Chapter 1
Finland and India: Unlikely Twins?

The inevitable never happens. It's the unexpected always.
John Maynard Keynes

Dream, Dream, Dream
Dreams transform into thoughts
And thoughts result in action.
APJ Abdul Kalam

Abstract This introductory chapter introduces the two countries, Finland and India, to the reader to familiarise the context in which business opportunities and challenges are prospected in the rest of the book. There is a discussion on the differences in endowments, societal trajectories, economic systems, industrial structures and needs and what Finland and India can provide each other. The logic of policies and value creation in both countries are discussed. The political actors are introduced, and the dimensions to be explored more deeply in later chapters are identified institutionally together with an overview of bilateral collaboration and the enormous scope for building more connections.

Introduction

It is understandable that the idea of twinning Finland and India for synergies in economic relations could surprise many and evoke a gasp of disbelief. Finland and India present a stark contrast on many dimensions: in population size, demographic structure, economic and social development, per capita consumption, infrastructure, natural resource endowments such as forest cover, water availability, clean air, national priorities and policies, production of goods and services, structure of markets, institutional architecture that governs capital markets, money markets, labour markets, product markets, organisation of industry, science and technology development and innovation diffusion. Paradoxically, such differences, and many more, are fertile ground for the design of synergies based on complementarities and the creation of new value chains for cross-border collaborations as scoped in previously published studies (Mathur 1998, 2007, 2008a, b; Mattila 2008; Mathur and Mattila 2009).
The contrast between India and Finland can be viewed from the key indicators listed in Table 1.1.

India is an ancient civilisation but a young country with a remarkable diversity. India has been independent as a democracy in its present form since 1947. In 2018, India was the world’s fastest growing major economy and the sixth largest economy in the world. In purchasing power parity (PPP) terms, it was third largest country after China and USA. The size of the Indian economy in PPP terms is more than Japan and Germany put together. In PPP terms, India’s GDP is thrice the size of UK as well as France, double the size of the Russian Federation, four times the size of Korea and five times the size of Spain. With a population of 1.32 billion and extreme social and economic disparities, India adopts policies that aim to sustain high growth under conditions of economic dualism with unmet development needs for about a quarter of its population below the poverty line. In international business, India aims at a healthy trade balance, trade diversification and a modestly increasing trade-to-GDP proportion which is less than Finland.

### Table 1.1 Comparison of India and Finland’s key indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Finland</th>
<th>India</th>
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<tbody>
<tr>
<td>Population 2018 (millions)</td>
<td>5.6</td>
<td>1,356</td>
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<tr>
<td>Area (km²)</td>
<td>338,440</td>
<td>3,287,263</td>
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<tr>
<td>Gross domestic product 2017 (GDP)</td>
<td>€215.62 billion</td>
<td>€3,170.63 billion</td>
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<tr>
<td>GDP per capita 2017</td>
<td>€38,503</td>
<td>€2,338</td>
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<tr>
<td>GDP per capita PPP</td>
<td>€12,834</td>
<td>€6,671</td>
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<tr>
<td>GDP growth rate, three-year average</td>
<td>2.2%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Fiscal deficit as % of GDP 2017</td>
<td>1.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Merchandise exports in billion euros 2016</td>
<td>52</td>
<td>237</td>
</tr>
<tr>
<td>Merchandise imports in billion euros 2016</td>
<td>55</td>
<td>329</td>
</tr>
<tr>
<td>Trade-to-GDP ratio</td>
<td>49.6%</td>
<td>15.7%</td>
</tr>
<tr>
<td>Surplus from BOP invisibles (services) in billion euros</td>
<td>−2,669</td>
<td>90</td>
</tr>
<tr>
<td>Change in FDI annual flow (inwards)</td>
<td>−3%</td>
<td>+8%</td>
</tr>
<tr>
<td>Change in FDI annual flow (outwards)</td>
<td>−0.9%</td>
<td>+10%</td>
</tr>
<tr>
<td>Annual R&amp;D expenditure 2017 in billion euros (as percentage of GDP in parenthesis)</td>
<td>6 (2.7% of GDP)</td>
<td>15 (0.7% of GDP)</td>
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<tr>
<td>Average annual growth in gross capital formation</td>
<td>8.7%</td>
<td>26%</td>
</tr>
<tr>
<td>Foreign exchange balance (FOREX) in billion euros</td>
<td>15.3</td>
<td>355</td>
</tr>
<tr>
<td>Import cover of FOREX in 2018</td>
<td>3.3 months</td>
<td>12 months</td>
</tr>
<tr>
<td>External debt in billion euros</td>
<td>678</td>
<td>425</td>
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</tbody>
</table>

Source: This table has been compiled by the author from the official statistics of the governments of India and Finland available in the public domain from India’s Central Statistical Organisation and Finland’s Tilastokeskus, respectively. Economic data have been converted to common denominations for comparability using currency rates, international benchmarks and standards adopted by IMF and World Bank. For commensurability, data of Finland’s fiscal year (January–December) and India’s fiscal year (April–March) have been adjusted.
Finland is a democratic republic that celebrated 100 years of its independence in 2017 and is quite homogenous. It is the only Nordic country of the European Union to be part of the Eurozone and the Schengen travel area. In land area, Finland is Europe’s sixth largest country and has the European Union’s longest land border and a population of about 5.6 million people. Finland is the only country in the world to settle a population of this size above 60° north latitude. As a small open economy, Finland pursues export-oriented economic policies to maintain a high trade-to-gross domestic product (GDP) ratio, aims at preserving an egalitarian society and strives for guaranteed minimum consumption standards with high gender equity and a high labour participation rate.

In terms of the Global Competitiveness Index estimated periodically by the World Economic Forum, Finland was ranked the highest among all countries in the year 2004. In 2018, Finland was in the 10th position and India ranked 39th in competitiveness. But nobody is able to explain why the competitive economy of Finland has not attracted significant flows of foreign direct investment. In Asia, India was the highest recipient of foreign direct investment flows in 2018. In world rankings of ease of doing business, India improved its position from 142 in 2014 to 77 in 2018 (World Bank 2018) and in 2019 was expected to be in the top 50 countries and continuing to rise. During the period 2014–2018, India received $239 billion in foreign direct investments into the country according to the Finance Minister’s budget speech in Parliament on 1 February 2019.

At a time when several Finnish brand names such as Kone, Nokia, Wärtsila, Fiskars, Angry Birds and Clash of Clans are widely known in India and Indian business houses such as Tata, ITC, Wipro, Mahindra, Havells, Trivitron and Sonata are actively involved with doing business in Finland, it seems distant history that trade, investments and technology collaborations between Finland and India stagnated at a low level in value and volumes during the period 1947–97. A serious problem was lack of awareness of the potential scale and scope of mutual engagement for two reasons. Due to its small population, Finland did not appear an attractive market to Indian firms for their traditional exports, and this mindset also obscured awareness in India of the technology prowess of Finnish firms. There was also the reluctance of Indian business leaders and entrepreneurs to prospect business outside English-speaking areas.

Another reason was inadequate international business acumen among small- and medium-sized Finnish technology firms. India was regarded as a developing country with unknowable risks and uncertainties with vast differences in business styles and institutions from Finland. To Finnish firms unfamiliar with India, the entry costs for prospecting business in India appeared prohibitive. The mutual business possibilities were underestimated, with preference for ‘ready-made markets’. For doing business abroad, Finns looked to Russia, the Baltics, Germany, other Nordic countries and the UK. Indian businesses preferred to prospect first in the unsaturated domestic market, and then in the Middle East, Southeast Asia and Africa which were considered attractive markets with low-hanging fruit.

This did not deter large Finnish firms in the paper machinery industry, power generating sets, earthmoving equipment and the engineering industry to service
customers in India. Also, it did not stop Indian tea, spices, textiles, garments, chemicals and pharmaceuticals, gems and jewellery from reaching Finland. But the economic contact failed to grow or diversify for a long time. Finland–India business was mainly intermediated by British, German, Russian and Swedish firms. This also caused trade diversion in which Indian goods were delivered in Finland at Finnish prices, but a large part of the profits were pocketed elsewhere than in Finland or India.

**Business Opportunities in Expanding Frontiers**

The gap between the true potential and the actual situation came to light from the ETLA (Research Institute of the Finnish Economy) study on Finland–India Trade and Investment in 1998 (Mathur, ETLA 1998). An interesting feature of this study was its dissemination with lists of profitably exportable products from Finland to India and India to Finland at a disaggregated level right down to the four-digit and six-digit SITC item codes. The entire study was made freely available on the World Wide Web through the ETLA website and through the University of Tampere’s School of Business website http://www.uta.fi/kati. This enabled the more net-savvy Finnish SMEs to expand trade at a faster pace than their Indian counterparts. During the period 1999–2011, Finland’s exports to India more than trebled while India’s exports to Finland doubled, opening up new possibilities of trade-substituting investments.

How, at what cost and with what pace firms access missing markets can make a tremendous difference to economic engagement. When a critical minimum threshold is crossed, prospects of cultural, social and political ties also open up in new ways. For instance, despite dozens of bilateral meetings, France and India were finding it difficult to establish a strategic partnership because the mutual economic engagement was miniscule until 2002. Only after a study on prospects of missing markets in Indo-French Economic Relations was published (Mathur 2002), the level of bilateral trade and investment multiplied and made that possible within a decade. The same kind of expansion is on the anvil between India and South Africa, India and Norway, and India and Israel. So why not between India and Finland?

The Finland–India Economic Relations research project was deepened in 2005 to include services after the IT boom in India. The entire spectrum of potential trade and trade-substituting investments between Finland and India was analysed in a new study (Mathur 2007). Many more business opportunities were identified. Some of these have since been actioned, but many remain underexploited. When cross-border flows of incomes in the form of wages, profits, interests and rents exceed private and public costs for production and delivery, trade-substituting investments and technology collaborations become an attractive proposition. ‘Made in India’ or ‘Made in Finland’ is then less relevant than ‘Made by India’ or ‘Made by Finland’ and even ‘Made by Finland and India’.
Challenges in New Horizons and Transforming Arenas

The post-1995 World Trade Organization (WTO) regimes in General Agreement on Trade in Services (GATS) and Trade Related Intellectual Property Rights (TRIPS) became fully operational in 2006 after the transition period. This allayed apprehensions over intellectual property rights protection in both countries, Finland and India, and augurs well for knowledge-intensive businesses. The burgeoning trade in world services has enabled new cross-border product-service linkages spawning innovative forms of international business structuring. These are very early days for Finland and India to be joining hands for new horizons.

Services constitute two-thirds of the Finnish economy and more than half of the Indian economy. This points to the need to deepen and widen the delivery of services abroad to leverage high-technology investments. But there is inertia over this. The reliance in Finland on EU mechanisms for facilitating GATS is misplaced because only electronic cross-border supply (Mode 1) is under the exclusive competence of the EU under the Maastricht Treaty. This has been confirmed by a judgement of the European Court of Justice. The three other service delivery modes, consumption abroad (Mode 2), foreign commercial presence (Mode 3) and Movement of Natural Persons (Mode 4), require bilateral prospecting between Finland and non-EU members like India and cannot be determined under the exclusive competence of the EU. For this reason alone, and also because of other reasons that have to do with factor market rigidities (including labour markets), asymmetric country effects within the EU are the norm because how member states would relate on these modes with non-member states is governed by the principle of subsidiarity. EU’s principle of subsidiarity requires Modes 2, 3 and 4 to be prospected bilaterally between member states and non-member states, requiring actions by firms and policy-makers in national and sub-national spaces to link with distant cross-border locales for product-service linkages in international business. It is only in countries with bureaucrats who would not want to expend efforts to take initiatives that a false notion prevails that a member state is dependent on what EU arranges with non-member states. From the perspective of Finland, Mode 2 and Mode 3 are both attractive options for business with India. From the perspective of India, Mode 4 has traditionally been constrained due to high barriers of entry for independent services. Promoting Mode 3 that supports dependent services is a better way of getting around that, and it can be a fast, inexpensive and elegant solution in the Finland–India context.

Service sectors like education and health care which were traditionally domestic sectors are among the fastest expanding international business arenas undergoing rapid transformation worldwide. There are technologies involved in such sectors for

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1For the same reasons, the High Level Trade Group (HLTG) mandated by the India-EU summit in New Delhi on 7.9.2005 to launch negotiations for a comprehensive trade and investment agreement that could presumably also cover GATS services has not produced anything implementable, to date, and remains an empty show of appearances that someday something will be worked out.
the development of procedures, knowledge creation, distribution and transfer. The scope for scholars and scientists to gain experience of the other countries could accelerate collaborations to the advantage of both countries. The formidable barriers in the form of the absence of reciprocal treatment of professional qualifications, accreditations, recognition of vocations require revisiting for transforming perspectives about human capital demand and supply. India and France have worked out double degree programmes with premier internationally ranked institutions where students from either country can study in two universities, one in France and one in India dividing time between them. In the very first top-tier exchange collaboration between a Finnish institution (Helsinki School of Economics) and the Indian Institutes of Management Ahmedabad, Bangalore and Calcutta, the first eight students who visited India did not return to Finland to seek employment because they were launched into international careers in India, Germany and USA.

India was the eighth largest exporter of commercial services (IT, travel and tourism being prominent) in the world in 2016 (WTO 2017). India’s share of the world market in commercial services is about 4%, which is double the share of India’s merchandise exports in the world. In 2016, foreign tourist arrivals (FTAs) were 8.8 million and foreign exchange earnings (FEEs) from tourism grew at 8.8% to US$22.9 billion. There has also been growth in outbound tourism, and departures of Indian nationals from India, estimated at about 22 million annually, are growing at the rate of 7.3%. This is more than double the foreign tourist arrivals in India.2

According to NASSCOM data cited in the Economic Survey 2017–18, India’s information technology-business process management (IT-BPM) industry grew by 8.1% in 2016–17 to US$139.9 billion (excluding e-commerce and hardware). IT-BPM exports grew by 7.6% to US$116.1 billion in 2016–17. E-commerce market is estimated at US$33 billion, with a 19.1% growth in 2016–17. India-based R&D service firms which account for almost 22% of the global market grew by 12.7%. Foreign exchange earnings of India from export of satellite launch services have also increased noticeably in recent years. Water on the moon was first confirmed by India’s Chandrayaan, and more and more countries are now sending payloads into space using Indian satellites. In 2018, Finland collaborated with Indian Space Research Organisation (ISRO) for a Finnish satellite to be launched into space on an ISRO Mission.

There have been numerous new initiatives in different segments of the service sector in India. These include payments and accounting digitisation, e-visas, infrastructure status monitoring, logistics, start-up India programme, National Skills Qualification Framework and schemes for the housing sector. These have given much boost to the service sector. Sub-sectors like tourism, aviation and telecom continue to grow at double-digit rates. Airlines facing shortage of pilots have recruited several hundred foreign pilots, and the tourism infrastructure growth is

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unabated. The telecom arena has many players—Indian and foreign, with high
density of mobile phone penetration where growth is far from saturated.

Indians can learn much from how well Finland has organised its civic systems in
health care and education. To mention just one example, even the National Capital
Region of Delhi does not have a system of pooling blood plasma for research
although the University of Delhi and other scientific institutions have equipment as
well as trained human resource at postdoctoral level. In contrast, Finland has a
nationwide system of pooling blood plasma and can afford the equipment but has
paucity of postdoctoral level talent for blood plasma research. This is a clear case
that challenges the conventional prejudices of unlikely twinning between Finland
and India. When attention of BioCity Turku was drawn to this, they quickly
developed a collaboration.

About 55% of India’s gross value added (GVA) in 2018 was contributed by the
service sector. This is expected to grow further to contribute almost 72.5% of
annual GVA growth in the coming years. While the growth of the service sector in
2017–18 was 8.3%, the growth in service exports and net services was robust at
16.2% and 14.6%, respectively.

Service delivery from India to Finland is growing rapidly in IT and biotech-
nology. For example, Finnair’s back office work is handled by the IT division of a
multinational firm that is headquartered in Kolkata. R-kioski’s management
information system including sales, accounting, inventory control, operational
logistics at its outlets and stock reordering is managed by an Indian IT firm from
Bengaluru. Indian scientists and technologists are involved with biocity projects in
Finland such as BioCity Turku. There is much more scope for technology col-
laborations in science and technology in a number of fields. This is evidenced by
the recent bilateral agreements involving the Department of Biotechnology and the
Department of Science and Technology in India with their Finnish counterparts.
More such agreements have since been made involving collaborations in energy
and environment, road building and transportation. Finland’s cleantech cluster
specialises in environmental know-how and focuses on air pollution control,
vehicular pollution control, solid waste management and renewable energy solu-
tions. India’s National Action Plan on Climate Change covers many aspects of
mutual interest to India and Finland. The most promising avenues of India–Finland
collaborations have arisen in knowledge-intensive services and product-service
bundling solutions for third-country markets where India’s advantage in service
delivery and Finnish technology’s cutting-edge product designs combine for
delivering high value to customers.

The officially declared sectors of Finnish interest in India are telecom, elec-
tronics, IT-enabled services, offshoring and outsourcing, food processing, medical
instruments, environmental technologies, carbon credits, forestry products and
technologies, paper machinery, construction and project goods. India is providing
technology support to Finland in biotechnology, biopharmaceuticals, health
research, earth sciences, nanoscience/nanotechnology, aerospace engineering,
nuclear power machinery, photonics and synchrotron science. The expanding
frontiers of cooperation and the new horizons are as exciting as the transformations
in arenas of existing cooperation which include telecom, paper machinery, mining machinery, construction and project goods for the infrastructure projects.

Many EU countries including Finland face the twin burden of demographic shock (with skills shortages) and economic slowdown that stresses sub-national fiscal transfer mechanisms and makes returns from commercial investments in high technology uncertain in a high cost and demand-constrained scenario. The buoyant demand in India for competitively produced goods and knowledge-intensive services is unabated, and foreign direct investment inflows exceed portfolio fund flows. Yet, despite high and sustained GDP growth, India’s growth trajectory is constrained by inadequacy of infrastructure (roads, railways, ports, airports, energy), poorly resourced local governance for public goods and the commons, skills shortages in new technologies, lack of science and technology diffusion on a nationwide scale, and social and economic distress for large numbers of people in its population who lack access to safe drinking water, affordable quality health care (especially childcare and maternity care), affordable quality education, especially vocational education, and housing.

India has just about 2.4% of the planet’s land area, 4% of freshwater resources and 1% of the world’s forests, although 18% of the world’s population lives here and 70% of the population is under 40 years of age. There is an enormous need for productive investments using proven new technologies in this supply-constrained scenario. Israel has been quicker than Finland in bringing its solutions. Finnish technology solutions, many of which are superior and less costly, have enormous scope to be used in India.

There are many arenas with business potential financed by public outlays and public–private partnerships, besides the obvious pull from demand of a vibrant industrial sector serving business to business (B2B) and business to consumer (B2C) with a range of products and services. There are both an acute need and considerable scope to optimise resources. Some of the most exciting possibilities concern expanding of the use of marine resources along India’s long coastline. Finland’s neighbour, Norway, is prospecting these opportunities in India.

**Barriers and Gateways**

The development and diffusion of Finnish technology in Finland is well supported by Finnish institutions such as Tekes (Finnish Funding Agency for Technology and Innovation), SITRA (the Finnish Innovation Fund), VTT (Technical Research Centre of Finland), TEM (Ministry of Employment and the Economy) and Finpro (Global Expert Network established for Finnish companies). This has reinforced confidence and pride but also created a norm among Finnish firms of ‘bowling alone’ or limiting their activities to Finnish clusters, and competing abroad mainly
through Finnish institutions, seeking cooperation through intergovernmental pathways or momentum from the tailwind of some large Finnish firm rather than direct explorations or negotiated collaboration with foreign business firms.

According to Finland’s Minister for Foreign Trade and Development Anne-Mari Virolainen, who led the Finnish business delegation to India during November–December 2018, new areas of Finnish interest in India were artificial intelligence applications, digital education, digital solutions besides ICT cooperation and sales of Finnish pulp and paper and heavy machinery (according to the Indian Express, 9 December 2018, Sunny Verma’s interview with the Minister). In the same interview, Minister Virolainen was reported to have stated that Finland was not taking new initiatives in India because it was waiting for an EU-India deal to fructify. India’s biennial mega event for international business investors and collaborations ‘Vibrant Gujarat’ was in its ninth edition in January 2019. Denmark and Norway were among partner countries at the event. Sweden was represented by its business enterprises and government representatives. Finland was conspicuous by its absence. The Finnish event around innovations, start-ups and venture financing, Slush, that has been held annually in November has also hardly drawn any interest from India.

The commercialisation of technologies and travelling the last mile to seed a technology innovation abroad in the form of investments for harvesting returns from it needs investment in management capabilities (in both small and large firms). There is a need for development of various forms of international business (such as licensing, franchising, strategic alliances, joint ventures, 51% owned subsidiaries) and not merely exporting or 100% subsidiaries in SEZs. Indian firms are surprised, even impressed by the degree of cohesiveness and trust between Finnish businesses and the Finnish government and parastatal institutions. But they are also daunted by the slow pace of decision-making, hesitations and reluctance of Finnish firms to invest in building new managerial capabilities for doing business in India and take risks without government subventions and guarantees.

Finnish firms find it strange that there are not corresponding institutions in India to the ones that exist in Finland. Indian and Finnish firms structuring a collaboration for the first time would both need to recognise that their decision-making logic is unlikely to be symmetric. In a Finnish doctoral dissertation (Mattila 2008), the processes of building Finland–India collaborations were studied using action research methods. The study concluded that productive and harmonious collaborations among Finns and Indians required making efforts and investing in time for understanding cultural and institutional differences and respect for differences in business norms, values, beliefs and attitudes. Pressures that have arisen from climate change, deforestation, urbanisation, transportation deficits, mining, irrigation needs of agriculture represent opportunities, but some of them come bundled with deteriorating law and order situation in certain parts of India which makes it important to choose project locations carefully.
**When the Twain Meet**

According to the Economic Survey of India 2017–18, the prosperity of Indian States is correlated with their international and interstate trade. States that export more internationally, and trade more with other states, tend to be more prosperous. And the correlation is stronger with international trade. It is also remarkable that India’s export structure is substantially more broad-based and egalitarian than in other countries with the top one per cent of Indian firms accounting for only 38% of exports, whereas in all other countries, including Finland, they account for a substantially greater share.

In 2017, there were about 30 Indian companies (excluding shops and eateries registered as companies) with offices in Finland and approximately 90 Finnish firms with offices in India. Excluding exporters, there were about 400 firms that had contracts or collaborations spanning the two countries. There also exist cooperation agreements between Finnfund and Exim Bank, between FICCI and the Confederation of Finnish Industries (Elinkeinoelämän Keskusliitto or EK for short) and, as already mentioned earlier, between IIM Ahmedabad (India’s top-ranked management institute which is more than a business school) and the Helsinki School of Economics, now part of Aalto University as its business school. There are also arrangements Finnish institutions have made with NGOs in Rajasthan and Haryana. Finnish educational institutions have connections with a few private Indian universities in Haryana and Maharashtra to send university students for some experience of India.

**Economic Development of Finland and India**

Research studies extrapolating trends in international trade based on existing patterns obscure choices not exercised or not visualised. Each country evolves its pattern of trade from historical circumstances shaped by decisions of a unique set of actors that define the prospective and favoured international arena for its investments and trade in goods and services. A closer look at the decision-makers in Finland and India reveals that the number of such decision-makers has been small in both countries. Both countries are outstanding examples of state-supported investments in technologies, industrialisation and trade where investment and trade flows occurred along paths of least effort.

The growth path taken by Finland after World War II, on the back of war reparations that it paid fully, eventually led to a tenfold real GDP increase over five decades. This was associated with sectoral shares rising to 30% of GDP in manufacturing and to over 65% in services. Manufacturing industries of Finland were the engine of growth when industrial production grew 50% faster than aggregate output until the end of the 1980s. After recovery from the great recession of the 1990s, Finland’s growth has mainly been in the new economy industries, especially telecom, energy and environment, away from the traditional smokestack industries.
in forestry (paper and paperboard), and engineering of metals. Since the domestic market was limited in size, expansion of the production possibility frontiers required Finland to depend on demand from abroad to the extent that export demand as the constraint became a permanent feature in its growth model.

In India, there is a supply-constrained scenario, where manufacturing industries are growing at a rapid pace in every industrial activity. This assures high profitability in a large and growing domestic market. The prospects of trade in manufactured products are also bright. Less than 5% of Indian manufacturing output is presently targeted to export markets, but about 75% of India’s exports in volume and value are manufactured goods. At Indian price points, Finnish goods made in India for developing country markets can open new avenues in other markets too. American firms such as GE have changed their approach to developing country markets after realising that their product development can be revolutionised in India in ways that even home markets benefit when costs are brought down to serve segments that were previously unserved or underserved.

India and Finland differ in their economic model of growth. In India, the development and industrialisation process are being telescoped. In pursuing self-reliance to the point of mistaking self-reliance with self-sufficiency, industrialisation of the Indian economy has covered a wide range of industry with a presence in every sector. When the new economic policies were adopted in 1991 with significant departures from protectionism, every sector underwent restructuring. Yet, India did not abandon public planning for development of infrastructure, energy, transportation, telecom and urbanisation. Significant public outlays from national finances are annually allocated for investments in these sectors. These outlays translate into demand for project goods and investment opportunities. Since 1991, these opportunities are open to the domestic and foreign private sector.

India’s Planning Commission was abolished in 2014 and replaced by the ‘NITI Aayog’ (the acronym ‘NITI’ translates as ‘policy’ and stands for ‘National Institution for Transforming India). The Government of India, through its ministries, continues to finance a large public outlay to promote priorities in urban and rural infrastructure, housing construction, education, health care, sanitation, transport and communications infrastructure, energy, water management, roads, railways, ports, airports and defence. Major reforms were undertaken in India during 2017. The Goods and Services Tax (GST) was launched to replace state sales taxes in July 2017. The festering twin balance sheet (TBS) problem was solved by sending the major stressed companies for resolution under the new Indian Insolvency and Bankruptcy Code. A major recapitalisation package to strengthen the public sector banks that were weighed under by stressed assets has also been implemented.

In Finland, policy-makers, firms and researchers visualise Finnish models of industrial structures and markets as vertical clusters with orchestrated linkage effects (that typically occur with a time lag). The priorities engineered through subsidies and incentives are brokered between the clusters with consultations through parastatal institutions, state-supported associations and financial institutions. In such a model, pioneering technologies can fail to be exploited timely in international markets because the wait for market signals or prioritisation is
uncertain. For example, radio isotopical research was commercialised in Wallac in 1950, but X-ray apparatuses using the same technology developed only in the 1960s and the first X-ray apparatus to India was exported in 1997. Another example: investments in telecom technologies between 1950 and 1980 could be reaped only after bundling all the public investments and proprietary technologies of Televa and Salora and others into the flagship, Nokia in the 1980s. Also, a 1939 law was invoked that placed restrictions on Ericsson and Siemens in Finland and protected Nokia from international competition until 1994, giving it the breathing space (Ahonen 1995).

The initial success of products in international markets also inhibits waves of development that might follow if declining techno-commercial feasibilities are not noticed for raising alarm early enough. The success of Wärtsilä Diesel with small captive generators became their Achilles’ heel when rising energy capacity, scale economies and declining energy costs per unit of investments in large public systems in developing economies made marketing of existing products difficult.

The experience of developed economies in post-industrial societies suggests that only the first phase in Michael Porter’s model of transition from factor-driven to investment-driven to innovation-driven to wealth-driven (Porter 1991) accurately portrays transition to a post-industrial society. The overheating in the innovation and wealth phases (as in Finland of the 1980s) is cyclic rather than a one-time event. This is so because societies are transformed through a changed pattern of investments in knowledge where knowledge pushes the economy into another cycle of factor-driven investments and knowledge itself becomes a factor.

The experience of developing economies (for instance, China, Brazil, India) also shows up other interesting differences. It is not necessary for a whole economy to become wealth-driven before knowledge intensity investments redrive a new factor-driven phase. Porter had not considered these countries in his analysis. It is unclear from our state of knowledge whether this occurs because inefficient firms are crowded out or simply because knowledge investments and their diffusion become more ubiquitous and linkable thanks to telematics. Indeed, the persisting chronic unemployment in Europe is partly the result of an insufficient number of competitive firms. Such firms in the EU-28 are a drag for countries where knowledge investments do not correspond to private and social rates of return on these investments. Knowledge investments and size of accessible markets are closely related. The success of Finnish enterprises has been organised mainly on business-to-business deals in niche spectra of industrial products in forestry, metals, energy and techno-electronics. Another anomaly in Finland is the high degrees of concentration in consumer markets with few entrenched players and with hardly any incentive to develop international consumer brands. Nokia with its handsets, Marimekko with fashion clothing and accessories, Finncrisp bread and Finlandia Vodka are some of the exceptions. The small size of the economy generally resulted in proliferation of duopolies and oligopolies on one side and duopsonies and oligopsonies on the other. This has implications for organising for business in Finland.
The success of Indian firms, initially in insular and protected markets under the patronage of the licensing system, resulted in endemic shortages and black markets. This has changed. It is now based on access to a large and growing domestic consumer market and exports. There is fierce competition among brands. In the historically sheltered industrial product market in India, once it got opened to domestic and foreign competition in 1991, enterprise profitability corresponds to development and diffusion of technologies and competitive business models for identified segments of growth sectors. Further, growth involves investments across a wide range of industrial goods and intermediate inputs that sustain the consumer product manufacturing. However, limits to technology development and diffusion can translate into severe capital and capacity constraints, inhibiting pace of infrastructure development and leading to reduced economic growth and social progress. The enormity of the development agenda, the size of market and technology diffusion and development are all closely related.

Thus, resource bases and opportunity horizons in the two countries differ in stark contrast to the point of potential complementarity. For an understanding of the economic incentives propelling the actors in the Finnish and Indian economies, we review the salient features of their societies’ state of their domestic economies and linkages to external dimensions.

**Finland: Nature and Climate**

Finland has common borders with Norway, Russia and Sweden and a long coastline along the Baltic Sea and the Gulf of Bothnia. More than two-thirds of the country is forested, with 168,000 lakes, with white nights and midnight sun in the summer and the prospect of seeing the Aurora Borealis (Northern Lights) in the dark winters. There are four clear seasons of climate: winter (from December to February), spring (from March to May), summer (from June to August) and autumn (from September to November). The precise duration of seasons varies from the Arctic North to the Baltic South part. Life and economic activity are organised differently by the seasons.

People joke that there are three kinds of temperatures in Finland: cold, freezing cold and biting cold. When it is plain cold, it is called summer and it is rather short. In 2017, it is said that summer was on a Thursday. In 2018, there were many warm days during July and August when summer temperatures rose and touched close to 30 °C on some days which was considered a heat wave. The very first sentence in my Finnish language book reads “Finland is a warm country and warmer than Alaska”. The lowest winter temperature I have experienced in Finland was minus 52 °C at Kittilä. That is cold considering that the ambient temperature on Mars is a warmer minus 48 °C. The Finnish climate has instilled a sense of grit, resilience, tenacity, resourcefulness and an instinct for survival that is unparalleled. The Finns call this ‘SISU’, and it is a core value of the Finnish national identity.
Foreigners visiting Finland need not fear the cold because the indoors of all public places, offices, homes, hotels, restaurants, shopping centres, trains, buses, cars, taxis are heated. A North Indian winter when the temperature is sub-zero in some parts and in others between zero and five degrees Celsius from evenings to mornings feels colder without indoor heating.

**Demography, History and Governance Trajectory of Finland**

The population that is settled in what constitutes the present geographical boundaries of Finland arrived in waves mainly from the East and Southeast more than 5000 years ago. Samis were the original inhabitants that were pushed northwards to what is now called Lapland when more hordes arrived. Ethnically, the majority population in Finland is Finno-Ugric and 86% Finnish-speaking, sharing their Finno-Ugricness with Estonians and Hungarians. The Finno-Ugric people are said to have originally inhabited the region near the Ural Mountains, now in Russia, and some hordes may have arrived also from Central Europe. For about six hundred years until 1809, Finland was part of Sweden. Finland and Estonia were part of the same country, Sweden, from 1629 to 1710.

In 1809, after the Napoleonic Wars, Finland became an autonomous Grand Duchy of the Russian Empire until 1917. The Swedish Civil and Criminal Codes were adopted in Finland from 1734 and remained in force throughout the Russian period. The Russian rule did not interfere with Finnish religious traditions or the use of Finnish language because these provided a natural buffer zone barrier against the West. There was no customs duty for Finnish exports to Russia at this time. There was also no income tax in Finland until 1920, except during short periods of emergencies.

There was an estate-based parliamentary representation by the nobility, the clergy, the bourgeoisie and peasants. The Bank of Finland, the education system and the press were among the first national institutions established during the Russian governed period. Initially, the Swedish-speaking elite were the dominant business owners in Finland. The linguistic cleavage remains to this day with two official languages, Finnish and Swedish, and with special status for the Sami language which is allowed to be used. Economic power was also vertically divided by this linguistic cleavage. Only for a brief period of Russification, Russian was added as an official language in Finland between 1899 and 1917.

The Finnish language owes its formalisation to the first liturgical translations of the New Testament by Mikael Agricola that brought with it the Lutheran influence. Although Finland is officially described as Evangelical Lutheran, other religions being practised include Greek Orthodox Christianity, Catholic Christianity, Jehovah’s Witnesses, Laestadian Christianity, Free Church of Finland, Islam and Buddhism, among others.
The Finnish national identity coalesced around the national epic ‘Kalevala’. This epic was compiled by Elias Lönnrot and published in 1835. There was a clamour for Finnish to be an official language alongside Swedish. A part of the Swedish-speaking elite decided to integrate themselves with the Finnish-speaking majority by launching, around 1880, a cultural, political and social initiative around nation-building which became known as the ‘Fennoman movement’.

In 1862, the Swedish-speaking elite established the Union Bank of Finland (Suomen Yhdyspankki known by its abbreviation, SYP) to control and own a new financial institution for the interests of the Swedish-speaking elite. In 1889, the Finnish-speaking industrialists established their own bank, the National Bank of Finland (Kansallis-Osake-Pankki, known by its abbreviation, KOP). Two insurance companies, Suomi in 1890 and Pohjola in 1891, also got established. The economic cleavage between Swedish speakers and Finnish speakers became ossified over the tussle for influence over business activities in manufacturing and distribution, especially paper manufacturing. Repola Oy (financed by the National Bank of Finland, KOP) was the flagship company of the Finnish-speaking industrialists, and Kymmene Oy (financed by the Union Bank of Finland, SYP) became the hub and core of the Swedish-speaking elite. Both Repola (through UPM) and Kymmene were paper manufacturers. Their recent trajectory after they amalgamated is narrated later in Chap. 3 where the Finnish business ecosystem and business opportunities are discussed in more detail.

Nineteenth-century Finland was characterised by farming, trade and incipient industrialisation that created the first factory workers distinct from artisans. Finland was remarkably international in the late nineteenth and early twentieth century. Its four ports, Viipuri, Helsinki, Turku and Mariehamn, were hubs of maritime activity. Mariehamn was home to the world’s largest fleet of sailing ships. Finlayson, the Scot, invested the Calcutta tea trade profits of James Finlay in Tampere in a cotton spinning mill. The Company James Finlay became Tata Finlay when the Indian business house Tata took a controlling stake, and it later changed its name to Tata Tea. After acquiring Tetley, it morphed into Tata Tetley and was renamed Tata Global Beverages. Meanwhile, Finlayson, considered the first modern factory in Finland (there had previously only been iron foundries since 1616), continues its legendary trajectory even though its most glorious days belong to the past.

Many iconic Finnish enterprises and brands have foreign origins. Johan Friedrich Hackman from Bremen, Germany, established Hackman (now part of Iittala Group owned by Fiskars) to make kitchenware. Karl Fazer, the son of a Swiss immigrant, established a confectionary business and chocolate factory in Finland. Wilhelm Gutzeit from Königsberg started a paper mill in Norway which his son Hans Gutzeit moved to Finland and which became Enso-Gutzeit, later renamed Enso Oyj after merging with Veitsiluoto (now Stora Enso after amalgamation with Stora). The Russian Nikolai Sinebrychoff from Polish-speaking Germany established a brewery associated with Koff and Karhu brands and also as a bottler for Coca-Cola beverages in Finland. This should inspire confidence that foreign investment from other parts of the world can be attracted to Finland.
Not to be left behind, the farmers’ cooperative movement and the working class elites noticed the benefits of bloc formation and established their own organisations. The farmers’ cooperative movement created the Forestry Confederation (Metsäliitto-Yhtymä) and the Cooperative Syndicate Bank (Osuuspankki known by its abbreviation, OP) with control over food and agriculture. The workers’ movement also became influential in retailing and construction and established its own bank, SKOP. The tripolar power structure this created is explained in Chap. 5.

After the parliamentary elections of 1906 held under Russian rule (when for the first time in Europe, women voted), collective interest organisations were formed. During the Russian Revolution, the Red Army defeated the White Army (Tsarist) in Russia but the White Army defeated the Red Army in the Grand Duchy of Finland. With no Tsar left to rule the Grand Duchy, Finland became independent. It is said that Lenin who had used Tampere in Finland as a hideout during his days of exile and plotting was sympathetic to the Finnish predicament. Independence on 6th December 1917 brought about a republican form of government in Finland. Initially, the Finns tried to reinstate a monarchy by inviting a German Prince, the Landgraf of Hessen, Friedrich Karl to become the King in 1918, but he declined due to changes in the political climate of Europe with the collapse of empires after World War I. The German influence in Finland was always important because there was a tradition of Finns going to Germany for vocational education, professional education and higher studies in Germany and Finns tended to learn German as a third language. During the civil war in Finland after independence, the German Imperial Forces helped the White Army to fight the reds.

In the build-up to World War II, Finland got sandwiched between the Russian demand for access to Finnish territory for defensive fortifications by the Soviet Union against the expected invasion by Germany and German plans for occupation of parts of Scandinavia. For Finland, there were three phases in World War II. In the first phase 1939–40, the Soviet Union attacked Finland after Finland’s refusal to allow Soviet military bases as defence fortifications on Finnish territory in what is remembered as the ‘Winter War’. In the second phase, there was a ‘Continuation War’ with Soviet Union (1942–44) in which Finland allied with Germany to fight the Soviet Army. In the third phase (1944–45), Finland accepted peace terms from the Soviet Union that required it to forcibly expel German forces from Finnish territory in the North of Finland in what is referred as the ‘Lapland War’.

**Post-war Finland, Cold War Politics and European Integration**

The basis of the new Foreign Policy of Finland after World War II was the Treaty of Paris, 1947, under terms of which a final peace conference was to be convened. This never took place. Finland paid its war reparations fully under the Paris Peace
Treaty. Finland’s Treaty of Friendship, Co-operation and Mutual Assistance with Russia signed in 1948 was revised in 1992 when its military provisions were removed. Finland joined the International Monetary Fund in 1948, GATT in 1950 and the Nordic Council in 1956. In 1956, Finland also joined the UN and was admitted to the OECD in 1969.

As a neutral country, Finland hosted the 1975 Conference on Security and Cooperation in Europe (CSCE). Finland joined the European Free Trade Agreement (EFTA) in 1986 as part of the group of countries (Austria, Norway, Sweden, Iceland and Switzerland) that had opposed the customs union in 1957. By this time, UK (also an EFTA member) had already defected to join the European Customs Union. Finland joined the Council of Europe in 1989 but did not initially sign up to all of its conventions. In 1992, Finland applied for membership of the European Union and after a national referendum in 1994 approved the joining, Finland became a member of the EU from 1.1.1995. When the Economic and Monetary Union introduced the Euro, Finland became a member of the Eurozone and adopted the Euro giving up its national currency, the Finnish Markka.

Finland’s Political System and Outlook

Elections to the unicameral Parliament are held with predictable regularity, precisely on the third Sunday in April every four years. Every Finnish citizen who is at least 18 years old on election day is eligible to vote in parliamentary elections. At the time of writing, the next parliamentary elections are to be held on Sunday, 14 April 2019. Ten political parties are currently represented in Parliament.

Coalition government is the norm in Finland, with no party winning more than about one-quarter of the vote in recent elections. Theoretically, any of the ten parties could get involved for participating in a coalition government. Negotiating with numbers to form a government happens after the election results are announced. Coalitions have formed despite differences in stances on the political, economic and social issues. The four big parties, any of which could be part of a coalition after the next election, are the Centre Party (Keskusta), the National Coalition Party (Conservatives or Kokoomus), Social Democratic Party (SDP or Demarit) and True Finns or Finns Party (Perussuomalaiset or PS). Besides perennial domestic issues such as unemployment, social security, tax reform, support for local communities, contraction in public services including health care, and rising prices of essential goods and services, the policy on migrants and refugees, national security and relations with Russia occupy centre stage in the debates.

The political party representation following the last three general elections shown below provides a glimpse of the shifting sands in the political spectrum (Table 1.2).
The Political Spectrum with Shades of Differences

Finland’s political spectrum can be studied by giving attention to the public posturing by various parties on their own websites. The Social Democratic Party (SDP) with its catchy slogan ‘We want everyone aboard’ proclaims that its values do not stop at boundaries of language, nationality or background and claims to be committed to making Finland a fairer, more compassionate and more respectful society. While SDP draws its supporters from a wide cross section of society, industrial workers have been a prominent constituency of support.

The National Coalition Party or Conservatives (Kokoomus) is one of the oldest political parties in Finland and draws much of its support from business leaders and entrepreneurs. The Kokoomus identifies itself as a liberal and conservative party supporting free trade and a free market economy. It has also been active in national security discussions.

The Centre Party of Finland (Keskusta), according to its declared intents in Finnish on its own website, has proclaimed that it stands for a society with ‘happy, healthy homes and narrowing welfare gaps’ and that it wants to “make Finland a pioneer in creativity and competence, reduce bureaucratic burden and introduce a new political culture of bold experiments to secure the foundations of well-being”. It claims to be committed to getting Finland back on the path of sustainable growth by encouraging work and entrepreneurship and putting an end to living in debt. Keskusta promises growth in bioeconomy and digitisation, 200,000 new jobs, balanced municipal services, commitment to continued non-alignment, social and healthcare reform and care for the elderly, among other things.

The most enigmatic among the major political parties of Finland is the Finns Party (Perussuomalaiset or PS, for short) which has been gaining vote shares in national and municipal elections in the previous two decades except for a small dip of a percentage point in the 2015 national parliamentary elections which reduced its

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<th>Political party representation in Finnish Parliament</th>
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<tr>
<td>No. of seats</td>
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<tr>
<td>National Coalition Party (Conservatives or Kokoomus)</td>
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<tr>
<td>Social Democratic Party (SDP)</td>
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<tr>
<td>Finns Party (PS)</td>
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<tr>
<td>Centre Party (KESK)</td>
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<td>Left Alliance (VAS)</td>
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<td>Green Party (VIHR)</td>
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<tr>
<td>Swedish People’s Party (RKP)</td>
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<td>Christian Democrats (KD)</td>
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<td>Others (includes 18 of Blue Reform)</td>
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<td>Total</td>
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Source: Parliament of Finland
seats’ tally from 39 to 38 and its number of seats reduced to 17 after SINISET splintered away from it. PS claims to be a revived version of the National Rural Party that was disbanded in the 1990s. According to its own website (www.perussuomalaiset.org), the credo of the Finns Party and its policies are focused “on the work ethic, entrepreneurship and a balanced social welfare system linked to Christian values”. The party resists being classified into any traditional left–right taxonomy. PS is staunchly nationalist and appeals to patriotic nationalism to defend the economically disadvantaged with its slogan ‘justice for all’ and emphasis on productivity and its anti-corruption stance.

The Finns Party is the leading EU-sceptic party in Finland and believes that the EU meddles more than it should into citizens’ everyday affairs and is creating excessive central governance in Brussels. This party propagates the notion that EU membership costs for Finland are excessive and the computation process for Finnish contributions needs reassessment and adjustment. The party wants Finland to renegotiate its EU membership, transfer more power back to Finland from Brussels, reduce the power of the EU Commission and diminish common responsibility in economic affairs. The party is opposed to distributing existing bank debt across Europe and is against the idea that EU public finances are used to rescue financial disasters of investment bankers.

The new Blue Reform Party (Sininen tulevaisuus or SINISET for short) is a splinter group that broke away from the Finns Party after the 2015 general elections. It identifies itself as the movement for tax revolt of the middle classes which certainly has an appeal in a country where individual workers are taxed at a higher rate than businesses. It promotes labour market reforms and tax reforms and appeals to small business owners and self-employed with its commitment to closing tax loopholes to prevent Finland’s wealth to drift to tax havens. SINISET asserts security as a fundamental right, commits itself to combating social exclusion, supports army conscription and values strength and trust in the civil service with attention to Nordic cooperation and Finland’s place in the EU.

The Green Party (VIHR), formed in 1987, won 15 parliament seats in the general elections of 2015. VIHR was the first European Green Party to be part of a state-level coalition cabinet in 1995. It stands for choice, fairness and climate responsibility. At the local level, Greens are strong in the big cities. In the national capital, Helsinki, the Greens are the second largest party with 23.5% of the vote. In some other towns and cities, the Greens are the third largest party.

The Left Alliance (VAS) is the fifth biggest political group in the Finnish Parliament. The Left Alliance has positioned itself as a labour party committed to rooting out the grey economy. VAS is committed to public provisioning for good-quality education, health care and a culture of caring. It promises a society with progressive taxes, decent wages, good working conditions and basic security to workers, small entrepreneurs and the self-employed, to people in fixed term as well as in regular work contracts. It wants to bring back property taxes and introduce new taxes on nuclear fuel and stock exchange transactions and is opposed to raising indirect taxes such as VAT or real estate duties.
The Swedish People’s Party (RKP) represents the Swedish-speaking Finns and is one of the small parties representing an affluent but small linguistic group with its support base mainly in Southern Finland and areas adjacent to Sweden in the coast of Turku, Åland Islands and Finnish Ostrobothnia in the North-west of Finland.

The Christian Democratic Party is another small party that stands for Christian values of caring for families, children and their hobbies, the elderly and the dying through provisioning of municipal services such as day care, palliative services and support to small groups. It is committed to reforming Finland’s system of facilitating economic livelihoods and social support, advocates more support for waste recycling, healthcare reform, maintaining healthy premises for living and working, support for health care, including mental health, drug de-addiction facilities, clean water and renewable energy.

Economic Policy and Outlook

Economic policy-making in Finland is going through an uncertain phase with very little agreement among the major political parties. PS and SDP would wish to insulate Finland from the world to avoid effects of globalisation, but in practice they have been unable to do so even when they were part of government coalitions.

Finland has grown steadily since mid-1993, the turning point of its deepest economic crisis of the twentieth century when output contracted by about 24%. Economic activity rebounded in 1997 and 1998 and was associated with expansion of retail trade and construction volumes. Finland became an EU member in January 1995. It became a member of the exchange rate mechanism (ERM) in October 1996. Finland achieved the required criteria for membership of the Economic and Monetary Union (EMU). Fiscal compression (involving FIM 22 billion of government expenditure cuts amounting to 4% of GDP) was successfully accomplished to reduce the deficit and the tax burden with a sum total of FIM 57 billion of permanent cuts by end-1999 (equivalent to 10% of the 1996 GDP). Most of these cuts were in education, health and social welfare putting to rest the debate on how to reconcile the welfare state with EU accession. Gross Domestic Investment during 1990–97 was negative with an annual average contraction of −5.7% corresponding to an average annual increase of 1.1% in GDP (both figures according to World Development Report 1998). The export of goods and services grew in the corresponding period by an annual average of 9.3%. Private consumption demand as a proportion of GDP remained at the same level in the 1990s as in the 1980s, i.e. at 53% of GDP. Trade in goods and services accounted for about 73% of Finnish GDP in 2017.

Although the net external debt has remained high in the region of 28% of GDP, the sterling export performance raised the external current account surplus to a record of 5.5% until the financial crisis in 2008. It remains unclear whether
Finland’s public finances are prepared for the sizable demographic shock that it is undergoing, the risk of overheating, the required flexibility in fiscal policy and in the labour market to offset the loss of competitive devaluation as an instrument to promote exports after adopting the Euro in place of the markka. The exchange rate parity was fixed at €1 = FIM 5.94573 when Finland entered the exchange rate mechanism en route to adopting the Euro as its new currency. Finland’s industrial structure radically changed in the 1990s, and the previous two decades have witnessed cataclysmic transformations with large-scale redundancies. The development of high-tech firms, a process associated with the growth phase of the 1980s, intensified. Manufacturing capacity underwent considerable restructuring with growth in telecom, electronics, metals and chemicals and a shrinkage in paper and pulp, wood and wood-based industries.

Finland’s export growth began to slow down in the second half of 1998. This was not because of the East Asian crisis. Asia did not account for a high proportion of Finnish exports, and Finnish exports to China and Hong Kong grew by over 60% in 1998, more than compensating for the combined losses from export slowdowns in trade with Malaysia, South Korea, the Philippines, Thailand and Indonesia. Finnish exports within the EU and to USA were adversely affected due to competitive pressures. Growth in techno-electrical industries remained buoyant in double-digit figures (29% in electronics and 50% in telecom), and housing construction activity in the Greater Helsinki area showed remarkable upturn with modest growth annualised at 3% in wood and paper and chemicals but GDP contribution of the aggregate of all other sectors was less than 1% in 1998. The size of the Finnish economy was estimated to be 216 billion Euros in 2017 in absolute terms and 173 billion Euros in PPP terms. About 60% of Finland’s population (about 3 million) belongs to the economically active age group. The stock market capitalisation at 63 billion dollars is a trifle misleading because it also includes value of houses and other buildings as assets held by stock issue. There were 141 firms listed on the Helsinki Stock Exchange (fewer are actively traded) in September 2018. The preponderance of firms (listed and unlisted) partially reflects the enormous spread of 33% between the peak marginal individual tax rate (53%) and the corporate tax rate (20%).

Finland’s challenges comprise stimulating the domestic economy, developing trade and designing profitable returns on foreign direct investment (FDI) to provide incentives against capital flight and out-migration of talent. The regional spread of economic growth is also linked to international specialisation with eight relevant urban infrastructure zones: Helsinki–Tampere, Southern coastal areas, Karelian development corridor (Salpausselkä zone) extending to the harbour in Hanko, Turku, Naantali, the Kokemäenjoki river valley linking the West coast harbours Pori and Rauma to industrial centres in central Finland by railroad networks, the Kymijoki river valley important for the forest industry, the Perämeri coastal zone (Raase–Oulu–Kemi–Tornio), Central Finland and Merenkurkku linking Vaasa to Kokkola.
International Orientation of Finnish Firms

Finnish firms originally developed their international orientation historically from two sources, trade in wood along with paper and pulp products as commodities and from trade with Russia as a follow-through of the customs union in the Grand Duchy days and the war reparation period after 1955. The diffusion of German technology and Swedish and Swedish-speaking Finnish private investment was supplemented by state initiatives in mining and manufacturing and also in the development of technologies with the gradual emergence of indigenous Finnish entrepreneurship in the late nineteenth century.

The category of Finland’s highest valued exports is machinery and transport equipment. Of this, 57% of the exports are to other EU countries and 60% of all Finnish imports are also sourced from within the EU, the comparative figure for India being 25%. Germany replaced Russia as Finland’s largest trading partner in the 1990s with trade equally balanced between exports and imports. Germany remains Finland’s largest trading partner in 2018 with Sweden second. The third and fourth places in Finnish imports belong to Russia and China but in exports USA is third and the Netherlands, fourth.

In Asia, the main direction of Finnish imports is China, Korea, Taiwan, India, Thailand, Indonesia and Singapore in that order. The important countries for Finnish exports to Asia listed by value of exports are China, India, Singapore, Thailand, Taiwan and Indonesia. Trade with China in terms of both exports (€2,680 million) and imports (€4,067 million) taken together is eight times larger than the Finnish trade with India (exports to India €521 million and imports from India €329 million). Chinese trade stresses Finland’s balance of trade being unbalanced in favour of China, whereas Indian trade contributes to Finland a positive balance of trade which is offset by services where India is a net exporter to Finland. Were Finland to expand manufacturing in India and import services from India through joint ventures with Finnish participation, the negative gap in Finland’s balance of payments (with China, and also worldwide) could be corrected quite swiftly.

Finnish internationalisation was initially associated with increased levels of outward foreign direct investment to all Nordic countries during the 1980s and the 1990s. In FDI inflows of Finland, it is UK, rather than Germany, which is the main source country for Finland, followed by Germany, Sweden and USA. Finnish outward FDI is mainly directed to Sweden, Switzerland, Germany and France. After considering outward FDI flows from Finland, Finnish firms, in the net, tend to export capital to Sweden and Germany most years. It is not clear whether the acquisition of Finnish equity abroad by conversion of debt to equity really involves any capital inflow at all. This doubt arises because inflows from the UK are associated with change of ownership of companies in Finland according to the Central Bank of Finland reports.

The forest cluster is traditionally regarded as the mainstay of Finnish prosperity. Commodity exports from this cluster used to account for 40% of total national
exports, with Finland being the largest exporter of paper and paperboard in the world. Despite modest sales growth, Finland’s share of the world market in paper and paperboard has shrunk. This is due to the creation of domestic capacity in other countries, and with Germany and England as competing locations in Europe for new capacity. Also, profitability of the industry is out of national control without the instrument of competitive devaluation because of Economic and Monetary Union (EMU). There are also more but smaller-sized orders outside EU, and the fibre shortage is in hardwood, which Finland imports from Russia. Volume leaders like UPM-Kymmene, Stora Enso and M-Real have all been dismantling capacity in Finland while creating new capacity elsewhere. There are fewer than 40 significant buyers in the whole of Europe for paper and paperboard machinery and fibre processing machinery. This points to the growing interest of firms like Ahlström and Valmet to link fresh investment abroad.

The metal manufacturers like SSAB (formerly, Rautaruukki), Ovako and Outokumpu having specialised in high-grade structurals have an incentive to invest in finishing lines (for construction structurals and automotives) closer to the customer too. Energy firms like IVO-Neste and ancillary units connected to them also find their markets saturated in the neighbourhood and must look further to where their technology investments and electrical manufacturing expertise are in demand. The core investments in Finland require to be supported by growing market access where economies are growing. This is also true of firms in environmental technologies whose growth has been linked to industries in forestry, energy, chemicals and metals and which now engineer solutions and systems closer to customers abroad. The higher logistics costs of transportation equipment firms further point to the need to locate their services and infrastructure closer to ports and mines in the world’s growing areas.

There are no raw material advantages in Finland for the chemical industry. When linkage effects with forestry weaken, chemical firms also have an incentive to relocate. Kemira and Kiilto are exceptions having developed speciality pigments and chemicals and gained worldwide recognition. Kone and Partek in construction industry were early internationalisers in recognition of the cyclical nature of the industry. Energy policy will remain a priority because Finland imports oil. Two additional nuclear power stations are going to be built in addition to the four in use and one under construction. Mineral fuels, rare earths such as lithium, cobalt, tungsten, tar-based organic chemicals, plastics, articles made of wood and wood charcoal, iron and steel products, nuclear reactors and pressure vessels, electrical equipment and sound and acoustics machinery, cinematographic, optical and photographic products, are now the leading export items.

Another noticeable trend in Finland is consolidation of firms through hectic merger and acquisition activity in all of the identifiable clusters regarded as the pillars of the economy. Since the industrial and financial sectors have been closely linked, and for other reasons too, the financial sector is scrambling to consolidate and many banks and insurance companies have already done so. In pharmaceuticals, the introduction of the new patent regime has reduced the number of Finnish players from thirteen to two. Many of these consolidations involved firms in
Sweden, UK and USA, and it has been difficult to distinguish acquisitions from mergers. What has made the task of business researchers tricky is also the Finnish penchant for changing company names to new names and then changing some other group company’s name to the old company’s name. This makes it difficult to make inter-temporal comparisons of a company just by its old name or current name.

As the industrial profile of Finland changes with restructurings in the strong production and traded sectors as part of the consolidation trends in the EU, factor returns and production shares of Finnish firms relative to the EU-28 can provide clues to Finland’s revealed comparative advantage. The Confederation of Finnish Industries (EK) continues to lobby for tax reforms, more internationalisation, support to small and medium enterprises, and increased labour market flexibility. The trade unions have become weak except for the unions of firemen, doctors, nurses, pilots and drivers in the transport sector. Since mid-2010, the European Central Bank (ECB) has taken small steps to move away from ‘enhanced credit easing’ but continues to make ‘sterilised’ purchases of Euro area government bonds and private sector assets in secondary markets in order to keep peripheral bond yields in check. There is opposition in Germany to any open-ended commitment, but central bank support in some form can nevertheless be expected to continue for as long as liquidity and solvency concerns about Euro area members persist.

India: Discovery or Invention?

India is an old confluence of cultural unity but a young country as a political unit unified within its present geographical boundaries only since 1947. At no previous juncture in history was India so unified. When we take a historical perspective and examine the greatest of empires, Emperor Ashoka’s kingdom did not extend to all the Southern parts and at the height of Akbar’s Rule, he did not have full control over the Deccan and the Eastern and North-eastern parts. Beginning with the loss of Bengal in 1757 to the East India Company, parts of India kept falling like dominoes until the British Crown took over governance directly in 1858 (India Office Records 1858).

The 190-year period of British colonisation from 1757 to 1947 has been considered as an era of darkness associated with de-industrialisation, forced cultivation of cash crops such as indigo, famines, export of slave labour to plantations in the Caribbean and unjust extraction of natural resources to be shipped abroad for the UK (Tharoor 2016). India is a case of late industrialisation because the hegemony of the three port economies of Bombay (now renamed Mumbai), Madras (now renamed Chennai) and Calcutta (now renamed Kolkata) over two centuries bypassed development in the rest of the country ruled by the British. The economy flourished mainly on trade with unjust enrichment and classical port hinterland economics. Some of the larger princely States like Mysore, Hyderabad, Kashmir, Patiala, Indore, Gwalior, Baroda and Jaipur had their own native rulers who made
peace with the British and undertook some development measures within their
kingdoms.

Indian independence was marred by the bloodshed of the partition and the
invasion of Kashmir soon after independence. The constitution was promulgated in
1950. The development agenda focused on infrastructure, national defence, edu-
cation, food security, financial institutions and industrialisation with public sector
investments in steel, railways, heavy machinery, aeronautics, machine tools, elec-
tronics and telecommunications. A blueprint for industrial planning called ‘The
Bombay Plan’ had been made by a group of industrialists before independence.
After independence, the Planning Commission was established and India embarked
on a system of five-year plans in 1951. Planning was alongside the free market
economy where capital was rationed and production of goods and services limited
by licences in a bid to conserve scarce investible capital. During the first three
decades after India became independent, the growth of the Indian economy was
characterised by slow and steady average rate of about 4% per annum which the
Economist Raj Krishna labelled as ‘Hindu rate of growth’. The trauma of political
invasion by a trading company, the East India Company, had reinforced an
‘invader-in-the-mind’ mentality that fuelled xenophobia. This period was marked
by an anti-trade rhetoric of self-sufficiency and self-reliance that guided industrial,
trade and investment policies until 1991. This accounts for the large protected
domestic sector that was opened to competition of the rest of the world for the first
time in the 1990s with economic reforms associated with facilitating liberalisation,
privatisation and globalisation. In 1991, the industrial licensing system was abol-
ished and foreign direct investment welcomed.

Since 1991, production, investment and trade have grown rapidly and relent-
lessly and confirmed the appropriateness of the policy change decision. Only a few
domestic businesses collapsed confirming the competitive strength of the domestic
industrial base. Growth of the Indian economy accelerated from 6% per annum
during 1985–90 to 6.8% during the five-year period 1992–97 reaching a high of
7.5% per annum during the period 1994–95 to 1996–97. The drop to 5% annual
growth in 1997–98 was mainly due to a bad year in agriculture (with −2% change
over the previous year, including high drama over onion shortage, an important
ingredient of Indian cuisine) and some slowdown in a few sectors of industry such
as mining. India’s 5% annual growth rate was among the highest growth rates in the
world economy of those times. Since then, the GDP growth rate continued to be in
the range 5.5–7.5% reaching a peak of 9% in 2006–07 before the global financial
meltdown of 2008. The period after that witnessed a return to high GDP growth
rates, and the current annual growth rate of 7.6% is the highest among all major
economies of the world.

The years of democratic self-governance since independence brought about
remarkable transformations. Poverty ratios have systematically and continuously
dropped, although the number of the poor remained the same due to population
increases. During the period 1973–98, the poverty ratio declined from 55% to under
33%, an indicator of rising distributive shares in private consumption. On current
trends, poverty ratios are estimated to reach near zero sometime between 2030 and
2040 depending on the growth rate. India’s consumer base is highly diverse. About 587 million of its population belongs to the economically active age group of which about 40 million are considered involuntarily unemployed on the basis of registration.

A daily wage of about INR 400 per day (the average minimum wage equivalent to 5 Euros) in India corresponds to a basket of consumption of Euro 400 per month in Finland (approximately equal to the minimum income support for one person in Finland). India’s price level (for equivalent quality) is generally lower for food and beverages and clothing and transportation but higher than Finland for industrial goods, consumer durables and housing. The differences in post-tax salary incomes in India are 100:1 between the highest paid and the least paid salary earners. In 2018, just under 350 million of India’s 1.32 billion population consumed to the average European consumption standards. However, this figure is the same size as the EU market, although the effort required in preparing to access this market may appear a formidable complex endeavour to small overseas firms. Indicative of growth conditions in domestic consumer durables is the production of consumer electronics (production of mobile phones, television sets growing annually at 25%, watches and cameras by 20%, VCRs and washing machines by 8%), and the growth in education, health, construction, tourism and telematics is indicative of the expansion in services where private rates of return exceed those in manufacturing.

Spatially dispersed industrialisation has witnessed the growth of 35 major urban centres and thousands of industrial sites because the planning model spaced diffusion of technology and public investments across the country. State governments reinforce (through their elected legislatures) industrial policies concurrently with the central government as well as autonomously. Comprising a mix of public and private investment, the industrial structure reflects a production base that is large, growing and comprehensive. Competition policies and performance criteria reinforced after revoking the industrial licensing system in 1991 successfully limited losses of public enterprises whose profits in 1997 and 1998 exceed expectations. After weeding out sick public sector enterprises (PSEs), all except seven of these firms make profits under conditions of competition from the private sector. The nine best ones are colloquially referred to as ‘navratnas’ (nine jewels). This is a different situation from countries where wholesale privatisation is regarded as the only solution to an ailing public sector. Public enterprises will continue in India (with revenue-raising equity divestments to reduce government participation to under 49%). No new investments are being made to promote public enterprises in any industry where private investment is adequate from a development and consumer perspective.

The high growth sectors are energy, transportation, infrastructure, chemicals, construction and machine-building. IT, food and beverages, chemicals, electronics, iron and steel, metal manufactures, textile manufacturing and handicrafts are the fastest growing export sectors. The stock market is a major source of funds for industrial capital through invited public subscription besides private equity, consortia equity, credit lines and term loans from banks and financial institutions. As many as 1,088,780 active companies were registered under the Companies Act.
which points to the likelihood that several of them could have potential interest in developing business relations outside India. There are 21 stock exchanges in India where companies can be listed for trading. Financial institutions (like Unit Trust of India (UTI), Industrial Development Bank of India, Industrial Finance Corporation of India) combine features of widely held mutual funds with merchant banking and as sources of venture capital. A speculative run on UTI in 1998 in the wake of the Asian crisis demonstrated the resilience of this institution when it absorbed a loss of INR 101.48 billion in the year ended June 1998, remained profitable and paid higher dividends to its investors.

In India, the commercial vehicle sector and the petrochemical sector are usually good indicators of industrial growth in times of uncertainty because of their linkage effects with other sectors. Both have registered sharp uptrend in production during 2010–18. Steel, cement, hotels and paper industries also indicate a distinct growth upsurge. The real estate market is buoyant, and the construction industry is booming. An export slowdown in 2018 occurred partly because of slowdown in the world economy and also because the accelerated growth rates in Indian trade and investment following euphoria over new policies are settling down. This reflects a more mature phase towards full capital account convertibility in future of a currency that has already been made convertible for trade and current account transactions.

The strain on public finances to sustain rural development and the capacity of the financial sector to keep pace with internationalisation remains unclear, though no Indian banking company has ever collapsed. The statutory capital adequacy ratio in India is 2% higher than the Basel international norm. No foreign debt obligation has ever been reneged requiring renegotiation. The expansion of trade and technology diffusion in a market-driven mode remains important as India balances the needs of its poor with the aspirations of the growing middle class and the imperatives of internationalisation.

Actions to liberalise the foreign direct investment (FDI) regime helped increase FDI inflows by 20%. Fiscal deficits, the current account deficits and inflation were all higher than before, reflecting in part higher international oil prices. Demonetisation did not succeed in extinguishing the stashes of black money that it targeted and over 99% of the currency was swapped with new notes. But it yielded considerable information to target better fiscal compliance in future. The tax base almost doubled between 2014 and 2018. Another irritant, the facilitating of ‘exits’ and asset restructuring had been one of India’s intractable challenges, evoking the generalisation that India believed in perpetual reincarnation and metamorphoses of ailing enterprises moving from licensed socialism with limited entry to competitive markets without exit. The new time-bound insolvency resolution process is now in place to correct this.

India has two chronic macroeconomic vulnerabilities; India’s fiscal and current accounts both tend to deteriorate when oil prices rise. This is also true in Finland. This mutual lament can be jointly addressed with new non-conventional energy projects in both countries by leveraging the technologies that each country has developed. Addressing the current account vulnerability requires raising the trajectory of export growth or increasing returns from foreign direct investment.
Finland no longer has the instrument of currency devaluation to boost exports because the Euro is governed by the European Central Bank and countries like Germany which have ambitious FDI programmes would not favour a weak Euro. In India, there is always the temptation to let the rupee depreciate in a bid to stimulate exports although that is myopic because it also makes imports, outward FDI and remitted factor earnings from India more expensive.

Internationally competitive manufacturing has been a goal of the Make in India programme, but the declining manufacturing export–GDP ratio and manufacturing trade balance indicate that Indian manufacturing lacks productivity and is import-dependent. Public auctions for spectrum, coal and infrastructure projects introduced some transparency, but they also came in for criticism because the shift from ‘crony socialism to stigmatised capitalism’ (as the Economic Survey 2017–18 puts it) continues to show up business houses close to politicians in power grabbing many new contracts. This produces incessant clamour for investigations to be undertaken for unearthing wrongdoings.

**International Orientation of Indian Firms**

Indian firms initially developed their international orientation from trading in primary commodities (cotton, jute, rice, minerals, gems and jewellery, spices, tea, rubber, etc.) and in manufactured textiles and chemicals, slowly diversifying into a range of manufactured goods. The main motive was the earning of foreign exchange to finance firm-specific imports under an exchange control regime. It was not unusual for a light engineering firm to be exporting tea or shrimps or bras as a side business. European and American multinationals, some of which (like Unilever, Colgate, Nestle, BAT) had a presence predating independence, were mainly in consumer products marketing supported by international brands and manufacturing. They thrived under the licensing system because equal treatment of incorporated entities also afforded them protection from competition. Engineering firms like Larsen & Toubro, Siemens, Andrew Yule represented foreign investments in industrial products and were also protected like their public sector competitors.

The direction of trade as well as its composition did not change much until the 1970s when the construction boom in the Middle East diversified into trade in construction equipment and services and the Indo-Soviet Treaty expanded trade under rupee-rouble arrangements. The software boom since the 1980s increased the proportion of service trade with the North American region. Business contact with Japan expanded after 1984 and led to expansion of electronics trade and trade in automobile ancillaries and engineering with Southeast Asia and East Asia. Bilateral initiatives increased EU-India trade in the direction of Germany and France which sought to challenge UK’s special position with respect to historical ties and Germany became India’s largest trading partner in the 1990s. The South Americas and Nordic Europe remained neglected, and India’s large and growing sheltered
domestic market provided no incentives to search for new export markets until 1991. The stock market expansion, first in the 1970s on the back of mandated Foreign Exchange Regulation Act (FERA) dilutions and in the 1980s with expansion of sectors like petrochemicals and a whole range of consumer durables called ‘white goods’, did not require firms to seek capital abroad. The first Eurobonds and global depository receipts (GDRs) were raised in 1992–93. Euro issues by Indian companies are miniscule. About 400 additional foreign companies from the EU register in India every year, and each is involved in an average of five collaborations.

The duty drawback facilities, tax exemptions, foreign trips and easier access to rationed foreign exchange weighed prominently among the motives for international business among Indian entrepreneurs. Asian cities like Bangkok, Singapore and Hong Kong and English-speaking East Africa were the mainstay of Indian traders. Trade with UK, Germany, France, the Netherlands, Sweden, USA was the province of large Indian firms (business houses like the Tatas and Birlas) and multinational subsidiaries and joint ventures. Among India’s trading partners, the top five countries with which India has a negative bilateral trade balance are China, Switzerland, Saudi Arabia, Iraq and South Korea. The top five countries with which India has a surplus trade balance are USA, UAE, Bangladesh, Nepal and the UK.

India’s highest trade deficit is with China. China’s share in India’s total trade deficit increased from 20.3% in 2012–13 to 47.1% in 2016–17, and it stood at 43.2% in 2017–18 (April–September). According to the Economic Survey 2017–18, India’s major items of imports from China are telephone sets including mobiles, automatic data processing machines, diodes and other semiconductor devices, electronic devices, chemical fertilisers, etc. India’s major items of exports to China are cotton yarn, copper and copper alloys, granite, aluminium ores, other fixed vegetable fats and oils, cyclic hydrocarbons, cotton, polymers and iron ore. In the case of Switzerland, the trade deficit is mainly due to import of gold. This deficit has fallen in the last two years. Moreover, a part of it is used in exports. In the case of Saudi Arabia and Iraq, the deficit is due to crude oil imports, while for South Korea it is due to import of electrical machinery and equipments and iron and steel3 (Economic Survey 2017–2018 Chap. 6, 2018).

Invisibles in India’s Balance of Payments

Information technology (IT) and IT-enabled services have opened up a huge market spawning a burgeoning skilled labour force. The contribution of earnings from invisibles in India’s external account is an important balancing factor in India’s trade. Net invisible earnings that were less than €3 billion until 1993–94 rose to

over €24 billion by the year end March 2005 and were estimated to be about €90 billion in 2017–18. IT services have driven this increase. Net invisibles have grown at an annual rate of 15% in dollar terms during 2000–2018. The annual growth rate of merchandise exports during the same period was about 9%.

Net invisibles surplus fell from US$118.1 billion in 2014–15 to US$107.9 billion in 2015–16 and US$97.1 billion in 2016–17. However, in the first half of 2017–18 there has been an increase in net invisibles surplus to US$52.5 billion from US$45.6 billion in the first half of 2016–17, with increase observed in both net services and net private transfers. Net service receipts increased by 14.6% on a year-to-year comparison with the first half of 2017–18, primarily on account of the rise in net earnings from travel and telecommunications, and computer-related information technology services. Net travel receipts more than doubled, as foreign tourist arrivals increased significantly during the first half of 2017–18. Notwithstanding uncertainties in the Indian IT industry from tougher visa policies in some countries, software exports recorded a growth of 2.3% in the first half of 2017–18 and the weaker rupee after August 2018 will actually boost profits of Indian IT companies. According to the official statistics of the Government of India, private transfer receipts, consisting chiefly of remittances by Indian diaspora working abroad, increased by 10% to US$33.5 billion in the first half of 2017–18 over the corresponding period of the previous year.

According to the World Bank (2017), India is one of the major recipients of cross-border remittances, followed by China, the Philippines and Mexico. However, the private transfers (gross) inflows to India declined by 6.1% in 2015–16 and 6.5% in 2016–17. This was due to constrained labour market conditions in the source countries, particularly Gulf Cooperation Council (GCC) countries, largely caused by the fall in international crude oil prices. Gross private transfer inflows fell to US$65.6 billion and US$61.3 billion in 2015–16 and 2016–17, respectively, from US$69.8 billion in 2014–15. According to the World Bank (2017), the number of Indian workers emigrating to Saudi Arabia (India’s third largest remittance sender) dropped from 300,000 in 2015 to 160,000 in 2016, and to the United Arab Emirates (India’s largest inward remittance contributor) from 220,000 in 2015 to 160,000 in 2016. Total Indian workers outflow also decreased from 780,000 in 2015 to 510,000 in 2016. Among the structural factors, tightening norms of permitting foreign workers in a post-Trump USA, labour market adjustments in Gulf Cooperation Council (GCC) countries and the surge in anti-immigration sentiments in many countries pose some downside risk. But this also means that there would be talent available to go to non-traditional destination countries such as Finland. In 2017, there were 6,595 Indians of all ages in Finland according to Statistics Finland.

The future of India’s policies on investment liberalisation is predicated on the effects of foreign investment on domestic and export growth. Opponents of India’s internationalisation (there still exist critics who desire self-reliance) point to the absence of systematic empirical support for the notion that a higher level of foreign ownership is associated with a higher ratio of export sales. An analysis of firm-level data from 1,000 firms listed on the Bombay Stock Exchange shows that foreign
firms that invested at levels that gave them control performed better than other firms.

The new economic policies of 1991 increased the number of foreign collaborations and foreign trade when 51% foreign ownership as the general rule with automatic approval in 35 sectors and 100% foreign ownership in some sectors (e.g. for establishing asset management companies) were allowed. Between 1970 and 1990, the twenty-year period saw a mere 4,196 foreign collaborations, the corresponding figure during 1991–96 was 9,885 and during 1997–2018 it was 16,112. Foreign direct investment (FDI) inflows have been the largest in telecom, electrical machinery, energy and chemicals which account for just over half of the FDI inflows. Other sectors which have been considered attractive by foreign investors are oil exploration and refining, power generation, transport equipment, chemicals, basic metals, non-electrical machinery, packaged foods and beverages, textiles, construction and leather.

India’s traditional trade with the EU suffered after Turkey joined the customs union of the EU. It suffered again in the aftermath of devaluations in East and Southeast Asia. China, Turkey and USA have larger shares of the EU’s import market for textiles. In leather and leather goods, India remains the leader but faces competition from China, Brazil, Pakistan and USA. In gems and jewellery, Israel, Switzerland and Thailand have the same shares as India. In marine products, India’s export share is smaller than Norway, Iceland, USA, Argentina and Thailand. In electronics, Singapore, Taiwan, Malaysia and South Korea have larger shares. The most unimpressive of Indian export sectors is chemicals where Indian industry is strong and where China’s share of the EU market is four times India’s. In carpets, Iran and Nepal have emerged as major competitors to India for the EU market.

### Home and Host Government Intervention in India and Finland

Government policies at the national level remain important because much of what is depicted as globalisation is actually bilateral or plurilateral. In government-to-government (G2G) initiatives, the Finland–India Trade Agreement was first made in 1967 and the India–Finland Joint Commission constituted in 1974. There were ten meetings in 24 years, but not much was achieved. The governments identified forest-based industries, environmental industries, energy, ports, electronics and software, packaging, cold-chain systems for food processing, power generation and transmission including coal and biomass gasification-based power and mini-hydel power as areas of potential collaboration. According to the Indian government statistics, Finnish investment in India during 1991–96 was INR 385 million but very few of the 57 ‘ventures’ in which it is claimed to have been made could be found and it is possible that this number was a count largely of representative offices and defunct entities.
There are agreements on double-taxation avoidance, promotion and protection of investments, a cultural agreement, an agreement on hand-woven cotton fabrics, an MOU on textiles, an agreement in science and technology cooperation and others in road transport, power and biotechnology. The Department of Science and Technology and the Department of Biotechnology of the Government of India are part of an agreement on researcher mobility. However, for the most part, these agreements have only touched the tip of the iceberg and much more can be done for symbolic connections to become real bridges and networks of value to their constituents by taking bigger leaps.

Following the air service agreement in 1995, a direct flight between Finland and India was introduced by Finnair in 2006 after eleven years. Air India has not asked for a corresponding slot till date. Delhi and Helsinki are now connected by a direct flight of Finnair but the Mumbai–Helsinki flight was discontinued after a short period. Finnair announced a new Goa–Helsinki direct flight in 2017. Most of the passengers on the Finnair flights are transit passengers proceeding to other destinations than Finland, a testimony to the continuing low volume of direct traffic between the two countries. This reflects on the need for processes and scope of outcomes that could raise the level of engagement and economic contact between Finland and India. The picture portrayed by SITRA Report 56 by Grundström and Lahti (2005) that flights to India were crowded with Finnish civil servants and businessmen is far from reality. Finnair flights have been mainly transporting passengers transiting via Helsinki to or from other countries.

Since Finland is a member of the EU, EU-India relations require mention. When UK joined the EC in 1973, India did not acquire the ‘associate’ status like French and Belgian ex-colonies and was considered a major independent country like Brazil and China. India was the first Asian country to sign a cooperation agreement with the EC but when EC-ASEAN and the EC-Gulf Co-operation Council agreements were made, despite an exhortation from the European Parliament for an EC-SAARC agreement, nothing happened. EC preferred to develop an India policy rather than a policy for the entire South Asian region on grounds that SAARC was not a viable economic grouping and that the Union of India comprising States shared many characteristics and problems with a uniting Europe.

The most significant government policy changes in India occurred in 1991 when industrial licensing was abolished, public sector reservations were removed, tariffs were reduced, the capital market was opened to foreign investors and India became a member of the Multilateral Investment Guarantee Agency. The adoption of a long-term fiscal policy is accompanied by financial sector reforms and bilateral investment promotion agreements with 46 countries (which include other Nordic countries but not Finland) together with a package of investment incentives for foreign investors. India’s package of incentives is unusual because it includes land subsidies, tax holidays, duty-free imports for exporting industries, zero tax on export earnings and equal treatment of foreign companies.

An important area of resource allocation predictability in Indian growth lies in the planning of public expenditure outlays for planned infrastructure development.
Opportunities for firms—domestic and foreign to provide the goods and services for which resources are allocated are transparently known from the host government’s declared intentions supported by budgetary outlays, including but not limited to national public finances and multilateral agencies. This neutralises any adverse impact in the pro-cyclicality of the alternative, foreign portfolio investments.

India’s declared intent to develop resources in agro-climatic zones should be of particular interest to Finland. The worldwide fibre shortage (especially hardwood fibres) is critical for the pulp and paper industry firms irrespective of where they manufacture. This can be solved with new commercial eco-friendly forest plantations in India in the sub-Himalayan regions which stretch from Himachal Pradesh through Uttar Pradesh, Uttarakhand, Bihar and West Bengal to the North-Eastern States of Arunachal Pradesh, Assam, Meghalaya, Manipur, Tripura and the Andaman and Nicobar Islands. Afforestation of Himachal Pradesh is a declared priority. Sweden’s SWEDFOREST has already carried out pilot projects in five States and established the feasibility of commercial forestry without compromising on the environment protection aspects.

The planned outlay for telecommunication is another area. The investments allocated to construction of new urban areas and to railways, ports, airports, roads, environment, forestry and wasteland development, power generation, biomass production, development of islands translate into numerous business opportunities. The planning framework covers all States and Union territories. These opportunities are available to firms, small and large, although the capacity to reap best advantage rests with large companies that typically diversify their involvement geographically to many locations achieving scale economies in management costs as well. The asset growth of the twenty largest firms in India reflects this. For example, the engineering giant Larsen & Toubro increased its asset base, with the help of projects to six times its size every decade since the 1990s. Every large firm among the top 20 firms increased its asset base at least fourfold. The average profit-after-tax of industrial units ranged between 12.6% and 17.5% of capital employed.

Finland’s export diversification to Asia occurred in the aftermath of a double devaluation, the sharp reduction in trade due to the collapse of the Soviet Union and the banking crisis, all during the period 1989–91. Hong Kong, Thailand and Singapore were the main target markets, partly because there was Finnish government support for these markets and because Finnish business people found it easier to visit and relate to Singapore, Bangkok and Hong Kong as cities. In the aftermath of the East Asian crisis, much of the trade in these export markets collapsed and there has been a shift in interest to locations like Shanghai, Hanoi and the Indian cities of Hyderabad, Pune, Bangalore, Chennai and towns like Surat and Rajkot in Gujarat, Cochin in Kerala, Visakhapatnam in Andhra Pradesh, Kansbahal in Orissa, Ranchi in Jharkhand, Kashipur in Uttarakhando and Baddi and Kasauli in Himachal Pradesh.

The identified areas of economic and industrial growth in the two countries offer considerable scope for synergies, but this synergy requires to be developed and facilitated. With changes in the role of government, industrial and commercial activity is increasingly left to private initiatives in both countries. Firms need to
consolidate their techno-commercial feasibility analysis on new projects through structures of support they require to build based on greater awareness of how macroeconomics of demand and supply interactions in the two countries have micro-economic underpinnings related to these synergies.

For Indian firms to regard Finland as just another part of Europe would be a mistake just as it would also be wrong for Finnish firms to regard India as just another part of Asia or a homogenous territory. Nordic Europe can be distinguished from other parts of Europe on many dimensions and the five nordic countries (Denmark, Finland, Iceland, Norway and Sweden) have their own unifying features in common. In the Union of India, each of the 29 states much like the EU-28 has characteristics that distinguish them from one another, institutionally, culturally and economically. The motives and powerbases of host and home government with respect to industrial policies, FDI, markets and institutions need to be analysed for all the promising areas of identified synergy. To know what opportunities are feasible thus acquires more importance and could precede developing forms of business and the structuring of investments because pursuit of preconceived preferences may actually limit mutual trade and investment out of roadblocks and risk averseness. Indeed, we shall examine later in the book how perceptions differ in both countries from the reality of appropriate entry criteria.

EU firms have been the biggest investors in India. Home countries most strongly represented from the EU in order of magnitude of investment are UK, Germany, the Netherlands, France, Italy and Sweden. The liberalisation of the financial sector drew 23 foreign banks into India, of which 8 are from the EU. The privatisation of the insurance sector has also drawn European insurance firms to India. Over 75% of all the foreign investment went to Maharashtra, Telangana, Andhra Pradesh, West Bengal, Tamil Nadu, Delhi, Gujarat, Orissa and Karnataka. The pace of implementation was fastest in Andhra Pradesh, Gujarat, Madhya Pradesh, Tamil Nadu and Haryana and slowest in Karnataka.

The level of preparedness among Indian firms for doing business in and with European firms varies widely. The star trading houses and manufacturing enterprises have been content with modest volumes and participation in European fairs and exhibitions. Bilateral initiatives are strong in trade and investment links with Germany, France, UK and Sweden. According to the Economic Survey 2017–18, the five largest exporting States in India are Maharashtra, Gujarat, Haryana, Tamil Nadu and Karnataka and the five largest importing States are Maharashtra, Tamil Nadu, Uttar Pradesh, Karnataka and Gujarat. The states with the largest internal trade surpluses are Gujarat, Haryana, Maharashtra, Odisha and Tamil Nadu.

India and Climate Change

India has a wide range of climate. It is possible to experience temperatures between minus 35 °C and plus 40 °C on any day of the year depending on where you choose to be. Certain regions are extremely arid with negligible rainfall, whereas
others, like coastal areas and dense forests of the North-east and the Western Ghats, have high humidity and heavy rainfall. The seasonal distribution also varies because the country has some of the world’s highest snow-capped mountain ranges in the Himalayas but also plains, plateaus, hilly terrains, deciduous forests as well as mangrove forests, deserts and low-lying marshlands. In the past hundred years, the average maximum temperature has risen by one degree, and at this rate certain coastal land areas in some regions, particularly on the Eastern coast around Puri, could get permanently inundated by rising sea waters. The Eastern coastlines and the Southern Peninsula are vulnerable to frequent storms with gale force winds, cyclones and occasional tsunamis.

In August 2018, the unprecedented inundation of Kerala and Karnataka in the South and Nagaland in the North-east wreaked havoc and reminded everyone of the urgency and significance of addressing issues related to climate change. Yet, there were parts of Gujarat, Rajasthan, Madhya Pradesh and West Bengal that suffered from drought during the same period. Extreme rainfall events (more than 100 mm in a day) are increasing at a decennial growth rate of 6% during the period 1901–2018. India has engaged seriously with actions under the UN Framework Convention on Climate Change and in developing guidelines for implementing the Paris Agreement on Climate Change. In 2018, the Conference of Parties (COP 24) at Katowice also witnessed India’s continued support to international commitments. This augurs well for Indo-Finnish potential collaboration on matters of climate change and has potential to be expanded beyond bilateral benefits towards developing third-country business as well.

The Indian Economy’s Trajectory

Trade and foreign direct investments play an important part in India’s economic growth. According to India’s National Accounts Statistics, the ratio of gross fixed capital formation to GDP rose from 26.5% in 2003, to a high of 35.6% in 2007, and slid to 26.4% in 2017. The growth rate of capital spending by the government (at current prices) increased from an average of about 7% in 2012–13 to over 21% in 2015–16. The share of private corporate sector in total investment increased from 36% in 2011–12 to 41% in 2015–16 making it the largest sector investing in the economy.

The Economic Survey 2017–18 provides details of new infrastructure investment outlays many of which will involve the private sector. In roads, these include new national highways (NHs), for converting state highways (SHs) into NHs. As of September 2017, the length of roadways was 115,530 km of NHs along with 176,166 km of SHs and 5,326,166 km of other roads. A new umbrella programme, ‘Bharatmala Pariyojana’ (meaning Circumambulatory India Garlanding Scheme) for holistic highway development, is progressing well. Indian Railways is also expanding capacity and performance. During April–September 2017, Indian Railways carried 558.1 million tonnes of revenue earning freight. About 425 km of
metro rail systems are operational and about 684 km are under construction in various cities across India.

In ports, cargo traffic handled at major ports during 2017–18 was 643 million tonnes. Under the Sagar Mala Programme for port-led development along Indian coastline, 289 projects worth €31 billion are at various stages of implementation. In telecom, under ‘Bharat Net’ and ‘Digital India’ programmes aimed at converting all of India into a digital economy, by 2017, the number of subscribers had reached 1,207 million (502 million in rural areas; 705 million in urban areas). In civil aviation, the growth rate was 16% on a passenger base of about 130 million with new initiatives on air services, airport development and regional connectivity with the UDAN scheme with an affordable fare level. In power, the installed power generation capacity in the country reached 330,861 MW in 2017 and there is a target of 100% electrification by 2019 with a new scheme, Saubhagya (Pradhan Mantri Sahaj Bijli Har Ghar Yojana).

The response from foreign investors speaks for itself. According to the Economic Survey 2017–18, the FDI equity inflows grew by 8.7% during 2017–18. Total FDI inflows grew by 8%, i.e. US$60.08 billion in 2016–17 in comparison with US$55.56 billion of the previous year. This was the highest FDI inflow ever for any particular financial year. In 2017–18, till September, the inflow of total FDI was US$33.75 billion. In terms of share in FDI equity inflows, Mauritius, Singapore and Japan have been top three countries in India contributing 36.17, 20.03 and 10.83% of the total FDI equity inflows during 2016–17. In terms of the sectors receiving FDI equity inflows, services (finance, banking, insurance, etc.), telecommunications and computer software and hardware have been the top three sectors with a share of 19.97, 12.80 and 8.40%, respectively (Chap. 08, Economic Survey 2017–18).

The policy environment in India has maintained the direction of economic liberalisation and growth despite changes in the character of coalitions that formed the government between 1991 and 2014 when the BJP came to power with its own majority. Macroeconomic, industrial, financial, trade and fiscal policies have been stable, consistent and predictable, and there has not been any major economic crisis since 1991. Company law reform, implementation of competition policy, simplification of asset restructuring, introduction of nationwide general sales tax, rationalisation of tax rates including GST slabs, speeding up of bankruptcy and insolvency procedures, allowing foreign participants (foreign institutional investors) in both equity and debt markets, removing restrictions in foreign direct investment, reduction in tariff and non-tariff barriers, and an exchange rate policy sensitive to market conditions are some of the important reforms that have provided enterprises a more liberal operating climate.

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4The FDI inflows to India from Mauritius and Singapore contain inflows from many other countries that are routed through these two countries for fiscal advantages and ease of control.

The direction of policy changes is transparently predictable. Government policies are expected to accelerate development by balancing what markets can do with where the government needs to intervene for the well-being of weaker and poorer sections of society by providing resources for sanitation, health care, education and basic infrastructure services with social safety nets for the economically disadvantaged.

The changing economy is characterised by shifts in the pattern of consumption by households. The consumer expenditure surveys conducted by NCAER reveal that this is so for both urban and rural households. This is reflected in the high growth sectors of organised manufacturing activity which are petroleum and plastic products, food products, transport equipment and chemicals and pharmaceuticals. If we go by gross fixed capital formation rubber, plastic and petroleum products followed by wood and wood products (including furniture and fixtures) and beverages, tobacco and related products are the other groups representing the highest growth of investment (gross fixed capital formation, GFCF). Energy (in the form of the oil bill) dominates India’s imports, although capital goods also feature prominently. The European Union and the USA are the largest trade partners for India, but China is emerging as an important source of imports as well as a destination for exports. Even the traditionally important partner, Japan, has been overtaken by China in volume of trade.

The Indian Capital Market has expanded manifold since the liberalisation of the Indian Economy in 1991, and there are several hundred public issues every year that raise capital in the form of equity from the public and institutional investors. In the 12-month period 2017–18, there were 214 public issues that mobilised about €17 billion from the public. The benchmark index of the Bombay Stock Exchange (BSE), BSE SENSEX, stood at a high of 36,778 points as on 1 February 2019, witnessing a gain of 24.2% from its closing of 29,621 points on 31 March 2017. NIFTY 50, the benchmark index of the National Stock Exchange (NSE), closed at a new high of 10,893 points on 1 February 2019, witnessing a gain of 18.7% from its closing of 9,174 points as on 31 March 2017.

Compost Heap of Indian Politics

In the country section on Finland in this chapter, the political spectrum of parties was described together with their declared manifestoes. This is difficult to replicate in describing Indian parliamentary politics for three reasons. First, the number of political parties is large (2,044 in 2018) and there are numerous strong regional parties alongside national parties. Secondly, besides the central government and the Parliament of India in New Delhi, there are as many as 29 elected state governments with assemblies to make laws and 7 union territories—some of which also have elected assemblies that can make laws. Thirdly, the Finnish parliamentary system is unicameral, whereas the Indian system is bicameral with representation in the Upper House (Rajya Sabha) also playing a part in voting on proposals requiring
majority support from both houses of Parliament and the representation in the Rajya Sabha is indirect on the basis of seats held in the State Legislative Assemblies.

Yet, the Indian system is unitary, not federal, with residuary powers vesting in the union unlike the USA where residuary powers vest in the states. Anyone intending to do business in India should get familiarised with what subjects are legislated exclusively by the centre and which subjects are only legislated by the states. There is also a Concurrent List of subjects on which the centre and the state can both make laws. We will return to this in Chap. 7 after discussing institutional diversity. For now, to understand the shifting sands of alliances in Indian politics, we may use the analogy of a compost heap in ferment to point out the following elements around which coalescing crystallisations can be noticed:

Heap 1 The Congress and its ‘allies of convenience’ proclaiming commitment to secular ideology, inclusive growth, pro-human rights protection for minorities with a nationalism notion grounded in pluralism packaged with expectations that the voters are eternally grateful for the Congress-led freedom struggle for India’s independence as the basis for family claims to continuing dynastic control over the party; tainted by allegations of scams in coal block allocations, telecom spectrum auctioning and defence deals, institutional capture and role of party leaders in allowing Sikhs to be killed in Delhi the 1984 backlash after Indira Gandhi’s assassination by her Sikh bodyguards.

Heap 2 The Bharatiya Janata Party (BJP) and its allies with great emphasis on national security, pro-poor schemes, resource allocations for infrastructure, promise of cleaner water, hygiene and sanitation, promises around ease of doing business, claims to clean administration alongside allegations by the opposition parties of crony capitalism. Hindutva nationalism as ideology (cow protection, promises of building a Hindu temple for Rama on the site of the disputed land where a mosque was destroyed in 1992) and exercise of state power to silence protests, curtailment of labour rights, student protests and a declared anti-immigrants stance. Tainted by the killings of Muslims in the Gujarat riots and in police encounters widely believed to have been staged despite acquittals of accused because 94 prosecution witnesses did not depose in court. For the first time in India’s electoral history, there is no elected Muslim in the majority party’s parliamentary representation.

Heap 3 Socialist parties of various hues and vintages such as the Samajwadi Party (which can also be considered as a caste-based party in Heap 4) and the West Bengal-based Trinamool Congress with proclaimed commitment to justice for all and rule of law, secularism and development agenda; appeal to motherhood, strengthening communities at the grass roots, declared concern for dignity and humanity for all, empathy for immigrants. Several political parties in this heap are tainted by allegations of supporting private profiteering, financial scams, mining concessions and preventing candidates from registering as candidates in local elections.

Heap 4 Caste-based political parties such as Bahujan Samaj Party and Rashtriya Janata Dal broadening their support base to include all; special promises for backward classes and castes and an inclusive society with a socialist ideology;
pro-farmers, pro-workers. Tainted by allegations over nepotism, corruption from previous spells in governance and hoarding black money. Seat adjustments and alliances between parties in Heap 3 and Heap 4 are quite likely in national elections.

**Heap 5** Regional parties such as Telugu Desam, DMK, ADMK (factions of the AIADMK), Akali Dal, Biju Janata Dal, YSR Congress, Nationalist Congress Party and Aam Aadmi Party with a stake in allying for power with national coalitions proclaiming a pro-poor development agenda, focus on regional issues, with a history of populist announcements for farmers, women, consumers, particular communities. Tainted by allegations in corruption scandals and flexibility for compromises and horse-trading. Alliances and seat adjustments of Heap 5 parties with parties in Heaps 1 and 2 are more likely, but it is also possible that some of these could ally with parties in Heaps 3 and 4.

**Heap 6** Communist parties trying to renew the appeal of democratic communism independent of Russia and China with a support base from peasants, workers and particularly tribal communities with a reputation for clean administration and good governance but lacking in money power to canvass in elections.

The spectrum of Indian political parties is largely groupable in coalitions around these six heaps. The intelligent reader would be able to identify when the time arises who is in which heap because Indian politicians are very flexible. As the saying goes, ‘A week is a long time in politics’. When an election result does not produce a clear majority, horse-trading ensues involving inducements of ministerial berths or straight cash as the norm. It is anybody’s guess whether the 2019 general elections will produce a majority for any party or whether a hung parliament will witness a scramble for coalition formation in which a national or regional leader could well emerge as a compromise candidate for the position of Prime Minister. Whatever be the outcome, governments with political parties of all hues have remained committed to the long-term economic policy agenda ushered in 1991. And this is why investors and businesses need not expect any radical shifts in economic policy. We leave open for now, the question of how to relate to these heaps that would be discussed further in Chap. 7.

The well-being and prosperity of inhabitants of any small open economy like Finland and any large semi-open economy like India with a backlog of development agenda both depend much on the business know-how of managers of enterprises and public systems to seed and harvest technical and social innovations in international value chains. How, at what cost and with what pace firm access missing markets in world trade can make a difference to reaping scale effects from new designs of cross-border value chains. ‘Made in Finland’ or ‘Made in India’ can be less relevant than ‘Made by Finland’ or ‘Made by India’ if benefits from cross-border inflows of factor incomes (wages, profits, interest, rents) exceed private and public costs incurred for production, marketing and delivery. However, very little is known about how, and how much can be globally harvested by Finland and India from trade-substituting investments and collaborative innovations seeded through local, regional and national initiatives and support mechanisms for players bilaterally in the two territories and through bilateral and plurilateral collaborations.
in third countries. Firms in both countries have hitherto mainly emphasised boosting their own manufactured exports to the exclusion of other modes of international business. Manufacturing technologies are migrating rapidly, and the flexibility inherent in the cross-border dispersal of value chains in a more open environment for trade in goods militates against reliance on manufacturing for sustaining competitiveness except in cases of input-dependent industries located for such reasons. New product-service linkages formed on the basis of combining advantages of aggregation, arbitrage, adaptation and assimilation will make the difference between arenas of sustainable competitiveness and beachheads of collaboration for new synergies.

EU countries that face the twin burden of demographic shock and small domestic markets have the greatest urgency to increase their international flows of goods and services. Finland is the first EU member state to undergo demographic transition, and dependency ratios in more than half of its local communities are beyond sustainable levels. The fertility rate in Finland is well below a replacement rate, and local communities such as Miehikkala are offering incentives to mothers who deliver babies to grow in the community. The stressed sub-national fiscal transfer mechanisms and highly uncertain returns from commercial exploitations of investments in high-technology and knowledge-intensive business services could push Finland into a downward spiral due to a demand-constrained scenario and a 1–2% growth rate per annum in GDP which is considered good by European standards. Due to the limited size of its domestic economy and sluggishness in markets in its neighbourhood (with the exception of Russia), Finland’s high-tech investments can be justified only if leveraged by international flows from afar. The problem is aggravated if Finland’s capacities created in technologies are treated akin to a sunk cost that cannot be salvaged due to a demand-constrained scenario instead of being regarded as productive assets to be developed further. On the supply side, EK is complaining of skill shortages within the country that coexist alongside chronic unemployment affecting one in every three educated persons below the age of 35, after over half of the adult labour force over the age of 50 has prematurely exited the labour market.6

India is not without its problems either despite being one of the top five countries of the world in economic size (as measured by purchasing power parity dollars) and in its rates of growth. The buoyant demand in India for competitively produced industrial goods and knowledge-intensive services has attracted large investments of foreign direct investment that now exceed portfolio fund flows. The most important constraint to faster growth in India is infrastructure (roads, railways, ports, airports, communications and power). The need for creation of new supply capacities for transport infrastructure, energy and environment, machine tools, manufactured consumer goods and the development of new technologies in ICT,

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6Disguised unemployment in the form of further higher education, rotational short-term half-yearly jobs to continue drawing average earnings from wage-earner funds for another two years and an unusually high medical invalidation rate among those above 50 in age to draw early pensions are disturbing signs in a welfare state that provides free education and health care.
logistics, energy exploration, mining, aerospace, biotechnologies, nanotechnologies, telematics, etc., requires productive investments to develop and use new technologies and scale up to compete as a global manufacturing and service hub in a range of industries in a supply-constrained scenario. The obvious complementarities between Finland and India merit a closer look. What started out as a premise of ‘unlikely twins’ has shown up synergies that definitely merit serious prospecting.

Paired country studies of trade and investment potential at a disaggregated level discussed in Chaps. 2 and 3 reveal more than sub-national sectoral analysis from two-digit analysis because boundaries of sectors and clusters have become elastic. Finland’s direction of trade has diversified beyond Germany, Sweden and Russia, traditionally its biggest trading partners, but the success in geographically diversifying its non-EU trade has been modest and achieved at the cost of burgeoning adverse trade imbalances in goods trade with USA and China. India’s direction of trade has shifted away from Europe towards USA, China, the Middle East and East Asia. These developments make it both necessary and worthwhile to analyse the potential synergies between Finland and India in a historical context loaded with many years of mutual disinterest.

The practice(s) of business and the conceptualisation of practices can lead to the establishment of existing traditions as norm or their canonisation in doctrinaire forms without space for exploring other promising paths of the possible by removing impediments in the way of policies and practices needed to succeed in crossing into new horizons. Project modalities with soft targets are the sine qua non of Finnish internationalisation based on advocacy of gradual ‘incrementalism’ in which Finnish firms tend to delay entry. The entry costs are afforded mainly by large and medium firms able to sustain higher costs of such gradual incrementalism in what they perceive to be high-risk environments. Finnish managers have been slow to grasp that successful firms have to get more out of their entire organisation comprising all stakeholders and in arenas of contestation with institutional contexts different from their own. Indian businesses have also been slow to prospect business opportunities in Nordic Europe partly because of comfortable avenues of growth in the domestic market but also because they have tended to look mainly to English-speaking countries for low-hanging fruit in doing business abroad in the Middle East, Africa and Southeast Asia.

**Industry–Academia–Government Partnerships**

A significant part of R&D in both countries is done through business–government partnerships and business-academia collaborations through higher education institutions and research laboratories. However, such partnerships are organised very differently in the two countries. The government-to-government, academia-to-academia and business-to-business relations between Finland and India can be strengthened in three ways:
There is a need to support an ongoing process to know where the shoe pinches businesses and the rest of society in the two countries and to examine what may be done about it. This is best done with action research and dialogues through the creation of an institution spanning both countries where all three constituents, governments, business and academia are represented as partners in the cause of Finland–India Economic Relations to mitigate policy impediments and practical hurdles.

The awareness deficit about the other country’s institutions, culture, practices and more specifically the gap in knowing where synergies can be beneficially prospected at micro-level requires constant updating, information sharing and knowledge creation. Access to knowledge about the social and technological innovations in the two countries is a prerequisite for designing sustainable value chains and structuring organisations as containers of hope for economic value.

It is impossible to plant an economic orchard in India’s institutional desert if the people do not develop a sense of belonging and commitment to the communities of habitat they reside in. It is equally impossible to preserve Finland’s welfare system if it deteriorates into an economic graveyard where the interests only of residents in the national capital region of Helsinki are safeguarded. The recognition of this truth which is not so self-evident would go a long way in supporting what Finland and India can seek from and extend to each other on the basis of collaborations.

The resource bases and opportunity horizons in the two countries differ in stark contrast to the point of potential complementarity. It can be profitable to explore that. To quote Moominpappa in the Finnish fantasy book ‘Exploits of Moominpappa’ by Tove Jansson, are you curious to open “a new door to the Unbelievable, to the Possible, a new day that can always bring you anything if you have no objection to it”? 

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