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FINLAND

POLITICAL FACT SHEET

General

Finland is a Constitutional Democracy with a 200-member unicameral parliament called the Eduskunta. The Head of State, responsible for broad matters of foreign policy, is President Mauno Koivisto, a Social Democrat. Presidential elections are held every six years, with the next one falling in the Spring of 1988. The current Head of Government is Prime Minister Kalevi Sorsa, also a Social Democrat. Parliamentary elections, conducted at least every four years, were held on 15-16 March; coalition negotiations are in progress and no new Prime Minister has yet been named. The following are the 1987 election results:

	<u>Seats in Parliament</u>	<u>Percent of Vote</u>
<u>Nonsocialist Parties</u>		
National Coalition Party (Conservative)	53	23.1%
Center Party	40	17.7%
Swedish Peoples Party	13	5.3%
Rural Party	9	6.3%
Christian League	5	2.6%
Greens	4	4.0%
<u>Socialist Parties</u>		
Social Democratic Party	56	24.2%
Communists (Eurocommunists)	16	9.4%
Communists (Stalinists)	4	4.3%
<u>Other Parties</u>		
	-	3.1%
<u>TOTAL</u>	<u>200</u>	<u>100.0%</u>

Key Cabinet members in the present caretaker government are:

Prime Minister.....Kalevi Sorsa  
 Foreign Minister.....Paavo Vayrynen  
 Minister of Trade and Industry.....Jermu Laine

These briefing memoranda were prepared by [Redacted] the Office of  
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FINLAND

FOREIGN POLICY

"Good-Neighborly Relations" with the Soviet Union

In 1948, Finland signed the Treaty of Friendship, Cooperation, and Mutual Assistance (FCMA) with the Soviet Union. After suffering significant loss of life and territory in two wars with the Soviet Union earlier in the decade, Helsinki determined that the best way to provide for Finnish security and independence was to reassure the USSR against threats coming from Finnish territory---thereby denying Moscow an excuse for interference in Finnish affairs.

- This manner of dealing with the Soviet Union has been institutionalized by Finland's three postwar presidents: Paasikivi, Kekkonen, and Koivisto. Politicians of all parties believe that Finland's independence compared to that of Eastern Europe speaks for the success of this approach. Foreign policy is therefore unlikely to change regardless of which parties form the new government.
- Nonetheless, Finland still sees the Soviet Union as a potential threat to its security. In addition to denying the Soviets a pretext for intervention, Finland's small but well-trained defense force could serve to fight Soviet forces if political cooperation with Moscow failed to prevent Soviet intervention.
- Finland also attaches great importance to good relations with the United States. Such contacts are important to the Finnish economy, and serve to reinforce Finnish neutrality by balancing out Soviet political influence. The Finns, however, consider good relations with the Soviet Union a precondition to good relations with the West.

Promoting Regional "Stability"

Of the five Nordic countries, Finland is traditionally the strongest supporter of discussions on a regional nuclear-weapons-free zone and naval confidence-building measures between NATO and the Warsaw Pact. The Finns are cautious about how hard to push these policies because they do not want to weaken the deterrent provided by NATO presence in the region.

- Because the Soviet Union favors both initiatives, the Finns consider their own support for discussion of these concepts part of their policy of reassuring the Soviet Union.
- More important, however, is the Finnish perception that East-West conflict---rather than Soviet ambition---presents the real threat to Finnish security by creating a context in which the Soviet Union might feel compelled to intervene in Finland. The Finns thus promote regional stability as the best way to reduce the likelihood of East-West conflict in the Nordic area.

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FINLAND

DOMESTIC POLITICS

Election Results

The 15-16 March parliamentary election reflected a slight shift toward the right in the Finnish political spectrum. The Conservative Party picked up nine seats in Parliament and the Center Party gained three. Although the Social Democratic Party remained the country's largest, it lost 100,000 votes---one eighth of its previous voter strength---and one parliamentary seat.

- No political or economic issues were prominent in the election campaign. The most important items on the political agenda were personal differences between Social Democratic Prime Minister Kalevi Sorsa and Foreign Minister Paavo Vayrynen, the ambitious leader of the Center Party.

Building a New Government

Little progress on forming a new government has been made since the March election, although the Conservative Party has installed its Chairman as Speaker of the Parliament. The previous Social Democratic-Centrist coalition is presently serving in a caretaker capacity. Regardless of who forms the next government, foreign policy is unlikely to change significantly.

- Since World War II, the Social Democratic Party has been the traditional party of government, and Social Democratic President Koivisto prefers that the party remain in government. The party leadership, however, would rather move into opposition than cohabit with Conservative policies or with Center Party Chairman Vayrynen.
- The Conservative leadership has moderated the tone and substance of its policy prescriptions, paving the way for Soviet acceptance of its entry into government. No party members have cabinet experience, however, making it unlikely a Conservative will become Prime Minister.
- If the Social Democrats leave power, the obvious choice for Prime Minister is current Foreign Minister Vayrynen, the Center Party leader. Vayrynen, however, is unpopular with the President, the public, and his potential coalition partners because of his blatant desire to become President in 1988 or 1994. Even so, the most likely outcome of the ongoing bargaining may be a Center-Conservative coalition led by Vayrynen.
- Although Finnish foreign policy is unlikely to change significantly regardless of which parties form a government, a Center-Conservative coalition may push for privatization of state-run firms and tax reform.

FINLAND

## ECONOMY

General

Finland has successfully undergone a transition from an agrarian-based economy before World War II to an increasingly high-tech industrial and service economy. Helsinki has sustained steady economic growth and contained unemployment in the 1980s largely by finding external markets for its products and by investing abroad.

- Foreign Trade is an essential component of Finland's economy, with exports and imports each accounting for roughly 30 percent of GDP in recent years. Because of this reliance on trade, Helsinki actively supports international efforts to expand free trade in goods and services and has further opened its own economy in the past few years by deregulating domestic capital markets and reducing foreign exchange restrictions. Exports are generated largely in the forestry, metal, and chemical industries.

Trade with the Soviet Union

Helsinki has developed strong trade ties with Moscow since the 1960s as part of its broader strategy of maintaining a friendly relationship with the Soviet Union. Finnish-Soviet trade operates on a clearing account basis (a barter arrangement which restricts the use of Finnish export earnings to the purchase of Soviet goods) and accounts for 15-20 percent of Finland's total trade.

- The weakness in the world price of oil--Helsinki's most important import from the Soviet Union--since 1986 has produced a strain in this special trading relationship as Finland has accumulated an undesired surplus with the Soviet Union that greatly exceeds the mutually agreed credit limit. Protracted bilateral negotiations to solve the problem have resulted in tentative agreements that call for the Soviets to sell Finland an extra 250,000 tons of crude oil for resale on world markets in 1987, begin exporting certain chemical and mineral products which they have refused to provide in the past, ship increased amounts of coal, and pay Helsinki a higher interest rate on the excess trade surplus.
- Finnish officials expect trade problems to continue for some time, but are unlikely to take a hard line with Moscow over the issue because of their overriding desire to maintain congenial relations.

### Trade with the United States

Imports from the United States account for 5-6 percent of total Finnish imports annually. High-technology products, including aircraft, avionics, and computer-based systems for business and manufacturing dominate US sales. Despite agricultural import barriers, certain commodities, including raw tobacco, soybeans, and canned fruit, also figure prominently in US exports. Finland's main exports to the US market include paper and paper-making machinery, oil rigs (operated under US license), and ferrous and non-ferrous metals.

- Helsinki cooperates with Washington on export control issues because it realizes that a reputation as a supplier of controlled technology to the Soviet Union could jeopardize its own access to advanced technologies that are vital to Finnish industry.
- Finland's recent revision of its export control laws has enhanced its ability to restrict the transshipment of controlled Western technology through its territory to the Soviet bloc. The most important change in these laws is the use of an import certificate/delivery verification form (IC/DV) that is parallel to those of the COCOM countries.

### Domestic Economic Policy

Finland has a healthy economy with no major long-term problems that are likely to force a new government to alter the course of recent economic policies. These policies have been aimed at maintaining confidence in the Finnmark, controlling inflation, limiting the tax burden, deregulating financial markets, and reducing foreign-exchange restrictions. Finns enjoy a high standard of living even by Western standards, which is protected by an extensive welfare state.

- Favorable short-run economic indicators provided little ammunition for any of the major political parties in the recent election campaign. Although GDP grew at a rate of only 2 percent in 1986, recent forecasts have displayed optimism that growth may reach 3 or 4 percent in 1987. In addition, the joint government-labor Committee on Incomes Policy recently reported that real household disposable incomes rose by 2.5 percent in 1986 and may increase by 4.5 percent in 1987. These gains are attributable mainly to lower inflation--down from 5.9 percent to 3.6 percent in 1986--and to adjustments in income tax rates to offset inflation. Unemployment rose slightly from 6.3 percent in 1985 to 7 percent in 1986, but remains low among OECD countries and will probably be contained this year.
- The new government may explore new initiatives on the economic front such as the privatization of some of Finland's 19 state-owned firms, and are continuing to assess the impact of an increasingly internationalized and technological economy on Finland's national identity. Deregulation of financial markets and foreign exchange laws, tightening controls on reexport of US technology, controlling inflation, and determining the future of the nuclear energy program will also continue to be central to Finnish policy.

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