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OPPORTUNITIES AND THREATS OF CHINESE FOREIGN DIRECT INVESTMENT IN FINLAND

Case study of investments in the forest industry, technology industry,
and transportation infrastructure

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<p>Abstract</p> <p>The main objective of this study was to explore opportunities and threats that raise from the Chinese outward foreign direct investment to Finland. There are three categories that are examined in the study: the forest industry, technology industry, and transportation infrastructure. China will be studied as an investor and Finland as an investment destination. As a result of internationalization, FDI flows are increasing globally. China has risen to one of the biggest players in international business and its presence is not avoidable, the country currently being the second-largest economy in the world. Today, it is among the largest investors abroad. For a long time, China was not interested in investing in Europe, especially in northern Europe. That trend took a complete turnaround during the past decade. In 2019, Finland was China's favorite FDI destination in Europe. Because China is rather new and unknown to the general public in Finland, it is important to understand the possibilities and threats that come from partnership with China.</p> <p>The research methodology is mixed research. Secondary data sources include articles from Finnish, Chinese, and international media outlets, official statistics from the government, and previous researches, among others.</p> <p>The outcome of the research was that Finland should embrace Chinese investments. Chinese FDI has the ability to stimulate Finland's economic development by bringing money to Finland that helps with the development of companies. That escalates the internationalization process of the Finnish companies, and opens doors to the Chinese and Asian markets, which are commonly hard to enter for Western companies. Chinese funding also decreases unemployment and can possibly increase the wealth of the Finnish people. In the forest industry, opportunities come from boosting the Finnish forest industry because of growing demand in China for wooden products, especially pulp. A threat of that is deforestation, but because the investment would increase environmentally friendly products, possibilities are greater than threats. In the technology industry, threats arise from intellectual property rights. Cooperating with the Chinese might jeopardize a Finnish company's patents and trademarks since the Chinese business environment is not particularly protective of those. However, with a good strategy, intellectual property can be protected and operating with the Chinese could be made profitable. The Chinese FDI in transportation infrastructure has the ability to make better connections from Finland to Europe and to the Arctic Ocean, therefore, it should be welcomed.</p>			
<p>Keywords China, Finland, FDI, foreign direct investment, forest industry, technology industry, transportation infrastructure, Belt and Road Initiative, Made in China 2025, internationalization</p>			

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1 INTRODUCTION

China is a rising phenomenon, and its presence cannot be avoided in the future. Even though China is a well-known country, the general public has yet to form their opinions about China. There are some politicians who have not decided on their stance on China. The tone of the Western media about China is often rather negative and fearful. The author is particularly interested in China as a business environment because trade and FDI between Finland and China has risen recently. China is going to be the largest economy at some point. The author wanted to research how Finland could exploit China's rise, and what kind of threats would follow from the partnership. After studying in China, the author has established basic knowledge of Chinese culture, values, and beliefs, which makes it easier to understand the motives behind the Chinese outward FDI.

Rapidly changing investment patterns together with China's special interest in Finland during the last five years raise questions. Investment peak between 2014 and 2017 raised concerns about how easily and without any restrictions Chinese MNE's can buy infrastructure and technology from Europe. As China is not a democracy, most of its investments lack transparency and aspects of the Communist Party of China's (CPC) policies that have deeper strategic motives. China's ongoing trade war with the administration of Donald Trump has shifted trade focus towards Europe, and especially the major economies in Europe have started to suspect China's influence.

In March of 2019, the European Union adopted a screening regulation for foreign direct investments coming from outside of the EU that may affect security or public order. The purpose of it is to make sure that the EU is better protected for foreign influence. China is not mentioned in the regulation but is likely the main reason for such regulation. The regulation will be put into service on October 11th 2020. (European Commission 2020.) As part of European Union, Finland is an open economy where cross-border investments are welcomed. Both Finland and China depend on international expansion to allow their economies to grow. However, often the finance for investments comes from Chinese state-owned banks (Mattlin 2020), thus it would be naive to think that politics have nothing to do with the FDI.

Europe is the most important trading partner for China, and it is Europe's fastest-growing export destination, and one the Finland's best import and export partners. According to Confederation of Finnish Industries (2020), Finnish investments in China are roughly 11 billion euros with over 400 companies employing over 60 000 people in China, which is a large amount when compared to the size of Finland. Finland has increased its public and political promotion to China as an attractive FDI destination during the last decade, which has paid off because over the last five years Finland has been one of the favorite destinations in Europe for Chinese investment, and in 2019 China invested more money in Finland than anywhere else in Europe. (Baked McKenzie, 2020.) From all Chinese FDI in Europe, Finland accounts for 12% (Kratz, Huotari, Hanemann, Arcesati 2020). Partnership with China is profitable for Finland because of economic development, internationalization of Finnish companies, and increased wealth for the Finnish people.

Chinese have traditionally invested in countries that are geographically closer to them, or countries with large markets and rich natural resources. As Finland does not fit to the traditional investments pattern, the China – Finland trade and investment relationship shall be studied. This research is going to focus on FDI in three different industries: forest, technology, and transportation infrastructure. Therefore, distinctive motives behind investment decisions are reviewed. Aim of the study is to answer a question:

What are the main opportunities and threats of the Chinese FDI in Finnish forest industry, technology industry, and transportation infrastructure and what are the factors that affect investment decisions?

At first, forest industry, technology industry, and transportation infrastructure are analyzed as an independent sector since motives might be widely different. Secondly, the aim of the study is divided into three different sections, which are: threats of FDI, opportunities of FDI, and factors that affect investment decisions. Research questions are the following:

- 1. What are the factors that affect Chinese investment decisions to Finland?*
- 2. What are the opportunities gained through Chinese FDI?*
- 3. What are the threats of Chinese FDI?*

The first chapter outlines the background of the topic, states the hypothesis, introduces the motivation for the study, and states why the topic of the study is relevant. Then the author states the problem of study together with research questions that help examine Chinese FDI. The second chapter reviews the theoretical framework behind the study of foreign direct investment. Especially Dunning's OLI model and eclectic paradigm will be explained more extensively. The third chapter addresses the research methodology and validity of the study. Chapter four discusses the political atmosphere inside of China and Chinese business culture in general is analyzed. The fifth chapter discusses the current situation of the Finnish forest industry, technology industry, and transportation infrastructure. Then projects that have received Chinese FDI are inspected. Then findings of the research will be discussed and analyzed. The quality and the reliability of the study in the different stages of the process are assessed and validity and credibility are discussed.

2 FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy. Investment is considered foreign direct investment when an individual or business owns 10% or more of a foreign company. According to the international monetary fund (IMF), an investment under 10% is considered as part of a stock portfolio. The key to foreign direct investment is the control of a company. With 10% or more ownership, an investor can manage and influence foreign firm's operations. (OECD 2020.)

FDI is an important link between countries because it creates an integration between economies. FDI is used to channel technology, knowledge, capital, and financial assets between countries. Common methods of FDI are mergers and acquisitions, joint ventures with foreign corporations, starting subsidiaries with a domestic firm in a foreign country, and acquiring a voting stock in a foreign company. Also reinvesting profits to a foreign subsidiary are considered FDI.

FDI can be divided into two main categories: horizontal and vertical. Horizontal foreign direct investment is when a business takes its domestic operations abroad in order to gain greater market share or entering new markets, for example, Tesla expanding to Europe with a new factory near Berlin. Vertical FDI is when a company expands to a foreign country by investing in a part of its supply chain. The goal of vertical FDI is to gain an advantage of resources and efficiency, for example, Paulig investing in a coffee bean farm in Brazil. (CFI 2020.)

Especially in developing and emerging markets, foreign direct investment is important. Companies in developing countries need the help of multinational enterprises to gain expertise and funding. Private investments in infrastructure, energy, and water are critical in developing countries to increase the standard of living. Developed economies, such as the United States and European Union, need FDI as well, but they need it for different reasons. Developed countries mostly focus on mergers and acquisitions between mature companies to keep costs low and core business profitable.

2.1 Foreign direct investment theories

There are many studies on foreign direct investment issues and motivations. The most significant papers are made by John Dunning (1979), Stephen Hymer (1960), and Raymond Vernon (1966). As the studies have shown, the issues behind FDI are complex. However, most economists believe that FDI is an important element of economic development, especially in developing countries. The general assumption of FDI is that motivation is an international expansion to pursuit growth and greater profits.

The earliest attempts to explain internationalization was Adam Smith's theory of international trade in *An Inquiry Into the Nature and Causes of the Wealth of Nations* (1776), also known as *The Wealth of Nations*. Adam Smith's theory is that a country should seek for profits by exporting products where

the nation has an absolute advantage. An absolute advantage could be gained when a country can produce a certain products with a lower price per unit than any of its trading partners. Inversely a country would import products where a trading partner has an absolute advantage. (Blenman 2020.)

Another early study that has had an impact on the modern theory of FDI is David Ricardo's theory of Comparative Advantage in *Principles of Political Economy* (1817). In Ricardo's theory, the exporting country does not need an absolute advantage to export products. Two countries could profit from international trade when both parties have a relative advantage in production. Relative advantage can be possessed when a production of a certain product is lower in exporting countries than in importing countries. (Watson 2016.)

The first attempts trying to understand FDI was Heckscher-Ohlin model, also known as the H-O model, (1933) on the international capital movement. The theory is based on previously mentioned Ricardo's theory. Heckscher-Ohlin model proposes that countries export what they can most efficiently and plentifully produce. The model is used to evaluate the equilibrium of trade between two countries that have varying specialties and natural resources. In H-O model the emphasis is on factors of production where the exporting country has an abundance. The theorem argues that exports from the capital-abundant country come from capital-industries, and labor-abundant countries import such goods. Contrarily, labor-abundant countries export goods from labor-industries. After trade between countries is established, the countries will start exporting goods that have a higher value in the foreign market. (Kopp 2019.)

Breakthrough in the study of FDI was reached when Stephen Hymer introduced the microeconomic theory of international production (1960). Previously, the foreign direct investment was considered as international capital flows across borders. Hymer discovered that traditional theories were insufficient with their explanation of why MNE's practice FDI. Hymer suggested in his study, that foreign direct investment can be successful if there are market imperfections that create advantages and challenges. He found two major reasons why MNE's do foreign direct investment: the first reason was the profitability gained from decreasing competition between firms in different countries, and the second reason was that MNE's can profit from using their existing advantages by founding foreign operations. Hymer argued in his study that selling and licensing technology abroad would be a less profitable option than investing abroad and eliminating foreign competition. He also stated that FDI could be beneficial only when the exploitation of firms' advantages abroad would be higher than the additional cost of doing business overseas. (Cohen 2007, 118-121.)

Production cycle theory developed by Raymond Vernon in 1966 explained certain types of investments made from the United States to Western Europe after World War II in the manufacturing industry. According to Vernon's theory, there are four stages in the production cycle: innovation, growth, maturity, and decline. The theory suggested that the Second World War had increased demand for manufactured products in Europe. Americans had an advantage over international competitors on those products because of their better technology. In the first stage, American companies would have an advantage because of their new technologies. During this stage, the product is unknown, and the

demand is low. The product would be sold to similar markets with the same needs, preferences, and income. As the production develops, the production becomes standardized and the product becomes known the product reaches the second stage. With aggressive marketing and low production cost, it is pushed to market. The third stage is when the production is standardized, the production costs are as low as possible, and firms can benefit from economies of scale. However, as the production becomes standardized, the competitors will start copying the products. Therefore, companies have to move parts of the production abroad to maintain their market share. The final stage is the decline of a product, where the product is no longer needed, or it is outdated. Sales and production quantities are falling, and the product is replaced with new products that are entering the market. This theory managed to explain certain types of investments made from the United States to Western Europe in the mid 20th century. In addition, Vernon suggested that sometimes the foreign direct investment is more beneficial than exporting domestic products, when the total cost of manufacturing is less than the cost of exporting. (Denisia 2010, 106.)

In 1979, John Dunning introduced eclectic paradigm, also known as the OLI framework, which attempts to explain international business activity by focusing on sources of competitive advantage that offer possibilities to enter and compete in foreign markets. This theory is considered as the most important theory to understand modern FDI in general. Dunning's theory has been the most quoted study of FDI. As Dunning made further studies on FDI, he introduced Dunning's taxonomy (1993) where he divided FDI motives into four main categories: resource-seeking, asset-seeking, market-seeking, and efficiency-seeking investments.

2.2 Dunning's eclectic paradigm

An eclectic paradigm, also known as the ownership, location, internationalization model, OLI model, or OLI framework, is an evaluation framework that includes three steps that companies follow when deciding potential markets to enter with FDI. Paradigm assumes that companies will avoid transactions in an open market if the cost of completing the same transactions internally is cheaper. The eclectic paradigm examines various business components as an entity. Paradigm provides a strategy for FDI. The purpose is to find the best possible outcome with the greatest value. As businesses seek the most cost-effective options while maintaining quality, they can use the eclectic paradigm as a tool to find the best scenario. (Bloommenthal 2019.)

According to the eclectic paradigm, a company needs all three advantages to be successful in FDI. If one or two of the advantages are missing, will the paradigm offer another entry-strategy. If a company wants to invest abroad, at first, they need to have an advantage of ownership. The advantage of ownership means that the company possesses something valuable, rare, hard-to-imitate, or organizationally embedded resource that separates them from foreign competitors. The value of ownership must be stronger than adversity that comes with foreignness. Companies entering foreign markets often face disadvantages for not being local, not speaking native language, not knowing the local preferences, and not being familiar with the market. Eclectic paradigm helps the management to choose if ownership advantage can take over the liability of foreignness. If a company does not find

its ownership to be more valuable than liabilities, they should remain domestic. Secondly, the intended market for entry must have some location advantages. Given the liability of foreignness, the host country must offer something appealing that is worth the risk. The advantages could be as simple as geographical, natural resources, population size, or tariffs. If an advantage does not exist, the company should remain production in the home country and export its products instead. When an advantage is found, performing certain value chain activities abroad through licensing, franchising, or with FDI is a good option. Lastly, to decide between licensing and FDI management should find internationalization advantage. Licensing is a better option if other companies are better, more cost-efficient, or have better local market knowledge. If the company can produce better, cheaper, and with great knowledge is FDI the best option. That could be done through joint ventures, acquiring existing companies, or starting with a greenfield investment. (Business to You 2016.)

2.2.1 Resource-seeking foreign direct investment

Companies are always looking for opportunities for growth, and in order to grow, the supply of resources must be secured. Having better access to cheaper resources or having access to higher quality resources is what firms pursue when investing in resources. The primary goal of resource-seeking FDI is to take exploit an individual country's advantage of having rich natural resources and raw material. Resource-seeking FDI can also be an investment on parts, components, or low-cost labor. Firms usually aim to invest in resources that either scarce and expensive in their home country or the goods are higher quality in the host country. (Dadzie 2012.)

Resource-seeking FDI contains three main types (Dunning & Lundan 2008, 68-69). The first type is physical natural resource seeking, which includes raw materials and energy sources that are scarce or non-existent in the company's home country. By investing on physical resources company secures the supply and import of these goods and lower its costs of production. The corporations are commonly producers or manufacturers. The host countries of these kinds of investments are usually developing countries, that have rich natural resources, but they do not have the ability to process them. Companies are mostly resource-intensive industries.

The second type is investments in labor with high motivation and low or mediocre working skills. These investments are typical in labor-intensive industries that come from countries where labor costs are high. However, as companies are continually mechanizing production to robots in labor-intensive industries is FDI on foreign labor diminishing. The third type is FDI on technology, where companies are looking for managerial expertise, higher quality parts and components, and higher technology that is generally available in developed economies. The demand for skilled labor is increasing globally since technology is taking over labor-intensive industries. (Lintunen 2011, 22.) This creates opportunities for small, developed economies where major parks of populations are highly skilled but are scarce in natural resources.

2.2.2 Market-seeking foreign direct investment

The most common type of FDI is market-seeking FDI. According to several studies from the 1960s to 1990s of motives behind FDI in OECD countries, the scientists found that in most cases entering new markets was the primary motive. (Lintunen 2011.) Multinational corporations use market-seeking FDI as a tool to sustain or protect existing markets or to exploit and promote new markets (Dunning 1993). Corporations commonly export their products to these markets before investing in them. An imposed tariff or another cost-raising obstacle by a host country has brought the export to an end, or the market size makes local production economical. Market-seeking investment provides multiple advantages that can be leveraged by investing corporation. Typical location factors for entering new markets are the attractive size of the market, a prospect for market growth, or domestic resources and capabilities. The dominant reason for market-seeking FDI is to increase sales globally, but it can also serve as a defensive strategy when companies fear losing market size. Successful FDI can improve the company's local, regional, and international market power. (Dadzie 2012.)

Dunning found four dominating motives that define which markets to invest. The first motive is to improve or retain competitiveness. Multinational corporations may find it necessary in their global strategy to be present in certain foreign markets. By having a presence in local markets, companies are more agile when they need to react to global challenges and changes in the market. The second motive is being able to serve local tastes and preferences better, which could only be achieved with the local presence in the form of FDI. Without being familiar with the local language, business customs, legal requirements, and marketing producers, the foreign companies are in a jeopardized position when compared to local firms. (Dunning 1993.) The importance of adjusting to local preferences is more critical in food, cosmetics, and drug industries where tastes vary widely.

The third motive behind market-seeking FDI is to reduce transaction costs. By being present in the target market, corporations can make significant reductions in their supply costs. If the product is relatively costly to transport and it is possible to produce economically in smaller quantities, its a good choice to start production closer to the market. The last motive is to follow important customers abroad. Companies often have to relocate when their customers move to a new location, or if a customer is another company who expands to a new market. Companies likely want to continue the business relationship by enabling them to supply their established customers in a new location.

2.2.3 Efficiency-seeking foreign direct investment

Efficiency-seeking FDI is a third type of motive, which contains two main reasons why multinational corporations practice FDI. The first one is to take advantage of differences in the availability and relative cost of traditional factor endowments in different countries, and the second is to take advantage of the economies of scale and scope, and of differences in consumer tastes and supply capabilities (Dunning & Lundan 2008, 72). The goal of efficiency-seeking FDI is to rationalize the established structure behind resource- and market-seeking FDI. The aim is to reduce all production costs by developing cheaper inputs and labor and to achieve the best possible productivity. Other possible

motives are to learn of different cultures, institutional arrangements, or economic policies and structures (Lintunen 2011). Commonly efficiency-seeking FDI comes from large multinational corporations with well-established processes and operations.

2.2.4 Strategic asset-seeking foreign direct investment

The last FDI motive is strategic asset-seeking. The motive behind strategic asset-seeking FDI is to sustain or develop a company's global competitiveness, especially in the long-run, by acquiring assets to supplement and increase the company's asset portfolio. Strategic assets are usually gained through mergers and acquisitions with a foreign enterprise, or by greenfield investments. This strategy is a great way to secure brands, technologies, and distribution channels to protect the company's long-term position. If an asset is not embedded to certain personnel, mergers and acquisitions are a more effective way to gain benefits. (Lintunen 2011.) The primary goal of strategic asset seeking is to increase the company's intangible assets, being brands, and tangible assets, as technology and human skills. It could also be weakening the competitor's position. Strategic asset-seeking investments are usually done by large multinational corporations that aim for integrated international and regional strategy.

According to Dunning and Lundan (2008, 74), there are possibly motives that do not fit perfectly into any category. Additional motives are classified as escape investments, support investments, and passive investments. Escape investments are investments made to escape legislation or organizational policies made by home governments. Support investments are to support certain parts of operations. Passive investments are those investments, that do not support any company operations or have anything to do with the company's processes.

2.3 Foreign direct investment threats

The biggest threats of FDI from hosts country's perspective are dependency on the investor, fear of dominance, and risk of interference to local economy from a foreign nation. When a multinational enterprise enters a new country, it will influence many factors. MNE's can disrupt local business practices by bringing in new suppliers, capital flows, and markets. While there are benefits to this, other local companies might find it harmful. Domestic competition and entrepreneurship can suffer when a significant foreign competitor enters their market. If a country is specialized in a certain field, and the most local companies are somehow related to the supply chain or other operations of a company, the host country becomes dependent of that MNE. That often leads to a domino effect, where local businesses are not able to compete with a MNE and they either emerge with it or are forced to shut down. In that case the country is under influence of that MNE and in a risk of interference of foreign governments. Political issues might change rapidly in other countries, therefore being dependent on another country is extremely risky. In a worst case scenario, political changes lead to an expropriation, where a foreign government will take over the property and assets. Therefore, a country should not allow FDI in strategically important industries in order to save their comparative advantage and keep their independency on that industry. (Czinkota 2015, Regoli 2018.)

FDI also causes different monetary risks to the host country. Foreign investors sometimes strip business value without adding any. When a MNE's enters a country and slowly starts to increase its influence and take over local companies from the same field, its important to remember that the ownership of that company is abroad. While company employs people in a host country, it also exploits their knowhow and collects the value of their work. The actual capital gains from the company goes abroad, instead of staying in the host country. If a MNE is big enough in a small country, it is able to influence their exchange rates and increase costs in certain products. Foreign investors have less moral attachment to foreign country, which often results as unethical investments. FDI is often referred to modern day colonialism which exposes host countries to foreign influence, especially when developed nations do it to developing nations. Additionally, FDI can also bring in new trends and cultures, which results as erosion of a host culture. (Amadeo & Brock 2020.)

3 METHODOLOGY

3.1 Research methodology

The research method used in this thesis is mixed research based on secondary data from qualitative research and secondary data from quantitative research. A mixed method allows better assessment of the topic. With numerical measurement and in-depth explorations of the study can be more profound. China as a country provokes a variety of emotions amongst people from different areas, therefore the study will explore both Chinese and Finnish views of Chinese FDI with additional third-party assessments.

The aim of the research methodology is to establish a comprehensive understanding of the theoretical framework of FDI theories in the beginning. That includes literature reviews on internationalization theory and international investment theory. Then targeted industries are assessed with carefully chosen company accounts, news reports, articles, forecasts, and statistics from companies and countries involved in the FDI. Industries of the study were purposely chosen to be widely different to open up opportunities to assess Chinese investments from different perspectives, and altogether creating broader entity.

3.2 Data collection

All of the data for the study are collected as secondary data. The advantage of the secondary data is that it is easily available and takes less time to gather information. The difficulty of collecting primary data from Chinese investors due to the authors location in Finland and lack of funding led to a decision of resorting to secondary data. Secondary data is collected from carefully chosen financial reports, news, articles, literature, company websites, and from the European Union, the Chinese government, and the Finnish government ran institutions.

3.3 Validity and reliability of the study

As the flow of FDI from developing economies to developed economies is rather new phenomenon of the 21st century, the previous studies of the topic are scarce. Studies behind motives for Chinese FDI in small developed economies, in particular, are limited. Chinese FDI to Finland has been previously studied by Lintunen (2011) in his master thesis *Motives and Location Factors of Chinese Outward Foreign Direct Investments in a Small Developed Economy*, but since then the amount of Chinese FDI has grown dramatically. Other researches about Chinese FDI in Finland has been made by Li (2013) and Koistinen (2015). Because of scarce research on the topic, the amount of applicable information is limited. Lack of transparency from Chinese institutions also hinders credibility. The disadvantage of using secondary data is that the information might be outdated. Previous researched might have had different objectives, motives, or assumptions when they collected data for their own use. The collection method of previously researched are unknown, which might have had an impact on previous research. The outcome of the research without abundant data resources on certain topics might result as a narrow result of the thesis.

Futhermore the reliability and validity of the study are enhanced by using Finnish, Chinese, and third-party sources to allow perspectives from every party. Using official statistics and reliable sources from international organizations, national banks, and governmental organizations increase liability for the study. Using a mixed research method allows richer data findings, which can be backed up or confirmed with official statistics. To ensure reliability author must document sources of the original information.

4 CHINESE BUSINESS ENVIRONMENT

The world economy has changed rapidly ever since the People's Republic of China began its Open Door Policy in 1978 and made reforms on its economy where they took first steps towards free-market economy. Over the last four decades, China went through evolution from largely agrarian society to an industrial powerhouse. That process made extensive increases in productivity and wages. When China opened its doors to the rest of the world their total GDP was 149.54 billion US dollars, which accounted for only 1,75% of the world's economy. 40 years later in 2017, their economy was 82 times larger at 12.24 trillion US dollars and 15% share of the global economy, making it the second-largest economy in the world behind the United States. (Global Times 2018.) Since the 1980s, China's GDP growth annually has been around 10%, with the highest growth peak in 1984 at 15,1%, and the lowest at 3,9% in 1990 (The World Bank 2020). As can be seen from the graph below, the growth of total GDP in China has been enormous, and because of that 500 million Chinese have been raised from poverty.

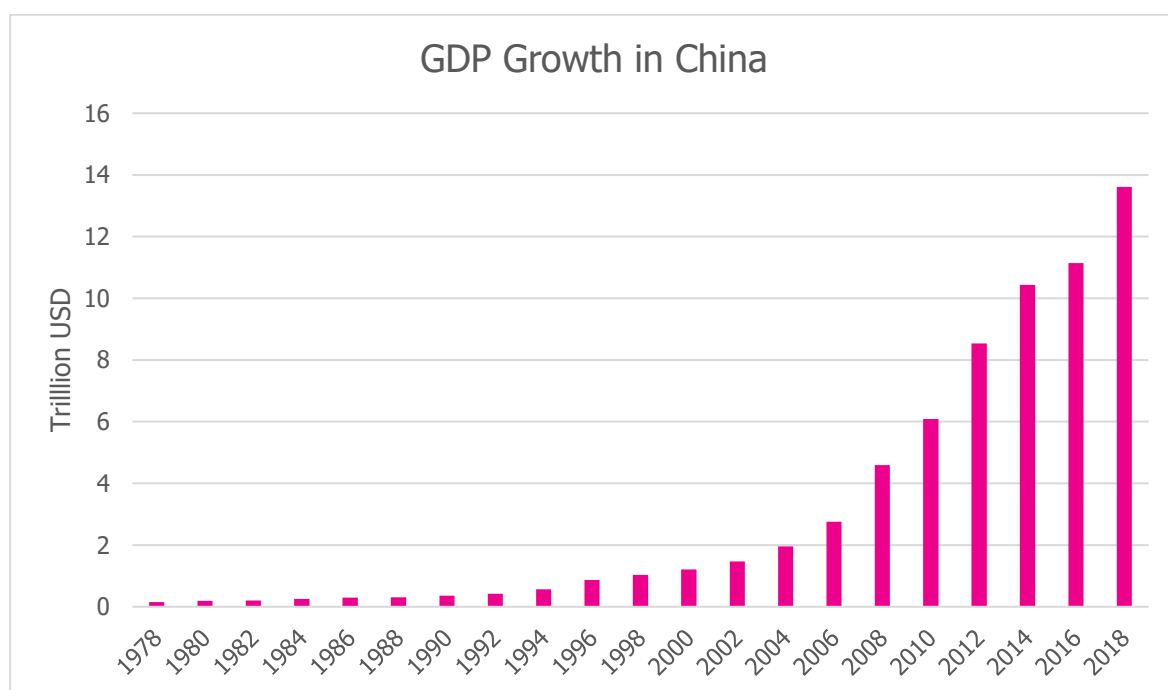


Figure 1. GDP Growth in China (World Bank 2020).

A year after Open Door Policy was introduced, the Chinese government allowed foreign capital to enter China, and that helped regional economies to boom. Not only did that boost Chinese GDP growth, but it also created urbanization and industrialization as workers had to move away from the countryside to higher paying-jobs in different industries. As a result of liberating the markets, China grew to a global exporter. In 2009, China took the crown of the world's largest exporter of goods (Investopedia 2018). Since 2013 China has been the largest trading nation of the world, a position which was previously held by the United States. Now China is set to take over the position as the world's biggest economy in the 2030s, and it could possibly grow to be twice as big as the United States in the future (Martin 2019).

Chinese growth to economic power has been exceptionally quick, and inward foreign direct investment is the single biggest reason for China's booming economy. As foreign companies invested to China, they moved their production or outsourced parts of their operations. China's advantage was its large population which allowed them to dominate labor-intensive industries. Especially manufacturers and producers in electrical goods, data processing technologies, clothing, textiles, and medical equipment have invested in China during the last four decades. (Investopedia 2018.) China was then able to gain knowledge, capital, and technology. Chinese regulatory environment to copyrights and patents is nonexistent, which offered an opportunity for Chinese companies to copy foreign goods and produce parallel products to market.

However, keeping up with hefty GDP growth decade after decade is almost impossible, because at some point a country is likely to run out of resources, like capital, labor, or raw materials. China's economic growth has been slowing down during the 2010s. In 2018, China's annual GDP growth was 6,6%, which is the lowest since 1990 (World Bank 2020). Since 2009, China has been trying to rejig its export-oriented economy to the one that is more oriented on domestic demand in order to stop the downturn (The Economic Times 2019). Instead of relying on low-cost exports, China has to grow its own demand to keep up the high GDP growth. Weakening domestic economy and deteriorating external environment, including trade tensions with the United States, and slowing growth in global economy are also factors in Chinese GDP's slowdown (Nicolaci 2019). Some economists believe that globalization has reached its peak, which might cause slowdown, especially in emerging economies. In fact, the trade war between China and the United States have some characteristics of deglobalization. (Kelley 2020.)

China is getting the second most inward foreign direct investment, and it has been one of the main destinations of FDI for a long time. However, the economic growth has had an impact on FDI trends, and in 2018 China had surged to the fourth biggest investor in the world, behind Japan, Germany, and France (World Bank 2020). The overseas investment gives China an ability not only to improve its own economy but also to use its economic power to expand its foreign influence. Partially motivated by Beijing's Going Global Policy that promotes investment in international markets, Chinese companies have in recent years aggressively extended their overseas presence and pursued investment opportunities across a variety of sectors. (China Power 2020.) As Chinese government liberated the outward FDI policies and Chinese corporations gained international competitiveness, the amounts of Chinese investments have skyrocketed. In 1999, Chinese companies invested roughly 4 billion USD abroad, and in 2016 the amount of Chinese investment was a record high at 216 billion USD. It has since then plummeted to 96 billion in 2018 and keeps still decreasing because of the current economical situation. Despite decrease, the volume that China is still investing abroad is enormous. (World Bank 2020.)

After the Chinese economy started growing and investments were coming out of China, it seemed that Chinese investors were not particularly interested in the European market. However, after 2010 the trend took a complete turnaround, and ever since the European market has been China's favorite investing destination. (Molavi 2019.) Chinese companies are targeting European companies especially

with knowledge and technology in software, intelligent manufacturing, and integrated circuits. Commonly they seek to gain them through mergers and acquisitions, but there has been also a small amount of greenfield investments. Investments are part of Chinese government Made in China 2025 Policy that seeks to turn China from the innovation-driven economy over investment-driven one. (Thorsen, 2019.)

4.1 Finnish - Chinese partnership

The relationship between Finland and China focuses on the trade and economic sector, and the relationship has been beneficial for both parties (Ulkoministeriö 2010). Finland was amongst first countries to recognize the People's Republic of China as an independent state in 13th of January 1950. The diplomatic relationship was established in 28th of October 1950, therefore this year will become the 70th anniversary of the partnership. In 1953, Finland became the first capitalistic country to establish a trade agreement with the People's Republic of China. As a result, Finland was able to reach a special status in the eyes of the Chinese government, which was confirmed by Finland's systematic support for China's United Nations membership. (Suomen Kiinan suurlähetystö 2020.)

The Finnish economy was heavily dependent on exports to the Soviet Union in the 1960s and 1970s. As the relationship between China and the Soviet Union cooled off, that had an impact on Finland's relationship with China as well. The 1960s were a restless time in China because of the *Cultural Revolution* and many countries broke their relationship with China, Finland was among those few who did not. After the communist leader and the father of the People's Republic of China, Mao Zedong, died in 1976, China slowly started shifting into industrialization and took steps towards the liberalization of their economy. In 1979, China began the *Open Door Policy*, which allowed foreign capital to flow into China. Previously build base for the Finnish - Chinese partnership was then followed by state visits by high officials, which led to a rapid growth of the partnership.

The present relationship is extensive with co-operation in various sectors. High official state visits are done regularly, and the countries discuss their partnership and future projects repeatedly. Ministry of Economic Affairs and Employment of Finland (TEM) and China's Ministry of Commerce (MOFCOM) established a Committee on innovative business during China's Chairman Xi Jinping's state visit to Finland in 2017 to elaborate co-operation between Finnish and Chinese companies. The Committee has four task forces specialized in the forest industry, energy, clean air, and maritime logistics. TEM and China's Ministry of Science and Technology (MOST) are working together on scientific and technological development. There are also organizations that support Finnish companies' entry to China and vice versa. Team Finland boosts companies' internationalization process, councils Chinese FDI flows to Finland and promotes country images. Team Finland services are offered by the Finnish embassy in Beijing, Consulate General in Shanghai and Hongkong, and local representatives in Beijing, Shanghai, and Chongqing. Central Chamber of Commerce has 15 bilateral trade associations, of which Finland – China Business Association is the most active. (Suomen Kiinan suurlähetystö 2020.)

China has taken an important role in the Finnish economy in a short period of time. Before 21st century China did not belong to Finland's top 10 trading partners, but in 2018 it was already the 4th biggest trading partner (BOFIT 2017, Suomen Kiinan Suurlähetystö 2020). Overall exports from Finland to China were 3,2 billion euros, which is 5,6% of the total Finnish exports. Imports were 4,2 billion euros, which accounted for 7% of total imports. (Romakkaniemi & Vuori 2019.) However, when considered investments and tourism, China might be the most important factor in the future economic growth of Finland. Between 2005 and 2019 Chinese companies had invested about 16.4 billion USD to Finland (American Enterprise Institute 2020). In proportion to its size, Finland is already China's favorite FDI destination in Europe, besides getting the most European investments from China 2019. In addition, the number of Chinese tourists in Finland increases rapidly. In 2019, 441 000 tourists from mainland China and Hongkong visited Finland with the growth being 14,5% from the previous year (Isoniemi, 2020). Chinese tourists are welcomed especially since on average they spend 1186€ during their visit when an average tourist visiting Finland spends only 367€ (Romakkaniemi & Vuori 2019).

4.2 Political environment

One of today's most important players in international affairs is the Chinese Government. The global economic and political influence of China threatens Western powers' prior supremacy. The Communist Party of China (CPC) has a great governing capacity, which has established China an essential framework for long-term and stable economic and social development. The CPC dominates state and society with a one-party system and the Communist Party is committed to maintaining a monopolistic position as the ruler of China with intolerance for those who question its right to rule. The party was founded on Marxist, socialistic, and communistic values, which the party has upheld to this day. (McDonald 2018.)

Chinese foreign policy has slowly been reformed since Chairman Xi Jinping took the office in 2013. The CPC has loosened its control over businesses in order to attract more companies to extend their relationship with China, and to create new jobs and wealth. Additionally, Xi Jinping's domestic policies have tightened the grip of CPC power on Chinese society and the internet. Xi's administration is looking for restoring Chinese pride and raise China to a leading position in the global economy and politics. The Chairman has strengthened his position by extending the power to himself, and to his close circle. (Koskinen 2019, McDonald 2018.)

China's ambition for rule over the global economy and politics is a challenge for the West since the country is gaining more power and willing to increase globalization, but still keeps its own market closed. Chinese legal system is also causing troubles for international competition because of its lack of transparency. Many European countries are dependent on the Chinese market, therefore they can not protest China's unfair trade practices. China also benefits from its one-party system, where the domestic protest is minimal or silenced, which allows them to practice systematic policies towards greater goals while in the Western democracies leadership is changing regularly and long-term plans are harder to implement.

4.3 China's global foreign direct investment strategy

China's global FDI strategy is based on *Made in China 2025 Policy* (MIC) that seeks to shift China's industries from low-end manufacturer to a high-end producer of goods. The aim is to reduce China's dependency on foreign technology imports and to develop its own innovative environment in order to compete both locally and domestically. Further motives include fighting climate change and pollution in order to reduce the health risks of the Chinese people. The plan was originally introduced in 2015 by Prime Minister Keqiang Li, and since then Chinese investment has increased dramatically, especially in Europe. The 10-year strategy focuses on ten key figures that China values as the most critical industries towards its own industrial evolution. Essential elements of this policy are to gain competitiveness against the Western developed countries and to retain position as a low-cost producer. (ISDP & Cyrill 2018.)



Figure 2. The Ten Key Sectors of MIC 2025 (ISDP, 2018).

Since China is developing its industrial structures with questionable practices at the expense of developed countries, has the situation led to a trade war with the United States. Intellectual property violations along with discrimination against foreign companies in China's domestic market has caused fear among foreign competitors. China has claimed that leading economies in high-tech industries, such as the United States, Japan, and EU, have expressed animosity towards the policy because it would create more competition for their own products. Fear over Chinese expansion has led to a tightened international atmosphere in politics. In addition, one of the targets mentioned in MIC 2025 was to increase self-sufficiency of core components and materials to 70% by 2025, which is against the World Trade Organization (WTO) rules. So far only the United States has pushed back by imposing tariffs on most of the ten key sectors of MIC 2025. (ISDP 2018.)

Furthermore, the Chinese FDI strategy is not limited to the MIC 2025 policy. Chinese MNE's are investing globally in infrastructure, such as geographically important ports, railways, highways, and

maritime roads. That all is part of the Xi Jinping's multi-trillion US dollar signature project called Belt and Road Initiative, which will be later discussed in more detail in this research. The motive behind that is creating new allies, especially in emerging markets. The goal is to have a market for Chinese products after MIC 2025 has reformed the Chinese industry to high-end producers of goods. As the Chinese relationship with the United States is troublesome, China is looking for expanding its influence on new markets and creating new partnerships so that the trade with the United States is not inevitable in the future. (Araya 2019.)

4.4 Corruption

Corruption and abuse of power have always been a part of Chinese culture. According to Transparency International (2020), China ranks 80th out of 180 countries in the corruption perceptions index in 2019. However, the constitutional secrecy surrounding corruption makes it hard to measure. The level of corruption is far higher than in any other high-income country. A high level of corruption causes a higher concentration of power, hierarchy, privileged position for those in power, and acceptance of inequality. (China Power 2020.) Since China is a one-party system with the Communist Party of China having strong decision-making power, it is hard to unravel the systematic corruption. Chairman Xi Jinping has launched a campaign to reduce corruption, but since the most crooked officials come from the same party that monitors corruption, the efficiency and reliability of the campaign is questionable. The number of Chinese billionaires reached 819 in 2018, of which 104 were members of the Communist Party of China (Chan 2018). That statistic reflects how the wealthy have power and influence over domestic policies in China.

Corruption can directly cause economic harm, such as tax evasion, money laundering, and other illegal activities, and disrupt market processes, raise business costs, and deter competition. Prevalent corruption can hamper competitiveness in the economy and can discourage foreign investment. Smaller companies operating in China have been found to be less competitive and efficient while competing against bigger rivals who can put more towards bribery. Chinese business culture evolves around *Guanxi*, which can be translated to "connections" or "relationships", where influential people tend to attract each other, which in turn creates a close circle that is exposed to corruption. This results as a practice where exploiting personal relations with influential people can open back door to obtain state resources, government projects, a green light to pollute, admissions to elite schools, or jobs in government offices. Lack of law, regulation, and transparency enables the possibility of corruption with *guanxi*. (Hui 2020.)

4.5 Intellectual property environment

Intellectual property violations in China are unfortunately common. Copying is part of the Chinese culture where a good copy is seen as a positive thing rather than something that should be resented. China is a well-known duplicator in technology and clothing industries, but its intellectual property thefts are not limited to those industries. During recent years they have copied entire cities to China. For example, there is counterfeit Paris in China, which goes by the name of Tianducheng. The Western

mindset for intellectual property rights is hard for the Chinese to understand because a common Chinese belief is that it does not matter who does it first, but who does it the best. The development of Chinese phone manufacturers was based on copying their competitors and then selling cheaper imitations, which has caused problems for Western competitors. (Seppä 2017.)

It is possible to get intellectual property protected, but the process to get it is slow and costly. Chinese are only respecting Chinese patents and copyrights; therefore, international laws have no power inside of China. Even though the Chinese government claims that they are fighting against piracy, it is not hard to see that it is not highly effective. However, as part of the Chinese industrial reforms, Chairman Xi Jinping wants that Chinese companies would rather spend on innovation, research and development than copying from the developed countries. Some major tech-companies have admitted that the copying has reduced during Xi Jinping's rule. (Custer 2015, Seppä 2017.)

5 CHINESE FOREIGN DIRECT INVESTMENT IN FINLAND

This chapter discusses the three main industries of this thesis. These industries are forest industry, technology industry, and transportation infrastructure. At first, the forest industry will be explained. The meaning of forest industry, its current situation, and Chinese FDI towards it is introduced. Then the technology industry's meaning to Finland is analyzed, which is followed by Chinese investments during the past decade towards the industry. Then the current condition of Finnish transportation infrastructure is explained. Then Belt and Road Initiative is explained to make it easier to understand the concept of Chinese investments towards infrastructure. Finally, Chinese transportation infrastructure projects in Finland are introduced.

5.1 Forest industry

The forest industry refers to the processing of wood into goods. It includes producers of pulp, paper, cardboard, packaging, and biofuel. Sawmills producing all kinds of boards, planks, roof trusses, and other prefabricated building elements are part of the forest industry. (Swedish Forest Industries 2020.) The forest industry is often divided into the pulp and paper industry, also known as the chemical forest industry, and wood products industry, which is also known as the mechanical forest industry.

The pulp and paper industry produces chemical and mechanical pulp. Chemical pulp is made by boiling chips of wood with chemicals, while the mechanical pulp is a product of grinding chips of wood. Both pulp products are intermediate products, that have been traditionally refined to paper and cardboard. The raw material of the pulp and paper industry is called fibrewood, which consists of small-diameter timber. It is obtained as a by-product from the mechanical forest industry, when large logs are sawn into boards and planks. The mechanical forest industry produces sawn timber, plywood, and other wood-based boards. (Forest.fi 2019.)

The chemical forest industry does not need to compete with the mechanical forest industry for raw materials. In fact, the situation is contrary. Pulp and paper industries depend on sawdust that comes from the mechanical forest industry, therefore collaboration between industries is important. The forest industry aims to utilize the whole tree that has been hewed down. As sawmills use the inner part of a log, the pulp production uses the rest. Even the stump of the tree can be used in energy production. This way the waste can be minimized. Sawmills can often cover their costs of production just by selling their sawdust to pulp production. (Forest.fi 2019.)

5.1.1 Current situation in Finland

Forest industry is the only Finnish industry that can produce goods to global markets while making a profit (Forest.fi 2019). The importance of the forest industry has always been significant for the Finnish economy. During the successful years of Finnish phone manufacturer Nokia many thought that the reliance on the forest industry was soon to be over. That belief turned out to be wrong. The forest industry still accounts for roughly 20% of Finnish exports, even though the amount has decreased

from the past. For the balance of trade, it is even more important since the Finnish forest industry does not need any imports, because raw materials, labor, machinery, and technology for that can be obtained from Finland. (Rothovius 2017.) According to the Chief Economist of Metsäteollisuus ry Maarit Lindström (2017), forest industry covers about 4 billion euros of Finland's annual budget, which is enough to cover all pension expenses. The industry is especially important for smaller cities and municipalities by creating jobs and keeping them vibrant. The forest sector indirectly employs about 140 000 people when the value chain and subcontracting are considered (Lindström 2017). In terms of size, Finland is the most forest-dependent country in the world. With its long relationship to forests, Finnish people have learned many valuable skills about forestry and the industry, which is their advantage in the global market. (Pirkola 2020.)

In 2019 Finland had 69 pulp, paperboard, paper, or paper processing mills in operation. Data from 2018 shows that there were 81 operating sawmills with an annual production of more than 10 000 cubic meters of timber. The number of smaller sawmills is estimated to be around 1200. (Forest.fi 2019.) In 2018, a total of more than 80 million solid cubic meters of raw wood were used in Finland. The majority of that, about 74 million cubic meters, was used by the forest industry. (Pirkola 2020.) The majority of the wood used by the forest industry is domestic. The forests are owned by 620 000 Finnish individuals and the Finnish government. Therefore, roughly 14% of the Finnish people are forest owners. Private people own about 60% of Finland's productive forest land, the government owns 26%, stockholders 9%, and the rest 5% are owned by other organizations. (Forest.fi 2019.) The Finnish forest industry is dominated by three domestic companies: UPM, Stora Enso, and Metsä Group.

Finland is the country with the most forests in Europe compared to its size. Forests cover more than 70% of Finland's area. From the land area, 86% is forestry land, which includes forest land (67%), low-productive forests (8%), and wasteland (11%). The greater part of the stand is pine (50%), and the rest are spruce (30%) and broadleaved trees (20%). (Metsäteollisuus 2020).

Finland's wood resources are fifth-largest in Europe, after Russia, France, Sweden, and Germany. Finland has a total of 20,3 million hectares available for wood production. For the last 50 years, the wood stock of forests has increased every year, as the annual growth of the stand has been higher than the removal. In 2019, Finland's forests grew approximately 107 million cubic meters and the total removal was about 87 million cubic meters. A total of 71 cubic meters of trunk wood was felled, of which 88% went to the forest industry and 12% to energy production. The rest of the removal includes the trunk tree left in the forest from the felling residue and the naturally died trees in the forest. (Metsäteollisuus 2020, Maa- ja metsätalousministeriö 2020.)

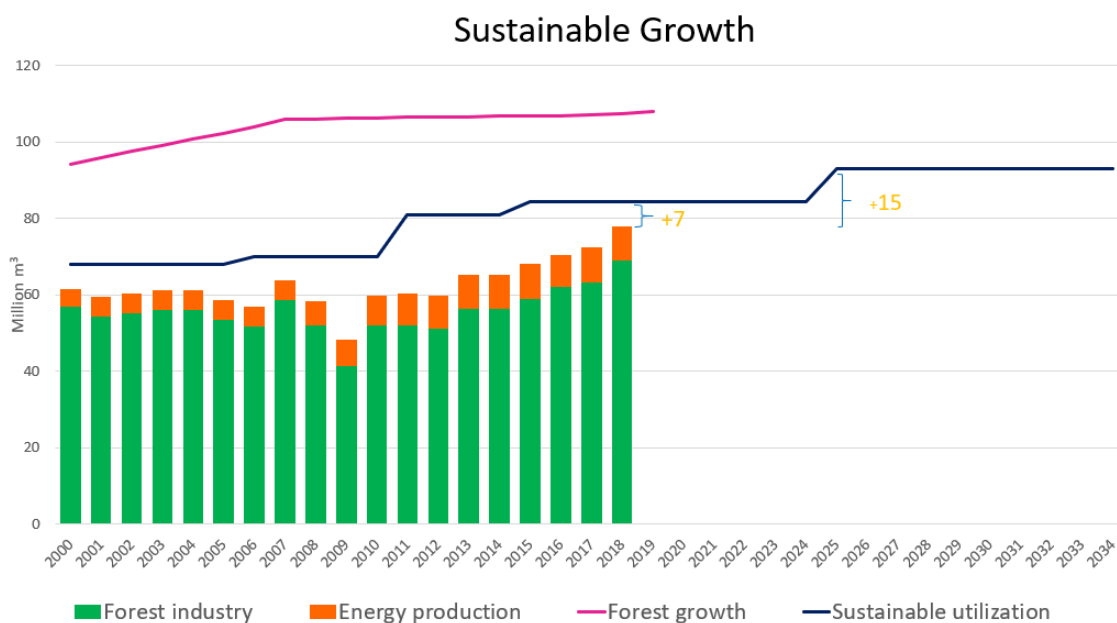


Figure 3. Sustainable Growth (Metsäteollisuus 2020).

Finnish forests have traditionally been harvested sustainably. As a result, there is potential for adding the harvesting volumes. From the graph above can be seen that by 2026, the number of felled trees could be 15 million cubic meters higher than in 2018. Sustainable forest management aims for better opportunities for future generations. Sustainable forest management covers the economic, environmental, social, and cultural sustainability dimensions. Economic sustainability requires long-term protection of the stability, efficiency, and profitability of the forests. Protecting forest biodiversity and keeping the waters clean requires measures to ensure ecological sustainability. Social sustainability means access for people and stakeholders for forest-derived benefits. Cultural sustainability respects nature's natural ecosystems and the relationship between people and nature. (Maa- ja metsätalousministeriö 2020.) According to Kuikka (2018), the amount of trees in 1990 was estimated to be 1,9 billion cubic meters. In 2018, the current stand was estimated at 2,5 billion cubic meters, even though Finns have harvested 1,9 million cubic meters of wood after 1990. That proves how effectively Finland has managed its forestry.

The global competitiveness of Finnish companies in the forest industry is good. However, while the produced goods are of high quality, Finnish companies suffer from expensive labor costs, rising wood prices, and workers' strikes. All the main production costs of the forest industry – wood raw material, energy, and labor costs – have risen significantly in Finland in a short period of time. In a highly competitive environment, cost increases cannot be passed on to product prices. The cost of wood raw material has risen more in Finland than in its competitor countries in a year. In addition, the European Union's emission trading and domestic energy tax solutions have increased the cost burden on the forest industry.

Finnish forest industry spends annually about 100 million euros for innovation inside Finland, and even more abroad (Pihljerta 2019). Forest research is diverse, and it has high standards. From an international perspective, Finnish forest expertise is one of the best in the world, which explains why most

of the forest engineers in Europe receive their education from Finland. (Forestcluster 2020.) Important areas for new business development in the forest industry are wood construction, packaging, textiles, chemical products, composite materials, and transit fuels. Just like in any other industry, innovation is important for the vitality of the forest industry as well. One of the most important aspects of Finland's forest industry competitiveness is its diversity and ability to create high-end products. Thus, high labor costs and high raw material costs can be minimized.

The forests are extremely valuable for the environment as they bind carbon dioxide. Also, wood-based products continue to store carbon dioxide throughout their service. Forest industry battles with the question of how to increase logging and grow carbon sinks at the same time. Finland has set its goal to be a carbon-neutral country by 2035, but at the same time the forest industry should be allowed to grow. (Ikävalko 2019.) Today, nearly half of Finland's annual carbon emissions from energy production are bound in three stock, soil, and wood products. The forest and land are the only mechanisms capable of capturing and storing carbon emissions. (Luonnonvarakeskus 2020.)

Forest sector has good future forecasts, even though climate change is a burden. The market for the forest industry is estimated to grow by 200 billion euros by 2030 (Lindström 2018). Global megatrends, such as population growth, globalization, urbanization, and increasing environmental awareness support the demand for goods from the forest industry. Finland's large and growing raw material potential, along with the knowledge and capability of producing high-end goods, provides an excellent position for the Finnish forest sector to meet the growing demand. For example, the European Commission proposed regulation to reduce plastic and promote recycling. (Kempas 2018.) Alternative packaging solutions for plastic could be wood-based packaging that is recyclable and decomposable. Opposition for plastic has been growing globally, therefore demand for alternative solutions already exists. The growth of the middle-class has also increased the demand for paper products. As people get wealthier, the amount of hygiene increases, and then people use more toilet paper and paper towels. Additionally, a shift in the transportation industry towards less polluting vehicles creates a lot of growth potential for the forest industry. Biofuels, such as biodiesel and biogas, can make a significant reduction in traffic emissions.

Finnish forest policy underwent a comprehensive overhaul in the 1990s. Sustainable forestry has been redefined, and ecological and social sustainability standards have been integrated alongside sustainable timber production. This principle was enshrined in all Finnish forest laws. The subsequent amendment, covering almost all of the Finnish forest laws, occurred in early 2010s. The key objectives were to improve the productivity of the forestry and forest sectors, abolish and reform legislation and increase competitiveness. Previously set laws on protecting the forests stayed the same. (Forest.fi 2019.) In the political atmosphere, the forestry sector is under constant discussion of the allowed amount of logging. The current government is not particularly cooperative with the forest industry since they prefer higher carbon sinks over growth of the forest sector. Consequently, possible upcoming regulation on logging overshadows the forest industry.

In order to stay competitive, the Finnish government must support greater use of wood and its fibers consumption. Legislation, standardization, and various regulations should support the forest industry, rather than limiting its development. Unjustified regulations of wood should be abandoned. Now there are regulations that are stricter on wood than on other raw material, because of the emission binding capability of wood. The EU, Finnish government, and other organizations should recognize Finland's role as a pioneer of the forest sector because that would have a greater benefit on the environment. (Metsäteollisuus 2009.)

5.1.2 Bioeconomy

Bioeconomy means the production that produces, uses, processes, and markets all renewable resources, as well as the consumption of products made from renewable resources. Finland's forests, fields, and waters provide plenty of raw materials and create conditions for environmentally based facilities. The usage of bio-based products aims to reduce the consumption of fossil fuels, such as oil, coal, and plastic. (Biotalous 2020.) Another goal of bioeconomy is to save natural resources and to exploit used raw materials efficiently. Bioeconomy is divided into green, yellow, and blue bioeconomies. Green bioeconomy represents forest-based production, yellow stands for agriculture, and blue is water-related economy (Maa- ja metsätalousministeriö 2020).

The global demand for bioeconomy solutions increases strongly. Finland is known as a forerunner of biobased expertise and innovative solutions. (Business Finland 2020.) Companies, especially in the forest industry, can seek growth from the bioeconomy. A massive global market exists for bio-based textiles, packaging materials, and other environment saving materials. Climate change and scarcity of natural resources increase the reliance on developing new technologies that satisfy future needs without harming the environment. The Finnish forest industry has been turning into bioproduct industry over the past ten years, and conventional mill sites in the forest sector are becoming bio-product mills (Maa- ja metsätalousministeriö 2020). Finland's future in the forest industry can be built on this development since other countries want to gain similar knowledge and technology to reduce their emissions and usage of raw materials.

5.1.3 Chinese investments and future projects

China has become a driving force for Finnish forest industry projects. There are currently 4 large projects in the forest sector, and all of them have received Chinese FDI. These investments are part of China's *Made in China 2025* policy where China seeks to gain knowledge of the forest industry from the Finns, and also to protect their future supply of pulp. The investments are future factories that would produce softwood pulp, regular pulp, and bioproducts. Finland has softwood fiber for sale at a competitive price, and usually the factories should be in 100-kilometer range from the raw material. Therefore, building factories in Finland is essential. (Toivonen 2018.)

China has about 5% of the world's forests, but that is not enough to satisfy its own demand. Chinese forest sector consumes 500 million cubic meters of wood annually, which is 14% of the world's annual consumption. Most of the wood is used on construction (25%), paper and pulp production (29%), and furniture (19%). China is the world's largest producer and exporter of wooden products. (Svahnäck 2015.) China has doubled its forest areas since 1980, but still the demand for wood is so huge that about 40% of the consumed wood must be imported (Kjellberg 2018).

Pending large forest industry projects:

1. Boreal Bioref, Kemijärvi, 900 million €

Boreal Bioref is planning a bioproduct mill in Kemijärvi, which is located in the southeastern part of Lapland. The factory capacity would be 500 000 tons of biomaterials and biochemicals. Produced goods would include soluble pulp, long fiber market pulp, microcrystalline pulp, tall oil, and bioenergy. The factory would offer over a thousand jobs. (Tynkkynen 2019.)

In the beginning, the funding for the project came mainly from Chinese Camc Engineering (Camce). The primary plan was to have Camce as the main owner with over 51% of the shares and the rest of the factory would be owned by European and Finnish investors. (Niskakangas 2016.) According to the latest news from Boreal Bioref, it seems that the Chinese will become minor owners after all. However, the intended market for produced goods is in China. Chinese cardboard company Shanying has also shown interest in this project. (Kaihlanen 2019.) The final decision of the funding was supposed to be announced in the beginning of 2020, but the spread of coronavirus might have delayed the decision.

2. Finnpulp, Kuopio, 1 600 million €

Finnpulp is planning a new generation bioproduct mill that would become the biggest in the world. Originally the mill was planned to be built in Kuopio, but that might have to change because its environment permit was denied. The mill aims to become the most modern and efficient producer of softwood pulp in the world. In addition to pulp production, the mill would produce bioproducts. If the mill is run at full capacity, it could produce 5% of the world's total pulp. Finnpulp is set to present modern pulp production with automated, efficient, and carbon-neutral technology. (Finnpulp 2020.)

Finnpulp's owner base is divided between China's biggest tissue paper producer, Hengan International, which is listed in Hong Kong Stock Exchange, and the Finnish forest industry. Owners represent world-class expertise of the forest industry and the fastest-growing market of softwood pulp. (Finnpulp 2020.)

3. KaiCell Fibers, Paltamo, 900 million €

KaiCell Fibers is planning a mill in a municipality of Paltamo, which is located 130 kilometers to south-east from the city of Oulu. The original plan was for pulp to be processed into Arbron fiber at the mill for the needs of the textile industry. KaiCell Fibers signed a cooperation agreement with Chinese textile corporation CHTC Group in 2017. Together KaiCell Fibers and CHTC Group could commercialize the product. (Honkanen 2020.) CHTC Group was interested in the Finnish bioproduct factory because the Arbron technology is a Finnish innovation (Kaleva 2019).

At the end of 2019 KaiCell Fibers announced that no funding from China was received, so the cooperation agreement was terminated (Jouslehto 2019). KaiCell Fibers also abandoned the production and development of Arbron and is now continuing the project as a regular pulp mill with funding from Europe (Häyrynen 2020).

4. Kaidi, Kemi, 900 million €

Kaidi plans to build a second-generation biorefinery in Kemi, Finland. The biorefinery would use wood-based biomass as raw material, such as energy wood, harvest residues, and by-products from sawmills. If implemented, the refinery would be the first second-generation biorefinery, with wood-based biomass as its main raw material. The refinery would produce approximately 200 000 tonnes of biofuel annually, of which 75 would be renewable diesel and 25% renewable gasoline. Estimated value is around 900 million euros. (Kaidi 2020.)

Kaidi is owned by Chinese Sunshine Kaidi New Energy Group, a corporation that focuses on renewable energy production, energy products, and environmentally friendly solutions. It is among the biggest biorefining actors in China. (Kaidi 2020.) At the moment, the project's funding is having trouble. An environmental permit has already been approved, but if the refinery is ever going to be built is still unclear. (Kallio 2019.)

5.2 Technology industry

Technology industry is a sector that focuses on research, development, manufacturing, and production of technologically based goods and services. It consists of sectors that are linked to one and another: electronics and electrical industry, machinery and metal products industry, metal processing, design, consulting, and ICT industry (information and communications technology). The electronic and electrical industry manufactures telecommunications equipment, electrical machinery, and instruments. Products from the machinery and metal products industry include cruisers, marine and power plant engines, paper machines, elevators, and forestry and agricultural machinery. Metal refiners manufacture and further process steel and copper products, stainless steel, zinc, nickel, and castings. ICT companies make softwares and provide IT services and consulting, database services, and content production. Gaming industry is also included in the ICT, which is the fastest-growing entertainment industry in the world. Companies from the sector employ in game development, publishing, teaching,

and research. The design and consulting industry provide technical design services for industry, building construction, and civil engineering. (Frankenfield 2019, Ammattinetti 2020.)

Companies in the technology industry offer diverse, high-skilled jobs to those who have acquired the most training in technology. The success of the technology industry depends on skilled personnel and an operating environment that encourages growth. The development of the technology sector benefits both businesses and individual customers by offering better products, like personal computers, mobile devices, wearable technology, home appliances, and televisions. Businesses are depending on technology to improve their operations. Logistics, softwares, protection of databases, and collecting data from customers are some of the important functions that the technology industry makes possible for businesses. (Frankenfield 2019, Ammattinetti 2020.)

The technology sector is often the most attractive destination for FDI in any economy because it offers tremendous investment opportunities. Many companies have been able to grow rapidly by creating a production line that has never been done before. These developments offer investors better opportunities for maximized growth than any other industry. However, keeping up with the development is not easy, so investments are risky. Competition produces a steady stream of new and improved goods while making others redundant, which also ensures that a technology business will collapse as quickly as it is popular. (Frankenfield 2019.)

5.2.1 Finland's position in technology industry

The technology industry is the most important sector for Finnish exports. It is also the most significant industry for the source of livelihood. Finland is an integral part of the world economy, and foreign trade forms a significant part of Finland's annual GDP. Foreign trade has far-reaching effects on the Finnish economy, as a functioning foreign trade attracts foreign investors and at the same time activates domestic business. Finland is currently building its future success in the technology industry. Technology companies invest 5 billion euros every year towards research and development, which accounts for 70% of Finland's annual investment for industries. Today Finland is one of the world's leading countries in new technology. (Teknologiateollisuus 2020.)

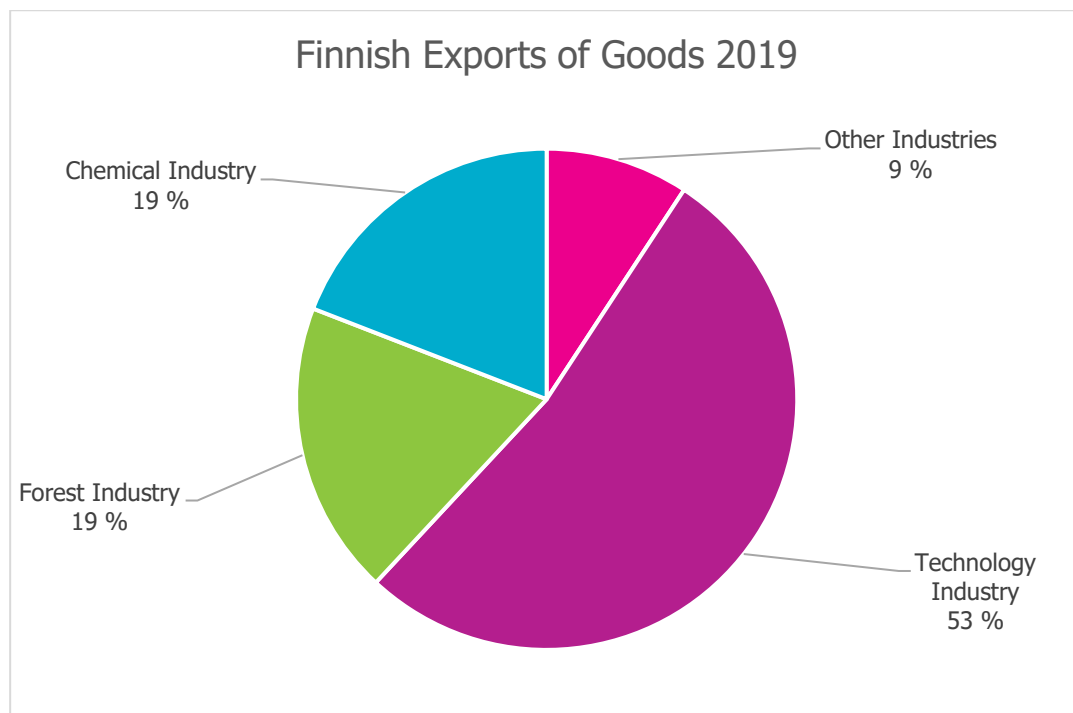


Figure 4. Finnish Exports of Goods 2019 (Teknologiateollisuus 2020).

The share of technology companies in the total exports of Finland is about 50%. Technology industry directly employs 320 000 people in Finland, and if indirectly employed are included the number is 675 000. Every year the technology companies pay about 15 billion euros worth of salaries and social security contributions. The total turnover of the companies in the technology sector was 123,9 billion euros in 2017. That created a total of 54,5 billion euro added value towards Finland's gross domestic product, and 18,2 billion euros of taxes. Technology industry's share of the total GDP was 28%, 19% of taxes, and 25% of employed people. (Teknologiateollisuus 2018.)

Finland is a small country on a global scale on the technology industry, but it has a large effect on the expertise and development of the sector. For decades Finland has been one of the most advanced countries in technology. Specialization is important in the industry, and there are particular sectors where Finnish companies are strong in the global market. For example, pulp and paper machines, cranes, elevators, construction machinery, mining machinery, forestry machinery, and luxury cruise ships are Finnish special expertise. In addition, Finns are especially good at the utilization of artificial intelligence and automation on a global level. Some of the well-known companies from Finnish technology industry are KONE, Nokia, Wärtsilä, and Outokumpu. Finland cannot compete with bulk production, because of high labor costs, therefore they need to focus on high-quality products. (Opetushallitus 2020, Lampela 2019.)

The technology industry is undergoing structural reforms, mostly because of digitalization. To keep up with the development, Finland has created an education system that supports the know-how of future generations. Companies are actively cooperating with local universities. Global megatrends, such as urbanization, climate change, scarcity of resources, and the aging population are increasing demand for high-quality products. The only way to tackle these problems is to focus on developing and bringing on new innovative products.

The raw materials used in the technology industry are non-renewable. However, metals can be recycled indefinitely. Recycling is an essential part of the industry, and there are companies that focus on it. Rising costs of energy and raw materials, along with the uncertainty of access to them force companies to make value-added products and to develop more efficient technologies. The role of the technology industry in the production of clean technology is important. (Opetushallitus 2020.) The Finns are pioneers of producing sustainable practices, equipment, and services. Climate business, low carbon, and the circular economy are global hot topics. Finland's next success story might be in clean technology that could help with the fight against climate change and lower carbon emissions. (Teknologiateollisuus 2016.) According to Sitra (2015), the recycling economy has 1,5 to 2,5 billion euros growth potential to the Finnish economy, and the global economy potential is up to 800 billion euros.

5.2.2 Chinese investments in Finnish technology industry

Made in China 2025 Policy is also reflected in the investments in the technology industry. Investments are targeting China's economic and industrial reforms where China seeks to gain the ability to produce high-end goods and to increase its domestic demand. In order to do so, China has invested a lot of money to foreign technology companies. Finland has been one of the most favorite destinations for Chinese FDI because the countries have had a great relationship in the past and the Finland is an advanced country in the technology sector.

Investments in research and development in China has risen by 70% from 2012 to 2017. China is also investing in industrial parks that focus on artificial intelligence, robotics, and data analytics. (Charlton 2019.) Big companies, such as Baidu, Alibaba, and Tencent, are investing globally to seek growth and competitive advantage in the global market. All of the before mentioned companies have also invested in Finland. Investments include research centers, acquisitions of Finnish companies, greenfield investments, and buying voting stocks.

Below are listed notable Chinese FDI on Finnish technology over the past decade:

1. Supercell LLC

In 2016, Chinese Tencent bought 72,2% of Supercell's stocks from Japanese SoftBank. The deal was worth 6 500 million euros. In addition, Tencent bought more stocks from other owners, reaching 84% of the total ownership. Supercell is a Finland-based company in the gaming industry. Headquarters are in Finland, and the taxes are paid there as well. The most famous games from Supercell are Clash of Clans, Hay Day, and Boom Beach. At the moment Supercell is one of the biggest mobile gaming companies in the world. (Lappalainen 2020, Huotilainen 2016.)

2. Okmetic LLC

In 2016 Chinese company, National Silicon Industry Group, acquired Finnish Okmetic that produces silicon wafers for the semiconductor industry. National Silicon Industry Group made offers for every stock at the price of 9,20€ per stock with an additional 0,65€ as dividends per stock, which was 30% higher than Okmetic's stock value at the time. (Junttila 2016.)

3. Rightware LLC

The Finnish automotive software company Rightware was sold to Chinese Thundersoft in 2016. Thundersoft acquired all stocks for the price of 64 million euros. Rightware's flagship product is Kanzi-software that was used by 20 car manufacturers in 2016. (Rainisto 2016.)

4. Valmet Automotive LLC

Chinese battery company Contemporary Amperex Technology (CATL) became one of Valmet Automotive's main shareholders with the purchase of 22% of stocks in 2017. Valmet Automotive is a Finnish contract car manufacturer. Valmet Automotive's business processes include car manufacturing and design as well as kinematic products, such as convertible roof systems and deflectors. (Räisänen 2017.)

5. Salcomp PLC

Chinese Linqyi iTech, which develops, manufactures, and sells magnetic materials and products, acquired Finnish-based Salcomp for 88 million euros in 2019. Salcomp Oyj is a Finnish electronics company and the world's largest manufacturer of mobile phone chargers. (Parviainen 2019.)

6. Deltamarin Group

China's state-owned aircraft manufacturer Aviation Industry Corporation of China (AVIC Group) purchases a majority of Finnish Deltamarin Group for 32 million euros in 2012. Deltamarin is a company that provides ship design, offshore engineering, and construction support for the marine and offshore industries worldwide. (Talouselämä 2012.)

7. Beneq LLC

In 2018, Chinese SRI Intellectual bought Finnish Beneq completely. Beneq is a Finnish company specialized in the production of transparent displays and thin-film coating technology for smartphones. The purchase price was disclosed from the public. Beneq uses Atomic layer deposition method (ald) for its products, which is a technology invented by Finns. Growing demand for the technology in the Chinese market made purchase essential for SRI Intellectual. (Tamminen 2018.)

8. MariaDB

In 2017, Finnish open-source database company MariaDB received 23 million euros of funding from the Chinese technology giant Alibaba's subsidiary, Alibaba Cloud. MariaDB is becoming the leading standard for open source databases for the enterprises. (Lappalainen 2017.)

9. Indoor Atlas LLC

Finnish company Indoor Atlas received 7,6 million euros of funding from the Chinese search engine giant Baidu in 2014. Indoor Atlas specializes in the development of indoor tracking that allows navigation inside large buildings, such as shopping malls and exhibition halls. (Talouselämä 2014.)

10. Lifa Air Group

Finnish Lifa Air Group received an investment of 21 million euros from the Chinese consumer electronics manufacturer Edifier in 2015. With the investment Lifa Air and Edifier established a joint venture called Air Purification System in Dongguan China. Air Purification System manufactures air purifier systems for the consumer market. The ownership of the joint venture is divided into 70% shares of Edifier and 30% of shares for Lifa Air. (Rakennuslehti 2015.)

11. Progman LLC

In 2014, Chinese Glodon Software acquired Finnish Progman, which develops building technology softwares (Semkina 2016).

12. Spreadtrum Communications

Chinese Spreadtrum Communications, today known as Unisoc, established Spreadtrum Finland in 2014. Spreadtrum Communications is the third-largest supplier of chipsets to mobile phones. In the Finnish office focuses on high-level design. (Mikkola 2015.)

13. Wuda Geoinformatics LLC

In 2014, Chinese Wuda Geoinformatics opened an office in Espoo, Finland. By expanding to Finland Wuda Geoinformatics is looking to integrate into the Finnish innovation ecosystem. (China Daily 2014.)

14. Huawei LLC

In 2012, Chinese network company Huawei established a research and development center in Helsinki. The investment was worth 70 million euros. Helsinki's office focuses on software development. Four

years later Huawei expanded to Tampere, where they established a research and development center focusing on audio and camera technology. (Vuorimäki 2016, Kaleva 2012.)

15. PowerVision

In 2016, Chinese unmanned aerial vehicle and diving drone manufacturer, PowerVision, opened research and development in Tampere and the head office in Espoo. Finnish know-how serves the needs of PowerVision product development needs. Strong expertise created by the Finnish mobile phone industry, especially in the development of wireless communication systems, imaging technologies, sensors, and positioning technologies supports the PowerVision's goals. (Eronen 2018.)

16. Xiaomi

Smartphone giant Xiaomi opened a research and development center in Tampere in 2019. It is Xiaomi's biggest research center outside of China. The center focuses on technology expertise related to smartphone cameras, such as camera algorithms, machine learning, signal processing, and image and video processing. (Hussey 2019.)

17. AAC Technologies LLC

Chinese supplier of microcomponent and consumer electronics solutions AAC Technologies opened its European head office in Tampere in 2019. The company invested 8,9 million euros to its Finland's office. The office's main purpose is to develop camera technologies. (Rämö 2019.)

5.3 Transportation infrastructure

Transportation infrastructure includes railroad networks, maritime networks, road networks, and air routes. Additionally, terminals, ports, and airports are included. It describes a structure that allows the movement of vehicles and people. Transportation infrastructure is a part of the infrastructure and it has an important role in society.

5.3.1 Transportation infrastructure in Finland

Finland's northern location, size of the country, and distance between cities create challenges for Finnish transportation infrastructure. During the winter, the water routes freeze, and railroad and road networks are covered with snow. Frost and winter tires wear the condition of the roads, which results in never-ending rehabilitation of the roads. Finland is isolated from the rest of Europe by the Baltic Sea. However, Finland shares its eastern border with Russia, and from the north it is connected to Sweden and Norway. Lapland, the northern part of Finland, is sparsely populated and does not have any bigger cities, therefore the trade with Sweden and Norway is also made mostly by waterways.

The Finnish network of roads includes highways, municipal streets, and private roads. The Finnish Transport Infrastructure Agency takes care of maintenance and development of state-owned road networks. The whole network covers about 454 000 kilometers; State has 78 000 kilometers of roads, municipalities have 26 000 kilometers, and the rest 350 000 kilometers are privately owned. Freeways cover only 900 kilometers of state-owned roads and the rest are highways. There are 50 000 kilometers of paved roads. The Finnish Transport Infrastructure Agency is also responsible for the maintenance and development of railroad networks. At the end of 2018, the length of Finnish railroads was 5 926 kilometers, of which 3 300 were electrified. Railroad network is connected to Sweden from Tornio, and to Russia from Niirala, Vainikkala, Imatrankoski, and Vartius. Most of Finland's maritime networks are maintained by the Finnish Transport Infrastructure Agency as well. It is also responsible for inland water routes and canals. The maintenance and development consider the needs of merchant shipping and other waterborne activity. Approximately 16 300 kilometers of water routes are maintained. (Väylävirasto 2020.)

Finland has only one passenger railroad company, Valtion Rautatie, which is state-owned. Most of the Finnish cities use only buses as their method of inner-city public transportation. Only Helsinki and Espoo have a metro, which at the moment covers 35 kilometers and 25 stations (Helsingin kaupungin liikennelaitos 2020). Additionally, Helsinki has comprehensive tram network, and the city of Tampere is currently building its tram. At the moment, the connections between cities are ineffective because of slow trains, the lack of connections, and a limited amount of freeways. The maximum allowed speed of Finnish passenger train is 220 km/h (Ervasti 2018). According to YLE (2013), people from the Helsinki metropolitan area are satisfied with the transportation network, but not with the flow of traffic. Helsinki has the best and most comprehensive public transportation in Finland and even their flow of traffic is questionable, which well describes the situation in all of Finland.

Finland's location causes longer travel times abroad. As mentioned before, the Finnish railroad network connects Finland only to Sweden and Russia. The rest of Europe is possible to reach by ferry or a plane. There are three major passenger shipping companies in the Baltic Sea: Silja Line, Eckerö Line, and Viking Line. Most of Finland's air traffic comes from partly state-owned Finnish airline Finnair. Finland's main airport is Helsinki-Vantaa airport, which is used by many international airlines as well. However, the location of Finland makes it expensive and slow to travel to another country.

5.3.2 Belt and Road Initiative

Belt and Road Initiative (BRI), also known as One Belt One Road, is a Chinese megaproject that aims to improve the connectivity and cooperation among Asia, Africa, the Middle East, and Europe. It is a brainchild of China's chairman Xi Jinping. Belt and Road Initiative was originally introduced in 2013 to recreate the ancient Silk Road that connected Asia to Europe in the past. It is a continuation of "Going Out" Policy that was introduced in 1999, which promoted Chinese investments abroad and courage Chinese companies to go international. Now that China has been open to the rest of the world and is catching up with developed nations, they seek to develop relationships in the countries involved in the project. By doing so, China can strengthen its future position as the world's number one economy.

Globalization and increased world trade require large investments in logistics, and the Belt and Road Initiative might be the largest and most ambitious project in its entirety. (Shobhit 2020, Martikainen 2018.)

There are two parts to the project. The first part, belt, stands for Silk Road Economic Belt, which includes land-based projects that connects China with Central Asia, Eastern Europe, and Western Europe. The second part, road, means a new 21st Century Maritime Silk Road, which is sea-based and would connect Southern China to Mediterranean through South-East Asia, Africa, and Central Asia. Names are confusing, as the belt is for actual roads, and the road is for maritime routes. The BRI involves building power grids, oil and gas pipelines, maritime ports, road and railroad networks, and other associated infrastructure projects. There are currently 78 nations involved in the project and China has invested an estimated 4 to 8 trillion USD in total towards the projects in different countries. (Shobhit 2020, Belt & Road News 2020.)

In 2015, China announced the main goals for the initiative: policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bonds. Basic principles of the action plan are to respect the sovereignty and territorial integrity of the states, reciprocal abstinence from attack, not interfering in the internal affairs of another state, seeking equality and mutual benefit, and peaceful coexistence. (Hielscher & Ibold 2020, Martikainen 2018.)

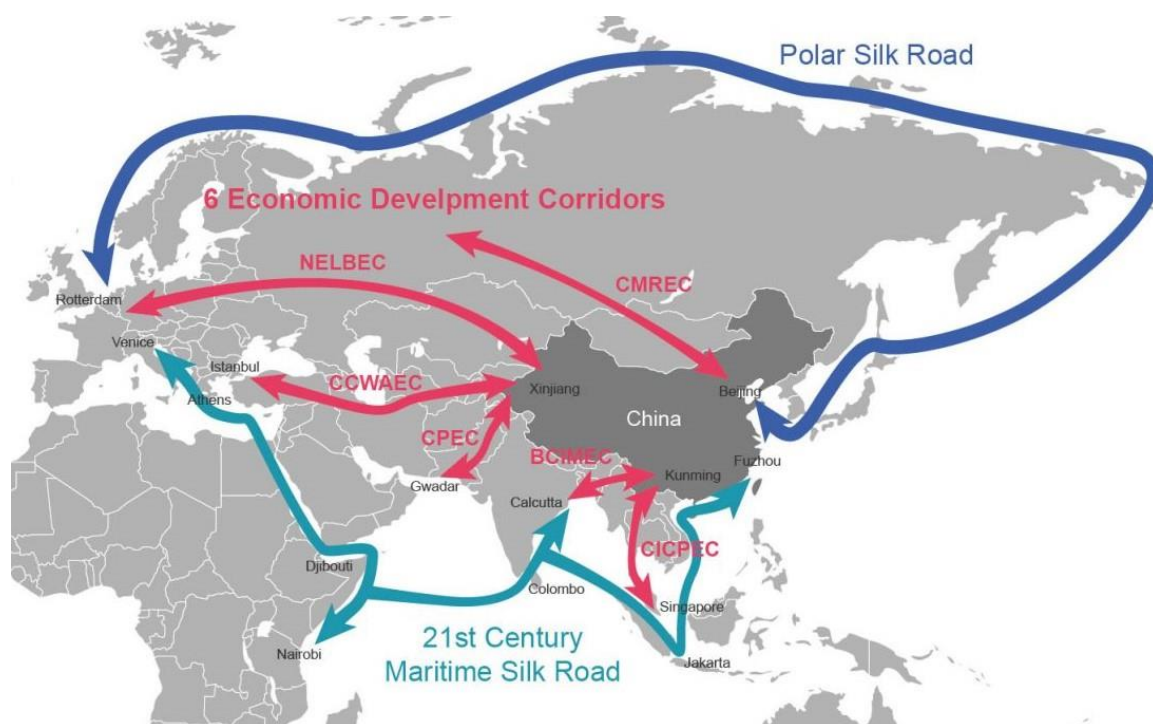


Figure 5. Belt and Road Initiative (Hielscher & Ibold 2020).

Belt and Road Initiative contains six main economic corridors and two maritime routes:

1. New Eurasian Land Bridge Economic Corridor (NELBEC)
2. China-Mongolia-Russia Economic Corridor (CMREC)
3. China-Central Asia-West Asia Economic Corridor (CCWAEC)
4. China-Indochina Peninsula Economic Corridor (CICPEEC)
5. China-Pakistan Economic Corridor (CPEC)
6. Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC)
7. 21st Century Maritime Silk Road
8. Polar Silk Road

5.3.3 Chinese transportation projects in Finland

As the Finnish – Chinese partnership is developing and trade between countries increases, is there a growing demand for logistics opportunities. In 2017, the first railroad connection between China and Finland was opened. The route goes between the city of Kouvola in southeastern Finland to China's ancient capital, Xi'an, which is located in central China. The project was funded by Finnish investors and the city of Kouvola. A year later, another company called Nurminen logistics opened another connection between Helsinki and Hefei, which was also funded by the Finns. Kouvola – Xi'an connection is now operated only by appointment, and the connection between Helsinki and Hefei regularly go every other week. However, both connections aim for a regular train both ways every week. (Herrala 2019, Mauno 2017, Skön 2019.)

Furthermore, China seeks to invest in Finnish railroad projects as part of the Chinese Belt and Road Initiative. Europe lacks a fast connection to the Arctic Ocean, which would allow faster access to Asian ports than the maritime route through the Suez canal. Opening a Polar Silk Road is part of China's international strategy, which is no secret. To pursue this goal Chinese have shown interest in two infrastructure projects in Finland. At first, China seeks to link Continental Europe and Finland with a tunnel between Helsinki and Tallinn. Secondly, Helsinki would be linked to the Arctic city of Kirkenes in Norway. Kirkenes is a small town on the shore of the Arctic Ocean. It would serve as a European harbor place for the Polar Silk Road. At the moment Rovaniemi is the closest city that can be reached from Helsinki, therefore a connection between Rovaniemi and Kirkenes is needed. Connection via the Arctic Ocean would reduce travel time from Rotterdam, the biggest port in Europe, to Shanghai approximately by 2 weeks. Currently, the travel time from Rotterdam to Shanghai is up to 40 days. (Hielschr & Ibold 2020, Huusko 2018.)

Chinese investors have shown interest in a tunnel that would link the city of Helsinki and Tallinn, the capital of Estonia. Tunnel under the Gulf of Finland would speed up the travel to Europe. Berlin could be reached within 4 hours from Helsinki, and the travel time from Tallinn to Helsinki would be around 20 minutes. The tunnel would connect the Finnish railroad network to continental Europe. The project run by FinEst Bay Area Development is managed by a Finnish businessman Peter Vesterbacka, and it has received potential investors from China. The estimated cost of the project is around 15 billion euros. Peter Vesterbacka and Chinese Touchstone Capital Partners agreed to a letter of intent in 2019 where Chinese investors would own under 50% of the tunnel. (Mäntylä & Salokorpi 2019.) The tunnel between Tallinn and Helsinki is at the moment more topical than the connection from Rovaniemi to Kirkenes, therefore the investors for that are unclear, but the Chinese have shown interest. Finnish officials made a research on the Rovaniemi – Kirkenes connection and found it to be unprofitable so far. However, the project was left open, and it could turn out to be profitable if the tunnel is completed in the future. (Lamminsivu 2019.)

6 FINDINGS

The main findings of the thesis will be discussed in this chapter. Findings are going to be under divided into three categories: motives, possibilities, and threats. At first, motives behind Chinese FDI to Finland are examined on the base of Dunning's FDI theories. Motives are divided into market seeking, strategic asset seeking, efficiency seeking, resource seeking, and other motives. Secondly, possibilities of Chinese FDI in Finland will be analyzed. The analysis contains Chinese presence in Finnish economy as a whole, and it is then divided into the case industries. Lastly, analysis of the threats is done in similar style as in possibilities.

6.1 Overview of Chinese foreign direct investment motives in Finland

From the Chinese investor's perspective, Finland is a great destination for FDI. Finland is in a special position because it is attractive for companies and for the Chinese government. Being one of the world leaders in technology and innovation Chinese companies are interested in Finnish know-how and Finland has managed to avoid confrontation with the Chinese government, so there are no political tensions. It is clear that Made in China 2025 policy together with Belt and Road Initiative are the biggest factors behind China's investments abroad, but to create a better understanding of the opportunities and threats of Chinese FDI, the motives behind the investments must be regarded more specifically. Chinese motives for outward FDI to Finland are inspected on the basis of Dunning's taxonomy of FDI motives.

6.1.1 Resource-seeking foreign direct investment motives

Resource-seeking FDI motives include physical natural resource and raw material seeking, low labor cost seeking, and managerial expertise and higher quality seeking. Finland having one the world's highest labor costs, the low labor costs seeking is obviously not a motive behind Chinese FDI. Resource-seeking FDI's from China to Finland is increasing mostly because of the growing demand for the Chinese forest industry. Chinese trade of foreign forest products in 2018 was 160 billion U.S. dollars in total, making it the largest trading and consuming nation of wooden products (Xinhua 2019). China is consuming the second most paper in the world, and its paper industry is growing every year. Paper consumption is directly proportional to GDP growth. As the population gets rich more paper is needed. (Jaatinen 2004.) Megatrends, such as the aging population, rising middle class, urbanization, and climate change increase the demand in the forest sector, and China is not capable to get the needed raw material from its own forests. Only a minority of the Chinese forests grow tree species that can be utilized in the production of pulp, therefore Chinese MNE's rely on foreign wood supply. To keep production costs low, the pulp mills need to have their raw materials within 100 kilometers from the mill. In order to protect its own supply of pulp, Chinese FDI on foreign pulp mills are essential. Finland's abundance of forests and their little own demand offers a possibility for foreign biorefineries. Additionally, Finnish forestry has been effective, and the stand has grown, so Finnish forest owners can sell wood at a competitive price in the future as well, which makes the investments in Finnish mills profitable for Chinese investors.

Higher technology, managerial expertise, and higher quality parts and components are other resource-seeking motives for Chinese FDI in Finland. The forest industry in Finland has one of the most advanced in the world, if not the best. Finnish experts have mastered how to produce efficiently pulp and bioproducts, therefore Chinese companies could learn from the Finns. Three of the four planned biorefineries would become second-generation factories, with advanced technology that the Chinese are not capable of doing. In the technology industry FDI has gone towards Finnish companies with skilled experts and high-quality components, or the Finnish talent has been acquired by hiring Finnish engineers to Chinese MNE's research centers. Often the company that has received FDI is a start-up with innovative solutions, such as Indoor Atlas or MariaDB. Better component producers are acquired as well. For example, a Finnish manufacturer of silicon wafers, Okmetic, was acquired by mostly Chinese government-owned National Silicon Industry Group.

6.1.2 Market-seeking foreign direct investment motives

According to Dunning's taxonomy of FDI motives, the most common FDI motive type is market-seeking, and the case is no different in Chinese FDI in Finland. The Finnish market is quite small, but Finland is a part of Europe and a great doorstep to European markets. Most of the investments in Finland are set to cover larger areas than just Finland. Finland is especially great location when the trade is aimed for Nordic countries, Baltic area, and Western Russia. Chinese investors often see Finland as a propitious destination for the European head office. Even though there are a lot better locations in Europe geographically, Finland is able to compete with the amount of skilled labor available, which attracts especially technology start-ups that seek to enter the European market. The business environment is great for companies in the ICT industry, robotics, cleantech, and the gaming industry. Various Chinese companies have come to Finland because of that. Another Finland's advantage is the transparency of business, efficiency of the workers, and cooperating government, which creates a safe environment for foreign companies. Chinese people like to work with the Finns because their personalities are quite similar. Chinese and Finns are modest, and they prefer not to talk loudly and avoid futile small talk. A serious and slow-paced style of the Finns gives Chinese the impression of a particularly wise people, who think carefully about what they say. That creates an impression that they are honest and can be trusted when the talk is a result of long deliberation. Another advantage of the Finns is their linguistic skills that are often better than in Central Europe.

Currently the European Union is China's most important trading partner, and China plans to keep it that way. Europe is a large market with a population of over 500 million. Especially technology companies can profit from entering to European market because the countries are wealthy, and people consume more than in developing countries. In 2019, China exported 362 billion euros worth of goods to Europe, and Europe exported 198 billion euros worth of good to China. Chines surplus of trade was 164 billion euros. (Eurostat 2020.) Being present in European markets helps Chinese companies to keep up with technological development and innovation, which are crucial parts of Made in China 2025 policy, where China pursues to reform its industrial structures.

The importance of the European Union's market for Chinese MNE's is growing because of the trade war with the United States. The world's two largest economies have an ongoing battle over unfair trading practices and intellectual property rights. The dispute has escalated to tariffs worth billions of euros on one another's goods. The United States accuses Chinese of stealing valuable intellectual property from American MNE's and that the Chinese government has made it more difficult for foreign companies to compete in the Chinese market. China argues against that the United States is only trying to prevent China's rise to the biggest economic power. This environment has made it uncertain for Chinese companies to operate in the United States. Therefore, shifting sales volumes to Europe is safer and more stable business environment.

Another attractive feature of the Finnish business environment is that Finns are known to be quite bad at marketing themselves. The lack of international knowledge of Finnish companies combined with the country's position as a technology and innovation hub offers Chinese investors excellent FDI objects. The business networks created by Nokia are still affecting the investments to Finland, and the knowledge of Finnish companies in China. Nokia is still a well known MNE in China and a lot of previous workers of Nokia are involved in the new technology companies in Finland. Often the initial knowledge of the acquired Finnish technology company is from a previous Nokia worker that has connections in China. (Lintunen 2011.)

6.1.3 Efficiency-seeking foreign direct investment motives

The efficiency-seeking investors usually invest in order to cut production costs in labor to achieve greater profitability. China being a country of cheap labor, that is not the case for their outward FDI. Chinese investors have sought efficiency with investments in research centers in Finland, and on Finnish transportation infrastructure projects that would benefit China by cutting the shipping times and reduce costs. Especially Chinese electronics manufacturers, such as Huawei, Xiaomi, AAC Technologies, and PowerVision have established research centers in Finland. All of these companies have a common interest in camera technology development in Tampere. Tampere became known as one of the world's leading centers for camera technology development during Nokia's success. Nokia's success is now in the past, but the knowledge of camera development still exists, and the Chinese companies are taking advantage of it.

Additionally, Chinese investors are involved in two large Finnish transportation infrastructure projects. As a part of Belt and Road Initiative, China is planning to build a Polar Silk Road that would create a lot faster maritime transportation route from Europe to China than the current route via the Suez canal. Helsinki – Tallinn tunnel, and a railroad from Rovaniemi to Kirkenes would create a railway connection from Continental Europe the Arctic Ocean. This would reduce the costs of logistics and the time of the travel for China's trade with Europe.

6.1.4 Strategic asset-seeking foreign direct investment motives

The Chinese investments to Finland often have more than one motive, and in almost every FDI there are aspects of strategic asset seeking motives. Made in China 2025 policy is the reason behind most of the strategic asset seeking investments. The policy aims to shift China's industrial focus from the world's factory to a high-value producer of goods and services. The plan includes a goal to improve the domestic content of core materials from 40% to 70%. Finnish companies have offered opportunities in some of the main sectors that MIC 2025 targets, such as new information technology and high-tech ships. Acquisitions of automotive software company Rightware and ship designer company Deltamarin Group and investments on MariaDB are good examples of purchasing Finnish technology knowledge. Learning of new technology has often been a motive for establishing a research center or office in Finland. Chinese MNE's often seek highly educated Finnish labor to develop their products since Finnish have a good reputation in high technology engineering and coming up with brilliant innovations.

Most of the Chinese technology companies that invested in Finland are not particularly big in Finnish markets or operate there at all, but they come to Finland to seek strategically important development for their products in domestic markets. However, there are companies that established operations in Finland to increase their European sales, such as smartphone manufacturer Huawei and shipbuilder Aviation Industry Corporation of China. Nokia created a picture of Finland as a technology center of the world, and Chinese companies come there to seek Finnish know-how. The Finnish brand as a tech hub was strengthened by Bloomberg who listed Finland as the world's third most innovative country in 2019 (Marsio 2019). Finnish technology companies offer great opportunities for Chinese MNE's to acquire knowledge and higher technology. The business environment in Finland is excellent for technology start-ups and Chinese companies often target these start-ups, as they are cheap ways to acquire new technologies and innovations. Investing in innovative technologies also offers a potential for great profits. Finnish engineers are especially good at developing softwares, smartphones, and machinery, which are also the most common investment targets.

6.1.5 Other motives

One reason why Chinese investors have been particularly interested in Finland might be the country's great partnership from the beginning of the People's Republic of China. Beijing sees Finland as a model relationship from the Chinese perspective because Finland has avoided any confrontation with the Communist Party of China. When compared to other Nordic countries, Finland has far better political relations to China than Sweden or Norway. Sweden's relations with China have suffered from its attempts to actively affect Chinese human-rights issues for a long time. In January 2018, their relationship went even more off rails when Chinese officials arrested Gui Minhai, who is a Swedish citizen living in Hong Kong. She had published books criticizing Chinese officials. Later that year Sweden hosted the Dalai Lama, the spiritual leader of Tibet, whom China sees as separatist who is trying to destabilize China. A month later, video of Chinese tourist getting dragged out of a hostel by police in Sweden went viral in China. China then declared Sweden as a dangerous country to travel and

demanded Swedish officials to publicly apologize. Swedish media responded with a satire late-night TV show mocking China. (Haukka 2018.) Norway's relations with China experienced a collision in 2010 when the Norwegian Nobel Committee awarded Peace Prize to Chinese dissident Liu Xiaobo. Liu Xiaobo was sentenced to 11 years in prison in 2009 for collecting a petition for an end to the Communist Party's power. As a result, China severed its bilateral political relations with Norway. The relations were restored in 2017, but the incident is still not forgotten. (Zidan 2017.)

The Communist Party of China prefers to cooperate with Finland, who manages to stay out of China's internal issues. Finland already gained a reputation as flatterer of superpower during the Soviet Union's power in the 1960s and 1970s. Even term *Finlandization*, to become like Finland, was created for a process where a powerful nation makes a smaller country to abide by its foreign policy rules in order to keep independence and own political system. Finland losing sovereignty to China is unlikely, but to keep up the beneficial trade relations they have not intervened with China's flaws. Another emotional tie that the Chinese seem to like is that Finland was never a colonial power, therefore the business can be done without historical burdens. Many European countries still suffer to do business with Asian countries because of the sins of their previous generations.

Furthermore, Finland is an attractive destination for Chinese because the Finns want to increase their trade with the Chinese. Finnish companies welcome Chinese investments with open arms, and Business Finland and other Sino - Finnish networks are working to make it as effortless as possible. According to EY Attractiveness Survey, Finland has been the number one target for foreign FDI for seven years in a row (Junttila 2019.) That is a result of long-term investment promotion work of Finland, which seems to be working in China as well.

6.2 Opportunities of Chinese foreign direct investment in Finland

Chinese FDI can stimulate Finland's economic development, growth of Finland's GDP, and increase wealth and income of the Finnish people. Even though Finland is a relatively rich country, the capital is still limited, and financing large projects is not often possible with only domestic investors. Therefore, acquiring foreign investors helps with the development of the economy. The creation of jobs is the most obvious advantage for economic development. Finland has plenty of highly skilled labor, that require high salary and intellectually demanding work. Chinese interest in Finnish high-technology companies, innovations, and large projects offers many job opportunities for highly educated Finnish people. The amount of Finnish companies is limited but the job supply can be increased by bringing foreign research centers and companies to Finland. The situation creates bilateral benefits for both Finland and China, as Finland can develop its economy and China can acquire know-how. The investments going towards Finnish people's knowledge provides more secure environment for Finland too because the FDI is tied to people and not on property, making it difficult to move it to China. Chinese investments also help Finland to lower unemployment rate, because the research centers and technology companies often require new, young, and talented people that are recently graduated. Increased employment then translates to increased incomes, taxes, and money circulating in the economy. In addition, Chinese FDI towards Finnish companies helps with the internationalization process.

Making companies international it is easier to expand to new markets. International companies also attract workforce from abroad. Finland's aging population and declining birth rates are going to be a problem in the future; therefore, internationalization helps by bringing new, young, and talented people to Finland.

Chinese companies have a lot of money to invest, and Finland should take advantage of that. The Chinese economy is now more liberated than ever, but the corporations are still under influence of the Communist Party of China. Often the CPC helps the biggest Chinese companies to rise in order to make them competitive with the biggest global competitors. For example, the Chinese search engine Baidu is set to compete with Google and Alibaba with Amazon. These large Chinese companies operate in a huge Chinese market of roughly 1,4 billion people without fair competition of foreign companies. Limited access to the Chinese market for foreign companies has provided Chinese corporations with significant growth opportunities and profits. These Chinese companies are now using their profits to grow and take over the global market just like they did in China. Finland, a small country with great innovations, profitable start-ups, and high technology knowledge can seek benefits from Chinese investments. As Chinese acquire technology to gain a competitive edge over the global market, small Finnish companies can acquire money towards research, product development, and access for the Asian market. Even bigger Finnish companies can also benefit from Chinese FDI because of the growth potential that Chinese market offers. Besides, FDI from large Chinese MNE's opens doors to the rest of the Asian market as well. By bringing in Chinese investments and opening doors to China and the rest of Asia, Finland is able to increase its exports.

Although China's growth has slowed down, it is inevitable that China will become the world's number one economic power for a long time to come. There is an era of great change going through the Chinese market, as more people are raised from poverty and the middle class is growing. Demand for high-end goods is increasing, and there are plenty of sectors where Finnish companies could seek growth. As Finland has throughout history flattered China, the base for a good relationship already exists. Finland's country brand is good in China, and that should be exploited. Business environment in China revolves around networks (*guanxi*) and establishing bilateral networks with Chinese business people is essential for Finnish companies in order to expand to the Chinese market. Having good relations with economic superpower would certainly benefit Finland's economy in the future. By increasing trade, inward and outward FDI, and other bilateral cooperation Finland and China could both gain something from the partnership. It is unclear how China's relationship will change with the major economic powers of Europe in the future, hence deepening partnerships with the Chinese could turn out to be a great opportunity for Finland in the future as a China's gateway to Europe.

Moreover, by increasing the Chinese FDI in Finland, China could express gratitude with increased tourism. The Communist Party of China knows how to utilize its large population, and they do so by determining which countries travel agencies are selling their trips. Traveling among Chinese has increased as a result of economic development. Because Chinese linguistic skills are still extremely limited the Chinese prefer to travel as a group which is usually organized by travel agencies that are under influence of the CPC. The CPC can affect where the Chinese travel agencies target their tours.

At the moment Chinese tourists make up only a small part of the annual visitors in Finland, but the amount has been rapidly increasing. Chinese tourists are welcomed by the Finnish tourism industry especially because they tend to spend a lot more money than tourists on average.

6.2.1 Forest industry

The forest industry in Finland has been able to grow because of the rising demand in China. China's economic growth increases private consumption, which has contributed especially to the usage of tissue paper. According to Viitanen and Hänninen (2017), Chinese demand has increased exports of spruce sawn timber in particular, but also pine sawn timber has risen. Growth in demand raised the average export prices of Finnish sawn timber. Growth in Chinese demand will raise world market prices for pulp, which is likely to put upward pressure on pulp-based paper and board prices as well. Finland's main exports to China are paper and pulp, which are also the targets of Chinese FDI in Finland. There are four biofactory projects ongoing in Finland, and all of them have received funding from Chinese, even though Paltamo's project was later abandoned by the Chinese investors. The new biorefineries would not only increase the Finnish capacity of pulp production, but also develop the Finnish forest industry with new products, more efficient factories, and help Finland's forest industry with reforms towards bioeconomy.

If the new biorefinery projects will actualize, they are going to benefit multiple factors. Increased demand would raise the price of wood. Forest owners, who are individuals, organizations, and the government, would gain better profits as the stumpage prices rise. There are plenty of different forest owners in Finland, so the profits would distribute all over Finland. The local communities would stay vibrant, as the mills would bring workers and revenue to these smaller cities or municipalities. That would help with the Finland ongoing battle against urbanization and the population concentration to the Helsinki metropolitan area. Additionally, forests are Finland's only renewable natural resource, therefore the development of the Finnish forest industry is crucial for the well-being of the nation. By increasing the competitiveness of the forest industry, Finns could compete with the sector's products in the global market in the future. Forecasts for the forest industry's growth potential by 2030 is 200 billion euros (Lindström 2018). The biggest growth is estimated to come from wood building materials, tissue paper, pulp, fuels, and chemicals (Vuorio 2019). Upcoming biorefineries would be able to impact Finland's supply capability of all of these products, excluding wood building materials.

Finland's forest industry is a global pioneer of bioeconomy and the Chinese funded projects would increase the production of environmentally friendly products, develop efficient production, and increase innovations. Having Chinese investors in the projects is a great opportunity for the products to enter the Chinese market as China is one of the most polluted countries in the world and solutions for the crisis are needed. Forest sector has recently started shifting towards bioeconomy factories, where the products aim for lower carbon emissions, renewable resources, and environment saving materials. Biofuels, carbon-free pulp production, textiles from abron fiber, and biogas are some of the environment saving products that these projects would allow. In addition, there is no threat of ever moving the factories back to China since the used raw material is received from Finland.

6.2.2 Technology industry

Chinese FDI on Finnish technology helps by boosting product development, growth, and entering new markets. Access to the Asian and Chinese markets are challenging for European companies, so allowing Chinese FDI flow to the Finnish company will open business opportunities. Chinese FDI usually comes from large Chinese MNE's who already have established effective operations on how to push new products and innovations to the Asian market. Finnish technology companies that are innovative and can develop high-technology products can grow with Chinese funding, while the Chinese companies receive know-how. Acquisitions by large Chinese MNE's offers rapid growth opportunities for smaller companies.

6.2.3 Transportation infrastructure

Finland's maritime connections depend on the Baltic Sea. Breaking a new sea route through northern Finland would increase the security of supply and possibly create economic stimulus in the north – especially if the traffic in the Arctic Sea is going to increase in the future. Many projects in Finland, including the two large transportation infrastructure projects, would be hard to implement without Chinese FDI. China's aim is to reduce logistical costs, efficiency, and travel time that could benefit both countries. There are currently two projects for the Helsinki – Tallinn tunnel of which the first is funded by governments of Finland and Estonia, and the second is by private investors, including Chinese. The project funded by public money has been under planning for decades and it still practically going nowhere. Meanwhile, the privately planned project could be implemented during this decade. Because China sees the Polar Silk Road as a great way to increase its trade with Europe, the Chinese are bringing a lot of money towards these infrastructure projects in Finland. With Chinese money, Finnish railroad networks could become more comprehensive and connected to the rest of Europe. Railroad connection from Rovaniemi to Norway's Kirkenes would open a connection from all over Europe to the Arctic Ocean. Previously the cargo ships have sailed around the Scandinavian Peninsula, making it slower and less used maritime road. The railroad would also decrease shipping in the Baltic Sea, which has suffered from busy traffic.

Opening railroad to Continental Europe and to the Arctic Ocean Finnish companies would have better and cheaper logistical access to Asian and European markets. The result of an efficient network could be increased foreign trade. Berlin could be reached within 4 hours, which is important because Germany is Finland's biggest export destination. Finland's internal freight could be switched from trucks to trains, which would benefit the traffic flow of cars and save the condition of the roads. The railroad would also be more environmentally friendly option than cargoship or air freight. Regular Finnish people would enjoy better and cheaper access to travel to the rest of Europe, since Finnish railroad connections are now limited only to Sweden and Russia. Additionally, by opening Finnish transportation infrastructure to foreign investors, there could be an improvement in Finland's inner connection and public transportation.

6.3 Threats of Chinese foreign direct investment in Finland

The rest of the world is afraid of China's rise to global superpower because of injustices China had to experience during the Century of Humiliation. In China, the Century of Humiliation is a term used for time between 1839 and 1949, where the Western powers, Japan, and Russia treated Chinese unfairly. During that time period, China went through many wars, of which they lost almost all. The most significant wars were the Opium Wars with the Great Britain, and the Sino – Japanese Wars with Japan. China was forced to pay large reparations, open foreign ports in their land, and give up their lands, for example, Hong Kong to Great Britain, Zhangjiang to France, Outer Manchuria and Outer Northwest China to Russian Empire, and Taiwan and Dalian to Japanese. The latest incidents were during the second world war when the Japanese invaded China and massacred Chinese people as a sport. Mao Zedong put an end to the Century of Humiliation by starting a civil war with the Communist Party of China against the Republic of China. The Communist Party won the civil war and the People's Republic of China was founded in 1949. The previous government of the Republic of China fled to Taiwan and claimed sovereignty on that land. The People's Republic of China still claims that they own Taiwan. Hong Kong was returned to Chinese in 1997, and Macau from Portuguese in 1999. (Anderson 2011.) Western society is now afraid that China is going on a revenge tour, and that China is still bitter about the injustice it experienced during its history.

The grand dream of the Communist Party of China is to rule the world. Chairman Xi Jinping has often spoken about a Chinese dream, which probably means returning to the glory days of China's 5 000-year-old civilization. Xi Jinping's visions are heavily affected by Liu Mingfu, a former Chinese army colonel, who published a bestseller book in 2010 about the Chinese dream. According to Liu Mingfu, China must override the United States' position as the world leader. In order to do so, China must have a powerful army. That could result in a return of power politics, but Liu Mingfu recommends avoiding it by all possible means. (Tamminen 2017.) Beijing is expanding its foreign influence by funding foreign projects and companies, acquiring foreign media outlets, and affecting educational systems, political debates, and media coverage (Kurlantzick 2019). Instead of military power or economic sanctions, China is trying to increase its soft power across the world by manipulating the world often through misinformation or making their economies dependent on Chinese money and market. China has bought plenty of European transportation infrastructure as a part of the Belt and Road Initiative, acquired strategically important food factories, a pharmaceutical company from Great Britain, a blood plasma company from France, a bank from Luxembourg, a truck manufacturer from Sweden and so on. At the same time entering the market in China has been difficult for European companies when entering the European free market has been easy for the Chinese. (Karismo 2019). China's global influence could possibly lead to a loss of personal freedom for Western civilization. By increasing its global presence, China could make other countries to obey its rules. The year 2049, which is going to be the 100th anniversary of the People's Republic of China, is when China aims to be the number one at everything: economically, as a military power, at technology, and as a world leader in politics. Xi Jinping has said that by the 100th anniversary, China is going to be a strong, harmonious, modern socialist state with a world-class standard of living for its citizens and a modern army (Tamminen 2017). The rise of China to a global competitor for the European Union and the

United States causes concern among Western countries. Large amounts of FDI to Europe, trade war with the United States, and developing smaller Eastern European nations with Chinese money while the rest of Europe has become more reserved with China has features of the Roman Empire's *divide and rule* strategy. The strategy was used to divide larger power into smaller pieces to make their resistance power less effective. Europe's internal relations are strained by a mutual disagreement of Chinese influence. Especially France and Germany are very skeptical about China's rise to a global competitor, while Italy, Finland, and Eastern Europe have increased cooperation with the Chinese. It is possible that Chinese funding is going to affect the diplomacy of some countries in the future.

The biggest problems with cooperating with the Chinese comes from the lack of transparency, being non-market economy, censorship, propaganda, and corruption. China's authoritarian government is a challenge for the rest of the world. Totalitarian rule of the Communist Party of China extends its power to every sector from business to legislation. The Chinese market is not guided by free-market forces like in Western countries because the Communist Party can direct whatever direction they want their economy to grow. China can operate with long-term objectives and affect its domestic business operations to achieve its goals. That is not possible in other countries, where policies are decided democratically, and the government must operate with short-term objectives. China's lack of independent legal system creates a situation where politicians make every decision and so China is able to practice unfair business tactics, such as intellectual property thefts and copyrights violations when their companies are not punished. CPC is also more or less behind every large corporation in China; therefore, it is always unclear what is the real motivation behind FDI. It is usually impossible to find the actual owner behind Chinese MNE's because they hide the state-run funds behind fake names. This creates a situation where invested money is not actually from a private Chinese investor, but from the Chinese government. In China, the state can also decide what kind of information is allowed to be shared publicly. Everything questionable or critical information of the Communist Party can be disposed, and of the internet about 70% is blocked in China. Additionally, the state can use policies to manipulate local currency, reduce labor costs and rights, limit foreign investments, and fix prices to be lower than the market suggests.

Another threat of China's rise is how it will affect Finland and the rest of Europe's competitiveness. China is seeking the best technology with its investments. It wants to grow successful Chinese companies that will survive the global competition. Mergers and acquisitions of Finnish companies are an easy way for the Chinese to update their own technology. Chinese MNE's have recently started to catch up its Western competitors in technology, which jeopardizes the positions of many European companies. The number of Chinese patents is increasing, and the technological universities do higher-quality research than their European counterparts. When receiving FDI from China might be a good option for the development of the company in Finland, it could possibly have severe consequences in the long run. By selling the best innovations to China, Finland could possibly harm its own future competitiveness. (Karismo 2019.) China's lack of respect for intellectual property rights is also a concern for companies doing business with the Chinese. Despite China's reforms of intellectual property laws, the country's legislative environment lacks transparency and fair practices for foreign companies. European companies are often required to share their technologies to do business with China. In

exchange for market access, investment access, or regulatory approvals, the Chinese government and state-owned companies are pressuring foreign companies to transfer technology to China, which is then copied and sent to other Chinese corporations. Then the Chinese government may later impose restrictive regulation on original products, as protectionism is used to help domestic companies to catch up with the global competition. Also, the Chinese have respected only patents given in China, and foreign intellectual property regulations have no meaning inside China's borders. (Zubascu 2020.)

Many are concerned about how China may spy not only on its citizens but also on people outside of China. It is unclear for the rest of the world how comprehensively and in which areas Chinese are spying on them. Chinese electronics companies have been accused of espionage and Chinese FDI could have increased security risks in Finland. Especially Huawei has been a subject of massive allegations. The United States government prohibited using Huawei's products from all government employees. The EU has limited the usage from strategic sectors, but they have not banned it completely. China identified the development of cyber capabilities as one of the most critical areas for action in 2015, where the underlying idea is that future wars would take place in computer networks. In 2017, the Chinese government set a cybersecurity law that requires all Chinese companies to disclose their information to the government on request, even if the company operates abroad. That is the official reason why Western countries see China as an espionage threat. Other countries do not dare to risk China's access to critical information infrastructure, such as 5G networks, and then leak all that data to China. Compared to traditional intelligence, cyber espionage provides access to large amounts of data sources cost-effectively. Targets are usually corporate databases that can be then exploited or manipulated. Chinese cyber espionage is accused of stealing the intellectual property of the Western MNE's, and disturbing dissidents and human rights activists. Probably the best-known example of Chinese cyber espionage is "Cloud Hopper" campaign by Chinese hackers where large corporations, such as IBM, Hewlett Packard, and Fujitsu, were attacked. Also, Finnish Valmet was targeted. Finland has not imposed any restrictions on Huawei or other Chinese companies since Finland wants to provide common legislation for all. (Myllymäki & Vainio 2019, Virtanen 2020, Stubbs, Menn & Bing 2019.)

The morale of the Finnish people is grated by the current situation of Chinese human rights. European Union is one of the few operators in international business who sees human rights issues as relevant when doing business. China on the other hand wants others to stay out of their internal issues. MNE's that are involved in social issues often leave their community improving beliefs on the border of China so that they can operate in the Chinese market. Companies are often required to restrict freedom of speech in other countries that are critical of China. Great examples are the NBA, Apple, and Blizzard. Basketball is the most popular sport in China and one of the biggest markets of the NBA. Daryl Morey, the CEO of Houston Rockets, tweeted about support to Hong Kong protestors, which turn out to cost millions of dollars to the entire league when China wanted to punish them for supporting its dissidents. Blizzard, a computer gaming company, had to ban one of its best players from a gaming tournament because he had supported Hong Kong protestors as well. Apple, who makes about a third of its revenue in China, had to delete apps that were unsuitable from the Chinese perspective. (Hallanmaa 2019.) These cases are good examples of how the companies have to give up their values and freedom of speech in order to flatter China.

6.3.1 Forest industry

The growth of the forest industry is threatened by deforestation. If the forest industry projects are going actualize demand for wood is going to increase significantly. It is unclear how the forests could withstand if millions of cubic meters of wood are felled in the future. A possible outcome of increased deforestation is that biodiversity would suffer, and Finland's recently grown carbon sinks would lose their effectiveness. With lowering logging volumes or keeping them at current levels, forests in Finland would bind more carbon, and the carbon sink of forests would increase faster if Finns would let their forests keep growing for several decades to come. (Sandell 2017.) Finland has committed to be a carbon-neutral by 2035 and increasing logging would make it harder to reach that goal. Incoming biorefineries would be in the northern area of Finland, which is the biggest carbon sink. In order to pursue sustainable development, Finland should not risk its carbon sinks, nature's biodiversity, and deforestation. Additionally, Finland's upcoming projects have been criticized for selling cheap pulp to China when Finland should sell high-end goods instead. Finland has the capability to produce and manufacture various products from wood that have higher value and would bring more profits to Finland, but the forest industry still keeps selling pulp as a cheap bulk.

6.3.2 Technology industry

Technology industry's biggest threats of Chinese FDI is related to intellectual property thefts. Another is so-called *China phenomenon*, where companies from developed countries move their production to developing countries in order to reduce production and labor costs. Finland is under threat to become a subcontractor of product development as technology giants come there to sell their own products and develop their own technology. Hijacking trademarks and copying of products is causing problems to foreign companies that work with the Chinese. China has already taken the position of the world leader in new patents. Finland has for a long been an innovative country, but by selling a lot of its intellectual property to China it is possible that in future the real value of a company, which is in intellectual property, will be under Chinese ownership. (Leinonen 2019.) The amount of intellectual property thefts is concerning in China, and the regulation does not meet international requirements. However, China has improved their IPR environment lately, but as long as the CPC is in the power of the juridical system it is unclear whether the laws are actually observed.

6.3.3 Transportation infrastructure

China has lured many countries under the Chinese rule with its "debt trap diplomacy", and that has raised concerns about their FDI in Finland. Chinese banks have given out predatory loans as part of the Belt and Road Initiative. The loans are usually from Chinese state-owned banks and the projects are implemented by Chinese construction companies. The aim is to increase the flow of Chinese goods in the area. Risks of these investments are minimal to China, but the lender has a lot to lose. If the country has failed to pay back the loans, China has taken over the ownership of the objects of investments, acquired territories, or leveraged the loan in order to make the country support its diplomacy. There are already countries that have fallen to the trap. Sri Lanka had to lease its port to China for 99 years after failing to pay back its loan. Kenya failed to finish its Chinese funded railroad project

and had to pay it back by handing the project to Chinese and also give Mombasa's port to China. Montenegro's case has also had international attention because the Chinese gave them a loan for an ambitious highway project, but the loan was not enough to finish it. Montenegro already had to raise taxes, cut government salaries, and decline maternity benefits for being able to pay it back, but it is still not enough. Another example is from Djibouti, who has racked up plenty of debt from China. The country has a small population, no natural resources, and it is one of the smallest countries in Africa, but it has a strategically important location next to the Horn of Africa. Djibouti pays part of its debt by allowing Chinese military base on its soil. (Manek 2019, Barken & Vasovic 2018, Mahajon 2019.)

Another threat of these transportation projects is how they could be used if trade with China is going to end or decrease heavily. Relying on trade with China could jeopardize Finland's ability to pay the loan if the Chinese economy has a crisis or stops growing. In these circumstances Finland could be in the Chinese debt trap. Local people, especially from Sami culture, have opposed eagerly against the Arctic Ocean line. The railway from Rovaniemi to Kirkenes would pass through Sami's core areas. It would cut off the annual grazing of reindeer in multiple areas. The railroad could possibly ruin local waters and harm Sami culture. (Huusko 2018.)

6.4 Summary of the main findings

Possible opportunities and threats of Chinese FDI flow to Finland was inspected by, at first looking at the motives based on Dunning's taxonomy of FDI motives, secondly by assessing possible opportunities and threats as a whole, and then in subcategories that were forest industry, technology industry, and transportation infrastructure. From the Chinese perspective, Finland is a great destination for foreign direct investment because Finland has always had a good relationship with China, and Finland is an advanced country in the technology sector with many innovations. Belt and Road Initiative and Made in China 2025 policies are behind most of the investments. Resource-seeking investments from China to Finland are made because of the growing demand in Chinese forests sector, that can not be satisfied by their own supply of wood. China is the largest trader and consumer of wooden products, and a major part of its wood is imported. As China gets richer, more paper is needed, therefore the demand is growing hand in hand with the growth of GDP. Finland's abundance of raw materials and its competitive prices offer great opportunities to Chinese to invest. Chinese investors are also looking to exploit managerial expertise and technological know-how of the Finnish forest sector. The technology industry has acquired Finnish knowledge by establishing research centers, and by buying factories that are capable of producing higher-quality components. Market-seeking FDI motives are one of the most common motives for Chinese. Investing in Finland is a great doorstep to enter the European market. Finland's location is not the most desirable, but because of its high skilled labor especially in the technology industry, Chinese often see Finland as a good location for research center and European head office. Chinese see Finnish people as honest and trustworthy, and their similar modesty makes it easier to relate to Finnish people, which might be another reason to locate to Finland. Europe is an important trading partner of China and Chinese companies want to enter the European market. Consumption volumes of Europeans make it attractive for Chinese MNE's. Being present in Europe also helps them to keep up with development in technology and innovation, since the EU is advanced

on that sector. Trade war with the United States increases Europe's importance to China, because of uncertainty in the American markets. Efficiency-seeking FDI motives are only in the development of technologies of Chinese companies in form of research centers, and to cut logistical costs with the investments on transportation infrastructure. Especially Tampere area has received FDI from China, where Chinese companies seek to develop their camera technology. In almost every Chinese FDI there were aspects of strategic asset-seeking FDI. Made in China 2025 aims to reform Chinese industrial base to high-end manufacturing. Finland has offered opportunities to develop critical areas of the MIC 2025 in ship development and information technology. Nokia's success created the impression of Finnish technology cluster and the Chinese see Finland as a good place to acquire new technology and innovations. Finnish start-ups and small technology companies offer cheap ways for China to get knowledge, innovation, and new technology. Investments also offer a possibility for great profits. Finnish people are especially good at developing softwares, smartphones, and machinery, and these are common FDI targets of the Chinese. Other reasons behind Chinese FDI are Finland's model relationship with China; Finland has avoided confrontation with the Chinese government and there is no historical burdens, such as wars or colonialization. The Chinese Communist Party likes to cooperate with Finland because they are not intervening with China's internal issues, at least as faintly as many other Western countries. Additionally, Finns want to increase trade with China, and Finnish companies even compete over Chinese investments. There are a lot of organizations that encourage trade between China and Finland, which makes it easier for both parties.

Biggest opportunities for Chinese investments to Finland is its ability to stimulate Finland's economic growth and increase the wealth of the Finnish people. In a small country there is a limited amount of own capital and domestic funding, so acquiring foreign investor is important. FDI can create jobs and lower unemployment. The Chinese investments have managed to add many jobs that meet the education of highly skilled labor. When investments are mainly targeting Finnish knowledge, it creates a safer investment environment for Finland because it bound on people and not on the property. Chinese FDI also helps with companies' internationalization process. Companies have then easier access to new markets and attract more talented people to work in Finland. Chinese market is huge and there are large corporations that have been able to grow with the help of CPC. These corporations have now plenty of money to invest, and Finland should take advantage of that. By selling know-how to China, Finnish companies can receive funding toward product development, research, and entering Asian markets. Entering Chinese and Asian market is difficult for Western companies, but Chinese ownership could change that. China is going to be the largest economy in the future. Establishing great relations now is essential so that Finland can benefit from the relationship in the future. Not only would it increase trade and cooperation with China, but it could bring plenty of tourism to Finland as well. In the forest industry, opportunities of Chinese FDI come from the rising demand for wood in China. The Finnish forest sector has been recently able to grow because of increased export volumes to China. Especially the export of pulp has increased to China. China is taking part in four biorefinery projects that would also produce pulp. The new biorefineries would increase Finland's capacity of pulp production, develop the Finnish forest sector, develop new products, and shift the Finnish forest sector towards bioeconomy. The new biorefineries would also be more efficient and environmentally friendly than previous factories with a capability to produce products that pollute less. Forest owners would

gain more money because rising demand would result in higher stumpage prices. Distribution of the factories would decrease urbanization and population concentration to Helsinki metropolitan area. Finland has only one renewable natural resource, which is forests. The development of the forest industry is therefore essential for the well-being of Finnish society. Forecasts of potential growth for the forest sector increase the importance to increase Finland's capacity to produce more products of wood. Finnish transportation infrastructure could benefit from the projects that the Chinese are willing to fund. Finland's railroad network is not comprehensive, and it lacks connection to Continental Europe. Tunnel from Helsinki to Tallinn would connect Finland to the rest of Europe, which would reduce shipping, and make it easier to reach European cities. Railroad to Kirkenes would open new shipping route to the Arctic Ocean, which could possibly result as increased traffic through Finland, and other activity that would develop Finland's economy. Companies would not be the only ones to benefit from better connections, because regular travelers would also enjoy faster connections to Europe by train.

Threats of Chinese investments raise because of the injustices China had to experience, and from the authoritarian power of Communist Party of China, which lacks transparency and internationally accepted legislation. China went through the Century of Humiliation between 1839 and 1949. European countries with Japan and Russia went to many wars with China, which ended mostly to China's loss and unequal treaties. Today, the grand dream of CPC is to become the world leader as an economy and military power. China is seeking to increase its power across the globe. China is trying to increase its soft power across the world by manipulating the world often through misinformation or making their economies dependent on Chinese money and market. It has bought foreign companies, infrastructure, and established many research centers across the world. While China has been buying the world, it has been difficult to enter the Chinese market for foreign companies. By increasing its global presence, China could make other countries obey its rules. China has an ongoing trade war with the United States, and besides that they are trying to divide the European Union's nations against each other. China is ruled by the Communist Party of China, which lacks transparency, is full of corruption, shares propaganda, and censors speech. The authoritarian government is a challenge to the rest of the world. The Chinese market is not guided by market power like in other countries. Chinese companies can grow without fair competition and that has raised concerns among Western competitors. Chinese companies can affect the competitiveness of other MNE's. China has recently started to catch up with European MNE's, which may jeopardize Europe's technological position. China's lack of respect for intellectual property rights is also a concern for companies doing business with the Chinese. Despite China's reforms of intellectual property laws, the country's legislative environment lacks transparency and fair practices for foreign companies. In addition, Chinese espionage is a threat. Chinese electronics companies have been accused of espionage, and Chinese FDI has also increased security risks in Finland. Chinese cybersecurity law required all Chinese companies to give up all its information to the Chinese government upon request. Other countries might then risk giving critical information to the Chinese government via Chinese companies. Human rights are not up to Western standards, which has caused morale issues to the foreign companies. China restricts freedom of speech, and companies operating in China are often required to flatter China.

Furthermore, Chinese FDI on the forest industry, technology industry, and transportation infrastructure share individual threats. In the forest industry growing demand increases deforestation. It is unclear if the biodiversity would suffer as a result. Finnish forests bind a lot of carbon emissions, and the growth of the forest sector could harm that. Finland has committed to be carbon neutral by 2035, and increased logging volumes would make it harder to reach that goal. In the technology industry, the threats are mainly related to intellectual property thefts. Hijacking trademarks and copying of products are common in China. Lack of legislation or its indifference allows it to happen. Transportation infrastructure would receive large investments from China, and if Finland loses the ability to pay them back, it would be in the Chinese debt trap. Chinese banks have given out shady loans as part of the Belt and Road Initiative. Finnish transportation infrastructure investments would also be part of the initiative. China has almost nothing to lose because if completed, the railroad would carry out Chinese goods. The contractor of the tunnel is Chinese, and most of the funding is received from China. It is not certain how the railroad could be exploited and paid back if trade with China is going to end or decrease significantly

7 CONCLUSION

The final chapter of the study is going to, at first analyse the main finding of the previous chapter. That is followed by a discussion of Chinese FDI in Finland, where the author examines if cooperation with China is worthwhile or is there going to be too many threats. Then the author will reflect his process, success of the study, and how it was implemented. Finally, limitations, credibility, and reliability of the study are discussed.

7.1 Conclusion of the main findings

Benefits received from Chinese outward FDI to Finland is greater than threats that follow them. China has become a global phenomenon, and the Western countries must accept that in the future there will be another economic superpower in the East. There will always be changes, threats, and new competitors in business, so Finland must adapt to the change. Even though China is an authoritarian country with somewhat shady trade practices, its economy's size offers Finnish companies an opportunity that is hard to skip. China is going to be the biggest economy for years to come and deepening the relationship now would surely bear fruit in the future. With the help of Chinese money, Finland can develop its economy and capitalize on its strengths, which are highly skilled, intelligent, and innovative people. Today, there are very few companies that can compete in the global market if their products are manufactured in Finland, therefore, Finland should focus on high-end product research and development. The foreign direct investment that brings new companies and jobs to Finland should be embraced, even if the money comes from China. New companies with jobs bring more wealth to Finnish society in form of income and taxes, and also unemployment will reduce.

China considers Finland a friendly country, and they favor bilateral relations. If there is resentment towards Western countries in China because of the Century of Humiliation, Finland does not have to worry since they had no part of it. Besides, it is unlikely that China would start a conflict in Europe even if they had the ability in the future. After all, China is a peaceful country and they prefer showing power in other ways, for example economically. It is possible that Chinese influence will be shown in Finland in form of finlandization. Finland will probably withdraw or stay away from intervening with China's internal issues to upkeep their relationship, but there is no need to worry about personal censorship, restrictions on freedom of speech, or losing sovereignty. Finnish companies might have to obey Chinese rules when it comes to public statements that are critical of the Communist Party of China. Additionally, another big challenge is if a large number of Chinese investments and economic cooperation with China will increase, it could make Finland vulnerable to China's economic fluctuations.

Nowadays the real value of the products is often in patents and trademarks, so Finnish companies must be careful with the deals they make. China's challenging IPR environment cannot be denied, so companies need to think very carefully about the conditions under which they accept Chinese money. When doing business with Chinese, precise agreements and protections for trademarks and patents are needed. Access to the Asian and Chinese markets is challenging, so Chinese investment opens

doors to businesses that seek to expand to Asia. That is why Chinese FDI is worth the risk: through Chinese buyers, potential channels are created to the world's biggest market. (Marsio & Kosonen 2019.) Chinese owners know how to operate in China, which helps with the lack of transparency and non-market economy. The importance of being present in the Chinese market is growing as China is becoming a bigger player in the global economy.

Withdrawal from forest industry projects because of climate change and deforestation reasons does not make sense. There is a growing demand for the products of the forest industry and shifting towards bioeconomy needs products that are environmentally friendly. The projects are biorefineries that are going to help with climate change, and China being one of the most polluted places on earth would receive important knowledge and products that could help them as well. The new biorefineries would produce pulp more efficiently than in previous mills together with other great products, such as biofuels, wood-based textiles and paper packaging that could replace plastic. Increased capacity in the production of biofuels would allow car fleet to reform to fewer emitting vehicles. Finnish forestry has taken good care of the continuity of stands for future generations. Logging volumes can be increased up to 15 million cubic meters by 2030 and the total growth of stand would still be greater than deletion. Even though locally there will be more emissions and logging, the overall situation for the environment would be better because of the new factories.

Furthermore, it is very unlikely that Finland would be lured into China's debt trap. Countries that have already fallen to it are developing countries in Asia and Africa, who had a wretched economy to start with. Finland is a developed country with a stable economic and political environment; therefore, it is improbable that the ability to pay back the loan would be lost. Even if worst case scenario happens and trade with China is going to end, the projects can be used for trade with Europe and other Asian countries, such as Japan and South Korea. Usage of the Arctic Ocean is going to increase in the future, because it is estimated that up to 30% of the world's oil is located there, and also natural gas. As the land has not been claimed by anyone so far, countries like Russia, the United States, Canada, and China are going to take advantage of the area now that access there is easier. Finland should exploit the situation, and open routes through its land. Increased traffic through Finland and better connections would stimulate Finland's economy, which is always a positive thing.

7.2 Limitations of the study

Chinese FDI in Finland is quite a new phenomenon, so there is a limited amount of data available. Obtaining information from Chinese resources is difficult because investigative journalism is not as popular in China as it is elsewhere. Finland being an exceedingly small country, it is covered in Chinese media outlets and in other organization pages rather poorly. Because of that, relying on international sources was a common way to acquire information. However, most of the secondary data used for this research was from Finnish media outlets and organization website, because Finland as a small country is not that visible country in international news. Writers of articles may have a biased opinion, which had to be taken into consideration when gathering information. Overall, plenty of sources were

explored to obtain a comprehensive understanding of the topic as possible and the majority of the data were up to date.

7.3 Self-reflection

When searching for the topic, author wanted to exploit his previous interests and connect it with his future goals. After studying business and economics in China for one year it was obvious that thesis would be somehow related to China. The author finds financing remarkably interesting, especially investing. With a major in international business doing thesis about foreign direct investment was a great choice. Recent headlines of Chinese companies buying big Finnish companies, such as Supercell and Amer Sports gave the author the idea for thesis. This study served as a great platform to further develop skills of understanding international business and China's role in it.

This study has enriched the author's knowledge and understanding of foreign direct investment, China, Chinese business culture, and their investing motives. Besides that, author has gained perspective on the importance of forest industry and technology industry, and also learned about Finland's logistical networks while studying FDI on Finland's transportation infrastructure. In this study, the topic was multidimensional, which offered a great opportunity to get familiar with multiple fields. Topic was chosen carefully, and it turned out to be interesting and timely choice for the research. Author believes that the thesis process will benefit his future professional career, since there is possibly that he is going to work with the Chinese in the future, therefore understanding their business culture and motives will offer an edge. In addition, FDI is going to play a bigger role in the globalizing world, so knowledge of the matter is an advantage.

Study was done rigorously, and the author spent a plenty of time with each topic. The author is pleased with the result of the study. With an interesting topic it was easy to dive into reading hundreds of articles and other sources to create a wider entity. Each chapter became comprehensive, and it is going to offer the reader a good source of information to understand the subject and to create an opinion based on that. China is a topic that divides opinions, but the author believes that he remained unbiased throughout the process and the findings of the study were made based on evidence. Because of Corona virus closing down everything, it was easy to focus on the study. Overall, the project was a big burden for a year, but outcome is rewarding. The work was the author's first extensive theoretical work, and it was based entirely on secondary data.

However, there are areas where the author would like to improve. A common problem when trying to find reliable literature about China is that there are only a little available. Information about China is hard to find, since most of the Chinese do not understand English, and reading and searching Chinese articles and information is hard for a person who does not understand the Chinese language. Therefore, the amount of Chinese literature and other sources are extremely limited. If literature is found, it is hard to tell if its trustworthy, since everything goes through filter of the Communist Party of China. The author managed to find information about FDI on technology and forest sectors, but

articles about FDI on Finland's transportation infrastructure were non-existing. Hence all information about that comes from Finnish or other European perspective and is not as comprehensive. If this study would be done again, the author recommends including Chinese-speaking party in order to access more to the Chinese perspective. Because of this my further study recommendations are this study done from a Chinese perspective. Additionally, the current state of world economy and other countries relations with China are likely going to be effected by the COVID-19 pandemic. There has been a lot of changes with countries policies with China even during the writing of this thesis. It has already effected some projects between China and Finland in the forest industry, but only time will show how it all turns out.

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