

Europe's Slowdown Forces Finland to Turn to Russia Again

By [The Moscow Times](#)

August 12, 2013



A street in downtown Helsinki. Finland is increasingly turning to Russia. **Vladimir Filonov / MT**

HELSINKI — After decades of pursuing trade with Western Europe, Finland is becoming dependent on Russia again as that country's burgeoning middle class and wealthy investors provide opportunities for growth lacking in recession-hit Europe.

While some Finns still view their eastern neighbor and former ruler with suspicion, expectations of only a slow European recovery mean more businesses are likely to embrace closer ties with Russia, signaling a readjustment after two decades of close commercial relations with Europe.

Recent trade data show a shift has already begun. Finnish exports to the rest of the European Union fell 4 percent year on year in the first five months of 2013, while those to Russia rose 4 percent.

Judging from second-quarter corporate results, which showed a wide range of companies hit by uncertainty in Europe, Finland may become even more dependent on Russia. Top companies such as retailer Kesko and department store chain Stockmann have cited Russia as their strongest card.

Kesko, which controls about 35 percent of Finland's grocery and hardware trade, opened its second Russian food store in May and plans eight more in the next three years.

The expansion, which capitalizes on strong consumer trends as well as Finland's high reputation for food safety and product quality, comes as Kesko has cut hundreds of jobs in Finland and lowered its profit forecasts.

"The growth potential that the Russian markets offer to Finland is truly remarkable in the longer term," chief financial officer Jukka Erlund said.

Stockmann on Friday reported a surprise rise in quarterly operating profit, saying strong earnings in Russia, particularly at its department store in St. Petersburg, offset weak spending in Finland.

Tire maker Nokian Renkaat started production in Russia in 2005 and has since been boosting capacity at its Vsevolozhsk factory near St. Petersburg, enough to make it Russia's market leader in passenger vehicle tires.

"Finland and Finnish products have an excellent reputation in the country. Culturally, we are considered honest, almost naive," the tire maker's chief executive Kim Gran said. "Finland's small businesses should make a stronger effort to establish operation in Russia."

Exports to Russia have almost tripled since 2000, led by growing demand for a range of goods including mining machinery, wood products and chemicals in addition to gadgets such as Nokia's mobile phones.

While Russia's growth has recently shown signs of slowing down amid falling oil and gas prices, economists say it still provides much-needed support for the small Finnish economy that is running a current account deficit and is expected to contract in 2013 for the second year in a row.

HISTORIC GRUDGES

Historically, Finland's dependence on its powerful neighbor, which was also its ruler through the 19th century, is not particularly new. Postwar Finland relied heavily on trade with the Soviet Union.

But the Soviet Union's collapse in 1991 triggered a deep recession in Finland, prompting its leaders to turn westward and seek greater integration with Europe by joining the EU and the euro in a switch that economists say helped Finland become one of the world's richest economies per capita.

While official relations with Russia are now mostly cordial, there is still a feeling of mistrust, particularly among older generations who experienced the 1939-40 Winter War and subsequent Continuation War against the Soviet Union.

Finnish men still spend up to a year in compulsory military service, training to defend their 1,340-km (840 miles) border to the east.

Businesses, however, are putting aside such historic grudges as rubles make up for a lack of domestic and European funds.

For example, Russia's Rosatom recently emerged as the primary candidate to supply a reactor for Finland's nuclear consortium Fennovoima. Rosatom has said it may invest in the project, estimated to cost about 4 billion to 6 billion euros, which would put to rest funding concerns after German utility E.ON announced its exit from the consortium.

In another high-profile deal, Russian-Finnish billionaire Gennady Timchenko and other associates of President Vladimir Putin agreed in June to buy Finland's biggest ice hockey and concert venue in Helsinki, and the local Jokerit team is expected to join Russia's KHL hockey league.

Russian wealth is also becoming more visible at street level.

The number of Russian visitors rose 10 percent last year to 3.6 million, accounting for nearly half of all foreign visitors. To accommodate such customers, many on tax-free shopping expeditions, Stockmann's flagship store in downtown Helsinki recently started accepting rubles.

An increasing number of Russians are also investing in Finnish property, drawn by the country's safety and abundance of lakeside cottages. A recent government study showed Russian consumers could spend 2.4 billion euros on Finnish real estate through 2030.

The same report, however, also showed over half of those Finnish lawmakers who were surveyed support restrictions on Russian property ownership.

"They have to be carefully evaluated, near military sites," one anonymous politician wrote. "Overall, security has to be taken into account."

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