

## INDIA-FINLAND BILATERAL RELATIONS

### Finnish Economy

Finland has a highly industrialized, largely free-market economy with per capita output almost as high as that of Austria, Belgium, the Netherlands, and Sweden. Trade is important with exports accounting for over one third of GDP in recent years.

Finland is strongly competitive in manufacturing - principally the wood, metals, engineering, telecommunications, and

electronics industries. Finland excels in high-tech exports such as mobile phones. Except for timber and several minerals, Finland depends on imports of raw materials, energy, and some components for manufactured goods. Because of the climate, agricultural development is limited to maintaining self-sufficiency in basic products. Forestry, an important export earner, provides a secondary occupation for the rural population.

Finland had been one of the best performing economies within the EU in recent years and its banks and financial markets avoided the worst of global financial crisis. However, the world slowdown hit exports and domestic demand hard in 2009, with Finland experiencing one of the deepest contractions in the euro zone. A recovery of exports, domestic trade, and household consumption stimulated economic growth in 2010-11. The recession affected general government finances and the debt ratio, turning previously strong budget surpluses into deficits, but Finland has taken action to ensure it will meet EU deficit targets by 2013 and retains its triple-A credit rating.

Finland's main challenge in 2013 will be to stimulate growth in the face of weak demand in EU export markets and government austerity measures meant to reduce its budget deficit. Longer-term, Finland must address a rapidly aging population and decreasing productivity that threaten competitiveness, fiscal sustainability, and economic growth.

### Current Economic Scenario\*

In 2013, the Finnish economy is again expected to shrink slightly, by 0.4%, as subdued foreign demand hits exports and companies' willingness to invest. The economic growth is forecasted to recover only gradually over the medium term, as weak external demand and austerity measures at home weigh on the recovery.

The GDP growth is forecasted to be a little over 2% a year in 2014-17, which will be a slow recovery compared to the pace of almost 4% a year in the decade prior to the global crisis. But despite a relatively slow recovery, Finland is expected to continue to outperform the Eurozone

Key Economic Figures		
	2011(est.)	2012(est.)
<b>GDP(PPP)</b>	\$201.1 billion	\$200.7 billion
<b>GDP-official exchange rate</b>	-	\$250.1 billion
<b>GDP-real growth rate</b>	2.8%	-0.2%
<b>Unemployment Rate</b>	7.8%	7.8%
<b>Public Debt</b>	49.1% of GDP	53% of GDP
<b>Inflation Rate (consumer prices)</b>	3.3%	3.2%
<b>Exports</b>	\$79.15 billion	\$73.4 billion
<b>Imports</b>	\$80.89 billion	\$73.15 billion
<i>Source: CIA World Factbook</i>		
<i>data are in 2012 US dollars</i>		

\*Source: Ernst & Young Eurozone Forecast-Winter Edition-September 2013

as a whole. Disappointing growth in the medium term is expected due to a subpar performance by exports and continuing private sector deleveraging.

The exports are expected to rise by about 3.5% a year in 2014-17, well below the 8.2% pace seen in 1997–2007. A “lost decade” for Eurozone growth, combined with stronger competition from Japanese firms, means that the exports may struggle to regain the strength seen before the crisis. This may in turn result in a restructuring of Finland’s export industries.

The Government is expected to miss its budget deficit target again in 2013. Despite higher taxes and a drop in public spending in real terms, the budget deficit is expected at 1.6% of GDP this year, as revenue growth is likely to be below official expectations on the back of another contraction in GDP. As a result of poor growth and a slower pace of fiscal consolidation, public debt is expected to peak at 53% of GDP at the end of 2013, before it gradually falls as economic growth starts to gather momentum.

### Indo – Finnish Bilateral Relations

Indo-Finnish Relations are warm and forthcoming, as seen through regular intercountry high-level political and official visits. Finland allotted its first Resident Ambassador in India in 1949 and India opened its Diplomatic Mission in Helsinki in 1968. India and Finland also share strong similarities in many sectors of economy. Mutual requirements and capabilities can help both the countries achieve a greater momentum in bilateral cooperation.

#### Trade:

Both India and Finland enjoy a dynamic commercial association, with exports and imports showing significant annual gains over years. Trade between India and Finland almost doubled between 2007-08 and 2011-12 before decreasing by more than 40% in 2012.

India-Finland Bilateral Trade (Fig in USD million)		Source: Ministry of Commerce and Industry, GoI			
\Year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
<b>EXPORT</b>	264.89	208.36	254.92	314.34	317.27
<b>%Growth</b>		-21.34	22.35	23.31	0.93
<b>IMPORT</b>	1,219.64	1,010.66	1,653.02	2,103.57	1,106.85
<b>%Growth</b>		-17.13	63.56	27.26	-47.38
<b>TOTAL TRADE</b>	1,484.54	1,219.02	1,907.94	2,417.91	1,424.12
<b>%Growth</b>		-17.89	56.51	26.73	-41.1

Main export items from India have been garments, made ups and textiles accounting for about a third of the exports. Other major items include metals, iron and steel, chemicals, petroleum products and leather. Major imports from Finland include telecommunication equipment, power generating machinery, eclectic and other machinery.

## Investments:

### Finnish Investments in India

India has been a demanding market for Finnish companies and Finnish companies have been participating in the rapidly growing Indian economy. Companies like Nokia, Nokia-Siemens, Kone elevators, Wartsila, Ahlstron, Elcoteq, Metso, Fortum, UPM have set up manufacturing facilities in India and Finnnode has opened its office in India.

Finland ranks 31<sup>st</sup> in terms of investment with cumulative FDI inflows into India amounting to USD 274.27 million (April 2000 – June 2013), accounting for 0.14% of total FDI inflows. (Inflows received through FIPB/SIA route RBI's automatic route & acquisition of existing shares)

**Top sectors attracting FDI inflows** (from April 2000 to June 2013) are:

- Industrial Machinery (27%)
- Electrical Equipment (17%)
- Textiles (Including Dyed, Printed) (11%)
- Power (6%)
- Electronics (5%)

### Finnish Companies in India

The number of Finnish companies established in India has more than tripled during the 2000s. In 2001 there were around 30 Finnish companies operating in the country whereas today over 120 Finnish companies have operations in India. The companies are present in India either through their subsidiaries, joint ventures with local companies or representative / liaison offices. Apart from the companies having direct presence in the market, more than hundred Finnish firms export their products to India or operate on the market through their local agents.

The recent largest investments was made by Finnish telecom giant **Nokia** which opened its tenth mobile phone factory in Chennai, Tamil Nadu in the spring 2006. Elcoteq, electronics manufacturing services (EMS) company, opened a factory in Bangalore in April 2005. Finland's Chempolis is looking at setting up some of its \$52 million biorefineries using bagasse, perhaps teaming up with at least one sugar mill in the country.

It is not only Nokia that has managed to get a strong position in the Indian market. **Wartsila**, that started production in India in the mid-1980s, was among the first Finnish companies to arrive in India. Company's heavy fuel power plants are used for local energy production to supplement enormous shortage of electricity in India's deficient power grid. Wartsila dominates the sector with a market share of about 70 per cent.

**Kone** in the escalators and lifts business is part of a Finnish success story in India. Company started its Indian operations in 1984, and today its share in the sales and maintenance of lifts has come to 30 per cent.

Projects in the Indian infrastructure sector have provided – and provide – opportunities for Finnish companies. **Metso Minerals** is a firm that seized this opportunity : The Company sells mining drills together with road-building equipment. Metso Automation, KCI Konecranes, Kalmar and Sandvik amongst several others are Finnish companies operating in this sector.

Finnish paper products are being marketed in India by Finnish paper giants **UPM, StoraEnso and M-real. Andritz Finland and Metso Paper** are involved in upgrading paper machines and building new ones. **Huhtamaki** with its local joint venture partner is the largest Finnish employer in India in the packaging material sector. **Eltete** is another Finnish company in packaging business operating in India.

### **Indian Investments in Finland**

The number of Indian companies having presence in Finland is still small and 30 Indian companies, mainly in the software and consultancy sector, are working in Finland. However, as Indian companies are increasingly investing abroad and Finland has the potential to attract the share of these outward investments, the number of Indian companies operating in Finland is only expected to increase, players like Wipro, Infosys, Tata Consultancy services, Tooltech Europe Oy and Zensar Technologies Ltd. etc. already has a niche presence in Finland.

### **Promising Sectors of Indo- Finnish Cooperation:**

There exists a lot of potential for cooperation between India and Finland in wide range of sector. Both India and Finland can capitalize on each others' areas of competitive advantage.

The collaboration, however, has to be based on strategies that help both sides overcome current handicaps whilst leveraging existing strengths.

While for India, collaborating with Finnish entities would bring access to a highly advanced technology; for Finnish entities, collaboration with India provides huge opportunities not only in terms of cost reduction but also in terms of opening up of prospects for jointly developing products and technologies for a potentially huge market as also for exports.

Given the strengths of the two countries and the obvious complementarities, the sectors of Indo Finnish cooperation that clearly stand out are:

- Environment
- Biosciences and Pharma
- Renewable Energy
- Science & Technology
- Telecom/IT
- Paper & Pulp