

Competitiveness in the Nordic Economies

Assessments and Structural Features

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Nordic co-operation

takes place among the countries of Denmark, Finland, Iceland, Norway and Sweden, as well as the autonomous territories of the Faroe Islands, Greenland and Åland.

The Nordic Council

is a forum for co-operation between the Nordic parliaments and governments. The Council consists of 87 parliamentarians from the Nordic countries. The Nordic Council takes policy initiatives and monitors Nordic co-operation. Founded in 1952.

The Nordic Council of Ministers

is a forum for co-operation between the Nordic governments. The Nordic Council of Ministers implements Nordic co-operation. The prime ministers have the overall responsibility. Its activities are co-ordinated by the Nordic ministers for co-operation, the Nordic Committee for co-operation and portfolio ministers. Founded in 1971.

Stockholm, Sweden
2001

Preface

Globalisation of economic life has had a number of consequences. One of them is the increased demand for information that can help us to rank the different interlinked economies according to factors that are seen to measure their functioning as parts of the global economy. The market performance of the globally most integrated and interacting economies is thus assessed in several parallel competitiveness analyses every year.

These analyses most typically reflect the globally prevailing business elite's views of aspects that are particularly appreciated by the top and middle management of transnationally operating enterprises. Thus, they have a major role in shaping particular worldviews as what exactly comprises "competitive" or "business friendly" institutional environments. Such patterns are highly persistent, and even the globally most authoritative analyses can be criticised for such structural determinism.

The Nordic Countries form a distinctive group of small, open, market economies with their traditionally particular forms of interplay between regulatory bodies and business sector. This Working Paper seeks to discuss some of the distinctive features of this group of countries, elaborating also its internal cleavages and structural dissimilarities, starting from the assessed changes in the Nordic economies' global competitive positions.

The current study is linked to a broader Nordic Research Programme elaborating the future challenges and institutional preconditions of regional development policies in the face of global changes and transformations. In particular, it can be taken as an accompanying text or even a "statistical appendix" to the Programme's first printed output, *Future Challenges and Institutional Preconditions for Regional Development Policy*, published as Nordregio Report 2000:1.

This Working Paper is written by Professor Ilari Karppi, with editing assistance from Keneva Kunz and Liselott Happ-Tillberg

Stockholm, January 2001.

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1 Introduction

1.1 Competitiveness and Globalisation

This Working Paper follows a recent Nordregio Research Report 1:2000 (Karppi 2000) published as the first output of a Nordic Research Programme *Future Challenges and Institutional Preconditions for Regional Development Policy*. The Report discusses possible future developments and accordant policy responses in the form of four scenarios. This study attempts to shed some light on a group of factors that contribute to determining the baseline situation for those scenarios.

The key factor addressed by all four scenarios is the breakthrough of a global economy. Globalisation of economic life does not take place in a vacuum, however. It has basically been triggered and is spurred onward by the rapid advancements in modern information and telecommunications systems. This, in turn sets requirements for specialised expertise, mobility of professionals and other key resources – and has created an entire cultural setting which favours this mobility. If all these aspects are taken together, it is possible to speak about a *new* global economy, where the “new” makes a distinction to the fact that as long as nations and states have existed, international exchange has been one of the driving forces underlying economic development. It is assumed here that something to be called, for the sake of the simplicity and in absence of a more accurate expression, the new global economy exists today and is just as tangible or abstract as the “old” industrial economy used to be. From this point of departure, this study aims to provide an evaluation of the comparative position of the Nordic Countries and Nordic actors as specific members of the global community.

This study consists of three key elements. The *first* of them looks at the competitiveness of the Nordic economies as assessed in two sets of globally authoritative analyses (Chapter 2). The *second* of them (Chapters 3 and 4) addresses some of the structural factors underlying and sometimes also reflecting the Nordic economies’ competitive positions. These factors have been chosen by taking into account some of the Nordic countries’ particular features. They do not necessarily fit in with the global competitiveness variables, or are at least not *interpreted* similarly. This is only natural, because the generic variables that have been chosen to give an overall, or even globally standardised, business management view of the world’s leading economies’ competencies cannot be adequately adjusted to the Nordic – a small economic region – peculiarities. The *third* key element of this study is a review of the largest Nordic corporations, as measured by their global market values (Chapter 5).

1.2 Competitiveness and Institutional Changes

A general framework for the comparison of the Nordic economies can be constructed by reviewing their performance from a competitiveness perspective. Competitiveness in itself can be taken as a qualitative feature of a given micro- or macro-economic actor. It is intimately linked to the speed, the creativity/uniqueness of solutions, the trustworthiness and the price¹, by which an actor can accomplish what has been

¹ This is probably not far away from the key parameters’ actual rank order. However, the relatively low positioning of the price, if mistakenly interpreted as a synonym for all monetary aspects involved in a

agreed upon. An actor's ability to be competitive is put to the test each time goods or services are marketed, investment decisions made or international agreements negotiated. It is not without good reason that competitiveness has emerged as one of most central catch-words of the new global economy.

Most of the previously closed sectors in national economies have today been subjected to international competition. This became particularly true when the European Union public procurement rules extended the standard industrial marketing and purchasing processes to cover transactions in which agencies of public administration order goods and services. The closed supply channels leading from the private to the public sector have largely been abolished. This has made numerous contractors, which were formerly protected from external competition by convenient long-term agreements made with their administrative clients, shape up their own processes and operational structures. The options are clear: to become competitive or die.

Another underlying development which has had major consequences for the opening-up of the previously closed economic spheres of interest and influence is the large-scale breakthrough of an aggressive Anglo-American style *financial culture* (cf. Chapman 1999). It promotes profitability – return on investment – and profitability alone, over traditional Continental European virtues, such as long-term stability, dependable relationships between economic actors, and concern for the extra-economic consequences of individual economic decisions.

These developments, among others, have changed the entire setting of doing business internationally. To be and to remain competitive each nation will have to develop the particular strengths it has within its reach, and avoid at any price building its strategies on copying the models someone else has put into practice, quite possibly successfully but in a different institutional environment. The main task of this study is to briefly elaborate some of the decisive factors for the Nordic economies' positioning among their global competitors.

One elementary question that should be asked when discussing competitiveness has naturally to do with the *source* and the *domain* of that phenomenon. Where does competitiveness come from and who "possesses" it? It can be easily postulated that to a certain extent a corporation is a product of both its global (or general) and local (or particular) environment. Any corporation needs an external source for an inflow of inputs and an equally external receiver for the outflow of what it produces. This is a simple, system-theoretical point of departure (cf. von Bertalanffy 1969, 196-197).

To be competitive itself, a corporation needs to master its position between these flows, to find reliable sources of input and to have an attractive range of output to sell. However, if this were the entire setting, it would hardly make any sense to speak about competitiveness of nations. It should be enough to compare enterprises, and measure their performance as the return on their shareholders' investments. This

transaction, is easily misleading. The cost factor as a wider concept is extremely important, but the key elements of a cost-efficient action are *included* in the speed and uniqueness factors (cf. e.g. Maskell 2000 on "*ubiquities*"), not to mention the trustworthiness of the entire process cycle starting from the design of a new product to its marketing and delivery. Pricing of a product, after all, can be seen as a last resort means to alleviate (but not *undo*) miscalculations and actual mistakes made on these areas.

notion is naturally important, and a venture in that direction will be made in Chapter 5 of this study. But the wider social settings, the societies in which these corporations are embedded, are key stakeholders, and have an effect on *the terms by which the corporations can seek to enhance their competitiveness*.

It is here that the public sector has a major role to play. National, regional and local administrations have the competence – wide or restricted, depending on the country in question – to not only regulate but also facilitate the corporate sector's activities. Various local institutional arrangements, such as creation of innovation systems based on local units of globally networked research institutes and enterprises, are now widely embedded in broader urban development frameworks (cf. Healey et al. 1999).

These institutional arrangements and the way they shape the future of regional development policies are the topic of the Nordregio Scenario Report and of an entire research programme, largely designed with the help of its contents. Here we turn to the baseline factors that need to be taken into account when the detailed decisions for making that future come true are taken.

1.3 Competitiveness in the Nordic Countries

Comparative studies of closely interlinked economies, such as the Nordic ones, can be motivated on a variety of grounds, and the competitiveness perspective is no exception. The choice and combination of factors that will be assessed here in the context of competitiveness may thus require some justification.

As has already been noted, the results of the standard competitiveness analyses – to be reviewed in some detail below in Chapter 2.2 – are written from fairly standard business management perspectives. They are based on a wide selection of indicators, but are largely path-dependent. Maintaining comparability of results over time does not allow dramatic changes to be made to the applied methodology. Moreover, as they both reflect and serve the interests of a relatively narrow social segment, business managers and investors, they are essentially restricted in scope. Finally, as the pace of the global economy accelerates, short-term factors become easily emphasised at the cost of long-term ones. The most obvious exceptions to this are the maintenance of an economy's research and development infrastructure or the "rule of law"-type of institutional settings having a direct effect on corporate governance.

This myopia appears to become particularly pervasive when we speak about the various aspects of human development that go beyond the more focused human *resource* development. From a corporate perspective, human development is largely an externality, something the business managers and investors are accustomed to take for granted, as a service provided by the surrounding society and taking place independently of some pronounced corporate needs. However, this may not be the case in the future. Within the next quarter of a century population growth will turn to decrease in virtually all European societies, with large-scale immigration from the surrounding regions as the only foreseeable factor, which may change this trend.

Demographic factors have naturally been included in the standard competitiveness studies, but from a relatively narrow human resource perspective. As the European population is growing older simultaneously with the economic systems turning more

and more technical and, to use the much-debated expression minted by Robert Reich (1992:177), requiring *symbolic-analytical* skills, the challenge of human resources grows more multidimensional. New critical questions abound: which kinds of environments do we prefer and, hence, where do we live, how healthy do we remain and, as a result, how long do we stay active, how clean will the air be that we breathe, the water we drink and the soil we build on in the regions where we seek to develop our communities?

Equally critical sets of questions could be posed on topics regarding our and our future generations' belief in education, development based on continuous scientific breakthroughs and the ideology of economic growth. These cultural phenomena are, in turn, linked to the social safety and attractiveness of our future communities. These all are areas in which the Nordic Countries could show a remarkable "human development competitiveness". How these potentials correspond with the present competitiveness analyses will be briefly commented on in Chapter 6.

Another aspect which the standard competitiveness reports do recognise – but not necessarily in a way that would take into account the particular features of the Nordic Countries – is the corporate sector's own changed role as a mechanism for enhancing the global competitiveness of its surrounding society. The Nordics are, despite their advanced socio-economic structures, a culturally small region in a peripheral and sparsely populated part of Europe. From this it follows that efficient channels of exchange, both of merchandise and ideas, are of utmost importance. Global networking of the Nordic enterprises is thus a major channel for ideas that may at their best lead to major spin-offs. The same can be said of the leverage effect of various locally based innovation projects involving enterprises, research institutions and local economic/business development policy makers.

Both the human development and the transnational networking aspects are reviewed in this study. These reviews are followed by a look at the core of the global financial economy, the giant corporations and their recent performance.

2 The Nordics as Competitive Economies

2.1 The Nordics: an Overview

One of the rules of thumb in international business is *know the countries you are dealing with* (cf. Griffin & Pustay 1999, 39-43). The breakthrough of the global economy has done nothing to make this rule obsolete. Even though, particularly within the Internet industries, new innovations can reach truly global markets overnight this does not mean that any given strategy or specific solution will work everywhere. The world has *not* been turned into one global village; it is still essentially a motley mosaic of different cultures and economic regions marked, for instance, by different values or management cultures (cf. Hofstede, 1994; Ghosal & Bartlett 1998).

The Nordic countries form a particular and institutionally very integrated market area of which relatively little is known even in Europe – not to mention the other

continents. The region consists of five countries, Denmark, Finland, Iceland, Norway and Sweden, as well as three self-governing regions, the Faroe Islands and Greenland (Denmark) and the Åland Islands (Finland). Some basic information concerning these countries is provided in Table 2.1. The small and open Nordic economies are highly dependent on foreign trade. This means that for them globalisation and its future forms are obviously of a particularly vital interest.

Of the Nordic Countries Denmark, Norway and Sweden form a geographical entity often known as Scandinavia. Finland, instead, is not a Scandinavian country in a strict geographical sense. Another, by far more important separating factor is the language. Unlike the Germanic Indo-European languages spoken in the Scandinavian countries Finnish is the largest of Baltic-Finnic languages belonging to a Fenno-Ugric family of languages with Estonian as one of its closest relatives. Iceland, in turn, is in terms of physical geography detached from the rest of the Nordic bloc by the Norwegian Sea in the North Atlantic. However, there are obvious cultural ties overcoming the physical distances. The modern Icelandic language preserves many traits and much vocabulary of the former, common Scandinavian language. This, together with mutual political history, links it with Denmark, Norway and Sweden. Yet, Icelandic cannot be comprehended without major difficulties by native speakers of Danish, Norwegian or Swedish.

Table 2.1. Nordic Countries: some basic geographical and geopolitical information. (Sources: Nordic Statistical Yearbook 1999; CIA World Factbook 2000; City of Helsinki Urban Facts 2000)

Country	Denmark	Finland	Iceland	Norway	Sweden
Population (1 000)	5 314	5 160	276	4 445	8 854
Area, 1 000 km ²	43.1	338.1	103.3	323.8	450
Inhabitants/km ²	123.3	15.3	2.7	13.7	19.7
Capital city	Copenhagen	Helsinki	Reykjavik	Oslo	Stockholm
- population, 1999	491 082	546 317	108 484	502 867	736 113
- % of national population	9.2	10.6	39.3	11.3	8.3
Labour force (1 000)	2 803	2 492	145	2 276	4 255
GDP/capita PPS, 1998	23 277	19 882	22 406	24 972	19 343
GDP growth % 1998	2.7	5.3	5.6	2.0	2.9
Borders, km	68	2 628	-	2 515	2 205
- with Russia	-	1 313	-	167	-
- coastline, km	7 314	1 216	4 988	21 925	3 218
Member of:					
- NATO	x		x	x	
- EU	x	x			x
- Euro zone (EMU)		x			

Among social scientists the term Scandinavian has a clearly different meaning than among physical geographers. For them the term usually refers to a particular welfare regime, and a public sector strongly empowered to intervene in the lives of individuals and families with the help of elaborate systems of social policy. If the question concerns universal welfare, provided to all members of the society, all the Nordic Countries can be regarded as being “Scandinavian”. Innovations in transnational institutional systems of social policy are without any doubt among the key aspects of the integrated Nordic market area. Agreements that established common Nordic social security and labour market areas in the mid-1950s opened the borders, labour markets and social welfare systems in each of the Nordic countries to

other Nordic citizens. Thus, for almost the past fifty years each of the Nordic countries has been obliged to treat all Nordic citizens equally, irrespective of their nationality, as clients of social security or labour market authorities. The impact of such arrangements on intra-Nordic labour force mobility, traditionally from Finland to Sweden, has been remarkable (cf. Karppi 1998).

Another interesting detail which should be mentioned in the discussion concerning the limits of the “Nordic” or “Scandinavian” bloc has developed as the three Baltic States seek a reference point for their identification in the global community. For Estonia, Latvia and Lithuania the very concept of Baltic is problematic, as it has been imposed on them from above by external rulers: first by Germans and most recently by the Soviet Russians. In October 2000 the Latvian Foreign Minister Indulis Berzins said that the term Baltic is and will be attached to the three republics even if they were to present themselves as “Scandinavians”. Estonia’s Foreign Minister Toomas Hendrik Ilves, for his part, denied this and claimed that instead of a Baltic Country Estonia should be regarded as a Nordic one (BNS 2000).

These notions of the eventual “Scandinavian” or “Nordic” character of any given country in the Baltic Sea Region must be put in their proper context, even if this requires an identification campaign. However, it is highly possible and even desirable that this will be the case in the future, facilitated by increasing socio-economic integration of the present-day Nordic and Baltic Countries in the broader European framework (cf. Karppi et al. 2000, 266-267). At the moment the gap between the competitiveness profiles of these two North European sub-regions is too wide to deal with them as a single unit, and too much elaboration would be needed to have the both of them included in the discussion of a brief Working Paper.

When we speak about the Nordic Countries’ global profiles and of the Nordic Countries as a peculiar entity in the global economy, it should be kept in mind that this group of states is marked by a number of similarities but also by several, often even more profound, differences. Cultural collisions among the Nordic actors are rather commonplace and have from time to time even blocked mergers or other forms of close corporate co-operation. It is obvious that these collisions may at least in part arise from the belief (cherished by many of the Nordics themselves) that their cultures and operational logic, in private as well as in public spheres of life, are more or less the same across the region.

This is only a partial truth, however. In addition to the obvious similarities there are also surprisingly big differences in the economic structures of these countries. The same applies to their economic and business policy strategies, as well as to the degree of state involvement in the business sector. In many analyses the Nordic countries are represented by only one of them, most often Sweden, probably because it is the largest of the Nordic states. Yet, in many instances Sweden is *not* the typical Nordic case, but often the most *atypical* of them. This is particularly true with regard to the political and administrative structures that create the institutional environment surrounding the enterprises.

It is not the purpose of this Working Paper to provide a detailed analysis of the institutional or politico-economic structures that make the Nordic societies work differently. These issues have been discussed extensively in literature and readers

interested in actors and mechanisms of local and regional development in the Nordic Countries are referred to two recently published reports (Aalbu et al. 1999; Sandberg & Ståhlberg 2000). It does, however, seek to introduce and concisely interpret some aspects, which are relevant to the foreseeable future developments of the Nordic Countries. It goes without saying that the Nordic societies are an inseparable part of the global economy and its prevailing dynamics, and from the global perspective the Nordic Countries, with the possible exception of Iceland, *do* resemble each other. After all, they are neighbouring countries with approximately equal populations, GDP/capita and even roughly measured structures of economy. But, as we take a more fine-tuned view to these countries and their perceived economic performance, different profiles start to emerge.

2.2 The Nordics in Global Competition: Two Assessments

The Nordic Countries are typically societies with small and ageing but highly educated populations. They are also societies whose economies are remarkably open *vis-à-vis* the global markets. These features are highly significant for the overall structuring of the Nordic societies; to some extent they can even be taken as their “determining” features. The objectivity of this feature could be measured for instance by educational enrolment rates or shares of foreign trade of the GDP. It is thus relevant to ground a great deal of the “global positioning” on two reports published by UN organisations: the Human Development Report of the UN Development Programme (1999) and the World Investment Report by the UN Conference on Trade and Development (1999).

But before proceeding to the various indicators published in these reports we need to take a look at the typical yardsticks used for assessment of competitiveness of these and all other member economies of the globally interlinked economic system. As it has been said here, the Nordic Countries are a highly particular part of the global economic community. Within the framework of the “old” industrial economy, their small populations and hence limited domestic markets were easily seen as a factor making them globally less competitive. This deficiency has been largely alleviated by the breakthrough of the new economy. Its core business sectors, linked to management of information, can take full advantage of global markets with less of the friction caused by physical distances. Instead, here a “qualitatively large” labour force, well educated individuals capable of designing and running processes embedded in creative and learning organisations, can be seen as the key aspect of success. Thus, it should come as no surprise that it is just the Nordic societies that have had, or deliberately *taken*, a European head-start in some key areas that are facilitating the new economy. These include some of the key innovations and an early adoption of mobile communication systems, widespread use of the Internet and, all the more often, the amalgamation of these two technology areas.

As will be shown in Chapter 3 below, the development of high-quality human resources *is* the strength of the Nordic Countries. High educational levels provide the aggregate readiness to adopt new technologies and working methods. On the other hand, highly developed work processes with their concomitant commercial spin-offs contribute to the setting of ever growing requirements for the institutional set-ups needed for subsequent achievements in the premium sectors of the economy, basic and professional training included. This could be called the “virtuous circle” which

contributes to making new economy possible, and its performance can be clearly seen in the European North.

Thus, it is no wonder that the Nordic Countries have not only maintained but even enhanced their *average* competitive positions during the late 1990s. Figure 2.1a, shown below, illustrates their rankings as published in the most recent World Competitiveness Yearbook (WCY 2000) of the International Institute for Management Development (IMD). The WCY ranks the world's approximately fifty leading economies by using both hard statistical data and a broad executive opinion survey of more than 3 200 top and middle managers from all the economies concerned.

The WCY provides only one of the competing country rankings. This and a number of other similar evaluations can, moreover, be criticised for institutionalising an almost taken-for-granted world-view. According to their judgements, the globally most competitive economies seem to be – year after year and regardless of changes in business cycles or global fundamentals such as the oil price or dollar-yen-euro exchange rate fluctuations – the USA and Singapore. Thus they contribute to benchmarking the doctrines of macro-economic and corporate governance² prevailing in these two economies – no matter what these doctrines at each particular time are.

Such an obvious *a priori* bias can be considered as a major weakness of the methodology applied in WCY and other competitiveness rankings, as it clearly points at compromising a formally analytical approach by cross-fertilising it with a deliberate teleological explanation. However, such an explanatory touch can also be regarded as a strength, as long as we keep in mind that it emphasises one particular feature: the world depicted as seen from a corporate perspective and coloured by corporate values. If the global leaders are, year after year, ready to treat the US and Singapore as global economic and corporate governance benchmarks, this actually makes the moving target of assessing the forty-eight or so *other* economies' competitiveness a little less moving. The underlying assumptions thus create continuities in a system as dynamic as the global economy.

What can be identified here is in fact a particular self-regulatory process. The global businesses community seems indeed to “calibrate” itself by the agreed-upon best (i.e. US and Singapore) practices and their business environments assessed as “as good as it gets” at each particular point in time. This self-regulatory mechanism institutionalises the claims and requirements of single enterprises and industrial federations in debates with national (or European) public regulatory actors as to developing the legislative frameworks for macro-economic and corporate governance.

Even if the general development among the Nordic countries has been that of enhancing competitiveness positions, the country profiles indicated by the Nordic countries' respective WCY rank changes speak for clear country-to-country variations that have emerged since the mid-1990s. It seems that Finland and Sweden, together with Iceland, have enhanced their positions on this ranking, while Denmark and Norway appear to have lost ground. Yet, in the year 2000 the entire Nordic bloc is assessed to be in the group of the world's sixteen most competitive economies, which is the best Nordic aggregate result for years.

² Macro-economic governance aspects including e.g. monetary, fiscal and labour market policies.

The average rank position of the entire Nordic bloc over the entire period between the years 1996 and 2000 is 11.2. A look at the rank orders of the individual Nordic countries using the five-year averages (in brackets) reveals the following order: Finland (6.0) Denmark (8.2), Norway (9.2), Sweden (14.0) and Iceland (18.4). A comparison of the economies' most recent rank positions to these averages shows that Iceland has made the greatest recent progress, outperforming her five-year average by 8.4 position points. For Sweden this figure is 5.0 and for Finland respectively 3.0 positions. Denmark's last ranking is 3.8 position points below her five-year average, and for Norway the respective figure show a downward trend of 6.8 points. The positive or negative differences between the previous year's position points and the five-year average give an indication on how dramatic – or possibly recent – are the changes in the case of each country.

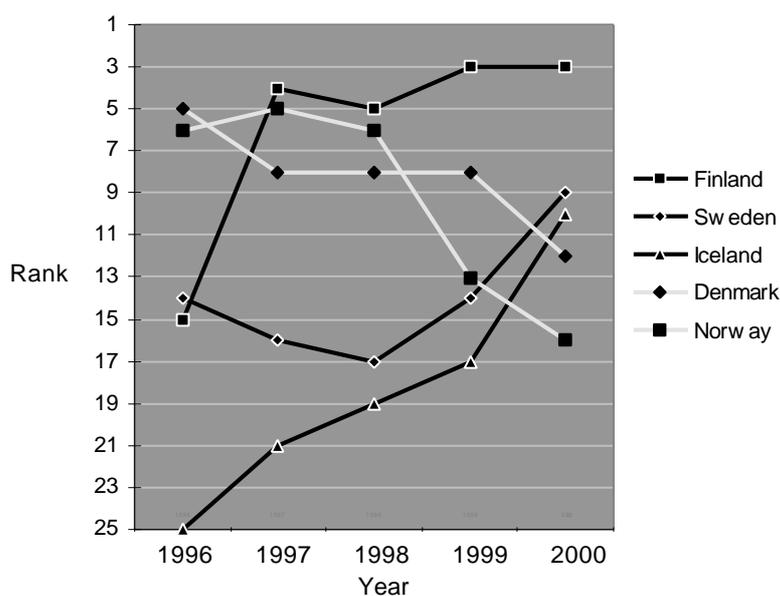


Figure 2.1a. The World Competitiveness Yearbook rankings of the Nordic countries between 1996 and 2000. (Source: IMD 2000)

The country profiles seem to indicate that, as the globalisation has proceeded during the 1990s, at least two different trends have been assessed and depicted concerning the Nordic countries' competitiveness. Interestingly enough, the most affluent but otherwise highly differing Nordic economies – Norway and Denmark – seem to have lost their positions. Bearing in mind the methodology of compiling the competitiveness rankings it thus appears that the decision-makers in charge of designing the institutional environments for these economies have made choices that are not so highly esteemed by either one or both of the two groups involved in the surveys: representatives of business elites, who contributed to the data compilation, and their like-minded analysts, who interpreted the qualitative assessments as well as the quantitative indicators.

The rankings of the two country groups (FI-SE-IS and DK-NO) seem to have quite profoundly different trajectories. This becomes particularly clear if we index the trends by marking the 1996 rank values with 100. The outcome of this operation is illustrated in Fig. 2.1b. For any further-reaching conclusions we should need to assume that the differences in trajectories are “real”. In other words they should have some validity beyond the fact that they are made of rough ordinal numbers required

by the ranking itself. As an intermediate hypothesis it can, however, be suggested that we have qualitatively “clear enough” differences in the trajectories, particularly as the rank changes are substantial in each country’s case. Thus, it is possible to suggest that the observed differences do speak of two different *trajectories in policy decisions* that have helped and are still helping the countries in question to position themselves in the global economy and its division of labour.

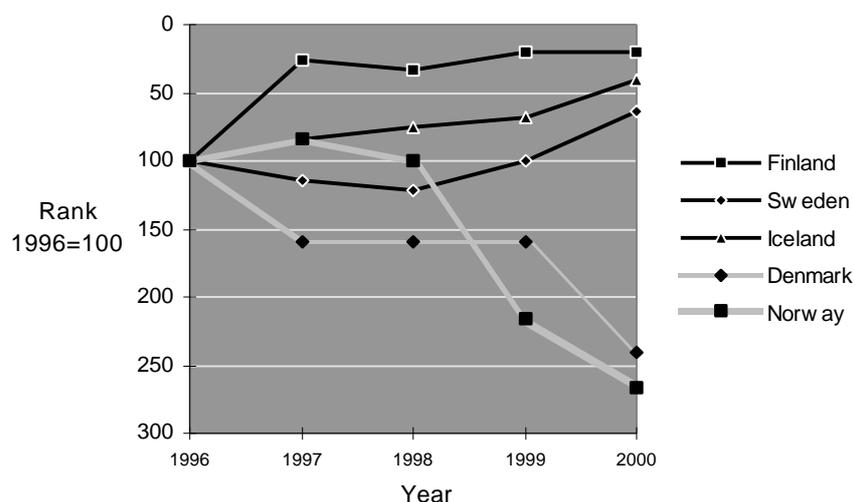


Figure 2.1b. Competitiveness rankings of the Nordic countries. Index, 1996=100. (cf. Fig. 2.1a, Source: IMD 2000)

The results the various rankings differ slightly in details. In the following the picture given by the WCY will be supplemented with the results of an equally influential Global Competitiveness Report (GCR). Its authoritative status is largely due to the involvement of competitiveness and economic policy gurus, Harvard professors Michael E. Porter, Jeffrey D. Sachs and Andrew M. Warner, as its lead evaluators.

GCR 2000 actually features *two* major rankings in parallel: one of current competitiveness and another of growth competitiveness. The distribution of the GCR top rank positions appears to be less one-dimensional than that of the IMD/WCY. At least the GCR appears to be less committed to the United States and Singapore as the self-evident global benchmarks. Instead, in the most recent GCR current competitiveness ranking Finland has been assessed as the world’s most competitive economy (up from the 1999 rankings by 1 position), followed by the United States, Germany and the Netherlands. Denmark’s rank position is 6 (up 1) and Sweden’s 7 (down 3). Iceland and Norway are to be found remarkably lower on this list of 58 countries. Their respective positions are 17 (up 5) and 20 (down 2).

As far as growth competitiveness is concerned – and this is widely taken as the most important indicator due to its orientation to future value-creation – the United States ranks first, followed by Singapore, Luxembourg and the Netherlands. Thus, here the GCR joins the standard competitiveness analyses. The order of the Nordic countries’ growth competitiveness positions does not differ radically from that of their current competitiveness: Finland (rank position 6, up from the 1999 rankings by 5 positions),

Sweden (13, up 6), Denmark (14, up 3), Norway (16 down 1), and Iceland (24, down 6).

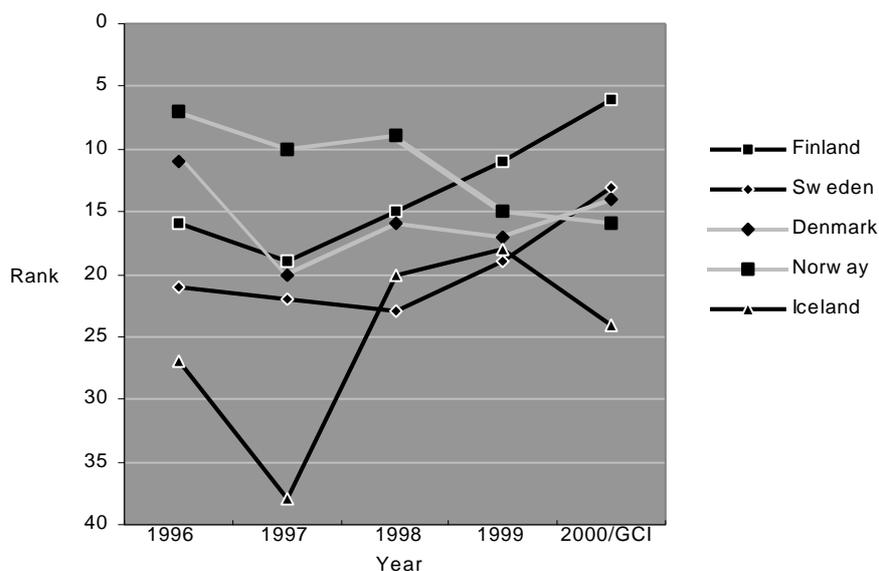


Figure 2.2. The Global Competitiveness Report rankings of the Nordic countries between 1996 and 2000. (Sources: GCR 1999; 2000)

The GCR profiles in Figure 2.2 are based on the generic competitiveness rankings provided for years 1996-1999 and the Growth Competitiveness Index provided for year 2000, which fits best with the previous generic indicators. Here as well, two of the Nordic countries – Finland and Sweden – seem to show a common trend, with clearly improving competitive positions. This is not the only similarity between the GCR and the WCY. For Denmark, and even more so for Norway, the shift from 1996 to 2000 is again assessed to be one of generally weakening positions. The assessments set forth in the two reports differ most in the case of Iceland. According to the GCR Iceland does not seem to follow any clear trend over the period between the years 1996 and 2000, but has a somewhat ambiguous profile with steep ups and downs.

With the exception of Finland the development between years 1998 and 1999 suggests a slight converging tendency in the profiles, and thus possibly the emergence of a sort of Nordic bloc somewhere between the 15th and 20th positions of the global ranking. However, for 1999 and 2000 the situation returns to “normal” – at least based on the experiences from years such as 1996 and 1997 – with the spread between the Nordic countries with the highest and lowest ranks growing to 18 positions³.

This spread can be explained quite well by clear differences in the competitive advantages underlying the positions of the Nordic countries. In the microeconomic competitiveness survey of the 1999 GCR each analysed economy was featured with a set of leading national advantages and disadvantages. Rather common disadvantages attached to the Nordic economies were the (insufficient) quantity – in some instances also quality – of local suppliers, as well as intense local competition due to small domestic markets. On the positive side the country-to-country differences were much more obvious. Finland, ranking highest of the Nordic bloc already in 1999, was

³ On the other hand, GCR figures for the years 1999 and 2000 actually speak for a certain *Scandinavian* convergence as a core of the Nordic competitiveness profile, even if such a development is not supported by the WCY findings.

marked by university/industry research collaboration, ease of access to loans as well as ease of financing start-ups, all of which facilitate new business creation in new, technology intensive branches of the economy. Two of these factors, the ease of financing start-ups and the ease of access to loans, together with international direct dial communications costs, were also seen as Norwegian advantages.

According to the assessment, Denmark's competitive advantages were first of all based on demanding regulatory standards, business information ability and overall infrastructure quality. Two of these factors, demanding regulatory standards and business information ability, coming after intellectual property protection, were seen to be the basis of the Swedish competitive advantage as well. The main Icelandic competitive advantages were recorded on the fields of administrative burden for start-ups, ease of financing start-ups and computer utilisation.

A brief and superficial comparison of the positive factors gives the impression that the advantages typical to the Finnish and Norwegian economies are the most tangible, since they apply to the hard financial core of business. The high level of university/industry research collaboration in Finland was reportedly an advantage apparent only in a highly heterogeneous group of three other economies in the ranking: Belgium, China and Slovakia. The competitive advantages found in Denmark and Sweden include quite generic issues, such as the availability of business information and overall infrastructure quality. The administrative apparatus also assumes a clearer role as an important part of the business environment. The Icelandic competitive advantages are clearly a combination of some of the "Finnish-Norwegian" and "Danish-Swedish" sets of advantages.

2.3 An Attempt to Synthesise

Since the two assessments give slightly different pictures of a nation's competitiveness, the following section attempts to make an all-Nordic comparison of *relative developments* in the Nordic countries' competitiveness between the years 1996 and 2000. A superficial look at the two competing sets of profiles reveals that the profiles drawn for Sweden in the two assessments are the most alike, even if the WCY ranks the Swedish economy systematically four to seven points higher than the GCR. The following comparison of the developments in the Nordic economies' competitiveness is thus made relative to the positions accorded to Sweden, the largest of the Nordic economies.

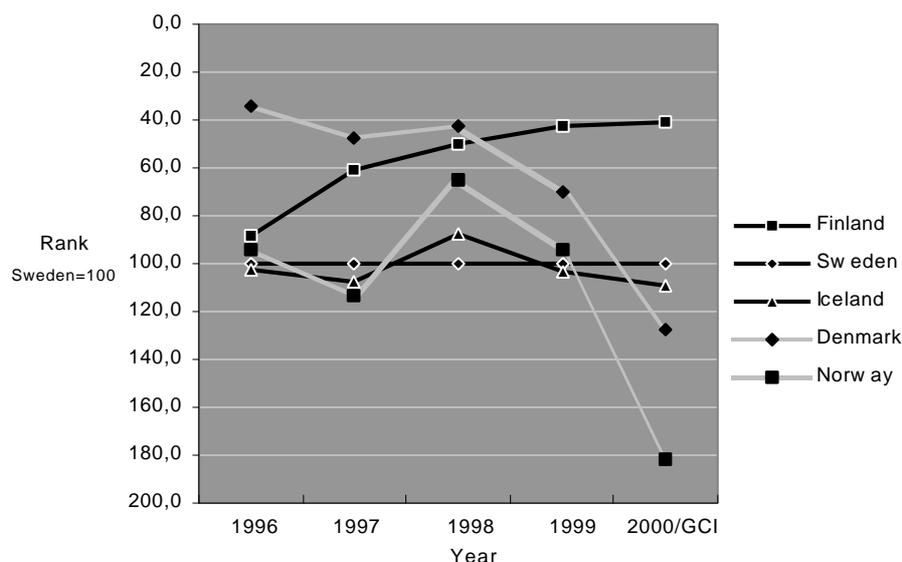


Figure 2.3. Developments in the Nordic economies' competitiveness relative to the Swedish rank positions, indexed as 100. A composite indicator based on profiles shown in Figures 2.1 and 2.2. (Sources: GCR 1999 and 2000; IMD 2000)

The composite profiles shown in Figure 2.3 have been created by simply calculating the averages of the two competitiveness reports ranks and plotting the country-based indicators against the rank positions accorded to Sweden (indexed as 100). These profile indicators show even more clearly than do the ones in Figures 2.1 and 2.2 how, particularly since 1998, there are two parallel trends in the development of the Nordic countries' competitive positions.

As has already been noted, Finland, Iceland and Sweden have enhanced their appraised competitiveness, both in absolute⁴ and particularly in relative terms, while both Denmark and Norway have dropped dramatically. The reluctance of the business elites to acknowledge the potential long-term advantages resulting from choices made by the Danish and Norwegian governments – intriguingly projected into the future by Rolf Rønning (2000) – may well reflect certain suspicions about the roles and stances these governments are expected to take in the global economy. Yet, based on historical experience and measured with such clear-cut no-nonsense indicators as GDP/capita, Norway and Denmark have been prime performers.

The problem – and here expectations concerning the future clearly surpass the past achievements measured in economic statistics – lies in the likelihood that Denmark and Norway *are* really falling behind their Nordic neighbours in terms of developing competencies and areas of excellence that are or will be in the greatest demand in the new economy. One of the key issues here is research and development, with a special reference to efficient national and regional innovation systems and to applied natural sciences as a strategic priority. High value-adding enterprises capable of providing their investors with competitive returns on investment is another.

⁴ The use of the term *absolute* is somewhat audacious here, as the positions *are* partly based on qualitative evaluations and only partly on hard data.

But how do some of the fundamental socio-economic indicators shown by the Nordic countries relate to their competitiveness profiles? In these small open economies there are two areas that are of particular interest. The first of them is related to human development in general and the prerequisites for human resources development in particular. The second of them deals with Nordic enterprises as actors in the global economy. A great deal of the data has been produced by organisations linked to the United Nations. These data are complemented with the summer 2000 *Business Week* listing of the world's largest enterprises and some of their developments.

3 Terms of Human Development in the Nordic Countries

3.1 Human Development Report and Human Development Index

Although it has been subjected occasionally to certain, often politically coloured, criticism, the Human Development Index (HDI), given as a standardised value between 0 and 1, can be said to provide a feasible way of comparing, societies. It combines an indicator of national economic performance – typically GDP/capita – with equally simple indicators reflecting the state of their human resources.

The index itself is produced as an aggregate combination of three factor areas focusing on one's ability to lead a long life, be knowledgeable and enjoy a decent standard of living (UNDP 1999, 127-128). Length of life is measured as average life expectancy at birth. The knowledge aspect is measured with two factors, (1) adult literacy rate and (2) combined gross enrolment ratio, which refers to the percentage of the population enrolled in first, second or third level education. Standard of living is measured by the most conventional indicator, per capita income in US dollars adjusted by purchasing power parity (for sources of the data used in production of the indicators cf. *ibid.* 128-129).

Altogether 174 countries were ranked in the 1999 Human Development Report by the HDI based mostly on figures from 1997. All Nordic countries were included in the group of the best fifteen performers, and hence in the upper half of the most advanced countries in terms of human development. Norway held the top Nordic position, accorded number two spot in the global ranking. Denmark was number fifteen in the global positioning, and the rest of the Nordics were scattered between these two countries. The top-20 countries, ranked according to HDI and constituting the upper half of the countries of "high human development" in the 1999 Human Development Report are listed and presented, indicator by indicator, in Table 3.1.

Table 3.1. Human Development Indicator rankings 1999. Nordic countries among the world's most advanced economies. (Source: UNDP 1999)

HDI rank	Country	HDI value	Life expectancy at birth	Adult literacy rate	Combined enrolment ratio	Income/capita, USD, in PPP
1	Canada	0.932	79.0	99.0	99	22 480
2	Norway	0.927	78.1	99.0	95	24 450
3	United States	0.927	76.7	99.0	94	29 040
4	Japan	0.924	80.0	99.0	85	24 070
5	Belgium	0.923	77.2	99.0	100	22 750
6	Sweden	0.923	78.5	99.0	100	19 790
7	Australia	0.922	78.2	99.0	100	20 210
8	Netherlands	0.921	77.9	99.0	98	21 110
9	Iceland	0.919	79.0	99.0	87	22 497
10	United Kingdom	0.918	77.2	99.0	100	20 730
11	France	0.918	78.1	99.0	92	22 030
12	Switzerland	0.914	78.6	99.0	79	25 240
13	Finland	0.913	76.8	99.0	99	20 150
14	Germany	0.906	77.2	99.0	88	21 260
15	Denmark	0.905	75.7	99.0	89	23 690
16	Austria	0.904	77.0	99.0	86	22 070
17	Luxembourg	0.902	76.7	99.0	69	30 863
18	New Zealand	0.901	76.9	99.0	95	17 410
19	Italy	0.900	78.2	98.3	82	20 290
20	Ireland	0.900	76.3	99.0	88	20 710
High HD, average		0.904	77.0	98.3	89	21 647

The Human Development Report is basically an interpreted compilation of statistics seeking to shed light on the rankings of the economies listed in it. Its interpretations have criticised as supporting particular political purposes and agendas, as have several of the organisations, typically sub-organisations of the UN, such as the UNESCO or the World Bank, which produced the data. Despite this criticism the Human Development Report remains a much-cited and highly authoritative description of the state of human aspects of development, and the foremost critics of the HDI tend to be academic or professional economists dissatisfied with the way the HDI rankings fit in with their ideas concerning the *economic* development in countries they may focus on.

It should be well beyond questioning, however, that the statistics published by the UNDP can be used as a reliable reference material on issues such as public health or expenditure on education. In the following the Nordic countries are featured in the light of some of such elementary indicators, and compared with the averages for countries with high human development.

3.2 Human Resources: A Vital Issue for Small Economies

The first indicators studied here and linked to the development of human resources as a particular production factor deal with expenditure on education and science, tertiary enrolment in natural and applied sciences, and the share of research and development scientists and technicians in the population. They can well be grouped under one heading referring to human resources as the most valuable asset the Nordic countries have in the contemporary world and particularly in the future. The question of human resources is twofold, involving both qualitative and quantitative aspects.

The qualitative aspects have to do with funding of educational and scientific institutions as well as the structures of enrolment in the various segments of education and science. As far as the qualitative prerequisites for positive human resource development are concerned, the Nordic countries come out fairly well in comparison with other developed economies. As far as quantitative prerequisites are concerned, Europe as a whole shares the problem of a decreasing and ageing population, which considerably narrows the stock of potential human resources to be developed in the state-of-the-art educational institutions Europe boasts. These two aspects are central factors underlying the themes described in Tables 3.2 and 3.3.

Table 3.2. Education- and science-related indicators in the Nordic countries, reference years 1995/1996. (Source: UNDP 1999)

HDI rank	Country	Public education expenditure, % of GDP	Tertiary enrolment in science, % of total tertiary	R&D scientists and technicians per 1 000 people
2	Norway	7.5	19	5.1
6	Sweden	8.3	29	6.8
9	Iceland	5.4	..	4.4
13	Finland	7.6	37	4.8
15	Denmark	8.2	24	5.2
High HD, average		5.1	27*	3.8

* Average of "HD top-20 group".

Figures shown in Table 3.2 reflect some structural features underlying the qualitative aspects of human resource development. They reveal some obvious differences between the five Nordic countries. Sweden appears to be strong on all indicators, whereas Finland peaks clearly on the tertiary or higher education enrolment on natural and applied sciences – resembling in a global comparison countries such as the Republic of Korea and Hong Kong with related electronics-led growth strategies. A rather clear common feature among the Nordic countries appears to be that their spending on public education as well as number of scientists and technicians involved in research and development clearly exceed averages among the 45 nations with highest HDI ranks. As far as orientation towards natural and technological as well as other applied sciences is concerned, Sweden and Denmark are close to the top twenty HD nations' average of 27.25 percent, whereas Norway shows the lowest and Finland the highest figures of the entire T-20-HD reference group.

The next step is to look at Nordic population trends, the quantitative aspect of human resource development. As has been mentioned here, a common feature of Nordic populations is their relatively small size. Moreover, in four of the five countries (Norway is the exception), the population growth rates are expected to diminish as we move towards the year 2015. In Denmark, Finland and Sweden the decrease in growth rates, as compared to those between 1975 and 1997, will be no less than dramatic. Iceland differs from the rest of the Nordic group with an expected population growth rate remaining high despite of a noticeable drop. Intimately connected with diminishing growth rates is the ageing of the population and hence dependency ratios growing more and more disadvantageous in all Nordic countries with the exception of Iceland. The third factor linked to population changes and described in Table 3.3 is urbanisation of the Nordic societies.

Table 3.3. Population-related indicators in the Nordic countries. (Source: UNDP 1999)

HDI rank	Country	Annual population growth rate, %		Dependency ratio %		Urban population as % of total	
		1975-1997	1997-2015	1997	2015	1997	2015
2	Norway	0.4	0.4	54.5	54.8	73.6	78.0
6	Sweden	0.4	0.1	56.5	57.5	83.2	85.2
9	Iceland	1.0	0.8	54.4	51.4	91.9	93.8
13	Finland	0.4	0.1	49.7	56.9	63.9	70.9
15	Denmark	0.2	0.1	48.7	54.4	85.4	87.8
High HD, average		0.7	0.4	49.6	51.5	77.9	82.2

Dependency ratio refers to the proportion of economically inactive persons to economically active ones. Thus, a ratio of 50.0 percent refers to a situation in which there are fifty economically inactive, (e.g. children, retired, disabled) for every hundred active ones. By the year 2015 all Nordic countries, with the exception of Iceland, are expected to be in a position worse than average for countries with high human development. The 2015 ratio of 57.5 projected for Sweden is most alarming by itself, while Finland shows the most cautionary trend of worsening dependency ratio between the years 1997 and 2015. In Norway the situation seems to be relatively stable, whereas Denmark resembles Finland to some extent.

As far as the distribution of population between rural and urban settlements within the Nordic bloc is concerned, Finland seems likely to remain the country with by far the largest rural population. This is the projection for the year 2015 despite the current mass migration from not only the countryside but also from small towns to the largest growth centres, a phenomenon clearly visible in Sweden as well – and particularly in Iceland. Norway, the Nordic country with the most explicit policy frameworks favouring an evenly spread population structure throughout the country, accompanies Finland as a society whose share of urban population remains below the average share of urban population for countries with high human development. Here again, Finland shows a trend that differs from the more stabilised developments in the other Nordic countries: even though the proportion of the Finnish urban population in the year 2015 is estimated to clearly remain under that of the rest of the Nordic bloc, the gap will have narrowed dramatically, again taking the year 1997 the point of departure for comparison. This suggests Finland as a particular case as far as the contemporary mass migration towards the cities is concerned.

3.3 Challenging Pathologies

Before moving to a report describing the positions of the Nordic countries in the face of global financial flows, some other elements dealt with in the four original scenarios (cf. Karppi 2000) will be briefly touched upon here. They refer to some pathologies of a human community, visible in the Nordic as well as many other countries all over the world. The dawning of the new economy has meant that human and other more and more qualitative factors have gained more importance for business. Thus, a new range of factors have emerged hampering not only the more or less heuristically conceptualised human well-being in general but the actual physical and mental reproduction of key growth resources. Simultaneously the ability of the societies to

come to terms with such social ills will become one of their new sources of competitiveness.

Table 3.4, divided in three sections (a-c), lists some aspects of job insecurity, crime and environmental degradation in the Nordic countries, continuing the collection of evidence that speaks for the notable differences within the Nordic bloc. Table 3.4a shows the unemployment figures for the Nordics. It reflects well the aftermath of the financial/banking crises experienced particularly by Finland and Sweden in the early 1990s, and how this was still visible in the latter part of the 1990s. Unemployment rates in both of these countries were still close to record-breaking levels, given the historical contexts of these countries. Interestingly, the table also shows that a similar crisis and due downturn, encountered by Norway in the mid-1980s, was effectively overcome by 1997. This is reflected by both the total unemployment rate and the share of long-term unemployed, the latter defined as persons available to the labour market who have taken steps to seek paid employment or self-employment without succeeding over a period of more than 12 months.

Table 3.4a. Pathologies and social malfunctions in the Nordic countries I: job security. (Source: UNDP 1999)

HDI rank	Country	Total unemployment rate, 1997	Long-term unemployed as % of total unemployment, 1997	
			female	male
2	Norway	4.1	11.1	14.0
6	Sweden	8.0	26.9	31.8
9	Iceland	3.8	12.0	20.0
13	Finland	14.5	28.2	33.9
15	Denmark	5.4	27.8	26.3
High HD, average		7.7	26.0	29.2

Both in Sweden and in Finland the severe situation was further worsened by the fact that those without paid employment for at least a year comprised almost a third of the unemployed. On the other hand, Sweden, and to a certain extent also Denmark, resembled here the overall situation in the countries with high human development profile.

Unemployment always involves problems of matching between supply and demand in the labour force, enterprise-level re-engineering and restructuring of entire industrial systems. In an environment of rapid technological changes unemployment also means skills degradation and theoretical knowledge turning obsolete. Thus, high unemployment now exists in parallel with an acute shortage of qualified labour. Thus, unemployment is a social malfunction with a complex skein of causes and intervening factors. Another feature typical to the new global economy is that entire business entities are bought and sold on financial grounds, dictated by the requirements of financial markets. Large industrial systems are thus constantly redesigned and restructured with the consequence that an individual made redundant by his or her employing enterprise often finds it impossible to grasp what made the job, which he or she technically so thoroughly mastered, just fade away.

Unlike unemployment, crime as a social pathology is much more clearly a question of the actor's own deliberate choices, as well as behavioural patterns in general.

Societies have tools for both traditional reactive (law enforcement) and more proactive (rehabilitation/preventative measures) means to be used to combat the crime, and they set the norms by which certain forms of behaviour lead to consequences such as fines or imprisonment. However, as is suggested by Table 3.4b, there may not be any positive correlation or simple automatic self-executing mechanism determining the balance or “equilibrium” between the Nordic societies’ propensity to more or less frequent use of imprisonment and their individual members’ propensity to commit intentional homicides⁵.

Table 3.4b. Pathologies and social malfunctions in the Nordic countries II: crime. (Source: UNDP 1999, figures for Iceland not available)

HDI rank	Country	Prisoners per 100 000 people, 1994	Intentional homicides/100 000 people, 1994
2	Norway	272.2	2.1
6	Sweden	161.7	9.5
13	Finland	171.3	10.1
15	Denmark	289.5	4.9
Top-20 HD, average		198.0	4.8

Interestingly, the Nordic countries seem to form two groups: societies with a high rate of prisoners despite low levels of intentional homicides (Norway and Denmark) and societies with a low rate of prisoners despite high levels of intentional homicides (Sweden and Finland). Norway and Denmark seem to favour stricter forms of sanctions while combating crime in clearly less violent environments than Sweden and Finland. On the other hand, it must be noted that in the 1990s new patterns of crime, related to both increasing global interaction in general and illicit drugs in particular, have remarkably changed the situation, pushing the rate of the imprisoned upwards, for instance, in Finland.

Whatever the “correct” criminological interpretation of the above mentioned phenomenon, Table 3.4b provides an interesting parallel to the future visions discussed by Rolf Rønning (2000) in his scenario. The imprisonment rates encourage the interpretation that the Norwegian and Danish legislators and law enforcement authorities are more prepared to impose stricter means of control on individuals having violated the commonly agreed-upon rules of the game than are their Swedish and Finnish counterparts. Whether or not this tendency can be generalised and extended to other aspects of control and even to the relationship between an individual and society, is a good topic for further discussion, and indeed forms one of the key dimensions of Rønning’s above-mentioned scenario.

The third and last form of pathology discussed in this introduction is related to environmental degradation. Here again we find ourselves at the interface between an individual – in the role of a consumer creating demand for emissions-generating products and services – and the society with its industrial system supplying both

⁵ Homicide in this context stands for a crime, which all over the world, results in a person found guilty losing his or her personal freedom – if not his or her life. Homicides are generally assumed to be rather reliable variables when comparing the level of criminality in different societies. This is due to an assumption that homicides are reported more precisely or otherwise brought to the knowledge of law enforcement authorities and hence to the courts of law than, for instance, thefts or frauds.

domestic and international consumers and industrial buyers with such amenities. The two emissions figures shown in Table 3.4c, carbon dioxide and sulphur dioxide, help us to fix the Nordic societies' particular positions in the global setting. The new knowledge-intensive economy has the potential for remarkably clean production as compared to the old industrial economy in the developed parts of the world. On the other hand, industrial products are still consumed, goods forwarded, cars driven and aeroplanes flown – and, moreover, in globally increasing numbers. As productivity, the general level of wealth and the volume of world trade increase, could there be other consequences?

Clean, low-emission, production systems can be clearly seen as one of the locational advantages in the new economy. Image factors related to good environmental management over entire value chains may gain more and more importance in new product segments as environmental consciousness gains even more ground. Products and the narratives they are attached to, in marketing and the entire cultural framework of consumption designed to support the introduction of subsequent product generations, must have a credible environmental image in the eyes of the public. Here the environmental profile of the physical location to which the designing of the product is attached or where the products are actually made counts. All aspects of sustainability must be taken into account here, ranging from ethical human resource utilisation and the customer policies of the corporation itself to the logistics or energy systems of the producing economy.

The northern climate, long distances and resource-intensive industries – especially as far as Finland, Norway and Sweden are concerned – have traditionally emphasised energy as a production factor. Particularly in Finland and Denmark, a great share of energy needs are supplied by fossil fuels, a source of carbon dioxide emissions that cannot be filtered. Norway, in turn, is a major petrochemicals producer and one of world's largest oil exporters. Thus, even though Norway has abundant resources of hydropower, it is the only Nordic country that clearly exceeded the average carbon dioxide emissions in the reference group of countries of high human development. Finland and Denmark are close to the high HD average, whereas Iceland, with extensive hydropower resources and an even greater supply of geothermal energy of volcanic origin, and Sweden, with nuclear and hydropower as a major sources of energy, have carbon dioxide emissions clearly lower than countries of high human development on average.

Table 3.4c. Pathologies and social malfunctions in the Nordic countries III: emissions contributing to environmental degradation. SO₂ emissions data for Sweden not provided. (Source: UNDP 1999)

HDI rank	Country	CO ₂ emissions per capita in metric tons, 1996	SO ₂ emissions per capita in kilograms, 1995
2	Norway	15.4	8.0
6	Sweden	6.2	..
9	Iceland	8.1	29.6
13	Finland	11.6	18.8
15	Denmark	10.8	28.7
	High HD, average	11.7	49.2

With sulphur dioxide emissions, notorious all over the old European cultural landscapes due to the acid rain they caused, the situation is somewhat different. Here the structure of energy use comes clearly into view. The same applies to access to environmental technology such as filters, closed production processes and eco-efficient systems developed in the Nordic countries hand in hand with advancements in ecological consciousness among consumers and models of corporate-level environmental management. These often expensive technologies, attached to and often *assuming* sophisticated state-of-the-art production systems, can be made available to the wealthiest economies that are both technologically mature and financially able to acquire them. Thus, the Nordic countries make a natural group of early adopters of environmental technology, which itself is regarded as an industry with major export potential.

A brief look at the two emissions figures clearly reveals the major structural differences among the Nordic countries. For Norway, hydropower as a source of energy with no anthropogenic emissions is clearly a key source in the domestic use. Coal is ruled out as a source of energy, reflected by the minimal sulphur oxide emissions – in addition to the fact that the main anthropogenic emissions potential produced by the Norwegian industries takes the form of petrochemicals, mostly exported to increase the emissions quotas of her trading partners. For Denmark, on the other hand, coal is still a major source of energy, which can be seen in the quite remarkable sulphur oxide emissions per capita. Yet, this does not seem to harm Denmark's high international profile as a green economy, which is largely due to her trail-breaking role as user of relatively large-scale applications utilising sustainable energy sources such as wind power. The Icelandic sulphur oxide emissions, due to a great extent to aluminium production, are on the same level as those of Denmark, despite the domestic sustainable energy sources, including hydropower as a source of electricity. The Finnish palette of energy/electricity production is varied and includes coal, gas, wood chips and peat, as sources of carbon and sulphur dioxide emissions, as well as nuclear and hydropower.

To the extent that their emissions can be regarded as social/industrial pathologies, it is fair to conclude that, in a global comparison, the Nordic societies do not appear to be particularly problematic. As far as limiting sulphur dioxide emission levels – and hence the potential for acid rain – is concerned, the Nordics can be said to be clearly in the group of best performers. However, by far the greatest global challenges are related to restricting the CO₂ emissions, since these serve as the major contributor to global warming with its grim consequences to both ecological and socio-economic systems existing in marginal areas such as the arctic and subarctic regions. Here, it can be argued, it is especially Norway, Finland and Denmark that need to find ways to reduce their own CO₂ emissions still further, if they wish to push through stricter world-wide emissions limits that would be particularly beneficial to the economies on the climactic margin. One partial alternative to this policy could be to favour a corporate-based line. This would involve “flexible mechanisms”, such as emissions trading or joint implementation, requiring target economies and target enterprises whose emissions quotas could be purchased or whose emissions could be reduced through corporate-level co-operation in favour of the country of origin of the investor.

These very peculiar kinds of economic transactions across the world lead us to the next set of indicators describing the role of the Nordic countries in the globalised

marketplace. In the following Chapter the focus is on clearly more conventional types of international investments as compared with the ones briefly mentioned above.

4 The Nordics as Global Economic Players

4.1 General Trends from the World Investment Report

One of the factors marking the entire era of globalisation is the speeded-up pace of money flowing from one regional economy to another. Foreign direct investments (FDIs) to a great extent take the form of mergers and acquisitions of already existing enterprises. According to a recent World Investment Report (UNCTAD 1999), in 1997 the world's 100 largest non-financial transnational corporations (TNCs) together held 1.8 trillion USD in foreign assets with a sales of products worth 2.1 trillion USD and employing a workforce of six million persons. Yet, these impressive figures are "only" 15 percent of the total foreign assets of the altogether more than 500 000 foreign affiliates established by some 60 000 parent companies, and 22 percent of their sales.

The growth of FDIs during the last fifteen years has been rapid. UNCTAD reports that average annual growth rate of FDI inflows to host economies between 1986 and 1990 was 24.3 percent and of the FDI outflows from the parent corporation's economies 27.3 percent. Cross-border mergers and acquisitions increased during that period by an annual average of 21 percent. The years between 1990 and 1992, the beginning of a recession, which also hit the Nordic countries, marked a clear setback, with both in- and outflows of FDIs being negative. However, the growth trajectory began again even in 1993, with the year 1996, with one-digit growth figures, as the only point of slowdown in the strong upward trend. In 1997, FDI inflows increased by 29.4 and outflows by 25.1 percent, and in 1998 the respective figures were 38.7 and 36.6 percent. Even more spectacular changes have taken place in the increase of cross-border mergers and acquisitions towards the end of the 1990s. The growth figure for 1997 was as large as 45.2 percent, and for 1998 even larger, 73.9 percent.

One of the key issues having increased both the *scale* and the *scope* – to be interpreted as the *financial volume* and the *forms of functional integration* – of FDIs is liberalisation that has taken place in the global economic environment. All the greater share of the world's enterprise stock is now available to an overseas acquisition, particularly as the governments virtually all over the world have started mass privatisations, and hence sales of their economic entities on the financial markets. Considerable stakes of all kinds of publicly owned firms – even those that were long perceived as natural monopolies – have been and are being floated. This is particularly true in sectors such as telecommunications and energy.

4.2 Nordic Countries Linked to the Global Economy

Especially where large-scale deregulation and privatisation of the telecommunications markets is concerned, the Nordic countries are without doubt in the global league of prime movers. Judging from ownership-based corporate networking, the Nordic economies seem to be broadly linked with the rest of the western *economic world*, to use Braudel's (1995) brilliant expression. Table 4.1 provides an overview of the

volumes of transnationally operating parent corporations and foreign affiliates in the Nordic countries towards the end of the 1990s.

Table 4.1. Number of parent corporations and foreign affiliates in the Nordic countries in 1997/1998. Figures for Norway are approximates. (Source: UNCTAD 1999)

Country	Parent corporations based in economy 1997/1998	Foreign affiliates located in economy 1997/1998
Denmark	9 356	2 035
Finland	1 963	1 200
Iceland	70	79
Norway	900	3 000
Sweden	5 183	3 950
W. Europe	39 415	62 226

Given the size of the Nordic economies, these figures are quite impressive. With her ca. 900 parent corporations Norway is well on par with Spain, Austria and Italy, Finland, with the Netherlands, France and Portugal, and Sweden exceeds the respective figures for Switzerland, and Denmark, and even that of Germany. Part of the story explaining the high figures for the Nordic countries is, naturally, the dense intra-Nordic networking. Another explanation, particularly true in the case of Finland but to some extent also for Sweden and Denmark, is the small-scale but widely spread entrepreneurial networking reaching into the Baltic countries. Thus, it would be badly misleading to postulate that the small Nordic economies represent 44 percent of volume of the entire *phenomenon* in the European economy represented by “domestic” parent corporations having “overseas” economic activities.

However, it would be badly misleading to presume, based on their modest size, the Nordic economies to be negligible as sources of FDI stocks. In fact, as it can be calculated from Table 4.2, in 1998 the joint share of the Nordic countries of the European FDI outward stock was more than 9 percent. Foreign affiliates are also major actors operating in the Nordic countries. The European dimension makes it necessary to mention a particular regulatory aspect reflected by the balance between parent corporations based in Western Europe and foreign affiliates located there. The contemporary EU is a broad and complex political and economic entity. However, one part of its central logic stems from the fact that, in terms of its external economic relations, it has developed since its very beginning in the 1950s as a customs union, gradually extended towards an *internal*, or common, and finally a *home* market. In many instances enterprises based on the global competitors of the European Union – mainly the United States and Japan – have thus found it necessary to anchor themselves to the European territory in order to slip inside the customs union/home market area. Furthermore, in numerous cases such an anchoring has taken place with investment incentive schemes in regions supported by the Structural Funds instruments of the EU’s regional policies.

As can be seen from Table 4.2, for the Nordic countries FDIs are of slightly varying importance. It shows, among other things, how Finland and Iceland have established themselves only relatively recently as hosts or FDIs. In the case of Sweden, the flows of investments both from abroad to the country and from the country to overseas are remarkably large in both West European and global comparison. The stock of

Swedish investments in other countries as well as foreign investments in Sweden speaks for a long-lasting trend of large-scale investments both in and out of the country.

Table 4.2. FDI flows and stocks in the Nordic countries, as percentages of fixed capital formation and GDP in 1997 and in millions of USD in 1998. (Source: UNCTAD 1999).

Country	FDI flows as % of fixed capital formation, 1997		FDI stocks as % of gross domestic product, 1997		FDI stocks, mill. USD by host/home economy	
	INWARD	OUTWARD	INWARD	OUTWARD	INWARD	OUTWARD
Denmark	8.3	12.4	14.8	18.7	31 762	35 821
Finland	10.5	26.2	8.0	16.9	15 523	32 810
Iceland	10.8	3.7	4.5	3.6	426	381
Norway	10.3	14.2	13.6	19.9	24 303	33 000
Sweden	34.0	40.6	18.6	34.7	53 790	93 487
W. Europe	8.6	15.4	15.4	20.0	1 571 427	2 165 840

A major portion of Finnish and Swedish outward flows in 1997 can be explained through their giant mobile communication manufacturers, Nokia and Ericsson, whose growth has for years taken place mainly in other economies than the home of the original parent company. With the exception of Iceland, in all Nordic countries outward FDI flows and outward FDI stocks are quite clearly larger than are inward flows and stocks. This phenomenon is typical of capital-exporting West European economies. Every now and then this balance has been seen as problematic, as investments are also major vehicles for restructuring and introducing managerial innovations. This encourages the assumption that, with the net FDI flows from Europe to other regions, the balance of FDI-related amenities would be unfavourable to Western Europe. Indeed, the balance of FDIs has been seen as a particular national concern. Programmes and campaigns for acquiring FDIs have been launched in practically all parts of the world, both industrial and developing countries. On the other hand, seen from the viewpoint of national accounting, foreign investments always induce liabilities to the host economy, whereas the investments made from the home economy are counted as its assets.

However, in the global financial economy the very basics of how national accounting treats the inward and outward flows can be questioned. The basic dilemma to be solved is whether an FDI, made by a parent company of a given TNC X, located in a given economy Y, really constitutes a particular – or at least long-term and hence relatively persistent – asset, and should be treated as an asset of economy Y as well. In the world of ever-more liberated movements of capital – particularly in the data systems of TNCs – this is worth questioning. As I have tried to conclude in some previous instances (e.g. Karppi 1995), from Kenichi Ohmae's (1992) rather simplistic but yet acceptable formulation "*nothing is overseas anymore*" it should logically follow that *nothing is domestic* either. In such a world accounting systems based on national economies may turn out to be badly misleading, particularly where rapid changes from the historically established trends are involved.

4.3 Impacts of Transnational Networking

In some senses it can thus be maintained that increased permeability, even if it has not actually eroded economic borders, has made the follow-up of the impacts of

globalisation extremely challenging – at least with the traditional tools. At the same time, however, the diverse quantitative and qualitative impacts of transnational networking of corporate entities are well visible. These impacts are felt very differently in the various labour market segments. From the shopfloor level of a manufacturing enterprise, the widening of the corporate entity from Western Europe to any of the emerging markets throughout the world is almost automatically perceived as a threat - of downsizing of the manufacturing functions and hence loss of manufacturing jobs. On the other hand, for the managerial and specialist positions such a territorial widening is likely to bring with it a new round of international rotation, with conceivable few-year assignments to new, challenging and possibly even exotic business locations.

Even if the workers often have well motivated reasons to be suspicious concerning the outflow of jobs taking place hand in hand with the territorial widening of corporate networks, the actual settings tend to be far more complex and not at all that straightforward. Not all jobs, and particularly not the best-paid and most esteemed jobs, are necessarily threatened, thanks to an international division of labour which operates not only horizontally, such as between the alternative locations with their peculiar production factor markets. In addition to the horizontal developments and trade-offs between different locations, there is also a vertical international division of labour takes, arising from segmentation by various skill levels. And as the production environments can be divided in more and less developed ones, enabling more or less complex processes to be carried out within them, it is equally correct to speak of the more or less advanced labour force needed to carry out them.

A catchword of the 1990s in institutional analysis was “institutional thickness” (cf. Amin & Thrift 1995a & b), which refers to the variety of actors and their agreed-upon modes of action supporting social processes in various environments. An institutionally “thick” environment is generally considered as favourable to complex and highly developed processes. In the same manner we can emphasise well-educated human resources both as a product of institutional thickness and as a factor contributing to it, but even more importantly – given the current topic of discussion – as an input factor for mastering complex work processes and highly developed instruments. Thus, it is no wonder that TNCs with affiliates in the Nordic countries are actively involved in the manufacturing sector.

In the World Investment Report, published by UNCTAD in 1999, comparable figures on the sectorial employment effect of foreign TNC affiliates exist only for two of the Nordic countries, Finland and Sweden (cf. Table 4.3). For Norway there are data that illustrate the share of TNC-employed labour force in manufacturing but not in all industries.

Table 4.3. Significance of employment in foreign affiliates in Finland (1997), Norway (1994) and Sweden (1996). (Source: UNCTAD 1999).

Country	Number of total employees		N. of employees in foreign affiliates as % of total	
	Manufacturing	All industries	Manufacturing	All industries
Finland	410.0	1 870.0	12.5	6.7
Norway	240.0	..	9.0	..
Sweden	767.0	3 963.0	18.0	7.0

A look at the employment figures for Finland and Sweden, however, clearly reveals how the jobs within the foreign affiliates are concentrated in manufacturing: in Sweden their share in manufacturing is almost 2.6 times that of their share in all industries. For Finland the corresponding figure is nearly 1.9. An obvious explanation for this distribution is that the Nordic economies are relatively modest players in international financial, business or personal services, with the most notable and recent exception to this being telecommunications with its new value-adding services. On the other hand, low value-adding primary production in the Nordics is mostly too unproductive to catch the attention of TNCs active in primary production such as global agribusiness. What remains is manufacturing with specialised high-quality producers.

Specialisation, indeed, is one of the key prerequisites for the success of the Nordic countries in the international division of labour. Even with corporate networks growing global and thus extending into the territories of economies with varying factor prices – including wage levels – there are certain features in the dynamics of global industrial restructuring that should reassure the highly skilled labour force of the Western industrial nations. Probably the most convincing of them is the idea of post-modern “Toyotism”, having perceivably replaced the Fordist mode of production marking the modern industrial capitalism. As far as industrial relations are concerned, the Toyotist model is based on strict segmentation of employees and work processes. The core jobs of the core corporation are taken care of by the “labour aristocracy” (term from Ruigrok & van Tulder 1995, 46), well compensated, provided with long-term work contracts and generally regarded as valuable resources.

Outside the corporate core there are layers of contractors and sub-contractors that may either manufacture/assemble finished products under the corporate brand name or produce components for the final products. These network partners often locate their activities in less developed economies with lower levels of wages and social protection. They can and do serve the core corporations as buffers against external market shocks, and hence add a good deal of flexibility to the planning of core corporation operations. Jobs in the contracting firms are often far less secure, as they are characterised by short work contracts based on specific projects, and the work conditions may be in sharp contrast to the strictly regulated conditions prevailing in the core corporations.

One obvious advantage that the TNCs have to offer, particularly as we look at emerging markets in the former socialist and developing economies, is that they can serve as vehicles for innovation in various areas of business. Thus, they cannot be regarded merely – and often even *primarily* – as sources of up-to-date production

technology but also of advanced management methods and other innovations that are more social than technical in character. Based on rudimentary evidence UNCTAD (1999, 302) tentatively suggests that foreign affiliates of TNCs may have higher environmental standards than their domestic counterparts in the emerging markets. Here the Nordic corporations are clearly among the global exporters of environmental knowledge, management and standards. Some evidence referring to the development of certified environmental management systems in Nordic corporations is given in Table 4.4.

Table 4.4. ISO 14 001 environmental management certifications in the Nordic countries and the world's most developed economies. (Source: UNCTAD 1999).

Country	The growth of ISO 14001 certifications for environmental management		
	1995	1996	1997
Denmark	21	96	347
Finland	10	41	151
Iceland			1
Norway	3	13	35
Sweden		18	194
Top dev. econ.	168	915	3 205

ISO 14 001 specifies the requirements for a corporate environmental management system by taking into account an organisation's processes and activities with environmental impact. There are independent certification bodies which award enterprises with certificates after having studied that the organisation has control over the significant economic aspects of its operations, that it complies with all relevant environmental regulation, and has committed to constantly improve its environmental performance (*ibid.* 301-302).

As can be seen from Table 4.4, some of the Nordic countries seem to be early adopters of the ISO 14 001 standards. However, the Nordic countries aggregate share of all certifications among the world's most developed economies has remained virtually unchanged over the three-year period between 1995 and 1997, remaining stable at around the 20-percent mark. During that time the growth of certification has been extremely rapid both in industrialised and developing economies. In 1997 there were 19.1 times more ISO 14 001 certifications in the most developed economies than in 1995. For Denmark the respective increase factor is 16.6, for Finland 15.1 and for Norway 11.7.

To have an environmental management system certified is naturally not proof in itself that the enterprise contributes to a better and cleaner environment. It merely means that the enterprise has systematic means of taking environmental aspects into consideration as a part of its decision making processes, including both internal decisions, such as the use of materials in the production process, and external ones, such as marketing and public relations. The same applies to any kind of certification or *ex ante* proclamation concerning the future behaviour of an agency. Since TNCs, as a form of foreign-based capital, are often regarded by some of the host countries' politicians and globalisation critics as a potential source of economic dependence *vis-à-vis* external powers, it is only natural that they should try to counteract such

pressures with measures that strengthen rather than compromise their ethical standings.

5 The Largest Nordic Corporate Players on the Global Scene

5.1 Nordic Corporations on the Global 1000 List

This review of the Nordic economies will close with a look at the most important Nordic corporations in the world economy. The data is based on the *Business Week* special report The Global 1000 (2000), abbreviated here as G-1000, on the world's largest corporations based on their market values in USD as of May 31, 2000.

The single most striking feature of the Nordic corporations on the list of global giants is how surprisingly evenly they are distributed on the list. Even if the Nordic economies are small as original home markets, there are corporations with a Nordic core even among the world's largest business entities. Moreover, as it can be seen from Table 5.1, the Nordic G-1000 corporations represent a broad variety of different industries.

The two largest Nordic companies can be found in the rather astonishing global positions of 9th (Nokia) and 22nd (L.M. Ericsson). The strong upward trend in the telecommunications manufacturers' market values, particularly during the second half of 1999, explains the positions of these two corporations. With a market value of 242.19 bn USD Nokia has risen from 38th rank position in 1999, and is now located between the Japanese NTT Docomo and the Dutch/British Royal Dutch Shell Group. L.M. Ericsson has advanced even more. From its 1999 rank position of 77 it has now reached a position between the Japanese Toyota Motor and the Canadian Nortel Networks.

The next Nordic corporation on the G-1000 list after Nokia and Ericsson is the Finnish telecommunications operator Sonera. Its rank position is a respectable 147 – largely due to perfect timing in listing the corporation for public trading to take a full advantage of the winter of 1999-2000 bull market that favoured the entire telecommunications sector. The number four Nordic and number two Swedish corporation is Skandia Försäkring insurance company (position 202). The largest Danish company on the list is Tele Danmark (354), and the only Norwegian company on it is Norsk Hydro (497). Some of the Nordic corporations on the list have been created through mergers and/or are major owners of other Nordic enterprises. As far as the Nordic G-1000 corporations are concerned, such amalgamations are most typical among Finnish and Swedish firms. They include the Nordic Baltic Holding (272), with MeritaNordbanken as its most visible part to the general public, the Stora Enso (724) conglomeration in the paper and other forest industry, and Assa Abloy (772), manufacturer of locks and advanced security systems.

The positions of the Nordic corporations are shown in Table 5.1 together with some additional information. The global top-five corporations, all of them American, have been added for purposes of comparison. From the table we can see, as it is elaborated in a graphic form in Figure 5.1, that a phenomenon particularly typical to the largest Nordic corporations is that their market values and, consequently, their rank positions have gone substantially up between the assessment periods of 1999 and 2000. In fact

among the thirty largest enterprises only six, namely Nokia and Ericsson together with the British Vodafone Airtouch, the US Oracle and EMC, and the Canadian Nortel Networks, have climbed up by more than 25 rank positions. All these enterprises operate in the field of electronics, telecommunication or business/public services. On the other hand, there are several information and communications technology giants among the corporations that have hardly enhanced their positions at all but rather slipped downwards. One of them is Microsoft, ranking fourth in 2000 down from the global lead position in 1999. In the top-50 group there are also several communications corporations, such as British Telecom, AT&T and America Online, with a lower rank in 2000 than in 1999. In this same size group, manufacturers such as Dell Computer or Hewlett-Packard have managed to climb only a few positions upwards.

Thus, one feels inclined not to explain the Nordic mobile communication manufacturers' advancement merely by pointing to favourable developments within the global information and communications technology and related services industries. Even more to the point these figures speak for the frequent claim that there are better and worse individual performers within each industry, not simply better and worse industries. A closer look at the achievement of Nordic corporations and their ability to provide shareholder value measured in the most clear-cut way, through return on equity, sheds some additional light on the question of performance.

Table 5.1. Nordic enterprises on the list of world's 1000 largest corporations based on their market value as of May 31, 2000. (Source: Business Week Global 1000, 2000).

Rank	Country	Rank 1999	Country	Market value m. USD	Return on equity. %	Industry
1	General Electric	2	U.S.	520 247	24.1	Multi-industry
2	Intel	8	U.S.	416 713	27.8	Electric compon. & instruments
3	Cisco Systems	9	U.S.	395 011	26.3	Electrical & electronics
4	Microsoft	1	U.S.	322 824	41.4	Business & public services
5	Exxon Mobil	4	U.S.	289 919	15.0	Energy sources
9	Nokia	38	Finland	242 185	46.0	Electrical & electronics
22	L.M.Ericsson	77	Sweden	158 048	26.1	Electrical & electronics
147	Sonera	332	Finland	37 199	19.0	Telecommunications
204	Skandia Försäkring	543	Sweden	26 119	20.3	Insurance
255	Hennes & Mauritz	260	Sweden	20 842	29.9	Merchandising
272	Nordic Baltic Holding	368	Sweden	20 058	20.5	Banking
354	Tele Danmark	426	Denmark	15 192	16.4	Telecommunications
430	Novo-Nordisk	603	Denmark	12 416	14.3	Health and personal care
450	Dampskibsselskab af 1912	537	Denmark	11 738	22.8	Transportation - Shipping
455	Dampskibsselskab Svenborg	527	Denmark	11 617	20.4	Transportation - Shipping
481	Investor	566	Sweden	10 885	30.8	Multi-industry
497	Norsk Hydro	522	Norway	10 657	11.2	Energy sources
514	Volvo	422	Sweden	10 374	8.3	Machinery & engineering
526	Svenska Handelsbanken	549	Sweden	10 050	18.9	Banking
610	Securitas	880	Sweden	8 282	9.2	Business & public services
640	Föreningssparbanken	619	Sweden	7 847	14.4	Banking
646	Skandinaviska Enskilda Banken	642	Sweden	7 675	15.6	Banking
670	Netcom	..	Sweden	7 317	57.6	Telecommunications
680	Stora Enso	602	Finland	7 156	15.7	Forest products & paper
724	UPM-Kymmene	605	Finland	6 736	22.3	Forest products & paper
745	Europolitan Holdings	..	Sweden	6 529	131.4	Telecommunications
772	Assa Abloy	..	Sweden	6 269	15.0	Building materials & components
782	Electrolux	650	Sweden	6 175	18.2	Appliances, household durables
786	Den Danske Bank	756	Denmark	6 114	18.8	Banking
836	Sandvik	777	Sweden	5 640	25.1	Machinery & engineering
928	Scania	834	Sweden	4 993	24.8	Machinery & engineering
976	Svenska Cellulosa Aktiebolaget	887	Sweden	4 612	12.0	Forest products & paper
980	Atlas Copco	919	Sweden	4 600	19.9	Machinery & engineering

As referred to above, a fair number of Nordic corporations showed an impressive growth in their market values between the years 1999 and 2000. In Figure 5.1 the 28 Nordic corporations are grouped in blocks of four, as in Table 5.1, without regard to their industry, country of origin or any other factor except their change of position on the G-1000 list. Figure 5.1 is based on mean values of these seven groups in an attempt to show that the most valuable enterprises have made the greatest progress, and that the general trend among the Nordic G-1000 corporations is that the more valuable the corporations are on average, the more they have enhanced their positions on the list. The groups are called here reference groups, which points at their positions in the evenly distributed, even if mechanically created, groups of corporations.

Figure 5.1 also includes another row of columns, one seeking to indicate the growth performance of non-Nordic corporations “neighbouring” the Nordic enterprises in the G-1000 list. Such a comparison has been made in order to find out if any indications exist that the Nordic corporations’ “growth behaviour”, taking into account the market values of the firms, resembles a more general or, indeed, a literally global pattern. The comparison graph has been created by grouping 200 G-1000 list enterprises whose market values are closest to the 25 Nordic enterprises in market value rankings for both of the two years, 1999 and 2000. Standardising the industrial profile of these enterprises has not been deemed necessary, based on the previously mentioned

argument that there are good and poor performers within each industry. Moreover, each of the Nordic four-enterprise reference groups was rather heterogeneous as far as their industrial consistence is concerned⁶. Finally, market value was regarded here as the most decisive factor, and hence for each feasible Nordic enterprise a pool of 8 non-Nordic enterprises was compiled with their average growth used to compare with their Nordic counterpart's growth figure. Thus, a reference group showing the average growth figure of four Nordic enterprises was compared to a non-Nordic reference group showing the average growth figure of thirty-two non-Nordic enterprises.

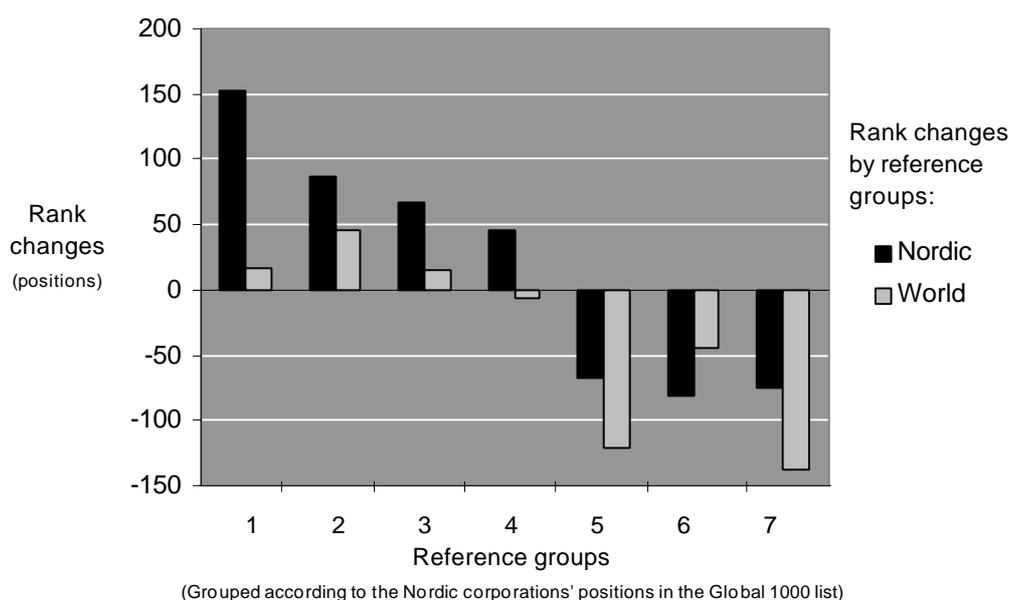


Figure 5.1. Changes in “Nordic” and “World” (i.e. “non-Nordic”) enterprises’ actual positions on the list of the global 1000 largest corporations. The “World” enterprise indicator is based on 200 non-Nordic enterprises whose May 31, 2000 market values are closest to the Nordic ones. Group 1 refers to the four largest Nordic corporations, and group 7, respectively, to the four smallest Nordic corporations listed in Table 5.1. (Source: Business Week Global 1000, 2000).

5.2 Performance of the Nordic G-1000 Corporations

A superficial comparison of the simple growth profiles of Nordic and non-Nordic enterprises reveals that, with a clear exception of one reference group (1) and with a rather obvious exception of another (6), the basic pattern in the both profiles has a great deal in common. In the standard choreography of economics this commonality could be best featured with a downward slope. Its equally standard verbal explanation would most probably be along the following lines: higher market value provides an enterprise with increased capacity to grow. Particularly Figure 5.2 – illustrating the growth of the enterprises relative to their previous market values – seems to clearly confirm this pattern. Figure 5.2 has been created by indexing the reference group averages of rank changes so that the figures for the year 1999 are given the value 100. It reveals that, out of the total of seven reference groups, the four with the highest-valued enterprises have managed either to keep or improve their positions. Moreover,

⁶ Only the last group with four Swedish industrial enterprises, three representing machine and engineering and one representing the forest industry (cf. Table 1.9), can be regarded as relatively heterogeneous.

enterprises with the highest market value constitute clearly a category of their own, both in the case of the Nordic and the non-Nordic enterprises.

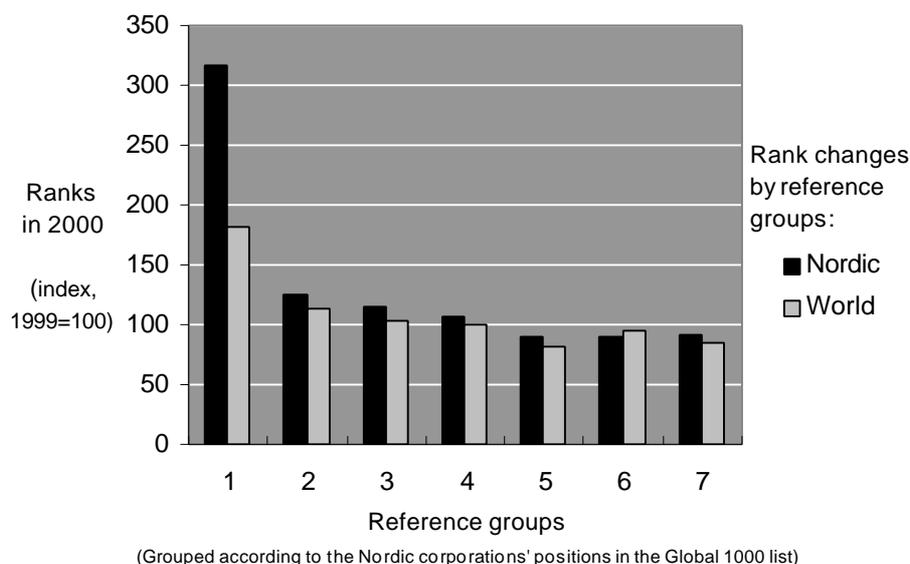


Figure 5.2. Changes in “Nordic” and “World” (i.e. “non-Nordic”) enterprises’ relative positions on the list of the global 1000 largest corporations. For definitions of reference groups cf. Figure 4.1. (Source: Business Week Global 1000, 2000).

It is obvious that in particular the largest Nordic enterprises’ growth performance between the assessment periods of 1999 and 2000 was clearly stronger than that of their non-Nordic counterparts. However, this observation only leads us to the question of how the Nordic Global 1000 corporations managed on the global scene. The answer is not too flattering: less than 36 percent of them were able to provide their investors with shareholder value (as measured by return on equity) exceeding the G-1000 average of 21.9 percent. For the rest of them growth has obviously taken place at the expense of returns on shareholders’ investment below the average level of other global corporations.

The situation is illustrated in Figure 5.3. The graphs indicate the Nordic corporations’ average return on equity percents (ROE%) in the six industries with two or more Nordic enterprises ranking on the G-1000 list. The basic pattern in the figure is as could be expected. The best performing industries, with equally best performing individual enterprises, are the telecommunications and electronics industries. Moreover, among the weaker performers are industries such as mechanical engineering and forest industry. Somewhat more surprising, however, may be the finding that *none* of the five Nordic banks on the G-1000 list exceeded the global ROE% average. Two of them, however, enhanced their rank positions: the Svenska Handelsbanken grew by more than 20 rank positions and the Nordic Baltic Holding (MeritaNordbanken) by even more, over 90 rank positions. On the other hand, electronics was the only industry where both the Nordic representatives on the G-1000 list exceeded the global ROE% average. L.M. Ericsson’s ROE% was 26.1 and Nokia’s no less than 46.0.

The industry showing the most spectacular ROE% figures is telecommunications, as one might have guessed. However, this industry is heterogeneous, with the absolute

top performers, such as the Swedish Europolitan Holdings, a newcomer to the list, representing only one part of it. The other side of the coin among the telecommunications giants is the relatively weak performers, typically recently privatised or partly privatised operators with the states still major shareholders. Such Nordic operators on the list are the Finnish Sonera and the Danish Tele Danmark, both of whom substantially improved their positions on the rank order list.

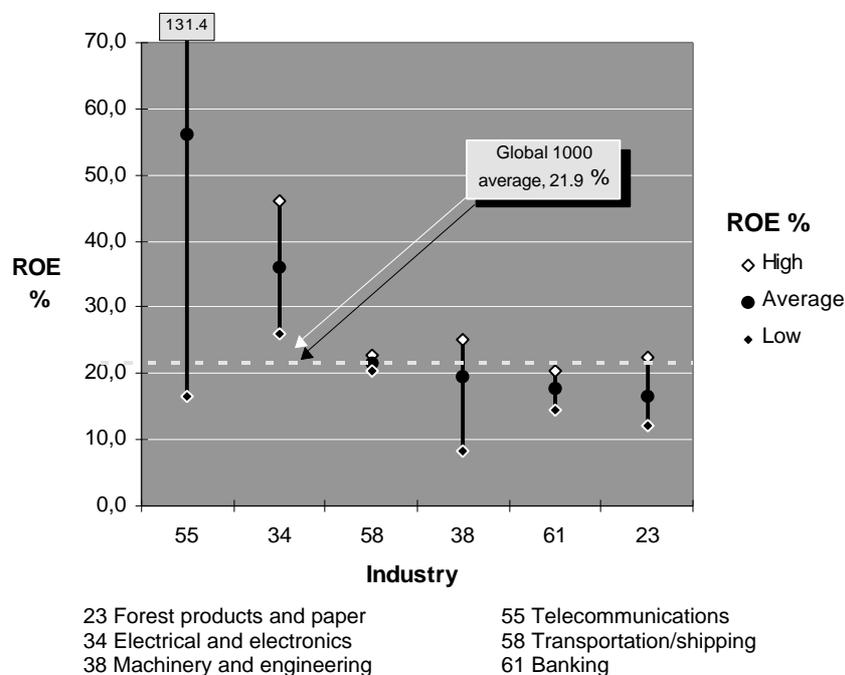


Figure 5.3. Nordic enterprises as generators of shareholder value, grouped by industries with two or more Nordic representatives on the G-1000 list. (Source: Business Week Global 1000, 2000).

As an overall conclusion concerning the Nordic economies' global integration it could be maintained that the figures and indicators based on them reflect a picture of small economies where some industries have only quite recently been opened to the logic of the global financial economy. In particular, the Nordic enterprises' capability to generate return on investment, or shareholder value, is generally weaker than that of the world's thousand largest enterprises on average. This speaks for another tradition with other priorities set against an investor's stake in a given enterprise. One of them has been a tradition to create "financial empires" around core owners, ranging from one family to a conglomerate of banks, insurance companies and other financial institutions.

In the global economy such an era has largely come to its end. Deregulated money, global investment capital, moves around the world, searching for best possible returns. In this system the world's stock exchanges, interlinked by fast channels for transmitting real time market information to each other, form the real key infrastructure for the global financial geography.

What will be the role of the Nordic countries – their political communities, their economies and their societies – in the new world order? As has been argued above, one of their major assets or strengths, is qualified human resources. This is further enhanced by the high level of human development in all Nordic countries. A major

weakness of the Nordic countries may prove to be their position on a “multiple margin”. One of the margins is geographic, based on the northern/arctic environment, with human communities operating in conditions that are both extreme and highly sensitive to climatic changes. Another margin is demographic, subject to pressures of ageing, a diminishing labour force and deteriorating dependency ratio. These are major challenges to be faced by both the present and the future policy makers – together with the fact that the Nordic economies are constantly monitored by “market forces”, actors making financial decisions with deep impact on small open Nordic economies.

6 Conclusions or: What Comes Next?

The diverging competitiveness profiles of the Nordic countries can be at least partially explained by the figures that describe some of their structural features. The most obvious of them seems to be that the “East-Nordic hard-liners” – to build an argument on Rønning’s (2000) distinctions – Sweden and Finland have been rewarded for clearly opening-up for the global economy. Their labour markets had to be readjusted to the circumstances following the remarkable unemployment peaks in the 1990s, territorial mobility of labour force included. Moreover, science and technology are more emphasised in the Finnish and Swedish tertiary education enrolment than in the corresponding enrolment in Norway or even Denmark.

Another interesting indication of cross-country differences may be visible in the crime and punishment figures reviewed here. They suggest that the propensity to social control and institutionalised correction of deviant behaviour may be higher in Denmark and Norway than in Finland and Sweden. Further obvious similarities between Sweden and Finland on the one hand and Norway and Denmark on the other are hard to point at. This does not mean that major dividing lines do not exist; the lack of such clear trends may be essentially due to the rather rudimentary selection of indicators discussed here. However, there is also some space for an interpretation of this finding by linking it to the leading themes of the Nordregio Scenario Report (Karppi 2000), the original stimulus for the writing of this Working Paper.

This line of argumentation starts from the simple thesis that competitiveness of a given economy is no straightforward outcome derived from single, however relevant factors, even if they by themselves constitute feasible components of competitiveness. In other words, it can be argued that it is the *combination* of these factors and the *ability to recombine* them that matters in making an economy competitive. Deterministic structural features themselves may be of lesser importance. A horse can be brought to water but it cannot be forced to drink. Competitiveness could thus be more than the sum of its basic parts, with both facilitating structures and deliberately empowered actors having major roles. Moreover, it can be argued that the factor that *does* make the difference is the capability of the institutional mechanisms prevailing in the economy in question to *facilitate the interplay* between structures and actors, or the continuous combining and recombining processes of what are regarded as strengths in an economy in question.

In a certain sense the end of the bipolar world meant a breakthrough for a more straightforwardly one-dimensional world. The overwhelming majority of the world’s economies can now be assessed by using one basic yardstick, the one measuring their

performance in the global marketplace. The prevailing logic of globalisation embedded in the new economy and the equally new financial geography has thus become the key factor in assessing the quality of a national or regional economy's institutional mechanisms. The key phrase describing nationally or regionally designed institutional system that is most appreciated by the yardstick in question is *market-led flexibility attached to strict economic and financial policy discipline*.

This means flexibility in all other areas than – given the strict financial discipline – the one determining the volume of public sector activities. From this it follows that economies, which favour deregulatory policies and carry out broad liberalisation and privatisation schemes are “rewarded” by those assessing their competitiveness. The same goes for policies that keep an economy from burdening itself with a broader closed sector – such as larger administration and more ambitious social programmes – than it can cover with earnings in the ever more global and more competitive market.

The situation is not that simple, though. If full-fledged liberalisation alone were the most important thing to count, an economy such as the Czech Republic should, based on its mid-90s performance, have climbed to the group of top global competitors. Instead it can be found in position 32 in the year 2000, up by 7 positions from the 1999 rankings. Actually the Czechs, together with the Hungarians, Poles and Slovaks have made real progress in the competitiveness rankings, particularly in the latest stages of their transition towards market economy, which also means that they have imported the *common regulations* of the EU *en masse* in their national administrations and to a certain extent re-invented legitimate, normatively empowered and thus strong public (in the Central and East European countries typically *central*) administrations.

In fact, facilitation of private sector competitiveness in any given society *does* make major demands of its administrative apparatus. No matter how elaborate or efficient its internal corporate governance system may be, a corporation can hardly operate optimally, if the quality of its external environment and hence the prerequisites for its external corporate governance are compromised. To name but a few external aspects that also contribute to the entire economy's quality image one can mention the legal base of the society, individual security, with aspects ranging from physical personal safety to preventive public health care, or overall integrity as to business ethics.

In these instances all of the Nordic societies have generally good performance records. Probably the clearest indication of this is that they can be regularly found at the top of Transparency International's list of the world's least corrupted economies. Thus, the Nordic societies provide global benchmarks in this crucially important area of good corporate governance and no less than a basis for the entire integrity concept within the business life. In a globally networked economy with knowledge as its foremost production factor, these aspects of “environmental quality” become all the more important. In this instance it is possible to speak about *institutional quality* which contributes to the development of feasible prerequisites for all human action taking place within the efficient boundaries of a given institutional order.

This interplay between the qualitative aspect of the living environment and an individual should become particularly obvious as we think about the creative skills needed to utilise knowledge as a production factor “possessed” by human beings. Here the integrity and ethical principles that affect the codes of conduct prevailing in

given societies are clearly among those factors that can enhance the quality of human life within them. In terms of public and private safety, social security, or prospects of equal treatment of all individuals by public bodies, to take just a few examples, the Nordic countries have good prospects for success in a world in which individually relevant “human-sensitive” factors become all the more important prerequisites for the economic success.

If the Nordic countries are to remain highly competitive in the field of human development, as reflected in overall economic performance, their sources of competitive advantage derived from the physical environment and locational factors may remain modest. The biologically measurable environmental quality may not be particularly problematic in circumstances in which the anthropogenic environmental stress per unit of area remains low due to an overall abundance of territory in relation to the population that inhabits it. Instead, the Northern climate and the associations attached to it may become more problematic issues in an era of human-capital-centred economy with an intensive growth of sun-belt regions. This is a phenomenon already visible both in the US and in Europe. The sparsely populated Nordic latitudes in their chilly November darkness may not attract the global key talents unless (and even this may be questioned) they are born Northerners.

Finally, the human-centred economy is only partly a question of conventional “trade and industry”, but also – and *particularly* – of culture. Here the small populations and long distances again into the picture, even if the distribution of cultural services relative to population size in the Nordic countries is high by any international standards. Yet, it cannot be compared to that of the real metropolises of the global economy, nor to the potential supply built into the Continental European or British dense networks of cities of “globally lower order” but still with several millions of inhabitants within hundred kilometre radiuses. What must be added to the problem of relative locational isolation, as far as culture is concerned, is the isolation that can be derived from linguistic factors. As small linguistic islands the Nordic societies and the Nordic cultures are hard to open for those entering them from outside.

Thus, despite their good performance in procuring the key resources needed to thrive in the competitive, human-centred new economy, the Nordic countries have plenty of future challenges to meet. For those with ambitions to put the Nordics to compete with the globally mid-sized EU economies, intending to conquer them with mass-market products of the new economy, just as Ericsson and particularly Nokia have done in the field of dispersed technology needed for bringing about the new economy, the future may be filled with nasty surprises. As was noted above, a plethora of factors seem to contradict the idea that the Nordics should be particularly successful in the field that *could* be most suitable to them, given their superb human resources: the global top-class, state-of-the-art, high-tech vanguards of the new global economy. Thus it is no wonder that Peter Maskell (2000, 62) recently presented his “six reasons why Nordic countries remain low-tech”.

It may well be assumed that the Nordics will remain globally rather extreme, or possibly even eccentric, cases. Thus they probably attract rather extreme/eccentric individuals – as far as the mobility of professionals is concerned – to enter their stocks of human capital. Consequently, it may be assumed that their global success, with high value-adding industries, will lie in their ability to find niches that may be easiest

to identify by the extreme individuals working in extreme circumstances. Every now and then the right niche, such as the mobile communications, is found, and that niche may even widen to become a mass market. However, in such case simultaneously the industry explodes globally, leaving behind the limits set by the inadequate domestic demand, small domestic labour markets, lacking domestic venture and financial capital, and so on.

The globally most competitive Nordic economies and their key corporations that saw the light of the day already in the 19th century have played a major role in bringing a great deal of the world to the verge of the new economy. The Nordic societies appear to have had the right combination of structural and human factors to facilitate this achievement. The real questions are whether this path has come to its end, and what may come next.

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