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China and the United States – A challenge to companies

Impacts of the superpower
competition to Finnish companies

Ministry for Foreign
Affairs of Finland

China and the United States – A challenge to companies

Impacts of the superpower competition to Finnish companies

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Confederation of Finnish Industries Joint Project Final Report

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China and the United States – A challenge to companies: Impacts of the superpower competition to Finnish companies

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Abstract

The growing rivalry between the two superpowers of China and the United States has an impact on globally operating companies. The powers are increasingly active in using various policy instruments with the aim of strengthening their global position and achieving or maintaining a leading role in the development critical technologies. A report, prepared by specialists from the Ministry for Foreign Affairs and the Confederation of Finnish Industries EK, examines five policy instruments (sanctions, export control, international standardisation, restrictions to market access, and funding) and their impact on Finnish companies. The report is part of the work done by Team Finland to support companies' international business operations.

The United States and China are important economic partners for Finland. The technology sector, in particular, is affected by the China–US rivalry because of the sanctions, export control and standardisation. For globally operating companies, the rivalry between the two superpowers may mean a choice between two markets or geographical differentiation of activities and limited opportunities for trading in global markets. Companies must know their clients, supply chains and financiers better than before. The situation calls for an increasingly clear understanding of the impacts of political actions on business and its risks, the maintenance of a national situation picture and exchange of information. It would be important to raise awareness of the rivalry between the superpowers especially among small and medium-sized enterprises.

Publication was updated on 19th august 2021, p. 11 and 28.

Keywords decoupling, power politics, sanctions, export control, standardisation, market access, funding

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Kiina ja Yhdysvallat – haaste yrityksille: Suurvaltakilpailun vaikutukset suomalaisyrityksille

Ulkoministeriön julkaisuja 2021:6

Julkaisija Ulkoministeriö

Yhteisötekijä Ulkoministeriön ja Elinkeinoelämän keskusliiton yhteishankkeen koordinaatioryhmä
Kieli englanti **Sivumäärä** 56

Tiivistelmä

Kiinan ja Yhdysvaltojen välisellä suurvaltakilpailulla ja sen kiihtymisellä on vaikutusta kansainvälisiin yrityksiin. Suurvallat käyttävät yhä aktiivisemmin erilaisia politiikkavälineitä tavoitteena vahvistaa globaalia asemaansa ja saavuttaa tai ylläpitää etumatkaa kriittisten teknologioiden kehityksessä. Ulkoministeriön ja Elinkeinoelämän keskusliiton asiantuntija-selvityksessä tarkastellaan viittä politiikkavälinettä (pakotteet, vientivalvonta, kansainvälinen standardisointi, markkinoillepääsyrajoitukset ja rahoitus) ja niiden vaikutuksia suomalais-yrityksiin. Selvitys on osa Team Finland -toimintaa yritysten kansainvälisen liiketoiminnan tukemiseksi.

Yhdysvallat ja Kiina ovat Suomelle tärkeitä taloudellisia kumppaneita. Maiden välisen kilpailun vaikutukset näkyvät pakotteiden, vientivalvonnan ja standardisoinnin kautta erityisesti teknologiasektorilla. Kansainvälisille yrityksille suurvaltakilpailu voi tarkoittaa valintatilannetta kahden markkinan välillä tai toimintojen maantieteellistä eriyttämistä sekä globaalien kaupallisten mahdollisuuksien kapenemista. Yritysten on tunnettava entistä paremmin asiakkaansa, hankintaketjunsä ja rahoittajansa. Tilanne vaatii entistä parempaa ymmärrystä poliittisten toimien vaikutuksista liiketoimintaan ja sen riskeihin, kansallisen tilannekuvan ylläpitoa ja tiedonvaihtoa. Erityisesti pk-yritysten tietoisuutta suurvaltakilpailusta tulee lisätä.

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Asiasanat suurvaltapolitiikka, pakotteet, vientivalvonta, standardointi, markkinoillepääsy, rahoitus, irtikytkentä (decoupling)

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Kina och Förenta staterna – en utmaning för företagen: Stormaktstävlingens konsekvenser för finländska företag

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Sidantal 56

Referat

Den tilltagande konkurrensen mellan stormakterna Kina och Förenta staterna har konsekvenser för internationella företag. Stormakterna använder sig i allt högre grad av olika politiska medel i syfte att stärka sin ställning globalt och få eller upprätthålla ett försprång i utvecklingen av väsentlig teknik. I utrikesministeriets och Finlands Näringsliv EK:s sakkunnigutredning undersöktes fem politiska instrument (sanktioner, exportkontroll, internationell standardisering, begränsningar av marknadstillträde och finansiering) och deras konsekvenser för finländska företag. Utredningen är en del av Team Finland-verksamheten som syftar till att stödja internationell affärsverksamhet.

Förenta staterna och Kina är viktiga ekonomiska partner för Finland. Konkurrensen mellan stormakterna har konsekvenser i form av sanktioner, exportkontroll och standardisering särskilt inom teknologibranchen. För internationella företag kan konkurrensen leda till att de måste välja mellan två marknader, dela upp verksamheten geografiskt och snävrare möjligheter till global handel. Företagen måste känna sina kunder, leverantörskedjor och finansiärer ännu bättre. Situationen kräver en bättre förståelse för de politiska åtgärdernas inverkan på affärsverksamheten och riskerna. Dessutom behöver man upprätthålla en nationell lägesbild och utbyte av information. Särskilt små och medelstora företag behöver en större förståelse för stormakternas konkurrens.

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Nyckelord stormaktspolitik, sanktioner, exportkontroll, standardisering, marknadstillträde, finansiering, frånkoppling (decoupling)

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SUMMARY

The superpower competition between the United States and China and its intensification has had an impact on international business, including Finnish companies. The superpowers use various political and economic tools (policy instruments) in the competition that also affect the business environment and companies' operating conditions. These policy instruments constitute a set of means used by the superpowers to seek to strengthen their global position and gain or maintain a lead in the development of critical technologies. These instruments include sanctions, export controls, international standardization, market access restrictions and financing. This report studies the impact of these policy instruments on Finnish companies.

The report is a joint study by the Ministry of Foreign Affairs of Finland and the Confederation of Finnish Industries, highlighting the impact of superpower competition on businesses. It is part of Team Finland work to support international business. The report is a preliminary study and an opening for discussion on the subject, based on the expert views of public authorities and business representatives. It does not necessarily represent the official view of the Finnish government.

It is clear that the superpower competition is not a passing phenomenon. Therefore, companies operating in the international market are put into a challenging position. Changes in the superpower relations can have far-reaching consequences. The United States and China are Finland's most important economic partners outside the EU. Cooperation with both countries may become more difficult.

The superpowers are increasingly pursuing policies in line with their own values and interests. This is reflected in a more active use of political and economic instruments. The situation threatens to lead to increasing economic and technological decoupling of the US and Chinese markets, particularly in certain key technology sectors such as semiconductors. For international companies - especially those with a production chain serving both Chinese and the US market demand - this may mean a choice between the two markets or a geographical diversification of activities. However, the strong interdependence between the superpowers slows down the decoupling.

Sanctions are used by the superpowers as political leverage to promote foreign and security policy interests and to change the undesirable behaviour of the target country. Sanctions are part of the traditional set of means used by the United States that it has also used in its' China policy. China has also started to use sanctions as response to US sanctions. Although the US primary sanctions are designed to impose obligations on US operators in particular, Finnish companies must also comply whenever their business has a link to the US. Secondary sanctions, on the other hand, can be directly targeted, for example, at Finnish companies that cooperate with persons or entities on the US sanctions list. China's sanctions are characterized by generality and opacity, which makes it difficult for companies to prepare and assess their potential impact.

Finnish companies need to be aware of the superpower sanction policies and know their customers, supply chains and financiers in order to avoid or prepare for the consequences of sanctions. The financial sector bears the most significant impact of sanctions. European banks will have to refrain from making payments or other transactions with sanctioned parties. Some Finnish companies have already been forced to change their supply chains due to the restrictions and risks associated with the sanctions related to the superpower competition. It is likely that the use of sanctions will increase as the superpower competition picks up, which may accelerate commercial and economic decoupling and increase risks for companies.

The significance of dual-use export controls is rising among Finnish companies, as intangible exports, such as software and know-how, are substantially growing. Both the United States and China are Finland's most important trading partners for dual-use exports. In recent years, the US has sharply increased export restrictions on dual-use goods to China and Chinese companies. China has also introduced similar measures. As relations between the two superpowers tighten, dual-use export controls are likely to become globally more strict, also affecting Finnish companies. In practice, export restrictions could prevent the sale of products to the Chinese market. Companies have been forced to cancel some export projects.

Companies that manufacture dual-use products in Finland or use them in their production must be aware of the regulations and restrictions related to dual-use products and comply with them in their operations. This may apply not only to the company's foreign trade, but also to persons involved in research and development activities or to corporate funding. It is often difficult for companies to understand the impact of various export control and sanctions regulations on their complex supply chains.

In recent years, China's activities in international standardization have risen resulting in a consequent increase in US activity in international standardization organizations. The growing focus is on the global standardization of new technologies and on the values

that will gain international foothold in the future. As a result of competition, international standardization may become more complicated or impossible. That may make it more difficult for Finnish companies to manufacture and supply components for the global market, and increase costs and overall uncertainty. The absence of global standards may lead to a situation where superpower markets will separate into two market areas based on two different set of standards. This will require companies to growingly adapt to the different market requirements. Finland must be prepared for the further politicization of international standardization.

As tensions persist, it is expected that both countries will continue to impose restrictions that will have an impact on the market access of globally operating companies. They will also make it more difficult for Finnish companies to operate, even though the very purpose of the restrictions is to keep companies out from the other superpower's domestic market or to promote self-sufficiency. Restrictions can take the form of tariff increases, investment controls and restrictions on participation in public procurement. They can restrict market access for companies, products, services, and investments. One key issue is the free movement of data, which has become a policy tool of the major powers. The European Union, the United States and China have different approaches to managing information flows. For companies, this is an important market access issue, but data management also has a major impact on the competitiveness of a company, in particular on its' ability to provide services.

From the financial perspective, the superpower competition between the United States and China requires the companies to better understand the impact of the political situation on their business and its' risks. If a company manufactures dual-use products, collects large amounts of personal data or is linked to critical infrastructure, it needs to know better not only its customers, but also its financiers. The strong position of the US in the international financial system gives it leverage, for example in the enforcement of sanctions, that China does not possess. However, China has rapidly emerged as a major financial power. It has an interest in integrating into global financial markets, but also in increasing its' autonomy. In recent years, the United States has developed its own financial instruments in response to China's growing influence, for example, in African and Latin American countries. The financial terms of company acquisitions and public procurement tenders have become an instrument of superpower competition, which also affects the competitiveness of Finnish companies in emerging markets.

The report contains a number of recommendations for Finnish companies, Finnish authorities, business representatives and the European Union. It is important to build and maintain a common vision, exchange up-to-date information and find ways to identify the impacts and risks of policy instruments. The changed situation calls for stronger cooperation and coordination between government actors, business organisations,

researchers, and businesses themselves. In particular, SMEs need to be made more aware of the effects and risks related to the superpower competition by sharing information and training. The European Union must also take action to prepare for the situation.

However, the decoupling of economies in certain sectors will accelerate as a result of the superpower competition, and we need to be prepared for this. On the other hand, there are also signs of increased interdependence between the superpowers and closer cooperation in some sectors, such as finance. Both superpowers continue to offer significant cooperation opportunities and commercial potential for Finnish companies. When cooperating, the parties must be aware of the risks that the policy instruments of superpower competition bring along.

1 Introduction

The superpower rivalry between the United States and China is a competition for political, military, economic and technological leadership in the world. The rivalry between the two countries has intensified due to China's more assertive foreign policy under President Xi and has become more pronounced with the actions of President Trump's administration. China has stated that its goal is to become the most powerful country in the world by 2049. The means used by China to achieve superpower status have provoked criticism and backlash in the United States and other Western countries.

China is projected to become the world's largest economy in this decade. It is already the world's largest economy in terms of purchasing power adjusted GDP. The United States will maintain its position as a leading international player and a world leader in technological development.

The United States' superpower status is founded on military strength, a broad network of allies and partners, advances in technological development, and the central global role of its financial system and currency. The rise of China and China's policies have provoked strong reactions in the United States, both in public debate and among political actors, regardless of party affiliation. The United States' strict policy towards China is likely to continue or even intensify in the coming years. This has been reflected in particular in restrictions and bans on the export of certain technologies from the United States to China.

In the European Union, the growing superpower competition has fuelled the debate on the need to reduce unhealthy dependence on critical imports from third countries and to strengthen the Union's strategic autonomy. Strengthening strategic autonomy does not mean isolationism or withdrawal from partnerships, but a more determined promotion of European Union values and interests in external relations, including trade policy. The European Union has responded to US sanctions by creating the Blocking Statute to protect European companies. China's actions have forced the European Union to reassess its policy towards China. The European Union recently imposed sanctions on China under the human rights sanctions regime, to which China responded with its own many times tougher and disproportionate countermeasures.

In the business sector, the confrontation manifests itself in trade disputes and tariff fights, as well as in technology competition concerning several sectors. In recent years, the United States has restricted access of certain Chinese companies to the market via sanctions and export controls, referring to security and human rights reasons. This confrontation can also be seen in other areas, such as investment,

research and development and standardization. The policy instruments used in the superpower competition can accelerate the decoupling of economies and technologies and can impact the production chains of global Finnish firms. However, the strong interdependence between the superpowers, which is clearly visible in a number of technology sectors and in the financial sector, curbs decoupling.

The superpower rivalry is exacerbated by the sharply divergent US and Chinese policies, views on trade and cooperation with some countries. In issues related to sanctions, export controls and in other policy sectors, the European Union, and Finland as member state, align themselves closer to the United States, with whom the European Union shares the same universal values. There are also differences between the European Union and the United States, for example in their policies on data governance. The European Union and the United States are intensifying coordination and exchange of views on issues such as China.

The China and the United States - a challenge to companies project was launched in autumn 2020 on the initiative of the Confederation of Finnish Industries (EK), in response to long-standing concerns raised by businesses about the impact of the superpower competition on their operations. The Ministry for Foreign Affairs of Finland coordinated the project and, with the help of the Finland's foreign missions, carried out preliminary assessments on the superpower competition and its' potential impact on Finnish companies in the host countries in late 2020.

Based on the views of experts and business feedback, five focus areas were identified for the project: sanctions, export controls, market access, standardization, and financing. Five working groups, led by different departments of the Ministry for Foreign Affairs, included representatives from the government, research institutes and business. The working groups met between December 2020 and March 2021. Sixty experts and representatives of thirty companies in total were consulted during the study.

This expert assessment is based on the work done in the project's working groups that heard business views on how to improve the operating conditions for Finnish companies in an increasingly complex business environment. The study assesses the current situation and the implications of the competitive situation between China and the United States.

The report is divided into four sections. First, it describes the economic relationship between the United States and China and their importance as economic partners for Finland, followed by an examination of the superpower competition between China and the United States, the instruments of influence used in it and their impact on Finnish companies. Conclusions are drawn for each policy instrument. The report concludes with recommendations for action by the project coordination team.

2 United States and China

2.1 Interdependence and decoupling of the US and Chinese economies

The interdependence between the United States and China is high. Economic relations remain close, even though political tensions have increased. The United States' presence in the Chinese market has increased, for instance in the financial sector.

The United States and China are important trading partners for each other. The United States runs a substantial trade deficit with China: it imports far more goods and services from China than it exports. China has been the second largest trading partner of the United States after the European Union (the difference to the third largest trading partner, Canada, is small), but as the trade war has escalated since 2018, the share of the United States' trade with China has declined as imports have fallen. For China, the United States was the main trading partner until 2018, after which it has fallen slightly behind the European Union and ASEAN countries.

Figure 1. Annual United States' trade in goods with China.

Sources: U.S. Census Bureau, Macrobond and BOFIT calculations.

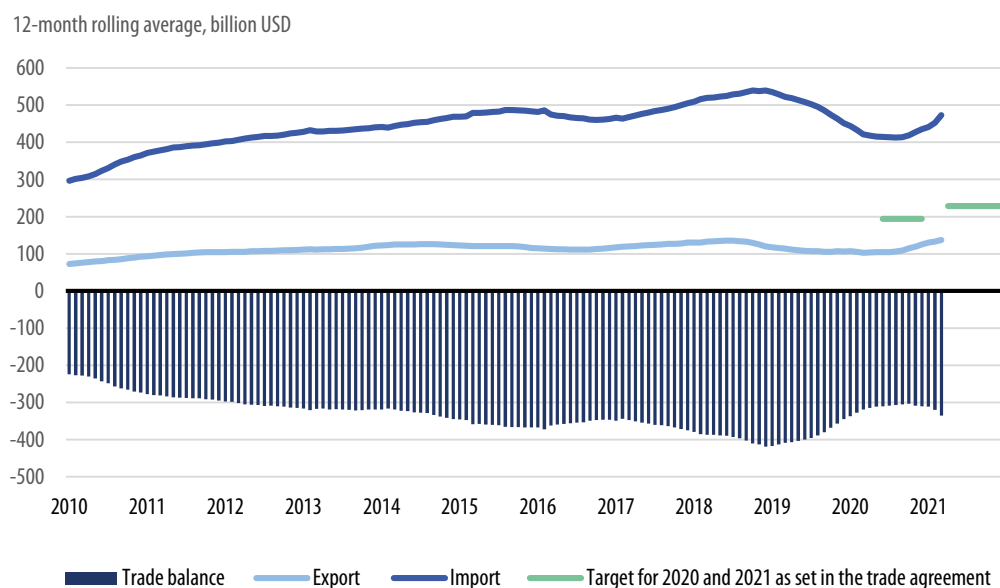


Figure 2. Share of countries and regions in United States exports and imports of goods and services.

Sources: U.S. Census Bureau, Macrobond and BOFIT calculations.

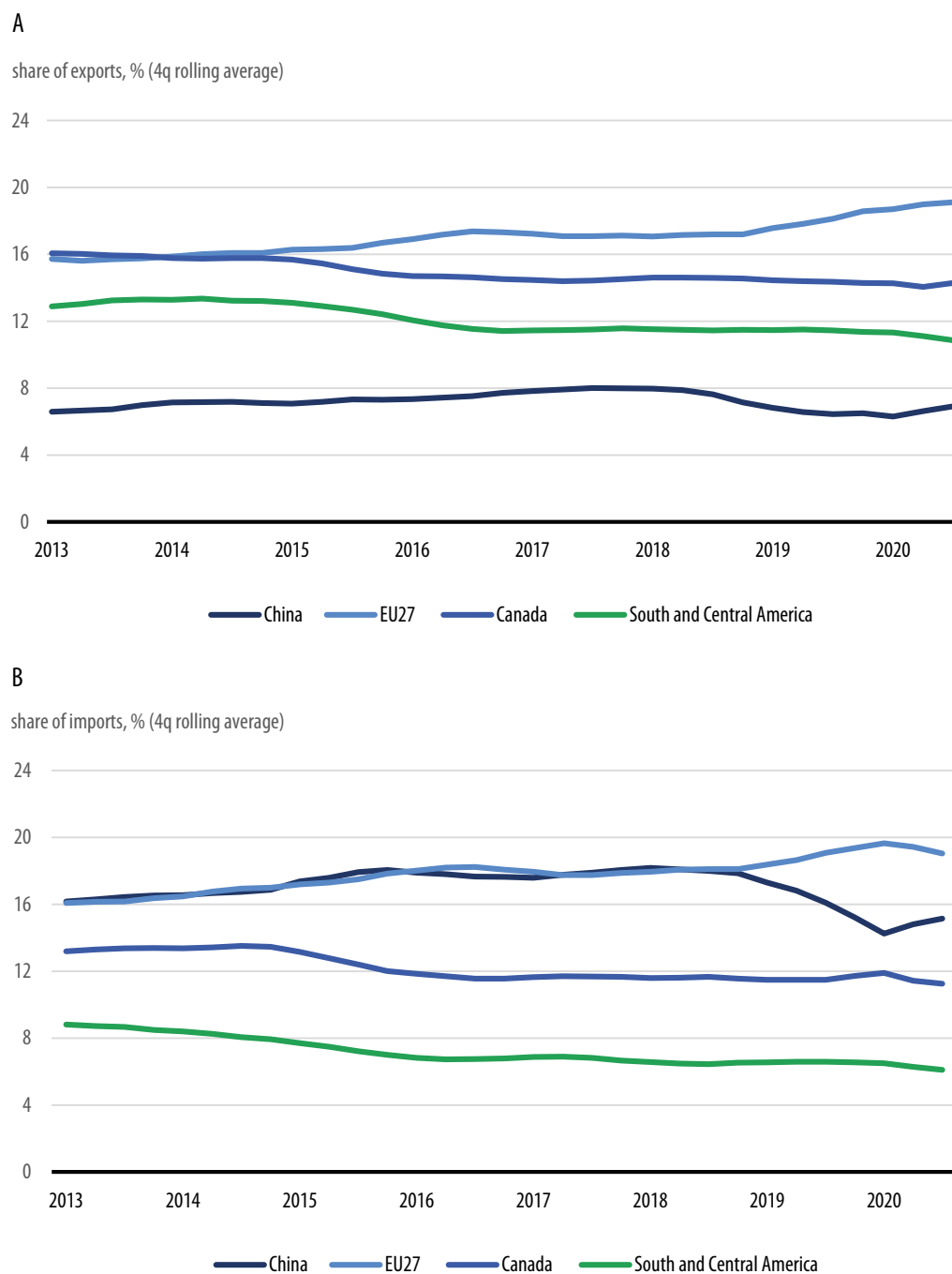
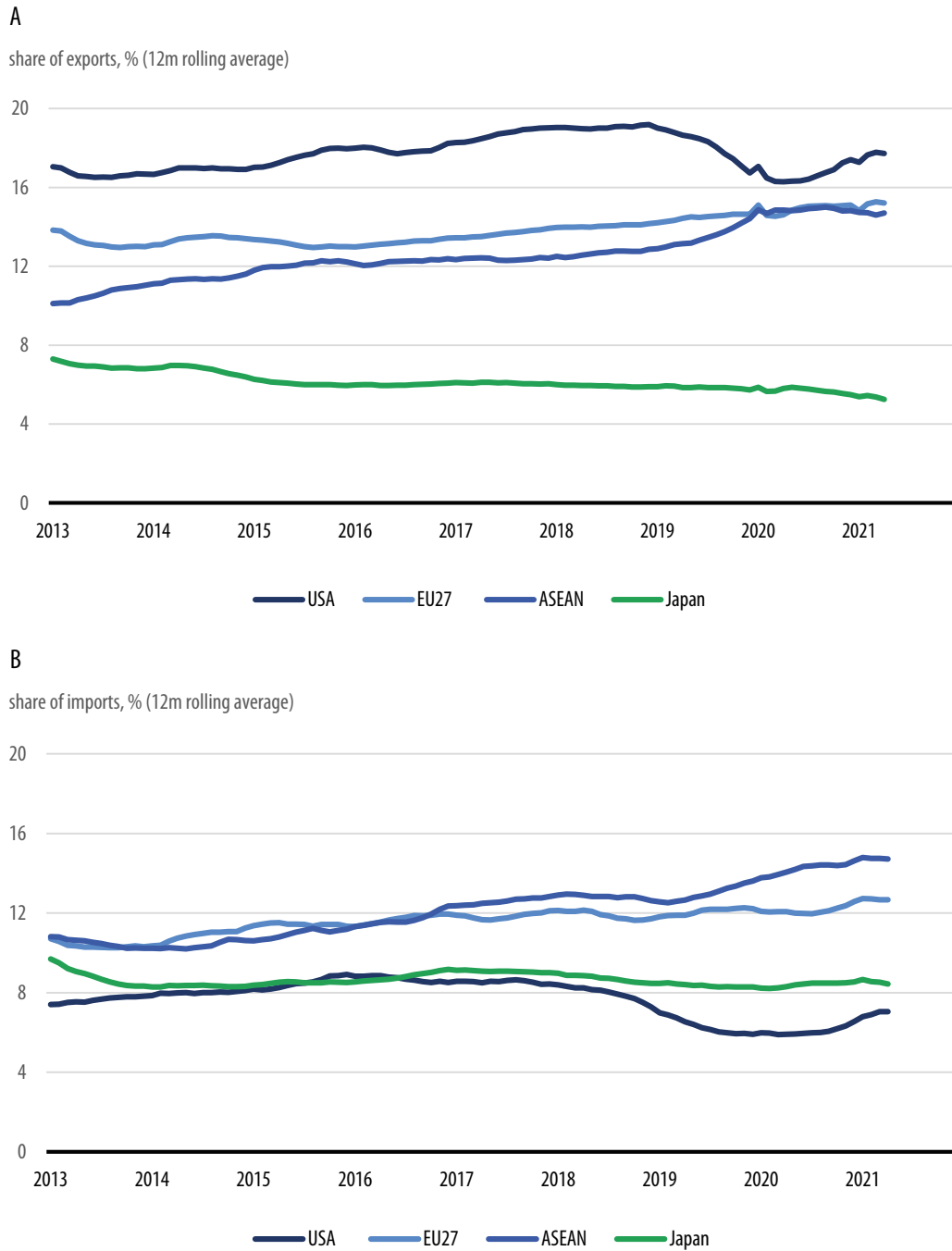


Figure 3. Share of countries and regions in China's exports and imports of goods.

Sources: Chinese Customs, CEIC and BOFIT calculations.



The tightening of the countries' economic relations has also been reflected in foreign trade. Signing the Phase 1 agreement was an attempt to alleviate the situation in January 2020. In the agreement, China undertook to purchase an additional USD 200 billion of US goods and services in 2020 and 2021 compared to 2017.¹ According to the target, US exports of goods to China should have increased by around USD 64 billion in 2020 compared to 2017, i.e. USD 194 billion, but remained at USD 125 billion (Figure 1). Service exports were also well below the reference year 2017, i.e. far from the target of increasing them. In order to reach the agreed increases, US exports of goods to China should reach USD 228 billion in 2021 and service exports increase significantly. The conclusion of the Phase 1 trade agreement did not significantly alleviate the bilateral relations, and, for example, the import tariffs imposed by the countries on each other are largely in force.

The change of President in the United States has not significantly eased the situation either. At the beginning of his term, President Biden has maintained most of the anti-China measures taken by President Trump's regime.

China is an important market for US companies, and they have a lot of activity on the ground, but clearly less than, for example, in the EU. In 2018, US companies had 1970 subsidiaries in China (with a turnover or net profit of more than \$25 million). In comparison, there are as many as 17 070 US affiliates in the EU and 2 580 in Canada. The turnover of US companies in China has more than doubled between 2009 and 2018, but it is only about a fifth of that in the EU. However, compared to the value of US exports, the turnover of US companies in China has already increased several times over.

¹ The purchase targets are broken down by product group, see the [trade agreement](#) signed on 15.1.2020 (Annex 6.1).

Table 1. Direct investment stock and US affiliates in China and the EU and their US affiliates.

Sources: Bureau of Economic Analysis, Ministry of Commerce of China and BOFIT.

US direct investment position abroad					US affiliates abroad				
Billion USD		Share, %			Turnover, billion USD		Share, %		
2009	2019	2009	2019		2009	2018	2009	2018	
China	50	120	1.5	1.9	China	240	580	4.2	7.4
EU	1 770	3 300	49.8	55.4	EU	2 360	3 000	41.9	38.5

Foreign direct investment in the USA (ultimate investor country)

Billion USD		Share, %			Employed, thousand		Share, %		
	2009	2019	2009	2019		2009	2018	2009	2018
China	0	60	0.1	1.3	China	1 400	2 100	11.0	12.3
Europe*	1 350	2 510	65.1	56.2	EU	4 200	4 900	32.4	29.2

Foreign direct investment in China, cumulative flow**Foreign affiliates in the United States**

Billion USD		Share, %		Turnover, billion USD		Share, %				
	1997– 2009	1997– 2019	1997– 2009	1997– 2019		2009	2018	2009	2018	
United States	50	70	5.9	3.5	China	3	100	0.1	1.8	
Europe*	60	140	7.7	6.6	EU	1 690	2 490	51.4	47.4	
						Employed, thousand		Share, %		
						2009	2018	2009	2018	
						China	< 10	200	< 0.2	2.3
						EU	3 400	4 600	56.1	53.6

* Data not available at EU level.

United States' Foreign Direct Investments (FDI) into China have increased in the recent years, but still account for only about 2% of the country's FDI stock abroad. Similarly, China's FDI stock in the US is only around 1% of total FDI. Chinese FDI flows to the US increased particularly in 2016-17 but have declined markedly since then. Rhodium estimates that between 1990 and 2020, the cumulative flow of US FDI to China was \$285 billion, while China's cumulative investment flow to the US was \$176 billion.² Around 70% of US investment in China is greenfield. Chinese investment in the US is largely acquisitions, with only 10% being new investment. Despite the deteriorating relations, there has been no large-scale exodus of US companies from China and the flow of direct investment from the US to China has remained relatively stable.

At the same time, the United States is seeking to reduce critical dependency on China. In addition, it has limited the participation of Chinese companies in public procurement in sensitive sectors, such as defence and telecommunications. At the same time, China has systematically sought to increase its self-sufficiency and expertise in these sectors and to make compensatory purchases from other sources such as the European Union countries.

Competition between the United States and China has already led to economic and technological decoupling, which means dismantling economic interdependencies between countries, distancing trade relations and imposing trade barriers in individual cases. Decoupling is particularly visible in some high-tech sectors, such as 5G and semiconductors. However, at the moment broad-based decoupling is not the objective of China or the United States, and it is not possible because of interdependence.

The decoupling development in the US and Chinese economies and technologies are illustrated in more detail by the following examples:

Example 1: US technology export bans on Chinese companies. The US Department of Commerce has placed several Chinese companies on a list companies to which the export of US products, software and technology is prohibited without special permission (so-called entity list). In particular, measures have been taken against the technology company Huawei and its subsidiaries. The company was added to the list in 2019, but it was still able to purchase US technology components from outside the United States. Since then, restrictions have been tightened, and today any company selling US technology or components produced using US technology to Huawei or its subcontractors require a special license. The measures have significantly impaired Huawei's business opportunities as they have been in practice prevented from acquiring high-tech semiconductors, which is expected to restrict its mobile phone production

2 See [US-China investment project](#).

in particular as stocks run out. The United States entity list also includes several other Chinese technology companies, such as the microchip company SMIC and the unmanned drone manufacturer DJI.

Example 2: Withdrawal of US investments from companies with links to the Chinese army. Three Chinese state-owned telecommunications companies listed on the New York Stock Exchange (China Mobile, China Unicom and China Telecom) were removed from the stock exchange list in May 2021. This was the result of a decree signed by President Trump in November 2020 prohibiting US investments in companies considered to have links with the Chinese army. The list includes several other companies, including energy, transport and ICT companies, some of which are not listed in the United States, and some which have, since the decree was signed, considered that they do not meet the criteria for links with the military. However, major index producers have removed companies from their indexes.

Example 3: Requirements for opening accounting data for companies listed in the United States. In December 2020, the US House of Representatives adopted a law enabling foreign companies to be removed from US stock exchanges if they do not open their audits to the authorities and provide other information (such as whether the companies are owned or controlled by a foreign power and whether the directors are members of the Chinese Communist Party). At the moment, Chinese companies are not complying with this. The Act includes a transitional period of three years. Almost 250 Chinese companies are listed on the American stock exchange.

As a closer analysis of interdependence shows, the United States is partly dependent on value chains in China and vice versa. The United States has encouraged its companies to repatriate production and to decentralize or relocate value chains to other Asian countries, but this has not been the case on a large scale. For example, Apple's cooperation with Chinese suppliers has increased. US policy is also driven by the need to create more jobs domestically.

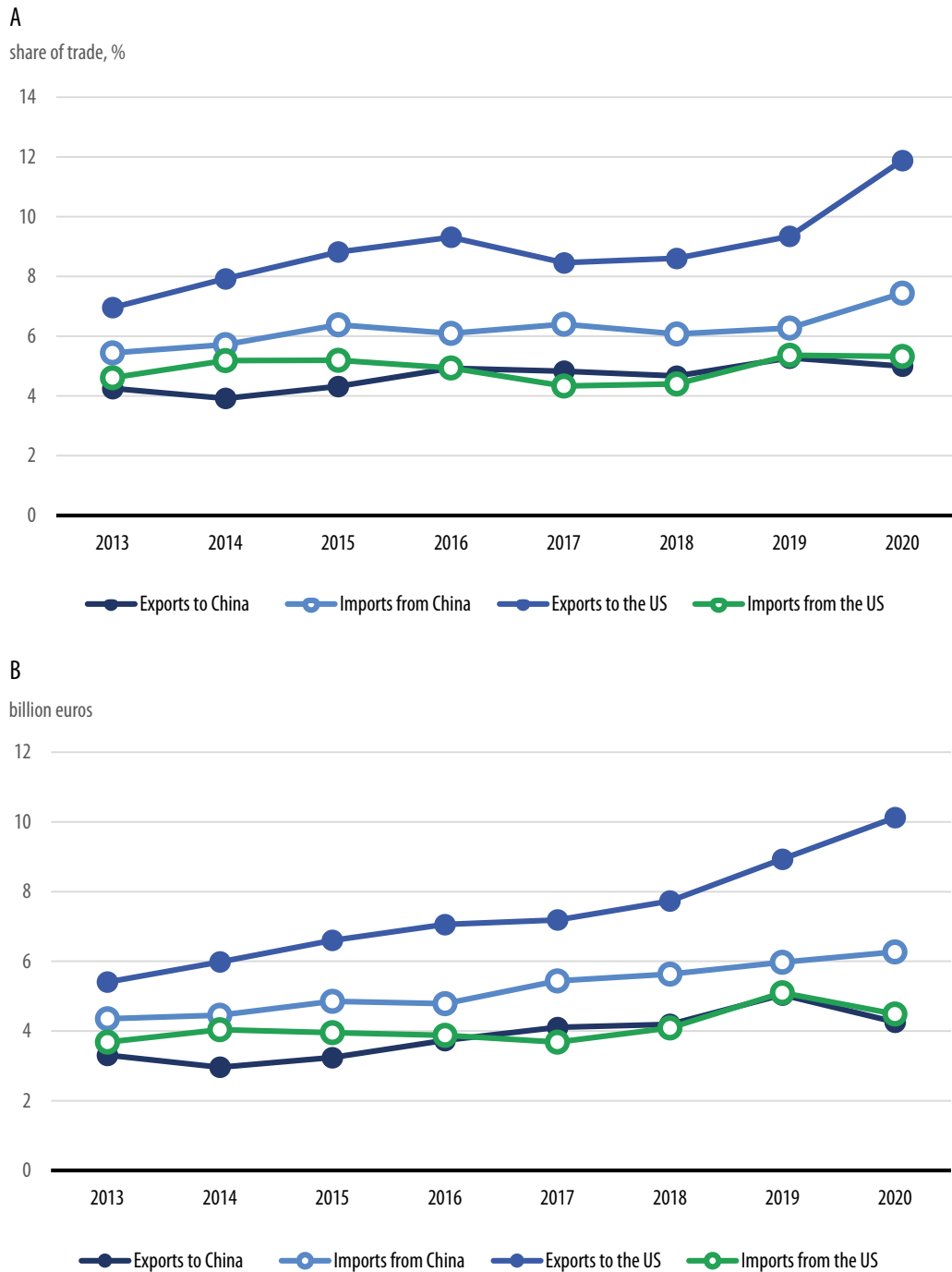
2.2 The United States and China as Finland's economic partners

Competition between the United States and China puts Finnish companies in a challenging position, as both superpowers are Finland's main economic partners outside the EU.

A significant share of Finland's exports goes to the United States, while China is more important for imports (Figure 4). The US also consumes more value-added produced in Finland than any other country, but China's consumption of Finnish value-added has grown rapidly (Figure 5). The turnover of Finnish affiliates operating in the US is clearly higher, but Finnish affiliates in China have more staff (Table 1). US and Chinese companies also have large operations in Finland. Both countries are therefore important partners for Finnish companies and research communities in research and development (R&D).

The United States and China are also the EU's most important trading partners and major export countries for dual-use items. The definition of dual-use items also includes intangible exports, such as software and expertise, the exports of which are growing rapidly. Finnish companies also make extensive use of technology and components originating in the United States and China.

Figure 4. Finnish trade in goods and services with China and the United States, trade value in euros and % share of trade. Sources: Statistics Finland and BOFIT.



The United States consumes more value-added produced in Finland than any other foreign country. However, the consumption of Finnish value-added has grown the fastest in China.

Figure 5. Final consumption of value-added produced in Finland by country in 2005 and 2015, % of final consumption abroad. Sources: OECD TiVA and BOFIT.

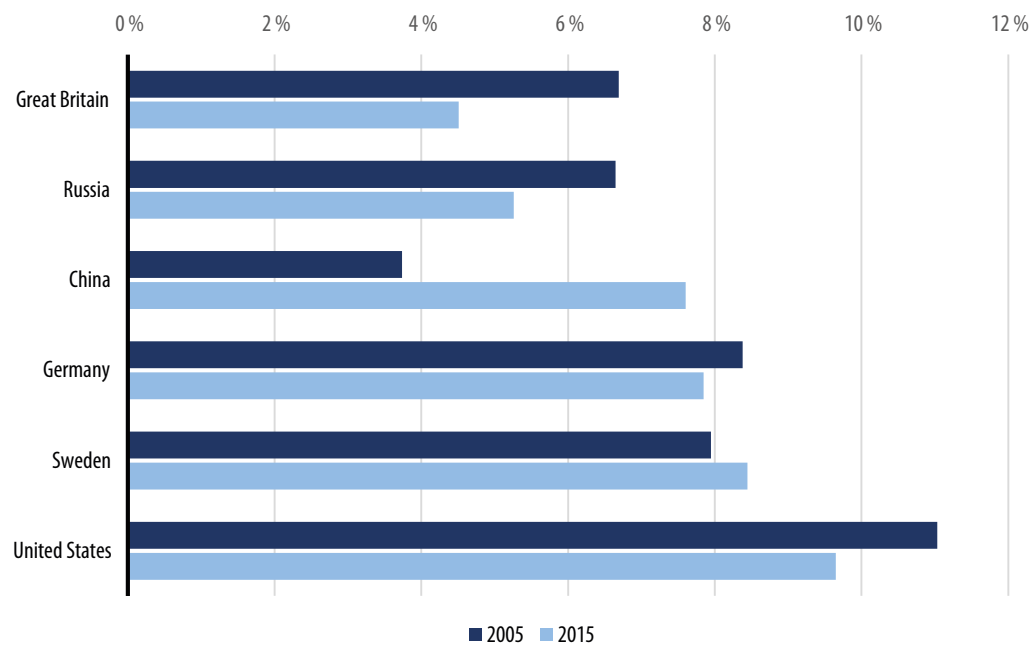


Table 2. Finnish affiliates in China and the United States and their affiliates in Finland and direct investments in 2019.

	Value/number		Share, %	
	USA	China	USA	China
Foreign subsidiaries in Finland				
Number	710	129	16,0	2,9
Staff	28 000	14 500	10,0	5,2
Turnover (EUR million)	12 900	4 700	13,1	4,7
Finnish subsidiaries abroad				
Number	266	254	4,9	4,7
Staff	42 000	62 600	7,2	10,7
Turnover (EUR million)	27 400	13 100	13,7	6,5
Foreign direct investment in Finland				
Stocks by country of final investor (EUR million)	9 100	7 900	11,9	10,4
Finland's direct investment abroad				
Stocks by direct investor country (EUR million)	3 400	600	2,6	0,4
Finnish investment stock by country of final investor as recorded by the US (EUR million)	8 900			
Finnish investments recorded in China, cumulative flow 2002-2019 (EUR million)		1 000		

Sources: Statistics Finland and BOFIT, Bureau of Economic Analysis and Ministry of Commerce of China for outward investment. Note: Statistics Finland's direct investment statistics by final investor country are only available from abroad to Finland. For statistics by direct investor country, the investment is not directed to Finland if it is managed through a foreign affiliate.

2.2.1 United States

The United States is Finland's biggest trading partner outside the EU. It is the world's largest economy and an open market economy, offering significant commercial opportunities for Finnish companies in almost all sectors. Despite the coronavirus pandemic, Finnish exports to the US have grown strongly in the recent years, driven in particular by exports of services. In addition, export-controlled American technology is used in many Finnish products. Technology cooperation with the United States is important for Finland's defence capabilities, including defence materiel procurement.

When considering not only exports and imports (including intermediate goods), but also investment and innovation cooperation, the economic weight of the United States is the most important for Finland from individual countries. Finnish and US companies are closely linked in international value chains, which underlines the importance of open markets for our trade relations. The US is expected to recover from the coronavirus pandemic faster than Europe, further increasing the potential of the country for Finnish companies.

The main exports from Finland are medical equipment, other machinery and equipment, paper and cardboard, petrol and metals. Service exports consist in particular of information technology services and fees charged for the use of intellectual property. President Biden's administration's investments in the green economy will open up opportunities for Finnish bioeconomy and clean technology companies.

The US is a fairly open market for foreign companies, with the exception of the defence and security sector, for example. Trade barriers in the US market, such as the Buy American legislation that favours domestic producers or the Jones Act, which affects cooperation in the maritime industry, also hinder Finnish companies. The domestic political and economic situation in the US may increase protectionist measures and favour domestic products. Furthermore, the trade disputes between the United States and China, on the one hand, and the United States and the European Union, on the other, create uncertainty for European companies. However, the Biden administration is seeking closer cooperation with the European Union. This will also open up opportunities to develop trade relations.

Due to its technology-driven economy, Finland is an interesting and larger partner for the United States. In terms of references and joint publications, the United States is Finland's most important research and innovation partner. Cooperation is important especially in the fields of technology, precision medicine, climate, and the environment. Opportunities for cooperation between Finland and the United States can be seen in, for example, telecommunications technology, quantum technology and artificial intelligence applications. The efforts of the United States to strengthen national and economic security may result in Chinese technology players leaving the US market and the production

chains of products ending up in the US market. This may also mean opportunities for Finnish technology companies.

2.2.2 China

China is an important partner for Finnish companies, both in foreign trade and as a location for subsidiaries. Thousands of Finnish companies export their products and services to China and use Chinese products and services in their production processes in Finland. A significant part of the turnover of large Finnish global companies comes from China. Finland has a good reputation as a technology supplier, but a significant part of Finnish exports is also raw materials or low value-added products such as pulp.

The Chinese market has considerable potential. Alongside growth, the market can enable investment in research and development and the scaling up of production. The Chinese market is also an important testing ground for products because of its technological advances.

However, the Chinese market is increasingly challenging for Finnish companies. China's economic system and market regulation are very different from those in the West. Many sectors remain closed to foreign companies. China restricts market access for foreign companies, for example through joint venture requirements and ownership restrictions, as well as complex approval and licensing procedures. The operating environment is also challenging, with varying interpretations of regulations and issues of forced technology transfer.

China strives for greater economic self-sufficiency and emphasizes domestic production. China's objectives focus on critical and emerging sectors such as advanced semi-conductors and components, electric cars, industrial robots, medical devices and renewable energy. In particular, China aims to increase the production capacity of advanced semiconductors, where it lags behind leading manufacturing countries. The restrictions imposed by the United States have slowed down China's efforts.

Research cooperation between Chinese and Finnish researchers has strengthened in the recent years. The country is industrially important, especially in certain ICT sectors and electronic components. China's scientific specialization is concentrated in the natural, computer and materials sciences. In several areas, Chinese universities have moved to the top of the world rankings in international assessments of higher education. China invests more in research and development than the EU. The disadvantages and risks inherent in the Chinese environment range from a lack of freedom of research to problems related to intellectual property rights, data use and restrictions on cyber networks.

Increasing competition from the major technological powers is putting increasing pressure on the EU and its Member States to cooperate in research, development and innovation, especially with China. The key principles and practices of European cooperation are valued in many countries and, on the one hand, are seen as a competitive advantage (such as responsible use of data), but in some situations they can also limit a company's market opportunities (such as data regulation). Risky areas, in particular technologies related to defence and dual-use products, should be identified in the cooperation.

3 Policy instruments of superpower competition

In the superpower competition, a wide range of policy instruments is used to achieve national objectives. In particular, five policy instruments were identified in the discussions between experts and companies: sanctions, export controls, standardization, market access and financing. These instruments and their impact on Finnish companies are examined in the following sections. In connection with each policy instrument, conclusions are also presented.

3.1 Sanctions

The superpowers use sanctions as a means of exerting pressure to promote foreign and security policy interests and to change undesirable behaviour. The United States has sought to influence China's behaviour by imposing a large number of sanctions, for example on the grounds of the situation in Xinjiang, Hong Kong and the South China Sea. Some of the sanctions on North Korea apply to Chinese companies, as well. There have also been diplomatic sanctions, such as the closure of the Chinese Consulate General in Houston under President Trump, and in return the closure of the US Consulate General in Chengdu. Traditionally, China has been reluctant to use sanctions, but recently it has started using them as a countermeasure to US sanctions.

US sanctions against China are scattered across different pieces of legislation and there is no single country-specific sanctions regime. The US Office of Foreign Assets Control (OFAC) is imposing sanctions by listing individuals and entities on the so-called Specially Designated Nationals and Blocked Persons List (SDN List). The impact of these listings is extensive, and the effects are not limited to the United States - a company's transactions with a sanctioned company pose a risk in any country. Sanctions also affect companies not listed but which are directly or indirectly majority owned by a listed company. In addition to OFAC, the US Departments of Commerce and Defense maintain similar lists of restrictions. In total, there are already a thousand Chinese entities on the various lists of restrictions.

US sanctions are divided into two categories, based on their scope and consequences: primary sanctions and secondary sanctions. Primary sanctions legislation applies only to US operators and to transactions that have a legally specified jurisdictional link to the US. The mere fact that a payment in a transaction is made in US dollars is sufficient to constitute such a link. **Although the primary sanctions are specifically imposed on US operators, they may also have an impact on transactions by European companies**

when the transactions have a link to the US, for example to US companies, products or dollar payments. Thus, even a Finnish company acting in violation of the primary sanctions may be subject to substantial fines and other sanctions even if the transaction takes place in Finland. Secondary sanctions, on the other hand, as their name implies, are intended to support the objectives of primary sanctions by seeking to compel non-US actors to act in accordance with US objectives. **Secondary sanctions can, for example, target European companies that do business with US sanctions-listed actors or in sanctioned industries in sanctioned countries.** No fines are imposed on a company that violates secondary sanctions, but the company may be added to the US sanctions list or its right to trade with US operators may otherwise be restricted.

The European Union does not accept the application of the laws of third countries without sufficient association with the state that has imposed the sanctions. In response to such sanctions, the European Union has adopted the Blocking Statute, Council Regulation (EC) No 2271/96. At present, the Blocking Statute only applies to certain US laws, regulations and other acts, i.e. only the US sanctions against Cuba and Iran are included in the Annex to the Blocking Statute. This statute prohibits European Union operators from complying with the sanctions in question and provides for a right to claim compensation for damage by any person who has suffered damage as a result of the application of, or action taken pursuant to, the sanctions legislation of the third country in question. The Regulation also obliges EU operators to notify the Commission if the economic interests of the operator are affected by the US provisions in question. Violations of the Blocking Statute are punishable by a fine if committed intentionally or with gross negligence, but may be subject to an exemption from the Commission. There is little evidence of the benefits of the Blocking Statute and it has been considered important to further develop the Blocking Statute.

China has no sanctions regime as such, but it has developed its own export control and sanctions policies in response to United States' actions in particular. China's sanctions regulations are characterised by their generality and opacity. The rule of law principles in Chinese law are not comparable to those in Western law, which also affects Chinese sanctions legislation and its application, including predictability. In January 2021, an "anti-boycott law" similar to the EU's Blocking Statute came into force in China. It obliges the Chinese party subject to foreign restrictions to notify the Chinese authorities of any restrictions that may result in liability for damages. China has also introduced a procedure similar to the United States sanctions lists. China lists companies that endanger China's sovereignty, security or development interests or are guilty of harassing a Chinese entity on the Unreliable Entity List (UEL). The listing can effectively cripple the listed entity's operations in China. In practice, sanctions imposed by China are not always based on straightforward legal acts and can be imposed "informally", which makes them difficult to deal with.

Example I

A Finnish technology company manufactures products for which it purchases components from China. The company also sells products to the US market. The supply chain of the company includes the Chinese company XY, which the United States has placed on the SDN Entity List.

At worst, this could result in the inclusion of the Finnish company on the SDN list and the closure of the entire Western market for the company, as XY technology has been used. As a consequence, the possible countermeasure of China could be the inclusion of the Finnish company on the UEL list, which could mean the closure of the Chinese market for the company as well as the inability to use their own or outsourced production in China and more broadly Chinese-manufactured components.

3.1.1 Conclusions on sanctions

Sanctions imposed by the superpowers have a significant impact on Finnish companies. The US uses its sanctions instrument virtually anywhere in the world, and the scope of sanctions is complex and wide-ranging. The impact of US secondary sanctions on non-US actors means that a European company doing business with a company on the US sanctions list can itself be added to the sanctions list. Even the use of a dollar-based payment system can create a link to an entity on the list and this can create a situation where the primary sanctions apply to the other party as well. The most significant impact of sanctions is visible in the financial sector: European banks are forced to refrain from making payments or other transactions with sanctioned parties.

In practice, this means that companies operating internationally, especially in both the US and Chinese markets, need to be better informed about the sanctions legislation and lists of both superpowers. This will increase corporate responsibility work, as information on sanctions will need to be gathered from different sources and different sanctions regimes. Sanctions can have direct and indirect effects via companies' investments, supply chains and customer networks, among other things. A company needs to know both its customers (Know Your Customer) and its supply chain (Know Your Supply Chain).

Interpreting legislation and its effects is difficult. EU sanctions legislation applies in Finland and the Finnish authorities do not have the legal power to interpret other countries' sanctions. The Finnish foreign missions in the United States and China can provide general information on sanctions and support companies' situation assessments. In practice, however, companies often have to rely on external, commercial services to clarify sanctions issues in more detail. This leads to increased costs for companies. For large global companies this is a daily activity, but SMEs often lack the capacity or resources to do this.

Sanctions always have a wider significance than their specific target: they also hamper legitimate trade because there are difficult interpretative issues involved in their implementation and because companies try to avoid reputational risks as far as possible. The use of sanctions can exacerbate trade and economic decoupling. For Finnish companies, the decoupling could mean restructuring the supply chain and avoiding certain sanctioned suppliers under the threat of sanctions. Some Finnish companies have been forced to change their supply chains due to the constraints and risks due to sanctions related to increased superpower competition.

3.2 Export controls

Along with sanctions, export controls have become a key tool for influence in the superpower competition. In general, export controls aim to prevent the export of dual-use items that could be used as weapons of mass destruction or for their development. The purpose of export controls is also to prevent unwanted military use of technology, use against the interests of the exporting country or use that violates human rights. Export controls can be used for other purposes, such as the promotion of broadly defined international or national security.

In recent years, the United States has sharply increased export restrictions on China and Chinese companies, notably for security policy reasons. The United States uses export controls not only to prevent the proliferation of weapons of mass destruction and unwanted military use, but also to strengthen its global leadership. It also seeks to protect the development of critical technologies and innovation capacity. Through export controls, the United States also seeks to strengthen national security and protect innovations critical to national security and intellectual property rights.

As a member of all four international export control regimes, the United States has an extensive set of export control regulations and influence over the lists decided by the regimes. This also gives the United States influence over products controlled in the European Union, where the control lists are based on those decided upon in the

international export control regimes. Finland implements export controls on the basis of a European Union regulation and national export control law. Furthermore, Finland does not have its own export control lists, as do some other Member States (for example, Germany). The Ministry of Defence and the Ministry of Foreign Affairs of Finland are responsible for export controls.

United States' export controls are divided into dual-use goods and military equipment export controls. Export controls focus on technologies critical to national security, such as laser, sensor, telecommunications, semiconductor, navigation and data processing technologies. Dual-use items are regulated by the Export Administration Regulations (EAR), while defence equipment is regulated by the International Traffic in Arms Regulations (ITAR). The Export Control Regulations must be complied with, if the transaction involves the export, re-export or transfer within the country of a product subject to the EAR or ITAR. Violations of US export control regulations may be subject to criminal or administrative penalties in the US, even if the act occurred outside the United States. Such acts could be, for example, the unauthorized re-export of controlled technology from Finland to a third country.

China is a member of only one of the four³ export control regimes, the Nuclear Suppliers Group (NSG). Since the United States tightened export controls on Chinese companies, China has been building a similar policy instrument. China's new Export Control Law came into force in December 2020, but China has had export control enabling legislation in the past (including the Foreign Trade Law and the Law on Import and Export of Technology). The law is somewhat similar to the laws in the European Union or the United States, but there are also very significant differences. China's export control law also has an extraterritorial dimension, so somewhat like the US, China can seek to hold non-Chinese actors accountable for activities that violate Chinese law. There may even be criminal penalties for violating the law, and the law includes the possibility of retaliation. The law also allows for the restriction of exports of any product (export licensing requirement) based on broad national interests.

The tightening of US export controls is influenced by China's consistent efforts to exploit civilian industry and research for the needs of its armed forces and its defence industry. This phenomenon, known as civil-military fusion or integration, blurs the distinction between military and civilian actors and complicates export controls on dual-use items. China's objective is to acquire foreign technological know-how that is suitable for military use. As a result, the European Union also tightens export controls on dual-use goods

3 The international export control regimes are the Wassenaar Arrangement, the Nuclear Suppliers Group, the Missile Technology Control Regime, the Australia Group.

to China. This trend is likely to expand in the future, as more and more of the emerging technologies⁴ are dual-use and thus potentially subject to controls.

The technology competition of major powers and export control of companies are also linked to business financing and research activities. Foreign acquisitions may be used as a means of superpower competition to circumvent export controls and conceal the acquisition of critical technologies for state purposes, for example for military or political purposes. Determining the true intentions can be challenging, as in China, for example, it can be difficult to distinguish between private and state actors. The role of the party in private companies has been strengthened in recent years.

In addition to companies, export control legislation must be taken into account in research institutes, whose projects may result in confidential research data being passed on to third parties for undesirable purposes. For example, US export control legislation considers the transfer of controlled US technology for examination to a third country national in Finland as a *deemed re-export* to that person's home country. In Finland, the situation is complicated by the shortage of domestic talent or researchers; companies and research institutes may have to take a risk by hiring nationals from countries whose legislation allows the state to put pressure on individuals to cooperate. The use of foreign labour is not a risk itself, and the Finnish organization, having identified a potential risk, can limit the access of its employees and partners to the most critical product and other information. These actions can also protect foreign workers from ending up in a difficult position with their home country's authorities.

Tighter export controls on dual-use products also have an impact on Finnish companies and their business opportunities. The number of negative decisions may increase. The current measures have already had a practical impact: some export projects have had to be cancelled and export potential has been lost. It is difficult for companies to identify and integrate export control and sanctions regulations that complicate already complex supply chains. The extraterritoriality of the export controls of the United States and China, i.e. the extension of the effects to the whole world, is a cause for concern. Companies are hoping for more comprehensive and concrete advice on understanding applicable extra-territorial foreign regulations and for help in identifying risks associated with superpower competition.

4 There is no generally accepted definition for emerging technologies. In general, the term refers to technologies that do not yet have at least broad practical applications, but are expected to have a revolutionary impact on society in the future. Typically, practical applications are assumed to be 5 to 15 years away.

Changes are also underway in the regulation of export controls in Finland. The new EU export control regulation adopted by the European Parliament and the Council enters into force in September this year. The Regulation brings new types of control possibilities to the European Union Member States, such as the possibility to require export licenses based on a control list set by another Member State in addition to the European Union and any national controls. The regulation also defines cyber surveillance technology for which it is possible for the Union to develop its own new policy. Export controls are becoming increasingly challenging as an increasing proportion of exports are intangible (such as software, technical information or services). As the operating environment develops, it must be ensured that the authorities' performance and powers meet the new requirements arising from the changes. The complexity of export controls increases the need to develop customs control activities as well as internal export controls of companies.

The superpower competition has concrete consequences, forcing an increasing number of Finnish companies to make choices when considering their business decisions. Often it is a question of building and maintaining the company's reputation and ensuring the legality of its operations. If export control legislation becomes too burdensome or strict, it can also turn against its purposes: in commercial competition, it can encourage companies to relocate their research and product development activities and manufacturing outside the United States and the EU to circumvent control and reduce risks.

3.2.1 Conclusions on export controls

For Finnish companies, tightening export controls within and outside the European Union means additional challenges and a need to invest more in trade compliance. This will place a particular burden on SMEs, which have limited resources and competence. The competent authorities should explore the possibilities of increasing the provision of advice and guidance to companies also in the foresight sense. This should involve increasing and concentrating authorities' resources and systematically building up new expertise in order to respond to the changing situation in terms of both security policy and competitiveness. As far as advice outside the competence of the Finnish authorities is concerned, such as third country regulations, cooperation forums should be further developed to bring together authorities, exporters, research institutes, banks and other key players to share expertise from different perspectives and to consult external invited experts.

Example II**(Note: a fictitious example of a possible escalating situation)**

1. The US places a prominent Chinese mobile phone operator X on the SDN (List of Specially Designated Nationals).
2. Finnish equipment manufacturer A suspends deliveries to X because of secondary sanctions and commitments to its financiers, even though the products are Finnish and the transaction would otherwise have no connection to the US.
3. China threatens to add A to the Unreliable Entity List (UEL) if it does not fulfil its contract with X.
4. Since these are secondary sanctions, the US authorities do not feel competent to grant or even process an application for a license to operate - and it may even be that no licenses would be granted to anyone because of the SDN list.
5. Equipment manufacturer A has to choose between a) supplying the equipment and risking being added to the United States' SDN list, or b) not supplying it and risking being added to the Chinese UEL list.
 - ▶ The consequence of SDN listing would be the closure of the entire Western market, as Western operators would not buy products from a SDN listed company due to secondary sanctions risks, and the disruption of the supply of Western components for the same reasons; banking and financial services would also be disrupted
 - ▶ For A the inclusion in the UEL could result in the closure of the Chinese market and the inability to take advantage of in-house or outsourced production in China and, more broadly, of Chinese-made components.

The development of internal export control processes will facilitate companies' ability to prepare for the future actions of the United States or China in a proactive manner. However, companies should consider taking other international trade regulations into account in the same guidelines. Such regulations may include, for example, European Union sanctions and elements of export controls or sanctions by European Union partners, such as the United States, which is a member of all multilateral export control regimes. As intangible exports become more common, companies' internal export control guidelines become an increasingly important tool in export control. The role of companies in the implementation of export controls is emphasized, as the control of intangible exports is considerably more challenging than that of physical products.

Foreign investment and acquisitions create new opportunities for companies and able Finnish companies' access to even the most economically challenging markets. However, companies should identify the motivation behind foreign investment in their business: is the investment purely commercial or might it be motivated by military or political considerations? These questions should be carefully assessed with the authorities. Systematic monitoring of planned and completed foreign acquisitions, carried out by the network led by the Finnish Ministry of Employment and the Economy (the YKA network), and the confirmation processes under the Acquisition Act, already contribute to risk management.

The control of emerging and critical technologies is a constant discussion topic in export control regimes. Their possible control would be a deviation from the post-Cold War approach that basic research is exempted from control. The approach so far, which might change, has been that technologies in the development stage, where the potential military applications are not yet precisely known or planned, would typically be exempted from control in the same way as basic research. It is possible that in the future, emerging technologies will be included in the control lists of export control regimes at an earlier stage and/or new types of controls will be developed for emerging technologies. In the future, awareness and understanding of export controls and the challenges of international research cooperation in general will need to be strengthened. The code of conduct for international cooperation in higher education and research, which is being prepared jointly with Finnish universities and research institutes, focuses on these issues. General guidance is suitable for all cooperation, but cooperation with China is under special review.

Technology control is also linked to Finnish national defence capabilities, which base on a wide range of technologies. This sets critical requirements for the management of national competence. Domestic technology expertise and production and service activities have a significant impact on the overall performance of the defence system and on military security of supply. The National Emergency Supply Agency is currently preparing a study

on the management of critical competences for military security of supply in Finland. The study, to be completed by the end of 2021, involves the Ministry of Defence, the Ministry of Economic Affairs and Employment, the Ministry of Defence and the Defence Forces of Finland.

The use of foreign labour in companies can be critical not only in terms of competitiveness and expertise but also in terms of export controls. Finnish organisations should be aware that some authoritarian states have legislation in place for individuals and/or organizations, obliging them to assist their original home country's security authorities when necessary. In this context, attempts can be made to transfer information subject to export controls outside the company and/or outside the country without authorization. To manage the risk, a Finnish operator can restrict its employees' and partners' access to the most critical product and other information.

3.3 Standardization

In general, the ability to influence international regulation and standardization is *a competitive advantage* for countries, giving them an economic and technological lead over competitors. It provides a possibility to promote your own values at the global level if a consensus is reached on the proposed technical solutions in the drafting process and are incorporated into international standards.

International standards have risen to the *foreign and security policy agenda* of governments, particularly because of technological developments. They are important for building critical infrastructure and maintaining the (cyber) security of countries. Whoever has developed a technological solution usually has the best knowledge of the weaknesses of the solution, thus having the possibility to exert power over other parties. International standards have also risen to the Foreign and Security Policy agenda in particular as a result of technological developments. In addition, technological advances and the increase in digital infrastructure have expanded the scope for countries to exert influence. Government cyber espionage, using social networking for influencing and digital sabotage have been highlighted over the past ten years.

International standards are essential for companies creating technological solutions, because they allow the company to receive significant economic benefits for the use of their technology in international standards.

Western countries have traditionally been active in international standardization, in organizations such as the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC) and the International

Telecommunications Union (ITU). However, over the last ten years, China has risen to the top. In recent years there has been an increase in Chinese activity in international standardization and a consequent increase in the United States' involvement in international standardization organizations.

In the United States, the administration sees standardization as an important means of defending democracy and democratic values. The United States' role in international standardization is twofold: on one hand, it plays an active global role as a standard-setter, but on the other, it does not implement, for example, ISO standards on a large scale as its national standards. The United States has not been very active in the ITU, but it has increased its involvement as China has become more influential. The United States considers China to have too strong a role in the ITU and in the 3GPP (Third Generation Partnership Project), which focuses on telecommunications standards. The United States itself is very active through its technology industry, for instance in the Internet Engineering Task Force (IETF), which is responsible for developing Internet protocols.

The **European Union and the United States** share widely the same value base in standardization, and cooperation between them would help to promote Western values at the global level. This cooperation has been hampered by the fact that the European Union and the United States see each other as competitors. The significant differences between the standardization systems of the European Union and the United States have also challenged cooperation. However, in December 2020, the European Union expressed its willingness to increase cooperation with the United States, including regulatory and standardization issues. At the general level, the European Union identifies artificial intelligence including facial recognition, 5G, 6G and cybersecurity as some of the cooperation areas that it considers worth discussing.

China has been steadily, for twenty years, increasing its role in international standardization. It wants to offer an alternative to the United States and the European Union. Increasing international influence in standardization is a carefully considered strategic choice in China's efforts to become a leading country in innovation by 2035. For example, China has developed the China Standards 2035 plan, under which it aims to strengthen its role as a standard-setter for new technologies.

China also actively promotes, through the Belt and Road initiative, the adoption of its standards in the target countries and has dozens of bilateral standardization projects with different countries. China also aims to create a regional standardization forum which, according to some estimates, could have the possibility to challenge even the role of ISO and IEC in the drafting of international standards. China's interest has focused in particular on new technologies such as artificial intelligence, facial recognition and big data; the latest example is China's proposal for an international QR health code.

China is characterized by a desire to operate in its own market with its own rules, including restricting the participation of foreign companies in Chinese national standardization and making standards that are, in principle, voluntary, but de facto mandatory. Moreover, China, like the United States, is reluctant to adopt international standards as its national standards.

China's active activities and "value competition" are among the most visible in the ITU, whose work the country has actively participated in in recent years. Since 2005, there has been a disagreement between Western and authoritarian countries as to whether the ITU should play a role in determining the technical development of the Internet. The authoritarian countries are aiming to increase the ITU's mandate, while countries in favour of development led by the private sector are opposed to these efforts.

As far as international standardization is concerned, this is not just about competition between the United States and China. Standardization of new technologies and which system of values gains international influence in the future is in the focus. It is a broader conflict between democratic and authoritarian values and the division of the world into values-based camps.

The great power competition can also be seen in the International Organization for Standardization (ISO). The rivalry between China and the United States is reflected, for example, in the fact that they both have been interested in the secretariats and chairmanships central to the drafting of some important standards and their active participation in ISO's committees and working groups on the information technology.

As a result of competition, international standardization may become tougher or impossible, and this will complicate the activities of companies that are globally manufacturing and supplying components, increase costs and general uncertainty.

Ultimately, the competition between China and the United States could result in the two superpowers forming two separate "market areas". Hence, the products or services of Chinese origin or technology, for example, would be denied access to the United States' market, and possibly vice versa. European Union companies already have some concrete examples of this. Companies are forced to choose which market to operate in or to produce two versions of their products, one for the United States and one for China.

3.3.1 Conclusions on standardization

In Finland one must be prepared for the possibility that the organizations creating international standards become even more politicized. Chinese companies, for example, work closely with Chinese state actors and represent the official Chinese position.

The problem for companies is that they have to defend their own interests and Western values in standardization organizations. This requires a lot of resources, and companies are also taking a risk here if they have to stand alone against the aspirations of the superpowers. Operating under corporate umbrella organisations (such as Business Europe) can provide anonymity for dealing with sensitive issues. The role the umbrella organisations could play in supporting the interests of business and the European Union needs consideration.

In order to respond to the new challenges, Finland needs a European Union that works together in standardization and that has recognized the politicization of standardization and is capable of responding to it. The European Union also needs to recognize that “standardization leadership” emerges from technological product development leadership and, if research and development investments are insufficient, it will be difficult to influence the standards of new product solutions. In this respect, China and the United States have more quickly understood the importance of standardization than the European Union.

Finnish companies participate fairly comprehensively in international standardization in key areas for Finland, but their activity could be considerably broader. Finnish companies have not sufficiently recognized the strategic importance of standardization, which is further underlined by the great power competition between the United States and China. Increasing the participation of companies has been set as the strategic objective of the Finnish Association for Standardization (SFS).

3.4 Market access

As tensions between China and the United States continue, it is expected that both countries will continue to impose new restrictions that will hinder market access for companies, products, services and investments in the other country. Some of these restrictions may pose both challenges and opportunities for Finnish companies. Excluding competitors from the market may offer Finnish companies new individual opportunities, but at the same time some of the restrictions may also apply directly to Finnish companies.

The Chinese and US economies would also need trade liberalization and new markets. China in particular is seen more willing to enter into new trade and investment agreements as it seeks alternative markets to the United States.

Tariffs have played a key role in the trade war between the United States and China. The use of tariffs as part of trade policy leverage was highlighted under President Trump, but in the past the United States specifically targeted China with anti-dumping duties. During the Trump period, customs duties were set more on the basis of national security, in contrast to general international trade rules. More than half of US-China trade is still subject to existing tariffs. The tariffs imposed by the United States and China on each other have also had some direct and indirect impact on Finnish companies, but in the big picture, companies have adapted to the current tariffs and have modified their supply chains where necessary. Tariffs are not expected to play a similar role in the superpower competition between the United States and China over the next few years, but if the conflict between the two countries escalated, a further significant restriction on trade in the form of tariffs cannot be ruled out. If the United States or China were aggressively to close their own markets, it could also force other countries to take protectionist measures to protect their own industry as trade flows seek new markets.

Foreign investment has become a focus of attention in the United States as the superpower competition accelerates, and the attitude towards Chinese investment in particular has become more cautious. In recent years, the United States has implemented new programs to monitor foreign investments in sensitive sectors. China has always been a strictly regulated investment environment, and foreign companies have limited opportunities to invest in China. In recent years, China has opened up sectors for foreign investment, but at the same time it has developed new instruments for influencing the market. The emphasis on national security and the new Act on the Review of Foreign Investment on the basis of National Security, which entered into force in January 2021, are seen as a reaction to the US action, but the related measures are not only directed at the United States. In the future, the forced transfer of technology will also continue to be a major investment concern for companies investing in China. The issue of forced technology transfers has been addressed, inter alia, in the Comprehensive Agreement on Investments between the European Union and China, the ratification of which seems to have stalled so far in the European Union.

Foreign investment controls are expected to be further strengthened in the near future, and new rules are likely to be created in the United States to restrict Chinese investment in particular. As a result, Chinese investment will increasingly be directed to other markets. Recently, China's own export credit has been more limited and risk financing of investment has been less available.

Public procurement and its restrictions can be used as an instrument of superpower politics. In general, foreign companies' access to national public procurement is often very limited and great power competition further reduces this access. In order to reduce interdependencies with certain countries, it is likely that the United States, China and

other countries will continue to direct public procurement more towards domestic companies and products in, thus limiting the opportunities of Finnish companies. For example, China has highlighted cases of restrictions on public procurement arising from the Made in China policy that affects Finnish companies. While public procurement in the European Union is quite open to foreign companies, there is also a growing awareness within the European Union of the problems with public procurement processes and increasing pressure to respond to unfair means, especially from China, such as non-transparent state aid. The United States will continue to use public procurement as a means of attracting companies to relocate production chains.

For companies, this may mean being in a selection situation. Companies' opportunities to participate in public procurement in the United States may, in practice, be restricted due to the use of Chinese technology or capital by the company. Foreign companies have traditionally found it difficult to participate in Chinese public procurement and the market may become even more closed in the future.

The free movement of data (data mobility) has become an instrument of influence for the superpowers and a major competitive factor, including in third markets. Data mobility refers to the transfer of digital data, usually online, across national borders. Data, especially large amounts of data, enable many of today's technologies. It helps companies to determine the purchasing behaviour of their customers and to tailor their products as closely as possible to their customers' requirements. On the other hand, the collection of data involves risks, and because of these risks, there are also attempts to limit it in one way or another. Illegal transfers of large data sets containing the personal data of millions of people (big data) can cause irreparable damage.

The European Union, the United States and China have very different approaches to managing data flows: data, its movement, storage and use. These different and sometimes incompatible approaches can lead to a decoupling development between countries. For businesses, these differences in approach represent significant barriers to the movement and use of data.

The United States' approach emphasizes the free movement of data, while the European Union and China emphasize data protection, albeit from very different starting points. The European Union wants to keep private citizens' data secure, while China wants to keep its citizens' data safe from others. Chinese regulations require data localization, i.e. the storage of data on servers physically located in China. A company would not be able to move data out of China without passing the security assessment required for data transfer. An additional difficulty is the almost unlimited government access to stored data, including software source code and encryption keys, under Chinese security law.

Example III

Online store VK wants to expand into the US and Chinese markets. Expansion to the US is relatively easy in terms of data transfer, and it is not necessary to separate the e-commerce databases or servers. When establishing business in China, the company will need to rent server space in China, store and process its Chinese customers' data there. This data cannot be transferred directly from China to, for example, Finland, as this is a licensable activity.

The United States and the European Union both seek to prevent the localization of information by some countries, such as China, which they see as an unnecessary barrier to trade. However, the European Union sets more requirements than the United States in terms of the secure handling and movement of data.

It is estimated that the movement of data has increased global GDP by several trillion dollars. Indeed, the various constraints on data flows also have direct negative effects on economic growth.

Example IV

ZZ, a Finnish SME, has developed a unique technology to make high quality, high-value products for a specific target group in the US. However, one key component comes from China. The US is placing the Chinese company on an import embargo list, cutting off export opportunities to the US.

For companies, data mobility is a major market access and competitive advantage. Restrictions on the movement of data can lead to companies having to adapt the services or equipment they sell in order to comply with regulations in a particular area, leading to inefficiencies and costs.

3.4.1 Conclusions on market access

The confrontation of the United States and China will continue to influence the evolution of the business environment. Further escalation cannot be ruled out. Finland's areas of strength are related to high technology, and the tensions between the major powers threaten to create even more constraints to it, which will also have an impact in the longer term. Not all impacts come from regulations and rules, but changes in attitudes can also bring constraints to trade. The future competitiveness of Finnish companies and thus market access will also be affected by the development of innovation cooperation, especially if the company needs to make a choice between the United States and China or market access to either market becomes impossible.

In the short term, new opportunities may open up for Finnish companies in China if American companies are excluded (and vice versa). However, the overall impact of the trade war is negative and creates uncertainty in the business environment.

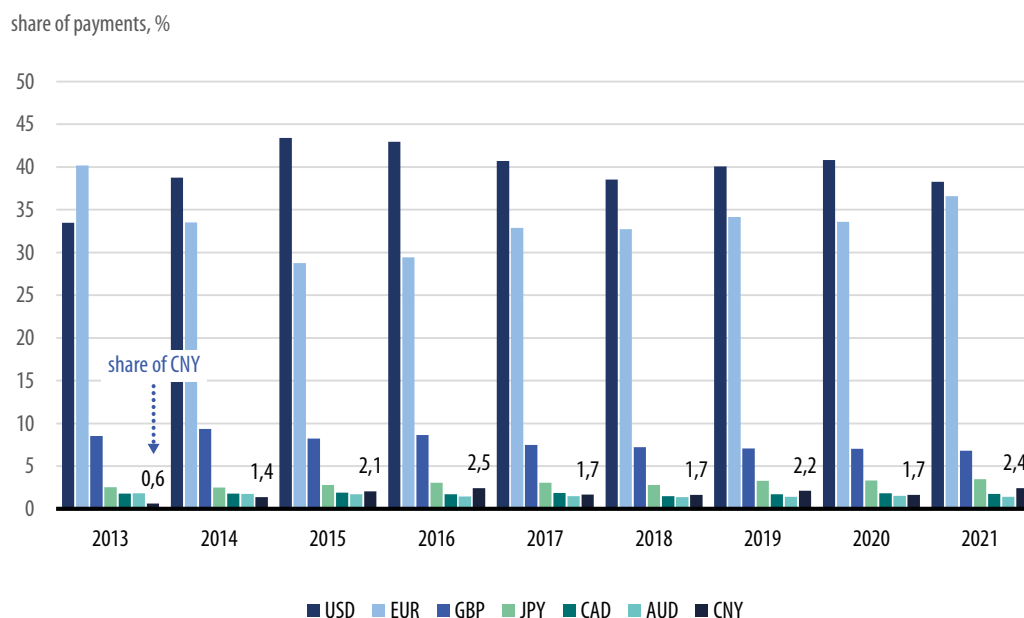
Working within this framework requires knowledge and understanding. It is important to maintain a common snapshot of the situation between public authorities and industry, as well as to provide up-to-date information to businesses. Economic analysis, particularly from a value chain perspective, is an important part of this work. A wide-ranging debate on the implications of the superpower competition for Finnish trade policy is recommended. Maintaining and improving the transparency of the European Union's common trade policy is essential for the success of a small open economy like Finland.

3.5 Funding

The superpower competition is also reflected in the global financial system. The dominant position of the US as the ruler of the dollar system and many institutions central to finance has been challenged by China. China is therefore determined to create an alternative to the current liberal system by which it can bypass the US-dominated payment and messaging systems of financial institutions and establish a wide range of alternative financing mechanisms for itself and its partner countries.

Figure 6. Currency shares of global payments, %

Sources: SWIFT and BOFIT.



The key players in China's domestic financial system are the mainly state-owned policy and commercial banks. Their role is to allocate capital in line with the objectives of the party-state. Their creditworthiness is ultimately determined not by their financial standing but by their relationship with the party and its objectives (the so-called implicit guarantee). In recent years, the system has increasingly favoured publicly owned companies over privately owned ones. The space for new players, such as internet-based financiers, has recently been narrowed by regulation. The proliferation of state-owned digital currencies would radically increase the ability of the state to control the transactions of both businesses and citizens. At the international level, however, the introduction of a Chinese digital currency is still a long way from eroding the dominance of the dollar system.

China has quickly emerged as a significant financial power, despite the fact that its currency, yuan, is not freely convertible. Alongside its alternative payment system and its central bank's swap arrangements China has become the world's largest sovereign lender. A key instrument has been the Belt and Road Initiative (BRI), under which it has lent to Chinese-led infrastructure projects, particularly in poor and middle-income countries. Some of China's loans have not been disclosed, making it difficult to assess the creditworthiness of the borrowing countries. Loan conditions are typically more stringent than in the West and contain exceptional political and economic clauses. Moreover, projects have not always proved to be environmentally or economically sustainable.

The inability of borrowers to repay the loans as agreed has led to renegotiation. Since the peak year of 2016, loan volumes have clearly decreased. This is due to credit losses and a weakening of China's current account, which limits the amount of dollar funding available to China. It has participated in G20 efforts to freeze emerging market debt repayments.

Hong Kong plays an important role as China's financial centre. It is home to the world's third largest stock exchange and investor interest is steadily increasing despite the political situation in the special administrative region. Chinese technology companies have moved their shares to Hong Kong and Shanghai and this trend is expected to continue. At the same time, Hong Kong acts as a foreign companies' gateway to China. About half of foreign investment in China passes through Hong Kong and nearly 60% of outbound investment from China passes through Hong Kong. Hong Kong companies are also the largest investor in Mainland China.

The United States is increasingly aware of the challenge posed by China in financial markets and has responded to some extent. It has, for example, established a new financial institution, the United States International Development Finance Corporation (formerly the Overseas Private Investment Corporation). The geo-economic logic is returning as a guiding principle for institutions relevant to US export and development finance. Potential US funded projects in Africa or Latin America may make it more difficult for Chinese technology to be adopted. The United States has become more receptive to capital injections from the World Bank and other regional, multinational development banks, for example. It has also tightened some controls on direct investment into the United States. Indeed, Chinese direct investment in the United States has declined markedly in recent years.

However, the integration of the financial systems of the United States and China has continued in other ways. China has partially opened up its financial markets to United States financial firms, which have seized the opportunity with enthusiasm. Chinese companies are also increasingly represented in various investment indices, which are often US-based. Indeed, the value of foreign equity, bonds and loans listed in yuan has doubled since 2018. Similarly, Chinese companies have continued to list on US exchanges.

Tighter requirements of origin in the United States are limiting project funding opportunities. There is more support at the political level, but implementation of also these initiatives is lagging. The Blue Dot Network to promote infrastructure projects with India, Japan and Australia has got off to a slow start, and the Clean Network initiative was only presented in 2020.

Although the use of the euro in the world economy has increased, the European Union is dependent on the dollar system, and in particular on banks' messaging and payment systems. The problem arose following the withdrawal of the Trump administration from the agreement on Iran's nuclear programme and the threat of sanctions against European actors trading with Iran. On the other hand, the European Union has addressed the challenge of Chinese financing by raising the European Union's profile as a global financier of connectivity and infrastructure and by proposing measures to promote a level playing field within the European Union. Deepening transatlantic cooperation, in particular in the area of connectivity policy, seems more likely under the Biden administration.

The European Commission has recently proposed that by developing the capital markets union and the digital financial sector and by promoting sustainable finance, the strategic autonomy of the euro and, by extension, the European Union, will be strengthened. The Commission has also recently proposed a new export credit facility as part of its trade policy toolbox. At the same time, a process is underway in the European Union to strengthen the European architecture for development finance. In time, this process could lead to the creation of a European Union development bank.

3.5.1 Conclusions on financing

From a business perspective, developments related to superpower competition require a better understanding of the political context and potential risks for doing business. For example, if a company manufactures dual-use products, collects large amounts of personal data or is linked to critical infrastructure, it needs to have a better understanding of both its customers and its financiers. In some cases, publicly owned financiers may be riskier. However, knowing who the financiers are is a challenge in a world where ownership can still be significantly anonymous and the true interests hidden.

While China has an interest in maintaining its integration into global financial markets, it also seeks to increase its autonomy. The role of the yuan as a challenger to the dollar is limited by Chinese restrictions on its convertibility. It is important to monitor the progress of China's efforts to reduce its dependence on the dollar and its success in developing its digital currency. Further monitoring will also be needed of any changes in China's restrictions on outward capital movements, which posed challenges for companies, particularly in early 2016. While the situation has eased since then, the risk of capital movement restrictions remains.

Example V

Company X exports dual-use products to the United States under public procurement rules. As a result of growing criticism towards China in the United States and restrictions on public procurement, the company avoids Chinese funding to avoid potential reputational and business risks.

In recent years, the United States has sought to develop its own financial instruments to respond to China's growing influence in Africa and Latin America. The US attitude towards Chinese supply chains has become markedly more negative. The impact has been particularly evident in United States' defence procurement or in technology sectors where the country sees implications for its national security. The superpower struggle has also led to reflection on how companies in sensitive sectors should deal with US and Chinese investment. Concerns have been raised that Chinese financing could have negative effects on the United States market and that the intensifying superpower competition could lead to a choice between the United States and China.

The European Union's efforts to strengthen its global role are limited by the fragmentation of its financial world and its dependence on both the Chinese market and the dollar system. This is why the European Commission has made proposals to strengthen the euro system and develop the single market. Concerns about the transfer of critical infrastructure to foreign control or ownership have been growing in Europe. The Commission's proposals to tackle state aid from third countries that distorts competition are welcome both at the European Union and WTO level. European Union funding to third countries should be better channelled to strengthen the position of the Union and its companies. The problem for the European Union is that its current development finance and export credit architecture is ill-suited to the challenges of superpower competition. The volumes of European development finance in the form of loans are relatively modest compared to Chinese competitors and are often directed to middle-income countries rather than low-income countries. There are also situations where European companies are unable to deliver or implement projects with a significant development impact because the market orientation and dollarisation of export credit make it an expensive way for the client to finance them.

New European Union instruments, such as the European Fund for Sustainable Development+ (EFSD+), help to address the high financing costs of renewable energy projects, for example. There is also a debate on the development of EU connectivity policy and the architecture of development finance and export credit. However, it should be considered whether the measures now proposed are sufficient and whether the implementation of the proposals should be accelerated. The European Union's contribution would be particularly needed in the areas of debt relief for emerging countries and the fight against corruption. It would also be good for Finland to strengthen both its development funding and its export credit, but at the same time it is necessary to use the European leverage if we really want to tackle the challenge.

4 Recommendations

Based on the study, the project coordination group has come to the following recommendations:

4.1 For Finnish companies

- Businesses need to be **aware of the risks associated with superpower competition**. They need to be aware of the impact of the political situation on their business relationships, customers, financiers and their background. They must be prepared for the intensification of superpower competition and identify the potential risks to their operations or national security posed by states and possibly by international companies and investors with links to states. This should be taken into account in areas such as financing decisions, research and development and staff recruitment.
- Companies should **identify the risks associated with** possible violations of **export control or sanctions regulations** and the methods to avoid violations. They should develop their knowledge of sanctions and allocate sufficient resources to this work, taking into account both customer knowledge and auditing of production chains, in order to identify risks and threats.
- **Internal export controls should be developed** in line with the European Union's recommendation on the Internal Compliance Programme (ICP). In addition to the European Union's recommendation, companies should take into account other international trade regulations in their export control processes. An ICP can facilitate export control procedures and is particularly beneficial in situations where a company has unintentionally violated export control legislation.
- Businesses need to understand the **risks and opportunities associated with finance**:
 - China's financial system deliberately favours publicly owned companies and those operating in strategic sectors. It is important for Finnish companies operating in priority sectors to consider the impact of financing and industrial policy on the future competitive environment.

- New payment technologies and electronic central bank money, if implemented, will entail risks, for example in terms of trade secrets.
- Especially in emerging markets such as Africa, companies should seek to make better use of Finnish, Nordic, European and international sources and instruments to facilitate market access and reduce risks.
- Businesses should, within their own resources, actively participate in **the development of international standards**, taking into account the fact that at least some international standards are subject to divergent values and that the work of certain standardization bodies is politicized. Cooperation and exchange of information with public authorities in international standardization work is important.
- Corporate responsibility issues have recently become more prominent and increasingly important. This increases the need to clarify production and supply chains in relation to companies' duty of care.

4.2 For Finnish authorities and business representatives

- It is important to **monitor** the superpower competition and the resulting decoupling of economies and technologies. Public authorities, businesses and their representatives need to share information and build and maintain a **common view of the situation**. National coordination networks are becoming increasingly important.
- Operating in the context of superpower competition requires knowledge and understanding. Public authorities, businesses and researchers need to be made more aware of the emergence of and risks associated with competition between the superpowers, and efforts must be made to reduce the negative effects. The in-depth knowledge of Finnish actors on China needs to be strengthened. Means to strengthen this knowledge should be considered in cooperation between ministries and universities.
- Wherever possible, companies should be provided with up-to-date information on the superpower competition and networking forums to support their decision-making. Business organizations can help to provide a platform for discussions on topical issues and thus promote opportunities for companies to pass on information about the challenges they face and to share their experiences.

- Wherever possible, companies should be served on a “one-stop-shop” basis in trade compliance matters within the competence of public authorities, such as sanctions and export controls. This would require strengthening the resources of public authorities in order to increase their expertise as required by the principle.
- Finland should carry out more analysis of the economic impact of superpower competition on the national economy and business. It is essential to try to anticipate the direction in which the economies of the superpower and the value chains that are central to Finnish companies will develop and what impact they will have on Finland’s competitiveness and national economy.
- Finland must take security interests into account in the control of investments, while at the same time supporting the European Union’s preservation as open a business environment as possible for international investments. It must be ensured that the control of foreign investments responds to changes in the operating environment.
- The supply of skilled labour in critical expertise areas for businesses and the wider economy must be ensured. Resources must be channelled to maintaining and developing these areas of expertise, especially through education and research.
- Finland should develop its own financial instruments, especially in the areas of development finance and export credit.
 - Closer cooperation between Finnvera and Finnfund should be considered to share information and explore the possibility of jointly piloting financing solutions for emerging markets. It is also important to closely monitor the progress of the export credit facility under development at the EU level and to influence its content in Finland’s interest.
 - Finland should facilitate the introduction of sustainable finance in developing countries and remove legal obstacles to it. The ways in which individuals and institutional investors can invest in sustainable finance institutions in developing countries should be facilitated, where appropriate through public incentives such as guarantees. Models for this can be found in other Nordic countries, for example.
 - Finland should make the best possible use of the European Union’s development finance instruments (for example, the ESFD+) as a lever and contribute to promoting measures in the European Union to mitigate the effects of superpower competition from a financial point of view.

- A stronger presence of Finland in the status countries, including in delegations to the European Union, could facilitate the start-up of companies. Special attention should be paid to the identification and development of projects eligible for funding.
- As standardization becomes more politicized, there is a need in Finland to discuss how ministries can more actively monitor the development of international standardization and whether there is a need for a national strategy. This work could take into account the best practices of peer countries.
- The European Commission has been reflecting on the future of international standardization and the role of European companies in it. The Commission is preparing a standardization strategy. Finland will participate in the discussion and influence the strategy.
- Finland should consider a holistic approach to telecommunications standardization. Finland should also examine whether it is possible to encourage the European Commission to play a stronger role in the issue. So far, the Commission has not had the resources of experts to do this; on the contrary, resources have been reduced.
- Finland should participate in the work of multi-stakeholder standardization organizations, especially when they deal with standardization initiatives that are contrary to Western values. In addition, efforts should be made to promote the discussion of our values in relevant assemblies and multi-stakeholder forums (Freedom Online Coalition, Internet Governance Forum, EuroDIG), which produce concrete results and recommendations.

4.3 At the European Union level

- At the European Union level, measures should be strengthened to promote the objectives of the Union and its partners, and to protect the Union against the effects of competition from superpowers. This applies in particular to the extraterritorial effects of sanctions imposed by third countries. The European Union and the United States should step up transatlantic dialogue. The most effective way to reduce the risk of sanctions is to increase sanctions coordination between the European Union and the United States. Even if there is ultimately no agreement on all aspects of the sanctions that are to be imposed, coordination can avoid surprises.

- Finland should continue to develop the European Union's common foreign, security and trade policy and promote Finland's other objectives, and strive for rules that are as clear as possible and support free trade. Unless security considerations require otherwise, it is in Finland's interest to support the primacy of multilateral arrangements, the widest possible global coverage of rules and their uniform implementation. Changes in the operating environment and in the superpower competition must be taken into account in Finland's policy guidelines, including trade policy.
- In the drafting of legislation in the European Union and in Finland, the effects of regulation relating to superpower competition on companies must be taken into account. As far as possible, the least trade restrictive solutions should be sought and more protectionist trade policy in the European Union should be avoided. Companies' capabilities to investigate the risks associated with superpower competition must be ensured. For example, data protection legislation should not prevent an enterprise from protecting itself from risks.
- The European Union should try to influence the regulations of the United States and China, for example on sanctions and export controls, to ensure that security concerns are taken into account. The global competitive environment should remain as open and fair as possible, taking into account the relevant security risks. Maintaining and developing multilateralism should be seen as an important policy for the European Union.
- In order to diversify markets and ensure competitiveness, it is important for Finland to support the European Union in the creation and effective implementation of new trade agreements and in the development of connectivity initiatives, especially in Asia, Latin America and Africa. The European Union should play a key role in reforming the World Trade Organization (WTO) and in creating and updating global rules on issues such as e-commerce and state aid. The European Union should seek new ways to prevent market distortions in the internal market.
- The European Union must develop its internal financial market and its instruments to better protect European businesses from sanctions and the distorting effects of foreign aid to businesses:
 - The European Union should actively participate in the reform of OECD export credit rules.
 - More generally, the European export credit architecture should be developed to allow better cooperation and risk management between export credit agencies in Member States, and greater scale. A European

Union Export Credit Facility, which is currently being developed, could contribute to achieving these objectives.

- The European Union should be ambitious in its development finance architecture and actively engage in debt relief for developing countries. The Team Europe approach and the European Union's new Global Europe instrument offer good opportunities to do so. The latter's guarantee fund, the European Fund for Sustainable Development+, will allow for better coordination between the European Union and national development finance institutions and will also mobilise private capital. The European Investment Bank's efforts to develop its development finance, for example through a subsidiary, will play a key role. The involvement of national development finance companies would also improve the conditions for SME participation.
- The European Union's external funding should remain untied as a rule, but attention should also be paid to the better involvement of European and Finnish companies in the European Union's development funding projects. Tools should also be put in place to intervene in corruption, state aid or an otherwise uneven playing field. Efforts should also be made at the European Union level to avoid financial fragmentation by improving the compatibility and complementarity of developing export credits and development financing.
- The European Union, together with like-minded countries, should promote financial transparency, high standards and anti-corruption measures globally, and seek to engage China on these objectives in the most effective ways possible.

5 Final words

This report, prepared jointly by the Ministry for Foreign Affairs of Finland and the Confederation of Finnish Industries, is the first to provide an overview on the instruments of influence in the superpower competition affecting Finnish companies, their direct and indirect effects, and recommendations for influencing the situation. Based on expert opinions and a business survey, the study has been carried out as part of Team Finland activities to support and improve the conditions for international business for Finnish companies.

It is likely that in the future the superpower competition will continue or even accelerate. Competition for technological leadership and conflicts of values are part of the future. Although a large-scale decoupling of economies and technologies does not seem likely at present, the trend towards decoupling will continue to have an impact on the daily lives of companies. At the same time, the United States and China will remain important trading partners outside the European Union. As uncertainty persists, it is important to be able to ensure that Finland's foreign, security and trade policy objectives are met. Conditions for export activities, trade and international business must remain good and national and EU efforts must continue to strengthen them.

It is therefore important to identify the instruments used in the context of superpower competition, their impact on businesses and to provide businesses with the necessary information on superpower competition for their decision-making.

It is clear that companies' ability to monitor and respond to the effects of superpower competition varies. It is important that further work takes into account the different needs of, for example, large companies and SMEs. Work in this area should continue with the government, research institutes, business representative organizations and companies. The recommendations for action set out in the report provide a good basis for this. The implementation of these recommendations will be monitored in cooperation between the Ministry for Foreign Affairs of Finland and the Confederation of Finnish Industries.

The project coordination group thanks all the experts and business representatives who participated in the project for their good cooperation and valuable insights, as well as the Bank of Finland's Emerging Economies Research Institute for the statistical analyses.

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