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# Sustainability of Finnish Economy in the European Union

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<p>The work focuses on Finnish economic sustainability in European Union. The main points the work is aiming to bring across, is how Finnish economy is effected by various legislations and policies of the European Union as well as are these policies and legislations sustainable in the Finnish political and economic system. The work aims to bring different views of self-sustainability as well as bring across the point of importance in strategic sustainability and self-sufficiency in economy. Examination of viability of the uniform European Union policies as well as implementation of all in one legislations and regulations are discussed and their viability criticized in relevancy to smaller countries such as Finland. The paper aims to deliver an argument about the downside of Finnish union membership and the viability of economic, legislative and politic independency of Finland, in order to retain economic sustainability. The role of large multinational corporations and the modern neoliberal market view is taken in large consideration and its effects of Finnish economy along with the place of Finland in the Economic Union. Shift of industry to service based from agricultural and manufacturing based is looked into as well, along with the importance of balanced industrial structure for sustainability. The effects of this trends and the outsourcing of Finnish companies and tax planning is taken in account when examining the sustainability aspect.</p>	
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## 1 Introduction

This thesis will look at the Finnish economy in a critical perspective, and evaluate whether the political, economic and social structures of the country are sustainable and offer alternatives to the current structures and methods. The first chapters of the work will look into the current system and identify key factors and aspects to lay a foundation for the thesis.

During the past few years the European economy has been facing fluctuations and financial crisis. The thesis will go in depth regarding the Finnish economy and assess the current economic factors and their effects globally as well as on the European economy. The main point and emphasis of the work will be on the sustainability of the Finnish economy in the present political and economic environment.

Given the volatility of the economy, increasing globalization and European monetary union, the work will analyze a single economy and its adaptability to further globalization and centralization of economy into economic union in the context of the effects of global economic crisis. The work will also focus on the development of the economy in the past and the direction in which the economy is possibly headed in future. Recent events, such as changes in economic structure, outsourcing of labor, and loss of industries, such as electronics, mobile phone, wood and pulp industries, provide a good rationale for analysis of the subject.

Due to the ongoing outsourcing of businesses, economic structural changes, the eurozone crisis and centralization of economy to the larger economies in EU, such as Germany, the thesis provides up to date insight on the economic and political situation in Europe and Finland. The emphasis of the research will be on the sustainability of the European economic system and the effects on the smaller economy of Finland.

The thesis will discuss and attempt to answer the question: How can Finnish economy be sustainable amidst ongoing globalization?

The globalization in this sense will be narrowed to the globalization of politics and loss of autonomy to EU policies and the effect of liberalised markets on the Finnish economy,

by outsourcing elements of industries to lower cost countries. The thesis will discuss the effect of such transition, and the potential costs and benefits of such developments for Finnish society.

## 2 Main Aspects of sustainability

Sustainability can be perceived in economic terms, as of profit and economic growth. However, while looking at a political and national entity, the sustainability of a nation-state in this thesis will be viewed from the perspective of how the political economy can provide welfare, services, employment as well as degree of autonomy along with strategic sustainability. These factors will be discussed more in depth. These points will be the main points of sustainability for Finland, as a social democratic country and model. Due to the Finnish unique geographical position, importance of trade with Russia, development of social welfare states and Finnish economy's development history, the Finnish economic sustainability should be looked more in to. While it is clear that neo-liberal market policies are widely accepted and recognized in the Finnish economy, the structure of the country and welfare is situated along the more social-democratic system. It can be therefore argued that the mixture of the mentalities and economic practices can cause loss of sustainability. Therefore this aspect will be examined as well as the effect of outside factors, such as the European-union to the effect of economic policies.

### 2.1 Finnish economic structure

The Finnish economic structure has been shifting during the past decades steadily to a more service based economy, and is continuing to do so. According to VATT Institute for economic research, Finnish economy structure has shifted to majority of service based structure of 60% in 2011. (VATT, 2011:2) Meanwhile primary production and refining is steadily declining. The reason for such trends can be seen as a result of ongoing globalization, improved logistical capacities and growth of emerging economies as well as increased investments by Finnish companies that previously operated in Finland, to the emerging economies. In addition to this, the wage levels of the emerging economies compared to Finland make it more profitable to outsource production abroad and reduce employment in Finland. While companies will find this profitable, the sustainability effect of such action remains questionable. While such offshoring and outsourcing keep the Finnish manufacturing companies profitably in the competition along with other Nordic and European companies, the other side of the coin is decreased employment, investment and decline of industries within the home country.

While the service based economy would seem to be an indicator of a modern highly developed western country, the structure itself might not be sustainable in the end. Countries with a strong economic foundation, such as Germany, United States and United Kingdom would benefit from such economy, as the outgoing investments would bring back yield with higher leverages due to higher volume of investment. However, a country with substantial debt and no leverage from strong financial sector, export capabilities or other strong points of economy, would not benefit from such model, as it would furthermore weaken its domestic economy by shifting jobs and industries abroad. Due to Germany's strong export capabilities and strong geographical position to exploit high amounts of export and United Kingdom's strong financial sector, it should be taken into account, how do these countries fare on the same grounds and legislations as weaker EU countries. However, many large companies have to follow this model, due to increased drive of being profitable or by losing their markets to competitors. Therefore it would be argued, that the current neoliberal model would benefit only the countries with strongest economy and largest reserve of money, as money tends to gravitate towards money. The cumulative force caused by such trend could result in volatile cycles in economy, causing further instability. In the case of less wealthy countries, a certain degree of protection would be necessary, to protect the domestic producers and provide market security.

Currently the government holds key companies in various vital areas, such as post, logistics, aviation, energy, oil and metal industry to name a few. (Prime Minister's Office Finland 2016) Most of these companies are also open to public for trading of stocks and are competing with other companies in their sector (with the exception of Alko, due to the Finnish regulations over distribution of alcohol), making the strategic effect and autonomy of government functions questionable. While it has to be taken in account that the government would be restricting free trade if it would fully own certain functions in Finland due to EU regulations and WTO regulations, some companies should be fully nationalized for sustainable and strategically autonomous effect, such as Russian government majority owned gas & oil company Gazprom or Finnish government majority owned military hardware manufacturing company Patria. Arguments for this idea would be for example the increased synergy between government-owned companies thus reducing conflicts of interest between companies, due to government control with transparency in policies. In addition, this would give the government a possibility to

employ more people on these sectors, as the main driver would not be of being profitable anymore, but sustainable and autonomous.

The main argument against this would be the restriction of free trade and barring of entry to markets by foreign companies. Due to European Union membership and removal of borders, as well as increased privatization in the current economic models in EU and western world, tariffs and other trade protection could be very problematic. The rationale for nationalizing private sectors would have to be justified both economically and politically, if it is even possible at all in the EU. In addition with political difficulties, the nationalization could upset and cause losses to previous shareholders of the companies as well as cause loss of profitability, due to lacking competition. In addition this decreases the desirability of the country to investors in the future. However, the main goal of such policy and action would not be absolute profitability, but national economic security and self-sustainability.

## **2.2 Development in public sector**

The benefit of the current neoliberal market model with limited direct involvement of the state in direct provision of services and goods can be the security of provided services, functions and industries. However, there are a few significant problems with this. The current direction seems to be to divest partial state monopolies and privatization in key areas. In certain areas where there are a lot of entrants to the market or industry, it may provide the consumer with alternatives for cheaper prices and healthy economic competition. However, it can be argued that it might be counterproductive and dangerously unsustainable to let large companies with huge financial power enter these previously state-owned sectors. While the government's interest may be to provide infrastructure for necessary services and functions, such as transportation, water and the electricity network, the privatization of such crucial elements may lead into purely profit seeking actions. As state-owned infrastructures, these networks and businesses are usually built and funded by taxes and are built with no profit in mind, instead providing relatively equal access to infrastructure or services both in remote regions as well as main cities in accordance with national strategic policy goals. Therefore, a wide control of such infrastructure of profit seeking businesses, might result in focusing on only the most profitable areas, while ignoring the more remote areas with less usage for



service. In theory, in neoliberal markets this would result in competition of acquiring the previously public services with competition and thus provide better efficiency in the market. While the regional governments and the state can tender out the businesses willing to enter the previously state owned services, it creates the possibility to cut costs in the sector, theoretically making the service more efficient and cheaper as a result of the competition.

It has to be identified however, if the model of competition's presumed success and efficiency is applicable in these cases. In areas like rail transport, water network, electricity network and other infrastructures, where it does not make economic sense to have multiple companies working on these functions, the competition is only limited to the acquisition of networks. Businesses and entities that have ownership of such networks are essentially in a monopolistic position. Competition laws do not apply in this respect, as there are no other competitors for the same function. This provides problems for the government should it attempt to regain control of the situation. Furthermore, such infrastructure is built on tax money, making the transaction of public property to private companies questionable. Stuart Holland discusses perfect and imperfect competition (*The Market Economy*, see Holland 1987), and its importance in the multinational companies' management style. It has to be taken in account that such models work only if there are no entities such as the state intervening in the marketplace. In Finnish economic policy, the state still plays an important role, although less than ever before. Nevertheless the model of neoliberal markets or free trade is not applicable in its current sense in these previously state monopolized areas, as instead of free trade, this would create powerful monopolies and ways of exploiting tax-funded government built infrastructure. Therefore, importance should be stressed on the fields that are easily acquirable by outside investors, to step in into a role that was previously owned by government, and create an environment where cartels, monopolistic or restricted competition can arise.

Therefore, a company with enough capital can buy off easily its competitors from the bid of acquiring a crucial public service or function, with a generous, potentially unprofitable bid, in order to buy the whole function. This kind of investment brings no profit value, but immense long-term strategic value to the trade. With the current economic policy of Finland shifting from holding and maintaining to privatization and cutting costs, this places many sectors at risk of private acquisition, exploiting and

essentially replacing state ownership with profit-seeking monopolies, oligopolies or cartels. The current model does provide benefits however in the economy, by opening chances for private businesses and entrepreneurs to enter markets where the state left, thus creating more money flow in the economy and taxable profits of companies. The private sector's entering crucial fields should, however be carefully controlled and coordinated by the state, to ensure the same level of service, even spread of service among regions, similar price level and restriction applied to tax planning. However, in order to keep these services running and state owned, the profitability of the businesses and services should be taken in account. In case of no profitability, extra tax would keep these services and companies afloat. Privatization in this case would be a possibility, but the loss of control and possible higher pricing of service would at some point potentially be more expensive than tax covered, government owned service or company. Privatization generates a risk, thus the government should issue a degree of risk control in privatization, or seek other means to control and regulate services.

As the public sector in services and infrastructure is moving to the direction of privatization, including sale to companies, a solution could be to form government-owned companies in the areas where there are none. An example would be a state owned company that runs the healthcare sector. The share structure of the company could be similar, with other state owned companies, such as Neste or Fortum, having majority shares on state ownership, maintaining strategic control over the company, but having the rest publicly traded. This would allow both foreign and domestic investments and funding for the company, as well as keep the function under state control. This could potentially cause a problem in the interest of private entities investing in companies that are state controlled, due to their interests beyond profit though. Having a monopoly or large market dominance though in the sector, would give a significant strategic value of such company for the government, thus increasing value and interest of private investors.

### 3 The state's responsibility as an investor

One of the ways the state is also influencing companies, is investing heavily through the state holding company Solidium. As Solidium's main objective is to "Strengthen and stabilise Finnish ownership in nationally important companies and to increase the value of its holdings in the long run" (Solidium, 2016) the governance takes a very market liberal approach to its involvement. Solidium does not own major share or voting right in its investment companies, therefore it can be seen more as a state investing company than as an actual form of strategic control from the state. Therefore, it can be seen, as the state is investing into the companies via Solidium, while not striving for state control over the companies. This means that the state is funding the companies' activities with state money while not having total control. The money that enters the companies is tax payers' money, in order to fund private enterprise. While the mission of the company is to increase holdings and seek value in investments the companies' governance is not necessarily affected by the state's own economic policy, due to the existence of a private independent company board and market-focused CEO.

When examining the portfolio of Solidium the largest share holdings are concentrated on mining, machinery and metal industry as well as wood and pulp industry. The strategic importance of these companies purely in Finland is questionable. While companies such as SSAB is heavily involved in Sweden, the Finnish government's money can be seen as to be used to make investments in foreign country, due to the ownership of businesses. This conflicts with the mission of Solidium, of having control in strategically important sectors in Finnish industry. The strategy is interesting in itself, as it takes state ownership in strategically important sectors, a socialistic or even *dirigiste* view and fuses it with neoliberal market view, of investing in free market and profit seeking. Due to the fact, that the companies' governance is not in the state's hands, it makes the steering of these companies governance to beneficial actions beneficial to the state less likely.

Looking at the Solidium strategy from a purely profit seeking view point, the portfolio of Solidium is highly risky, as it focuses heavily on certain sectors that will be affected easily by fluctuation of raw material prices (mining and metal industry). In addition the diversification of the portfolio is heavily concentrated on metal and wood sectors (Solidium 2016). From a purely profit seeking point of view, holdings in such companies

would be extremely volatile at the same time, drastically reducing the value. However the companies that Solidium holds a significant share in have a great potential for vertical integration, for example for the machinery companies to provide hardware for the wood and mining industries. The potential has strategic value that might not be able to be valued purely in monetary terms, thus negating the potential volatility of the stock prices of the owned companies. However as the entities in their corporate governance might not be aligned with state's interests in mind, the potential for exploiting such a strategic position is questionable. In addition the anti-trust laws and anti-cartel regulations make it furthermore difficult to benefit from such amount of integration. Therefore, it has to be questioned if it is actually sustainable for the state to invest in companies with only potential for this, but no actual possibility of reaping the full benefits of the potential economically powerful vertical integration of companies.

In this situation, it would have to be assessed whether the economic would in fact be greater if the state would narrow down the portfolio to one company per field and focus on gaining a majority share and focus on the powerful vertical integration, creating a state conglomerate with high involvement in selected companies of interest. This would however give benefit to some companies over others, potentially conflicting with EU legislations and restricting free trade by favoring the state owned ones. Furthermore, the volatility of the portfolio would be even greater by focusing more on the companies that give benefits of integration due to the narrowing of holdings. This would require higher state involvement and possibly integrating direct state economy policies to the companies, conflicting with their own model. As some of the companies are also owned by the Swedish government, there would have to be an alignment in economic policies in order to build solid integration. The main issue would still be the free trade laws of EU, limiting coordinated state ownerships and building of monopolies in these sectors.

As Solidium's strategy is to both retain holdings in strategically important companies as well as making profit, the aligning of these two goals might not work in synergy. In fact it would seem that these two goals impede each other, even negating the strategic objectives. Mainly the point for Solidium is securing holdings of strategically important companies for the state, but this is inhibited by the complexity of the management of these companies due to conflicting strategies. Therefore Solidium cannot utilize the same tools as large finance banks, such as hedging, short selling and divesting during market highs. The strategy is more conservatively to acquire and hold, making the risk control

of investments even harder. An example of this can be the Talvivaara mining company or Outotec. Solidium is still a large holder in these companies, even when investors started short selling and divesting the stocks, despite continuous bad results from the companies. In addition large divesting of stocks in behalf of Solidium could give an amplified negative effect on the stock course of the company, as the state finds the investment fit for liquidation. Such an effect could reinforce bear markets and furthermore impact poor development of stock value on the companies, thus hindering its financing through stock market furthermore.

It can be therefore argued, that the state's investment into companies with no majority shareholding might be even counterproductive and cause the leak of taxpayers' money to private companies, without the possibility of steering the action into a desired direction. If the strategic effect of the company is important or the priority of the state, the more sound approach would be to go for majority share ownership, thus granting the government the power to control the company, and having the rest of the shares open for free trading of either banks or private investors, giving the possibility of outside entities to tap in to the profits of the company. Another possibility would be that Solidium employs same strategies as a hedge fund, by utilizing only profit-based strategies, maximizing profits and putting in place a solid risk control, ruthlessly divesting and short selling its positions from companies that are risky. Having the strategy of both seeking profit and holding shares in important companies will give higher barriers to exit and might cost the state large amounts of money during bear markets or depression. The state holding company does however give the state extra flexibility and influence over industries and companies in the country, but it must be examined more deeply, if there are better ways of doing it through political and legislative ways, than investing and holding.

## 4 Strategic sustainability & key areas

As the Finnish economy is shifting more and more to dependence on the service sector, the actual tangible products and assets are fewer. When considering self-sustainability, a heavily service-based economy may run into trouble with uncertain markets and too much involvement and dependence on globalization and foreign trade, especially the import of physical goods, including foodstuffs. There are however differences within the trade between countries within the EU zone and foreign countries, outside the union such as Russia, with certain benefits and downsides to the growth of Finnish economy and its sustainability. This creates also a problem in national security, as the country is depending more on imports. The main problems would be the economic dependency on outside goods and products, increased with external, uncontrollable risks, for example the economic decline of exporting countries, price fluctuations of raw materials, and political threats, such as embargos, sanctions and conflicts.

### 4.1 Agriculture sector

The most critical sector would be agriculture, as large food companies operating in Finland, such as HKScan and Pouttu are favoring more cheaply produced EU meat, sourced from high quantity and high yield farms within EU. Furthermore the globalization and foreign ownership and investment in these companies shifts the priority of country based development and investment, into more profit driven investment and investment into Scandinavian and Baltic countries.

It can be argued that such a trend, where domestic businesses are internationalizing, is a good development from the point of view of liberal economics. For example, if more markets open up in the neighboring countries, it would mean more demand for the end product and therefore more demand for agriculture, livestock raising and more economic growth in the production and agriculture industry – one of the areas declining in Finland. However, as the markets tend to favor profits, the development will in the end go to the direction of favoring the cheapest, in this case the already mentioned powerhouse mass yielding production plants & farms in the Southern and Central Europe. If the costs of employment, transportation and other variable costs are lower outside Finland, it would only make sense in the capitalistic economy to favor these production sites. It would be also figured by the same logic that cheaper production, lower costs and larger quantity

of supply would show up in the price of the final product – processed meat in this case – to be lower for the consumer (granted the cost of procurement from the food processor to the retail stores). At the point the food has arrived on the store floor, the goods have already changed hands in three parts. From the producer to the processor and from processor to the retailer. All these entities can be assumed to be businesses, with sole priority to make profit out from their input and investment. From the farmer to the retailer, of each with margin to maximize and profit to make. Therefore, it can be assumed that each procurer would prefer to have lowest cost, lowest expenses and highest value for the good sold. In this case the base product – cattle, grain and other foodstuffs, would have to be of cheapest price and of acceptable quality, either by regulation or by standard. Due to larger farms and lower cost of labor, it is a natural choice for the businesses to favor cheap labor countries within EU (due to free trade and custom restrictions, in order to cut cost) such as Poland, Baltic countries and Germany. As a result of this, the smaller the farm and smaller operations the farmer or supplier of cattle or crops has, the more unsustainable the business is.

In the case of Finland, a country with high wage levels, high taxation and long distances within its borders, combined with high transportation costs, due to fuel price (with high taxation) will by its own policies and economic regulation (or lack of it) drive the decline of the agricultural sector. While it can be argued that with relatively high value added taxes in food in Finland, with 24% compared to Germany's 19%, Poland's 23% and Baltic countries 20-21% (EU Commission 2015) it would be in fact purely in tax expense point of view to be beneficial to export food to Europe, rather than to import. The fact that each aspect of production has costs, which are usually inflated by taxation, the production and profit of domestic production is getting smaller and even negative. The beginning of year 2015 and 2016 price deductions by the two largest Finnish retailers Kesko and S-Ryhmä (Arvopaperi 2016) indicate, that there is air in the prices of food, as well as oligarchic competition, restricting competition in prices due to limited amount of retailers. An option for solution, would be making the food more expensive, but cutting down value added tax, making the agriculture more sustainable and allowing more small farmers to enter business. This furthermore makes the economy more anomalous, as the Finnish economic policies are further moving to Neo-liberal capitalistic direction during the 2011-2015 National Coalition-led government term of Jyrki Katainen and Alexander Stubb. This creates problems in the economy, if the government favors neoliberal market ideas but does not regulate the free trade and uphold it, thereby letting

monopolies (aside from state owned) and oligopolies with possible cartel-like behavior form. An example of such monopolistic behavior, can be the privatization of the electricity network, previously owned by Fortum (Fortum 2014).

In addition, with the increased globalization of the food industry, the very strategic sustainability of the country is at risk. Not only does it eat away the profits of small farmers in Finland, it causes desertion of farms, layoffs in the agricultural workforce and a more lifestyle-based agriculture business, where the farmer is conducting business only to meet ends and cover expenses. The problem with such behavior is that there are no incentives for investing more into land or agriculture. However, the farmland prices in Finland are constantly rising, making the threshold of starting a farming business even higher. In addition to this, starting a business on agriculture without entering into a debt is becoming impossible. This, along with government support and EU support funding, creates an unforeseen problem. While it may be lucrative to start an agriculture business with EU and Government support, the sustainability of such business is anomalous to the economy, and not sustainable if the support is taken away. Such actions not only cause inflation on food prices, it adds air to the economic bubble of food prices, which shows as lost money in prices on the large retailers. In the end, the money government and the European Union is pumping in to the system, ends up in the large retail chains and part to the large food processor chains. This defeats completely the purpose of funding a farmer in order to create sustainability, making the economic structure even more unstable.

## **4.2 Manufacturing industry**

As the manufacturing industry is shrinking along with agriculture and mining sector in the Finnish economy, the economic structure is becoming more service-based. The main drivers of this can be seen in the increased wage levels, cheaper production abroad and even the strong position of labor unions driving higher wages for the industry. In addition to inability to devalue currency and set monetary policies makes the exports difficult. All this adds up to an industry that is not profitable to be kept inside the borders of the country. Therefore the trend has been for Finnish companies to invest large amounts of capital abroad, taking potential jobs and capital out from Finland, furthermore weakening the economic structure and sustainability of the Finnish economy. An example can be UPM Kymmene, one of the main Nordic wood and pulp companies, with strong



operations and investments in Finland in the past. It can be argued that a business's entry to foreign markets and acquisition of foreign assets is beneficial to the country of the business's origin. However, this is true only if the priority of the business's main operations is its home country, and if there is no tax planning and the investments that would otherwise be made in the origin country that are not shifted to a foreign country. According to UPM Kymmene's annual report of 2014, 7 out of 19 paper mills are located in Finland, and 39% of total personnel across all business units are located in Finland. (UPM Kymmene 2014: 141) This is roughly 8000 personnel in Finland and 12,000 abroad, mainly in European Union countries and USA.

While the business's main function is to generate profit for itself and shareholders, there are benefits for the state from this as well. Increased profits will increase income from corporate taxation (provided there is no tax planning) and generate administrative jobs in the country of company's headquarters. Therefore it is to be expected that companies like UPM Kymmene will exploit the market and business opportunities abroad, and not directly harm the economy of the origin country. However, potential investments in the home country would result in larger production quantities and increased exports, adding more cash flow to the economy. The main problem is the unattractiveness of investing in a country such as Finland. Due to the lack of its own regulated monetary policy, coupled with Schengen open borders, abolition of tariffs and quotas, as well as the common currency within a majority of EU members, all trade within the Eurozone can be viewed as essentially domestic trade. Therefore investing into countries with large logistic capabilities, central locations, favorable labor legislations as well as weaker labor unions is much more lucrative for the companies. Most of these traits fit well Germany, giving it a strong position in the EU. Germany having works councils and different labour union politics compared to Finland with high union co-operation, in comparison to labour union problems of Finland are not applicable to Germany. In addition logistical costs and difficulties are nullified due to the optimal position for export. The problem is not the morality or immorality of companies, as they are naturally driven by political and economic conditions, fundamentally by profit, but rather the state and its capability or failure of providing favorable grounds for domestic companies to make significant investments in their own country. Therefore the state should play an integral role, not only in investing into companies and trying to direct them by government ownership, but to work as a regulator via favorable laws, policies, taxation and control of labor unions, in order to be competitive with other countries, which will attempt to do their

best attracting heavy investments from multinational companies, to bring employment, tax income and export capability to their country.

While it is not profitable to be economically self-sustainable in all areas, some key sectors should be covered by state ownership, or strong government-led co-ordination. Such key areas would be agriculture, mining and refining, defense industry and logistics. The main focus should not be to make profit from these industries, but a level of autonomy from market forces. While it can be argued that a country can keep itself sustainable by importing what is needed with lower cost than producing it and funding this by exporting another good or service, the problem is how far this will be taken, when the structure of the economy shifts from manufacturing to service-based. Therefore the mentality of national economics should not be around profit, but instead necessity.

## 5 EU Policies

Finland's economic autonomy is significantly limited as a result of its membership of the European Union. In addition, it is a member of the single currency zone, thereby depriving itself of a key instrument of monetary policy. In addition to large inhibition of setting own monetary policy, various restrictions and uniformities within the member states place a weaker economy, such as Finland in a position, where it cannot significantly grow or sustain itself. The limitations that these conditions impose on Finland include also the unintended effects of one-size-fits-all policies that may not suit the circumstances of all member states. As a relatively small country, Finland is less able to influence the direction of EU policies than larger economies like Germany or France, which are themselves complex entities. This furthermore jeopardizes the democratic foundation on which European Union was built, questioning the legitimacy of the institution as well as the significance and effect on Finnish economy, politics and people. The problems of universally applied and applicable economic policies are increasingly apparent, as the EU has expanded to its current membership of 28 states. Reconciling the individual needs of these states with such common policies is proving difficult. As an institution designed for two of the Europe's largest economies, France and Germany, the role of European Union and management style is largely questionable in the modern world. With increased dependency of the member countries in the Eastern Europe on Russian exports, the restrictions and policies are benefitting few and harming many.

### 5.1 Trade within the European Union

Analysing the policies of trade within the European Union, the central goal is to create a cohesive and working integrated economic area without trade barriers; in other words: to free up trade between member countries. According to European Commission, the policy and objective of European trade policy is to:

- "1. Create a global system for fair and open trade"
- "2. Open up markets with key partner countries"
- "3. Make sure others play by the rules"
- "4. Ensure trade is a force for sustainable development"

(European Commission, 2014)

The Commission's goals for trade policy provide seemingly fair and basic rules and principles on first glance, but it has to be taken into account that creating a global system

for fair and open trade means that all the so called players are on same grounds, so to speak. Newly joined countries, such as former eastern bloc countries are on a different economic level. This may result in increased need of protectionist-based policies from their governments, to protect what are equivalent to emerging markets. The common EU policies, however, are based on an opposite ideology of opening markets for free trade. The new and emerging markets and economies have therefore little to compete internally compared to large multinational businesses entering the markets through the EU. It can be said, that this is "fair and open trade" by implying the same policies for all countries, regardless of former and current internal economic and trade political system. However, looking at the standard of living, cost of labour and cost of starting a business, an outside business has a large leverage of economies of scale compared to domestic businesses. In this sense, it can be seen that the Finnish economy has devolved from state controlled companies and an advanced welfare state into an economy controlled by external political actors and large companies.

This will result in the double standard of promoting economic growth of other EU country based companies, by opening the markets, but simultaneously harming the potential growth of the domestic market. Not only does this provide direct harm of taking away investments, but it increases the dependency of the country on value controlled and generated by outside businesses, making self-sustainability harder, and moving tax income outside the borders and making the country's economy all in all more dependent on outside forces, such as EU and the business entities able to enter the countries through the EU's open borders. Countries that originally had a more socialistic aligned model are more accustomed to the self-sustainable model, which favors trade barriers to protect domestic trade, making these countries more affected by the joining in EU.

On the other hand, moving from a more planned economy type into a more capitalistic and liberal market economy will result in economy boosting effects. The fact that the country opens its trade barriers for foreign goods and influence of outside companies, promotes a particular capitalistic model, in which simply profitable businesses will survive, and those that are unprofitable are deemed not fit to survive in the market environment. The increasing supply of foreign goods will bring in more competition to the markets, causing lower prices, increased product and goods variety, and to a degree increased globalization. While these benefits are for the consumer, there are also benefits for the foreign businesses and host countries. The increased profit of companies

trading goods abroad has a positive effect on their competitiveness and operations, and the success of these firms will be reflected on their host countries, in increased trade income. The target country's economy may as a result experience either benefit or harm, depending on the nature of the investment.

According to European Commission the rules should be same for all members and the promotion of these common rules important. It has to be taken into account though, that these are based on a highly liberal market model, which will be implemented on all of its member countries, whether the internal economic system works in the way of mixed, welfare or capitalistic economy. The fact is that all EU member countries have strong aspect of capitalism in their economy, but the strongest members are still the most liberal. It can be speculated if these decisions and uniform regulations are implemented in order to promote the benefits of the certain countries that have the most market freedom. A form of protectionism, regulated by the governments should be allowed within the EU for this reason, in order to secure a degree of self-sufficiency and securing of strategic areas. In theory, the free competition and free markets are the purest form of capitalism, but no economic system can be fully capitalistic outside a hypothetical and theoretical environment. However, in these cases the states and governments intervention in the internal economic system is essential.

Policies that have been promoting sustainability through providing services that are critical through the government and having a policy of being less dependent on outside factors, for reasons such as sustainability, national defense and self-sufficiency are being phased out to more integrated and universal liberal economic system. This increases the need to rely more on EU and promote the integration into a union. While there are both beneficial and harmful results from this, it has to be analyzed with respect to the countries moving to this system. It seems convenient for the larger and more economically powerful countries to promote an idea of freeing trade area to furthermore increase their economical and therefore political power, whereas the smaller and economically weaker countries open their borders and expose their markets to this.

The success of the European Integration depends on the policies implemented on specific countries at the right time. Enforcing a uniform economic policy might only bring down the weaker and differing economic structures, causing economic, social and internal problems, while making the larger and more powerful economies even stronger

at best and weakening the whole Union at its worst, due to common monetary union and economic failures of smaller countries. This is in direct contradiction with the EU Trade Commissioner's statement of creating global system for fair and open trade. A uniform policy, favoring certain sort of economic structure implemented on wide variety of countries with different economic backgrounds and economies, will be "fair" on the economies implementing these standards.

## 5.2 Monetary Policy

The introduction of the common currency and a correspondingly common monetary policy in 2002 has had a significant impact on the integration, by moving the monetary control to the European Central Bank. This means more integration of the fiscal and monetary issues and common policies for all Eurozone countries is necessary. The common currency will make trade and interaction between euro countries easier and more efficient, but looking at other perspective, the problems of this integration is the loss of autonomous monetary policy and less power on governmental level decision on national economies. While the Euro provides the zone with more compatibility on international markets and more decision power on EU elements, the problems of weaker economies within the Eurozone provide a threat for the currency and the zone itself.

This forces the central bank to use more drastic measures to keep these weaker economies functioning, in order to keep the currency strong. While some stronger economies keep the currency and Eurozone functioning, the weaker economies can drag down this success. The monetary policy itself can be seen to be inefficient to be applied to all economies, regardless of their economic power.

It should also be taken into account that certain countries, such as Sweden and the UK, are enjoying the benefits of European Union and its trade, but are outside the Eurozone. It is questionable how this benefits the Eurozone itself, when powerful economies are using the "fair and open trade" of European Union trade policy, are protecting their own currency and managing their economy by their own monetary policy. This makes the economies with their own currency less impacted by the fluctuations of Euro currency and immune to the European Central Bank's monetary policy. A certain degree of

solidarity and uniformity of EU would suggest that all these countries should be on the same common grounds, without leverage of their own. In a sense, this can be seen as protectionism on another level, where the governments want to manage their monetary policy themselves, but only take the favorable policies from EU integration.

The Euro monetary policy also provides a strong policy that can be extremely hard, or even impossible for governments to withdraw from to their own currency. This integration can be seen as one way, where there is no possible return. The governments of the EU sacrifice yet another element of their autonomy, making it more difficult to be economically sustainable and competitive. It is questionable, how autonomous the governments in the EU will be after full European integration, and what are the agendas of the EU, a trade area or actual federation of countries to form a Union without country-based governments. While the federation might seem unlikely in near future, the current trend to globalization and market-driven governments along with strong EU policies towards European integration might suggest a uniform European coalition in the future. However, due to the uniform policies with not enough integration and specifically tailored policies and acknowledgement of member's individual needs and situations, the stress caused by these uniform policies might in fact drive members further away from a uniform coalition.

### **5.3 Elimination of trade barriers**

According to the European Commission (European Commission, 2014), the policy to remove trade barriers is not only internal to the Union itself, but global. While this is seemingly beneficial for the whole EU in itself, by making the European economies more likely to breach foreign markets with their goods without extra fees and regulations, the benefit on this matter is country specific within the EU, as discussed earlier. While European economies are more competitive and more likely to enter foreign markets, the economic actions within EU are higher, making the EU itself a stronger economic power. However, the smaller countries within this union, that have less exports, are less likely to receive such benefit.

While EU fights protectionism with its policies, it has to be taken in account that certain members of EU could actually benefit from protectionism in trade policy. Industrialised countries without any significant exporters and strong industries might face bankruptcy or decreased competitiveness from countries that are more specialized in producing the same product, but with decreased cost. Most notable of this are the businesses located in cheap labour and resource countries, such as China and India. This effect causes the industries in Europe to be less competitive in face of outside pressure and in most cases phased out, bankrupted or outsourced to foreign countries. While protectionism might be harmful for international trade, it is also vital to keep countries a measure of self-sufficiency for reasons of national defense and crisis situations. The common idea of capitalism is to provide services and goods at best price, but it should be assessed how valuable self-sustainability and economic independence is for a country.

Seeing as Europe's non-competitive industries have disappeared and are disappearing to Asia, it should be taken into account what is replacing this. If countries are fully moving to service sector from manufacturing and agriculture, how will these countries and the EU itself be able to sustain itself in case of crisis? European policies are currently more driven by the need to have profitable trade going for producers within member states, rather than building a sustainable European Community for its citizens. However this phenomenon is very capitalistic and definitive for the UK and US aligned economies during the Cold war era, where the Communistic and Capitalistic system was highly polarized. A mixed economy and welfare state is moving constantly to the direction of capitalistic model with increased privatization and loss of government power. The enforcing of uniform EU trade policy removes the protectionism and socialistic elements within its member countries and promote more capitalistic mentality, replacing the business and governance culture of older systems. While the capitalist system is working well for the consumer, it is short sighted as regards strategic trade policy. It can be seen as both beneficial and harmful that governments have less power over trade and economy for various reasons. The absence of governmental intervention makes the markets more free and reduces the so-called distortion within markets provided by government. The lack of governmental intervention on the other hand can mean loss of industries and companies in form of outsourcing and moving out of the country and so less economic power for the country.



Based on these points, European trade policy can be successful, if it is implemented on micro levels and flexibly, taken in account each country's economic situation and planning the economy to be sustainable, yet profitable without driving away businesses, foreign investors and souring trade relations with EU trade partners. Fulfilling all these aspects will be nearly impossible or at least extremely hard, since globalization has been expanding and cannot be controlled by governments or unions. An example of the power of globalization is communist China, which has opened its borders and gone against its own ideals to partake in globalization, in order to stay competitive under international economic pressure.

### Economic and Social policies

The internal economic and social policies vary widely between the EU member states, furthermore making integration difficult due to difficulties to create uniform policies. While the common EU policies that are applied to each member state create cohesion, the independent country's culture and internal policies have a huge impact on the success of their economy. While looking at Nordic countries, these countries have developed similar and uniform policies from mixture of socialism and capitalism without unions or forced legislations. This can be seen as a logical step of applying policies that work in a specific region and specific culture with similar ideas and values. Examples of Swedish economic policies can be seen in video regarding retaining competitiveness in EU. (Journeyman Tv, 2011). According to the video, Swedish internal policy is managed efficiently taking in account decline of population, adapting the welfare according to aging populace and tax policies. The Swedish way is extremely similar to other Nordic models, due to the same conditions and cultural backgrounds. This model is centered on welfare and maintaining a welfare state with policies both from socialistic and capitalistic aspects.

The mentality of work and a more collectivistic approach can be seen in all Nordic models, which make these countries competitive in EU. However, this system has been developed before these countries' entry to EU, leaving EU interference out of the internal policies. The entry to EU has now added more dependency on EU and more imposed laws, taking some of the decision power away from the governments. Examples of this can be the state's need to outsource its services and compete these services between companies. This adds more market-based policy to the economy, making the quality control and state involvement less present. While these policies have been working in

the Nordic countries well, according to healthcare, pension system, economy and quality of life standards (The Economist, 2013) the European Union's influence on internal policies can be seen as a threat. While the models have worked on the basis of creating a working economic system in a relatively closed society, the economic, monetary and social integration imposed by the EU can be seen as a threat to this. During the recent economic crises the solidarity between member states has become increasingly important due to shared monetary policy - the Euro currency. It is now seen, that if a country fails economically, the whole economic area suffers. Without speculating the effects of a failing country, the situation can still be seen, that these failing economies are becoming large burdens for other economies within the Union. While the member countries with sustainable and working policies are becoming the ones that are paying for the failing economies to keep afloat the failing ones, it is in direct controversy with basic market-based approach; businesses or industries that are not competitive are bound to go under and disappear. In this case, these countries can be seen as something that will naturally go bankrupt due to lack of competitiveness and sustainable policy.

Due to the Integration that has been already achieved, it is no longer possible to let these economically weaker countries fail, due to their interdependence with other EU member states. The similar monetary policy and Foreign Direct Investments, it is not desirable to let these countries fall. The effect of these countries going under would have negative effects on the larger economies of European Union as well. The harm on these developed countries would not be as large as in the failing country itself, but the interests of the investor and Euro countries drive the desire to keep the countries afloat. This has nothing to do with European solidarity, but with the self-interest of countries that have something at stake.

Looking on a larger scope, the benefits of Union are more significant. The Common EU area provides much larger competitiveness in international market and provides a large economic player to the international field, rather than separate governments with their own trade and economic policies. This is the largest and most notable benefit and driving force for EU policies. While the European area itself is more competitive with Asia and Americas, the policies can be seen as a success. It has to be noted though, that on a smaller scope, the weaker economies within the EU, such as Finland, might not have the capability of utilizing these market benefits and so have their economies harmed due to the EU policies that benefit the few countries with strong companies and capabilities of

driving, lobbying and utilizing EU politics in their favor. As Heikki Patomäki discusses in his work, *Suomen Talouspolitiikan Tulevaisuus – “Future of Finnish economic policy”* (Patomäki, 2014, p. 154-159) the large multinational corporations have better positions at the present to influence and lobby politics in their favor, as well as utilizing natural monopolies, such as taxpayer-paid infrastructure. The fact that the Finnish government’s policies are subordinate to European policies, makes the exploitation and use of these resources, coupled with tax planning and the dominant profit-seeking perspective, work against the sustainability of the Finnish economy.

## 6 Conclusion

The economic planning of Finland and the sustainability-seeking policies are difficult to implement due to the impact of membership of the European Union and other economic factors, such as large multinational corporations. Due to the inefficiency of restricting these, and due to EU-imposed laws and policies, the Finnish government cannot efficiently plan a more sustainable future. The deterrent to this is mainly EU policy. The trade policy of EU favors countries on good terms within the EU and causes a positive correlation in wealth of those countries with wealthy economies and export oriented industries, such as Germany. In case of Finland, where trade with Russia is a significant factor to economic growth and exports, these policies are hampering the economy, rather than helping. In addition, the inability to impose monetary policy, devalue currency and control exports gives away all the planning power from Finland. While the EU no doubt offers very good incentives and potential for free trade and movement, it needs critical thinking, if this is to be aligned with the success, growth and sustainability of the Finnish economy.

The Finnish economy should be aligned more according to socialistic or *dirigiste* coordinated economy to overcome these pitfalls and move away from the neoliberal markets, which give potential capabilities of exploitation of tax payer paid infrastructure, economy and wealth. Furthermore the state should take a more active role to secure industries and fields crucial for sustainability and of strategic importance in order to provide stable and working economy, even in times of recession, trade restrictions or conflicts. The main stakeholders of the economy and government owned companies should not be the outside investors or multinational companies, but rather the Finnish

people. By having a working and state controlled monetary, industrial and fiscal policy, the government can build a sustainable and working economy in terms of democracy, rather than in terms of neoliberal profit-based criteria of multinational corporations.

The effects of centralized policies in European Union have to be taken into account and the benefits and costs have to be weighted and critically inspected in order to find out, what is the democratically right model. As a country of roughly 5 million inhabitants, Finland should not be tied to policies dictated by a Union, where the politicians and commissioners come from various backgrounds and with various motives. The European Union has evolved a lot from the time of Finland joining it, therefore the political legitimacy and the legitimacy of the decision of joining the union should be questioned in Finnish politics. In addition the strong compliance to EU politics and decisions align Finland more to market-based policies, hampering and making difficult maintaining good relations and trade with Russia, which has been a strong trade partner of Finnish companies, producers and businesses. Such policies undermine the Finnish economy, while strengthening economies in EU, which have less exports to Russia.

Among with changes in policies, Finnish economic sustainability is also threatened by uneven distribution of economic structure. New policies should be implemented to encourage manufacturing and base production, such as agriculture and mining, improving previously strong sectors of Finnish economy (wood and pulp industry, heavy machinery industry, electronics and network industry) and to drive these industries into becoming strong exporters, increasing employment, profits and economy of Finland overall. This should be achieved with strong government support, funding, ownership and favorable industrial policies, rather than unrestricted trade, foreign acquisition, moving operations abroad and foreign multinational corporation's takeovers.

The economy of Finland should be restructured in more balanced way, removing unnecessary bureaucracy and decrease the percentage of serviced based jobs, increase manufacturing, base production, agriculture and forestry, in order to increase exports and drive more Finnish exports to world. Strong economic policies coupled with control of monetary policy will be the key instruments of the government to build a solid foundation to Finnish economy. However, this would not mean a complete withdrawal from the European Union and EU policies, but rather having stronger control over Finland's own economy and country. Those policies seriously hampering Finnish economic planning and growth should be dissolved and replaced by Finnish policies.

Strong co-operation with Russia and EU would be a key role of Finnish economic growth, but should not be the dictating force of implementing policies.

In addition of strong control over policies, tax planning and usage of tax paradises, especially among large companies operated in Finland, should be under strong surveillance of the government, reducing the flow of untaxed money from Finland. In these sorts of undertakings, the role of having good relations with the EU and other multinational political entities is crucial, in order to drive directives to shut down the avoidance of taxes and tax planning in general. The EU no doubt has benefits for the consumers in Finland, but a hedonistic view of benefits will not build strong national economy, even though foreign imports are often cheaper and the consumer may benefit in short term due to wider variety of products and services. Finnish money is flowing outside of Finland and this is driving Finnish businesses out of business. A strong change in values and morals will be the key to sustainability.

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