

FINLAND'S CHINA TRADE

STATE OF FINLAND'S EXPORT-ORIENTED CHINA BUSINESS



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Project background, objectives, source materials and concepts

1. Overview of Finland's export to China
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Project background

Finland's export to China has grown over the past two decades, but clearly slower than China's imports globally

In two decades, Finland has significantly lost its relative market share in China, more than any other western country.

- Purpose of this report is to provide a more detailed picture of Finland's trade with China than before, to present recommendations for export promotion as well as to identify key tools for monitoring Finland's trade with China in the future.*
- Focus is made on the export dimension of Finland's trade with China. Also, the business operations of Finnish companies within China and the impacts of China trade on the various aspects of the companies' operations in Finland are taken into account.
- Project was carried out by Business Finland, The Bank of Finland's Institute for Emerging Economies BOFIT, Ministry of Economic Affairs and Employment of Finland, and Ministry for Foreign Affairs of Finland.



Sources

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1. Data and statistics

- Finnish Customs/Suomen tullit
- Statistics Finland/Tilastokeskus
- OECD
- Customs authorities of China and the reference countries

2. Company Surveys

- "*Finnish Business Confidence Survey 2022*" conducted by FinnChams in Beijing, Shanghai, Guangdong and Hongkong in February-March 2022. 125 companies participated the survey.
- "Changing China trade" survey conducted by Business Finland among Finnish companies exporting to China.
 - Survey consisted of an online survey and personal interviews in June-September 2022 and targeted 100 biggest Finnish exporters.
 - 40 companies participated in the survey (20 online replies and 20 interviews); the respondents included companies with subsidiaries in China.
 - The survey addressed finance, strategy and managing directors at corporate headquarters in Finland.

Relevant statistical concepts

- Export: goods and services that have departed the country, according to the first destination country.
- Imports: goods and services that have arrived in the country, according to the country of origin.
- Final consumption of foreign value added: Imported value added from abroad (including goods and services) according to where the value-add was created.

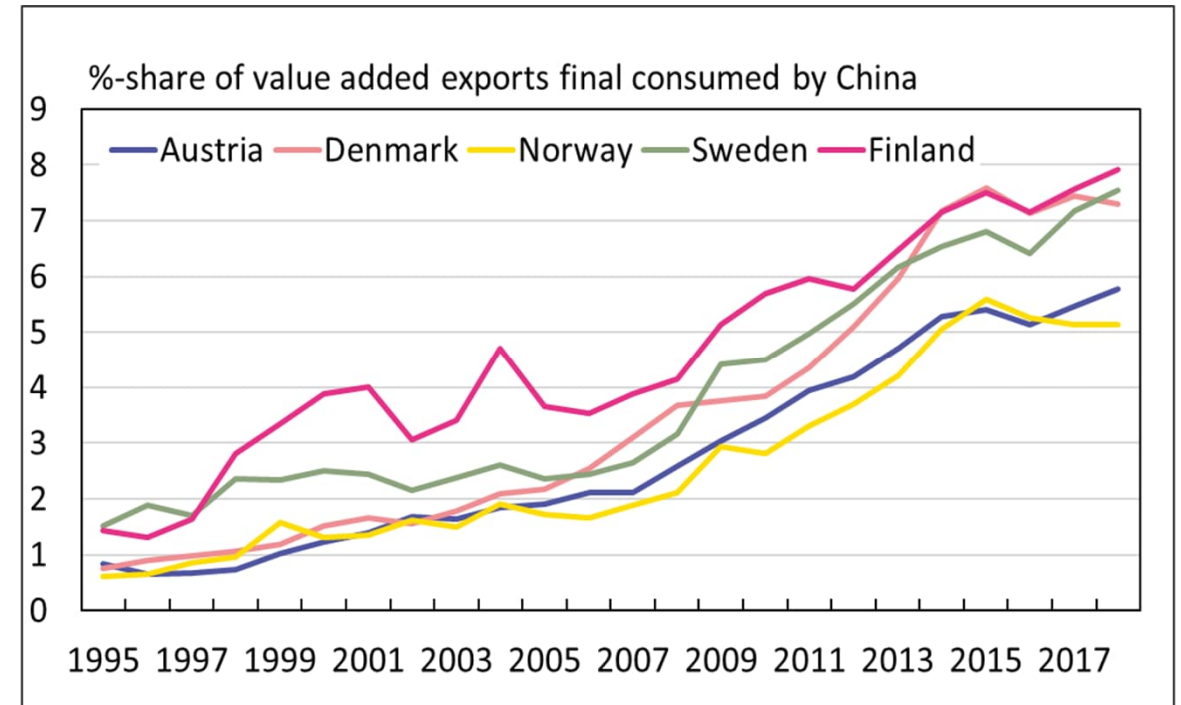
Practical example:

- A Finnish company buys blueberries from Estonia for 100 euros, dries them and sells them to China for 500 euros.
- The cargo goes first to Holland, from where it is shipped to China, where the dried blueberries are eaten.
- The statistics show this as:
 1. Finnish *import* of fresh blueberries from Estonia worth 100 euros
 2. Finnish dried blueberries *export* to Holland worth 500 euros
 3. Chinese dried blueberries *import* worth 500 euros.
 4. *Finnish value-added* of 400 euros and *Estonian value-added* of 100 euros *consumed by China*.

1. Overview of Finnish Exports to China

China is an important export market for Finland, but...

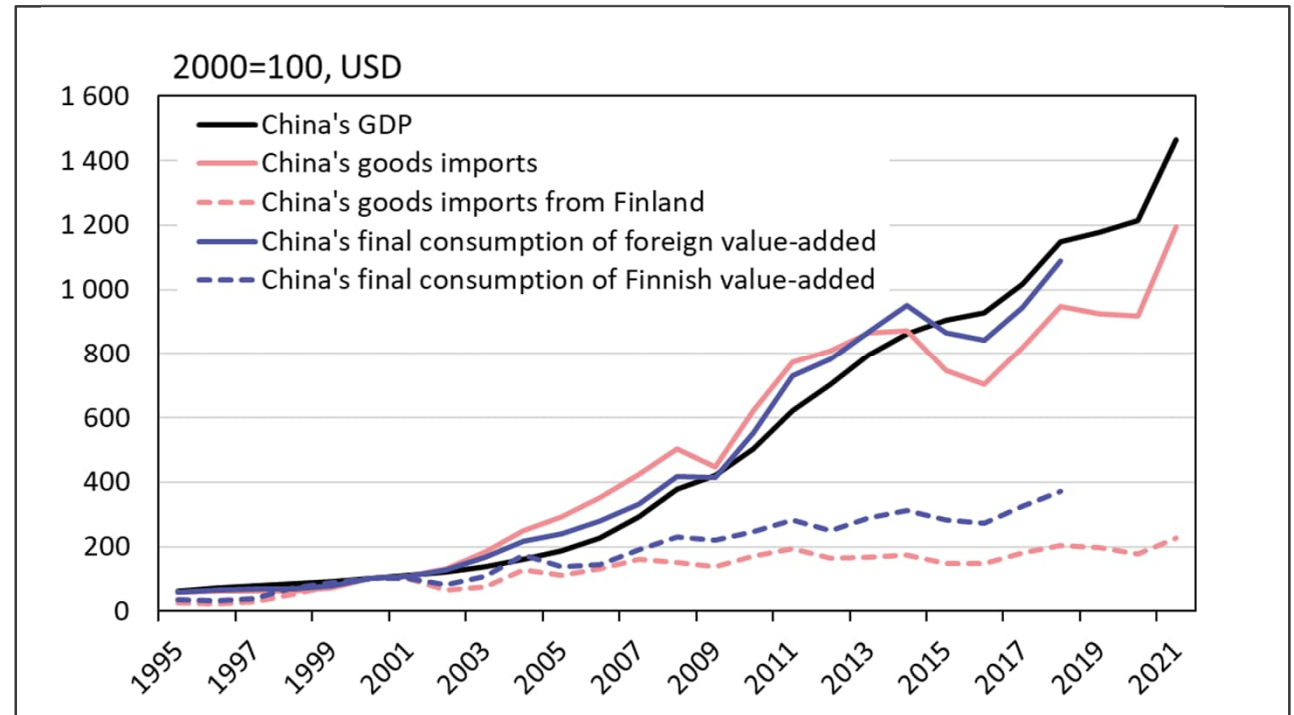
- In 2021, five percent of Finnish exports of goods and services went to China, and China was Finland's 5th most important export market.
- China's share of Finnish value-added final consumption abroad even larger, approximately eight percent. That is equal to Finnish final value added consumed in Germany and Sweden, but smaller than the United States (just over 10 percent).
- China's consumption of Finnish, Swedish and Danish exported value added is equal, while in Norway and Austria the share is slightly smaller.



China's share of Finland's value-added exports is large

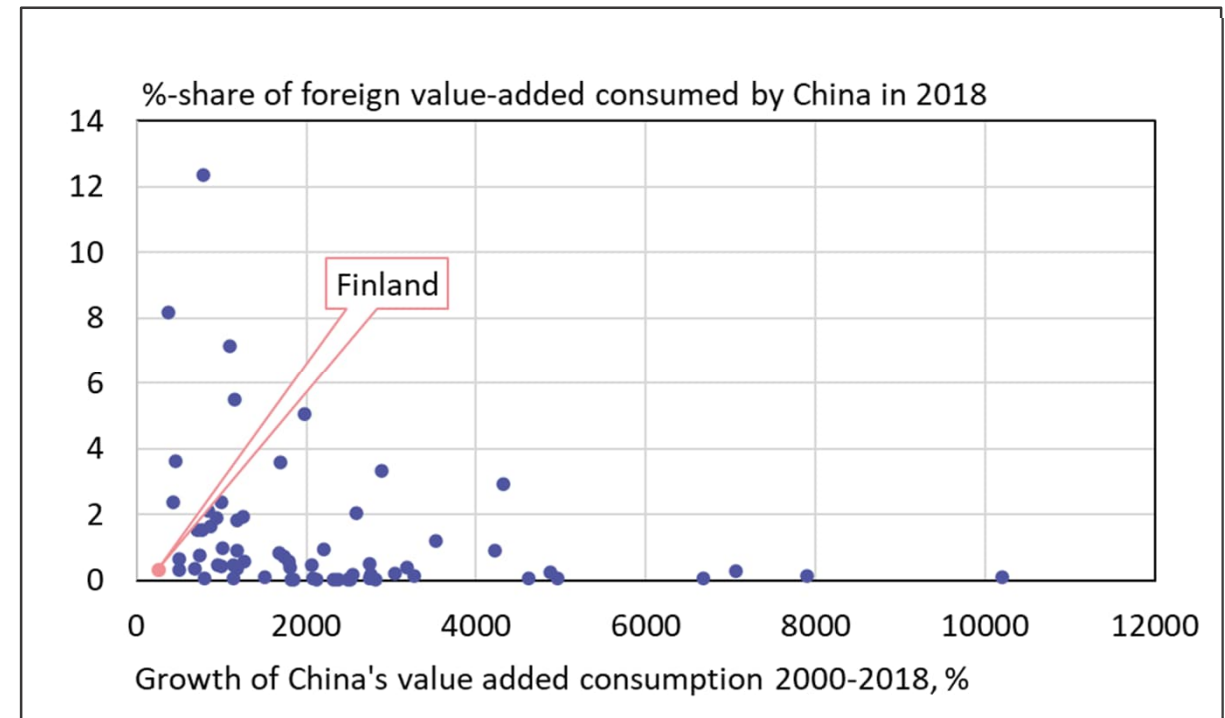
Finnish exports have not kept pace with China's market growth

- Since 2000, China's
 - GDP value has risen 14 times higher
 - GDP volume has grown to more than 10 times
 - value of goods and services imports have increased 12 times
 - consumption of foreign value-add has grown at the similar pace to its economy
- In the same period
 - import of goods from Finland has only doubled
 - the Finnish value-added consumed by China has less than quadrupled.



Finland has lost more market share in China than any other country

- Over the last 20 years, the Finnish value added consumed by China has grown at a slower pace than any other analogue country.*
- Due to slow growth, Finland's share of the foreign value added consumed by China decreased proportionally most: between 2000 and 2018, the share decreased from 0.85 percent to 0.29 percent.
 - Among peers, Sweden and Norway have lost relatively large market shares to others, but much less than Finland
 - Among European countries, Denmark, Switzerland and Belgium have maintained their market shares: as the market grows, they have increased exports.
 - Poland, Slovakia and the Czech Republic have significantly increased their relative share.



Growth and market share of foreign value-added final consumed by China.

The weak development of exports may be driven by a number of explanatory factors

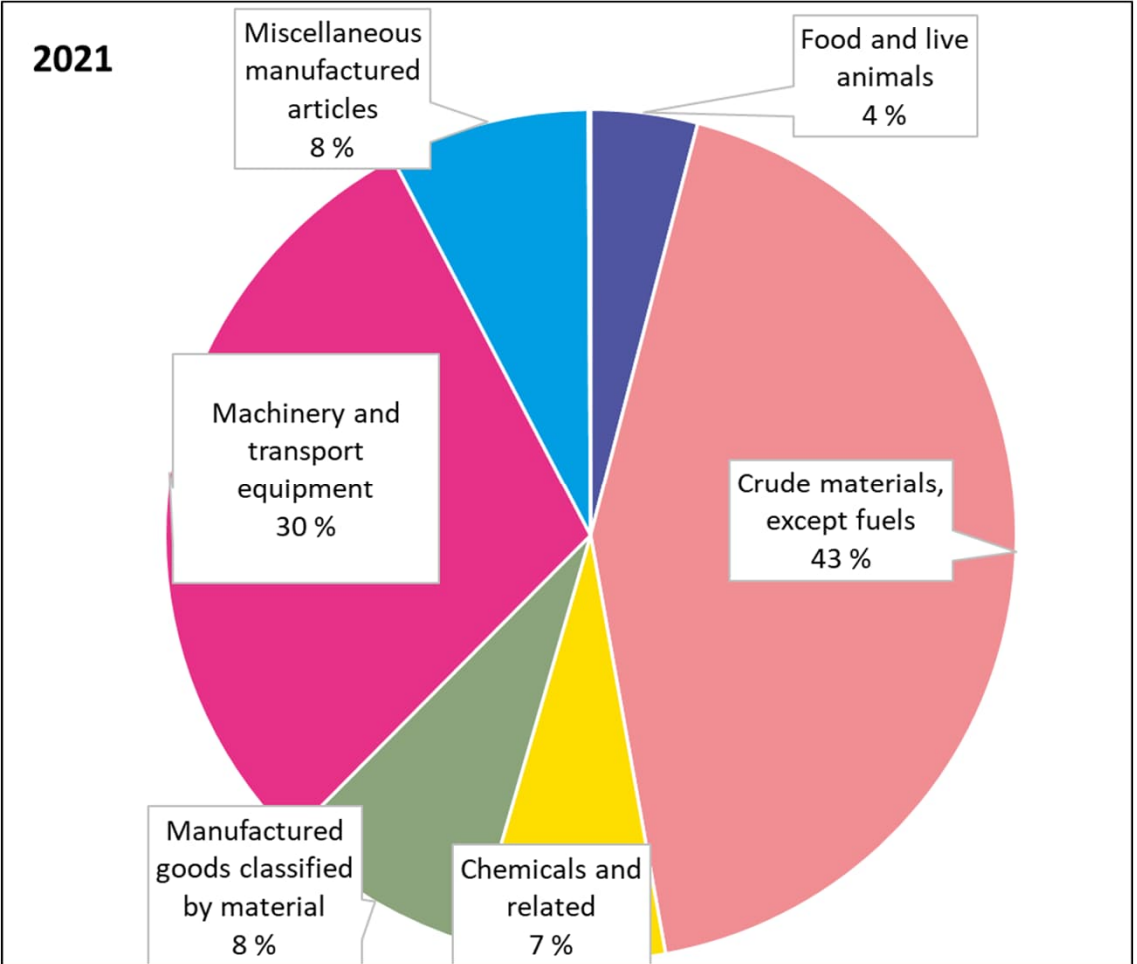
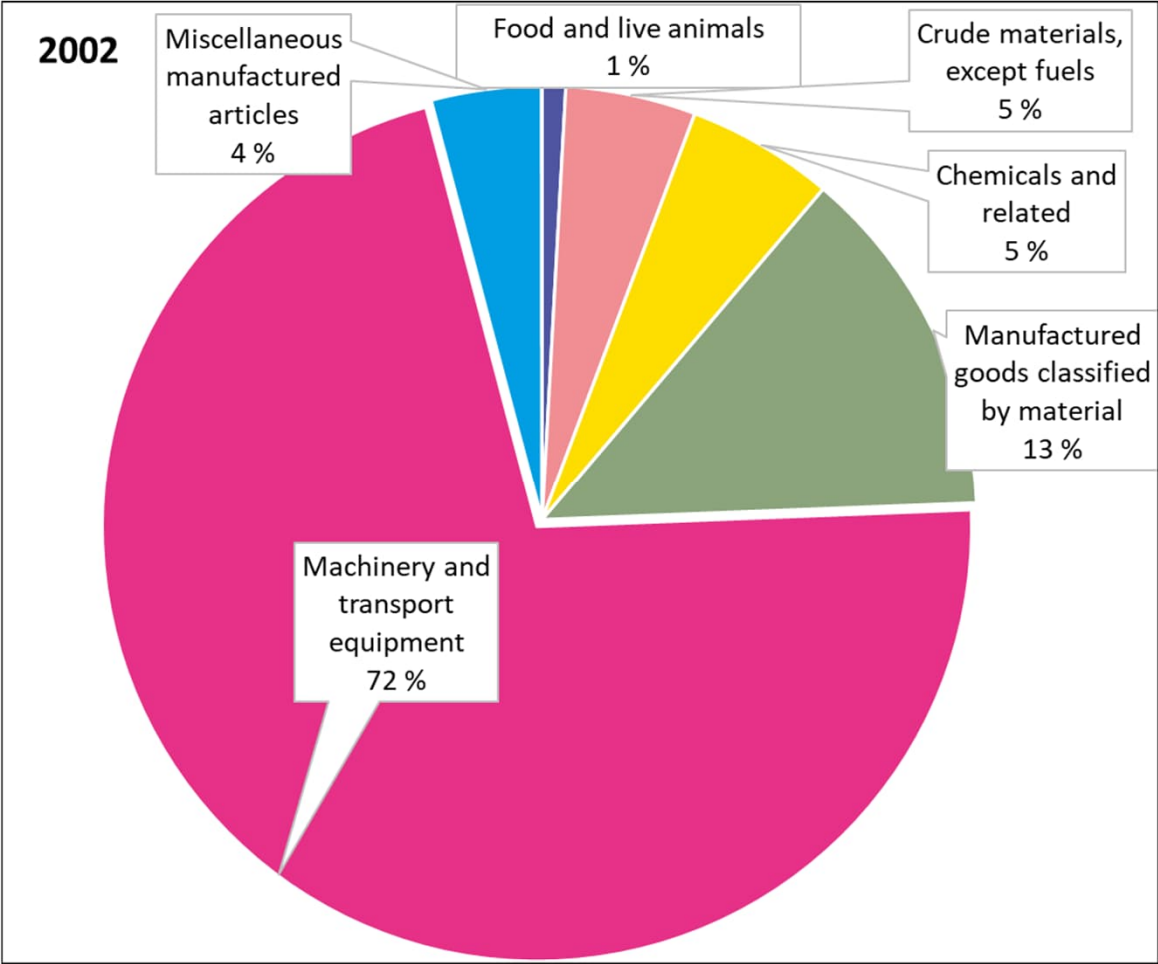
- Change in the structure of Finnish export production: Finland has shifted to exporting relatively more intermediate products and raw materials instead of finished products.
- Chinese demand has shifted to products or categories that are not produced in Finland.
- Demand (or price) for our main export categories or products remains or falls.
- Production has moved to China, reducing the need to export from Finland.
- Finland's exports have increased sluggishly around the world.

Challenges in Finnish exports to China are reflected as challenges for Finland's exports as a whole, since China's share of Finland's exports is large.

Keeping up with the export market growth is a sign of competitiveness of any country.

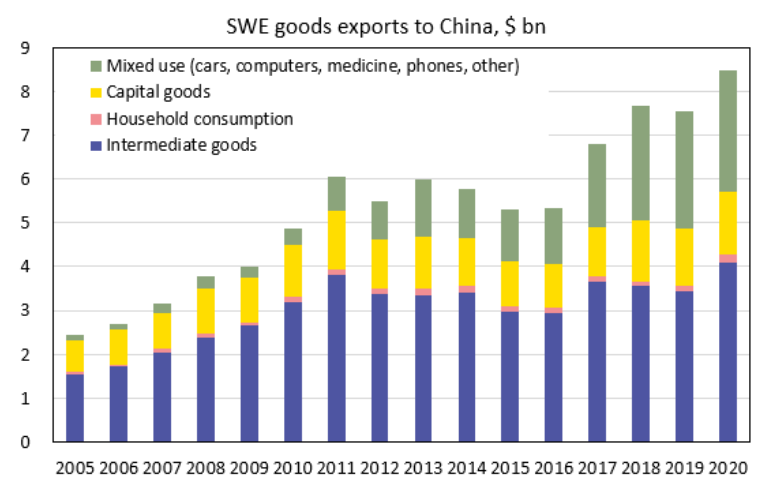
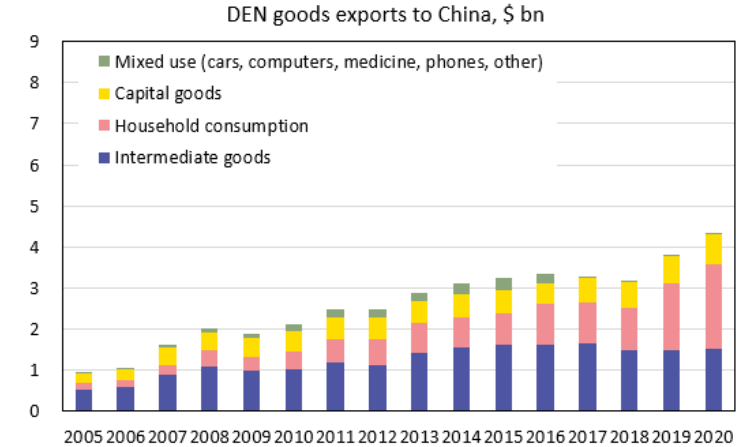
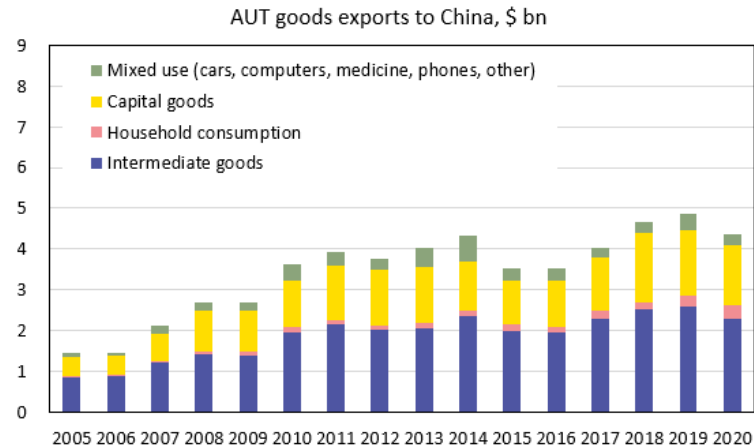
2. Structural Changes of Finnish Exports to China

The structure of Finnish exports of goods to China has changed: a shift from machinery and equipment to raw material exports



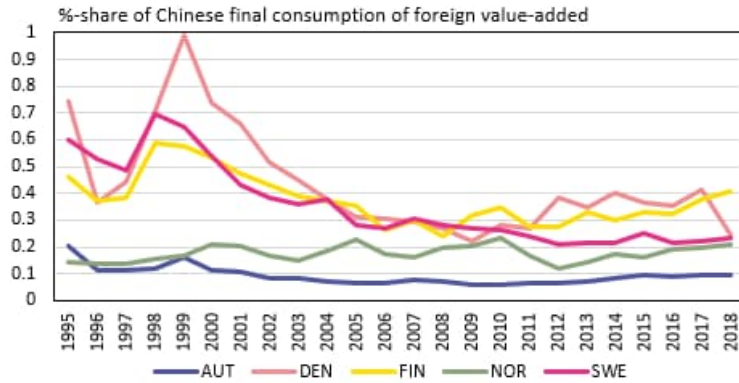
Finland's goods export categories are much less varied compared to reference countries: strong focus on intermediate products

1. Denmark: consumer products (food)
2. Austria: pharmaceuticals, vehicles, consumer products, capital goods
3. Sweden: pharmaceuticals and vehicles have grown most, esp. since 2017.
4. Finland's exports are concentrated on intermediate products and some investment products (machinery and equipment).

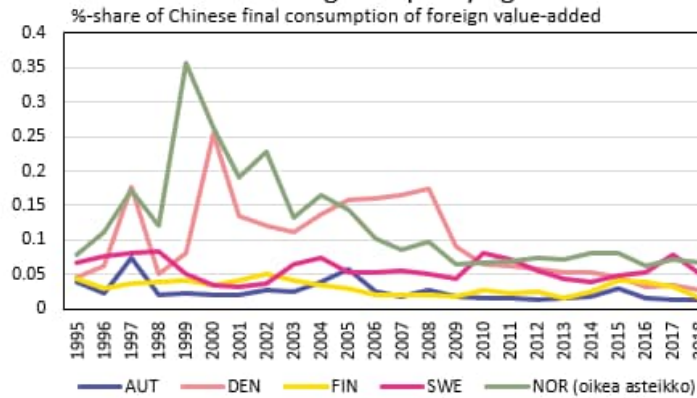


The market share of Finnish value added has remained stable for both primary and intermediate products. Finnish wood and paper sector has performed well against the foreign competition in China

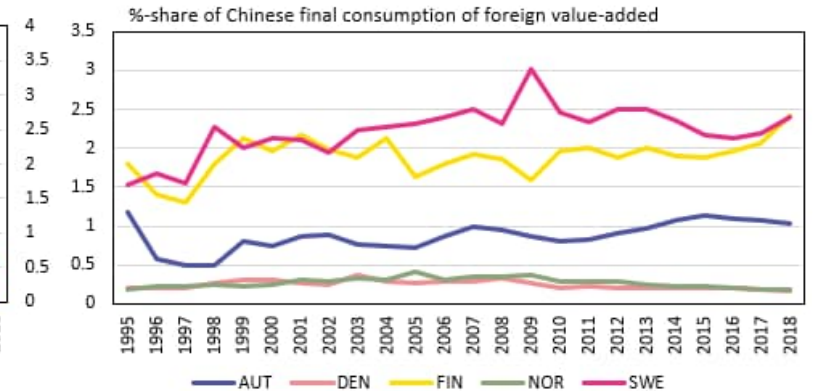
Agriculture, hunting, forestry and fishing



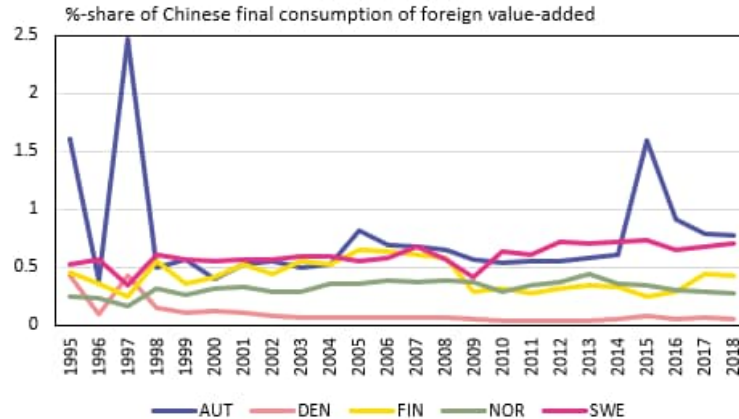
Mining and quarrying



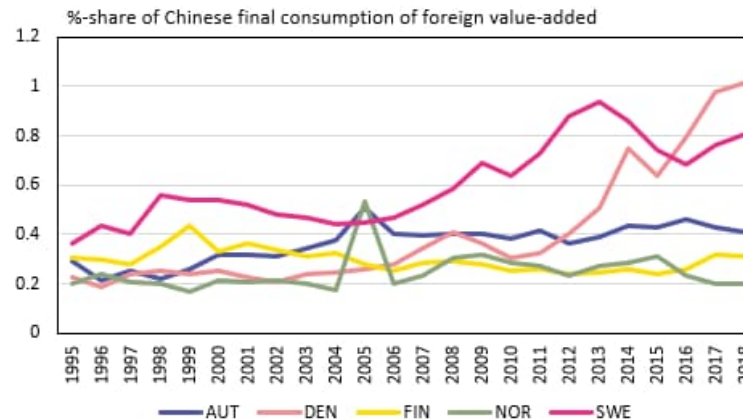
Wood and paper products and printing



Basic metals

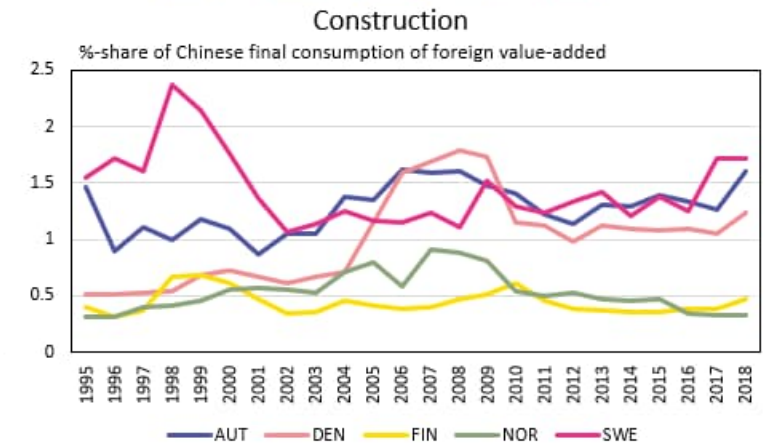
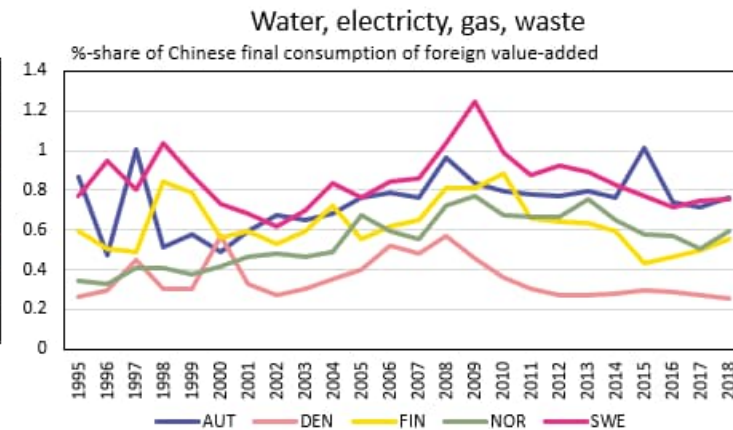
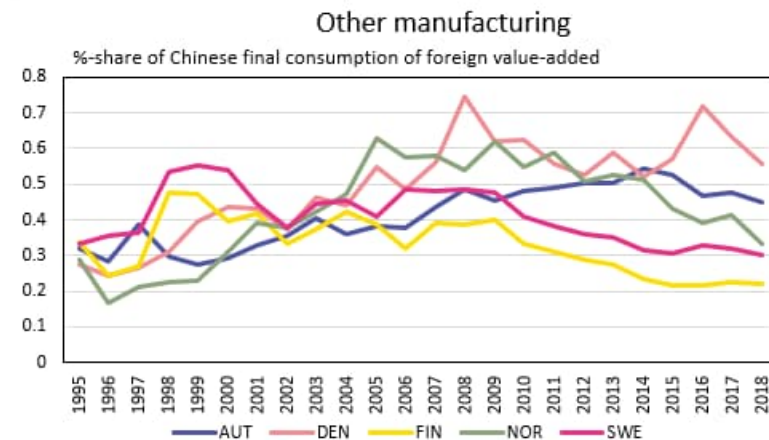
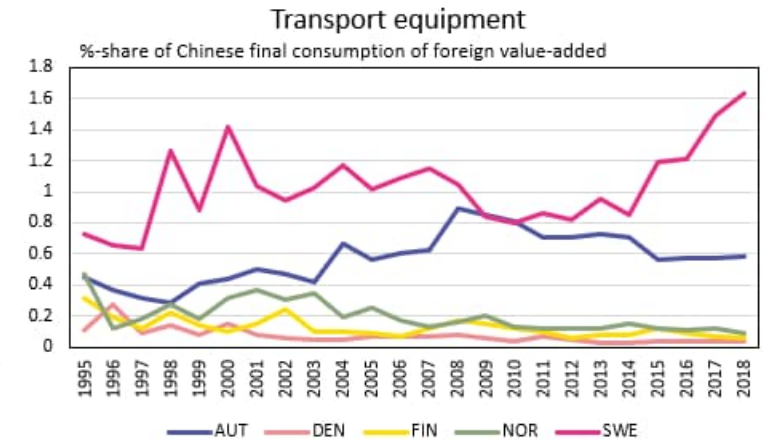
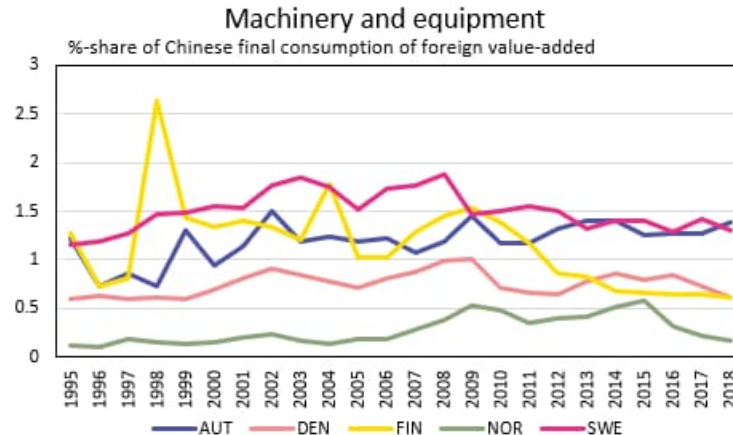
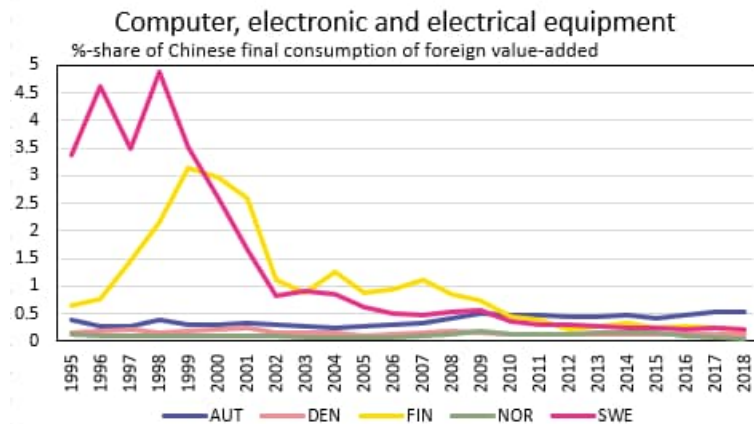


Chemicals and non-metallic mineral products

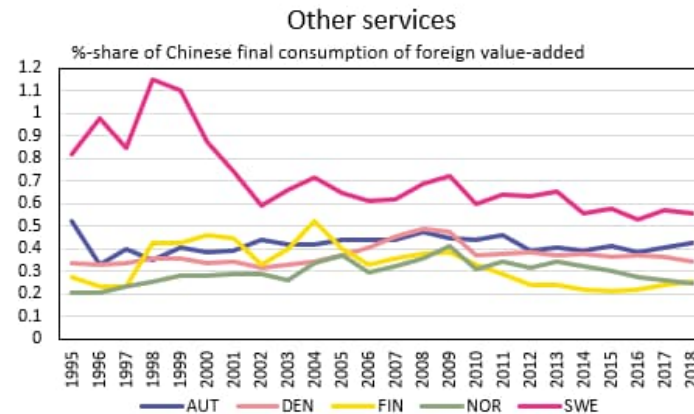
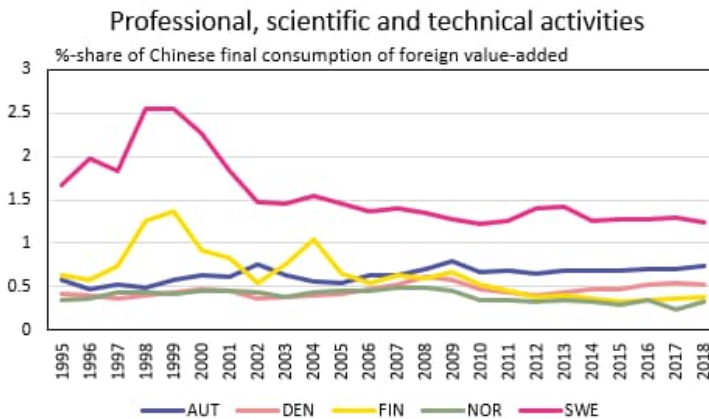
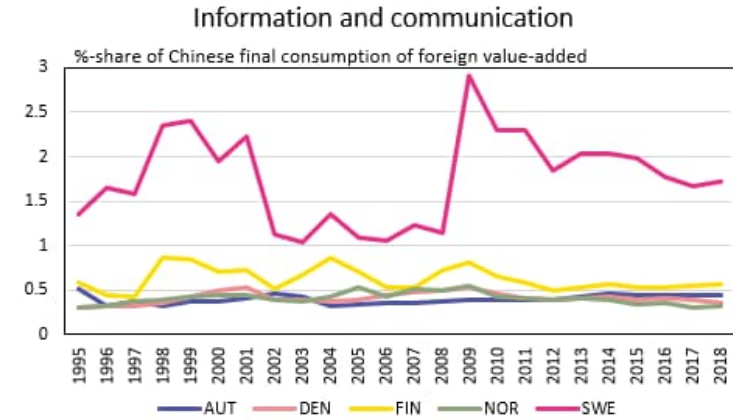
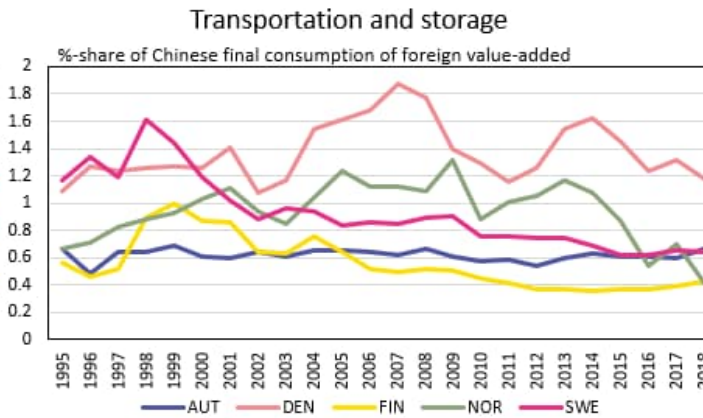


Finland has lost market share in main product categories

Consumption of Finnish value-added in machinery category looks bleak in China; Electrical devices show the end of mobile phone exports; Finland has not been able to enjoy the growth of the vehicle category export growth



China is consuming less Finnish value-added in services



Weak performance of services exports to China may be explained by the shift of Finnish exports to raw materials/intermediate products: they can include less of service value-added than machinery and equipment.

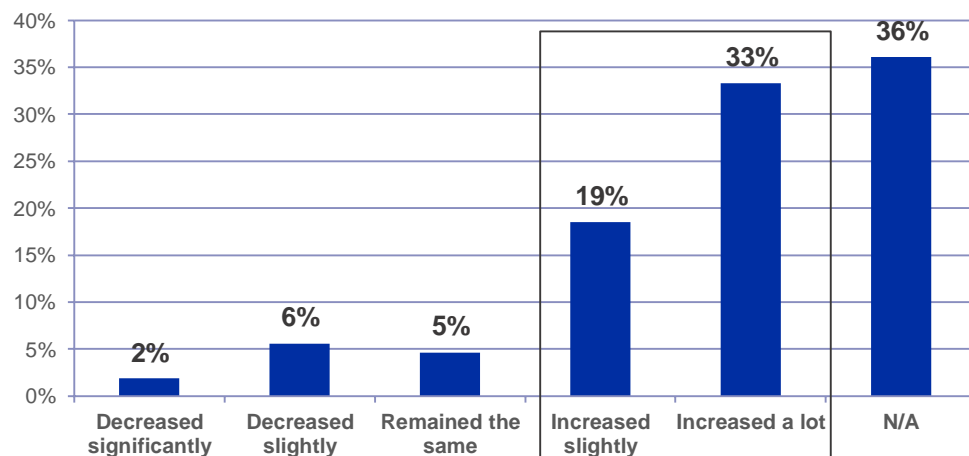
3. Development of Finnish Businesses in China

Finnish companies have grown their business in China

Industrial Production in China/HK

- More than half of the companies have increased their industrial production in China
- This points to:
 - Growth of China market
 - China's strengths as a platform for industrial activity
 - Need to be close to the market
 - China's industrial policy which has made it difficult to participate China market from outside China.

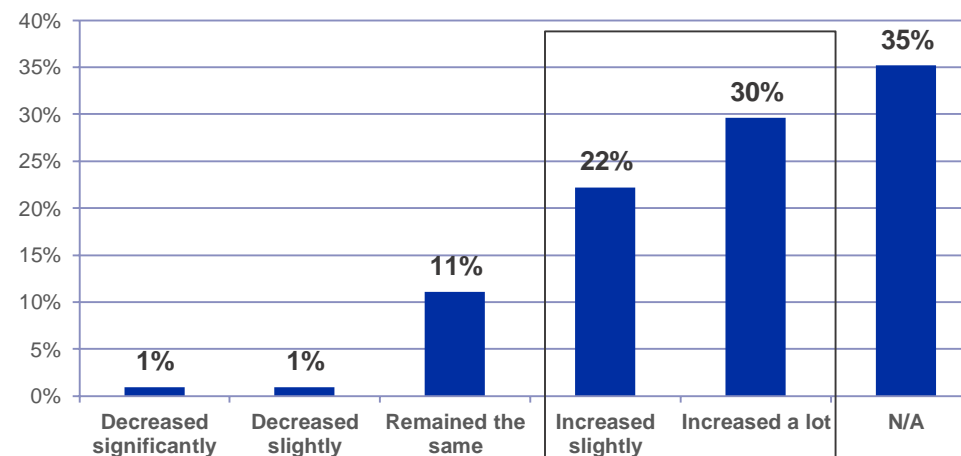
Industrial production during the past 10 yrs in China/HK



R&D in China/Hk

- More than half of the companies have grown their R&D activities in China during the past 10 years.
- This points to:
 - Need to better tailor and localize products for Chinese customers needs
 - Rising skill and expertise level
 - China's industrial policy: requires technology transfer to China for market access

R&D activities during the past 10 yrs in China/HK

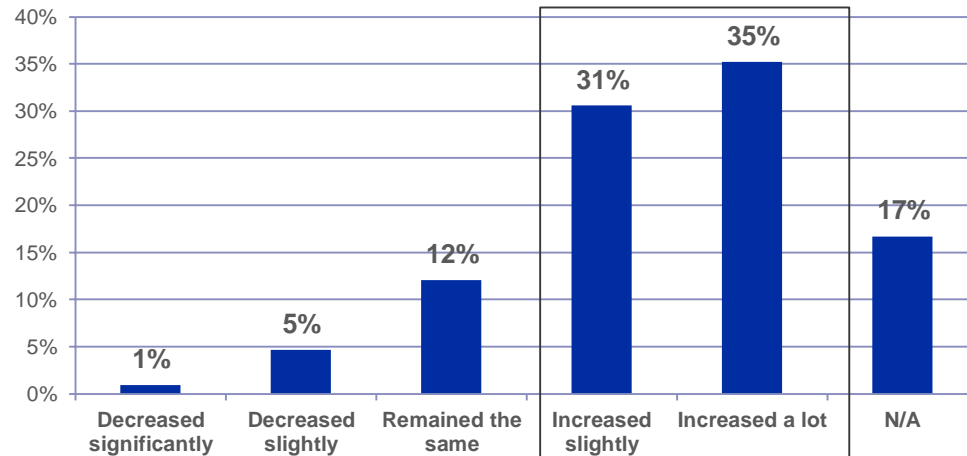


Finnish companies have grown their business in China

Investments in China/HK

- Over 60 percent of companies have grown their investments in China
- Similar rational as in 'Industrial production'
- Significant portion of Finnish company subsidiaries established in China have remained in China due to market growth
- This survey is not covering companies which have exited China.

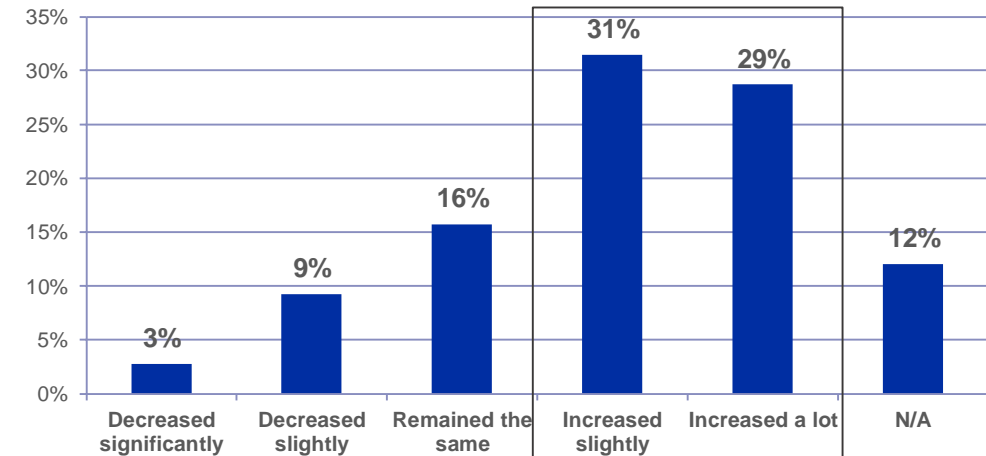
Investments in China/HK during the past 10 yrs



Recruitment in China/HK

- 60 percent of companies have increased recruitment in China
- Number of employees mirror the increase in industrial production as well as R&D activities
- Companies may have needed to increase their sales, marketing and support functions to support the business and revenue growth related activities
- Local hiring has been increasing, and number of expat/foreign personnel has been decreasing

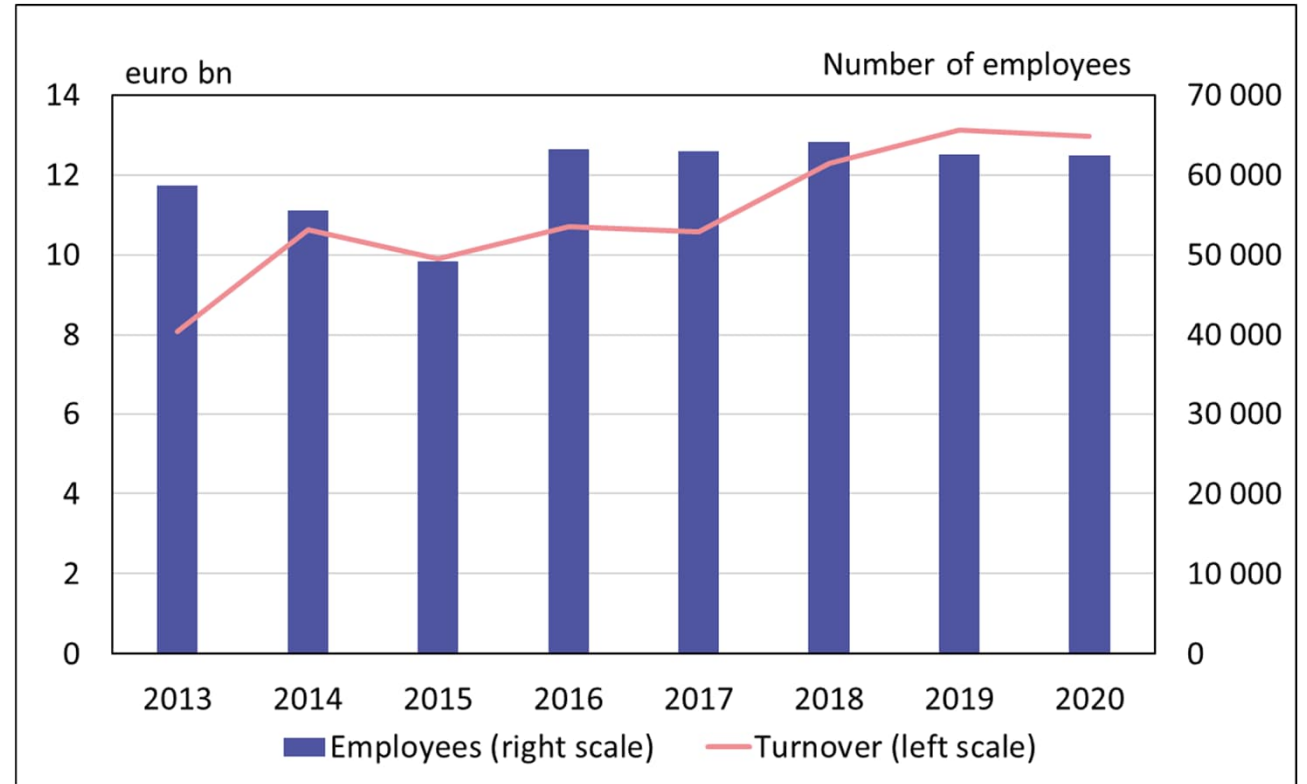
Recruitment in China/HK during the past 10 yrs



Finnish companies have grown their business in China

Turnover of Finnish subsidiaries in China increased significantly between 2013 and 2020: from 8.1 billion to 13.0 billion euros

This partly reflects the relatively slow growth of Finland's goods exports to China: In certain industries, industrial production and research and development activities have been transferred from Finland to subsidiaries in China, which has increased the subsidiaries' turnover, but reduced the share of exports.



Turnover and personnel of Finnish affiliates in China 2013-2020

Have companies in Finland moved production to China more than their peers in other countries?

- According to statistics compiled by the OECD from national sources, 228 Finnish companies' affiliates operated in China in 2016, which is not particularly high vis-à-vis other countries.
- However, the Finnish affiliates operating in China are, on average, larger than the comparison group in the terms of turnover.
- Finnish affiliates operating in China are heavily focused on the *machinery, metal products, electrical and electronics industries* (80 percent of turnover). For Swedish affiliates the share of these industries is 55 percent.

	Austria	Denmark	Finland	Norway	Sweden
Number of affiliates	134	369	228	123	670
Number of persons employed	24 730	75 675	55 438	7 813	101 079
Average number of employees	185	205	243	64	151
Turnover, € million	4 539	10 268	9 928	1415*	18 252
Average turnover per affiliate	34	28	44	23*	27

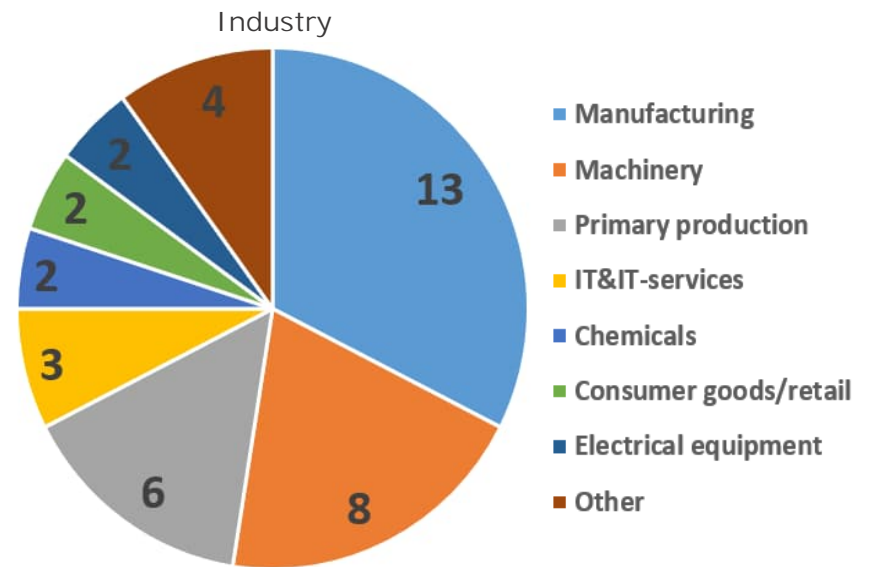
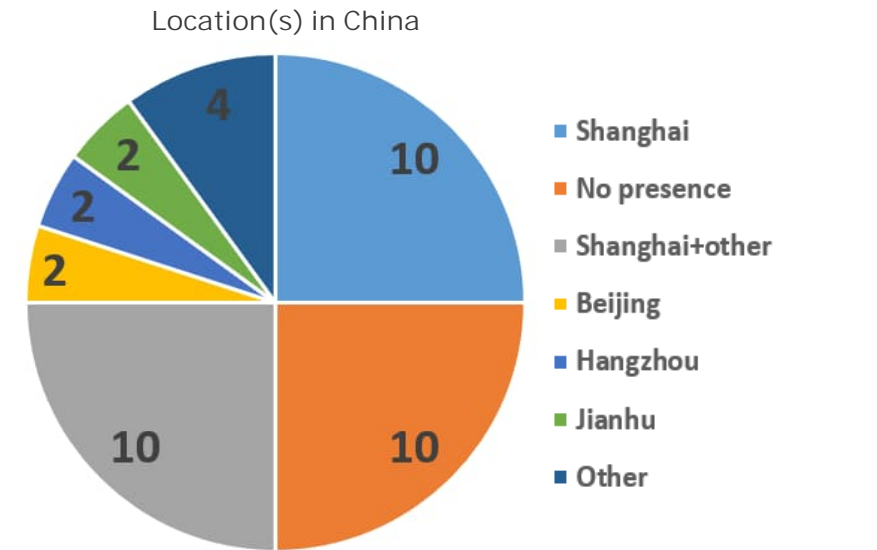
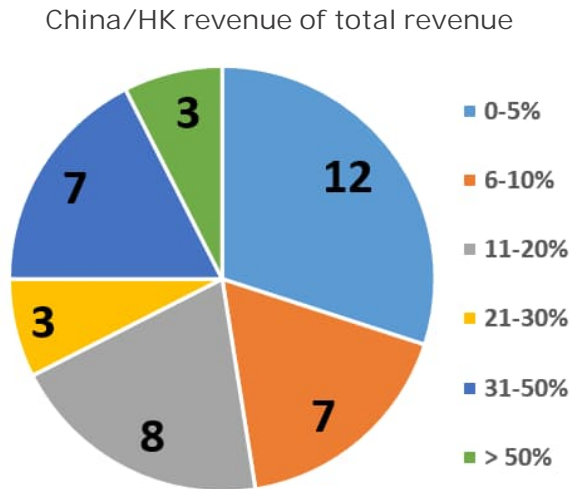
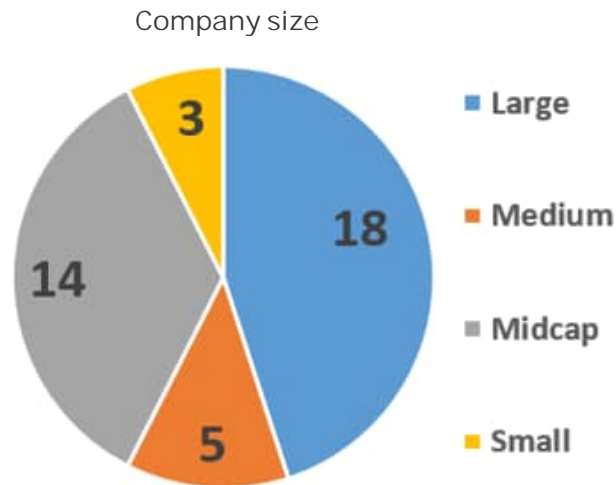
Finnish affiliates operating in China were larger on average in 2016.

3.1. Importance of China exports for Finnish companies

China trade landscape

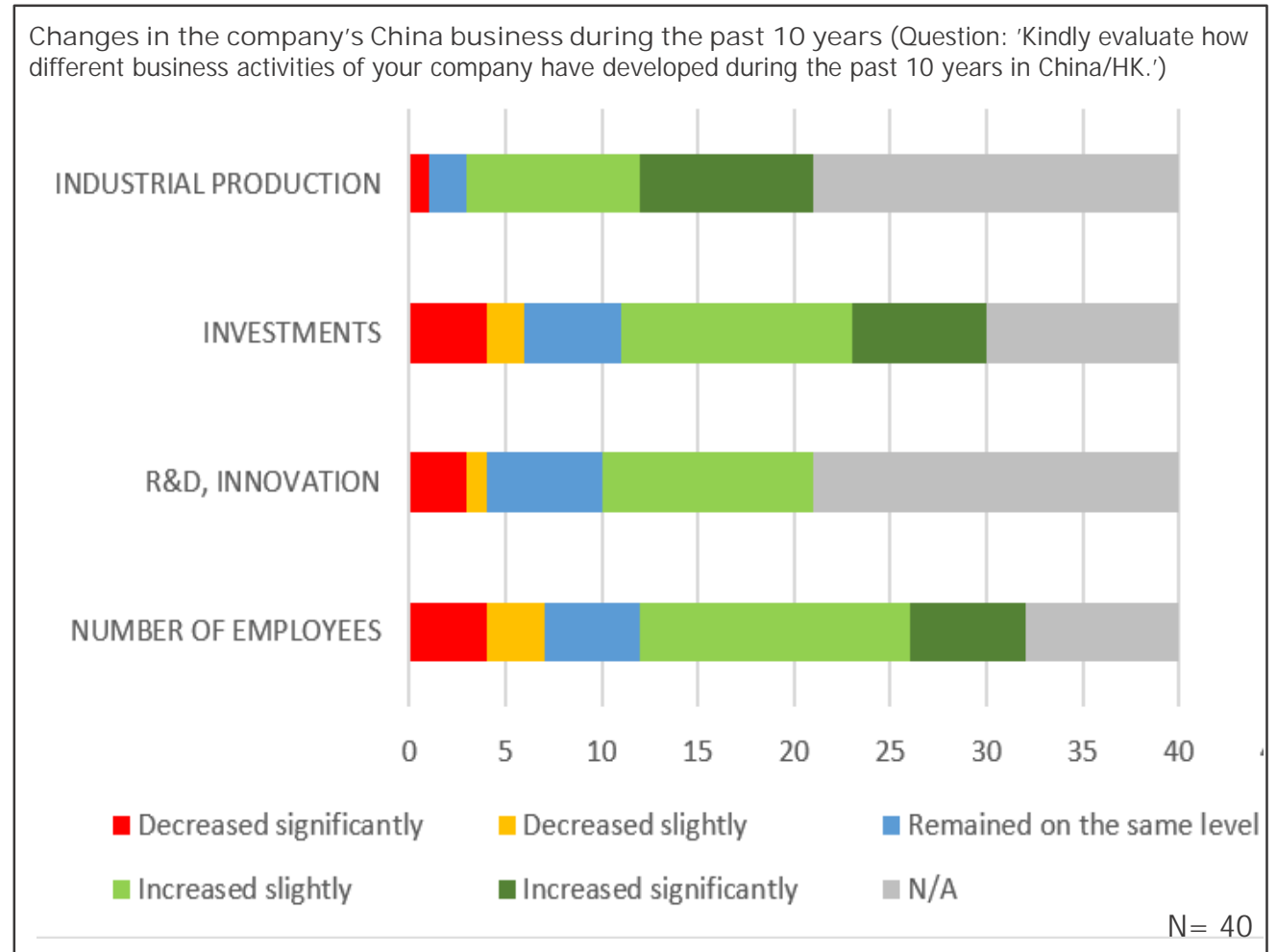
- Survey for Finnish headquarters

- Data was collected by an online survey and personal interviews in June-September 2022:
 - 100 largest Finnish exporters were invited to participate the survey.
 - 40 companies participated in the survey (20 online responses and 20 interviews); the respondents included companies with subsidiaries in China.
- The invitation was addressed to finance, strategy and managing directors at corporate headquarters in Finland.



The largest Finnish exporters to China have clearly expanded their operations in China over the past 10 years

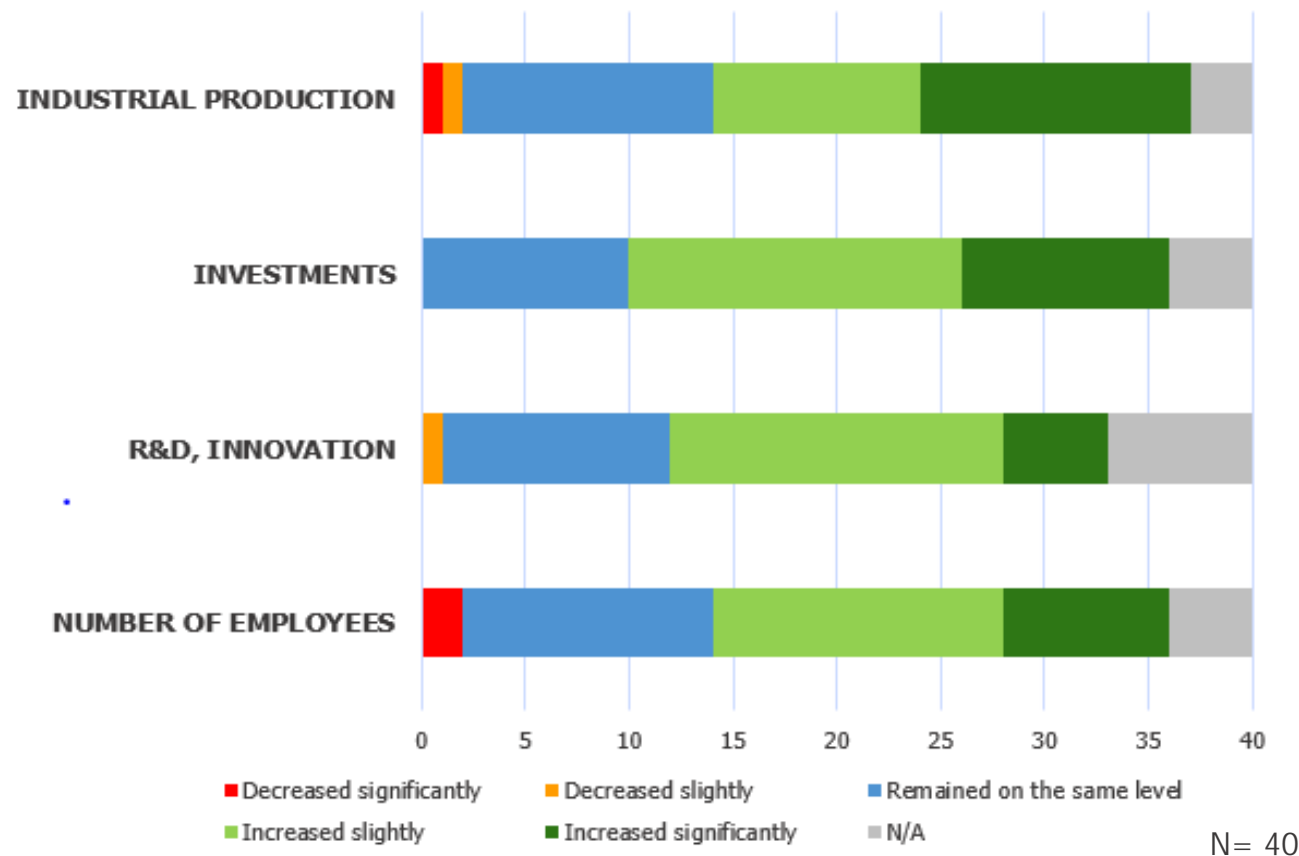
- Biggest China exporters have increased their industrial production, investments and the number of local workforce in China.
- Almost half of the companies exporting to China do not have production or product development activities in China:
 - Many focus on raw material exports from Finland to China.
 - Several mention that they want to protect their intellectual property rights by keeping production/R&D activities in Finland.



China operations have significantly increased company activities in Finland

- The impact from companies' China operations in Finland has clearly been positive over the past 10 years.
- Only very few companies mention to have reduced the workforce or production in Finland due to their activities in China.
- Many companies emphasize that they have been able to maintain their current level of activity in Finland largely or entirely thanks to their China business.

The impact of China business on the company's operations in Finland. (Question: What kind of changes, if any, has your China/HK business driven to your company and/or its business in Finland? Consider here changes during the past 10 years.)

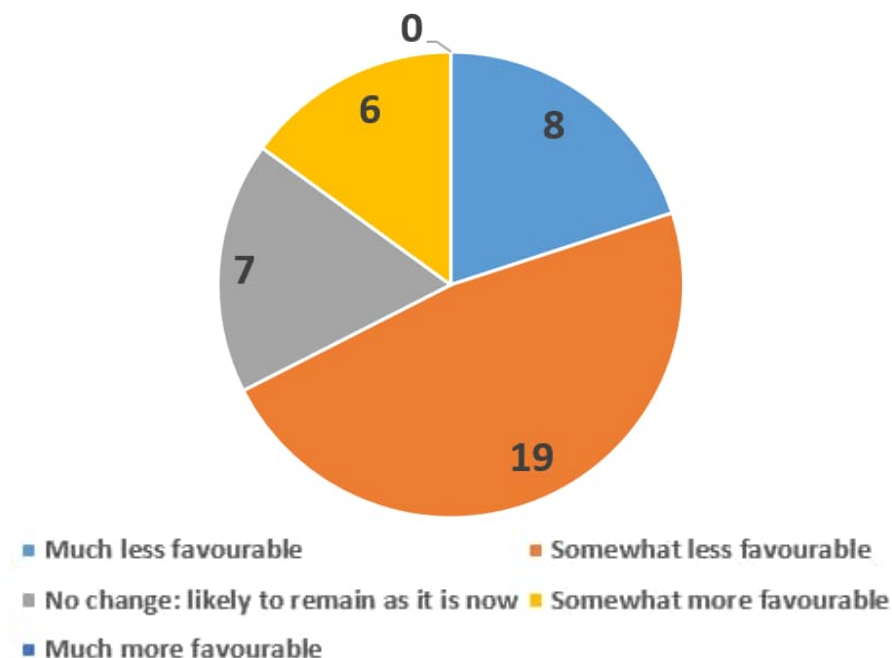


3.2. Outlook for China trade - Finnish headquarter perspective

Business environment is expected to become less favorable in China. Companies are already planning geographical diversification.

- Almost all companies expect China's business environment to remain challenging or become less favorable in the coming years.
- Key challenges for Finnish companies
 1. Increasing government control; unpredictability and volatility of decisions; complexity of legislation
 2. Rising geopolitical risks
 3. Slowdown in market growth, rising costs and increasing market restrictions
 4. Travel restrictions and the continuing strict Covid-19 regulations
 5. Protectionism: unfair competition resulting from favoring Chinese companies and increasing discrimination against foreigners
 6. Intellectual property rights infringements and resulting loss of competitive advantage
 7. Skill shortage and challenges in finding reliable partners
- Many companies mention to already have started planning for geographical diversification due to the increasing challenges and uncertainties in China operating environment.

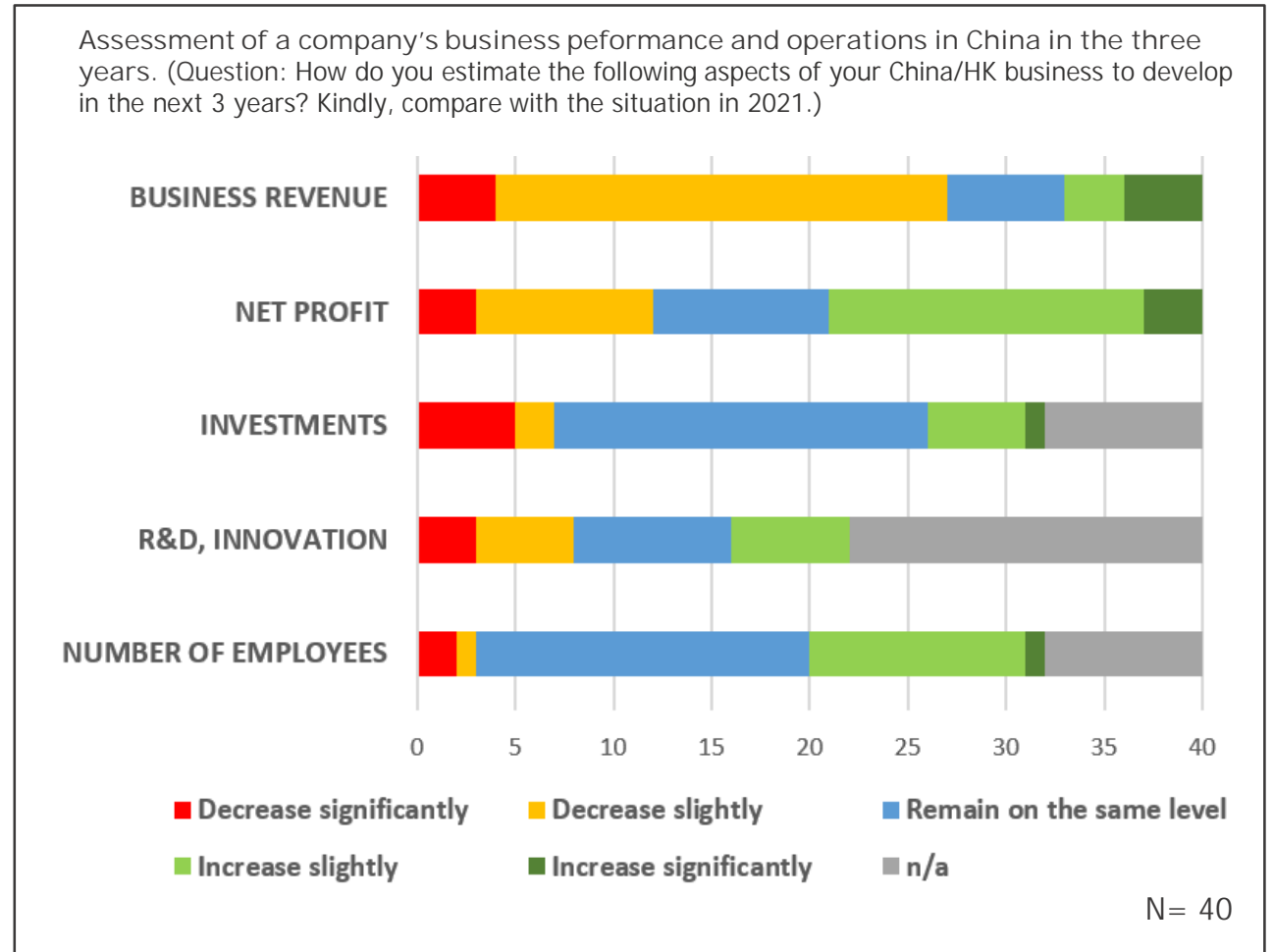
Assessment of China's business climate during the next 3 years.
(Question: How do you expect the overall business climate in China/HK to develop in the next 3 years compared to situation in 2021??)



N= 40

Profits are expected to increase whereas business revenue to decrease slightly in the next few years

- Increasing regulation, unfair competition and protectionism in China are identified as causes for the expected revenue decline for the next years.
- Some companies expect to downsize operations in China and only a few companies expect to increase investments, R&D or personnel in China.
- Several companies plan to keep their production activities and R&D in Finland.
- Approximately half of the respondents believe their profitability to increase, but on the following conditions:
 - Consumer demand recovers
 - Infrastructure projects are back on the growth track
 - Price normalization of raw materials (manufacturing industry)
 - Prices of raw materials stay on high level or rise (exporters of raw materials)
 - Pricing power improves (rising costs can be taken to customer prices)



"We will have a number of challenging years ahead of us in China: rising geopolitical risk, increasing government control, protectionism, travel restrictions, rising costs and a slow market growth."

"Risks are rising and opportunities narrow when operating in China, hence we are more aiming to follow the In-China-for-China principle."

"Geopolitics will likely cause China to be more self-sufficient [...]. Risks related to use of US IP, SW and technologies in China continue to increase"

Favoring local production, government controlled big companies, having ever tighter legislation which can be used to slowly close unfavorable businesses/operators.

"China growth will collapse due to their COVID policy and related international travel restrictions. Supply chains are moving out from China to other countries where collaboration is easier. Chinese government intervention in business is causing a fundamental threat to private businesses, reducing economic activity and willingness to recruit and invest. China is currently causing problems for itself due to their policies."

"Geo-political risk and continued lock-downs"

"Business regulations, price pressure, local manufacturer support/benefits are increasing & negative developments."

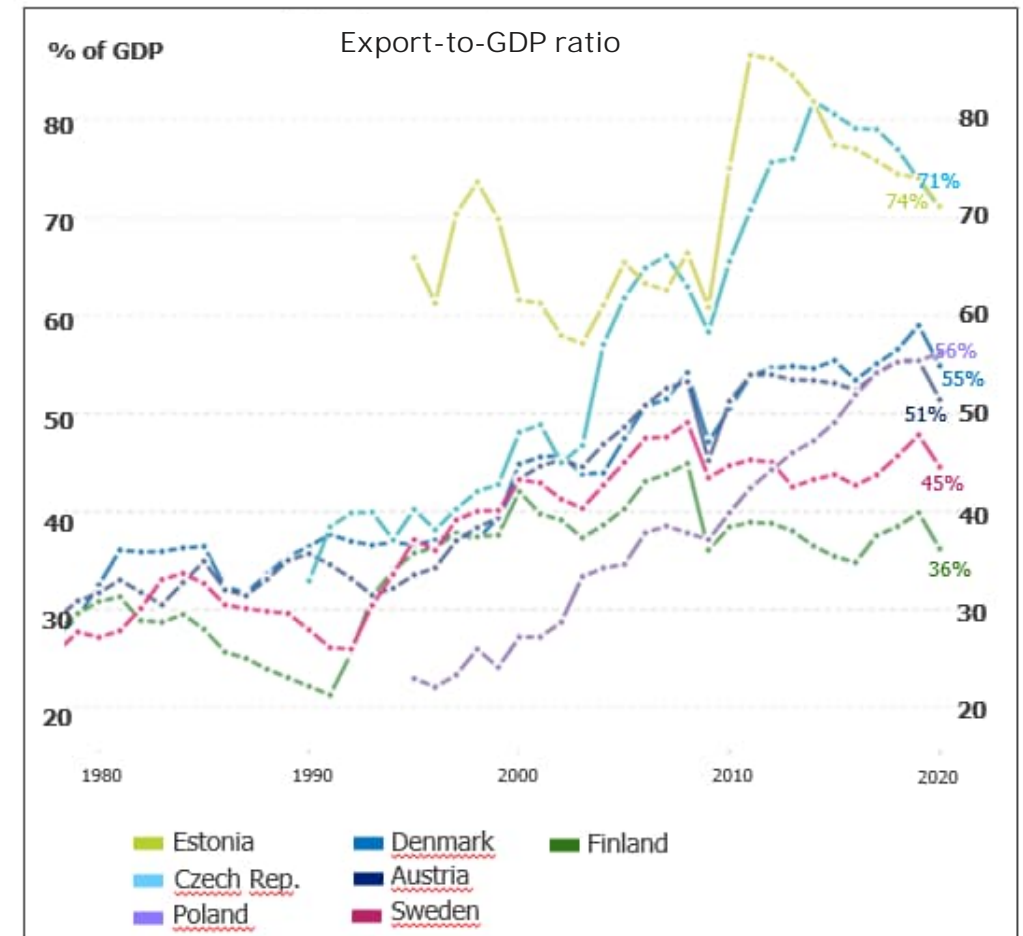
"Chinese government is supporting local suppliers to join tenders where importing suppliers have been earlier successful."

"Russian exports to China has/will increase and push demand and prices down so at least in short term that has quite negative influence, and sales to China will go down or almost to 0."

4. Development of Finnish Exports

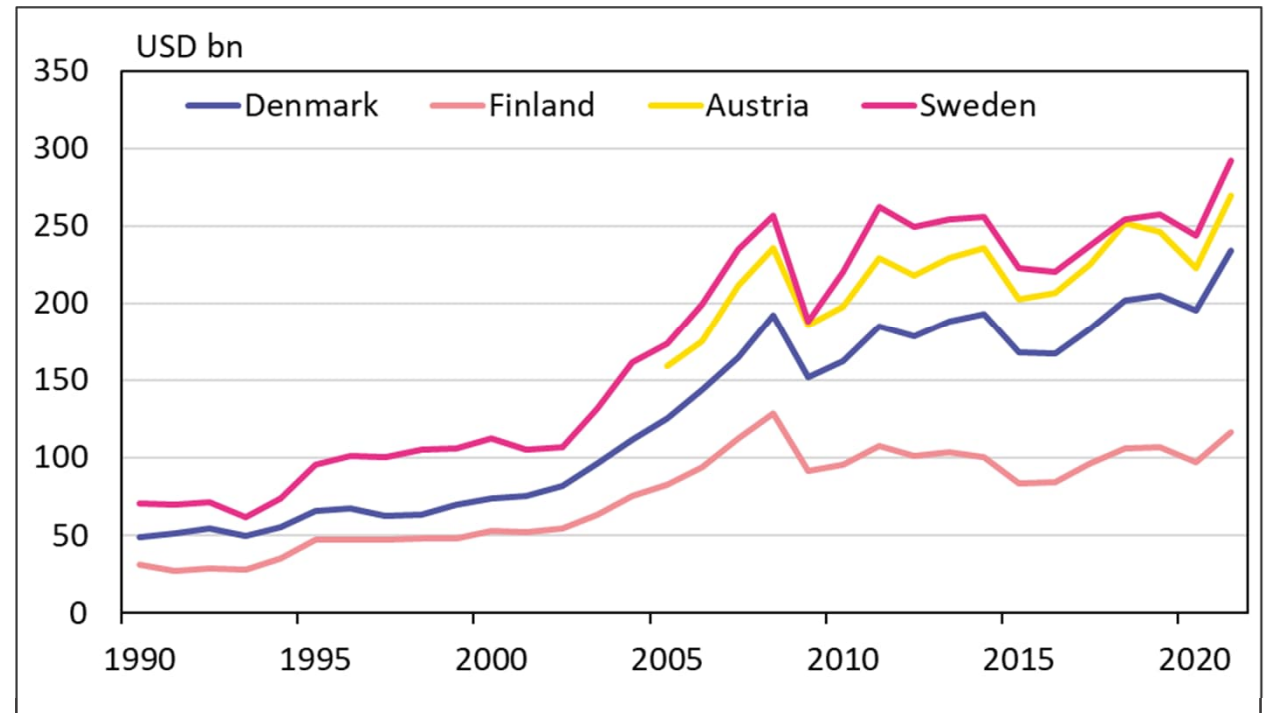
Finland lives on exports much less than most European countries do

1. Finland's export-to-GDP ratio is among the lowest in Europe – only 36 percent compared to 45 percent in 2008.
2. Finland's export-to-GDP ratio is currently at the 1995 level. The ratio peaked in 2008 at 45 percent.
3. In the reference countries such as Sweden or Denmark, the export-to-GDP ratio is significantly higher: 45 percent and 55 percent respectively.
4. Finland currently compares more with Portugal (37 percent) and Romania (37 percent) than with other Nordic countries.



Growth of Finland's goods and services exports has been very moderate since 2008

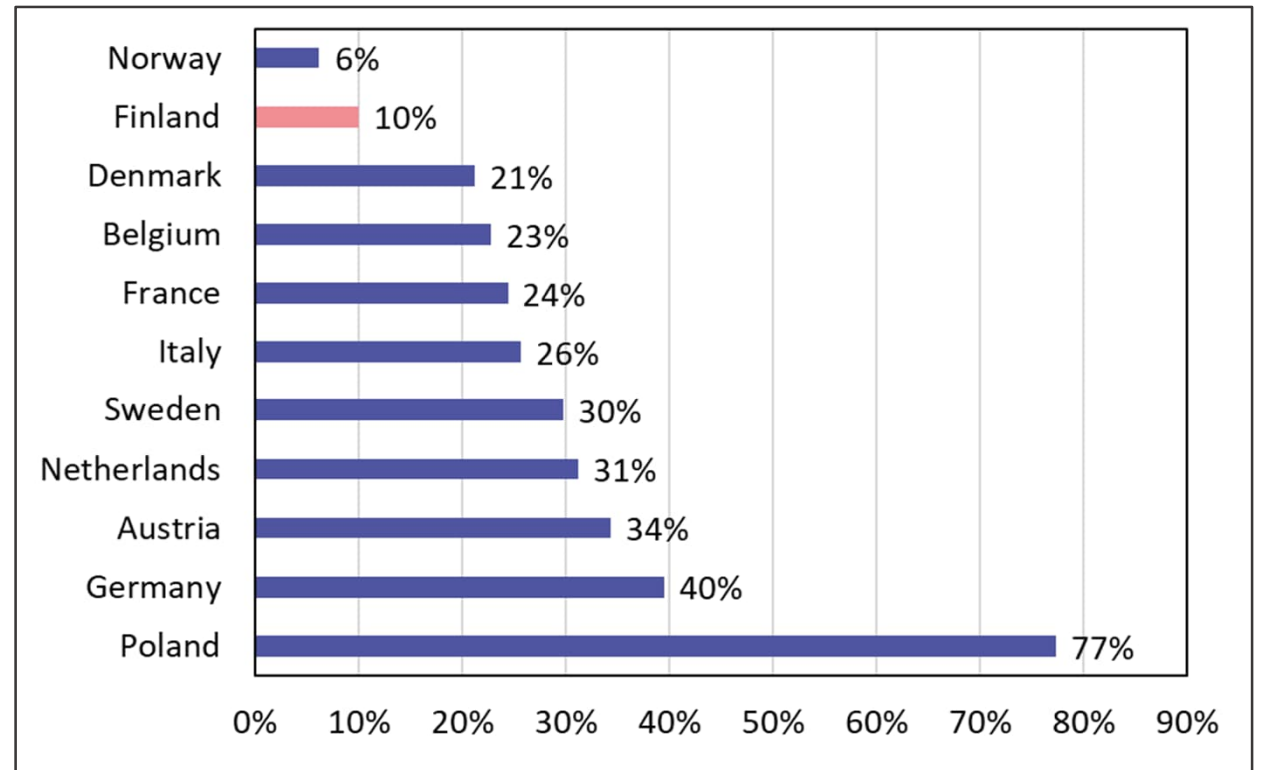
- The value of Finland's exports of goods and services has grown slowly, barely reaching the pre-financial crisis level.
- By the Covid-19 outbreak in 2019, the export values of Sweden, Denmark and Austria had already reached the peak year 2008 levels, while Finland's exports were still more than 15 percent lower.
- In 2021, export values from all reference countries increased rapidly. In contrast to other countries, Finland's exports were still 10 percent lower than the peak in 2008.



Finland's goods and services exports, 1990-2021

In terms of value added, Finland has lost the export competition to almost all key reference countries since the financial crisis

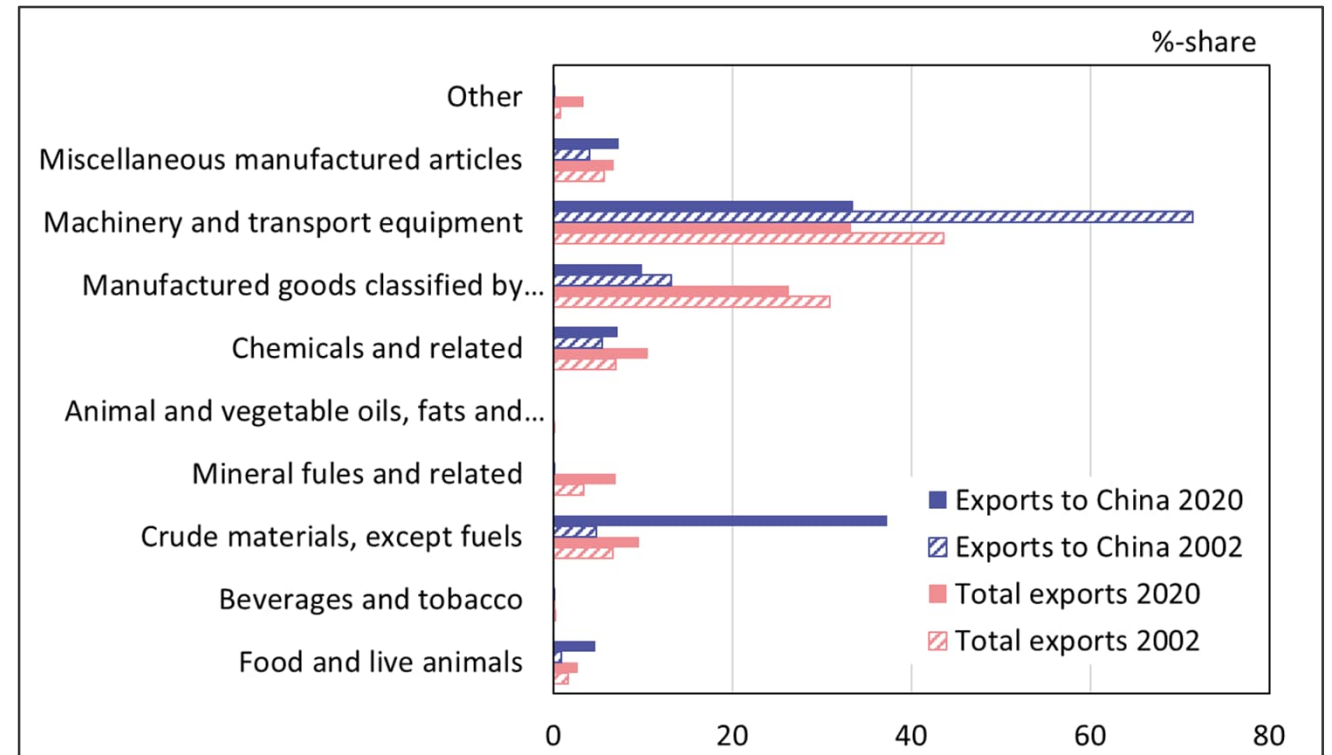
- Among the 65 countries recorded by the OECD, the increase in foreign consumption of Finnish value added has been among the lowest.
- Foreign consumption of Finnish value-added has increased only 10 percent from 2009-2018. The growth rate without electrical equipment (computers, telephones) was 19 percent, which is also less than in other comparison countries, except Norway.
- Norway's development has been weak due to the shrinking oil production by 25 percent during that time.



Foreign consumption of value-added, %-change from 2009 to 2018.

The structure of Finnish exports has changed, with a particularly marked change in exports to China

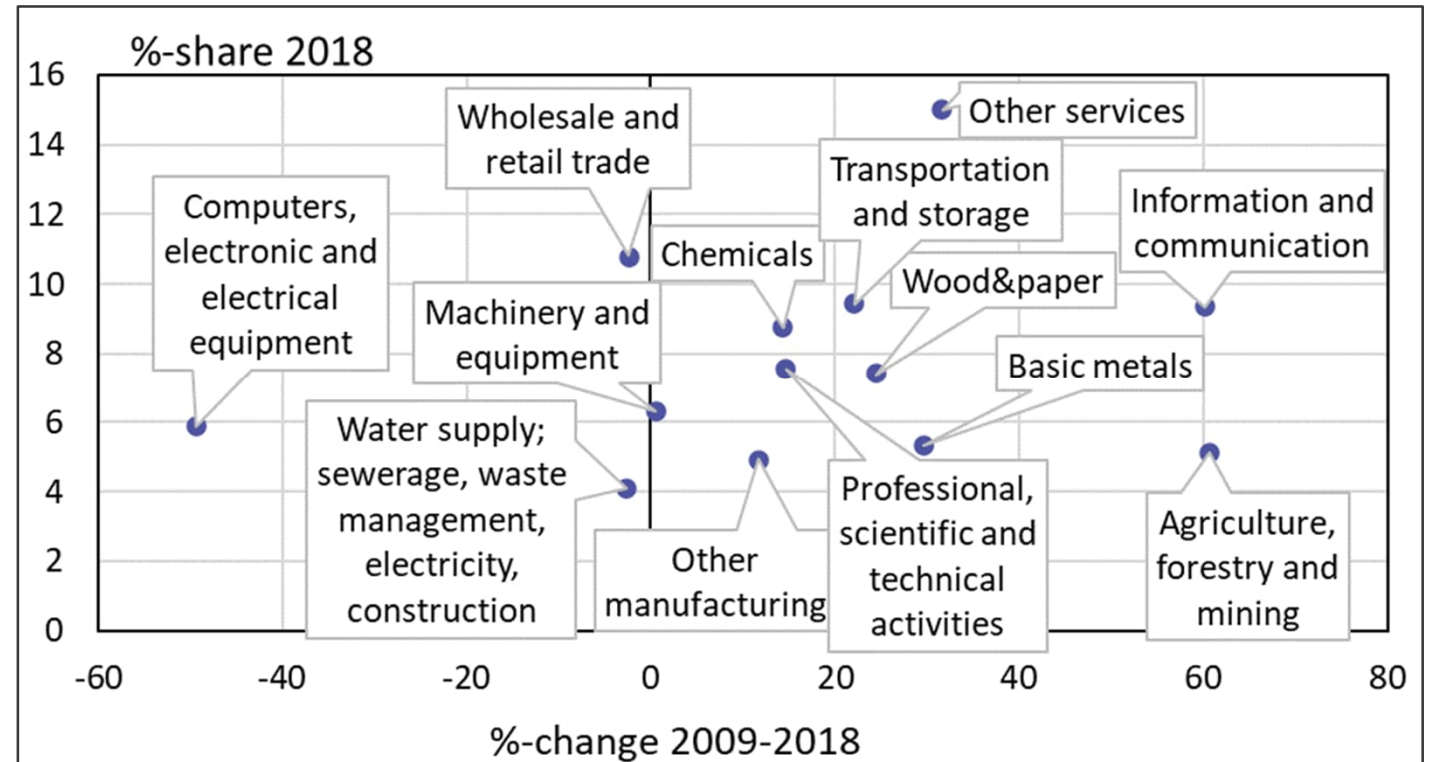
- Exports of machinery and equipment continue to cover a large part of Finland's total exports, but this share decreased
- The share of other finished goods in exports has also decreased.
- Various raw materials and intermediate products have increased their share.
- The structural change is strongly emphasized in exports to China.



Structure of Finland's exports has changed since 2002.

Sectors perform differently also in terms of value added

- In computers, other electronic and electrical equipment, foreign consumption of Finnish value-added halved 2009-2018.
- No growth in machinery category.
- Slight contraction in 'infrastructure construction (urban development) and other construction as well as wholesale and retail trade.
- High growth in IT and communication services, agriculture and forestry and mining'.



Foreign consumption of Finnish value-added by sector

5. Conclusions and recommendations

Finland's export portfolio to China should be diversified by increasing the share of end-products and services

- Challenges of Finland's exports to China reflect deeper issues in Finnish exports: in the case of China, challenges are mainly the same but markedly stronger.
- Efforts should be made to
 1. Increase the variety of different industries, export categories and export companies: our exports to China are dependent on too few industries and too few large companies, which increase the China risk.
 2. Find new export opportunities, especially in categories of higher value, sophistication and pricing power: overweighting cyclically sensitive raw materials and intermediate goods in the export portfolio lead to strong fluctuation of export value.
 3. Increase the share of services in our export portfolio in general and in the case of China: end-products, such as machines and equipment, have potentially more service value-add than intermediate products and raw materials.
 4. Support Finnish companies in analyzing the Chinese market, its risks and in diversification of business activities.
 5. Support the return of Chinese tourism to Finland as part of Finnish service exports, when possible.

Challenges of Finnish exports to China reflect the broader challenges of Finnish exports.

Exports to China depend on too few industries and companies.

The emphasis of our China exports is on cyclically sensitive intermediate products and raw materials.

Thank you!

Further information:

Mikko Puustinen and Riikka Astala, Ministry of Economic Affairs and
Employment of Finland

Juuso Kaaresvirta, The Bank of Finland

Teemu Laakkonen and Pia Sarivaara, Ministry of Foreign Affairs of Finland

Satu Kalliokulju, Business Finland

