Finnish Economic Relations with China -Trends and Risks

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Finland has one of the longest histories of economic relations with the People's Republic of China (PRC) in Western Europe. Finland and the PRC established diplomatic relations in 1951 and signed a trade agreement in 1953 – during the time of the Korean War when most Western countries had placed the PRC under trade embargo. Although during the Mao-era (1949-1976) trade between the two countries was rather small in quantity and consisted mostly of Finnish paper and pulp exchanged to Chinese soy beans, the fact that Finland had long trade relations with the PRC was a good starting point for growing economic ties when the economic reforms began in China in 1979.

Since 2010, Finnish exports to China (including Hong Kong) has fluctuated between 5.5 – 7 percent of Finland's total exports. This made China the sixth largest export destination for Finland and the third largest country of origin in imports in 2017. The most important items in Finnish exports to China are forestry products and machinery, while Chinese imports consist mostly of electronics, consumer products, clothing, and for example toys. In this Finnish import profile is quite typical to other Western economies, which have relied increasingly on outsourcing their consumer products manufacturing to China. In 2017 Chinese imports constituted about 7 percent of total Finnish imports, but only 0.14 % of PRC total exports. As one might expect, Finland has no economic leverage over China.

In relative terms, Finland is one of the most active trading partners with China in the EU. It is also notable that in the EU the Finnish exposure to Chinese markets is second only to Germany. Currently, the PRC is also the third largest destination country of Finnish outbound investments. This makes Finland relatively more vulnerable than most other EU countries to China using trade issues as leverage in bilateral relations. The PRC has demonstrated its ability and willingness to use trade as leverage in its foreign policy. For example, the Philippines suffered a ban on banana imports to China for "health risk" reasons after an unfavorable court ruling for China in the South-China Sea dispute in 2016. There are no reported similar cases concerning Finland or Finnish companies, but due to its exposure Finland would make a soft target for Chinese pressure should a need arise. In the EU context, Finland is already regarded as being "soft" on China which has manifested itself for example in the Finnish government's willingness to lift the EU arms embargo on China and low profile in human rights issues. To underline the good bilateral relations, in an act of "panda diplomacy" China rented two pandas to a Finnish zoo in 2017.

Finland's economic reliance on China is increased by the boom in Chinese inbound tourism. Currently, Chinese tourism grows extremely fast in Finland: by about 30 % in 2016, and about 60 % in 2017. In addition to this, the Finnish national airline Finnair has based its business strategy on being the fastest route provider between Western Europe and East Asia. China is naturally a key to this strategy. While the strategy appears to be working well at the moment, it also exposes Finnish service trade to China risk.

Since around 2010 Chinese companies have started to invest abroad increasingly. So much so, that in 2015-2016 China invested more abroad than was invested in China, which is a historic change. Altogether, Chinese companies invested abroad about 800 billion USD in 2010-2016. Only a small fraction of these investments have targeted Finland, or Finland has otherwise indirectly become part of them. In 2016 only 16 Chinese subsidiaries were operating in Finland (out of about 4250 foreign subsidiaries in total) and the largest one of them was Volvo which is owned by the Chinese car company Geely. Like Volvo, about half of the Chinese subsidiaries in Finland were classified as retailing companies. Chinese investments are therefore still relatively small in Finland. However, there are two noteworthy aspects to these investments. First, the most recent investments clearly target Finnish high tech companies in IT, automotive, electronics, and maritime technology sectors. For example, the Chinese IT giant Tencent bought Supercell, a Finnish computer game company and National Silicon Industry Group (NSIG) bought a Finnish silicon disc manufacturer Okmetic in 2016. Further, a 22% share in Valmet Automotive was bought by Chinese CATL interested in lithium battery development. Nevertheless, apart from the Supercell deal, these investments have been relatively small in size and their impact to Finnish economy therefore limited.

Second, there is the prospect of large, or mega scale, Chinese investments in natural resources and transportation sectors in Finland. A Chinese company, Kaidi, is planning to invest in biofuel production in Kemi, and another Chinese company, Camce, in Kemijärvi for cellulose. These investments would be relatively large, nearly 1 billion € each, but they are dwarfed in comparison to two speculative infrastructure mega projects, which are under consideration by the Finnish government, Norway, Estonia and private companies: the Arctic Railroad (2-3 billion €) and Helsinki-Tallinn railway tunnel (c. 10 billion €). Both of these are expected to attract Chinese investments and the Helsinki-Tallinn railway tunnel has already a private alternative planning project undergoing which includes Chinese actors. The economic profitability of such mega projects is uncertain, as is Chinese investments in them. Nevertheless, should any of the projects be realized with Chinese funding they would expose Finland to Chinese influence far more than before.

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