

Executive summary

In 2019, Finland's inward FDI stock was 31% of its GDP, lower than an average 49% in the Nordic-Baltic countries. Finland hosts the largest number of greenfield investment projects in the region, but the average value of such projects has been declining since 2016. The value of cross-border M&A deals has also decreased in recent years. COVID-19 brings additional challenges to Finland's ability to reverse these trends.

Among the multiple reasons behind this performance, the domestic regulatory environment might be playing an important role. Domestic policies can influence FDI both directly, by regulating market access and national treatment, and indirectly, through measures addressing national objectives (e.g. national security, environmental or job protection). While serving valid purposes, these measures can, in some instances, have the unintended consequence of increasing business costs.

This report assesses the extent to which Finland's domestic regulatory landscape facilitates or inhibits inward FDI. It covers FDI trends and the role of foreign investment in supporting economic growth, job creation, export performance and internationalisation. It also assesses regulatory frameworks in force in Finland and other Nordic-Baltic countries, and how changes in these are associated with changes in FDI flows in the region. Business consultations offer new insights into the Finnish business climate. The report finally provides policy considerations that could further improve Finland's investment climate.

Key findings

Finland's comparative advantage in knowledge-based services is reflected in the high degree of foreign penetration in these sectors. Finnish salaries for high-skilled workers are considered relatively competitive compared to other Nordics. High-quality institutions, transparent regulation, economic and political stability also contribute to a strong business climate.

Finland has few explicit restrictions to FDI and relatively low barriers to trade and investment in some sectors, which contribute to attracting inward FDI. Finland maintains few barriers in professional services sectors and has a favourable regulatory environment for digitally enabled services. Investors in Nordic-Baltic countries enjoy a high level of regulatory integration within the region, and regulatory harmonisation within the Single Market has lowered barriers for investors within the EEA.

There are, however, several challenges that may be preventing Finland from exploiting its full potential as a destination for FDI:

- While Finland has relatively few restrictions to foreign (non-EEA) ownership, there is some uncertainty around the implementation of its FDI screening mechanism.
- Setting up a business takes longer in Finland than in other countries in the region, and foreign investors have limited access to online company registration. Long processing times of operational permits slow down, or undermine, investment projects.
- Finland has well-functioning stakeholder consultations for new legislation, but there is still room to develop regulatory impact assessment, e.g. in the national transposition of EU directives.
- While the telecommunications sector enjoys a good overall coverage of pro-competitive measures, price regulation imposed on firms holding significant market power does not cover all markets.
- In maritime transport, links between domestic or EU/EEA ownership of vessels and access to cabotage and tonnage tax treatment disfavour foreign providers and investors. The rail transport

sector has little competition. In logistics, lack of mandatory competitive bidding to award service contracts at ports and airports affects competition.

- Stringent labour market regulation and excessive bureaucracy to recruit non-EEA workers impede companies' growth and internationalisation prospects, which is worrisome given growing skill shortages and rapidly aging population.
- Both foreign and domestic firms call for a closer interaction between Finnish policymakers and the business community.

Key policy conclusions

To improve Finland's ability to attract and retain FDI, the following policy options could be considered:

- Increase the predictability and transparency of FDI screening processes. Publishing further guidance and reporting on implementation practice, such as average processing times, could increase legal certainty for foreign investors.
- Streamline company registration and operational permits to facilitate investment projects. Digital solutions can reduce waiting times and administrative burden on all businesses and enable non-EEA investors to register their company online, possibly in English.
- Keep developing regulatory impact assessment, including by monitoring national transposition of EU directives and introducing a mechanism to oversee the adequacy of impact assessments in legislative drafting.
- Competition in ICT, transport and logistics could be enhanced, for instance, by easing conditions to access coastal trading and benefit from the tonnage tax scheme in maritime transport, and opening up the rail passenger transport market.
- Continue planned efforts to support the Finnish labour market by increasing the scope of local-level bargaining in collective agreements.
- Implement planned reforms streamlining entry of foreign talent. Recruiting and retaining skilled foreign workers could be further facilitated by simplifying the residence permit system and fast-tracking work-based permits for post-graduate students and researchers. Continue to promote Finland's attractiveness for international talent and facilitate their integration by further lowering language barriers and setting up one-stop-shops for entry services.
- Strengthen the dialogue between the government and the business community to gain a better understanding of companies' needs and explore further opportunities for co-operation.
- Ensure that benefits of foreign investment are more inclusive by increasing efforts to attract foreign businesses outside the capital region and fostering more extensive collaboration between domestic and foreign firms.

This report shows that foreign MNEs in Finland support improvements in the quality of jobs (in terms of wage and skill premia), facilitate the country's integration into global production networks through links with local suppliers, and promote technology diffusion through partnerships with domestic firms and intra-firm labour mobility. These benefits support economic growth and resilience, particularly during economic downturns, but should not be taken for granted, as the extent to which they materialise depends on a wide range of factors that contribute to a good investment climate.

In fact, beyond a country's openness to FDI, other aspects, such as competition, trade, investment promotion, taxation and adequate infrastructure, also matter and contribute to maximising the social and economic returns of FDI. This report looks at several of these dimensions to ensure that Finland remains an attractive destination for foreign investors and continues to attract foreign investment that brings value and supports inclusive and sustainable growth.



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