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## CRISIS CHALLENGES AND OPPORTUNITIES FOR BALTIC COOPERATION

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The world economic crisis has already revealed weakness of regional economies, which aggravates political instability in some countries of the Baltic Sea Region. This opinion tends to analyze the most obvious implications of the crisis for this area, mostly focusing on the relations between Russia and the Baltic States as the most problematic on the regional agenda. The crisis brings both challenges and opportunities for regional cooperation, which potentially can contribute to positive revisiting of the regional cooperation agenda.

### Challenges

**Protectionism.** Cooperation and coordination in the Baltic Region is to be increased because of the great extent of intra-regional economic dependence, especially for the small states of the region, having in mind foreign trade and investments. The difficulties in one part of the space seem to have tremendous negative implications on the other ones. For instance, economic problems in the Baltic States negatively affect Swedish banks, while a decrease of demand on Northern markets has resulted in the bankruptcy of their subcontractors on the Southern shore of the Baltic Sea.

There is a great temptation to follow the way of protectionism, which in the short-run may preserve some national producers and jobs, yet in a longer period will only distort markets, depriving them of the benefits of specialization. Thus, on the world economic scene the region may become less competitive in general. Among the reasons behind the vulnerability of the Versailles system after the World War I was lack of joint programs for economic restoration, too many new state borders impeding trade, and flourishing protectionism as a result of the Great Depression. Even though nowadays the Eu-

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The article is based on the report presented at the International Forum “Challenges and Options for the Baltic Sea Region”, December 12, 2008, Vilnius.

ropean Union mechanisms can restrain protectionism, they are unable to eliminate it entirely.

Protectionism may have negative implications for international affairs, making them less stable and more antagonistic. Protectionism may negatively affect the domestic stability of small countries of the region, which cannot generate domestic demand on their own and which are dependent on exports and foreign investment. The mass dissatisfaction of population may lead either to growing political entropy of the regimes, or to transforming these regimes into growing authoritarianism.

**Nationalism.** There is a threat that national elites, especially in the Baltic States, suffering from the deteriorating economy and losing political popularity, would return to the tactics of playing the “national card” and anti-Russianism for the purposes of domestic consolidation and attracting foreign support and aid. As Andris Spruds puts it, in spite of growing pragmatic interests of Baltic political elites, the inertia of political identity formed in 1990s mostly on “negative othering” of Russia is sustainable, though the elites have leverage in identity construction, and there are some implications of this, like a shift to “selective othering” and de-securitization in some functional areas.<sup>1</sup>

Besides, the obviously worsening relations between the European Union and Russia may encourage the Baltic States to pursue their traditional policy of satisfying the demand from abroad on critics towards Russia. Experts have often repeated that the EU and especially its major countries are destined to pursue engagement policy towards Russia because of the high dependence on raw materials supply. Moreover, Russia has generated substantial demand for European exports – be it supply of railway trains by Siemens, or construction of the “Nord Stream” gas pipeline. But the diversification of energy sources was launched, and the crisis led to dropping down the demand and prices on Russian oil and gas, allowing the European Union to project more unilateral (as much as it can be formulated among EU member states) and assertive approach vis-à-vis Russia.<sup>2</sup>

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<sup>1</sup> Spruds, Andris. “Entrapment in the Discourse of Danger ? Latvian-Russian Interaction in the Context of European Integration” in E. Berg, P. Ehin (Eds.). *Identity and Foreign Policy. Baltic-Russian Relations and European Integration*. Ashgate, 2008. P. 101-116.

<sup>2</sup> Moshes, Arkady. „Diversifikacija Rossii“ [Diversification of Russia] in *Gazeta.ru*. 11 March 2009. [http://www.gazeta.ru/comments/2009/03/11\\_x\\_2955756.shtml](http://www.gazeta.ru/comments/2009/03/11_x_2955756.shtml). Last access: 20.03.2009.

At the same time, the potential of nationalism has become limited now, having in mind both external and domestic reasons. The external ones refer to the fact of living in the legal and valuable European space, where the manifestations of aggressive nationalism will hardly be warmly accommodated. Domestically, the ruling coalition in Estonia has already over-utilized the anti-Russianism when the Bronze Soldier monument was dismantled in April 2007. While succeeding in mobilizing the electorate, the domestic inter-ethnic peace was undermined. It evidenced a new situation in comparison with 1990s: the younger generation of the Russian-speakers is not eager to reconcile with injustice and inequality of their status. So, the attempts to speculate on nationalism could jeopardize stability in Estonia. In Latvia the situation in society seems to be slightly different – Russian community is under- yet represented in power, and the identity gap between Russian-speakers and ethnic Latvians is not so deep. As a result, the collective identity there could emerge on social/class across ethnic foundations. Recent (January 2009) anti-governmental disorders have indicated that.

***Peripherization of Baltic agenda.*** The EU may perceive the region as a burden rather than a locomotive. When the financial crisis has already become an economic one, the investments should be channeled into the locomotive regions. The Baltic Sea Region used to be such a region, though it is here that the crisis manifested itself at a greater pace, as Latvia and Estonia were among the first European countries which indicated economic recession. The decline in the region may be higher than the EU average. Besides, for a long time the Baltic countries and Poland irritated the rest of the EU by positing their difficulties in dialogue with Russia to the common agenda, thus hampering both the EU transformation and its relationships with Russia. As Dmitry Trenin formulates, the solidarity principle in the EU should be accompanied with the mutual responsibility principle<sup>3</sup>, which implies the limits for transferring intra-communitarian and bilateral (e.g. with Russia) problems into headaches of European external affairs. As reciprocity for such policy, Brussels could become less responsive to the regional needs.

For Russia the Baltic agenda has not been a top priority and it could continue to deteriorate: the region has not become a tool of Russian-European

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<sup>3</sup> Trenin, Dmitry. *Toward a New Euro-Atlantic "Hard" Security Agenda. Prospects for Trilateral U.S.-EU-Russia Cooperation.* IFRI, CSIS, July 2008. P. 16.

rapprochement, while new negotiation fields emerged. Moscow perceives the critical stance of the Baltic States and Poland towards Russia (including frameworks of NATO and the EU) as playing in favor of geopolitical interests of the external actor, rather than a manifestation of their national interests.

In the Baltic States there is a widespread opinion that relations with Russia, especially in the economic sphere, are risky and their share in total volume should be restricted to get rid of dependence.<sup>4</sup> Others claim that neither positive nor negative stance of the Baltic States towards Russia is able to affect Russia's unilateralism in decision-making. For instance, the Estonian leadership is used to claiming that, indifferently from the Bronze Soldier story, Estonia would anyway lose its share in transit. At least, there is traditional fear of Baltic regionalization as a potential threat to security, where the major powers Germany and Russia could dominate. From the realist perspective, the absence of Russia's and Germany's leaders at the recent CBSS (The Council of the Baltic Sea States) summit in Riga could be interpreted as a manifestation of a new deal between Germany and Russia, which shared the spheres of responsibility in the region.

## Opportunities

***Revisiting objective interests.*** From a number of perspectives Russia is interested in accelerating cooperation in the Baltic Sea Region. *First*, the current crisis is to stimulate more adequate evaluation of foreign policy resources for Russia, decrease a frightening and alienating rhetoric, which is not supplemented by influence leverage. The crisis has revealed the degree to which Russia is integrated into the world economic system, so the benevolent non-confrontational external environment for domestic modernization will raise its significance for Russia. In spite of or due to the recent escalation in Georgia, Russia tends to project a more positive image in the world, undertaking efforts aimed at the settlement of thawing conflicts in Transnistria and Nagorny Karabakh, prolonging the Friendship Agreement with Ukraine, and demonstrating absence of temptations of expansion.

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<sup>4</sup> Korsten, Teet. "Interview with former Ambassador of Estonia to the Russian Federation Marina Kaljurand." in *Severnoje Poberezhje*. 7 March 2009. <http://rus.pohjarannik.ee/modules.php?name=News&file=article&sid=8914>

*Second*, it is clear that Russia is not interested in militarization in the Baltic Sea Region, which would undermine stability and threaten the communication line with the rest of the world. The possible disposal of “Iskander” ballistic missiles in Kaliningrad had been announced only as a reciprocal step and was soon postponed or *de facto* denounced. The public disclosure of Russia’s plans indicates that such development is not desirable for Russia itself, because it contradicts the policy of demilitarization for the Kaliningrad enclave and of Russia’s North-West in general pursued throughout the last decade.

*Third*, the developed network of Baltic institutions serves as a good dialogue field between Russia and European countries. Though activities of many of them are rather virtual, they work as a remedy against “non-participation” fears of Russia. The latter does not have many joint institutions with the West where it has an equal voice. The Council of the Baltic Sea States is one of them. Revitalization of its activities corresponds to Russia’s interest of counterbalancing the efforts of fictive region-building in the Baltic-Black Sea space, which is perceived in Russia in negative coloring as a new edition of *cordon sanitaire* policy.

***De-politicization of economics.*** The world crisis can result in changing approaches to economic cooperation between Russia and the EU. Thus, efficiency is to become more vital in decision-making. During the period of steady economic growth both parties were ready to pay a political price and tolerated high transaction costs. For instance, utilizing a problematic political situation around the Nord Stream gas pipeline project some countries of the Baltic Region tried if not to stop, then to condition its implementation with quite expensive additional works. In the new situation, there is no cheap money; there will not be over-revenues from oil and gas exports. Even Vladimir Putin, the greatest proponent of the project, has expressed doubts whether the project should be proceeded with. Alongside an emotional component, this is a clear sign to some partners that opportunities to pay a political price are limited. At the same time, it seems that the competition between Russia and Europe over the control over oil and gas transit routes will continue. This sphere is considered to be strategic, and Russia will be ready to reward the countries that support or tolerate its projects and interests like Nord and South Streams.

One more sphere of cooperation which can benefit from de-politicization is transit. When the prices for the main export commodities of Russia were high, their producers used to agree with some governmental recommendations

of non-market nature. For instance, after the demolition of the Bronze Soldier monument in Tallinn, the volume of transit through Estonia decreased by 30-40% without officially announced sanctions. Though the previous scale of transit will hardly be restored due to the general decline in international trade, one may expect that many companies will strive for returning to transit through Estonia, having in mind both decreasing costs and previously made investments in infrastructure. The Russian state-controlled railway monopoly "RZhD" has announced its interest in transit through Latvia.<sup>5</sup> The critical situation with cargo turnover in Kaliningrad ports will increase readiness to negotiate with Lithuania on mutually beneficial transit rates for Kaliningrad and Klaipeda.

***Economization of politics*** will be defined by scarcity of resources for political competition. In the period of economic growth the competition for influence in Central and Eastern Europe between the European Union, Russia and the U.S. strengthened. Russia increasingly started to project its interests by "soft power" instruments, investing into projects related to the support of the Russian language, compatriots and national minorities, and developing an information space. The European Union was developing its Neighborhood Policy and Eastern Partnership, which were enviously perceived in Moscow. At the beginning of the crisis the competition still continued. For instance, Russia and international financial institutions as well as the EU were making bids to Belarus on loans and assistance of various types. But the resources for external economic activities are getting limited and will be subject to sequester.

At the same time, there is a danger that positive but costly "soft security" instruments of competition can be substituted for cheaper negative ones. The example of that is the U.S. policy in the Baltic Sea Region in particular and in Europe in general, which was getting more destructive under G.W. Bush's presidency.<sup>6</sup> While concentrating the main resources in the Middle East and Central Asia, the U.S. tends to preserve its influence in Europe with a limited peripheral confrontation. It creates systemic mechanisms of Russia's containment, which may become an obstacle for potential Russian-European rap-

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<sup>5</sup> "РЖД заинтересовано в развитии грузоперевозок через порты Латвии" [RZhD is interested in Developing Cargo Flows through Latvia's Ports] in Delfi.lv, 24 April 2009. <http://rus.delfi.lv/news/daily/business/article.php?id=24170137>

<sup>6</sup> Bordachev, Timofei. "The Limits of Rational Choice." *Russia in Global Affairs*. No. 4. October-December 2008. <http://eng.globalaffairs.ru/numbers/25/1242.html>

prochement as well. Though Russian suggestions on the Treaty of the European Security were met without enthusiasm in Europe, they implied raising international subjectivity of the European Union and greater involvement of Russia into the European security architecture, which serve as necessary conditions for limiting negative implications of American policy in the region.

### **The Baltic Sea Agenda**

What should a specific Baltic agenda look like? *First*, it should be as little conflict as possible and should integrate the compatible interests and priorities. Alongside environmental and social issues, there are such sectors of mutual interest as sub-regional and trans-border economic cooperation. Under crisis conditions the risk of getting the “decline triangles” rather than “growth triangles” in border areas is high. Facilitation of cooperation is to be exercised through easing visa regime in practice rather than on paper only, through joint investments into common infrastructure like rescue service or health care, which can optimize expenditures and ensure availability of the respective services in areas of low population density and with large distances between population centres.

*Second*, the agenda should bind issues which can be operated on the regional level without being overburdened with either minor or global issues, and serve as a regional dimension of Russia-EU cooperation. However, there is a danger that the current turmoil in Russian-EU relationship could negatively affect the Baltic agenda as well. Therefore, one more characteristic of the Baltic agenda should be its reasonable autonomy from other cooperation formats.

*Third*, the agenda has to be real and relevant rather than imagined. It should comprise issues of mutual regional interest. Energy shortage is (potentially) a common problem for all the Baltic States – Ignalina Nuclear Power Plant eventually is to be closed, oil shell energy production in Estonia has decreased due to more expensive pollution quotas. In the mid-term perspective all the three Baltic States will become energy deficient. The economic crisis will have ambiguous implications. On the one hand, industrial demand will decline and household consumption will be restricted. On the other hand, financial resources for investment into new energy generation and transmission will become less available and more expensive, though the construction costs are expected to

decrease slightly. At the same time, we see a competing range of projects of NPP in Kaliningrad, Lithuania, Estonia, and Belarus. It is obvious that a strategic vision of regional energy is necessary to get rid of overinvestment and provide stability in the energy system. Synchronization of energy systems of Europe and Russia is a matter of Energy Dialogue between the EU and RF, but it seems to be a long-term perspective. Construction of connections with Poland and Sweden is useful and is supported by the European Commission. But in the forthcoming years energy issues could be coordinated on the regional level. Rather than create an energy barrier on the Russian-European border, greater integration is seen as being of real benefit for the Baltic Region, which can get access to European, Northern and Russian energy markets. The same is true of services and trade: the Baltic Sea Region should compete for the interface role through moderating political risks and offering attractive price.

*Forth*, instead of protectionism and competition, the region should seek to transform into a more integrated entity – a “macro-region”, which would generate common projects and compete on the European and international markets. There are some examples of this type, for instance, in making a common attractive image of the region for cruise shipment and tourism. Tourism expectedly is to contribute to preserving regional economic interdependency while the foreign trade is dropping down. Traditionally in times of crisis tourists tend to visit less remote areas. Therefore, one may expect localization of regional tourism in the Baltic Sea area.

The EU Baltic Sea Region Strategy agenda is raising these questions, though so far in quite a vague form.<sup>7</sup> Given this situation, the state investments supplemented by subsidies of supranational agencies are getting more prominent for enhancing the economy. However, the small markets of the Baltic States as well as those of other countries in the region cannot absorb large-scale infrastructural projects – environmental and transport projects need synergy, including greater involvement of such “semi-regional” countries as Russia. The transformation from the EU policy of “Northern Dimension” into a multilateral project of Russia, Norway, Iceland and the EU can serve as a framework tool and contribute to elaboration of a joint experience and cooperation mechanisms.

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<sup>7</sup> *European Union Strategy for the Baltic Sea Region*. Public consultations. [http://ec.europa.eu/regional\\_policy/consultation/baltic/doc/consul\\_baltic\\_en.pdf](http://ec.europa.eu/regional_policy/consultation/baltic/doc/consul_baltic_en.pdf)