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## Economic aspects of Finland's development in the context of Finnish cooperation with NATO

**Abstract.** The work is dedicated to the issues of integration into transatlantic security structures. Based on the example of Finland, it shows different attitudes of Nordic countries to such integration and to the defence and security policy. It is addressed to the possible future membership of Finland in NATO. The concluding part is dedicated to economic aspects with a focus on exports. The article analyses the stagnation of the Finnish economy and its impact on the reduction of defence spendings.

**Keywords:** Finland; Military Spendings; Integration; NATO; Cooperative Security Theory; Economics; Export

**JEL Classification:** D72; D74; F49

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#### Економічні аспекти розвитку Фінляндії в контексті співробітництва країни з НАТО

**Анотація.** У статті досліджується проблематика інтеграції до трансатлантичних структур безпеки. На прикладі Фінляндії визначено розбіжності у позиціях країн Північної Європи щодо питань інтеграції, а також політики оборони й безпеки. У статті висвітлено питання можливого членства Фінляндії в НАТО. З урахуванням економічних аспектів визначено декілька підходів, які є передумовою для вступу Фінляндії до альянсу.

Заключна частина присвячена економічним аспектам розвитку Фінляндії з урахуванням її експорту. Проаналізовано стагнацію економіки Фінляндії та вплив цього фактору на зменшення витрат країни на оборону.

**Ключові слова:** Фінляндія; військові витрати; інтеграція; НАТО; теорія колективної безпеки; економіка; експорт.

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#### Экономические аспекты развития Финляндии в контексте финского сотрудничества с НАТО

**Аннотация.** В статье рассматриваются проблемы интеграции в трансатлантические структуры безопасности. На примере Финляндии рассмотрены различия позиций стран Северной Европы в вопросах интеграции, а также политики обороны и безопасности. Особое внимание уделено вопросу возможного присоединения Финляндии к НАТО. С учетом экономических аспектов определено несколько подходов, являющихся необходимым условием для вхождения Финляндии в альянс. Заключительная часть статьи посвящена экономическим аспектам с учетом экспорта страны. В статье проанализирована стагнация финской экономики и её влияние на сокращение расходов на оборону.

**Ключевые слова:** Финляндия; военные расходы; интеграция; НАТО; теория совместной безопасности; экономика; экспорт.

### 1. Introduction

Both foreign and domestic policies are influenced by the country's position on the international arena. The approaches, which are taken by countries regarding the international policy, become part of national identity. The active attitude within international policy as well as promotion of the so-called social or soft power is typical for Nordic countries (Burclik, M., Havlik, V., & Pinkova, 2011) [2]. Their engagement in defence and security structures is also determined by position of the North European countries during the Second World War. The elaboration of a common defence pact during that period of time failed and each of the countries from the Nordic region showed a different attitude regarding the matter of their own defence and security. Finland was constrained to cooperate with the Soviet Union, which influenced its position on the international arena, as well as its possibility of integrating into international alliances for a very long time. However, nowadays, after 70 years of peace with Russia the issues of military and economic security for Finland have become vital again (Cronberg, T., 2014).

### 2. Brief Literature Review

The principal source for the paper is the political theory by Olaf F. Knudsen described in his work known as «Cooperative Security in the Baltic Sea Region».

Another source of relevant information was official data from the Ministry of Defence of Finland and statistical data related to Finnish foreign trade focusing on exports, as well as opinions of such scholars, as Wijk (1998), Salenius-Pasternak et al (2007), Raimo Vayrynen (2009), Burclik, Havlik, & Pinkova (2011), Adashkova, Kazansky, & Kukharchik (2012).

### 3. Purpose

Based on the cooperative security theory by Olaf F. Knudsen, we will conduct an analysis of Finland's defence and security policy. Subsequently, by applying cognitive methods, we will find out how a proportion of financial resources influences the country's preparedness for the integration into transatlantic security structures.

### 4. Results

#### 1.1 Cooperative security

North Atlantic Alliance played a very important role within the international environment during the Cold War. The organization sought collective defence and became some kind of military counterpart to the Soviet Union. At the same time it was granting a military security to all of its members.

After the collapse of the Socialist Block in the 80s and 90s of the 20<sup>th</sup> century, there was a new geopolitical world's organization. The former bipolar system became unipolar, which caused the change of the global system of international relations. The role and the status of NATO at the international arena changed significantly, therefore it was necessary to create a new concept, which would completely reflect existing international reality.

Rob de Wijk highlighted that NATO's successful adaptation has no precedents. History shows that once victory has been won, traditional military alliances disappear (Wijk, 1998) [17].

On the other hand, NATO was able to transform a traditional military alliance aimed at collective defence into a political and military organization based on a successful partnership for security.

NATO has developed itself so much that nowadays it is trying to solve the crises peacefully and to prevent conflicts (Adashkova, Kazansky, Kukharchik, 2012) [1].

The task of creating a new concept, which would be effective in new international conditions, has appeared. This issue refers to a cooperative security.

Overall, the concept of cooperative security seeks to overcome the security approach which is based on accumulation of military power and primarily considers sufficient volume of security insurance to possible military aggression from abroad (Krizh, 2008) [9].

Hence, it is about overcoming the traditional perception of security. The system of international relations should be based on cooperation, which will lead to international security. The instruments of cooperative security must be accepted by the whole international community.

The cooperative security mechanism is an open system which is available for all of those who accept it.

Many of the authors who are looking into the security issues have developed alternative cooperative security conceptions.

To conduct our scientific work, we chose the Olaf F. Knudsen's theory as a theoretical guideline. In his work titled «Cooperative Security in the Baltic Sea Region», the author perceives cooperative security as the policy of a government or some organized group, according to which conflicts are attempted to be solved by non-violent means and through dialogue. The principle of cooperative security is not the power renouncement and power threat, but an active effort to find practical ways of solving crises and their prevention (Knudsen, 2008) [7].

O. F. Knudsen does not deny the existence of military capacities, but there must be willingness to negotiate with the party against which it could be used. He narrowed the concept of cooperative security to the method of the negotiations of the two alienated parties.

He identified the Baltic Sea Region as the one, where those negotiations are really happening. The position of the Alliance is changing in the context of new challenges and new security agenda influenced by climate changes, energy dependency and power redistribution within international relations. Despite this, in the sphere of defence and security, it is the only unique and irreplaceable structure that performs tasks, which individual countries wouldn't be able to perform.

«Unique in history, NATO is a security Alliance that fields military forces able to operate together in any environment; that can control operations anywhere through its integrated military command structure; and that has at its disposal core capabilities that few Allies could afford individually». (Strategic Concept, 2010) [14].

The Alliance is determined by political and security development beyond its boundaries and is able to influence it. The support of international security through mutual cooperation is coming to the fore. The position of NATO is specified by its military as well as economic power, which is becoming dominant in the current international relations.

NATO needs sufficient resources (financial, military and human) to carry out its missions which are essential to the security of the Alliance's population and territory. Such resources must, however, be used in the most efficient and effective ways possible (Strategic Concept, 2010) [14].

### 1.2 Political-historical development of Finland and its attitude to the integration

In the course of its historical development, Finland was part of its neighbours' territories: the Kingdom of Sweden from the west and the Principality of Novgorod from the east.

During the 14<sup>th</sup> century, the Kingdom of Sweden was much stronger, therefore it got a huge part of what is now Finland's territory, except Karelia which passed to Novgorod.

«Inhabitants of Finland were Swedish citizens with all the rights and duties. They were paying taxes, serving in the army and voting the deputies» (Kmochova, 1993) [8].

The position of Finland changed in 1809. It became part of the Russian Empire as a principality. Finland was granted wide autonomy and it was developing relatively by itself. Such a state remained until 1917.

Constant supremacy during the whole period of its historical and political development was indicated as a permanent effort of Finland to become independent.

Finland became independent in 1917, although only partially, as it had to fight for its independence against the Soviet Union.

During the Cold War, Finland was in political isolation due to the influence of the Soviet Union. Neutralism was a political instrument, thanks to which Finns remained resistant to the pressure from the Soviet Union (see Kukharchik, Chuguryan, 2014) [10].

Finland's foreign policy was dependent from the Soviet Union until its break-up. Despite of this, Finland maintained good relations with the east and was actively integrating into the economic realm of Eastern European structures.

After the break-up of the Soviet Union, Finland formally kept to its neutralism, however, when compared to Sweden, the independence of Finland was more the «product of coincidences» than the part of the national identity (Burlik, Havlik, Pinkova, 2011) [2].

In modern times, threat of Russian invasion into Baltic Sea region or annexation of Finnish territories move Finnish (as well as Swedish) politicians and society towards the idea of closer integration and further possible membership in NATO<sup>1</sup>.

Based on the listed facts, we presume that Finland's integration into NATO is not excluded in future.

#### 1.3 Pros and Cons of Finland's joining NATO

Nowadays, Finland closely cooperates with the Alliance and participates in its activities, as well as in NATO's Partnership for Peace Program and a wide range of security and peace initiatives.

The exact framework of relations between Finland and NATO is established in an Individual Partnership and Cooperation Program.

Based on the government's statement about the security and defence policy, Finland's membership in NATO is considered a possibility which should not be overlooked (Finnish Security and Defence Policy, 2009) [5].

Very interesting is bilateral cooperation between Finland and NATO within the civil defence area. Both parties committed to provide assistance in case of serious disaster or catastrophe.

Lately, Finland's possible accession to the North Atlantic Alliance has been one of the most discussed themes among the country's population and political leaders. Considerations about possible Finland's integration into NATO have been getting even more intensive recently, mainly at the beginning of 2014, after the annexation of Crimea by the Russian Federation (see Zubro, 2014) [18].

Increased Russia's military activities in the Baltic Sea Region also contribute to such considerations.

It has resulted in the intensification of cooperation between Sweden and Finland in the defence sector. Both countries agreed to permit mutual access to their naval bases and to organize joint submarine manoeuvres.

In fact, most of the Finnish population declares the negative attitude towards Finland's NATO membership.

«The support for accession is about 25 per cent in Finland. However, more than half of the respondents consider Russia as a threat. Over the past few months, Kremlin has been playing into the hands of joining followers». (Matishak, 2015) [11].

Reasons for Finland's integration into NATO:

- Finns would be protected from possible Russia's pressure.
- The current policy of military non-alignment results in the uncertainty, unclear position of Finland: politically, it is a part of the Western world, however, it is independent in its military command.
- Finland would have an opportunity to participate in security structures through its NATO membership.
- Finland is not strong enough to protect itself alone and, consequently, to address crises in the region.

<sup>1</sup> See: The Economist from June 21, 2014, «What price neutrality? Russia stokes fresh debate among the Nordics about NATO membership», <http://www.economist.com/news/europe/21604586-russia-stokes-fresh-debate-among-nordics-about-nato-membership-what-price-neutrality>

- It would stop being subject to decisions made by other countries with regard to its security and foreign policy.
- NATO membership is less costly than the country's defence beyond the Alliance.

Reasons for Finland's non-integration into NATO:

- NATO membership would have a negative impact on good relations with the Russian Federation.
- The extension of NATO in the area would be considered by the Russian Federation as provocative and may cause imbalances in Europe.
- If there is a conflict between the Russian Federation and the Western powers, Finland might be a go-between in a possible conflict.
- As a member of NATO, sooner or later, Finland would become isolated from the Eastern powers.
- It would become part of various regional crises and conflicts which would not be related to Finland.
- NATO membership is too costly.

1.4 The economy of Finland, focusing on the export and its influence at the defence resort expenditures

Following the decision-making process regarding Finland's membership in NATO, it is necessary to consider the economic aspect, because prior to the integration, it assumes total costs increase for common operations within NATO and administration.

On the other hand, the current efforts of the Finnish government to reduce national defence expenditures is one of the most important aspects taken into account when deciding against Finland's integration into NATO. Thus, share of defence budget in GDP of Finland has a downward trend (except for the year 2009).

Currently, Finland is struggling with economic crisis, and we can see a significant decrease in the country's competitiveness. A large number of economists warn that the situation similar to the one in Greece may occur.

The performance of Finland's economy is lagging behind the rest of the Eurozone countries. «Real GDP of Finland is still 5% lower than at the beginning of the international financial crisis in 2008» [4].

This was caused by the Finland's economics decline and the next period of a slow increase. The main reasons of economic decline are the following: ageing of population, a decrease in workforce, weakening of foreign demand, rigid labour market, a decrease in information technologies and forestry areas, and instable fossil fuels prices.

Based on the information from The World Databank, the annual GDP growth in Finland has been negative lately (see Table 1), which is also influenced by a significant contraction of exports and reflected in the decrement of country's income from exports.

YEAR	GDP GROWTH (%)
2011	2.6
2012	-1.4
2013	-1.3
2014	-0.1

Source: The World Bank, 2015 GDP growth (annual %); own processing [15]

The foreign debt of Finland tends to increase. In 2010, its volume was 326,73 billion Euro, in 2014 it amounted 450,964 billion Euro (Finnish foreign trade, 2015) [6].

Figure 1 shows that Finland's foreign trade is export-oriented; meanwhile there is a decline trend in the country's exports. World financial crisis affected Finland's export, which reached

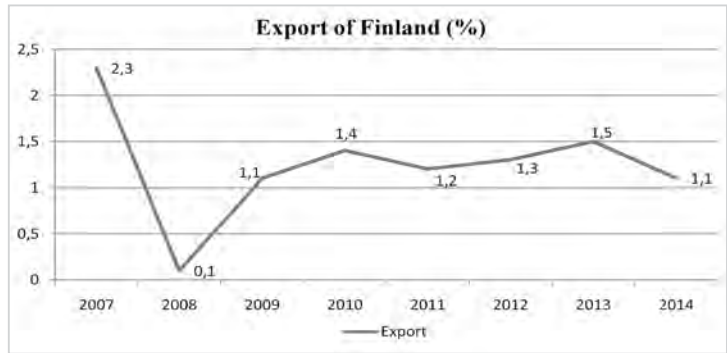


Fig. 1: Finland's export in 2007-2014  
Source: Quality of the foreign trade, 2015; own processing [13]

the deepest limit in 2008. Also, reasoned by the information technologies demand and paper consumption fall, the country's exports experienced a contraction in 2004. These factors influenced the Finnish woodworking industry and substantially reduced its export earnings.

Figure 2 is dedicated to Finland's exports and focuses on its individual regions. The main Finnish export is targeted at the Eurozone, and the volume of exports to the other European countries is significant as well. The orientation of Finland's exports at the Eurozone is reflected in the country's membership in the EU, as well as in its efforts to build good relations with the European Union and the proclamation of its pro-Western orientation. Trade between Finland and the EU countries accounts for 60% of the Finnish foreign trade. In 2014, the country's export to European countries and the EU was mainly metals, machinery, transport vehicles and equipment. The main exports to European countries were also formed by electronics and chemical goods.



Fig. 2: Finland's exports by region in 2014  
Source: Finnish foreign trade, 2015; own processing [6]

Figure 3 shows Finland's exports to selected countries. The main trading partners are Germany, Sweden, the Russian Federation, the UK, the USA, the Netherlands and China. The first very important export partner is Germany as the one of the most powerful states of the European Union. The second is Sweden, where Finnish exports are routed due to regional proximity. Intensive exports are observed with regard to the Russian Federation, reflecting long-term bilateral economic cooperation which has existed long before Finland joined the EU.

The main reason for a decrease in Finland's defence expenditures was an unpleasant economic situation in the country, as well as the efforts to effectively use finances and optimize the country's defence spendings. In the field of national defence forces sphere, in the near future, there will be the most significant changes within the period of the past twenty years.

The reform is related to the reduction of military spending, as well as expenditures regarding logistics, supporting functions, research and planning. It also includes a decrease in the number of administrative workers and military forces (Finnish Security and Defence Policy, 2009) [5].

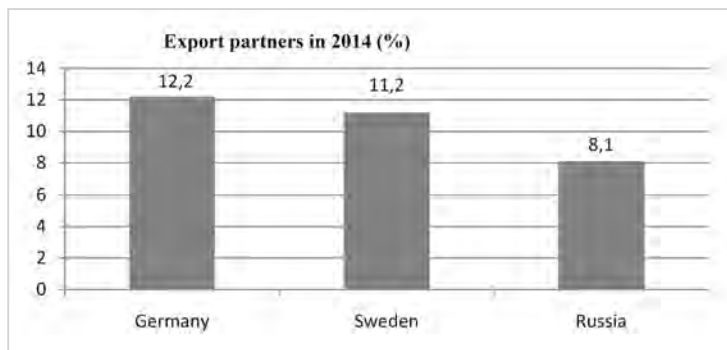


Fig. 3: The most important export partners of Finland in 2014  
Source: The World Factbook, 2015; own processing [16]

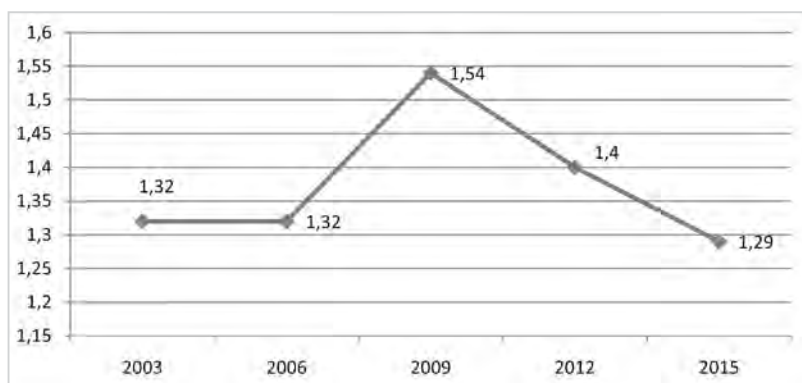


Fig. 4: Share of defence budget to GDP (%) during 2003-2015  
Source: Ministry of Defence of Finland. 2015, own processing [12].

Based on the official data from the Ministry of Defence of Finland, the defence budget in 2015 formed the lowest share of the country's GDP in the last years (see Figure 4).

**5. Conclusions.** Finland is an economically sophisticated country, which has experienced an economic slowdown recently. The key economic industry for foreign trade is manufac-

turing. The largest share of industry is represented by manufacture of electronics, machinery and vehicles, woodworking industry and chemical production. Foreign trade has a significant impact on the recovery of the Finnish economy, which is mostly export-oriented.

Based on the opinion of experts, the recovery of Finland's economy will be complicated, and it will last for approximately ten years. Taking into account the country's current economic development, we may expect a high level of budget deficit as well as debt accumulation. Based on the optimistic prognoses, which are assuming the acceptance of consolidate actions, Finland could return to its prior to recession level around the year 2023.

Finland also asserts its pro-European orientation in the security and defence policy. Higher military activity of the Russian Federation in the Baltic Sea Region, as well as the annexation of Crimea by the Russian Federation, has lead to active discussions on Finland's potential accession to NATO. However, due to the unfavourable economic situation, Finland's defence expenditures have been reduced.

«Credible defence forces cannot be built all alone in today's world», The Finnish Defense Minister Carl Haglund said. «It requires cooperation at various levels with different actors. The Finland-Sweden partnership will be one of our important international collaborations, and it must be accompanied by cooperation with other Nordic countries and other bilateral partnerships, including with the United States, NATO and the European Union». (Haglund, 2014) [3].

We presume to mention that Finland will try to partially distance from Russia despite some apprehensions, which will lead to the harmonization of its politics with NATO. We suppose that in the next few years, Finland will probably try to obtain full NATO membership, despite Russia's concerns and an unfavourable public opinion on the membership in the Alliance.

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