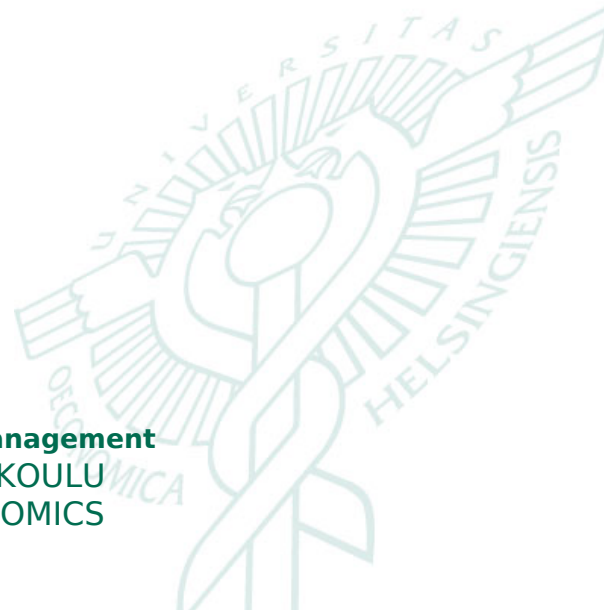


# THE ROLE OF GOVERNMENTS IN FINNO-TAIWANESE BUSINESS RELATIONS

International Business  
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Master Thesis:

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### **Objectives of the research**

The main purpose of this thesis was to study the roles of government in business relations between Finland and Taiwan. The focus was on finding out if and how the lack of official diplomatic relations influences Finnish business operations in Taiwan. A framework was constructed in order to study the interrelationship between governments and companies. It conceptualizes three types of relationships concerning the research problem: governmental relations between Finland and Taiwan, business relations between Finland and Taiwan, and government-to-business relations between Finland and Taiwan. This thesis is conducted as a part of The Center of Markets in Transition (CEMAT) research on Taiwan.

### **Methodology**

Qualitative research was conducted to collect empirical material for this thesis. Data for the thesis was collected through interviews and documentary analysis. The interviewed persons include both governmental and business representatives from Finland and Taiwan. Secondary data was collected from newspaper articles that were acquired from electronic archives of Kauppalehti, Taloussanomat and Talouselämä, company websites and archives of the Ministry for Foreign Affairs.

### **Findings and conclusions**

The findings of this study indicate that governments do play a role in business relations between Finland and Taiwan, although they do not determine them. This means that companies can operate also in a situation where the governments do not have official diplomatic relations. However, there are means how governments can improve opportunities of Finnish companies in Taiwan. These include business delegations and conferences, where Finnish companies can network with Taiwanese ones and thus find new cooperation possibilities. These measures can be especially important for Finnish SMEs operating in high-technology sectors, since small companies do not often have large resources to seek out partners.

### **Keywords**

Government intervention, bilateral relations, international trade, Finland, Taiwan

## VALTIOIDEN ROOLI SUOMEN JA TAIWANIN LIIKESUHTEISSA

### **Tutkielman tavoitteet**

Tutkielman tavoitteena oli selvittää Suomen ja Taiwanin valtioiden rooli maiden liikesuhteissa. Painopisteenä oli tutkia, miten puuttuvat diplomaattiset suhteet vaikuttavat suomalaisten yritysten toimintoihin Taiwanilla. Viitekehys, joka keskittyy valtioiden ja yritysten välisiin suhteisiin, kehitettiin auttamaan tutkimuksen toteuttamisessa. Viitekehys jakaa tutkimusongelman kolmeen osaan: Suomen ja Taiwanin valtioiden välisiin suhteisiin, Suomen ja Taiwanin yritysten välisiin suhteisiin, sekä suhteisiin valtioiden ja yritysten välillä Suomen ja Taiwanin tapauksessa. Tämä tutkimus on osa Center of Markets in Transition (CEMAT) -tutkimuslaitoksen tutkimusta Taiwanista.

### **Tutkimusmenetelmät**

Tässä tutkimuksessa sovellettiin kvalitatiivista tutkimustapaa. Tutkimusaineisto kerättiin tekemällä haastatteluita ja tutkimalla julkista kirjallista aineistoa. Haastatellut henkilöt olivat sekä valtiollisten tahojen että yritysten edustajia Suomesta ja Taiwanista. Kirjallisen aineiston lähteenä toimivat Kauppalehden, Taloussanomien ja Talouselämän uutisarkistot, yritysten Internet-sivut sekä Ulkoministeriön arkistot.

### **Keskeiset tutkimustulokset**

Tutkimuksen tulokset osoittavat, että valtioilla on rooli Suomen ja Taiwanin liikesuhteissa, mutta valtioiden väliset suhteet eivät määrittele niitä. Tämä tarkoittaa sitä, että yritysten väliset liikesuhteet pystyvät kehittymään tilanteessa, jolloin mailla ei ole virallisia diplomaattisia suhteita. Valtiot pystyvät kuitenkin edesauttamaan liikesuhteiden kehitystä muun muassa järjestämällä vierailuita ja tilaisuuksia, joiden avulla suomalaiset yritykset voivat löytää uusia yhteistoimintamahdollisuuksia Taiwanilla. Nämä voivat olla erityisen tärkeitä suomalaisille teknologiasektoreilla toimiville Pk-yrityksille, joilla ei usein ole suuria resursseja partnereiden etsintään.

### **Avainsanat**

Valtio, interventio, kahdenväliset suhteet, kansainvälinen kauppa, Suomi, Taiwan

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## 1. INTRODUCTION

The East Asian island nation Taiwan was chosen as a subject for study due to its special status in the international arena; it has never been an independent state. In the past, the island has been ruled by the Dutch, the Chinese and the Japanese. When Chiang Kai Shek's Nationalist Government of the Republic of China, or Kuomintang (KMT), were defeated by Mao Zedong's communist forces in 1949 in mainland China, they escaped to Taiwan and announced they were the sole legal governor of the whole China (European Commission 25.9.2008). Until the 1970s, the world community recognized Taiwan as the legitimate representative of the Chinese people on both sides of the Taiwan Straits. However, the attitude changed in 1972 when the United States recognized mainland China's political legitimacy and Taiwan was expelled from several international organizations, such as UN, IMF, and the World Bank. As only one legitimate China can be recognized several countries were forced to discontinue their official diplomatic ties with Taiwan in order to form those with mainland China. (Dent 1999) Today, China sees Taiwan as its province, but Taiwan disagrees with this view. As most countries do not recognize Taiwan's sovereignty, it has limited foreign policy instruments.

Several scholars studying international business (e.g. Dicken 2007, Morrison 2006) recognize that one cannot separate businesses from the environment they operate in. Morrison (2006) argues that the relationship between businesses and environment can be characterized as dynamic interaction; social influences shape business activities and businesses create changes in the society. One can analyze the external environment with the help of a PEST analysis, which consists of political, economic, sociocultural and technological factors. Korhonen (2005, 78) argues that the political environment is superior to others, because it creates the basis for other elements in the society. When companies engage in international operations they enter the political sphere of host governments, which determine their rights and obligations in those locations. Also, as host governments are able to interfere on the operations of companies, since they operate under their legal

authority (Korhonen et al. 2005, 10), governments are the most important actors in companies' political environment (Korhonen 2005, 79). Thus, the political environment of countries determines the framework of economic activities and therefore political factors are an essential aspect influencing international operations of businesses. It is probable that political factors are especially important when operating in Taiwan, as the country is not recognized sovereign by others.

Consequently, it can be argued that both businesses and governments are major players in shaping the world's economic environment (e.g. Meier 1998, Morrison 2006). Dicken (2007) argues that the relationship between states and corporations is a relevant and interesting issue as they are at the center of global economic transformation. On the one hand, companies are a major influence on the global economy as they create wealth through production activities and build extensive inter-firm and intra-firm networks that reach across national borders. Governments, on the other hand, shape the global economy by regulating cross-border transactions and creating the infrastructure needed for economic activities. (Ibid) It is recognized that there are also other powerful forces shaping the world economy, such as knowledge and technology, but these can be classified more as enabling forces than determining ones (Ibid, 438). Hence, this thesis concentrates on the interplay of the two most important actors, states and firms, in shaping bilateral business activities.

Interaction between governments and companies is born from their differing interests; business organizations aim at maximizing profit and shareholder value, whereas states are concerned about the welfare of the society. Businesses can shape the environments they operate in through investments. Governments, on the other hand, usually carry out activities that shape the national economy both directly through public sector projects and indirectly through policy formation. Policy formation can influence the stability of the national economy as an operating environment, and determine the level of constraints a government places on companies. Consequently, government actions can have an effect on the operating environment of businesses and thus influence their decision-making on whether



to invest or divest into a particular national economy. However, businesses do not need to take the political environment as given; companies can usually negotiate with host governments to reduce political risks related to their operations (Korhonen 2005, 67). Accordingly, Morrison (2006, 235) argues that interaction between governments and businesses has grown and thus the political system of a country can be an important aspect determining the attractiveness of the location and success of investments. However, it should be noted that interaction between governments and companies might be different in nature, when the government is not recognized officially – as is the case with Taiwan.

It is interesting to look into the means and extent to which governments are able to influence operations of companies. This thesis concentrates on the interaction between governments and companies in the case of international operations; the aim is to study how governments can support internationalization of companies. Due to the international approach of this thesis, also governments' bilateral relations are included into the study. Finnish companies are chosen as the research target due to characteristics of the country: On the one hand, Finland can be defined as a small open economy. Due to the small size of the country, Finnish companies are forced to internationalize if they want to pursue continuous growth. Finland being an open economy, on the other hand, means that the government has a positive attitude towards international trade. Due to these factors it is probable that the Finnish government is usually aiming to promote Finnish companies' operations in foreign countries. However, as Finnish government has generally taken a neutral stance to international political issues and practiced rather careful foreign policy (e.g. with the Soviet Union) it is interesting to examine its approach to Taiwan. There is a possibility that the special position of Taiwan in the international arena causes Finnish government not to actively promote Finnish business operations in Taiwan.

Taiwan is chosen as the destination due to its special international status: Finland and Taiwan do not have formal diplomatic relations. It is interesting to study the role of governments in business relations in a case where the countries do not have formal

diplomatic relations. Consequently, the aim of this thesis is to find out how governments can influence business relations in the case of Finland and Taiwan. The next section provides an overview of Taiwan in order to familiarize readers with the country. This study is conducted as a part of The Center of Markets in Transition (CEMAT)<sup>1</sup> research on Taiwan. As such, some research material gained by CEMAT was accessed.

### **1.1. Background information on Taiwan**

The growing importance of China to the world economy has led an increasing number of countries to form official diplomatic ties with it instead of Taiwan. In 2008 only a handful of nations, 23, recognized Taiwan's sovereignty (The Republic of China Yearbook 2008). These are mainly small South American, African or Pacific nations, which seem to be motivated to form diplomatic ties with Taiwan due to economic concessions offered by the country. The only European nation recognizing Taiwan is the Vatican. Even if a country does not recognize Taiwan's sovereignty, it still needs to be careful about the nature of relations it holds with it as China threatens to cut ties with countries that recognize Taiwan's independency. (Vuoristo 1996, 132) China threatens Taiwan with military actions, if the country is to dismiss the prevailing status quo. Keeping good relations to China is usually motivated by economic reasons; Dent (1999, 186) tells that the EU complies with Beijing's wishes to protect European commercial interests in mainland China. Because Taiwan is not recognized as an independent state it cannot join some international organizations, such as UN and IMF. Nevertheless, Taiwan is a respected and popular business partner to many countries and as result a number of countries hold informal diplomatic and commercial relations to Taiwan (Vuoristo 1996, 131). These are motivated by a growing economy and Taiwan's large foreign investments (Dent 1999, 163).

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<sup>1</sup> CEMAT is a research center of the Helsinki School of Economics. CEMAT's research includes the rapidly transforming markets and economies in Asia.

Taiwan's economy is characterized by family-based small and medium-sized enterprises (SMEs), which create extensive horizontal ownership networks in addition to production and assembly networks. The large businesses are typically upstream suppliers of intermediate goods and services to the SME manufacturer networks, which in turn serve foreign contractors. (Dent 1999, 154)

Finland and Taiwan have contacts in many fields, including business, education and scientific research. The oldest relations between Finland and Taiwan are related to Christian missionary work. Nikkilä (2000) tells about Finnish missionaries working in Taiwan in the 1950s and 1960s. Today the relations and communications are more of a commercial type (Isosomppi, 2006). Taiwan's complicated international status as explained previously and the geographical distance between the countries hinder the formation of relations in other fields. The bilateral relations between Finland and Taiwan will be discussed further in the following sections.

## **1.2. Previous research and research gap**

As Taiwan is a relatively small nation, it is studied less than some other Asian countries, such as China or Japan. A small share of the studies about Taiwan is made from a Finnish perspective, and even fewer of these focus on the bilateral relationship between Finland and Taiwan. A master thesis is written at the University of Helsinki (Isosomppi 2006) about the development of Finland and Taiwan's bilateral relations. The work is general in nature and does not focus on the business aspects of the relations. Two theses related to Taiwan are written at the Helsinki School of Economics. The first one (Rautanen 2006) focuses on studying Nordic investments into China, Hong Kong and Taiwan and the use of Taiwan as an entryway to China. It also elaborates on companies' location decisions when conducting FDI in East Asia and on the investment climate of the countries, but does not discuss governmental relations. The empirical data gathered for the second thesis (Heilala 2005) is related to the United States, and does not discuss the relations between Finland and Taiwan.

A short study about the economic relations between Finland and Taiwan is made in 2006, but it mainly provides an overview of the relations and does not elaborate on the subject (Korhonen & Kettunen, 2006). It can be noted that none of the previous studies conduct an in-depth analysis on the business relations between Finland and Taiwan. Neither is there a study focusing on the evolution of the business relations between the countries and on the role of governments in this process. As a result, this thesis contributes to Finnish academic business research on Taiwan.

Some fields of research have studied the interrelationship between governments and companies. These include theorizing on political economy (e.g. Stopford et al. 1991) and international business theorizing on industrial marketing and purchasing (e.g. Welch & Wilkinson 2004). According to Welch and Wilkinson (2004, 216) it has come to understand the importance of relationships with political actors, such as governments, in foreign market activity in addition to inter-firm relationships. Consequently, the authors (Ibid, 217) study the political embeddedness of business networks and argue that in order to understand the transnational inter-firm relationships, it is essential to discuss the political relationships that affect them.

Accordingly, there have been made studies on government-business relations. For example, Korhonen (2005) studies the effects of political environment on foreign direct investments of Finnish companies in South-Korea. The study concluded that in the case of Korea Finnish companies have benefited from good relations between the Finnish and Korean governments. The study also found out that governments can aid businesses through maintaining communication between the governments and providing promotional services. However, the study concentrates on investment operations of companies, and other operations are excluded. In order to find out how governments can influence the operations of companies in a larger sense, the issue needs to be studied further. Also, the study was made between countries that have normal diplomatic relations. Therefore high-ranking governmental officials, such as the President or the Prime Minister, could take part in visits

that aim at improving Finnish companies' opportunities in Korea. However, this is not possible in the case of Taiwan. Accordingly, it is of interest to study the role of governments in business relations in a situation where the governments do not have formal relations, as it is the case regarding Finland and Taiwan.

Tian (2006) has studied institutional basis of government–business relations in economic interactions between China and Taiwan. He found in his study that state policy can affect private strategy, but not determine it. He tells that in the case of China and Taiwan state policy can affect private strategy but not determine it. This is because restrictions set by the Taiwanese government on cross-Strait economic interactions have repeatedly been compromised by the adaptive strategies of the private sector. Thus it is of interest to find out if the same applies to Finland and Taiwan; if businesses can operate regardless the lack of official diplomatic relations.

A thesis (Heilala 2005) discusses how government intervention in inward FDI can maximize benefits to the host economy in the case of Taiwan and Hong Kong. Consequently, the study concentrates on studying government intervention and interaction between governments and companies in the case of inward foreign investments only, and other forms of business activities are left out of the study. Furthermore, the study does not discuss the case of Finland. It should be noted that no records of extensive study on government roles in business relations between Finland and Taiwan were found.

Furthermore, most of the studies about Finno-Taiwanese relations are written in Finnish, which prohibits non-Finnish speakers from understanding them. This is why it is useful to have a study on the matter also in English. Also, Finnish people are not very familiar with Taiwan. The general knowledge about Taiwan in Finland is quite limited and even the location of Taiwan might not be known. Most Finns see Taiwan merely as a source of cheaply manufactured consumer goods, and do not know about the country's diverse potential. If business people had more information about Taiwan, they might be able to find

attractive business opportunities there. In an interview, a Finnish person is of the opinion, that Finnish companies might miss chances due to their limited knowledge about Taiwan:

“But it would require that knowledge, in general what Taiwan is and what it has to offer, would somehow be better informed here [in Finland]. I think that people don’t know much, that what Taiwan and Taipei are like and what you should do there.”

Research about Taiwan is also beneficial to Finnish companies wanting to expand their international operations, as it is a reasonably attractive market. Taiwan has fairly attractive markets as it is the 17th largest economy in the world, and has relatively high standards of living (Pao et al. 2008, 324). In addition, Taiwan is an appealing Asian destination due to it being a free democracy and having open and transparent markets and strong intellectual property protection (Wolfowitz 2008, 28). Other advantages recognized by Finnish companies include well-educated work force, prospects of growing Asian markets, the Asia strategies of Finland and Taiwan’s changing position. This study builds on Finnish firms’ knowledge on business relations between Finland and Taiwan as well as on the level of governmental assistance in building these relations. Thus, through this study Finnish firms might be able to find new ways of conducting business in Taiwan. Therefore this study contributes also to Finnish managerial knowledge regarding Taiwan.

### **1.3. Research problem**

Trade, and business relations accordingly, are essentially created by the actions of companies – by their international operations. This is because trade flows are created when a company moves goods across borders. Cox and Grimwade (1997, 161) argue that one should recognize the importance of multinational corporations as individual institutions through which trade is conducted. They (Ibid, 164) emphasize the role of businesses by saying that whether a country is a net importer or exporter of a certain good depends on the decisions taken by large companies of the economy. Consequently, in this thesis trade and business relations are understood to be created by actions of individual companies.

Multinational enterprises interact with several instances when conducting business. In addition to forming relationships with other firms belonging to overlapping business networks, firms also create relationships with the places where they operate (Dicken 2007, 455). This means that companies form relations with host governments. Dicken (Ibid) argues that companies aim at getting maximum benefits from the communities they operate in, and that the communities aim at gaining maximum benefits from the firms' local operations. By setting policies governments create the framework within which companies operate, and companies change the national economy through their investments. Thus, these two actors are bound to interact. This relationship between companies and governments is especially interesting in the era of globalization, as firms have been gaining a more central role in the global economy.

According to Korhonen (2005, 63) political factors influence companies' international operations and decision-making in the host country. These factors include foreign relations, political systems and economic policies. Korhonen (2005, 72-79) tells that the relationship between governments is important as the host country can hinder companies' operations if it dislikes the policy of the home country; thus bilateral diplomatic relations set the basis for the development of economic relations. Therefore the relationship between governments is an important factor influencing international operations of companies. Political system of the host country, on the other hand, influences the government's attitudes towards companies operating there: by entering the political space of host countries companies face the risk that host governments exercise political power by intervening on companies' entry, operations or exit in order to gain advantages to the host economy (Korhonen 2005, 66-71). It seems that governments can influence the operations of businesses by setting certain type of policies. Therefore it can be argued that governments have an essential role in influencing companies' international operations. Thus, governments determine the framework for business relations between two countries.

The relationship between governments and companies is especially interesting in the case of Finland and Taiwan, since the countries do not have diplomatic relations. It is of interest to find out whether governments can influence business relations, when no official relations between governments exist. Also, there is a clear research gap on the study of Finno-Taiwanese relations. Accordingly, a research problem is distinguished: *What is the role of governments in business relations between Finland and Taiwan?* As the two countries do not have official diplomatic relations it is especially interesting to find out if official instances can influence business relations or if businesses operate regardless of and uninfluenced by politics. For this thesis, the perspective from Finnish companies operating in Taiwan will be taken up, as the research takes place in Finland.

When studying the role of governments in promoting commercial operations it is necessary to take a look into relations on a governmental level, on a company level, and last but not least on a level concerned with interactions between governments and companies. As a result the nature of business operations in addition to governmental cooperation is studied. To be able to answer the research problem and get a full understanding on the issue, it needs to be divided into three sub questions:

*What are the features of governmental relations between Finland and Taiwan?* This question enquires into the nature of government-level relations in the case of Finland and Taiwan. It can be divided into two parts: first, how governments can in general form relations to other governments and second, how Finland can form relations to Taiwan, which is not recognized as a sovereign state. As the second part of the question deals with a particular case of relations, it needs to be studied in relation to how things are in real life. Thus, the second part will be studied in the empirical section. As this question looks into governmental relations that create the framework for economic activity, it provides the basis for the following questions.



As it was concluded that companies are the actors that create trade between countries, the second question looks into interaction between companies when they engage in international business operations. The question is: *What kind of operations do Finnish companies have in Taiwan?* Finnish operations in Taiwan are examined in order to find out the nature of the business relations. This question also looks into the bilateral relations from companies' point of view. Operations of Taiwanese companies in Finland are excluded due to resource limitations. In this thesis the term "business operations" refers to international activities of companies, which include export, licensing, franchising, management contracts, project operations, subcontracting, contract manufacturing, investments and so forth. In order to find out the kind of operations Finnish companies run in Taiwan, it is necessary to do empirical research on the issue.

After looking into Finno-Taiwanese relations on governmental and business levels, interaction of these two levels is studied. Thus the third research question enquires into the relationship between governments and companies in the case of Finland and Taiwan: *How do governments promote and restrict Finnish business operations in Taiwan?* In order to be able to answer this question, empirical research that examines policies employed by Finnish and Taiwanese governments has to be conducted.

#### **1.4. Definitions and key concepts**

*State* is a politically organized body of people usually occupying a definite territory, within whose boundaries it has jurisdiction. Usually states have externally recognized sovereignty, but for convenience in this thesis Taiwan is referred to as a state even though its sovereignty is recognized by only a few other states. Taiwan can be regarded as a state, because it is not subordinate to any higher authority.

*Government* is a group that holds simultaneously the principal political executive offices of a state and is responsible for the direction and supervision of public affairs. Governments

are often institutionalized in a parliamentary system constituted by a cabinet or by a ministry. In this thesis governments are regarded as representing and controlling states.

*Company, enterprise and firm* are regarded as synonyms in this thesis. They are regarded as a unit of economic organization or activity, such as a business organization.

*Multinational Corporation (MNC)* is defined as a firm with foreign subsidiaries and operations extending beyond a single country (Smeets 1996, 72). Synonyms include Multinational enterprises (MNE) or Transnational corporations (TNC), but in this thesis the term MNC is used.

*Business relations* are relations between different enterprises, where relation is defined in a commercial sense as the state of being mutually or reciprocally interested and are an aspect that connects two or more things.

*Diplomatic relations* refer to relations between different states. Diplomacy can be defined as the practice of conducting negotiations between representatives of states with a skill of handling affairs without arousing hostility.

*Investment policy* is a government regulation or law that encourages or discourages foreign investment in the local economy.

*Economic policy* refers to the actions that governments take in the economic field. It covers the systems for setting interest rates and government deficit as well as the labor market, national ownership, and many other areas of government.

*Trade policy* is a type of economic policy, and refers to tariffs, trade agreements and the international institutions that govern them.

*Home country of a firm* is traditionally defined by the location of its headquarters, where it is listed, where it is incorporated, and where its investor base comes from. As globalization leads to a split of these defining characteristics, Desai (2008) distinguishes between a financial home, a legal home, and a home for managerial functions that used to be crucial parts of the headquarters. For this thesis, a firm's home country is defined as the country where it has placed the main share of its headquarters and where it has its legal home. Thus, firms that are defined as Finnish have their headquarters and residency in Finland.

*Foreign direct investment (FDI)* is a transnational capital transaction, entailing purchase of production resources, companies or stakes in them, made by companies from the country of origin to the host country (Bouma 1996, 42). FDI involves a capital investment to acquire a lasting interest, influence and at least 10 per cent control in a firm (Smeets 1996, 73). Aim of FDI is to exercise control on business activities and to add value locally, which is why capital transactions with the sole purpose of gaining financial return are excluded from the definition (Bouma 1996, 42).

*ROC and PRC* are Republic of China and People's Republic of China, respectively. Often Republic of China (ROC) is referred to as Taiwan and People's Republic of China (PRC) as China, and these definitions are used in this thesis too. The ROC government is sometimes referred to as Taipei and the PRC government as Beijing. The expression *Cross-Straits* refers to the relationship between Taiwan and China.

*One-China policy and three no's* are policies that China requires other countries having diplomatic relations with it to follow. China won't establish diplomatic relations with any country that recognizes Taiwan as an independent state, and due to this reason it has cut ties with e.g. Liberia, Belize, Guinea-Bissau, Nicaragua and Niger (Mengin 1994, 149). One-China policy means that there is only one China and Taiwan is part of it (Cao & Dickson, 2001, 13) "Three no's" policy means that the countries say no to Taiwan's independency, no to "two Chinas" and no to "one China and one Taiwan" (Xiang & Ching, 2001, 275).

### **1.5. Outline of the thesis**

In chapter one an introduction to Taiwan and to the development of Finno-Taiwanese relations is provided. The research gap, research problem, and positioning of the study are presented, followed by definitions.

In the second section of the thesis related literature is reviewed. It is essential to look at the bilateral trade relations on both, a macro and a micro level, in order to form a comprehensive understanding of the nature of the relations. As politics and diplomatic relations have an important effect on the macro level bilateral relations, it is important to discuss political economy literature. However, a brief overview is sufficient as the aim is to give a general understanding and background for the study of politico-economic relations. After discussing the effects of diplomacy the essential actors in bilateral relations and the power relations between governments and companies are discussed. By briefly examining these aspects a background for the study can be created. First the government-to-government relations are discussed. After providing an analysis of the macro level bilateral relations the focus is shifted to micro level bilateral relations. On a micro level, the most important actors are businesses, which create trade between two countries. Last, the linkage between macro and micro level, meaning the government-to-business relations, are inspected. It is essential to look into the interrelationship between governments and businesses especially in the case of Taiwan, as it is possible that its special political status hinders the formations of government-business relations. Thus this literature review is divided into four parts: literature about political economy followed by theorizing on government-to-government relations, literature about government-to-business relations, and theorizing on business-to-business relations.

In chapter three a framework on basis of the literature review is conceptualized. The framework incorporates previous research to guide the collection and analysis of empirical data. Furthermore, research questions are defined to guide the empirical research more

effectively. Chapter four introduces the design and method of the empirical research. The qualitative data collection methods used in this thesis, interviews and documents, are presented. In addition, the analysis of the data, and quality and validity of the research are discussed.

In chapter five empirical findings are discussed. The empirical section is divided into three parts according to the framework. In the first part, the nature of governmental relations between Finnish and Taiwanese governments is inspected. The second section focuses on the nature of business relations, which means it provides insights on operations of Finnish companies in Taiwan. In the third section, relations between companies and governments in the case of Finland and Taiwan are discussed. A summary and conclusions of the study are provided in chapter six. Moreover, future research possibilities and managerial implications are discussed. Chapter seven includes references and chapter eight appendices.

## **2. REVIEW OF LITERATURE**

Both governments and companies are important actors influencing trade between countries. In practice it is created by the actions of companies when they move goods across borders, but governments influence the environment where trade is performed by nurturing political relations. I recognize that studying this relationship is especially interesting in the case of Finland and Taiwan due to their special diplomatic relations. It is of interest to find out how the political framework created by the governments influences companies operating in Taiwan. The following sections examine earlier theorizing on the relationships between governments and companies.

## **2.1. States and companies in the global political economy**

As the aim of this thesis is to understand the influence governmental relations between Finland and Taiwan have on their business relations, it is essential to study the interrelationship between states and companies. This means that in addition to international business literature – which studies the operations of companies in international markets – also literature inquiring into relationships between states and those between states and companies need to be studied. As governmental relations inevitably entail aspects of politics, some theorizing discussing these aspects has to be covered, too. According to Dent (1999) theorizing on international political economy is the field of study that aims to understand the interrelationship between economics and politics in the world arena. Strange (1988) describes political economy as a way to synthesize politics and economics; it studies the effects states have on markets and market forces have on states. Thus international political economy studies often focus on issues such as foreign economic policy choices, economic development issues, and impact of international economics on domestic policies (Dent 1999, 2-3). Consequently, it is necessary to scrutinize political economy theorizing to form a background for the study of bilateral relations and to understand interaction between governments and companies better.

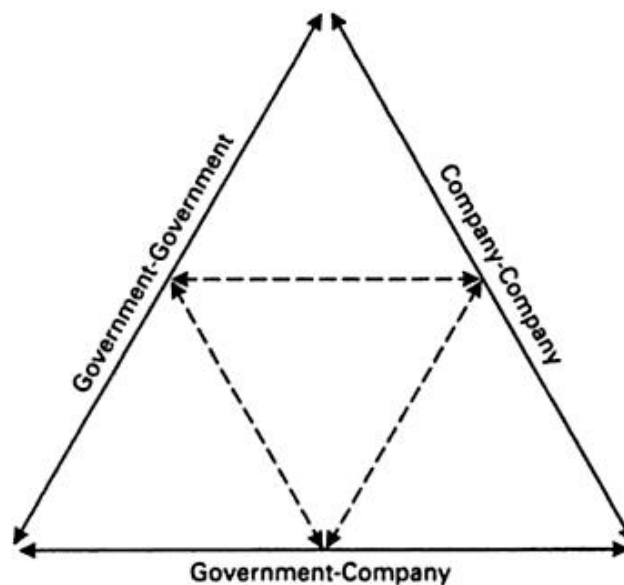
Strange suggests (1988, 42) that one studying international political economy should look into bargains made between different actors, such as the ones between authority and market. This is because trade between countries is being sustained by a complex network of “bargains between corporations and other corporations, between corporations and governments, and between governments” (Ibid, 234). The author (Ibid, 234) tells that these bargains emanate because both actors, a nation and a corporation, are dependent on the world markets in order to create wealth and survive, and thus they are bound to negotiate with each other. These trade related bargains include, for example, a trade-off for states over their security and commercial interests, including domestic political bargaining over access of foreign companies to national markets (Strange 1988, 161). Hence, it is useful to

look into bargaining relationships between governments and companies when studying bilateral trade relations.

Also other authors share a similar view with Strange. Dicken (2007, 19) tells that the world economy is structured by individual actions of states and firms and by the complex interactions between them. Korhonen (2005, 79-81) argues that the bargaining relationship between governments and companies is born from their differing interests, and that companies bargain with governments when they negotiate over the location conditions of the host country. Tian (2006), who studies inter-governmental relations and interactions between governments and businesses, tells that political economy of state-business relations is a process of complex interactions in which public and private actors interact with each other. It seems that trade is created and maintained by relationships that constitute of bargains. The network concept of business strategy (e.g. Håkansson & Snehota, 2006) shares a similar view with the theory, even though it is a different school of thought and does not share a similar theoretical basis. The network view sees that organizations are influenced by the environment they operate in; businesses are involved in a continuous exchange relationship with other organizations (Ibid, 187-190). Recognizing that other fields of study, such as the network concept, share a similar line of thought, builds validity for the use of this theory. However, theorizing on networks will not be a major theme of this thesis, as it does not fulfill the purpose of increasing the understanding of government roles in business relations. To conclude it can be stated that bilateral trade is influenced by the nature of relationship – what can also be called a bargaining relationship – between states and businesses. Consequently, this thesis will scrutinize the bargaining relationships between governments and companies in the case of Finland and Taiwan.

Stopford et al. (1991) elaborate on the issue in more detail, and create a model that depicts three relevant relationships between firms and states, which are government-government relations, business-business relations and government-business relations. The interaction of all three dimensions can, according to Stopford et al. (1991, 2), be called triangular

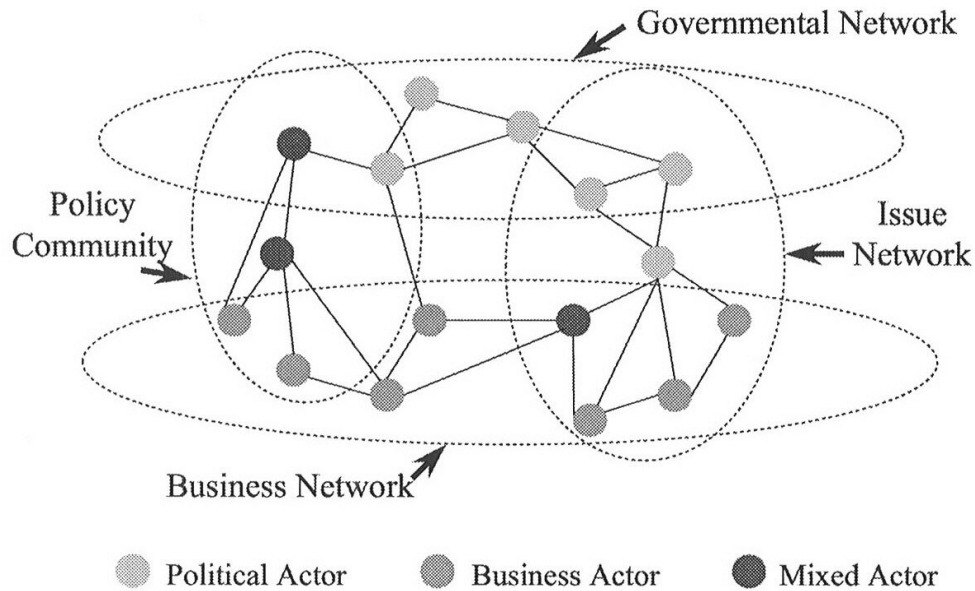
diplomacy and can be seen in the figure below. Stopford et al. (1991, 32) argue that states bargain among themselves for power and influence, in addition to bargaining with businesses for the use of wealth-producing resources and to seek investments. Firms, on the other hand negotiate with each other as they seek corporate alliances to enhance their competitiveness (Stopford et al. 1991, 2). The unofficial actors, such as business representatives and some governmental ministries, have been gaining a more central role in the bilateral relations between states compared to traditional actors, including embassies and foreign ministries (Stopford et al. 1991, 21).



**Figure 1: Triads of relationships.**  
**Source: Stopford et al. 1991, 22**

Other authors have created similar concepts than Stopford et al. (1991). Although industrial marketing and purchasing theorizing within the field of international business does not build on political economy per se, the similarities between the research fields regarding the role of politics and governments on business activities are plentiful. This can be seen in the model conceptualized by Welch and Wilkinson (2004). While studying the political environment of firms, the authors identify three types of networks involved. Their findings can be seen in the figure below.





**Figure 2: Connections within and between political and business networks.**  
 Source: Welch & Wilkinson 2004, 228

The first group of relations is inter- and intra-governmental networks including ministries, departments, state bodies and individuals of different countries and agencies. The second group includes inter-business networks that are interconnected exchange relationships of business actors. Finally, there are policy-business networks through which governments and firms interact with each other in order to develop and implement policies. (Welch & Wilkinson 2004) The authors (Ibid, 228) divide the interconnection between political and business actors into two different types of networks that have their own history: on policy communities and issue networks. Policy community is a term used by policy network literature and refers to a situation where firms have become partners to the government and have access to governmental decision-makers and thus direct input on the formation of policies. In contrast, issue networks are looser and within them companies have only irregular access to policy making. (Welch & Wilkinson 2004, 220-224). Political actors include bureaucrats, government ministers, members of parliament, etc. These actors can influence business networks either positively or adversely through facilitating or disruptive activities. (Ibid, 217-218) The authors (2004, 228) note that on the one hand political actors

can take economic positions and on the other hand business actors are able to play policy-making roles. Thus, they include a mixed actor in their framework. Nevertheless, for the purpose of this thesis the aspect of mixed actors is not elaborated on to a great extent.

It can be concluded that, even though Welch and Wilkinson approach the subject from a different point of view than Stopford et al., they develop a very similar model on the interrelationships between firms and governments. Accordingly, both of these models are used as guidelines for this thesis. This thesis looks into interaction between Finland's and Taiwan's governmental networks in order to study the countries' governmental relations, and to determine how these influence the environment where businesses operate in. Business networks between Finnish and Taiwanese companies are briefly researched to gain insights on their nature and the influence governmental relations have on them; if business contacts between Finland and Taiwan are of small scale or infrequent, then it is possible that the lack of official diplomatic relations has had an influence on them. Last, the relationships between Finnish companies and Taiwanese and Finnish governments are studied by looking into interaction between governmental and business networks.

Next, it is important to discuss the interaction between the actors, what can also be called bargaining as discussed earlier in this section. According to Dicken (2007, 233) the relationship between states and MNC includes both cooperation and competition. Cooperation is born from the actors' dependence upon each other. For example, states need production located in their territory to generate wealth and provide jobs, and firms need to produce in locations where they can control their operations (Stopford et al. 1991, 212). Thus the actors are bargaining over the control of and access to the key assets of the world economy, which include capital, technology, knowledge, labor, natural resources and consumer markets (Dicken 2007, 12). Cooperation is formed when interests of the parties match; in these cases states receive investments and companies establish control without disputes. Conflicts of interests arise from differing goals; firms sometimes want to change their location of production and states want to intervene on how firms exercise control

(Stopford et al. 1991) Furthermore, conflicts of interests occur when companies want to retain flexibility to be able to use labor force and move profits and production networks optimally, and states want to keep MNCs in the country to gain tax returns and benefits to the national economy (Dicken 2007, 233). It can be noted that also governmental and business relations include aspects of cooperation and competition. For instance, states have signed bilateral and multilateral agreements supporting trade in addition to competing with each other for FDI or regulating imports (Dicken 2007, 12). Multinational enterprises, on the other hand, compete with local companies over customers but also cooperate with them when they form supplier relationships.

When studying the relationship between governments and firms, it is useful to also briefly discuss theories dealing with the institutional side of the relations. Huang (1999) discusses Taiwan's state-business relations and argues that the institutional system of a country defines the nature of interaction between the government and companies. According to him (1999, 412) the interaction of state agencies and firms is determined by political exchange between the parties, "whereby bargains are oriented towards politically institutionalized patterns". Institutional theory recognizes that there is a tendency for government-business relations to institutionalize through policy communities, for example (Huang 1999, 412). The notion that government-business relations can become institutionalized through regular interaction is in line with the model created by Welch and Wilkinson, which is presented above.

To conclude, this thesis focuses on the study of interrelationship between states and businesses. The aim is to study the influence governmental relations between Finland and Taiwan have on Finnish business operations in Taiwan. It is of interest to find out if the inexistence of diplomatic relations between the countries has an effect on the operating environment of Finnish companies in Taiwan. The literature review and empirical discussion are divided into three sections following Stopford et al.'s (1991) model:

government-government relations, business-business relations and government-business relations.

## **2.2. Features of government-to-government relations**

Because businesses operate in environments created by governments, it is necessary to understand the context within which the Finno-Taiwanese business relations are formed. This context is shaped by government actions and the level of diplomacy between the parties. Several authors share the view that politics are an important factor influencing trade relations between countries (e.g. Strange 1988, Summary 1989). This is because bilateral relations are affected by the possible differences in commercial policies (Hufbauer et al. 1981, 136). Also, states' policies and openness to trade are dependent on their security concerns; states encourage trade with their allies and discourage it with potential rivals (Strange 1988). States are also able to regulate trade by rules that put certain social and political values above completely free trade in order to create more security and stability for the nation. Thus, trade in certain industries, such as drugs, might be banned and in others, such as alcohol, reserved to a chosen monopoly. (Ibid. 171) Tian (2006) points out the importance of politics to economic relations, as he examines government policies regarding trade and investment and state-business relations when studying economic integration between Taiwan and China. Consequently, it is seen to be purposeful to look into political relations of countries when examining trade relations. As political relations are generally executed on governmental levels, this section discusses the different methods through which the relations can be managed.

In the world economy states interact with each other and try to pursue their own aims. This creates bargaining relationships between states, as the states are involved in a competitive struggle to advance their position and status within the international community (Dent 1999, 2). Strange argues (1988, 40) that one set of bargains is made between governments of different states, and that these bargains are built on internal, domestic bargains. The

bargaining relationship between states can be called diplomatic relations, as diplomacy is bargaining between governments. Political diplomacy used by governments is the traditional measure through which bilateral foreign relations are governed. Political diplomacy measures include actions such as establishment of diplomatic relations, opening of embassies, state visits, and signing bilateral agreements. (Korhonen et al. 2005, 13) However, in addition to formal diplomacy conducted by diplomats, states can also engage in informal diplomacy and economic diplomacy (Bayne & Woolcock, 2007).

Economic diplomacy is created when states compete with each other to enhance their international trading position in order to gain a larger share of the trade related gains and to attract investments (Dicken 2007, 185). Governments can support operations of home country companies in international markets in order to gain advantages in the form of tax revenue, for example. However, states also collaborate with one another to achieve economic goals (Dicken 2007, 187). This interaction of states in economic affairs is referred to as economic diplomacy. As this thesis is interested in the influence governments can have on business relations, emphasis is placed on studying economic diplomacy in comparison to formal diplomacy. Economic diplomacy is conducted by official bodies, such as diplomats, ministries, bureaucrats, parliament representatives and government agency representatives, but it is also conducted by non-state actors such as businesses (Bayne & Woolcock, 2007). Economic diplomacy is often conducted to promote internationalization of home country industries (Korhonen 2005, 82). In practice economic diplomacy can mean arranging communication between two states in the form of official and business delegations and investment seminars and exhibitions. Other measures governments can use to promote internationalization of companies include services of the Ministry of Foreign Affairs, meetings and seminars led by government officials, and other kinds of supportive measures offered by trade centers and other public institutions (Korhonen 2005, 82). Generally, these measures gain more authority if a high-ranking government official, such as the President or a Minister, is present.

Economic diplomacy can be conducted to improve economic relations between countries. In the past years there has been a tendency towards greater economic cooperation among countries, which results from governments understanding that free trade is an essential tool in securing economic growth (Ietto-Gillies 1997b, 74-75). This has led to countries opting for more liberal international trade and foreign investment policies (Bouma 1996, 47). Consequently, governments are increasingly opting for policies supporting internationalization; many sign multilateral agreements on liberalizing trade and direct investment (Bouma 1996, 67). Multi- and bilateral agreements are important tools for economic diplomacy, as they can significantly improve companies' operating environment. States can also remove barriers to trade and investment through regional integration, of which examples are the EU, North American Free Trade Agreement (NAFTA) and the Association of Southeast Asian Nations (ASEAN) (Bouma 1996, 48). Nevertheless, the issue of regional integration is not discussed any further, as Finland and Taiwan are not members in any same significant regional group.

As mentioned, signing bilateral agreements is a central way through which countries can perform economic diplomacy and improve opportunities for companies to embark on international operations. According to Bouma (1996, 48) governments can sign bilateral investment-protection agreements, which protect foreign direct investments against adverse treatment, nationalization or expropriation by the host government. Furthermore, bilateral investment agreements usually guarantee free transfer of profits, international arbitration in the case of conflict between the host government and the foreign companies, clear rules in granting licenses, and a most-favored-clause (Bouma 1996, 48). Governments can also agree to avoid double taxation in the case of e.g. FDIs. According to Bouma (1996, 65) the fiscal relationship between the host and home country can affect companies' investments decisions; countries, which have an agreement with the home country to avoid double taxation, seem to be more attractive investment destinations.

To summarize, governments can interact through formal diplomacy, informal diplomacy and economic diplomacy. Formal diplomacy is conducted between some governmental bodies, such as foreign ministries and embassies. Informal diplomacy includes communication between other governmental bodies, such as ministries that are not typically responsible for foreign relations. An example is cooperation between two Ministries of Education. Economic diplomacy, on the other hand, can be carried out to influence bilateral business relations by actions that promote closer relations and make international operations easier for companies. These include bilateral agreements, delegations, visits et cetera.

### **2.3. Features of business-to-business relations**

In this section I discuss the second research question, which enquires into Finnish business operations in Taiwan. As business relations between countries are formed due to individual firms' international operations, theorizing on international business operations will be examined here. In order to understand the formation of business relations it is necessary to look into theorizing on the internationalization of companies; why firms internationalize and how they enter foreign markets and set up business relations.

#### **2.3.1. Reasons for companies to engage in international operations**

There are multiple reasons for internationalization decisions of corporations. In many cases companies seek to improve their competitive advantage and thus employ strategies including international trade and foreign direct investment (Cox & Grimwade 1997, 170). Some companies may pursue economic advantages, such as economies of scale and scope, margin or volume opportunities thereby trying to take advantage of excess stock or production capacity (Ibid, 10-13) or wanting to spread their operational risks (Meyer 1996, 10-14). Some companies enter foreign markets primarily to access new markets, opportunities or resources (Riportella et al. 2003, 384). Unattractive home markets can be a

push factor for internationalization (Meyer 1996, 13) since profits from national markets may not be sufficient and therefore companies are required to seek further growth from international markets (Strange 1988, 76). This is especially true for Finnish companies, because the national markets in most cases are too small to support a growing company. In some cases companies are following customers or competitors into international markets, or start international operations unplanned when they receive foreign orders (Meyer 1996, 10-14). Sometimes managers make the internationalization decision due to their personal aspirations, the organization's learning needs or political pressure (Meyer 1996, 9). Thus, the motives for internationalization decisions vary by the nature and situation of the company.

When companies engage in international operations, it is most likely that they need to cooperate with foreign companies. This is because hardly any company can operate alone in an international world; everyone needs suppliers, partners and customers. Narula (1996, 107) argues that international cooperation is partly born due to the need for inter-firm transactions in the value added chains; customer-supplier relationship is a typical example of a vertical agreement between firms at different stages of the same chain. Thus, in order to understand companies' international activities and operations in the host country it is important to take a look into international cooperation.

There are several reasons why firms choose to cooperate with local firms. By cooperating with local companies MNCs can reduce risks, as they can gain advantages from partners' market knowledge, ways of doing business and contacts with the government (Bouma 1996, 63). Other motivations include gaining economies of scale and access to technology, cost and strategic factors in addition to blocking competition (Narula 1996, 114). Smeets (1996, 82) adds that with the help of local partners companies can gain rapid access to markets, exploit complementary technologies and reduce the time needed for innovation. Some companies take the cooperation to a higher level and decide to form alliances with foreign counterparts. John (1997, 249) argues that alliances are formed increasingly due to



strategic reasons to gain competitive advantage in the forms of cost reduction, technology and product development, or product differentiation and marketing. Networking of MNCs through international alliances and cooperation is especially noticeable in R&D activities. Interestingly, governments have their hand on this development by encouraging the creation of joint research programs, which bring industries together. (Smeets 1996, 88)

### **2.3.2. Selecting entry modes when entering international markets**

This section discusses the range of feasible entry mode choices Finnish companies have when they are planning on undertaking international operations. According to Meyer (1996, 14) the ways in which companies internationalize differ; some companies internationalize only a part of their value adding activities, while others internationalize every aspect of the company. It seems that most academics agree that major decisions in international operations are related to choosing between serving the market with exports and serving it with local manufacturing (e.g. Smeets 1996). Other decisions that companies need to make are related to ownership of international operations; previous experience on international operations and large size support companies engaging in wholly-owned operations compared to low-involvement modes (Rizwan & Larimo 2004, 497-498).

Some factors that influence firms' decision making when choosing an appropriate method for their international operations are related to local regulation, size of the local market and local competitors and suppliers (Stopford et al. 1991, 67). The decision process is also influenced by environmental variables, such as country risk and location familiarity, strategic variables, which are related to cultural differences and scale economies, and transaction variables including the firm's knowhow (John 1997, 269). According to John (1997, 262) entry modes can be divided into three groups: export, contractual and investment entry modes. This is why in this thesis firms' international operations are divided and discussed in these groups.

First, using non-investment entry modes to enter foreign markets are discussed. Exporting is a typical method to serve international markets as it is rather simple and inexpensive way to internationalize. In fact, it is the most common way of doing business abroad for manufacturing firms, especially in the early stages of internationalization (Luostarinen & Welch 1993, 20). Exporting also offers concentration of production in the most suitable location and thus exploits economies of scale (John 1997, 263). The extent to which a firm becomes involved in the foreign markets depends on the number and kind of intermediaries used between the manufacturer and final customer; own and direct exporting require more involvement than indirect exporting (Meyer, 1996, 15). It is typical, especially for smaller firms, to operate through local agents in the early stages of internationalization as it allows for easier international penetration and minimal commitment to the export market (Luostarinen & Welch 1993, 29). Local agents and distributors offer their local knowledge and experience, but are also more expensive than own exporting (John 1997). Cases when firms establish sales subsidiaries to perform exporting activities are defined as investment entry modes in this thesis, as establishing an office in the host market includes commitment in the form of hiring personnel, for example.

Second, using contractual entry modes to engage in international operations are examined. According to John (1997, 264) contractual entry modes take the forms of licensing, franchising, technical agreements, management and service agreements, construction and turnkey contracts in addition to contract manufacturing and international subcontracting. In some cases several modes can be combined to create more extended operations. All these forms of entry include finding a suitable local partner to cooperate with, but the degree of involvement varies; technical agreements require more cooperation than licensing, for example. According to Luostarinen and Welch (1993, 120- 121) companies use contractual entry modes because they can strengthen a company's competitive advantage, give strategic flexibility, give better responsiveness to government policy, give better complementation of product range in addition to giving better penetration to foreign markets.

Last, investment entry modes, which require a rather strong commitment to the market are discussed. In this thesis, all subsidiary operations are defined as investment modes, as they require a continuous presence in the host market through hiring personnel, setting up offices and having direct contacts to customers. In many cases companies engage in investment undertakings after operating in the market through a less involving mode; when companies gain experience and information on the host market they might look into gaining stronger presence and commitment to customers through establishing a sales or manufacturing subsidiary, for example (Bradley 2005). Manufacturing operations, which are perhaps the most involving mode of operations as they require the management of a wide range of value-adding activities, allow companies to establish themselves more strongly into the market. Through local production companies can customize goods to the local consumers. Companies can start manufacturing operations in foreign market through green field operations, acquisitions of existing companies and joint ventures (John 1997, 265).

There are several reasons why firms engage in investments operations. Sometimes reasons are related to gaining access to markets, raw materials, cheap labor, or distribution channels, in addition to decreasing logistical costs, avoiding protective measures and enjoying incentives given by target country authorities (Luostarinen & Welch 1993, 173-177). In most cases however, the motive is to strengthen competitive advantages as investments can improve companies' position in core activities and clustering with other companies to create knowledge centers (Bouma 1996, 56-57). Also, through investments companies can maximize control and protect their technology and knowledge (John 1997, 266).

In some cases investing in a new market requires a lot of resources as the company needs to invest in e.g. production capacity, distribution channels, brand name and marketing efforts, which is why it can prove more effective to merge with or acquire an existing company (Bouma 1996, 57). This is because they can allow for rapid corporate growth, reinforcing

competitive advantage, aiming for scale and scope advantages, and pursuing market power (John 1997, 258). However, as Smeets (1996, 82) says, not all firms have the resources needed for mergers or acquisitions or want to bear the risks involved, and thus they may seek other collaborative arrangements or alliances. Also in strategic alliances foreign firms can benefit from existing technology, market knowledge, brand name and distribution channels of a domestic firm (Bouma 1996, 58).

Sometimes strategic alliances start as basic contractual technology agreements and evolve over time to form closer partnerships including equity partnership (John 1997, 248). According to John (1997, 248) traditional joint ventures can be characterized as formal partnerships resulting in new business entities owned jointly by two firms retaining their own identities. In some cases joint ventures are undertaken when governments strongly regulate foreign investments or otherwise interfere in the operations of foreign companies (Bouma 1996, 58). Nevertheless, strategic motives have become more important; companies with similar assets often aim at economies of scale or strategic action against common competitors, and those with complementary assets are in some cases targeting economies of scope (Narula 1996, 103).

#### **2.4. Features of government-to-business relations**

The second research question examines the relationship between governments and companies. It is crucial to examine how governments can influence businesses, and vice versa, in order to be able to assess the relationships between Finnish companies and Finnish and Taiwanese governments. As Strange argues (1988) that there are networks of bargains between states and companies, the interrelationship can be examined through looking at the bargains and interaction between the actors. Accordingly, in the following sections I look into the relationships between these two important players in economic relations. It should be noted that firms' operations have an impact on both home and host country economies and that this results in bargaining relationships with both instances, but as this thesis

focuses on the study of bilateral business relations, the home country relations are not elaborated on.

The relationship between businesses and states is a complex one, as companies can be both a partner and an adversary to governments (Strange 1988). Businesses want protection and subsidies from governments, but do not want to pay taxes or be regulated, while governments want investments, but only those that they see as beneficial to the economy. The actors' differing interests result in them bargaining with each other. Businesses bargain with governments to gain benefits, such as access to factors of production, financial incentives and acceptable level of political risks. Governments bargain for investments, transfer of technology, exports and employment. (Korhonen 2005, 81) Accordingly, the relationships between states and firms revolve around their relative bargaining power, which depends on the ability of one party to implement their preferred strategies (Dicken 2007, 236). This means that the bargaining power affects the actor's ability to achieve its goals. Dicken (2007, 240) argues that the bargaining strength of states affects the type and level of regulation they are able to impose and incentives they need to provide for the purpose of controlling and attracting firms, respectively. Conversely, the ability of firms to obtain incentives and operate according to their own wishes depends on their bargaining power (Ibid).

Dicken (Ibid, 242) lists three major components that affect the bargaining power of both actors. First, it depends on the negotiating status of the actors and second, it is a function of demand for resources that the other party controls. These include access to markets, natural resources and labor of states, in comparison to capital, employment creation and technology of firms. Therefore, the more attractive the market, the more concessions firms are willing to make in order to enter it (Strange 1988, 84); for example China with its large consumer markets is able to impose performance requirements on firms. On the other hand, if firms are looking for resources that are easily available, such as cheap labor, they have the upper hand in bargaining (Dicken 2007, 242). The third component affecting actors' bargaining

power deals with constraints, which affect the conversion of potential bargaining strength into control over outcomes. For example, the industry can be highly competitive or the state can be an important customer to the firm, which decreases the firm's relative bargaining power. The state's bargaining power is then again diminished if it has debt problems or the economy is highly dependent on foreign investments.

The bargaining relationship is also affected by profits and costs an investment causes to the respective parties. On one hand, bargaining over certain investments depends on the rate of return companies are going to earn. On the other hand, it depends on the host economy's accumulated cost for finding an alternative investor or managing without the particular investment. Consequently, if the investment climate is appealing or if there are several firms competing for the same investment the firm might accept a lower rate of return. Conversely, if there are multiple countries bidding for a particular investment of a firm, the bargaining power of any individual state is very low. (Dicken 2007, 237-238) According to Dicken (Ibid, 238), "competitive bidding" over limited amounts of international investments can result in "locational tournaments" between states. The bargaining process is complex due to firms' potential to change their production location and the multitude of parties involved on the state's side. Among the potential interest groups are domestic businesses, labor organizations, and civil organizations (Dicken 2007, 236). But for simplicity and the purpose of the thesis, states are considered as a single entity.

#### **2.4.1. Power of governments over businesses**

Since companies are subject to national regulation of countries when they enter their territory, there are some ways for governments to exert power over businesses. Sometimes especially governments of developing countries bargain with MNCs on the concessions corporations have to make in order to gain the rights to enter the market (Strange 1988, 83). The success of government regulation over corporations depends on the power of state, on the institutional links it has with the private sector and on the compliance mechanisms on

its disposal. When state policy is aligned with the interests of the private sector and dominant social institutions, there is a higher probability for it to succeed. (Tian 2006, 89) However, Tian (Ibid, 56) found in his study of Chino-Taiwanese relations that state policy can affect private strategy, but not determine it. This means that businesses are sometimes able to circumvent state policies that adversely affect their operations.

Governments can implement policies that either regulate the operations of foreign companies, or encourage them to invest in the host market. The policies chosen by a particular country are largely related to their governance model. According to Dicken (2007, 177) the different ways states can organize their economies include neo-liberal capitalism, exemplified by countries such as US, social market capitalism as it is pursued in Scandinavian countries including Finland, developmental capitalism as chosen by East Asian countries such as Taiwan, and communist-capitalist systems such as China. These governance models have different views on the role of the state. In developmental capitalism the state follows a national economic strategy whereas social market capitalism emphasizes collaboration between actors (Dicken 2007, 178). The governance model employed affects the perspective the state has on controlling and stimulating economic activities and investments within national boundaries and trade and investment on the international level (Ibid, 180). As a result the Finnish government is likely to employ less restrictive and more liberal policies than the Taiwanese one.

According to Stopford et al. (1991, 14) states can exercise both negative and positive power affecting companies. States exercise negative power when they disrupt and influence trade by controlling the entry of foreign firms to the national market (Ibid). In this thesis the use of negative power is defined as setting regulations. On the other hand, states exercise positive power when they try to harness internal resources and influence where and how internal production takes place (Stopford et al. 1991, 14). Employing positive power is defined as using incentives. Also, other schools of thought share a similar view on the ways in which governments can influence firms. Furthermore, Wu argues (2007, 278) that

governments can change companies' performance into a desirable direction by applying policy measures, which either indirectly influence businesses through changing market structure, or directly affect firms' conduct. Consequently, governments can either intervene on the operations directly or indirectly by setting general regulatory conditions. Dicken (2007, 234) argues that the most significant aspects states control are: terms that determine how firms can access markets and resources, and the rules of operation that firms must comply to when operating within national boundaries.

Reasons for governments to exert power over businesses include helping national economic development through foreign currency earnings, technology, knowledge and creation of employment, which lead to better competitive position in the world markets and thus to increased exports and income (Smeets 1996, 90). Additional benefits accrued to the host economy include economic development through gaining of capital and access to markets through the networks of MNCs, in addition to the impact of MNCs' operations on social, cultural and political aspects (Dicken 2007, 460). Furthermore, foreign companies operating in developing countries can have positive effects on the host economy's employment and human resources, as they often pay higher wages than local firms (Stopford et al. 1991, 187) and they teach new skills to the workforce and thus upgrade it (Ietto-Gillies 1997b, 85).

In addition, Cox and Grimwade (1997, 154) tell that nations in general want to attract firms doing value-adding activities in order to stimulate economic growth and succeed internationally. Governments can be also aiming at pushing foreign companies into stronger local responsiveness in order to achieve greater local entrepreneurial capability and reduced import costs (Stopford et al. 1991, 154). This can be done by insisting on involvement of local personnel in managerial positions, setting local content regulations (Dicken 2007, 182) and requiring companies to engage in a number of activities locally, such as research and development (Bouma 1996, 62). According to Cox and Grimwade (1997, 170) policies supporting productivity enhancements in value creating industries are more effective in



boosting nations' competitive advantage than defensive policies aimed at improving factor cost profiles.

There are some political measures through which governments can influence companies' operations. According to Dicken (2007, 180-183), policies that aim at intervening on economic activities of companies can be divided into trade, FDI and industry policies. Trade policies are concentrated on the terms companies need to comply to when exporting and importing goods across borders. These measures include tariffs and taxes in addition to non-tariff barriers, which encompass quotas, licenses needed for imports, customs procedures and legislation (Dicken 2007, 181). Additional trade policy measures encompass regulations related to health and safety, environment, distribution, packaging, and origin of goods (Bouma 1996, 62). Trade policy measures are generally applied in order to raise revenue and protect domestic industries (Dicken 2007, 181), but they make companies' international operations more costly, and can thus affect their location decisions.

Investment policies, on the other hand, are concentrated on either attracting beneficial investments or restricting harmful ones into the country. Investment policies can be divided into outward and inward policies. The focus of this thesis is set on the latter type, as the interest is on studying the Taiwanese operating environment. By providing incentives governments can attract companies operating in particular industries and boost economic growth. Therefore investments in the sectors, which best promote the development of the economy, are likely to receive more incentives (Smeets 1996, 90). Especially important are the strategic industries, which according to Smeets (1996, 91) are considered to be of fundamental importance to the development of economic potential of the country due to their technology intensity and spin-off effects to related industries.

Investment policy incentives include measures such as providing tax benefits and subsidies and setting up export processing zones (Bouma 1996, 47). Besides incentives, governments

can attract companies by employing stimulatory policies that can be applied selectively to a certain type of firm, industry, or geographical area (Dicken 2007, 183). Special incentives can also be offered to selected businesses; these include subsidies on investment or production costs and fiscal benefits or protection against competition (Bourma 1996, 62). Investment policy measures that regulate foreign companies are related to entry, operations, or finance of the firm (Dicken 2007, 182). Measures used for limiting entry include screening investment proposals, limiting foreign ownership and excluding foreigners completely or from certain sectors (Dicken 2007, 182). Thus government regulation on ownership, for example, limits the company's range of choices when it is evaluating different ways to enter and serve the market.

Besides trade and investment policies, states can also manage the national economy by macroeconomic policies including fiscal policies, which determine how companies are taxed, and monetary policies, which influence interest and exchange rates (Dicken 2007, 179) in addition to financial and industrial policies (Strange 1988, 77). Financial regulation affects the firm's interest on loans and opportunities to transfer the return on investment to the home country (Bouma 1996, 62-65). Thus free repatriation of capital and avoidance of double taxation in addition to clear tax systems make countries' operating environment more attractive. Industry policies that can have an effect on the operations of foreign firms include charges on labor – taxes and social insurance contributions – that affect the cost on hiring employees in the host country (Bouma 1996, 62). The potential industry policies are also related to regulation on mergers and competition, company legislation, taxation, national technical and product standards, and to state ownership of production assets (Dicken 2007, 184). Also policies related to anti-trust and patents further effect the operations of a MNC in a host-country (Strange 1988, 172). Generally it is reasonable to assume that the more regulated the market is, the less attractive it is for entering and investing. Thus decreasing administrative burden of companies is important in order to support their operations (Bouma 1996, 67).

Characteristics of the national economy influence its desirability as an investment and operating destination. Strange (188, 84) argues that the more social cohesion, political stability and economic growth potential a country has, the easier it is able to attract MNCs to act as partners. States can also attract more MNCs to the market through improving their entrepreneurial and investment climate by supporting sustainable growth, removing corruption (Stopford et al. 1991, 218-221), controlling government deficit, and investing in transport, communication, and knowledge infrastructure (Bouma 1996, 60-67). If the host government stimulates the sector that a foreign company plans to invest in, it is likely that the company is more willing to invest in the country (Bourma 1996, 60). States provide the physical infrastructure consisting of roads, railways, airports, seaports and telecommunication system without which firms cannot operate (Dicken 2007, 180). In addition, states create the social infrastructure, meaning an educated labor force and a set of laws and regulations, within which firms operate (Dicken 2007, 234). Governments can secure a good supply of labor by investing in education, and offer a flexible labor market by reducing taxes on labor, and streamlining regulations on working hours and dismissal (Bouma 1996, 67). Additional regulation related to labor includes labor union legislation and immigration policies.

Nevertheless, Bouma (1996, 67) argues that the most important aspect in attracting foreign investors is the provision of clear and reliable government policies and regulations which allow companies to have sufficient freedom to develop internationally competitive activities. These include offering same treatment for foreign and domestic companies and protection against expropriation.

To sum up, governments can apply power over companies by using regulation and incentives in order to gain benefits to the host economy, or to keep unwelcome companies outside the market. Intervention in business operations can be done by using policy measures that influence the operating environment of companies'. Trade policies concentrate often on increasing free trade by removing tariff and non-tariff barriers, and

thus make international operations easier. Investment policies, on the other hand, aim at attracting foreign investment into a country and might increase MNEs' willingness to enter the market. However, it should be noted that the excessive use of either incentives or regulations may result in adverse effects (Stopford et al. 1991). Regulations regarding performance requirements, for example, have the chance to be counterproductive (Stopford et al. 1991, 221). Regarding positive effects, incentives such as tax holidays and cheap subsidized credit may encourage companies to enter a market, but they usually are not the critical reason to influence a choice of location in one way or the other.

#### **2.4.2. Power of businesses over governments**

Businesses have been gaining more power in the global economy, which result in them having a better bargaining position than before. Globalization has its hand in decreasing the power of states; states can't control the operations of MNE's that happen outside its boundaries (Stopford et al. 1991, 14). If companies are not based on one predominant national location, but rather serve global markets through global operations, companies cannot be influenced to a large extent by national policies, and can escape all but the commonly agreed and enforced international regulatory standards (Hirst & Thompson 1992, 362). This means that it is more difficult for governments to impose national regulation on companies.

The increased bargaining power of businesses is related to their global nature; MNCs gain bargaining power due to their flexibility to move and ability to take advantage of geographical differences in the distribution of factors of production and government policies (Dicken 2007, 106). Some manufacturing companies choose locations to produce and market at a global level as strategy and opportunities dictate (Hirst & Thompson 1992, 362). Accordingly, MNCs can be characterized as footloose and potentially willing to locate and relocate anywhere in the world to gain either the highest or most secure returns. This results from their internationalized management and the lack of a specific national

identification. (Hirst & Thompson 1992) Also, Dicken (2007, 235) argues that as regulatory structures are different around the world, firms can try to circumvent them by shifting their activities to locations with a more appealing regulatory environment. For example, Bouma (1996, 67) points out that companies have increasing opportunities to move their operations to countries with a lower level of taxation and more flexible labor and environmental legislation. In fact, firms can engage in regulatory arbitrage, which leads states competing against each other as they try to win the investments of the MNC (Dicken 2007, 235). As a result businesses can gain bargaining power over governments due to their global nature and the scope of state's policies supporting domestic firms and regulating foreign ones narrows down (Dent 1999, 5).

As governments' influence on businesses decreases, governments lose bargaining power and companies obtain more of it. Thus, Dicken (2007, 106) argues that MNCs are increasingly important players in the world economy as they have become "the primary shaper of the contemporary global economy and a major threat to the economic autonomy of the nation state". Particularly powerful are MNCs that create trade through internal markets, i.e. inter-firm trade, in effect incorporating parts of national economies into their own organization and avoiding taxation through setting its own transfer prices (Dicken 2007, 235-238). Thus it seems that MNCs have managed to gain relatively lot of power compared to states.

Businesses have also been gaining a more important role in global policy making. Dent (1999, 10) tells that business representatives are increasingly involved in economic diplomacy when, for example, an investing firm seeks the best incentive package from potential host governments. Businesses also sometimes try to form good relations to influential politicians or senior civil servants in the host country in order to gain incentives or other benefits (Korhonen 2005, 81). According to Welch and Wilkinson (2004, 218) firms conduct political actions when they act as lobbyists of governments, and thus become quasi political actors. The authors (Ibid, 218) tell that through political activities firms can

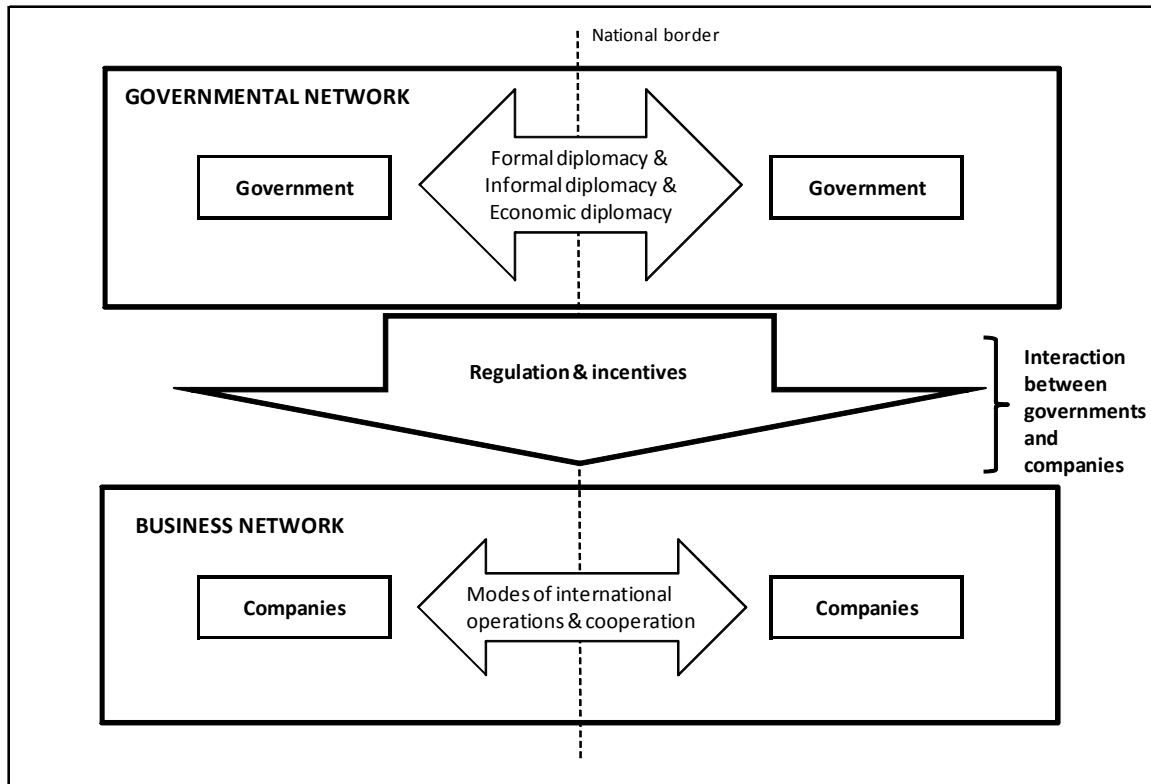
influence the formation and implementation of government policies and legislation. For instance, in Taiwan the government was forced to change their policy, which limited commerce with China, after the private sector exerted pressure on the government and continuously managed to evade the restrictions on economic interaction across the Straits through adaptive strategies (Tian 2006, 83). Stopford et al. (1991, 224) tell that in order to bargain effectively with governmental officials in the host country, businesses should use representatives with local expertise that act as corporate diplomats. Nevertheless, political actions employed by businesses are not elaborated on, because in this thesis the focus is placed on understanding governmental influence on companies, and not the other way around.

To sum up, firms gain bargaining power over states due to their flexibility to move their operations to a more appealing location. In general it can be stated that the scarcer and more valuable the resource that is being sought for, the more bargaining strength is gained by the holder of that particular resource (Dicken 2007, 242). The interrelationship between states and firms can be described as both cooperative and conflicting, as states need firms in material wealth creation, and firms need states in providing a supportive infrastructure (Dicken 2007, 245). Nevertheless, even though governments' relative bargaining power has been decreasing due to globalization, they still hold power over companies. Dicken (2007, 126) argues that despite firms having internationalized, many of them remain connected to their home base. As such they are geographically embedded and influenced by the socio-political, economic and institutional frameworks they operate in, regardless how influential and significant to the economy they are (Dicken 2007, 18). Therefore states will maintain in any case indirect power over firms through shaping these frameworks.

### **3. FRAMEWORK**

As the topic of this paper is set on studying business relations between two countries with a focus on international operations of companies, it is positioned within the discipline of international business. Thus, this thesis incorporates some theorizing which is rather typical for international business studies. These include research on internationalization decisions and entry modes. Another field of interest is bilateral relations and interaction between politics and business, which results in studying theorizing on political economy literature. Also, since political relations between Finland and Taiwan are studied, the thesis includes some aspects common to political science. Moreover, as the thesis relates phenomena to specific places, some aspects of geographical studies are incorporated. Additionally, some characteristics typical to historical studies are incorporated due to research on historical events between Finland and Taiwan.

A framework can be drawn according to theorizing as discussed in the literature review. According to Home (1993, 23-24) the purpose of a framework is to integrate the theoretical part of the study into the empirical one and thus guide empirical research. Consequently, the theoretical concepts are integrated into the framework and empirical research is carried out according to it. The framework, which is presented below, is modeled after the ones created by Stopford et al. (1991) and Welch and Wilkinson (2004). The framework differentiates between two types of actors – governments and companies – and between two separate countries.



**Figure 3: Framework on the role of governments in business relations**

First, it recognizes the existence of a governmental network between the governments of two countries. The governmental relations can be managed through formal diplomacy, informal diplomacy and economic diplomacy. These relations provide the framework within which businesses need to operate, which means that if the governments do not have good bilateral relations it is possible that the prospects for companies to engage in international operations are adversely affected. Consequently, the empirical section examines the nature of bilateral relations between Finland and Taiwan by studying formal diplomacy, informal diplomacy and economic diplomacy between the parties.

Second, the framework takes into account that business relations between two countries are created through business networks – relations between individual companies. When businesses engage in international operations they need to consider the mode of entry and



cooperation possibilities with foreign companies. The second research question discusses bilateral relations from the perspective of Finnish firms, thus the empirical study concentrates onto Finnish operations in Taiwan. The purpose of this section is to provide a more comprehensive understanding on the state of Finno-Taiwanese relations, as by studying companies operating in Taiwan and their operations, it can be seen if politics have influenced the business relations in a wider sense. The aim of the empirical section is to find out why and how Finnish companies enter Taiwan, what kinds of firms go there and what kinds of operations they have there, and what kind of operating environment Taiwan is.

Third, the framework recognizes that there exists interaction between governments and companies. Governments are interested in intervening in the operations of companies in order to gain benefits, such as investments into a particular industry. They can apply negative power through setting regulation and positive power through offering incentives. Accordingly, the influence politics can have on companies' operations is studied. It is recognized that companies can also influence governments by changing the environment they operate in through investments, but this issue will not be elaborated on in this thesis.

The empirical research related to government-business relations concentrates on studying how Finnish and Taiwanese governments can influence Finnish firms' operations in Taiwan. Accordingly, Taiwanese government policies targeted on intervening business operations are studied. These need to be examined because trade and investment policies determine the general operating environment of the country; if the Taiwanese government places a lot of restrictions on MNEs' operations they are not likely to enter the market. If the Taiwanese market is highly regulated Finnish companies might choose not to enter the market, regardless of how the governmental relations are. Therefore, by examining trade and investment policies the actual impact of non-existing diplomatic relations on business operations can be determined more easily. It would not be purposeful to study trade and investment policies employed by the Finnish government in this thesis, as they are the same

for all Finnish companies regardless where they operate. This thesis is interested in studying the relations between Finland and Taiwan in particular, and thus the empirical research concentrates on Finnish actions that have an influence on Finnish operations in Taiwan. Therefore special measures employed to advance Finnish operation in Taiwan are studied, but not general policy frameworks.

As governments provide the framework within which businesses operate, it is likely that if governments have good bilateral relations, then also businesses have better opportunities on forming good connections. As Finland and Taiwan do not have diplomatic relations, it is possible that Finnish firms have worse opportunities for conducting business in Taiwan, than in other countries. It will be of interest to find out if Finnish or Taiwanese governments influence the business relations through regulation or incentives, or if they promote the formation of business relations with some measures. It is also interesting to study the matter from companies' point of view; how they assess the effect of the relations between Finland and Taiwan on their operations. It is also possible that the relations aren't adversely affected by the lack of diplomatic relations. It might be that today after the Cold War Era business relations are governed through individual companies rather than through governments. If this is the case, then diplomatic relations do not have any significant influence on the trade and investments between the two countries.

#### **4. METHODOLOGY**

In this chapter the methodology used for this thesis is introduced. Some methodology guides (e.g. Eriksson & Kovalainen 2008, Ten Have 2004, Yin 2003) were read to familiarize with qualitative research methods. According to Eriksson and Kovalainen (2008, 16) methodology means focusing on specific methods, or ways, that are used in research when trying to understand a specific issue. Consequently, this chapter discusses the methods of data collection and data analysis that were used in order to find answers to the research questions.

This thesis is part of a research project of Center for Markets in Transition (CEMAT), which is a research unit of Helsinki School of Economics. This thesis contributes to CEMAT's research project, which enquires into business relations between Finland and Taiwan. As empirical research conducted for this thesis is also used by CEMAT, previous research material collected by the research unit could be accessed. This includes interviews, newspaper articles and information on Finnish companies operating in Taiwan. As my contributions regarding interviews and those conducted by CEMAT are overlapping, they are handled as one pool of resource and not treated separately. Previous research done by CEMAT has contributed also on the chronology of Finnish operations in Taiwan (see Appendix 2), but those sections are marked out by referring to CEMAT.

The research problem of this thesis is to understand the role governments play in guiding business relations in the case of Finland and Taiwan. Three research questions were used to find answers to this problem. What-question are used for the first two questions, as according to Eriksson and Kovalainen (2008) what questions are usually descriptive, and focus on exploring and describing states and situations. As the aim of these questions is to describe the nature of the governmental and business relations between Finland and Taiwan, it was seen to be purposeful to use these types of questions. A how-question was used for the last research question, as according to Eriksson and Kovalainen (2008) how-questions examine how something takes place and focus on causes and consequences. This type of question was used, because the purpose is to understand interactions of governments and businesses and how the political situation influences firms' actions and operations.

#### **4.1. Methodology for data collection and analysis**

Due to the nature of this thesis, it was essential to collect qualitative empirical data to be able to gain answers to the research questions. A case study research method is used, since it allows the research to retain holistic characteristics of real-life events (Yin 2004). As a case study is an empirical inquiry that investigates phenomena with real-life context, it allows the use of multiple sources of evidence in drawing results. These include observations, interviews, documents and reports. (Ibid) This section discusses the two methods selected for the collection of data for this thesis: interviews and textual data.

##### **4.1.1. Interviews as a data collection method**

According to Eriksson and Kovalainen (2008) qualitative interviews can be used as research vehicles to produce empirical material for the phenomenon under research. Thus, insights were gained by conducting and analyzing interviews as this research method allows the collection of large amounts of on-target information. On the one hand, potential firms to be interviewed were identified based on the chronology of business relations (see Appendix 2), since one aim of creating the chronology was to gain information on Finnish firms operating in Taiwan. On the other hand, information on suitable firms and persons was gained from newspaper articles, company web pages and directly from companies. A type of convenience sampling was used for the selection of interviewees, as several of the most significant Finnish firms operating in Taiwan were contacted for the possibility of an interview. As the number of suitable firms is approximately twenty, the pool is rather small. The employees that were interviewed were selected according to their knowledge about the firm's operations in Taiwan. The interviewed persons are experts in their fields and have personal experience on the matters under research. Hence, the in-depth interviews provided an opportunity for detailed information on the interviewee's experiences and reflections on the topic under research.

CEMAT promises anonymity for their interviewees, which allows obtaining more detailed information. This is because interviewees can talk more freely when they do not need to be concerned about revealing any sensitive data. Thus no detailed information about the interviews can be disclosed. This way the confidentiality of information gained can be guaranteed. As the number of Finnish companies operating in Taiwan is limited, the possibility of recognition is rather high. Consequently, the sector of the company or the position of interviewees cannot be disclosed. It can be told that the business representatives work in differing positions within their organizations, and the firms operate in several industries. Finnish officials refer to members of Finpro and Taiwanese officials to persons working in the Taipei Representative Office in Finland.

The following table depicts all the interviews, which were conducted for this thesis and for the CEMAT project. In total twenty interviews were conducted. The interviews were numbered according to the order they were undertaken; Finnish ones from one to thirteen, and Taiwanese ones from one to seven. In this thesis the interviews are referred to as FIN (x), for Finnish interviewees, and TAI (x) for Taiwanese interviewees.

	<b>Finnish official</b>	<b>Finnish business representative</b>	<b>Taiwanese official</b>	<b>Taiwanese business representative</b>	<b>TOTAL</b>
<b>Number of interviews</b>	3	10	3	4	20

**Table 1: Interviews**

The conducted interviews were mainly conversational semi-structured, guided interviews. A list of open-ended questions was prepared, but they were mostly used to guide and initiate the conversation. An example of the interview questions is presented in Appendix 1. It should be noted that as the conducted interviews were part of a larger CEMAT research, the interview questions cover a broader range of topics than this thesis discusses. The purpose of the interview questions was to act as a checklist to make sure that all important topics were covered. The interviews were led by the researcher, as it was necessary to make

sure that all important aspects were covered, but the interviewees were given a chance to talk freely.

The interview questions were chosen so that they would produce material, which could be analyzed to answer the research questions. Both what and how questions were used. According to Eriksson and Kovalainen (2008, 79) there are three types of interview studies, which are positivist, emotionalist and constructionist. The interviews included some aspects of all these three typologies. They were partly positivist, as the research questions were formed so that information and facts about the firms operation in Taiwan could be gained. The interviewees were by and large asked same questions, which were later categorized into groups to form an understanding of the nature of the situation. Some emotionalist interview approaches were used too, as the interviewees were asked to tell about their own views and experiences. The interview situations included also some constructionist approaches, as the interviews were mostly done in a conversational way. The preplanned questions were used to guide and initiate the conversation.

Some of the interviews were organized face to face and some via telephone, as the interviewees were working abroad. The interviews were conducted either in Finnish, English or Mandarin Chinese, depending on the nationalities of the interviewer and interviewee. The interviews were generally recorded on tape depending on the permission of the interviewee. This was done so that the interview process would not be interfered with writing notes, and to get more accurate results. The interviews were then transcribed word to word. A database of the transcribed interviews was formed so that they could be accessed at a later stage.

#### **4.1.2. Textual data as a data collection method**

Also textual data was used as a source of qualitative information for this thesis. This data includes transcribed interviews conducted by the researcher herself and other members of the research project, documents from the Finnish Ministry of Foreign Affairs, newspaper articles from Finnish publications Kauppalehti, Talentum, Talouselämä and Taloussanomat, in addition to company websites. Hence, the textual data used is both primary and secondary. Ten Have (2004) defines textual data as documents, and natural documents as data that exists also without the researcher. As he (2004, 6) describes natural documents as preservable records of text, image or sound, the official documents and newspaper articles fall into the category of natural documents. According to Have (12, 2004) research on historical processes often relies on documents, thus, this research method was considered to be appropriate for the formation of chronologies on Finnish-Taiwanese relations. This method was mainly used as complementing the information gained from interviews. It is practical to use documents as a supporting research methodology, as the information is easily available and accessible. The validity of information was ensured by using several sources, both Finnish and Taiwanese. All the textual data used was saved into research databases. This ensures that the researcher is able to return to the information and refine the findings.

The natural documents used for this thesis – newspaper articles, documents from the Finnish Ministry of Foreign Affairs and company websites – are public and available to everyone. It can be assumed that companies publish only information that they want to be generally known; thus there is no need to conceal the identity of firms when discussing information gained from these sources. Therefore, when referring to companies in this thesis the information is gained from secondary sources.

Also electronic research, i.e. online research, was conducted, as some of the textual data was mediated through computers. According to Eriksson and Kovalainen (2008, 97) a

category of electronic research is literature published in electronic media, such as Internet. This includes articles and working papers. This thesis includes aspects of the category, as several of the sources used for the literature review were articles that were accessed through electronic sources. Another category is existing electronic media on the Internet, including annual reports and company home pages (Ibid, 97). This sort of data was used when conducting empirical research, and especially when finding information about Finnish companies operating in Taiwan.

#### **4.1.3. Method of Analysis for the findings**

The interviews were recorded on tape, and the tapes were transcribed word to word to ensure the validity of the data. The transcribed interviews were coded according to specific topics. CEMAT has a software program for qualitative data analysis, which was used in the process for searching common topics from the interviews. After the data was divided into groups according to the topics, further coding was done manually to divide the material into more specific subgroups. The keywords and themes, which were used for coding, were selected according to the theoretical part. The literature review brought up certain themes that were seen to be central to the topic, and consequently the empirical section was constructed according to these themes.

The documents that were used as a source of data were mainly analyzed according to their context. Similar themes were sought out, and they were grouped together. Eriksson and Kovalainen (2008, 90) argue that when analyzing textual data it is useful to think about them in a poststructuralist way and detach them from the persons who wrote them or who were interviewed. This way the attention can be focused on the actual message of the text, i.e. on what is written, instead of focusing on guessing what the producer of the text might have meant, which often leads to over interpretation.



## **4.2. Reliability and Validity of the Study**

According to Eriksson and Kovalainen (2008, 41) theory can be defined as a collection of ideas and assumptions, which direct the way of doing research and are constantly redefined during the research process. As during this thesis process theoretical and empirical research was done more or less simultaneously, there was an "interplay between empirical data, interpretation and theory" (Eriksson & Kovalainen 2008, 41). This builds credibility for the contributions of this thesis.

According to Eriksson and Kovalainen (2008) reliability, validity and generalizability are classic criteria of good quality research. These criteria can especially be used to evaluate studies that are based on critical realist philosophy of research. As this research tradition is concentrated on studying the structures of the social world, this thesis can be classified into this field of study. (Ibid) Reliability is related to the consistency of the research results, and validity to the accuracy of the study. To ensure the reliability, i.e. that the findings of this study could be repeated if another researcher conducted the same study (Yin, 2003), the procedures used to conduct empirical research are documented and presented. Also extensive reference lists are provided in order to enable other researcher to continue the work. Triangulation, which is a procedure of using several perspectives for the refining and clarifying of the research findings (Eriksson & Kovalainen 2008, 292), was used in this study to provide good validity, i.e. correct results. This is why empirical data was gained from several sources.

As Pohtas and de Wet suggest (2000, 141) the validity of qualitative research is better ensured when the diversity of interviewees is taken into account. Thus, in order to gain insights from various points of view both Finnish and Taiwanese employees of Finnish firms, and both business representatives and officials, were interviewed. Also natural document were gained from several sources to ensure the good validity of the results. The sources include both Finnish and Taiwanese government offices and Finnish newspapers.

Taiwanese newspapers were not included into the sources due to the limitations of this study; researching these would have required more resources than were available. By means of using several research methods it was aimed at forming a comprehensive and holistic understanding of the phenomenon. Using multiple sources of evidence in the data collection phase also ensures the construct validity of the research (Yin, 2003).

External validity refers to the extent to which the empirical research results are generalizable and transferable beyond the particular study (Yin, 2003). As every Finnish company that operates or has operated at some point in Taiwan could not be interviewed due to resource limitations, there is a risk that the results presented in this thesis are biased by the opinions or experiences of some interviewees and thus do not apply to every case. However, this risk is mediated through selecting several companies to be interviewed, which decreases the likelihood of singular opinions biasing the results. Generalizability is also improved by studying several sources of information; interviews and documents. The advantage of documented information is that it can be reviewed repeatedly, whereas interviews provide in-depth information (Yin, 2003).

According to Eriksson and Kovalainen (2008, 299) good quality of the research can be improved by ensuring the circularity of the research process, which means that the research questions as well as theoretical and empirical framework are refined and reformulated throughout the research process. Hence, it was seen to be essential to refine the research questions after conducting the theoretical study so that they would guide the empirical research better.

### **4.3. Limitations**

Some limitations on accessing information were experienced when conducting the research. Due to the somewhat small number of Finnish firms having established operations in Taiwan, the pool of potential interviewees was not very large. Sometimes it was difficult to reach the correct person as they were positioned in a foreign subsidiary. Several of the persons that were asked to be interviewed refused. This caused some limitations on gaining interview material, since in the case of refusal of participation it was not likely that another suitable employee from the same firm was found. Also, when looking for Finnish interviewees in most cases there were not many candidates in one firm. This is because the main interest was on firms that have subsidiary operations in Taiwan, and these types of firms often employ Taiwanese personnel to their local operations. As firms do not often have documented information about their experiences, the firm employees acted as gatekeepers of research when they refused to be interviewed.

It should be noted that as information on companies operating in Taiwan was mainly gained from secondary sources, there is a chance that the results are slightly biased. It is possible that newspapers publish more information on Taiwanese operations in times when operating in Asia is a current and popular theme. Nevertheless, it is reasonable to assume that newspapers have reported the operations that have had the most significant effects on the Finnish economy. Thus it can be believed that this thesis provides a valid overview about Finnish operations in Taiwan. It was noted that there are significant differences how much Finnish companies publish information about their Taiwanese operations. Some companies only mentioned that they have an office in Taiwan, where as others extensively elaborated on the development of their operations. Furthermore, no up to date records from the Finnish Ministry of Foreign Affairs could be retrieved, as these are classified as secret for a certain period of time. Thus information on current governmental visits and affairs was only gained from the Taiwanese Bureau of Foreign Trade and newspaper articles.

## **5. EMPIRICAL FINDINGS, DISCUSSION AND ANALYSIS**

This section discusses the empirical findings in light of the theoretical notions studied in the previous chapters. Following the structure of the theoretical section, this section is divided into three main parts: governmental relations between Finland and Taiwan, business relations between Finland and Taiwan, and government-business relations between Finland and Taiwan.

### **5.1. Governmental relations between Finland and Taiwan**

This section discusses governmental relations between Finland and Taiwan in order to find out the characteristics of the framework that businesses operate in. The aim of studying government-level communication between Finland and Taiwan is to understand, how the lack of diplomatic relations affects the operations of Finnish companies in Taiwan. If there is relatively little exchange between Finnish and Taiwanese governments, it is possible that Finnish companies do not see Taiwan as an attractive market to enter. Reasons for this might be that the governments do not support companies' international operations in Taiwan or that Finnish companies do not have sufficient information about the Taiwanese market.

#### **5.1.1. Foreign relations of Taiwan**

As discussed in the literature review, governments can interact through formal diplomacy, informal diplomacy and economic diplomacy. To gain an understanding of the extent to which Finnish and Taiwanese governments can establish contacts, it is important to first look at the possible choices Taiwan has for forming relations with foreign countries. According to Mengin (1994, 148), the extent to which countries can develop bilateral relations with Taiwan depends on the attitude of China's government. If China feels that other countries recognize Taiwan's sovereignty, it can threaten to cut diplomatic ties with

the country in question. This leads to Taiwan's formal diplomacy choices being very limited since the few countries recognizing Taiwan as an independent country are of little importance in the international scene (Mengin 1994, 147). As a result, informal and economic diplomacy are more important for Taiwan than a formal approach.

Therefore Taiwan holds mainly informal diplomatic relations with foreign countries. Mengin (1994, 148) tells that the informal relations Taiwan can have include a full range of economic, cultural and scientific links, which have developed over decades and involve mostly substantial exchanges with North America, Western Europe, Japan and the Southeast Asian countries. For example, the EU and Taiwan hold informal relations. There is no formal diplomacy neither at member state nor supranational level, but the sides have established non-official institutions through which informal diplomacy has evolved (Dent 1999). Also, the unofficial relations the United States hold to Taiwan include relatively close commercial, cultural and security relations, which are maintained by lower level political contacts (Wolfowitz 2008). Wolfowitz (Ibid, 26) argues that the unofficial management of the relations works remarkably well.

There are some means how these informal relations can be governed. For example, instead of establishing embassies, what would be inconsistent with the "one-China" policy, foreign countries can set up commercial representative offices in Taiwan through which informal diplomacy can be practiced. Likewise, Taiwan can establish similar offices abroad. These commercial-based institutions often promote business, technological and cultural exchanges between countries. The representative offices do not hold the status of official diplomatic representative offices, but in practice they act as their substitutes and perform tasks usually reserved for embassies, such as issuing visas. (Dent 1999, 165) At the moment Taiwan has 92 commercial representative and branch offices that perform the functions of embassies in capitals and major cities of 59 countries. A total of 48 countries that do not share formal diplomatic relations with the ROC have established 58 representative or visa-issuing offices in Taiwan. (The Republic of China Yearbook 2008)

In addition to informal diplomacy, Taiwan can pursue economic diplomacy with other countries. For instance, the EU develops economic diplomacy with Taiwan within the confines of non-political ties. Dent (1999, 164-165) tells that its origins are in collaboration between companies in bilateral economic cooperation committees. Delegations from the European Commission and Taiwanese government hold informal meetings on issues related to bureaucracy and cooperation of industries (Ibid, 165-167). Consequently, Dent (1999, 165) argues that economic relations between the EU and Taiwan are in practice governed by business representatives and can be characterized as quasi-diplomatic. In addition, the Taiwanese government conducts economic diplomacy through promoting economic relations with other countries by signing bilateral agreements on trade and investments. However, these aspirations have not been very successful, as can be noted from the small number of bilateral agreements that Taiwan holds with other countries.

In 2003, it was reported that Taiwan holds double taxation agreements with 18 countries, including Sweden and the Netherlands (Bureau of Foreign Trade 21.4.2003b). In the same year it was also said that Taiwan holds agreements on investment promotion and protection with 27 countries, of which the only European country was Latvia (Bureau of Foreign Trade 21.4.2003b). It can be noted that many European countries do not have agreements promoting economic relations with Taiwan. Exceptions are Sweden and Netherlands, which in general pursue rather liberal policies. In comparison, Taiwan has been more successful in promoting economic relations with other Asian countries; it has arrangements with some Southeast Asian countries on mutual protection of investments, avoidance of double taxation, customs, aviation rights, and some further areas (The Republic of China Yearbook 2008). An exception is the ATA Carnet Agreement, which Taiwan was reported to hold with the EU, including Finland, in 2003 (Bureau of Foreign Trade 21.4.2003). ATA Carnet is an international customs document that cuts red tape as it allows the holder to temporarily import goods without payment. It is valid for commercial samples, professional equipment, or items intended for trade shows and fairs. Thus it makes commerce between

countries easier as customs procedures become faster. It can be assumed that as ATA Carnet is purely concentrated on commerce and is more similar to a customs document than an actual bilateral agreement, China does not see this as a breach to its “one-China” or “three no’s” policies.

Consequently, for Taiwan informal diplomacy and economic diplomacy are the major ways of interaction with other governments. The unofficial and economic links are often managed through business representatives. Taiwan has signed some agreements improving trade and investment relations with other countries, but not with Finland. The only agreement between Finland and Taiwan is ATA Carnet, which makes customs procedures easier for some goods. In the next sections, the relationship between Finland and Taiwan will be elaborated on more closely, including the conduct of unofficial diplomacy and economic diplomacy between the countries.

### **5.1.2. Bilateral relations between Finland and Taiwan**

In order to understand the environment within which relations between Finland and Taiwan develop, it is important to first look at the historic development of bilateral relations. Finland was one of the first countries to recognize the People’s Republic of China in 13.1.1950 and as a result the diplomatic relations between Finland and China were formed on 1.9.1950. Finland follows the “one-China” policy, which means that Finland cannot recognize Taiwan as a sovereign country. Consequently, recognizing the government in China as the legal one led to Finland not being able to form diplomatic ties to Taiwan. Thus to Finland’s foreign policy Taiwan has not formally existed after 1950. (Uola, 1995, 338)

Therefore, official diplomacy cannot be practised between Finland and Taiwan. Finland has been following a very careful policy in Taiwan-related issues. This approach leads to Finland not being able to sign agreements with Taiwan, for example. Reasons for this might be that Finland does not want to endanger its commercial relations to China. A

Finnish interviewee reflects on this by saying that Finland tries to “*avoid all kinds of conflicts related to the Taiwan question with Beijing*” (FIN 3). Another interviewee points out that “*Finland is a little bit careful in this, not to annoy, anger, big mainland China*” (FIN 10). Also a Taiwanese official emphasizes Finland’s careful approach when describing the bilateral relationship: “*I also believe that the Finnish government is also a little bit worried about the reaction of China so they don’t want to provoke the Chinese government*” (TAI 1). The strict policy Finland is carrying out might be a reflection of the fact that Finland was among the first western countries to recognize PRC as the legal governor of China, and since then the Sino-Finnish business relations have been valued high. A Finnish official explains the historical background of the situation.

*“Finland has been among the most careful countries towards Taiwan due to historical baggage because we have never recognized Taiwan; we haven’t had an embassy since we were one of the first ones to recognize Beijing’s communist government as the legal one [in 1950]. Many other [countries] have recognized the Republic of China and then moved their embassy to Taiwan, and later on recognized the communist China.” (FIN 3)*

In fact, Finland has been following a highly careful Taiwan policy, which is much more cautious than the one of several other European countries, such as Sweden (Isosomppi, 2006, 42). Besides Sweden, also some other European countries have closer connections to Taiwan than Finland. Among these are Germany and France (TAI 5), who hold good relations to both China and Taiwan. Thus, there might not be any real obstacle for the deepening of the relations. A Finnish official (FIN 3) is of the opinion that Finland and Taiwan have somewhat drifted to a situation of hardly any diplomatic contact, as no official decision neither prohibiting nor encouraging the formation of Finno-Taiwanese relations has been made. He continues that this might be a result of personal opinions of political leaders who have been in charge of Taiwan relations and have not seen any significant advantage in deepening ties with Taiwan resulting in the current state (FIN 3).



### **5.1.3. Unofficial diplomacy between Finland and Taiwan**

When countries engage in unofficial diplomacy it means, for example, that some representatives of states, such as members of parliament, meet to discuss matters relating to commerce, culture or education. Finland recognizing Taiwan as a sovereign country is a prerequisite for official diplomacy, but not necessary in the case of unofficial diplomacy, and therefore not required for forming commercial relations. Taiwan has been able to join some international organizations including WTO as a customs territory. Thus doing commerce with Taiwan does not necessarily mean doing commerce with a sovereign country. In this section the unofficial ties between Finland and Taiwan will be discussed further.

Until the 1980s there had been relatively few visits between Finland and Taiwan, and no official state level visits were allowed. This was partly caused by an incident in the 1960s. In 1968 Georg C. Enrooth, a member of the Finnish parliament, visited Taiwan on the invitation of the Taiwanese government, but without the knowledge and approval of the Finnish government (UM 16.9.1976). It was the first visit to Taiwan by Finnish officials since 1949. This visit caused a lot of uproar and no more visits took place for a long time, because Finland wanted to make sure not to risk its friendly relations to China.

Finland continued its careful approach to Taiwan in the 1970s. For example, the Finnish government forbid the use of the Finnish flag in a sports event in Taiwan, and the use of the Taiwanese flag or name Taiwan in Finland (UM 15.9.1978). The Finnish government has also been careful in admitting visas for Taiwanese travelling to Finland, even when their trip was of commercial or cultural kind (UM 16.9.1976, UM 22.9.1976). Despite the cautious policy, there are several cases when Chinese officials have reprimanded Finland for having too close connections to Taiwan. For example, China has not approved of a sports cooperation between Finland and Taiwan and the Chinese embassy secretary has said that to ensure the continuous friendly relations between Finland and China, Finland would

need to consider the level of its relations to Taiwan (UM 12.10.1978). Finnish officials have then needed to ensure that Finland is following the “one-China” policy and that the government does not support cooperation with Taiwan (UM 10.10.1978). It is interesting to note, that in this period all kinds of contacts between Finland and Taiwan, not only political, have been forbidden or strongly disapproved.

These incidents show that Finland has had to act very carefully in matters related to Taiwan in order to maintain good relations to China. Still in 1996 it was reported that Finland had impeccable relations to China; it was the only Western European country that had not done a minister-level visit to Taiwan (Kauppalehti 20.5.1996). Nevertheless, the strict policy towards Taiwan has loosened up, and Finnish parliament members are again making visits to Taiwan. One of the earliest visits – since 1968 – which records could be found of, was when three Members of Parliament visited Taiwan in 2001 (Ministry of Foreign Affairs 2001). In 2006, it was reported that the Taiwanese government offered free trips to Finnish parliament members, which has resulted in at least 15 visits during the previous representation period (YLE24 24.4.2006). Some other examples of visits are a delegation of Finnish parliament members meeting with the Taiwanese Minister Tu Cheng-Sheng in April 2006 (Ministry of education 2006) and a Finnish parliament member visiting Taiwan in March 2008 (Ministry of education 2008). In August 2006, the Secretary General and the Counsellor for International Affairs of the Finnish Parliament visited Taiwan at the invitation of Secretary General of the Legislative Yuan. The Finnish Parliament representatives were invited to Taiwan to give speeches and participate in forums for the improvement of parliamentary exchanges between the countries. (Ministry of Foreign Affairs 2006) One of the very recent visits done by Finns to Taiwan took place in spring 2009, when the Deputy Speaker and a Member of Parliament met with several Taiwanese Ministers (Ministry of Foreign Affairs 2009).

The first Taiwanese minister visited Finland in 2005, when the Minister of Economic Affairs led a delegation consisting of other government officials to the country (Bureau of

Foreign Trade 11.5.2005). Inviting a high-ranking Taiwanese political representative to Finland might be a result of Finland wanting to increase cooperation between the countries. A reason might be that the Finnish Prime Minister Matti Vanhanen from the Center Party launched a project in 2004, which recognizes the need for Finnish industries to develop networks with emerging technology centers, such as Taiwan, in order to pursue sustained growth. The Taiwanese delegation met with several governmental officials, and the parties expressed their willingness for further cooperation especially in the ICT sector. It seems that as the Finnish government concluded that cooperating with Taiwan could benefit the Finnish economy, they started to value closer contacts also on political fields.

As discussed earlier, in Taiwan's case business representatives have been important actors in performing economic diplomacy, which can be practiced through establishing commercial representative offices, for instance. In the late 1980s it was Finnish firms that took an initiative to establish an office representing Finnish businesses in Taiwan. The office was financed exclusively by Finnish companies, as the Finnish government could not take part in the project due to diplomatic reasons. Normally foreign representative offices are supported by the Finnish Ministry for Foreign Affairs, but at the time it was very careful not to provoke China by establishing any kind of diplomatic relations to Taiwan. Thus the responsibility of increasing trade between Finland and Taiwan was solely on firms in the 1980s. (Kauppalehti 7.4.1988) The initiative for the representative office came since companies were aiming at deepening their connections to Taiwan, and was motivated by the fast growing bilateral trade. (Kauppalehti 31.3.1988) The aim of the office was to improve and coordinate Finnish export activities in Taiwan (Kauppalehti 7.4.1988). Currently the commercial representative office is run by Finpro, which is a public organization aimed at aiding internationalization of Finnish companies. It has had an active role in promoting Finnish firms' operations in Taiwan by organized trips and offers consulting services. (Tietoviikko 17.1.2002)

Nevertheless, as the Finnish government is today practicing some informal diplomacy with Taiwan, it also takes part in the commercial representative office's activities. Besides commercial activities, the Finnish representative office in Taipei is also doing tasks usually reserved for embassies, including issuing visas and organization of events promoting bilateral relations (Kauppalehti 20.5.1996). A Finnish official (FIN10) tells, that Finpro does some work for the Ministry for Foreign Affairs, but does not employ any diplomats. Taiwan has also practiced informal diplomacy through establishing a representative office in Helsinki in 1990. The Taipei representative office's purpose is to strengthen the unofficial ties between Taiwan and Finland. It acts as an embassy but without the official status. It admits visas to Finnish persons needing them, for example. In theory the office represents only Taipei, but it is clear that in practice the office is representing the whole Taiwan.

#### **5.1.4. Economic diplomacy between Finland and Taiwan**

Countries can also practice economic diplomacy, which means that governments or business representatives engage in activities, which promote commercial relations between the countries. As Finland follows the EU policy of recognizing Taiwan as a commercial unit, commercial relations between the countries can be established. The trade has grown from year to year, especially the imports from Taiwan to Finland. In addition to commerce, the countries have had unofficial ties in education and missionary work for several years (Isosomppi, 2006). Also scientific, cultural and tourism links are promoted. Consequently, although formal diplomatic relations do not exist, there has still been a relatively lot of communication between the countries. In addition to examining commercial relations, this section will also briefly discuss cooperation in education and science.

Both state and non-state actors can practice economic diplomacy through actions that promote closer bilateral relations. These include commercially motivated delegations and visits. It is useful to provide an overview of delegations, so readers can understand the

nature of exchanges between Finland and Taiwan. The following tables (see Table 2 and 3) report visits made by Finns to Taiwan and vice versa, which records could be found of. It should be noted that it is probable that not all actual visits are included in the lists, but it can be assumed that the tables provide an adequate overview of communication between Finland and Taiwan.

Year	Visitor	Visited instances	Reason for visit	Source
1997	Business delegation organized by the Finnish metal industry association		Improve trade and opportunities of Finnish metal firms in Taiwan	Kauppa-lehti 9.5.1997
2003	Business delegation organized by Finpro, including Secretary General of the Ministry of Trade and Industry, Erkki Virtanen	Ministries and officers representing commercial activities, science park, research institutes, firms	Deepen business cooperation between the countries	Finpro 2003
2005	Tony Paso, an official from the Finnish embassy in Japan	Bureau of Foreign Trade	Gain information on Taiwan's economic development, the relationship between Taiwan and China, and Taiwan's integration into Asia	Bureau of Foreign Trade 13.12.2005

**Table 2: Finnish visits to Taiwan**

When examining Table 1, it can be noted that in the 1990s in Finland mainly commercial instances were interested in deepening the bilateral relations. However, a change in attitudes occurred in the 2000s, when Finnish governmental bodies started to invest in promoting business relations between Finland and Taiwan, too. The visit in 2003 was scheduled because in the past years interests in business cooperation between Finland and Taiwan had increased. Delegations and visits can be beneficial in promoting exchanges and closer cooperation between Finland and Taiwan, as they encourage increased communication. A company representative (FIN 8) tells that they have participated in delegations and ministry visits because the role of government officials in business is still rather important in Taiwan. This results from Taiwan being a developmental capitalism state, which means that the government guides economic activities to a certain degree

(Dicken 2007). In general, Asian business culture emphasizes the role of government in overseeing business activities more than Western business culture. This is why economic diplomacy and bilateral relations can have an effect on companies that operate in Taiwan's key sectors that are under governmental influence. In spite of this, the influence of governmental relation on business has been gradually decreasing. In 1996 a representative from the Finnish commercial office in Taipei told that ministry-level visits would probably have a positive effect on the business relations, but their importance was gradually decreasing; they would have been more important in 1990 than in 1996 (Kauppalehti 20.5.1996).

Year	Visitor	Visited instances	Reason for visit	Source
1995	Trade delegation	Business partners	Inform and attract Finnish companies into Taiwan. Gain information about Finnish society and economy	Kauppalehti 24.5.1995
1998	Delegation organized by CETRA (promotes Taiwanese suppliers and producers worldwide)	Firms	Explore cooperation possibilities with Finnish firms	Kauppalehti 15.5.1998
2004	Technology delegation of commercial professionals and academics	Science and technology centers, firms	Network with high-technology firms and science and industrial parks	Kauppalehti 20.9.2004
2005	Delegation of Taiwanese professors organized by National Science Council (promotes development of science & technology)	Government sponsored R&D center VTT, Helsinki University of Technology, elderly care centers, firms	Gain information about elderly care services and responses to problems created by the aging population	Kauppalehti 29.8.2005, Bureau of Foreign Trade 28.11.2005
2006	Delegation of Taiwanese suppliers of geriatric products organized by Taiwan External Trade Development Council (TAITRA)	The Commercial Division of the Taipei Representative Office in Finland	Explore opportunities for business cooperation, future partnerships with Finnish companies and export possibilities	Bureau of Foreign Trade 8.6.2006

2006	Science and technology delegation organized by Science & Technology Policy Research and Information Center	Academy of Finland, Science and Technology Policy Council, Finnish Funding Agency for Technology and Innovation, firms	Learn about science and technology policy in Finland	Bureau of Foreign Trade 23.8.2006
2006	Delegation organized by Taiwanese Council for Economic Planning & Development (CEPD)	Ministry of Trade and Industry, Ministry of the Interior, Ministry of the Environment	Gain information on reasons for Finland's competitiveness and on national & regional development plans	Bureau of Foreign Trade 9.9.2006
2006	Delegation of professors and researchers organized by the National Science Council	Academy of Finland, Finnish Funding Agency for Technology and Innovation, firms	Seek opportunities for technology development and cooperation, especially in "Super 3G" and application of wireless communication	Bureau of Foreign Trade 17.11.2006
2007	Delegation from the National Science and Technology Program for e-Learning	Ministry of Education, Finnish Funding Agency for Technology and Innovation	Observe development of e-learning, and seek future opportunities for cooperation with Finnish institutes	Bureau of Foreign Trade 30.3.2007
2007	Researcher from Industrial Economics and Knowledge Center	Firms	Gain information on industrial clusters, industrial development, and urban planning	Bureau of Foreign Trade 18.5.2007
2008	Research group from Industrial Economics and Knowledge Center	Ministry of Economy, Finnish Funding Agency for Technology and Innovation, City Government of Helsinki	Gain information on industrial clusters, industrial development, and urban planning	Bureau of Foreign Trade 28.5.2008
2008	Taiwan Business Alliance group from TAITRA	Firms	Attract foreign investments into Taiwan and to promote partnerships between Finnish and Taiwanese firms	Bureau of Foreign Trade 30.6.2008
2008	Inspector from Bureau of Animal and Plant Health Inspection and Quarantine	Finnish Food Safety Authority (Evira)	Gain information on Finland's export control of meat and hygiene administration, and expand bilateral trade	Bureau of Foreign Trade 21.11.2008
2008	Research team from Industrial Technology Research Institute (ITRI)	Technical Research Center of Finland, Helsinki University of Technology, firms	Learn about mobile application services	Bureau of Foreign Trade 15.12.2008
2009	Delegation organized by National Science and Technology Program		Seek opportunities for cooperation with Finnish institutes for the research and development of robots	Bureau of Foreign Trade 24.4.2009

**Table 3: Taiwanese visits to Finland**

When observing Table 2, it appears that the Taiwanese have been the more active counterpart in promoting bilateral relations to Finland by making visits. Taiwan seems to be willing to increase bilateral cooperation, as their officials have said that it would be important to strengthen economic and trade cooperation between Finland and Taiwan for the benefit of both parties. Taiwanese officials have also expressed that bilateral trade could be developed and increased through the exchange of visits of economic and trade officials. (Bureau of Foreign Trade 13.12.2005) Consequently, several of the Taiwanese delegations that have visited Finland have had commercial motives, as their main purpose has been to promote trade between the countries or increase company cooperation. It can be noted that the delegation, which visited Finland in 1995, met only with business representatives, and not officials, what possibly reflects Finnish government's careful policy towards Taiwan at the time.

When examining the reasons for Taiwanese visits to Finland, one can note that several of the visits have been motivated by knowledge seeking and information exchange reasons and that the delegations have often consisted of academics or officials working in governmental offices. The delegations have explained their trips by saying that they are interested in understanding why Finland has been ranked several times as one of the most competitive countries in the world. In most cases these delegations have visited Finnish ministries or technology centers in order to gain information. It should be noted that Finland has come to allow visits to governmental bodies as well, as long as they are concentrated on commercial or educational matters. It might be that Taiwan is actively pursuing informal and economic diplomacy, because formal diplomacy is out of the question in most cases. Also, as Taiwan probably does not want to be cast aside in the world economy, it often needs to be the more active part in forming relations if other states are more cautious.

Another important tool for economic diplomacy are bilateral agreements, as they can significantly improve companies' international operating environment, as mentioned in



literature review section 2.2. In spite of this, there are no significant agreements, such as investment protection and avoidance of double taxation, between Finland and Taiwan. This is probably a result from Finland's careful policy. A Finnish official (FIN 3) says that Taiwan is actively pursuing cooperation agreements, whereas Finland signs these only if they are seen to be beneficial to the country. A problem related to this is that there is no possibility for official agreements between Finland and Taiwan, as Finland does not recognize Taiwan as a country. An interviewee tells that Finland does not have a double taxation agreement with Taiwan, as the governments are not able to sign official agreements due to the lack of diplomatic relations (FIN 10). This most probably has an adverse effect on companies' operations, as they are taxed in two countries. Then again, apparently some companies have been able to circumvent the taxation issues in some ways. The interviewee also points out that some European countries, such as Sweden, have made agreements between representative offices instead of between governments (FIN 10). Thus, a way to circumvent the problem and practice informal diplomacy would be to sign bilateral agreements between private organizations instead between ministries, as suggested by one interviewee (FIN 3). Consequently, if Finland was willing to improve bilateral relations and therefore the operating environment, it would not be impossible to accomplish this. The careful approach Finland has adopted is hindering Finnish firms' operations in Taiwan also in this way. (FIN 10)

All in all, the bilateral relations between Finland and Taiwan have gradually become closer. A Finnish official (FIN 3) tells that a sign of this is the first Taiwanese minister-level visit to Finland, which occurred in 2005 when the Minister of Economic Affairs came to Finland. It might be that as some other European countries are able to form closer relations to Taiwan without getting condemned by China, Finland might be more encouraged to do this as well. Reasons for this would most likely be business opportunities, which would mean that commercial motives might advance economic diplomacy between Finland and Taiwan. Consequently, if Finland sees that having closer bilateral relations to Taiwan would be beneficial for its economy, then it might be willing to do this.

## **5.2. Business relations between Finland and Taiwan**

In this section the second research question, which enquires into the nature of business relations between Finland and Taiwan, is examined. Empirical findings on Finnish firms' operations in Taiwan are discussed with the context of literature review. The aim of this chapter is to form a general understanding about Finnish operations in Taiwan. First, it is examined why firms have chosen to enter Taiwan, and how these reasons have evolved over time. Next it is looked at the kinds of Finnish firms that have taken on international operations in Taiwan. Last, the nature of these operations and Taiwan as an operating environment are discussed. By examining these aspects it can be seen if politics have in practice been a significant determinant in Finnish companies' operations in Taiwan. For example, Finnish firms might exit Taiwan due to a changing political situation, or they might choose a less involving mode of operation because they are cautious about the cross-straits situation.

### **5.2.1. Finnish companies' motives to enter Taiwan**

Companies and officials have told several reasons why they think Taiwan is an attractive market to enter. It was noticed that these reasons have changed over time. Taiwan gained relatively lot of attention from the west in 1989, since the Tiananmen incident adversely affected China's reputation and western countries were looking for alternative investment opportunities (Kauppalehti 14.11.1989). In 1990s further reasoning included fast economic growth, democratization, good financial structure and liberalization of markets (e.g. Kauppalehti 20.5.1996). Accordingly, in 1990s Taiwan was seen as a rather central and important location in Asia, as China was less important at that time. A company representative (TAI 6) tells that the group was planning on establishing a regional distribution center in Taiwan in late 1990s due to the country's convenient location in East Asia. Other reasons included Taiwanese market being rather stable and liberalized

compared to other Asian countries. It has also been emphasized that Taiwan survived from the Asian financial crisis better than some other Asian countries (Kauppalehti 25.11.1997).

In mid 1990s Taiwan was also reported as being a good entry way to China, as Taiwanese businessmen had knowledge of China and experience on several industries (Kauppalehti 20.5.1996, Tietoviikko 171.2002). Even though the need for using Taiwan as an entry gate to China has decreased, as the business culture in China has evolved, some companies still rely on this. A Finnish business representative (FIN 13) tells that as several of the big enterprises operating in China are owned by Taiwanese, it is useful to keep good relations to their headquarters in Taiwan. By networking in Taiwan a company can gain more business opportunities in China. In addition, Taiwan can also be used as a base for getting used to the Chinese culture and mentality. An interviewee (FIN 10) tells that in Taiwan firms are able to learn about Chinese culture easily as Taiwanese culture is in a way a mixture of Chinese and western ones. This is an influence of American companies that have been operating in the market for years (Taloussanomat 25.11.2004). Also another business representative (FIN 8) says that to European companies Taiwan is an easier market to operate in than China. The company saw operating in Taiwan as a learning experience, as they got to know Chinese culture there.

Newspaper articles also portrayed a very positive image of Taiwan after the first democratic election in 2000. After it was noticed that China valued its business relations with Taiwan higher than political ones, business life started to be more at ease with investing in Taiwan. (Taloussanomat 29.3.2000) Some firms have noted the respectable size of the economy with 23 million consumers (FIN 13) and in 2004 a Finpro representative reminded Finnish firms that besides China, Taiwan is an attractive market to enter due to consumers' good purchasing power (Taloussanomat 25.11.2004). Taiwan has been mentioned to have better intellectual property protection rights than China (Kauppalehti Extra 18.9.2000). Further advantages of the market are the country's positive attitude towards foreign investments and strong investments into R&D, environmental

technologies and health care (Kauppalehti 25.11.2005). The Taiwanese market has also been characterized as a good location for firms selling luxury products, as there is demand for good quality goods (FIN 10). Some companies have not entered Taiwan due to a conscious decision, but because of customer requests and contacts. An interviewee (FIN 7) tells that the company was originally serving Taiwanese markets through Hong Kong office, but as customers were increasingly contacting the company it was necessary to establish a sales representative in Taiwan to answer to the demand.

In the early 2000s, the communication started to emphasize possibilities in electronics industry and Taiwan was named as the new Silicon Valley (Kauppalehti Extra 18.9.2000). It was pointed out that even though Finland and Taiwan both were operating in ICT industries, they were not direct competitors as their focus was different; Taiwan was mainly concentrated on semiconductor and electronics industries and Finland on telecommunications (Taloussanomat 18.11.2004). In 2005, it was said that Taiwan is an especially attractive market for SMEs focusing on technology, as it is relatively easy to cooperate with locals on both small and large scale production activities (Kauppalehti 29.8.2005). A Finnish company tells that the most attractive factor about Taiwan is its knowhow in electronics (FIN 12). Another company operating in the ICT sector tells that it entered Taiwan as it was following its customers (FIN 1). Also Perlos tells that it entered Taiwan since many of its important customers in the field of electronics are located there (see Appendix 2).

Also, as mass production was increasingly moving to China and other destinations with cheaper labor, Taiwan started to promote itself as a destination for research and development activities, which is supported by the well-educated workforce (Taloussanomat 25.11.2004). An interviewee (FIN 10) tells that some Finnish companies enter the market because it serves as a good test market; trends often move from Taiwan to China, so if a product is successful in Taiwan, it is also likely to do well in China. Nokia tells that an attractive feature of the Taiwanese market is its early adoption of new technologies. Further

reasons for Nokia to enter the market include Taiwan's strong innovation and developing capability, which makes it a good incubating environment. (see Appendix 2) In addition, Taiwan has high mobile phone coverage and penetration rates and highly skilled workforce in digital multimedia.

However, Taiwan's importance has been decreasing and other Asian countries, such as China, India, and Vietnam have been gaining increasing attention and investments due to their fast economic growth and cheap labor. Also political problems and the rise of labor and land costs have contributed to the decreasing importance of Taiwan (TAI 6). Other negative aspects of the economy have included the possibility of war in the cross-straits (Kauppalehti 20.3.1996) and problems resulting from overheating of the economy (14.11.1989). In 2005 credit problems of banks and heavy bureaucracy in FDI approving were mentioned as impeding on the operations of MNCs (Kauppalehti 25.11.2005).

A Finnish company representative (FIN 8) reflects on the decreasing importance of Taiwanese markets and tells that in 1990s Taiwan was rather important for the company as the regional office was located there. At that time the company was also considering on investing in the market. But as other Asian markets grew in importance and size relatively to Taiwan, the office was relocated to China. Today the company is looking at manufacturing in China and serving the Taiwanese markets with a local sales subsidiary. Another Finnish company tells that it used to have assembly and manufacturing operations in Taiwan, but these have been moved to other Asian countries in late 1990s. Reasons for this included the economic downturn in Taiwan and the economic boom in China. Furthermore, demand in Taiwan was not big enough to support the manufacturing activities, whereas demand in China was increasing fast (TAI 6). Decreasing demand in Taiwan has been a critical factor also to another Finnish company in diminishing Taiwan's attractiveness (FIN 11). Several companies have told that Taiwan attributes to only a fraction of their sales in Asia, but this share depends on the industry the firm is operating in. An interviewee (FIN 13) tells that due to the economic downturn and the Taiwanese

market becoming more mature and expensive both Taiwanese and foreign firms are relocating their operations to China. In consequence, most manufacturing activities have moved away from Taiwan to cheaper locations, and a Finnish official tells that it is not profitable to start manufacturing operations in Taiwan especially in labor intensive fields (FIN 10). To sum up, the increasing importance of China in the world economy, which is mainly attributed to its sheer size and the potential associated with it, has made Taiwan a less important business environment to Finnish companies.

In the 1980s Taiwan was a rather unknown destination in Finland, and this reflected on the amount Finnish firms there. In 1991 there were only 48 Finnish companies present in Taiwan (Vuoristo 1996, 60). Nevertheless, the international operations started to increase in the 1990s. A Finnish official tells that Taiwan was most popular among Finnish firms in the 1990s, when Taiwan was growing fast and China was still a less known area (FIN 10). In the 21<sup>st</sup> century the amount of Finnish firms operating in Taiwan has been rather stable, some have exited the market as others have entered (FIN 10). It seems that Finnish companies might have been following the global trend of establishing in Asia at that time. Even though the business environment in Taiwan improved after its accession to the WTO in 2002, the Asian financial crisis in 1997 and the SARS epidemic in 2002-2003 have affected the enthusiasm of foreign firms to enter Taiwan or other Asian economies. Despite the increasing efforts of Taiwanese officials in positioning Taiwan as an attractive market and business environment as explained previously, Finnish companies seem not to increase their presence in the Taiwan. Instead, many firms invest their resources in China or other fast developing markets. An exception to this is Pesmél, which is planning on opening a subsidiary in Taiwan in 2009. At the moment the firm has a sales representative in Taiwan, but it is aiming at establishing a stronger position in the Taiwanese market by providing technical services, spare parts and engineering support. (See Appendix 2)

### **5.2.2. Preferred industries of Finnish companies in Taiwan**

The sectors in which most Finnish companies have been operating in Taiwan have been changing over time. In 1997 it was reported that Finnish exporting companies that operated in East Asia were mainly in infrastructure, industrial capital goods or component and machinery sectors (Taloussanomat 19.11.1997). The first ones to enter the market were firms like Nokia, which were building the infrastructure or energy supply networks followed by metal and forestry industry (Taloussanomat 19.11.1997). When observing the business relations chronology presented in Appendix 2, it can be concluded that the structure is quite similar in Taiwan. Most Finnish firms that entered Taiwan before mid 1990s had already experience from Asia (Kauppalehti 20.5.1996). As the firms that entered Taiwan at that time were entering other Asian countries too, it can be assumed that the first-movers were mainly multinational enterprises, which chose Taiwan as a location as they were aiming at gaining a global presence. In early 1990s the trend started to change, and also Finnish small and medium sized enterprises (SME), which were mainly operating in component and machinery sectors, started to enter Asian and Taiwanese markets. These companies had competitive advantages due to their knowhow and high-class products. (Taloussanomat 19.11.1997)

When inspecting Finnish operations in Taiwan as a whole, the companies that have had the most successful operations in Taiwan have particularly been operating in industries related to ship building, pulp and paper, and ICT. Recently the trend has increasingly changed towards the ICT sector, as one interviewee (FIN 10) tells that Finnish companies that have entered Taiwan have largely been operating in ICT and life science sectors. ICT firms have been especially successful, as Taiwanese are willing to pay for high quality and advanced features (Kauppalehti 29.5.2005). The characteristics of exports from Finland to Taiwan reflect the significant position of ICT sector and ship building in Finnish operations in Taiwan. According to Finpro (2009), Finland's most important export category to Taiwan is manufactured goods, as they represent over 50% of the exports. The second most

important export category is machinery, appliances and transport equipments, which represent roughly 30% of the exports. Looking at exported products, the most important exported products are metals, appliances, paper and pulp, as well as steel and iron. (Finpro 2009)

Many mobile phone producers are located in Taiwan, which explains why Finnish companies operating in the mobile phone industry have had lots of connections to Taiwan. Nokia has been especially successful with its operations in the country and it has signed many contracts with Taiwanese firms and concentrated a lot of R&D efforts to Taiwan due to the high usage rates of mobile phones and the environment supporting innovative operations. Eimo and Perlos, which both were Nokia's Finnish subcontractors, were acquired by Foxconn, which is a subsidiary of the Taiwanese group Hon Hai, and Taiwan-based Lite-On, respectively. The aim of the Taiwanese groups was to get closer to Nokia through these acquisitions. (See Appendix 2)

Taiwan still offers business opportunities for Finnish firms in several sectors. According to Finpro (2009) Finnish firms have good opportunities in ICT in the following fields: application programming, testing equipment, broadband channel systems, authentication technology, network applications, microcircuit design technology, digital technology and programs, and mobile internet services. In the environment sector opportunities reside in the sectors of water supply technology, biotechnology and technology for the prevention of environmental catastrophe. In transportation and logistics industries the attractive sectors are light rail transportations, ITS technology systems, steering systems and smart cards for transportation. In biotechnology the opportunities are in agriculture, pharmaceuticals and bio chip development. Also metal industry with automation systems, key component manufacturing and fine-mechanical technology, can be interesting for Finnish firms. Other attractive fields are semiconductors, nanotechnology and micro chip technology sectors. (Finpro 2009) The aforementioned sectors are attractive, as either they are invested in by



the government, they are not yet saturated or strongly competed in, or they have potential Taiwanese customers or subcontracts.

To conclude, Taiwan is quite competitive in producing semiconductors, electronic components and LCD screens, so Finnish firms could find strong partners or customers from these sectors. In general, Finnish companies can find opportunities in several fields, but they should search for niches, as said by a Finnish interviewee (FIN 10). In 2005 a representative from Finpro said that Finnish companies would have good opportunities in cooperating with Taiwanese firms in the creation of technological innovations, as the country is largely focusing on commercialization of inventions (Kauppalehti 25.11.2005).

### **5.2.3. Finnish companies' entry modes into Taiwan**

As discussed in the literature review in section 2.3.2 there are several entry methods firms can choose from when starting international operations. Some of the entry modes include less involvement in the foreign market, such as indirect exporting, and some require more, like manufacturing operations. Also, some entry modes include more cooperation with local partners than others. For example, some Finnish firms have built up partnerships with local agents who distribute their products, whereas some firms prefer to operate independently and have set up wholly-owned subsidiaries. Stopford et al. (1991) argue that firms' entry mode decisions are influenced by local competitors and suppliers. If there are already several competitors in the market, it might not be a good decision to enter it with a very involving entry mode. On the other hand, if there are good suppliers available, it might be more attractive to start operations in the market. As John (1997) argues that entry modes can be divided into three groups – exporting, contractual and investment modes – in this section I discuss Finnish operations in Taiwan accordingly.

### **5.2.3.1. Using non-investment entry modes in entering Taiwanese market**

According to Luostarinen and Welch 1993 the most common way of doing business abroad for manufacturing firms is exporting. This fits also Taiwan, as according to Finpro (2009) the most popular way for Finnish firms to do business in Taiwan is to export through a local partner. Around 120 firms were doing this in the spring of 2009. Also, an interviewee (FIN 10) tells that there are quite a lot of Finnish firms exporting to Taiwan with the help of a partner. In mid 1990s it was reported that most Finnish companies entered Taiwan with the help of a local agent, which they in most cases have met at an international trade fair (Kauppalehti 20.5.1996). Indirect exporting, which means using a local agent or distributor, requires the least amount of involvement and investment in the local market (Meyer 1996). Hence, firms that do not want to or do not have the resource to invest in the Taiwanese market might have chosen exporting operations. SMEs tend to prefer exporting, as it is a relatively simple and inexpensive way to start international operations (Meyer 1996), especially if the business volume is small in the beginning. Another advantage of it is that it is easier to start international operations through a local distributor, who has knowledge and experience on local culture (John 1997). Examples of Finnish firms operating in Taiwan through distributors are Vamp, Singulase and Vaasan & Vaasan (see Appendix 2). Another example is a company that tells it is using wholesalers in Taiwan (FIN 11). Its sales activities are controlled through its Hong Kong office, so the firm does not have strong presence in the Taiwanese markets.

The second most typical mode of entry into Taiwan for Finnish firms is own exporting, as approximately 60 companies were doing it in 2009 (Finpro 2009). In these cases the firms might travel from Finland for their sales activities, serve the market through another Asian office, or either have a sales subsidiary in Taiwan. Companies having sales subsidiaries in Taiwan are discussed further in the investment entry mode section, as this mode require stronger presence in the Taiwanese market than the other forms. It seems to be rather typical that the sales activities in Taiwan are controlled from Asian regional office, which

can be located e.g. in Hong Kong, Shanghai or Singapore. According to John (1997) exporting allows firms to concentrate their production activities in one place and thus create scale advantages. This might be the reason for several Finnish firms serving the Taiwanese market through another Asian subsidiary.

#### **5.2.3.2. Using contractual entry modes in entering Taiwanese market**

Using contractual entry modes, such as licensing, franchising, management contracts, contract manufacturing and subcontracting have been less common methods of entry for Finnish firms into Taiwan, as e.g. no records of licensing or franchising operations were found. Nevertheless, some Finnish firms have engaged in contractual operations with Taiwanese firms. A common feature for these is that they require cooperation with a local partner (John 1997). For example, Wärtsilä signed in 1985 a cooperation agreement with state-owned Taiwan Machinery Manufacturing Corp on technical assistance and knowhow on diesel engines for boats (see Appendix 2). Wärtsilä has also engaged in project operations with a Taiwanese company, as in 2004 it agreed on a turnkey project with Chunghwa Picture Tubes worth of 34 Million Euros. Another company that has had turnkey operations with a Taiwanese firm is Nokia, who won a deal as turnkey supplier of Chunghwa Telecom's third generation network in Taiwan in 2002 (see Appendix 2).

According to Luostarinen and Welch (1993) some firms engage in contract manufacturing or subcontracting operations, in which the product or parts of it are produced by a foreign partner, in order to enjoy competitive and strategic advantages. For example, by engaging in these activities firms can gain access to cheaper or more versatile components. When examining the chronology of Finnish operations in Taiwan, presented in Appendix 2, it seems that there are some Finnish companies that have Taiwanese subcontractors. An example is Amer Sports, who has a branch office in Taiwan, as its wireless wrist computer was assembled by Taiwan-based High Tech Computer Corporation in 2003. Also GeoSentric, which was operating as Benefon until summer 2007, agreed on a

manufacturing partnership with Taiwanese GSM handset manufacturer ASMobile in 2006. (see Appendix 2) Besides agreeing on subcontracting or contract manufacturing operations, Finnish firms have also sourced materials and components from Taiwanese firms. These include E-P:n LVI Oy, who has had Taiwanese subcontractors, and Sormat Group, Théhuone and Tietoasema, who source materials and goods from Taiwan. As Taiwan is a big bicycle producer, some Finnish bicycle retailers, such as Fillarikellari Oy, buy most of their products from there. (see Appendix 2) Sourcing operations will not be discussed here further due to their minimal involvement in the Taiwanese market.

### **5.2.3.3. Using investment entry modes in entering foreign markets**

Establishing a sales branch in the foreign markets is a common way for firms to increase their presence in the foreign markets and control the sales activities. After companies have gained more experience in the market, they sometimes choose to set up own operations. This seems to be a somewhat common development in the Taiwanese market. A Finnish firm tells that it first entered Taiwan through an agent, and then started to build up a sales network in the country with the agent's help. The company emphasizes the importance of the local partner in the early phases of establishing operations in Taiwan, but that later on it was seen more beneficial to operate alone (FIN 8). As reported in Appendix 2, Wärtsilä is another example, as it entered Taiwan already in the 1970s through local agents. Wärtsilä gradually increased its involvement in the Taiwanese market, and it established a wholly-owned subsidiary in 1991. In 1994 Wärtsilä expanded its operations by opening a new service department there. These actions to increase its involvement in the Taiwanese market seemed to pay off, as the company gained further orders and customers. Nokia started exporting to Taiwan already in the late 1980s, and started to increase its involvement in the market gradually, which allowed it to gain further contracts during the next two decades. Currently Nokia is the most active Finnish company in Taiwan. (see Appendix 2) Another firm was originally operating in Taiwan through an agent, but needed to establish a sales and service subsidiary there to serve its customer due to a major contract

(FIN 12). It seems that as firms gain a stronger presence and customer base in a country, they often choose to engage in more involving operations, as these allow them to capitalize better on their market success.

Firms do not always go through every step of the learning process, but start investment operations from the beginning by establishing a sales subsidiary there. Currently several Finnish firms have sales branch offices in Taiwan. These operations include more involvement in the local market than serving them through indirect exporting, as they include investments and hiring personnel. For example, a Finnish company entered Taiwan by opening a sales and service subsidiary there (FIN 9). Another company entered the market by acquiring a Taiwanese firm (TAI 6). A third firm, which had entered Taiwan already in the late 1980s, established a representative office there that was managed from the Singapore office (FIN 13). Other Finnish firms having sales and/or sales branches in Taiwan include Kuusakoski, Metso, Outokumpu, Perlos, Silecs and Tecnomen (see Appendix 2). Many of the companies tell that they have established subsidiaries in Taiwan in order to increase sales and serve customer better by providing after sales support. Thus providing service appears to be an integral reason for establishing an office in Taiwan; also an interviewee (FIN 13) tells that their representative office in Taiwan mainly takes care of sales and customer service. Nevertheless, not all firms are too keen on acquiring a strong presence in the Taiwanese market. A firm tells that it only has a sales subsidiary in Taiwan, which is not an actual business unit but a representative office that mainly takes and monitors orders and arranges transportation (TAI 7).

Investment entry modes include control of manufacturing plants or other productive facilities in foreign markets. From 1952 to October 2005, 10 Finnish companies had invested in Taiwan (Bureau of Foreign Trade 13.12.2005). Some Finnish companies have invested into Taiwan in the forms of Research and Development activities. For example, Nokia has two R&D centers in Taiwan and also Rapala has R&D activities there (see Appendix 2). According to Bouma (1996) motives for FDI include clustering with other

companies to create knowledge centers. This seems to be one motive for Nokia, as one of its R&D centers is a joint program with Taiwan's Institute for Information Industry and Chunghwa Telecom for the development of new 3G content for mobile phones (see Appendix 2).

Acquisitions are an investment entry mode preferred by some companies, as they allow for rapid growth and market presence (John 1997). In late 1990s Huhtamäki acquired an Australian firm, which had a sales office in Taiwan. By acquiring an existing company Huhtamäki accessed its existing distribution channels and marketing resources, and did not need to establish them itself. It was one of the first Finnish companies to start sales operations in Taiwan. The aim of the acquisition was to strengthen Huhtamäki's presence in the Asian region. Kone, on the other hand, established manufacturing operations in Taiwan by acquisition of a Taiwanese company. The acquisition allowed Kone to start manufacturing operations quickly, as the company did not need to build up the production facilities itself. However, the manufacturing plant was closed in 1996 due to small demand and unattractive business environment and at the moment Kone serves the Taiwanese market through a sales subsidiary. (see Appendix 2)

No evidence of current Finnish manufacturing operations in Taiwan was found, so it can be assumed that no Finnish company is manufacturing in Taiwan at the moment. Thus, it seems that Finnish companies have chosen to serve the Taiwanese market with exports, which originate either from their home country, Finland, or from another foreign location, which in many cases is China. Many companies seem to think that Taiwan is not an attractive enough market to start manufacturing operations there. This might partly be due to the close proximity of China, as many firms seem to prefer China over Taiwan, and partly due to Taiwan's market conditions.

Joint ventures are a form of investing in foreign markets, which lead to forming strategic alliances with foreign firms. Tecnomen had formed a joint venture with Taiwanese

PanWare International Corporation in 1997. But, the only current joint venture between Finnish and Taiwanese firms is the plant in China owned by Aspocomp and a Chin Poon. (see Appendix 2) Entering China with a Taiwanese partner was seen beneficial, as this way Aspocomp got assistance in terms of language barriers, knowledge on the local authorities, and familiarity to the local business culture. It might be that there is no need for Finnish companies to establish joint ventures in Taiwan, as the Taiwanese market is not very regulated. Besides joint ventures, firms can also form different kinds of strategic alliances. In some cases strategic alliances involve contractual technology agreements (John 1997). These kinds of strategic alliances seem to be common for Nokia, who has been rather active in forming cooperative agreements in Taiwan (see Appendix 2). For example, it has cooperated with a Taiwanese operator, Chunghwa Telecom, on several occasions in developing new products and services. Another Finnish firm who has a strategic alliance with a Taiwanese firm is Rapala, as it has signed an exclusive supply agreement with a Taiwanese manufacturer Yao I (see Appendix 2). Rapala also acquired a brand of Yao I, because it was aiming at accessing the manufacturing and development capabilities of the Taiwanese company. This strategic alliance benefitted both parties, as through it they could access complimentary capabilities.

There are several factors that can affect the decision process of a firm when it is choosing an appropriate entry mode for its foreign operations. Stopford et al. (1991) argue that factors affecting firm's entry mode choices are related to local regulation, size of the local market, and on local competitors and suppliers. As the Taiwanese market does not regulate the ownership of foreign firms to any major degree anymore, it seems that Finnish companies have preferred to set up wholly-owned enterprises when they have wanted to gain an established presence in the market. However, regulation has also diminished firms' willingness to establish manufacturing operations in Taiwan; high tariffs between Taiwan and China make producing in Taiwan unattractive. Also the size of the local market is a factor in decreasing the attractiveness of manufacturing operations, as the Taiwanese market seems not to be big enough to support manufacturing operations on its own. John

(1997) argues that the decision process for choosing an entry mode is also affected by how familiar one is with the location. As Taiwan is not very well known for Finnish companies, they might choose less involving modes, such as indirect exporting, due to lack of information. It might seem too risky to invest in a location you do not have knowledge about. Another factor affecting the entry mode decision making is the perceived riskiness of the country (John 1997). It is possible that some companies do not want to engage in investment operations due to possibilities for conflicts in the cross-straits. They thus prefer a less involving mode, such as operating through a distributor.

#### **5.2.4. Taiwan as an operating environment**

In this section I briefly discuss Taiwan as an operating environment from the perspective of Finnish firms. It seems that employing local personnel is valued high in Taiwan. For example, an interviewee (FIN 13) tells that their Taiwanese subsidiary employs local personnel and managers, but they have regular contact either to the Finnish headquarters or to the regional headquarters e.g. in Hong Kong, Shanghai or Singapore. Also, after Wärtsilä (see Appendix 2), had been operating in Taiwan for several years and had stabilized operations there, it employed its first Taiwanese managing director there in 2000. Currently it seems that firms prefer to employ local personnel in Taiwanese offices, but control the operations from Finland. Smaller companies with less established operations, on the other hand, seem to prefer Finnish staff in their Taiwanese operations.

In late 1990s it was told that Taiwanese customers are very price sensitive but at the same time require good quality. Still several company representatives point out that price is the most important aspect when operating and competing in Taiwan: “*in Taiwan customers look only at the price*” (TAI 7). This may result in margins being very small, and negotiations over prices can be hard (Kauppalehti 16.5.2000). The business environment has also been described as profit seeking and being a good test market for new products, as the Taiwanese are very open-minded for trying new things. (Taloussanomat 20.2.1998)



It appears that some Finnish companies who entered Taiwan early on – in the 1980s – had at first problems on convincing Taiwanese firms to become their customers. For example, in UPM's case Taiwanese firms were suspicious about the quality of the products, and if the Finnish firm would be able to deliver products to the other side of the world on time. Nevertheless, these obstacles were overcome by the persistent work of a local agent, who managed to create a respectable reputation for UPM. (Appendix 2) It can be noted that especially in the early phase of a market entry it can be beneficial to use local personnel in creating relations to customers and business partners, as they have knowledge on the local market and can take advantage of their personal relations. In addition, several Finnish firms have emphasized the importance of building personal relationships with local firms (e.g. TAI 8). Networking is important, as common contacts help to build trust with new partners. (Taloussanomat 20.2.1998) Also an interviewee points out that investing to the relationship with local partner is important (FIN 10). In East Asia showing your commitment to your customers and partners is central in creating good business relations. When UPM resolved its customers' problems quickly, they saw that UPM is a long-term partner to be relied on. This led to improved and closer relations between UPM and its Taiwanese customers. (see Appendix 2) Wärtsilä, on the other hand, opened a subsidiary with sufficient personnel to Taiwan in order to demonstrate that customers can rely on the stability of the relationship and on the availability of service and maintenance (Taloussanomat 20.2.1998).

In Taiwan the percentage of state-owned enterprises among major companies is relatively high, especially in key sectors like steel, petrochemicals and IC manufacturing. Due to the characteristic of Taiwanese economy, Finnish companies operating in these fields have needed to hold good relations to the Taiwanese government in order to secure contracts. For example, Wärtsilä has made several deals with Taiwanese state-owned enterprises. However, an interviewee (TAI 5) points out that the government cannot influence the decisions of state-owned enterprises to a large degree, as the firms are governed by board of directors and not by governments. There are no major problems in participating in public

projects; foreign companies can take part in government procurements, as the Taiwanese government has to ask for tenders and buy from the lowest bidder. Though, these procedures are normally conducted in Chinese, so foreign companies might have difficulties in participating on the bidding process. (TAI 5)

It appears that some Finnish companies, which in general have had globally successful operations, have managed to establish stable positions in Taiwan. It seems that the longer a company has been operating in the country, the more respectable reputation it has gained and the more established its operations have become. When doing business in Asia a long-term approach is especially important, as it proves to the locals that the foreign company is respectable and in the country to stay. Successful performance with a Taiwanese partner has often led into long-lasting cooperation and recurrent contracts; for example Nokia has managed to build valuable relationships with Taiwanese firms. Also Wärtsilä has had long-lasting operations in Taiwan, as it has been operating there for already more than 20 years, and the latest developments include gaining new orders from Taiwanese customers. (Appendix 2)

### **5.3. Government-business relations between Finland and Taiwan**

In this section the relationships between governments and businesses in the case of Finland and Taiwan are examined. It is useful to study the relationship between governments and firms by looking at how one actor can influence the other. This is why policies employed by the Taiwanese governments are examined. This section will also inquire the effect that a lack of diplomatic relations has on companies. Thus, the aim is to find out if the political situation has influenced Finnish companies' operations in Taiwan.

### **5.3.1. Influence of Taiwanese government over companies**

Governments can influence the operations of businesses in different degrees. Wu (2007) tells that the extent of industrial policy measures vary from country to country, and the degree of intervention can extend from minimal selectivity of certain industries to overall planning, and from measures affecting one sector to market wide guiding measures. In Taiwan the degree of state intervention has decreased over time. In the early development phases from 1950s till 1980s the Taiwanese government guided the economy rather strongly in order to accelerate industrialization and develop exports (Stopford et al. 1991, 61). KMT pursued proactive economic policies guiding the decision-making of Taiwanese companies, for example, by prioritizing key sectors for investment, promoting development of new industrial capabilities, and promoting firms in international markets. (Dent 1999, 154) According to Pao et al (2008, 324) the export promoting and industrial development strategies have led to successful economic development and earned Taiwan a place among Asia's "four tigers".

However, the general attitude towards state intervention has been changing, as Dicken (2007, 438) argues that there has been an increasing tendency towards lesser regulation in the world economy as national markets have gradually opened up to trade and investments. Taiwan has also been following this trend, and the government started to reduce intervention in the 1990s by decreasing the role of the public sector. (Pao et al 2008, 324) The market liberalization resulted e.g. in privatization of several state-owned enterprises (Ibid) and deregulation of investment policies (Korhonen & Kettunen 2006). Also interviewees have noticed this development in Taiwan; one person (TAI 3) mentions that the market is opening up with the aim of attracting firms and another one (FIN 10) says that it is being deregulated. Also, the service sector is being developed and the banking sector deregulated (FIN 10). Another reason for the decreased intervention of Taiwanese government might be its loss of bargaining strength due to the rise of China; as many

companies are more interested in operating in China than Taiwan due to larger markets, the Taiwanese government has had to make the market more attractive by deregulating it.

The World Trade Organization (WTO) accession in 2002 has liberalized the economy further, as Taiwan needs to comply with trade and investment policies set by it. For example, tariffs on agricultural and industrial products have been lowered, public sector procurements have been opened to foreign firms, and quotas on foreign ownership ratios have been raised in telecommunications industry and lifted altogether in privately owned power plants. Furthermore, financing and insurance sectors have been opened up to foreign competition. (Finpro 2009) One business representative (TAI 6) tells that import tariffs have been lowered in many sectors due to the WTO accession, and protection of domestic manufacturers in light and heavy industries has significantly decreased. According to another interviewee the Taiwanese government is trying to attract foreign investments by tax reforms and incentives (TAI 5). In general, the state intervention on economy in Taiwan has been decreasing as the economy has developed and democratized.

In spite of the decreased intervention by the Taiwanese government, it is still performing more active economic policy than many western governments, because it aims at nurturing economic growth by attracting foreign investments. According to Pao et al. (2008, 326) today's Taiwan can be characterized as a free economy with some elements of central planning due to government involvement in maintaining market order and developing industries through state-owned enterprises. The government adopting an overseeing and supporting role in economic activities is typical for a developmental capitalist state, as discussed in section 2.4.1. According to Hung (1999, 414-415) the developmental state role in Taiwan can be seen in the governance of market by centralized planning and management of national resource distribution to ensure the growth of important industries. It is likely that the supporting role of the Taiwanese government has promoted economic growth in the country (Wu 2007). Taiwan has also practiced sector specific regulation and incentives. State intervention in selective industries is usually dependent on the stage of

economic development of the country; in Taiwan the sectoral targeting has moved from labor-intensive industries to heavy and chemical industries and then to industries emphasizing research (Wu 2007, 277) Wu (2007, 277) adds that the Taiwanese government has long been closely involved in the economic activities of sectors such as steel, petrochemicals and IC manufacturing.

The Taiwanese government is employing interventionist policies aimed at attracting foreign investments as they are important for the economy; according to Zhou and Tong (2003, 132) Although Taiwan is a technological power in its own right, it is still dependent on MNCs for core technology and market. Accordingly, Taiwan has a positive attitude towards foreign investments and it offers FDI incentives (Finpro 2009). For example, if companies start R&D activities in certain fields, they can receive tax concessions (FIN 10). According to Hung (1999, 423) the government employs some measures aimed at encouraging FDI in capital and technology-intensive industries due to the importance of foreign investments on its economy. To attract investments into R&D functions the Taiwanese government offers incentives including low-interest financing and preferential tax schemes to companies setting up R&D centers in Taiwan (Taipei Representative Office 2007). Hence, the Taiwanese government is practicing an investment policy that emphasizes especially high-technology sectors (Korhonen & Kettunen 2006).

As discussed in literature review section 2.4.1, the operating environment of a country can be made more attractive for foreign companies by certain actions, such as investing in infrastructure and restraining inflation. According to Finpro (2009) the Taiwanese government has traditionally been rather successful in holding down the inflation rate despite the fast economic growth. The Taiwanese government allocates investments into selected industries, which include business and consumer services. This is done for the motives of nurturing talents, amending regulations, and encouraging investment in addition to promoting internationalization. In addition, budgetary resources are allocated to selected

industries for promoting foreign investment and international cooperation. (Taipei Representative Office 2007)

In general, the Taiwanese government is aiming at improving the investment environment in Taiwan. In 2007 measures used for this include tax holidays, tax deductions or exemptions in some cases, duty-free import incentives and the like. ICT industry infrastructure can be rather attractive in Taiwan, as the government is investing in it and there are several strong firms operating in the field. Thus there can be good prospects in finding Taiwanese partners, subcontractors or customers in the sector. An interviewee (TAI 3) tells that especially information technology, microelectronics, computers, and mobile phone manufacturing as well as high-level GPS satellite positioning are rather well invested in and competitive compared to rest of the world. Another interviewee (FIN 3) tells that there are several development programs, for example in nano- and biotechnology. The government has also established a “Taiwanese Silicon Valley” to support R&D in high-tech industries (TAI 3).

Another example of an investment policy measure aimed at attracting foreign investments is the establishment of Hsin-chu Science-based Industrial Park in 1980, which offers foreign firms an environment with rather good infrastructure and investment incentives including tax holidays. At the time of the park’s establishment its purpose was to boost knowledge transfer and linkages between Taiwanese and foreign firms, and thus an entry criterion was to engage in development and engineering activities. (Hung 1999, 423) Establishing science parks seem to have been beneficial for Taiwan’s economy; Korhonen and Kettunen (2006) tell that Taiwan has been more successful in attracting foreign investments by science parks than by applying incentives.

The government is also applying trade policies to improve the international operating environment. To create a free, smooth trade environment without obstacles the Bureau of Foreign Trade announced in 2005 that they will implement a Trade Facilitation Plan. The

aim is to simplify and harmonize international trade procedures and use electronic means to achieve paperless trade, in order to shorten the entire trade process, lower distribution costs, and enhance global competitiveness for products. (Bureau of Foreign Trade 19.1.2005) The Taiwanese government is also trying to take advantage of Taiwan's central position in East Asia and create international logistics and distribution centers, operations headquarters and international purchasing offices in Taiwan. The government is using investment policies, such as assistance on obtaining land, low-interest loans and tax exemptions, in addition to trade policies eliminating burdens to business, which include simplified trading, customs clearance, and shipping procedures, in order to attract MNCs. In addition, the government aims to increase and develop Free Trade Zones in Taiwan to accommodate world-class logistics and high-value added manufacturing facilities. (Taipei Representative Office 2007)

As discussed in the literature review, countries can also attract foreign companies by creating a generally favorable operating environment. The Taiwanese government is doing this by improving the general infrastructure of the country. For example, the finance sector is under improvements by consolidations in the banking sector and restructuring of the financial market (Taipei Representative Office 2007). Also, in 2007 there were development projects in transportation, high-technology, higher education, cultural creativity, harbors, water resources and sewage management (Taipei Representative Office 2007). Well-educated labor force is an important resource for a country. According to Lin (2003) Taiwan's government invests significantly in education, which results in high quality labor force and an attractive investment environment. By the year 2000, over 60% of the workers had at least senior high school degree, and almost 27% had college degree. The government also focuses on providing education in the fields of science and technology, which results in a big amount of science and engineering graduates. (Lin 2003, 215) The education strategy adopted by the Taiwanese government supports the county's aim on becoming a center for high-technology related industries.

Nevertheless, as the Taiwanese government is still regulating some areas of the economy, there are still several ways how it could improve its investment climate and thus attract more foreign companies. As discussed in literature review section 2.4.1 host governments can control companies operating in the country through direct interference or indirectly through general regulative environment. A regulation that directly interfered with foreign companies' operating opportunities was a policy, that in 1998 restricted foreign ownership of Taiwanese firms; foreigners could own only 30 % of Taiwanese companies (Taloussanommat 20.2.1998).

Today the Taiwanese government mostly intervenes through general regulative policies, which create barriers to foreign investments. An aspect is that there is heavy bureaucracy related to foreign investments (Korhonen & Kettunen, 2006, 58). Besides heavy bureaucracy, the banking systems is not functioning well (Finpro 2009). An interviewee (TAI 3) tells that *“there might be obstacles (...) for foreign business, foreign business investors, because they cannot 100 percent be sure whether the financial banking system in Taiwan is stabilized enough”*. Another interviewee (FIN 10) tells that the bureaucracy is related to getting approvals for products, for example. Also Wolfowitz (2008, 29) says that the regulatory environment is somewhat chaotic and needs updating. For example, the energy market is in a need of a reform due to unreliability of electrical supply. Another welcomed change would be a tax reform to reduce burden accumulated to firms; in 2008 the corporate income tax rate was at 25%. (Ibid) Also, an interviewee (FIN 12) tells that taxation in Taiwan is rather high in some sectors, which affects the profitability of operations. Korhonen and Kettunen (2006) also mention that some improvements would be needed in the protection of intellectual property rights.

Several of the regulations that hinder companies' international operations in Taiwan are related to China; the Taiwanese government has not been very encouraging of business cooperation between China and Taiwan. Thus Finnish companies that have operations both in China and Taiwan might experience some difficulties. As discussed in literature review



section 2.4.1, the investment environment of a country is more attractive if there are no problems in repatriation of profits. However, an interviewee (TAI 3) tells that there have been problems in transferring capital between Taiwan and China. This is why some people have needed to repatriate profits through Hong Kong into Taiwan. One factor that decreases the attractiveness of Taiwanese market is related to high tariffs between China and Taiwan. An interviewee (FIN 11) tells that it would not be worth to start manufacturing operations in Taiwan, as most of the products would need to be exported as Taiwanese market is not big enough to buy the whole production. When tariffs are high between China and Taiwan, exporting from Taiwan to China would be unreasonably expensive. Thus, it is better to manufacture in China; its large market guarantee that only a fraction of the production is exported.

Nevertheless, the Taiwanese government has come to be more supportive of operations between China and Taiwan. The deregulation has led to the establishment of direct flights between the countries. A company representative (FIN 13) tells that Taiwan and China have become much closer during the past year, which has led to travelling becoming a lot easier between the regions. All in all, regulations in the Taiwanese economy exist but do not hinder companies to any major degree, as in 2004 the market was described as relatively easy to enter; it was said that it is easy to establish an office and there is relatively little bureaucracy (Taloussanommat 25.11.2004). Also an interviewee (FIN 13) tells that the company does not experience that there would be any major barriers to investment in the Taiwanese economy.

To sum up, Taiwanese government used to employ state-led industrialization and thus directed business activities by regulation and incentives in 1980s and 90s (Hung 1999, 414). It however gradually liberalized the economy by deregulating investment policies and by practicing more attractive trade policies. These actions have been motivated by the increasing need for foreign investments into the Taiwanese economy. Thus, specific industries are selected for the receiving of incentives; Taiwan is especially interested in

attracting more R&D functions to the island. In general it seems that Taiwan is offering more incentives than it is applying regulation.

### **5.3.2. Influence of companies over Taiwanese government**

It seems that in Taiwan's case companies have a relatively high bargaining power. This can be seen from the policies employed by Taiwan; the government is actively trying to attract MNEs into the market by offering incentives and improving the investment climate. Dicken (2007) argues that the relations between state and companies depend on the relative bargaining power of each counterpart. The relative bargaining power of a state is a function of several issues, including the attractiveness of its investment climate compared to other states. The attractiveness of Taiwan's market is not very high when compared to its neighbors; China is a huge market that offers a lot of market potential, and countries like Vietnam and Indonesia offer attractive manufacturing locations with their cheap labor and inexpensive costs. Accordingly, it was found out during empirical research as stated earlier that some Finnish companies were relocating their investments from Taiwan to China. Moreover, it seems that one of the biggest factors affecting foreign firms' decision not to invest in Taiwan is related to China; *“so, we lost some foreign investment, not because our business environment is getting worse, it's because that mainland China's uprising”* (TAI 5). As companies are increasingly choosing to enter China instead of Taiwan, the government is losing bargaining power compared to companies.

As discussed in literature review section 2.4, another major factor that creates bargaining power is the possession of valuable resources. Taiwan cannot offer to any major degree some of the most significant resources that companies want, such as large markets, plentiful natural resources or cheap labor. On the other hand many MNCs possess resources that Taiwan wants, namely capital and employment creation. In addition, bargaining power of firms depends on the number of companies competing for the same investment. It was found out during empirical research that not many Finnish companies have invested in

Taiwan. Consequently, it seems that in the case of Taiwan, companies have rather strong bargaining power relative to the state.

### **5.3.3. Influence of diplomatic relations on business relations**

During the empirical research it was found out that companies' views differ a lot in respect to the effect a lack of diplomatic relations has on their operations. Some see that their business opportunities would not change any way, even if Finland and Taiwan would establish diplomatic relations, whereas others have been cautious to enter Taiwan due to the problematic situation. Different views might originate from differing levels of information and knowledge that the individual interviewees have on the cross-straits situation. In this section, the influence of non-existing diplomatic relations on Finnish companies' operations is elaborated on.

In 1996, it was reported that international investors and firms have been careful to enter Taiwan until the early years of 1990s due to the problematic cross-straits situation (Kauppalehti 20.5.1996). Especially companies that already had operations in China have been careful in order not to jeopardize their investments. As the possibility of war has decreased, companies have become less worried about operating in Taiwan, but some concerns still remain. A Taiwanese official has brought up the effect of politics on business by saying: *“although we always say that business is business and politics are politics, it shouldn't be mixed together; otherwise you get your decision influenced by your political concern – that is not correct”* (TAI 1). He points out that the lack of diplomatic relations affects the governments' eagerness to promote bilateral business relations. Another Taiwanese official said that cooperation between Finnish and Taiwanese companies is not likely to increase, if the political situation does not change to closer relations. *“Because now, political situation still much concerns Finnish companies”* (TAI 5). According to John (1997) the perceived country risk affects firms' decisions to enter a country. If the location is deemed very risky, less involving operation modes are likely to be chosen.

Based on the information gained through interviews, Finnish companies' views on the effect of political situation on business activities differ. Some see that the political risk and possibility of war are too high, and do not think it is worth to enter the Taiwanese market. For example, one Finnish company that has trade relations to Taiwan thinks that the unstable situation is very risky.

It was noticed that the most difficulties related to tensions in the cross-straits result from indirect inconveniences that influence business operations. A Finnish representative (FIN 10) tells that politics should not affect businesses principally, but in practice they do. The unclear situation affects indirectly *"how companies are able to operate in Taiwan"* (FIN 10). Another one says, that *"it is commonly known that warmer relations would ease up business operations"* (FIN 3). One of the most significant factors affecting business operations is the difficulty of travelling between Taiwan and mainland China. Before the establishment of direct flights in June 2008, Taiwanese and foreign businessmen had to travel via Hong Kong or Macao. For example, a journey from Taipei to Shanghai could take up to eight hours, whereas with direct flights it takes less than three. This problem has resulted in many foreign and Taiwanese businessmen relocating to Hong Kong or mainland China. A Finnish official (FIN 10) has said that for sales persons who need to travel a lot, it would be very difficult to need to fly via Hong Kong every time they would need to go for business to Shanghai. This is why it is easier to have an office in China than in Taiwan. A Finnish company that serves both Taiwanese and Chinese markets was considering opening an office either in Taiwan or Hong Kong. In the end they chose Hong Kong due to the difficulty of travelling (FIN 10).

*"Less and less foreign firms come to Taiwan; they rather go to Hong Kong and Singapore, because connections from there to China are easier. Also several Taiwanese firms open their offices in Hong Kong."* (TAI 3)

Other problems firms operating in the cross-straits face are related to the restrictions on trade and investments between Taiwan and China. Restrictions on product and component

imports prevent firms from operating on a global basis, as they have difficulties in transporting materials from their Chinese factories to Taiwan or selling products manufactured in China to Taiwan (FIN 3, TAI 5). For example, a big Finnish firm complains that it cannot source some important components from China (FIN 10). The Taiwanese government is using this regulation to protect domestic markets and prevent the escape of capital to China. However, as many of the foreign companies that operate in Taiwan are pursuing global strategies and operate in other Asian countries, too, these restrictions intrude on their intra-firm trade. Thus their competitiveness is adversely affected due to the political situation. Interviewees have pointed out that effects of the cross-straits situation were worse during the previous government, as they put higher restrictions on trade and transport between Taiwan and China. The current regime in Taiwan, which is led by the governing party KMT, has opened up and allowed more interaction between Taiwan and China. A Taiwanese official (TAI 5) tells that the major obstacle to FDI into Taiwan is related to the difficulty of operating in the cross-straits.

*“The only ones [obstacles of foreign investment] I can think of, maybe because the tensions between mainland China and Taiwan. Because the mainland China is such a large market. So many foreign investors in Taiwan, they are not just focused on Taiwan; maybe they focus on whole Asia market. So, if they go to Taiwan, they hope their business between Taiwan and mainland China can go smoothly, but, in past years, because the governments, they have some concerns about mainland China. So, we have some restrictions about trade and investment in Taiwan and mainland China.” (TAI 5)*

However, some instances see that there is no problem related to the political situation. In 1996 a representative from the Finnish commercial office in Taipei told that the problematic diplomatic relations do not hinder business relations to any major degree. The diplomatic issues come to play mainly when doing business with state-owned enterprises or when competing for governmental projects. (Kauppalehti 20.5.1996) As Sweden had invested in good Taiwanese relations already in the 1980s by establishing a representative office in Taiwan, it had a better position in contracting governmental projects. (Kauppalehti

20.5.1996) A representative from the Finnish office in Taipei has said in 1996 that conducting business in Taiwan was not influenced by political relations. He told that companies are able to operate in Taiwan the same way than anywhere else, and war material is the only industry that is out of question when doing business in Taiwan. (Kauppalehti 20.5.1996)

Also, in 2005 it was said that political disagreements between Taiwan and China do not prevent firms from operating in both countries, as long as they concentrate only on business and do not discuss politics (Kauppalehti 29.8.2005). Also some interviewees are of the opinion that there are no problems related to the political situation. A Finnish business representative told, that *“the political tension does not influence business in practice in any way, you don’t talk about it, and you don’t see it anywhere”* (FIN 4). Some people realize that there are tensions in the cross-straits, but do not see that they hinder business operations in any major way. Finnish business representatives have said:

*“The political situation does not have an influence on the operations in other ways, except making exports from the Chinese factory more difficult. Paper work increases, but the Hong Kong office takes care of it quickly and easily.”* (FIN 7)

*“Particularities that are always connected with Taiwan are the political threat and skirmish with China. I have heard that there are similar concerns in China’s side. But in reality these issues come later after more important criteria [when deciding whether or not to enter the Taiwanese market], that we have not needed to discuss these.”* (FIN 11)

A Taiwanese official said that the political risk related to operating in the cross-straits is hard to measure, as the situation seems different on surface compared to deeper levels. *“While the exchange activities within the private sector are going very well, the political situation that you can see on the surface is bad, and the governments [of China and Taiwan] seem to be very unfriendly. But under the surface, it’s going very well.”* (TAI 1) He emphasized that the possibility of war in the cross-straits is very limited. This is because both parties have invested heavily in their commercial relations, and do not want to

endanger these investments by war or armed conflicts. It should be noted that different instances have differing interests when discussing the effects of politics on business relations. It seems that views on the subjects differ depending on the standpoint observers take; Taiwanese persons and Finnish government officials seem to view the lack of diplomatic relations as a bigger issue than Finnish companies.

The passive role of the Finnish government in promoting business relations with Taiwan has sometimes been criticized. A Finnish representative tells that the general knowledge about Taiwan is somewhat poor in Finland, which might result in companies being less interested in starting operations there. In 2004 it was said that the Finnish government should be more proactive in promoting business relations to Taiwan, as Finnish firms do not have enough information on the possibilities of the market (Taloussanomat 25.11.2004). Also a Taiwanese official has pointed out the role of governments in increasing business connections between the two countries, which results from the Asian business culture that still emphasizes the role of governments in overseeing business relations.

*“Sometimes the private sector needs a bit of push from the government, and they need a government delegation to take the lead, and organize the visit to Taiwan. And since there is no relationship between Finland and Taiwan, the government is always hesitating to do this.” (TAI 1)*

On contrary, a company representative (FIN 13) says that it would be a great mistake to establish diplomatic relations between Finland and Taiwan, as this would have major adverse effects on companies' operations in China. This interviewee forecasts that in five years time there will be a reunification and Taiwan could have a similar status as Hong Kong or Macao. This would be a result of deepening economic ties between Taiwan and China. It is told (FIN 13) that many western companies use Greater China definition for Taiwan, mainland China, Hong Kong and Macao. This should be a pleasing definition for the Chinese government, as it groups Taiwan together with China's other special administrative zones. It seems that in general many companies value Chinese market far

above the Taiwanese one, and thus do not want to do anything that would jeopardize their operations in China. Therefore it seems that governmental representatives have been more interested in deepening relations between Finland and Taiwan than businesses. The official representatives might be more interested in having closer bilateral relations as it is their job to promote them.

Finnish official has pointed out that Finnish companies are less affected by the actual status of political situation, than by the way the situation is discussed in the media. It is important to understand the influence media can have on companies; negative news might discourage companies to take on operations in Taiwan, whereas positive ones might encourage them.

*“Tiptoeing due to the political situation has not affected the decision making of Finnish firms. A Finn won’t come to ask if he can go to Taiwan. It is more affected by the public perception of Taiwan, what is said e.g. on CNN. Decision-making processes are rather personified. If a person has a certain image [about Taiwan], such as missiles, they might prefer China over Taiwan.” (FIN 3)*

As many Finns do not know much about Taiwan, the role of negative news might be over-amplifying. Thus, if the business relations between Finland and Taiwan are to be deepened, more information should be provided to companies about Taiwan in general, and about the business opportunities it offers. Another note about media is that in the past years the emphasis in news has changed from Taiwan to China; in the 1990s news about Taiwan were more frequent as it was a kind of trend to enter newly industrializing economies, such as Taiwan. As Taiwan’s economy has been maturing the interest has largely shifted to China, which is a fast growing economy.



## **6. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

In this section the findings of this thesis are examined. First findings of the three research questions are discussed. Second, the research problem is addressed according to these findings. Third, theoretical conclusions and contributions are examined. Fourth, managerial implications are discussed followed by policy implications. Last, some topics for future research are proposed. This thesis contributes to the academic and managerial knowledge about Taiwan in Finland. It also discusses the influence a lack of diplomatic relations has on business relations.

### **6.1. Summary of main findings**

This thesis enquires onto the role of government relations in business relations. This was done by dividing the research problem into three parts: on government-to-government relations, business-to-business relations and government-business relations. A framework was drawn according to theorizing that dealt with these issues, and empirical research was conducted according to it. Next, the findings of each research question are discussed in more detail.

#### **6.1.1. Governmental relations between Finland and Taiwan**

The first research question inquires into the nature of bilateral relations between Finland and Taiwan. Finland approaches the Taiwan question more carefully than many other European countries, for example it was the last Western European country to do a governmental-level visit to Taiwan. Finland follows a careful policy towards Taiwan, probably because it does not want to endanger its relations to China. As China is a commercially more important partner to Finland than Taiwan, Taiwan is in a way shadowed by China. This leads to Finland not being able to practice official diplomacy with Taiwan, and it is also careful in performing informal and economic diplomacy. For

example, Finland and Taiwan have not signed bilateral agreements on the removal of double taxation or protection of investments. This makes the operating environment for businesses more difficult as they need to pay taxes in two countries. Business representatives have been rather active in building closer ties between Finland and Taiwan; they have participated in delegations and took the initiative to establish Finnish commercial representative office in Taiwan. Nevertheless, there has been also government-level communication between the countries in the past years, including ministry-level visits. The aim of the visits has been to promote closer cooperation between Finland and Taiwan in the fields of commerce and science, for example. It can be assumed that if Finland sees that its economy could benefit from closer bilateral relations, then it probably will increase cooperation with Taiwan.

It was assumed that Finnish firms have worse opportunities in Taiwan compared to operating in other countries due to the lack of diplomatic relations. However, it was noticed through empirical research that the Taiwanese government is very active in promoting its bilateral commercial relations. As Taiwan is not able to form diplomatic relations with the majority of countries in the world, it tries to promote relations in other fields, such as commerce and culture. Since the government is rather active in attracting foreign companies to Taiwan, it might be that these actions make up for the effect that non-existing diplomatic relations have on businesses.

It can be concluded that the non-existence of formal diplomatic relations have not disabled the formation of informal and economic relations between Finland and Taiwan. The countries have communication in several fields, including commerce, education, science and culture. However, it appears that the relations have been hindered by the lack of diplomatic relations. For example, signing bilateral agreements and governmental exchanges between high-ranking officials, such as Presidents or Prime Ministers, are not possible in the case of Finland and Taiwan. Also, the countries need to maintain a careful

approach in their relations in order not to displease China, which is an important business partner to both.

### **6.1.2. Business relations between Finland and Taiwan**

The second research question enquires into operations of Finnish companies in Taiwan, as it examines the nature of business relations. It seems that the most common motives for Finnish companies to enter the Taiwanese market have been accessing new markets and following customers. Today, Taiwan is valued as a good test-market in particular to technology-oriented companies due to its good knowhow in electronics and willingness to quickly adapt new technologies. Furthermore, its cultural closeness to China makes it an ideal environment to test products that are later introduced to the Chinese market. Thus, Finnish companies that operate in ICT and life science sectors have been rather successful in Taiwan. Compared to today Taiwan's position was better in the 1990s, when China was still a rather difficult market to operate in and Taiwan had fast economic development. However, the position of Taiwan in the global markets has been decreasing due to the rise of China and other newly industrialized economies which offer larger or faster growing markets and cheaper production opportunities. Many Finnish companies are increasingly investing in China and divesting in Taiwan due to maturing markets and increasing costs in Taiwan. Thus, the relative attractiveness of Taiwan compared to its neighbors is diminishing.

It was found out that most Finnish companies operate in Taiwan through exporting. Some are engaged in own exporting, but the majority of Finnish companies operate in Taiwan through local agents or distributors. Especially smaller firms might have chosen less involving entry methods as they are easier and require fewer resources than investment or contractual operations. Some companies have chosen to serve the Taiwanese market through a subsidiary located elsewhere in Asia, which allows them to create scale advantages through concentration of activities. It seems that as companies gain experience

and a stable customer base in Taiwan, several of them decide to engage in investment operations by establishing a sales subsidiary. This allows them to serve their customers better and thus create lasting customer relationships. No information about current Finnish manufacturing operations in Taiwan was found, which might be a reflection of the increased cost structure of Taiwan. Consequently, it seems that companies in general have entered and exited Taiwan due to economic reasons, and although the political situation might not have encouraged economic activity in Taiwan, it also has not prevented Finnish companies from operating there.

### **6.1.3. Government-business relations between Finland and Taiwan**

The third research question examines the means governments can use to intervene on Finnish operations in Taiwan. Thus policies employed by the Taiwanese government are examined in order to find out the policy framework which Finnish companies need to operate in. It was found out that the Taiwanese government has employed rather interventionist policies in the past, but the development has been towards less intervention. Thus, it can be said that the political system has changed from a rather authoritarian system to a democratized one. The decreased intervention of the Taiwanese government can be a result of its decreasing bargaining power, which is largely caused by the rise of China. As many foreign companies are more interested in China due to its large markets, Taiwan has needed to make its economy more appealing to MNCs by deregulating it.

In spite of this, Taiwan still performs somewhat active economic policy making compared to many western governments, as it aims at increasing economic growth by attracting foreign investments. It does this by improving the general investment climate and applying sector specific regulation and incentives that are aimed at industries emphasizing research and ICT, for example. It can be concluded that despite the decreasing state intervention on economic activities, companies operating in Taiwan should be aware of their relationship to the government. If companies maintain good relations to government officials they might

be able to receive incentives. Also, by making use of incentive policies employed by the Taiwanese government, Finnish companies might be able to find attractive business opportunities in the country.

This section also enquires into the effect politics and diplomatic relations can have on business operations. It is hard to give a definite answer to the question whether the lack of diplomatic relations has adversely affected business relations. Some interviewees are of the opinion that politics do not influence businesses in any way, whereas others have been cautious to enter Taiwan due to the problematic situation. Differing answers probably depend on the level of information individual interviewees have on the issue. Answers to the question also depend on how deep into the subject one goes. On a superficial level firms act according to their own strategies, and do not care about politics. But when examined closer, there are some effects politics have on business operations.

First, especially SMEs with limited resources are likely to gain less information about countries that are not favored by their home governments. As discussed in the literature review, motives for starting international operations are not always holistic. For example, a firm might decide to engage in international activities due to a manager's personal aspirations. Firms that do not have resources to evaluate all possible alternative locations for e.g. exporting or sales operations might settle for a more well-known one. John (1997) argues that location familiarity influences firms' decision processes for choosing entry modes; firms are less likely to start investment operations in countries they do not have much information on. So in this sense governments can influence business relations, as they are able to organize trade fairs and delegations that increase cooperation opportunities between firms from different countries. It might be that governments are less encouraged to promote business relations with countries they do not have diplomatic relations with. Consequently, countries with good political and bilateral relations might have better business relations as well.

Second, politics affect the environment that businesses operate in. If firms are afraid of the political situation being unstable and too risky, they might be unwilling to invest in that country. According to John (1997) country risk is a factor that affects firms' entry mode choices; if the perceived risk is high then firms are likely to choose a less involving entry mode, such as indirect exporting, if they choose to enter the country at all. There is a possibility that the risk for conflict in the cross-straits might have influenced Finnish firms, as they generally have chosen rather low-involvement entry modes. It is recognized that there may be other factors influencing the entry-mode-decision, but the importance of country risk certainly represents one aspect. It is possible that politics played a bigger role in business relations in the 1990s, as Taiwan's government was then more involved in guiding the economy through e.g. governmental projects and state-owned enterprises.

Third, firms operating in both Taiwan and China face restrictions in their intra-firm trade, as they cannot freely transport goods and materials from China to Taiwan. This affects especially Finnish MNCs pursuing global strategies, as they often aim at creating scale advantages by producing in one location and exporting to others. Another factor that has an influence on the operating environment is the difficulty of travelling between Taiwan and China. Before the establishment of direct flights, sales persons had to travel up to eight hours to get from Taipei to Shanghai, and even now the flights need to go through Hong Kong's airspace, which makes the journey longer. As this places additional stress on sales people, who often need to travel a lot in any case, several firms might reconsider establishing an office in Taiwan.

It was noticed that in general business and official representatives have different views on the political situation. Many companies emphasize that the diplomatic relations do not hinder their operations, and they would not support establishing diplomatic relations between Finland and Taiwan. It might be that companies are used to operating in the Taiwanese environment, and do not wish for actions that would disrupt the prevailing status quo and endanger their investment in China. On the other hand government officials have

been more interested in deepening the relations by organizing more visits, for example. The differing views most likely originate from their different underlying motives; business representatives are more interested about their investments, whereas official representatives are more concerned about the bilateral relations as it is their job to promote them.

#### **6.1.4. Government roles in business relations between Finland and Taiwan**

This section incorporates the findings for the three research questions and discusses the research problem, which enquires into the roles of governments in business relations between Finland and Taiwan. By looking at the findings for the first question, which discusses the governmental relations between Finland and Taiwan, it can be concluded that Taiwan has been the more active counterpart in promoting bilateral relations between the countries. However, the Finnish government has increased communication to Taiwan in the past years and opted for more lax policies. Several arguments may attribute to this development. First, Finland may have started to value its role in promoting business relations significantly higher. Second, an increase in communication – politically as well as economically – between China and Taiwan makes it more difficult for China to oppose similar developments between Taiwan and third countries such as Finland. Third, by becoming a member of the EU, Finland may follow the EU-policy of recognizing Taiwan as an independent commercial unit and develop closer economic ties.

The second research question, the analysis of business-to-business relations between Finland and Taiwan, revealed information about their historic development. It can be concluded that economic advantages for business activity in Taiwan have outweighed possible political constraints in the past. Political constraints have not prevented Finnish companies from engaging in Taiwan, which means that if a Finnish company wanted to enter Taiwan, it could do this regardless of the diplomatic relations.

The government-to-business relations are subject of the third research question. First, since the Taiwanese traditionally value governmental involvement high, it is probable that governmental efforts from the Finnish side have a positive influence on Finnish operations in Taiwan. Second, the role of Taiwanese government is rather high in business relations as well because it employs policies that are aimed at attracting foreign investors to the country, as elaborated on in the previous chapter.

To sum up, both governments have had and still have a positive influence on Finnish operations in Taiwan. They have organized events where Finnish companies have been able to network with Taiwanese ones, and thus find new business opportunities. For example, Finnish governmental officials have arranged visits and delegations to Taiwan that have promoted Finnish industries. In addition, when Finnish Members of the Parliament visit Taiwan, they increase the general knowledge about Finland in the country. In return, the Taiwanese have undertaken similar visits and sent delegations to Finland in order to promote Taiwan as an attractive destination for foreign investments. On top, the Taiwanese government has created industry parks, which aim at attracting companies doing research and development activities to the country. Since many Finnish companies focus on high technology sectors, these parks are of particular interest. It can be concluded that diplomatic relations do have an influence on business relations, but they do not determine them. Governments can support companies to operate internationally, but businesses are also able to operate when countries do not have official diplomatic relations.

## **6.2. Theoretical conclusions and contributions**

As the aim of this thesis is to study the role of governments in business relations between two countries both governments and businesses were examined. As political economy research tradition is interested in the study of governments and international business research tradition is concentrated on the study of international operations of companies, theorizing on both research traditions was examined for this thesis. Stopford et al. (1991),



who represent the school of political-economy, determine that there are three types of relationships between governments and companies: those between governments, those between companies and those between governments and companies. Welch and Wilkinson (2004), who are interested in international business theorizing, determine that interaction between governmental network and business network can take place in the form of policy communities and issue networks. For this thesis a framework guiding empirical research was formed on the basis of these two models. The framework incorporates more factors than the models used by Stopford et al. and Welch and Wilkinson, as it examines the type of interaction between and among the actors. It also focuses on the influence governments are able to place on businesses, and does not discuss the ways how businesses are able to influence governments. In addition, it incorporates the aspect of national borders into the model. This was done in order to gain a more holistic understanding of the issue.

First, the framework conceptualizes that bilateral relations between governments can be managed through formal, informal and economic diplomacy. By conducting empirical research it was concluded that in the case of Finland and Taiwan only informal and economic diplomacy choices are possible, as Finland does not recognize Taiwan's sovereignty. Governmental-level relations were seen to be important to companies' international operations since businesses are dependent on the political decision-making of host governments, as argued by Korhonen (2005, 11). It was also found out that bilateral relations can be managed rather well even when countries lack formal diplomatic relations; Finland and Taiwan have commercial, scientific and ministry-level exchanges. Second, the framework conceptualizes that business relations between countries are conducted through companies that engage in international operations. This is true in the case of Finland and Taiwan, as Finnish companies operate in Taiwan regardless of politics. It was found out that important aspects related to companies' international operations are related to internationalization motivations, industries, entry modes and operating environment of the host country.

Last, the framework depicts that governments can influence businesses through regulation and incentives. Through empirical research it was concluded that this is true in the case of Taiwan, as the government is applying some interventionist policies that are aimed at attracting certain types of investment into the country. However, it was also found out that governments can support companies' international operations also by other means, including providing information and organizing business delegation and conferences. All in all, it can be concluded that governments do play a role in aiding companies' international operations, but official governmental level relations are not a prerequisite for business relations. Therefore it can be argued that diplomatic relations are not a fundamental precondition for the formation of bilateral relations of commercial and unofficial kind. However, it can be acknowledged that the operations of businesses could be easier in a setting supported by full diplomatic ties. This is in line with Tian's (2006) findings, as he claims that in Chino-Taiwanese relations government policies have an impact on economic interaction between the countries, but policies do not determine them.

An earlier study (Korhonen 2005) that examines standardized foreign relations – those between Finland and South-Korea – found out that good governmental relations have a positive influence on the operations of businesses. The study found out that representatives of the government who have a lot of authority, such as the President and the Prime Minister, can help especially small companies to establish in foreign markets. As this thesis concentrates on studying the influence of governmental relations in a case where the countries have a special kind of foreign relations – the case of Finland and Taiwan – this study contributes to academic understanding on the roles of governments in aiding international operations of businesses. Between Finland and Taiwan exchanges between presidents and prime ministers are not possible, as Finland does not recognize Taiwan's sovereignty. Nevertheless, in this thesis it was found out, that despite the lack of diplomatic relations, there are several means how governments can improve opportunities for companies when operating in a foreign country. These include organizing business

delegations, seminars and conferences, which aid businesses to network and create partnerships. Thus the findings of this study are in line with those of Korhonen (2005).

Dent (1999, 185) argues that EU's economic exchange with Taiwan has flourished despite the absence of a formalized economic diplomacy framework. This is in line with the empirical results gained in this thesis; it was noticed that Finland and Taiwan are able to maintain relatively good business relations despite the lack of formal diplomatic relations. This might be partly due to companies' increased position in the global world; Dent (Ibid, 185) argues that firms are important actors in the world economy as they are the ones that create interdependent links between territories through trade and investments. Therefore political sovereignty is not a prerequisite for the formation of economic relations. This is true in the case of Finland and Taiwan, since Finnish companies are able to operate in Taiwan without major hindrances, as can be seen in the empirical section.

Also, Dent (1999, 185) argues that Taiwan can be seen as an economic state "with the technocratic apparatus to manage both domestic and international economic policy agendas". This means that Taiwan is able to form rather comprehensive economic relations to other countries through practicing unofficial and economic diplomacy. In practice this can be seen in the quasi-diplomatic functions practiced by business representatives between the EU and Taiwan, for example (Ibid, 185). It was found out in this thesis as well that in some cases unofficial diplomacy is practiced through commercial settings. An example is the Finnish commercial representative office in Taiwan, which was established for the purpose of aiding Finnish business operations in the country, but nowadays also performs some tasks for the Ministry of Foreign Affairs including issuing visas.

However, despite the fact that Taiwan can form economic relations to other countries, Taiwanese companies might still be in worse position compared to other MNCs. According to Hung (1999, 418) political isolation of Taiwan is adversely affecting the international operations of the country's firms, and therefore the state is assisting and encouraging them.

Political isolation causes Taiwan not being able to join some international organizations or regional groups, which might aid Taiwanese companies to operate internationally. Thus the Taiwanese government has needed to take a more active role in promoting business relations with other countries. This might be a reason for the rather active role Taiwanese government has adopted in promoting exchanges and communication with Finland. The empirical results showed that Taiwan has been the more active counterpart in forming relations with Finland.

### **6.3. Managerial implications**

It is useful for Finnish companies to know about the governmental relations between Finland and Taiwan, as it helps them to objectively assess business opportunities in Taiwan. If companies understand that there is no major risk in operating in Taiwan – meaning that China is not very likely to retaliate against individual companies – they might be more encouraged to take on operations in Taiwan. As business contacts between China and Taiwan are frequent, the Chinese government seems to allow also other countries to have business contacts with Taiwan and there should be no political barriers for Finnish companies to enter the country. In addition, it is likely that commerce between China and Taiwan will become increasingly easier in the future due to the regime change in Taiwan which occurred in 2008.

The Taiwanese value governmental involvement rather high, which means that companies' reputation and therefore their ability to conduct business in Taiwan is positively influenced by governmental actions. This implies that government-organized events, such as delegations play a relatively important role in business operations in Taiwan. If companies understand that government officials can act as mediators for bilateral relations, they can specifically ask their home government to provide such events. Government involvement will help to overcome differences caused by both spatial and cultural distance.

As found out in the empirical section, the relative attractiveness of the Taiwanese market is diminished by the size and fast growth of the Chinese market. However, due to its characteristics such as cultural closeness, willingness of early adoption, and capabilities in high technology, the Taiwanese market has the potential to serve as an ideal test market for the Chinese market. Products that prove to be successful in Taiwan have a good chance to succeed in China as well. At the same time, the Taiwanese operating environment is easier and cheaper to enter due to it being more westernized than China. This is because Western involvement in the market dates back many decades as explained in the empirical section.

#### **6.4. Policy implications**

As found out in the empirical section, especially SMEs engaging in international operations often rely on local agents to help them conduct exporting activities. This is because they lack the experience or resources to use a more involving entry mode and invest in the market themselves. The Finnish government can improve business opportunities for Finnish companies to operate in Taiwan through increased governmental activity. This is because government-organized delegations and seminars provide opportunities for companies to network and form contacts. Finnish companies can find new cooperation possibilities with Taiwanese companies through delegations and conferences. These events also inform the Taiwanese about Finland and Finnish companies. Measures increasing awareness are especially important in the case of Finland, as it is a small and not very well-known country and as its industry consists to a large degree of SMEs. The Finnish government can also improve companies' – especially SMEs' – credibility, as Taiwanese companies might find it hard to form partnerships with small companies they never heard of. Accordingly, when a Finnish company is presented by the government its reliability in the eyes of foreigners is likely to increase.

In the past, Finland has followed a rather careful approach regarding diplomatic relations to Taiwan. However, as pointed out in chapter 6.1, several indicators show that a more active

approach may be possible and beneficial. In fact, several European countries, including Sweden, hold closer relations to Taiwan than Finland without notably harming their relations to China. Therefore it can be assumed that it would be possible also for Finland to increase exchanges with Taiwan, especially in commerce and science. Political involvement would not have to take place on the highest level, i.e. formal diplomacy, but would already facilitate business operations if conducted on a lower level. For example, the operating environment of businesses could be improved by signing agreements on removal of double taxation on the level of private organizations instead of a ministerial level.

It can be concluded that even though government-level bilateral relations do not directly determine business relations, they still influence them. It is probable that frequent contacts between governments lead to increased knowledge and contacts between companies. Accordingly, if governments are seeking to improve the opportunities for domestic companies in foreign markets, it is advisable for them to take on some efforts themselves. In this case they should consider organizing business delegations or conferences, in which business representatives from different countries can network and seek out partnerships.

### **6.5. Suggestions for future research**

As not much research about bilateral relations between Finland and Taiwan has been done previously, there are several potential topics for future research. It would be interesting to study the business relations from a Taiwanese perspective, meaning that the international operations of Taiwanese firms would be studied. I would find it interesting to know if Taiwanese firms have been adversely affected due to politics, and if they find operating internationally difficult in countries which Taiwan does not have diplomatic relations with. Also, policies employed by the Finnish government could be studied more closely to determine the influence of governmental actions. Another possibility would be to look at the effects of politics on business relations in a broader sense, which would mean that other countries besides Finland and Taiwan would be incorporated into the study. It would be of

interest to compare the business relations between countries, which have bilateral diplomatic relations, to the ones between countries that do not.

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## 8. APPENDICES

### APPENDIX 1: Example interview questions

Helsingin kauppakorkeakoulu/Center for Markets in Transition:  
Managing business in turbulent markets

#### 1. Emo- ja tytäryrityksen taustatiedot

- Toimiala
- Yrityksen koko Suomessa ja Taiwanissa (liikevaihto, henkilöstön määrä)
- Päätuotteet ja –markkinat
- Kohdemaan merkitys yritykselle
- Investoinnin arvo (€, \$)
- Sijainti Taiwanissa (esim. pääkaupunki, erikoistalousalue)
- Vaihtoehtoiset sijaintipaikat, joita harkittiin
- Omistusosuus (enemmistö, vähemmistö, 50-50, 100 %)
- Perustamistapa (uusperustanta, yritysosto)
- Tytäryrityksen toimintamuoto (esim. valmistus, T&K, myynti)

#### 2. Viimeaikaisten muutosten vaikutus

- Millaisia muutoksia kohdemaassa on tapahtunut viimeisen 20 vuoden aikana?
- Miten muutokset ovat vaikuttaneet liiketoimintaympäristöön?
- Miten muutokset ovat vaikuttaneet yrityksen toimintaan Taiwanissa?
- Mikä tekee Taiwanista houkuttelevan investointikohteen?
- Millaisia investointiestejä Taiwanissa on?

#### 3. Yrityksen suhde julkiseen sektoriin

- Oikeuslaitos ja lainsäädäntö (lakien toteutus ja sovellus käytännössä)
- Henkilökohtaiset suhteet viranomaisiin (kehen, missä kysymyksissä/ongelmissa)
- Lobbauksen tarve/merkitys
- PR-toiminta, goodwill
- Korruption tarve/merkitys
- Merkittävimmät julkiseen sektoriin liittyvät haasteet/ongelmat
- Merkittävimmät ratkaisumallit julkiseen sektoriin liittyvissä haasteissa/ongelmissa

#### 4. Yrityksen suhde paikalliseen partneriyritykseen (joint venture)

- Miten yhteistyö alkoi?
- Kuka teki aloitteen?
- Miten yhteistyö on kehittynyt?
- Miten partneri valittiin?



- Yhteistyöhön kohdistuvat odotukset?
- Olivatko molempien osapuolien odotukset samanlaiset?
- Ovatko odotukset toteutuneet?
- Partnereiden välinen työnjako?
- Osaamisen siirtäminen?
- Keskinäisen luottamuksen rakentaminen?
- Sopimusten merkitys? Kirjallisten sopimusten yksityiskohtaisuus?
- Henkilökohtaisen suhdeverkoston merkitys?
- Ystävyysuhteet liiketoiminnassa?
- Merkittävimmät yhteistyön haasteet/ongelmat?
- Tärkeimmät ratkaisumallit yhteistyöhön liittyvissä haasteissa/ongelmissa?

#### **5. Yrityksen suhde muihin paikallisiin yrityksiin**

- Mille paikallisten yritysten kilpailukyky rakentuu?
- Minkälaista yhteistyötä tai kontakteja yrityksellä on muiden paikallisten yritysten kanssa (esim. asiakkaat, alihankkijat)
- Eroavatko paikalliset toimintatavat suomalaisista seuraavien asioiden suhteen: sopimusten merkitys, henkilökohtaisen suhdeverkoston merkitys, ystävyysuhteet liiketoiminnassa, ongelmienratkaisu
- Merkittävimmät haasteet/ongelmat suhteessa paikallisiin yrityksiin?
- Tärkeimmät ratkaisumallit paikallisiin yrityksiin liittyvissä haasteissa/ongelmissa?

#### **7. Tulevaisuudennäkymät kohdemaan, paikallisten yritysten ja suomalaisen liiketoiminnan näkökulmasta**

- Miten kohdemaan liiketoimintojen odotetaan jatkuvan/kehittyvän?
- Mitkä ovat merkittävimmät paikalliseen toimintaympäristöön liittyvät riskit tulevaisuudessa?
- Onko joitain yleisiä ongelmia/virheitä, joita suomalaisyritykset tekevät kohdealueella?
- Miten nämä ongelmat voitaisiin ratkaista?

#### **8. Poliittisen tilanteen vaikutus toimintoihin**

- Onko Taiwanin poliittisella asemalla merkitystä yrityksen sijaintipäätöksessä, jos kyllä niin miten? Onko Taiwaniin esimerkiksi hankalampi etabloitua kuin muihin maihin poliittisen tilanteen takia?
- Miten Suomen ja Taiwanin väliset poliittiset suhteet vaikuttavat yrityksen toimintoihin Taiwanissa?
- Miten (Suomen ja Taiwanin) julkinen sektori tukee/hankaloittaa yrityksen toimintoja Taiwanissa? (tukeminen: subventiot, yritysvaltuuskunnat jne; mahdolliset haasteet: ministeritason suhteiden puuttuminen)
- Onko Taiwanissa tiedon saaminen hankalampaa tai saako virallisilta tahoilta vähemmän tukea verrattuna muihin maihin?

## **APPENDIX 2: Chronology of Finnish operations in Taiwan**

In this section I provide a short chronology of both Finnish operations in Taiwan and Taiwanese operations in Finland from the 1980s till the spring of 2009. As the information was largely gained from newspaper articles, which publish news that are of interest to their readers and in this case the Finnish business people, it can be assumed that from Finnish perspective the most significant operations are recorded. However, it is recognized that these descriptions do not include all the operations due to the limitations on getting information. The information is based mainly on the electronic archives of Kauppalehti, Taloussanomat and Talentum in addition to company websites. The references are listed at the end.

Bank of Finland do not present investment figures in the case of Taiwan, but according to the Taiwanese officials, Finnish cumulative investment in Taiwan accounted for USD 570,000 consisting of ten investment cases in the end of 2005. (CEMAT 2009) According to the Finnish representative in Taipei, in 2009 a total of 10 Finnish firms have their offices in Taiwan, but none of them has production there. Around 60 firms are doing exporting operations directly, and around 120 are operating via a representative. One Finnish company, Aspocomp, has a joint venture with a Taiwanese partner. The traditional large exporters, such as Nokia, Wärtsilä, Kone and Neste (former Fortum) had permanent offices in Taiwan already in the mid-1990s.

Wärtsilä offers lifecycle power solutions for the marine and energy markets globally. The company was one of the first Finnish firms to enter Taiwan as it started doing business there via agents in the 1970s. In 1985 Wärtsilä signed a five-year cooperation agreement with state-owned Taiwan Machinery Manufacturing Corp. The agreement included technical assistance and knowhow on diesel boat engines. In 1991 Wärtsilä established a wholly-owned sales subsidiary to the county. In 1994 the company further increased its involvement in the Taiwanese markets by opening a service department in Kaohsiung. These actions resulted in engine orders and power plant contract with Taiwanese customers in the following years. As Wärtsilä contracted a power plant for state-owned TPC in 1997, it can be assumed that the company held good relations to the Taiwanese government.

In 2000 the first Taiwanese managing director was appointed to Wärtsilä. In general it seems that the office is mainly employed with Taiwanese personnel, who keep contact to the Finnish office. In 2004 Wärtsilä agreed on a turnkey project with Chunghwa Picture Tubes worth of 34 Million Euros. The project aimed to fulfill the increased power demands of CPT's production facilities. In 2007 the company acquired two orders from the Coast Guard Administration on repairing and maintenance of ships. In the spring of 2009 Wärtsilä signed a design and propulsion system order with Taiwan's Jong Shyn Shipbuilding for a product chemical tanker to be delivered to Wärtsilä's long-time customer state-owned oil company CPC Corporation. Currently Wärtsilä concentrates on offering land based and marine power solutions in addition to after-sales service.

Huhtamäki is one of the world's largest packaging companies. It established a sales office in Taiwan in 1997 through a series of mergers and acquisitions. Huhtamäki namely acquired Australia-based Pacific World Packaging (PWP), which had a sales office in Taiwan. Acquisition of PWP fulfilled Huhtamäki's strategy to strengthen its presence in the Asia-Pacific region as it doubled the Huhtamäki's sales in the region. (CEMAT 2009) In 2003 the company told that consumer good and foodservice sectors were growing promisingly. Currently the Taiwanese markets are served from Hong Kong office with the help of a Taiwanese sales office.

Kone Corporation, which today ranks fourth among the global elevator manufacturers with a worldwide market share of nine percent in elevators and escalators, started to sell cranes to Taiwan in the 1980s through a local agent Ho-an. It invested in Taiwan in 1991. The company experienced some difficulties when competing with local firms and searched for potential location for production and assembly in Asia. In the 1990's, when it started to become clear for Kone that a production plant would eventually be opened in China, the company decided that some scale of production should be done while waiting for the initiation of the operations in China. 100 % ownership in C&N Co. Ltd., a relatively small Taiwanese company in the elevator business, was then acquired. Through the acquisition small production and assembly operations were initiated in the proximity of Taipei. The plant manufactured mostly control panels for export, but also had small scale of elevator assembly for the Taiwanese markets. (CEMAT 2009, Rautanen 2006)

In the mid-1990s, Kone Elevators had difficulties to continue its sales in Taiwan as the demand for elevators decreased. This was because the Taiwanese economy was over heated and the government decided to hold down the new construction projects, which also had impact on the demand for elevators. Moreover, the benefits of a good infrastructure in Taiwan were offset by the problems with the local business environment, and because only a small market share was attained during the few years of presence, the Kone Elevators' plant was closed in 1996. (CEMAT) However, the company continued its sales operations in Taiwan through its subsidiary. The company tells that business slowed down also in the early 2000s due to investments moving to China and the SARS epidemic. Nevertheless, some projects were acquired. In 2001 Kone allied with Toshiba in supplying elevators to Taiwan's highest skyscraper Taipei 101 and in 2002 Kone received its biggest order so far as the city of Kaohsiung ordered 83 elevators to its metro stations. In 2008 Kone tells that the elevator and escalator business is strong in Taiwan.

Tecnomen, which develops and supplies messaging and charging solutions for telecom operators and service providers, set up its Taiwanese unit in 2000, but its cooperation with Taiwanese companies had started already in the 1980s, when Tecnomen was still part of Kyrö Group. In 1989, Taiwanese Long Distance Telecommunication Administration (LDTA) ordered Tecnomen's messaging system with value of about EUR 7.5 million. (CEMAT 2009) The project was conducted in cooperation with Swedish Ericsson.

In 1997, Tecnomen started to invest actively in Asia due to the increasing markets and liberalizing call services. Japan was found protectionist, but Taiwan and many Southeast Asian countries, as well as India, were chosen as potential investment destinations. As a result, sales and service network was built in Taiwan, Malaysia, Thailand and Indonesia. The Asian crisis spread out to most of these countries in the end of 1997, which resulted in decreasing demand for Tecnomen products. Tecnomen was however optimistic and believed that losses and delays were only temporary and similar to Finland, where telecommunications developed rapidly in the beginning of the 1990s despite of the severe recession. (CEMAT)

The cooperation between Tecnomen and Chunghwa Telecom, largest telecommunications service provider in Taiwan, started in 1997, when Tecnomen received an order of messaging system to the Taiwanese GSM network. In the same year the company had a joint venture with Taiwanese PanWare International Corporation. In 2000 Tecnomen departed from the Kyro Group. In the same year it received a significant order valued at nearly EUR 7 million for a unified messaging system from Chunghwa Telecom. In 2003 the companies agreed on an extended contract, which was result from long-term cooperation. Preceding business negotiations were long, as they took altogether one and half a years. Tecnomen Taiwan was established to further enhance Chunghwa Telecom's value-added service portfolio. These innovative services provided new revenue streams for Chunghwa Telecom and added value to their mobile subscription. (CEMAT) In 2009 Tecnomen and Lifetree combined to Tecnotree. The new company continues to operate in Taiwan.

Efore provides power supply solutions to companies operating especially in telecommunications, healthcare and industrial automation sectors. In 1989, when the company was still named Finlandia Interface Oy, it delivered power supply units to Taiwan. The units were delivered to a project conducted by Tecnomen.

UPM-Kymmene operates in Taiwan through Hong Kong office and a local agent. The representative of the Taiwanese agent, SL Huang of Union Papers, tells about some problems UPM had when entering the Taiwanese market in the 1980s: Japanese competitors were well established in the market and it was hard to convince Taiwanese customers that ordering paper from Finland would not cause problems in the delivery time or quality. However, with persistent work the agent managed to persuade Taiwanese customers about the good availability of UPM's paper, what was further reinforced by local stocks. The work paid of as UPM is today among the most important suppliers of label paper in the country. UPM has also been active in showing its commitment to the Taiwanese market; S.L. Huang tells that when the company swiftly resolved its customers' problems, they understood that UPM is a long-term partner to be relied on.

Metso is a global supplier of process industry machinery, systems and services, which was created through the mergers of Valmet and Rauma. It serves the pulp and paper industry, rock and mineral processing, power, panelboard production and the hydrocarbon and process industries. According to the company's website Metso has sales and service units in Taiwan. Metso Paper, Inc. and Metso Automation Ple Ltd offices are located in Taipei. The company's Taiwanese customers include Yuen Foong Yu Paper, Cheng Loong Corporation and Formosa Petrochemical. In 2008 the company supplied a board machine for Cheng Loong Corporation's Taiwanese mill.

Metso's predecessor Valmet had business in Taiwan already in the late 1980s. The company understood the prospects of Asian markets early, and opened a sales office in Hong Kong in 1986. Valmet delivered products to Kaoshiung harbor, cardboard and paper producing machines to Yuen Foong Yu Paper and air conditioning devices to paper machines in 1988. It has also delivered a cardboard producing machine to Taiwan in 1995 (Kuurma 1996, 92). Later on it set up a Taiwanese unit.

The Aspocomp Group, which offers and develops innovative interconnection solutions for the electronics industry, entered Asian markets in the late 1990s, when Aspocomp's customers started increasingly focus on East Asia. In the early 2000s Aspocomp started feasibility studies to find the best way to invest in China in order to establish there a manufacturing unit of their highest technology solutions, especially the HDI-technologies. As a result, a joint venture contract with Chin Poon, a Taiwanese manufacturer of circuit boards, was established in 2001. Chin Poon had a manufacturing site in Suzhou, in the mainland China, with enough space left for another line of production where Aspocomp could implement its technologies. Following the joint venture agreement Aspocomp has a 51 % share in the joint venture named ACP electronics Co., Ltd., while Chin Poon owns 49 % of it. (CEMAT) Due to the industry being small personnel of Chin Poon were known beforehand, which made the establishing process of the joint venture easier (Rautanen 2006)

The establishment of a joint venture with a Taiwanese partner proved to be very beneficial from the very beginning on to Aspocomp. While both benefited from the advanced technologies, Aspocomp also got assistance in establishing in China that was indispensable: in terms of language barriers, knowledge of the local authorities, familiarity to the local business culture and many other aspect in the running of everyday routines it would have been very challenging to cope alone. A Taiwanese partner in this sense was greatly valued. The western mindset of the Taiwanese businessmen and their cultural ties to China offered a combination that removed many obstacles that could have been encountered otherwise. (CEMAT)

Outokumpu is a global stainless steel company. Outokumpu Asia Pacific Ltd has a sales and marketing agency in Taiwan and thus employs sales persons there. The company exported products to Taiwan already in 1996 in the worth of 33 million Finnish Marks.

Nokia is the most active Finnish company in Taiwan. The firm has had numerous contracts with its Taiwanese partners and reporting all of them in this report would not be purposeful. Thus, some of Nokia's Taiwanese operations are presented to give an overview of the type of the operations. The company has started its business in Taiwan already in the late 1980s. In 1988 Nokia-Mobira started to exports its pagers to Taiwan by the order of Sampo Corporation. In 1999 Nokia won an order from KG Telecom, a leading operator in Taiwan, to expand a GSM 1800 network and a GPRS core network solution in Taiwan. In 2002, Nokia won a deal as turnkey supplier of Chunghwa Telecom's third generation network in Taiwan. In the same year Nokia and Taiwan Cellular Corp., a mobile operator, signed an agreement for Nokia to be supplier of TCC's 3G network in Taiwan. In 2004 Taiwan Cellular Corporation selected Nokia to complete the next phase of its WCDMA 3G network roll-out under an agreement for the supply of core and radio network equipment. The expansion contract, following the agreement made in 2002, reinforces Nokia's strong position both in Taiwan and in 3G.

In 2005 Nokia made a contract with FarEastTone Telecommunications. In 2005, Nokia opened a development center for third-generation (3G) mobile services in Taipei. The Mobile Services Development Center (MSDC) is a joint program with Taiwan's Institute for Information Industry (III) for the establishment of localized training centers, and a partnership with Chunghwa Telecom. Taiwanese operators began rolling out 3G services earlier in 2005 and Nokia has been a supplier of 3G network equipment to several of the biggest mobile operators. Opening the 3G development center in Taiwan will allow Nokia to support the development of new 3G content and applications for Chinese-speaking users. (CEMAT)

In 2005 Nokia cooperated with operator Chunghwa Telecom, CMC Magnetics and local radio and television station in receiving television programs with mobile phones. Nokia has cooperated with Chunghwa Telecom also in 2006, when the firms agreed on the extension of the 3G network, and 2007, when the companies were researching the possibility of Visa-payments with mobile phones, in addition to 2008, when the companies together with service provider PocketNet offered mobile games to consumers. Nokia extended its existing WCDMA 3G network frame agreement with Taiwan Mobile, a private telecommunications company, in 2006. Nokia provided Taiwan Mobile with circuit core network expansion, expanded the operator's radio network with 3,000 base stations, and upgraded the network software with HSDPA. In the same year Nokia agreed with Taiwan-based PocketNet Technology and Auer Media & Entertainment on the creation of local content and applications to mobile subscribers.

In short, Nokia has two R&D centers in Taiwan. The other center offers Taiwanese firms an opportunity to develop content for the 3G mobile phones. The other one is an interoperability center by Nokia Networks where manufacturers of mobile phones are

testing phones in networks provide by Nokia. Due to the width of its operations, Nokia is the most important Finnish business partner to Taiwan.

Two Taiwanese Groups, Lite-On and Hon Hai with its subsidiary Foxconn, are among Nokia's most important subcontractors. However, not all relations that Nokia hold to Taiwanese firms have been good. In 2005 a Taiwanese subcontractor YCL Electronics announced that the company is suffering due to Nokia's unfair practices. Nokia has chosen Taiwan due to Taiwan's strong innovation and developing capability, which makes it an excellent incubating environment. Further advantages are the high mobile phone coverage and penetration rates and the highly skilled workforce in digital multimedia. Taiwan is also known for its early adoption of new technologies.

Perlos, a Finnish manufacturer of plastic components of mobile telephones, began its operations in Asia in the wake of Nokia. In Asia, however, Perlos was less dependent on Nokia than in other parts of the world and thus, it started actively acquire other customers in the region. In 2004, Perlos established an office in Taipei employing about ten persons. The office focused on sales and marketing for local customers and provided design support and project management services. Perlos is enlarging its presence in Asia, because the region is the biggest market for mobile phones. Perlos targets contract manufacturer, original design manufacturer, and electronic manufacturing service firms that design, manufacture, store, and ship electronic products for the companies that brand and market them. Many of these firms are in Taiwan, which created the principal reason for Perlos to establish a Taipei Perlos Corporation. The share of Asia in Perlos' turnover in 2004 was 15 %, but the aim was to increase the share significantly in the future. Indeed, in 2005, Asia generated already 21 % of Perlos's turnover. (CEMAT)

Taiwanese Lite-On Group bought Perlos in the fall of 2007 in order to create synergy advantages, and gain from Perlos' know-how and good relations to Nokia. Previous to the purchase, Perlos had done major streamlining operations and had been looking for a partner to overcome the strong competition in the market. At the moment Perlos is part of service brand Liteonmobile, which was established in 2008.

SGS Fimko is a testing and certification company in the electrical, electronic, machinery and gas appliance fields. Fimko Oy, which was later acquired by SGS Group, had an office in Taiwan already in 1997. In 2008 SGS Fimko opened a CB laboratory in Taiwan, which carries out testing of information technology equipment. SGS Fimko offers Taiwanese component manufacturers testing and certifications.

Cargotec is a provider of cargo handling systems and services for the loading and unloading of goods. Cargotec's MacGREGOR business area providing marine cargo handling and offshore solutions has had some business connections to Taiwan. In 2006 it received orders for hatch covers for container ships that were to be built at the CSBC shipyard in Taiwan. In 2007 it received orders to build ship cranes for Taiwanese ship owners and in 2008 it

received a major bulk handling equipment order from Taiwan Power Company. The equipment will be delivered at the end of 2009.

Kuusakoski is an international recycling services company that is specialized in the design, manufacture and delivery of recycling machinery and equipment for industrial customers. Kuusakoski has a service location in Taiwan that acts as a sales subsidiary.

Pesmel Oy supplies materials handling systems for steel, paper, and converting industries. The company has signed at least one contract with a Taiwanese customer, which is Taiwanese CSC (China Steel Corporation), to supply a fully automated storage and logistic system. At the moment Pesmel has a sales representative in Taiwan, but the company is planning on opening a subsidiary providing technical services, spare parts and engineering support later in the year 2009 to support the company's strategy to establish in new markets.

Vamp Oy is Finnish company developing and marketing protection relays and arc protection systems for power distribution utilities and industrial plants. For example, it has delivered protection relays to Taiwanese company Chunghwa Picture Tubes. Vamp operates in Taiwan through its partners that act as distributors.

Amer Sports is a sports equipment company, whose global brands include Salomon, Wilson, Precor, Atomic, Suunto, Mavic and Arc'teryx. Amer Sports has a branch office in Taiwan, and its brands have connections to the country as Suunto's wireless wrist computer was assembled by Taiwan-based High Tech Computer Corporation (HTC) in 2003 and Wilson employs engineers and product development supervisor in Taiwan

Bicycle and fitness equipment manufacturer Tunturi had previously producing operations in Taiwan, but the company divested in 1997 and moved the production to Turku, Finland. The company was acquired by an international bicycle and fitness equipment group Accell in 2003. Currently some of their products, e.g. treadmills and cross trainers are manufactured in Taiwan.

Singulase Oy is a wholly-owned subsidiary of Cencorp Corporation, which operates in automation for electronics manufacturing. Singulase develops and manufactures ultra-short pulse fiber laser tooling systems for the semiconductor industry and was founded in 2005. According to the company's website Singulase and Taiwanese TKK Ltd signed an agreement in 2005 on the sales cooperation of Singulase products in Taiwan. As Taiwan is one of the fastest growing markets for semiconductor industry products, the cooperation aims at winning important customers from the field.

Finland-based GeoSentric is a developer of mobile GPS-enabled satellite navigation devices and solutions, which was named as Benefon Oyj until summer 2007. In 2006 the



company agreed on a manufacturing partnership with Taiwanese GSM handset manufacturer ASMobile.

Rapala is a fishing tackle company and the global market leader in the fishing lures, treble hooks and fishing related knives and tools. The company has R&D and sourcing activities in Taiwan in fishing lines, baits and attractants product lines. In 2008 Rapala and Taiwan-based fishing line manufacturer Yao I Co Ltd established their strategic cooperation as the companies concluded on an exclusive supply agreement for the supply of fishing lines. Rapala also acquired Yao I's Suffix brand, including all intangible assets relating to Suffix branded and other fishing line business, excluding manufacturing. Through the agreement Rapala can access the strong manufacturing and development capabilities of Yao I.

Silecs creates materials used in microelectronics industry, particularly for semiconductor and flat panel display manufacturing. As the semiconductor industry is strong in Taiwan, the market is important for Silecs; the company has a regional office there. The company's vice president of sales is based in Taiwan, which reflects the importance Silecs places on the Asian markets.

Helkama-Velox, which is part of Helkama Group, is a Finnish bicycle producer. Some components of Helkama bicycles are produced in Taiwan. This is most likely due to the strong bicycle industry in Taiwan; the country is among the five largest bicycle producers in the world.

Elcoteq is a designer and manufacturer of electronic components for mobile phone handsets. According to newspaper sources Elcoteq and Taiwanese Arima were conducting negotiations over a merger in the fall of 2008. However, the merger talks were suspended and the companies agreed to work together for the production of low-cost handsets for LG Electronics.

Besides the aforementioned, some Finnish firms have done exporting operations to Taiwan. Vaasan & Vaasan is a bakery group that exports its Finn Crisp crispbread products globally. According to the company website it operates in Taiwan through a distributor. According to a newspaper article from the year of 2006. Helsingin Mylly (Helsinki Mills Ltd) has exported organic oat products and wheat flour to Taiwan. A safety glass producer Interpane Glass Oy, which was previously known as Tamglass, has also had operations in Taiwan.

Several Finnish companies have also sourced materials and components from Taiwan. These include E-P:n LVI Oy, which is an importer and wholesaler of water, heat, sanitary and garden hardware and tools. The company told in 1997 that it has Taiwanese subcontractors. Sormat Group, a manufacturer and marketer of fixing products for building applications, sources materials from Taiwan. Also Théhuone, a tea house in Helsinki, sources tees from Taiwan through its own networks. As Taiwan is a big bicycle producer,

some Finnish bicycle retailers, such as Fillarikellari Oy, buy most of their products from there. Also Tietoasema and Veljekset Sarvela Oy have been reported to source from Taiwan. Also Kesko has Taiwanese suppliers.

Foxconn, which is a Hong Kong-based subsidiary of Taiwanese contract manufacturer Hon Hai, has had a lot of cooperation with Nokia. It bought in 2003 Eimo, a Finnish company manufacturing plastic components to mobile phones, in order to secure more subcontracting deals with Nokia. In 2006 it decided to stop the production in Finland and concentrate on services in the country.

It seems that some Finnish companies have either discontinued their operations in Taiwan, or then they prefer not to publish information about them. It was reported in the mid 1990s that Neste had an office in Taiwan, but in the spring of 2009 no information about it was found. In 2004 a newspaper reported that Halti, a sports clothing producer, was manufacturing in Taiwan. However, no additional information about Halti's manufacturing activities was found. Finn Spring is a small family-owned firm selling spring water. The company has exported their products to Taiwan, but these operations have been discontinued.

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