



# ECONOMICAL SELF-SUFFICIENCY OF A SMALL INDEPENDENT NATION -

Case Lapland

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Opinnäytetyön tavoitteena oli selvittää onko Lapin maakunta taloudellisesti kannattavassa tilassa ja olisiko siitä jopa itsehallinnolliseksi alueeksi tai valtioksi taloudellisesti kannattavassa mielessä. Tutkimuksessa ongelmina nousivat esiin muun muassa joidenkin kerättyjen verojen aluesidonnaisuuksien vaikea tai lähes mahdoton selvittäminen, sekä esimerkiksi vertailumaiden taloustietojen hankkiminen jossa useiden eri lähteiden sekä valuuttojen kanssa luotettavuus ei voi olla aivan täydellinen.

Tuloksena tästä opinnäytetyön tutkimuksesta saatiin että Lapin alue ei ollut täysin kannattava omavaraisella tavalla tutkimustietojen ajalta, kuitenkin tutkimuksessa havaittiin että tämä voi olla virheellinen tulos koska kaikkia alueelta kerättyjä verotuloja ei voitu selvittää tarkasti.

Opinnäytetyön johtopäätöksenä on että Lappi ei ole maakuntana ollut taloudellisesti omavarainen, mutta pienillä muutoksilla se voisi olla sitä helposti.

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The aim of this thesis was to find out whether the region of Lapland is economically self-sustainable, and whether it could even turn into an autonomous region or nation economically profitable in mind. The research problems with some tax information were identified difficult or almost impossible to find out. Similarly, the reliability of figures from a country comparison data was clearly not 100% comparable as the data was collected from several different locations and from different currencies.

The result of this research was that the Lapland region was not an imminently, economically self-sustainable region during the research period, based on the research found. However, this may not be a correct result because all tax revenues collected in the area could not be determined accurately.

The conclusion of the thesis is that Lapland was not an economically self-sustainable region during the time of researched data, but with small changes it could be quite easily.

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## FOREWORD

I would like to thank all those people from the Finnish capital region and elsewhere in Southern Finland who have been complaining for decades that Lapland is just using their tax money. Also thanks to all those people who have been guiding Finland to this dark economic situation so far.

Thanks for teachers and other staff in the Lapland University of Applied Sciences Rantavitikka campus (additionally also Lapland University of Applied Sciences Tornio Summer campus).

Huge thanks to my family and friends for the support.

Thanks also for those co-students who were supporting me during the studies, you know who you are. I know you will get in to great careers and have great adventures ahead of you, and live awesome lives all around the globe, wherever you decide to settle down.

Rovaniemi, Lapland, Finland

31.3.2016

Jarno Siivola

## 1. INTRODUCTION

### 1.1. Objectives and Purpose

This thesis gives a brief analysis on how self-sustainable Lapland as a region is at the moment economically. Secondly, the purpose of this study is to give a proposal analysis on how Lapland could manage economically by itself as an independent economical region or even as an independent country.

### 1.2. Choice of Topic

How did I choose such a topic. It has been in talks for decades but I have not seen any publication or research what so ever, even though statistics are easy to get these days using the information available on the internet. After getting numbers from internet sources, calculating the sums will turn to results rather quickly. It has been in my thoughts at least from the 1990's and perhaps even longer. Now as I had an opportunity to write about it by myself I thought "Heck, why not! I will write my thesis about it", so here we are. Also, the recent happenings in the Scotland region in the United Kingdom (The Scottish Government 2014) and the Catalonia region in Spain (Public Diplomacy Council of Catalonia 2015) where both regions were having their own campaigns for their own independencies were a big boost and influence for my research and the writing process since I read lots of articles and followed their situations in the process closely from the media.

### 1.3. Limits of the Thesis Project

The biggest single reason to limit this thesis is the fact that this is a Bachelor level thesis which limits the length of the thesis to quite short a piece of report.

As it is suggested to have a maximum of 25 pages or approximately 10 000 words in a Bachelor level thesis (University of Twente 2014) it is really easy to understand that this thesis cannot go deeply into this topic. However, the basic

research with a few examples can be shown already in this Bachelor level thesis. The thesis can also be continued deeper within the same topic frame to a Master level thesis and even deeper on a Doctorate level if wanted.

Also, it would be possible for other students to do a Bachelor level thesis from this topic from another angle or even from deeper levels.

## 2. CURRENT SITUATION OF LAPLAND

For now Lapland is the northernmost region in Finland and the European Union, holding approximately one-third of the land area of all Finland. The public budget is mainly under the governance of the Finnish Ministry of Finance, based in Helsinki, Southern Finland. Some parts of the public budgets are made locally especially the city and county budgets, but taxes are collected centralized by Finnish Tax Office. (Lapland UAS 2013-2015)

There is approximately a population of 182 000 living in the Lapland region from all, approximately 5 400 000 population, living in Finland. Therefore, Lapland is not that densely populated an area. Also, less infrastructure is needed as there are less people using the infrastructure. The main concentrations of the population are the city of Rovaniemi with approximately of 60 000 citizens, followed by the Baltic Sea coastal cities of Tornio and Kemi both with approximately 20 000 citizens. (Regional Council of Lapland 2016)

As Rovaniemi is mainly based on service business and administrative city, Kemi has lots of forestry industry such as pulp and paper mills; also Outokumpu Elijärvi chrome mine with resources for at least upcoming 50 years left, Elijärvi mine is only chrome mine in European Union. (Outokumpu 2014)

Tornio has lots of service businesses due to its location in the Swedish border, which brings customers shopping despite of the fact that the biggest single income to the region is the Outokumpu Stainless Steel mill located in Tornio and supported by the Outokumpu Elijärvi chrome mine in Kemi. The steel mill gets some of its resources locally, which makes it more profitable as the transport costs can be kept reasonably low. (Outokumpu 2014)

For the rest of the Lapland forestry, agriculture, including reindeer herding, tourism, and mining industries with their support service businesses are the main business areas. (Regional Council of Lapland, 2016)

Lapland had a population of 181700 people in December of 2014; the GDP was 5900 million



Euros, while exports from the Lapland region to outside of Finland were 3500 million Euros. (Regional Council of Lapland 2015)

We can quite easily calculate some numbers already from these given statistical numbers that may tell us whether Lapland really is self-sufficient as a region, even before we make any comparisons to any other country. By dividing the GDP with the sum of the amount of the population we can get the GDP per capita rate which can give a good brief look about the economical health of the region. After that calculation it is always preferable to convert the currency into USD as the data in comparisons is usually given in US currency.

Year 2014 Lapland had a GDP per capita of 36744,42 USD which ranks higher than Japan, Italy, Spain, South Korea, just to mention a few examples.(The World Bank 2015)

When we look for the export rate, the calculation goes in the exact same way. The income from exports will be divided with the amount of population in the region. There we have exports per capita rate and again this will be converted into US currency.

For the year 2014 Lapland had exports per capita worth 21795,35 USD, which ranks all the way up to the 12<sup>th</sup> place in the list of all countries in 2014.

Right after Lapland is Iceland but with only 15627 USD there is already quite a significant difference. Also right before Lapland is Ireland holding the 11<sup>th</sup> position in the list with 26168 USD and Kuwait in 10<sup>th</sup> position with 26269 USD (The World Bank 2015).

As we look at how much the Finnish government has been spending to run the Lapland region and also how much the Lapland region has paid to the Finnish government in taxes, we can have another look at the economical self-sustainability of the Lapland region.

Table 1. Government revenue and expenditure regionally (Statistics Finland 2006)

**Finnish Government spending regionally before investments**

<b>Lapland 2006</b>	<b>Million euro</b>	<b>Euro / capita</b>
<b>Operating costs</b>	514,4	2775,02
<b>Transfers to municipalities</b>	365.18	1970.03
<b>Transfers to businesses</b>	106.38	573.88
<b>Transfers to private persons</b>	253.35	1366.75
<b>Other transfers</b>	181.73	980.38
<b>Other costs</b>	2.78	15.02
<b>Costs total</b>	<b>1423,82</b>	<b>7681,08</b>

**Finnish Government tax income regionally**

<b>Lapland 2006</b>	<b>Tax income Million Euro</b>	<b>Tax income / capita Euro</b>
<b>All taxes</b>	<b>1066</b>	<b>5753</b>
<b>Income and wealth taxes</b>	327	1766
<b>Value added taxes</b>	446	2405
<b>Excise taxes</b>	212	1143
<b>Other taxes</b>	82	440

As we can easily see from the figures in the table above (Table 1) there seems to be a 357,82 million Euro gap between self-sustainability when measured in taxes. However, we can also quickly see that if municipalities did not get anything from these taxes, the income would basically cover the costs directly. Eventually by letting municipalities be more self-sustainable economically Lapland would already be fully self-sustainable. A noticeable thing is also that not all taxes are paid in the Lapland region even if the services or goods are sold in the area. For example a company may be registered in Oulu or Helsinki and pay their taxes there. Therefore, that gap can be really small or even reversal, making the Lapland region self-sustainable by itself already now.

It is also noticeable that at this moment and for many years in a row before, the Finnish government has been using new yearly loans to cover its

budgets and therefore, it has not been fully self-sustainable. The rate of loans has covered approximately 10% of each year's budgets (Ministry of Finance, Finland, 2016), which would be 142,38 million Euro part of this 2006 example, cutting down the gap to 215,44 million Euro.

Value added tax rates at the moment are the same as generally in Finland as Lapland is under Finnish governance. Those rates are the following at this moment; general VAT rate 24%, food and restaurant services 14% VAT and for accommodation, books, medicine, sport services, tickets for movies, cultural events and other entertainment events, transport of passengers and other similar services 10% VAT.

### 3. COUNTRY COMPARISONS

With country comparisons we are able to compare existing small countries and their figures with the Lapland region.

Comparison gives directional views for the Lapland region and its economy in global competition.

#### 3.1. Finland

Finland is the main country to compare Lapland's economy as Lapland is under Finnish governance and economy at the moment.

However, rest of Finland and their needs, excluding Lapland, are significantly different compared to each other and therefore those laws are not really working at all in the Lapland region. There are great differences in several different areas, for example things such as infrastructure, weather, density of population, export volume, not to mention some Finnish laws are designed and written mainly for the needs of Southern Finland and many times those laws are not well suitable in the region of Lapland.

Population count for Finland without the Lapland region in December 2014 was 5290053.

Total population of Finland with the Lapland region included was 5471753 in December 2014. (Statistics Finland 2015)

The main population concentrations in Finland are the capital area with the cities of Helsinki, Espoo, Vantaa, and Kauniainen with the cities of Turku, Tampere and Oulu following.

Finland is strong in manufacturing, especially the wood, metal, engineering, telecommunications, and electronics industries. In the field of technology Finland exports mobile phones. It also promotes start-ups in the ICT, gaming, clean technology, and biotechnology sectors; also forestry is an important part of exports. (CIA World Factbook 2015)

As for the economical figures Finland had a GDP in 2014 of 272200 million USD and the GDP per capita for 2014 was 49823,7 USD. (The World Bank 2016)

The total amount of exports Finland made in 2014 was 99175,6 million USD. The exports per capita rate in 2014 for Finland was 18125 USD. (OECD 2016) Excluding Lapland from these figures from the year 2014 the rates would be the following; total exports 95203 million USD and exports per capita rate 17997 USD.

### 3.2. Estonia

Estonia has the same currency as the Lapland region at the moment i.e. Euro. Estonia is also a good comparison with its nearby location as it is the neighboring country of Finland from the south, being just across the Gulf of Finland.

The land area of Estonia is less than half in comparison with Lapland. Therefore, Estonia, as a small nation, is a really nice country to compare with the region of Lapland..

The land area of Estonia is 42388 km<sup>2</sup> and the population of Estonia in July 2014 was 1257921. (CIA World Factbook 2015)

The main population concentrations in Estonia are the capital city of Tallinn right across the Gulf of Finland. Other cities as Tartu and Pärnu are closer to the Latvian border.

Estonia is strong in electronics, software production and telecommunications sectors (CIA World Factbook 2015)

As for the economical figures, Estonia had a GDP in 2014 of 26490 million USD and the GDP per capita in 2014 was 20161,6 USD. (The World Bank 2016)

In 2014 Estonia had exports of 21957,7 million USD and the export per capita rate was 17455 USD for 2014. (CIA World Factbook 2015)

### 3.3. Iceland

Iceland is a very good comparison pair for the Lapland region. It has nearly the same amount of people living in nearly the same land area as Lapland. The location of Iceland is also very good in comparison as it is situated basically between Lapland and Estonia if we look only the latitude from the map.

Population of Iceland in 2014 was 327600. (The World Bank 2016)  
Iceland makes most of its revenue from the fishing industry with the help of aluminium and ferrosilicon production which all are their main exports. Also, software production, tourism and biotechnology are big part in economy of Iceland. (CIA World Factbook 2015)

As for the economical figures, Iceland had a GDP in 2014 of 17040 million USD and the GDP per capita for 2014 was 52004,5 USD  
Iceland had exports in 2014 for 9127,4 million USD Exports per capita rate for Iceland in 2014 was 27861 USD  
(The World Bank 2016)

### 3.4. French Guiana

French Guiana, a distant and tropical Southern American country, is compared with the Lapland region for several reasons; French Guiana has the same currency as Lapland because it is part of France. The land area of French Guiana is somewhat similar with the Lapland region as French Guiana has an area of 83846km<sup>2</sup>. Even the main sources of income are similar to Lapland's because French Guiana has big industries in tourism, and forestry as 94% of the land

is covered by the Amazon forest, and even mining of minerals which are all in great part of the economical structure of Lapland, too.

However, the GDP of French Guiana is significantly lower compared to the GDP of Lapland.

The population for the rest of the French Guiana in 2013 was 250109. (French Guiana Agency 2014)

The main population concentration is the capital area of Cayenne where most of the population of French Guiana lives.

As for the economical figures, French Guiana had a GDP in 2013 of 4454 million USD and the GDP per capita for 2012 was 15153 USD.

French Guiana had exports for the total sum of 333,5 million USD in 2013.

The export per capita rate in French Guiana was 1333 USD (French Guiana Agency 2014).

#### 4. PROPOSAL ANALYSIS

As it can be seen from the figures Lapland has not been imminently self-sustainable. Gap to self-sustainability was not huge so it might be even possible that Lapland region has been that for some time already.

I suggest with a few tweaks on laws and taxes in the economically independent Lapland region would be a success.

Few easier tweaks to economy to mention, cutting general VAT rate from 24% to 19%, and lower reduced VAT rates 14% and 10% down to 10% and 5% would give a nice boost in economy of Lapland region. This way Lapland could be in competition with the European Union wide e-commerce as the prices could be kept in the same level as in Germany or the United Kingdom, of course the sales to the neighboring high level VAT rate countries such as Sweden would gain a big boost too.

In addition, cutting the costs of running the system aka bureaucracy would be imminently needed as it will be coming up eventually at Finland too in upcoming years.

For example collecting car tax takes time and money and such a small population it would be better to annihilate legislation like that and consider of collecting just daily based road tax which can be controlled by automatic cameras from passing by cars register plates or vehicle mounted cameras by law enforcement. Additionally, foreign vehicle owners would have to buy a vignette sticker to their windscreens so the road maintenance and building costs would be covered from all the users equally.

Extermination of the Generally Binding Collective Work Agreement and setting a minimum salary to law. Checking the tax rates for companies and individuals to a competitive level for attracting new companies to start or move their businesses to Lapland would help us to see a healthy growth of economy in the region.



## 5. DISCUSSION

Based on the figures and calculations, it can be said that Lapland was not imminently a self-sufficient region in 2014. Then again we could see how small a gap there is to catch in the economy of the region. My proposal suggests how it might be quite easy to grow this gap over and perhaps even make the economy grow over the needs of sustainability.

The reliability of the figures is pretty good but as the numbers were gathered from a variety of different sources, there must be some issues and it is not a 100% comparable data.

Also, it was not easy, or more likely almost impossible, to get all the regional tax revenue information as some taxes do not have the correct information or not at all regional information.

I would suggest further research on this theme with deeper and broader economical calculations about the economy of Lapland. Maybe this would be an appropriate task even for a team of researchers.

Also, if the theme of Lapland as an independent region or even a nation would interest people from other than an economical view there could be interesting studies collaborating with this study in politics, defense, infrastructure, telecommunications, law enforcement, social sector and health care to mention just a few areas.

Hopefully this thesis will be useful for people of Lapland in some form.

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