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## The Period of Free Trade Integration in Finland's Relationship to Western Europe

The paper is the summary of a monograph manuscript on the topic.

The study is based, i.a., on archival materials as follows:

- Records on Finland's relationship to EFTA and the EC, 1961-73, at the Finnish Foreign Ministry,
- Records on the EC negotiations position on the EFTA countries, 1970-72, at the Council of European Union,
- Records on Sweden's negotiations with the EC, 1970-72, at the Swedish Foreign Ministry.

Finland's association with the European Free Trade Association and free trade agreement with the European Communities created the Period of Free Trade Integration in Finland's relationship to Western Europe. The question was of free trade on industrial goods. On the political dimension, the starting point of this period can be dated to the year 1959, when the Finnish Government decided that Finland will join the planned Nordic Customs Union if it materializes and, thereafter, Finland oriented herself towards the emerging EFTA. The end point, on the political dimension again, can be dated to the mid-1980s. In 1985 the last import duties on industrial goods were abolished between Finland and the European Communities. At the same time, Finland re-oriented herself towards a new phase of integration policies. On the economic dimension, one can regard the Period of Free Trade Integration as continuing up to the 1990s, at least up to 1994, when Finland entered the European Economic Area (which, for Finland's part in the capacity of an EFTA country, lasted only that one year), or up to 1995, when Finland became member of the European Union.

West European integration has been the most important but not the only framework within which Finland has been integrated to international economy. For the present

research period, the tariff reductions of the Kennedy and Tokyo rounds of GATT as well as, for example, the OECD membership have affected to the same direction with regard to the whole Western world economy.

The decisive solutions of free trade integration took place in the circumstances of Cold War. The neutral countries Switzerland, Sweden, Austria and Finland considered it not even thinkable to join the Community, since membership was regarded as non-compatible with neutrality. To be sure, Sweden held membership option open for a while, but eventually also the Swedish Government came to the conclusion that membership in the Community would contradict with neutrality. Finland's international position in the strategic sphere of influence of the Soviet Union made participation in Western integration especially delicate, since the Soviet Union opposed to Western integration in general and Finland's Western commitments in particular. Thus, the most conspicuous characteristic feature of the Finnish integration policies was the connection to the country's international position in the Soviet sphere of influence. President Kekkonen's maxim was to conduct foreign trade policies in consent with the Soviet leadership.

The constellation of Cold War was reflected on the ideological dimension. Organizations of the consensus society, representing the large majority of citizens, were generally supporters of Western integration. One can even think that containment of real or perceived Soviet subversive aspirations was the most important driving force behind the majority opinion, not the economic arguments presented in publicity, even though the rhetoric sources support the economic point of view. The Communists and in the early 1970s also the New Left opposed to Western integration which was regarded as supporting the Capitalist world system.

The appeasement elements with regard to the Soviet Union in the Finnish policy are the most conspicuous ones, for example, in historical presentations. Less attention has been paid to the fact, if even noticed, that the Finnish appeasement policy was very selective. The choice to decline the Marshall aid in 1947 was the only decision in which Finland, under direct Soviet pressure, satisfied the Soviet demand clearly against her own economic interest. Maybe, President Kekkonen's decision in 1958 to interrupt negotiations on Finland's association with the OEEC can be interpreted on this basis, too. Other Western projects which Finland refused to join were not vitally if at all important from the economic interests point of view. In some questions like the FINN-EFTA Agreement and the free trade agreement with the EC Kekkonen negotiated patiently with the Russians, but, in some other questions, most noticeably in removing Ambassador Belyakov from Helsinki in 1970-71 and in repelling joint Finnish-Soviet military exercises in 1978 Kekkonen's action was straightforward.

The large-scale trade which was developed between Finland and the Soviet Union after World War II engaged remarkable economic interests, which were in principle incompatible with Western integration solutions. Eastern trade promoted, first of all, maintaining employment on a higher level than was otherwise possible and mitigating balance of payments problems. Surely, Finland fell to her post-World War II international position in the Soviet sphere of influence against her own will. But once being in that position, Finland took advantage of her international position between East and West by exploiting benefits from Western and Eastern trade at the same time. The special arrangements for Eastern trade in Finland's integration solutions would not have been possible to any of her Western trade partners with regard to their international commitments. Finland's modest integration aim, derived from the international position and neutrality, suited very well also to the aspirations of the economic interest groups.

An other conspicuous characteristic feature of the Finnish integration policies and foreign trade policies, even in international comparison, was the Finnish corporatism connected with a high degree of national consensus. The economic objectives of the Finnish policy were defined as a combination of interests of export industries, domestic-market industries and agriculture. An important task of the Trade Policy Department of the Foreign Ministry was to maintain contacts to interest groups and major enterprises. The year 1959 was the decisive divide when emphasis moved from protection of domestic-market industries to promotion of exports. The state leadership, in the last instance President Kekkonen, defined the general requirements dictated by international politics with which the economic targets were adjusted. The consensus view created in this way was recognized by all interest groups and political parties of the consensus society.

From the early 1960s onwards, the domestic-market industries recognized the primacy of safeguarding export interests in the Finnish policy. The precondition, however, was long enough transitional periods during which they could be prepared to foreign competition. The Finnish policy contained protectionist elements during the whole period of free trade integration. Domestic-market industries were to be protected against foreign competition as far as it was possible without jeopardizing export interests.

The role of trade union movement was secondary. Since World War II the trade union movement participated in public decision making and corporatist bodies in general as an equal partner; but it seems not to have been interested in trade-policy questions. Seemingly, the non-Communist trade union leaders regarded the interest cleavages with regard to foreign trade as going by industries rather than by social classes. In this

view, it was more appropriate to leave the costs of interests safeguarding to be covered by the industrial federations. Communist-lead trade unions, instead, opposed to Western integration according to the party doctrine.

During the period of free trade integration, Finland's outspoken integration aim was safeguarding an equal competitive position for the Finnish exports in the most important export countries with regard to the competitors. This meant especially products of forest industries, which comprised 75 per cent of Finnish total exports in 1960 and still 55 per cent in 1970; the corresponding figures for exports to Western Europe were 85 and 57 per cent, and to the EEC/EC 87 and 74 per cent, respectively.

Neutrality presumed, first of all, that an integration solution could not contain supra-national elements. Nor could such a solution hurt Finland's Eastern trade. A solution had to include appropriate transitory arrangements for domestic-market industries. Agricultural products were to be excluded from free trade, but otherwise Finland sought arrangements also for marketing her agricultural over-production.

The FINN-EFTA Agreement through which Finland was associated with the European Free Trade Association was concluded in 1961. The main argument for the agreement was safeguarding export interests in the most important export countries, first of all in Great Britain. The explicit target was that Finnish exports did not fall into more unfavourable conditions than those of the most important competitor-countries. When the Soviet Union objected to the Finnish choice, President Kekkonen allowed to sign the agreement only when the most-favoured-nation treatment of the Soviet Union was agreed upon. The result was the Finnish-Soviet Customs Agreement of Autumn 1960 through which Finland granted the Soviet Union the same benefits with regard to import duties than were granted to the EFTA countries. The significance of the agreement was, however, mainly symbolic, since Soviet imports remained within import regulations regime and consisted mainly of raw materials which either were duty-free or on which only low duties were levied. The really important arrangement for safeguarding Eastern trade was the Finnish reservation in the FINN-EFTA Agreement itself for continued import regulations on fossil fuels and phosphate and potassium fertilizers as an exemption from free trade.

The FINN-EFTA Agreement corresponded well to the foreign-trade goals of the Finnish consensus society. For example, Great Britain as the most important export country abolished her high paper duties according to the general EFTA timetable (except the surcharge on imports in 1964-66 which hurt also Finland). The Finnish domestic-market industries received as a one-sided benefit a slower rate of tariff reductions for a number of products. To be sure, slowing was placed in the beginning of the transitional period, while the general timetable was to be caught up later on.

Finland participated only reluctantly in the acceleration of free trade which was decided in 1961-63. The Finnish averseness was especially strong in 1963 when it was decided to abolish import duties and quantitative restrictions by the beginning of 1967, instead of the end of 1969 as scheduled originally. Finland gained, however, a result which entitled her to abolish the duties for the general timetable only by the beginning of 1968 and for the list of slower-rate tariff reductions according to the original timetable, i.e. by the beginning of 1970. Eventually, however, Finland abolished also the latter duties at the beginning of 1968.

A new situation in Western Europe emerged in 1961 when Great Britain applied for membership in the Community. In her wake also Denmark and Norway applied for membership, while the other EFTA countries proper applied for association.

From Summer 1961 onwards, representatives of the Finnish state leadership gave cautious statements with vague wording on the Finnish policy in the new situation. The statements emphasized the requirement of compatibility with Finland's international position and policy of neutrality. "Neutrality" in the Finnish statements implicated Finland's special relationship to the Soviet Union. Most active was Minister Ahti Karjalainen, mostly in the capacity of Foreign Minister. Minister Karjalainen was the main spokesman for President Kekkonen's foreign policy throughout the 1960s. The Finnish integration aim was from the very beginning safeguarding export interests with a number of preconditions: association mentioned in the Rome Treaty was excluded for Finland, an agreement must not include any supra-national elements, the position of domestic-market industries and agriculture was to be safeguarded and Eastern trade must not be hurt. The Finnish Government not even tried to define the objectives more exactly. From the late 1950s onwards the supporters of Kekkonen's foreign policy expressed the Finnish attitude as "wait-and-see". Finland, mainly, "observed the progress of situation" in order to join the general West European development at the moment when a concrete solution was at hand and the content of arrangements could be outlined.

Finland's cautious policy included that Finland made no initiatives but strove to bring her generally worded interest for the attention of both her EFTA partners and the Community. Dealing with the question remained even otherwise vague in Finland during that short period from Summer 1961 to January 1963 when the West European market question at the first time was in agenda. As generally known, de Gaulle of France frustrated these plans. Obviously the Finnish state leadership was passivized further by the Note Crisis that broke out in Autumn 1961, soon after the new situation in Western Europe emerged.

The Finnish policy was activated considerably when the West European market question in 1965, again, rose to international discussion. Finland also joined the mutual consultations of the EFTA countries, the Finnish representative participating "in a personal capacity". In 1966-67, Finnish aims were outlined more concretely within the Foreign Ministry and the economy. This was, however, secret activity. Among the principled supporters of Western integration the Government seemed "slothful", which image was far from removed by Minister Karjalainen's vaguely worded answers. But Minister Karjalainen spoke true when he October 1967 informed the EFTA partners that Finland had begun to gather material "in order to be ready, whenever necessary, to take care of our economic interests, should Finland's competitive position weaken in comparison with the situation of today".

From the mid-1960s onwards Finnish statements included a view of all-European integration, covering also Eastern Europe, as the ultimate Finnish integration aim. This was, of course, mere rhetoric, expression of hopes. The policy of "wait-and-see" would not have even allowed activities to try to influence the policies of other countries.

In 1968-70 the Nordic countries conducted negotiations on a Nordic customs union and even a kind of economic community, known as NORDEK. The negotiations were completed. The agreement, however, foundered - at least for the outer course of events - at Finland's foreign-policy complications. On the demand of the Soviet Union, President Kekkonen prevented Finland joining the arrangement, and consequently the whole construction collapsed. NORDEK was politically popular, but it would have served the actual export interests of the Nordic countries only to a limited extent. Obviously the vague interest by the economy sealed the end result. The NORDEK plan remained a kind of prologue for the subsequent EC negotiations. In any case it activated considerably discussion on integration.

The political nature of the European Communities, even as a kind of Great Power, was emphasized in 1969 and 1970 by the so-called Davignon Plan for increased cooperation in foreign policy and Werner Plan for an economic and monetary union. , From the viewpoint of Finland's international position the new developments made an agreement with the EC an even more delicate matter - even though endeavour to deepen political integration within the Community was frustrated. However, these new developments did not affect the Finnish considerations, since an agreement with the EC was important; mainly they gave arguments to the opponents of Western integration. When the Hague summit in December 1969 opened the negotiations knot of the 1960s, also Finland sought her way - in an almost unnoticeable way - among those EFTA countries which pursued a special relationship, looser than membership, to the

Community.

The four Neutrals - Sweden, Switzerland, Austria and Finland - consulted intensively with each other during the negotiations process. Also the EC paralleled these countries with each other. The negotiations started with two ministerial meetings in November 1970. This was followed in Spring 1971 by the so-called exploratory talks, called also the fact-finding phase. Negotiations proper were conducted from December 1971 until the agreements were signed on July 22, 1972, except for Finland signing was delayed up to Autumn 1973.

Finland's international position – so the argument – presumed avoiding far-reaching integration. The Finnish integration aim represented the lowest "ambition level" among the four Neutrals. Finland pursued as limited an agreement as possible with the EC, mainly abolishing tariffs on industrial goods with only the necessary supplementary stipulations. Additionally, Finland sought arrangements for marketing her agricultural over-production, especially to continue exports of butter to Great Britain even within the Community. All supra-national commitments or even rhetoric to the same direction were excluded. Finland, for example, refused to accept the so-called development clause or even mentioning "participation in European construction" in her agreement. The term of notice was defined as three months like in the FINN-EFTA Agreement, while it for the EFTA countries proper was 12 months like in the Stockholm Convention on EFTA. Safeguarding the Eastern trade was one of the most central Finnish requirements. When the Finnish negotiations position was under preparation, several domestic-market industries demanded a slower timetable of tariff reductions for their branch. In general, about 10 years was outlined as a suitable transitory period for the Finnish sensitive branches.

The negotiations position of the Community was based on the principle that the autonomous decision-making power, internal efficiency and development possibilities of the enlarged Community were to go over all other considerations. On this basis the Community position, too, presumed a limited agreement, to be confined mainly to abolishing tariffs on industrial goods with only the necessary supplementary stipulations. The "general framework" for the EFTA-EC relationship, defined by the Community, which the Community also carried through from a position of power, refused the Swedish and Swiss aspirations for far-reaching integration but suited well to the modest integration aim of Finland.

Industrial tariffs were abolished gradually by the beginning of July 1977 according to the "normal" timetable, but the Community position included slower tariff reduction timetables for a large number of so-called sensitive branches of the Community. The EFTA countries agreed easily with the "normal" timetable, which was the same than

that for the acceding countries. In other respect, however, the Community position on transitory arrangements was sharply inequitable for the EFTA countries. But the EFTA countries were in a take-or-leave-it position. The inequitable terms offered by the Community focused most strikingly on paper duties, which was directed most against the Finnish export interests, since promotion of paper exports to the Community was Finland's most important trade interest with regard to the Community in the actual situation.

The efforts of the Finnish negotiators focused especially on paper duties. The Community imported sawn timber and pulp duty-free, on plywood and other wood products it levied only relatively low duties, and newsprint was exported from Finland virtually within duty-free quotas. The Community's Common External Tariff levied on writing papers and other printing papers than newsprint as well as paperboard and products of paper and paperboard import duties which were 12 percent and more to import value. The Community demanded a transitory period of 12 years and, further, entitlement to impose so-called indicative ceilings for imports at duties reduced according to the slower timetable. Behind these claims was, first of all, the French paper industry. Finland conducted tough negotiations insisting almost to the end for an essential revision of the Community position. As the result of Finland's efforts - Sweden was not in the position to attain this - the Community shortened the transitory period at the very final phase of negotiations with one year, to 11 years. Finland also attained higher indicative ceilings than the amounts of former exports would have presumed, which, of course, took place at Sweden's expense.

Finnish and Swedish paper exports met even another setback. During the negotiations the British paper industry began to demand partial resuming of paper duties with regard to Rest-EFTA countries. The British paper producers allied themselves with the French, which managed to make this demand part of the French government policy. At the very final phase of the negotiations the British Government, at last but expectedly, abandoned EFTA solidarity and moved to support the demand of the own paper industry. The result was that paper duties were resumed partially, for the transitional period, for British and Danish imports from EFTA countries.

The Community demanded slower tariff reduction timetables even for a large number of other products than paper and related articles. The impact of these new claims was considerable also against the Finnish export interests, even though they were directed more against Sweden and Switzerland. Namely, among these products in a central position was basic metal, which also was a relatively important Finnish export branch. The French manufacturing industries were, again, the main actor also behind these protectionist demands. The Community demanded first a transitional period of 8 years, but this was during the negotiations moderated to 7 years. The negotiators of the

EFTA countries managed also to shorten the list of products to some extent with regard to the original Community demand.

The EFTA countries pursued also arrangements for marketing their agricultural over-production. The Community not only frustrated these hopes but even worse. The Community, namely, demanded the neutral EFTA countries one-sided concessions in favour of its own agricultural sector. The end result was that Sweden, Switzerland and Austria had to acquiesce in unilateral concessions.

When disputing on paper duties, the Finnish negotiators managed to gain that the Community delegation recognized the Community position as being inequitable towards Finland. As the first compensation, the Community waived for Finland the demand for one-sided agricultural concessions. Finland also could carry through her own list of sensitive industries relatively easily. The Finnish list of special-arrangements products was raised on the agenda at the almost final phase of negotiations, when the Finnish negotiators finally were completely convinced that essential improvements to the Community position on paper were not possible. Finland gained also that transitional periods became 8 and 12, i.e. the original Community claim for its own imports, and the most important among the Finnish sensitive branches were to enjoy the longer transitory period of 12 years. From the viewpoint of the Finnish domestic-market industries the result was obviously even more favourable than could be expected.

The most important arrangement for safeguarding Finland's Eastern trade was, like in the FINN-EFTA Agreement, the Finnish reservation for continued import regulations on fossil fuels and phosphate and potassium fertilizers as an exemption from free trade. The Community accepted easily the Finnish demand, which - like the Finnish negotiators put it - "not even was a subject of negotiations".

Negotiations on the rules of origin were tough. Originally, the Community position presupposed so-called bilateral cumulation according to the agreements with the associated countries. According to this scheme, origin treatment was granted to products either originating in the Community or the trade partner concerned or being composed of factors originating in these two areas. This scheme would have been inequitable in favour of the Community, since it would have treated the Community like a single large country, within which factors entitling to origin treatment could have been cumulated, while an EFTA country would not have been entitled to cumulate factors within the larger EFTA area. The EFTA countries demanded, in line with the existing EFTA stipulations, multilateral cumulation, in which factors entitling to origin treatment could be cumulated within the EFTA area in the same way than within the Community. The Community at last acquiesced to an arrangement, which the EFTA

countries recognized as being in practise equivalent - or at least nearly equivalent - to the system practised within EFTA thus far. The Community refused, for example, a basic materials list which especially Finland regarded as important. In stead of it, the origin rules included a number of product-specific stipulations to enable continued free trade on products to which origin treatment had been applied within EFTA. On the demand of the Community, the EFTA-EC origin stipulations were to be introduced also to intra-EFTA trade.

As limited an agreement as possible, which was the goal of both Finland and the Community, presumed vague rules of competition, in the framework of which both parties could apply competition rules of their own, safeguard clauses, which both parties could resort to, in the last instance, unilaterally, and a light administration with no supra-national powers. Especially Sweden and Switzerland pursued a more extensive agreement, more committing stipulations and to some extent supra-national administration. Finland was unilaterally entitled to continue restrictions to international payments practised thus far.

With the negotiations completed, the Finnish Government was keen to see the result in a positive light. The government statements emphasized that the Finnish paper industry in any case preserved an equal competitive position with regard to other paper exporters; and eventually exports would be free. With regard to public opinion, even more important was that domestic-market industries, which was important from the employment point of view, received long transitional periods.

Carrying through the free trade agreement was a political process of large scale. The Finnish Anti-EEC Movement was relatively strong, consisting mainly of Communists and the New Left. The Leftist opposition opposed to "capitalist integration". Most crucial, however, was that also the Soviet Union opposed to Finland's agreement with the EC.

In February 1972, when negotiations proper had started, President Kekkonen already believed that he had attained a Soviet consent to the free trade agreement. However, when the negotiations were completed, it turned out that the Soviet Union presumed Finland to "postpone" signing the negotiations result. Signature was delayed, when the state leadership wished to arrange the Eastern relations first. According to the Finnish view, adopted already in the 1960s, Finland pursued a "Comprehensive Solution on Foreign Trade Policy" (*kauppapoliittinen kokonaisratkaisu*), within which the EC agreement was to be balanced with arrangements with Eastern Europe. To be sure, the term "Comprehensive Solution on Foreign Trade Policy" emerged in the Finnish political vocabulary only in 1973. In 1973 Finland concluded, "as the first market-

economy country", a cooperation agreement with the Council of Mutual Economic Assistance ("Comecon"). Subsequently, mainly in 1974-76, Finland negotiated the so-called *KEVSOS* agreements for reciprocal removal of obstacles to trade with five People's Democracies (Bulgaria, Hungary, Czechoslovakia, the GDR and Poland). President Kekkonen negotiated toughly with the Soviet representatives, and after eventually gaining the Soviet consent he took measures to bring the EC arrangement into force.

The agreements with the EEC and the ECSC were signed finally in Autumn 1973. The agreement with the EEC came into force at the beginning of 1974. The agreement with the ECSC came into force at the beginning of 1975. The last-mentioned delay was due to delay of ratification in the member countries of the Community.

In Finland the process of EC agreement was accompanied with an especial emphasis of Soviet relations. The Government, for example, recorded into its minutes - as agreed upon with a Soviet governmental delegation - a statement, according to which it would, i.a., use its entitlement to notice the agreement if it would weaken the Finnish-Soviet economic relations. In the parliamentary reading in Autumn 1973 the free trade agreement was approved with votes 141 to 37, with 7 abstentions. Those voting against were the parliamentary group of the Finnish People's Democratic Union (Communists) plus one Leftist Social Democrat. Those abstaining were Leftist Social Democrats who, on one hand, could not vote for with regard to their supporters but, on the other hand, nor could vote against with regard to their position in the party. The Parliament approved with overwhelming majority a statement according to the above-mentioned Government statement.

The free trade agreement was connected with the so-called Safeguard Laws (*suojalait*), which was the condition of the Social Democratic Party for approval. The legislation was under process in 1972-76. This legislation targeted, on one hand, to facilitate the adjustment of the domestic-market industries especially with regard to employment and, on the other hand, to develop Swedish-type stabilization policies to mitigate cyclical fluctuations which the Party expected to be aggravated as the result of free trade. What in this respect was reluctant for the Rightist parliamentary groups was that part of the safeguard legislation meant relatively strong governmental interference in economy in conflict with traditional practices. Also the Emergency Act for re-election of President Kekkonen was connected with the EC-agreement process.

The EC agreement, re-election of President Kekkonen and the Safeguard Laws were intertwined with each other to one tangle which only could be carried through together. Consent by the political Right was required because of the Finnish qualified majority stipulations in constitutional legislation. For the political Right the EC

agreement was of primary importance. Therefore, the bulk of the parliamentary Right could be persuaded to approve both the re-election of President Kekkonen as the "guarantor" for Finland's foreign-policy orientation with regard to the Soviet Union and the Safeguard Laws.

In the light of rhetoric sources Finland's integration aim seems to be conditioned by the country's general international position, appeasement towards the Soviet Union being the most conspicuous characteristic feature. But Finland's integration aim coincided very well with the interests of the Finnish economy as well as the governmental economic-policy aspirations. In the last instance, it remains unclear to what extent the integration aim was accommodated to the requirements of the general international position and to what extent these requirements were interpreted to support the economic interests. In any case, in former literature the weight of the first-mentioned point of view has been exaggerated while the last-mentioned one has not been properly noticed.

Sweden and Switzerland belonged to the leading industrial nations of the world. Their internationally competitive industries required far-reaching integration which would provide them unhampered operational possibilities on the large Community market. Finland, instead, was still in the 1970s an industrializing country, which, for example, expanded and diversified her manufacturing industries by adopting production processes developed in more advanced countries. Most branches of manufacturing industries other than wood processing were more interested in protection against foreign competition than opening new possibilities for international operations. The cautious policy of the Government, thus, corresponded completely to the interests of the domestic-market industries. It corresponded also to the interests of the Trade Union Movement with regard to employment points of view.

Business firms exporting to the East gained advantage of arrangements for safeguarding the Eastern trade. Any kind of "lobbying", however, cannot be found in sources. The question was, in the first place, of priorities in governmental economic policies. The enterprises seem to have taken the possibilities of Eastern exports as a self-evident service by the state. Acquisition of raw materials, especially crude oil, from the Soviet Union in the framework of a bilateral trade regime served both employment and balance of payments points of view. Thus, it was worth to present almost any rhetoric to safeguard the large-scale bilateral trade.

Eastern trade also served as a "springboard" for Western exports of the Finnish ship-building and engineering industries. Furthermore, large-scale Soviet trade mitigated Finland's adjustment Western integration. For example, it mitigated the effects of the oil crises of 1973-74 and 1979-80. Soviet exports also provided temporary markets to

a number of industries whose international price competitiveness in the 1980s already began to deteriorate.

The import-regulations clause in the free trade agreements included also points of view not outspoken in public argument. They, namely, safeguarded monopoly position for two state-owned companies, i.e. Neste Oy for oil products and Rikkihappo Oy/Kemira Oy for fertilizers on the domestic market as long as the bilateral Eastern trade continued. Import regulations on fertilizers hardly had any other trade-policy significance than to eliminate foreign competition - and competition in general.

The main economic impact of integration has been strong economic growth which has taken place through structural change. The period of free trade integration coincided, by and large, with the emergence and growth of welfare state. Welfare state is intimately connected with integration, since the employment, educational and social policies of welfare state have promoted the citizens' social adjustment to structural change. The scenario of the opponents to free trade agreements, according to which the Finnish economy would be trampled by foreign big capital, turned out to have been at least greatly exaggerated.

Diversification of internationally competitive manufacturing industries has been the most important manifestation of structural change. During the last years of protectionism, still three quarters of Finnish exports consisted of forest products, whose competitiveness was based on comparative advantage, i.e. forest resources combined with cheap labour. During the period of economic integration, instead, internationally uncompetitive domestic market industries were replaced by internationally competitive ones, which have been marketing within "international domestic market" both at home and in abroad. The new competitiveness was based on the so-called economies of scale (specialization). Time series of indices for intra-industry trade (Grubel-Lloyd indices) give growing figures up to the late 1980s and the early 1990s. However, simply the change in the industrial structure of Finnish exports provides the most illustrative picture.

Finland's most central outspoken integration aim, safeguarding the (relative) competitive position of the traditional, wood-processing export industries was realized. But this was only a part of the impact of integration. For forest industries, the most important impact was growing processing rates of paper industries. The bulk of former pulp exports was replaced by paper exports. Especially, exports of writing papers and other printing papers than newsprint grew vigorously. Exports of wood industries, instead, grew only slowly. The share of forest industries in Finnish exports has

declined throughout the time when Finland has participated in West European economic integration. Up to the 1980s, however, forest sector was indisputably Finland's leading export branch.

Metal industries became the most important new export branch. Finland was already from the interwar period a remarkable exporter of non-ferrous metals, especially copper, based on domestic ore deposits. Even subsequently exports of basic metal have been relatively large in international comparison. During the period of free trade integration, however, ship-building and engineering industries became the leading branches of metal industries. These industries began to grow to export branches already in the 1950s, under the auspices of Eastern trade, but already from the 1960s onwards also Western exports became considerable. The value of products of metal industries bypassed that of forest industries in the latter half of the 1980s. Successful ship-building continued up to latter half of the 1980s. Later on, from the 1990s onwards, already at a new stage of industrial development and integration policies, electro-technical industries, or, to be exact, mobile phones of Nokia Corporation, became the most important export branch of metal industries.

Also chemical industries have become an important export branch. This has, at the same time, decreased Finland's import dependence on these products.

The product cycle, i.e. growth and decline, of the Finnish textile, clothing, leather and footwear industries was based, on one hand, on the economic impact of integration and, on the other, on the domestic costs development. In the circumstances of free trade with regard to the EFTA countries and the EC, clothing industry, part of textile industries and footwear industry became remarkable export branches. The competitiveness of these labour-intensive branches was based on Finland's then low wage costs, in the first place on cheap female labour. These were at the same time branches for which the free trade agreements included transitional arrangements. The same branches gained foothold also in Soviet exports when Finnish exports were to be enlarged as the result of oil crises. Basic textile as a capital-intensive processing industry, instead, began to fade in the circumstances of free trade. The product cycle turned to decline in the 1980s partly as the result of domestic costs development, i.e. the so-called solidary wages policies, partly as the result of opening the so-called cheap imports. Production moved to countries which represent similar levels of economic development than Finland had represented formerly.

During the period of free trade integration Finland "caught up" the lead of older industrialized countries. Measured with gross domestic product per capita, Finland achieved in the late 1980s the level of leading West-European industrial nations or at least moved quite to their vicinity.

Nowadays, at the onset of the 21st century the period of free trade integration already belongs to the past. Approximately at that stage when the transitional period for the sensitive branches expired, a new stage in Finland's relationship to West-European integration began. Properly, the beginning of the new phase overlaps with the end of the former one. Finland oriented herself, together with the general West-European development, towards all-embracing economic and even political integration. This orientation culminated in the EC membership from the beginning of 1995.

Both the economic and political preconditions of the new stage differ profoundly from the former one. The Finnish manufacturing industries had gained a new level of international competitiveness, in which mere free trade on industrial goods turned out to be insufficient for further growth. Also for the Finnish business firms the preconditions of growth necessitated, i.a., abolition of non-tariff restrictions and restrictions to establishment. The Finnish industrial and foreign-trade policies were re-oriented to meet the new requirements. First of all, it was oriented to promote innovation and internationalization of enterprises. Former restrictions imposed by the requirements of neutrality were displaced, when they ceased to correspond to the interests of the economy. At the same time, a new period of reform policy, known as "perestroika" and "new foreign-policy thinking" was introduced in the Soviet Union. The new Soviet orientation, connected with the new Soviet leader Mikhail Gorbachev, no longer presumed Finland to limit her Western connections. However, the Finnish Government still proceeded cautiously until Autumn 1991.

Finland moved from national isolation to an equal member of the international community flexibly but with a very long period of adjustment. Membership in the European Union began in 1995 without any separate transitional period. In fact, however, Finland's transition to EU membership took place with a transitional period of about 35 years. The implementation of the FINN-EFTA Agreement and the free trade agreement with the EC formed the most essential elements of this transitional period.