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Foreign investments and national security: Finland's approach

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Introduction

The importance of security-based monitoring of foreign investments has increased alongside growing global and regional uncertainties and increasing tensions in international political and economic relations. Concerns about foreign powers using investments as a tool of societal influence and to exert economic and political pressure, as well as to gain access to critical infrastructure and sensitive data, have grown in the past decades. Along with this development, many countries have adopted more comprehensive policies aimed at reducing the risks associated with foreign investments particularly since the mid-2010s (OECD 2020; Malminen & Rajavuori 2021). The European Union adopted a regulation establishing a framework for the screening of foreign direct investments into the EU in 2019 (European Union 2019) to provide minimum requirements for member states' screening mechanisms and to facilitate cooperation and the exchange of information between the member states and the European Commission (Rajavuori 2019).

The full-scale war Russia launched against Ukraine in February 2022 has changed the security situation across Europe – it is now more unstable and less predictable. The EU's relations with Russia have reached an all-time low, and the EU, the UK, and the US, together with their allies, have imposed extensive sanctions on Russia. Russia, in turn, has labelled EU member states as unfriendly. While China has not condemned Russia's invasion of Ukraine, tensions on a global scale have also increased. Even before February 2022, Russia aimed to cause disunity in the EU, for instance, by offering better energy deals and prices to countries that are politically more favourable towards Russia. Regarding China, the EU has been particularly concerned about Chinese infrastructure investments connected to the Belt and Road Initiative and Chinese companies gaining access to telecommunication networks by, for instance, providing 5G technology. China's Belt and Road Initiative and Russia's energy politics are examples of the carrot and stick approach used in geoeconomic influencing that the EU has been concerned about (Mikkola et al. 2018).

Russia's war of aggression has also fundamentally changed the security environment of Finland and the Finnish foreign and security policy along with it, resulting in Finland's NATO membership in April 2023. Even before that, the rise of new types of security threats, such as hybrid influencing, and global challenges, such as the COVID-19 pandemic, have emphasized the need for efficient mechanisms for the screening of foreign investments (Finnish Government 2018; Eduskunta 2020). Moreover, while threat perceptions have become more varied, growing number of sectors are seen as sensitive in terms of national security (Rajavuori 2019). The legislation in force¹ enables Finnish authorities to better monitor foreign investments considered critical in terms of national security and functions vital to society (Eduskunta 2020). However, the growing importance of a security-based approach to economic regulation creates the challenge of balancing between attracting foreign investments and protecting national security.

To address these challenges, this chapter examines the role of FDI in the Finnish economy, as well as the existing national screening mechanisms for foreign investments. In addition, the chapter explores the threat perceptions associated with foreign investments both in official documents and in public discussion, and

¹ The existing mechanisms for screening of foreign investments are based on the Act on the Screening of Foreign Corporate Acquisitions (2012), that was last amended in 2020 following the adoption of the EU screening regulation, and the Act on Transfers of Real Estate Requiring Special Permission (2019) that was last amended in 2022.

within this context, discusses controversies created by Chinese and Russian investments in particular. It also discusses how official threat perceptions and public discussion on the risks associated with foreign investments have changed following Russia's war of aggression. This study is based on the analysis of statistical data, official documents, and legislation, as well as other qualitative data gathered from several written sources, such as the media and research reports.

The role of foreign investments in Finnish economy

The inward FDI stock of Finland has multiplied by over tenfold since the accession of Finland into the EU in 1995. The fast FDI growth in Finland is not an exception, as the inward FDI stock of Austria and Sweden, which joined the EU at the same time as Finland, has also grown to the same extent. However, it seems that EU membership is not the only driver behind this rapid FDI growth, since the global inward FDI stock has also increased by more than tenfold since 1995 (UNCTAD 2023). In other words, globalization seems to be another key explanatory factor behind the rapid FDI growth, in addition to European integration.

The importance of FDI in the Finnish economy has also increased. If the inward FDI stock accounted for only 6 per cent of the Finnish GDP on the eve of Finland's EU accession, the share was three times larger only five years later, and after a further ten years the inward FDI stock-GDP ratio in Finland reached 35 per cent, which remains the case today. In Austria and Sweden, the development has been rather similar to Finland's. However, the main difference is that the proportion of FDI in these two countries' GDP was larger than in Finland in 1995, and the gap has further widened over the past 25 years. As a result, the inward FDI stock-GDP ratio in Austria was nearly 45 per cent and 60 per cent in Sweden in 2022 (ibid).

By the end of 2022, each Finnish citizen had received in total over USD 18,000 as FDI. Three decades earlier, the sum was roughly USD 850, indicating an impressive twentyfold FDI growth over the past three decades (see Table 4.1).

Table 4.1 Significance of FDI and foreign trade to the Finnish economy between 1990 and 2022

	1990	1995	2000	2005	2010	2015	2020	2022
Inward FDI stock (USD million)	4,277	8,155	24,273	54,802	86,698	81,658	90,468	99,901
Annual FDI inflow (USD million)	645	1,021	8,834	4,750	7,359	2,109	-1,579	9,445
Inward FDI stock per capita (USD)	858	1,597	4,689	10,446	16,165	14,902	16,361	18,030
Inward FDI stock / GDP (%)	3.02	6.08	19.31	26.76	34.79	34.83	33.27	35.32
Annual FDI inflow / GDP (%)	0.46	0.76	7.03	2.32	2.95	0.90	-0.58	3.34
Foreign trade / GDP (%)	38	52	64	61	56	51	49	65

Note: GDP at current prices.

Sources: UNCTAD (2023); Customs Finland (2023).

In addition to FDI, Finland has been exposed to international influence via foreign trade.² In Finland, the foreign trade-GDP ratio was 65 per cent in 2022 (UNCTAD 2023).

Various business services form the majority of the Finnish inward FDI stock. To be more precise, these services represented more than 60 per cent of Finland's inward FDI stock in 2021. Financial service activities, excluding insurance and pension funding, are the leading target for foreign investors, as the sector accounted for 29 per cent of the Finnish inward FDI stock as of the end of 2021. Financial service activities are followed by real estate activities, which accounted for 12 per cent of the country's inward FDI stock. The statistics database does not allow analysing the sector division by a country (see Table 4.2).

Table 4.2 The sector division of the Finnish inward FDI stock between 2013 and 2021 (% of the total)

	2013	2015	2017	2019	2020	2021
Financial service activities, except insurance and pension funding	27	26	12	15	17	29
Real estate activities	5	5	10	9	9	12
Manufacture of basic pharmaceutical products and pharmaceutical preparations	4	4	5	6	5	5
Manufacture of chemicals and chemical products	4	5	4	5	5	5
Wholesale trade, except of motor vehicles and motorcycles	5	4	5	5	5	5
Activities auxiliary to financial services and insurance activities	9	7	7	7	7	3
Other sectors	46	49	57	53	52	41

Source: Statistics Finland (2023a).

A large share of global FDI is conducted through a third country. An illustrative indication of the significant role of middlemen countries in global FDI flows is the fact that Luxembourg, the British Virgin Islands, and Singapore together represented over a quarter of the world's annual FDI outflow in 2020 (Liuhto 2021a). Russian firms actively use these middlemen countries; half of Russia's total FDI abroad has landed in the following capital transit countries: Cyprus (43%), Switzerland (5%), Singapore (2%), and the Bahamas (1%). Russian firms move their capital forward, including back to Russia, via these capital transit countries (Liuhto 2018; 2021b).

In Finland, Cyprus, Switzerland, Singapore, and the Bahamas account for less than 5 per cent of all FDI, indicating that Russian corporations have rather invested in Finland directly (Statistics Finland 2023a). A comparison of the statistics concerning immediate investors and ultimate investors confirms that Russia has placed its FDI in Finland mostly directly, which is not the case with the US. In fact, the majority of US FDI in Finland has arrived via another country (see Table 4.3).

² In 2022, the EU27 accounted for 56 per cent of Finnish foreign trade. The share for the US, China, and Russia was 7, 7, and 5 per cent, respectively (Customs Finland 2023).

As there is a major difference between the immediate investor and the ultimate investor statistics, it is worth paying attention to the latter, which show the real origin of the investment. The ultimate investor statistics indicate that Sweden is the largest foreign direct investor in Finland. Sweden accounted for over 20 per cent of the Finnish inward FDI stock in 2021. Sweden was followed by the US (18%), Germany (10%), and Norway (7%). Russia was in 11th place with approximately 2.5 per cent (Statistics Finland 2023b).

Table 4.3 The shares of the world great powers³ in the Finnish inward FDI stock between 2013 and 2021 (% of the total)

	2013	2015	2017	2019	2020	2021
IMMEDIATE INVESTOR						
China, including Hong Kong	0.02	0.00	0.00	5.36	5.35	5.45
Russia	1.42	1.11	1.50	1.70	2.14	2.43
US	1.51	1.82	0.56	0.82	0.56	2.20
ULTIMATE INVESTOR						
China, including Hong Kong	0.00	0.00	8.19	10.46	9.41	5.80
Russia	2.68	1.88	1.97	2.13	2.48	2.67
US	12.26	9.05	11.88	11.93	12.71	18.20

IMMEDIATE INVESTOR = the institutional unit located abroad that is first in the enterprise's control and influence chain. ULTIMATE INVESTOR = an institutional unit using control in a foreign enterprise located abroad or in the home country that is topmost in the ownership chain of the foreign direct investor. The ultimate investor is not controlled by any other institutional unit. The ultimate investor can also be a private person permanently living abroad or in the home country.

Sources: Statistics Finland (2023a/2023b).

China: China appeared in the Finnish FDI landscape in 2017, when Chinese FDI stock in Finland jumped from zero to some USD 6 billion. An acquisition of Finnish mobile game development company Supercell by Tencent was the reason behind the skyrocketing growth (Ylä-Anttila 2016). Even though Chinese FDI in Finland had a rocket-like start, Chinese FDI in Finland has not grown further despite several FDI plans (Leisti 2021a; Leisti & Taussi 2021). Rather, at the end of 2021, Chinese FDI stock in Finland had fallen to less than USD 5 billion (Statistics Finland 2023b). At the end of 2021, there were less than 100 Chinese daughter companies with a combined turnover of around USD 4 billion in Finland. These Chinese affiliates employed nearly 3,000 persons in Finland (Statistics Finland 2023c).

Russia: there are only three known Russian-owned companies among Finland's 500 largest corporations.⁴ One of them is Teboil, which is owned by Russian oil giant Lukoil. With a turnover of over USD 2 billion, Teboil was among Finland's 50 largest corporations in 2022 (Liuhto 2021b; Talouselämä 2023). The company operates in petroleum product trading, and it had a 28 per cent market share⁵ of the Finnish retail oil market before the COVID-19 pandemic, i.e. in the year 2019 (Teboil 2021). Due to the Western sanctions on Russian

³ 'A great power possesses economic, diplomatic, and military strength and influence, and its interests extend beyond its own borders' (Oxford Reference 2021). Even if Russia accounts for only between 1 and 3 per cent of the world's GDP, trade, and FDI, it has been included here, as it still can be regarded as a world great power due to its military power (Liuhto 2021c).

⁴ Due to the EU's Third Energy Package and its ownership unbundling requirement, Russia's gas giant Gazprom sold its ownership in Finnish gas distribution company Gasum to the Finnish Government in 2016 (Liuhto 2021b). In June 2023, Finland did not import any natural gas, including liquefied natural gas, from Russia (Customs Finland 2023).

⁵ Russia accounted for three-quarters of Finland's oil and petroleum product imports in 2019 (Liuhto 2021c). Finland stopped crude oil imports from Russia in August 2022 and petroleum product imports in March 2023 (Customs Finland 2023).

energy, it seems that Teboil will have to sell or terminate its operations in Finland. The second largest Russian-controlled enterprise in Finland is a metal company, NorNickel Harjavalta. Its turnover was a little over USD 2 billion in 2022, and with the aforementioned turnover the firm also ranked among Finland's 50 largest corporations. The third company is RAO Nordic with a turnover of around USD 350 million. RAO Nordic used to sell electricity from Russia to Finland. In June 2022, Finland stopped electricity imports from Russia completely (Customs Finland 2023). In addition to these three companies, renowned Russian-owned firms in Finland include: a shipyard, Arctech Helsinki, and a technology firm, Yandex Finland (Liuhto 2021b). The number of Russian-run firms in Finland is much higher. According to the database of the Finnish Patent and Registration Office (2021), there are approximately 5,000 enterprises with a Russian citizen in the enterprise's formal corporate governance⁶ in Finland, and the number of these Russian-run firms have more than doubled since the beginning of the millennium. On the other hand, the overwhelming majority of these firms do not operate on a permanent basis, if at all (Jumpponen 2001).

The US: the majority of the US FDI in Finland has arrived via a third country. Most probably, the US FDI has made a financial pit stop in the Netherlands, the UK, Luxembourg, or Ireland before arriving in Finland. The following two facts support this conclusion. Firstly, these four countries hold nearly a half of the US outward FDI stock, and secondly, these countries account for nearly 40 per cent of Finnish inward FDI stock in terms of immediate investors (Liuhto 2020; Statistics Finland 2023a). The following are the largest US investments in Finland: 1) DoorDash acquired Wolt for over USD 7 billion in November 2021 – Wolt is a technology company known for its delivery platform; 2) Microsoft bought Nokia Mobiles Phones for approximately \$ 5.5 billion in 2013; and 3) Google invested USD 2 billion into the Hamina data centre as a greenfield investment, which opened in May 2021 (Kukkonen 2021; Polo 2021). According to Statistics Finland (2023c), there were around 700 US subsidiaries in Finland at the end of 2021. These affiliates had a turnover of around USD 14.5 billion and employed over 25,000 persons. Half of active US companies in Finland operate in the ICT and digitalization and business services (Polo 2021) (see Table 4.4).

Table 4.4 Foreign subsidiaries⁷ in Finland at the end of 2021

	Number of subsidiaries	Turnover (EUR ⁸ million)	Number of employees (FTE)
China	67	3,896	2,821
Russia	22	4,295	753
US	710	14,498	26,920
Total	4,751	112,586	278,252

Note: FTE = full-time employees annually.

Source: Statistics Finland (2023c).

To sum up, the share of FDI in the Finnish GDP has grown sixfold since Finland became an EU member state in 1995. Even if the growth has been notable and the inward FDI stock-GDP ratio in Finland is 35 per cent, one should keep in mind that the respective share in Finland's neighbouring country, Sweden, is 60 per cent. In other words, Finland does not have a particularly FDI-driven economy (UNCTAD 2023). In the following section, we deal with the Finnish mechanisms for screening foreign investments.

⁶ Formal corporate governance means here that a Russian citizen holds at least one of the following positions: chair of board of directors, member of board of directors, deputy member of board of directors, managing director, auditor, liquidator or private trader.

⁷ Subsidiary is 'a company that is controlled by another' (Cambridge University Press 2021).

⁸ 1 EUR was on average 1.13 USD in 2021 (ECB 2023).

National mechanisms for screening foreign investments

Foreign corporate acquisitions

Finland has regulated foreign ownership in some form since 1939. For several decades, the restrictions for foreign ownership were tight in order to protect the national economy from foreign influence and to maintain domestic ownership of natural and industrial resources of national importance. However, alongside European economic integration in the 1990s, Finland significantly liberalized its national legislation on foreign ownership. The focus of the regulations shifted from comprehensive restrictions to screening foreign acquisitions and restricting them only when key national interests so require (Rajavuori 2019). The current screening mechanisms are based on the Act on the Screening of Foreign Corporate Acquisitions that came in force in 2012. Following the adoption of the EU regulation establishing a framework for the screening of foreign direct investments into the Union in 2019, the Act was amended in 2020 (Eduskunta 2020).

The starting point for national legislation in force has been a positive attitude towards foreign investments. However, some restrictions have been put in place to protect key national interests (Finnish Government 2020a). The Act on the Screening of Foreign Corporate Acquisitions aims to screen and, if key national interests so require, to restrict the transfer of influence to foreign owners in companies that are subject to screening. Key national interests refer to 'securing military national defence, functions vital to society, national security and foreign and security policy objectives, and safeguarding public order and security' (Act on the Screening of Foreign Corporate Acquisitions 2012, 2 §). Functions vital to society and national security and foreign and security policy objectives were added to the definition when the Act was amended in 2020 (Malminen & Rajavuori 2021). The vital functions are defined in the Security Strategy for Society (The Security Committee, 2017) (see Table 4.5).

Table 4.5 Functions vital to society

Leadership	Securing functional leadership in all situations and at all operational levels provides the basis for safeguarding all other vital functions.
International and EU activities	Because security effects cross national boundaries, participation in international activities, such as crisis management, humanitarian assistance, and prevention of global threats, is an integral part of safeguarding other vital functions. Security cooperation at the EU level is important in terms of security planning in different administrative branches.
Defence capability	Finland's independence and territorial integrity are safeguarded by maintaining its defence capability.
Internal security	Maintaining internal security allows Finland to prevent criminal activities, accidents, environmental damage, and other threats, as well as successfully manage their consequences.
Economy, infrastructure, and security of supply	Financial and other resources for vital functions are safeguarded by maintaining functioning economy, infrastructure, and security of supply.
Functional capacity of the population and services	The functional capacity and wellbeing of the population is maintained by ensuring the access to essential services, such as social welfare, health care, and education, in all situations.
Psychological resilience	Good psychological resilience facilitates the ability of individuals, communities, society, and the nation to withstand the pressures arising from crises and to recover from their impacts.

Source: The Security Committee (2017).

Companies subject to screening are defence industry enterprises and companies producing and supplying critical products and services to Finnish authorities that are essential to the security of society, and companies considered critical for securing the vital functions of society. The Ministry of Economic Affairs and Employment is responsible for the screening of foreign corporate acquisitions and serves as the national contact point for the EU screening regulation (Act on the Screening of Foreign Corporate Acquisitions 2012).

Regarding the defence industry, screening applies to all foreign corporate acquisitions. In other sectors, only foreign owners domiciled outside the EU or the EFTA countries are subject to screening. The Act applies to situations when a foreign owner gains control of at least one tenth of shares or the corresponding actual influence in a Finnish company. As regards corporate acquisitions in the field of defence industry and security, foreign owners need to apply for a confirmation from the Ministry of Economic Affairs and Employment in advance (Act on the Screening of Foreign Corporate Acquisitions 2012). In 2020, the requirement for prior confirmation was extended to also cover acquisitions in the security sector (Malminen & Rajavuori 2021). Concerning other sectors, a foreign owner may submit a notification of its corporate acquisition to the Ministry of Economic Affairs and Employment. The ministry can also oblige a foreign owner to submit all the necessary information concerning its corporate acquisition for examination. The ministry has to confirm a corporate acquisition even if it does not endanger key national interests. If the acquisition could endanger key national interests, the matter is referred to a Government plenary session for consideration (Act on the Screening of Foreign Corporate Acquisitions 2012). As the Act does not specify the sectors that are subject to screening, it allows case-by-case discretion of whether an acquisition endangers key national interests. For instance, due to the COVID-19 pandemic, acquisitions in the health care sector have been under intensified screening as the European Commission has recommended (Eduskunta 2020).

The right to impose conditions for acquisitions to safeguard key national interests was also added to the Act in 2020. This gives the authorities the ability to intervene in foreign corporate acquisitions that threaten key national interests with lighter measures rather than blocking the acquisition altogether. By abandoning the black and white logic of either allowing or prohibiting the acquisition, and rather evaluating its pros and cons on a case-by-case basis, the screening of foreign acquisitions is approaching competition law (Malminen & Rajavuori 2021). In addition, if it is noticed that an acquisition or an equivalent arrangement is intended to circumvent the provisions of the Act, it can be brought to the Ministry of Economic Affairs and Employment for examination (Act on the Screening of Foreign Corporate Acquisitions 2012). The circumstances are not clarified in the Act but are likely to cover, for instance, dummy company arrangements. Hence, the 2020 amendments specify the scope of the application of the Act and give the authorities a wider variety of means to intervene in foreign acquisitions (Malminen & Rajavuori 2021).

Since the Act on the Screening of Foreign Corporate Acquisitions came in force in 2012, applications for confirmation received by the Ministry of the Economic Affairs and Employment have increased approximately sevenfold. A particularly sharp increase has been seen after 2020 when the COVID-19 pandemic had temporarily reduced the number of applications. In 2022, the ministry received 35 applications, of which 34 were confirmed and one was withdrawn by the applicant. The highest number of applications, nine, were from companies registered in the US, while five were from Luxembourg and four from Sweden (Ministry of Economic Affairs and Employment 2023). In general, information concerning individual screening cases is not public (Mustonen 2023) but in 2015, one foreign corporate acquisition in the defence sector was referred to the Government.⁹

⁹ The matter in question was the acquisition of the Finnish company Codenomicon by the Irish company Synopsys International Ltd that is part of the American Synopsys group. Codenomicon specializes in information security and has developed software security testing tools for finding vulnerabilities. The acquisition was not considered to endanger key national interests and was thus approved (Ministry of Employment and the Economy 2015).

Property acquisitions

Finland abolished the restrictions concerning foreign ownership of property in the 1990s and between 2000–2019, foreign owners were able to buy properties in Finland without needing to apply for a permission. During that time, the only way for the Finnish authorities to intervene in real estate ownership was expropriation on a case-by-case basis, which was considered difficult and inefficient to execute particularly in times of potential crisis (Malin 2016; Ministry of Defence 2017). Consequently, the Government of Finland prepared a bill enabling the state to restrict property acquisitions that pose a threat to national security, by using pre-emptive measures that are lighter in an administrative sense than expropriation (Finnish Government 2018). The Act on Transfers of Real Estate Requiring Special Permission came in force in the beginning of 2020 (Act on Transfers of Real Estate Requiring Special Permission 2019). Following the assessment of its functionality, the Act was amended in 2022. The amendments came in force at the beginning of 2023 (Finnish Government 2022b). The Act does not concern the Åland Islands, where property acquisitions without regional citizenship have always been subject to permission (Ministry of Defence 2022a).

According to the Act, transfers of real estate to nationals of other than the EU and the EEA member states, as well as to entities with a seat outside the EU and EEA, require permission from the Ministry of Defence. The Act also applies to cases when a company willing to acquire property in Finland has a seat in an EU or EEA member state but at least one tenth of shares or the corresponding actual influence in the company is held by a person or entity residing outside the EU and EEA. The application for permission must include the details of the parties to the real estate transaction, the piece of real estate being transferred, and its intended use. The Ministry of Defence can refuse permission if the transaction can be assessed to threaten national security or complicate the organization of defence, the surveillance and safeguarding of territorial integrity, or ensuring border control, border security, or security of supply. When the Act was amended in 2022, threat to national security was added to the factors that can result in the denial of permission. Permission can also be refused if the property is not considered to suit the purpose of use stated in the application. Furthermore, in 2022 the Ministry of Defence was granted broader rights to obtain information and can now require the applicant to explain the source of funds used in the transaction (Act on Transfers of Real Estate Requiring Special Permission 2019). In addition, the state has a right of pre-emption in transactions concerning real estates located within a maximum distance of one kilometre of strategic sites, such as areas and properties used by the Defence Forces or the Border Guard (Act on the State's Right of Pre-emption in Certain Areas 2019). If deemed to pose a threat to national security, the state also has a right to expropriate any real estate under the Act on the Right of Redemption of Immovable Property and Special Rights in Order to Protect National Security (2019).

The number of permissions granted by the Ministry of Defence for property deals has more than doubled during the first three years the Act has been in force. In 2020, the ministry granted around 400 permissions, while in 2021 the number of permissions increased to 760 and in 2022 to 850. Regarding the nationalities of the successful applicants, Russians comprised the largest group with 124 permissions granted in 2020, 217 permissions in 2021, and 275 permissions in 2022 (Ministry of Defence 2022a; Puupponen 2023). By March 2023, the ministry had refused two permissions: one of them due to an incomplete application and the other due to security concerns related to the location of the property close to Niinisalo garrison. According to the Ministry of Defence, the attempted buyers, Russian citizens, were unable to provide a credible reason for the purpose of use of the property (Ministry of Defence 2022b; Puupponen 2023).

The fundamental changes in Finland's security environment caused by Russia's war of aggression against Ukraine have created a need to further evaluate and develop the legislation restricting property ownership of non-EU and non-EEA nationals. In 2022, the Ministry of Defence set up a working group to evaluate the

restriction and/or prohibition of real estate acquisitions by Russian citizens and entities, and ways to develop the monitoring of property ownership of non-EU and non-EEA nationals. Although watertight monitoring is difficult, the working group emphasized that the authorities need to have a comprehensive awareness of the risks and threats in the current situation and sufficient means to prevent property acquisitions threatening national security. Regarding the real estate acquisitions of Russian citizens and entities, the working group concluded that the legislation in force provides sufficient means to prevent property acquisitions that threaten national security, and total prohibition of Russian property acquisitions is neither necessary in the current situation nor the most efficient means of responding to security threats. Furthermore, the prohibition could be circumvented by using dummy companies. Restrictions based on certain nationalities were also considered problematic from the perspective of fundamental rights (Ministry of Defence 2022a). Nevertheless, the working group concluded that the monitoring of foreign property ownership could be tightened, for instance, in terms of housing company shares, land lease agreements, and the transfer of property ownership as a part of corporate acquisition. Extending the state's right of pre-emption to assets that are critical for security of supply was also mentioned in the evaluation report (Ministry of Defence 2023a). Measures to develop the monitoring of foreign property ownership will be decided during the new government's term (Ministry of Defence 2023b) that started in June 2023. The new government will also reassess avenues to prohibit Russian property acquisitions (MTV Uutiset 2023).

National debate on the threats of foreign ownership

The transforming security environment and hybrid threats

According to Finland's National Risk Assessment 2023, the changes in the foreign and security policy environment, especially the intensification of great power competition and the weakening of the rules-based international system, increase the instability and tensions in Finland's operating environment. This has been particularly affected by Russia's war of aggression against Ukraine. Finland's NATO membership, on the other hand, is seen to strengthen Finland's defence and the stability of Northern Europe as a whole, while Finland also shares the common risks and threats of NATO member countries. In NATO, Russia is considered the greatest threat to the allied countries, while China is considered a challenge to common values, interests, and security (Ministry of the Interior 2023).

The transforming security environment and growing global and regional uncertainties have created new types of threats. The increasing threat of hybrid influencing, that is multifaceted and characterized by the blurring of the boundaries between internal and external security, creates challenges for Finland's national security (Ministry of the Interior 2019; Finnish Government 2020b). According to the Government Report on Finnish Foreign and Security Policy (Finnish Government 2020b: 14),

In hybrid influencing, a state or other external actor systematically employs a variety of methods, concurrently or sequentially, with an aim to influence the target's vulnerabilities to reach its own goals. The range of methods is wide, including political, diplomatic, economic and military methods, and informational and cyber influence. The influencing is injurious, and the actors strive to implement it in such a manner that their involvement in the actions can be denied.

After Russia's military invasion of Ukraine and due to the security policy choices Finland has made, the threat of exceptionally wide and complex hybrid influencing by state actors against Finland has increased. According to the Government Report on Changes in the Security Environment, the transforming security environment has created a need for more efficient threat assessment, coordination, and cooperation at both national and international levels to recognize and prevent hybrid threats (Finnish Government 2022a). In Finland, the risks related to foreign investments are typically dealt in the context of hybrid influencing. While threat

perceptions have become more varied, growing number of sectors are seen as sensitive in terms of national security. For instance, in 2016, the Finnish Security Committee characterized the purchase of real estate by foreigners in strategic locations as hybrid warfare (Malin 2016). However, as investments are in general viewed in a positive light, it may be difficult to recognize which activities are actually harmful (Ministry of the Interior 2023). According to the latest National Risk Assessment from 2023, hybrid influencing targeted to Finland can have economic dimensions:

A key instrument for long-term influence activities is economy and, within it, critical commodities and related supply chains and dependencies. As a category of economic means of influencing, dependencies create opportunities to exert influence or pressure. The creation of dependencies with the aid of supply and maintenance chains or ownership relations is among potential means of influencing. Finland is an open economy that is dependent on exports and must be involved in global value chains and networks. This also exposes different sectors of society to hybrid influence activities.

When foreign investments increase, immovable property and companies may transfer into the ownership of operators in whose interests it is to act against Finland's national interests. The control of property also makes it possible to use it against the vital functions of society (Ministry of the Interior 2023: 27).

The previous National Risk Assessment from 2018 also recognized the risk of using economic methods, such as acquiring property in strategic locations or investing in Finland, for pursuing influence in Finland (Ministry of the Interior 2019). Consequently, the use of economic instruments by foreign states to promote their own strategic interests in other countries, often referred to as geoeconomic influencing (see e.g. Mikkola et al. 2018), has been recognized in the risk assessments.

The potential risks of foreign ownership of property in strategic locations have been discussed in Finland for a long time and have become particularly evident following Russia's annexation of Crimea in 2014, the war in Eastern Ukraine, and especially after February 2022 when Russia launched its full-scale war against Ukraine. Russians have long made the majority of foreigners' property deals in Finland. In the peak year of 2008, Russians bought over 900 pieces of real estate in Finland. However, Russian property acquisitions in Finland have plummeted during the last decade (National Land Survey of Finland 2023), initially due to the decline of the Russian Rouble and, since Russia's full-scale attack on Ukraine, due to the sanctions imposed on Russian banks that hinder money transactions and the visa restrictions Finland has placed on Russian citizens.

During the past decade, of particular concern, and subject to heated debate, have been the many purchases of property by Russian citizens in the proximity of military bases, airports, and training areas, critical telecommunication and energy infrastructure, land transport hubs, important waterways, and the border (Malin 2016; Keränen & Hakahuhta 2018). One of the cases that gave rise to the debate on the problems of these property deals occurred in 2015, when the Russian state-owned gas company Gazprom tried to buy land in the vicinity of a military training area in Taipalsaari in Eastern Finland. The case ended in the acquisition of the real estate by Metsähallitus, that manages state-owned land. If the deal between the property owners and Metsähallitus had not been reached, the state would likely have used its right to expropriate the property for national security reasons (Schönberg 2022). The Finnish Security and Intelligence Service (Supo) also noted even in 2016 that some property acquisitions that are not logical in terms of business or normal use of real estate, may be linked to foreign states' preparations for hybrid influencing and pose a threat to national security. In a potential crisis, this real estate could be utilized for cutting off traffic routes or accommodating troops for instance (Supo 2016). Because more than 90 per cent of Finnish foreign trade is seaborne (Finnish Customs 2023), disruptions in maritime transport would have a particularly great impact on the Finnish economy and society.

With respect to these concerns, the case of the company Airiston Helmi, owned by a Russian entrepreneur, has gained a lot of media attention over the last few years. In September 2018, the Finnish National Bureau of Investigation (KRP), together with the police and coast guard, undertook a large-scale search operation of the company's properties in the Turku Archipelago. Airiston Helmi's properties were strategically located close to key maritime routes in the Finnish Archipelago Sea and were equipped with, for instance, helipads and video monitoring systems. KRP informed the media that the operation was part of an investigation into money laundering and other serious financial offences. A few days after the operation it was announced that Supo – specialised in threats to national security – would assist KRP in the investigation (Hanhinen & Niilola 2018; Jansson 2018). In 2022, the criminal investigation for money laundering was closed due to lack of evidence but several persons were prosecuted for various financial offences, such as aggravated tax fraud and false accounting (STT 2022). Nonetheless, the case of Airiston Helmi caused a lot of speculation about its connections to hybrid operations and other threats to national security and contributed to Finland imposing restrictions for foreign ownership of real estate.

The third case that has sparked a heated debate on Russian property ownership in strategic locations is related to the Kotasaari island on lake Saimaa, located next to Finland's most important inland waterway. Kotasaari was bought in 2020 by a Russian businessman and since then, the island has been equipped with, for instance, a helipad and extensive housing facilities. Due to the buyer's dual citizenship of Russia and Cyprus, the property transaction was not subject to permission. However, the Ministry of Defence informed the media that it was closely monitoring the use of the property. In 2022, the Kotasaari property was seized by the execution authority due to the sanctions imposed on its owner (Pietiläinen & Salovaara 2022). The Kotasaari case highlighted the issue of the regulations for foreign property acquisitions being circumvented by those with dual nationality of an EU member country and a third state (Nurmi 2021a; 2021b). In December 2022, the working group the Ministry of Defence had set up to evaluate the restriction of Russian real estate acquisitions stated that the issue of dual nationality should be dealt in a broader context than merely in relation to property deals, which would require consideration of whether the legislation concerning dual nationality should be changed (Ministry of Defence 2022a).

The Panama and Pandora Papers document leaks exposed how companies and individuals have hidden their wealth in offshore accounts, tax havens, and shell companies and sparked a debate on increasing transparency of ownership and funding arrangements. The Finnish media has particularly focused on the revelations about the Russian elite's hidden wealth and complicated ownership arrangements, by means of which they have also been able to protect their assets from EU sanctions (see e.g. Hänninen & Gnus-Galán 2021; Yle 2021b; Hänninen & Gnus-Galán 2023). Regarding property transactions subject to permission, the amendments to the Act on Transfers of Real Estate Requiring Special Permission, that came into force in the beginning of 2023, give the Ministry of Defence better measures to monitor their funding arrangements. However, the issue is also relevant in terms of foreign investment screening as arrangements such as shell and dummy companies can be used to conceal the actual ownership or source of funding in order to circumvent the screening regulations.

Russia's war of aggression against Ukraine and the ensuing changes in Finland's security environment have increased concerns related to the use of properties for hybrid influencing, and public discussion in particular about Russian property ownership continues. According to the Futures Review of Finnish ministries (Finnish Government 2022c), the legislation in force has provided the Ministry of Defence with a better situational picture of property ownership in Finland, in addition to which it has had a preventive effect. Furthermore, according to the Government Report on Changes in the Security Environment (Finnish Government 2022a), applications for foreign property acquisitions, particularly in terms of the buyer, location, and intended use of property, have been assessed more carefully since Russia's full-scale attack on Ukraine. Nevertheless,

monitoring of property acquisitions still needs to be developed and legal loopholes still need to be fixed (Finnish Government 2022c).

Threats to security of supply and critical infrastructure

Technological development, digitalization, and economic interdependence among states have generated great benefits and opened up new opportunities, but simultaneously created vulnerabilities and security risks when interdependence is used to cause dependencies and gain strategic advantages (Roberts, Choer Moraes, & Ferguson 2019). The risks associated with economic interdependence and geoeconomic pressure are linked to ensuring security of supply that is a key concept of Finnish security policy (The Security Committee 2017). Finland's economy, business life, and society are dependent on global value and supply chains and the critical raw materials, components, and products that pass through them. Consequently, disturbances in value and supply chains, as well as energy markets, can have a significant impact on the Finnish economy and society. According to the National Risk Assessment 2023, disruptions in value and supply chains caused by the COVID-19 pandemic, as well as disruptions in the energy system caused by Russia's war of aggression, have made these risks even more clearly visible. In addition, Finland's geographical location on the edge of the EU's internal market and dependence on foreign trade by sea challenge the maintenance of the security of supply, which is largely based on the functionality of transport chains (Ministry of the Interior 2023). Finland's NATO membership can strengthen Finland's security of supply by facilitating the improvement of land transport connections between Northern Finland and the ports in Northern Norway, creating an alternative transport route to the Baltic Sea (Tanskanen & Rantala 2022).

In general, Finland's security of supply has grown increasingly dependent on foreign companies and infrastructure. The private sector plays a central role in providing products, services, and infrastructure that are connected to vital functions of society. Increasing involvement of foreign companies in these sectors can create security risks when, for example, the actual owners of the companies or sources of funding have been concealed by complicated ownership arrangements. The risks are particularly evident in relation to critical infrastructure, such as key logistic systems, energy infrastructure, and land areas critical to national security (Mikkola et al. 2018). The Government Report on Changes in the Security Environment states that Finland's transforming security environment has increased threats and risks related to the vulnerabilities of critical infrastructure. In terms of the operation of critical infrastructure, even a partial transfer of key companies to foreign ownership can increase uncertainty about the operational reliability of companies in a crisis. In some cases, acquisitions can also be motivated by state actors' efforts to exert influence, and restricting the transfer of companies critical to the vital functions of society to foreign ownership may be justified if the national interest so requires (Finnish Government 2022a).

Regarding investments in critical infrastructure and other sectors connected to security of supply, the investments of Chinese and Russian state-owned or state-linked companies have been seen as particularly problematic because they always involve strategic interests and political connections, and are linked to concerns about using economic means to increase political leverage. The public statements of Finnish security authorities also reflect a tougher stand on potential security risks associated with foreign states gaining access to critical infrastructure. Supo's National Security Overview 2022 states that the main threat against Finland in terms of state-led intelligence and influencing operations originates from Russia and China. While Russia's main intelligence target is foreign and security policy, particularly in relation to Finland's NATO membership, China's main interests lie in state-of-the-art technology, the Arctic, and national policymaking. Although Supo's overview mostly concentrates on intelligence operations, it mentions the risk of transferring technological expertise that may be subject to export controls to China through corporate acquisitions (Supo 2022). According to Supo's previous National Security Overview from 2021, operators from authoritarian

countries have been interested in investing in both fixed infrastructure, such as real estate and production facilities, and information infrastructure, such as telecommunication, in Finland. Although few investments have yet been realized, the risk to information infrastructure is perceived as particularly high because through it authoritarian governments can gain access to both Finnish infrastructure and information (Supo 2021).

Hence, although Finland has long had good economic relations with China, the strategic interests linked to Chinese corporate acquisitions and infrastructure investments have attracted increased public attention over the past few years (Leisti & Taussi 2021). China's strategic interest in the Arctic and its related plans to invest in Finnish infrastructure – such as the Arctic railway and the Helsinki-Tallinn tunnel – to gain access to the Arctic Ocean have also raised concerns about the ultimate motives behind Chinese investments (Huusko 2018; Sajari 2019; Varvitsioti 2021; Yle 2021a). For instance, in March 2021, the Finnish National Broadcasting Company Yle reported that a Chinese delegation of scientific and military experts had made a proposition to the municipality of Kemijärvi in Lapland to buy the town's airport as a base for Arctic research in 2018. The proposal was rejected by the Finnish Defence Forces due to the airport's strategic location next to the Rovajärvi artillery practise range (Leisti 2021b). In addition, reservations regarding Chinese investors have increased after several large forest industry projects, mainly in northern Finland, that were hoped to create long-awaited jobs to sparsely populated areas, foundered or were halted in recent years (Leisti & Taussi 2021).

Regarding security of supply, Finland's dependence on Russian energy has been seen as particularly problematic. Although the discussion on energy dependence has mostly concerned the import of fossil fuels from Russia, various experts have also called for a more critical approach to Russian energy companies in general even before Russia's war of aggression against Ukraine in 2022 (see e.g. Yle 2021a; Lundell 2022). For example, Russian State Nuclear Energy Corporation Rosatom's involvement in Fennovoima Oy's nuclear power plant project Hanhikivi 1 in Pyhäjoki has been widely debated in Finland. Rosatom was chosen as the supplier of the nuclear power plant project in 2012 after Fennovoima's minority shareholder German power company E.ON decided to withdraw from Finland (Fennovoima 2021). The Ministry of Economic Affairs and Employment did not consider the sale of a minority share to Rosatom as a danger to key national interests and confirmed the acquisition in March 2014 despite Russia's ongoing occupation of Crimea (Säntti 2014). However, Fennovoima's nuclear power plant project was delayed for several years because it did not receive a construction licence despite submitting its application to the Government in 2015 (Ministry of Economic Affairs and Employment 2021). The delay in granting the construction licence was mainly related to the absence of a positive safety assessment from the Radiation and Nuclear Safety Authority (STT 2021). Furthermore, in September 2021, the Ministry of Defence issued a statement on the project's construction licence application. According to the statement, the construction licence application needed to be accompanied by a risk analysis on the geopolitical and geoeconomic risks of the project, examining, among others, the impacts of potential new sanctions on Russia on the project, as well as Rosatom's connections to Russia's military industry and related actions to promote Russia's security policy interests. Although the Ministry of Defence considered the project would improve Finland's energy self-sufficiency, it stressed the importance of a diversified supply of nuclear fuel. According to the Ministry of Defence, significant projects connected to Finland's security of supply always demand a security-political risk analysis, especially when they include links to foreign operators and suppliers (Ministry of Defence 2021).

Eventually, after Russia's full-scale attack on Ukraine and strong criticism of the project by politicians and experts alike, Fennovoima terminated the Hanhikivi 1 nuclear power plant delivery contract with Rosatom's subsidiary RAOS Project and withdrew the construction licence application in May 2022. According to Fennovoima, the contract was terminated due to the inability of RAOS Project to deliver the project and mitigate the risks created by the war in Ukraine, as well as the growing delays the project had been

experiencing (Fennovoima 2022a; 2022b). Both Fennovoima and Rosatom are claiming damages from each other for the failed project (Koponen 2023).

The debate on Rosatom's involvement in Fennovoima's nuclear power plant project has reflected the divided views on Russian investments in Finland, as well as Finland's two-track policy towards Russia. Despite the deterioration in relations between Russia and the West after the occupation of Crimea in 2014, Finland has long aimed to maintain a political and economic dialogue with Russia and ensure mutual investments to achieve economic gains. On the other hand, critics have stressed the growing political, economic, and energy dependence on Russia (Mikkola et al. 2018; Szymański 2018). Similar challenges related to balancing between attracting foreign investments and protecting national security have also been reflected in the attitudes towards Chinese investments. However, Russia's unjustified military attack on Ukraine has fundamentally changed Finland's political and economic relations with Russia and shown the limits of what can be achieved by promoting economic interdependence.

The legislation concerning foreign corporate acquisitions has not been modified following the war in Ukraine. However, according to the Government Report on Changes in the Security Environment, the prevailing security situation is taken into account when foreign corporate acquisitions are evaluated on a case-by-case basis. The monitoring is developed in continuous cooperation with the authorities, for instance, a new common risk assessment tool has recently been introduced, and the practical application of the law in relation to issues concerning the ownership of critical infrastructure is being clarified (Finnish Government 2022a). According to Supo, the threat of intelligence and influence operations targeting critical infrastructure in Finland has increased following Russia's war of aggression against Ukraine and Finland's NATO membership. Russia may also resort to business espionage to compensate for the loss of imported Western technologies subject to sanctions. However, China's operations in Finland have not been affected by the war in Ukraine (Supo 2022). Nevertheless, the impacts of the war and the ensuing sanctions on the economic relations with Russia have shown that authoritarian countries – including China – entail a stronger political risk than democratic countries. Therefore, Finnish businesses are also likely to consider cooperation with non-democratic countries more carefully in the future (Mäkinen 2022).

Conclusions

Finland is not a particularly FDI-driven country. In fact, the inward FDI stock-GDP ratio in Finland is one of the lowest in the EU. The world great powers, namely China, Russia, and the US, account for a quarter of Finnish inward FDI stock. Even if China and the USA have together invested the lion's share of all the accumulated FDI in Finland (over 20%), a closer examination reveals that China's investment in one Finnish mobile game development company – Supercell – accounts for practically all Chinese investment in Finland. In turn, the majority of US investments in Finland have landed in non-strategic sectors, as US investment in the Finnish ICT sector, digitalization, and the data centre do not constitute a threat to the national security of Finland. Although Russia represents just 2.5 per cent of Finland's total FDI stock, Russia used to play the most strategic role among the world great powers in Finland as some of its investments were in the energy sector. For example, Teboil – owned by Russian oil giant Lukoil – controlled more than a quarter of the retail oil market in Finland before the Ukraine-related sanctions on Russian energy; and RAO Nordic used to represent a significant share of Finland's electricity imports. However, Russia's invasion of Ukraine and the sanctions imposed by the West have changed the situation. In June 2023, Finland did not import any energy, including electrical energy, from Russia. It is worth mentioning that after Finland joined NATO in April 2023, the US has become the second most important energy supplier to Finland after Norway (Customs Finland 2023).

Finland's approach to foreign investments and the national debate on the threats associated with them have been influenced by both internal developments and by changes in the international environment. After a period of liberalization, investment screening legislation has again been gradually tightened during the 2010s and 2020s, which reflects the international trend of growing importance of geopolitics and security issues in economic thinking and policies. China's growing importance in the world economy and the concern that it uses foreign trade and investments to increase its own economic and political leverage have led to the more visible highlighting of the risks associated with Chinese investments in Finland also. In turn, the discussion about threats related to Russian investments and real estate transactions has intensified since the 2014 occupation of Crimea. However, while before the views on Russian investments and their potential economic gains were divided, Russia's invasion of Ukraine in February 2022 has fundamentally changed Finland's relations with Russia and the attitude towards Russian investments along with it, resulting, for instance, in the termination of the cooperation with Rosatom to construct the Hanhikivi 1 nuclear power plant.

Russia's war of aggression has rendered Finland's security environment significantly more unstable and led Finland to reassess its security policy situation and join NATO. Following these changes, the threat of wide-ranging hybrid influencing against Finland has increased. The preparedness against foreign influence operations has been strengthened, for instance, by developing the monitoring of foreign corporate and real estate acquisitions. The investment screening legislation in force gives Finnish authorities a variety of means to screen and, when the need arises, to restrict foreign corporate acquisitions and property acquisitions in strategic sectors and locations. However, circumventing the regulations via using dual nationality of an EU member country and a third state or by hiding the true ownership and source of funds behind dummy companies or middlemen is still hard to prevent completely. Responding to these kind of threats, as well as hybrid threats in general, requires cooperation between various government agencies and authorities, as well as constant vigilance from Finnish society.

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