

BUSINESS SWEDEN

CAUGHT IN THE CROSSFIRE

HOW SWEDISH COMPANIES ARE HIT BY THE US-CHINA TRADE WAR

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COMMENTS BY THE CHIEF ECONOMIST

THE TRADE WAR IS STEPPING DOWN – BUT THE CONFLICT LIVES ON

The trade war between the US and China commenced in July 2018, when the US slapped punitive tariffs of 25 per cent on 34 billion USD worth of goods imported from China. The Chinese government immediately responded with countermeasures on imports of US goods. Over the following 18 months, the conflict escalated to the point that extra tariffs came to cover almost all US-China bilateral trade in goods.

With the signing of a Phase 1 deal in Washington on 15 January this year, the parties' trade relationship has, for now, moved into less rocky terrain. But the underlying causes of the tensions are still there, which is why the trade war will continue in various forms for the foreseeable future. At the core of the dispute is the two superpowers' wrestling for economic, technological and political influence where the US regards China as an ever-increasing threat.

It is no delusion on the part of the US administration that China is gaining ground. Thanks to its rapid economic development and large population, China has in a short time span become the world's second largest economy with a GDP (at market prices) two-thirds the size of the US GDP. China is today the number one exporter of goods and accounts for 13 per cent of world exports. In Fortune's latest ranking of the world's 500 largest companies, based on revenue, there are now 110 Chinese companies – almost as many as the 126 US companies.

A small, open and export-oriented economy like Sweden is bound to be negatively affected by international trade conflicts. Business Sweden's recent survey – whose results are presented in brief in the following pages – intends to summarise the experience of Swedish companies on how their exports and foreign sales are affected by the US-China trade conflict.

The results show that companies are hit in three different ways: through higher prices for their export goods, through reduced activity and fewer orders in their supply chains, and through dampened global demand.

Almost a third of the respondent companies are negatively affected by the trade war in their goods exports and subsidiaries' foreign sales. Most companies report a limited impact, while certain companies and industries are strongly adversely affected.

A somewhat surprising result of the survey is that a full 12 per cent of Swedish companies use China as a platform for export of goods to the US, while the equivalent figure for Swedish companies' goods exports from the US to China is 8 per cent.

The survey also reveals that a considerably larger number of Swedish companies are linked to supply chains in China with sales to the US than vice versa. According to McKinsey, a consultancy firm, foreign companies account for some 40 per cent of China's goods exports, where goods shipped to the US amounted to the extraordinary value of 540 billion USD in 2018. China's import of US goods amounted to a mere 120 billion USD in the same year. It is worth noticing that 80 per cent of China's imports are made up of intermediate goods – which clearly illustrates the market's huge potential for Swedish suppliers.

Business Sweden's survey results show that many Swedish companies are hit by the trade war. But how do they navigate in markets that build walls to trade? In a coming report (March 2020), Business Sweden and the National Board of Trade will examine how Swedish companies handle barriers to trade and investment in their operational strategies for foreign markets.



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THIS IS HOW THE TRADE WAR STRIKES AGAINST SWEDISH COMPANIES

ABOUT THE SURVEY

Business Sweden has commissioned Origo Group, a market research company, to conduct a survey on how and to what extent Swedish exporting companies are affected by the ongoing trade conflict between the US and China. Of particular interest has been to determine the share of Swedish exporters tied to supply chains that deliver export goods from China to the US and vice versa.

The target group for the survey is Swedish companies with a goods export turnover that exceeded 150 million SEK in 2018. Based on these criteria, Statistics Sweden produced a list of 788 relevant companies.

The survey was conducted by telephone interviews with company CEOs, sales directors or market directors between 12 November and 11 December 2019. The respondents were asked to answer a questionnaire consisting of nine multiple-choice questions. In total, the questionnaire was answered by 250 companies, which gives a response rate of 32 per cent.

The results of the survey were submitted to Business Sweden and presented in their totality as well as disaggregated by company size (based on number of employees in Sweden) and industry (based on Swedish standard industrial classification, SNI). At company size and industry-level, the results are surrounded by statistical uncertainty and reported merely as indications in this summary.

IN THE THICK OF THE TRADE WAR

All companies that are part of the survey export goods from Sweden. More than 60 per cent of the companies have local sales in foreign markets, through subsidiaries or by other presence.

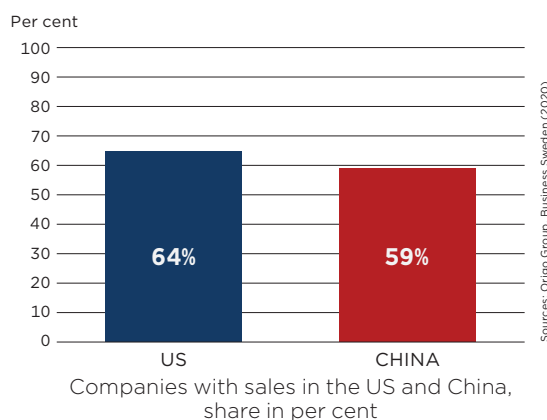
The survey shows that companies with 100–200 employees in Sweden have the broadest presence in foreign markets. Over 70 per cent of these companies have local sales abroad, in addition to their exports from Sweden. As much as 50 per cent of the smallest companies with up to 50 employees in Sweden have local sales abroad.

Almost two-thirds of the companies have sales in the US, while a slightly smaller share – 59 per cent – have sales in China. The survey shows that the largest companies with 500 or more employees in Sweden have the broadest presence in these two markets: Almost 80 per cent of the largest companies have sales in the US, while almost as many have sales in China.

Many Swedish companies have regional manufacturing hubs that produce goods for customers all over the world. The survey shows that 12 per cent of the companies use China as a platform for exports to the US. This share climbs to 23 per cent for the largest companies and includes in particular engineering companies with activities in manufacturing of machinery and metal products.

A somewhat smaller share of the respondent companies – 8 per cent – export goods from the US to China. This share does not vary so much between the different company size categories, but peaks at 12 per cent for companies with 100–200 employees in Sweden. Engineering, electronics and pharmaceutical companies are most likely to use the US as a platform for exports to China. In all, the survey shows that several Swedish companies are directly exposed to the trade conflict between the two countries.

LARGE SWEDISH PRESENCE IN THE US AND CHINA



ONE IN THREE HURT BY THE CONFLICT

The survey shows that 24 per cent of the companies are negatively affected by the conflict with respect to their exports from Sweden. A somewhat larger share – 29 per cent – report that their local sales in foreign markets are negatively affected.

The negative impact on exports and local sales is moderate for most companies. Only a minor share of companies report that the impact is substantial. This share is at its highest among the largest companies, where 9 per cent report a strongly negative impact for exports from Sweden and 11 per cent for local sales abroad. The survey shows that companies in the steel and metal products industry, the wood products industry and the chemical industry are hardest hit by the trade conflict.

Many Swedish companies are also hurt by the trade conflict's indirect effects. About half of the respondent companies experience a decrease in demand in China, while 29 per cent of the companies see a decrease in the US. The softening of the Chinese market is most felt by companies in the steel and metal products industry, the electronics industry and the paper and plastic products industries. In the US, the decrease in demand mainly hurts companies in the automotive and electronics industries.

A few companies, most of them large, report that the trade conflict has a moderate positive impact on their exports and foreign sales. The reason for this may be that their competitors' products have become more expensive due to increased tariffs in the US or China.

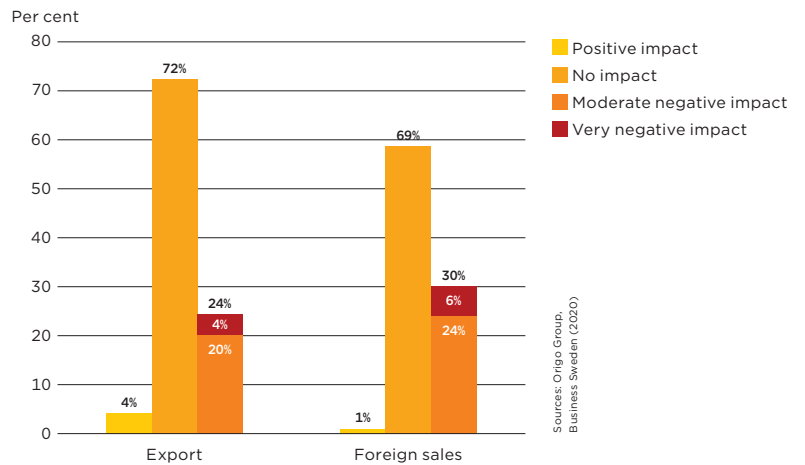
SUPPLY CHAINS INCREASE EXPOSURE

Some 23 per cent of the companies report that they are suppliers or sub-suppliers of goods that are exported from China to the US. The share is at its largest – close to 30 per cent – for the category of smaller companies with up to 100 employees in Sweden. It is mainly companies in the machinery and equipment, automotive and wood products industries that are part of Chinese supply chains with exports to the US market.

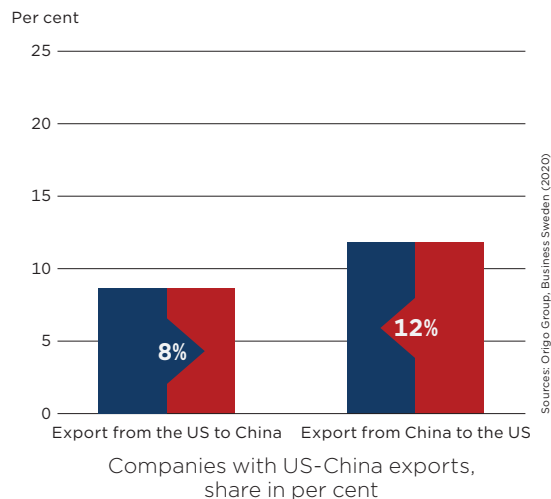
A notably smaller share of the companies – 15 per cent – are suppliers or sub-suppliers of goods that are exported from the US to China. This share is quite similar for all company size categories, but reaches 17 per cent for companies with 100–200 employees in Sweden. It is mainly companies in the machinery and equipment, paper and plastic products industries that are part of US supply chains with exports to China.

Swedish companies with links to supply chains in the US and China are more exposed to the trade conflict. The survey shows that a considerably larger number of the respondent companies are connected to Chinese supply chains with exports to the US than vice versa.

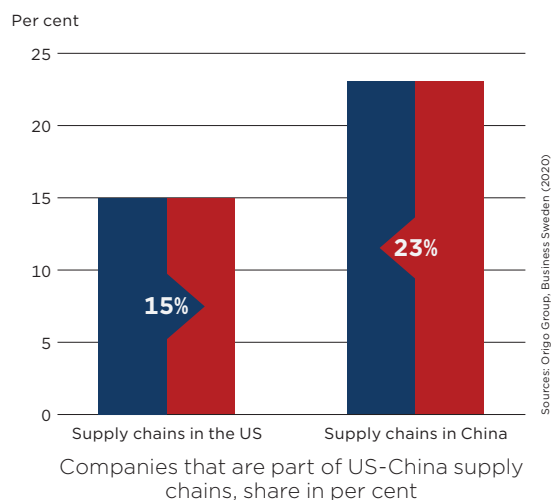
ONE IN THREE COMPANIES ARE NEGATIVELY AFFECTED BY THE TRADE WAR



SEVERAL SWEDISH COMPANIES ARE HIT IN THEIR EXPORTS FROM THE US TO CHINA AND VICE VERSA...



... AND EVEN MORE ARE EXPOSED TO THE CONFLICT AS SUPPLIERS





We help Swedish companies grow global sales and international companies invest and expand in Sweden.

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