# 1 Trends and benefits of foreign investment

This chapter presents main trends of FDI activity in Finland in comparison with other countries in the Nordic-Baltic region. It provides an overview of the sources of foreign capital and a sectoral breakdown of foreign investment into the Finnish economy. It also offers further insights into equity capital flows by taking stock of recent trends in cross-border Mergers & Acquisitions and greenfield investment projects, assessing Finland's relative performance in attracting these types of FDI, as well as their sectoral and geographical allocation. In addition, it explores the broader social, economic and environmental benefits of foreign multinational activities in Finland, with respect to, for instance, value added, employment and wages, gender pay gaps, technology spill-overs and export performance.

# Key findings

- FDI flows into Finland in 2019 reached close to EUR 7.7 billion, 3% of GDP, following a recovery from 2018 which saw a general drop in FDI flows. However, Finnish FDI flows, as well as global FDI flows, are expected to decline in the coming years as a result of the COVID-19 pandemic.
- FDI stocks into Finland were valued at EUR 74.1 billion, 31% of GDP, in 2019. Yet, Finnish FDI stock levels were lower than those observed in the Nordic-Baltic region (where, on average, FDI accounted for 49% of GDP), with a gap widening over time, especially with respect to some Baltic economies.
- Services absorbed close to 60% of all incoming foreign investment in Finland in 2019, in line with FDI stocks in most of the Nordics. Sweden was the largest source of FDI, although non-EU investors have assumed considerably more relevance over time, when looking at FDI statistics excluding capital transiting through third countries.
- Cross-border business acquisitions in Finland target technology companies, and come primarily from Sweden, the United Kingdom and the United States. In terms of new investment plans, Finland hosts the largest number of greenfield projects in the region, however not always the largest ones (in value terms). Most new foreign investment activity in Finland takes place in software and IT services, but renewable energy is growing in importance too.
- While representing less than 2% of all firms in 2018, foreign-owned companies in Finland were responsible for about one-quarter of the value added generated in the Finnish economy and employed over 17% of domestic workforce.
- FDI in Finland encourages the wider spread of innovative technologies, particularly in knowledge-based services sectors. Skilled workers in foreign-owned MNEs earn higher wages than in domestic businesses with no international ties.
- Multinationals also provide new channels for greater integration into global production network. In addition to supporting Finland's export performance, foreign MNEs indirectly contribute to a significant share of domestic employment through their linkages with local suppliers.

## 1.1. Introduction

Foreign direct investment (FDI)[1] is often seen as a catalyst for economic growth. Under the right conditions, FDI can contribute to job creation and sustainable development, by raising an economy's productive capacity. But the benefits of FDI are not limited to the direct effects of capital accumulation. By engaging with local suppliers and establishing partnerships with domestic enterprises, foreign-owned firms can bring additional benefits to the host economy in the form of productivity spill-overs through several channels.[2]

Furthermore, FDI can serve as a conduit for technology transfer and contribute to accelerate the digital transformation. FDI can promote economic integration by strengthening access to international markets. FDI plays an equally important role in supporting economies during and after economic downturns. For instance, while FDI flows are estimated to fall by 30-40% in 2020 in response to the COVID-19 outbreak[3], past crises have shown that foreign multinationals may enhance the resilience of the host economy. This could happen by providing access to new capital funding, both for existing foreign affiliates and for domestic companies that could potentially face liquidity constrains. FDI could also mitigate the impact of downturns by sustaining existing employment and production and by providing new opportunities through new investment projects. In addition, foreign Multinational enterprises (MNEs) would offer further impetus to the recovery by indirectly supporting the activity, and related jobs, of upstream sectors in the economy.

While the potential of FDI spill-overs is well understood[4], their positive effects should not be taken for granted. The extent to which the benefits of FDI materialise in the host economy depends on a set of factors ranging from the competitiveness of local producers[5] to the strategic considerations of foreign-owned firms as well as the technological gap between domestic and foreign-owned firms and, therefore, the absorptive capacity of local producers.

The concretisation of FDI benefits will also depend on what intent the investment is serving. Without responsible business actions and due diligence, FDI can have unwanted repercussions for the receiving country. The entry of foreign multinationals may sometimes raise concerns about their potential social and environmental impact (notably around the weakening of labour standards and their contribution to unsustainable use of natural resources).[6] There is, however, strong awareness for responsible business conduct in Finland[7] and a strong interest in attracting quality investment that would bring value and contribute to sustainable growth.[8] Therefore, it is not just a matter of luring more foreign investors into Finland, but rather capturing projects that would maximise the gains and minimise the potential risks linked to FDI.

In this chapter, and in the rest of the report, Finland's performance in drawing foreign direct investment is assessed along several metrics and in comparison to a selected number of countries in the Nordic-Baltic region, i.e., Denmark, Estonia, Latvia, Lithuania, Norway and Sweden.[9] While the official FDI statistics used in this report try to account for the increasingly changing economic and financial complexity of MNEs, for instance by identifying entities established for the sole purpose of channelling funds through multiple countries or by tracking the investment back to the country where the ultimate owner resides, a more holistic approach is adopted to complement these statistics with a number of other data sources to offer a comprehensive view of investment trends in Finland and in the comparator group. These additional data highlight different dimensions, including the type of FDI transactions, the activity of multinationals and how they contribute to the host economy, and foreign companies' engagement in international trade and global production networks. All data sources are described in Annex 1.A.

This chapter explores main trends of FDI as well as the broader benefits of foreign multinational activities in Finland. The chapter is structured as follows:

- A stocktake of foreign investment levels and trends,
- An overview of the different types of FDI transactions and related patterns,
- The wider social, economic and environmental effects of FDI, in terms of direct and indirect contribution to the overall economy and greater integration into global value chains (GVCs).

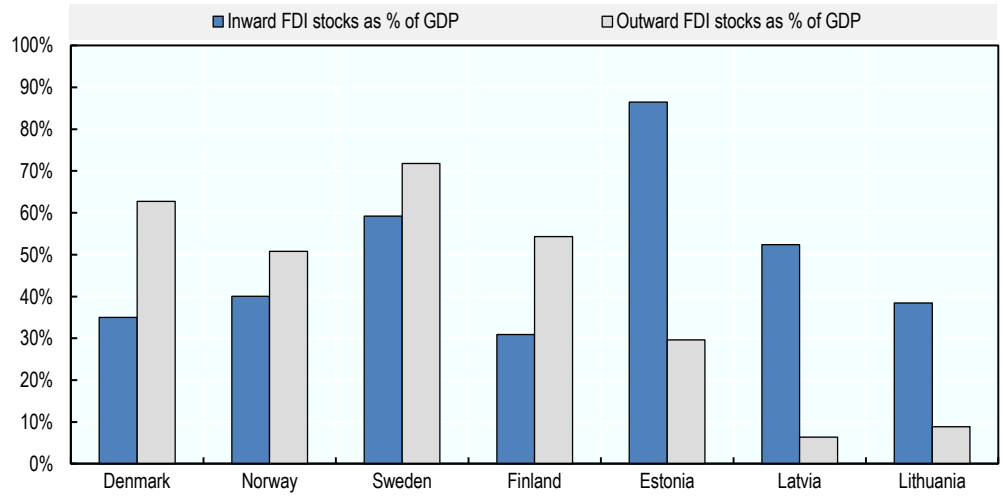
## 1.2. Recent FDI trends in Finland and in the Nordic-Baltic region

This section describes FDI trends in Finland in a comparative manner and discusses the main sources of foreign capital and the sectoral allocation of foreign investment into the Finnish economy.

### *1.2.1. Finnish inward FDI is not keeping pace with that of other Nordic-Baltic economies*

Compared to other economies in the Nordic-Baltic region, Finland has a lower stock of inward FDI in proportion to its size. In 2019, Finland's inward stock of FDI amounted to 31% of its GDP (Figure 1.1), while in peer economies, this share ranged from 35%, in Denmark, to 86%, in Estonia. Finland's inward stock of FDI in proportion to its size is also below the EU average of 61%. Estonia and the rest of the Baltic countries are net FDI recipients.

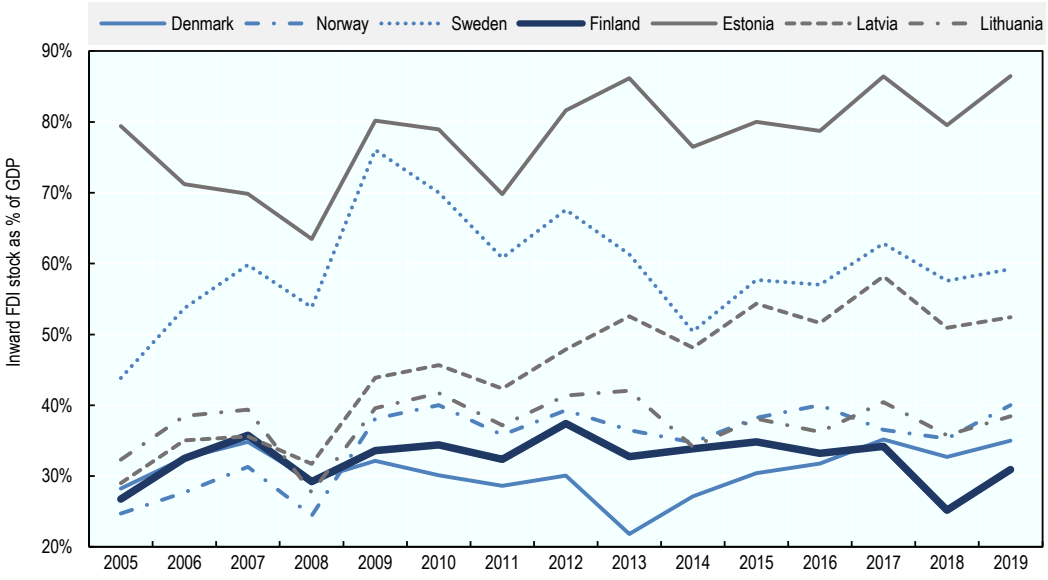
## Figure 1.1. FDI orientation in the Nordic and Baltic region, 2019




Note: Data exclude Special Purpose Entities.
Source: OECD International Direct Investment Statistics database (BD4).

Finland's gap with other economies in inward FDI stocks has, to some extent, widened over the last decade (Figure 1.2). Ten years after the crisis, Estonia and Latvia continue to experience a steady increase in inward FDI stocks, while Finland's position remains almost unchanged. Looking at recent trends, the stock of direct investment in Finland dropped from 34% of its GDP (EUR 72.7 billion) in 2017 to 25% (EUR 60.7 billion) in 2018, mostly reflecting valuation changes.[10] In 2019, Finnish inward FDI stocks showed some sign of recovery, bouncing back to 31% (EUR 74.1 billion).

## Figure 1.2. Finland's gap with other economies in inward FDI stock is widening

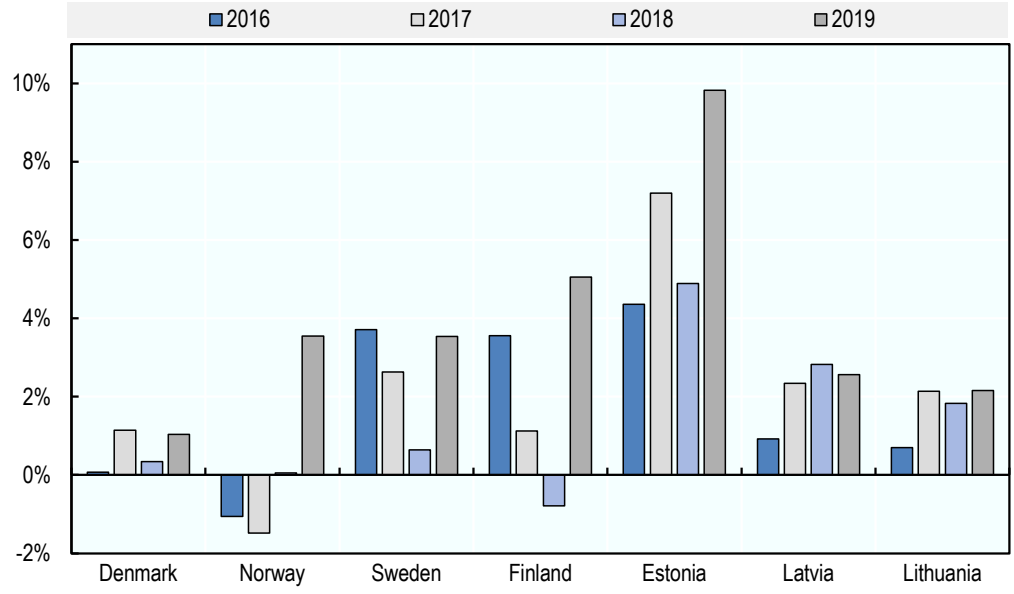



Note: Data exclude Special Purpose Entities.
Source: OECD International Direct Investment Statistics database (BD4).

FDI flows are an important contributor to changes in FDI stocks. In 2018, when global FDI flows dropped by 27% compared to the previous year (OECD, 2019[1]), largely driven by the effects of the 2017 United States (US) tax reform[11], inward FDI flows declined in most countries, with Finland registering negative flows (Figure 1.3).[12] Nevertheless, FDI flows in 2019 rebounded in nearly all countries in the comparator group, reflecting a return to positive outflows by the US, the Netherlands and Japan (OECD, 2020[2]).[13] Overall, during the past decade, Finland's inward FDI flows as a share of GDP fluctuated around 2%, which is close to the EU average of 3% and to the other Nordic-Baltic economies (2%-3%), with the exception of Estonia (5%).

### Figure 1.3. Inward FDI flows in Finland are recovering

Inward FDI flows as % of GDP, 2016-2019




Note: Negative values indicate disinvestment in assets, reversed investment, or negative reinvested earnings (e.g., the affiliate is making losses or pays larger dividends than the income recorded in each period).
Source: OECD International Direct Investment Statistics database (BD4).

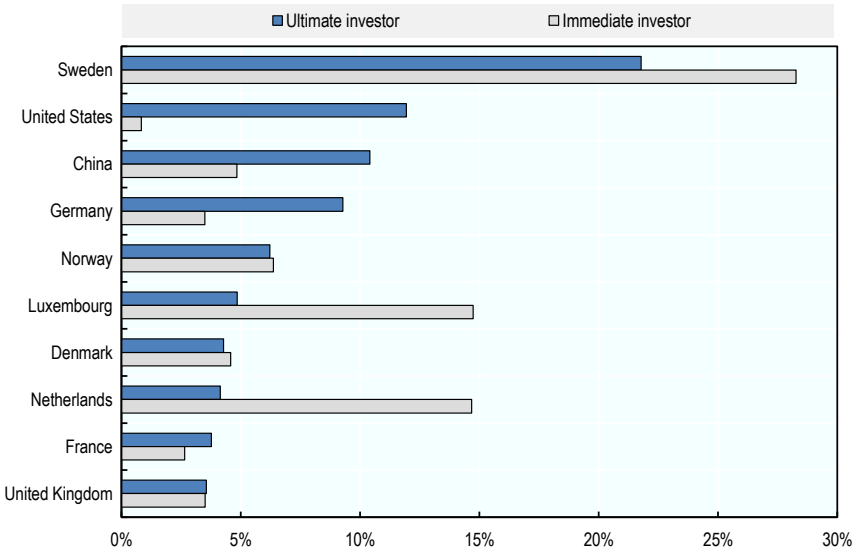
### *1.2.2. More and more FDI into Finland originates outside the EU*

A substantial share of FDI to Finland comes from a small subset of countries. On an immediate investor basis, 28% of inward FDI stock in 2019 originates from Sweden. Re-classifying the data on an Ultimate Investing Country (UIC) basis, however, helps to identify the ultimate origin of FDI.[14] Indeed, part of the investment coming from Sweden actually originates elsewhere, as its share drops to around 22% when considering FDI statistics on an UIC basis (Figure 1.4). This pattern is even more evident for the Netherlands and Luxembourg, which are often used as conduit for FDI within the EU and thus are less prominent when looking at data from an ultimate investor point of view.[15]

Similarly, EU28 as immediate investor in Finland accounted for 78% of total inward FDI stocks in 2019, but this share dropped to 57% on an UIC basis, due to the use of complex investment structures that channel investment through third countries. Ultimate investor FDI statistics reveal that the United States and the People's Republic of China (thereafter China) are among the largest investors in Finland (besides Sweden and Germany), accounting for 12% and 10% of total inward FDI stocks in 2019, respectively.

## Figure 1.4. Finland's large-scale investors

Top 10 partners' share of inward FDI stock in Finland, 2019

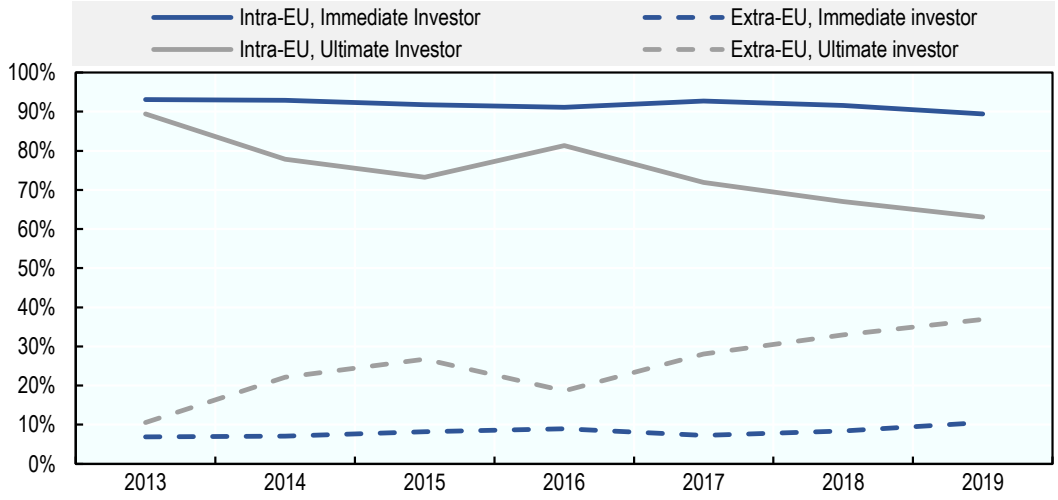



Note: Top 10 source countries on Ultimate Investor Country basis.
Source: Statistics Finland, Foreign direct investments.

As mentioned above, the largest investors into Finland come from the intra-EU market[16], although their importance in inward FDI stocks has decreased over time, on a UIC basis (Figure 1.5). In fact, the share of foreign capital flowing into Finland between 2013 and 2019 from investors outside the EU has increased from one-quarter to nearly 40% of total inward FDI stocks.

## Figure 1.5. An increasing share of investment into Finland originates outside the EU

Finland's inward FDI stocks by immediate and ultimate investor regions, 2013-2019



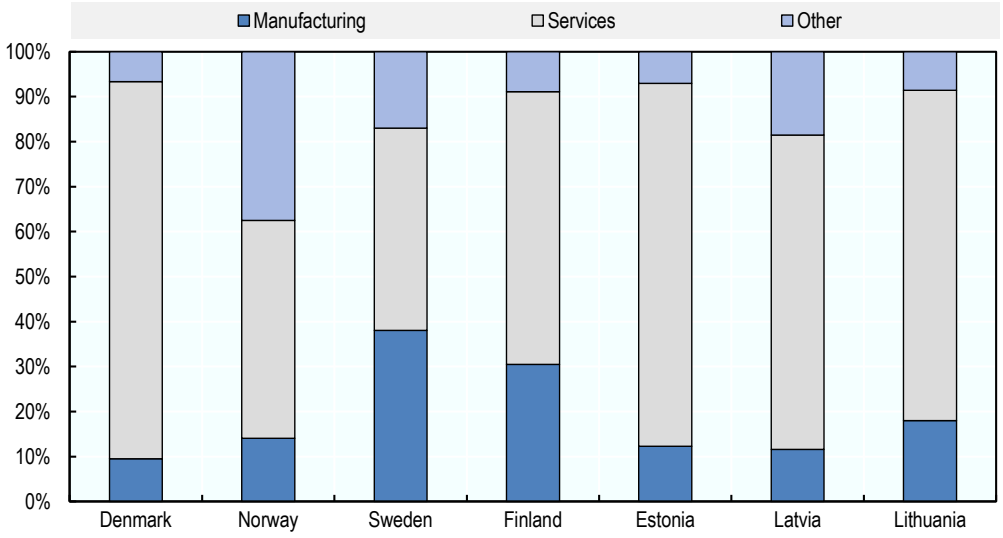

Note: Data exclude Special Purpose Entities (SPEs). Intra-EU refers to investment originating in the EU's single market (EU Member States, Iceland, Liechtenstein, Norway and Switzerland); Extra-EU comprises all the countries outside the EU's single market.
Source: OECD International Direct Investment Statistics database (BD4).

### *1.2.3. Finnish services sectors attract most FDI*

The largest stock of inward FDI into Finland in 2019 was in the Services sector (Figure 1.6), which overall accounted for nearly EUR 46 billion, or 61% of the economy-wide total, below the EU average of 66%, followed by Manufacturing, with EUR 23 billion (30%), above the EU average of 25%. While these shares are in line with those found in other Nordic-Baltic economies, among different types of services, in 2019, Finland recorded the largest FDI inflows into ICT services (13%), well above the EU average of 7%. The composition of Finnish foreign investment has also changed over time. Within the Services sector, finance and insurance have slowed down over the years, whereas other services, including ICT services, have attracted larger shares of FDI. Similarly, in the Manufacturing sector, FDI stocks have grown in the metal and chemical industries.

## Figure 1.6. Services attract most FDI

Share of total inward FDI stocks, by sector and country, 2019



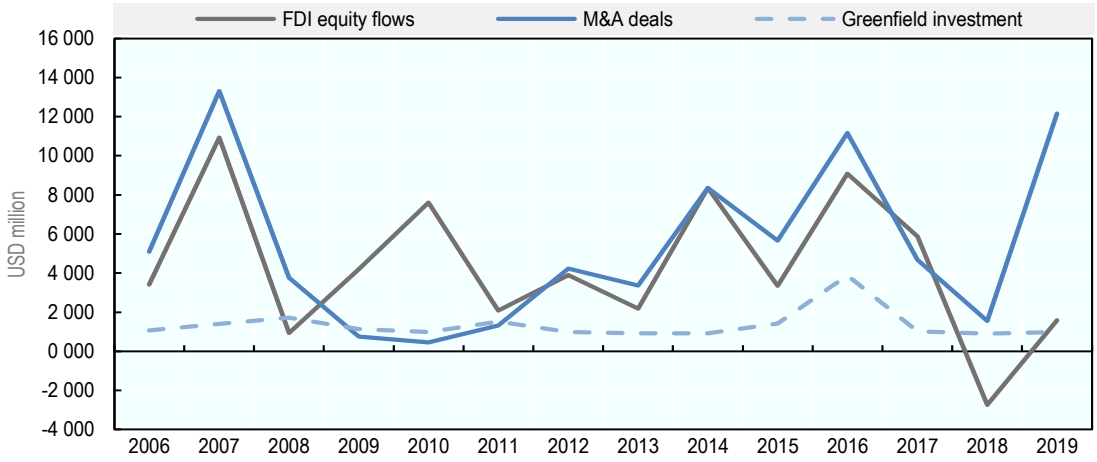

Note: Data for Denmark refer to 2017. Other sectors include agriculture, forestry and fishing, mining and quarrying, construction, electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities.
Source: OECD International Direct Investment Statistics database (BD4).

## 1.3. Trends in cross-border Mergers & Acquisitions and greenfield projects

This section presents an overview of two different types of FDI transactions that are closely related to equity capital flows, namely cross-border Mergers & Acquisitions (M&As) and greenfield investment projects. This section presents an analysis of their movement and relative importance over recent years as well as their sectoral and geographical breakdowns and it complements, as shown below, the panorama portrayed through official FDI statistics.

In fact, equity capital flows, a component of FDI inward flows, follow closely the movements of cross-border M&A deals in Finland over the period under analysis, whereas announced greenfield investment projects account for a smaller fraction, as expected in developed economies (Figure 1.7).[17]

## Figure 1.7. Equity capital flows, cross-border M&As and greenfield investment, 2006-2019



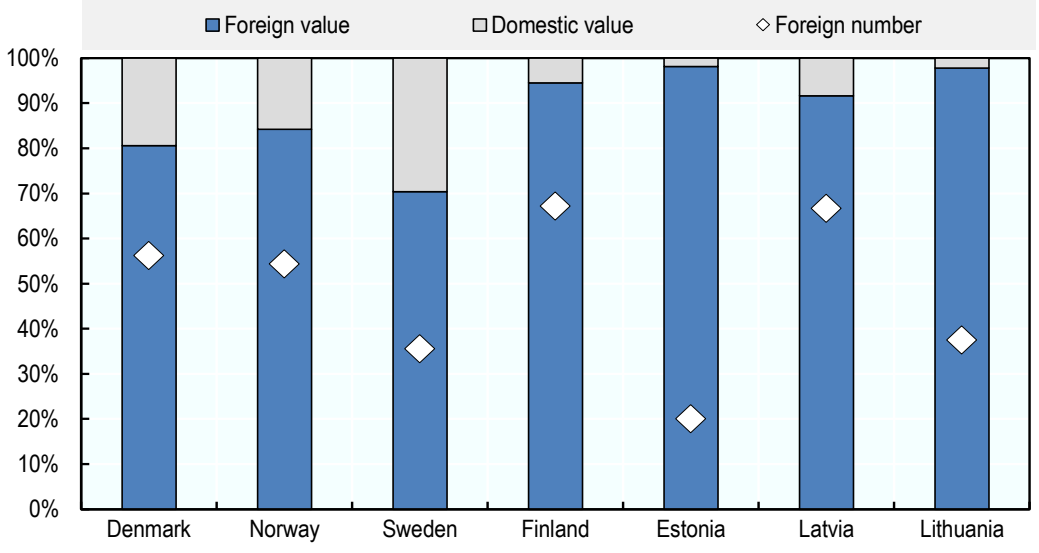

Note: Value of M&A deals is calculated using completed cross-border M&A deals. Greenfield investment refers to the value of announced capital expenditure. All values are deflated by producer price indices (2015=100).
Source: OECD International Direct Investment Statistics database (BD4); Refinitiv M&A database and Financial Times fDi Markets database.

### *1.3.1. Cross-border M&A deals in Finland favour the IT sector*

Foreign M&As accounted for 40-60% of global FDI flows in recent years (UNCTAD, 2019[3]). In general, cross-border deals tend to be less numerous than domestic M&As, but they often account for larger values.

In 2019, the share of foreign transactions in total number of M&A deals ranged from 20% in Estonia to 67% in Finland and Latvia (Figure 1.8).[18] Yet, cross-border M&As accounted for the lion share of deal values in the Nordic-Baltic region, with largest shares in Estonia and Lithuania (98% each) and Finland (95%). In Estonia, Lithuania and Sweden, a relatively small number of foreign transactions seem to have generated large deal value, suggesting the presence of a few large cross-border transactions.

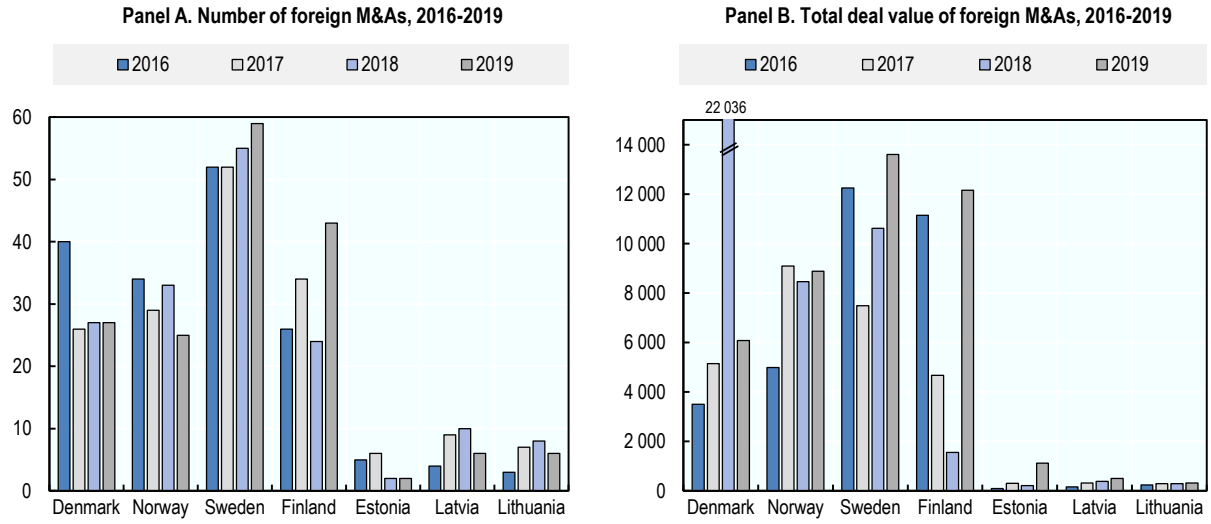
## Figure 1.8. Foreign transactions account for a large share of M&A deals in 2019




Source: Refinitiv, M&A database.

The number of foreign M&As and their value vary extensively over time (Figure 1.9). Spikes in total M&A value tend to reflect large-scale deals. For instance, in 2018, the stock of foreign deals in Denmark amounted to USD 22 billion, and was largely driven by three cross-border transactions above USD 5 billion, with the largest deal being the acquisition of the oil and gas producer Maersk Olie og Gas by French company Total (USD 7 billion). In Finland, the largest foreign deal in 2019 was the acquisition of the manufacturer of sporting goods Amer Sports by Anta International Group Holdings (Hong Kong, China), valued at USD 5 billion; nearly three times as large as the country's total deal value in 2018.

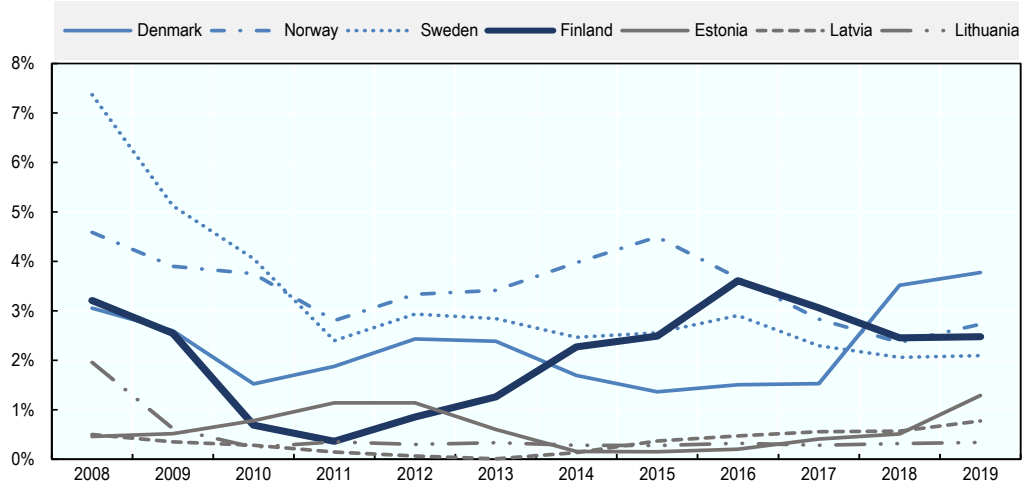
## Figure 1.9. Number of deals and their value vary over time




Note: All values are reported in USD million, and in constant prices, deflated by the producer price index (in 2015 values).
Source: Refinitiv, M&A database.

## Figure 1.10. Finland experiences a decrease in cross-border M&A deal values

Cross-border M&A deal values as shares of GDP, 2008-2019

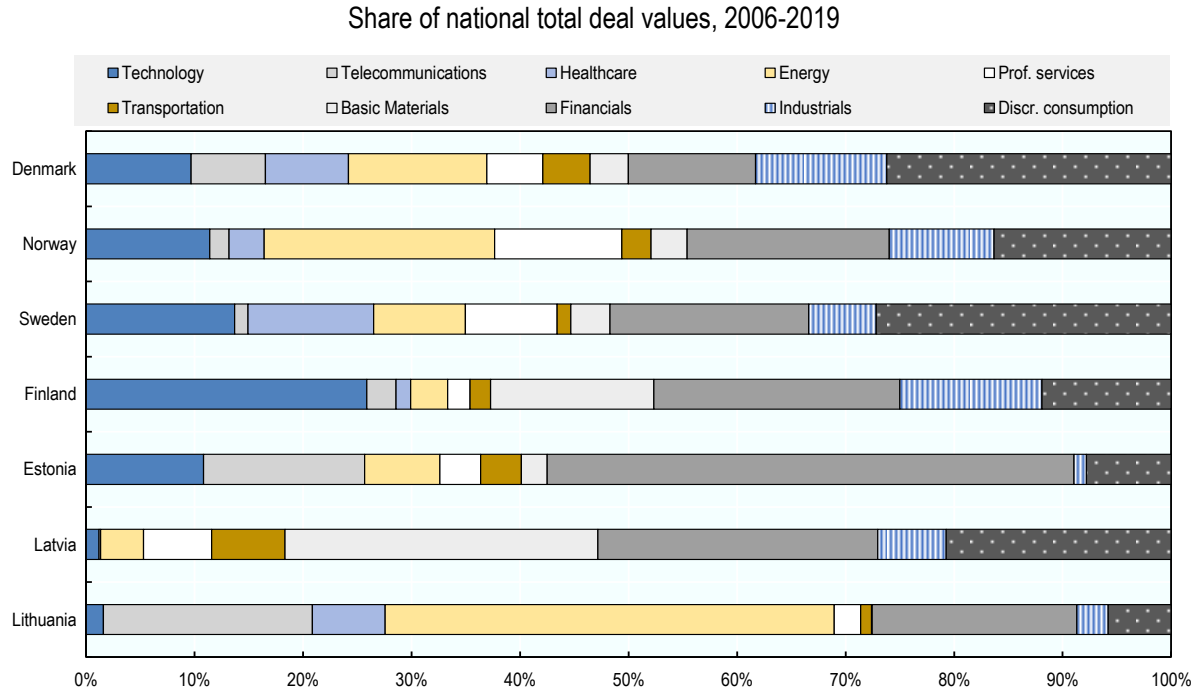



Note: Shares are calculated by taking three-year moving averages using total value of completed cross-border M&A deals. All values are deflated by producer price indices (2015=100).
Source: Refinitiv, M&A database and OECD National Accounts Statistics database.

Once the country size is taken into account and the high volatility of these transactions is smoothed by taking three-year moving averages, it emerges that Finland's performance in attracting larger cross-border M&A deals had improved between 2011 and 2016 but then set on a downward trend (Figure 1.10). Compared to other Nordic countries, Finland is still attracting relatively large foreign deals.

There is wide variation in the sectoral distribution of cross-border deals across the Nordic-Baltic region between 2006 and 2019 (Figure 1.11), reflecting differences both in countries' sectoral composition and in the attractiveness of sectors to foreign investors. In Finland, a large share of foreign investment has gone to the Technology sector (computer hardware, IT services, communications equipment), capturing a little more than one-quarter of the cumulative value of all cross-border transactions, much more than in its peers.

## Figure 1.11. M&As target different sectors across countries




Note: Industrials include construction, electrical equipment, and industrial machinery. Discretionary consumption includes consumer goods (e.g., food and beverages, apparel and accessories, consumer electronics) and household services (e.g., restaurants, recreational services, etc.).
Source: Refinitiv, M&A database.

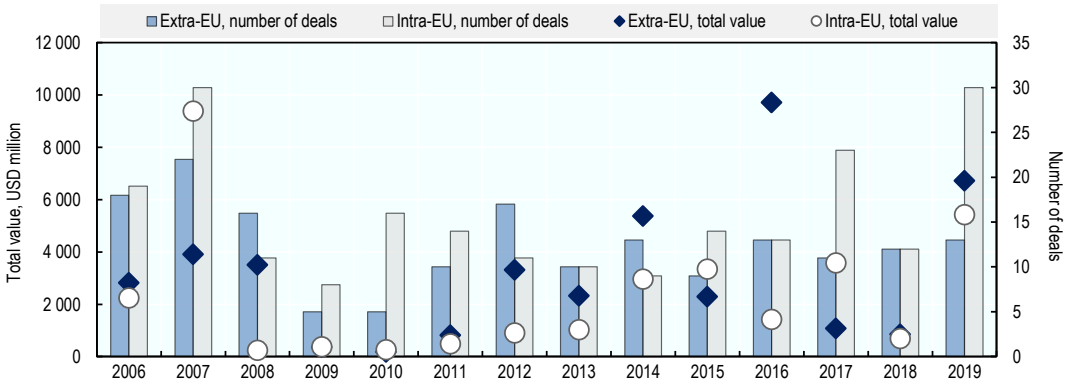
Telecommunications services, Healthcare, Professional services and Energy did not draw large foreign investment in Finland, each attracting below 5% of total foreign M&A value. The largest shares of foreign M&As in the Energy sector (covering the generation and distribution of energy from oil, gas and renewable sources) were found in Lithuania (41%) and Norway (21%), compared to only 3% in Finland.[19]

Many cross-border business transactions in Finland originate outside the EU's single market. Figure 1.12 shows that the number of intra-EU and extra-EU deals followed each other quite closely over time, with only a few years when transactions from the internal market dominated. In terms of values, M&A deals within and outside the single market followed similar trends, with a slowdown after the financial crisis and a gradual recovery afterwards.[20] However, the recovery trend was steeper for extra-EU investors. Several large-scale deals contributed to this trend, including the acquisition of Nokia Devices & Services by

Microsoft (United States) in 2014 and the acquisition of mobile game developer Supercell by Tencent Holdings (China) in 2016.

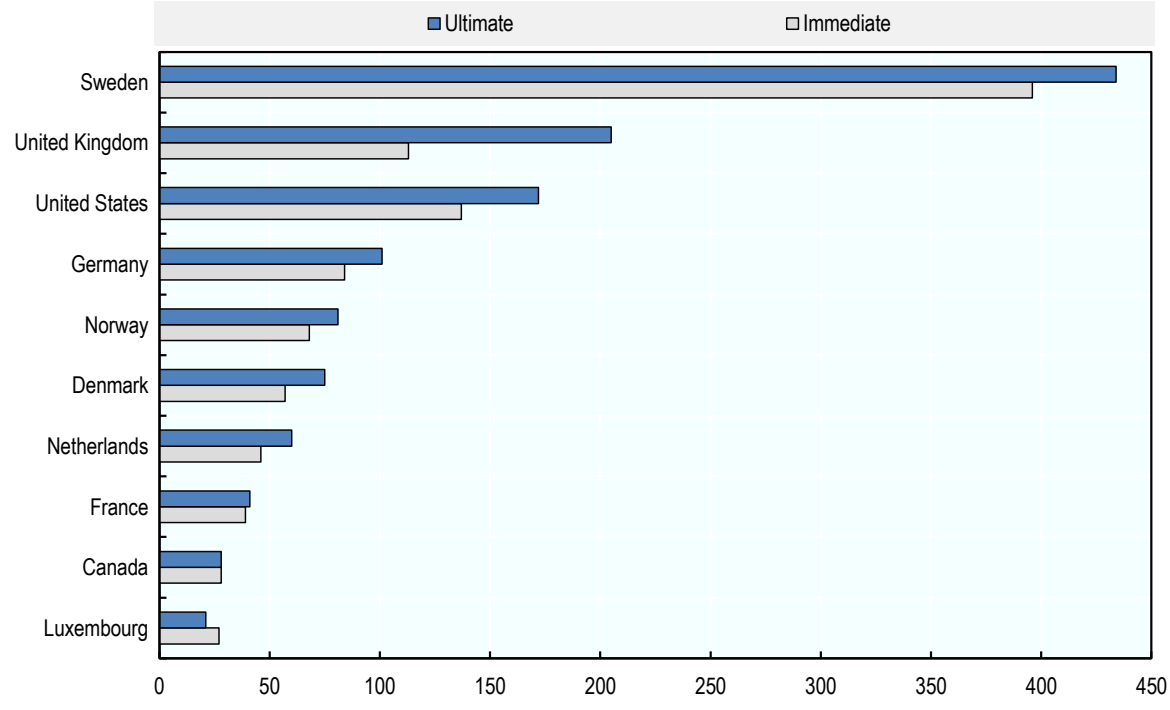
## Figure 1.12. Many foreign M&As in Finland originate outside the EU's single market

Total value and number of deals by investor's origin, 2006-2019




## Figure 1.13. Largest M&A investors in Finland

Number of deals by source country, 2006-2019



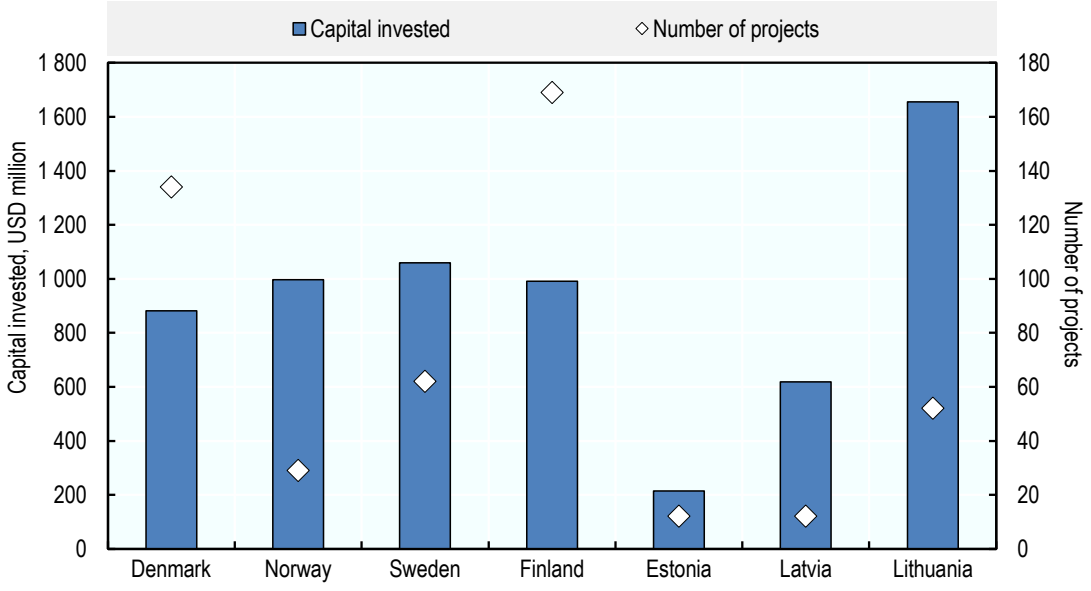

Source: Refinitiv, M&A database.

### *1.3.2. Finland attracts the largest number of greenfield projects*

The number of announced greenfield investment projects into the Nordic-Baltic region increased from 364 in 2018 to 470 in 2019.[21] Finland and, to a lesser extent, Denmark, benefitted the most from the increase in foreign investor activity, with 169 and 134 projects in 2019, respectively (Figure 1.14). Yet, the announced total capital investment into the region decreased by 7%, to USD 8.4 billion, in 2019, while still creating nearly an estimated 22 000 jobs.[22] Lithuania reported the largest announced projects by value, for a total of USD 1.7 billion in 2019.

The different country rankings reflect large variation in project size. For instance, the total announced value in Lithuania in 2019 was largely driven by two large-scale investments: Danish provider of wind and solar energy, European Energy, revealed its intention to build three wind parks in the country (estimated capital expenditure for each USD 173 million) and German automotive parts manufacturer Continental announced its plan to build an energy plant (USD 440 million). In Finland, the largest greenfield investment reported in 2019 was an opening of a data centre by internet hosting company Hetzner (Germany), valued at USD 99 million. Norway and Sweden attracted fewer projects than the other Nordic economies, but many projects were relatively large, especially those in wind energy. For instance, Luxcara, a German asset management company in renewable energy investment, announced its intention to build three wind farms in Norway (USD 153 million each) and one in Sweden (USD 178 million).

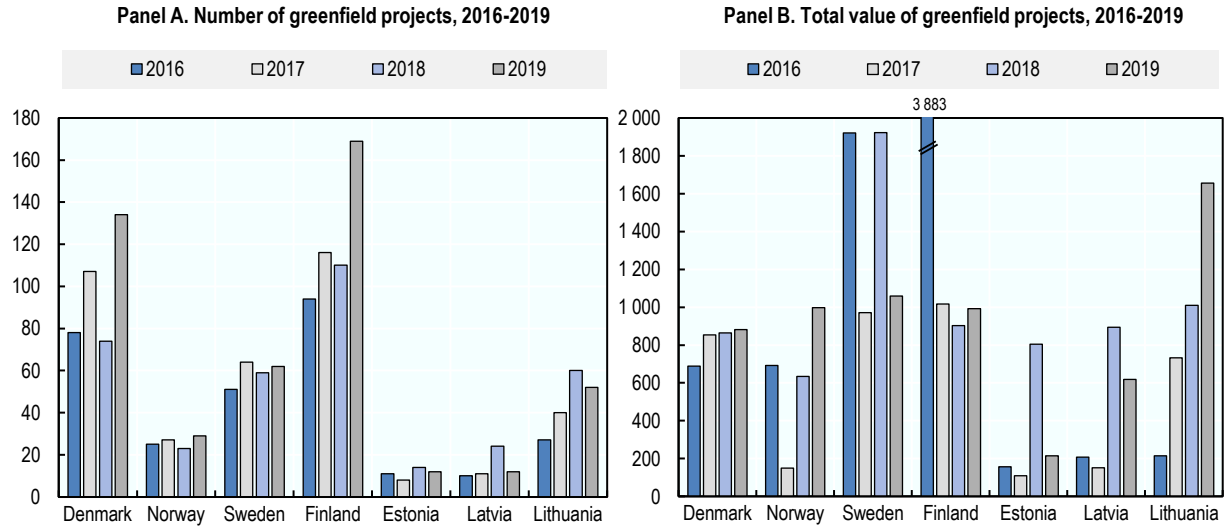
## Figure 1.14. Finland is leading in the number of greenfield projects in 2019




Source: Financial Times fDi Markets database.

Between 2016 and 2019, Finland has attracted the greatest number of announced FDI projects in the region, mostly in 2019 (Figure 1.15). The largest amount of capital investment (USD 3.9 billion) occurred in 2016, reflecting mostly three large foreign investment projects accounting for nearly two-third of total capital invested.[23] While Finland is leading in terms of the number of announced greenfield investment projects, in value terms, Finland is on par with Denmark and Sweden, suggesting it attracts projects of lower value.

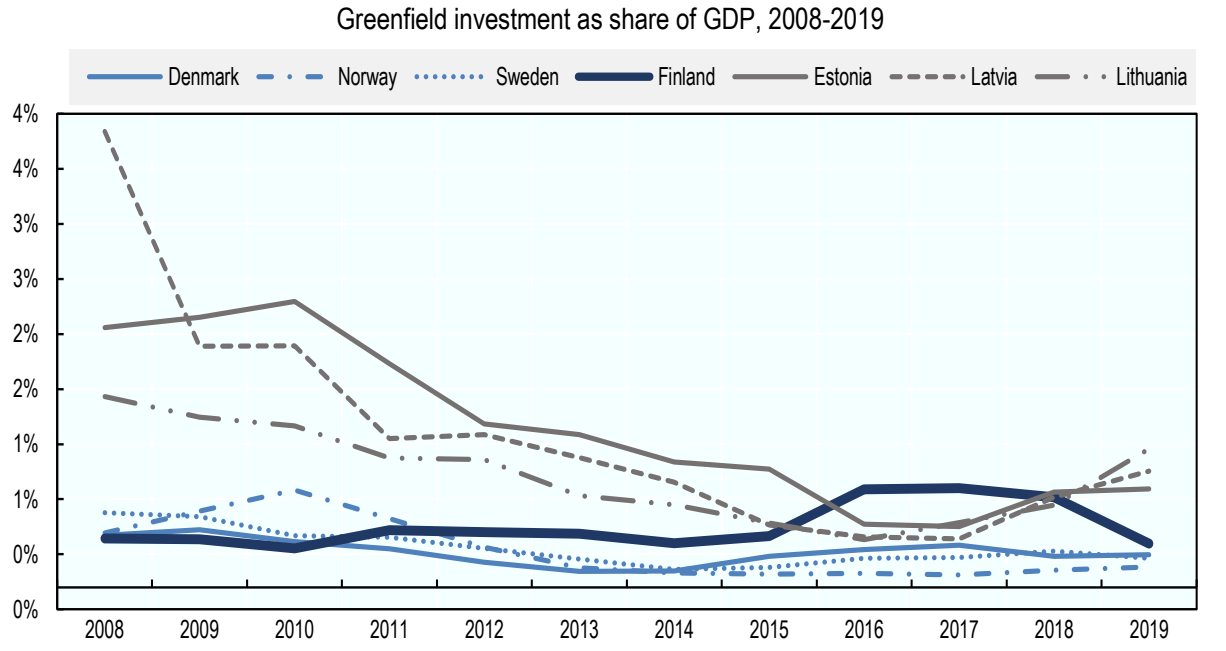
## Figure 1.15. Number of projects and their value vary over time




Note: All values are reported in USD million, and in constant prices, deflated by the producer price index (in 2015 values).
Source: Financial Times fDi Markets database.

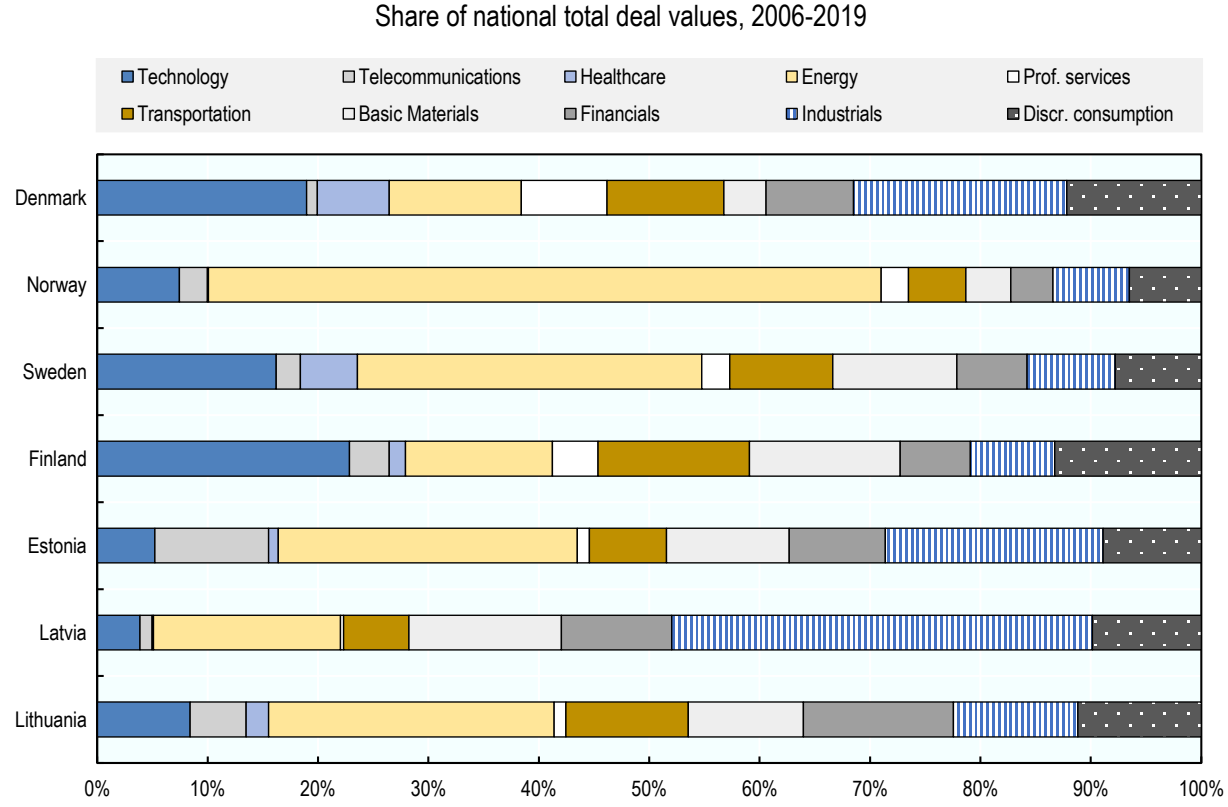
Figure 1.16 illustrates trends over time, once the country size is taken into account and the large variation from year to year is reduced by means of three-year moving averages. Finland has been able to attract larger greenfield investment projects compared to the remaining Nordic countries, but this trend has started to decline in recent years, while the opposite happened in the Baltics.

## Figure 1.16. Greenfield activity in Finland is starting to decline




Note: Shares are calculated by taking three-year moving averages using total value of announced greenfield investment. All values are deflated by producer price indices (2015=100).
Source: Financial Times fDi Markets database and OECD National Accounts Statistics database.

## Figure 1.17. Greenfield projects target different sectors across countries



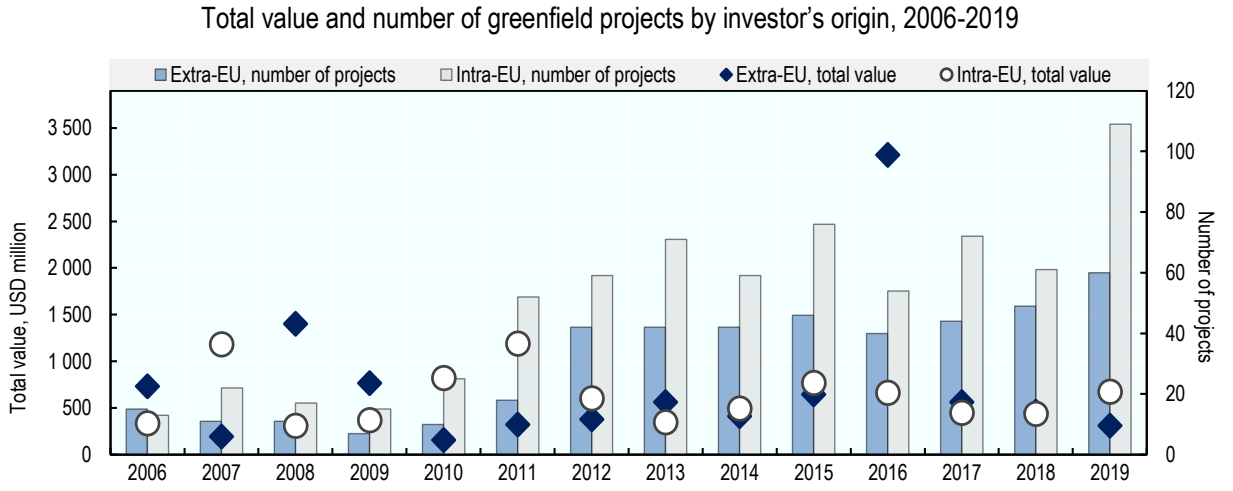

Note: Industrials include construction, electrical equipment, and industrial machinery. Discretionary consumption includes consumer goods (e.g. food and beverages, consumer electronics, etc.) and household services (e.g. restaurants, broadcasting, recreational services).
Source: Financial Times fDi Markets database.

The sectoral patterns of greenfield activity differ greatly in the Nordic-Baltic region (Figure 1.17).[24] Similar to cross-border M&As, the Technology sector absorbs the largest share of greenfield investment projects in Finland, accounting for 23% of the total capital investment over 2006-2019, the largest share in the region. Transport, Basic Materials, Discretionary consumption and Energy are the remaining top sectors for new foreign investment into Finland, each explaining 13% of total values of greenfield investment projects.

New FDI into the Energy sector was particularly large in Norway (61%), Sweden (31%), Estonia and Lithuania (both around 27%). Over the years, around two-thirds of greenfield investment in the Energy sector were associated with renewable energy projects in Finland (see Box 1.1), as well as in Denmark, Sweden and Lithuania. In Latvia, where the Energy sector accounts for 17% of all new foreign capital invested, the share of renewables projects within the sector reached 97%.

As alluded to above, the number of greenfield projects in Finland has risen in the past decade (Figure 1.18), largely driven by renewed interest from intra-EU investors. Although less numerous, new investment projects outside the single market are often of larger size. For instance, the three largest projects announced in 2016 came from China and the United States (above-mentioned projects by Sunshine Kaidi New Energy Group, China CAMC Engineering and Google).

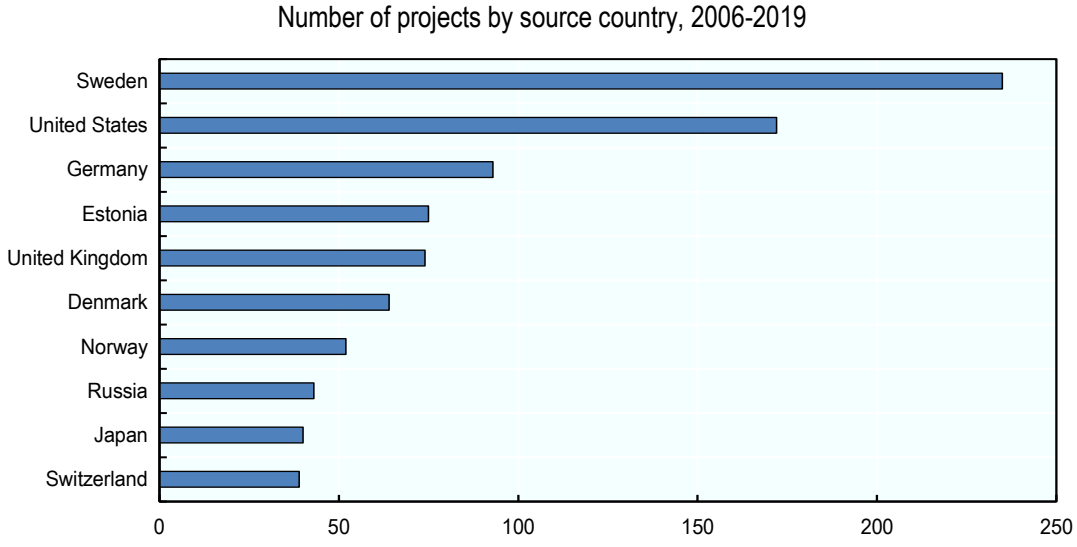
## Figure 1.18. Most greenfield investments to Finland originate inside the EU's single market




Note: Intra-EU refers to the investment originating in the EU's single market (EU Member States, Iceland, Liechtenstein, Norway and Switzerland); Extra-EU comprises all the countries outside the EU's single market.
Source: Financial Times fDi Markets database.

Most greenfield projects into Finland originate in Sweden, on an immediate investor basis (Figure 1.19).[25] Sweden, United States and Germany are the three most important sources of greenfield investment into Finland. Estonia, Russia, Japan and Switzerland also feature among the top ten leading investors in the Finnish economy.[26]

## Figure 1.19. Largest greenfield investors in Finland




Note: Investor's origin is based on the immediate investor.
Source: Financial Times fDi Markets database.

Investment flows tend to concentrate in specific areas within the country. More than a half of FDI projects go to the Helsinki region.[27] This is common in the Nordics, where the estimated share of FDI flows in capital city regions is 63% in value terms and 54% in project number terms (Grunfelder, Rispling and Norlén, 2018[4]).

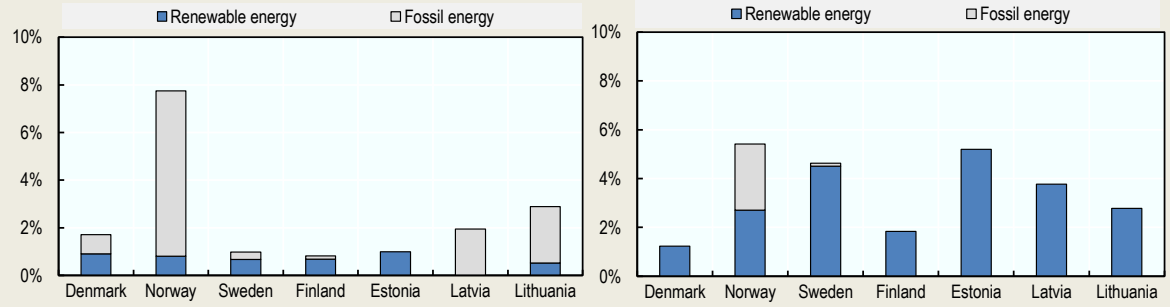
## Box 1.1. Greenfield investment can bring clean hopes

Finland already ranks among the top countries in efficient energy use and energy saving measures (EPI, 2018[5]). Finland is abundant in natural resources and skilled clean-tech professionals that support investment in greener energy. Increasing energy performance is essential to reduce carbon footprint and to mitigate climate change. FDI can further assist in the transition towards a cleaner economy by delivering greener technologies and supporting the development of renewable energy infrastructure.

While there has been a general uptake in renewable energy inward investment in the Nordic-Baltic region between 2006 and 2019, the overall stock of foreign transactions still shows large investment in companies generating fossil fuels, mainly driven by European acquisitions of oil and gas companies in Norway. However, the stock of greenfield investment in alternative and renewable energies, in relation to foreign investment in fuel energy, has not been negligible over the past decade or so (Figure 1.20).

### Figure 1.20. Share of energy-related projects in total foreign investment projects, 2006-2019

Number of M&A deals (left panel) and Number of greenfield projects (right panel)




Note: Renewable energy includes the production of energy from naturally replenishing sources, i.e., solar, wind, geothermal, marine, biomass and hydroelectric energy. Fossil energy includes the generation of fuels, such as coal, oil and natural gas, and related extraction activities. Nuclear energy is not considered. M&A deals refer to completed ones, greenfield projects refer to announced investment plans.
Source: OECD elaborations on Refinitiv M&A and Financial Times fDi Markets databases.

Most new green investment in the region has focused on the development of clean energy from wind and biomass power. Over 80% of greenfield investment in the energy sector in Finland was associated with green technology. For instance, in 2016, the Chinese holding Sunshine Kaidi New Energy Group announced its plan to build a USD 1 billion biofuel refinery in Kemi, in northern Finland. In 2019, Luxcara, a German asset manager in renewable energy investment, revealed its intention to open three large wind parks (for an estimated value of USD 55 million each) at the borders with Lapland to exploit favourable wind conditions.

The existence of a vibrant clean-tech hub in Finland exerts additional gravitational pull for foreign companies in green technologies. For instance, the German chemical group BASF is investing in a new plant in Harjavalta, which will use renewable energy to produce critical inputs for the manufacturing of batteries used in electric vehicles (Business Finland, 2020[6]) This investment strengthens Finland's contribution to the European battery materials value chain and is an example of productivity spill-overs in the rest of the renewable energy sector, where an efficient mix of different energy sources can produce battery materials with a very low $CO_2$ footprint. In 2020, Australian companies Critical Metals and Neometals announced their plans to set up a vanadium recovery plant in Pori, to recover vanadium – a critical input into energy storage – from by-products of steel production (Business Finland, 2020[7]). This project reinforces Finland's position as an important supplier of critical raw materials and strengthens the country's competitiveness in circular economy.

## 1.4. The benefits of foreign investment in Finland

Beyond its direct contribution to capital stock, FDI can benefit Finland in a number of other ways. This section highlights the positive effects of foreign MNEs in the host country towards inclusive and sustainable growth. This section starts by describing the role of foreign-owned companies in Finland, both in terms of direct employment opportunities and economic importance, including the quality improvements in jobs created (mainly in terms of wage and skill premia). It then discusses the sectoral distribution of foreign multinationals in Finland and how FDI targets knowledge-intensive sectors, which act as conduit for technology transfer to the rest of the economy. Finally, this section presents evidence of strong linkages between foreign investment and trade, and in particular of how MNEs introduce additional channels to further integrate the Finnish economy into GVCs and consequent spill-overs. These include the number of jobs indirectly sustained through foreign MNEs activities, their support to the host country's export performance, and the perhaps less obvious indirect contribution of foreign investment in services sectors, as these sectors provide a large share of the inputs embedded in other products destined for export.

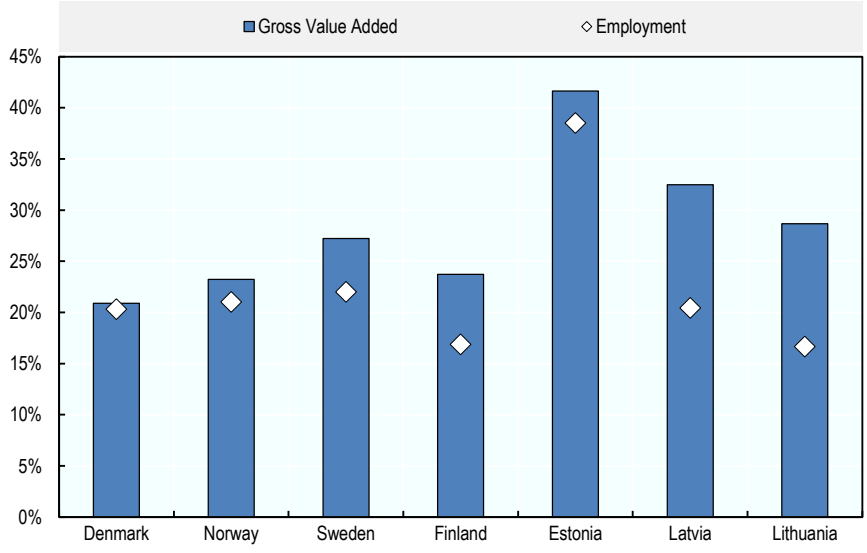
### *1.4.1. FDI's social and economic contribution*

*Foreign affiliates play an important role in the domestic labour market and economic activity*

Foreign-owned enterprises typically account for small shares of the total population of enterprises within the non-financial economy[28] (on average only 1.3% of all firms in the EU), reflecting a large portion of small businesses in most economies. In Finland, where the share of firms with less than 250 employees is above 90%, foreign MNEs accounted for 1.7% of all existing firms in 2018.

Even in such small numbers, foreign multinationals contribute significantly to GDP, by directly generating new economic activity. In fact, in 2018, foreign-owned enterprises in Finland produced close to one-quarter (24%) of gross value added in the non-financial economy (Figure 1.21). The contribution made by foreign companies to the Finnish economy is similar to the one observed in other Nordic countries, and roughly on par with the EU average (25%), but lower than in the Baltics. Foreign penetration was, indeed, especially high in Estonia[29], where foreign MNEs were responsible for 42% of the country's economic activity.

**Figure 1.21. Foreign MNEs contribution to value added and employment in 2018**




Source: Eurostat Foreign Affiliates Statistics.

Foreign MNEs also contribute to domestic employment. Over 17% of Finnish workforce were directly employed by foreign multinationals. This employment share is in line with the rest of the EU (15%), albeit below those recorded in the rest of the Nordics and most of the Baltics (Figure 1.21).

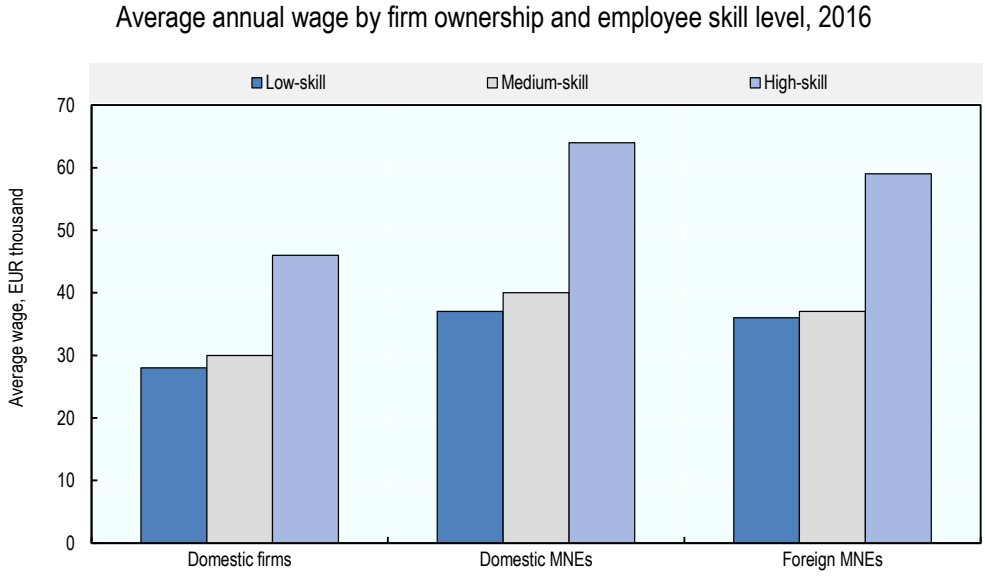
Statistics Finland estimates that in 2018, foreign multinationals were responsible for nearly 266 000 Finnish jobs, distributed across 4 328 foreign-owned companies, mostly active in the Manufacturing, Trade and ICT services sectors. Sweden, the US and Germany were among the main investors sustaining nearly half of these jobs.[30] Recent evidence shows that the number of employees working at Swedish-owned firms in Finland is even higher than the number of employees in Finnish multinationals (OECD and Statistics Finland, 2020[8]). This reflects strong economic, geographical and cultural ties between these two countries.

Foreign-owned enterprises also play an important role in Finland's R&D activities. In 2018, foreign multinationals accounted for 30% of business R&D expenditure and employed 31% of R&D personnel in Finland,[31] in line with Norway (31% and 28%, respectively) and slightly higher than in Denmark (23% and 27%, respectively). Foreign penetration in R&D activities was substantially larger in Sweden, where foreign-owned enterprises were responsible for 58% of R&D expenditure and 52% of R&D workforce.[32]

### *Foreign-owned companies reward skills*

FDI does not only contribute to increase the number of jobs created with every new foreign capital injection, but also supports improvements in the quality of jobs generated.[33] Surely the number of jobs directly established by FDI will depend on the characteristics of the sector where the investment takes place, with some sectors being more capital (tangible and intangible)-intensive than others. Nevertheless, descriptive evidence shows that MNEs are typically more productive and pay higher wages[34] and recruit more skilled workers than domestic firms with no international ties.

## Figure 1.22. Multinationals have deeper pockets, particularly for talented employees




Note: Private sector excluding agriculture, finance & insurance, real estate, education, health and social work and part of other service activities. Low-skill refers to employees with at most lower secondary education or unknown level of education. Medium-skill refers to employees with upper secondary education or post-secondary non-tertiary education. "Domestic firms" are Finnish firms with no affiliates overseas, "Domestic MNEs" are Finnish companies with foreign affiliates, and "Foreign MNEs" are foreign-owned companies in Finland.
Source: Adapted from OECD and Statistics Finland (2020[8]).

In 2016, nearly one in two of the workers recruited by multinationals (including domestic- and foreign-owned MNEs) in Finland was high-skilled, compared to less than one in three in domestic companies with no affiliates abroad. In the same year, foreign-owned firms paid the highest wages compared to domestic companies in scientific research and development (R&D), ICT services and wholesale trade (OECD and Statistics Finland, 2020[8]).

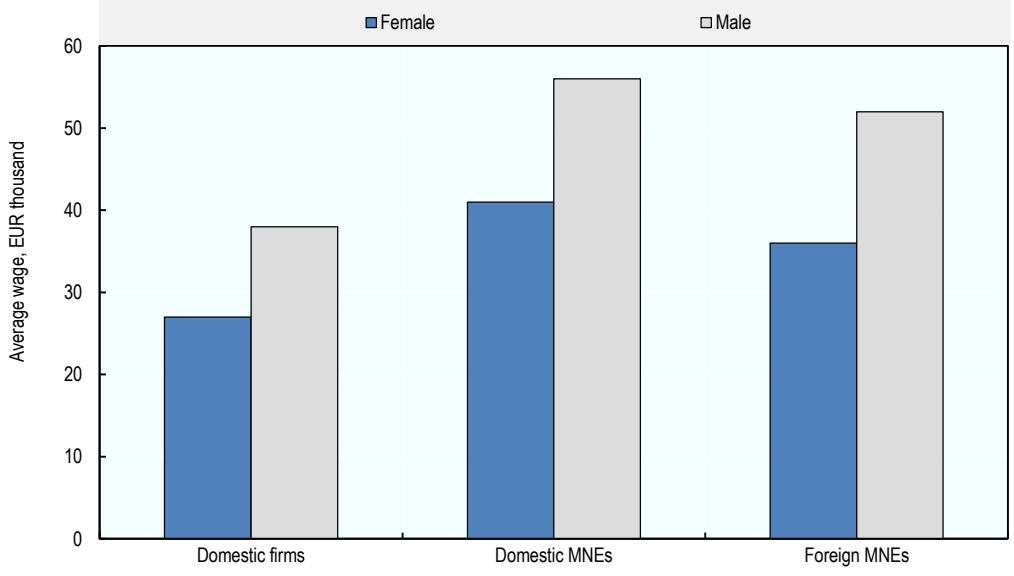
These more generous wages, most likely, benefitted highly qualified employees within multinationals. Domestic and foreign multinationals in Finland paid their top skilled workers more than the average wages of Finnish companies with no foreign affiliates (Figure 1.22). A highly skilled employee in a foreign MNE in the private sector in Finland would have earned, on average, an annual wage of EUR 59 000 in 2016, 30% more than the average wage paid by domestic non-MNEs. However, the wage premium from working in multinationals was smaller for employees with lower skill levels.

### *Gender pay gaps remain regardless of who owns the firm*

Gender pay gaps exist across all firms in the private sector. A foreign multinational pays, on average, higher wages than a domestic business with no international links; yet, there is still a wedge between what female employees and their male colleagues are able to cash in (Figure 1.23). The picture does not change much when controlling for employee skill levels. However, these descriptive facts should be assessed bearing in mind that gender pay gaps at the economy level mask a lot of sectoral heterogeneity[35] (not least because a large share of women work in sectors where the median wage is lower or because foreign investors target male-dominated industries, even in Finland). In addition, a causal link needs to be established between gender (employment and pay) gaps and firm ownership that controls for a large variety of social and economic factors that possibly exert a toll on these differentials.

## Figure 1.23. The gender pay gap persists

Average wage by employee gender and firm ownership, 2016




Note: Private sector excluding agriculture, finance & insurance, real estate, education, health and social work and part of other service activities. "Domestic firms" are Finnish firms with no affiliates overseas, "Domestic MNEs" are Finnish companies with foreign affiliates, and "Foreign MNEs" are foreign-owned companies in Finland.
Source: Adapted from OECD and Statistics Finland (2020), Globalisation in Finland: Granular insights into the impact on businesses and employment.

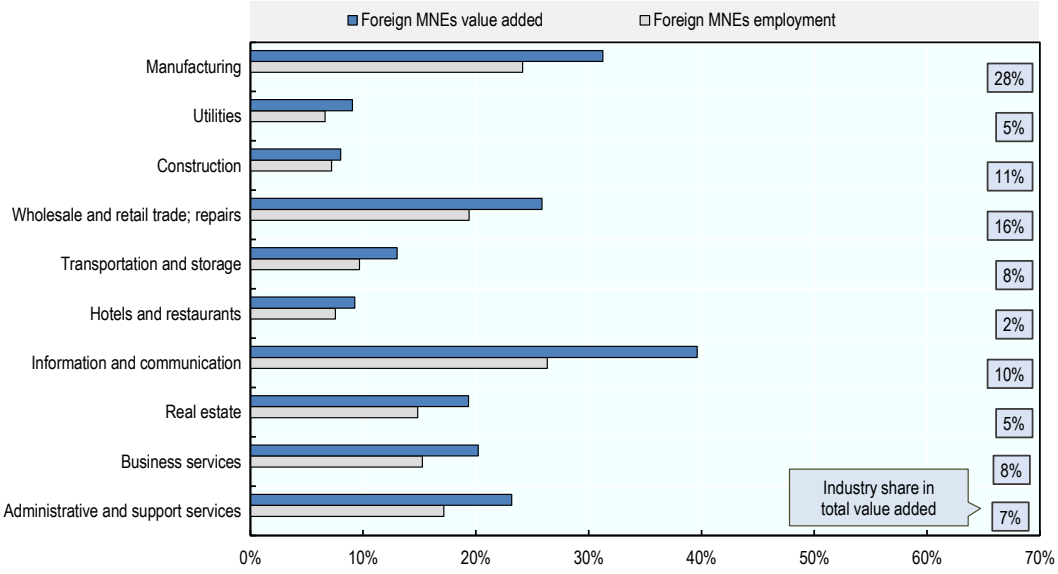
### *1.4.2. Most FDI in Finland targets knowledge-based services activities*

Finland has developed a significant comparative advantage in knowledge-based services activities and this is reflected in the degree of foreign penetration in these sectors. Figure 1.24 shows the contribution of foreign affiliates, in terms of value added and employment, in a number of sectors in the Finnish non-financial economy. While the Information and Communication sector accounted for 10% of the overall Finnish economy in 2018, foreign affiliates in this sector were responsible for 40% of the sectoral value added and nearly one-quarter of jobs in the sector.[36] Foreign-owned companies in Manufacturing sustain a similar fraction of jobs but generate less value added.[37]

In a comparative perspective, Finland attracts considerably more MNE activity in the Information and Communication sector than the rest of the Nordics (with average sectoral shares around 36%), but less than the Baltics. In Estonia, for example, over 70% value added in the Information and Communication sector in 2018 was generated by foreign firms.

## Figure 1.24. Foreign firm penetration in Finnish sectors

Foreign affiliates' share of value added and employment in the sector, 2018




Note: The bars represent the share of value added and employment in the sector accounted for by foreign affiliates. The percentages reported in the boxes indicate the relative importance of the sector in the Finnish economy in terms of value added. Only industries with value added amounting to at least 2% of total value added are included.
Source: Eurostat Foreign Affiliates Statistics.

#### *FDI benefits from Finnish technical expertise and leads to technology diffusion*

Access to technology and technical expertise are often mentioned as important triggers of investment flows to the Finnish economy. A good share of foreign investment into the ICT sector in Finland reflects the so-called "Nokia effect", e.g., the availability of highly-skilled IT specialists with expertise in software and hardware development. Furthermore, salaries in Finland are considered, at least by some foreign investors, relatively competitive, especially when compared to the rest of the Nordic countries (Sunesen et al., 2019[9]), but not to the Baltics.[38] The Competitiveness Pact introduced by the Finnish labour organisations and the Government in 2016 aimed to improve the competitiveness of Finnish labour force in terms of labour costs, with unit labour costs estimated to drop by about 4% from 2017 (Ministry of

Finance, 2017[10]).[39] Yet, Finnish labour market conditions (e.g., chiefly the inflexibility of work contracts) are cited by some foreign companies among key obstacles to investing in Finland (Amcham Finland and Business Finland, 2019[11]). These are important elements to consider as recent studies show that labour market characteristics matter not only to attract FDI but also to retain it in the country.[40]

Already the availability of qualified employees with technological expertise makes Finland an attractive destination for foreign investors interested in undertaking R&D activities. In fact, the number of R&D investment projects into Finland has grown in the recent years. While this trend is common to all Nordic countries, in 2018, Finland was leading in total number of R&D-related investment undertakings in the region, mostly initiated by companies in the digital sector (EY, 2019[12]).

In addition to access to highly-qualified IT workers, extensive collaborative research initiatives with Finnish universities, government-owned research entities and private domestic firms are additional attractive features for foreign-owned firms competing on global markets (Sunesen et al., 2019[9]; National Audit Office, 2017[13]).[41] In addition, further co-operation takes place through strategic partnerships between Finnish-based foreign multinationals and local suppliers, often small and medium enterprises (SMEs).[42] These collaboration arrangements encourage technology spill-overs, also acting as conduit for local SMEs to access international markets and participate in GVCs.

Further contributing to the diffusion of technology is inter-firm labour mobility in Finland. A number of studies find that high-qualified Finnish workers previously employed at foreign MNEs are more productive and obtain a wage premium for the extra knowledge they bring when moving to domestic firms.[43]

### *1.4.3. Foreign MNEs facilitate GVCs integration*

*FDI provides a platform to boost host country's export performance*

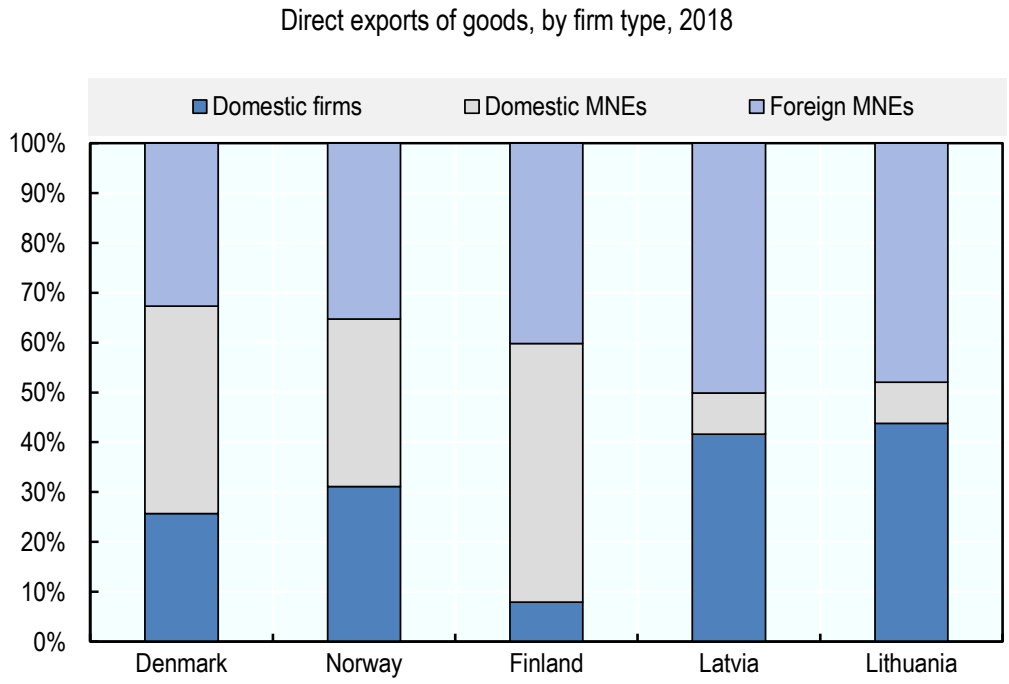
Foreign multinationals provide additional channels to enter new foreign markets, and thus, contribute to increase the export performance of the host economy. For instance, the share of foreign-controlled enterprises in Finnish exports of goods steadily increased from 33% in 2011 to 40% in 2018 (whereas the export share of domestic firms with no international ties dropped from 15% to 8%). This indicates the growing importance of foreign companies in Finland's exports. In fact, the proportion of foreign companies in the total population of firms in Finland engaged in goods exports in 2017 (10%) was similar to the Baltics, and the Nordics.[44] However, nearly half of all merchandise exports in Finland came from domestic MNEs,[45] the largest share in the region (Figure 1.25).

Not all of a country's export is generated in the host economy. Figure 1.26 shows that over a quarter of Finnish gross exports reflects value added from imported inputs. Yet, the share of foreign intermediate inputs embedded in other products and services later exported by Finnish companies (26% in 2016), which provides an indication of GVC integration, is fairly comparable to those found in the Nordic-Baltic region[46] and is almost twice as high as the EU average of 12%.

Recent studies have shown how different types of firms are involved in GVCs. Typically, firms involved in international investment, either as foreign subsidiaries or as domestic parents, are more integrated into global production networks than other types of firms, also given the fact that they have easier access to intra-firm trade. Insights from one of these studies reveal that, in 2013, nearly half of Finnish domestic MNEs gross exports embedded foreign inputs, the largest share in the Nordics (Statistics Denmark and OECD, 2017[14]).

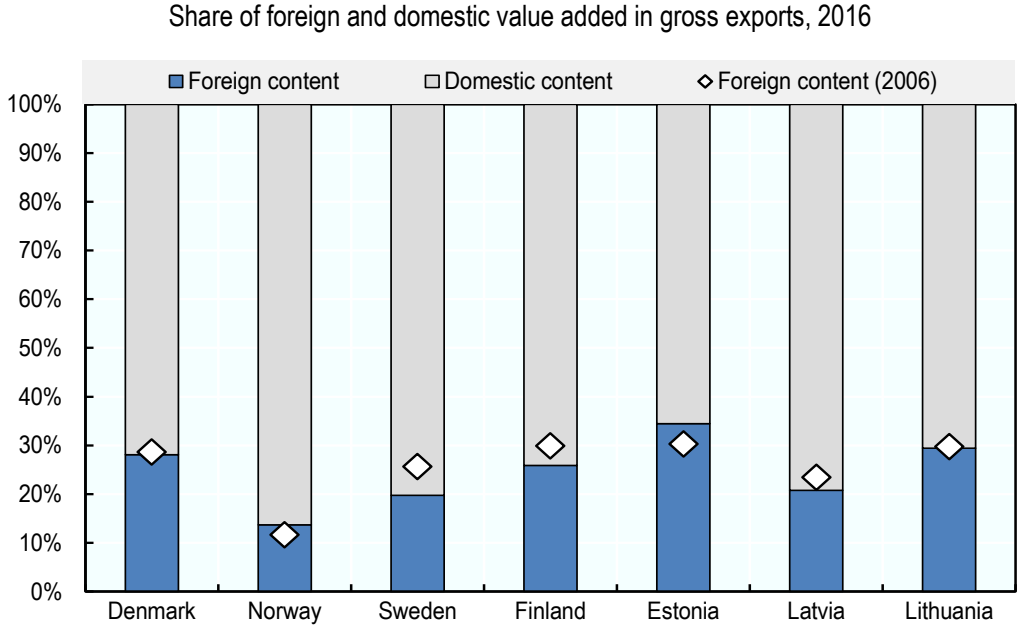
This shows that also domestic multinationals drive integration into GVCs. However, gross exports of Finnish-based foreign multinationals had a lower share of foreign intermediates, in part reflecting the industry specialisation of foreign investment in Finland (which tends to target more services sectors, where there is less need for imported parts and components) and in part the fact that foreign MNEs sourced more from local suppliers, and hence helped support upstream segments of the Finnish economy.

## Figure 1.25. MNEs as gateways to foreign markets




Note: Data for Latvia refer to 2014, and for Norway to 2015. No similar breakdown is available for Estonia and Sweden. "Domestic firms" are Finnish firms with no affiliates overseas, "Domestic MNEs" are Finnish companies with foreign affiliates, and "Foreign MNEs" are foreign-owned companies in Finland.
Source: OECD, Trade by Enterprise Characteristics (TEC) database.

## Figure 1.26. A large share of domestic inputs is embedded in gross exports

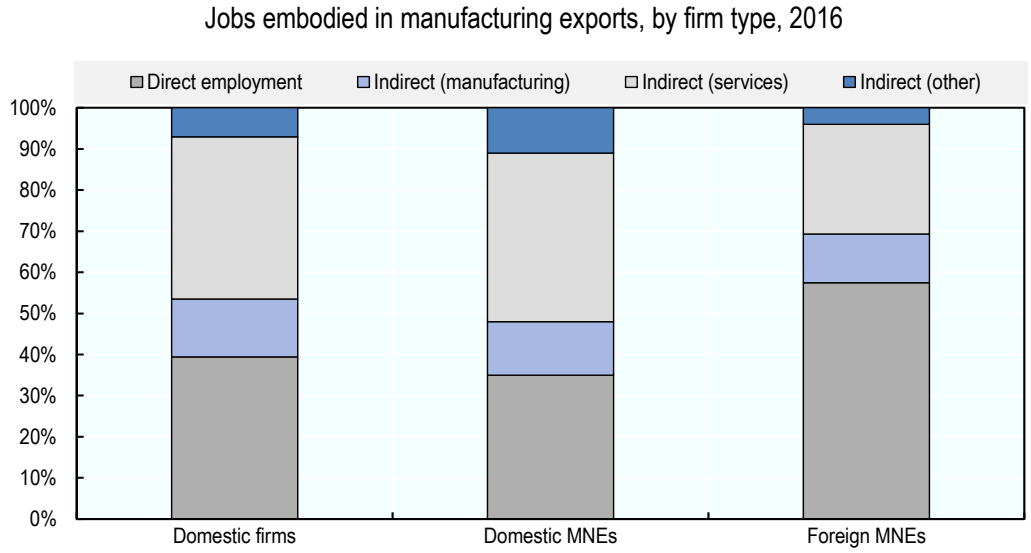



Source: OECD Trade in Value Added (TiVA) database.

### *Foreign MNEs exports indirectly sustain Finnish jobs*

Foreign-owned multinationals do not only generate new jobs, some of which directly depend on their export activities, but also sustain jobs in upstream sectors when they source inputs from local suppliers. A recent report by OECD and Statistics Finland finds that, on top of the share of MNEs jobs directly sustained by consumers in foreign markets, exports of foreign multinationals contributed to support 43% of jobs in 2016 (Figure 1.27) through domestic backward linkages, i.e., working relationships with domestic providers further up the value chain (OECD and Statistics Finland, 2020[8]).

## Figure 1.27. Jobs sustained by exports of foreign MNEs in Finland



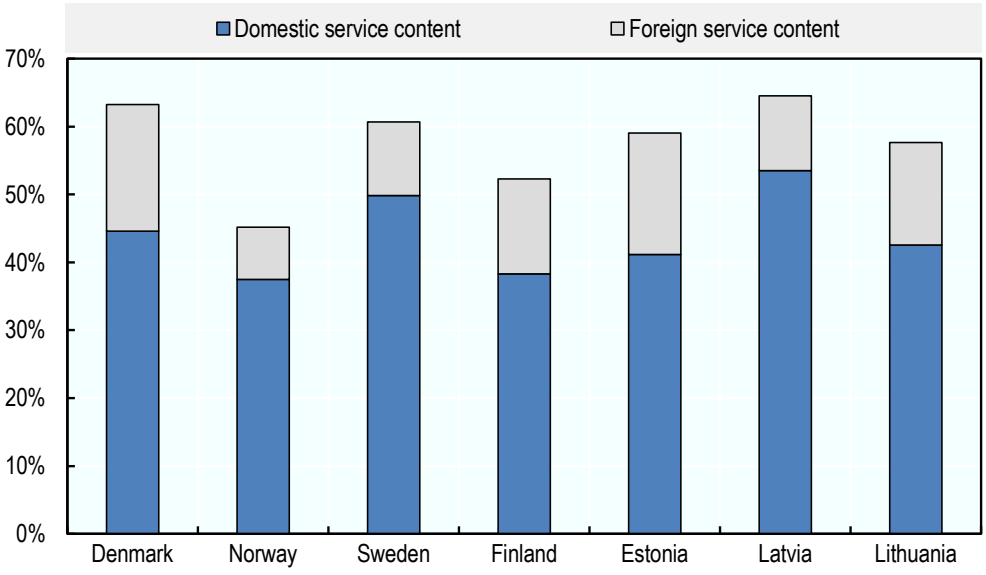

Note: Indirect employment refers to employment in firms sustained by demand from manufacturing exporting firms. These source firms may operate in manufacturing (source manufacturing) or services (source services) industries. "Domestic firms" are Finnish firms with no affiliates overseas, "Domestic MNEs" are Finnish companies with foreign affiliates, and "Foreign MNEs" are foreign-owned companies in Finland.
Source: Adapted from OECD and Statistics Finland (2020) Globalisation in Finland: Granular insights into the impact on businesses and employment.

### *Services sectors are important channels for export success*

Most of the services produced domestically, including by foreign-owned companies, provide inputs to both manufacturing and services exports. In fact, the role of services is considerably more important than what conventional trade statistics lead to believe. When their full contribution, which includes also all those intermediate services embodied in other products (and services), is accounted for, they make up for over half of the value added exported by Finland in 2016 (Figure 1.28).

Nearly all of the service content incorporated in gross exports in Finland, but also in the rest of the Nordic-Baltic region and in the EU on average, is produced domestically. In other words, close to 40% of the value of all goods and services exported by Finland in 2016 was produced by Finnish-based services firms. Slightly smaller is the share of domestic services content of manufacturing gross exports (18%) in Finland[47], but that still indicates the strong complementarities between goods and services. Looking at these facts through the lens of Finnish foreign investment specialisation emphasises how inward FDI in the services sector could contribute to further improve the export performance of the host economy.

### Figure 1.28. Services embodied in gross exports, 2016




Source: OECD Trade in Value Added (TiVA) database.

## 1.5. Conclusions

Overall, this chapter has presented comparative evidence of recent trends in FDI activity in Finland and in selected countries from the Nordic-Baltic region, as well as several findings substantiating the benefits of foreign investment in Finland. In particular, FDI can support economic growth, generate new jobs, transfer new technology, bring productivity enhancing spill-overs and contribute to reduce the country's carbon footprint. FDI can also assist economies during economic downturns and in the recovery phase, as it would be the case with the economic crisis that will ensue from the recent COVID-19 outbreak. Whether foreign investment translates into increased welfare gains in the host economy or not depends on a variety of factors, some of which can be influenced by the receiving country. Well-designed policies that encourage and retain foreign investment, while also minimising the risks associated with lack of responsible business conduct, can further improve the existing business environment to attract more sustainable FDI.

This chapter has highlighted a number of aspects indicating that Finland might be underperforming in attracting foreign investment. In 2019, Finland had the lowest stock of foreign direct investment in the Nordic-Baltic region, and the gap with its peers is widening over time. The value of cross-border M&A deals and announced greenfield investment projects, which offer further insights into equity flows, have also declined over the last few years. In addition, while still keeping its comparative advantage in technological sectors, which attract most M&As and new foreign investment, Finland has one of the lowest shares of FDI stocks in the services sector in the region. Finally, foreign penetration in Finland is amongst the lowest in terms of contribution to value added and employment compared to the rest of the Nordic-Baltic region and Finland has one of the lowest shares of services inputs embedded in gross exports.

Among the multiple reasons behind the findings, the domestic regulatory environment might be playing an important role. The next chapter will provide a comparative overview of regulatory settings that might affect foreign investment in Finland relative to other countries in the Nordic-Baltic region, to identify bottlenecks and best practices that could be kept in mind for future policy considerations.

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# Annex 1.A. Data sources

This annex presents the main data sources used in the report, distinguishing among official statistics (e.g., OECD FDI statistics, Eurostat FATS, TEC, etc.) and data on business transactions gathered from commercial databases, such as Refinitiv and the Financial Times fDi Market database. Content, geographical and economical coverages and sources of each of these datasets are summarised below.

## OECD International Direct Investment Statistics database (BD4)

The OECD International Direct Investment Statistics database (BD4) provides a comprehensive range of FDI statistics for OECD member countries. The OECD database collects FDI data from national statistical offices and central banks. The database distinguishes among three FDI accounts: FDI stocks (or positions), FDI flows and FDI income. Main aggregates are presented on the directional (inward/outward) and asset/liability principles. FDI statistics can be broken down by industry and partner country, the latter available, in most instances, both on an immediate and an ultimate investor basis. The data cover all economic sectors. BD4 recommends, among other things, the separate identification in FDI statistics of flows passing through resident special purpose entities (SPEs), often used by multinationals for transferring capital through their corporate structure.[48]

Data exist from 2005, but more recent values are more suitable for cross-country analysis, since, from 2014, more and more countries have started to collect data following the latest guidelines for reporting FDI statistics: OECD's Benchmark Definition of FDI, 4th edition (BD4) and IMF's Balance of Payments and International Investment Position Manual, 6th edition (BPM6). Among other things, the adoption of BD4 recommendations implies that several aspects, i.e., chiefly the identification of capital in transit and the provision of complementary FDI stocks by ultimate investor country, are likely to be addressed, increasing the meaningfulness and interpretability of FDI statistics.

## Eurostat FATS

Eurostat Foreign Affiliates Statistics (FATS) report country-level data on economic activity of foreign-controlled enterprises and branches, and can be used to evaluate the impact of foreign affiliates in the reporting country. The data cover the non-financial business economy (i.e., excluding financial sector and, in most countries, agriculture, mining, education, public administration, etc.) and is available by sector and country of foreign control (where the parent of the affiliate is ultimately located). The dataset contains aggregated information on several characteristics of foreign affiliates, including employment, production, value added, investment, R&D and number of enterprises.

FATS data from Eurostat cover the EU, Norway and Iceland and are collected from national statistical offices targeting the population of all enterprises in the reporting economy, distinguishing those that are under foreign control. Some countries apply size thresholds in the identification of companies and impute values for the excluded part of the population. Estonian data refer to enterprises with 20 or more employees but does not impute the data for the businesses below the threshold, which may warrant some caution when interpreting cross-country findings in the Nordic-Baltic region.

## TEC

The OECD Trade by Enterprise Characteristics (TEC) database reports country-level data on international trade in goods broken down by different enterprise characteristics, such as size-class (turnover or number of employees), trade-status (importer, exporter, bi-trader), industry of main activity, partner country, ownership (domestic vs. foreign), etc. The TEC database contains information on export and import values and the number of trading enterprises for 32 countries, including OECD and non-OECD economies. The data for EU member states are sourced from Eurostat, while statistics for a selected number of non-EU member states are collected from national statistical offices. The TEC database aims to cover enterprises active in all economic sectors engaged in merchandise trade.

## TiVA

The Trade in Value Added (TiVA) database provides insights into global production networks by tracking value added in exports, imports and final demand. TiVA indicators are based on OECD's Inter-Country Input-Output Database and cover OECD, EU and G20 countries and most East and Southeast Asian economies for most economic sectors between 2005 and 2016.

## Refinitiv, M&A database

Refinitiv provides information on financial transactions, such as Mergers and Acquisitions, by domestic and foreign investors. The data contain information on the value of the financial transaction, a series of variables associated with the deal (e.g., deal status, form of the transaction, share acquired, date of the transaction, etc.) and additional details on the Target Company and related Immediate and Ultimate Parent Companies (i.e., name, industry of main activity, country of origin, etc.). A limited number of variables from companies' balance sheets is also included. The main sources are companies' press releases, announcements on financial press, stock-exchange information, etc.

The sample considered in this report includes M&A deals completed in Denmark, Estonia, Finland, Latvia, Lithuania, Norway and Sweden between 2006 and 2019. The sample covers all industries and all acquirer countries (data on domestic acquirers are used for descriptive analysis). Buybacks and exchange transactions are excluded (53 observations in the entire sample) as they tend to have different drivers. Deal values are deflated by producer price indices (2015=100). To harmonise these data with the definition of FDI, the sample is restricted to M&A deals where the acquirer's stake after the transaction is at least 10% (this is the case for 98% of the sample). The resulting sample covers 22 751 deals, distributed as follows: 3 920 in Denmark (of which 48% foreign-owned), 633 in Estonia (48% foreign), 3 286 in Finland (45% foreign), 452 in Latvia (68% foreign), 691 in Lithuania (55% foreign), 4 845 in Norway (41% foreign-owned) and 8 924 in Sweden (37% foreign).

The main limitation of this database is that it cannot be linked to other commercial datasets containing firm-level data, because no firm identifier is provided in Refinitiv. Furthermore, the reported sectors cannot be mapped to standard industry classification. An additional shortcoming is that a large number of observations do not report the value of the deal (i.e., about three-quarters of the entire sample).

## Financial Times fDi Markets database

The Financial Times fDi Markets database collects data on greenfield projects announced each year. For each project, the dataset reports information on the investing company, such as the geographic location, sector of main activity, revenue and headcount. The database also includes basic information on the amount of capital investment and the potential job creation that might result from foreign investment. The

main sources are Financial Times newswires, media sources (including all of the world's top business sources), project data received from industry organisations and investment agencies, and data purchased from market research and publication companies.

In the dataset, each project is classified as either “Announced” (i.e., planned but not yet open, one-third of the sample) or “Open” (i.e., operational, two-thirds of the sample). Projects are also categorised with respect to their type into “New” (a completely new project, e.g., a new manufacturing plant or the opening of a new service function), “Co-location” (a project comes from the same company in the same location but in a different business activity), and “Expansion”, when a company injects further funds into an existing project. For this analysis, we include observations referring to new greenfield investment projects and, hence, we exclude “Expansion” from the analysis (6% of the sample).

The sample used in this report contains greenfield projects in Denmark, Estonia, Finland, Latvia, Lithuania, Norway and Sweden announced between 2006 and 2019, and covers all industries and all acquirer countries (only foreign by definition). Capital invested is deflated by producer price indices (2015=100). The resulting sample records 4 329 Greenfield investment projects are distributed as follows: 973 in Denmark (of which 81% open), 231 in Estonia (53% open), 1 144 in Finland (86% open), 265 in Latvia (43% open), 504 in Lithuania (55% open), 369 in Norway (70% open) and 843 in Sweden (68% open).

Similar to Refinitiv, the main shortcoming of the fDi Markets database is that it does not provide firm identifiers and so cannot be linked to other commercial databases. Also in this case, the reported sectors are not comparable to either standard industry classification or Refinitiv’s own sectoral classification. In addition, capital investment and jobs created are estimated for most observations (89% and 80% of the sample, respectively). Furthermore, the announced greenfield projects might not result in FDI if the announced investment does not materialise. There is also uncertainty around the timing of the investment, which might be carried out earlier or later than announced.

## Notes

[1] Foreign direct investment (FDI) is a type of investment in which an investor resident of one economy establishes a lasting interest in another economy, where “lasting interest” refers to at least 10% ownership of the voting power in the enterprise in the host economy (OECD, 2009[16]).

[2] Blomström and Kokko (2008[18]) and Görg and Greenaway (2004[17]) show that foreign MNEs have better production technology, marketing practices or managerial capability, which in turn can have knock-on effects onto local firms and raise their productivity. Foreign companies can be a source of inspiration for domestic production, favour skill acquisition through labour mobility, increase competitive pressures and disseminate new exporting strategies.

[3] According to the most recent estimates, in the first half of 2020, global FDI flows already fell by 50% compared to the last half of 2019 (OECD, 2020[22]), suggesting that the annual drop in global FDI flows might exceed the estimated 30-40% anticipated in the spring (OECD, 2020[23]).

[4] See Javorcik (2004[19]), Haskel, Pereira and Slaughter (2007[20]) and Balsvik (2011[21]), among others.

[5] For example, foreign investment in the mining sector in Chile and Peru generated few linkages with domestic producers due to skill shortages and low technological preparedness of local suppliers, leaving little room for productivity spill-overs (ECLAC, 2016[24]). Similarly, the absence of suitable third and fourth-

tier suppliers in Mexico made it difficult for domestic companies to tap into the value chain networks created by the foreign automakers (ECLAC, 2017[25]).

[6] See OECD (OECD, 2008[29]) and OECD (OECD, 2019[26])

[7] The Finnish Government promotes Corporate Social Responsibility (CSR) to encourage foreign and local enterprises to adopt a responsible business conduct. The Finnish Ministry of Economic Affairs and Employment, together with the Committee on CSR, adhere to and implement the OECD Guidelines for Multinational Enterprises (OECD, 2019[26]) and Responsible Business Conduct (RBC) principles and standards (OECD, 2018[27]). The Finnish Government has already created a National Contact Point for RBC and undertaken similar initiatives on corporate due diligence.

[8] The OECD has proposed a number of indicators assessing the qualities of FDI and in particular its social, economic and environmental impact in the host country (OECD, 2019[28]).

[9] The rationale behind choosing these six economies as a comparator group is the general perception, also echoed in economic literature, reports from Finnish and international institutions and consultancies, that despite the differing economic context, the Nordic-Baltic economies compete with each other for business investment due to the geographic proximity, as well as the shared institutional and historical background (the latter much stronger in the case of the Nordics).

[10] Statistics Finland estimates that this contraction came primarily from valuation changes in the equity component of FDI stocks, which decreased by EUR 10.5 billion between 2017 and 2018. For additional information, see: http://www.stat.fi/til/ssij/2018/ssij_2018_2019-09-30_kat_001_en.html

[11] In 2017, the United States, one of the largest outward investors, adopted a tax reform that encouraged repatriation of earnings of US foreign affiliates to their parent companies (OECD, 2019[1]).

[12] Negative FDI flows in 2018 reflected negative reinvestment of earnings (i.e. the returns paid to enterprise owners surpassed the reported current income) and the return of capital from Finnish affiliates back to parent countries. On a sectoral level, negative FDI flows were primarily concentrated in financial services and telecommunications.

[13] This rebound is, however, offset by a reduction of FDI inflows in the first few months of 2020, as FDI flows in Finland, and most other countries, start recording large drops in foreign investment (OECD, 2020[30]).

[14] Standard FDI statistics are presented according to the location of the immediate investor. To advance the understanding of complex company set-ups, the OECD 4th Benchmark Definition of FDI (BD4) recommends that countries supplement traditional FDI statistics with the collection of inward FDI stocks by the Ultimate Investing Country (OECD, 2019[1]). This presentation allows countries to look through complex ownership frameworks to identify the country of the investor who ultimately controls the investment and, thus, bears its risks and reaps its rewards.

[15] Statistics Finland (2019[15]) reports that foreign direct investments in Finland often pass through Sweden, the Netherlands and Luxembourg. FDI stocks originating in the United States are frequently channelled via Sweden, the Netherlands, Ireland and Germany. Swedish foreign investment into Finland largely comes directly from Sweden, but some part is often transmitted through the United Kingdom, the Netherlands and Ireland. German FDI frequently passes through Sweden and the Netherlands.

[16] Intra-EU market refers to the EU's single market, which includes all EU Member States plus Iceland, Liechtenstein, Norway and Switzerland. Extra-EU includes all other countries.

[17] FDI equity capital flows consist of M&A transactions (typically the largest component in developed economies), greenfield investment, extension of capital and financial restructuring. The gap between FDI equity flows and value of M&A deals in 2009-10 might be driven by one of these other components or by the possibility that M&A data might be missing values for a few large cross-border deals in those two years.

[18] The evidence reported in this sub-section is based on *completed* M&A deals over the period 2006-19. Although around three-quarters of the sample do not have a deal value, the total deal value is very close to the total FDI equity capital flows as reported by the official statistics (Figure 1.7).

[19] While it would be of great interest to compare M&A deals in the renewable energy sector (solar, wind, geothermal, marine, biomass and hydroelectric power), deal values for these transactions are often missing in Refinitiv.

[20] Intra-EU cumulative deal value in 2007 is for the most part explained by a large transaction associated with the acquisition of Sampo Bank by Danske Bank (close to USD 6 billion).

[21] The data in this sub-section include, in addition to open greenfield investment, also projects that are *announced* in a given year; both drawn from the Financial Times fDi Markets database. Announced projects might be realised at a later stage or, in some cases, withdrawn.

[22] Caution is needed in the interpretation of capital invested and jobs. Large shares of capital investment values and jobs in the Financial Times fDi Markets database are estimated based on similar information available from other investment projects in the same country, sector and type of activity (e.g. headquarters, sales office, R&D).

[23] Of 94 greenfield investment projects announced in Finland in 2016, three were particularly large: a) a project in biomass power sector by holding company Sunshine Kaidi New Energy Group (China, USD 1 billion); b) a project in pulp and paper production by China CAMC Engineering (China, USD 845 million), and c) a project in data processing by Google (United States, USD 685 million).

[24] The industry classification used in the Financial Times fDi Markets database is different from the classification used in the Refinitiv database (the source of M&A data). For this figure, the classification used in the former was mapped to match the latter.

[25] The fDi Markets data do not provide the information on the ultimate investor's origin.

[26] The first three are also among the top 20 foreign investors in cross-border M&A deals and official FDI statistics.

[27] The capital region hosted 59% of cross-border M&A deals and 78% of greenfield projects covered in the databases.

[28] The financial sector (banking and insurance) is not covered in Eurostat Foreign Affiliates Statistics.

[29] Estonia's foreign penetration might be overestimated relative to the other countries, reflecting the methodological differences in the data collection on foreign affiliates' statistics. See Annex 1.A. for more details.

[30] See Statistics Finland (2020[31]).

[31] Statistics Finland estimates that in 2019, foreign MNEs were responsible for 29% of R&D expenditure and 26% of R&D workforce in Finland (Statistics Finland, 2019[32]).

[32] Comparable data are available only for a small number of countries (excluding the Baltics); hence, no EU average values are reported.

[33] Job quality could also be interpreted in terms of job security and worker safety, besides wage premia. Worker safety is less of a concern in Finland, as FDI is mainly located in industries with lower work-related injuries (OECD, 2019[28]).

[34] See, among others, Lipsey and Sjöholm (2004[33]), OECD (2008[29]), OECD and Statistics Finland (2020[8]).

[35] In some sectors, foreign MNEs have lower wage gaps than domestics firms with no international ties. For instance, in 2016, the typical female employee of foreign multinationals in pharmaceutical, textile, veterinary and repair of IT products, earned relatively more compared to their male colleagues than an equivalent female employee would if employed in domestic companies. Veterinary and repair of IT goods were also sectors where the median wage of female employees was higher than that of their male colleagues in foreign companies (around 30% and 10% higher, respectively). The gender wage gap was instead larger for foreign MNEs engaged in travel, rental and leasing, publishing activities, and wood products, whereas the same women employed in domestic companies (including domestic MNEs) would typically see a smaller wage differential with their male colleagues.

[36] Within the Information and Communication sector, foreign affiliates accounted for 88% of the value added generated by programming and broadcasting activities, , 78% of software publishing and 69% of information services..

[37] Foreign-owned enterprises accounted for 86% of the value added generated in basic metals, 67% of pharmaceutical products and 66% of electrical equipment. At the other end of the spectrum, foreign activity was marginal in the wood and paper products, and textiles, apparel and leather goods, with shares below 10%.

[38] Finland is increasingly rivalling for FDI with the Baltic countries, for which cost-competitiveness is seen as a strength (Business Sweden, 2018[34]). For instance, a study found that some businesses consider moving their enterprises from Finland to Estonia, motivating this decision by more favourable corporate taxation and labour market conditions (Ali-Yrkkö, Kuusi and Maliranta, 2017[35]).

[39] See also OECD (2018[36]).

[40] For instance, recent research shows that high unit labour costs and rigid labour market conditions are among the main factors driving foreign divestment, e.g. the sale of assets or business units previously owned by foreigners to nationals. This study also shows that such changes in an affiliate's ownership structure could have a significant impact on the subsequent performance of the company being sold and wider impacts on the host economy (Borga, Ibarlucea Flores and Sztajerowska, 2020[37]).

[41] Nonetheless, collaborative efforts in R&D projects are a condition for foreign-owned companies in Finland to benefit from public R&D incentives. Berghäll (Berghäll, 2017[38]) reports that EU regulations provide for equal treatment of foreign and indigenous companies in the provision of R&D public support for research undertaken in Finland, as long as there is co-operation with a Finnish firm.

[42] A recent interview with Huawei in Finland showed how the multinational subcontracts a number of activities to domestic firms, and by doing so contributes to productivity spill-overs in physical and human capital (Sunesen et al., 2019[9]). These strategic partnerships, which involve non-equity (often contractual) relationships between foreign MNEs and domestic companies, appear to play an increasingly important role in knowledge-seeking FDI, typically used by foreign companies to quickly acquire technical capabilities (Andrenelli et al., 2019[39]). This also reflects the heterogeneous linkages between trade and investment.

[43] See Pesola (2011[40]), and Hakkala and Sembenelli (2018[41]), among others, for empirical work on Finland.

[44] The average proportion of foreign companies in the total population of firms among the 10 EU economies for which the data are available at this level is 7%. The average share of foreign-owned firms in exports of goods is 42%, the share of domestic MNEs is 34% and the remaining 24% are exported by domestic firms. The 10 EU countries are: Austria, Belgium, Denmark, Finland, France, Lithuania, Poland, Portugal, Slovenia, Spain and Romania.

[45] This is consistent with findings showing that foreign investors in the Nordics are less export oriented and nearly half of their production is sold on the local market (Statistics Denmark and OECD, 2017[14]).

[46] The lower content of foreign inputs in Norway's gross export reflects in part the strong export performance of its oil sector, which is inherently high in domestic value added.

[47] Among peer economies, this share varies from 11% in Lithuania to 26% in Norway; the average EU share is 28%.

[48] Examples of SPEs are financing subsidiaries, conduits, holding companies and shell companies, with little or no employment, physical presence or operations in the country where they reside, but which are used to provide assets and liabilities or raise capital. SPEs are not significant in Finland and, hence, they do not drive the trends observed in the FDI statistics where the separate identification of SPEs is unavailable (such as FDI positions by partner countries and inward FDI flows).