



(REVIEW ARTICLE)



## From neutrality to NATO: Analyzing the role of the Russia-Ukraine war in Finland's economy and subsequent path towards NATO membership

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### Abstract

This research paper explores the impact of the Russia-Ukraine War on Finland's economy, with a focus on trade, investment, and economic stability. Domains like Finland's GDP growth, export-import dynamics, employment rates, and overall economic performance were significantly affected by the disruption caused by the conflict. By assessing how important sectors such as energy, public expenditure and supply were affected by the conflict, the correlation between Finland's entry into NATO and the Russia-Ukraine war can be deemed as more concrete. This paper also looks into the steps Finland took to offset the negative consequences of interference with long term regional and trade dynamics.

**Keywords:** Russia-Ukraine war; Finland; NATO; Economic impact; Economic stability; Energy sector; Public spendings; Supply; GDP growth; Export-import dynamics; Employment rates

### 1. Introduction

The Russia-Ukraine war caused a massive shift in the geopolitical landscape – especially in Europe. Finland, long persistent with its strategy of maintaining neutrality, began to question whether adhering to this deep-rooted plan really was the best stance after all. Finland found itself at cross-roads as a close specter to the brutalities carried out in the dispute. Not only that, but Finland's own economy was heavily affected in nearly every aspect ranging from employment to energy.

### 2. Economy in peril

The war's immediate economic impacts on Finland were definite and undeniable [3]. Before the war, the country's economy had been set to experience growth, with projections hovering around a promising 1.7% [1]. However, the vast effects of the war plummeted the growth forecast to a sobering 0.5% in 2023, with the specter of a full-blown recession casting a long shadow [2]. Rising costs were reducing private investment, and high inflation was reducing the purchasing power of households and further weakening consumption [12]. The war also hurt trade with other countries. However, Finnish exports will gradually recover as the uncertainty and issues with the availability of raw materials ease. As inflation moderates and the difficulties in the global economy subside, growth will increase to 1.5% in 2024.

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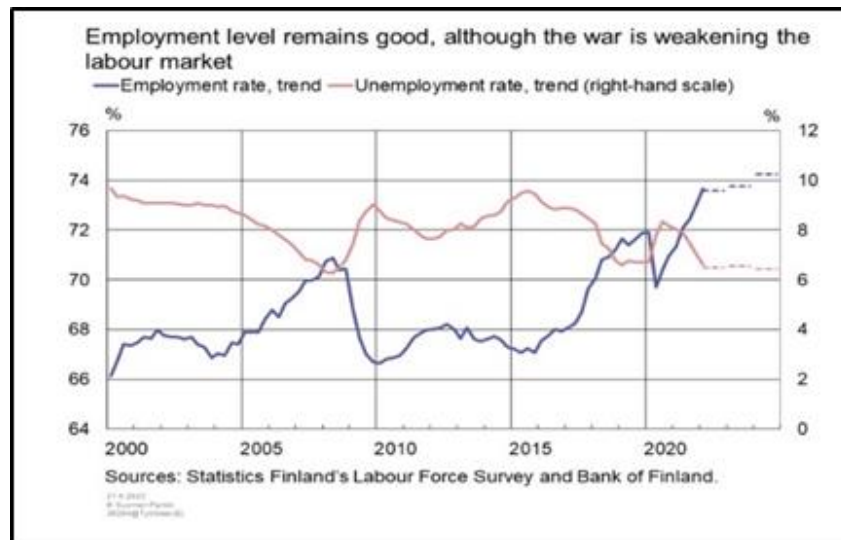


Figure 2 Employment Rates [1]

There was however, a surge in employment. Emerging from the economic slumber caused by the COVID-19 pandemic, Finland's labour market experienced a remarkable upswing. Employment levels have risen steadily, with projections indicating a further increase of 2 percentage points by 2024, reaching 74.4%. This translates to an estimated 82,000 more individuals joining the workforce by 2024 compared to 2021. This positive trend is partially attributed to the lifting of pandemic restrictions, which spurred demand in service sectors, leading to rapid job creation. Additionally, a noteworthy increase in labour force participation has contributed to the decline in unemployment, which is expected to settle at 6.7% in 2022 and further decrease to 6.6% in 2024. Interestingly, the number of layoffs has already returned to pre-pandemic levels, indicating a healthy and functioning labour market [4].

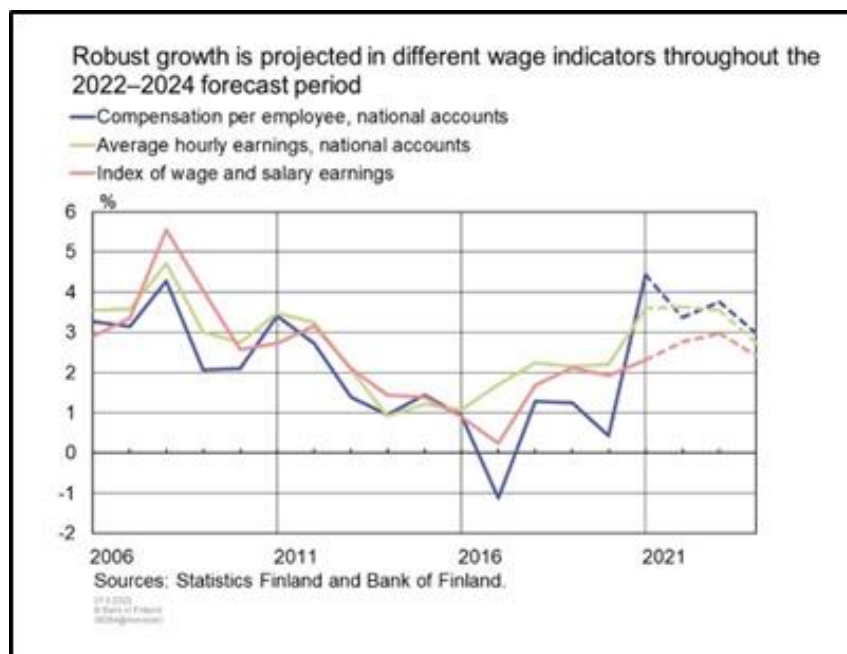
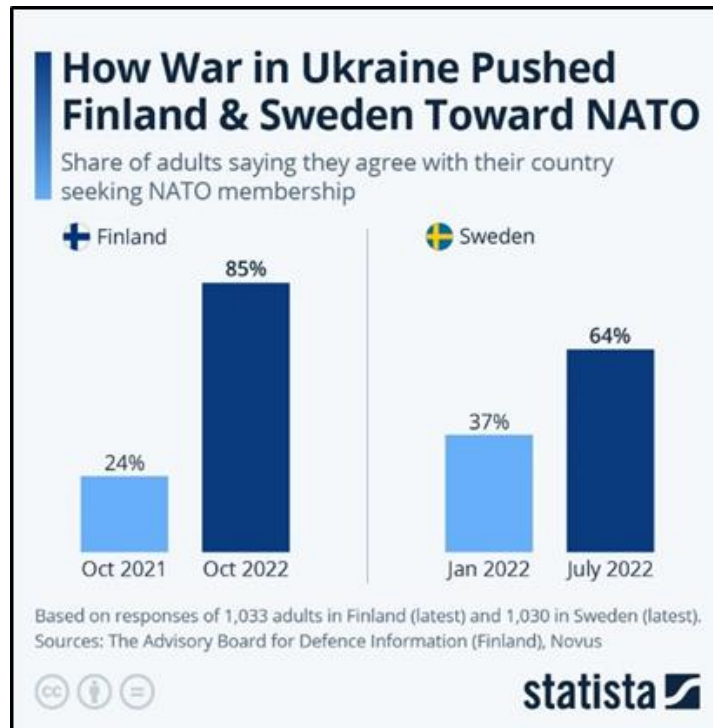


Figure 3 Wage Indicators [1]

## 5. Joining NATO

For decades, Finland had maintained a steadfast policy of neutrality, navigating a delicate balance between its powerful neighbor, Russia, and the West. However, the war in Ukraine shattered this equilibrium, ultimately propelling Finland

towards a historic decision: joining the North Atlantic Treaty Organization (NATO). This move, unthinkable just months prior, was driven by a complex interplay of factors, triggered by the seismic shock of the conflict [6].



**Figure 4** Public Sentiment towards NATO [13]

Prior to the war, public opinion in Finland remained lukewarm towards NATO membership. While historical security concerns towards Russia existed, neutrality seemed to offer a comfortable distance from the potential entanglements of an alliance. Yet, the brutal invasion of Ukraine served as a stark wake-up call. Witnessing the devastation inflicted on their neighbor, Finns began to fear for their own security, with memories of past conflicts with Russia resurfacing [7].

This shift in public sentiment did not go unnoticed. President Sauli Niinistö and Prime Minister Sanna Marin, acutely aware of the public's anxieties, initiated discussions with key allies. Assessing the willingness of NATO to accept Finland's membership, they found a receptive audience. Public opinion polls solidified this direction, revealing overwhelming support for joining the alliance.

However, Finland's decision wasn't solely driven by immediate anxieties. Long-standing concerns about Russian intentions, coupled with a cultural emphasis on military preparedness, had laid the groundwork for this shift. Additionally, Finland's increasing economic and political integration with the West fostered a natural alignment with NATO's values and objectives [7].

Predictably, Russia vehemently opposed Finland's NATO bid, viewing it as a direct threat to its security and a betrayal of Finland's historical neutrality. Threats of "military-technical measures" loomed, but ultimately failed to deter Finland's resolve. In May 2022, both Finland and Sweden formally submitted their applications, marking a momentous turning point in European geopolitics.

The repercussions of this decision are far-reaching. Finland's accession, alongside Sweden's, significantly expands NATO's presence in the Baltic Sea region, potentially altering the regional power dynamics and deterring further Russian aggression. However, questions remain about Russia's future actions and the long-term stability of the region [6].

Finland's journey from neutrality to NATO membership showcases the profound impact of the Ukraine war. It highlights the shifting security landscape in Europe, the power of public opinion, and the enduring importance of alliances in a world fraught with uncertainty [10]. While the future remains unwritten, one thing is clear: the decision to join NATO represents a defining moment for Finland, with significant implications for both the nation and the wider geopolitical landscape [1].

## 6. Conclusion

The Russia-Ukraine war undoubtedly triggered a period of significant economic upheaval for Finland. Trade disruptions, energy dependence, and rising costs all presented major challenges. However, the Finnish response deserves commendation for its adaptability and strategic foresight. By diversifying trade partnerships, accelerating investments in green energy, and prioritizing domestic energy production, Finland mitigated the impact of reliance on a single economic partner. The labor market demonstrated resilience, with rising employment and declining unemployment. While short-term inflationary pressures remain, wage settlements offer hope for mitigating their impact.

The historic decision to join NATO signifies a fundamental shift in Finland's geopolitical stance. Driven by public anxieties, long-standing security concerns, and alignment with Western values, this move serves as a deterrent to potential aggression and enhances regional stability.

Though uncertainties persist regarding Russia's future actions and the long-term economic landscape, Finland's proactive approach showcases its capacity for resilience and strategic reorientation. Moving forward, continued efforts to address structural challenges, further diversify trade relationships, and invest in sustainable energy solutions will be crucial for ensuring long-term economic prosperity and security.

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