научный электронный журнал
Studia Humanitatis Borealis / Северные гуманитарные исследования
https://stnb.petrsu.ru **http://petrsu.ru**

УДК 339.56

From national protection to global market economy Finnish foreign-trade policies and integration policies since World War II

PAAVONEN Tapani

Turku,
Doctor of Social Science, Senior Researcher,
Political History, University of Turku,
Turku, tapaavo@utu.fi

Ключевые слова:
*

Аннотация:
From the early years of Independence up to the beginning of the 1960s Finland practised foreign-trade policies which were conspicuously protectionist for a small West European and Nordic country highly dependent on foreign trade. Finnish import duties corresponded to those of industrial countries with large domestic market, while war-time import regulations were extended largely for protectionist purposes.
Free-trade integration consisted of free trade in industrial goods within Western Europe. In 1961, Finland concluded a separate agreement with the member countries of the European Free Trade Association (EFTA), becoming a “full member” of the EFTA in 1986, and, in 1973, a free trade agreement with the European Communities (EC).
Large-scale trade with the Soviet Union complemented the Finnish foreign trade. Integration solutions with regard to Western Europe included special arrangements to safeguard the Eastern trade.
From the mid-1980s on, Finland oriented herself towards the emerging European Economic Space (EES), later on renamed the European Economic Area (EEA), between the Community and the EFTA. The EEA extended the principle of free trade to embrace almost all economic transactions. The EC-EFTA link was the most important element in Finland’s globalization aspirations. The EEA entered into force in 1994 but, as a result of the next enlargement of the European Union (EU), Finland, participated in the EEA in the capacity of an EFTA country only that one year.
After Austria and Sweden had applied for EC membership, Finland followed suit in 1992. Properly, for Finland this action was a reaction the turbulent developments in the Soviet Union and Russia. From 1995 on Finland has been a member country of the EU. Finland strove from the very beginning to the “core”, i.e. the Economic and Monetary Union (EMU) and was one of the original euro-area countries in 1999. The EU was joined in a spirit of “euro ecstasy”. Main problems appeared 15 years later.
From the early 1960s on, the Finnish economy has undergone a profound change. Still in the 1950s, the Western exports consisted mainly of less-processed wood products while the domestic-market industries produced a large variety of relatively simple goods under the auspices of border

protection. Free-trade integration diversified the exports and transformed the thus-far domestic-market industries to internationally competitive ones with markets both at home and in abroad. From the 1980s on the Finnish economy has been internationalized. For example, the big manufacturing enterprises have been transformed to multinational corporations with production units on all continents.

© 2015 Петрозаводский государственный университет

Опубликована: 10 января 2016 года

Finland in World Economy

Since the onset of industrial society, from the latter half of the 19th century, Finland has been highly dependent on foreign trade, a characteristic feature for small countries. From 1880 up to today, in average, exports and imports have amounted to more than a fifth related to the gross domestic product (GDP) (see Figure 1). Exports of forest products, in which Finland's comparative advantage traditionally has lied, tied Finland to Western world economy until the exports in the course of West European integration began to diversify. Finland's main trading partners are found in Western Europe. During the era of autonomy, trade with Russia comprised a remarkable part, and again in the post-World War II era the Soviet Union and after it the Russian Federation has played an important role in Finland's foreign trade. Traditionally North America and Latin America have been relatively important trading partners. Recently the role of Asia has accentuated.



Sources: Riitta Hjerppe, *Finland's Historical National Accounts, 1860–1994* (1996); Reino Airikkala & Tuomas Sukselainen (ed.), *Suomen maksutaseen kehityslinjat vuosina 1950–1974* (1976); Jarmo Kariluoto, *Suomen maksutase (...)1975–92* (1995); Suomen Pankki, *Suomen maksutase 1993–2002* (2003); Tilastokeskuksen PX-Web-tietokannat, http://pxnet2.stat.fi/PXWeb/pxweb/fi/StatFin/ (25.12.2015)

Finland joined the international economic organizations which were created after World War II in the auspices of the United Nations but actually inspired by the United States government. In 1948 Finland joined the International Monetary Fund (IMF) and the World Bank (International Bank for Reconstruction and Development, IBRD). In 1950 Finland became a contracting party to the General Agreement on Tariffs and Trade (GATT), administered from 1995 on by the World Trade Organization (WTO). These institutional linkages secured Finland a position within the multilateral trade system of the Western world economy as soon as the war-time regulations on foreign trade had been dismantled. In 1969 Finland at last joined the Organisation for Economic Co-operation and Development (OECD). This membership consolidated Finland's position in the multilateral

Western trade and later on brought Finland to the sphere of international financial liberalization.

Regional economic integration in Western Europe, which started with the establishment of the European Communities (EC) in the 1950s, was from the Finnish point of view a delicate matter. This development was tied with the Cold War confrontation, and Finland was a part of the Soviet sphere of influence in terms of military security policy, manifested most distinctly by the Treaty of Friendship, Cooperation and Mutual Assistance, or FCA Pact, of 1948. Finland, however, managed to participate in West European economic integration, by and large, in the pace of its dynamics.

The Period of Protectionism

Finland does not belong to the vanguards of free trade but, on the contrary, from the early years of Independence until the end of the 1950s Finland practiced conspicuously protectionist foreign trade policies. After World War I, protectionism was the general tendency in international trade, but in Finland protection of domestic production was more intensive than in the West European small, foreign-trade dependent economies in general.

During the interwar period, the customs tariff was the standard means of protection, since the prevailing view of free economy shunned direct regulations, or quantitative restrictions as it is called in economics. The Finnish protective tariff was not of an extreme type but it sufficed to discourage large-scale imports competing with domestic production. During World War II and its aftermath, regulations on foreign trade made import duties obsolete as an instrument of trade policies. Regulations were to be a temporary resort but they became a long-time phenomenon. In the 1950s, customs tariff and import regulations effected side by side. Quotas for Western imports were dismantled from the latter half of the 1950s on but finally “licence protection” against Western imports was relinquished only in the 1960s [52; 117—134].

Within GATT until the 1960s, the Finnish foreign trade policies focused on defending the own protective tariff and import quotas, the latter justified by balance-of-payments reasons. For export interests, Finland mainly acquiesced in the general most-favoured-nation treatment which she automatically enjoyed, i.e. Finnish exports were treated not worse than those of other exporters.

Protectionism consolidated a dual industrial structure. Manufacturing industries were divided, on one hand, into domestic market industries in the auspices of border protection and, on the other hand, mainly wood-processing export industries. This was reflected in the pattern of foreign trade. Finland imported mainly raw materials, not available domestically, and semi-manufactures as well as machinery and transport equipment not provided by domestic producers and exported mainly less processed forests products [37; 34, 42—45]. Still in 1960, at the threshold of participation in West European integration, 85 per cent of Finland’s exports to Western Europe consisted of forests products: sawn timber and wood in the round, plywood, pulp, paper (mainly newsprint), etc. [54; 30—270].

Free-Trade Integration

Developments from the 1960s up to the 1980s can be called the Period of Free-Trade Integration [34; 89—103]. Free trade in this connection is confined to industrial goods originating in the free-trade area. It comprises the FINEFTA agreement of 1961 and the free trade agreement with the EC of 1973 complemented by the Kennedy (1964—67) and Tokyo (1973—79) rounds of GATT. The projected NORDEK, 1968—1970, targeted to a Nordic customs union and economic community but eventually it failed to materialize.

The Finnish integration aim was argued by economic argument, safeguarding the competitive position of exports in the changing West European situation. It is, however, plausible that ideological factors influenced the political decision-making processes. Identification as part of the Western world, as distinct from the “Soviet bloc”, has without doubt played an important role within the non-Communist majority. The Leftist opposition, for its part, strove to decrease Western influence on Finland.

West European integration from the late 1950s on was the exogenous factor which forced Finland to relinquish her protectionism. The focus of the Finnish foreign trade policies was transferred from protection of domestic-market industries to promotion of exports. The Finnish domestic-market industries complied with the change, provided that sufficient transitional arrangements facilitated adjustment to international competition.

The integration project of the “Six”, i.e. West-Germany, France, the Netherlands, Belgium, Luxembourg

and Italy, changed the West European situation profoundly. The establishment of the European Coal and Steel Community (ECSC) in 1951 did not yet affect Finnish trading interests. Of crucial significance was the formation of the European Economic Community (EEC) in 1957 which affected trading interests of all the other West European countries. The response of the "Outer Seven", i.e. Britain, Sweden, Denmark, Norway, Switzerland, Austria and Portugal, was the European Free Trade Association (EFTA), formed in 1960. While the Community was, as its primary purpose at the onset, a customs union with a common external tariff, the EFTA acquiesced to be a free trade area on industrial goods with autonomous foreign trade policies of its member states in other respect. The ultimate purpose of the EFTA was to bring about free trade in industrial goods within the whole Western Europe.

The formation of the EFTA posed also Finland in a new situation. Crucial for Finland was that her main export country Britain and her main competitor in forest products, Sweden, belonged to the EFTA, hence Finnish exports were endangered to be left behind a "tariff wall". On the other hand, within EFTA Britain would remove her high paper duties [43; 111]. In this situation Finland began to pursue participation in the EFTA. The main Finnish argument was safeguarding the conditions of Finnish exports on equal footing in the changing Western Europe. The Finnish negotiating position included adequate transitional period for domestic-market industries to adjust to international competition, retaining national agricultural policies and safeguarding the Eastern trade.

Finland's EFTA agreement in 1961, known as FINEFTA, manifested Finland's special position especially through that Finland did not become an EFTA country proper but it was created an "association" between Finland, on one hand, and the member countries of EFTA, on the other. (A "full" member of EFTA Finland became only from 1986 on.) In economic terms, however, FINEFTA corresponded to membership.

The EFTA countries removed their import duties on Finnish industrial goods gradually by the end of 1966 and Finland on EFTA imports by the end of 1967. Still existing import regulations were to be removed within the same time. Originally the timetable ranged to the beginning of 1970 but was accelerated later on. Finland managed to achieve a delayed tariff-reduction timetable for her sensitive branches of domestic-market industries, though the delay was scheduled for the first years of the tariff-reduction scheme. An important achievement for Finland was that she managed to negotiate a permanent reservation for continued import regulations on fossil fuels and phosphate and potassium fertilizers as an exemption from free trade in industrial goods otherwise. This was the main instrument to safeguard the Soviet trade. Most importantly, Finland could continue to regulate oil imports to maintain the share of the Soviet Union on a sufficient level to safeguard corresponding exports to the Soviet Union within the prevalent bilateral trade regime. The Stockholm Convention included also some stipulations for competition rules. It obliged the participants to open to some extent their public procurement for competition from the other EFTA countries and gave the right of establishment in connection with trade in goods [36; 27—65, 69—71, 99—102].

The Soviet Union demanded the EFTA countries to grant the same benefits than they granted each other on the basis of the most-favoured-nation clause in the bilateral trade treaties. The EFTA countries proper refused the demand as conflicting against their commitments within GATT. The Finnish contractual structure was contradictory since the MFN clause in the Finnish-Soviet Trade Treaty of 1947 was formulated very categorically. President Urho Kekkonen chose to satisfy the Soviet demand and, thus, to violate against the GATT commitment. The result was the Agreement on Customs Questions between Finland and the Soviet Union, concluded during the EFTA negotiations in autumn 1960 [59; 131—134, 162—165, 182—184, 186—189, 213—222, 226—253].[1] Finland applied to Soviet imports the same tariff removal as was applied to the EFTA countries. This agreement was, however, of minor economic significance compared with the above-mentioned import-regulations reservation. For political appearance, however, it was crucial. It guaranteed Soviet approval to the Finnish integration decision and thus the Soviet interest to continue large-scale trade relations with Finland [54; 280—299], [56; 47—63].

For Finland and the EFTA countries, the Kennedy round of GATT (1964–67) contributed to trade liberalization by reducing tariffs considerably with regard to the non-EFTA Western countries. For example, the EEC and the United States lowered their paper duties while Finland lowered her own duties. Finland managed, by and large, to preserve tariff protection for those sensitive products which were protected by slowed tariff reduction within FINEFTA. Tariff reductions were carried out gradually in the years 1968–72 [56; 63—67].

Membership in the OECD from 1969 on did not immediately affect Finnish foreign trade. It, however, tied

Finland in the long run to participate in the financial liberalization and liberalization of trade in services which formed the basic idea of the organization [56; 67—70].

In the 1960s relationship between the European Communities (EC)[2] and the EFTA countries dominated West European commercial diplomacy. A new situation arose in August 1961 when Britain applied for EEC membership. Thereafter Ireland, Denmark and the next year also Norway applied for Community membership. The neutral EFTA countries Sweden, Switzerland and Austria applied for association with the Community while also Portugal suggested an appropriate agreement.

Finland's reaction to the new situation was conspicuously cautious. Finland made no initiatives but "observed the progress of the situation". The relationship to the Community was delicate for Finland because of the "political goals" connected with the EEC. The Finnish argument in the discussion of the 1960s stressed compatibility of Finnish integration policies with her neutrality. On this basis Finland repulsed all kind of supranational decision making. Even though exact targets were not expressed, Finland aimed to join the general West European development at a moment when a concrete solution would be at hand.

Negotiations between the Community and the EFTA countries were in stalemate during almost the whole 1960s because of the French opposition to British membership. The deadlock lasted until December 1969. It was only at the threshold of negotiations, in spring 1970, when Finland contacted the EC Commission in order to join the process. The negotiations were carried out parallel with the EFTA countries proper and were completed in July 1972.

The Finnish integration aim was analogous to the EFTA solution ten years earlier. Finland pursued a "purely economic" agreement on free trade in industrial goods. The Finnish negotiating position included, further, retaining national agricultural policies, sufficient transitional period for domestic-market industries and safeguarding the Eastern trade. Finland's special position in comparison to EFTA countries proper was manifested, above all, by that Finland refused to include the so-called development clause, i.e. a declaration of willingness to develop cooperation beyond the provisions of the agreement, or even a mention of "participation in European construction" in her agreement [38; 220—234], [56; 71—96, 115—124, 133—136].

According to the "normal" tariff-reduction timetable, import duties on industrial goods were removed by July 1, 1977, which also was the transitory period for adjusting to the common external tariff by the new member countries. There were, however, a number of so-called sensitive products to which it was applied slowed tariff-reduction timetables.

The Community was a protectionist negotiator that demanded slowed tariff reduction when imported into the Community for those industries in which an EFTA country was more competitive. And the Community negotiated from the position of strength, since it was the EFTA countries which needed an agreement, not the Community. Most protectionist the Community was with regard to paper duties, which hurt especially the Finnish export interests. By patient and relentless negotiations the Finnish delegation managed to shorten the transitory period from the originally demanded 12 years by one year to 11 years. The Community also enforced so-called indicative ceilings for paper imports above which the Commission was entitled to levy the original import duty during the transitional period. For some other products Finland had to comply with a transitional period of 7 years.

On the other hand, also Finland pursued transitional periods for her own sensitive branches. The treatment of paper, which the EC negotiators even admitted to be exorbitant, gave reason to counter-concessions. Finland gained a transitional period of 12 years for a number of her most important domestic-market industries and of 8 years for some others when imported into Finland. Finland also gained higher indicative ceilings for paper than historical exports presumed – at the expense of Sweden. Finland was also exempted from unilateral agricultural concessions.

Negotiations for competition rules were relatively easy since both parties preferred as large autonomy as possible in this respect. The free trade agreement did not include any stipulations about public procurement, the right of establishment, etc. Finland, however, remained discontent with the new origin rules for products entitled to free-trade treatment. For example, the stipulation on using factors of third countries remained

inequitable towards the EFTA countries since it treated the Community as a single processing area but the EFTA countries as separate ones.

A similar exemption as in the FINEFTA agreement for continued import regulations on fossil fuels and phosphate and potassium fertilizers by Finland to safeguard the Eastern trade was included also in the EC agreement[3]. The Community made this concession on the basis of Finland's international position.[4]

After concluded negotiations, political complications delayed the enactment process. There was an Anti-EEC Movement consisting of Communists and some other Leftist forces. For the state leadership, however, problematic was that the Soviet Union which, opposing Western integration, strove, seemingly, to make the undertaking to abort. Finland carried out during 1972 and 1973 what was called Comprehensive Solution on Foreign Trade Policy (*kauppapoliittinen kokonaisratkaisu*), in which the EC agreement was balanced politically. In addition to the Finnish-Soviet customs agreement of 1960, it was concluded a cooperation agreement with the Soviet-led Council for Mutual Economic Assistance (CMEA) and started negotiations on the so-called KEVSOS agreements for reciprocal removal of obstacles to trade with five East European CMEA countries. After lengthy negotiations, President Kekkonen managed, at last, to reach a silent approval by the Soviet leadership. A free trade agreement between Finland and the EC was at last signed in autumn 1973 [62; 69—187], [56; 216—233, 243—245].

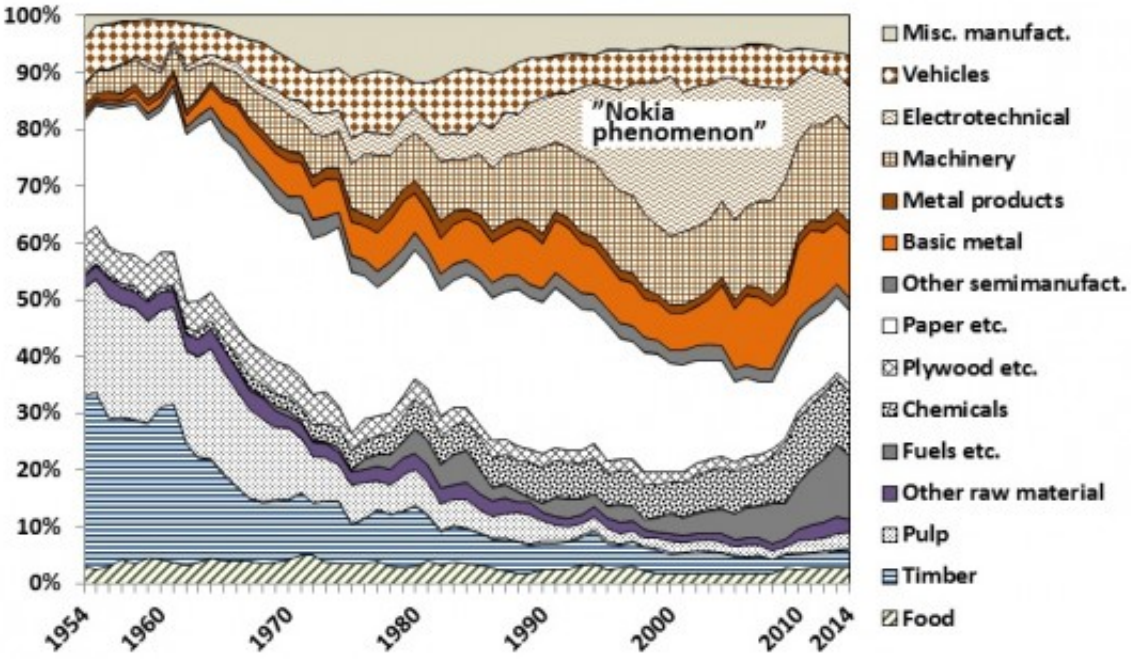
Finland became participant in a free-trade area on industrial goods comprising virtually the whole Western Europe. The last duties for Community imports from Finland were removed at the beginning of 1984 and for Finnish imports from the Community at the beginning of 1985.

The Tokyo round of GATT (1973–79) opened the Finnish economy further by reciprocal reduction of tariffs with regard to the non-West European world economy. Finland managed, again, to exempt most of her sensitive products from tariff reductions [35; 294—303].

Changing Patterns of Finland's Western Trade

During free-trade integration the patterns of Finland's Western exports changed dramatically. Processing rates rose as the trading partners removed their import duties on more processed goods and the exports were diversified as formerly uncompetitive domestic-market industries were replaced by competitive ones which marketed both at home and in abroad. The division of manufacturing industries into domestic-market and export industries faded away.

Table 2. Distribution of Finnish exports by industries, 1954–2014, per cent



Sources: SVT, *Ulkomaankauppa*, 1954–2003; SVT, *Tavaroiden ulkomaankauppa*, 2004–2012 (CD-ROM); Kauppavaihto SITC-pääluokittain ja -pääryhmittäin (Tulli), http://www.tulli.fi/fi/suomen_tulli/ulkomaankauppatilastot/tilastoja/tavaratilastoja/index.jsp (25.12.2015).

The share of forest products in Finnish exports fell between 1960 and 1995 from 75 to 34 per cent and in exports to Western Europe from 85 to 40 per cent; since then the share has decreased further. However, up to the 1980s the forest industries were still Finland's main export branch. More important was the growing processing rates in the Finnish paper-industry exports. Former pulp exports were replaced by exports of paper, and exports of writing and printing papers, other than newsprint, grew vigorously. At the time of the FINEFTA solution (1961) these formed only 7.5 per cent total paper-industry exports but in 1995 they amounted already to 50 per cent; since then the share has still risen. In the 1980s and ’90-s Finland’s share in world exports of these papers rose to about a fifth but has fallen since then.

The metal industries, nowadays called technology industries, became gradually the most important export branch. Products of basic metal (metallurgy) have been characteristic of Finnish exports in international comparison. Ship-building and the engineering industries became prominent branches. These industries became export branches already in the 1950s under the auspices of Eastern trade but from the 1960s on Western exports became more remarkable. The share of metal-industry exports overtook that of the forest industries during the latter half of the 1980s. Successful ship-building continued up to the 1980s. Within engineering industries of the forest cluster, paper and pulp machines and forest machines have been characteristic Finnish export branches. Other important export branches have been hoisting, mining, excavating etc. machines and electrical machinery.

The Finnish clothing and footwear industries experienced an export boom from the 1960s to the 1980s; on the other hand, the Finnish basic textile industry (fabrics, thread) almost vanished in the pressure of international competition. Finland competed with lower wages relative to especially the Nordic neighbours. The product cycle turned to a decline in the 1980s as a result of domestic costs development and opening up of imports from low-cost countries. (Figure 2.) [56; 253—283].

Seen from the present-day perspective, Finland was during the period of free-trade integration still a relatively closed economy. This judgement applies basically to the whole Western world economy but is especially characteristic of Finland. Free trade was confined to industrial goods. A Finnish peculiarity was the strict restrictions against foreign ownership of enterprises, dating to the prewar time and intact until the early 1990s. The import-regulations reservations in the free-trade agreements secured a protected domestic market for two state-owned companies, Neste Oy and Kemira Oy, in their main business areas oil products and fertilizers, respectively. Finland also protected her public procurement from foreign competition as far as the EFTA stipulations and the Tokyo round of GATT allowed; the free trade agreement with the EC did not include obligations in this respect. Finland also delayed the definitive commitment to convertibility of her currency under the IMF Agreement longer than the Western industrialized countries in general, until 1979 [55; 68—69, 78—81]. Finally, Eastern trade, to be dealt with in the next chapter, forms the most significant deviation from the principle of free trade.

Eastern Trade

After World War II, Finland maintained large-scale trade exchange with the Soviet Union, based on the special political relationship between the two countries. In 1945–1990, trade with the Soviet Union comprised in average 16 per cent of Finland's foreign trade. In the 1950s exports to the other East European CMEA countries comprised, in average, 5–6 percent and imports from them 9–11 percent of total, depending on calculation method. Since then their share has declined considerably [23].

For Finland, bilateral Eastern trade was a parallel system to the multilateral Western trade. Bilateralism meant, briefly, payment for imports by exports instead of convertible currencies. In practice, the Finnish imports determined the level of trade exchange. From 1951 the Finnish-Soviet trade was based on five-year framework agreements complemented by annual goods-exchange protocols. From the same point of time the clearing currency was a clearing ruble according to the official exchange rate of the Soviet ruble. The Bank of Finland and, on the Soviet side first *Gosbank* and from 1962 on *Vneshtorgbank*, reorganized as *Vneshekonombank* in 1988, acted as the clearing agencies. Finnish traders paid for imports and received payment for exports at the Bank of Finland in Finnish *markka* and the Soviet foreign trade corporations, correspondingly, operated through their Soviet clearing agency in Soviet rubles. The system aimed at trade balance but included a modest credit to enable temporary disequilibria. A comparable bilateral system was applied to the other CMEA countries until payments gradually, during the 1970s and '80s, were changed over to the basis of convertible currencies [32; 8—18], [51; 59—98], [46; 274—284].

The pattern of Finland's Eastern trade differed considerably from the Western one. Imports from the Soviet Union consisted mainly of raw materials and oil, which were to be imported in any case, and the imports were paid by exports of domestic manufactures goods. Export licence required a high degree of domestic content; in the 1980s it was calculated to be about 85 per cent [32; 19—58, 82—84], [51; 70—71].

From the late 1950s on, crude oil, the importation of which was safeguarded by the import-regulations reservations in the free-trade agreements, became an ever more predominant import article. Imports of crude oil from the Soviet Union were favoured, on one hand, for foreign-policy reasons, to satisfy the Soviet desires and demands, and, on the other hand, for trade-policy reasons, to save convertible currencies and to promote exports to the Soviet Union. The oil crises increased the Soviet share in Finland's foreign trade as the raised oil bill was to be paid for by increasing exports to the Soviet Union. The share of energy sector in Finnish imports from the Soviet Union reached its peak as a result of the second Oil Crisis in 1981, 87 per cent of total. Falling oil prices in the 1980s caused Finland to increase the Soviet share further to safeguard Soviet exports. The share of the Soviet Union in Finland's oil imports reached its peak in 1988, 91 per cent of total. The Soviet Union strove also to export machines and vehicles to Finland, which was promoted by the Customs Agreement of 1960. Finland was the most important Western buyer of these articles. Yet, even though Soviet cars were common in the Finnish roads up to the 1980s and the electric locomotives and the nuclear power plant, acquired from the Soviet Union, raised much attention, their share in Finland's Soviet imports remained modest. Leasing the Saimaa Canal to Finland was a transaction that raised much attention [32; 38—44], [46; 279].

About half of Finnish exports to the Soviet Union consisted of ships and machines. The ships were the

most important export article. Other important articles were paper and pulp mill machinery, wood-working machinery, hoisting, excavating and earth-moving machinery and electrical machinery. Paper and related products formed about a fifth. Finnish paper exports to the Soviet Union were of high processing rates already at times when the Western trading partners protected their own paper industries. The oil crises increased considerably exports of consumer goods as the raised oil bill was to be paid for by increased exports. Thus the Finnish clothing and footwear industries, which had grown to export industries in the auspices of EFTA trade, found wide markets also in the Soviet Union. After the first oil crisis about half and after the second about four fifths of footwear exports were directed to the Soviet Union. Exports of clothing and footwear fluctuated strongly since consumer goods were in a secondary position in the Soviet imports policy. They formed a flexible element balancing trade exchange. The increased oil bill also generated large-scale construction exports. There is no exact public information on the scale of these exports; part (construction materials and equipment) is included in the foreign trade statistics while the bulk (compensation for work and services) is included in the balance-of-payments statistics without accurate specification. According to one calculation, from the mid-1970s to the mid-1980s invoicing from the Soviet Union by Finnish construction firms amounted to 6–16 per cent of the revenue from the Soviet Union. From the 1970s on, the Soviet Union became also an important buyer for the agricultural surplus production. Especially, Soviet exports alleviated overproduction of butter [47; 13—32], [32; 46, 67—73, 96—108].

Eastern trade was, plausibly, advantageous for Finland. The Soviet trade saved convertible currencies to be allocated to imports which in any case were to be acquired from Western markets. Soviet exports were at least for the ship-building and engineering industries a “springboard” to Western exports. The industries grew to competitive large-scale industries on the basis of Eastern orders. Soviet exports maintained employment since its products were usually more labour-intensive than those of Western exports in which the capital-intensive paper industry was in a prominent position. Because of the trade pattern, pricing was asymmetric in favour of Finland. Finland imported from the Soviet Union mainly raw materials and related articles with generally known world-market prices on which basis the goods were priced. The Soviet Union, on the other hand, had to accept actual production costs as the basis for pricing the Finnish exports since Finnish firms participated in the trade on business-economy basis. The Soviet foreign-trade corporations, not operating in competitive circumstances, could pay higher prices than were the most affordable prices in the world market. Long production series, low marketing costs and, many times, the possibility to time production suitably lowered unit costs [46; 280—281, 284—286].

Originally, bilateralism was for the Soviet Union a self-evident trading system. By time, however, it became obvious that the system was favourable notably for Finland. The Finnish export industries preferred this system, but it corresponded also to the Finnish macro-economic interests fostered by the Government. Even though evidence is scarce, one can obviously conclude that at least from the first oil crisis (1973–74) on the system continued mainly – or at least to a large extent – because the Soviet state leadership was willing to satisfy the Finnish desire. As far as known thus far, at least once, in the 1970s, the Soviet party expressed its interest to change over to convertible currencies but the system was continued after the Finns appealed for the prevalent system [50; 459—461]. For the Soviet Government it was, without doubt, at least politically an end in itself to maintain trade with Finland on as high a level as possible [51; 96—98].

Finland stuck to the bilateral clearing system as long as possible.[5] Bilateral trade ended with the crisis and collapse of the Soviet Union. During *perestroika* in the latter half of the 1980s bilateral trade with Finland met with reluctance among the Soviet industrial leaders. As enterprises gained more independence, they became unwilling to deliver goods to bilateral exports which yielded clearing rubles, usable only for purchases of Finnish goods from Finland, while at the same time exports to other Western countries yielded convertible currencies usable for any acquisitions. The 9th framework agreement for the years 1991–95 was still concluded during the visit of Secretary General Mikhail Gorbachev to Finland in October 1989, but in late 1990 the Soviet Union at last announced that it will relinquish bilateralism and change over to convertible currencies from the beginning of 1991 [51; 47—58], [46; 282—284].

Globalization

A new stage in Finland’s relationship to world economy in the wake of international development, called

Globalization, is discernable from about the turn of the 1970s and ’80s. By the 1980s, Finland, by and large, caught up the lead of the more advanced Western economies, which encouraged adoption of the new international trends. New developments led gradually, from the 1990s on, to full-scale participation in global market economy. All-embracing integration with regard to Western Europe, to be dealt with in the next chapter, was an essential part of globalization. The new trade policies were connected with new industrial policies which emphasized innovative products, internationalization of business firms and orientation towards more clear-cut market economy.

Also Finland followed suit when the OECD, in the 1980s, at last began to put into practice its principle of liberalization of international capital movements. Liberalization of capital movements was necessitated also by the projected European Economic Space (EES), to be dealt with in the next chapter. A crucial turning point was the new Currency Act of 1985 which formally extended the traditional governmental empowerment to regulate foreign exchange, including international capital movements, but, in fact, intended abolition of the existing regulations. From 1986 to 1991 credit and investment between Finland and foreign countries were gradually liberated from all restrictions. Restrictions against foreign ownership in Finnish business firms were relaxed in 1987 and abolished finally in 1993 [50; 539—542].

Transition to innovative products required intensified investment in research and development (R&D). The Finnish R&D financing rose gradually and reached the level of leading industrial countries by the mid-1990s and continued to rise since then. Accordingly, the share of high-tech products[6] of Finnish exports rose up to 2000, when it formed 23 per cent of total exports, but began thereafter to slope down. This development was, to a high degree, a reflection of the so-called Nokia phenomenon (of which more below), but a similar development in a more modest scale is discernable within many industries [26; 15—22], [27].

Explosive growth of foreign direct investment (FDI) is the most characteristic feature of globalization. Formerly production of Finnish firms was almost exclusively confined within the Finnish borders; few units in abroad were mainly sales offices. From the early 1980s on, also the Finnish large manufacturing enterprises have been gradually transformed to multinational corporations with production all over the world. Nowadays, overwhelmingly the bulk of operations take place in abroad [63; 89—100]. Among the 20 largest (by turnover) Finnish manufacturing enterprises, the share of employees stationed abroad has grown steadily as follows (per cent of total) [53; 57], [33; 46], [31].[7]

1983	1990	2000	2010
14	44	59	76

The outward flows of FDI have surpassed the inward flows from the 1980s, i.e. during the whole period of large-scale FDI, since Finland is a small market area and she lost the “advantage” of cheap labour already in the 1980s. From the mid-1980s up to today the outward flows have amounted in average to 3.4 per cent and the inward flows to 1.9 per cent relative to GDP. At the peak the outward flows were in 2000, 19.1 per cent relative to GDP, but this figure includes the unfortunate adventures by the leading tele-operator Sonera with G-3 rights in Germany and a prominent forest-industry firm, Enso-Gutzeit, in America. The bulk of Finnish outward FDI has gone to and inward FDI has come from Western Europe, Sweden being the most important partner, the second most important has been North America. From the late 1990s on the role of Asia has accentuated. Outward FDI has focused on manufacturing industries and inward FDI in services, notably the banking sector [29].

Portfolio investments have been even larger than the direct ones. The Finland-based multinational corporations have for the most part been transferred to foreign ownership. Nokia Corporation became during its grandeur the most extensively foreign-owned Finland-based company. Also the Finnish sovereign debt has been mainly transferred to foreign investors. Correspondingly, Finnish savings have been increasingly channeled to foreign securities [39; 143—166].

The so-called Nokia Phenomenon dominated the image of Finnish economy from the 1990s to the 2000s. Nokia was a fulfilment of all the expectations which the new industrial policy set for corporate performance. Nokia Corporation was formerly a multi-industry firm producing, among other things, rubber boots, copper cables, toilet paper and, from the 1980s on, portable mobile phones. From 1992 on the company focused exclusively on mobile phones and managed to achieve world leadership on the branch from 1998 on. The lead

was preserved for many years but in 2011, at the latest, it was lost to American and Asian competitors. During its grandeur, Nokia served in many ways Finland's economic development. As the overwhelmingly largest Finnish enterprise Nokia's role was pivotal when lifting Finland out of the economic depression of 1990–93. Nokia's contribution also was predominant in economic statistics featuring Finland as a vital high-tech country. Eventually, these features began to fade with the end of the "dot-com boom" at about 2000 [41; 18—152].

During globalization, traditional foreign trade no longer reflects adequately foreign economic relations. Production of Finnish firms in abroad and of foreign firms in Finland substitute for potential exports and imports, respectively. The enterprises' operations at home and in abroad obscure the border between domestic and foreign production. Often transfer pricing becomes artificial in view of taxation. The foreign trade statistics does not specify the intra-firm foreign trade. Characteristic of resent development has been large-scale trade in intermediate products as enterprises unbundle their value chains among several processing countries [28].

The most important new development distinguishable in foreign trade statistics is the enormous growth of exports of mobile phones up to 2000 due to the Nokia Phenomenon, and gradual decline thereafter (electro-technical machinery in Figure 2). In the 1980s the relative share of foreign trade in the Finnish economy declined. After the economic depression in the early 1990s, in spite of the counter-effect of FDIs, Finland's foreign trade grew vigorously until the international financial crisis of 2008–09, reaching the unprecedented peak in 2008 when exports of goods and services rose to 45 per cent relative to GDP. During this period, the trade and current balances were also strongly on surplus up to 2010. (Figure 1).

Liberalization of foreign transactions has created large-scale trade in services not related to trade in goods, other than tourism. Notably the share of business services has increased vigorously since the early 1990s [40; 59—72], [30].

Finland and the European Economic Area

The basic political settings around integration policies changed profoundly during a period from about the mid-1980s to the early 1990s. With *perestroika* and ultimately with the end of the Cold War the Soviet suspicions towards Finland's integration policies were replaced by a positively responsive attitude. Approximately at the same time, in internal Finnish developments the old ideological Right-Left controversy melted away and was replaced by a new cleavage between internationally oriented and rather inward-looking layers of population and citizens. Finally, the East European revolution of 1989–91 made ardent anti-Capitalism a relic of the past.

[wider interval between lines]

A new stage in European integration was introduced around 1984. Both in the internal development of the Community and in EFTA-EC relations, deepening integration became the prevalent orientation.

A crucial turning point towards all-embracing economic integration in Western Europe was the first ministerial meeting between the EC and the EFTA countries, convened in Luxembourg in April 1984. The Luxembourg Declaration aimed at creating "a dynamic European economic space". The first focus was improving the regime of free trade in industrial goods, created by the free-trade agreements of 1972 and 1973, by removing the still existing non-tariff barriers (NTBs) to trade. The Declaration listed targets: harmonization of standards, elimination of technical barriers, simplification of border facilities and rules of origin, elimination of unfair trading practices and access to government procurement. The second focus was intensifying R&D cooperation for strengthening West European competitiveness [16]. In June 1985 the EC adopted a programme named "Completing the Internal Market". The Internal Market or Single Market was to be attained by 1992 by realizing the so-called Four Freedoms: free mobility of goods, services, capital and labour [18]. The Single Market programme became also a benchmark for the future EFTA-EC relationship.

Since EC membership was, as before, excluded from the Finnish considerations, the projected European Economic Space (EES) became self-evidently the Finnish way of participating in the deepening West European integration. The focus of Finnish international business was in Western Europe, and the new internationalization

aspirations were primarily directed towards Western Europe. Finland also supported the idea of "strengthening EFTA" as the means to achieve an EES, i.e. the EFTA negotiates with the Community on behalf of its member states. From 1986 on Finland became an EFTA member proper which facilitated participation in the formation of a common EFTA stance. The liberalization of capital movements, even though carried out on autonomous basis, was an integral part of the EES process.

Until 1989 it was expected, not only in Finland, that an EES would be a gradual, continuous process of convergence between the EFTA countries and the Community, consisting of individual steps, not a comprehensive solution to be carried out at once. The Finnish interest focused, as expressed in the Government Report of November 1986, on two fields: firstly, completion of the existing free-trade system on industrial goods by removing the still existing NTBs, and, secondly, research, technology, training and educational cooperation [10; 3454—3455]. The Confederation of Finnish Industries (*Teollisuuden Keskusliitto*) gathered material on grievances in the functioning of the present free-trade system with the EC. Research cooperation was the other focus also of the Finnish Industry [14; 6—13].

In 1988 a Finnish view on the EES was elaborated more accurately. In May the Confederation of Finnish Industries issued a programme "The [Finnish] Industry and West European Integration I" (in Finnish) and in November the Government gave to the Parliament its first report on West European integration. The focus was, as before, on free movement of goods and research and technology cooperation. In other respect the Finnish approach was still conspicuously selective. The Industry, for example, wished to liberalize road transport and supported large-scale liberalization of financial services. Both the Industry and the Government repulsed large-scale free mobility of labour but regarded it necessary to facilitate mobility of key staff of foreign subsidiaries and personnel conducting services related to exports [4; 19—25, 47—48], [14; 5, 22].

During the next years after the Luxembourg declaration, the EFTA countries and the Community achieved a number of agreements to remove non-tariff barriers (NTBs) to trade in goods. In 1987 it was reached two agreements to simplify customs procedures. In 1988 the EFTA countries at last managed to agree with the Community on genuinely multilateral cumulation in origin rules, thus correcting an inequity dictated by the Community in the free-trade negotiations in the early 1970s [4; 19—25, 47—48], [14; 5, 22]. As part of the integration process, the Community's student-exchange programmes Comett and Erasmus were extended to cover the EFTA countries from the early 1990s on.

Formerly, Finland participated selectively in West European research and technology cooperation schemes, sporadically in scientific schemes and more intensively in those which promised economic benefit. Finland participated, for example, in COST[8], a commercial application-oriented scheme, from its official beginning in 1971 and EUTELSAT cooperation for establishment of a telecommunications satellite system in Western Europe from the official beginning in 1977. From the mid-1980s on Finland was anxious to join all the new cooperation schemes which at that time were developed. In 1985, Finland managed to join the European research cooperation scheme EUREKA for developing commercial applications. Within the Finnish economy, EUREKA was assessed as the most important among all international research cooperation schemes [2]. As a part of the EES process, Finland joined the framework programmes (FPs) of the EC from 1987 on. In 1985, the Finnish thus far sporadic participation in the nuclear research centre CERN[9] was consolidated. A CERN member proper Finland became in 1991. In 1987 Finland became an associate member of the European Space Agency (ESA); member proper Finland became in 1995 [44; 7—10, 17—19, 41—77, 85—89, 103—117].

During 1989, the EFTA-EC consultations resulted in a design which presumed a comprehensive solution consisting of the "four freedoms" and so-called flanking areas, i.e. research and technology cooperation, social dimension, etc. The relevant Community legislation would apply to the EFTA countries with few exceptions justified by "fundamental interests" and with transitional arrangements. The EFTA countries were, however, entitled to retain their social, environmental, etc. standards when on higher levels than within the Community [17; 5—6]. Thus, Finland could not pick up elements which suited her but the Finnish positions were to be adjusted to the anticipated comprehensive solution. Exceptions to the common design were to be confined to the necessary minimum. The programmes issued in November 1989, the Confederation of Finnish Industries' "The [Finnish] Industry and West European Integration II" (in Finnish) and the Government Notice to the Parliament of Finland's integration policies, already anticipated a comprehensive solution. The official Finnish negotiating position, elaborated at the threshold on negotiations, is recorded in the Government Report of

March and in the statement of the Foreign-Policy Committee of the Parliament in June 1990. Since the main material content of an EES was in fact predetermined, the Finnish position concerned specification in more detail, exceptions based on “fundamental national interests” and transitional arrangements [6; 14].

The common EFTA-EC design left open whether the EES was to be a free trade area or a customs union. Even though not expressed categorically, Finland inclined strongly to free-trade area. It was regarded that independent trade policy vis-à-vis third countries best corresponded to the Finnish interests [15; 11], [5; 13—14], [6; 16], [7; 14].

In the Finish position, the main exemption to free trade in industrial goods was still, as in the earlier free-trade agreements, retaining import regulations in view of Soviet trade. For some reason this was not spoken out in previous papers, albeit undoubtedly intended. Now, however, this concerned only fossil fuels, i.e. crude oil, oil products and coal [6; 18—19], [7; 8]; fertilizers had been dropped out. To be sure, with the end of bilateral trade regime this objective soon became obsolete. For trade in services, Finland required that social insurance, notably the statutory employee pension, is not included in the EES arrangement. The Parliament’s Foreign Affairs Committee additionally required sufficient transitional periods for banking, insurance and road transport [6; 53]; [7; 19—21]. Even though Finland was liberalizing her capital movements rapidly from the mid-1980s on, foreign ownership was still a delicate question in some respects. Most urgently, Finland wished to protect her landed property, especially forests and other land-related natural resources as well as production of basic energy from foreign ownership. The proclaimed “positive *per se*” attitude towards foreign ownership referred to other types of assets but even in this respect Finland still strove to retain control of foreign ownership to protect her “fundamental national interests” [6; 75—76], [7; 17—18]. By 1990 Finland already was ready to join a common labour market with social-security stipulations. The Government did not expect such uncontrollable migration that would require permanent exceptions. Surely, the Parliament’s Foreign Affairs Committee demanded exceptions when necessary to prevent exorbitant outflow of social benefits [6; 78, 80—81, 83], [7; 21, 24].

Among the areas outside the “four freedoms”, from the Finnish point of view R&D cooperation was the most important. Finland, like the other EFTA countries, strove particularly to full participation also in the FPs [6; 88]. Additionally, Finland required that the Finnish social security and labour protection are preserved at least at the existing level, that Finland retains the right to maintain even higher standards than in the EC for environmental protection and retains the right to maintain national regional policies which takes into account the Finnish special conditions [7; 19, 21, 23, 28—29].

The EES questioned the traditional Finnish neutrality, the implication of which had been repulsion of supranational decision-making. The Government presumed that decision-making will be based on consensus and the Foreign Affairs Committee of the Parliament demanded strictly repulsion of supranational decision-making [6; 119], [7; 10]. The contradiction lied in that the Community retained itself autonomous decision-making power while functioning of the EES presumed application of relevant EC norms to the EFTA countries. An internal memorandum of the Confederation of Finnish Industries in October 1990, during the negotiations, concluded that in practice an individual EFTA country cannot refuse to adopt an EC decision as EES legislation. Thus, for national sovereignty the difference between EES and EC membership was virtually formal [1].

Negotiations proper lasted from summer 1990 to autumn 1991. The project was renamed the European Economic Area (EEA). The enactment of the EEA was, however, delayed. First the EC Court of Justice found in it incompatibilities with the Community Law. Thereafter the undertaking foundered on the Swiss referendum. Negotiations continued up to spring 1993. Even though Community membership became topical during the negotiations, Finland pursued the EEA vigorously. Finland wanted to secure the Finnish firms access to the Community market on equal footing even if membership would founder [35; 419—432]. In economic terms, the EEA was close to Community membership. The EFTA countries retained their autonomous trade policy with regard to third countries, autonomous agricultural policy and autonomous monetary policy, which in the Community belonged to the sphere of common policies. Exemptions to the general EEA scheme were not achieved but, on the other hand, subsequent developments, notably application of Community membership, made them obsolete. In Finland the EEA met with little political opposition. The first negotiations result passed in the Parliament in 1992 by votes 154 to 12; the second in 1993 by 149 to 7 [11; 4024], [12; 1840]. The EEA

entered into effect, at last, from the beginning of 1994. But Finland, Sweden and Austria were members of the EEA in the capacity of an EFTA country only that first year 1994.

Finland and the European Union

With regard to West European integration, Finland adhered to the consolidated neutrality doctrine until the early 1990s. This made joining the EC unthinkable. In its report to the Parliament, November 1988, the Finnish Government opined [4; 5]:

"Implementing Finland's policy of neutrality requires that we keep decision making in our own hands. In our view this is not compatible with full membership in the EC. The EC is striving to create a European union which would include a common foreign policy."

The implication of neutrality remained basically unaltered in 1989 and 1990 [5; 5]; [7; 10].

From 1989 on, inspired by developments in Austria and Sweden, it emerged public discussion about EC membership. In 1990 and 1991 pro-EC opinion grew steadily even though the official Government view remained apparently unaltered. By spring 1991 pro-EC opinion already had become prevalent within many influential circles. The chairman of the Social Democratic Party opined in this way in April, and in June the party congress of the National Coalition Party adopted a stance for EC membership. The Confederation of Finnish Industries had also come to the same conclusion but delayed proclaiming it not to disturb the Government's integration policies [61; 19—40].

The decisive turning point was the attempted *coup d'état* in Moscow on 19–21 August, 1991. EC membership became actual as part of the Finnish foreign-policy reorientation in the new situation when the Soviet Union was vanishing. Obviously, security-policy considerations affected the change of mind. President Koivisto explains in his memoires this being decisive when he came to the conclusion of EC membership. "But this (…) was not to be said publicly" [48; 554]. In front of the Finnish Parliament he argued that "we have voice there where decisions are made", [11; 20] which also became the prevalent argument in Finland. Also Max Jakobson, a Finnish veteran diplomat and observer of world events, has regarded safeguarding the Western identity and strengthening the country's security as the ultimate motive of the pro-EC majority [42; 110—111].

The Confederation of Finnish Industries definitively decided its stance for EC membership the next day after the failure of the Moscow coup [3; 19—40]. The political process for membership application lasted from September 1991 to March 1992. In September 1991, the Social Democratic Party Council supported unanimously EC membership. From now the Coalition Party and the Social Democrats – the first-mentioned as a government coalition party and the last-mentioned as the leading opposition party – were the leading advocates for membership. After these two parties the trade-union movement followed suit. The Centre Party as the leading government coalition party was in a puzzling situation. The attitude rejecting EC membership was still prevailing within the party. But if the party had opposed to the Finnish application it had been pushed to "sidetrack" in politics – without being able to prevent the Finnish application. Thus, the party leadership adopted a stance that application was to be submitted – it was a new matter whether the negotiations result could be approved [61; 40—66].

During preparations to membership application the Finnish foreign-policy orientation was redefined to conform to EC membership. As far as the FCA Pact or the Trade Treaty with the Soviet Union were obstacles to EC membership, these hindrances were removed through the new Treaty of the Foundations of Relations and the new Trade agreement with the Russian Federation, respectively, concluded in January 1992 [57; 18—20]. Finally, the traditional neutrality stance was revised. The Government Notice to Parliament in March 1992 on Finland's EC application re-defined the Finnish neutrality as follows: [9; 132]; [8; 5]

"(…) the core of Finnish neutrality can be characterized as military non-alignment and an independent defence."

The definition followed that adopted by Sweden already in 1991. Soon, however, "the core of neutrality" dropped out from both the Swedish and the Finnish definition. What was left was "military non-alignment and independent defence" [64; 117, 164—188].

Accession negotiations were carried out from spring 1993 to spring 1994 parallel with Sweden, Austria

and Norway. During this time, in autumn 1993, the European Communities was transformed to the European Union (EU).

The overwhelmingly most difficult negotiations question was Finland's position in the common agricultural policy (CAP). To meet the interests of the agricultural producers, the Finnish Government strove to preserve the agricultural income on the level reached thus far even though this was not believed to be fully materialized. For this purpose Finland was to be entitled to complement CAP transfers by additional national support. The Finnish negotiating position was that as large as possible a part of Finnish agricultural subsidies comes through CAP. Finland pursued, among other things, including the whole country within the support for the least favoured areas (LFA) on the basis that the Finnish climatic circumstances are unfavourable compared with other countries. Within the Community, however, LFA was defined in relation to other areas within the country concerned, not the Community average. The end result was that 85 per cent of the Finnish arable area came within the LFA support. (Later on, in connection with CAP reform, the LFA was to apply to the entire Finnish territory.) Finland was also entitled to pay national support to its agriculture to compensate the loss in agricultural income which otherwise had occurred. It remained ambiguous whether "serious difficulties resulting from accession" as justification for national support also for Southern Finland meant permanent circumstances or temporary, transitional problems. Representatives of the Finnish agriculture have interpreted according to the first, the Commission according to the latter. An effort of its own was to make the Commission to redact the text of the treaty also for agriculture as agreed upon in the negotiations; the Finns did not succeed completely. In other respect, by and large, Finland attained her objectives [49; 112—161, 273—275], [60; 44—45, 50, 52—55, 61], [35; 475—485].

Opposition to EC/EU membership was larger-based than to the EEA, since it aimed at more far-reaching integration. The most noticeable opponent was the Central Union of Agricultural Producers (MTK), from 1992 named the Central Union of Agricultural Producers and Forest Owners (MTK), which opposed to EC/EU membership since the CAP was expected to deteriorate agricultural income. The MTK stance had an influence on the Centre Party within which opinion divided. Among the small parliamentary parties the Rural Party (present Finns Party) opposed most consequently. Within the Leftist Alliance, the Christian Union (present Christian Democrats) and the Greens opinion divided. It emerged also an intelligentia-based movement which called for national sovereignty ." [61; 40—66], [58].

In the consultative referendum, October 1994, 57 per cent supported and 43 per cent opposed to EU membership. Support was stronger than in the Swedish referendum (52 to 47 per cent) but not as strong as in Austria (67 to 33 per cent) [45; 1]. Finland became, together with Sweden and Austria, a member of the European Union (EU) from the beginning of 1995.

Under the EU, the Finnish agriculture has run with deficit. With lower producer prices than the previous national ones, return from sales does not cover paid production costs. Thus, agricultural income consists entirely of subsidies. The national support has formed, in average, 61 and the EU support 39 per cent of the total ." [22]. In fiscal relations as a whole Finland has been a net payer except two years. Finland's gross contribution to the common EU budget has been in average 1 per cent relative to Finland's gross national income ." [13].

When acceding to the Union, Finland oriented herself decisively to the Economic and Monetary Union (EMU) and was one among the first 11 countries adopting the common currency euro in 1999. Fulfilment of the convergence criterion for public debt by Finland was enabled by the interpretation which included statutory social-insurance funds to the sphere of public sector (general government). To be sure, Finland failed to have been within the Exchange Rate Mechanism the required two years but this was a mere formality ." [19; 22—23].

Access to the EU and the EMU took place in an atmosphere of general optimism of the 1990s which did not anticipate future problems. For example, the euro was not genuinely based on economic considerations but rather it was realized as a political end in itself as part of a new united Europe. When the composition of the Euro Group was decided, convergence criteria were overlooked to gather as many countries as possible. Seemingly, decision-making was based on false conceptions of human nature.

The international financial crisis of 2008–09 was a blow against the Finnish economy but it was not

primarily created within Western Europe and not to any extent in Finland. It, however, trigged the sovereign debt crisis which had evolved within the EMU and broke out in 2010. The stipulation in the basic treaty which unambiguously defined the member countries as responsible for their public debt [10] suddenly lost its validity and "common responsibility" fell also onto Finland.

Within the Euro Group, the debt crisis has generated demands for so-called fiscal federalism consisting of a common sovereign debt and large income transfers from more solvent countries to those in weak economic position. Within the entire Euro Area, fiscal federalism seems to have majority support since majority of the countries are excessively indebted. However, a change-over to common state finances can take place only by unanimous decision. Finland has repulsed the idea of fiscal federalism sharply, albeit she has entered limited though large commitments.

The Eastern Partnership programme of the EU has exposed also Finland to confrontation with Russia, which emerged from the Ukrainian events in 2014. Economic sanctions and counter-sanctions have hurt greatly the Finnish economy.

From Closed Economy to Global Market

From the onset of industrialization in the 19th century until the period of West European integration, Finland participated in the international division of labour mainly as supplier of wood and wood-based products. The Finnish economy, thus, became highly dependent on foreign trade. Since the Independence, Finland practiced consequently protectionist foreign-trade policies which meant that, in spite of the great significance of foreign trade, Finland was ultimately a closed economy.

The time from the 1960s up to about the 1980s is here called the Period of Free-Trade Integration. It was created a regime of duty-free and quota-free trade in industrial goods in Western Europe. During free-trade integration Finland developed to an advanced, diversified industrial economy. Finland was freed from one-sided wood-based Western exports and the formerly uncompetitive, protected domestic-market industries were replaced by internationally competitive ones which marketed both at home and in abroad. Engineering industries became the other prominent export branch along with and even over the forest industries. The bilateral Eastern trade, even though it represented an opposite trading system, contributed to this development.

Globalization from the 1980s and '90s on has, again, changed profoundly the Finnish foreign-economic relations. International capital movements were liberalized during a timespan from the mid-1980s up to the early 1990s. Around the turn of the 1970s and '80s foreign direct investment, with outward flows larger than inward flows, began to grow vigorously and this development was only intensified since then. As a result, the big Finnish manufacturing enterprises grew to multinational corporations with production on all continents. Portfolio investments have grown similarly. Participation in deepening West European integration, notably membership in the EU from 1995 onwards, is an essential part of globalization. Finland has from the 1990s on become an integral part of a global market and global finance. From the early 1990s on up to the international financial crisis of 2008–09, also the Finnish foreign trade grew unprecedentedly fast.

Finland has during the Independence experienced vigorous economic growth in international comparison. By the 1980s, Finland, by and large, caught up the lead of the more advanced Western economies, and from the 1990s on Finland even featured – at least for a while – as one of the most advanced high-tech countries. These developments are, without doubt, connected with large-scale foreign trade.

The international financial crisis of 2008–09 and the subsequent sovereign-debt crisis in the Euro Area from 2010 on evidenced the adverse side of high export dependence. Finland was not participant in the emergence of problems but is one of those hurt most. International demand for investment goods collapsed and, obviously, Finnish firms also have lost market shares in the turmoil. The 2008 economic levels were not resumed by 2014 and forecasts expect sluggish development for the foreseeable future.

References

Archival sources

[1] Parkkinen, Tiia, ETA-sopimus ja Suomen suvereniteetti, 16.10.1990, Box 448. The Central Archives for Finnish Business Records (ELKA).

[2] Tutkimus- ja teknologiavaliokunta 14.3.1991, Box 376. ELKA.

[3] Forsman, Erik 23.8.1991, TKL:n hallituksen 22.8.1991 hyväksymä kannanotto integraatiotilanteesta, Box 449. ETLA.

Printed sources

[4] Finland and Western European Integration Process. Report to Parliament by the Council of State Concerning Finland's Attitude Towards the Western European Economic Integration Process, 1 November 1988, Helsinki : Council of State, 1989.

[5] Valtioneuvoston tiedonanto eduskunnalle Suomen suhtautumisesta Länsi-Euroopan yhdentymiskehitykseen, Helsinki : Valtion painatuskeskus, 1989.

[6] Suomi ja Euroopan Talousalue. Valtioneuvoston selonteko eduskunnalle Suomen suhtautumisesta Länsi-Euroopan yhdentymiskehitykseen 13.3.1990, Helsinki : Valtion painatuskeskus, 1990.

[7] Ulkoasianvaliokunnan mietintö n:o 7 valtioneuvoston selonteosta Suomen suhtautumisesta Länsi-Euroopan yhdentymiskehitykseen 1990. Valtiopäivät 1990. Asiakirjat.

[8] Valtioneuvoston tiedonanto Eduskunnalle Euroopan yhteisön jäsenyydestä, Helsinki : Valtion painatuskeskus, 1992.

[9] Government Notice to Parliament on Finland’s EC Membership Application; Address by Prime Minister Esko Aho in Parliament; 16th March 1992, Ulkopoliittisia lausuntoja ja asiakirjoja 1992, Ulkoasianministeriön julkaisuja, Helsinki 1993.

[10] Valtiopäivät 1986. Pöytäkirjat

[11] Valtiopäivät 1992. Pöytäkirjat.

[12] Valtiopäivät 1993. Pöytäkirjat.

[13] Valtion tilinpäätös 1995—2012. Valtiopäivät 1996—2013. Asiakirjat.

[14] Teollisuus ja Länsi-Euroopan integraatio I, [Helsinki] : Teollisuuden Keskusliitto, 1988.

[15] Teollisuus ja Länsi-Euroopan integraatio II, [Helsinki] : Teollisuuden Keskusliitto, 1989.

[16] Luxembourg: Ministerial meeting between EFTA countries and the EC and its Member States. Joint Declaration, EFTA Bulletin 2/1984.

[17] EES. “ (…) they decided to commence formal negotiations as soon as possible in the first half of 1990 (…)”, EFTA Bulletin 4/1989—1/1990.

[18] Completing the Internal Market. White Paper of the Commission to the European Council (Milan, 28 and 29 June 1985), Commission of the European Communities, Com(85) 310 final.

[19] Convergence Report. Report required by Article 109 j of the Treaty establishing the European Community, Frankfurt am Main : European Monetary Institute, 1998.

[20] Treaty establishing the European Community [embedded in the Treaty on European Union], Official Journal of the European Communities C 191/1992.

[21] Treaty on the functioning of the European Union [embedded in the Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community], Official Journal of the European Communities C 306/2007.

Periodicals

[22] Finnish Agriculture and Rural Industries [annual issues] 19982—014, [Helsinki] (Agricultural Economics Research Institute), 1999—2014.

Statistics

[23] Official Statistics of Finland. Foreign Trade, 1945–2003 (Board of Customs).

[24] Official Statistics of Finland. Foreign Trade of Goods, 2004–2012 (CD-ROM) (Board of Customs).

[25] Official Statistics of Finland. Foreign Trade Statistics, 2013 (Board of Customs),

http://www.tulli.fi/en/finnish_customs/statistics/index.jsp (November 1, 2014).

[26] Suomen virallinen tilasto. Teknologian soveltaminen ja siirto 2000, Tiede, teknologia ja tutkimus 2001:5, Helsinki (Tilastokeskus) 2001.

[27] Suomen virallinen tilasto. Korkean teknologian ulkomaankauppa vuonna 2013, Kauppa 2013, Helsinki (Tulli) 2014.

[28] Globalisaatio ja tavaroiden ulkomaankauppa, Kauppa 2011 (Tulli), Helsinki 2011.

[29] Finnish direct investment abroad, annual & Foreign direct investment in Finland, annual (Bank of Finland), http://www.suomenpankki.fi/en/tilastot/maksutase/Pages/taulukot.aspx (December 6, 2014).

[30] Imports of services by service type, 2002–2012, mill. euro; Exports of services by service type, 2002–2012, mill. euro (Statistics Finland), http://www.stat.fi/til/pul/2012/pul_2012_2013-12-13_tau_001_en.html (December 6, 2014).

Literature

[31] 100 suurinta työllistäjää [vuonna 2010], Talouselämä. Yritysraportti 2011.

[32] Alho K., Forssell O., Huttunen J., et al. Neuvostoliiton-kauppa Suomen kansantaloudessa, ETLA, B:50, Helsinki 1986.

[33] Ali-Yrkkö J., Ylä-Anttila P. Yritykset kansainvälistyvät – katoavatko työpaikat? ETLA B:130, Helsinki 1997.

[34] Antola E., Tuusvuori O. Länsi-Euroopan integraatio ja Suomi, Helsinki : Ulkopoliittinen instituutti, 1983.

[35] Aunesluoma J. Vapaakaupan tiellä. Suomen kauppa- ja integraatiopolitiikka maailmansodista EU-aikaan. Helsinki : Suomalaisen Kirjallisuuden Seura, 2011.

[36] Building EFTA. A Free Trade Area in Europe, rev. ed., Geneva :EFTA Secretariat, 1968.

[37] Dahmén E. Suomen taloudellinen kehitys ja talouspolitiikka. Vuodet 1949–1962 sekä tulevaisuuden näkymät, Suomen Pankin taloudellisen tutkimuslaitoksen julkaisuja, C:4, 2. korjattu painos, Helsinki 1966.

[38] Hakovirta H. Puolueettomuus ja integraatiopolitiikka. Tutkimus puolueettoman valtion adaptaatiosta alueelliseen integraatioon teorian, vertailujen ja Suomen poikkeavan tapauksen valossa, Acta Universitatis Tamperensis, A:78, Tampere 1976.

[39] Hilpinen J., Kuussaari H., Ikonen P. Arvopaperimarkkinoiden kansainvälistyminen, Suomen talouden kansainvälistyminen 2000-luvulla rahoitus- ja maksutasetilastojen valossa (Ed. Jorma Hilpinen), Suomen Pankki, A:112, Helsinki 2008.

[40] Hilpinen J., Suni J. Suomen ulkomaankauppa – tavara- ja palveluvirrat kansainvälistymisen ja globalisaation mittareina 2000-luvulla, Suomen talouden kansainvälistyminen 2000-luvulla rahoitus- ja maksutasetilastojen valossa (2008).

[41] Häikiö M. Nokia. Matka maailman huipulle, Helsinki : Edita, 2009.

[42] Jakobson M. Finland in the New Europe (foreword by George Kennan), Westport, Conn. : Praeger, 1998.

[43] Jensen-Eriksen N. Läpimurto. Metsäteollisuus kasvun, integraation ja kylmän sodan Euroopassa 1950–1973, Helsinki : Suomalaisen Kirjallisuuden Seura, 2007.

[44] Joutsamo K. & Salonen M. Länsi-Euroopan tutkimus- ja teknologiayhteistyön rakenne, Turku ; Euro-Consulting, 1988.

[45] Kaiser W., Visuri P., Malmström C., Hjelseth A., Listhaug O., Jenssen A. T. Die EU-Volksabstimmungen in Österreich, Finnland, Schweden und Norwegen: Verlauf, Ergebnisse, Motive und Folgen, Institut für Höhere Studien, Forschungsberichte, 23, Wien 1995.

[46] Kivikari U. Finland, Going Global. Transition from Plan to Market in the World Economy (Ed. Padma Desai), Cambridge–London :MIT Pr., 1997.

[47] Kivikari U., Finnish-Soviet Trade in the Light Industries. Impact on the Finnish Textile, Clothing, Leather and Footwear Industries, University of Turku, Institute of Economics, C:18, Turku 1985.

[48] Koivisto M. Kaksi kautta II. Historian tekijät, Helsinki : Kirjayhtymä, 1995.

[49] Kuosmanen A. Finland’s Journey to the European Union, Maastricht : European Institute of Public Administration, 2001.

[50] Kuusterä A., Tarkka J. Bank of Finland 200 Years, 2. Parliament's Bank, Helsinki : Otava, 2012.

[51] Laurila J. Finnish-Soviet Clearing Trade and Payment System: History and Lessons, Bank of Finland studies, A:94, Helsinki 1995.

[52] Lindgren V. Suomen ulkomaankaupan säännöstely, Kauppa- ja teollisuusministeriö 75 vuotta 1880–1938–1963, Helsinki : Kauppa- ja teollisuusministeriö, 1963.

[53] Lindroos P. Suurten teollisuusyritysten kansainvälistyminen, Kansainvälistyvä yritys ja muuttuva Eurooppa (Ed. Pirkko Haavisto et al.), ETLA B:75, Helsinki 1991.

[54] Paavonen T. Suomalaisen protektionismin viimeinen vaihe. Suomen ulkomaankauppa- ja integraatiopolitiikka 1945–1961, Suomen Historiallinen Seura, Historiallisia Tutkimuksia, 198, Helsinki 1998.

[55] Paavonen T. Talouden kehitys ja talouspolitiikka hyvinvointivaltion kaudella, Eduskunta hyvinvointivaltion rakentajana. Suomen eduskunta 100 vuotta, 8 (Ed. Juhani Mylly et. al.), Helsinki : Edita, 2006.

[56] Paavonen T. Vapaakauppaintegraation kausi. Suomen suhde Länsi-Euroopan integraatioon FINN-EFTAsta EC-vapaakauppaan, Suomalaisen Kirjallisuuden Seura, Historiallisia tutkimuksia, 235, Helsinki 2008.

[57] Paavonen T. August 1991 as a Turning-point in the Finnish-Russian Relations, Studia Humanitatis Borealis, 2/2014.

[58] Puolueiden kannanottoja, Eurooppa-tietoa, 136/1993, Helsinki : Ulkoasiainministeriö.

[59] Seppinen J. Suomen EFTA-ratkaisu yöpakkasten ja noottikriisin välissä, Suomen Historiallinen Seura, Bibliotheka historica, 21, Helsinki 1997.

[60] Sundbäck V. Suomen EU-jäsenyysneuvottelujen loppusuora, Marginaalista ytimeen. Suomi Euroopan Unionissa 1989–2003 (Ed. Alexander Stubb), Helsinki : Tammi, 2006.

[61] Sunnari O. Suomen EY-liityntä poliittisena prosessina. Aineistoraportti, Turun yliopisto. Valtio-opin laitos, Tutkimustiedotteita 11, 1993.

[62] Suomi J. Liennytyksen akanvirrassa. Urho Kekkonen 1972–1976, Helsinki : Otava, 1998.

[63] Vartia P., Ylä-Anttila P. Kansantalous 2028, ETLA, B:204, 2003.

[64] Väyrynen P. Suomen puolueettomuus uudessa Euroopassa. Kansallinen doktriini ympäristön murroksessa, Helsinki : Otava, 1996.

ПРИМЕЧАНИЯ

[1] The diplomatic emergence of the Finnish-Soviet customs agreement is reported by [59; 131—134, 162—165, 182—184, 186—189, 213—222, 226—253].

[2] The EC refers to the ECSC, the EEC and the European Atomic Energy Community together.

[3] “Free-trade agreement with the EC” refers to the free-trade agreements with the EEC and the ECSC together.

[4] For the whole free-trade-agreement process [56; 124—132, 145—215].

[5] This is a consequent argument in the minutes of the Committee on Trade Policy of the Confederation of Finnish Industries on Soviet trade up to 1989 in the Central Archives for Finnish Business Records (ELKA).

[6] In statistics, as high-tech products are classified products of industries, within which at least 4 per cent of turn-over consists of R&D costs.

[7] Calculation applies to Finland-based corporations on consolidated level.

[8] Co-opération Europèen dans le Domaine de la Recherche Scientifique et Technique.

[9] Conseil Européenne pour la Recherche Nucléaire–European Organization for Nuclear Research.

[10] Treaty of Maastricht: Treaty establishing the European Community, art. 104 b; Treaty of Lisbon: Treaty on the functioning of the European Union, art. 125:1.

Paavonen T. From national protection to global market economy Finnish foreign-trade policies and integration policies since World War II // Studia Humanitatis Borealis / Северные гуманитарные исследования. 2015. № 1. P. 23–42.

From national protection to global market economy Finnish foreign-trade policies and integration policies since World War II

PAAVONEN Tapani

Turku,
Doctor of Social Science, Senior Researcher,
Political History, University of Turku,
Turku, tapaavo@utu.fi

Keywords:
*

Summary:
From the early years of Independence up to the beginning of the 1960s Finland practised foreign-trade policies which were conspicuously protectionist for a small West European and Nordic country highly dependent on foreign trade. Finnish import duties corresponded to those of industrial countries with large domestic market, while war-time import regulations were extended largely for protectionist purposes.
Free-trade integration consisted of free trade in industrial goods within Western Europe. In 1961, Finland concluded a separate agreement with the member countries of the European Free Trade Association (EFTA), becoming a “full member” of the EFTA in 1986, and, in 1973, a free trade agreement with the European Communities (EC).
Large-scale trade with the Soviet Union complemented the Finnish foreign trade. Integration solutions with regard to Western Europe included special arrangements to safeguard the Eastern trade.
From the mid-1980s on, Finland oriented herself towards the emerging European Economic Space (EES), later on renamed the European Economic Area (EEA), between the Community and the EFTA. The EEA extended the principle of free trade to embrace almost all economic transactions. The EC-EFTA link was the most important element in Finland’s globalization aspirations. The EEA entered into force in 1994 but, as a result of the next enlargement of the European Union (EU), Finland, participated in the EEA in the capacity of an EFTA country only that one year.
After Austria and Sweden had applied for EC membership, Finland followed suit in 1992. Properly, for Finland this action was a reaction the turbulent developments in the Soviet Union and Russia. From 1995 on Finland has been a member country of the EU. Finland strove from the very beginning to the “core”, i.e. the Economic and Monetary Union (EMU) and was one of the original euro-area countries in 1999. The EU was joined in a spirit of “euro ecstasy”. Main problems appeared 15 years later.
From the early 1960s on, the Finnish economy has undergone a profound change. Still in the 1950s, the Western exports consisted mainly of less-processed wood products while the domestic-market industries produced a large variety of relatively simple goods under the auspices of border protection. Free-trade integration diversified the exports and transformed the thus-far domestic-market industries to internationally competitive ones with markets both at home and in abroad. From the 1980s on the Finnish economy has been internationalized. For example, the big manufacturing enterprises have been transformed to multinational corporations with production units on all continents.