



The Significance of Foreign Direct Investment in a Small Industrializing Economy: The Case of Finland in the Interwar Period

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In this paper I use a new database to clarify the number of foreign-owned companies in interwar Finland, to show the ownership distribution by country and by industry and to give a preliminary estimate of the significance of foreign direct investment in the Finnish economy: the share of industrial production in foreign-owned firms as well as their proportion of all share capital in limited liability companies. The new database shows a small but unexpectedly high amount of foreign ownership in the Finnish economy in the interwar period. The majority of companies were there to take advantage of the ample timber resource, but as trade agents or sawmillers that is, in the simpler forms of timber use, not in the fast developing paper and pulp industry. Another major group of foreign companies were the Swedish, German, British, and American multinationals selling and servicing their products in the Finnish market, rather than setting up production or assembly plants.

Interwar Finland was a small open economy with internationally high import and export shares; the high trade shares were quickly restored after the First World War to their prewar levels. In the interwar period, 80–90 percent of exports were related to timber. Finland was still very much an agrarian, backward country but had a fast growing industrial and commercial sector. The population had surpassed three million. The Gross Domestic Product (GDP) was growing at an annual pace of 5.9 percent and industrial production at a rate of 6.9 percent from 1920 to 1938. The level of GDP per capita was very low but was rising from 40 to

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60 percent compared to the British GDP between 1920 and 1938.¹ The largest industrial branches were the food, beverages and tobacco industry, the timber and woodworking industry, the paper and pulp industry, and the metal, transport equipment, and electromechanical industry. The most important structural changes were the growth of the metal, transport equipment, and electromechanical industries as well as the paper and pulp industry.

It has been generally assumed that there was insignificant foreign ownership in the Finnish economy in the interwar period, possibly because of restrictive legislation dating back to the nineteenth century.² However, worries about the extent of foreign ownership and recurring discussion of further restrictions of ownership rights also hint at fears that foreign ownership was larger than was openly acknowledged. In the newly independent country (Finland had been independent since 1917), people were worried about foreign companies gaining control over the economy and/or natural resources. There was also concern about the lack of capital, which foreign direct investments (FDIs) could have facilitated.³

In general, foreign entrepreneurs initiate activities in another country to gain access to natural resources, to get markets for their own products, to circumvent tariff barriers, or to use some special advantage of the host country to promote their own activities. The host country may be afraid of losing its economic independence, or of an outflow of profits, or increased competition, which would be a nightmare for domestic entrepreneurs. However, a host country would in most cases welcome the new capital, new technology and skills, and increases in GDP, employment, and possibly exports.⁴

Many scholars delineate FDIs from the viewpoint of the investors and countries of origin; fewer researchers look at FDI from the point of

¹ Riitta Hjerppe, *The Finnish Economy 1860-1985: Growth and Structural Change* (Helsinki, Finland, 1989), Appendix Tables; Angus Maddison, *Monitoring the World Economy, 1820-1992* (Paris, 1995).

² Göran Ehrnrooth, "Utländskt kapital i Finland," in *Finlands samhällsekonomi inför morgondagens Europa*, Festskrift, Ekonomiska Samfundet i Finland 1894-1964 (Helsinki, Finland, 1964), 109.

³ National Archives of Finland, Ad N:o 61/22 D.K. ja T.M. 1932 (15 Sept. 1932) *Keskuskauppakamarin lausunto Kauppa- ja teollisuusministeriölle 12 Sept. 1932* [The Statement of the Central Chamber of Commerce to the Ministry of Trade and Industry 12 Sept. 1932]; see also Riitta Hjerppe and Jorma Ahvenainen, "Foreign Enterprises and Nationalistic Control: The Case of Finland Since the End of the Nineteenth Century," in *Multinational Enterprise in Historical Perspective*, ed. Alice Teichova, Maurice Lévy-Leboyer, and Helga Nussbaum (Cambridge, U.K., 1986).

⁴ See for example John H. Dunning, *Multinational Enterprises and the Global Economy* (Reading, U.K., 1993), 56-60; Geoffrey Jones and Harm G. Schröter, eds., *The Rise of Multinationals in Continental Europe* (Aldershot, Hants, U.K., 1993).

view of the host countries, even as authors such as John F. Dunning list factors affecting FDI from both the point of view of the country of origin and the host country.⁵ Systematic research of a host country's FDI can, however, open new approaches to explaining the developments of FDI.

The historical role of FDI has remained largely unexplored in Finland. This is the first attempt to form a complete picture of the significance of FDI in the interwar period. I aim to show the approximate number of foreign-owned companies, which countries they came from, and in which industries they were situated as well as give an initial estimate of the significance of FDI in the Finnish economy in the interwar period. It is not possible to give a comprehensive picture of foreign ownership in the Finnish economy, but the share of industrial production in foreign-owned firms as well their proportion of all share capital in limited liability companies will be calculated.

With respect to the motives for the FDIs in Finland, to what extent were foreigners in Finland able to use the natural resources of the country? Did the companies come to Finland to build wider markets for their products? Did companies come to limit competition in the fields of their activities? Were there other advantages that companies sought in Finland?

There are no systematic statistics or registers of foreign ownership in Finland before the 1960s. To overcome this, I have constructed a database from a number of different sources to show the extent of foreign ownership. This database is part of a larger research project in which I studied foreign involvement and the significance of foreign capital in the economic development of Finland in the larger context of all foreign financing and income (that is, foreign loans, investments, and foreign trade). The new database shows unexpectedly high levels of foreign ownership in the Finnish economy in the interwar period.

Legislation on Foreign Ownership

Restrictions on foreign ownership have had a long history in Finland, extending back to the nineteenth century, and were only abolished in anticipation of membership in the European Economic Area and the European Union in the early 1990s. In 1832, a statute limited the rights of a burgher to Finnish citizens only. In 1851, it was prescribed that any foreigner, Russian nobles excepted, had to obtain permission from the tsar to own land. After 1883, mining by foreigners became subject to license; in 1886, it became impossible for a foreigner to engage in banking; and in 1889 the construction and operation of private railroads was limited to Finnish nationals only. In 1895, it was prescribed that in limited liability

⁵ See, however, Sven Nordlund, *Upptäckten av Sverige. Utländska direktinvesteringar in Sverige, 1895–1945* [The Discovery of Sweden: Foreign Direct Investments in Sweden, 1895–1945] (Kungälv, Sweden, 1989).

companies the majority of members on the board of directors had to be Finnish, even if the ownership was in foreign hands.⁶

The new government established after Finland gained independence in 1917 retained the earlier limitations on FDIs. Soon after, further limitations were added and additional restrictions discussed. A number of laws were passed in 1919. One regulated business and industry, and prescribed that a foreigner had to obtain a permit to establish a business in Finland. Further, the payment of taxes and other charges due to the state and the municipality had to be guaranteed in advance. A second law forbade transmission of electric power generated by Finnish hydropower over the Finnish border.⁷ A third law prohibited foreign acquisitions of real estate in Viborg county in eastern Finland (Lex Carelia) to limit the further spreading of foreign (Russian) ownership in the Carelian Isthmus.⁸ The justifications for legislation included economic, cultural, and political-strategic reasons.⁹

Plans were made to restrict a foreigner's right to own shares in Finnish limited-liability companies. One legislative proposal was rejected by the parliament in the early 1920s, as the majority of the parliament did not want to tighten the economic relations between the young nation and foreign countries. Foreign capital and expertise were needed in the country, but the discussion continued.

In 1939, new laws to restrict foreign ownership were implemented. The main thrust of these laws was that no foreigner or foreign organization

⁶ The text is mainly based on Hjerppe and Ahvenainen, "Foreign Enterprises and Nationalistic Control."

⁷ This ended a continuous struggle over harnessing the hydropower of the River Vuoksi between the 1890s and 1919. Consortia had been formed with Russian and other foreign partners to provide St. Petersburg with hydropower from the rapids of the Vuoksi. These consortia gradually bought the riverbanks so that two thirds of them were in foreign ownership. In this case, the Finnish Senate systematically refused permissions to exploit the hydropower. The method was rather indirect, and involved submitting the applications to various committees studying the plans' technological and economic feasibility. There were clearly nationalistic ideas about preserving the natural resources in Finnish hands, see Timo Myllyntaus, *Electrifying Finland: The Transfer of a New Technology into a Late Industrialising Economy* (London, 1991), 58–72. See also Timo Myllyntaus, "Electrical Imperialism of Multinational Cooperation? The Role of Big Business in Supplying Light and Power to St. Petersburg before 1917," *Business and Economic History* 26 (Winter 1997): 540–49.

⁸ Since the 1870s when the railroad was built between Finland and St. Petersburg, the Russian nobility and burghers had acquired many villas and forests in the Finnish areas near St. Petersburg.

⁹ Olavi Ahonen, *Tukkimetsästä tehtaisiin—patruunasta puulaakiin. Ulko-maalaisten taloudellisen toiminnan oikeudellisen sääntelyn kehitys Suomessa 1850–1939* [Juridical Regulation of Foreigners' Economic Activities in Finland 1850–1939] (Helsinki, 1984), 69–74.

could acquire real estate in Finland without permission from the government. The law not only restricted foreigners, but also Finnish joint-stock companies that, according to the company's articles of association, did not limit foreign ownership to one-fifth of the shares. Companies without this restriction were designated "dangerous companies." Legislation also restricted the operation of foreigners by prohibiting mining claims and the purchase of mines without the government's permission. A foreigner could not be a member of a board of directors or the general manager of a firm without permission.

Data and the Concept of Foreign Ownership

No explicit data are directly available about foreign ownership or foreign companies in Finland before the Bank of Finland began collecting statistics in the 1960s. Because of the restrictions on foreign ownership, these companies had to be registered in several different ways. Until the 1990s the government dealt with the applications, with different ministries handling the applications. Since 1896, the Register of Trade and Industry has registered all limited liability companies, partnerships and private firms, which also had to report on changes in ownership, management, share capital, or members of the board. Anybody wanting to practice trade or industry had to make an announcement to a local authority, but these were not classified anywhere by the nationality of the entrepreneur or the company.

We have built a database of foreign companies starting with a report made by Dr. Brynolf Honkasalo in the early 1930s to survey foreign ownership in Finland. In 1929, the Parliament asked the government to make a survey of property that had come into foreign ownership by circumventing the present legislation.¹⁰ The survey does not give a

¹⁰ In May 1930, the Ministry of Justice assigned Dr Brynolf Honkasalo to determine the extent of foreign ownership through an ostensible partner or a bulvan in the country. He administered a survey about foreign ownership (i.e., foreigners owning land, real estate, or companies in Finland). He asked local governors who then asked police departments and city administrative courts or rural police chiefs, local municipal councils, and tax assessment committees. Information was gathered from county surveying offices, district census officers, local courts, The National Board of Patents and Registration of Finland, and even private persons. The survey was never published, but is preserved only in the archives of the Ministry of Justice (See National Archives, Ad KD 40/52 Oik.M.1932 and No 81/601 K.D.S.M 1932). The survey includes foreign-owned companies, with fairly detailed descriptions of the division of ownership between foreigners and Finns, both under bulvan ownership and regular ownership. It also includes landed property in foreign hands, even smaller real estate including a house and a lot. See Riitta Hjerppe, "Foreign Direct Investment in Finland in the early 1930s," paper presented at a Workshop Norden i handelspolitiska maktkampen 1919–1939, University of Gothenburg, 19–21 April 2002.

complete picture of foreign companies operating in Finland, but rather includes a partial list of companies with real estate as well as real estate in foreign ownership in 1930; in fact, the majority of the foreign companies are missing.

We supplemented the Honkasalo list with names of foreign companies from research literature and other lists of companies, different registers, the Diary of the Ministry of Trade and Industry, and so forth.¹¹ Another good source of German companies is the information gathered by the Administrative Committee of Foreign Ownership in Finland during the Second World War, which is in the National Archives.

The main part of the database was constructed from the archives on defunct companies in the Register of Trade, the Archives of the National Board of Patents, and Registration of Finland in the National Archives. The data on the still-existing companies, in foreign ownership in the 1920s and 1930s, is in the archives of the National Board of Patents and Registration of Finland. These two registers cover limited-liability companies, partnership companies, and other firms. They also contain information on changes in foreign ownership, share capital, and members of boards. We also went to the Archives of Statistics Finland to collect production data from the basic forms of the industrial statistics for 1930 and 1938.

The concept of foreign ownership is by no means clear. How much foreign ownership makes a company foreign? The definitions vary from country to country, from law to law. The Finnish legislation called for foreigners to obtain permission to own real property or to found a company. If a limited-liability company had foreigners or foreign shareholders on the board, it would have had to be mentioned in the Register of Trade. We took a very pragmatic definition: we included companies in the Register of Trade with foreign members on the board or foreign shareholders. As a result, some moderate-sized, traditionally “Finnish” companies with a minority of foreign ownership are in the group; these will be discussed further.

The database includes different groups of companies. First, there are subsidiaries of foreign-owned companies (that is, of multinationals). Second, there are 100 percent foreign-owned companies, the owners of which do not have economic activities in any other country. A third group has either a majority or minority of foreign shareholders; in the case of minority investment, this is difficult to differentiate from mere portfolio investment. A fourth group includes immigrants who bring their skills and enough money to invest in a small firm in order to make their living.

We know that the database is incomplete. Small companies are missing. There is missing company data information; either it has been

¹¹ National Archives, Archives of the Ministry of Trade and Industry. See also Viking Colliander, *Föreningen svenska dotterbolag i Finland r.f. 1945–1985* (Association of Swedish Subsidiaries in Finland) (Espoo, Finland, 1985).

lost or was never recorded at the Register of Trade. Discovering more information in the archives is very difficult, without the names of the companies, it would require careful checking of thousands of registrations. Because of the unusually good coverage of German companies collected by the Administrative Committee of Foreign Ownership during the Second World War, the database is likely somewhat to over-represent German companies.

I believe that the database includes all of the largest companies, and is missing only the smallest ones, which should not greatly affect the results. I also assume that companies in the database were active at some point in the 1920s and 1930s, but I cannot be sure; registration does not always mean economic activity.

There are problems in defining as foreign those owners who have settled in Finland and have gradually acquired Finnish citizenship. When should these companies be called Finnish companies? Researching the naturalization of owners or their families is very time-consuming, and, to some extent, impossible.

Foreign Companies by Country of Origin

FDI seems to typically come mainly from neighboring countries or larger countries that are relatively close by; this is also true for Finland. I deal here with a total of 224 companies. Some had owners from two or more countries. Therefore, the number of the individual national shares is 256. It was impossible to discover the nationality of the owners of six companies. In Table 1, I show the nationality of the owners of the foreign-owned companies divided among companies owned by nationals of only one country, and international companies with partners from two or more countries. The nationals of one country owned a total of 185 companies; 39 companies had owners from two or more countries.

The largest single-owner group was from Germany; as noted, this may be a slight exaggeration as German ownership was probably monitored more carefully than that of other countries. The next largest group was from Sweden, which is expected because Finland and Sweden are neighboring countries with a common background, similar culture, and the Swedish language still had a strong position in Finnish business life in the 1920s and 1930s. Germans and Swedes were active in a variety of industries. Britain and Norway were the other two relatively large groups. The Norwegians had been involved in the Finnish sawmill industry since the 1870s, and the central focus for Norwegian entrepreneurs continued to be the woodworking industry, primarily in the sawmills. Russian emigrants had a limited number of companies, for the most part relatively small and agricultural, with earnings enough for only the owning family. A couple of larger companies were in the forest industry and in textiles.

TABLE 1
Foreign Owners by Country in Foreign Enterprises

Country	Sole Owner	Partner	Total
Sweden	50	19	69
Norway	20	3	23
Denmark	3	2	5
Estonia	2	1	3
Russia/Soviet Union	9	1	10
Germany	61	19	80
Britain	27	12	39
The Netherlands	2	7	9
Belgium	1	2	3
France	1	1	2
Switzerland	2	0	2
Spain	0	1	1
Italy	0	1	1
USA	7	2	9
Totals	185	71	256

Source: The database of Finnish foreign-owned companies.

The largest owners of foreign companies, the Germans, Swedes, and Britons, were also active in partnerships among several countries, with the Germans the largest group here as well. The Norwegians were seldom involved in partnerships across borders while the Dutch were relatively active in looking to the north and were involved in large multinationals like Philips, Unilever, and Shell but also in some other smaller co-ownerships. Other European nations were seldom involved in Finnish companies; even the relatively close nation of Denmark had little ownership in Finland. The Baltic countries were also almost absent.

The only nationality present from outside of Europe was the United States. The U.S. companies were mainly in cinemas and in selling cars or petrol. There was one interesting exception, the Insulite Company of Finland, a subsidiary of an American firm, which brought new technology by producing wood fiberboards for construction.

Foreign Companies by Industry

The distribution of foreign companies by industry (Table 2) shows a typical feature of FDI. Sales agencies of foreign or multinational companies come first. Almost a third, or sixty-seven foreign firms, were in trade. Many were agencies of multinational companies selling and servicing their own products. There was, for example, a small group of petrol sellers importing, storing, and distributing petrol and other oil products. Many Swedish and German multinationals, in particular, had

retail outlets with small service establishments. These included the well-known names of Ackumulatorindustri, AGA (first known as Ab Gasaccumulator), Alfa-Laval, Allmänna Elektriska AB (ASEA), Astra, Bolinder, Elektrolux, L. M. Ericsson, Husqvarna, Sandvik, and Svenska Fläktfabriken from Sweden and Allgemeine Elektrizitäts-Gesellschaft (AEG), Siemens, and Osram from Germany.

TABLE 2
The Number and Distribution of Foreign-Owned Companies by
Industry in the Interwar Period

Industry	Number	Percent
Agriculture, gardening, fishing	9	4.0
Forestry	4	1.8
Mining, manufacturing industry and energy production	97	43.3
Construction	2	0.9
Trade, retail, wholesale, agency, service establishment	67	29.9
Shipping, forwarding, stevedoring	22	9.8
Cinemas, cinema agencies	11	4.9
Owning and selling of real estate	4	1.8
Advertising agency	1	0.4
Insurance company	6	2.7
Other	1	0.4
Totals	224	100

Source: The database of Finnish foreign-owned companies.

Foreign timber traders or agents represent a special feature of trade. They came to Finland to buy, sell, and transport timber. Seventeen foreign trading agents were identified. Another twenty-two were in shipping, forwarding, and stevedoring, the majority of these dealing with sawn timber. In many cases, it is difficult to differentiate between trading and shipping companies.

A still larger group includes firms in the manufacturing industry, mining, and energy production. I will deal with these separately. In agriculture and gardening, there were a few registered firms in foreign hands, which seem to have been small enterprises that immigrants founded to make their living.

Some foreign companies had acquired relatively large areas of forests. Sawmill and pulp factory owners owned much of it, although there other companies also owned forestland. A very large and fairly old Norwegian company, Diesen Wood Company AB, together with its subsidiary, Oy Pitkäranta Bruk, was the largest foreign forest owner in Finland in the 1920s. Diesen Wood and Pitkäranta owned 56,000

hectares of forests and a pulp factory around the Lake Ladoga and Viborg area in eastern Finland. Another big landowner was a company that operated under three different names: A. B. Greggböle Egendom, Joh. Askolin & Co. and the Estate of the late Maini Askolin-Ingelberg. The owner was actually C. J. N. A. Askolin-Ingelberg, a Swede, and an adopted son of Maini Askolin-Ingelberg, who had inherited the originally Finnish property; there is no question of any FDI. The three companies owned 106 lots, with 17,700 hectares of mostly forested land in eastern Nyland and western Viborg County. They also owned the medium-sized Isnäs sawmill in Pernaja.¹²

The third big landowner was Trävaruaktiebolaget Torneå, a subsidiary of the northern Swedish company Ytterstfors-Munksund, which owned sawmills in Sweden. They owned sixteen separate lots of forestland (20,900 hectares) in different parts of northern Finland, but had no sawmill in Finland.¹³ An English company owned by W. H. Dixon in Oulu and the Haukipudas area had 4,400 hectares of land. The German-British pulp factory and sawmill Zellstoffabrik Waldhof owned 4,500 hectares of land at Suistamo in Carelia and another 1,200 hectares in western Nyland. At Suojärvi near the Russian border, there were two foreign forest owners: the Russians A. and S. Schavoronkoff and S. Belajeff who owned Suojärven Maakiinteistö Osakeyhtiö with 1,100 hectares of forest, and Aunuksen Puuliike Osakeyhtiö with 900 hectares, owned by three British companies or private persons (H. Askew, Neame & Co. Ltd, and Power Investment Corporation Limited), which also had Finnish stock holders.¹⁴

The areas owned by foreigners were insignificant. The largest Finnish forestry industry company owned many times more than all the foreign companies together, and forestry companies owned only a small proportion of all forests in Finland; private persons, primarily farmers, were the largest forest-owning group.

The new entertainment industry, cinema, brought eleven foreign cinemas and agencies that owned cinemas and took care of film distribution and advertising. Many of the cinemas were owned by one Swedish/German family together with Finnish and foreign shareholders.

¹² The Honkasalo report.

¹³ Another example of cross-border ownership is Trävaruaktiebolaget Kemi, an old Finnish sawmill company in northern Finland that had minority shareholders in Sweden and Norway, and which operated mainly in Finland but also in Sweden. See Sakari Virtanen, *Lapin leivän isä 100 vuotta: Kemi-yhtiön historia* [Bread Supplier for Lapland 100 years: The History of Kemi Company] (Jyväskylä, Finland, 1993), 148–49, 152–54, 160.

¹⁴ By 1930, this group had run into financial difficulties and the company came into the ownership of Kansallis-Osake-Pankki in 1932, one of two large commercial banks in Finland. (The statement of the Ministry of Industry and Trade to the Ministry of Justice, National Archives, Ad. KD 40/52 Oik. M. 1932).

The large American film companies, Metro-Goldwyn-Mayer, Warner Bros. Pictures, and Fox Films Corporation all had distributing agents in Helsinki.

Foreign insurance companies that had earlier established agencies in Finland disappeared during the First World War. Before the war, the number of western and Russian insurance companies had been significant, although the great majority of insurance portfolios were in the few large Finnish insurance companies and numerous small mutual and municipal companies. All the new foreign insurance companies were established during the interwar period. Their share of all insurance portfolios, however, remained insignificant.¹⁵

The British–American firm Erwin, Wasey & Co Ltd were brought international ideas to advertising in 1925. It had Ford as its client and it started subsidiaries in countries where Ford had subsidiaries and needed advertising. In Finland, the incoming Unilever also trusted its advertising to an Erwin, Wasey & Co Ltd, which became Finnish owned in 1933.¹⁶

This broad distribution by industry is to be expected. The multinational companies were on the lookout for markets for their products and obviously desired to limit competition by their presence. There were also companies doing business with the ample Finnish natural resource, timber. Many new ideas like cinema and advertising came to Finland with foreign companies, although foreigners did not pioneer these industries in Finland.

Foreign Companies in the Manufacturing Industry (Including Mining and Energy Production)

The new database lists about one hundred foreign-owned industrial establishments in the 1930s. We collected data in Statistics Finland's archives from 1930 and 1938. There were fewer foreign industrial companies in the archival data because some companies were not active in 1930 or 1938.¹⁷ Table 3 shows their numbers and distribution by branch as well as the distribution of the gross value of production in all industry. The share of production of FDI in all Finnish industry was about 5.1 percent in 1930, and by 1938, had fallen to 3.9 percent.

¹⁵ Toivo T. Rinne, *Suomen vakuutustoimintaa 1816-1966* [The Insurance Business in Finland 1816–1966] (Turku, Finland, 1966), passim and 214.

¹⁶ Visa Heinonen and Hannu Konttinen, *Nyt uutta Suomessa! Suomalaisen mainonnan historia* [New in Finland! The History of Finnish Advertising] (Helsinki, 2001), 60–61.

¹⁷ The number of mining, manufacturing, and energy companies differs from Table 2 because Table 2 includes all foreign industrial companies in the interwar period, Table 3 only those active in 1930 and/or 1938. A few industrial establishments could not be found in the industrial statistics archives. Not all registered as industrial producers were active in production; some had buying/selling agencies and perhaps planned production units.

TABLE 3
Number and Share of Production of Foreign-Owned Establishments in All Industry, 1930 and 1938

	Foreign Ownership				% Gross Value of Production Distribution for all Industry	
	# of Establishments		% Production Share		1930	1938
	1930	1938	1930	1938		
Mining	2	3	2.4	2.8	0.3	0.5
Food, beverages, and tobacco	4	3	2.4	1.6	18.1	17.1
Textiles and clothing	4	6	13.9	7.9	9.3	10.7
Timber and woodworking industry	27	13	8.8	5.1	21.1	16.5
Paper and pulp industry	3	3	2.1	4.3	22.1	23.5
Chemical industry	14	17	18.8	13.1	3.0	2.5
Glass, clay, construction materials	1	1	0.9	0.0	3.3	4.2
Metal, transport equipment, and electromechanical	14	17	2.5	2.9	11.3	16.7
Energy production	11	6	5.2	5.1	3.7	2.3
Other (printing, leather, rubber, misc.)	0	0	0	0	7.8	6.1
All industry	80	69	5.1	3.9	100.0	100.0

Source: Database of foreign enterprises in Finland; basic material of the industrial statistics, Statistics Finland.

We can see that the number of foreign-owned establishments was largest in the timber and woodworking industry in 1930, but had decreased by 1938. The other branches with relatively large numbers of foreign-owned establishments were the chemical, metal, transport equipment, and electromechanical industries, as well as energy production. In other branches, there were few foreign owners.

The large number of establishments in the timber industry is not surprising; timber was and is definitely the most ample natural resource of Finland. In the 1930s, the share of production of foreign companies decreased from 9 to 5 percent. This reflects the general development of the timber industry; sawmilling was the first industry to be affected by the depression at the end of the 1920s and it did not fully recover in the 1930s.¹⁸

About half of the foreign timber and woodworking companies of the 1930s began their operations in the period before the world war, the other half between 1919 and 1930. The firms were mostly of average or small size. Two-thirds were sawmills, and one-third were various other wood-processing industries such as box factories, bobbin factories, and one in plywood production.

A fairly large concentration of sawmills was located in the region north of Lake Ladoga in the 1920s. There were both foreign and Finnish owners and financiers from Norway, Britain, and the Netherlands. Situated close to the border of the Soviet Union, they were also buying timber from the Soviet side. Unfortunately, they had transportation problems for their sawn goods. They could not use the Neva River from Ladoga to the Gulf of Finland because it was in Soviet territory, and before the railroad was completed in 1934, many companies experienced difficulties.¹⁹ The foreign companies worth mentioning were the Norwegian Diesen Wood Company AB, Oy Wiborg Wood Co of the Russian Belajeff brothers, Aunuksen Puuliike of Finnish, Estonian and British owners, and Oy Carelia Exporting Ab in Dutch ownership. All except Diesen Wood were established in 1919 or in the 1920s. The large Finnish company Enso-Gutzeit Oy bought Aunuksen Puuliike in 1937.²⁰

The decreasing share situation was to a great extent due to the disappearance of two large woodworking companies: Diesen Wood and Sörnäs Aktiebolag, both Norwegian. Christopher Diesen was already in Finland in 1907 and had a variety of interests in Pitkäranta in Eastern Finland: large forests, sawmilling, a pulp factory, a chlorine factory, as well as their power plants. Because of financial difficulties, it was transferred into the ownership of its main financier at that time, Kansallis-Osake-Pankki, a large Finnish commercial bank. The Norwegian company

¹⁸ Five big foreign owners of sawmills had sold their properties during or at the end of the First World War. The Finnish government bought two, W. Gutzeit & Co., and Tornator Osakeyhtiö. Various private and cooperative companies bought Halla Aktiebolag, Ab T. & J. Salvesen's three sawmills, and Räfsö Ångsågs Ab. See Jorma Ahvenainen, *Suomen sahateollisuuden historia* [The History of Finland's Sawmill Industry] (Porvoo, Finland, 1984), 310–11.

¹⁹ Tapio Hämynen, *Liikkeellä leivän tähden: Raja-Karjalan väestö ja sen toimeentulo 1880–1940* [On the Move for Bread: The Population of Border Carelia and Its Livelihood 1880–1940] (Helsinki, 1993), 225–27.

²⁰ Hämynen, *Liikkeellä leivän tähden*, 368–87.

Sörnäs AB owned a large sawmill in Helsinki and another in Suolahti. The company ceased business in 1937; it had been one of the biggest companies in Finland during the 1920s.

Very little new foreign ownership entered the timber industry in the 1930s; the Swedish plywood and match factory Savo Oy (bought by Kreuger & Toll) and the Insulite Company of Finland Oy (an American subsidiary founded in 1930) were exceptions. With respect to the significance of foreign owners in the woodworking industry, the early Norwegian owners, among the pioneers in founding large steam sawmills, were obviously important. Although companies active in the interwar period brought few truly new ideas into sawmilling, the American Insulite Co. did bring new technology. The effect of the few foreign-owned sawmills on competition was insignificant.

The small chemical industry branch had the highest percentage of foreigners but almost all investments and acquisitions were made in the 1920s, and the foreign share decreased during the 1930s. This was obviously a branch in which domestic expertise was deficient, and there was room for foreign activity. A special case was the founding of Finnish Chemicals in 1937 to produce chlorine and caustic soda for the paper and pulp industry and for defense purposes. This resulted from negotiations between an international cartel and the Finnish government. The government guaranteed a certain minimum purchases per year making it very profitable for the joint enterprise of the British Imperial Chemical Industries, the Belgian Solvay & Cie, and the German IG Farben.²¹

Another notable event was the purchase of four match factories, a sawmill, and a chlorine factory by the Swedish Kreuger & Toll. Three of the match factories were in operation in 1930, with only one still under the same ownership in 1938. Kreuger & Toll was famous for its efforts to achieve a monopolistic position in match production in large areas and in the case of Finland, they persuaded other match factories to join in a marketing agreement. Kreuger & Toll used ostensible partners to own its subsidiaries.²²

The Swedish gas producer Ab Gasaccumulator, later known as AGA, owned three facilities in 1930 and seven in 1938 for the production of acetylene and oxygen gas in different parts of the country. The American Standard Oil Co. had a subsidiary company, Nobel Standard in Finland, for the distribution of oil products along with a small chemical industry establishment and a barrel factory in Helsinki, and land for storage space in Hanko, the southernmost harbor of Finland.

²¹ Karl-Erik Michelsen, *Sähköstä ja suolasta syntynyt: Finnish Chemicals Oy. Nokia Chemicals, 1937–1987* [Born from Electricity and Salt: Finnish Chemicals Oy, Nokia Chemicals, 1937–1987] (Jyväskylä, 1987), 299–303. See also Hjerpe and Ahvenainen, “Foreign Enterprises and Nationalistic Control.”

²² Håkan Lindgren, *Corporate Growth: The Swedish Match Industry in its Global Setting* (Stockholm, Sweden, 1979).

The Lever Brothers had also found their way to Finland in the 1920s and bought a soap factory in Finland; the ownership arranged through an ostensible partner. The Unilever company, created from the merger of the Lever Brothers and Margarine Unie N. V. & Margarine Union Ltd., acquired three margarine factories in the 1920s through ostensible partners; the margarine factories later merged and two of them were discontinued.²³

In the paper and pulp industry, the largest Finnish industrial branch in the 1930s, the level of foreign ownership remained insignificant, ranging from 2 to 4 percent, with a total of five companies: Diesen Wood Company AB (Norwegian), Oy Waldhof Ab (German), the Wiborg Wood Ab (Russian), Aavasaksa Oy (Swedish), and Oy Toppila AB (British, owned by the Dixon family).²⁴ Diesen Wood was the largest foreign-owned company in 1930, and the German-owned Waldhof was the largest in 1938. Waldhof was a subsidiary of the multinational Zellstoff-fabrik Waldhof AG, one of the leading European manufacturers of paper and pulp in the 1920s and 1930s.²⁵ The foreign share of production rose from 2 to 4 percent in the 1930s, again, insignificant. None of these companies survived the Second World War. Diesen Wood, Waldhof, and Wiborg Wood were situated in the area that was ceded to the Soviet Union after the Winter War in 1940.

In the metal industry there was a relatively high number of foreign establishments, although the production share was insignificant because most of these were maintenance or service workshops connected to woodworking companies, chemical factories, or sales outlets of

²³ The Paasivaara margarine factory, bought by the Dutch company Margarine Unie in 1928, was the largest margarine factory in Finland. In 1930, the Lever Brothers and Margarine Unie N.V. & Margarine Union Ltd. merged into Unilever N.V. (Holland) and Unilever Ltd. (United Kingdom). See Mirka Avellan, *Paasivaara & Margariini: Historian helmiä. Margariinin, Paasivaaran ja siihen liitettyjen yritysten historiaa* [Paasivaara & Margarine: The History of Margarine, Paasivaara and the Companies that Merged into Paasivaara] (Porvoo, 1999), 19–23; Eero Saarenheimo and Juha Tanttu, *Saippukauppias, sata vuotta puhtautta: Åström–Turun Saippua–Lever, S.a. S.l.* [Soap Retailer, 100 Years of Cleanness: Åström–Turun Saippua–Lever] According to the written history of Unilever, the company came here to produce margarine to avoid the high tariffs on the finished product in Finland. See Charles Wilson, *The History of Unilever* (London, 1954), 288–89.

²⁴ The small Dixon factory was supposedly producing pulp in 1938, but I could not confirm this information. Obviously, it was not yet producing pulp in 1930, but bought a sawmill in 1930.

²⁵ According to the *International Directory of Company Histories*, Vol IV, ed. Adele Hast (Chicago, 1988), 323–25, Zellstoff-fabrik Waldhof AG merged in 1970 with Aschenburger Zellstoffwerke AG, and was renamed PWA Papierwerke Waldhof–Aschaffenburg AG. This company was Germany's largest manufacturer of pulp, paper, and paper products in the early 1990s.

multinational companies, without independent sales or production of their own. The biggest company, which was partly under foreign ownership, was Finska Elektriska Aktiebolag Gottfr. Strömberg-Suomen Sähkö Osakeyhtiö Gottfr. Strömberg in the electromechanical industry. This was originally a Finnish company, which produced two-thirds of the foreign metal industry production in 1930 and four-fifths in 1938. The Swedish ASEA had been buying Strömberg's shares in the 1920s and had gained a majority of the shares of Strömberg in 1929. Strömberg's owners were alarmed by the strange *bulvan* owners and started negotiations with Brown, Boveri & Cie. An agreement was reached and the shares owned by ASEA were divided equally between ASEA and Brown, Boveri & Cie, giving each 29 percent. The Finnish Defense Force was also active in the negotiations because they were concerned about the future of the company; they had recently placed a large order for gunboats, for which Strömberg and Brown, Boveri & Cie were to produce equipment.²⁶

ASEA had been the first foreign electrical company to set up a manufacturing subsidiary, Finska Elektriska Aktiebolag, in Helsinki and Tampere, Finland in 1897. Four years earlier, ASEA had had its first foreign agent abroad, in Helsinki, along with a branch in St. Petersburg. The manufacturing subsidiary was, however, closed down in 1904 because of only modest success in the Russian and Finnish markets. Zitting & Company, a Finnish agent dating from the beginning of the ASEA efforts in Helsinki, represented ASEA until 1913 when a new effort was made: a sales agent and repair shop were set up, Allmänna Elektriska Aktiebolag i Finland, which was also active in the interwar period.²⁷ Both in 1930 and 1938 the size of the ASEA metal workshop was insignificant.

The big German electric companies arrived early in Finland. In 1898, Siemens & Halske set up a sales subsidiary, Siemens & Halske AG, Teknisk byrå, Helsingfors, in Helsinki.²⁸ During the interwar period, this company had a small repair workshop in Helsinki.

AEG had opened its first subsidiary in Finland in 1900. In 1907 it bought Ab Electron, a local private electric utility and an installation department in Turku, renamed Elektrizitätswerk Åbo Aktiengesellschaft, and in 1910 bought Elektrizitets- och gasaktiebolag Paul Wahl & Company's manufacturing, gas and electricity utilities in Viipuri (Wiborg). AEG had also gained control of local electricity utilities in Hämeenlinna and Maarianhamina. The Turku and Viipuri companies also built and ran electric tramlines in the towns. According to Myllyntaus, the municipalities bought the Turku, Hämeenlinna, and Maarianhamina

²⁶ Kai Hoffman, *Strömberg, 1889–1998: Sähkötekniikan taitaja, ABB Strömberg* [Strömberg 1889–1998: The Expert in Electrical Engineering, ABB Strömberg] (Helsinki, 1989), 164–65.

²⁷ Myllyntaus, *Electrifying Finland*, 53.

²⁸ *Ibid.*, 54.

companies in the early 1920s; in Viipuri, the purchase was postponed until the early 1940s.

In the electromechanical industry the German company, AEG, had definitely been an important factor in bringing new technology to the country, although it was not the earliest pioneer. Many other foreign metal industry establishments were focused mainly on service and installations, and accordingly, their significance in the development of Finnish industry may have been less than that of production units or even assembly plants.

Many power plants were foreign establishments. With the exception of the AEG plant in Viborg, mining, paper, or woodworking companies owned all of them. The local parent companies needed electricity, which they produced for their own use and sold to the surrounding areas. The prohibition against transmitting electric power generated by Finnish hydropower over the Finnish border may have lowered foreign enterprises' interest in founding larger power plants in Finland.

In textiles, the number of foreign firms was small. The oldest, and for a long time, largest company in Finland, Finlayson & Co Ab, had come into Russian-German ownership in the 1830s, when Germans Georg Adolf Rauch and Carl Samuel Nottbeck, then living in St. Petersburg, bought it. A Scotsman, James Finlayson, had originally founded it in 1820.²⁹ The Rauch and Nottbeck families stayed on as owners; Eino Jutikkala writes that at the beginning of the twentieth century, Finlayson & Co Ab had thirty-nine owners living all around Europe. However, Finlayson was first listed in the Helsinki Stock Exchange in 1917.³⁰ According to the Honkasalo survey, approximately half of the stocks were in foreign ownership in 1930. Finlayson had 3000 employees in 1930 and 4500 after a merger in 1938.

One of the textile companies was a fairly large hat factory, Silfverbergs & Wecksells Förenade Hattfabriker, under Italian-Swedish ownership (Weinstein and Nordiska Ullkompaniet) in Helsinki. Another fairly large company was Tampereen Kehruutehdas O.Y. (Tampere Spinning Factory), founded in 1921 and owned by a Swede named Axel Malkolm Nordqvist. Three new factories came in the 1930s that wove artificial fibers, a new area of production. If Finlayson & Co. is not taken into account, the share of foreign production in the textile industry was insignificant.

²⁹ Keijo Alho, *Teollistumisen alkuvaiheita Suomessa* [The First Stages of Industrialisation in Finland] (Keuruu, Finland, 1968); Riitta Hjerppe, *Suurimmat yritykset Suomen teollisuudessa, 1844–1975* [The Major Industrial Companies in Finland, 1844–1975] (Helsinki, 1979).

³⁰ Eino Jutikkala: *Tampereen historia 3: Vuodesta 1905 vuoteen 1945* [The History of Tampere 3: From 1905 to 1945] (Tampere, Finland, 1979), 415.

It should be mentioned that both the important Outokumpu copper deposits and Petsamo nickel deposits tempted foreign entrepreneurs from many countries, but the government repelled them, keeping the mines primarily in its own hands; foreign experts were, however, used to develop mining activities.³¹

We can compare the share of foreign-owned industry in Finland with that of Sweden. The share of foreign-owned production value in Sweden was 4.6 percent in 1929 and 1938, on average the same as in Finland. As for sector distribution in Sweden, one clear difference is the low share of foreign enterprises in the timber and woodworking industries and the textile and clothing industry. The share was also lower in the chemical industry than in Finland but still above the average share of all Swedish industry. In the Swedish paper industry and metal industry the share of foreign ownership was above average and much higher than in Finland. Foreigners came to Finland to run sawmills instead of paper factories and vice versa in Sweden. Both had foreign enterprises in chemical industries.³²

Other Indicators of Foreign-owned Enterprises in Finland

A third of the foreign-owned companies of the 1920s and 1930s had already been founded before the end of the First World War. The largest owner group was the Swedish; the second largest was the Norwegians. The Norwegians had many companies in the forest industry, while the Swedish companies were found in a variety of sectors. Both the British and the Germans each had a few companies in various industries.

Over 40 percent of the foreign-owned enterprises were founded between 1919 and 1929. The Swedish and German owners were the largest groups, followed by the Britons. The U.S. and the Danish companies began to arrive, while the Norwegian newcomers shrank into insignificance. The ownership by sector was varied. During the 1930s about a fourth of the remaining foreign owners settled down. Over half of these companies came from Germany, Britons being the next largest group. Sweden had become insignificant, along with Norway and Denmark.

In the database, approximately one third of the firms are subsidiaries of multinational companies, most of them relatively unknown. Swedish, German, British, Dutch, and American multinational parent companies were the most common. Norwegians had surprisingly few subsidiaries, having arrived early with the help of money or financiers, without parent companies in Norway, and operated in the sawmill

³¹ See Markku Kuisma, *Kuparikaivoksesta suuryhtiöksi: Outokumpu, 1910–1985* [From Copper Mine to Large-scale Company: Outokumpu, 1910–1985] (Forssa, Finland, 1985), 28–33, 56–60, 225–34.

³² Nordlund, *Upptäckten av Sverige*, 84.

industry for the most part. The multinational companies were commonly found in the chemical and metal industry, especially in the electromechanical industry, but also in cinemas and insurance companies. The metal and electromechanical sectors in particular had very little production with mostly sales and service outlets. With respect to the type of investment, the overall picture is that FDIs in Finland were mostly green-field investments; acquisitions were not nearly as common.

It is interesting to note that few foreign-owned enterprises were among the largest companies in Finland during the interwar period: only four foreign companies among the thirty largest industrial enterprises in 1927 and two in 1938. In both years, Finlayson & Co is in the group, although its inclusion is a bit questionable. The company had shareowners abroad, but the managers had been Finns for generations. In 1928, the large old Finnish sawmill company Trävaruaktiebolaget Kemi had a minority of its ownership abroad. During that time, Diesen Wood and Sörnäs AB were the only companies clearly foreign-owned among the 30 largest companies. In 1938, the two foreign owners on the list of largest companies were Finlayson and Strömberg; here were no large companies completely under foreign ownership in that year. In this respect, the group of major industrial companies changed dramatically compared with the nineteenth century; in the 1840s and 1860s there were seven or eight large companies with foreign ownership, half or more were Russian-owned. Towards the turn of the nineteenth century, the number of large foreign companies fell to five or six, together with the falling share of large Russian companies.³³

We have information on the share capital of most of the companies in the database. It shows that in 1930 the share capital of foreign-owned companies was 700 mill FIM and in 1938, 930 mill FIM (about 17.6 and 19.0 million U.S. dollars, respectively). This represents 7.9 per cent of the total share capital of all Finnish limited liability companies in 1930 and 8.5 percent in 1938.

Oy Waldhof Ab, the German pulp subsidiary, had the largest single share capital value of 120 mill FIM 1930 and 150 mill FIM 1938, with Finlayson & Co coming next with 96 mill FIM and 120 mill FIM respectively. Thirteen companies had a share capital of over ten million in 1930 and sixteen had over ten million in 1938.

The proportion of share capital in foreign companies was clearly higher than the share of production in industrial production. Compared to the largest Finnish industrial companies, the share capital was not unusually large, except in a few companies. For example, Oy Waldhof Ab

³³ Riitta Hjerppe, "Russian Entrepreneurial Activities in Finland From the 1800s to the 1930s," paper presented at the workshop Russia and Finland during Industrialisation (1870s – 1930s), Moscow Lomonosov State University, 16-17 May 2003. *The Russian Economic History Yearbook 2004*, forthcoming; see also Hjerppe, *Suurimmat yritykset Suomen teollisuudessa 1844–1975*.

had a high share capital compared to its size according to production value, and a few other high share values are not exactly comparable with production values. The group of the largest foreign companies by share value contains a few subsidiaries of large multinational companies such as Ford, Standard Oil, and Finnish Petroleum Ltd. Masut (later Finnish Shell). It is unclear why the share capital in these was so large, but perhaps explains the high proportion of high share capital to size in limited liability companies.³⁴

Conclusions

The common understanding of FDI in interwar Finland has been that the amount of foreign companies and foreign ownership was trivial. In the face of this, the recurring discussions of the need to increase restrictive legislation at that time have been difficult to understand.

The new database of foreign-owned companies in the interwar period gives a somewhat different picture. We could trace about 230 foreign companies, at least twice the number presented in any previous study. Furthermore, we know that these were not all the foreign companies in Finland at the time, but they do include the most important, largest companies and a large proportion of the smaller companies.

The FDIs originated mainly in Germany, Sweden, Britain, and Norway; other countries had smaller shares. This distribution is typical with one exception: either the neighboring countries or the large, relatively nearby European countries were present but the Russians were almost absent. Of these, Britain and Germany were also the most active trading partners with Finland in foreign trade. Trade relations with Sweden and Norway were much narrower; instead, the countries were competitors in the same export markets. We can see that many incoming Swedish and Norwegian entrepreneurs targeted the same kind of exports done in their home countries.

As to timing of the arrival of the FDIs, the Swedes and Norwegians arrived first, that is, before the First World War, followed by the Germans, Britons, and some Americans in the 1920s. In the 1930s, the Scandinavians stopped coming, and the Germans were in the majority, followed by the Britons. This reflects the increasing German interest in commanding markets in nearby areas, or using them to supply raw material.

About one third of the foreign companies were subsidiaries of multinationals. Many well-known international German, Swedish, British, and some American multinationals had sales and distribution outlets or

³⁴ See Arne Cederholm, *Suomen Pankit ja osakeyhtiöt: Banker och aktiebolag i Finland, 1930–1932* [The Banks and Joint Stock Companies in Finland, 1930–1932] (Helsinki, 1932).

service establishments in Finland. The majority of the multinationals were, however, relatively unknown German or Swedish companies.

The companies were quite evenly distributed throughout the significant industries, with about 40 percent in mining, manufacturing, and energy production, and another 40 percent in trade, shipping, forwarding, and stevedoring; the rest were in other services, such as agriculture, forestry, and construction.

In mining, manufacturing, and energy production, the foreign share of production was 4 to 5 percent, about the same as in Sweden. The distribution by industries differed in Finland from that in Sweden because in Sweden there were relatively more companies in more developed industries such as paper and pulp production and the metal industries. In Finland a larger proportion were in sawmilling and forestry, simpler forms of production. In both countries, it can be seen that FDI came to take advantage of the ample natural resource, timber. In Finland, this was clear from the relatively large numbers of agents in the timber trade, and in shipping to export timber and timber products.

It is noticeable that there was only a small amount of FDI in the paper and pulp industries, which in the 1920s and 1930s dominated Finland's industrial production and exports. In the earlier stages of the paper and pulp industry, there were also few foreigners. Consequently, this very important future industry was initiated and developed almost totally by Finns.

It seems clear that many of those supplying FDI came to expand their markets and perhaps limit competition by setting up sales and service outlets, particularly in the chemical and electromechanical industries. Thus, FDI was significant in bringing in new technology and expertise and modernizing the Finnish economy, but not of very great significance given the absence of production units and assembly plants. FDI was multifaceted, and spread over a large number of industries, but it is not surprising that business activity was limited, given the very small Finnish market during the interwar period.