THE SOVIET UNION,
EASTERN EUROPE
AND FINLAND

Edited by
Seppo Leppänen
The Soviet Union and Eastern Europe are undergoing a difficult economical and political transition. Especially the economic slowdown, political instability and immense environmental problems in the Soviet Union have a remarkably effect on developments in Finland. Although the Soviet Union will offer some outstanding opportunities to Finland in the long run, Finland has in the future only extremely limited possibilities to add new engagements in the Soviet Union in addition to the previous ones.

The Economic Council is a consultative body between the Government and the main private interest groups. The Chairman of the Economic Council is the Prime Minister, at present Mr. Esko Aho. The Government Institute for Economic Research (VATT) acts as the Secretariat of the Council. The Economic Council meets once a month to discuss major current economic policy issues.

The Economic Council empowered the Secretary in a meeting on the 18th December 1990 to set up a team that will

- evaluate the economic situation in the Soviet Union and in the countries of Eastern Europe and study the prerequisites required in involving the reconstruction of these countries and estimate the alternative contributions

- study the effects of the development of the Soviet Union and Eastern European countries in Finland

- evaluate the possibilities opened to the Finnish economy through participating in the reconstruction of the Soviet Union and Eastern Europe

- estimate the alternative actions that could be taken in Finland.
I called upon the following specialists to participate in the team: Professor Urpo Kivikari, Special Adviser Jyrki Myllyvirta, Head of Office Heikki Oksanen, Professor Jouko Paunio, M. Sc. Matti Pekkanen, Dr. Pol. Sc. Pekka Sutela, Director Tauno Tiusanen and Managing Director Pentti Vartia. The Secretary of the team was Researcher Pekka Sinko. Members of the group participating in the writing of this report were also Pekka Sutela, Budget Secretary Tapio Mutikainen, Research Chiefs Pekka Parkkinen and Antti Rompapanen and Researchers Seija Lainela and Pirkko Valppu. The team has co-operated with the specialists of The Economic Council.

This report is a Summary of a detailed explanatory memorandum which has been published in Finnish.

On behalf of the Secretariat of the Economic Council and the Government Institute for Economic Research I wish to thank all the contributors of the team.

Seppo Leppänen
General Secretary of The Economic Council

Key words: Economies in transition Soviet Union, Eastern Europe, support for the reform policy, the strategies of Finland.
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1. SUPPORT FOR THE REFORM POLICY OF THE SOVIET UNION AND EASTERN EUROPE

1.1. A Successful Reform Policy Benefits Also the Western Countries

The Soviet Union and the Eastern European countries decided in 1990 to embark on a transition from economies based on central planning and government ownership to decentralized market-oriented economies. One main goal of this transition will be further integration into the world economy and international communities.

A successful transition policy would also benefit the developed market economies and above all Western Europe. Today's sharp difference in the standard of living, on the one hand, between the Soviet Union and Eastern Europe and, on the other hand, between these countries and western countries will still grow and cause instability in Europe.

The succeeding transition to the market-oriented economy in the Soviet Union and Eastern Europe would form a foundation for a new economic order in Europe and for the widening of the European Community. The internal differences in development in the continent would reduce and the standard of living in all over Europe would increase. The liberalization of the creativeness of the people, privatization and the economical use of the natural resources of the continent would create a basis for growth in the productivity and welfare beneficial to all parts.

However, the transition stage is very volatile and includes many risks. They concern, on the one hand, the security policy and the reorganisation of the social institutions and, on the other hand, pure economic problems. There is not enough experience regarding the various stages of economic transition. Mistakes in policies and an unfavourable development in economies will decrease the support of the
transition policy in the countries in question.

The risks will be emphasized in the development of the Soviet Union. The dissolution of the centrally planned system in the multinational super power and the renewing of the economic structure implies stabilization of the political transition and consistent reform policy. These conditions are not yet met in the Soviet Union of today.

The failure of the reform policy would create new uncertain and disparate areas in Europe. The solution of the environmental and other international problems would become more difficult. This could lead to immigration that would overload the Western countries both economically and socially.

The Western community including Finland have decided to help the countries in transition to carry out their reform policy. The aid given by states or international organizations can be humanitarian or in certain cases entailing economic concessions from the receiver of the support. Major part of contributions are trying to gain access to the markets and attain an economic interest in the countries in transition.

1.2. The Soviet Union and Eastern Europe from Finland's Point of View

The situation in the Soviet Union in particular affects not only Finland but also most of the other Western countries.

The geographical proximity accentuates the emphasis of the immigration and environmental problems on Finland. Short distances offer also many advantages especially in the field of broad export markets and energy resources. On the other hand the environmental problems carry polluting emissions from Eastern European countries also to the Finnish waterways and air.
The share of the Soviet Union on the Finnish foreign trade was at its greatest a quarter. In the last ten years it has strongly diminished. The cuts in the exports to the Soviet Union has partly deepened the present recession and exacerbated the situation in the labour market. It is obvious that the present level of the exports is from Finland's point of view under the potential level of the long run.

The reduced exports to the Soviet Union are partly offset by the increased exports to traditional Western markets. Because of the different structure of Eastern and Western trade, a quick shift from the Soviet to Western market will pose problems to companies concerned as regards the adaptability of the production.

The successful reform in the Soviet economy is highly important also to the Finnish economy and security. Thus, it is very reasonable to look for means by which Finland could promote this kind of development. On the other hand, it should be taken into consideration that Finland's resources are very limited with regard to the needs of the Soviet Union. Finland is not able to make risky engagements without jeopardizing its own economic development.

Finland has already engaged in multilateral and bilateral support projects in the Soviet Union and Eastern Europe. Furthermore, Finland has extended sizable amounts of credit to the Soviet Union for exports. These prior engagements and the limited resources of the Finnish national economy will restrict the extent of the Finnish assistance.
2. THE SITUATION IN THE SOVIET UNION AND EASTERN EUROPE

2.1. Soviet Reform Launched the Present Development

The pressures of the economic and social reform in Eastern Europe and the Soviet Union originate from the late 1970s when the economic growth of the socialist countries decelerated notably. This caused economic crisis in the 1980s involving imbalance in the foreign trade, growing debts, solvency problems and the collapse of investment. Efforts to reform the economies were unsuccessful and the trust in the centrally planned socialistic economy decreased.

The reform policy of the Soviet Union in the late 1980s enabled a reduction in the foreign policy and military commitments to match the existing resources. This finally enabled Eastern European countries to execute unlimited reform policies.

Bulgaria, Romania and the Soviet Union described their goals as being establishment of socialistic market economies. Poland, Hungary and Czechoslovakia declared that they will shift to a Western European-type system based on private enterprise.

2.2. What is Happening in the Transition?

The development of the economies in transition from a central-planned to a market economy can be divided into four stages: stabilization, liberalization, privatization and structural change.

The aim of the stabilization is in the first place to neutralize the excess demand and balance the government budget. This can be achieved, for example, by binding the demand to new assets like dwellings or by increasing the supply of consumer goods with the help of external financing.
Government expenditures will be cut and public finance will be strengthened by tax reforms and hindering the balance of the budget via bank note financing. A successful stabilization requires creation of active financial markets.

Liberalization is connected to stabilization: a working market system can not be created without liberalization of the prices and an effective pricing system. Free foreign trade and convertible currency are prerequisites for import competition, which will streamline the domestic production structure. By liberalization of the capital movements the sorely needed capital and know-how regarding market economies can be obtained.

Privatization is important in order to eliminate the inefficiency caused by the integrated political and economical power. At the same time investment and saving will be promoted. The selling of the state-owned enterprises is complicated by pricing problems, lack of domestic capital and difficulties in finding suitable foreign investors.

The structural change is considered to be a consequence of three other stages. Two of these are dissolution of the monopolies and promotion of an efficient investment policy. The third consists of the formation of legislative, educational and physical formation of the infrastructure in accordance with the needs of a market economy.

These different stages are apparent in the development of Eastern Europe above all in Poland, Hungary and Czechoslovakia. On the contrary, in the Soviet Union the transition policy has not even started due to the political uncertainty.

2.3. The Present Situation of the Economies in Transition

The most developed economies in Eastern Europe are Poland, Hungary and Czechoslovakia. In these countries the political
change is indisputable and a return to the old system is not possible anymore. Poland and Hungary have high foreign debts, which is not so favourable, but Poland will get most of its debt forgiven. The prospects of less indebted Czechoslovakia are weakened by ethnic conflicts and the stronger dependency on the Soviet trade.

Romania and Bulgaria in south-eastern Europe are plagued by backward economies. The political change has stalled and lacks credibility. Crisis between different nationalities and other internal conflicts exacerbate the unrest. Bulgaria suffers from an acute debt crisis and the previously non-existent foreign debt of Romania is growing quickly.

The strengths of the Eastern European countries are their centralized location next to the European Community and a skilled and cheap labour force. In the long run the price of the labour will nevertheless move closer to the Western level.

The political power in the Soviet Union has not changed. The economic reform policy is ineffectual and the future internal structure of the country and the form of the government are unclear. The threat of hyperinflation serves to link the economical and political imbalances. The first noteworthy results of the modernization of the economy will be achieved no earlier than in the next decade.

The foreign dept of the Soviet Union, about 60 billion dollars, is quite bearable considering the size of the economy but very high with regard to the foreign exchange income of the country. The low price of oil and difficulties in its production hinder earnings of foreign exchange and impede balancing of the economy so that pressures for greater borrowing will remain high.

The five billion dollars worth of overdue payments have destroyed the creditworthiness of the Soviet Union. The private foreign financing to the Soviet Union is to be cut
off. Furthermore, the situation in the Baltic countries has notably decreased the willingness of governments and international organizations to support the Soviet Union.

The production capacity of the Soviet Union is on the same level as ten years ago. Not enough effective investments have been made during the period of central planning. The level of the infrastructure is far from that satisfying the demands of a market economy.

The labour force is regionally not equally distributed. The price of skilled work force of interest to the foreign investors has climbed up quickly in the big cities. On the fringes there is an excess supply of unskilled labour and mass unemployment.

Under-priced energy and low priority of environmental protection have caused the degeneration of the environment in the Soviet Union and Eastern Europe. However, the worst damages are regional and vast areas could still be saved from a catastrophe.

The economic forecasts concerning the Soviet Union are contingent upon various uncertainties such as oil price and availability of foreign financing. The GNP of the Soviet Union is expected to decline by some 10 per cent in 1991. Forecasts for longer periods are extremely difficult to make.
3. THE STRATEGIES OF FINLAND

3.1. The Limits of the Finnish Support Policy

The resources of the Finnish economy are minor considering the needs of the Soviet Union and Eastern European countries. Furthermore, Finland's support policy is restricted by the deep external imbalance of its economy. The current account deficit is expected to reach almost 20 billion FIM in 1991 while shrinking slowly. In order to decelerate the inflation and balance the economy the growth of the public expenditure should be cut appreciably and the growth of wages and salaries should be kept about zero some future years in Finland.

Finnish enterprises have sizable outstanding debts with the Soviet Union. At the end of 1990 they had reached 7 billion FIM (1.8 billion US$). Government guarantees for the Soviet Union were 5 billion FIM (1.25 billion US$). In addition to this Finland has already many financial commitments in the USSR and Eastern Europe. For these commitments 260 million FIM has preliminarily been reserved for the year 1991 and 1.3 billion FIM (400 million US$) for the next five years. Furthermore, Finland has agreed to forgive Poland a debt of 250 million FIM.

Because of the poor economic outlook of the first half of this decade it is very difficult to run wide support programmes in the Soviet Union and Eastern Europe financed by the public sector. Supports like this would at least in the short run conflict with the aim at an external and public sector balance and the deceleration of the public sector growth.

The governmental commitments of Finland in the bilateral support of the Soviet Union and Eastern Europe had to be concentrated on projects that require relatively little capital and which would promote Finnish exporters in these areas.
Such projects usually include different engagements to develop education, know-how and legislation.

The present state of the current account does not, however, diminish the importance of the support to the Soviet Union in the long run. Finland can with moderate investments spread out risks and reach notable results in participating and promoting multilateral support projects.

3.2. Soviet Problems in Solvency and Production Diminish the Trade with Finland

The share of the Soviet Union in the foreign trade of Finland has shrunk remarkably. The main reasons for the decline in Finnish exports to the USSR were the drop in the oil price and difficulties in payment and delivery on the Soviet side. It is estimated that in 1991 the share of exports to the Soviet Union will fall far below 10 per cent as it was in the middle of 1980s above one quarter.

Finland has during the recent years granted large amounts of credit to the Soviet Union. The amount of the outstanding debt was 7 billion FIM at the end of 1990. Because of the solvency problems and uncertain situation, the demand for government guarantees for the Soviet trade has risen rapidly and exceeds the limit set by the government. The total governmental guarantees for the trade to the Soviet Union were almost 5 billion FIM at the end of 1990. If the Soviet Union were to consolidate its foreign debt, it would mean annual 300 - 400 million expenditures to the Finnish government in the next five years.

The dissolution of the bilateral countertrade framework in the beginning of 1991 caused Finland a loss of a special advantage in the Soviet trade. From now on Finland has to compete with other Western countries for the diminishing markets and foreign exchange incomes of the Soviet Union.
Although Finland could still keep the exemption from customs duties, it would not be enough to hinder the decline in trade.

The situation is exacerbated by the fact that traditional export industries of Finland are not among the growing import industries of the Soviet Union. On the other hand, the dissolution of the bilateral countertrade between the USSR and Eastern Europe will perhaps open new export markets for the competition in the Soviet Union. In the long run, if the economic reform succeeds, the growth of the total demand of the Soviet Union will to a certain degree create export possibilities also for Finland.

In the shorter run the amount of foreign exchange income and ability to pay will form a "bottleneck" in the development of the Soviet foreign trade. The financing arrangements and credits will thus form an essential part of the export projects to the Soviet Union. The competitive position of the relatively small Finnish economy and enterprises in granting credits is weak.

In this situation Finland should develop new forms of economic co-operation and trade. Concessions, barter-trade and consortia with other foreign enterprises would be solutions to overcome the transition stage. From those already existing co-operative organs especially the promoting role of the Finnish-Soviet Economic Commission in trade should be emphasized. Finland was only partly able to offset the decline of the exports to the Soviet Union with exports to the West.

3.3. Finnish Energy Supply Relies Largely on the Soviet Union

Finland's significant energy suppliers among the countries in transition are the Soviet Union and Poland. Finland imports a variety of energy products from the Soviet Union, e.g. two-
thirds of the oil consumed in Finland. In 1990 the value of the oil imported from the USSR was 7 billion FIM (1.8 billion US$).

Finland imports only coal from Poland, in 1990 worth about half a billion FIM. It is estimated that the domestic demand for coal in Poland is growing faster than its mining. When necessary, the coal imported from Poland can be supplemented by coal from other producers.

Although the oil consumption in Finland will diminish, the annual need for oil will still be 8 - 9 million tons in the 1990s. The supply of oil is guaranteed from other sources even if the imports from the Soviet Union were to appreciably decline. On the other hand, because of its geographical proximity, Finland will be a natural consumer of the Soviet oil also in the future.

Reliable deliveries and price are key factors when Finland decides on purchasing natural gas in the future. Prolonged disruptions in the delivery would affect notably the Finnish economy whereas alternative energy resources and stockpiling of gas are very expensive.

In order to ensure a reliable energy supply Finland should carefully consider before it takes any action to expand the network of gaspipelines in the next years. The decision of Sweden not to buy gas from the Soviet Union in this decade supports the careful posturing. Thus the connection of the Finnish gas network westwards will be postponed until the next millenium.

If Finland decides to build more nuclear power plants, the Soviet Union will still be a potential supplier.

The present electricity import compact with the Soviet Union expires at the end of 1999. Because of the difficulties in the supply of electricity in the Soviet Union, Finland should be prepared to replace the electricity from the Soviet Union
with domestic production.

3.4. Enterprises Lack Interest to Expand Investments

Until now capital transfers to the Soviet Union and Eastern Europe have been limited joint ventures. Legislative reforms will, however, open new possibilities for free direct investments and financial investments in the area.

Since 1987 Finnish enterprises have been granted 260 licences to found joint ventures in the Soviet Union. The licences entitle investments of one billion FIM (250 million US$), which means that Finland would be among the top four joint venture partners of the Soviet Union. Individual investment projects are, however, relatively small and the information on their realization is not reliable.

The interest of the Finnish companies in the joint ventures in Eastern Europe has been clearly more moderate. Finland's share in the joint ventures in this area has been about one percent and individual projects are minor. The countries with most Finnish joint ventures are Hungary and Poland, which have about 20 joint ventures each.

The hope of cheap labour and raw materials as well as new markets have spurred on the Finnish joint venture projects. Practical problems have been caused by the local undeveloped legislation, customs and foreign exchange regulations, differences in the working habits and the scarcity of the infrastructure. Also, the goals can differ between the partners. The locals are interested in exporting to get hard currency whereas the Finns would like to widen their share in the local markets.

Due to the uncertain development and the lack of a investment security pact, the Finnish enterprises are not willing to increase their investments in the Soviet Union for the time being. The most interesting investments would likely to be
in the less capital-intensive service sector e.g. data processing. Some of the present problems may in the next future be solved by allowing free direct investment and creating of less regulated special economic areas. It is assumed that as the economic reform proceeds the significance of the joint ventures to investors will diminish.

The attraction of the eastern central European countries for investors is increased by a more developed legislation and infrastructure and the central location in the European market. The preliminary negotiations regarding integration into the European Community are boosting the prospects of these countries. At least the tariffs between these countries and Western Europe are expected to be abolished. The privatization of the state-owned enterprises and making the currency convertible will offer new possibilities to investors. However, for the time being the Finnish enterprises consider also these countries too risky because of their weak economies. Enterprises could decrease their risks by co-operation with other Western investors.

3.5. **Temporary Working in Finland Benefits Both Parties**

The situation in the Finnish labour market changed dramatically in 1990. After the growth in output stopped the demand for labour dropped and unemployment began to climb rapidly towards the end of the year. The need for controlling the share of the labour-intensive sheltered sector will also restrict the growth of the employment in the next few years. In the beginning of the decade the labour shortage in different industries and regions will not be likely to cause such a limit in production as at the end of the 1980s. Thus, there is no immediate need for immigrant workers in the Finnish labour market.

At the end of the decade and after that, however, the labour market may again change decisively. Due to the expected accelerating growth of output unemployment will decline and
the shortage of labour will probably pose a greater problem. The professional and educational structure of the unemployees will not satisfy the demand and new labour resources will be limited. In this case the need for immigrant workers would be evident.

In spite of the growing number of unemployed persons the immigration should be seen as a positive development already in the beginning of the 1990s. If the immigration were first held in tight check because of high unemployment a rapid change of the policy to fit the new situation in the labour market would be difficult. The immigrants can also make the supply of the labour more varied.

In 1990 nearly 1000 people moved from the Soviet Union to Finland. Somewhat more Soviet citizens worked here in temporary jobs or in exchange programmes during the year. Temporary working benefits both countries. Firstly, workers gain experiences which will be helpful in the renewal of the Soviet economy and, secondly, they can also support the joint ventures. They are usually working in tasks for which it is difficult to attract labour in Finland. To widen this kind of co-operation especially with Estonia would be a central form of activity.

Likely immigrants from the Soviet Union would be the Ingrians that are being allowed to move back to Finland, Estonians, Karelians, other peoples ethnically related to Finns and the Finnish speaking people. People moving back to Finland are so few that they should not create a problem in the labour market. Problems would perhaps arise from the lack of a residence, meager knowledge of the Finnish language and the need for supplementary education.

It is still justifiable to control the immigration from outside the European Economic Area (EEA) e.g. with working permits and visa. As far as the Soviet Union is concerned, it is necessary to be prepared for alternative mobility scenarios. The same applies to the emigrants and refugees
from the developing countries.

Working permit practices allow fundamental control over the suitability of the job seekers. On the other hand, strict working permit practices can lead to a situation in which the immigrants are working without permits. Working permits should be allowed liberally while the employment situation as such will act as a regulator of the immigration.

3.6. Educational Co-operation is a Suitable Support Form for Finland

A transfer to a market economy has given rise to a special need for economic education and know-how in Eastern Europe and the Soviet Union. Co-operation in education has had a central role in the support projects in these countries.

Education and the transfer of expertise are fields of support where good results can be attained with relatively low resources. This fact will make the co-operation in education most interesting to Finland with regard to its present economic prospects. Another remarkable factor is the knowledge of Finnish among the Soviet citizens living next to the Finnish border which will partly enable the integration of the co-operation into the Finnish education system.

Educational co-operation will benefit also Finland. The training of the managers and administration employees will improve the possibilities of Finnish enterprises to be active in the regions. It can also promote the environmental knowledge and thus indirectly promote the reduction of emissions. Professional education and trainee exchanges can make the Finnish labour market more elastic. Scientific co-operation for example in the Leningrad area would offer remarkable development possibilities to the Finnish basic research.
The co-operation must not entice the educated population to move permanently to Finland. This kind of "brain drain" would conflict with the development of the regions in transition.

Before the Soviet Union opened wider to the West Finland tried to some extent to market its knowledge of the Soviet Union among others to the United States. Now Finland could offer its knowledge of market economies to the Soviet Union. In the long run this could be developed into profitable exports of training services to the Soviet Union.

Finland has already agreed on different educational co-operation projects. The most significant of these is the training of managers by the Ministry of Commerce and Industry. The number of the Soviet citizens who study in the Finnish vocational schools is estimated to reach over 1000 in 1991. The investments in the education are still relative low and it would be reasonable to increase them appreciably.

3.7. Co-operation in Environmental Matters is Inevitable

The most damaging environmental problem in Finland caused by the economies in transition is the acid sulphur emissions from the Soviet industries near the Finnish border. About one fifth of the acid sulphur depositions in Finland originate from the Soviet Union. In eastern Lapland even 80 per cent of the sulphur depositions comes from the Kola Peninsula.

According to many studies the most effective and advantageous way to reduce the sulphur depositions in Finland is to cut down the emissions from the biggest nearby resources in the Soviet Union. According to this point of view Finland should take part in environmental protection investments in the USSR.
There are many co-operative projects under discussion to reduce the sulphur emissions near the Finnish border. The most noteworthy project is the renewing of the nickel smelting works of Petsenganikel in the Kola Peninsula with Finnish environmental techniques. The costs of the project are about 2 billion FIM. After the project has been carried out the sulphur dioxide emissions from the Kola Peninsula will be reduced by 50 per cent.

The acidification is increased also by nitrogen dioxide emissions. It would be natural to abate also the diffusion of the nitrogen dioxide together with the reduction of the sulphur emissions. In 1988 about 7 per cent of the nitrogen depositions came from the nearby regions of the USSR. The share of Poland in the sulphur depositions in Finland is about 5 per cent and in the nitrogen depositions a little less than that.

Various toxic discharges and organic compounds accumulating in the nutrition chain of the Baltic Sea are carried from the USSR and Poland. In order to reduce the emissions the network of sewers should be improved and the cleaning up the sewage should be made more effective in the big cities. The present agreement on the Baltic Sea protection should be made binding to the countries participating in it and it should cover all the countries around the discharge area. It would be most important that the European Bank for Reconstruction and Development invest in the protection of the Baltic Sea.

The waste disposal and the management of hazardous waste are also among the trickiest problems of the Soviet areas next to Finnish border. The hazardous waste usually ends up in the dumps with other waste.

The environmental problems of the nearby regions are a relatively greater threat to Finland than to the USSR. It is well founded that Finland participate in the solution of the problems because the priority of environmental problems is not high enough in a country with enormous economic problems.
The Soviet Union does not possess efficient technology to protect the environment and it has very limited to obtain the technology from the West.

Also the obscurity in the decision making and outright abuses are problematical in the USSR. If Finland invests appreciably in environmental protection it should be put into practice under Finnish leadership.

Considering the risks in the investment co-operation in the Soviet Union and the need to reduce the growth of the public expenditure in Finland, the Finnish participation in cutting down the emissions in the USSR is bound to be minor in the next few years. The projects should be mainly commercial, but the government could partly support them.

In the long run it is, however, inevitable to strongly reduce the emissions in the Soviet regions next to Finland. It would be natural if Finland co-operated with other Scandinavian and Western countries to prevent the emissions from the USSR and Poland.

3.8. The Regions Next to Finland Lack Self-Determination

Finland, for many reasons, is especially interested in the development of the nearby region in the USSR, the Kola Peninsula, Karelia, the Leningrad area and Estonia. Due to the near geographical location the natural resources, environmental emissions and living conditions of these regions also have an impact on Finland. The common language and kinship of the nations emphasize the suitability of the co-operation.

In the regions next to Finland live 10 million people, 7 million of which in the Leningrad area. In addition to the labour force there are also remarkable natural resources and industrial output in the nearby regions. Industry and exploitation of the natural resources have caused huge
environmental damages that are carried also to Finland through the air.

The co-operation is difficult because the regions are not independent administrative units with which Finland could cooperate on the Governmental level. Furthermore, because of the lack of the economic boundaries the possible support projects are difficult to restrict to a certain area of the USSR. For the time being the decisions concerning the nearby regions are made in Moscow, where the situation is seen in a different way than in the regions in question.

These regions are trying to obtain administrative and economical independence. In this respect Estonia has been the most successful. Karelia is aiming at a quite broad economical sovereignty concerning foreign trade but its case has not proceeded in the central administration of the Soviet Union. All the regions have set up plans to establish special economic areas, kind of test territories for a market economy, one purpose of which is to obtain foreign capital. Leningrad and Vyborg have been most successful in these plans.

If the struggles forward independence succeed, it would be well-founded to transfer a growing part of the Finnish support projects to these regions. In addition to the immediate interests of Finland this strategy is also support by the fact that because of the minor resources of Finland it is reasonable to concentrate the bilateral support to the USSR in restricted areas.
4. CONCLUSIONS

The following conclusions can be drawn from the Finnish point of view. The effects of the transition in Eastern Europe and in the Soviet Union on Finland, the related opportunities offered to Finland and the actions required.

1. The almost 400 million inhabitants of the Soviet Union and Eastern Europe and enormous natural resources mean a great opportunity for development. A successful reform policy of these countries is essential to the world economy and above all to future European development. However, the progress of the economic reform varies a lot from country to country. The situation of the Soviet Union, which is the most important of these countries to Finland, is getting worse and its economy will not be improved for a long time.

2. The interruption in the decline of the standard of living and its improving to the level of the Western countries as well as the renewal of the deteriorated and polluting industries require a lot of investment in the USSR and Eastern Europe. The domestic saving of the countries is completely insufficient to meet the investment requirements and plenty of foreign capital is needed.

3. The huge risks in the development of the Soviet Union, the minor resources and current economic imbalance of Finland as well as the sizable Soviet debts to Finland restrict in the short run Finland's possibilities to support the Soviet Union and other Eastern European countries. In addition to the already existing engagements Finland's bilateral support should be directed to projects where relatively little capital is needed. In order to reduce the risks the projects should be run under Finnish leadership. In the long run the Soviet Union and Eastern Europe will offer Finland great opportunities. Thus it is important that Finland prepares for the future by developing different strategies and co-operation projects within the limits of present resources.
4. Participating in multilateral support projects in Eastern Europe and the Soviet Union is important to Finland in the next few years. This way the countries will attract remarkable capital inflows while the risks will be divided between the supporters. Finland should also by all means promote freer international trade between the Eastern European countries and the Soviet Union and the Western market economies.

5. The dissolution of the bilateral countertrade causes Finland a loss of an advantage in the Soviet trade. The future level of Finnish-Soviet trade is determined by Finland’s ability to compete with other Western countries in the Soviet market with declining real purchasing power. In this competition financial arrangements will play an important role and big Western economies with greater resources will be in a better position than Finland. In the transition stage Finland should create alternative forms of economical co-operation with Soviet Union such as concessions and barter-trade.

6. Because of the geographical proximity, Finland’s energy supply should also in the future partly rely on imports from the Soviet Union. In the near future difficulties in the delivery from the Soviet Union should nevertheless be prepared for.

7. At present Finnish enterprises are not willing to invest in the Soviet Union and Eastern Europe without government guarantees. The Finnish government can not increase notably its already existing investments. To share the risks Finnish enterprises should activate their investment co-operation with other Western companies. The liberalization of direct investments and the legislative reform can in the long run increase incentives to invest in the USSR and Eastern Europe.

8. In the next few years there is no direct need for foreign labour in the Finnish markets. Temporary immigration from the regions next to Finnish border can still be favoured
because it supports the reform policy in the Soviet Union and simultaneously increases the elasticity of the labour markets in Finland. To prevent uncontrolled immigration it is necessary to maintain the practice of granting working permits.

9. Great demand for education, low costs and the possibility to use the Finnish language are factors that make professional training and exchanges of experts a suitable field of support for Finland. This is the case especially in the Soviet areas next to Finland. However, it is important to direct the training properly and make sure that educational co-operation does not lead to harmful "brain drain" out of the regions in transition. It would be appropriate to substantially increase the finance of long-term vocational schooling.

10. The investments in the environmental protection in Poland and in the Soviet regions near to Finland are often more effective in cutting down the polluting depositions in the Finnish territory than the corresponding actions taken in Finland. It would perhaps be reasonable to direct the resources of environmental protection to the reduction of the emissions in the Kola Peninsula, the Leningrad area and Estonia. The debts should be forgiven only on the condition that the debtor countries will cut down their emissions.

11. It is difficult to limit the Finnish actions to the regions next to Finland because for the time being they do not have sufficient autonomy in economic decision making. If the aspirations for independence proceed, it will be reasonable to direct a growing share of the environmental support to the near-by regions.

12. The Finnish research on the Soviet Union and on the impact of Soviet developments on Finland has been deficient. From now on more resources should be directed to this highly important field of research.