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FINNISH-RUSSIAN TRADE AND ITS FINANCE

– Southwest Finland on focus



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BACHELOR'S THESIS | ABSTRACT
TURKU UNIVERSITY OF APPLIED SCIENCES

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Emmanuel Querrec

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TURKU UNIVERSITY OF APPLIED SCIENCES THESIS

As a part of European Union, Finland has had one of the best possibilities to grow and do business with international, trustworthy partners. Finland's location is ideal: the Baltic sea in the south provides Finland with the opportunity to have an access to Europe and also the Nordic countries. At the far end of the Finnish Gulf Finland also has an access to one of the most wanted trading partners; Russia.

Finland has practised trade with Russia before the word itself was founded. Over the years the methods for trade and business have changed as well as the products. Nowadays intellectual skills and knowledge have taken more foothold on the Finnish-Russian business. Nevertheless the older Finnish "export products" such as shipbuilding engineering could have its place in the Russian markets.

Southwest Finland is a rich region when it comes to entrepreneurship. It has good connections inside Finland and also considering international business. Southwest Finland has also noticed the potential in Russia and has started co-operation with the country in many different fields. This thesis has observed the issues Southwest Finland has emphasised with its relationship with Russia and Saint Petersburg, Turku's friend city of 60 years. The author hopes to give an overview of the current situation in the Southwest Finland-Northwest Russia's business.

KEYWORDS:

Russia, Finland, Proper Finland, export, trade, finance, risks.

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TURUN AMMATTIKORKEAKOULU OPINNÄYTETYÖ

Suomella on aina ollut parhaimpia mahdollisuuksia kasvaa kansainvälisenä liiketoimintakumppanina osana Euroopan Unionia. Suomen sijainti on ihanteellinen: Itämeri etelässä tarjoaa Suomelle pääsyn Eurooppaan ja Pohjoismaihin. Suomenlahden perällä sijaitsee yksi halutuimmista yhteistyökumppaneista: Venäjä.

Suomi on harjoittanut kauppaa Venäjän kanssa jo ennen kuin kyseinen sana oli keksittykään. Vuosien saatossa kauppa on muuttunut tuotteiden tapaan. Nykyään taidot ja osaaminen ovat ottaneet enemmän jalansijaa suomalais-venäläisessä kaupassa. Kaikesta huolimatta vanhemmatkin suomalaiset vientituotteet kuten laivanrakennusosaaminen voivat vielä tulevaisuudessakin toimia vientituotteena venäläisille markkinoille.

Lounais-Suomi on yrittäjärikas alue. Lounais-Suomesta on hyvät yhteydet Suomeen ja kansainvälisestikin. Lounais-Suomi on myös ottanut huomioon Venäjän potentiaalin ja on aloittanut monia erilaisia yhteistyötoimia kyseisen maan kanssa. Tämä opinnäytetyö on tutkinut Lounais-Suomen panostusta Venäjään ja Pietariin, Turun ystävyyskaupunkiin jo 60 vuoden ajalta. Kirjoittaja toivoo antavansa yleiskatsauksen lounais-suomalais-venäläisen liiketoiminnan nykytilanteeseen.

Avainsanat:

Venäjä, Suomi, Varsinais-Suomi, vienti, liiketoiminta, rahoitus, riskit

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LIST OF ABBREVIATIONS (OR) SYMBOLS

FDI	Foreign direct investment
OOO	Limited liability company
JSC	Joint- stock company
OAO	Open joint-stock company
GDP	Gross domestic product
WTO	World Trading Organization
EBRD	Bank for Reconstruction and Development
WTC	World Trade Center
SME	Small- and medium-sized enterprise

1 INTRODUCTION

1.1 Background information

Recently Russia has been the target of a wide discussion for multiple of reasons. The human rights in the country and the peculiar division of assets inside the country have caused the international spotlight to light Russia. The news happening in the country are also followed in Finland due to mutual history and politics.

Due to Finland's geographic location Russia is a very important business partner and source for export income. Finland is the route for Russia to Europe and also has a long and colourful history with the world's largest country. Great country offers many possibilities even for a small country like Finland. That is why the great country is attractive opportunity for European and Finnish companies which are looking for revenue abroad. It also attracts Southwestern Finland, which can be seen from the investments the region has made especially in the Northwest part of Russia. These investments and businesses were the reasons for writing this thesis and to find current information about the trade.

When starting to study the subject, the author found some thesis with similar interests. Author wanted to have a more thorough look on how the relationship between Southwest Finland and Northwest Finland has been evolving and what kind of trade is going on between these two regions. This kind of overview was not found beforehand and that in addition to the author's personal interests served as an inspiration for this thesis.

1.2 The structure of the thesis and its objectives

The thesis aims to give the reader a current overview about the different emphasis Southwestern Finland has done in order to enter the Russian markets in different fields. Also the possibilities Southwestern companies have when thinking of entering Russia and what are the main sources of information and finance are discussed in the thesis.

The thesis starts by describing the theory behind trade finance and the different entry modes that companies use when penetrating to new market areas. The following chapters describe the business between Russia and Finland and the sources of finance aimed for especially small- and medium-sized companies. Different risks regarding trade with Russia are also covered. At the end of the thesis is described one of the choices a Southwestern company can use when thinking of entering Russia.

The research questions of the thesis are:

- How Finnish companies/manufacturers have gained finance for their business in Russia?
- What risks exist when entering Russian markets?
- How is Southwestern Finland doing business in Russia?

1.3 Methodology

The thesis is constructed based mainly on qualitative data found in books, trustworthy online sites and news. Qualitative data was collected by using interview with open questions. Research method was conducted in the form of an interview with eight open questions. During the interview some parts and questions overlapped, as might happen understandably. World Trade Center Turku (WTC) was chosen as a subject for interview after it was recommended by multiple people who were contacted in order to gain an interview for the

thesis. The interview was given by the head of World Trade Center Turku Mirja Kärkäs-Lainio. Secondary quantitative data in the form of figures has been analyzed in some parts of the thesis.

2 LITERATURE REVIEW

In this chapter it is explained what theories and frameworks have been in the background when writing this thesis and how they connect to the research questions. These theories can also be found throughout the thesis in adapted form.

2.1 Financing trade abroad

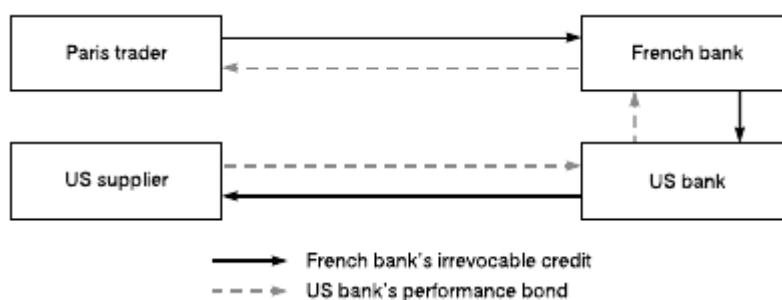
Trade can happen inside own country as well as abroad. As in all forms of trade, everything starts with a seller and a buyer, or an importer and exporter, and goods that are meant to be sold. Financing for trade made abroad is needed in order to cover expenses that the process causes. Domestic trade is usually easier since the laws and regulations are commonly known and easy to find out and also the pricing is more easily made to suit the country's common price level. Risks, such as delivering the product and the payment methods, are not nearly as high in domestic trade as they are in foreign trade. Usually firms apply loans from local or domestic banks, whether they are to finance domestic or foreign trade. Financing foreign trade is more vulnerable to general economic situation and fluctuations since there are more factors affecting to foreign trade than there would be in domestic trade. (Ahn, J., 2011) Also changes in global financial situation have far-reaching consequences. A good example of this is the financial crisis that had a global impact during the years 2008-2009. It has been stated that in the darkest hour of the crisis, international trade's downfall was more deeper than the downfall in the whole world's GDP, which was 5%. Simultaneously the world trade dropped by 30%. (Ahn, J., 2011, 3)

Over the centuries countries have done international trade in some form. Little by little different security factors and methods have been added to ensure smooth trade. The importance of finance has also become more focused issue due to the large scale of trade. Traditionally exporters, or sellers, want their

payment to reach the importer, or buyer, safely and simultaneously importers want to receive the exact goods they have paid for. Depending on the sort of the goods, different documents and level of securities are made to support both exporter's and importer's rights. Different securities are also conducted depending on the way the goods are delivered. (Bishop, E, 2003, 9)

Usually finance in international trade is short term. Average credit is approximately 180 days. Before banks provide these credits, many issues have been dealt with beforehand. An importer who is planning on starting trade and applying for finance has to assure the bank he is applying the credit from that he can pay the loan back at some point. In this case the bank would want to know the source of the company's income, meaning the amount of profit from which the loan will be paid from. Supplier has its interests on the finance too: in some cases supplier might need some reassuring or beforehand payment so that the goods can be forwarded. (Bishop, E, 2003, 132) In the following example Bishop has explained how this functions in trade happening overseas.

In the figure the variables are foreign government, trader from Paris, France and supplier from the USA. First the foreign government arranges tendering which is offered to suppliers all over the world. The government obviously wants to have some guarantee for the offers so the interested suppliers have to send their final bids that are supported with a bid bond. (Bishop, E, 2003, 132) These bonds are around 5% of the contract's value. When the trader from Paris owns the bid bond and suggests it to the bank, the bank can estimate the total price of the loan. The trader then has to justify its payback ability and other issues the bank needs before granting the credit.



Picture 1. Financing Paris' trader's purchase (Bishop, E. 2003)

2.2 Entry modes

Registration of one's business in Russia is beneficial for the company itself as well as the owners and employees. Companies that are registered have easier access to services that are needed to run a business in Russia. Institutions such as courts and banks will need a new company to register before any services can be provided. When the registration is easy, the company can faster make money and bring revenue for the region it is functioning as well as bring jobs. (Doing Business, 2013) In the year 2013, Russia was ranked as 101st out of 185 countries in Doing Business 2013 report.

Foreign investor has many possibilities in starting business in Russian federation. Entering the Russian markets can either be like playing Russian roulette or flourish into profitable business. All modes have their own good and bad sides and depending on the business some suit better for the company's purpose than others. Issues such as available funding and motivations for entering other business areas have an effect on the company's entry mode. Professor and director of the University of Turku's Pan European Institute Kari Liuhto has stated the most relative entry modes companies use when heading to Russia. Entry modes can simply be divided into a few main modes – exporting, representative, contractual co-operation and foreign direct investment. (Liuhto, 2013)

2.2.1 Exporting

Exporting does not differ very much from the company's so called normal business functions and marketing in the domestic markets where produced goods are directly sold to the consumers. When company uses exporting as its entry mode, a few cornerstones has to be laid. Issues such as dealing with risks

during the transportation and customs declarations have to be settled and negotiated. Customs in Russia still have double invoicing in some cases though the use of it is decreasing.

Incoterms are a tool for resolving these risks. They are widely used in international trade and they state the responsibilities between the seller and the buyer when it comes to expenses, transportation and receiving the goods. Incoterms have been in use ever since 1936 and they have been updated regularly according to changes in the international trade environment. (Rakennemuutostoimisto, 2012, 21) Incoterms are merely a minimum insurance so more precautions are needed to ensure the cargo's fluent and secured transportation. According to the legislation of Russian Federation foreign trade is trade, where the ownership of the goods is redirected for the buyer before the goods arrive to the customs area of the Russian Federation.

Marketing strategy is a crucial thing for exporting. As always when entering to a new market, pricing and the price level in the target market have to be known. Many factors have to be considered. Depending on the scale of products that the company offers, company has to settle for undifferentiated marketing strategy or differentiated strategy if the product is only one type. (Kotler, P & Armstrong G, 2012, 230) International pricing and its risks have also to be considered when going abroad. Closely attached to pricing is the currency risk.

2.2.2 Foreign direct investment

Foreign direct investment (FDI) in Russia mainly means establishing or acquiring a company. FDI can be divided into three sub groups; Greenfield investment, Brownfield investment and joint venture.

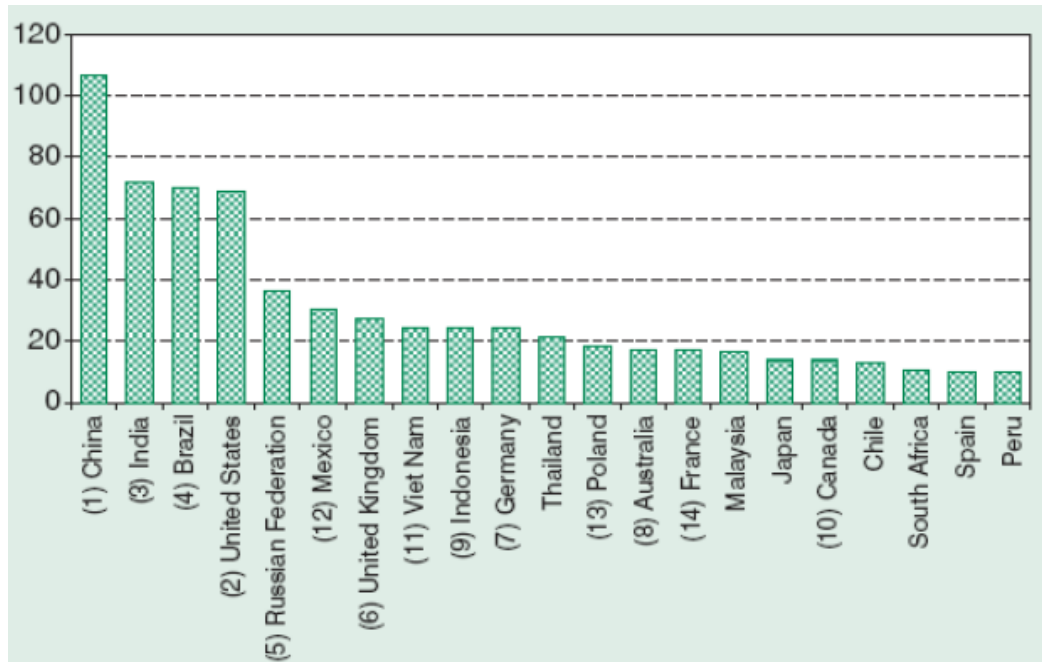
When company establishes a new company it is called Greenfield investment. In Russia the most frequent legal form is limited liability company (OOO) or open JSC (OAO). The company's location is important as the logistically optimal place depends on activity. That is most probably why 50% of all Finnish companies are located in the Saint Petersburg and the city surroundings. 30%

of Finnish companies operate in Moscow area, 10% in Karelia region and 10% elsewhere.

Brownfield investment happens when company acquires an already existing company. In this case the importance of knowing legal issues in Russia is emphasized. The company's earlier commitments and liabilities are important to know and experts' help is needed. The operation has to be prepared well legislatively, as it might have severe outcomes if the acquired company has some shady history. Despite the risks, the company does not have to start everything from scratch since the acquired company already has the core functions.

Joint venture is quite popular way to enter Russian markets. For example Finnish company Fazer has merged a joint venture with a Russian company Hlebni Dom. In joint ventures it is important to notice that 50-50 ownership would not exist but the company would own more than 25%. 50-50 ownership might lead into decreased bargaining power over the company issues between the partners. That is why it is recommended that the company would have majority ownership as well as motivational ownership to executive directors. According to Finnish experience, the Finnish companies working in Russia mainly have over 60% of full ownership, 15% majority ownership and 5% shared ownership. Joint ventures are also needed in order to press the prices in competitive level.

In the year Russia was ranked as fifth among the biggest FDI hosts. (Rekord, S., 2012) Lately the amount in FDIs to Russia have decreased. There are many reasons for this. First of all, Russia is a very demanding country with difficult language and tough legislations and regulations. For example gaining a construction permit and connecting gas and electricity are hard. The country seems to be under ongoing political uncertainty, which has a huge effect on people's opinions over the country. (Liivala. M, 2013)



Picture 2. Top host economies for FDI in 2010-2012 (Rekord, S. 2012)

2.2.3 Representative office and contractual co-operation

Having a representative office or an agent has many good sides. It is not that pricy and has less risk than actually starting a whole business in the foreign country. Representative offices do not have the right to do business but they are important in building contacts and preparing contacts.

2.2.4 Other forms of entering

3 RUSSIA AND FOREIGN BUSINESS

3.1 Finnish-Russian business relations

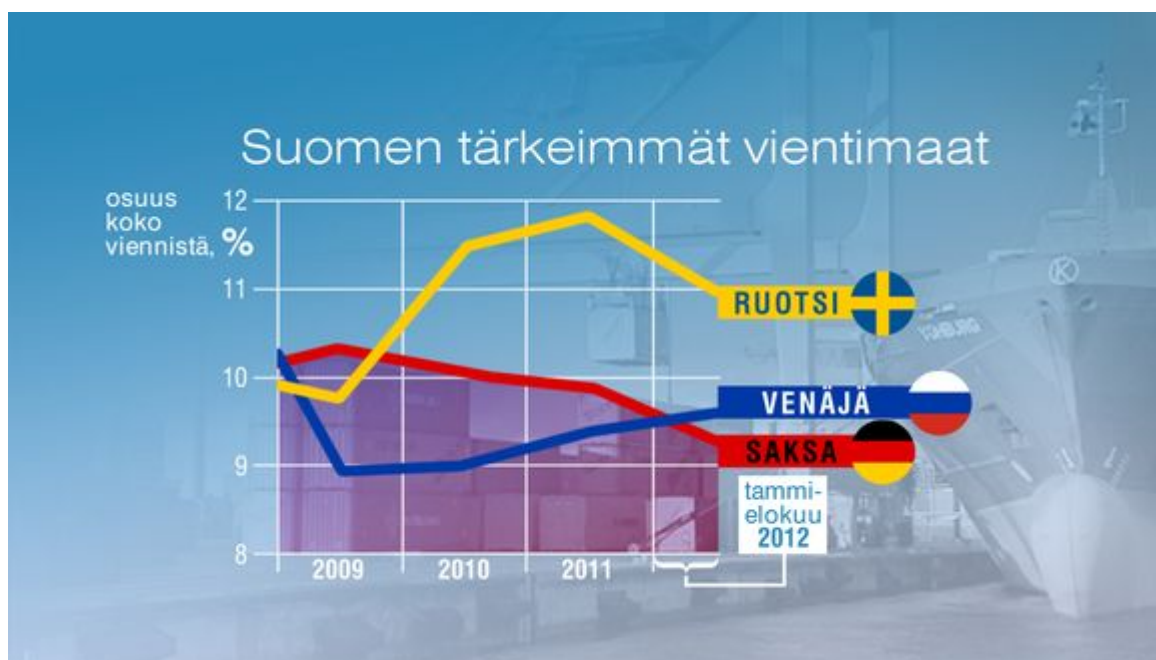
During the Soviet Union era, the Eastern business between Finland and Soviet Union was bilateral. Business was done using Commodity exchange book and clearing accounts. Governments were highly involved in business relations and agreed which goods to exchange. Finland, being the closest Western country exported metal industry products and consumer goods and Soviet Union brought oil to Finland. Also during that time, Finnish construction companies got involved with great construction projects in Soviet Union.

Simultaneously with the collapse of Soviet Union, Finland's Eastern trade came to a halt. Nevertheless, in the 1990's the economic co-operation between these two countries started again. Nowadays Russia is one of our biggest business partners. The economic development of Russia has been stabilized since the mayhem in the 1990's. The president of the republic of Russia, Vladimir Putin, has done many reforms and along with the rising price of oil, Russia's economy has revived rapidly.

At the moment, Finland is well represented in Russia. Finland has diplomatic representatives in Saint Petersburg, Petrozavodsk, Moscow and Murmansk. Also so called Team Finland formed by the Finnish-Russian Chamber of Commerce, Finpro, Finnvera and Finnish Minister of Foreign Affairs represent Finland continuously in Russia. They help the 600 Finnish companies working in Russia with their knowledge and connections. (Liivala, M, 2013)

In 2011, Russia was Finland's third biggest main export partner with the share of 9,2% of all the export figures – the two before that are Sweden (11,8%) and Germany (10%). (Statistics Finland, 2011) In November 2012 it was announced, that Russia has placed Germany and thus is the second most

important export partner for Finland. Between January and August of 2012 exports to Russia grew with 10 %.



Picture 3. Finland's most important export countries (Source: Yle News Graphics, 2012)

Export to Russia has been pulling well whereas in other countries important to Finland the amount of exports has declined. Sweden is still on the first place but as with all the other countries, the exports have been slowing down as well. Some of this might be due to the Europe's financial crisis which has taken its toll on both Sweden and Germany. (Yle News, 2012)

As told before, the Finnish companies mostly fear the logistics to Russia and second most finance problems. Finland has many organs that support the trade to Russia. The positive attitude from the highest political organizations has assured entrepreneurs to reach out to our Eastern neighbour and search new customers there. Finnish people tend to forget that there are more areas in Russia besides the Northwestern part of Russia. Even though in the year 2012 30% of the whole Russia's GDP was from Moscow, the opportunities are enormous. The annual GDP growth is approximately 4%, which attracts foreign investors. Finnish companies have nevertheless invested for Russian forests € 1 billion. (Liivala. M, 2013)

European Union and Russia are continuously building their relationship. In the year 1997 EU and Russian Federation formed partnership and co-operation agreement and new negotiations over a new agreement have been started in the year 1998. The agreement serves as a partnership for modernisation for Russia since lots of IT and innovation skills needed for renewing old habits are available in Europe. This also touches Finland since Finland is still known as one of the high-tech countries in the world. One of the long-term objectives for these negotiations are visa freedom, which would increase and ease mobility to Russia. Also renewing customs and the border would be important in developing the relationship. In addition EU and Russia have common interests. Trade balance in the year 2012 was approximately €18 billion, which tells something about the interests towards each other. Finnish total investment amount was €12 billion and Russian investments in Finland approximately €0,5 billion. The common sea between Russia and Finland is also one of the common interests. The polluted Finnish Gulf has been under a lot of observation during the recent years and common projects have been formed in order to fix the situation in a long run. (Liivala, M, 2013)

Russia is known for its large energy business. The country has many gas companies and is a big transmitter in the European and Baltic energy business. That is why Finland is extremely interested in engaging itself into energy business with the Eastern neighbour. (Liivala. M, 2013)

Also Russia and Finland can do co-operation over old businesses that the two countries have done in the past. Past decades Finnish shipbuilding skills were highly respected in Russia. Due to the Nordic location of the countries, Finland knew how to make vessels and ships suitable for the arctic conditions and Russia was in need of these equipment. Even though the Finnish shipbuilding seems to be in a bit of a recess at the moment, Russia might be the answer for reviving Finnish shipbuilding industry. (Liivala. M, 2013)

Russian tourists are the main source of tourism to Finland: Russian tourist bring more than €1 billion income annually. In the year 2012 at least 45% of all tourists came from Russia. This 45% is close to 1,4 million visas. Out of those

people 77% were here to do shopping and 9% to work. All in all this meant 12 million border crossings in one year. Nevertheless, out of these border-crossers only approximately 1% come all the way to Southwest Finland. (Liivala. M, 2013)

3.2 Doing business in Russia

World Bank's Doing Business Report supports the fact, that business climate is more trustworthy. In recent years, Russia has improved its ranking in paying taxes and dealing with construction permits. Also the overall situation in Russia's economy shows good possibilities for foreign business to expand there. Russia's whole business environment has become more and more favorable due to i.e. growing interest rates and import of machinery. All these factors in addition to the state's recovery program ensure that the country will be very attractive business partner for European countries, including Finland. (Nordea, 2011)

Usually Finnish companies satisfy to do business in South-western Russia due to its easy access from Finland. The wide country offers also more possibilities than those located in the Finnish Gulf. Companies such as Fortum have noticed this and been successful in the far Siberia.

In order to do successful business in Russia, one must do proper market research beforehand. Market research should cover the current rivals, markets and need for the goods in question. Also legislation and needed certifications have to be known. Once the company knows the region where it is going to target its business, help for language barriers are found in Russia but in Finland as well. Organizations such as World Trade Center provide help and assistance in all of these issues. Also Finpro and alike companies execute market studies that help to get a clear picture about the current situation.

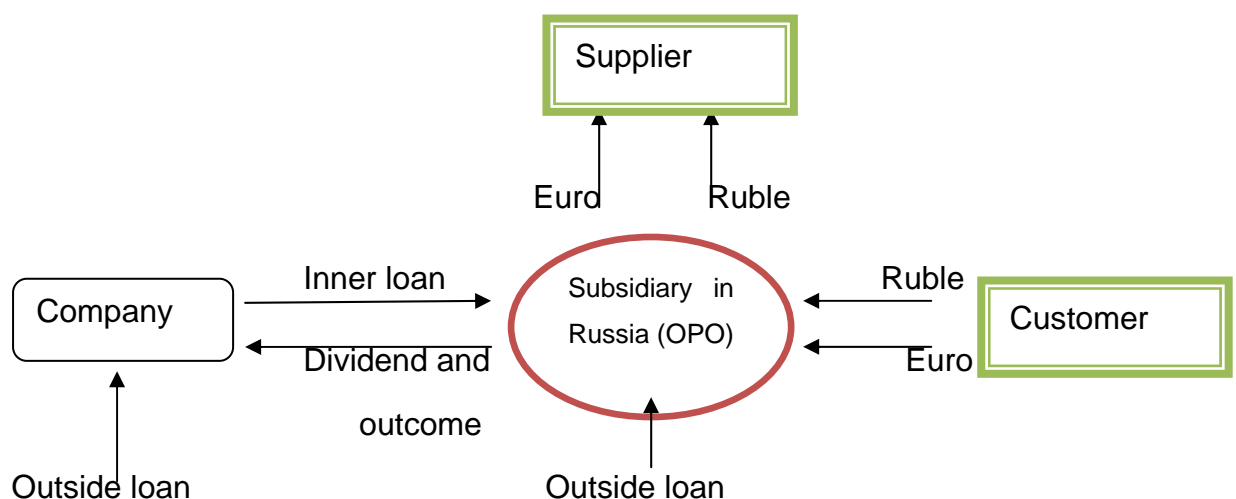
3.3 Risks

The Finnish-Russian Chamber of Commerce conducts annually a poll for 300 Finnish enterprises. In 2012 the poll told that 59% of the respondents believe that Russia's economy keeps growing. This can also be seen in the expected development of exports to Russia; 57% expect growth in exports to Russia. Generally expected risks for trade were transportation and logistics, finance problems, finding customers and difficulties in competition. Yet most of the answerers were ready to make investments to Russia during the next half year or so. The effects of WTO on the trade were not considered to be severe. (FRCC, 2012)

As told before, the Finnish companies mostly fear the logistics to Russia and second most finance problems. Finland has many organs that support the trade to Russia. The positive attitude from the highest political organizations has assured entrepreneurs to reach out to our Eastern neighbor and search new customers there. The public sector offers many opportunities for financing business to Russia. Maybe the most trustworthy and well-known is Finnvera. Its most important market area is Russia. Finnvera offers finance for starting up a business, for its growth and internationalization as well as protects towards the risks that might come out of export into foreign country. (Finnvera, 2011). These risks include issues such as the buyer's credit risk, seller's supply risk, country risk, bank risk, currency risk, interest risk, contract risk and transportation risk. (Sampo Pankki, 2010) Both parties, exporter and importer, also face risks when doing trade. There are many ways to prevent the risks and in trade finance the risks can be diminished by having insurances and bank finance. Exporter has to know the risks on its side. These are commercial, political and exchange related risks. In this context commercial risk covers potential losses or delays in the trade. This is why choosing the right payment method the risks can be minimized. (Bishop, E, 2003, 10)

Russia is a country that has been through lots of different changes in its politics over the past decades. That is why politic risks have to be considered when doing business in Russia. Nowadays, twenty years after Soviet Union's collapse, Russia can be said to be a defective authoritarian regime more than a defective democracy. Country has developed a system with more than one party. Yet, the country is said to be trying to develop into more democratic one. As shown in the media, Russia does favor elections when deciding i.e. from the position of a president. There have been many points of views whether the elections have been conducted in a fair and equal way. Small parties are in a strong minority in decision-making, when considering big strong parties, which are in the center of making the whole Russia's political decisions. (Gel'Man & Cameron, 2010, 16) The political system is so much different ad harder to understand, that it might come as a shock, how the bureaucracy and politics differ from those i.e. in Finland. The country is under many constant changes and is missing and is trying to stable its economics with its own methods, such as raising interests. (Talouselämä, 2013)

Currency risk exists i.e. when company finances its Russian subsidiary. Nordea Finland even states that changing money from currency to another in the case of financing subsidiary, it could be "a bomb".



Picture 4. Company working in Russia – finance risks Modified from Nordea Markets

4 FINANCING FINNISH BUSINESS IN RUSSIA

Starting and doing business in Russia means expenses, as trade to any other country means as well. Some examples of these expenses could be startup expenses, which mainly mean visas, certificates and licenses to work within the country. The whole process is quite complicated and pricy at first. This is why local expertise may have to be used so that a newcomer can survive with all the legislation and registration problems, meaning that some recruiting or consultation has to be made. Local workforce might also have to be hired. When hiring Russian employees, one has to know the wage level in the area where they are working. In Russia the amount of salary varies from the region to region; for example in the year 2011 Moscow was 43000 rubles (approximately 1075 euro) and in Saint Petersburg 31000 rubles (775 euro). Also product development and R&D expenses can be a huge slice from the budget since some modifications may have to be made to existing products in order to satisfy the foreign customer. After the base work is done, funding logistics, customs, marketing and production increase has to be taken into more focus. (Rakennemuutostoimisto. 2012, 21)

4.1 Sources in Finland

4.1.1 Public sector

The public sector in Finland offers many opportunities for financing business to Russia. In this thesis the company that was selected under more observation is Finnvera due to its size.

4.1.1.1 Finnvera

The public sector in Finland offers many opportunities for financing business to Russia. Maybe the most trustworthy and well-known is Finnvera.

Finnvera classifies countries into classes according to their risk time and restrictions. Finnvera has classified Russia as in 3/7 with seventh class being

the weakest class. This means that Russia's ability to pay is sufficient and its risk time is two years. Finnvera has not set any restrictions for Russia. (Finnvera, 2011)

There are many ways how a company can protect from the risks that are to be expected when starting and managing business with Russia.

The first one is choosing the right payment method; whether to use direct payment, collectable or documentary credit. In addition to the payment method, warranties have to be stated. Warranties include collaterals and guarantees and also standby documentary credits. Other collaterals can be collaterals provided by Finnvera, The European Bank for Reconstruction and Development (EBRD) or IFC.

One of the most profound problems that Finnish companies have had to deal with when doing business with Russia is the payment methods. Maybe the most widely used is advance payment which means that the goods will not be shipped before the payment can be seen on the seller's account. Other one is documentary credit, also known as letter of credit. One of documentary credits is sight credit, which is executed in the seller's bank in response to bank's documents. Another one, deferred payment credit, means that the amount of documentary credit will be paid after agreed payment time.

These documentary credits are mainly used when the business partnership is relatively new or when there is not trust between the parties. When there are political or economic risks attached to the buyer's country or when the amount of money is great, documentary credits are put into action. They are also used when the goods need some special qualifications or the deal is considering developing countries. The contract needs to include all the necessary information about the documentary credit used, because documentary credit as a payment method is relatively unfamiliar and expensive. Even though Russia has developed its banking systems, trust towards banks or official organs is not sufficient. (Finnvera, 2011) Recently Finnvera's importance as a financier has been discussed widely in Finland due to the crisis in Finnish shipyard industry.

In 2012 Finnvera used €385 million in financing domestic business. (Kauppalehti, 2013)

4.1.2 Private sector

The private sector financing mainly means the finance given by banks. Many banks in Finland give loans to companies heading abroad. So do those working in Europe. The European Bank for Reconstruction and Development, EBRD, finances the private sector working in Russia and also its reconstruction and infrastructure. The EBRD is the largest single investor in its existing region. EBRD invests in 29 countries from central Europe to central Asia. It is owned by 63 countries and two intergovernmental institutions (the European Union and the European Investment Bank). Typically it finances up to 35 per cent of the total project cost. It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. EBRD also works with publicly owned companies. Direct investments generally range from €5 million to €230 million. In 2011, the bank's portfolio grew to €35 billion. EBRD provides loan and equity finance, guarantees, leasing facilities and trade finance. It only invests in projects that could not otherwise gain finance. EBRD's main instruments for financing are loans, equity investments and guarantees, and its charter stipulates that at least 60 per cent of lending must contribute to the privatisation of state-controlled enterprises. They manage multiple of funds; six funds are nuclear safety and decommissioning funds. The biggest fund like this is established for the transformation of the destroyed reactor in Chernobyl so that it could develop into an environmentally safe state. (EBRD, 2013).

Example of another bank providing assistance in financing business abroad is Nordea Bank. Nordea has branches and services all over the world and providing services for corporate customers heading to Russia gives them even more foothold in the corporate banking business. Nordea also works in close collaboration with other international big players and is a part of a large network when it comes to planning and executing corporate financing. The bank also

has many co-operation banks in Russia which are very helpful in important export issues such as documentary credits and guarantees. In the year 2010 Nordea's Russian operations, OJSC Nordea Bank, ranked as 21st among Russian banks by assets and 27th by the amount of shareholder's equity. (Nordea, 2011) Nordea offers both short and medium term export finance. This basically means that a company doing export may remove short or medium term receivables from their balance sheet which reduces credit as well as currency risks, that are better explained in the sub chapter "Risks". Nordea also co-operates with banks like EBRD when financing substantial projects such as building power plants.

5 SOUTHWEST FINLAND AND RUSSIA

5.1 Co-operation between Southwest Russia and Proper Finland

In the year 1953 Turku and Saint Petersburg became friend cities. At the time Turku was the first city to make this kind of official agreement with former Leningrad. This treaty was made in order to enhance and widen collaboration on the Baltic Sea region. Main emphasis has been culture, business, environment and also education. The two cities have been celebrating their friend city 60th anniversary in 2013 and during the year Turku and Saint Petersburg have been in even closer contact with each other arranging visits, meetings and different kinds of cultural activities. (Website of the City of Turku, 2013) Economic, cultural and social connection between Saint Petersburg, Helsinki, Turku and Stockholm is also a force that is supporting the development of the whole Northern Europe. It is also the most important direction for Finland's economic development. (Randell. A, 2012)

One of the most significant co-operational processes that is going on with Turku and Saint Petersburg is the so called "Turku process" launched by the Regional Council of Southwest Finland. In addition to these two cities, the city of Hamburg, the Regional Council of Southwest Finland and the DG REGIO commission of European Union are part of the process. The main purpose of the process is to create more discussion between the European Union and Russian Federation regarding especially the Baltic Sea. Issues concerning polluted water in the Baltic Sea region, innovation processes and employment are subjects that are widely driven by the Turku process. (Website of Centrum Balticum, 2012). Also the gateway formed by Stockholm, Turku and Saint Petersburg is under a peculiar observation this year. The gateway is also closely linked to development of Finnish small- and medium-sized enterprises. (Website of the City of Turku, 2013)

Southwest Finland also has its own headquarters in the heart of Saint Petersburg. The so called Saint Petersburg's Turku Centre promotes the Regional Council of Southwest Finland's and the City of Turku interest in Saint Petersburg but also further in North-western Russia. Turku Centre is the place of information and advice when it comes to opportunities in the business field. (Website of the City of Turku, 2013)

Turku and Southwest Finland are also important when thinking its location. Besides Russia, it also is relatively close to Sweden and Stockholm. That is why the Finnish Ministry of Employment and the Economy has launched a so called development corridor. This corridor is formed based on the main stream business connections in the Baltic Sea, meaning Stockholm, Turku, Helsinki, Kotka and Saint Petersburg. The corridor connects the main business centers in Sweden and Finland and also the world's most northern metropolis Saint Petersburg. It also covers many universities with other skills and employment opportunities. It has been evaluated that the corridor will grow dynamically and strong during the next 20 years or so, thanks to on-going co-operations. Future emphasis on the Arctic Sea and arctic area also puts more focus on the Nordic collaboration meaning transportation and transportation devices in the Arctic Sea and also unfound oil centers in the area. (Randell, A. 2013)



Picture 5. The development corridor in the Baltic Sea region (Source: Randell, A, 2012)

The area in the development corridor also covers over 11,9 million inhabitants. This means that the region is the largest concentration of population in Northern Europe. (Randell. A, 2013)

5.2 Example of an entry mode available in Southwest Finland: WTC

The WTC is an international association that aims to develop trade and different investment opportunities for different fields of business. It was founded in 1970 to drive international trade possibilities. The association provides opportunities i.e. for commercial property developers, economic development agencies and international businesses. (Website of World Trade Center Association, 2013)

On its internet sites it states its slogan, “connect globally, proper locally”. That is exactly what WTC does. Under the same name can be found international chain, that is linked from one continent to another. This chain provides companies with various kinds of trade services. WTC properties can be found in over 90 countries with over 15,000 employees. With these locations and people the association heads to provide companies with the best possible solutions suited for the company’s trade. One of the WTC branches can be found in Turku. In addition to Turku, WTC can be found in Helsinki in Finland. (Website of World Trade Center Association, 2013).

When a company wants to head abroad, it contacts WTC to gain information and connections for the country in question. Local WTC does not directly contact the company to future partners. Via the extended WTC chain, the local WTC contacts another WTC in order to create a network for the customer company. Each WTC branch has their own members (companies), who they then evaluate to be the best possibility for the customer. For example if Southwestern company would want to head to Russia, it would contact WTC Turku, which would then contact their associate in Russia. At the moment WTC can be found in Moscow and Kaliningrad. WTC recruits members in different contexts such as exhibitions and local events.

One example of WTC’s services for companies heading to Russia is their internationalization program aimed for SMEs. Since Russia can seem hard to enter, WTC’s programme provides companies with a ready-made program. The program’s goal is to get the company started in Russia but also ensure durable market position in the country. The program lasts for three years and during that time companies are trained for Russian business and trade as well as help with connecting with the right networks and marketing. In the program, the company can even do their marketing material with the assistance of WTC. Companies can get all the needed certificates and registrations easier via the program since they do not have to seek the networks themselves.

According to Kärkäs-Lainio, the biggest barriers that companies heading to Russia face are unexpected delays. Russian companies take their time in

weighing different options and might keep the other party waiting. Gaining finance for businesses heading to Russia is no more a problem. Getting finance for companies has become easier and trust towards Russian markets has still stayed relatively stable.

The greatest motivation for WTC Turku in supporting trade to Russia is the location and potential. Nowadays the connections to Russia are easy to find and travelling from Southwestern Finland to Russia does not take as much time as it used to take. Kärkäs-Lainio also stated that if a company wants to expand abroad, then Russia is the only right direction. Later on it has to be done since the markets are indeed large. The demographics of the nation have been very diverse for a long time but that is also going to change. Entering them might take even two or three years if one has the perseverance and patience.

6 CONCLUSION AND FUTURE VIEWS

Even though Russia's economy has showed signs of slowing and the Russian rouble are facing problems now, the future is optimistic. Even though Finnish companies working in Russia such as YIT, Stockmann and Tikkurila have suffered from the Russia's recess, the trust for the better is strong. Strict domestic politics in the country is the biggest reason for this, not so much the recess in Europe. That is why more people have the courage to criticise the government's actions. The main problem is the high, approximately 25% interests in credits. The reason for the high interests is the loans that the state was granted from the domestic markets even though the loan was not needed. The high interests also explain why domestic sales have dropped. The eyes are on Kreml, which has announced future plans for healing economy. Yet, it is impossible to say which direction the economy is going to turn.

Besides Finnish Russian trade's development, the business between the two has effect on a larger scale. Among the other cities in the development corridor, Finnish knowledge and competitiveness can help the whole Northern Europe's economic development. Finnish engineering skills can be used widely i.e. in Russia in order to renewing cities' sewer and water systems as well as building and renovating buildings. Finnish construction companies have already noticed this and are gaining more and more projects across the border. The next big step would be ensuring Finnish companies' foothold in Russian markets. This can be done i.e. with the help of Team Finland who will make Finnish companies more noticed. The city of Saint Petersburg even has its own advisor group whose main goal is to promote negotiations between the city of Saint Petersburg and Finnish entrepreneurs. (Randell, A. 2012) Finland already has few strong brands in the country such as Stockmann and Valio. They bring hope for other Finnish companies and serve as an example. Southwest Finland has many promising industries which skills are among the best in Finland. These include the pharmaceutical industry and strong ICT knowledge as well as the shipyard.

Finnish-Russian Arctic Sea partnership is an issue that can have future. Finland's strong advantage in this is that it does not have any possessions in the Arctic region. Finland is somewhat neutral partner with excellent technological expertise. (Paananen, K., 2013)

Russia and its membership in WTO brought lots of enthusiasm throughout Europe and also to Russia. WTO is a ruled-based trading system which are obliged to all its member countries. Issues such as tariffs are ruled in WTO regulations. Quotas would not be included. For Russia this would mean that the tariff levels should come down to 7,8% from previous 10%. Until now, this has not happened. Technical regulations and regulations for IPR as well as improving of customs procedures are also important issues that would improve Russia's image and proficiency in trade.

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Haastattelukysymykset WTC Turun päällikölle

1. Mitä kaikkia työkaluja WTC tarjoaa yrityksille, jotka harjoittavat vientiä Venäjälle? Mitkä ovat suurimpia Venäjän vientiä harrastavia yrityksiä WTC Turun suojissa?
2. Minkälaisia riskejä näitte liittyvän viennin aloittamiseen ja kuinka olette ehkäisseet riskejä? Mitä ongelmia olette kohdanneet toimiessanne ulkomaisilla markkinoilla?
3. Mikä motivoi WTC:a tukemaan vientiä Venäjälle?
4. Voitteko suositella suomalaisille pk-yrityksille laajentumista Venäjälle?
5. Millaisena näette liiketoimintasuhteiden ja -verkostojen merkityksen liiketoiminnalle ja mikä merkitys niillä on ollut Venäjän kaupassa? Mitä hyötyjä olette kokeneet olevan liiketoimintasuhteista?
6. Miten näet varsinais-suomalaisen bisneksen tämänhetkisen tilanteen?
7. Onko Varsinais-Suomella "varaa" Venäjä-vientiin? Miten tulevaisuudessa?
8. Mitkä alat Suomessa ja Varsinais-Suomessa ovat erityisen Venäjä-keskeisiä?

Questions for the interview with the director of WTC Turku

1. What tools WTC offer for companies who practice business abroad?
What are the biggest businesses WTC Turku has helped that do business in Russia?
2. What kind of risks are related to starting foreign trade and how have you prevented these risks? What problems have you faced when practising in foreign markets?
3. What motivates WTC to support business in Russia?
4. Would you recommend Finnish SMEs to expand to Russia?
5. How do you see the importance of business relationships and networks for business and what has been its importance regarding Russian trade? What benefits you would say you have gained from the business relationships?
6. How do you see the current situation in Southwestern business?
7. Can Southwestern Finland “afford” to business in Russia? How about in the future?
8. What businesses in Finland and Southwestern Finland are especially Russian-centered?