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Stutz, C., Matala, S. (2026). Manufacturing national consent for industrial policy: a microhistorical analysis of Finnish
shipbuilding. Journal of International Business Studies, 57(4): 597-617.
http://dx.doi.org/10.1057/s41267-025-00779-x

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Journal of International Business Studies (2026) 57:597–617
https://doi.org/10.1057/s41267-025-00779-x

# Manufacturing national consent for industrial policy: a microhistorical analysis of Finnish shipbuilding

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Received: 1 August 2023 / Revised: 27 January 2025 / Accepted: 2 February 2025 / Published online: 18 March 2025
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**Abstract**
Industrial policy, the use of state power to influence the development of industries, has become increasingly influential in international business, yet its firm-level dynamics remain understudied. Through a history-to-theory approach and microhistorical analysis, we investigate how the Finnish shipbuilding industry employed nonmarket strategies (NMS) to influence *outward-oriented* industrial policies that supported its international expansion. Grounded in New Institutional Economics, we identify two key industrial policy shifts – in the mid-1950s and early 1980s – that reduced cross-border transaction costs for Finnish shipbuilders to enhance their international competitiveness. Before each shift, the industry proactively aligned its business interests with national policy priorities, engaging in what we term "manufacturing national consent" – positioning the sector as critical to national interests to legitimize supportive policies. We critically assess the double-edged role of NMS in industrial policy, demonstrating that while it creates regulatory capture and hinders alternative economic pathways, it also fosters government–business collaboration, improving the prospects of effective policy design. We further account for country-specific factors and broader inter-country dynamics to analyze policy implications for home-country firms. In all, our study contributes to the revitalization of industrial policy as a topic in the IB discipline by uncovering the active role of firms in shaping policy outcomes.

**Keywords** Business history · Microhistory · History-to-theory · New institutional economics · International nonmarket strategies · Political strategies · Business–government interactions and relations · Industrial policy · State interventions

## Introduction

It is well established that firms in international competition may engage in political behavior to secure government support against foreign competitors (Peng et al., 2008; Rugman & Verbeke, 1998). Such political behavior is part of a broader set of nonmarket strategies (NMS), defined as "a firm's concerted action to improve its competitive position and performance by actively managing the institutional or societal contexts of business competition in which it operates" (Mellahi et al., 2016: 144). Indeed, scholars in international business (IB) have gradually expanded the NMS perspective to the global arena (Doh & Lucea, 2013), emphasizing the complementary or conflicting interactions between international firms and their home and host country governments (Boddewyn & Brewer, 1994; Cui et al., 2018; Rajwani & Liedong, 2015; Sun et al., 2021). Recently, Tung et al. (2023: 7) noted that these interactions gain importance, as numerous new nonmarket forces challenge the prior pro-market, pro-trade, and pro-investment global institutional framework (Cuervo-Cazurra et al., 2019).

A key nonmarket force altering international market dynamics is industrial policy, defined as "the mix of instruments that public entities use to shape or alter the development of industries" (Van Assche & De Marchi, 2024: 2). Governments deploy these interventions to achieve various objectives for their national economies (Evenett et al., 2024),

Accepted by Geoffrey Jones, Guest Editor, 2 February 2025. This article has been with the authors for three revisions.

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including upgrading them to higher positions in global value chains (De Marchi & Alford, 2022), promoting their green transformation (Benito & Meyer, 2024), and reducing their reliance on foreign supply chains vulnerable to geopolitical risks (Luo & Van Assche, 2023). Despite such diverse motives, a common thread in this IB research is viewing "the state as strategist in international business" (Lenway & Murtha, 1994: 513). Accordingly, industrial policy is primarily government-led, even 'mission-oriented' (Mazzucato, 2018), where governments decide on goals of national importance and develop adequate instruments for implementation. These interventions, then, reshape international business by prompting firms to deviate from established strategic trajectories.

However, while industrial policy is typically depicted as government-led, recent evidence suggests that firms themselves can shape these policies to protect or expand their international presence. For instance, Luo and Van Assche (2023: 1434) examine the U.S. CHIPS and Science Acts, a prominent industrial policy initiative, and position the U.S. government as the primary agent in geopolitical rivalry. Yet, they also suggest that the "Act itself is the product of strong lobbying by some U.S. companies which wanted U.S. government protection and funding." This aligns with previous IB research suggesting that firms with inferior capabilities often adopt NMS, especially 'shelter-seeking strategies' (Rugman & Verbeke, 1998), to obtain institutional barriers against international rivals (Peng et al., 2008). Meanwhile, modern industrial policy often goes beyond protectionism to enable home-country firms to expand internationally (Juhász et al., 2024). NMS aimed at this policy goal may harbor elements resembling shelter-seeking strategies, potentially undermining economic efficiency nationally and internationally, yet how they function and their implications are hardly understood.

Therefore, the article aims to investigate the NMS that influence and shape outward-oriented industrial policy and the implications of those policies for international competition. To achieve this, we utilize insights from New Institutional Economics (NIE; North, 1990; Williamson, 2000) to define outward-oriented industrial policy as additional country-level institutions that alter cross-border transaction costs within international markets to favor firms from the implementing country. Furthermore, we build on Dorobantu et al. (2017) to view NMS as a means to generate and capture value in the face of cross-border transaction costs via influencing such country-level institutions. We then elaborate on these theoretical ideas through a history-to-theory case study (Argyres et al., 2020).

More specifically, we study the history of global shipbuilding, examining the dynamics between firms and their home-country government concerning industrial policy instruments in the Finnish context (see Buckley, 2021; Decker, 2022; Jones & Khanna, 2006; Welch et al., 2022, on historical methods in IB scholarship). The shipbuilding sector, notable for its global reach where shipyards around the world compete for the same orders, offers a particularly revealing setting for analyzing industrial policy practice (Cho & Porter, 1986). Over time, the widespread adoption of industrial policy has led to a shift in global production hubs from Western Europe to Asia. Historically, Asian countries, such as Japan, South Korea, and China, have adopted industrial policies to achieve cost leadership. In contrast, Western industrial nations have applied these policies either defensively or to upgrade their industries to higher-value positions in the global supply chain (Stråth, 1987).

In Finland, our historical research identified two key periods – the mid-1950s and the early 1980s – when shifts in industrial policies emerged. We argue that these policy shifts resulted from the alignment of shipbuilding's international interests with broader public policy objectives. However, this alignment was neither inevitable nor part of the government's original vision. Instead, it was actively forged by industry representatives through political engagement. As Wärtsilä's Shipbuilding Division stated, "The society and the government need to perceive shipyards as meaningful to be interested in supporting them" (PM for the board meeting of Wärtsilä, Jun 6, 1977, ChrL 177, ÅAA. [1]).[1] In both periods, proactive political efforts elevated Finnish shipbuilding over other sectors to national importance, enabling *extended periods* of favorable policy environments that supported shipbuilding's international business activities.

We assess the effects of these NMS observed in two periods in two ways. First, we view it as a case of 'captured' industrial policy, as the government adopted the business rationale and undermined alternative interventions, potentially hindering more favorable economic development trajectories. Second, the NMS led to intensive collaboration between the government and the industry, which helped design industrial policy instruments that effectively reduced cross-border transaction costs for Finnish shipyards relative to foreign competitors. This relative effectiveness was further supported by Finland's status as a relatively small country, which prevented provoking retaliatory actions from larger shipbuilding nations that could have nullified the benefits of industrial policy. At the same time, the history of global shipbuilding serves as a cautionary tale – by the 1970s and early 1980s, a subsidy arms race had intensified,

[1] We reference archival sources as follows: (Title of document, date, archive, collection. [Reference No.]). Translations from the original language (Finnish, Swedish) to English are our own. TABLE II in the online appendix lists all primary sources referenced in this article in the order of their appearance and provides a description and a critical analysis of each source's usefulness.

making it well-nigh impossible to construct merchant ships without direct or indirect state aid.

The article provides three primary contributions to IB scholarship. First, we contribute to the revitalization of industrial policy as a topic in the IB discipline (Benito & Meyer, 2024; Luo & Van Assche, 2023; Tung et al., 2023) by developing a theoretical model that explains the role of NMS of home-country firms to influence outward-oriented industrial policy. This model builds on and expands Van Assche and De Marchi's (2024) framework on the relationship between public policy and international business, thus advancing an IB-specific knowledge system that enhances comparability and provides a foundation for future research.

Second, we introduce a novel type of NMS, termed 'manufacturing national consent,' which differs from established concepts in the international nonmarket literature (Boddewyn & Brewer, 1994; Katic & Hillman, 2023; Rajwani & Liedong, 2015; Sun et al., 2021). This NMS refers to a set of political activities undertaken by international business firms, either individually or as part of a sector, aimed at skillfully constructing the firm or sector as *nationally important*, serving as a *long-term political resource* to legitimize favorable policy decisions in the *home-country* environment, such as outward-oriented industrial policies. Finally, our study aligns with recent efforts to integrate historical methods in IB scholarship (Buckley, 2021; Decker, 2022; Jones & Khanna, 2006; Welch et al., 2022), demonstrating a unique potential: revealing biases in IB research paradigms.

This article is organized as follows. Following the principles of history-to-theory (Argyres et al., 2020), we first construct a theoretical framework that offers an institution-based view of outward-oriented industrial policy and clarifies the role of NMS within it. We then introduce microhistory as our analytical approach (Hargadon & Wadhwani, 2023), which is particularly apt for examining NMS and its long-term consequences (Bucheli & DeBerge, 2023). Following this, we present two microhistories derived from our historical investigation. Finally, we provide a more formal generalization of our findings, applicable across various contexts, and elaborate on further implications of our work.

## Theoretical framework

### Outward-oriented industrial policy and its instruments

Industrial policy is typically defined as a national strategy involving policy actions and instruments targeted at specific industries or sectors, with the aim of directing economic development consistent with a nation's long-term objectives (Cimoli et al., 2009; Van Assche & De Marchi, 2024). The practice dates back to the advent of nation-states in the 18th century, as first depicted in canonical texts by Alexander Hamilton (1755–1804) and Friedrich List (1789–1846), particularly concerned with nascent industries. They argued that a nation's comparative advantage does not arise from its arbitrary factor endowments (e.g., due to geography) but rather that a nation should deliberately construct its "productive power" (Oqubay, 2020: 27). Historically, this objective was often pursued through *protectionist strategies* to stimulate import-substituting industrialization, whereas this strategy is particularly relevant today to achieve national security objectives and technological independence (Luo & Van Assche, 2023; Tung et al., 2023). Yet, viewing industrial policy solely as protectionist neglects the importance of *outward-oriented strategies* (Juhász et al., 2024: 214). Contemporary industrial policies involve government support to enable home-country firms to participate in international activities (Evenett et al., 2024), with a focus on attaining advanced positions within global value chains (De Marchi & Alford, 2022).

Governments use various policy instruments to support home-country firms toward more outward-oriented economic activities, but these tools are poorly understood (Juhász et al., 2024). Drawing on Criscuolo et al. (2022), we view outward-oriented industrial policy as comprising diverse, complementary instruments operating through various channels. These include demand-pull instruments, such as government advocacy for international contracts, and two types of supply-push instruments: "within" instruments that enhance efficiency "within" firms by sharing costs or risks (e.g., export subsidies, state guarantees), and "between" instruments that influence the (re)allocation of production factors "between" firms, often through trade policy favoring certain sectors. Given the variety of instruments employed in industrial policy, it is important to note that the presence of a policy tool does not automatically imply the existence of industrial policy; these tools can serve a range of objectives (Juhász et al., 2024). Moreover, numerous loopholes for non-tariff measures within multilateral trade regulations often conceal governmental industrial policy actions, causing research to underestimate their influence on international business (Evenett, 2019).

### An institution-based view of industrial policy's impact on international business

We view industrial policy as a "nonmarket influence" on international business (Tung et al., 2023: 6; Peng et al., 2008). More specifically, by drawing on NIE (North, 1990; Williamson, 2000), we conceptualize it as *additional country-level institutions that alter cross-border transaction costs within international markets to favor firms from the implementing country.* This definition engages three NIE tenets.

First, institutions, described by North (1990) as the "rules of the game" that govern economic interaction, consist of complex interdependent structures and systems both within and across countries and at the international level (Henisz & Swaminathan, 2008: 539). In this view, industrial policy measures are supplementary country-level institutions tailored to specific international markets, thereby shaping the institutional structure at the international level through their interconnectivity. Most importantly, an outward-focused industrial policy differs significantly from protective strategies, which involve, for instance, instruments that erect barriers to entry to shield a country's market.

Second, NIE evaluates the strengths or weaknesses of institutions, advising that, for economic efficiency, policymakers should "get the institutional environment right" (Williamson, 2000: 597). However, industrial policies seek to affect the cross-border transaction costs in markets as they relate to different governance models (Williamson, 1979). Such intervention creates unequal institutional costs, benefiting firms within the policymaking country (lowering their costs), thereby creating disparities among competitors.

Third, unequal institutional costs due to industrial policy affect the efficiency of strategic choices made by home-country and foreign firms (Williamson, 1979). The strategic choice of home-country firms, the focus of our analysis, involves responding to policy-induced institutional cues by adapting or complying (Dorobantu et al., 2017). Adapting entails changing strategic directions to align with national institutions. For instance, a new production subsidy may prompt a home-country firm to increase its capacity and export from its home base. In contrast, it might have previously considered relocating production to lower-cost foreign locations. Such expansion could also deter international competitors, leading the home-country firm to gain international market shares (Lenway & Murtha, 1994)

Against this backdrop, reconsidering home-country firms not as passive recipients merely adapting to industrial policy but as active drivers in its development presents an intriguing shift in perspective. Evenett et al., (2024: 2766) suggest a crucial role of established industries' "lobbying power" in shaping the contemporary wave of industrial policy. This reversal of causality prompts pertinent questions: Why can certain private sectors influence industrial policy to their advantage compared to others within the same country? And if a sector can successfully influence home-country industrial policy, what is required for this to lead to international activities? Addressing such questions is theoretically and practically significant for international business, as political manipulation and rent-seeking can adversely impact economic efficiency at the national and international levels. We address this complex issue from the perspective of the IB nonmarket literature.

### Towards an analysis of nonmarket strategy in industrial policy practice

There is a strong tradition within the IB field to study business–government interactions, emphasizing the role of NMS in influencing political agendas at the national and supranational levels (Boddewyn & Brewer, 1994; Cui et al., 2018; Rajwani & Liedong, 2015; Rugman & Verbeke, 1998; Sun et al., 2021).

An influential stream of research in the IB context originates from the work of Vernon (1971) on political bargaining, which explores shifts in power between foreign firms and host-country governments when entering foreign markets. Another research direction within IB focuses on "political connections" (Wei et al., 2023) that foreign firms establish with officials in host countries. Rajwani and Liedong (2015) emphasize that such "relational" political influence strategies are more critical in developing country contexts compared to developed ones, where "financial" and "informational" political strategies are more effective in shaping governmental policy.

An alternative starting point is the work of Dorobantu et al. (2017), which categorizes the various NMS firms use to generate and capture value in the face of 'institutional costs.' These NMS involve augmenting and transforming the institutional context, either independently or through collaboration. Considering that industrial policy confers a group advantage to firms from the policy-implementing country, firms within a sector are expected to form a coalition to achieve the desired institutional outcome. Therefore, this article studies the NMS influencing outward-oriented industrial policy and its implications.

## Methodology

We employ a history-to-theory methodology, characterized by the "use [of] historical research methods to build and test theories in a context-specific manner" (Argyres et al., 2020: 354), and follow microhistory principles. Microhistory involves examining individuals or groups within a particular context to uncover overlooked aspects of broader historical processes and their long-term consequences (Hargadon & Wadhwani, 2023). By zooming in on situated actions – such as backroom negotiations – and then zooming out to see how these strategies emerged and to evaluate their broader outcomes, this approach is especially well suited for studying NMS and their policy implications (Bucheli & DeBerge, 2023).

## Research setting

Our historical investigation focuses on the global shipbuilding industry, specifically examining Finnish-based firms and their NMS to secure industrial policy support for international activities. For two key reasons, we consider this setting an 'exceptionally typical' case for theory development (Hargadon & Wadhwani, 2023).

First, studying the history of global shipbuilding provides insights into international industrial policy dynamics. Shipbuilding's development has followed a typical product life cycle, with the production hub shifting from Western Europe to East Asia as the industry matured (Cho & Porter, 1986; Stråth, 1987). Despite these economic dynamics, countries have continued to support shipbuilding for various motives, including fostering international competitiveness, national security, and prestige (see Table 1). In the 21st century, only the most knowledge-intensive, high-added-value segments remain in Europe, partly because industrial policies have enabled firms to move to higher-value positions in the global supply chain.

In this global context, the Finnish shipbuilding sector is a remarkable international success, especially given its limited domestic market (see Fig. 1). Over time, the industry has adapted to shifts in international competition (see Fig. 2). Domestically, as it evolved from a minor domestic branch into a nationally relevant big export business, it fueled industrial and societal modernization, eventually emerging as a source of national identity. As Matala (2019: 304) writes, the Finnish shipbuilding sector became "weightier than its size suggested, and more visible than many other industrial sectors, because it [managed to present itself to] satisfy a diverse set of national needs." Therefore, Finnish-based shipbuilding enables us to understand the NMS to secure industrial policy support for international activities.

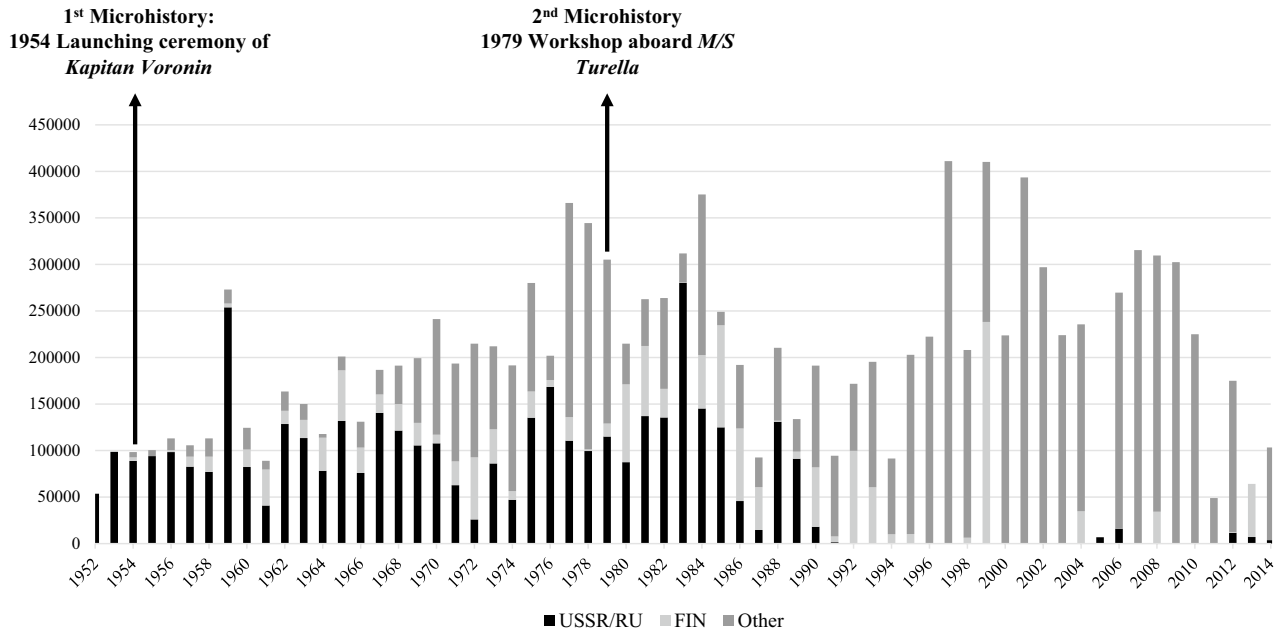
## Historical methods

As typical in history-to-theory studies, we rely on archive-based research and primary sources. Primary sources are original materials from the studied period, often created by people directly involved in the events (Kipping et al., 2014). These sources, usually accessible in historical archives, provide insights into the research subject's lived experiences, actions, and local events within their contexts (Hargadon & Wadhwani, 2023: 684–5). Rather than applying standard qualitative methods such as analytical coding, we interpret these sources "against the grain," inferring meanings that may go beyond or even contradict their original intent (Rowlinson et al., 2014: 256). Understanding the motives and contextual biases of the sources' creators is essential, as well as considering factors like survival bias, intentional destruction, or contextual silences that could influence what is written down and preserved (Heller, 2023). Historians, therefore, use source criticism and triangulation to contrast and verify sources with additional information, including historiographical writings. This approach embodies a hermeneutic process in understanding, where analysts continually oscillate between empirical sources and a deepening contextual understanding (Kipping et al., 2014).

Our primary sources were obtained from the archival collections of Finnish-based shipbuilding firms (Wärtsilä, Valmet, Rauma-Repola, and Hollming) and their affiliated entities. These firms were multifaceted conglomerates that exported a diverse range of metal-manufacturing products, with a shipbuilding heritage tracing back to the 19th century. Despite experiencing organizational shifts, culminating in the shipyard branches being acquired by foreign entities in the 1990s, these collections provide a rich window into the past. Integral to our analysis were, for instance, the private collections from directors, notably Wilhelm Wahlforss of Wärtsilä (in office, 1940–1962) and Christian Landtman,

**Table 1** Characteristics of the shipbuilding industry

| Reason for state aid | Description |
|---|---|
| National prestige and techno-nationalism | Shipbuilding capacity and competence are vital for national security and military strength during crises (Johnman & Murphy, 2002)<br>Ships, as named and flagged industrial products, symbolize technological prowess of a nation (Matala & Sahari, 2017) |
| Location-bound FSAs, important for the local economy, and potentially updating CSAs | Shipyards are key local employers (Varela et al., 2017) and anchor maritime clusters of subcontractors, R&D labs, and service industries (Laaksonen & Mäkinen, 2013)<br>Shipyards produce movable goods using specialized facilities difficult to relocate or repurpose (Varela et al., 2017)<br>High investment costs and risks often require state involvement in transforming shipbuilding (Stråth, 1987) |
| Economic challenges for companies | Cargo ships are costly with payback time often exceeding what commercial banks prefer (Stopford, 2008)<br>Merchant shipbuilding lags behind the economic cycles in shipping, with volatile demand and market prices but largely fixed facility costs (Tenold, 2011) |




Source: Data collected by Saara Matala from shipyard archives
The data measures yearly gross tonnage (GT), a volume unit, to capture ship exports. This remains the only feasible measure over such a long period because the Finnish Customs Foreign Trade Statistics does not specifically categorize ship exports. It is important to clarify that this data represents the tonnage completed annually, rather than reflecting the real-time market situation. This distinction arises due to the lengthy nature of the shipbuilding process and the often multi-year gap between the initial order and the final completion

**Fig. 1** Finnish shipbuilding output in terms of destination (GT), 1952–2014

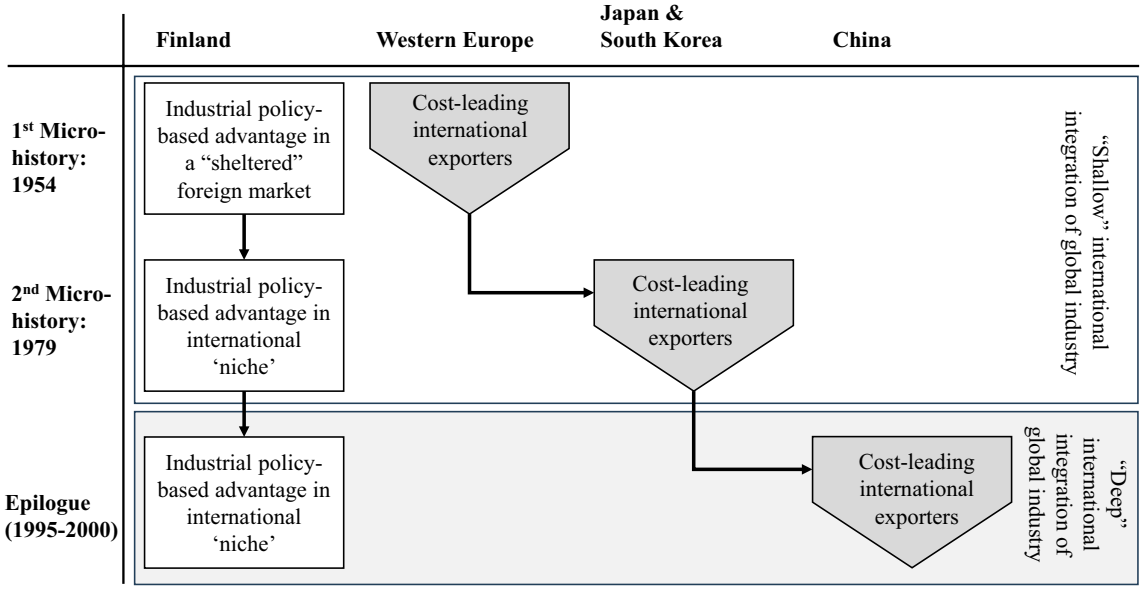



**Fig. 2** Evolution of Finnish-based shipbuilding within the global competitive dynamics

its influential shipyard director (in office, 1956–1984, then a member of the steering board). Such collections, coupled with records from strategic meetings such as Rauma Repola's board meetings (1974–1991), offer insights into strategic decision-making processes. We also explored archives of Finnish shipyard associations, namely Telakkayhdistys (1948–1960) and STTY (1974–1987), that document the formal collaboration within the industry. As is typical in historical research, no single source type covers the entire research period. Therefore, we pieced together our picture

by integrating complementary sources to fill gaps and verify information.

Another crucial category of primary sources pertains to the interaction between business and government, illuminating shipbuilding's influence on governmental affairs. Joint working groups and committees, as primary platforms for industry–government cooperation, discussed business matters and formulated policy recommendations. We collected all 39 reports produced by such groups concerning shipbuilding from 1950 to 2020, both openly published ones and those that were confidential but preserved in archives. Notably, to our knowledge, no other sector in the Finnish economy has produced such extensive and consistent traces in Finnish governmental archives.

These perspectives were further enriched by archival sources capturing the work of political leaders, including the archival collections of Presidents Kekkonen (presidential tenure, 1956–1982) and Koivisto (1982–1994). Both presidential collections include documents also from their earlier positions as Prime minister (both) or Bank of Finland director (Koivisto). For instance, we collected speech transcripts and private correspondence with industrial leaders. Additionally, we consulted archives from the Ministry of Foreign Affairs (FORMIN) and the Bank of Finland to understand the workings of civil servants and bureaucrats regarding decentralized industrial policy measures. Also, parliamentary documents (1950–2000), such as protocols, written questions, and expert statements, served as key sources for understanding the domestic political discourse. We also have a collection of regulations, legislative texts, and other documents that pertain to multilateral negotiations regarding global shipbuilding regulation (e.g., EC Directives). In all, our collections of primary sources consist of 11,126 pages of digitalized or transcribed materials, as summarized in Table 1 in the Online Supplementary.

## Findings

This section presents two microhistories, each centering on a shift in industrial policy. Consistent with microhistory, each historical narrative begins by exploring a focal episode within a micro-temporal framework to capture "the lived experiences of the actors in the study" (Hargadon & Wadhwani, 2023: 687–8). The two episodes focus on the NMS in action before a new industrial policy direction emerges. Following this, we provide the macro-temporal context to highlight structural factors, particularly the shipbuilding firms' international interests and the government's public policy challenges. In both cases, we show that industry-led NMS, not government initiatives, aligned business solutions to policy challenges, creating a supportive policy environment for an extended period. The two narratives end by linking the episodes to the development of industrial policy instruments that lowered the cross-border transaction costs for Finnish shipbuilding in international competition.

### The launching ceremony of 'Kapitan Voronin,' 1954

The first microhistory revolves around the launching ceremony of the Baltic icebreaker *Kapitan Voronin* at the Wärtsilä Helsinki shipyard in 1954. Onboard, the industry strategically positioned itself as a 'diplomatic asset' for the government to navigate Finland's delicate geopolitical relationship with the Soviet Union. By aligning with this geopolitical challenge, the industry elevated itself above other Finnish export sectors, equally viable or better candidates for the industrial policy program underway. The following section presents these findings, with a summary provided in Table 2.

**Table 2** Shift in industrial policy direction through NMS: The 1954 *Kapitan Voronin* instance

| | Before 1954 *Kapitan Voronin* | After 1954 *Kapitan Voronin* |
|---|---|---|
| 'National consent' on shipbuilding among key policymakers | Shipbuilding viewed as a temporarily expanded sector due to war reparations; uncompetitive internationally; shipyards seen as hubs for left-wing activism dangerous to democracy | Shipbuilding became the flagship of peaceful Finnish–Soviet cooperation |
| Industrial policy direction | State-owned enterprises advancing peripheral regions (industrialization)<br>Facilitating exports to the Soviet Union to preserve employment generated through war reparations deliveries | Facilitating ship exports to the Soviet Union, especially icebreakers (in addition to industrialization through state-owned enterprises) |
| Industrial policy impact | – | Industrial policy instruments provide Finnish shipbuilding with a 'sheltered' foreign market vis-à-vis Western competitors<br>Finnish ship exports to the Soviet Union expanded steadily until the 1980s |

## The focal episode

On November 27, 1954, a mere decade after the war between Finland and the Soviet Union, the flags of the two nations fluttered side by side over the shipyard of Helsinki, the Finnish capital. Madame Lebedev, the wife of the Soviet Ambassador, graced the launch ceremony of the inaugural Baltic icebreaker, *Kapitan Voronin,* constructed by Wärtsilä for the Soviet Union, by serving as the vessel's godmother. Even more eminent individuals from Moscow gathered at the launch event: Anastas Mikojan, the Soviet Vice Prime Minister, and a cadre of directors from the Soviet foreign trade and maritime administrations (*Helsingin Sanomat* (HS), Nov 28, 1954 [2]).

Being a private Finnish firm, Wärtsilä naturally lacked the authority to invite leaders of a foreign superpower. However, this hurdle was surmounted through Wärtsilä's influential connections within the Finnish political leadership. Prime Minister Urho Kekkonen, who was to become the Finnish president (1956–1981), had good relationships with Soviet Officials, relationships he turned into his key political currency during his long political career. He personally extended invitations to the Soviet delegation. Once the launching ceremony concluded, Wilhelm Wahlforss, Wärtsilä's Director, graciously hosted a festive lunch aboard the icebreaker for the Soviet delegates, culminating the day with a test drive of another icebreaker. Amidst these festive activities, it is noteworthy that the Soviet delegation had the distinguished honor of being hosted by even more high-ranking Finnish counterparts, including Prime Minister Kekkonen, Foreign Minister Virolainen, Minister of Trade and Industry Simonen, and the Director of the Bank of Finland Tuomioja, along with numerous other governmental officers. Consequently, what initially appeared to be an unassuming vessel ceremony emerged as a pivotal venue for Finnish–Soviet diplomatic and economic networking (HS Nov 28, 1954 [2]; Rentola, 1997: 350).

Wilhelm Wahlforss, referred to as "the greatest capitalist in Finland and a true friend of the Soviet Union" (Landtman, 2011: 62 [3]), reaped considerable rewards for his service to the nation, gaining direct connections to officials within Soviet economic planning. In his speech, Director Wahlforss expressed his gratitude to Mikojan, who had just invited the company to participate in a bid for a prestigious project of constructing the world's largest non-nuclear polar icebreakers, and raised a toast to honor the Soviet Union (HS, Nov 28, 1954 [2]). In the convivial atmosphere, Mikojan reportedly reciprocated by offering a toast to Wahlforss, expressing his hope that he would continue to "build more and more ships for the Soviet Union" (Rentola, 1997: 352).

In his speech directed towards Prime Minister Kekkonen, Mikojan confirmed the symbolic importance of the icebreaker trade, encapsulating it as an emblem of the peaceful relations between Finland and the Soviet Union: "…above all, this is an indication of the good neighboring relations and friendship between our countries. […] The Soviet sailors will work onboard the ship built by Finnish engineers. This is symbolic: in that way, the work and the heroism bring our countries closer together" (HS, Nov 28, 1954 [2]). Prime Minister Kekkonen could only express his appreciation to the Soviet trade delegation, raising a toast to the enduring Finnish–Soviet friendship.

Overall, what unfolded in this episode was, as we argue, a carefully orchestrated political effort to secure support for shipbuilding-favoring industrial policy. With the Soviet military threat still looming over Finland in the 1950s, supporting shipbuilding and its trade with the USSR contributed both to domestic industrial development and peaceful relations with the superpower. In the following, we present the historical context from the perspectives of both Finnish shipbuilding and the government, providing evidence that, without this NMS intervention, a Finnish industrial policy for shipbuilding would likely never have materialized.

## International market strategy

In the 1950s, the global shipbuilding sector experienced substantial growth, particularly in the large oil tanker segment, which accounted for almost half of the global annual production. During this era, Japan emerged as the leading shipbuilding nation, a position secured through state-led planning. The Japanese industrial strategy involved establishing local institutions designed to lower cross-border transaction costs for domestic firms compared to their global rivals. For instance, De Voogd (2007) estimates that the Japanese export credits provided a 5–10% price advantage against their Western competitors. Other maritime nations also capitalized on the industry's growth. In particular, Sweden ascended to become the second-largest shipbuilding nation by the early 1970s. Despite facing higher labor costs than their Asian counterparts, Swedish shipbuilders successfully modernized and streamlined the serial production of large oil tankers, transforming them into efficient industrial operations. In contrast, Finnish shipbuilders faced significant challenges during this period, particularly in manufacturing standard-type cargo vessels due to their inability to compete on cost and scarcity of capital for large-scale investments in serial production. Unlike Japan, Finland had not yet developed an industrial policy that could offset these disadvantages.

In light of these circumstances, Finnish shipbuilders identified an opportunity in the Soviet market, where they had already gained experience after the war. Particularly, Finland's payment of war reparations to the Soviet Union from 1944 to 1952, partially discharged through vessel deliveries, laid the groundwork for future cooperation. Encouraged

by this experience, Finnish shipbuilders sought to create a competitive niche in batch production, focusing on becoming suppliers of design-intensive special-purpose vessels, such as icebreakers (Matala, 2019; Sahari, 2018). *Kapitan Voronin* was the second of three icebreakers completed by Wärtsilä, an order secured solely through political advocacy. However, to effectively serve the Soviet market controlled by the state economic planning system, the Finnish shipbuilders required unmediated access to the Soviet decision-makers, requiring an industrial policy program to institutionalize trade relationships and reduce other cross-border transaction costs.

### Public policy challenges

Moving our discussion to structural factors pertaining to the Finnish government, the *Kapitan Voronin* episode marks the transition from the post-war rebuilding period to a phase of state-led economic growth under Urho Kekkonen's leadership (1900–1986, in office 1956-1982). This period, mirroring patterns in other Western countries, was characterized by substantial state intervention (Cuervo-Cazurra et al., 2019), including strategies for a closed economy, state-owned enterprises, and the expansion of public welfare services (Fellman, 2008: 171–188; Nevalainen & Yliaska, 2021: 1332–1333). Yet, in the 1950s, Finland was still predominantly an agricultural society lagging behind its Western European counterparts.

The industrial policy program that emerged in the 1950s focused on *rapid industrialization* as the key policy challenge. The Industrial Committee stated in 1959: "The starting point in every proposal for industrial policy measurement is that our nation's economic and social development is fundamentally bound to the industrialization process" (Teollisuusneuvottelukunta, 1959: 11 [4]). The goal was not only to employ the growing population, but "to create such occupations in which the productivity of labor is so high that it will provide a sufficient income and living standard" (ibid.). With Finland's small domestic market, the industrialization drive had to be paired with supporting the underlying industries to become globally competitive. This led to the insight that "the government must also make every effort to develop exports and create the conditions that will enable it [the industry] to compete on an equal footing with other countries" (Vientitakuutoimikunta, 1962: 7 [5]). The shipbuilding industry, which had expanded due to the war reparation deliveries but lacked international competitiveness, was not a self-evident subject of the industrial policy initiatives. Other sectors, like the paper and pulp industry, had a better competitive position in international markets and a smaller political risk of becoming dependent on Soviet trade.

### The industry pushes for sector-favoring industrial policy instruments

With Wärtsilä as the primus inter pares leading the efforts, the shipbuilding industry pushed for the sector-favoring industrial policy rather than being a government-led initiative. We substantiate this claim by the backstory of *Kapitan Voronin* and by ruling out alternative explanations (Pillai et al., 2024), namely that the government envisioned such a policy and firms aligned with its goals. The two key figures in this history are Wärtsilä's Wahlforss and Prime Minister Kekkonen, who had a historically documented strained relationship (Sahari, 2018: 337).

The backstory of the *Kapitan Voronin* order shows that the *market initiative* toward the Soviet Union came from Wärtsilä. However, struggling to persuade the Soviet industrial actors to purchase its icebreaker, Wahlforss approached Kekkonen. The key issues Wärtsilä faced were that, for one, the Soviet administration tended to favor domestic construction of bespoke vessels – perceived as costly, technologically advanced, and of strategic significance – rather than procuring them from Finland (Landtman, 2011: 62 [3]; Sahari, 2018: 337). Then, because the Finnish–Soviet bilateral trade was state-coordinated and negotiated between the governments, Wahlforss realized that he had to seek governmental assistance. Kekkonen agreed to help in exchange for financial support to his party (Landtman, 2011: 62 [3]; Zilliacus, 1984: 291, 296–305 [6]). These intergovernmental negotiations, involving Kekkonen, occurred around 1950–1951, with icebreakers first appearing in the trade protocols in 1951 (Sahari, 2018: 337).

For Wärtsilä, the icebreaker orders were a great business opportunity but came with a political risk. Thanks to the icebreaker deal, the shipyard became "the only shipyard in the world to specialize in the construction of icebreakers" (The Shipbuilder and Marine Engine-Builder, vol. 67, 1960: 501 [7]). With its specialization in Arctic shipbuilding, Wärtsilä could generate profits, allowing it to enter more competitive Western markets for special niche production. Conversely, the shipyard also increased its dependence on the politically coordinated Soviet market. As noted in its annual report, "the shipyard is almost entirely relying on the trade negotiations on the icebreakers to the Soviet Union" (Långhjelm to License Office, Jul 5 1955. ELKA, Wärtsilä Hietalahti, f. 50 [8]). Thus, industrial policy tailored to support Wärtsilä, and Soviet ship exports more generally, was crucial, and the *Kapitan Voronin* episode documents the political efforts toward that goal.

### Ruling out alternative explanations

An important alternative explanation for the development of this sector-benefitting industrial policy is a government-led approach. In the Finnish context, Kekkonen emerged as a powerful actor with considerable influence over government, administration, and society, often intervening personally to overcome bureaucratic hurdles (Piskulov, 2009: 217). However, there are five reasons why we can rule out the possibility that the emerging shipbuilding-favoring policy instruments were envisioned or desired by him.

First, Kekkonen had a clear vision for industrial policy, outlined in a 1952 pamphlet titled "Does our country have the patience to prosper?" ([9]). This vision focused on state-owned enterprises and large-scale investments to support industrial modernization in Northern Finland (where no shipyards are located). Second, since 1951, Kekkonen had publicly advocated for increasing industrial exports to the Soviet Union to support urban employment after the war reparation deliveries. Yet, he did not specify shipyards but mentioned machine manufacturing and prefabricated wooden houses as his main examples (e.g., Kekkonen's speech, May 23, 1951 [10]). Had Kekkonen viewed shipbuilding as crucial to Soviet trade, he would have promoted the state-owned Valmet as the centerpiece of Finnish–Soviet industrial and technical cooperation, rather than the privately owned Wärtsilä. Unlike Wärtsilä, Valmet was controlled through political stewardship and, as described by Sahari (2018: 315), was more easily used as a "technopolitical instrument" in Finland's relations with the Soviet Union. By promoting Wärtsilä in the Soviet market, the government was, in fact, limiting Valmet's export opportunities due to the constraints of clearing trade.

Fourth, when discussing shipbuilding, Kekkonen did see it primarily as a labor-political problem, emphasizing the need to expand exports to sustain employment for the growing urban working class (Kekkonen, 1952 [11]). For this purpose, the ship repair business or building standard types of cargo vessels would have been a more logical choice to support. In contrast, icebreaker production was high-risk in many respects. These vessels were included in the COCOM list of Western technology embargoes during the Cold War. Moreover, Wärtsilä had to import powerful marine diesel engines, worsening the national trade balance and risking delays in Soviet trade – a significant concern given the limited force majeure clauses in Soviet agreements. Additionally, the Maritime Union's strikes on icebreakers pressured the government, which Kekkonen and other politicians publicly criticized as threatening democracy (Kekkonen, 1953 [12]). Thus, icebreakers were seen as floating monuments of the tensions between left-wing ideologies and the Finnish government before becoming symbols of peaceful Finnish–Soviet relations.

Fifth, it is unlikely that Kekkonen would have provided such a strong platform for business promotion to Wahlforss without Wärtsilä's NMS-push, given their mutual dislike. Kekkonen criticized Wahlforss for his self-serving behavior, prioritizing company profits and potentially jeopardizing Finnish–Soviet relations. As Sahari (2018: 167, 322) notes, "The company revenue was always the priority for Wahlforss. Nationalist could one be only after ensuring the profitability of the company." Kekkonen expressed his disdain both in private correspondence and in public. In 1955, he criticized Wärtsilä's director, referring to Wahlforss by his well-known nickname, Vikkelä (the nimble one), while also attributing him significant national influence:

> "It is pointless to deny the value of the work done [by Wahlforss] within the company [Wärtsilä], the most recent memory being of the great icebreakers. It is, however, characteristic of the way in which the company's expansion has been managed, almost entirely based on the nimble [vikkelä] grip it has exercised in enclosing industry after industry. Most distressing, however, is the unabashedly dictatorial style with which the Wärtsilä group deals with the rest of society." (Kekkonen, using the pen name Veljenpoika, "Mitä on Suomen metalliteollisuus?", 1955 [13])

Wahlforss, in turn, criticized Kekkonen's attempts to monopolize Finnish–Soviet trade to fuel his political career. This conflict peaked before the 1961–1962 Presidential election, when Wahlforss rallied the liberal-minded Finnish industrial elite to oppose Kekkonen's re-election. (Zilliacus, 1984: 305–307 [6]).

### Sector-benefitting industrial policy instruments

After the 1954 *Kapitan Voronin* episode, several shipbuilding-favoring industrial policy instruments emerged, specifically designed to secure success in the Soviet market. These instruments were not the result of top-down government directives but rather stemmed from decentralized interactions among various administrative and public organizations, which created complementary instruments to support the shipbuilding sector. An example of this decentralized approach, and how national consent drives governmental actor's behavior, is evident in the actions of the Bank of Finland, as it retrospectively noted, "Difficulties in contracting [with the Soviets] can become easily a 'national' question. An 'unreasonably' strict policy [i.e., not providing generous terms for shipbuilding financing through the clearing trade system the Bank of Finland maintained with its Soviet counterpart] may provide an unnecessarily easy excuse to impeach the Bank of Finland for the problems [in Finnish–Soviet relations]" (PM on Soviet ship trade, Oct 22, 1985, SPA 256 [14]).

One policy instrument already in place before the *Kapitan Voronin* episode was the first of two export guarantee systems: the Export Compensation System (1950–1962), which was continued by the Cost Guarantee System (1962–1988). These systems functioned as implicit export subsidies for exporters of large, customized, capital-intensive products like ships. They helped share the financial risks associated with exporting to the Soviet Union with fixed prices and long delivery times, which subjected the projects to inflation. The first system was free of charge, while the second charged a premium but became very profitable for shipyards due to high inflation in the 1970s (K-takuukomitea 28: 1976 [15]).

The first new instrument was a 1956 tax relief, known as 'Lex Långhjelm,' that allowed the shipyards to offer better credit terms to domestic orders by making interest revenues partially tax-deductible. Wärtsilä's deputy director, Bertel Långhjelm, successfully argued for the legislation by linking the domestic market demand to the broader export business (Långhjelm in Navigator 1/1956: 30–35 [16]).

Importantly, Finnish ship exports to the Soviet Union increasingly benefited from a complementary Finnish energy policy that addressed the limitations of the bilateral clearing trade and payment system, specifically the issue of import values restricting exports. This energy policy expanded export opportunities for Finnish shipbuilders by granting the Soviet Union a de facto monopoly over Finland's oil supply (Matala, 2022), as expressed in the annual report of the state-owned oil refinery Neste in 1973:

> It has been the interest of Finland and especially the Finnish export industry that most crude oil and oil products have been bought from our neighbor, the Soviet Union. This has contributed to the security of oil supplies and provided the Finnish export industries, primarily metal manufacturing and shipbuilding, with export opportunities in the Soviet Union (Neste Company Annual report, 1973 [17]).

Thanks to the political and economic institutions that provided the Finnish shipbuilding industry a privileged position in the Soviet market, the Finnish ship exports to the Soviet Union expanded steadily until the 1980s (see Fig. 1). Meanwhile, Western European shipbuilders experienced a boom fueled by the increasing demand for oil tankers. However, this market became heavily distorted as Western European countries responded to Japanese and Korean industrial policies with their own subsidized credit schemes (Stråth, 1987).

## A workshop held aboard the *M/S Turella* in 1979

The second microhistory centers on a two-day workshop on the *M/S Turella* in 1979, illustrating the political effort to reframe the shipbuilding industry within the broader industrial policy discourse. For the government, the key public policy challenge was adapting the crises-ridden economy to the post-industrial era following the Oil Crisis. The industry's message to politicians was that Finland already had a high-tech sector, albeit one constrained by 'unfair' international state support practices. The realization that international negotiations to reduce state intervention were unproductive justified new industrial policy instruments targeting Western markets, which became permanent despite being meant as temporary measures. We outline these findings below and provide a summary in Table 3.

### The focal episode

On November 28, 1979, the Finnish shipbuilding industry convened a large group of political and governmental decision-makers for a two-day workshop aboard the *M/S*

**Table 3** Shift in industrial policy direction through NMS: The 1979 *M/S Turella* instance

| | Before 1979 *MS Turella* | After 1979 *MS Turella* |
|---|---|---|
| 'National consent' on shipbuilding among key policymakers | Shipbuilding seen as uncompetitive outside the Soviet bloc; risking the same fate as its Swedish counterpart | Shipbuilding recognized as a high-tech sector, threatened by 'unfair' international competition |
| Industrial policy direction | Investing in future-oriented industries through state-owned enterprises (failed by 1980)<br>Developing a conducive environment for competitive private business (1978 "Spirit of Korpilampi") | Developing a conducive environment for competitive private business, but 'retaliatory' and intended-to-be temporary industrial policy to protect shipbuilding from 'unfair' international competition |
| Industrial policy impact | – | Industrial policy instruments enabled the technological specialization of some shipyards in high-tech passenger ships with international market demand<br>By 2000, Finnish shipyards produced over 20% of global passenger vessels |

*Turella*. This vessel, notable as the first cruise ship constructed with the provision of direct subsidies from the Finnish state, served as an apt symbol for the discussions that would unfold. Attendees of this workshop included distinguished members from the Finance Committee of the Parliament, responsible for budgetary affairs, alongside civil servants representing diverse administrative bodies, such as the Ministry of Trade and Industry, the Ministry of Finance, the Maritime Administration, the Bank of Finland, and the Finnish Board of Export Credit (Navigator 1/1980 [18]). The event occurred towards the end of what was later recognized as a temporary slump in ship orders between 1977 and 1980 following the Oil Crisis, a period which the Finnish shipbuilding industry eventually navigated without substantial harm.

Presiding over the proceedings, Pentti Helpiö, the Chair of the Shipyard Association STTY, addressed the distinguished guests, priming them for impending challenges. Helpiö asserted that the shipbuilding industry had made substantial contributions to the nation by weathering the recession, stating, "we can now say that the employment at the shipyard industry has developed well" (Navigator 2/1980 [19]). He argued that the cornerstone of this accomplishment was the exceptional quality of the Finnish shipbuilding industry, earning a formidable reputation on the global stage: "The high technical competence, specialization, extreme flexibility, and possibility for short delivery times have been critical in the economic crisis. Our shipyard industry is well functioning and healthy at its core" (Navigator 2/1980 [19]). He also underscored the personal sacrifices and commitments made by the industry leaders: "We also want to remind you that getting these [international] orders and maintaining employment at the shipyards has required financial sacrifices from domestic shipyards and ship owners as well" (Navigator 2/1980 [19]).

Nevertheless, a central theme of his speech was that the industry had ventured into the international marketplace, a terrain unfairly skewed due to the state support benefiting international competitors. He drew attention to the relative scarcity of state support Finnish shipbuilding received: "Price subventions are only 3–5% per ship, which is only 1/10 of what our competitors may get" (Navigator 2/1980 [19]). Therefore, and this was his underlying message, the Finnish state had no choice but to intervene, as the competitive landscape showed no signs of change.

The venue of the workshop further reinforced Helpiö's argument. *M/S Turella,* built to become the largest flagship in the Finnish-Swedish ferry traffic at the time, boasted a capacity for 1700 passengers, with comfort and entertainment at its core. As the leisure cruise business took off, this Finnish-built vessel offered a glimpse into the future through its luxurious cabins, restaurants, and bars (Navigator 9/79 [20]). Thus, the shiny passenger ship served as a testament to the potential of uniting the technological prowess of companies and state resources against the unfair competition propagated by rival governments and their industries.

Overall, this event marks when the industry became offensive to showcase its competitive posture as a high-tech player in international markets, positioning itself as a leading private sector guiding Finland into the post-industrial era. However, the industry also conveyed that 'retaliatory' industrial policy measures might be necessary to prevent the industry from losing its competitive edge. In the following, we will revisit the historical context, starting with the international competitive position of Finnish shipbuilding.

### International market strategy

During this period, East Asia became the leading global shipbuilding hub. Following Japan's precedent, South Korea emerged as the new cost leader. The rise is attributed to the systematic development and upgrading of production processes, underpinned by industrial policies aimed at long-term economic growth (Bruno & Tenold, 2011: 216). Meanwhile, European shipyards, facing high labor costs and technological advancements achieved by their Asian counterparts, struggled to compete. This struggle was aggravated by the 1973 Oil Crisis, which caused the demand for new ships to plummet and, coupled with global overcapacity, led to a collapse in market prices (Cho & Porter, 1986). As countermeasures, European countries implemented policies to support their shipbuilding industries, leading to intense competition among them to keep their domestic shipyards afloat until the next market recovery or until the rival states' firms had to scale back. This intense inter-state rivalry raised cross-border transaction costs for all market participants. Market prices were pushed below production costs, making shipbuilding without state subsidies unfeasible (Stråth, 1987). As a result, between 1976 and 1984, European shipbuilding capacity was significantly reduced, with reductions of 50% or more in countries like the UK, France, and the Netherlands (Stråth, 1987). Notably, Sweden, previously the world's second-largest shipbuilding nation, saw the closure of most of its shipyards by 1979 (Stråth, 1987). European shipbuilding, once globally dominant, retained a presence only in specialized vessel sectors in the years to come (Ecorys, 2009: 85).

Against this backdrop, Finnish shipbuilding representatives aboard the *M/S Turella* rightly highlighted their successful navigation through the global shipbuilding crisis, yet, in reality, mainly attributed to their privileged access to the market in the Soviet Union. However, given the Soviet trade's frequent temporary downturns due to their five-year planning cycles, there was an increasing interest in penetrating the multilateral international market. Wärtsilä, the local industry leader, developed a corporate strategy focused on

the production of technologically advanced, large passenger vessels (Wärtsilä Board of Directors Feb 6, 1978, ChrL 228, ÅAA. [21]). Wärtsilä anticipated a competitive edge in this market due to its high technological and organizational capabilities in design-intensive tailor-made ships, capabilities acquired through Soviet demands. Still, the strategy rested on optimistic expectations of securing profitable contracts outside socialist markets, exposing a significant country-specific disadvantage: the alleged lack of production subsidies.

### Public policy challenges

The key public policy challenge facing the Finnish government was addressing the consequences of the Oil Crisis, which plunged Finland and much of the world into a deep recession. Kalevi Sorsa, the Social Democratic Prime Minister (in office 1972–1975, 1977–1979, and 1982–1987), initially serving under Kekkonen and later under President Mauno Koivisto (in office 1982–1994), responded with a new large-scale industrial policy. Unlike in the 1950s, the goal was no longer industrialization but adapting Finland to the post-industrial era. Believing that reigniting growth required supporting technology-intensive sectors, Sorsa's government created a state-owned enterprise, the television tube manufacturer Valco (1976–1980), to develop the country's electronics industry. However, this initiative failed, casting a long shadow over governmental entrepreneurship in Finland (Nevalainen & Yliaska, 2021: 8).

An important event leading to the *M/S Turella* workshop was the so-called Korpilampi conference in 1978, where Sorsa gathered political and industrial elites to establish the 'spirit of Korpilampi' (Outinen, 2015: 85). This shifted political discourse from ideology to 'economic facts,' favoring business interests by advocating for a smaller public sector and a reduced state role in business ownership (Nevalainen & Yliaska, 2021). Together with rising neoliberalism, the political atmosphere thus shifted toward developing the operative environment for competitive industries but against special measures to support uncompetitive sectors for political reasons. This context influenced the widespread public opinion that the Finnish shipbuilding industry was uncompetitive outside the Soviet bloc and would meet the same fate as its Swedish counterpart, a significant issue.

### The industry pushes for sector-favoring industrial policy instruments

The shipbuilding industry laid the groundwork for sector-favoring industrial policy through its political efforts. We support this claim with empirical evidence from 'behind-the-scenes' discussions and rule out the alternative explanation of a government-led initiative (Pillai et al., 2024).

The 1979 *M/S Turella* workshop was a key event, but it was part of a broader, well-coordinated political effort where industrial representatives consistently presented similar arguments in all government–business interaction to persuade policymakers – exemplifying the concealed aspect of NMS (Jia et al., 2023). This effort's precursor was the successful attempt to secure temporary government aid to navigate the aftermath of the Oil Crisis, which eventually led to state support for the construction of the *M/S Turella*. To get the support, Wärtsilä's shipbuilding deputy director recommended applying pressure on the government: "A delegation consisting of directors of the three biggest shipyard companies should immediately contact politicians and high-ranking civil servants to underline the importance of the implementation [i.e., temporary government aid]" (PM Nov 2, 1977, ChrL 178, ÅAA [22]). However, as outlined in Wärtsilä's 1978 shipbuilding strategy, "this [i.e., gaining direct state aid] will require consensus at 'the national level' and a lot of management" (Memorandum Wärtsilä Board of Directors Feb 6, 1978, ChrL 228, ÅAA [21]). Archival material reveals that industry representatives actively shaped this 'national consensus' by providing arguments, like those presented at the *M/S Turella*, which were not entirely accurate. As recorded in a Wärtsilä meeting:

> In public, we are used to saying that our international competitiveness should be fine if the others would not receive subsidies, which ~~we haven't got and~~ won't get. In the internal discussion this may be a dangerous simplification because 1) Finnish shipyards have received in the 1970s cost guarantees worth of 1000 MFIM, which our competitors haven't […]; 2) Lex Långhjelm [tax reductions for domestic ship purchases] has been significant support; 3) all the financial systems in the Soviet trade. (*Underlines and strikethroughs original.* WTT strategy meeting, September 9, 1979, ChrL 228, ÅAA. [23])

The key forum to influence industrial policy was the Shipyard Committee, first established in 1977–1978, followed by subsequent committees in 1984 and 1988, created by the Ministry of Trade and Industry to address shipbuilding-related issues. These committees included representatives from the government, industry, and labor organizations, providing a platform for interaction. As evidenced by the outcomes of the conferences, the message delivered at the *M/S Turella* workshop and other events resonated. Reports of the Finnish shipyard committees (e.g., 1984: 14 [24]) describe the Finnish shipbuilding industry as a competitive high-tech industry constrained by unfair international competition, justifying temporary industrial policy measures by contrasting the Finnish case with the Swedish industrial policy failure, where government funding could not save an uncompetitive industry. In 1979, Wärtsilä's Christian Landtman, also the

Chair of the Finnish shipyard association STTY, publicly credited the governmental committee members for shaping industrial policy in the direction pushed by industrial representatives: "I want to use this as an opportunity to thank all the members in the shipyard committee representing governmental organizations, because it is thanks to their efforts, the working group recommendations have been implemented in so unexpectedly short time" (Navigator 6/79 [25]). These recommendations were new industrial policy instruments, typically framed as temporary "contra-protectionist measures" against the international subsidy race (e.g., Navigator (1982) [26]), but they were not temporary, as we will discuss below.

### Ruling out alternative explanations

An alternative explanation for these sector-specific industrial policy instruments is that they were government-led initiatives. However, we rule this out with evidence and reasoning (Pillai et al., 2024). First, a government-led initiative favoring shipbuilding was at odds with the political climate after the Valco disaster (1976–1980). As previously discussed, this discredited the government's competence to direct economic development at the expense of market forces. Second, if the Sorsa government had chosen to support a specific private sector, shipyards in the late 1970s would have been an improbable candidate. In the context of the Swedish shipyard crisis, where taxpayer money failed to save its shipyards, the Finnish public would have vehemently opposed such a move.

Third, driven by the construction of an 'unfair' international competition, the Finnish government began advocating for eliminating all state subsidies in shipbuilding at European and global forums. This stance included claiming that there was no standing Finnish shipbuilding policy, as evidenced in discussions between Finland and the EC (Blomqvist to Sutherland 29.9.1987; PM 26.11.1987, 51.4, UMA [27; 28]) and in negotiations with the Asian shipbuilding countries as part of the EC bloc. Here, Sorsa expressed "a clear sign to others that we Europeans are unified and prepared to fight against state aid" (Telegram on Sorsa's visit to Brussels 15.12.1988; 37.51, UMA [29]).

In fact, the governmental belief in a globally competitive high-tech industry that did not benefit from standing industrial policy was so strong that existing support measures were conveniently ignored. For example, when Finland joined the European Union in 1995 and formally adopted its EU direct subsidy schemes, a report by the Ministry of Trade and Industry continued to claim that no significant shipbuilding subsidy schemes had existed before:

> "Finnish state discontinued direct shipyard subsidy schemes in 1978 (As a matter of fact, Finland has never paid any substantial shipbuilding aid), but will continue it in 1996. Therefore, the OECD's aim to stop all shipbuilding subsidies aligns well with the Finnish policy. According to the Finnish shipyards, the problem was that the other countries did not stop subsidies, so the Finnish shipyards had to compete against subsidized shipyards." (Okko et al., 1997: 9 [30])

### Sector-benefitting industrial policy instruments

Contrary to this portrayal, Finnish shipbuilding support instruments began aligning with evolving European standards through the 1980s, which, by the EC's Fourth Shipbuilding Directive of 1978, limited subsidies to 30% of the contract value (Stopford & Barton, 1986: 37). This alignment was not centrally planned but emerged gradually. A notable early case involved a bid for a passenger ship against a Japanese competitor in the early 1980s. Sulo Penttilä, Chair of the Finnish Metal Workers Union, warned the Finnish Shipyard Association STTY about the long-term harm if the Japanese shipyard won the contract: "The Japanese would obtain such a good reference from these projects that it would hamper Finnish shipyards far into the future" (Penttilä to STTY 22.10.1982, STTY 2, ELKA. [31]). Industrial representatives joined in and emphasized the technical competence of Finnish shipyards, blamed foreign shipyards for unfair competition, and cautioned against the adverse impact of Japanese shipyards being permitted to gain experience with passenger ships. Their efforts succeeded: The government authorized the state Export Credit Ltd to grant exceptionally advantageous terms of financing for this ship order that equaled approximately 28.8% subvention of the contract price (Calculations on subsidies in ship financing, October 18, 1983; PM 3/1983 Shipyard committee, October 12, 1983. UPMA, RR/JS 327. [32]).

This special financing pact was meant to be a one-time exception to prevent the ship order from going to Japan. However, repeated failures in bidding competitions prompted the government to make special financing terms permanent. By 1985, the Act on Interest Subsidy Loans for Domestic Purchases of Ships allowed Export Credit Ltd to grant interest subsidy loans to Finnish ship buyers when they placed orders at Finnish shipyards.

In 1987, an amendment enhanced the terms, enabling the government to offer financing for domestic orders that exceeded the OECD export credit limits. This gave the government the flexibility to support nationally important contracts without uniformly supporting all domestic ship orders. The Act's selective mechanism enabled the government to concentrate its support on passenger ships and ferries, considered the future of Finnish shipbuilding, as anticipated on *M/S Turella* (PM state aid for shipyards, 26.11.1987, 51.4, UMA. [28]) – such domestic orders allowed for

technological advancements, facilitating a competitive edge over foreign rivals.

As a result, the Finnish shipbuilding industry had "successfully gone through a difficult adjustment process, developed new technologies *without* (sic!) state support, and specialized in certain types of vessels," as summarized in the report by the Working Group for Shipyard Subsidy (VN 27/1989. [33], *italics added*). Although the report conveniently downplays the role of subsidies in driving technological advancements, these subsidies provided the initial impetus and ongoing support. With this backing, Finnish shipyards became a global leader in passenger ships, producing over 20% of the world's passenger vessels by 2000, while accounting for less than 3% of global merchant tonnage (Viitanen et al., 2003: 112–113).

### Epilogue

As our historical narrative approaches the 30-year embargo period for archival materials, our ability to benefit from a privileged 'fly-on-the-wall' position as historians to uncover NMS diminishes. Yet, publicly available data suggest the Finnish shipbuilding sector has consistently engaged with and received support from the Finnish government to compete internationally. A recent example is the €80 million recapitalization loan in 2022 that the Finnish Government provided to Meyer Turku Oy, a company operating the former Wärtsilä shipyard in Turku. This financial support came shortly before the launch of the 'Icon of the Seas,' which is the largest and most advanced passenger ship ever constructed. The European Commission, required to approve such measures since Finland joined the European Union in 1995, noted, "The company contributes to the security of supply, national defense, and border control of Finland with its marine technology expertise and production capacity" (Marine Executive, 2022, Dec 19. [34]). This support, however, is far from a given, as the structural conditions have evolved. Key changes include:

- Deep global integration: A shift from 'shallow' to 'deep' global integration (Verbeke & Lee, 2021) reflects a move from export-focused international shipbuilding activities to a global network of multinational corporations. Geographically, the production center has continued to shift, with shipyards in China achieving cost leadership in the 2010s, impacting market niches critical to the remaining major European shipyards in Finland, Italy, and France (Todd, 2011: 264).
- Ownership transitions: The consolidation and restructuring during the 1990s resulted in the majority of Finnish shipyards being acquired by foreign entities as the Finnish government relaxed restrictions on foreign ownership. This ownership shift raises questions about whether foreign owners have a genuine strategic interest in developing local industrial capabilities or are more focused on profit extraction and technology transfer (e.g., HS, Jan. 13, 2013. [35]). Nevertheless, Finnish shipyards continued to have a competitive advantage in the global passenger vessel market, with the highest-added value processes still occurring within Finland.
- Policy framework evolution: Finland's policy framework has increasingly been shaped by liberalization and globalization, notably after its EU accession. The EU-guided evolution of the local institutional framework aimed at removing trade restrictions led to the abolishment of direct shipyards subsidies in 2000, only to be reintroduced in 2003. The resurgence of industrial policy has been evident since the Financial Crisis, with the European Union's most recent initiatives, including the 2020 New Industrial Strategy for Europe.

## Theory development

In this section, we define 'manufacturing national consent' in relation to existing international nonmarket strategy literature. This discussion provides the foundation for developing our theoretical model on the function of NMS in the context of outward-oriented industrial policies.

### Concept definition

The critical turning point in both microhistories is the use of 'manufacturing national consent' as a novel type of NMS. We define 'manufacturing national consent' as a set of political activities carried out by international business firms, either individually or collectively as part of a sector, aimed at influencing their *home-country government* by skillfully constructing the firm or sector as *nationally important*, thereby laying the groundwork for an *extended period* during which favorable policy decisions can be expected to advance international business interests. We view the resulting 'national consent,' the taken-for-granted view of the national importance of the firm or sector, as a political resource (Boddewyn & Brewer, 1994) because it represents a political factor that the firm or sector can leverage in policy competition not just once, but over a long-term horizon.

Our two microhistories illustrate the use of this NMS. In the mid-1950s, Wärtsilä, the leading private firm in the shipbuilding sector, framed Soviet icebreaker trade as essential for maintaining peaceful political relations with the Soviet superpower, creating a national environment that ensured favorable policy decisions for the industry well into the 1970s. Similarly, the second microhistory highlights the political efforts of the sector to position Finnish shipbuilding as a competitive high-tech industry

leading the country into the post-industrial era, yet in need of state support to maintain a level playing field in 'unfair' international competition. This effort also set in motion policy decisions that unfolded well into the 1990s.

The NMS we describe here departs from those examined in the existing literature in two key ways. First, the political efforts target the *home-country government* rather than the host-country government, intending to support future *outward-oriented economic activities*. In contrast, extant IB nonmarket literature focuses on political interactions with host-country governments (Cui et al., 2018; Rajwani & Liedong, 2015; Sun et al., 2021). One notable exception is the concept of 'shelter-seeking strategies' targeting the home-country government (Rugman & Verbeke, 1998). However, unlike our concept, this NMS aims to establish government-supported barriers against foreign competitors rather than advancing international business strategy. By focusing on this aspect in the concept development, we address the concern raised by Beugelsdijk and Luo (2024: 283), who note that "IB scholarship has largely neglected the impact of domestic politics on international business."

Second, 'manufacturing national consent' explicitly takes a *long-term horizon*, aiming to achieve favorable policy decisions over a prolonged period (i.e., decades). Existing literature usually focuses on short-term political efforts targeting a single policy decision or a series of decisions over a few years. For instance, the concept of obsolescing political bargaining illustrates how a firm initially secures favorable terms when entering a host country, but as the balance of power shifts, the host government may impose stricter terms (Vernon, 1971). In contrast, our concept describes an NMS designed to create a political resource – the status of national importance – that can positively shape the national environment for the firm or sector over the long term. This shift in perspective is crucial, as Tung et al., (2023: 7) suggest that emerging geopolitical tensions will heighten the importance of the complex relationships between nation-states, governments, and international business firms.

## Manufacturing national consent for outward-oriented industrial policy

Our two microhistories document the emergence of outward-oriented industrial policy shaped by manufacturing national consent, and through comparison, we can systematically identify general features applicable to other contexts. In developing a theoretical model, we draw on Van Assche and De Marchi's (2024) framework, which explores the relationship between public policy choices and international business. Specifically, our model, as shown in Fig. 3, incorporates three core building blocks: governments are motivated to address public policy challenges, international business can influence the formulation of public policy, and these public policies, in turn, affect cross-border business transactions.

The model begins with a government seeking to address country-level policy challenges, such as economic development, environmental protection, and national security. To do so, they explore policy solutions across a wide range of means, including outward-oriented industrial policy. Such a policy is likely to be implemented when there is an alignment between international business interests and public policy challenges. Our key assumption is that NMS can create this alignment if it does not already exist.

Before NMS are introduced, firms may struggle to achieve their international market objectives due to competitive dynamics, market failures, and other factors. Industrial policies emerge as a solution to these challenges. To influence industrial policy choices, 'manufacturing national consent' offers the potential for aligning international market interests with pressing policy challenges. Compared to other NMS, such as leveraging political connections (Wei et al., 2023) or more conventional corporate political activities (Katic & Hillman, 2023), it has the advantage of achieving a more enduring effect. The resulting 'national consent,' a widely accepted view of the national importance of the firm or sector, can motivate favorable policy choices over an extended period. This is crucial because industrial policy action is not a one-time decision but a process involving both planned and ad-hoc interventions across decentralized public sector actors over time.

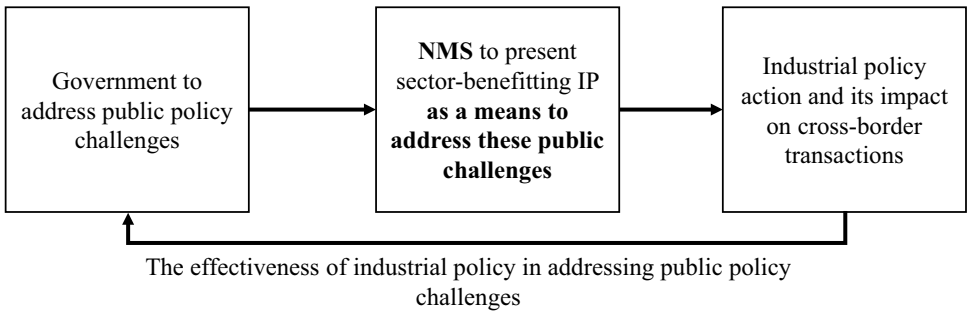



**Fig. 3** Manufacturing national consent for industrial policy (IP)

The impact of outward-oriented industrial policy rests on establishing country-level institutions that support specific firms or a sector in international markets. The goal is to lower their cross-border and other transaction costs relative to foreign competitors. Ideally, these country-level institutions are designed to address market failures, such as insufficient incentives for firms to invest in risky projects with socially desirable outcomes. Targeted instruments that set incentives by sharing costs or risks with the public sector can enhance operational efficiency within firms and help develop internationally competitive advantages (Criscuolo et al., 2022: 21).

Finally, the model incorporates a feedback loop to evaluate the effectiveness of industrial policy in addressing public policy challenges. The factors influencing policy success are complex and difficult to fully capture, including the international policy environment (e.g., subsidy races), the quality of industrial policy institutions (e.g., government failures), and the behavior of affected firms (e.g., rent-seeking or value-creating). This study shows that outward-oriented industrial policy often includes non-economic policy objectives, further complicating the evaluation process.

## Discussion

At a critical juncture when the importance of industrial policy for international competition is becoming apparent again (Benito & Meyer, 2024; Evenett, 2019; Luo & Van Assche, 2023; Tung et al., 2023), the IB field must come to terms that "industrial policy matters" (Pineli & Narula, 2023: 1). We focus on NMS as drivers of *outward-oriented* industrial policies, offering an in-depth examination of the NMS Finnish shipbuilders utilized to leverage industrial policy. Our primary contribution is developing the concept of manufacturing national consent, a novel NMS type within the IB nonmarket literature, and clarifying its function in the context of outward-oriented industrial policy. In this section, we elaborate on the implications of our findings to advance IB theorizing and discuss our work's limitations and methodological implications.

### Theoretical implications

#### 'Captured' industrial policy?

Our findings highlight the vulnerability of industrial policy to government failures, particularly the susceptibility of governments to make 'captured' policy decisions (Benito & Meyer, 2024: 1097). Going beyond theoretical debates, our historical study demonstrates how shipbuilding firms employed NMS to extract value from the national context. By embracing the shipbuilding rationale, policymakers constrained resources available to other sectors, such as the textile industry, and for other public purposes. Therefore, the Finnish shipbuilders successfully engaged in rent-seeking behavior, similar to firms lobbying for institutional barriers against foreign competitors.

However, our analysis also highlights a more nuanced role of NMS in addressing a critical government failure in industrial policy: inadequate information for effective policy implementation. This failure often arises when governments maintain distance from business to avoid political bias, but this leaves governments without essential business insights. A more constructive approach involves sustained collaboration between governments and businesses to align policy goals, instruments, and market realities (Juhász et al., 2024). In our case study, the NMS facilitated a shared understanding between shipbuilders and the government, enabling the design of industrial policy instruments that effectively reduced the cross-border transaction costs relative to foreign competitors.

This tension – between capturing rent and providing business insights – underscores the double-edged nature of NMS in industrial policy practice, potentially resulting in both negative and positive public welfare outcomes. Evaluating these outcomes is challenging. Harrison and Rodríguez-Clare (2010) provide two criteria for assessing industrial policy. One method, the Mill test, requires the sector benefiting from industrial policy to eventually succeed independently as an exporter once the policy is removed. The Bastable Test, more stringent, requires that the discounted future benefits compensate for the current industrial policy costs.

Applying these criteria to our historical case reveals significant practical hurdles. During the 1970s and 1980s, both industry leaders and government officials publicly denied the existence of state support for Finnish shipbuilding, despite evidence to the contrary. Such misrepresentation could lead analysts relying on public data to conclude – incorrectly – that the industry had 'passed' the Mill test. The Bastable Test proves similarly difficult due to the lack of transparency: the key variable, actual industrial policy costs, remains unknown.

Furthermore, a comprehensive assessment of public welfare outcomes must also consider opportunity costs: could alternative policy interventions, blocked by the NMS influence, have led to more favorable economic development trajectories? This question is central to understanding the broader consequences of captured industrial policy.

In conclusion, this study shows the importance of understanding the conditions that shape industrial policy outcomes, demonstrating both the perils of policy capture and the promise of business–government collaboration.

### 'One size fits all' problem

Our study highlights a critical variable often overlooked in the existing IB literature: the size of the policy-implementing country. Defined here as a nation's economic weight in international trade, this factor can significantly influence the effectiveness of industrial policy. However, the current IB discussion tends to focus on large countries, with the U.S.–China rivalry dominating the debate. This emphasis on large economies rightly identifies significant adverse global impacts. For example, Luo and Van Assche (2023) caution that the U.S. CHIPS Act could weaken international governance, harm multilateral collaboration, and lead to more discriminatory policies worldwide.

In contrast, we focus on a small country. Finnish shipbuilding policies reduced cross-border institutional costs in a discriminatory manner while causing arguably limited negative externalities within the global trading system. In turn, similar interventions by a larger country could affect world prices, impose costs on trading partners, and provoke WTO disputes (Bown, 2024) or retaliatory measures (Li & Branstetter, 2024). This issue became evident in the history of shipbuilding when Asian countries, on their way to becoming economic powerhouses, challenged the cost leadership of Western shipbuilding nations. Therefore, our findings suggest that future research should consider the size-related country factor more seriously when assessing industrial policy actions in international business.

### Measurement problem

Our study highlights the challenge of identifying and measuring industrial policy instruments and their impact on international business. By analyzing industrial policy actions retrospectively and accessing previously confidential empirical materials, we were able to uncover a range of instruments that were in use, even during a period when the official stance denied the existence of industrial policy (the 1980s–1990s). In contrast, IB researchers seeking to understand contemporary industrial policy often lack privileged access and may rely on publicly available information. A promising new initiative is the New Industrial Policy Observatory by the Global Trade Alert team (Switzerland), which gathers publicly available data to provide a resource for monitoring industrial policies (see Evenett et al., 2024). The use of this database by IB scholars provides a solid empirical foundation for empirical work and holds significant potential for a wide range of IB applications.

However, our study also cautions that relying solely on public data may not capture the full picture. What is publicly stated may not necessarily reflect reality. 'Murkier' instruments might be preferred over more transparent ones (Evenett, 2019: 13). This highlights the equal importance of qualitative studies on industrial policy, such as ours, which uncover the instruments that truly matter and assess their impact on IB behavior.

### Limitations and future research

While our findings extend our IB knowledge of nonmarket antecedents of industrial policy and its impact on international business, the study has several limitations that suggest avenues for future research. The first issue pertains to the industry life cycle. Our study concerns an industry with a long history, in which the firms claimed a shipbuilding heritage dating back to the 19th century. This shipbuilding legacy in Finland significantly influences the 'national consent' potential. Future research could focus on 'infant industries' to identify novel mechanisms (e.g., stronger government guidance). Also, we investigated a 'heavy industry' with substantial location-bound sunk costs. Following Finchelstein (2017), one could argue that these industries favor direct state aid, whereas service-oriented ones prefer indirect aid. Future studies should compare different sectors.

Third, we explored an industry with evolving ownership structures over time, but our focus was on the 'home-country firm' period. Currently, the manufacturing part of the Finnish shipbuilding industry is predominantly German- and Canadian-owned. This potentially poses a challenge for industrial policy, as technological capability accumulation historically occurred in domestic rather than foreign-owned firms (Cimoli et al., 2009). Future research should examine whether industrial policy can sustain 'higher-added value' activities in MNE subsidiaries and scrutinize the role of inward and outward FDI in industrial policy.

Finally, the political economy we studied possesses distinctive characteristics. While the Finnish political economy is frequently classified as a 'coordinated market economy' (Fellman, 2008), marked by a consensus-driven political culture and structures for broad interest representation, we placed less emphasis on these institutional factors. This decision is informed by the recognition that, as historical 'variety of capitalism' research suggests (MacKenzie et al., 2021), institutional differences occur not only across countries but also within countries over time. Finland experienced significant institutional changes in the 1980s and 1990s (Fellman, 2008: 141). As a result, our analysis prioritized other factors, though future research should further investigate the role of national institutional differences (see, e.g., Lenway & Murtha, 1994).

## Methodological implications

Our study contributes to the growing movement in IB research that seeks to "bring history (back) into international business" (Jones & Khanna, 2006: 453; Buckley, 2021;

Bucheli & DeBerge, 2023; Decker, 2022; Welch et al., 2022) and showcases a key methodological advantage of historical analysis. In particular, we engaged with the principle of 'temporal positionality of the researchers' (Decker, 2022), a concept that deserves further reflection. This principle acknowledges the temporal distance between researchers and the research subjects living in the past. This distance presents an epistemological challenge, as retrospective analysts inevitably bring their current historical position into the analysis. However, Stutz and Sachs (2018) argue that such presentism is not a hindrance but rather a productive condition for theory development. Examining unfamiliar empirical contexts from the past can stimulate the questioning of current theories and research paradigms.

As we conducted our research, we encountered difficulties in aligning our historical evidence with the IB canon. Only recently, during the review phase of this article, have newer studies – such as Benito and Meyer (2024) and Luo and Van Assche (2023) – begun to spark a potential renaissance in discussing industrial policy within IB scholarship, although it remains a marginal topic, as evidenced by submission numbers at major IB conferences. Evenett's (2019: 12) review suggests that publications that address governmental policies and their impact on international business have decreased in numbers since the 1990s, and this trend has not recovered since the beginning of the global financial crisis. We suspect that theoretical paradigms in IB research, driven by strong market commitments, have hindered this discipline's ability to address this relevant and timely topic earlier. This echoes Evenett's (2019) criticism of an "inadequate scrutiny bias" in IB, whereas scholars do not update their theoretical presupposition according to the changing realities of the global economy. Even if such changes are not viewed as desirable, it is important for a discipline to confront and consider such a phenomenon in order to stay relevant. Engaging with history can help to challenge and overcome biases in IB research paradigms.

**Supplementary Information** The online version contains supplementary material available at https://doi.org/10.1057/s41267-025-00779-x.

**Acknowledgements** This article has greatly benefited from numerous presentations and discussions with insightful colleagues. Our first thanks go to Juha-Antti Lamberg, Zeerim Cheung, Antti Sihvonen, Susanna Mansikkamäki and our other colleagues at the Jyväskylä School of Business and Economics (JSBE), where the evolving "Jyväskylä School of History-Informed Management Research" provides strong support for this kind of work. We also greatly appreciate earlier discussions with Klaus Meyer, Pervez Ghauri, Christina Lubinski, Aleksi Niittymies, Dan Wadhwani, Eero Vaara, Christopher Hartwell, Susanna Fellman and many more colleagues on different occasions, including the JIBS Paper Development Workshop at AIB Warsaw (2023), the Business History Seminar at Copenhagen Business School (2022), the Economic History Seminar at the University of Gothenburg (2022), the TOPOS seminar at the University of Oxford (2023), the 6th HiMOS workshop at Suomenlinna (2023), and the Academy of Management PDW on Microhistory (2023). This research has been supported by the Emil Aaltonen Foundation Team Project, titled "International tensions, local nationalism, and global business: A historical perspective", co-led by Dr. Stutz and Dr. Matala. Dr. Stutz also acknowledges support from the Research Council of Finland, particularly for his postdoctoral project, "Nationalism and national identity in and around business organizations: History-informed perspectives for management research," and his fellowship project, "Aligning corporate interests with national goals: A micro-historical analysis of firm behavior under industrial policy." Finally, we would like to thank the anonymous reviewers for their constructive feedback and Editor Geoffrey Jones for his editorial guidance.

**Funding** Open Access funding provided by University of Jyväskylä (JYU). This research has been supported by the Emil Aaltonen Foundation Team Project (Project No. 210268) and the Research Council of Finland (Project No. 340492 and No. 360678). Open Access funding provided by the University of Jyväskylä.

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