Does Finland’s position on the border between East and West show in foreign investment here?

Many firms use Finland as a gateway to the Baltic and Asian markets. But does this show in Finland’s investment flows with Russia and China, asks Riitta Kosonen.

ON THE MAP, Finland seems rather far from the centre of things. However, within the globalised world economy with regional division of labour, with its close links to neighbouring Russia and a short direct flight path to Asia, Finland has potential to become a hub in the Baltic region. This has been noticed by foreign investors, and many firms use Finland as a gateway to those markets. But does this show in Finland’s investment flows with Russia and China? Russia’s and China’s share in Finnish foreign direct investment (FDI) is still quite modest, less than three per cent and less than two per cent respectively. However, their role in the world economy is expected to increase due to their relatively rapid economic growth. Will their roles grow also in Finland?

FDI FLOWS in Finland originate mainly from our large trade partners – Russia somewhat excluded. More than half of FDI comes from Sweden. Other major investors include USA, Germany, Denmark, Great Britain and the Netherlands. After the liberalization of capital flows in the 1980s, FDI stock in Finland has grown from 1.5 per cent to 30 per cent of gross domestic product (GDP). The stock of foreign direct investment in Finland was 57.9 billion euro in 2007. There are approximately 4000 foreign-owned subsidiaries in Finland, roughly 1000 of them in the Greater Helsinki Region. In 2008, 185 new foreign companies entered Finland.

WITHIN these figures, FDI from Russia or China are modest. By the end of 2007, Russia had invested in Finland only a fourth of what Finland had invested in Russia. This imbalance is evident in the Finnish-Russian Chamber of Commerce, which has around 800 Finnish and only 100 Russian member companies. About 3,000 firms operating in Finland are run by Russian nationals, and the 100 largest Russian-owned companies in Finland employ an estimated 3,500 people in Finland. Overall, the income and employment effect of Russian-owned businesses in Finland is still small.

CHINESE companies started to enter Finland mostly in the 1990s. In addition to the Nordic China Center and its nonpermanent sales companies, about 13 Chinese companies operate in Finland. Most of them are still sales or representative offices. Giving an exact number is difficult as investments are sometimes made from elsewhere in Europe. In the next few years a predicted five new Chinese companies will invest in Finland. Though these numbers are small, the growth rate is on a cautious rise. The numbers are, however, still small compared to for example Sweden, which has attracted almost 100 Chinese companies. It seems that the Chinese community in Finland is still too small, too young and too mobile to provide a seedbed for the networked type of Chinese business to boost.

POTENTIAL industries for Russian and Chinese firms are largely those that attract FDI also from other countries. FDI operates in retail and service sectors as well as the ICT sector. In the long run the investment targets have diversified from mainly metal and trade industries to include services. The number of FDIs are increasing, especially in the digital service sector where the relatively remote location is irrelevant. In the capital region, almost half of the foreign-owned companies focus on wholesale and retail trade, while a quarter of them deal with real estate and renting. In addition, Russian companies have traditionally had a strong position particularly in Finland’s energy sector. For example, Russian giant Lukoil owns Finnish oil company Teboil. In recent years, Russian investments in Finland have expanded to other sectors, such as metal, mining, transportation and chemical industries. Russian investments in Finland often serve Russia’s own import needs. Based on worldwide experience, Chinese firms could additionally be attracted especially by environment- and nano-technology, mining, logistics and pharmaceutics.

FINLAND has attracted FDI with a relatively prosperous local market and proximity to potential markets, skilled and language proficient labour, and good business infrastructure and logistics. Also, when the Finnish market is considered too small, foreign firms have used Finland as a compact size test market before entry to the larger European markets. Relatively high labour costs are often outweighed by investing in sectors with highly automated production processes and low labour intensity. Finally, foreign investors point to Finland’s public R&D investments that are among the highest in the OECD. This in turn boosts cluster formation and co-operation between firms and universities. These factors are valid also for Russian and Chinese investors.

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