin, total investments from Finland into Russia, mostly exercised through the third countries, are today at \$14 billion level.¹⁴

Finally, efforts of Russian authorities to protect interests on national agrarian commodity producers led to situation today when it is agrarian sector of economy, which is the fastest growing segment of it, first time in previous 150 years of Russia's economic history. That is why investments from Finland into agrarian and food industries are promising for long-term and profitable cooperation.

11 The term 'Paradiplomacy' refers to the international activities of substate regions. On paradiplomacy of Saint-Petersburg see: Tkachenko, Stanislav. The Paradiplomacy of Saint-Petersburg. In: Ed. by Christopher S. Browning. Remaking Europe in the Margins. Northern Europe after the Enlargement. Ashgate, 2005. P. 161-179.

12 For example, The Central Finnish Cooperative Society (SOK) has 16 supermarkets 'Prisma' in Saint-Petersburg and Leningrad region today with 1200 employees. This company also has its own distribution center in the region. Meanwhile, another leading Finnish trading sector companies, 'Kesko Corporation' and 'Stockman plc', during previous 4 years have reduced significantly their operations in Saint-Petersburg market.

13 There is remarkable difference in statistics on bilateral trade between Finland and Russia, published by the Customs Finland (<http://www.tulli.fi>) and the Federal Customs Service of Russia (<http://www.tulli.fi>). mostly due to different ways of assessment Russian export to Finland. This issue is covered by experts of the Trade Representation of Russian Federation in Finland. See: Торговое представительство Российской Федерации в Финляндии. Обзор состояния экономики и основных направлений внешнеэкономической деятельности Финляндии в 2017 году. Хельсинки, 2018, с. 229-231. (Trade Representation of Russian Federation in Finland. Review of the state of the economy and primary areas of foreign economic activities of Finland in 2017. Helsinki, 2018, pp. 229-231).

14 Joint news conference of Vladimir Putin with President of Finland Sauli Niinistö. Moscow, 22 August 2018. Available from: <http://en.kremlin.ru/events/president/news/58347> [5 February 5 2019].

Table 7: Agricultural production in Russia, cost parameters in constant prices, as a percentage over the previous year.

	1992	2000	2005	2010	2013	2014	2015	2016	2017
Agricultural production	90.6	106.2	101.6	88.7	103.5	102.6	103.5	104.8	102.4

Source: Rosstat (2018) Federal Statistical Service of the Russian Federation. Available from: <http://www.gks.ru> [2 February 2019]

Scenario 2: Revival

Political dimension

Finland and regions of North-Western Russia should define and proclaim new areas of bilateral cooperation, which in mid-term perspective could positively change the EU-Russia relations in general. For example, Finland and Russia could initiate process of transformation of existing Council of the Baltic Sea States (CBSS) into regional version of the Organization for Security and Co-operation in Europe (OSCE). In the context of contemporary OSCE failure to perform its basic functions, i.e. to provide security and cooperation in Europe as a whole, it is frameworks of the Baltic Sea region, which are the most adequate for successful experiments on formation of experimental sub-continental model of single and undivided security model. It should include confidence-building measures between armed forces, wide economic ties, people-to-people contacts and formation of new integration initiatives in trade of goods, services and capitals.

Public opinion and media

It is worth noting that in Finnish printed and electronic media Criticism of Russian foreign and security policy prevails in Finnish media, while Russian publications on Finland are lacking deep understanding this country, its political system and cultural traditions. In this situation authorities of two states should initiate information campaign on friendly and positive image-building in printed and online media, including national radio and TV-channels. Experts from both sides could rapidly react on unfriendly publications and faked news, including through the invitation of Finnish journalists to popular Russian TV and radio talk-shows, and Russian journalists – to Finnish news and analytical programs. Today there are rather many proponents of hostility between Finland and Russia both inside and outside of these states. Representatives of the business communities, leaders of national and regional government authorities, parliaments and municipalities should be involved into discussion and learn more about their immediate neighbors outside of national borders.

Institutions and frameworks for cooperation

We would like to suggest radical measures for liberalization of visa regime, via issuing five-year multiple visas after one-year probation period. Russia may suggest to citizens of Finland an opportunity to get e-visas at border crossing points. Other suggestion for both Finland and Russia: to enlarge practice of issuing working visas for specialists in selected sectors of economy (R&D, information and communication technologies).

It is perfect time to initiate trust-based dialogue on fight corruption in Russia. Finland is third among the global leaders in fighting corruption in the Corruption Perceptions Index (CPI) of the Transparency International,¹⁵ and its economy as well as sphere of state management is not affected by corrupt practices. For Russia corruption is one of the main threats to sustainable economic development. That is why Finnish institutions and practices to fight corruption, including legislation and law-enforcement, could become promising area of bilateral cooperation.

Developments on the ground

Already now we may observe concrete steps, which have been undertaken by Russian authorities with expectations to put relations with Finland on track of “Revival”. Among them are:

- Preservation and extension of ‘summit diplomacy’ as well as ‘diplomacy of top figures’. Contemporary level of Finnish-Russian political and diplomatic dialogue is unprecedented compared to relations of Russia with any member state of the European Union. Besides of annual summits of two Presidents, there are

¹⁵ Transparency International. Corruption Perception Index 2018, p. 2-3. Available from: <https://www.transparency.org/cpi2018> [30 January 2019].

annual meetings of Prime Ministers, heads of parliaments and ministers. This practice of wide and intensive diplomatic dialogue is complementing by frequent visits of regional leaders, as well as regular business forums, attended by executives, the largest investors and entrepreneurs from Finland and Russia.

- New experiments with visa formalities, related to the 2018 Football World Cup in Russia and intensive support of cruise tourism by the Saint-Petersburg City Government: Russian entry visas have been issued to every foreigner with tickets to 2018 World Cup games as well as to anybody from abroad, who has arrived to Russia (the Sea Port of Saint-Petersburg) by a passenger cruise liner. Traditionally, Russian diplomacy has followed principle of reciprocity towards foreign states in visa issues. But in 2018, the very first time in history of national diplomatic service, the 'principle of reciprocity' has been disobeyed for tourists, coming to Russia in the Baltic Sea region and mostly – from Finland.
- Ratification by the Federal Assembly of Russian Federation (two chambers' national Parliament) and approval by President Vladimir Putin a number of agreements on cross-border cooperation with Finland, Estonia and Latvia.¹⁶ In frameworks of these agreements, projects, co-financed by the budgets of the EU, Finland and Russia in trans-border regions, have been designed to support and develop further small businesses, innovations, information and communication technologies, environmental protection, cooperation in spheres of education, culture, social affairs, as well as infrastructure development.

Qualitative changes in Finnish-Russian relations will continue if two states develop a model of 'partnership in trans-border tourism'. Formation of 'Finnish segment' in tourist industry of Saint-Petersburg is important more than ever from business perspectives,¹⁷ as well as an instrument for speeding up mutual economic relations, which are stagnating in many spheres. For solving this task there is growing demand for essential rise of Finnish investments into Saint-Petersburg hotel industry, and development of new tourism products. A new target for regional authorities and businesses should concentrate on integration of tourism potential of Saint-Petersburg as one of the leading global cultural and historic metropolises with Finland as global leader in eco-tourism and spa-tourism.

For addressing the problem a set of logistical (air and railway transport), hotel and visa bottleneck hardships should be solved. Besides of that, new and innovative areas of tourism should be developed. Nowadays, there are ongoing negotiations on creating the project 'Tourist corridor Saint-Petersburg – Saimaa', which is designed to attract dozens of thousands of tourists (mostly from China and other Asian states) to Finnish spa-centers in Imatra, Lappeenranta, Mikkeli and Savonlinna. For being successful this project should include many more destinations in Eastern and Central Finland.

During previous decade, Russia expends many efforts to develop its Arctic regions. Nowadays, Saint-Petersburg authorities make enormous political and administrative efforts to secure for the city a status of 'Arctic Capital of Russia' as well as to initiate development of 'Arctic cluster' in regional economic system. No doubts that these activities contain significant political and even geopolitical elements. It is highly possible that some initiatives of Moscow and Saint-Petersburg win a cautious welcome from the USA and their allies. Still, exploration of Arctic natural resources (first of all, its giant offshore oil and gas blocks), development of transcontinental transport corridors and logistical centers will be in the focus of attention for federal and regional authorities of Russia for many decades to come. That is why Kremlin will highly appreciate any assistance, which Russia would be able to receive from abroad. For Finland and it's the largest industrial companies a risky but very profitable spheres of activities at Russia's Arctic regions could appear in a very near future. As soon as sanction regime against Russian economy will be softened or even lifted, Finnish companies get an opportunity to participate in current Russia's 'pivot to Arctic'. In 2019-2024 Russian Federation is launching in its polar regions about 150 infrastructural and logistical projects, those costs are RUR 5 trillion, i.e. Euro 65 billion. 20 percent of this sum Russian Government will provide from the Federal Budget while other 80 percent it should get from private investors.

¹⁶ Website of the 'Cross-border cooperation programme supporting EU's external actions with the financing from the European Union, the Russian Federation and the Republic of Finland: South-East Finland – Russia CBC 2014-2020' is located at: <https://www.sefrcbc.fi/>. Concrete projects, which have been approved by the Government of Saint-Petersburg, are: Reconstruction of Maritime permanent border-crossing at passenger terminals of the Sea Port of Saint-Petersburg; foundation of the Russian-Finnish Competence Center in Life Science, which would be based in both Saint-Petersburg chemical and pharmaceutical academy and the University of Turku/ Turku Science Park.

¹⁷ Today, there are only three hotels of major Finnish chain SOKOS Hotels in Saint-Petersburg.

4. Sectoral analysis: in which fields we may expect breakthroughs in Finnish-Russian bilateral economic relations?

Since 2014 the European Commission is applying a term 'selective engagement' for elaboration of new areas for cooperation with Russia. It is clear indication on how Finland as the EU member-state and Russia should keep their bilateral economic ties in coming years. Thesis on 'selective engagement' we should consider as an appeal to identify spheres of cooperation, which are not directly affected by economic and diplomatic sanctions and could encourage bilateral contacts in current period of trial in Russia's relations with Europe. I.e., the EU's 'selective engagement' is serving to interests of status quo towards Russia while it is not able to develop bilateral relations in a positive direction.

The highest priority for Russia today (outside of predominant hard security agenda) is modernization of national economy. It includes infrastructure, institutions and the newest technologies. Having in mind remarkable failure of the 'Partnership for Modernization' project, which was initiated by the EU in 2010 and enthusiastically supported by then-President Dmitry Medvedev, Finland and Russia could return to that idea at regional level. We should speak about partnership of Finland and Russia for modernization of NWFED with special emphasis on Saint-Petersburg, the Republic of Karelia, Leningrad and Murmansk regions.

According to the Committee for External Relations of Saint-Petersburg Government,¹⁸ there are following prospective areas for Saint-Petersburg's cooperation with Finland:

- Enhancing cooperation with certain Finnish cities (Helsinki, Jyväskylä, Kotka, Lahti, Tampere and Turku);
- Opening of the Turku Representative Office in Saint-Petersburg;
- Development broader cooperation with the Group of Finnish advisors to the Saint-Petersburg Government, which should be focused on amelioration of investment climate and its support by companies, which have formed the Group;¹⁹
- Participation of Finnish organizations in development of Saint-Petersburg's innovation infrastructure;
- Development of cooperation in spheres of ICT, medical and pharmaceutical industry, radiotronics and high-tech solutions including cluster intercommunications (clusters in medical and pharmaceutical industries, ICT, communications, instrument engineering, green technologies, shipbuilding)
- Actualization of projects in frameworks of the program of cross-border cooperation 'Russia – South-Eastern Finland' for the period of 2014-2020;
- Cooperation of universities in Saint-Petersburg and Finland;
- Deepening of cooperation in preservation and restauration of significant sites of wooden architecture.

Extension of transport and logistic infrastructure on Finnish-Russian border stays for many years as high priority in bilateral relations. Yet other areas for cooperation are civil aviation, automobile and railway transportation, as well as cross-border projects for 'smart transportation and logistics'. In real life, efforts have been recently concentrated on establishment of 'green corridor' at Finnish-Russian border for fast-track crossing of border by cargo transport vehicles due to adjustment of checklists for automatic exchange of cargo declaration forms.

Recently, perspective plans for long-term cooperation have been approved and partly were actualized in such fields as:

- Agreement on cooperation of the Project Office "Smart Saint-Petersburg" and program 'Smart Tampere' with an objective to provide closer cooperation in planning and implementation of innovation policy and environment of innovations.

¹⁸ Finland: prospective areas of cooperation. Committee for External Relations of the Saint-Petersburg Government. August 2018. Available from: <http://kvs.gov.spb.ru/sankt-peterburg-strany-mira/sankt-peterburg-evropa/> [18 December 2018]

¹⁹ This Group was established in March 1997 for development of more efficient cooperation between Finland and Saint-Petersburg, as well as for assistance in formation of friendly investment environment and attraction of foreign and Russian capital to economy of the city and neighboring regions. At different periods, there were following Finnish companies in the Group: Sinebrychoff, Hansaprint, Telecom Finland, BP Yhtymä, Neste Saint-Petersburg, Skanska, Eurofacts, Fortum, Sanoma, Sonera, Fazer, Finnair, as well as city of Turku and Ministry of Trade and Industry of Finland. This Group is not very active in recent years, unfortunately.

- Agreement on cooperation of the University of Tampere and the Baltic Institute of Finland with a number of leading biomedical companies and universities of Saint-Petersburg for founding the Medical Research and academic cluster 'The Translational Medicine';
- Program for exploration and practical implementation in Russia of Finnish experience in collection and proceeding of garbage, as well as its implantation into everyday practice of municipal services and refuse disposal works (project of leading Finnish energy company 'Fortum' and the State Atomic Energy Corporation 'Rosatom' / with an aim of waste detoxication at the hazardous waste site 'Krasnyj Bor' near to Saint-Petersburg.
- Project of joint Russian-Finnish Foundation for business development, which was initiated by Russian company 'VEB-innovations' with possible participation of 'Tekes' (Finnish funding agency for technology and innovation), the Finnish Innovation Fund 'Sitra' and a projected Russian-Finnish fund for industrial investments.²⁰

In its border areas Russian Federation currently is carrying out projects for highway transportation ('Scandinavia' Motorway from Saint-Petersburg to border crossing point Vaalimaa; 'Sortavala' Motorway from Saint-Petersburg to border crossing point Niirala), as well as new railway routes (new corridor for rail freight traffic from Saint-Petersburg via Losevo to the Finnish-Russian border next to Imatra).

Prospective areas of bilateral cooperation include further development of passenger train service between Helsinki and Saint-Petersburg.²¹ There are two direction of its evolution:

- 1) Extension of direct railway lines from Saint-Petersburg up to Turku and Tampere as well as introduction of direct 'Allegro' train between Moscow and Helsinki;
- 2) Construction of brand-new high-speed rail line with speed up to 300 kilometers per hour (in this case travel time between Helsinki and Saint-Petersburg will be less than 2 hours instead of three and half hours today).

New maritime passenger terminals have been recently constructed in downtown of Saint-Petersburg, at the Vasilevskiy Island. They allow multiplying of passenger traffic, arriving by the Baltic Sea to Saint-Petersburg as a part of cruise tour around Baltic region, including Helsinki and Turku. . Growth of incoming cruise tourists is highly possible and need deeper cooperation of Finnish and Russian tourist and cruise companies.

Air services between Finland and regional centers of the NWFD (Archangelsk, Kaliningrad, Murmansk, Petrozavodsk) is becoming an issue of the day for people of two states. Nowadays, there are scheduled flights only between Helsinki and Saint-Petersburg, operated by the Finnair, with maximum three flights per day in a high season. Recent attempts to increase this figure to four flights per day have been rejected by the Russian Ministry of Transport and the issue should be solved in cooperative manner as soon as possible.

Finland has always been playing front-running role in climate and environmental debates both globally and inside the European Union. For example, its success in practical implementation of the Carbon Neutrality Initiative (2017) is an excellent opportunity to share experiences and best practices of Finnish governmental agencies and companies with Russia. The medium-term climate change plan, which is now in action, as well as background reports of the Climate Change Panel, point the way forward to 2045. Russian federal and regional authorities should learn this experience to apply it domestically. On its side, the Russian Federation has signed the Paris Climate Agreement and announced willingness to ratify it in spring 2019, that is why two states have coincided interests to cooperation in this and other related field.

²⁰ As a Vice Prime Minister of Russia Dmitry Kozak has recently declared: "We suggest to create joint found, which could perform a function of co-investor in for-profit Russian-Finnish projects with an aim of their further commercialization, as well as invest into prospective companies and start-ups". This idea is still under discussion. ТАСС. Козак: товарооборот России и Финляндии в 2019 году может выйти на докризисный уровень. 20.10.2018. (TASS. Kozak. Trade turnover of Russia and Finland may reach pre-crisis level in 2019. 20 October 2018). Available from: <https://tass.ru/ekonomika/5737147> [3 February 2019].

²¹ In 2017 high-speed trains 'Allegro', shuttled between Helsinki and Saint-Petersburg, have carried 482 thousand passengers.

5. Conclusions

Our research of current stage in development of Finnish-Russian relations demonstrates that tactics of 'small steps', which is designed to preserve institutional structure of bilateral relations, should become priority to parliaments, governments, businesses and civil societies of the two states.

In the way of practical recommendation we may propose a number of symbolic as well as result-oriented actions:

- To open Honorary Consulates in large Finnish towns as well as in all regional centers of the NWFD and some districts of Saint-Petersburg;
- To set up regime of border territories and facilitate visa arrangements, including electronic visas at the check-points for people, living next to borders of two states;
- To swell the ranks of cultural and academic events, including cinema and theater festivals, exhibitions of young artists, etc.;
- To promote direct contacts and exchanges between university students and young researchers of Finland and Saint-Petersburg;
- To hold regular meetings of politically-active persons and leaders of civil society' organizations;
- To establish favorable legal and business regimes for entering markets of partner state by Russian and Finnish small and medium enterprises (SMEs, including transparent national regimes for state control and supervision, bigger role of self-regulating professional organizations in cross-border dialogue, discounted rate of tax and ensuring access to government procurement as well as purchases of state corporations);
- To develop organizational and legal terms for mobility between Finland and Russia of highly-qualified professionals, holding valid contracts, as a first step towards free movement of people between the two states;
- To promote studies of Finnish language in secondary schools and universities of Saint-Petersburg as well as Russian language in Finland.

Moving beyond purely economic agenda, we should make a caveat: political problems are of primary importance nowadays in the EU-Russia relations. They stir up problems which undermined peace and generate conflicts. Their overcoming is *conditio sine qua non* (obligatory precondition) for development of Finnish-Russian relations in future to guarantee their sustainability and long-term prospects.

Politicians and diplomats in Finland and Russia could promote an idea that the Baltic Rim, institutionalized by the CBSS, could become a driver for recovery of EU-Russia relations, setting standards for infrastructure development, visa free travel, harmonized environmental policies, students exchange projects, cooperation of news media and civil societies. Academics should insist on 'regionalization' of Finnish-Russian dialogue and removal from its current agenda different extra regional issues, including conflict of Russia and Ukraine, the Skripals Affair, speculations on Russia's meddling into U.S. and other elections. Direct contacts between Finnish and Russian military should be resumed, including joint session of Defense Ministers, Chiefs of General Staffs, Ministers of Foreign Affairs, heads of Security Councils, etc.

Russian leaders know perfectly well that Finland is not able to take a stand in favor of lifting anti-Russian economic sanctions and ceasing EU-Russia economic war. Still, Finland could block any further expansion of sanctions and their dissemination on new sectors of economy. Russia sees EU sanctions as an instrument for demolition of its economic and political systems, immense challenge to national economic security. To respond on those threats, Kremlin is ready to apply all tools available. That is why any signal from Finland that bilateral relations have already hit the bottom and it is good time to draft off and concentrate on positive agenda will be highly appreciated today by the Russian Federation.

Finland and Russia have established in previous decades their own rules of mutual behavior and dynamics of bilateral relations, with its own rules and inertia. These relations have not been destroyed by Finland's membership in the EU or by the current EU-Russia sanction war. Existing positive inertia does not allow external destructive forces to demolish close economic links and previous efforts of confidence-building between two nations. Nowadays, business communities of the two states are at the frontline of activities, oriented on recovery of neighborliness. Politicians, members of parliaments, diplomats, journalists and civic activists should assist them.

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