

# Finland: Flexibility and Innovation

*Finland has managed to benefit from every asset it has to build a strong and stable economy. The vast forests turned into a solid pulp and paper industry, while the proximity to Russia into a strategically important trade location. Most importantly, the wise investment in R&D and education turned the cold Nordic country into a global factor in the hot high-tech area.*

**Could you explain the economic situation in Finland in the context of the regional and global trade? What are the major opportunities for foreign investors?**

Prior to 1989, Finland was among the few European countries that actively traded with the Soviet Union. However, after the collapse of the Soviet Union, we lost about 25% of our foreign trade overnight. That, combined with domestic over-borrowing and a credit crunch, led to a severe recession in 1993.

At that time, the government started to invest in R&D and education and that helped Finland to come out from the recession fairly quickly. That investment was also the basis for the solid mobile communication empire that we now have. Since then, the growth has been very stable and even the 2000 bubble didn't hurt us seriously.

Now Russia is back as our biggest trading partner. We import raw materials from Russia, particularly oil, and we export consumer goods and food. Germany has also been a very important and steady trading partner for us. The other significant country is our closest neighbor Sweden and there has been a lot of collaboration between Finnish and Swedish companies.

For instance, there has been a heavy merger & acquisition activity in the financial sector, the forest industry, and the metal industry. As a result, Sweden now is the biggest foreign investor in Finland, accounting for about 50% of all the foreign direct investments.

The traditionally strong industries of our economy are pulp and paper and engineering production. Finnish companies develop the machinery for the mining, pulp and paper, and metal industries, as well as for harvesting. The backbone of our economy has been the metal and the forest industry. In the late 1990s, mobile communications surged and high technology now represents the biggest part of our foreign trade. It is led by Nokia, of course, but there are many other companies in that cluster.

**How has the proximity to Russia and Sweden affected your economy and development? In terms of technology, Russia has lagged behind the West and acting as the middle man must have been beneficial.**

Yes, it has been a beneficial relationship. Many foreign companies that are interested in the Russian market prefer to come first to Finland to study the market and export from here. Then they move to the Russian side. There are still many companies coming from the U.S., Asia, India, and China, and they are not willing to go directly to Russia. But the European companies now go directly to Russia, as they have already built a lot of knowledge and experience on the Russian markets. In the old Soviet days, very few European companies were really active there.

**What have been the major changes in the economy and the demographics since the recession in 1993?**

The most prominent development has been the investment in research and development. Our government has been heavily supporting our industry, both the small and the large



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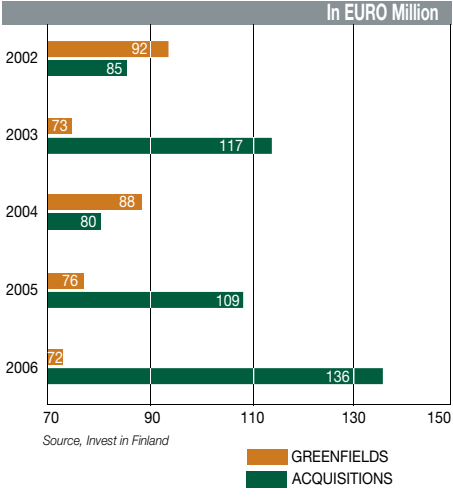
Airaksinen joined Sitra after five years as General Manager and Deputy Managing Director of Nordic Aluminium Plc. He has worked as an Industrial Counselor at the Embassy of Finland in London. Earlier, Airaksinen has worked in electronics and metal industries in marketing, sales and general management positions in Finland and abroad.

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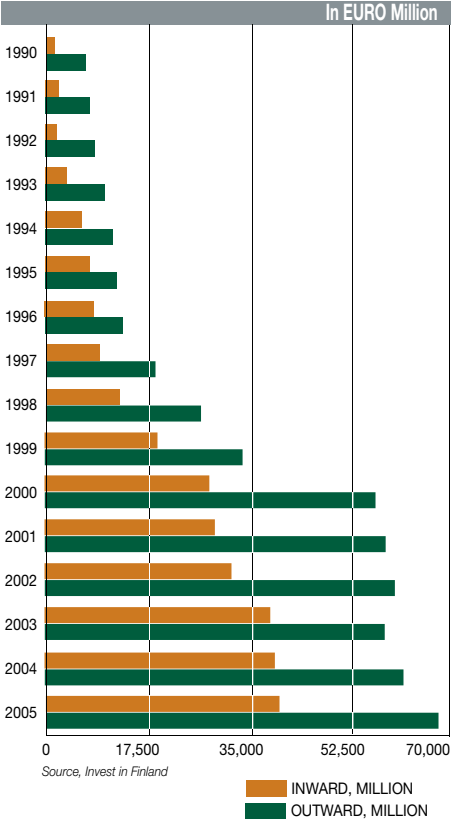
Industries in Focus
ICT
Healthcare & Well-being
Forest Cluster
Environment
Mining Industry
Trade & Services
Other Industries

SOURCE: INVEST IN FINLAND

### New Foreign Companies and Acquisitions 2002-2006



### Stocks of Foreign Direct Investments 1990-2005



companies. That support ranges from grants and loans to technological collaboration. Our technology department agency is running large programs on national and international scale, and those programs are open for companies of all sizes. The participation of small companies is proportionate to their turnover and they can be part of important high-tech projects.

This investment has developed the cluster of companies that we have. R&D has really served as the backbone for development, and many Finnish companies have gone abroad equipped with the right skills, knowledge, and technology.

The other important part of the equation is education. The population in Finland is fairly small, but the educational level here is very high. We have just 5 million people, but those are 5million well-educated people. The population is mainly concentrated in the suburban Helsinki area, the southern and western coasts. In northern Finland, the land is very scarcely populated.

Regarding the demographics, our problem is the aging. The Finnish population is aging very fast; we don't have enough young people; and the birth rate isn't high enough. That's why we aim to increase our immigration level, which has been really small in comparison with Sweden or Denmark.

#### Could you describe the typical foreign investors? Are they oriented towards financial services, technology, or production?

A recent study showed that about two-thirds of the foreign companies come to Finland primarily because of the markets. They are market-driven investors, looking for new customers.

The second reason for coming to Finland is the knowledge and the skills. The investors come here because of the technology, the highly-educated people, new ideas, or new partners for their business.

The third reason is related to raw materials, especially mining. There has been

a mining boom in Finland for a number of years already. This year we have two mines opening - the biggest gold mine and the biggest nickel mine in Europe. The gold mine is owned by a Canadian company, Agnico-Eagle. The nickel mine is owned by a Finnish company, which raised more than 300 million euro through AMI, the Alternative Management Investment Exchange in London.

In mining, we cover the whole metal chain from the mines to the finished product. That makes us stronger as it results in our own value-added production.

#### Is Russia a current or a potential investor? Do you see Russian corporations investing in Helsinki as the basis for their regional or global expansion?

We have seen very little Russian investments and that has been a real disappointment. We have been talking to a number of large Russian companies that are interested in our mining and metal businesses. However, those companies are typically listed on the Helsinki Stock Exchange and are not easy to acquire. We haven't seen much other Russian interest in Finland.

Of course, we have to remember that our market is small. The population of Finland is about the same as that of St. Petersburg in Russia. According to a study that we recently made in Russia, the entrepreneurs think that the growth rate in Finland is smaller than in Russia. That may have changed today, but at the time it was easier and more rewarding for entrepreneurs to be on the high-flying and bigger domestic market. Nevertheless, we expect the investments from Russia to increase in the future.

#### If the Russian investors do not participate much on the stock exchange, who are the major investors on the equity market?

Yes, we haven't seen many Russians investing on the Helsinki Stock Exchange, but we have seen funds from North America, Central Europe, and the U.K. They are the major investors.

### What are the largest and fastest growing sectors of the economy?

The biggest sector today is technology, including mobile communications, software, and electronics. Pulp and paper is still a leading industry, although it isn't growing anymore, and growth is a paramount issue.

The real opportunity for foreign companies is services, because the proportion of services in Finland is still lagging behind the averages in the EU. That's an area where we have seen and expect a lot more foreign investors. We have had a number of foreign companies entering the financial and business services recently.

Real estate management is another growth area because the yields in the real estate business two or three years ago were very high compared to the U.K., for instance. So, we see foreign investors coming to the real estate market and bringing their management companies.

### What are the future sources of growth that you see?

Currently, one of the most interesting area that attracts many investments is clean technology. We are very productive in renewable energy, not only in wind power generation, but also in waste product energy. In the pulp and paper industry, various types of waste are turned into energy.

There are many new applications and new companies in that area, which generates a lot of interest. The heavy government investment in R&D refers also to that field and the result is that many new products are coming.

One of the important developments is that now the small wind farms can feed electricity to the national network and gain income. I think that is really attractive to foreign investors.

### Do you export electricity or energy to Russia?

No, we are buying from Russia. However, we have a nuclear power station coming

upstream in 2010, and that will change the situation a bit. That's very important.

### Since St. Petersburg is the closest big city, what kind of cooperation and ties have you established, both economically and culturally?


During the old Soviet times, all the pricing was official and established by the state, so the cities and the people were not that instrumental. That has changed and now the decisions are made on a personal and company level.

Of course, we have ties and we have a number of Russian people who live in Finland. Often they have a second home here, know well the Finnish life and enjoy it. Compared to Russia, Finland provides a more quite and a safer environment.

So, there are many people on both sides who personally know the other country well. People travel a lot nowadays, when the boundaries are open.

### In your view, what are the unique characteristics that foreign investors should consider when they come to Helsinki? How that position will be beneficial to them?

First, trade is a growing area and many foreign companies come here because of the customers and the market. The purchasing power and the consumption is very high and that attracts many companies from overseas. Now the people can afford much more and the consumption is higher than in Central Europe.

Second, many foreign investors say that in turbulent times it is very difficult to choose the market. It is extremely important that Finland is very stable, both economically and politically, and our national economy is in a good shape. The balance sheets of the companies are rather healthy, because during the 1993 recession the companies and the government learned their lesson. Many investors choose Finland for these reasons. 



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### About Ticker Q&A

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