

/ NORDIC WEST OFFICE

NORDIC BELT AND ROAD

**HOW TO IMPROVE
THE COMPETITIVENESS OF
FINLAND AND SWEDEN
THROUGH COOPERATION?
A BUSINESS PERSPECTIVE**

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Finland and Sweden's membership in NATO is a watershed moment in the history of the two nations. However, if we don't seize this opportunity soon, we will go back to business as usual. The window of opportunity will last only 2-3 years.

- One of the Interviewees

Finnish and Swedish business leaders believe that there is a historic opportunity for closer cooperation. This report offers ideas for closer cooperation for Finland and Sweden and the Nordic region as a whole.

The report was prepared to coincide with the official state visit to Sweden by President of Finland **Alexander Stubb** on April 23, 2024. It was background material for the business leaders' meeting that took place during the state visit. It is based on interviews with CEOs and Chairs of leading Finnish and Swedish companies. This report is meant as a starting point for further discussion.

The report answers two questions. First, is Finland and Sweden's membership in NATO a watershed moment and, if so, can it lead to a golden age of cooperation between the two countries. Second, what should the two countries do together to improve their competitiveness, resilience and their international standing?

The report is not exhaustive. It reflects the views of the interviewees and their industries. Furthermore, it does not address the necessary reforms that must be undertaken in both countries. It concentrates on cooperation: what should be done together? The themes included in this report include energy, infrastructure, forestry, defence, logistics, regulation, investments and technology. The list is not exhaustive either. For example, tourism, which plays an increasingly important role in the region, has not been included in the report.

Despite these limitations, it provides a roadmap that can be expanded to other industries and other countries. Indeed, one of the key findings is that Finland and Sweden can be seen as "prime movers" in many areas. If they join forces, other Nordic, New Nordic (i.e. Baltic) and Like-Minded countries can be mobilised.

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Executive Summary

Finland and Sweden's membership in NATO is a watershed moment in the history of the two Nations. The two countries are closer than ever since 1809. According to the interviewees, joining NATO alliance is not only about security. It is about removing all obstacles to cooperation between the two countries. More fundamentally, it is about Finland and Sweden assuming a new role in international politics. Now we are members of all key Western institutions and close allies of the United States. There is a historic opportunity for Finland and Sweden.

However, we must act fast. According to interviewees, the window of opportunity will last only 2–3 years. If we do not get started with new initiatives now, we may miss the boat. After a few years, both countries may go back to business as usual.

To increase the competitiveness of both countries through cooperation, this report has four main recommendations. Number one, the logistical infrastructure between Finland and Sweden needs to be upgraded urgently. Number two, we need to improve the energy market and interconnections between the Nordic countries. Number three, Finland and Sweden must become a voice for competitiveness within the EU. Number four, we must build a strong Finnish-Swedish component within NATO.

We have grouped these recommendations under four headings. They are Nordic Belt and Road, Nordic Energiewende, Joint Voice for European Competitiveness and Joint Force in NATO. To supplement these four strategic objectives, the report presents 10 concrete action points.

1 Nordic Belt and Road
“If you build it, they will come”, said Kevin Costner in the Field of Dreams. If we build a joint Nordic logistics and infrastructure system that connects Finland and Sweden, and later the rest of the Nordics, investments will follow. Finland and Sweden have moved to joint defence planning within NATO, we should move to joint infrastructure planning as well. This includes improvement of ports, east-to-west roads and railroads, extending to Norway and better connections between Finnish and Swedish electricity grids. The importance of critical network infrastructure should also be considered.

2 Nordic Energiewende
Germany made a mess of its Energiewende. This is an area where we must succeed. A Nordic Belt and Road is not enough to attract investments. We also need reliable and competitive clean energy. Finland and Sweden are leaders in renewable energy. In the future we also have to be leaders in clean hydrogen and nuclear energy. In order to expediate the clean transition, we need joint, or at least coordinated, regulation of new nuclear energy powerplants. The Nordic electricity market was a significant step forward when it was created. Now we need another step forward. Finland and Sweden need to create a new electricity market model with a capacity element. Other Nordic countries can join later.

3 Joint Voice for European Competitiveness
Europe is no longer competitive. We are lagging behind both the US and China. Finland and Sweden must be a voice for a more competitive Europe. We must speak against random state subsidies and in favour of a level playing field. The EU needs less sticks (i.e., regulation) and more carrots (i.e., incentives for innovation). We also need a better functioning financial market. There are two areas where Finland and Sweden should have a common voice. First, technology. Excess regulation kills innovation. If Europe wants to play a major role in 5G, 6G and AI we need a more balanced approach to regulation. Second, forestry. If we are serious about moving beyond fossils, we need a thriving forest industry. Finland and Sweden must make the case for forest industry as an instrumental part of the green transition. In general, Finland and Sweden should aim to be voice of reason and competitiveness in the EU.

4 Joint Force in NATO
As NATO members, Finland and Sweden are now a part of the same military alliance for the first time since 1809. We are part of NATO’s joint military planning. However, we also must improve our bilateral cooperation in training, procurement and planning. It is crucially important that Finland and Sweden now build strong military relations with the US. In addition, we need to improve cooperation with other Nordic and Baltic states and within JEF. Finland and Sweden can play a major role in building up Europe’s defence capabilities.

Introduction

Finland and Sweden's membership in NATO means that the two countries are closer than at any time since 1809. It means that they have a historic opportunity to strengthen and develop their cooperation to improve competitiveness of the two countries. Finland and Sweden are world leaders in many areas such as green transition, technology and overall welfare of the people. The question is: How can Finland and Sweden to improve their competitiveness through cooperation, from a business perspective?

The recommendations in this report would benefit Finland and Sweden. However, they would also benefit the European Union and NATO. The EU needs a strong voice for competitiveness. Finland and Sweden can together speak in favour of a well-functioning single market and new initiatives, such as a European capital union. Finland and Sweden can provide crucial minerals needed for the clean transition. The Nordics are an example of an area where all energy needs can be provided by renewables and nuclear.

NATO's European members need to upgrade their defence capabilities. Finland and Sweden are prime examples of countries with strong defences and defence industries. They also are examples of countries where civil-military relations are well developed and the idea of a total defence is widely accepted. Indeed, one of the recommendations of the report is that the Finnish national defence courses should be organised on a Nordic level, bringing together leaders from both business, public sector and civil society.

Finland and Sweden have significant role to play in the defence and security of the West and bare diverging strengths that are crucial for the world economy. In fact, the momentum to take Nordic cooperation to the next level is so remarkable that even the idea of a Nordic Bloc within the EU and NATO has been coined.

Finland and Sweden are also important for transatlantic relations and for relations between Britain and the EU. The European Union needs a strong, competitive Nordic region to fill the void left by Britain in the European Union. NATO needs a strong Nordic region that contributes to the defense of the entire alliance. The United States needs a strong Nordic region as a reliable partner.

The Nordics should have a strong voice both in the EU and NATO. Finland and Sweden have a crucial role in creating such a voice. If they work together, the Nordics are stronger. If they fail to do so, the Nordics are weaker. It has also been long enough since Brexit. It is time to start discussing improving the relations between the EU and Britain. Here, Finland and Sweden can take a leading role.

It's about building a stronger NATO and a more competitive European Union. However, close cooperation between the two countries is also important in case the EU fails to improve its competitiveness or NATO's unity is threatened. In these cases, it is vital to have a well-functioning cooperation within the Nordic region. What do we mean by the Nordic region? Most interviewees argue that from the business point of view we should be talking about the so-called New Nordic region, which includes both the traditional Nordic countries and the Baltic states. In addition, several interviewees emphasised that we should expand the Nordic cooperation to include other like-minded countries. JEF cooperation between the UK, the Nordics, the Netherlands and the Baltic states is a good example of such cooperation.

Is this a historic opportunity? Yes, everyone agrees. If we do not grasp the opportunity within the next few years, the window of opportunity closes.

This report explores a new recipe for Nordic cooperation and gives concrete recommendations for how to grasp the full potential of the historic

opportunity. The main recommendations are a Nordic Energiewende and a Nordic Belt and Road. These are initiatives relating to energy, infrastructure and logistics that would ensure that Finland and Sweden are able to attract investments, increase their competitiveness and thrive in the new geopolitical and economic environment. It is noteworthy that none of the interviewees have called for any new institutions. However, it was pointed out that Nordic institutions, such as Nordic Council, Nordic Council of Ministers and NORDEFECO have an opportunity to prove themselves in the new situation.

Clearly, the name Belt and Road refers to the Chinese BRI. While the Nordic version would of course be very different from its Chinese counterpart, their goal of increasing competitiveness through investments in infrastructure and logistics is shared. In fact, the idea of a Nordic Belt and Road is nothing new. It would be a continuation of the King's Road, which connected the Kingdom of Sweden in the 1500s and 1600s.

Not only is logistics and infrastructure important for Finland and Sweden, but also from NATO's perspective it is important that the transit and transport connections from the Atlantic to Finland and Sweden are better than they currently are. Improved connections to the Atlantic also serve

the security of supply of Sweden and Finland. For example, at the moment, 90 percent of Finland's foreign trade passes through the Baltic Sea. It is imperative to quickly build alternative routes for foreign trade. This requires railways, roads, and ports.

However, transport infrastructure is not the only area where we need common Nordic projects. The second main recommendation of this report is a Nordic Energiewende, which addresses the future of Finland and Sweden's energy markets. Finland and Sweden can become the world's leaders in competitive and sustainable energy, enabling the clean transition in the Nordics and beyond, and benefit their economies and industries. However, changes need to happen for this to be possible. In this report, we use the terms clean and green transition as synonyms since nuclear energy is seen as central part of the green transition.

The report is structured in the following manner: First, it explores the historic opportunity and a vision for Nordic cooperation and success in the future. Thereafter, it presents the main recommendations gathered from CEOs of leading companies in Finland and Sweden on how to improve the competitiveness of the region. Thereafter, concrete action points are presented.

Historic opportunity?

Historic opportunity

The first question we asked the CEOs that were interviewed was “Is there a historic opportunity between Finland and Sweden to strengthen cooperation?”. The answer was a clear yes from all participants.

There are three reasons for this. First, With Finland and Sweden having joined NATO, the countries are now closer to one another than ever since 1809. However, NATO membership is just a cherry on top of an already close cooperation between the countries. However, it also presents major opportunities to deepen cooperation to improve the competitiveness of the two countries. Second, Russia’s aggression in Ukraine means that the sea routes of the Baltic Sea can no longer be considered secure in all plausible scenarios. This creates a need to improve East-West logistics between Finland, Sweden, and Norway for military and trade purposes. Third, the urgency of the green transition means that the resources and know-how of Finland and Sweden must be utilised fully. Nowhere in the world is there another region with equal capabilities, resources and capacity for decarbonisation as in the Nordics.

In the interviews, it was noted that before Russia’s attack in Ukraine, the interest to bilateral and business cooperation was not equally mutual between Finland to Sweden. “Before the war, Finland was more interested in cooperation than Sweden. Now, there is an unprecedented interest for deeper cooperation with Finland in Sweden”. It is critical to take concrete steps now and not let the momentum pass. “If nothing happens in the cooperation between Finland and Sweden now, in 2-3 years we will go back to business as usual”, said one of the interviewees.

All interviewees agree the possibilities for cooperation vary from industry to industry. Energy,

defence, infrastructure and R&D were identified as some of the most potential areas. However, it should be noted that several interviewees pointed to the potential for cooperation in tourism and higher education.

Finland and Sweden as Prime Movers

Clearly, Finland and Sweden cannot just act alone. Cooperation with other nations in the Nordics and beyond is needed. The question is, why should Finland and Sweden strengthen their bilateral cooperation together in the first place? The answer is that Finland and Sweden should be what can be called prime movers in especially the Nordic cooperation. “Finland and Sweden are to the Nordics what France and Germany are to the EU. If they agree, things will get moving, but if they disagree, nothing happens.” This means that agreement between Finland and Sweden is necessary for making things happen, however, it is not a guarantee.

When we asked the interviewees: “Who should Finland and Sweden cooperate with?”, the answers were nuanced. While some emphasised the importance of cooperation with the old Nordics, others talked about the New Nordics and other like-minded countries. JEF cooperation and cooperation with all NATO countries in the Baltic Sea region were mentioned.

Finland and Sweden can be prime movers in transatlantic relations. Together with Norway and Denmark, they have long historic ties with Washington DC. These ties should be strengthened further. Finland and Sweden can also be prime movers in the improving relations between the UK and the EU. It has been more than eight years since Brexit. Somebody should turn a new page. Finland and Sweden are well positioned to do so.

Nordic Recipe for Success

In the latter half of 1900s, Finland, Sweden and the rest of the Nordics based their success on favourable demographics, industrialisation and the welfare state. The quality of education improved which, combined with collective bargaining, led to big leaps in many industries.

Now, the times are different. Finland and Sweden are faced with severe problems of competitiveness. Finland's GDP has not grown for 15 years. Even Sweden has experienced a period of slow growth. Both have aging societies and worryingly low birthrates. The level of education has dropped in both countries. Immigration policies are at the core of political debate. Clearly, the same recipe for success no longer works. The question for the business leaders was: What is the new Nordic recipe for success?

Both countries recognise that significant reforms need to be taken care of to become more competitive. Especially in Finland, the labour market needs to function more effectively. Bureaucracy has gotten too big. However, this report deals with the question of how cooperation between Sweden and Finland can improve the competitiveness of the two countries.

We also need full utilisation of AI. The rise of AI may bring a major boost to productivity and in fact, everyone is expecting good results. However, these gains do not come automatically. In the case of Finland and Sweden, the biggest gains of AI for our economies will come through implementation of AI in traditional, heavy industries. It is unlikely that the Nordics will lead the pack in developing AI, however, we can lead in implementing it in all industries and the public sector.

However, when it comes to cheap, clean energy, we are well positioned to be leaders. The new recipe for success could be the productivity gains from AI combined with the supply of competitive, clean energy, leading to investments and sustainable industries. We need a new green industrialization. Another critical component is research and development; how Finland and Sweden will be able to remain competitive in critical technologies and AI. We need to build on the competence in technology already found in the Nordics.

How to get there?

The question then is: how to get there? According to the interviews, the answer lies in the industrial policy of Finland and Sweden. Mentally, we need to go back to 1808. This means one country, one market and no borders. Of course, this is not realistic nor achievable in all areas, but this should be the mentality with which the historic opportunity can be grasped.

This report has two main recommendations for how to improve the competitiveness of Finland and Sweden. These are what we call a Nordic Energiewende and the Nordic Belt and Road. The first refers to the supply of cheap, clean energy and the second to common infrastructure and logistics between Finland and Sweden. Together, they will make sure the new formula for Nordic success can be reached.

Nordic Belt and Road is an idea for building better infrastructure and logistics across the Nordics, led by Finland and Sweden. The name, of course, comes from the Chinese Belt and Road Initiative, established by Xi Jinping in early 2010s. The Chinese BRI is currently under severe criticism for several reasons. However, its goal – the improvement of Chinese competitiveness through investments in infrastructure and logistics – is relevant to the Nordic region, and especially to Finland and Sweden. The aim of the Nordic BRI is not to repeat the mistakes made by the Chinese BRI, but to create a democratic and more sustainable version of the Chinese initiative. In fact, the two BRIs are very different. While the first is run by the Chinese state, the Nordic BRI will be driven by both Nordic companies and Nordic governments. While sustainability is an afterthought in the Chinese BRI, it is at the very core of the Nordic BRI.

Why do we need a Nordic Belt and Road initiative? The reasons are clear. Firstly, the need for cross-border construction of roads and railways between Finland, Sweden, and Norway is evident. From NATO's perspective, it's important that the transit and transport connections from the Atlantic to Finland and Sweden are better than they currently are. Improved connections to the Atlantic also serve the security of supply of Sweden and Finland. At the moment, 90 percent of Finland's foreign trade passes through the Baltic Sea. It is imperative to

quickly build alternative routes for foreign trade. This requires railways, highways, and ports.

However, transport infrastructure is not the only area where we need common Nordic projects. For example, maritime logistics throughout the region need to be strengthened through tighter cooperation. A case in point is the Gulf of Bothnia region, where Finland and Sweden would benefit from operating a joint fleet of icebreakers. Better infrastructure and logistics would not only be good for Western defence, but also the security of supply of both countries as well as securing well-functioning trade and exports.

The second major recommendation is Nordic Energiewende. The name comes from the German energy transition, escalated in 2022 by the war in Ukraine and its implications on the German energy market and the supply of Russian gas to Germany. Nordic Energiewende, in turn, aims to secure that Finland and Sweden, and the rest of the Nordics, have a steady supply of green, clean and cheap energy in the future. The demand for electricity will double from the current levels during the next 20 years. The supply of cheap, clean energy is a prerequisite for investments in the Nordics. Without it, the recipe for success cannot be realised. The proposed Energiewende has two main components: 1. establishment of a joint capacity market for electricity and 2. joint regulation of nuclear power. In addition, we need a Nordic grid that would enable a tighter Nordic electricity market to emerge.

Recommendations

1 Nordic Belt and Road

Joint defence planning? Yes. Joint infrastructure planning? Why not. As Finland and Sweden move towards joint defence planning, they should also move towards joint infrastructure planning. There are three reasons for why we should move to joint infrastructure planning regarding vital infrastructure.

First, defence. Both Finland and Sweden have DCA agreements with the US. To secure military supplies before and during crisis, we need better ports, roads and railroads connecting the Atlantic coast, Sweden and Finland.

Second, security of supply. Finland's trade is dependent on maritime routes in the Baltic Sea. To secure imports and exports during crisis, Finland needs better road and rail connections via Sweden and Norway.

Third, resilience. Around 80 percent of rare earth minerals are found in BRICS countries. Europe needs to develop its own supplies. Finland and Sweden can help. The development of sustainable mining, that takes into account the needs of tourism and the environment, is a common challenge. However, it is not enough for Finland and Sweden to have rare earth and other crucial minerals. They need to be excavated and exported.

A Nordic Belt and Road would consist of three parts:

1. Improvement to East to West roads and railroads. A key part of this would be a high-capacity railroad and road connection from Northern Finland to Narvik. An improved connection would also serve Swedish industry located in Northern Sweden. For Finland, it would make sense for narrow-gauge railroad to extend to the Finnish side.

2. Nordic grid. As electrification of our societies continues, the need for a strong and robust Nordic

power grid becomes more apparent. While a joint grid remains a remote possibility, Finland and Sweden must improve interconnectors within and between the countries.

3. Data cables. The limitations and vulnerabilities of undersea data cables became apparent in 2023 when a data cable between Finland and Estonia was damaged. Since then, it has become apparent that Finland and Sweden should advance the security of their network infrastructure. Undersea data cables are easier to tamper with and harder to repair than land cables in an event of disruption.

There should be a collaborative effort on the development and implementation of land-based (underground) data cables. According to the interviews, the Tornio-Haparanda area would be an optimal location for land-based data cables between Finland and Sweden.

The initiative would enhance digital communication security and resilience, particularly in crisis situations, by establishing a more reliable infrastructure that is less susceptible to external disruptions. This would strengthen the digital backbone of both nations.

The interviews emphasised that in infrastructure, there should be no borders between Finland and Sweden. Instead of two blueprints, we should have one.

2 Nordic Energiewende

In just 20 years, the electricity demand in the Nordics is expected to double from the current level. This increase is driven by industrial needs, transportation and data centers. The challenge is how to be able to produce the increasing amounts of clean energy needed in the future. And not only does the energy have to be clean, it also has to be affordable. If this can be achieved, Finland and Sweden and

the rest of the Nordics can become a magnet for industrial investments.

This leads us to our second recommendation: the Nordic Energiewende, implying a significant transformation of the Nordic energy market. The Nordic Energiewende consists of three main parts. First, we need a joint regulation for nuclear power in Finland and Sweden. Second, we need the establish of a joint capacity market for electricity for Finland and Sweden to attract major industrial investments. Third, a more integrated grid would support a more sustainable, resilient, and cost-effective energy future for the entire Nordic region.

A better functioning electricity and energy market is crucial for Finland and Sweden's strategy on AI as well. If we want to be able to attract investments in AI and home major data centers, we need to be able to reliably provide the electricity they need. Thus, this report recommends that Finland and Sweden should coordinate their AI policies together and look for common initiatives, such as the building of new, more powerful data centers together.

1. Joint regulation for nuclear power

In the 1990s, Finland and Sweden's joint regulation in mobile networks was a game-changer for Nokia and Ericsson, catapulting them to global prominence. This collaboration streamlined telecom standards in Finland and Sweden, fostering an environment that boosted research and innovation. It was a strategic move that not only advanced mobile technology development but also established the Nordic giants as leaders in the telecommunications industry. Now, we need to do the same for nuclear energy.

A joint regulation on nuclear power between Finland and Sweden would essentially mean harmonizing the rules, standards, and practices that govern the use of nuclear energy across both countries. In practice, this involves creating a unified set of regulations that both nations adhere to, ensuring that nuclear power plants operate under the same safety, environmental, and operational standards. This could lead to shared research and development efforts, joint emergency planning, and mutual support in regulatory compliance, making the most of each country's expertise and resources in nuclear technology.

Joint regulation for nuclear energy is about more than regulatory alignment; it's a strategic step

towards securing a stable supply of clean, cost-effective energy – a vital component of both countries' sustainability and energy independence goals. It is at the core of the new recipe for Nordic success: without it, we simply cannot produce enough clean energy to meet the future energy requirements needed to attract investments in the North.

The envisioned collaborative framework aims also to accelerate the deployment of advanced nuclear technologies, such as small modular reactors (SMRs). Ideally, there should be a European regulatory framework for SMRs. In reality, getting there will take a very long time. Therefore, Finland and Sweden push forward and become the first adapters of the technology in Europe.

2. Joint capacity market

According to the interviewees, the current electricity market cannot answer future challenges. In fact, we should be building two to three more times electricity production capacity than after the second world war. How to get the necessary investments?

The most important recommendation is that Finland and Sweden should join forces on developing a new and improved electricity market. Ideally, this would include the benefits of the existing Nordic electricity market, while increasing investments in base-load electricity generation capacity. Part of the answer could be the establishment of a joint capacity market for electricity in Finland and Sweden. A capacity market would incentivise electricity providers by compensating them for the megawatts they have available, rather than solely the energy produced and sold, which is the current model. This would ensure that there is always enough power generation capacity to meet peak demands, especially during periods of high consumption or when renewable energy sources are less reliable.

A joint capacity market would provide two benefits. Firstly, it would provide a stable financial framework encouraging investments in new power generation, including renewable energy resources. Secondly, by pooling resources and balancing capabilities across Finland and Sweden, the joint market would enhance the reliability of electricity supply, reducing the risk of blackouts and ensuring a steady energy flow even during unforeseen demand surges or supply shortages.

Moreover, a joint capacity market could lead to more efficient use of the existing infrastructure, optimizing cross-border electricity flows and reducing operational costs. This approach would not only benefit electricity providers through clearer market signals and compensation mechanisms but also consumers. Capacity market would create predictability and reduce market volatility, which would also help investments to be made for power consuming industries as well.

The worst-case scenario is that Finland and Sweden establish separate and diverging systems. Having differing electricity capacity markets could introduce several inefficiencies that would be counterproductive to the goal of becoming a magnet for investments and leaders in green energy. Diverse capacity markets could lead to discrepancies in how energy providers are compensated for their readiness to supply electricity, potentially leading to uneven investments in energy infrastructure across the two nations. Such disparities could not only impact the stability of electricity supply but also hinder the broader goals of energy sustainability and security in the Nordics.

3 Joint Voice for European Competitiveness

The European Union is facing a competitiveness crisis. Finland and Sweden should help solve it. This can be done in two ways. First, we can become more competitive ourselves. Second, we can push the EU to become more competitive. Both are needed.

Finland and Sweden should become the voice for a more competitive Europe, where a level playing field exists. Finland and Sweden, as liberal, free-market economies deeply integrated into the EU's single market, should jointly advocate for policies that uphold free trade, sensible competition, and a balanced approach to state subsidies. Recognizing the role of the single market in driving European competitiveness, both nations should push for the removal of barriers to trade in services and advocating for open and diversified trade to bolster EU resilience and global competitiveness.

We should support the EU Commission's efforts to negotiate trade agreements with global partners. We should also emphasise the importance of

ambitious investments in research and development to position Europe at the forefront of technological advancements.

A strict and fair framework for state aid and competition policy is crucial to maintaining a level playing field, ensuring that policies do not inadvertently favor larger states at the expense of smaller, export-oriented economies like Finland and Sweden. Both countries should voice concerns over the potential for loose state aid rules to fragment the single market along national lines, advocating for stringent regulations that support fair competition and innovation.

Even if the state aids continue, we need to make sure that Finland and Sweden are as competitive as possible. If other countries in the EU continue the path taking us further from the single market, we should also be able to play the game and firmly stand behind our own interests. In either case, we are better together.

Finland and Sweden should stress the necessity of financing the green and digital transitions through market-based solutions and technology-neutral approaches, avoiding the pitfalls of a global subsidy race. To attract green financing, network deployment should become part of the EU's taxonomy. Currently, the EU taxonomy largely ignores that connectivity is a key enabler for improving carbon efficiency in many sectors. Addressing climate change, accelerating digital development, and closing the skills gap in the European workforce are essential components of a new European competitiveness agenda. Both nations should stand for streamlined regulatory processes, improved quality of impact assessments, and reduced reporting requirements for businesses to make Europe a more attractive place for innovation and investment. These ideas are elaborated in the so-called Antwerp Declaration for a European Industrial Deal.

Together, Finnish and Swedish companies can improve their chances of winning funding from the EU for projects to increase the competitiveness of the countries and beyond. This applies both for businesses and research institutions. The opportunity is particularly great in the defence industry. It is easier to win funding together than separately. In addition, it was pointed out that the

European Investment Bank should better support nuclear energy through increasing funding for nuclear energy projects. These could include any projects that align with the EU's decarbonisation goals and contribute to ensuring security of energy supply and competitiveness.

There are two areas where the interviewees felt that Finland and Sweden should develop a common position in the EU: forestry and technology.

1. Joint voice on forestry

Forest industry is instrumental for the green transition. Finland and Sweden stand in a unique position to be leaders in sustainable forestry and the promotion of forest-based products within the EU. Finland and Sweden possess significant forest resources and advanced forest industries. We also have the know-how and resources to drive the green transition and innovation within the forestry industry. Together, we should advocate for policies that recognize the vital role of forests in decarbonisation and the broader climate agenda.

Together, Finland and Sweden should take a firmer joint position that emphasizes the importance of forests not only as carbon sinks but also as renewable sources for innovative, bio-based materials. This stance could influence EU legislation and policymaking in critical areas such as packaging, construction products, and alternatives to fossil-intensive materials, like those used in batteries and adhesives. Sweden and Finland should also promote the use of biofuels and biochemicals in de-fossilising the transport and chemical sectors. By aligning their efforts, we could ensure that environmental and climate policies adequately reflect the potential of Nordic forest-based industries to contribute to the EU's Net Zero transition.

This position can be taken in different ways, for example through joint impact assessments on EU policies impacting the forestry sector, coordinated advocacy for the recognition of carbon from sustainable sources, and a unified approach to carbon trading and removal certificates. Moreover, the interviews suggest that Finland and Sweden should collaborate on promoting Life Cycle Assessments (LCAs) for forest-based products, highlighting their lower carbon footprint compared to fossil-based alternatives.

Such concerted action not only underscores the shared environmental goals of both nations but also positions them as big players in shaping an EU framework that supports sustainable forestry practices and the bioeconomy.

2. Joint voice on network technologies

Europe is seriously lagging behind other major powers in technology. Whether it is the development of AI, other disruptive technologies or investments in fundamental capabilities, the US and China are clear leaders.

Finland and Sweden are in a crucial position to take technology development to the next level within the EU. Finland and Sweden home the world's two leading network equipment providers and the only companies with such capabilities in the West, Nokia and Ericsson. It is clear that networks and digitalisation are a major opportunity for Finland and Sweden, not least in terms of improving competitiveness of the countries but also the EU.

Europe is behind in critical digital infrastructure, particularly in the deployment of transformative standalone mid-band 5G networks, which is essential for Europe to maintain competitive and industrial sovereignty. Europe suffers from an underdeveloped 5G network with a large share of the potential mid-band 5G base stations yet to be deployed and there are significantly less private 5G networks, compared to for example China.

Better digital infrastructure relying on trusted network technology is also critical for security reasons not only for Finland and Sweden, but the entire Western defence. Finland and Sweden bring substantial know-how and capacity to NATO and the EU, so a joint voice on it should be a no-brainer for Finland and Sweden. Without them, secure technology for the Western world will be hard, if not impossible, to achieve.

Finland and Sweden should advocate within the EU for operator consolidation within national markets to drive scale. Moreover, a unified approach to spectrum allocation in Europe needs to be implemented to foster the roll out of 5G and in the future 6G. Additionally, the proposed legislation on standard essential patents (SEP) licensing could severely damage Europe's technological leadership and innovation capacity. This report suggests that Finland and Sweden should urge the European

Commission to revisit the SEP licensing proposal by conducting consultations with the industry and create a balanced regulatory framework to protect R&D investments and ensure fair returns.

For Finland and Sweden, the strategic focus should be on promoting digital transformation through secure, reliable, and extensive network technologies. We should support legislative frameworks that bolster innovation and R&D, pursue operator consolidation where it makes sense. We should also have a unified approach to spectrum allocation. By doing so, we can help position Europe at the forefront of technological advancements and prevent the continent from becoming an industrial museum.

4 Joint Force in NATO

Strong Northern Europe means a stronger NATO. Finland and Sweden must make the most out of the historic opportunity in all aspects of military cooperation. In addition to traditional defence and deterrence, we have to be ready to participate in NATO's 360 operations. We also have a crucial role in building Europe's own defence capabilities, preparing for a scenario where the US would lessen its military support and presence in Europe. In addition to NATO and bilateral defence cooperation, we must deepen our collaboration with other Nordic countries and our JEF partners. This is important in case NATO becomes fragmented.

1. NATO, JEF and NORDEFECO

As it is increasingly difficult to foresee the development of US politics and Washington's commitment to NATO, it is crucial that Finland and Sweden have strong defence cooperation with other like-minded and geographically close countries.

When the interviewees were asked, who should Finland and Sweden cooperate with in questions of defence, the importance of the Joint Expeditionary Force (JEF) was highlighted. JEF is a military coalition formed by several nations and led by the United Kingdom. Its purpose is to enhance the collective defence and security capabilities of its members, ensuring rapid response in crisis situations. The ability of the JEF to act swiftly and efficiently, with or without NATO, provides Finland and Sweden a flexible and robust framework for defense cooperation.

What about Nordic defence cooperation? NORDEFECO could be an excellent platform for Nordic defence cooperation. It can function as a platform to agree on common performance requirements for Nordic defence industries, allow for more effective government to government coordination. Logistics and security of supply within the Nordic region should be a priority on NORDEFECO's agenda. A stronger NORDEFECO would be welcome to make the most out of the opportunity, but it must prove itself in the new context.

2. Joint defence planning

Russia's attack against Ukraine was a wakeup call. Joining NATO was a follow-up. Now, Finland and Sweden must take full advantage of joint defence planning. By coordinating our defence strategies and resources, we can enhance mutual security and operational effectiveness.

"Additional defence capabilities are needed fast. We cannot afford not to build them together." Finland and Sweden make joint procurements of military materiel whenever possible. It makes sense from a budgetary point of view and an operational point of view. Together, the countries can apply for funding from the EU more effectively. In fact, in joint acquisitions of two or more countries, EU-wide tendering can be skipped according to EU rules, making the acquisition process faster together than separately.

In addition, to support the European defence and bring a bigger contribution for the defence industry, we need joint ammunition production in Finland and Sweden. This is crucial for the security of supply within Europe, preparing for higher self-sufficiency in Europe's defence industry.

Technology and digitalisation have become a central part of modern defence as it increasingly relies on the ability to analyze, understand, and use data to create actionable information. Finland and Sweden can together contribute to the technological defence of the West.

Finland and Sweden's air force are fully interoperable. However, they should develop their cooperation further in all aspects of the so-called C4ISR together. The C4ISR refers to Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance. The mindset of all military branches should be that of one force, rather than two.

Action Points

1 Shared icebreaker fleet

The first action point is a shared icebreaker fleet between Finland and Sweden. This may sound like something simple, however, as one of the interviewees remarked: “If we can’t agree upon on something this simple, then why bother?” This really should be seen as an action point rather than a recommendation, but we wanted to highlight that instead of abstract themes, the recommendations in this report are concrete action points.

A shared icebreaker fleet would make sense around the Gulf of Bothnia, located between Finland and Sweden. It is a crucial maritime zone featuring diverse ports and vital ferry links. These elements collectively support bilateral and international shipping, local trade, and seamless passenger transport. The region’s icebreakers, operated independently by Finland and Sweden, play an essential role in ensuring the gulf’s navigability during the freezing winter months, keeping ports open and ferry routes operational. This integrated maritime infrastructure underscores the strategic significance of the Gulf of Bothnia for both nations.

Despite the maritime area being a shared issue between Finland and Sweden, the two countries maintain their own icebreaker fleets. However, operating a national icebreaker fleet involves substantial economic investment, from construction and maintenance to crew training and operational logistics.

Jointly owning and operating a single fleet of icebreakers in the Gulf of Bothnia would offer Finland and Sweden significant benefits, including enhanced efficiency, reduced operational costs, and strengthened maritime collaboration and lower expenses for maintenance and technology upgrades. Moreover, this shared approach would further facilitate the exchange of innovation in new

technologies. In addition to a joint icebreaker fleet, we need to make sure we have better ports and ferry connections throughout the Gulf of Bothnia to secure stable connections and security of supply.

A shared icebreaker fleet would make sense from a defence perspective as well. The collaboration on icebreakers would serve as an example for potential future joint acquisitions of major military materiel between Finland and Sweden, such as attack helicopters.

2 Transport corridor to Narvik

Helsinki, Stockholm – we have a problem. All our logistical infrastructure is North-South. What we need is West-East connections. Narvik is a case in point. It would make sense to develop a high-capacity railroad corridor from Finland to Narvik. This would be beneficial from the point of view of NATO, security of supply and trade. However, it is not the only new connection needed. We need a roadmap for new roads and railways that connect Finland, Sweden, and Norway.

3 Joint regulatory framework for nuclear reactors

When it comes to traditional nuclear power, Finland has more recent experience. Therefore, it makes sense for Finnish and Swedish regulatory authorities to cooperate and streamline the regulation in the two countries as much as possible.

The same applies to all aspects to building new nuclear power plants, from planning to financing and construction. Private and public authorities in both countries should combine their forces to make sure that the next generation of nuclear power plants built in Finland and Sweden is the best in the world.

However, we should also develop a joint regulatory framework for SMRs. Ideally, this would take place on the European level. However, this may take a very long time. Finland and Sweden should be frontrunners in this area as they were in GSM technology in the past.

4 Nordic Defence Course
Finland is known for its national defence courses, where business leaders spend three and a half weeks getting acquainted with national security. It is time to establish joint defence courses for Finland and Sweden. Later, this should be extended to other Nordic countries as well.

5 Joint R&D
Joint R&D between Finland and Sweden makes sense in all technologies, from forestry to AI. The interviewees agreed that we need more cross R&D initiatives, joint investments in R&D to complement the capabilities of Finland and Sweden, especially in critical and new technologies. In defence, Finland and Sweden can be instrumental for defence capability development for the benefit of NATO and Western defence through joint R&D.

In forestry, joint research and development cooperation between Finland and Sweden holds potential for both nations. The successful Swedish Treesearch platform can serve as a model for further collaboration as it fosters collaboration between academia, industry, and research institutes in forest-based material research.

How can better joint R&D be achieved? According to the interviews, VTT and RISE are well positioned to be primus motors for joint R&D initiatives. The challenge is the lack of joint funding. Most of the funding is still either national or European. We need funds that are available on a bilateral basis.

6 AI Data Centers
Should Finland and Sweden be developers of AI or early adopters of the technology? Both are needed, but the emphasis will be on adaptation. In any case, we need new data centers with more compute power. They are very expensive. It would make sense to finance them jointly.

7 New Nordic Scholarship
Perhaps the best-known scholarship program in the world is the Rhodes scholarship. It brings together talented students to Oxford. We have to create an equivalent to the Rhodes scholarship for Finland and Sweden. Later, it can be expanded to other Nordic countries. It will help develop a new generation of leaders with a Nordic mindset.

Hanaholmen in Finland is a splendid platform for building bridges between Sweden and Finland. It covers various areas from business to culture, from politics to research. The scope of the current Finland House in Sweden is much more limited. It should be given a new mandate. It should be reformed according to the Hanaholmen model.

8 Pan-Nordic Stock Exchange
Without risk-willing capital, there's no growth. Finland and Sweden should promote European Capital Union to create a more competitive financial market for all European companies. We should also harmonize the banking regulation of the two countries as much as possible. Indeed, the harmonisation of banking regulation should be extended to all Nordic countries. The aim should be to create a Pan-Nordic Stock Exchange. It would offer Nordic companies easier access to capital markets and attract investors. It would also lower listing costs and regulatory hurdles.

9 Joint Capacity Market for Finland and Sweden

The demand for cheap, clean and steady energy will grow dramatically over the next decades. To meet the demand, the Nordic energy market needs to be reformed. Finland and Sweden should start by establishing a joint capacity market for electricity.

10 NIB 2.0

Nordic Belt and Road and Nordic Energiewende need both private and public investments. There is no way to create a Nordic “Inflation Reduction Act”. Neither the Nordics nor the EU have the possibility to compete with the US in industrial subsidies. We must find more market-oriented solutions to improve our competitiveness.

However, there is for public institutions in financing critical infrastructure investments. One way to get the investments rolling is to use the Nordic Investment Bank as the financier for Nordics projects critical to the green transition and infrastructure. This report suggests the bank’s operations should be confined to the Nordic region and to projects critical to Nordic (including Baltic) competitiveness.

The Nordic Investment Bank has eight owners: the five Nordic countries and the three Baltic states, which have capitalized the bank. The owners should require that the bank only finances large projects involving at least two member states.

Conclusion

Finland and Sweden have entered a new period in their history. There are plenty of challenges. However, our starting position is strong. Finland and Sweden are routinely found on the top of most rankings worldwide, whether it is in happiness, education or general welfare. The strengths of Finland and Sweden are clean and plentiful energy, high-level education, technology know-how and the Nordic welfare society. Clearly, in the grand scheme of things, we are doing well. Yet, we must do better. To improve our security and competitiveness, we must act together.

This report answered the question: How to improve the competitiveness of Finland and Sweden through cooperation? This question can be broken down to three specific questions: How can the Nordics compete with China's BRI? How can we be competitive when the US is pouring billions of dollars through IRA? How can we upgrade our energy market more successfully than the Germans were able to do with their Energiewende?

The answer is by increasing cooperation first between Finland and Sweden. The two neighbours can be prime movers in improving cooperation between the rest of the Nordics and the Baltic states. They can also be a strong voice for European competitiveness.

Nordic Prime Ministers presented in 2019 a vision where the Nordic region would be the most integrated area in the world by 2030. This report gives some ideas for how this can be done.