

VATT-KESKUSTELUALOITTEITA
VATT-DISCUSSION PAPERS

28

FOREIGN DIRECT
INVESTMENT
OF FINLAND
IN THE 1990s

Ilkka Kajaste
Seija Parviainen
Pekka Ylä-Anttila

Ilkka Kajaste: Ministry of Finance, Economics Department, Helsinki
Seija Parviainen: VATT, Government Institute for Economic Research, Helsinki
Pekka Ylä-Anttila: ETLA, The Research Institute of the Finnish Economy, Helsinki

Valtion taloudellinen tutkimuskeskus
Government Institute for Economic Research
Helsinki 1992

ISBN 951-561-037-0
ISSN 0788-5016

Valtion taloudellinen tutkimuskeskus
Hämeentie 3, 00530 Helsinki

Valtion painatuskeskus
Pasilan VALTIMO
Helsinki 1992

KAJASTE, ILKKA - PARVIAINEN, SEIJA - YLÄ-ANTTILA, PEKKA: FOREIGN DIRECT INVESTMENT OF FINLAND IN THE 1990s, VATT, Government Institute for Economic Research, 1992. (C, ISSN 0788-5016, No 28) ISBN 951-561-037-0.

Foreign direct investment by Finnish firms grew very rapidly in the late 1980s. To analyse the industrial firms' internationalization experiences, prospects and opportunities, a survey was directed to a group of large Finnish corporations or their subsidiaries. The growth of outward direct investment is likely to continue at a rapid pace also during the 1990s. The regional pattern of direct investment abroad is changing as the flows seem to concentrate increasingly in the EC area. The headquarters and R&D activities are likely to stay in Finland but functions like marketing, financing operations, logistics and also production are likely to internationalize further. In the background there are both macroeconomic and microeconomic factors. As a whole the recent wave of foreign direct investment from Finland is seen in the wider context of European or global integration. An increasing problem in Finland is the sizable imbalance between outward and inward direct investment. According to surveys directed to the foreign companies in Finland and the Finnish commercial attachés abroad, the main reasons behind the modest interest of foreigners in investing in Finland is the remote location and smallness of Finnish market. These are mainly the same reasons as behind the large outward investments of Finnish firms. No significant increase in the inward flows is foreseen near future. The economic restructuring of Russia and the Baltic countries nevertheless give reason for optimism. The proximity of these markets is seen as one of the strongest factors compelling private investment in Finland.

KEYWORDS: foreign direct investment, internationalization, industry

KAJASTE, ILKKA - PARVIAINEN, SEIJA - YLÄ-ANTTILA, PEKKA: FOREIGN DIRECT INVESTMENT OF FINLAND IN THE 1990s, VATT, Valtion taloudellinen tutkimuskeskus, 1992. (C, ISSN 0788-5016, No 28) ISBN 951-561-037-0.

Suomalaisten yritysten suorat sijoitukset ulkomaille kasvoivat erittäin nopeasti 1980-luvun lopulla. Kansainvälistyneiden suomalaisten teollisuusyritysten kokemuksia sekä tulevaisuudennäkymiä on arvioitu näille konserneille tai tytäryrityksille tehdyn kyselyn avulla. Ulkomaisten investointien kasvun arvioidaan jatkuvan erittäin nopeana myös 1990-luvulla. Virrat ovat kuitenkin suuntautumassa alueellisesti uudella tavalla, kun erityisesti EY-maiden merkitys investointikohteina on kasvamassa. Pääkonttorit samoin kuin tutkimus- ja tuotekehittelytoiminta tullaan kyselyvastausten mukaan pitämään suurelta osin jatkossakin kotimaassa. Sen sijaan markkinointi, rahoitus- ja logistiikkatoiminnot samoin kuin tuotanto tulevat yhä enemmän kansainvälistymään. Kehityksen taustalla on sekä mikro- että makrotason tekijöitä. Viimeisintä kansainvälistymisaaltoa voidaan kuitenkin pitää ensisijaisesti osana eurooppalaista ja koko maailmanlaajuista integraatioprosessia. Kasvava ongelma Suomelle on suuri epätasapaino Suomesta ulkomaille ja ulkomailta Suomeen tehtyjen investointien välillä. Suomeen jo etabloituneille ulkomaisille yrityksille sekä Suomen ulkomaille toimiville kaupallisille sihteereille tehtyjen kyselyjen perusteella syyt ulkomaisten investoijien vähäiseen kiinnostukseen Suomea kohtaan ovat syrjäinen sijainti ja suomalaisten markkinoiden riittämätön koko. Syyt ovat siis pitkälti samoja kuin suomalaisten yritysten halukkuudessa siirtää toimintojaan ulkomaille. Venäjän ja Baltian maiden jälleenrakennus antaa kuitenkin aihetta optimismiin. Näiden markkinoiden läheisyys nähdään yhtenä vahvimmista tekijöistä, jotka puoltavat investoimista Suomeen.

AVAINSANAT: suorat sijoitukset, kansainvälistyminen, teollisuus

CONTENTS

1. INTRODUCTION	7
2. INTERNATIONAL AND FINNISH FOREIGN DIRECT INVESTMENT DEVELOPMENTS	9
2.1 Changes in international FDI flows	9
2.2 Late but fast internationalization of Finnish industries	14
3. OUTWARD FOREIGN DIRECT INVESTMENT OF FINLAND	19
3.1 Survey of internationalized Finnish industrial firms	19
3.1.1 Internationalization and corporate strategy	21
3.1.2 Prospects for direct investment	27
3.1.3 Impact of direct investment	31
3.2. Conclusions	34
4. INWARD FOREIGN DIRECT INVESTMENT OF FINLAND	36
4.1 Survey of foreign firms operating in Finland	36
4.2 Survey of Finnish commercial attachés stationed abroad	42
4.3 Conclusions	47
5. FUTURE PROSPECTS	48

REFERENCES

ANNEXES

- Annex 1. Ten largest manufacturing companies of Finland and their international operations in 1990
- Annex 2. Finnish outward and inward foreign direct investment flows and stocks in 1975-1991
- Annex 3. Finnish outward foreign direct investment flows by regions in 1975-1991
- Annex 4. Finnish inward foreign direct investment flows by regions in 1975-1991
- Annex 5. Foreign direct investment stock of Finland by regions and sectors 1986, 1988, 1990
- Annex 6. Questionnaire of the survey of internationalized Finnish industrial flows
- Annex 7. Questionnaire of the survey of foreign firms operating in Finland

1. INTRODUCTION

Foreign direct investment (FDI) by Finnish firms grew very rapidly in the late 1980s. The marked internationalization of industry has been one of the most important factors behind the overall structural change of the Finnish economy. Although the economic recession has moderated the foreign investment in the early 1990s the tendency toward internationalization is expected to continue in the long run.

There are, however, divergent views about the expected growth rate of the foreign investments as well as their direction and results. Only a few studies have been made so far regarding the impacts of the ongoing integration process on the internationalization of business and industrial structure in Finland.

This report analyses industrial firms' internationalization experiences, prospects and opportunities in both the short and long run. Since the highly internationalized companies have extensive and diversified knowledge on the recent and expected internationalization developments in their businesses, a survey was directed to a group of large Finnish corporations or their subsidiaries.

While the growth in the Finnish outward direct investment was one of the fastest in Europe, the inward direct investment has stayed on a very low level. This imbalance has become a problem of increasing importance. To get some idea of the reasons behind the low inward flows and of the prospects of their future development, a second survey was directed to the foreign companies in Finland and a third to the Finnish commercial attachés in Finland's main export countries.

All these three surveys were originally carried out for a working group¹ of the Ministry of Finance, in which the authors participated. This report is based on the same questionnaires but the authors' conclusions do not necessarily correspond to those of the working group. The surveys for the Finnish and foreign companies were done in spring 1991 (at ETLA, The Research Institute of the Finnish Economy) and the one for the Finnish commercial attachés in autumn 1991. The detailed results of the two first surveys are reported as percentage shares of the responses in annexes 6 and 7.

Since spring 1991 the economic recession has deepened considerably in Finland. In March 1992 Finland left its application for EC membership, which is another important change in the conditions after the surveys were made. These factors might now lead to somewhat different responses. The results are, however, still considered realistic in the long term. In chapter 5 the impacts of the changes in business environment on the future FDI patterns are considered.

¹ The group was chaired by Pertti Kohi (Ministry of Finance) and the members of the group were Antero Ahtola (Central Association of Finnish Forest Industries), Timo Airaksinen (Federation of Finnish Metal, Engineering and Electrotechnical Industries), Bo-Göran Eriksson (Ministry of Trade and Industry), Erkki Hellsten (Confederation of Finnish Industries), Reino Hjerppe (Government Institute for Economic Research), Veijo Kauppinen (Ministry of Trade and Industry), Esa Ojanen (Bank of Finland), Tuire Santamäki-Vuori (Labour Institute for Economic Research), Heikki Tulokas (Confederation of Finnish Industries) and Pekka Ylä-Anttila (The Research Institute of the Finnish Economy). Helvi Kinnunen and Jarmo Nurminen from the Bank of Finland were the permanent outside experts of the group. The secretaries of the group were Ilkka Kajaste (Ministry of Finance) and Seija Parviainen (Government Institute for Economic Research).

2. INTERNATIONAL AND FINNISH FOREIGN DIRECT INVESTMENT DEVELOPMENTS

2.1 Changes in international FDI roles

International direct investment flows grew very rapidly in the 1980s. They increased faster than the average GDP, international trade and domestic investment. The total FDI flows of the OECD countries in the 1980s were about twice that of the 1970s. Since 1989-1990 the international FDI flows in general have diminished, mainly because of the deteriorating economic situation in the main source countries (Figure 1).

The growth of international trade and the consequent interdependences of national economies, the liberalisation of capital movements and diminishing exchange rate risks have been the major factors at the macroeconomic level affecting the rapid growth of FDIs in the 1980s. At the microeconomic level important factors have been new technology and growing importance of returns-to-scales in production, delivery, marketing and financing promoting internationalization.

In the late 1980s there was a change both in the basic character of FDI flows and in the traditional regional direction of these investments (Figures 2 and 3). Still, in the early 1990s the US was the most important source of FDI and Western Europe was the most important host. The US has taken place of Western Europe as the most important host but at same time it has lost its position as the most important source of FDI as Western Europe and Japan have strongly increased their investment flows. At the moment Japan is the most important single source country.

The OECD as a whole is a net investor, the outward flows being greater than inward flows mainly because of FDI made in developing countries, which are not

Figure 1. OECD's total outward and inward foreign direct investment flows in 1975-1991 in billion USD

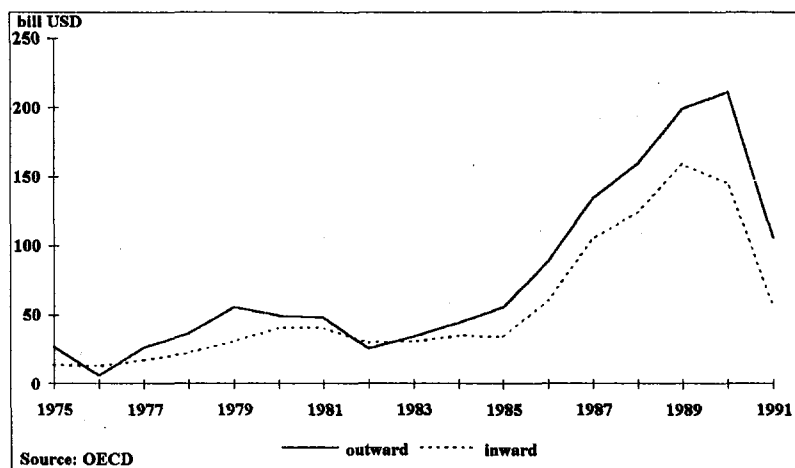


Figure 2. Outward foreign direct investment flows of the largest OECD countries in 1975-1991 in billion USD

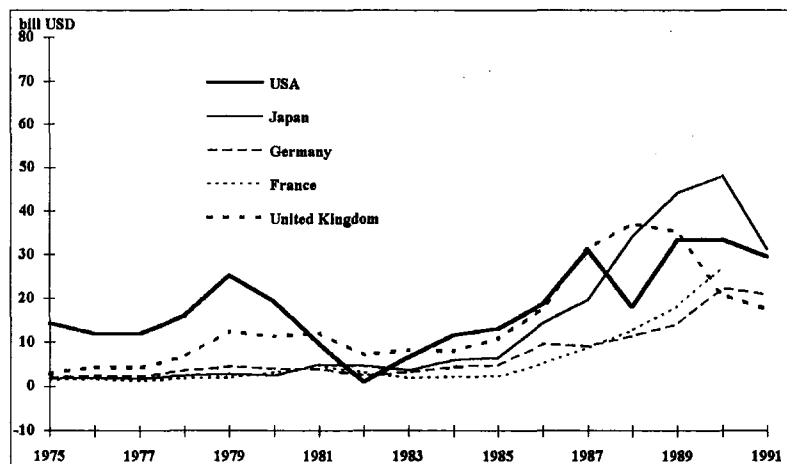
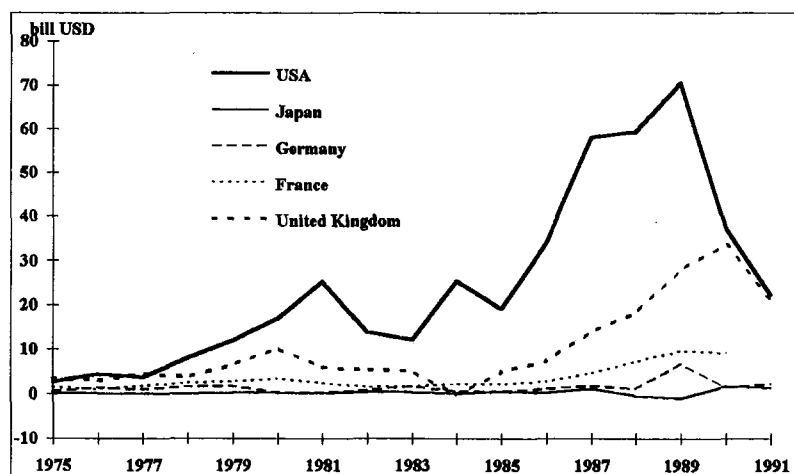


Figure 3. Inward foreign direct investment flows of the largest OECD countries in 1975-1991 in billion USD



OECD members. Especially the US invests quite heavily (over 40 % of all its outward FDI) in non-OECD countries.

The inward flows have been distributed more evenly among the largest OECD countries than the outward flows, perhaps because of different legislation concerning foreign ownership. The US has been the main host area for FDI since the late 1970s. In the late 1980s there was however a drastic drop in its relative position. The global decline in FDI and especially in Japan's FDI activity touched the US quite strongly.

The EFTA countries' share of total OECD output was 5 % in the late 1980s, but the share of FDI flows was more than double this. Among the EFTA countries there are, however, wide differences concerning the FDI flows and stocks as well as the regional distribution of the investment (Figure 4 and Table 1). There are differences in traditions of internationalization, in the legislation concerning foreign ownership and in the sectoral structure of FDI. The imbalance between inward and outward flows and stocks is large especially in Finland and Sweden (Figure 5). Both countries in the 1980s invested abroad about four times the amount they received from abroad.

Table 1. The share of the EC in EFTA countries' foreign direct investment stocks in 1990 and of flows in 1989-1990, %

	share of flows	share of stocks
Finland	40	44
Switzerland	48	40
Austria	50	48
Sweden	55	62
Norway	60	63

Source: EFTA Trade 1991

Figure 4. Outward flows of EFTA countries' foreign direct investment in relation to GDP (a) and gross fixed capital formation (b), the average in 1981-1990 in percentages

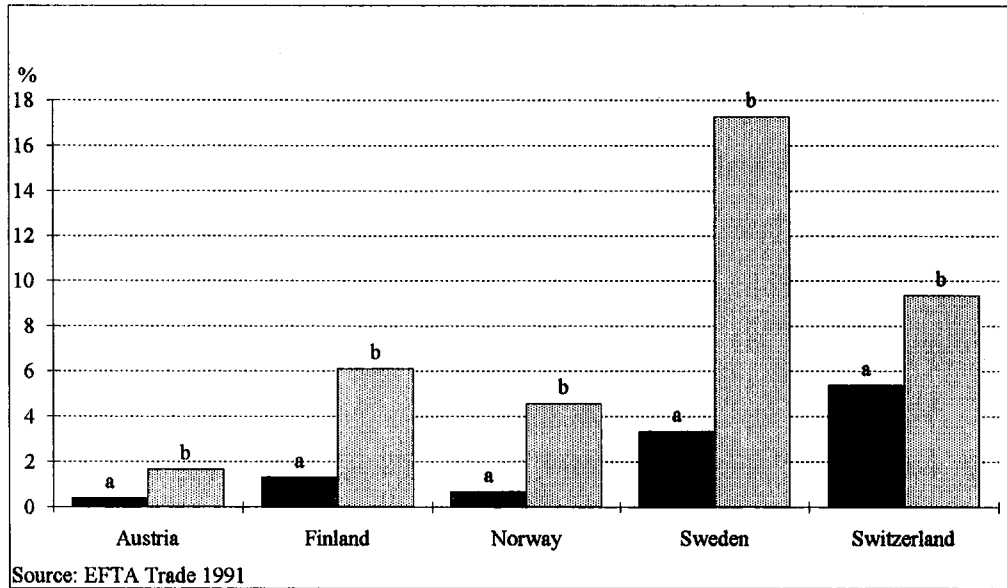
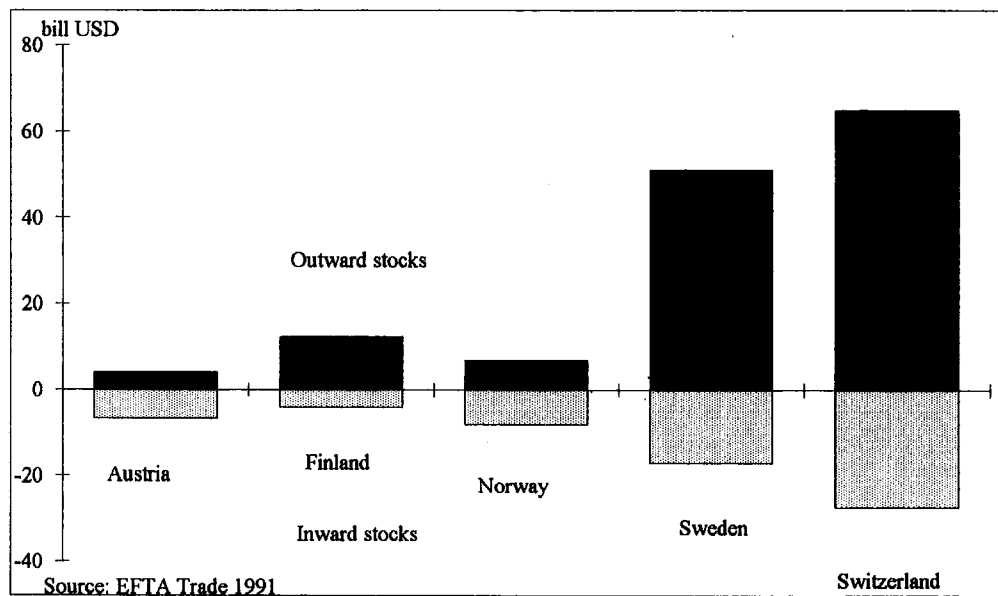


Figure 5. Outward and inward stocks of EFTA countries' foreign direct investment in 1990 in billion USD



Regional differences between the Nordic and the Alpine EFTA members are great especially concerning inward investment. The Nordic countries receive most of their foreign investment from other EFTA (other Nordic) countries, whereas the Alpine ones receive it more from the EC. As the intra-Nordic flows are large just like the flows between Austria and Switzerland, there are clearly two blocks in EFTA. Inside these blocks the flows are sizable but between them the flows are small. Since the mid-1980s the most important intra-EFTA flows have taken place between Finland and Sweden.

Among the EFTA countries Sweden has nowadays the largest flows, whereas Switzerland has still the biggest stock of FDI as a result of its long traditions in internationalization. Since the EC announced its internal market program in mid-1980s, the EC area has become the most important host of EFTA countries' FDI. Especially the Nordic countries have strongly redirected their investment to the EC. Around half of the EFTA countries FDI is made in the EC, where Great Britain, Germany, France and Netherlands are the most important single host countries. The Nordic EFTA countries have invested heavily in Denmark, too.

FDI in the former Soviet Union and other Eastern Europe from the OECD countries has been quite moderate during the recent years. In the early 1991 the stock of FDI was 7.3 billion USD, which is only 1.8 % of all OECD outward FDI in 1989-1990. Most of the FDI in the former Soviet Union have been in the form of joint ventures. In March 1991 there were about 3400 registered joint ventures in the former Soviet Union. Of those, however, only 28 % were actually producing goods and services. Most foreign partners came from Germany, the United States and Finland (see Laurila 1992).

Table 2. Foreign direct investment in Eastern Europe on 1.1.1991

	number of joint ventures	foreign capital in bill USD
Bulgaria	140	74
Poland	2480	396
Romania	1502	129
Czechoslovakia	50	850
Hungary	600	1200
Soviet Union	1000	4615

Source: United Nations/Sinko and Sutela ,1991.

Most FDI concentrates on car industries, hotels, public communication, energy and raw material production. Many potential investors have hesitated because of the very unsure political and economic situation and deficient infrastructure.

2.2 Late but fast internationalization of Finnish industries

Compared to the other OECD countries Finland has become an active investor abroad only rather recently. The growth of Finnish foreign direct investment flows was very moderate in the 1970s and early 1980s, but since 1985 it was one of the fastest in Europe. The FDIs grew fast compared to many domestic activities and foreign trade. The FDI stock grew faster than the domestic industrial capital stock and expanded ten-fold in 1980-1989 (Kinnunen 1991, p. 17).

Especially the state-owned companies played an active role in the rapid growth of outward flows in the 1980s. The peak level of the outward FDI was reached in 1989. The economic recession in the early 1990s has slackened the internationalization process and there has been a considerable drop in both outward and inward foreign direct investment flows (Figure 6).

Figure 6. Outward and inward foreign direct investment flows of Finland in 1975-1991 in million FIM

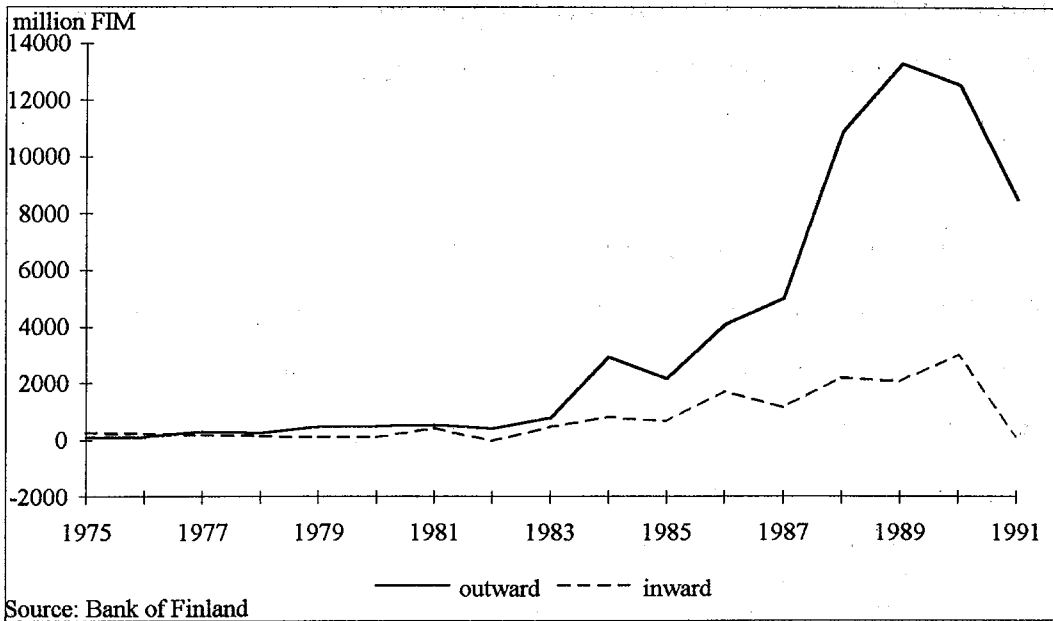
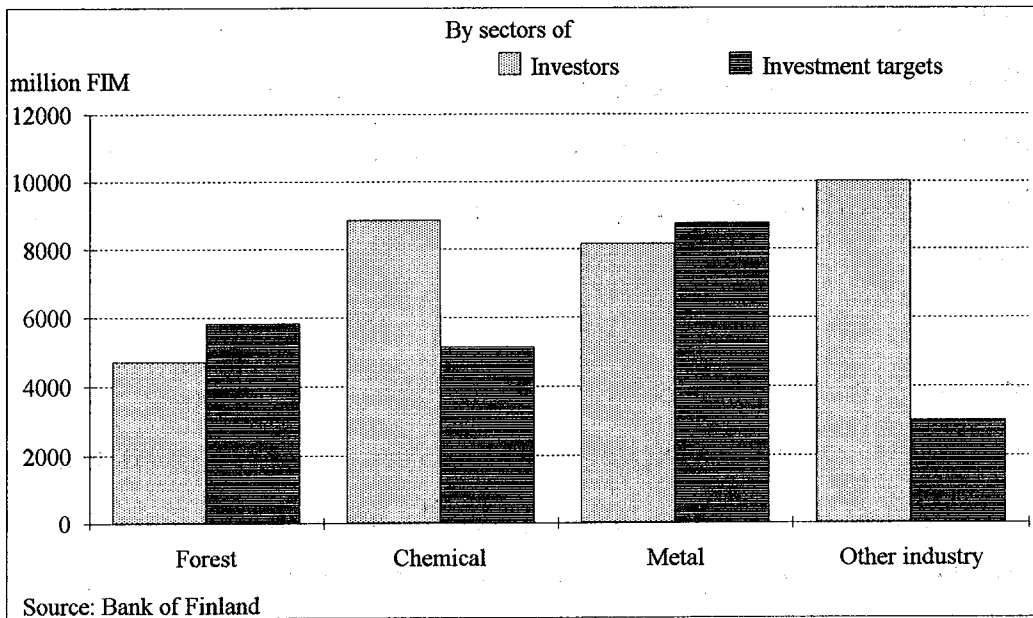


Figure 7. Outward foreign direct investment stock of Finland by sectors of investors and investment targets in 1990 in million FIM



The very rapid internationalization of Finnish industrial companies has been explained by the smallness of the domestic markets, the rapid increase in domestic production costs, the internal market program of the EC, improvement of internationalization opportunities and the increasing importance of technological transfer.

Many companies have considered it important to utilize their special know-how even abroad themselves by foreign direct investment instead of selling it by licencing. In background of the fast internationalization there were also the longlasting overvaluation of the Finnish markka, inflation pressures and occasional labour shortages in the late 1980s. After the market prospects for Eastern trade rapidly deteriorated, the companies saw FDIs as the most effective way to westernize their export structures. During the 1980s large multi-sectoral companies in Finland started to return to their original know-how areas and concentrate to their core business. The increasing internationalization of these firms could be interpreted partly as a reaction to this development.

Up to late 1980s a large part of the Finnish direct investment flows went to Sweden, but there has subsequently been an important regional change, and in 1991 the FDIs by Finnish companies were bigger in the US and United Kingdom than in Sweden. There has been an increasing tendency to invest in the EC. Almost half of the stock is now in the EC and one fourth is in the EFTA countries.

Especially Great Britain and the Netherlands have become important host countries for Finnish direct investment abroad. In the Netherlands there are numerous Finnish holding companies. Also the investment in France and Belgium increased before the recession. In inward flows from the EC these same countries are dominating the statistics (see annexes 3 and 4).

Most investment from Finland to Eastern Europe has taken the form of joint ventures. The interest of Finnish companies in such investments has been small. The share of Finnish companies in the Eastern European joint ventures is only 1 % and the projects have been very small in size. Most of them are in Hungary and Poland.

The FDI flows between Finland and Sweden have gone to both directions. During recent years Sweden alone has accounted for over 40 % of all inward FDI flows in Finland. On the other hand Finland has been the most important foreign investor in the Swedish industry.

The sectoral structure of FDI can be examined from the standpoint of both the sector of the investor and that of the investment targets (see annex 5). There are some statistical problems concerning the classification of holding companies. However, it can be estimated that a remarkable part (over 20 %) of the Finnish FDI flows have been cross-sectoral. Especially the industrial companies (particularly in chemical industries) have invested in non-industrial sectors (Laurila, 1992).

The general internationalization process started by establishing sales and marketing units abroad. Investments in foreign production units became more common only in the 1980s. The bulk of the investment has been made by industrial companies, especially by the engineering, chemical and multisectoral companies. The largest stock of foreign assets is owned by firms in metal and engineering industry. Also the financing and insurance companies have recently been very active and now account for about one sixth of all Finnish outward direct investment. Most of the investment abroad has been made in metal and engineering industries. The share of forest industry has been considerably higher among the foreign investment targets than among investors themselves. Recently

the share of FDIs made in industry has declined and those made in other sectors has increased (Figure 7).

In Finland the internationalization has been one-sided in the sense that the inward FDI flows have been much smaller than the outward flows. The imbalance in Finland is much greater than in most of the other OECD countries. The economic recession seems to have exacerbated the situation further as the drop in inward flows has been even more drastic (96 % from 1990 to 1991) than in the outward flows.

3. OUTWARD FOREIGN DIRECT INVESTMENT OF FINLAND

3.1 Survey of Internationalized Finnish Industrial Firms

The following presents the background and prospects regarding foreign investment based on data obtained from a survey taken in spring 1991 of some of the more internationalized Finnish firms. The survey covered 52 Finnish companies or divisions operating internationally. The same company may be represented more than once in the survey since responses from different divisions are treated separately. The questionnaire was directed to those persons in management positions who make strategic decisions regarding international operations. The responses thus give a comprehensive picture of the internationalization of primarily large firms.

The companies included in the study constitute a fairly representative sample of the whole. These companies account for over 40 per cent of the value of total Finnish exports. The companies naturally differ with respect to the degree of internationalization. An average of 36 per cent of the personnel of these companies work abroad and 33 per cent of the turnover is generated by foreign divisions. There are only five forest industry companies included in the sample, but these particular companies account for almost 50 per cent of the exports of this branch. The number of metal and engineering industry companies in the sample is higher (32), but their share of exports is of the same magnitude as for the forest industry companies. There are 15 firms from other branches (mainly the chemical, clothing and food manufacturing industries) accounting for an average of about 20 per cent of the exports in their respective branches. The survey respondents account for about 60 per cent of the turnover and personnel of Finnish firms operating abroad.

Figure 8. The impacts of European economic integration on the outward foreign direct investment

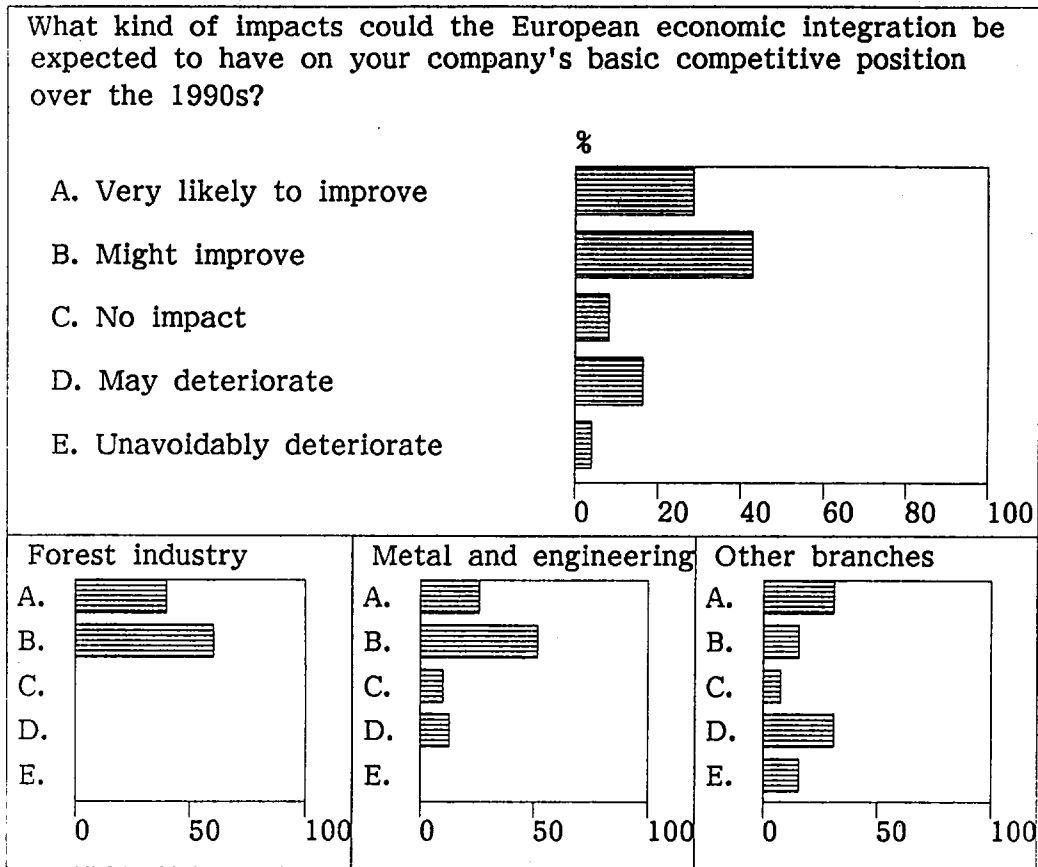
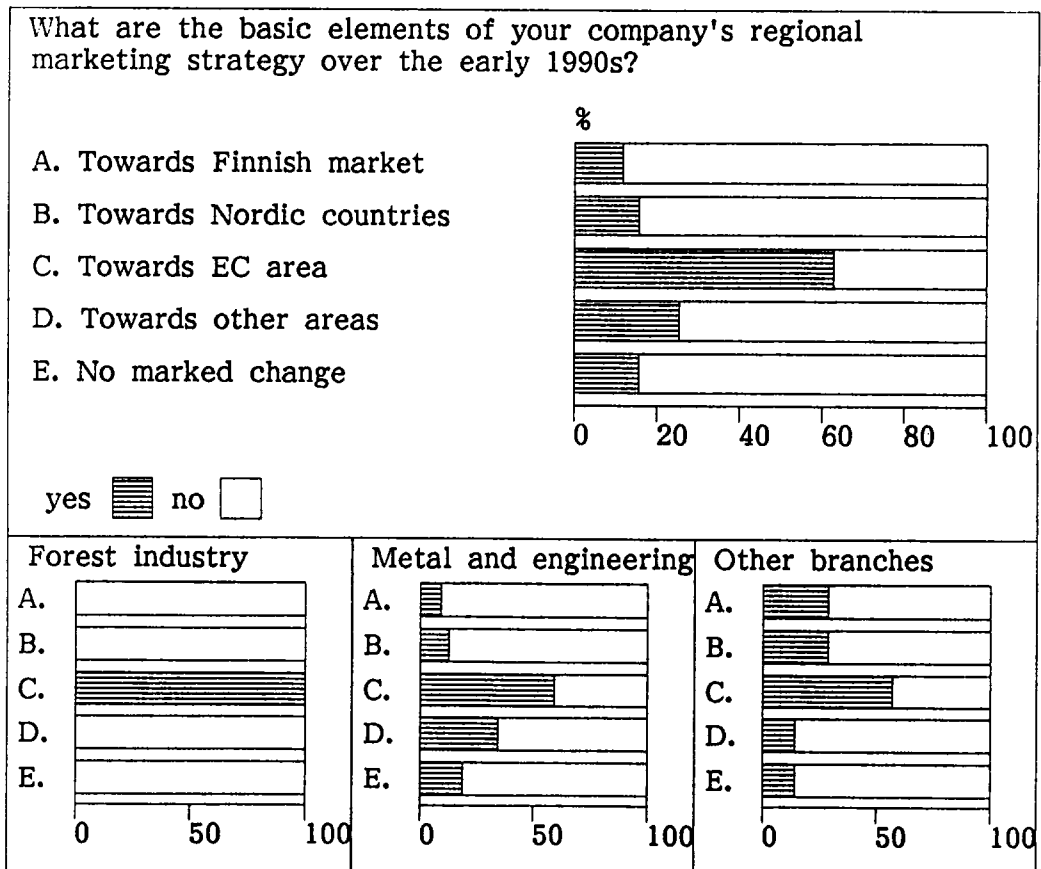


Figure 9. The regional marketing strategies



The results of the survey are reported in three separate sections. The first section investigates the significance of internationalization and direct investment within the strategic choice of Finnish companies. Special attention is addressed to the impact of integration. The second section reviews the data with respect to the forecasting of future trends in foreign investment. This includes not only estimation of the magnitude and direction of investment but also the motives behind direct investment. The third section focuses upon the effects that foreign investment would appear to have on domestic investment, exports and the external balance via repatriated profits.

3.1.1 Internationalization and Corporate Strategy

Most of the companies expect that their competitive position will improve with the integration of Europe. Many of these positive responses are tempered by reservations regarding the companies' external (price and cost levels, economic policy) and internal (operational efficiency, marketing) operating environment. The most favourable outlook was held by the forest industry firms. The expectations of the metal and engineering firms were also high. The most pessimistic were firms in the "other branches" group, almost a half of which expected their situation to worsen. This breakdown mirrors to a great extent the expectations of the various branches regarding the impact of integration. These pessimistic firms probably do not believe that their branch is one of those in Finland enjoying a competitive advantage (Figure 8).

The strong and rather single-minded orientation of the forest industry toward the EC region in its strategic thinking is clearly evidenced by figures 9 and 10. Since a direct impact of the integration process is that the remaining, basically technical trade barriers are removed, it is not readily apparent that this would be of crucial importance for the competitive situation of the forest industry.

Figure 10. The phases of internationalization on different market areas

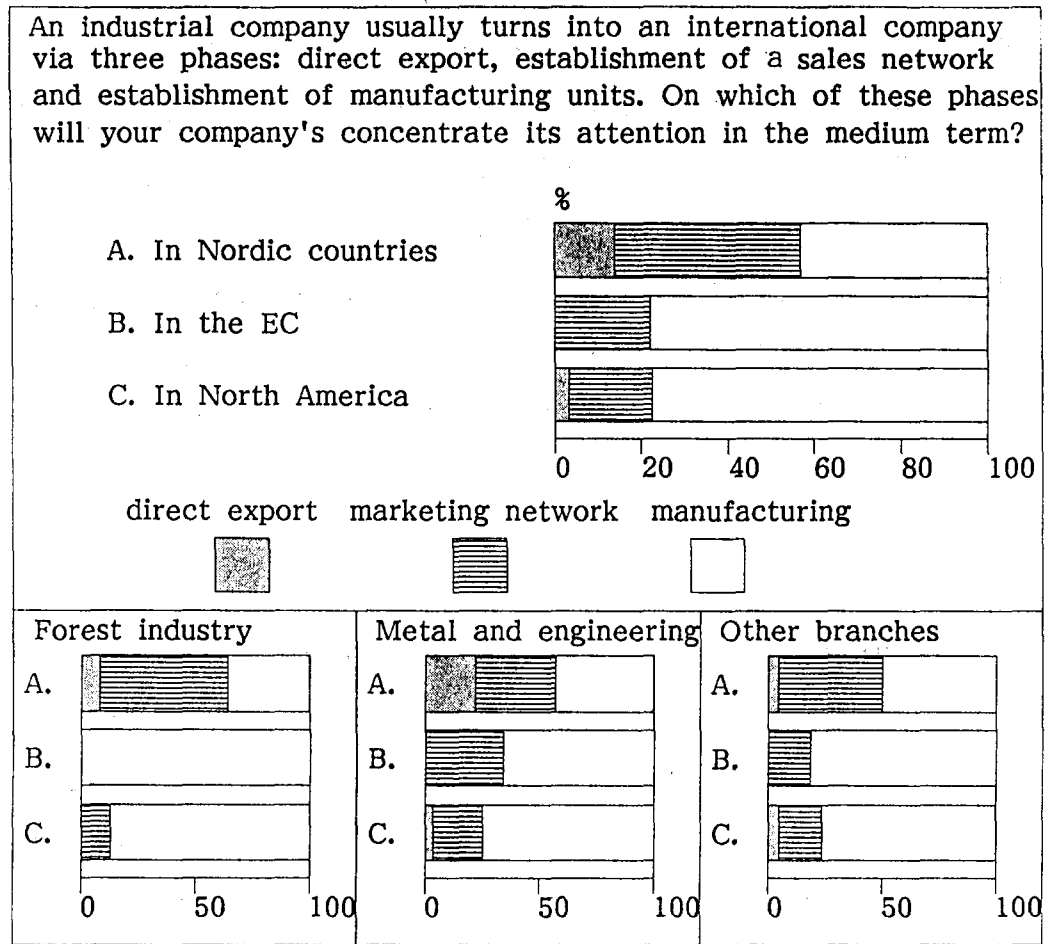


Figure 11. The success of foreign direct investment

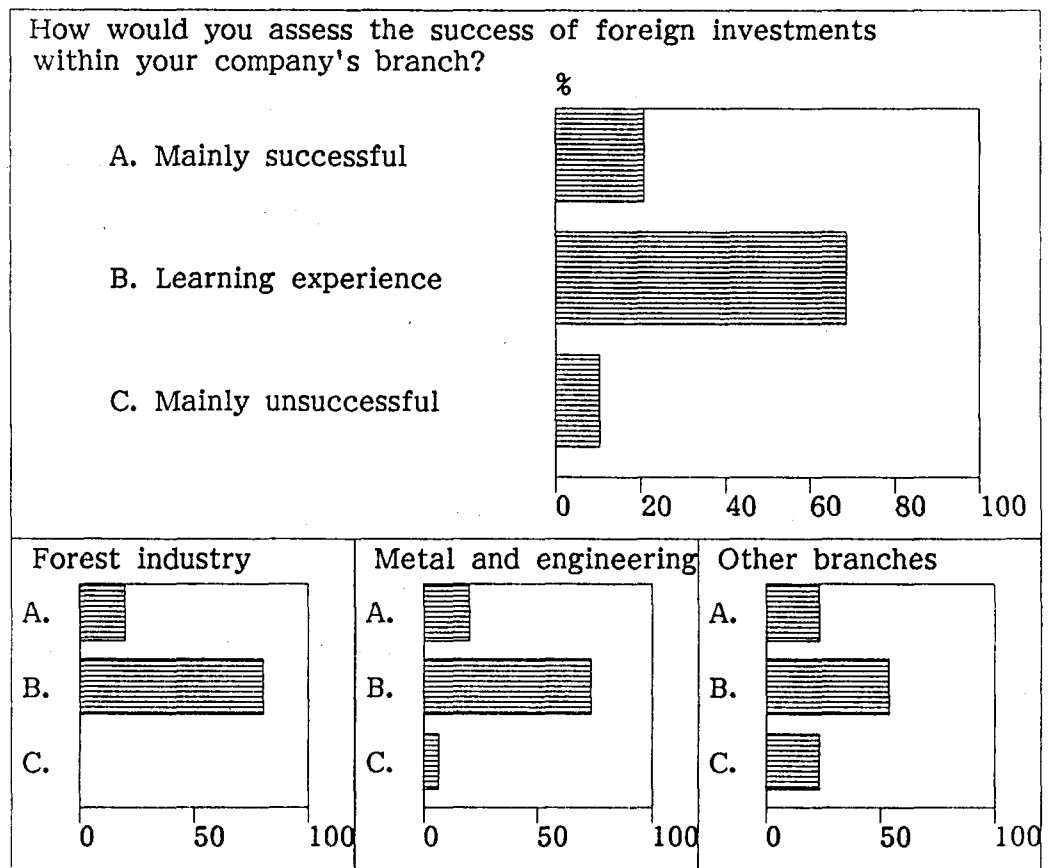


Figure 12. Reasons for modest repatriation of profits from abroad

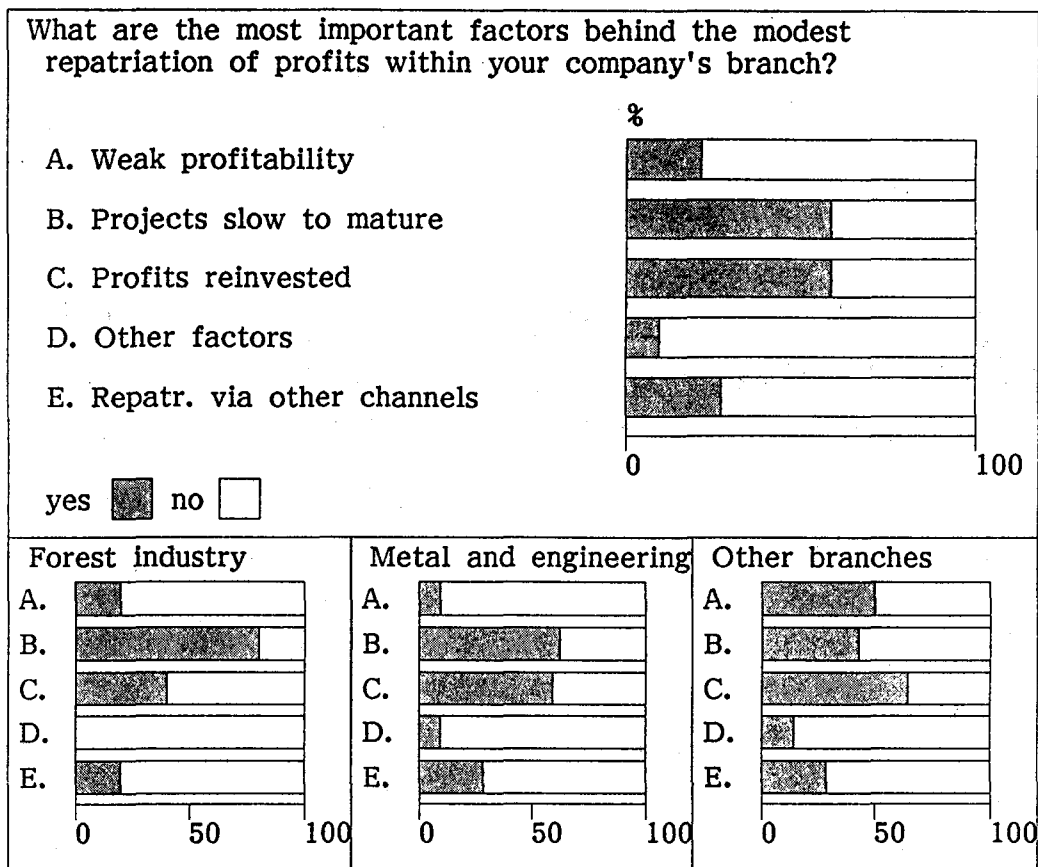
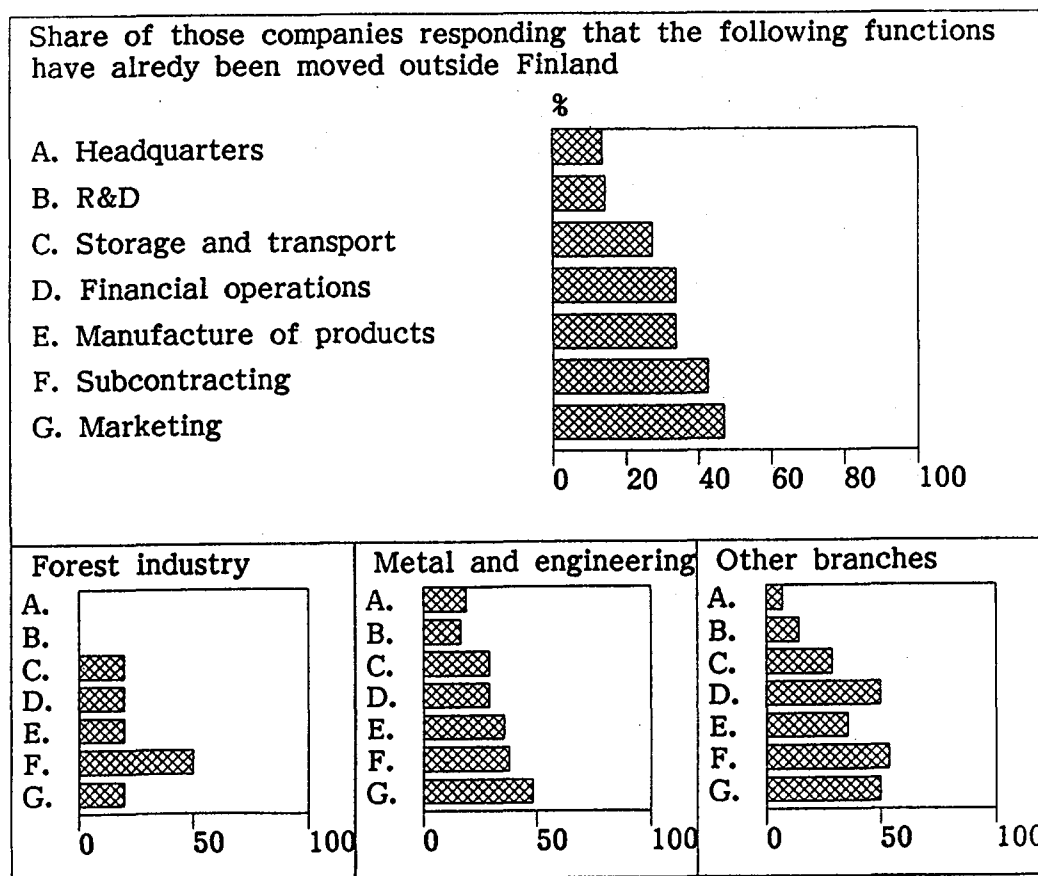


Figure 13. The contemporary degree of internationalisation by functions



A more important impact is perhaps that the integration preserves the possibility to maintain a foothold in the core market of Europe while at the same time offering some form of protection from external competition (from North America). The proximity of the markets and new sources of raw materials are perhaps the prime factors behind the emerging strategy of the forest industry.

A relatively small group of companies seem to be following genuinely global strategies that aim outside of Europe as well. The survey responses indicate that these strategies are typically focused on either North America or the Far East. The markets of the former Soviet Union, uncertainty about which is currently very high, is not seen by manufacturers as constituting an integral part of wider international operations.

Figure 11 presents appraisals of the success of direct investment abroad. Unqualified successes have not been very common, but then again few firms admitted having widely failed. This partially reflects the "freshness" of the investments as it is still too early to judge their final outcome.

It is not possible to differentiate between foreign operations with different objectives on the basis of official statistics or this sample. Short-term investments would often seem to be unsuccessful even if the stipulated goals have been reached. According to the survey many corporate managers regard the public impression of foreign investment's poor success rate as misleading. On the basis of comments garnered from the survey the lessons to be gained can be divided into two main groups: difficulties are either "externalized", by rationalizing that cultural differences are difficult to overcome (10 responses), or they are "internalized" by attributing the failure to inadequate management (10 responses). A third difficulty sometimes experienced is more neutral: "projects were slower to bear fruit than anticipated" (5 responses).

Figure 14. The future prospects of internationalisation by functions

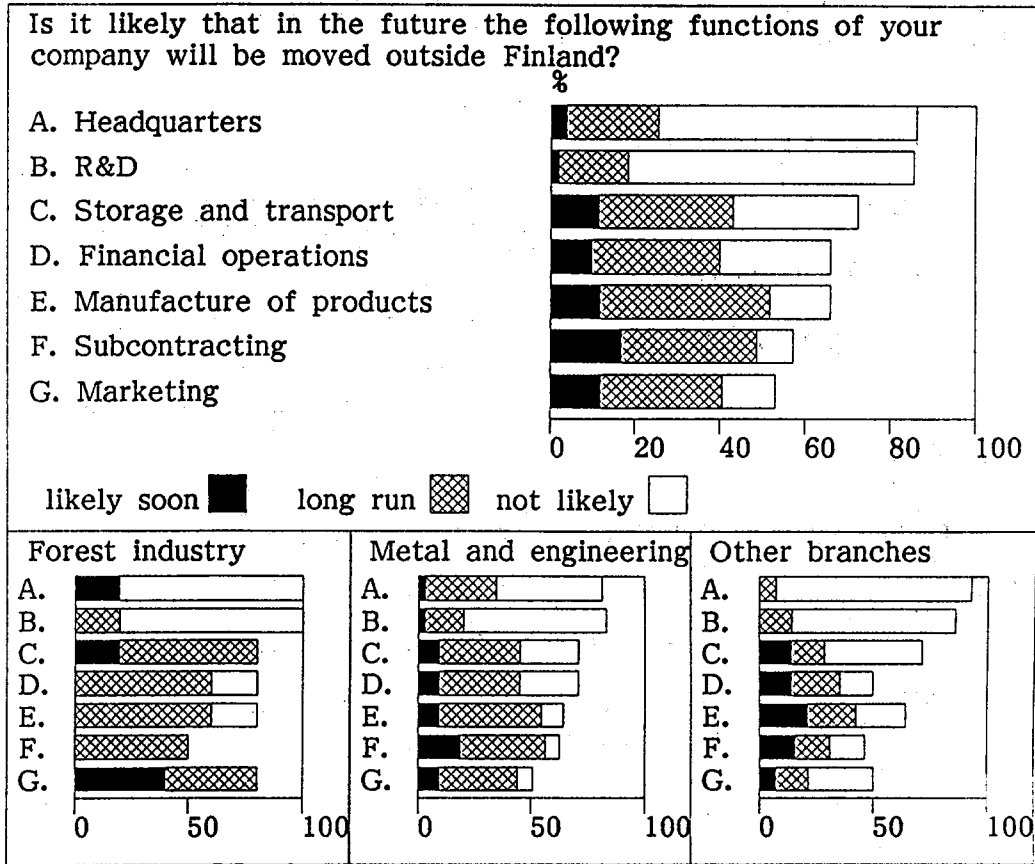


Figure 15. The growth prospects of direct investment in Finland and abroad

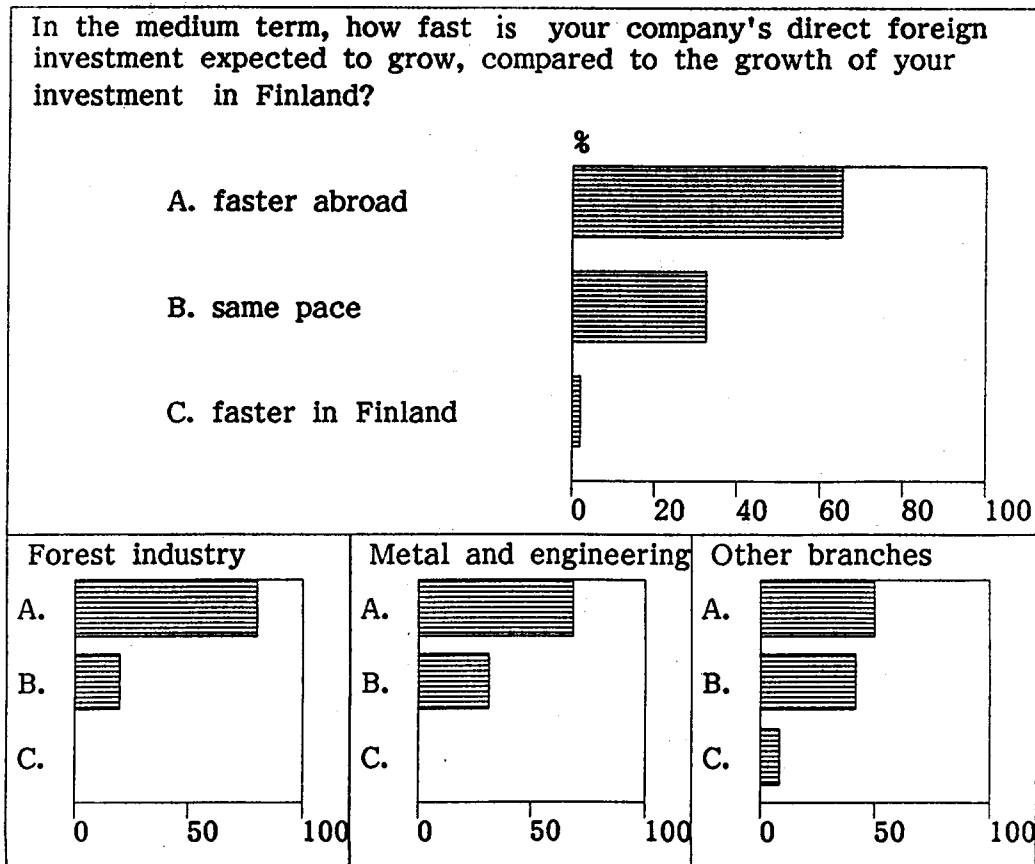


Figure 16. The future prospects of foreign direct investment by regions

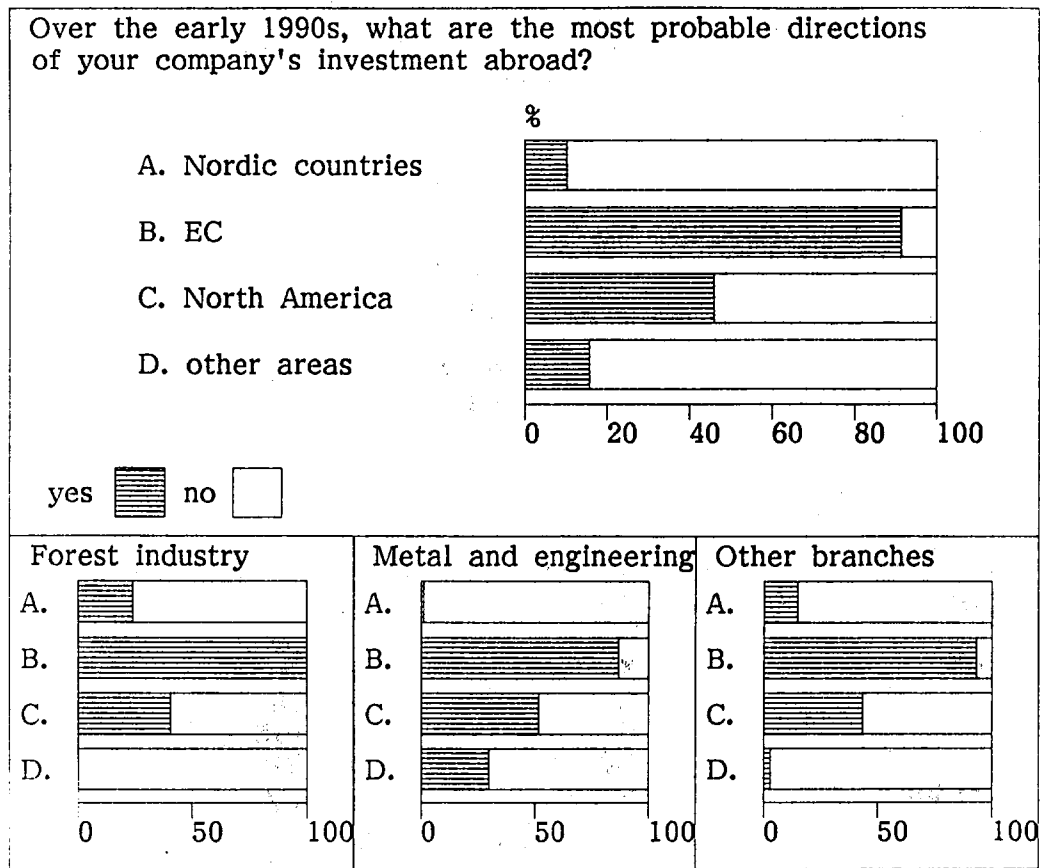
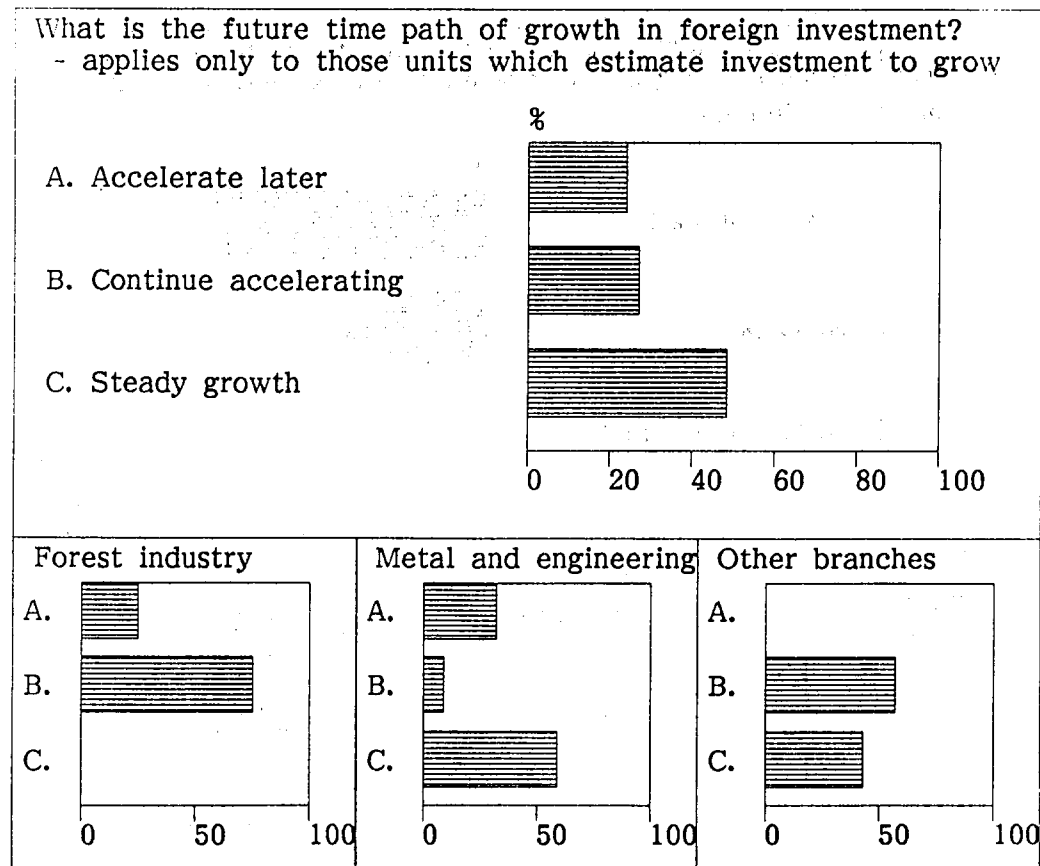


Figure 17. The time path of foreign direct investment growth



The sluggish pace of projects and reinvestment of earnings are the main reasons that repatriation of profits has remained modest. Low profitability does not appear to be a significant factor. Only in the grouping of "other branches" is this aspect accorded greater significance: half of the respondents believed that low profitability reduced repatriation of profits (Figure 12). A more important reason was thought to be that profits are repatriated via other channels (internal pricing and royalties).

The differences in corporate strategies are reflected also in those responses regarding the transfer of various company operations abroad in the next few years. According to the survey the bulk of manufacturing had shifted abroad in about a third of the firms and it was thought that most of the rest would shift abroad sooner or later. In addition to marketing, the operations undergoing the most profound internationalization according to the survey were marketing, finance and subcontracting (Figures 13 and 14). Warehousing and transport were also rapidly internationalizing in many firms. In contrast, signs of a shift in the operations of the headquarters or R&D and related design activities were not so pronounced. About 60 % of the respondents believed that they would probably remain in Finland.

The results do not indicate that Finland would suffer the same fate as Sweden, where also R&D activities are estimated to be shifting increasingly abroad. The greatest threat, on the other hand, appears to be the shifting abroad of subcontracting for the metal and engineering industry.

3.1.2 Prospects for Direct Investment

On the basis of the survey it is possible to get a picture of trends in foreign investment over the next few years. The responses calling for forecasts were

weighted by the turnover of the firms. The distribution of results from other questions are reported in an unweighted manner.

The responses on shifting various corporate activities abroad already indicates that these trends are expected to continue in the next few years as well. Figure 15 shows that the bulk of investments by internationalizing firms is shifting increasingly abroad. This appears to hold for both the forest industry as well as the metal and engineering industry. It is important to keep in mind that this is an indication of basic trends. The sharp weakening of profitability in the short term may temporarily curb the growth in direct investment.

A common feature of the foreign investment across all the branches is that they are tilted in favour of the EC region. North America holds a strong second in all branches (Figure 16).

On the other hand, there appear to be some differences across the branches as regards the investment growth path. Foreign investment is expected to climb especially in the forest industry. The outlook for investment by the metal and engineering branch appears to be more balanced (Figure 17).

As mentioned above, these results should be interpreted with caution. It is very likely that the rapidly weakening profitability of industry will affect also the implementation of foreign investment plans in the next few years. Firms may have to pay more attention to safeguarding domestic operations in light of the deteriorating economic situation despite their aspirations to internationalize. This does not change the general trend that the internationalization of industry will continue, at least in the long run.

Figures 18 and 19 present the impact of various factors determining whether investments are made abroad as opposed to in Finland. Foreign investment would

Figure 18. Factors favoring direct investment in Finland and abroad

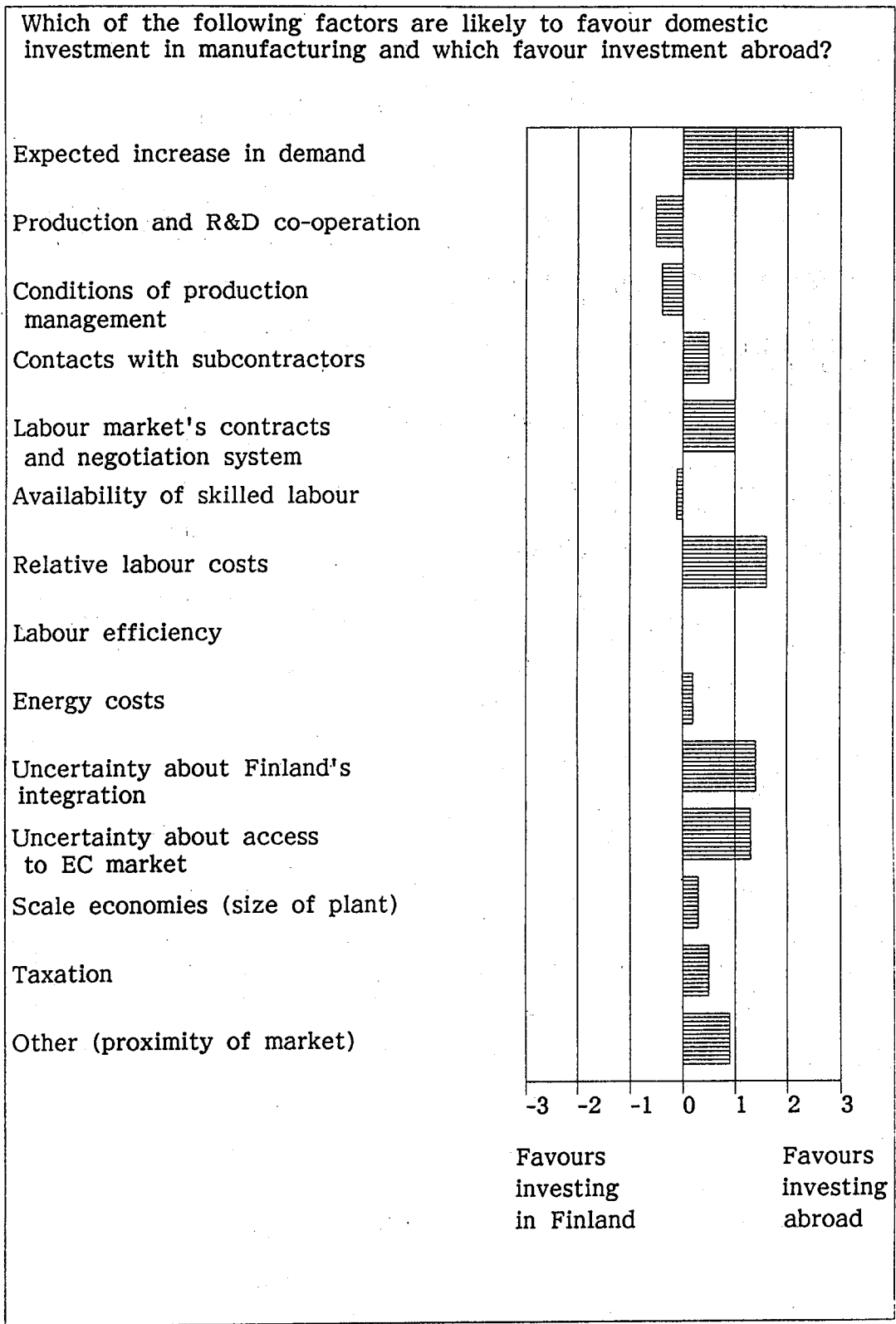
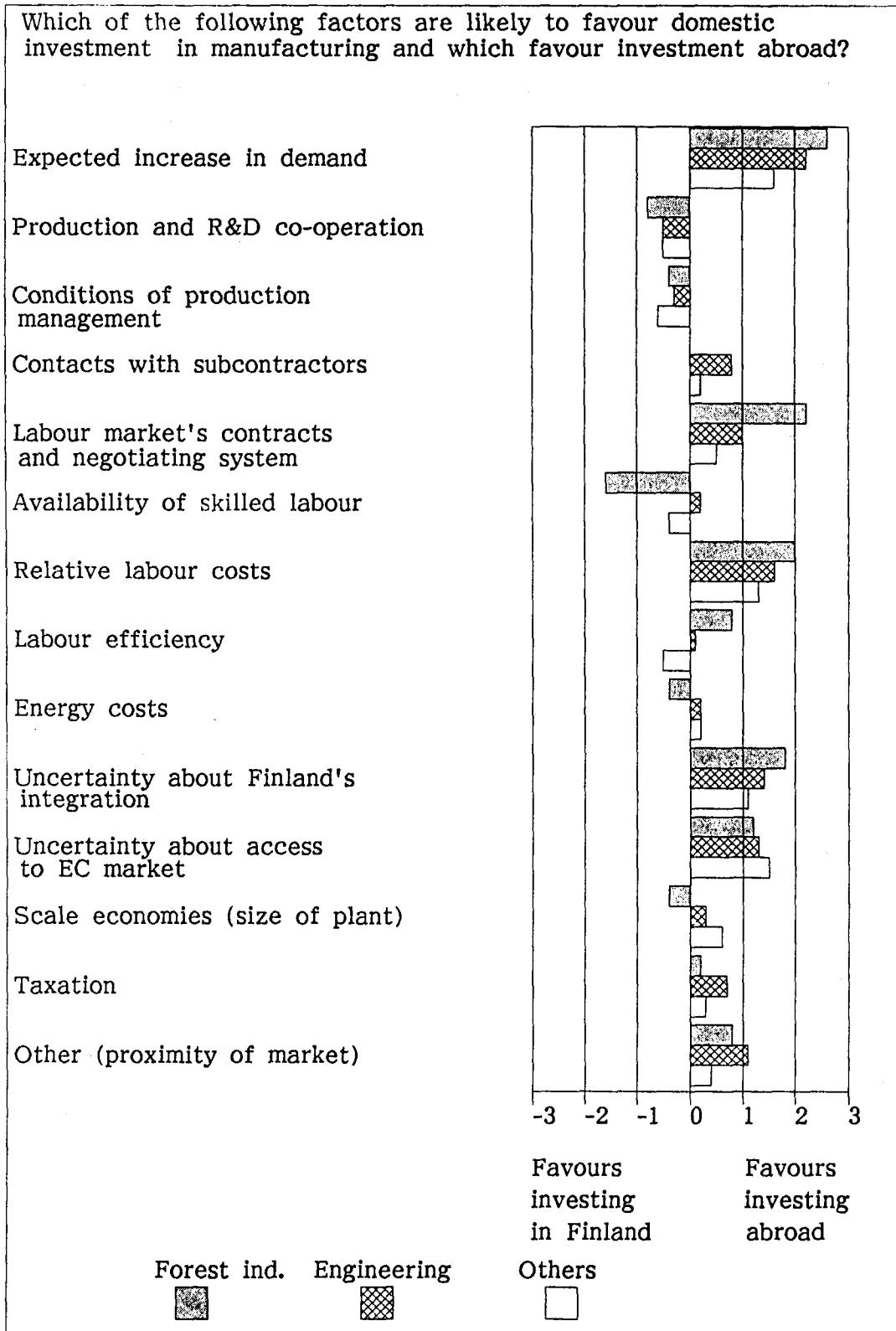


Figure 19. Factors favouring direct investment in Finland and abroad by sectors



appear to be motivated by the outlook for demand, differences in the wage level as well as uncertainty regarding integration and access to the EC market. Also the labour market mechanism and the inherent rules of the game were interpreted as a negative factor increasing rigidities in Finland. Factors affecting organization of production and management have the opposite effect. The questions reported in figures 18 and 19 were worded to correspond to a similar survey made in Sweden (Braunerhjelm 1991). Comparison indicates that the factors determining foreign investment are basically the same in the two countries.

Some dissimilarities appear when the responses are broken down by industrial branch. The forest industry stressed the importance of labour market issues, wage differentials and uncertainty regarding integration. The availability of skilled labour, economies of scale and the price of energy, on the other hand, tended to justify investment by the forest industry in Finland. The differences vis-à-vis the metal and engineering industry were greatest with respect to subcontracting contacts, taxation factors and the proximity of the markets. The comments on taxation emphasized the high income taxes (6 responses) as well as corporate taxes and the turnover tax on investment. There were numerous comments on labour-related issues associated with the high level of wages (31 responses), work time (22 responses) and flexibility in the collective bargaining system.

3.1.3 Impact of Direct Investment

The survey also addressed the question of the impact of direct investment upon domestic investment and exports. Direct investment abroad appears to have the greatest crowding out effect on domestic investment in the forest industry (Figure 20). Direct investment abroad is nevertheless regarded as increasing export potential. The crowding out effect of direct investment abroad is less pronounced in the metal and engineering industry, but about a third of the firms believed that

Figure 20. Future prospects of investment in Finland

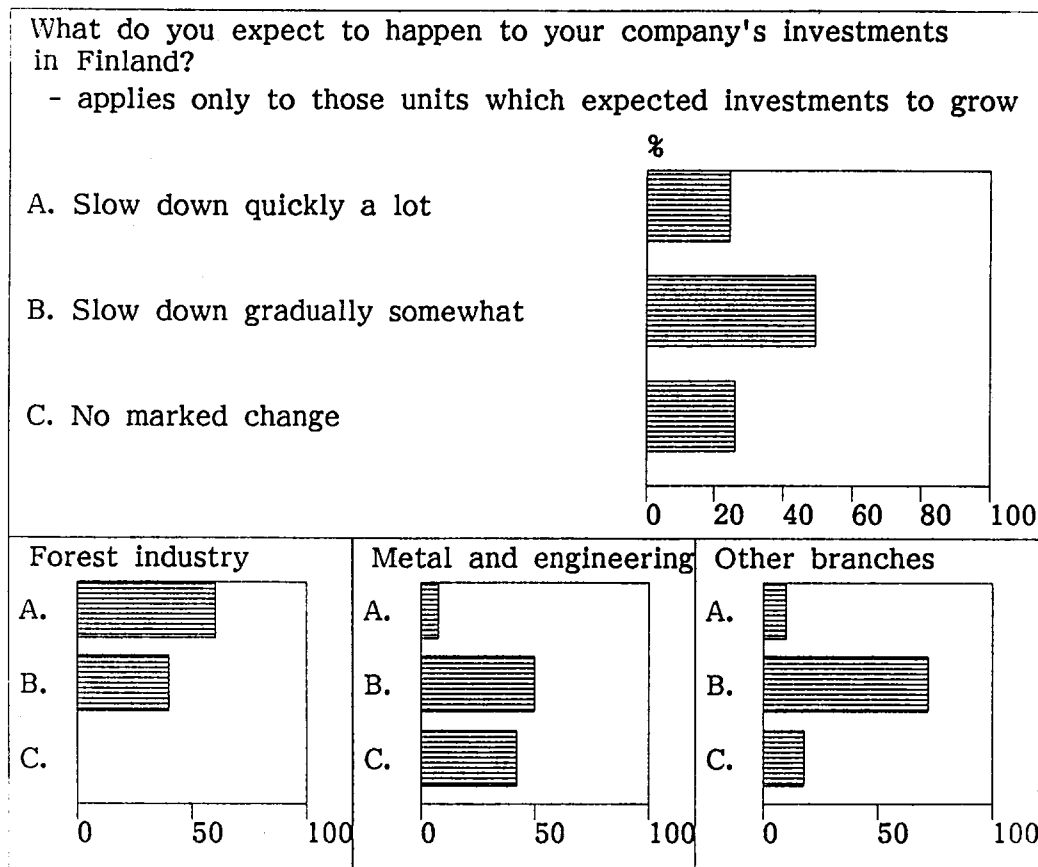
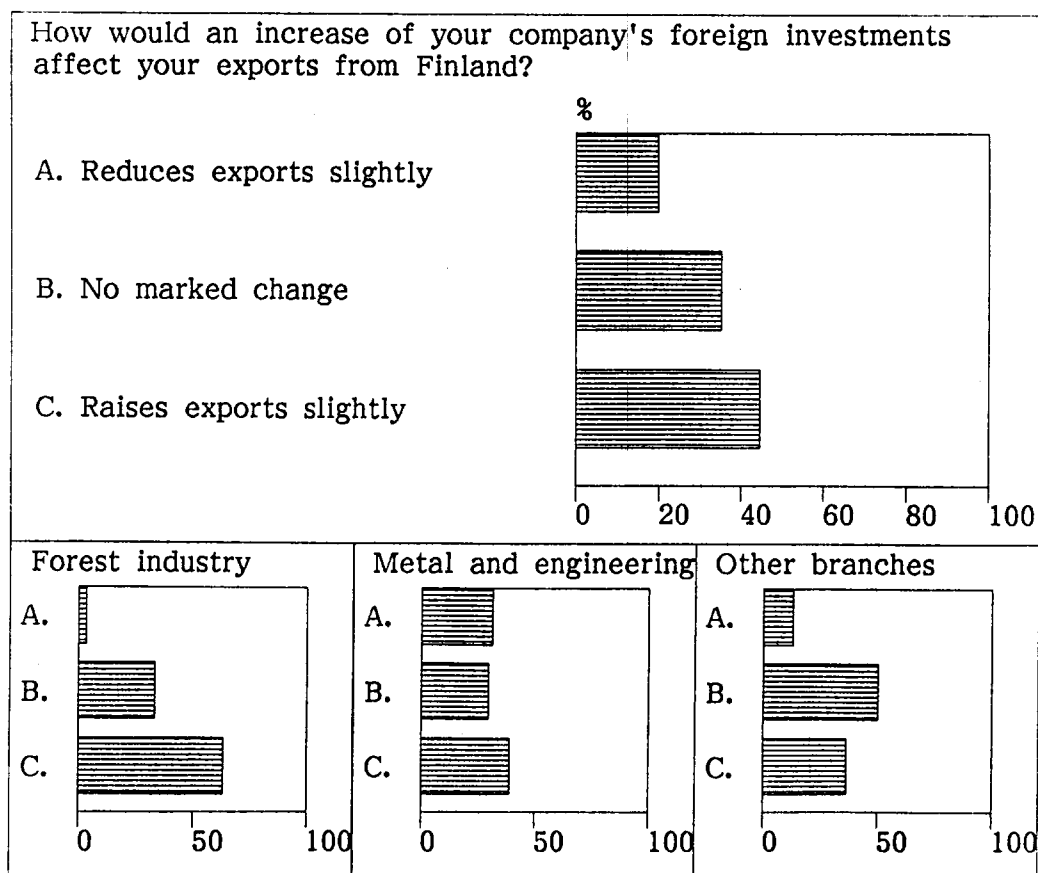


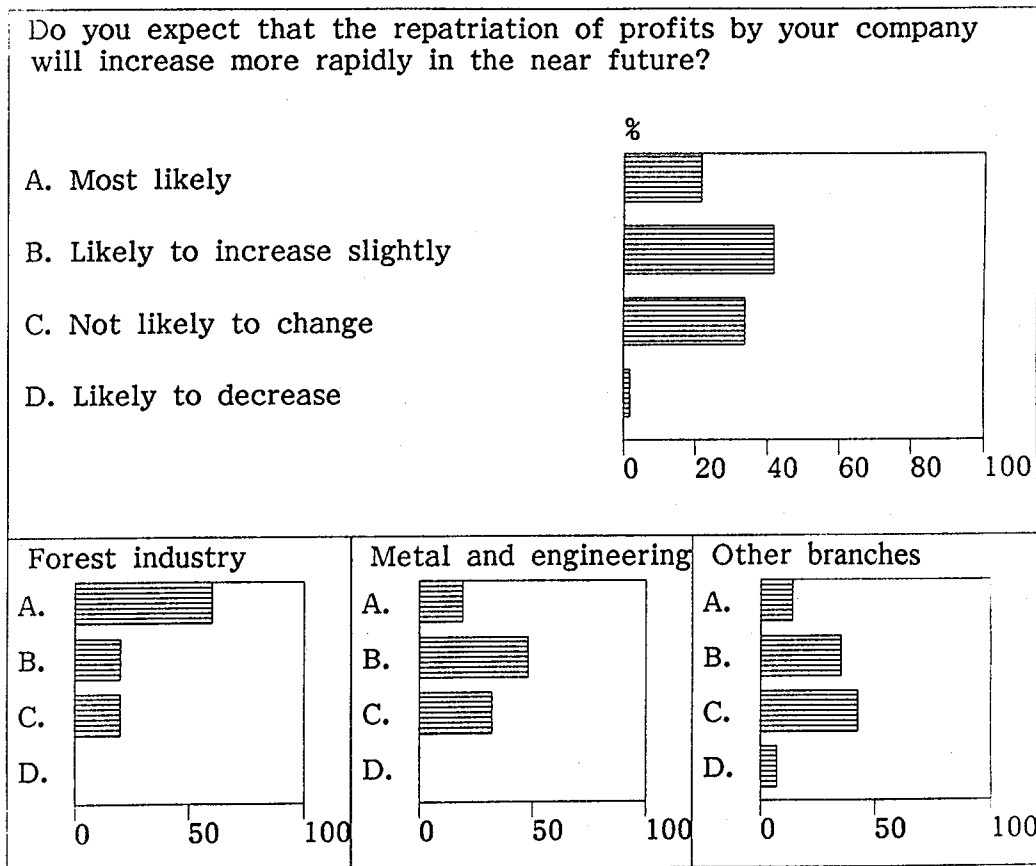
Figure 21. The effects of internationalisation on exports from Finland



the result was a decline in exports. The impact in "other branches" appears to be smaller (Figure 21).

According to the survey responses, repatriation of profits is bound to increase eventually (Figure 22). This would appear to be especially true of the forest industry. All in all about 2/3 of the firms estimated that repatriation of profits will increase in the future.

Figure 22. Future prospects of repatriation of profits from abroad



The results indicate that R&D-intensive firms have until now been less liable than others to shift their operations abroad, but it is precisely these firms which seem to be the most eager to internationalize in the future. The negative impact of internationalization on the exports of these firms also appears to be the greatest.

In contrast, firms that have already internationalized to a great extent seem to be the least interested in integration. The impact on these firms' exports originating from Finland is more moderate than for others. On the other hand, repatriation of profits is believed to increase.

Half of the labour-intensive firms indicated that they have already shifted the bulk of their manufacturing operations abroad. Their investment, even in Finland, nevertheless appears to be more evenly distributed than in other branches.

3.2 Conclusions

The survey results indicate that the growth of foreign direct investment from Finland is likely to continue at a rapid pace also during the 1990s. The regional pattern of outward FDI flows is changing as it seems to concentrate increasingly in the EC area. The results indicate that most of the internationalized Finnish companies are not planning to locate their headquarters or R&D activities abroad. However, some important functions like marketing, financing operations, logistics and to some extent also production are likely to internationalize further. On the other hand, repatriation of profits is expected to increase gradually.

This picture given by the survey should, however, be considered with a critical eye. The overall economic situation and prospects have changed markedly since the first half of 1991 when the survey was made. The economic slowdown has turned into a deep recession and the profitability and financial position in most of the firms concerned weakened substantially. On the other hand, it is evident that the competitiveness in manufacturing will improve considerably, by about one fifth in 1991-1992. This is due to the 14 per cent devaluation in November 1991 and to the moderate domestic cost developments. In March 1992 the Finnish government decided to apply for EC membership.

Thus, it could be argued that particularly those factors (resources, motives) on which the current wave of outward investments was based, have partly ceased to exist. The uncertainty concerning the future economic development of Finland has significantly diminished. Therefore, one should not expect that any additional capital flight from Finland would emerge in near future. Despite all these changes and measures, early this year a large loss-making, state-owned forest industry company announced a major greenfield newsprint investment in Eastern Germany, near Leipzig. This two billion FIM project subsidized by the German government was based on factors like availability of cheap raw material (recycled paper), labour force and proximity of markets.

It is obvious that the FDI flows can be understood only to a limited extent on macroeconomic grounds. In investment decisions business strategies play a vital role. If the recent wave of FDIs from Finland is seen in the wider context of European or global integration as a part of the ongoing restructuring process of industry, these developments seem to be less exceptional. Consequently, in the public policy discussion increasing emphasis has been recently put on the other side of the coin, i.e. the absence of inward direct investment in Finland.

4. INWARD FOREIGN DIRECT INVESTMENT OF FINLAND

4.1 Survey of foreign firms operating in Finland

A second survey, conducted in the spring of 1991, covered 44 foreign firms located in Finland, 20 of which responded to the questionnaire. The results should be interpreted with caution owing to the small size of the sample since each response has a significant effect on the overall outcome. This survey should be regarded as largely of an experimental nature. It is not wise to draw too strong conclusions on the basis of the survey. The survey gives only a tentative indication of the kinds of experiences gained by foreign firms operating in Finland and how the investment flows into Finland may develop in the near future.

About two-thirds of the respondents replied that the prime motivation for investment in Finland was establishment of a marketing unit. There do not appear to be any changes in the nature of investment as they age. In other words, firms that are set up in Finland for sales and marketing purposes have not evolved into manufacturing units. Firms concentrating on manufacturing have been twice as likely to be vertically integrated than horizontally integrated (Figure 23).

The responses of marketing and manufacturing firms displayed considerable diversity. Most of the experiences from Finland have been positive, even if manufacturing firms seem to have more difficulties than marketing units. The most problematic areas have been the restrictions on foreign ownership (23 % of the responses) and tax matters (36 % of the responses) with respect to both corporate as well as personal taxation (Figure 24).

The adoption of the imputation (*avoir fiscal*) system of taxing corporate dividends is considered to be especially problematic for firms whose home countries have

Figure 23. Basic strategy behind setting up in Finland

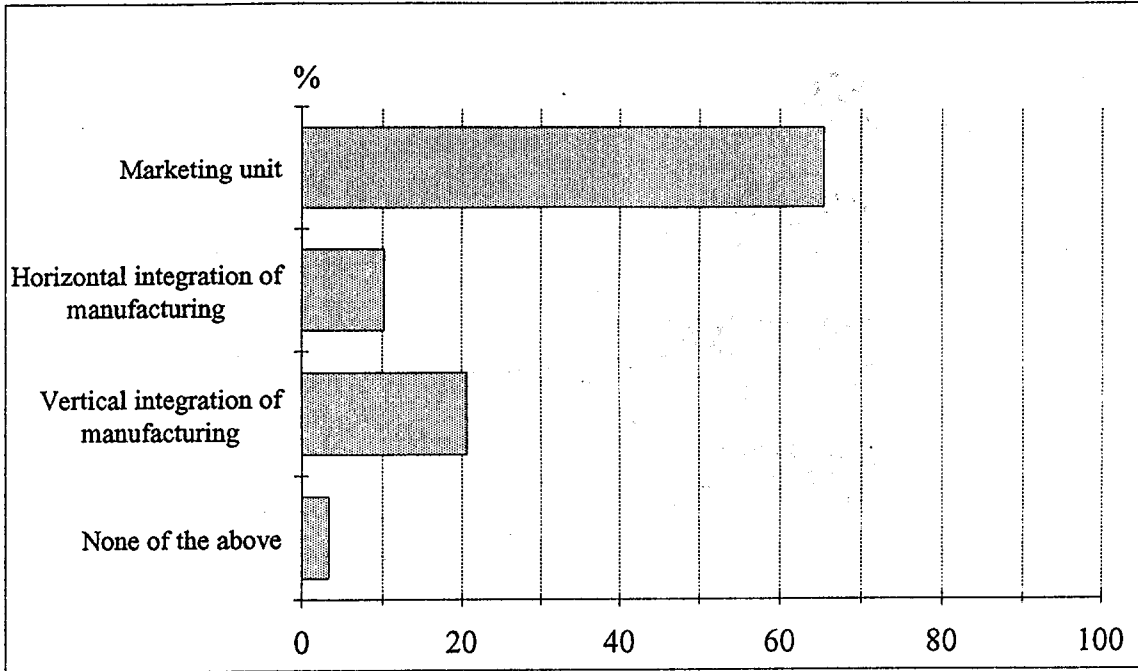


Figure 24. Experiences of setting up in Finland

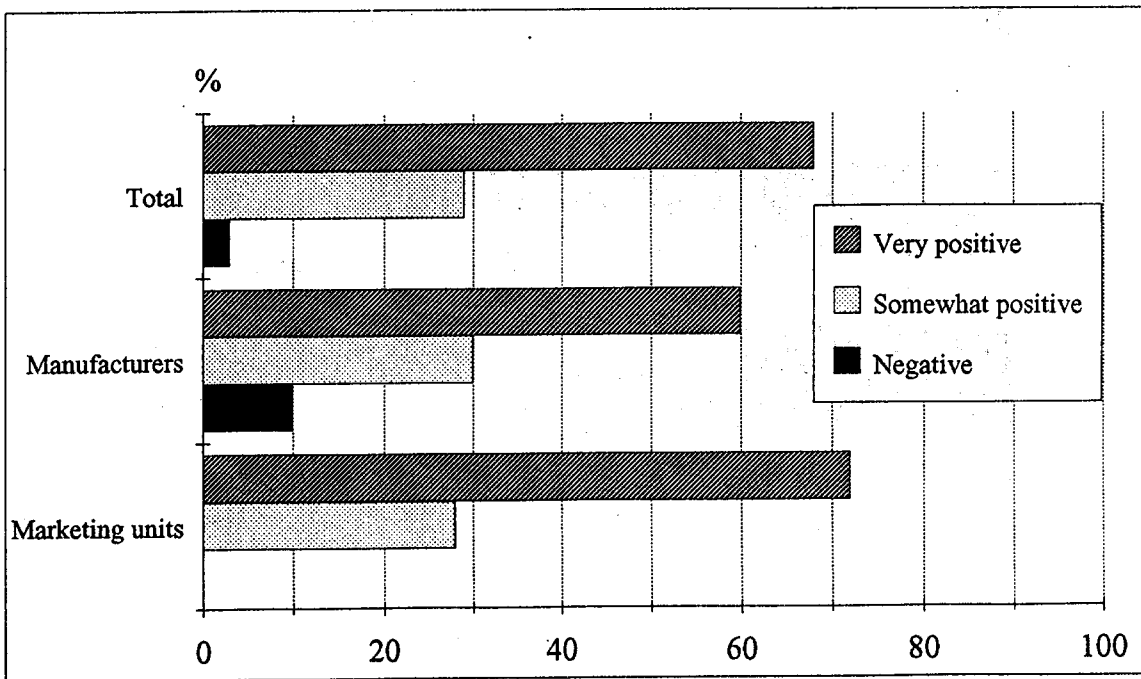


Figure 25. Problems associated with operations in Finland

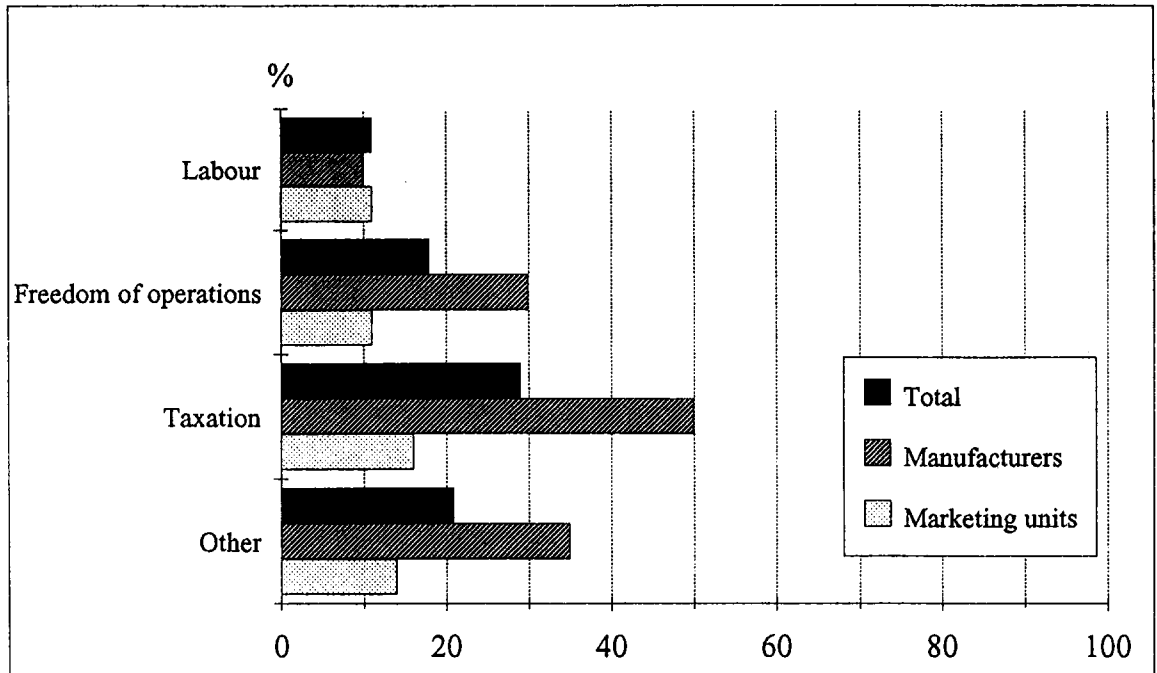
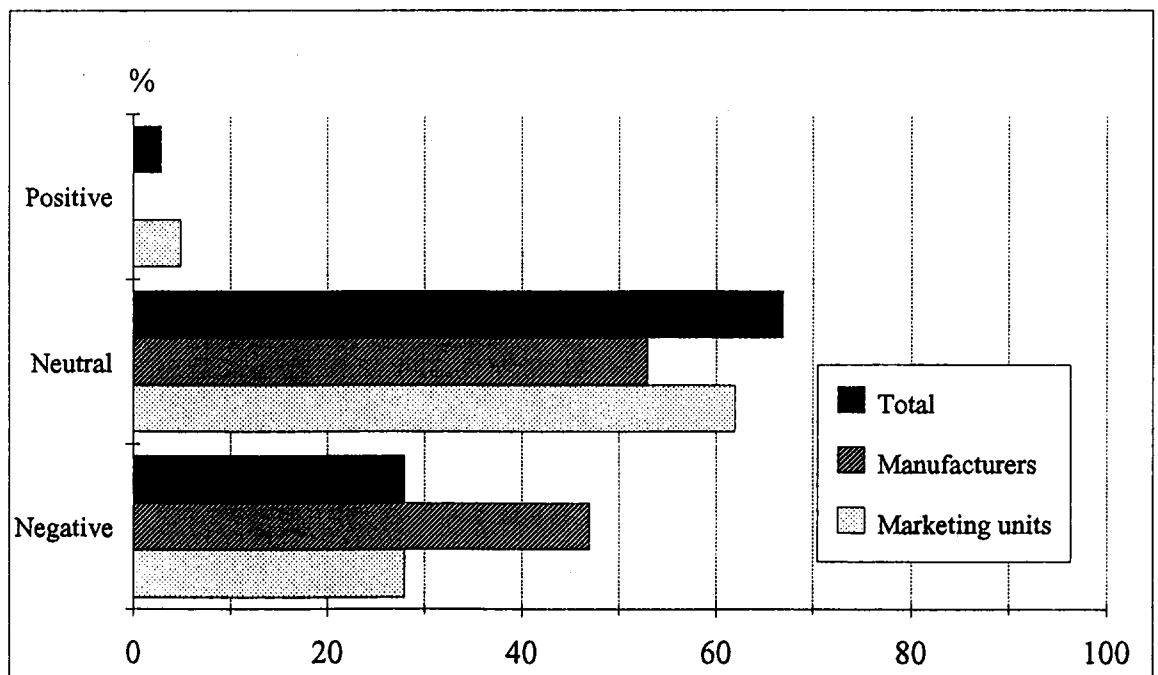


Figure 26. Effects of Finnish legislation



no tax agreement with Finland. Taxation is felt to be a much bigger stumbling block in manufacturing than in marketing units (Figure 25). Even though taxation is often mentioned as curbing the willingness to establish a company in Finland, only a third of the respondents indicated that taxation had a negative impact while the majority felt it was of minor importance.

Specific problem areas mentioned included momentary difficulties in obtaining labour, high labour costs, high transport costs, the cost-raising effect of raw material monopolies and the small size of the market. On the other hand, there were no significant differences across marketing and manufacturing units as regards labour issues.

The most important motive given for investing in Finland was Finland's markets. Investments in Finland were limited to that amount required to meet the demand in the Finnish market, which indicated that foreign firms do not invest in any productive capacity for export (Figure 27).

Another important factor spurring investment in Finland is the utilization of the firm's own know-how in Finland. In addition, almost a third of the manufacturing firms regarded the proximity of the former Soviet Union and Finland's connections there as encouraging investment in Finland. Marketing units nevertheless downplayed the importance of this factor. Finland's raw material base was seen as having very little significance in spurring investment.

The modest foreign investment in Finland is often rationalized by the restrictive legislation. Most of the firms (two-thirds) responded that Finland's laws or licencing arrangements as a whole were not overly restrictive (Figures 26 and 28). Sizable differences across marketing and manufacturing units nevertheless appeared in this respect. About two thirds of the manufacturing firms considered the legislation to be somewhat restraining. Very few of the respondents thought

Figure 27. Factors favouring investment in Finland

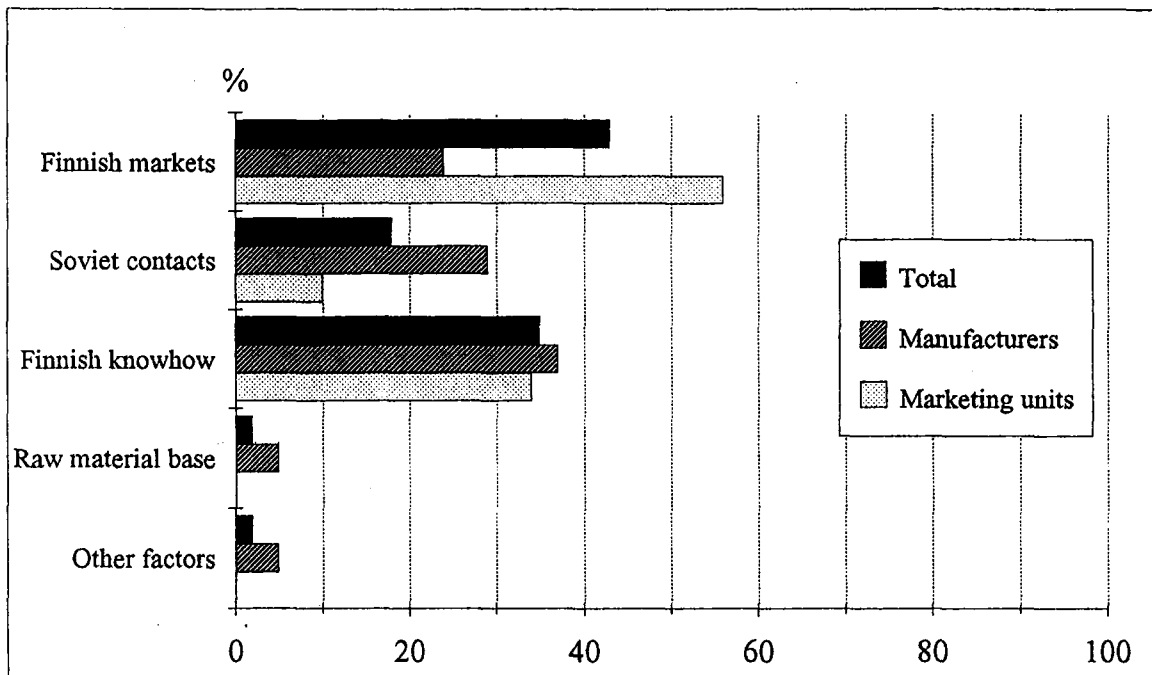
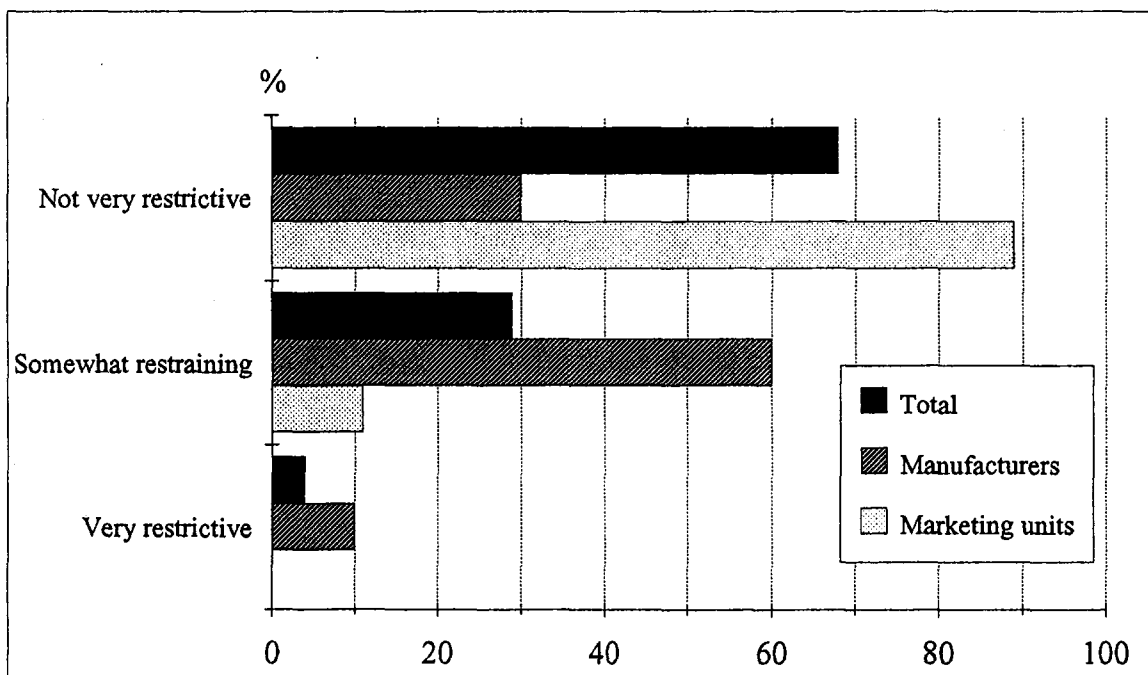


Figure 28. Significance of laws on setting up in Finland and licencing arrangements

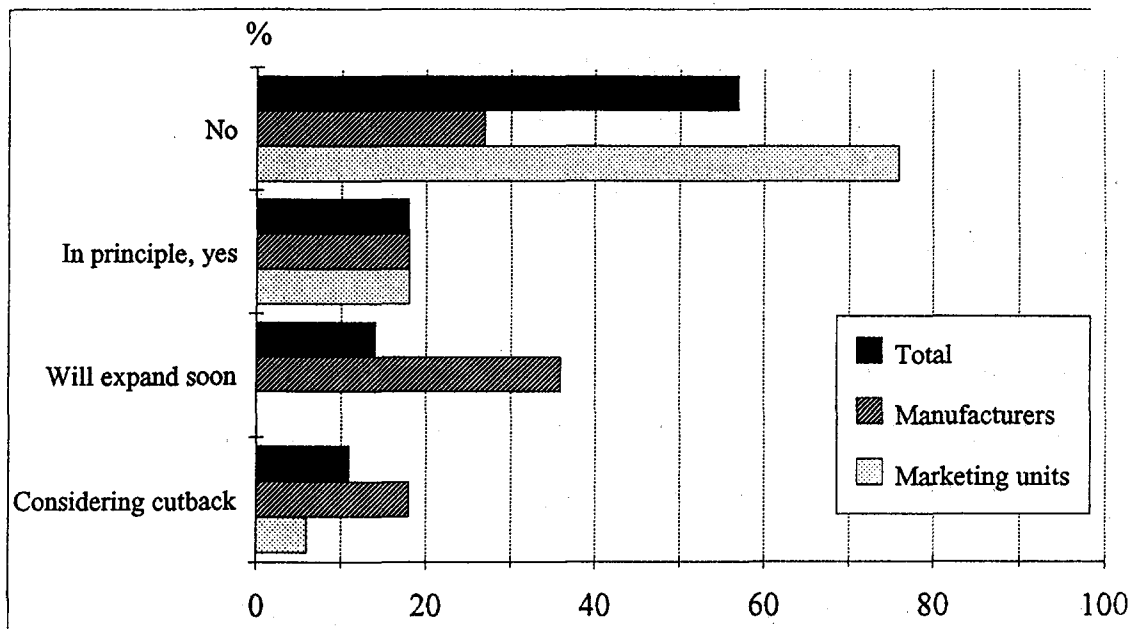


that the legislation was so restrictive that it discouraged establishment of a firm in Finland.

It should be kept in mind that since the sample covered only firms already operating in Finland, firms that have a bigger adversity to setting up a company in Finland are excluded. The restrictions on foreign ownership might receive considerably greater weight if the survey were broadened to include firms operating abroad that have already tried or planned to invest in Finland.

Even though the Finnish legislation regarding foreign ownership has been restrictive, the licencing practices have been fairly flexible. In practice, purchasing real estate has not brought foreign firms or individuals special difficulties. Notable exceptions include purchasing forest tracts and holiday properties.

Figure 29. *Has your company considered expanding your operations in Finland?*



An exceptionally interesting question for Finland is whether the European integration will affect the interest of foreign firms in investing in Finland. The survey brought no definitive answer to this question since a third of the respondents believed integration would increase the interest of firms to invest in Finland while just as many came to the opposite conclusion.

It is nevertheless possible to draw the conclusion that foreign investment will not expand significantly from the current level, since only 14% of the respondents indicated that they plan to expand their manufacturing operations in Finland (Figure 29). The survey tells nothing, however, about the plans of firms that have not yet set up any operations in Finland.

4.2. Survey of Finnish commercial attachés stationed abroad

A survey of Finnish commercial attachés stationed abroad was conducted in the autumn of 1991. A total of 19 attachés answered the questionnaire. The results were very similar to those received from the firms. It appears that the same factors which spur a Finnish firm to go abroad reduce the desire of foreign firms to locate operations in Finland. The following briefly summarizes the responses to each question separately.

What is your general impression of the willingness of a typical multinational firm to set up operations in Finland in the 1990s (the forest industry, the metal and engineering industry and other branches)?

The general impression varied according to the branch. By far the most interesting potential investment area was considered to be the forest industry, due in particular to its high level of know-how, advanced technology and the forest resources of Finland. On the other hand, the environmental protection

requirements to increase recycling of paper dampen interest in Finland since the dependence of paper production on local forest resources is dwindling.

As regards the Finnish metal and engineering industry, foreign investors are estimated to be spurred by its high technology and its know-how. Potential targets for investment mentioned included the electronics and instrument industry as well as manufacturing of forest and wood industry machinery.

Other Finnish industry holds little interest for foreign capital. The high-tech industries might offer tempting targets (for instance certain parts of the chemical industry), but not production of consumer goods. An exception might be the food manufacturing industry, since the weak competitiveness of Finnish firms in this branch may encourage foreign competition. Also purchasing of subcontracting from the Baltic countries or the former Soviet Union may lure manufacturers to Finland.

If you regard the interest of foreigners in establishing operations in Finland as modest, what do you think are the main reasons for this (4-5 main factors)?

The main reasons behind the modest interest in establishing operations in Finland are lack of knowledge about Finland as a potential investment site, Finland's high cost level, insufficient domestic market, the remote location and because Finland is not a member of the EC. These factors repeatedly came up in nearly all the responses.

The cost level is felt to be high with respect to labour, raw materials, energy, transport and the general living expenses. For instance, high corporate and personal taxation is considered to be a cost-raising factor. Neither do other special considerations seem to encourage foreign investment in Finland. Certain large Finnish firms indeed have special know-how that would be of interest to foreign

companies. In general, however, Finnish companies wish to reap the gains themselves from this know-how abroad instead of selling it to multinational corporations for their use.

The presence of large Finnish companies operating in the domestic market reduces the willingness of foreigners to invest and compete in potential target branches. Restrictions on domestic competition and the inefficient markets have spawned and sustained domestic monopolies. Also strong labour unions and the undeveloped nature of the stock market were mentioned as features discouraging encroachment by foreign firms. The unfavourable economic developments have also lowered confidence in Finland as an investment site.

Finland's geographical position with regard to direct investment is regarded as both a plus and a minus. In addition to the small domestic market, problem areas were seen to include the lack of close alternative markets and the remote location compounded by high transport costs to other European markets. The future economic development of Russia and the Baltic countries nevertheless give reason for optimism. The proximity of these markets is seen as one of the strongest factors compelling private investment in Finland. Finland's highly developed infrastructure linked with the vast markets of the east and railway connections (as far as to Japan) are considered to be especially interesting.

If you believe that foreigners will be at least somewhat interested in establishing operations in Finland, what do you think are the most important reasons for this?

There are factors which under favourable circumstances will increase the desire of foreigners to invest in Finland. For instance, the strong market position of Finnish firms in certain small market niches is considered interesting. In addition to the Russian market, Finland's high-tech know-how, the labour force's high educational and skill levels were mentioned in nearly all responses. Also the

stable political climate and trustworthiness of Finns as counterparties as well as Finland's reputation as a beautiful and clean country are felt to provide the possibility to lure foreign firms to Finland - even by emotional means. In general the responses reflect the high significance given to the country's image.

How would Finland's joining the EC in your opinion affect the desire of multinational companies to establish operations in Finland?

Full membership in the EC is believed to have an exclusively favourable impact on willingness to invest in Finland. The appraisals of the effect nevertheless vary considerably. In general, membership was seen as a necessary but not sufficient condition. It would do away with a basic obstacle to investment in Finland, but other factors mentioned above such as the high cost level would require improvement. Full membership would consolidate corporate cultures and legislation with respect to Western Europe, so that firms would consider investment risks to be lower.

What could or should Finland do to increase the current willingness of foreigners to establish operations in Finland (on a general and operational level)?

Above all else, the responses emphasized the importance of providing information for increasing direct investment in Finland. Active advertisement campaigns about the opportunities Finland provides and about practical matters (such as legislation, taxation etc.) for potential investors was a simple but often repeated recommendation.

The amendment of legislation to be more favourable toward investment would provide a basic precondition for foreign investment. The transformation of Finland into a "corporate-friendly market economy", tax benefits for foreign

investors during at least the early stages, the opening of the sheltered sector and recovery of the economy were listed as necessary steps.

The significance of the restrictions on foreign ownership with respect to establishing a firm in Finland depends on the type of company. The government has declared its intention to remove these restrictions by 1993. Foreign manufacturers operating in Finland consider these restrictions to be somewhat restraining while marketing units downplay their impact. Liberal licencing practices have nevertheless reduced the significance of the restrictions. Once inside, foreign firms operating on Finnish markets experience relatively few problems.

Even though the significance of these restrictions on foreign ownership have not been a decisive factor in limiting direct investment in Finland, the removal of these restrictions may activate investment in the future.

Also a clear announcement of intent to initiate negotiations for EC membership at the same time as Sweden would give a psychological and real boost to investment. The effect of EC membership and the customs union on the possibilities to independently tap the Russian market in the future remains unclear.

Since problems have been experienced in motivating employees of multinational firms to relocate to Finland, more international schools should be set up, the availability of information in foreign languages should be increased, and the attitudes towards foreigners (especially public officials) should become more positive. If people do not like it in Finland, before long neither will their companies.

4.3 Conclusions

According to the survey results the main reasons behind the modest increase of foreigners in establishing operations in Finland seem to be the remote location and small domestic market. In most industries it is not possible to exploit scale economies effectively in the Finnish markets. Also lack of knowledge about Finland as a potential investment site, high cost level, bureaucracy and the level of personal taxation were mentioned. Difficulties have emerged in motivating the key personnel of multinational firms to relocate in Finland, partly due to the high level of marginal taxation.

The factors encouraging foreign investment in Finland are mainly the relatively skilled and well educated labour force, the special know-how in certain sectors, and to certain extent also the future prospects in Russian markets. The highly developed infrastructure could increase the desire of foreigners to invest in Finland.

It seems that the restrictions on foreign ownership which by international standards have been relatively stringent in Finland, have not been a decisive factor in limiting inward investment. This is largely due to the liberal licencing practices in recent years. However, the removal of these restrictions in 1993 is likely to activate investments to a certain extent.

The respondents of the surveys emphasized the importance of providing information and amending the overall legislation and official attitudes toward being more liberal and positive in order to increase inward investment in Finland. Special measures like tax benefits for foreign investors were not considered to be effective in the longer run.

5. FUTURE PROSPECTS

A few major changes in the operating environment of the business firms has taken place since the surveys were completed. First, Finland has applied for the membership in the EC. Secondly, a proposal for reforming the capital income taxation in order to harmonize it with the taxation of other European, and especially with other Nordic countries, has been launched. Thirdly, the recession of the Finnish economy has proved to be much deeper and the financial position of the firms much worse than anticipated in spring 1991. All these factors have a bearing on the future prospects of the foreign direct investment, both outward and inward.

The decision to apply for the EC membership in March 1992 has considerably reduced firms' uncertainty about the integration. This uncertainty seems to have boosted investment in the EC area in the late 1980s and was reflected also in the firms' plans for the early 1990s as indicated by the survey. Now, the motive of being "just on the safe side" has disappeared. Similarly, the uncertainty concerning Finland as a target country for foreign investment has decreased.

It is hard to judge to what an extent this will affect the investment flows, but something could be said on the basis of the experience of Sweden and Denmark. The Swedish situation has been quite similar to that in Finland: The EC-oriented outflow of capital was high up to the early 1990s and the country received very little investment from abroad. Sweden applied for membership in July 1991 which changed its position vis-à-vis the other EFTA countries and the EC (excl. Austria who applied already in 1990). Denmark, on the other hand, has been an EC member since 1973.

In 1991 the net foreign direct investment in Finland fell drastically. There was practically no inward investment at all. The Finnish investment abroad diminished

too, but the imbalance between outward and inward investment remained on the previous year's level. Sweden, in contrast, improved its balance considerably. The outflow of capital went down by 50 % and the inflow was tripled compared to 1990. The amount of foreign direct investment in Sweden, about 45 billion SEK, was nearly as large as FDI in the large EC countries. Thus, it is not likely that the investment will stay at such a high level in future.

Nevertheless, the Swedish situation might come close to that of Denmark, where the annual average inward investment has been about one per cent of the EC's total FDI during the past 15-20 years. That corresponds roughly to the country's GDP share in the EC. Finland, however, would probably be less attractive than Sweden and Denmark also as an EC member due to the geographic factors. Still, the effect of the EC membership application on the gap between inward and outward investment is expected to be clearly positive. The Danish reference of the EC originating FDI, one per cent of GDP on average, might serve as an approximation of the maximum level of investment from the EC area. That sum, corresponding to about 5 billion FIM, would be much more than the highest levels of inward investments so far.

One factor that is likely to affect the foreign investment in Finland is the economic situation in Russia. There are some signs that Finland could serve as a gateway for international companies aiming at the Russian markets. Much depends, of course, on the economic and social developments of Russia and the nearby regions.

The harmonization of direct taxes and especially capital income taxes in the internal market is taking place in the form of tax competition. The recent Swedish tax reform, is a good example of this. It is possible that this reform has affected the changes in capital flows as much as the EC membership application itself. The proposal for reforming the Finnish capital income taxation is in line with the

Swedish and Norwegian tax reforms. All capital income would be taxed according to the same proportional rate of 25 %. The new tax system is expected to go into force in 1993. This, together with the likely reform of the current imputation system of taxing dividends, will make the Finnish capital income taxation competitive in the European perspective and probably affect to some extent the FDI flows. There is a risk, however, that the competition for international investment among countries will intensify and Finland, and the other Nordic countries with high general tax rates, would become uncompetitive in attracting foreign capital.

The recession of the Finnish economy has proved to be much more severe than expected at the time the surveys were made. The investment activity has slowed down dramatically. The business sector's domestic investment dropped by 20 % and investment abroad by 40 % in 1991. The companies have, no doubt, revised their investment plans downwards also for the next couple of years. But after a break the trend of the 80s is likely to continue. The growth of FDI by Finnish firms will be faster than that of domestic investment. Especially the paper industry firms will make a bulk of their investments abroad in order to be close to the markets and an increasingly more important source of raw material, recycled paper. Another group increasing its international activities will be the small and medium-sized companies who only started their internationalization process in the 1980s. Particularly, SMEs in high-tech industries are becoming more international due to their specialization strategies - a message that can be read from the survey results.

REFERENCES

- Braunerhjelm, Pontus (1991): Svenska underleverantörer och småföretag i det nya Europa. Industriens Utredningsinstitut, Almqvist & Wiksell International, Stockholm.
- Haaparanta, Pertti (1990): "Suorat sijoitukset, ulkomaalaisomistus ja Suomi". An article in a publication of SITRA, the Finnish National Fund for Research and Development, Helsinki.
- Haavisto, Pirkko and Sampsa Saralehto (ed.) (1988): "Yritysten kansainvälistyminen". ETLA, the Research Institute of the Finnish Economy, Series B58, Helsinki.
- Haavisto, Pirkko and Tero Kuitunen and Sampsa Saralehto (ed.) (1991): "Kansainvälistyvä yritys ja muuttuva Eurooppa". ETLA, the Research Institute of the Finnish Economy, Series B75, Helsinki.
- Kajaste, Ilkka (1990): "The Impact of 1992 on Finnish Industry, part 2. The Analysis of Competitive Performance". Ministry of Finance, Discussion Papers no. 28, Helsinki.
- Kajaste, Ilkka (1991): "Suomi Euroopan työnjaossa", The Finnish Economic Journal no. 4, vol. 87.
- Kanniainen, Vesa (1991): "Yhtiöveron hyvitysjärjestelmään siirtyminen Suomessa". ETLA, the Research Institute of the Finnish Economy, Series B 73, Helsinki.
- Kinnunen, Helvi (1990): "Suomen suorat sijoitukset, ulkomaalaisomistus ja Suomi". An article in a publication of SITRA, The Finnish National Fund for Research and Development, Helsinki.
- Kinnunen, Helvi (1991): "Suomalaisten yritysten kansainvälistyminen: ulkomaantoiminnan kannattavuus ja vaikutus kotimaantalouteen". Bank of Finland, Series A:80, Helsinki.
- Laurila, Juhani (1992): "Experiences of Finnish-Soviet Joint Ventures", Bank of Finland Monthly Bulletin, March 1992, Vol. 66, No. 3.
- Leskelä, Jukka (1991): "EFTA Countries' Foreign Direct Investment". An article in EFTA Trade 1991.
- Leskelä, Jukka and Seija Parviainen (1990): "EFTA Countries' Foreign Direct Investments". EFTA Occasional Papers no. 34.
- Parviainen, Seija (1990): "Suorat sijoitukset - EFTA-maiden oikotie yhteismarkkinoille?". The Finnish Economic Journal no. 2, vol. 86.
- Reinikainen, Veikko (1991): "Yritysten kansainvälistymisen teoria ja syvenevän integraation haaste". ETLA, the Research Institute of the Finnish Economy, Series B 70, Helsinki.
- Sinko, Pekka and Pekka Sutela (ed.) (1991): Neuvostoliitto, itäinen Eurooppa ja Suomi. VATT-publications No. 2, Helsinki.
- Ulkomaalaisomistuskomitean mietintö (1991). Report of the Committee for Foreign Ownership in Finland. Committee Report no. 1991:23, Helsinki.

**Ten largest manufacturing companies
and their international operations in 1990**

Company name	Total number of employees	Number of employees abroad	% of total	Number of foreign subsidiaries	Production units thereof
Nokia	37300	19200	52	113	30
Kone	21800	17900	82	110	42
Metra	19300	10000	52	109	39
Valmet	18000	7300	41	66	20
Kymmene	17900	3900	20	46	7
Outokumpu	17500	8500	48	150	39
Enso-Gutzeit	16000	2500	16	42	5
Kemira	15300	7600	50	88	35
Partek	14800	8100	55	63	36
Yhtyneet Paperitehtaat, UPM	13400	2300	17	39	15
TOTAL	191300	87300	46	826	268

Source: Lindroos, 1991.

**Finnish outward and inward foreign direct investment
flows and stocks* in million FIM, current prices**

Flows in FIM			Stocks in FIM		
	outward	inward		outward	inward
1975	96	251	1975	1124	1125
1976	118	223	1976	1342	1497
1977	293	188	1977	1596	1717
1978	257	141	1978	1850	1885
1979	487	106	1979	2324	1979
1980	510	104	1980	2829	2075
1981	558	424	1981	2397	5236
1982	411	-17	1982	3550	5526
1983	794	468	1983	4378	5888
1984	2959	827	1984	8530	6790
1985	2183	680	1985	9979	7251
1986	4109	1722	1986	11590	8056
1987	5015	1165	1987	17892	10339
1988	10919	2218	1988	24199	12673
1989	13327	2095	1989	33234	16692
1990	12548	3023	1990	44047	19000
1991	8501	131	1991		

* in the end of the year

Source: Bank of Finland

The figures include reinvested profits since 1981.

The housing and real estate investment of households
are included in outward figures since 1980.

The stock figures are in book values since 1981

(The earlier stock figures are cumulated net flows)

Finnish outward foreign direct investment flows by regions in 1975-1991 in million FIM, current prices

Host country	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Austria	0	0	0	0	0	0	1	0	5	5	0	2	16	2	-3	6	6
Norway	1	2	2	4	3	10	79	32	26	29	104	129	123	284	371	1014	437
Sweden	9	7	18	19	86	64	68	228	106	802	191	1590	448	2292	2398	2535	1002
Switzerland	4	21	40	20	4	3	19	3	1	515	76	2	131	252	192	17	170
EFTA	14	30	60	43	93	77	167	263	138	1351	371	1723	718	2830	2958	3572	1615
Netherland	0	6	3	1	1	1	7	23	73	70	468	313	226	289	1572	1935	352
Belgium'	5	19	33	60	49	20	30	55	28	98	45	336	389	293	118	397	714
Spain	7	-1	5	7	20	22	23	42	14	7	44	20	127	70	150	373	294
Ireland	0	0	1	0	12	1	2	12	8	18	7	281	-126	31	5	146	246
Great Britain	7	19	9	8	52	56	127	66	208	300	85	168	197	1236	1031	1405	1596
Italy	0	0	0	0	0	1	0	0	37	0	18	5	88	54	150	106	196
Greece	-	-	-	-	-	-	-	-	-	8	0	1	0	4	6	13	0
Luxembourg'	-	-	-	-	-	-	-	-	-	-	-41	11	6	19	430	162	-4
Portugal	0	0	0	0	0	-1	0	0	0	0	0	0	0	12	73	116	272
France	32	13	17	33	19	8	24	0	81	31	104	52	327	239	382	1442	663
Germany	12	14	75	34	87	55	50	248	96	83	55	49	190	1136	525	401	3
Denmark	1	1	16	15	2	6	16	26	67	46	76	90	639	417	373	162	56
EC	64	71	159	158	242	169	279	472	612	661	861	1326	2063	3800	4815	6658	4388
the USA	5	7	25	26	67	152	91	180	582	217	469	255	492	1922	3056	1747	1494
Others	13	10	49	30	85	89	75	210	119	250	375	337	465	515	2344	1761	454
Real estate and housing investments of households	-	-	-	-	-	23	20	30	46	63	97	170	190	311	588	510	550
TOTAL*	96	118	293	257	487	510	632	1155	1497	2542	2173	3811	3928	9378	13761	14248	8501
Reinvested earnings	-	-	-	-	-	-	-74	-744	-703	417	10	298	1087	1541	-434	-1777	-
TOTAL**	96	118	293	257	487	510	558	411	794	2959	2183	4109	5015	10919	13327	12471	8501

Source: Bank of Finland

* The figures of Belgium include Luxembourg in 1975-1984.

* excluding reinvested earnings

The figures for 1991 are preliminary.

** including reinvested earnings

The reinvested earning figures for 1991 was not yet available

Finnish inward foreign direct investment flows by regions in 1975-1991 in million FIM, current prices

Source country	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Norway	4	1	0	1	2	1	3	3	5	5	5	13	-106	33	18	73	455
Sweden	95	83	48	32	8	50	7	92	89	140	222	1434	293	451	767	2350	-1122
Switzerland	15	67	75	8	-5	7	1	-7	4	24	6	1	26	-9	-12	245	-2
Austria	-	-	-	-	-	-	-	-	-	-1	0	-1	-	-	-	-	-
EFTA	114	151	123	41	5	58	11	88	98	168	233	1447	213	475	773	2668	-669
Netherland	-4	10	-4	24	24	-1	30	1	3	2	105	18	-23	167	275	458	186
Belgium ¹	2	2	9	3	2	11	0	-88	-46	0	0	0	0	0	135	59	1
Great Britain	20	3	7	31	49	10	20	-117	-44	4	8	46	21	44	8	23	420
Italy	-	-	-	-	-	-	-	-	-	-	-	0	2	3	0	1	10
Luxembourg ¹	-	-	-	-	-	-	-	-	-	-	0	2	55	4	75	2	0
France	2	2	1	3	-6	4	2	3	20	1	3	3	8	97	72	76	8
Germany	30	9	11	4	-7	1	-9	5	3	11	16	11	49	7	41	60	103
Denmark	7	7	2	5	3	-3	6	1	1	3	21	19	28	74	63	67	169
EC	57	33	26	70	65	22	49	-195	-63	21	153	99	140	396	669	746	897
the USA	63	32	27	5	5	24	-5	22	36	120	-24	84	85	45	98	243	-95
Others	17	7	12	25	31	0	20	18	17	15	26	-3	-12	38	-228	26	-2
TOTAL*	251	223	188	141	106	104	75	-67	88	324	388	1627	426	954	1312	3683	131
reinvested earnings	-	-	-	-	-	-	349	50	380	503	292	95	739	1264	783	-673	-
TOTAL**	251	223	188	141	106	104	424	-17	468	827	680	1722	1165	2218	2095	3010	131

Source: Bank of Finland

¹ The figures of Belgium include Luxembourg in 1975-1984

* excluding reinvested earnings

** including reinvested earnings

The 1991 figures are preliminary.

The 1991 reinvested earnings figure was not yet available.

**Foreign direct investment stock of Finland
by regions and sectors in 1986, 1988 and 1990
in million FIM, current prices**

By regions	1986	1988	1990
EC-countries	3111	10023	20489
EFTA-countries	2453	7249	10617
North-America	2254	4666	2936
Others	3772	2261	4983
TOTAL	11590	24199	42868

By sectors of investment targets	1986	1988	1990
Industry	7546	13917	22754
Forest	2287	3612	5836
Chemical	1516	3410	5144
Metal	2477	5464	8759
Others	1266	1431	3015
Trade	683	1405	1055
Financ. and insur.	2955	5084	7655
Others	-43	2844	9357
Housing and real est inv. of households	449	949	2047
TOTAL	11590	24199	42868

By sectors of investors	1986	1988	1990
Industry	7803	17469	31781
Forest	2415	3172	4723
Chemical	1267	4693	8866
Metal	2568	4833	8169
Multisector	835	2929	8026
Others	718	1842	1997
Trade	121	229	222
Financ. and insur.	2955	5344	7691
Others	262	208	1127
Housing and real est inv. of households	449	949	2047
TOTAL	11590	24199	42868

Source: Bank of Finland

SURVEY OF INTERNATIONALIZED FINNISH INDUSTRIAL COMPANIES

Name of the company _____

Main branch of the company (principal product groups) _____

Position and name of the person answering this inquiry _____

QUESTIONNAIRE

1. What kind of impacts could the European economic integration (abolition of obstacles of foreign trade) be expected to have on your company's basic competitive position over the 1990's ?

- (31 %) With integration, our underlying competitiveness is very likely to improve in the 1990's
- (47 %) Our underlying competitiveness might improve, provided that the company boosts its real competitiveness vigorously; this implies, that _____
- (18 %) Our situation will be more difficult; our underlying competitiveness might be maintained but it will require more work
- (4 %) With integration, the company's underlying competitiveness will unavoidably deteriorate

2. What are the basic elements of your company's regional marketing strategy over the early 1990's ?

- (10 %) Marketing operations will be directed more towards the market in Finland
- (12 %) Marketing operations will be directed more towards the Nordic Countries
- (48 %) Marketing operations will be directed more towards the EC-area
- (18 %) Marketing operations will mainly be directed outside these regions, towards _____
- (12 %) No marked change in the company's regional marketing strategy

Additional comments _____

3. In the mid term, how fast are your company's direct foreign investments expected to grow, compared to the growth of your investments in Finland?

- (65 %) Investments abroad are likely to grow faster than investments in Finland
- (32 %) Rates of growth will be broadly equal
- (3 %) Investments in Finland are likely to grow faster than investments abroad

4. In case you in question 3 considered that your company's foreign investments will grow rapidly (option 1), what might be the future time path of the growth?

- (24 %) In the short run (over the next 2-3 years) growth remains slow, but will later accelerate markedly
- (28 %) Growth is expected to be rapid already in the short run; later on the rate of growth is likely to level out
- (48 %) The growth of foreign investments is expected to remain even and unvolatile over a longer period

5. In case you in question 3 considered that your company's foreign investments will grow rapidly (option 1), what do you expect to happen to the company's investments in Finland?

- (27 %) With the rapid growth of investments abroad, investments in Finland will slow down markedly (even in the near term)
- (38 %) In the long run investments in Finland will slow down somewhat; in the short run the change remains modest
- (35 %) Investments abroad and investments in Finland are largely independent of each other

6. Over the early 1990's, what are the most probable directions of your company's investments abroad?

- (7 %) Mainly the Nordic Countries
- (57 %) Mainly the EC-area
- (26 %) Mainly North America
- (10 %) Other areas, where _____

7. Is it likely that in future some of your company's functions as indicated below will be moved outside Finland?

	Very likely even in the short run	Likely in the long run	Not likely	Has been moved outside Finland
Headquarter	4 %	20 %	62 %	14 %
R&D	2 %	15 %	68 %	15 %
Financial operations	11 %	31 %	23 %	35 %
Manufacture of products	8 %	43 %	15 %	34 %
Marketing	12 %	29 %	11 %	48 %
Operations with sub-contractors	16 %	31 %	9 %	44 %
Storage and transport operations	12 %	31 %	30 %	27 %

8. An industrial company usually turns into an international company via three phases: direct export, establishment of marketing units and establishment of manufacturing units. Given this background, describe shortly the way your company is likely to advance in the mid term. Select one option from each row, please.

	Most important is to boost direct exports from Finland	Most important is to strengthen our network of marketing units	Most important is to establish and strengthen our units of production
Nordic countries	28 %	52 %	20 %
EC	-	31 %	69 %
North America	11 %	30 %	59 %

9. How would an increase of your company's foreign investments affect its exports from Finland?

- (31 %) It reduces exports somewhat/significantly
 (33 %) No marked change is likely
 (36 %) It raises exports somewhat/significantly

10. Below you will find a list of factors likely to affect the incidence of manufacturing investments. Which of these factors, in the case of your company, favour on the one hand investments in Finland and on the other hand investments abroad? Please, choose the relevant alternative and try to assess the importance of the factor in question from your company's point of view. (1=not very significant, 2=significant, 3=very significant)

	Favours invest- ments in Finland	Favours invest- ments abroad
- Expected increase in demand		2,1
- Co-operation between production and R&D operations	-0,5	
- Conditions of production management	-0,4	
- Contacts with subcontractors		0,5
- Questions related to labour markets		
- Labour market's contract and negotiating system		1,0
- Availability of skilled labour	-0,1	
- Relative labour costs		1,6
- Labour effectiveness	-0,0	
- Energy costs		0,2
- Uncertainty concerning Finland's integration agreement (in april 1991)		1,4
- Uncertainty concerning entry into EC-market (despite the EES-agreement)		1,3
- Scale economies (size of plants)		0,3
- Taxation		0,5
- Other factors, which _____		0,9

11. If in the previous question labour market conditions in Finland were considered a factor favouring investments abroad, which would be the most important measures to improve the situation in the near future?

In my opinion the most important measures would be:

- 1. _____

- 2. _____

- 3. _____

12. If in question 10 taxation in Finland was considered a factor favouring investments abroad, which would be the most important measures to improve the situation in the near future? Please, elaborate your opinions and give details of the features in Finland's tax legislation that are most problematic for the company.

13. Basically, how would you assess the success of foreign investments within your company's branch?

- (20 %) The success has mainly been better than expected
- (69 %) Some disappointments have been experienced due to e.g.

- (11 %) The projects have mainly been less succesful than expected

Additional comments _____

14. What do you think about the manner in which the public media describe the profitability of industrial investments abroad? Is the picture adequate and, if not, how would you correct it?

15. Data available indicate that on the whole Finnish companies have only modestly repatriated foreign profits in form of dividends and interest payments. According to your evaluation, what might be the most important factors behind the small repatriations within your company's branch? (Indicate the two most important).

(12 %) Profitability of investment has been weak, on average

(34 %) It takes time for investment projects to mature and become profitable (and most foreign projects have not been launched until recently)

(34 %) Profits have usually been reinvested

(5 %) Factors involved in taxation affect repatriations, especially _____

(15 %) Profits are mainly repatriated through other channels
Other factors, such as _____

Comments _____

16. Do you expect that the repatriation of profits (dividends and interest payments) in the case of your company will increase more rapidly in the near future?

(22 %) Most likely

(42 %) Repatriations are likely to increase slightly

(34 %) Repatriations are not likely to change

(2 %) Repatriations are likely to decrease

SURVEY OF FOREIGN FIRMS OPERATING IN FINLAND

Name of the company _____

Name of the parent company or corporation _____

The main field of operations (the main product groups) _____

Name and status of the respondent _____

QUESTIONNAIRE

1. What has been the basic strategy behind your corporation's setting up in Finland?

- 19 (65,5 %) The emphasis has been on establishing a marketing unit
- 3 (10,3 %) The emphasis has been on production, based on horizontal integration
- 6 (20,7 %) The emphasis has been on production, based on vertical integration
- 1 (3,4 %) None of those above, but _____

2. How would you summarize your experiences on setting up in Finland?

- 19 (67,9 %) As a whole quite positive; the negative surprises have been few
- 8 (28,6 %) Quite positive, although there have been some problems, too
- 1 (3,6 %) The results have corresponded very badly with the expectations

3. If you answered above that you experienced greater-than-anticipated difficulties in your operations in Finland, could you please describe them more closely.

- 3 (13,6 %) Problems concerning labour supply and labour market issues:
- 5 (22,7 %) Problems concerning the freedom of operations of foreign companies: _____
- 0 (0,0 %) Problems concerning information and communicating: _____
- 8 (36,4 %) Problems concerning taxation and the Finnish tax legislation: _____
- 6 (27,3 %) Other relevant problems: _____

4. Which of the following factors could in your opinion still support foreign investments by an international company like yours in Finland ?

- 22 (43,1 %) Finnish markets important for your product groups
 9 (17,6 %) Intensive commercial contacts between Finland and the Soviet Union as well as the comprehensive knowledge of Finns in Eastern Trade
 18 (35,3 %) Special know-how of your company and utilization of it in Finland
 0 (0,0 %) Technical level and knowhow of Finland (the possible technological transfer from Finland to your company)
 0 (0,0 %) Labour market factors
 1 (2,0 %) Raw material base
 0 (0,0 %) Taxation factors
 1 (2,0 %) Some other factor, which? _____

5. How problematic do you regard the laws on setting up operations (and licencing arrangements), supposed that your company would be just planning to set up a subsidiary in Finland?

- 19 (67,9 %) I do not consider the Finnish legislation or licencing practices in this sense restrictive at all.
 8 (28,6 %) I consider the Finnish legislation itself restrictive but luckily the liberal licencing practices have alleviated the situation substantially.
 1 (3,6 %) I consider both the legislation and the licencing practices very restrictive; it is possible that it has partly moderated the setting up of foreign companies in Finland.

6. If you estimated above that the legislation and the licencing practices do remarkably discourage the setting up of operations to which particular types of restrictions do you then refer?

7. How do you think the Finnish tax legislation affects the interest of international corporations to set up in Finland?

- 18 (62,1 %) I consider the impact small
 10 (34,5 %) I believe that the tax legislation has a negative impact based on the fact that _____
 1 (3,4 %) I believe that the tax legislation has a positive impact.

8. Do you believe that Finland's choices regarding the European integration process now being taken have an impact on the interest of foreign companies to set up in Finland? In which direction would the impact take place?

- 9 (33,3 %) I estimate that opening of the borders increases the interest of foreign companies in investing in Finland.
- 9 (33,3 %) I estimate that it further diminishes the interest of foreign companies to invest in Finland.
- 9 (33,3 %) I believe that the impact will be small.

9. Has your corporations thought or concretely planned to expand its production in Finland?

- 16 (57,1 %) No it has not, and I do not consider any expansion likely.
- 5 (17,9 %) In principle we are open to the idea of expansion, only the concrete plans are missing.
- 4 (14,3 %) We have already decided to expand production and this plan will be carried out in near future.
- 3 (10,7 %) We are planning to diminish our operations in Finland.

