BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

STALEMATE IN TURBULENT TIMES

Cross-border direct investment in the global and Swedish economy

EXECUTIVE SUMMARY

A bloody war of attrition in Ukraine and a failed military revolt against the Kremlin. A massacre of civilians in Israel. Attacks against cargo ships in the Red Sea. China's escalated claims to sovereignty over Taiwan. Former US President Donald Trump's comeback on the political stage. Forest fires and floods in the wake of the climate crisis. It's easy to understand why investors are feeling uneasy about the future in 2023. In the wake of the market plunge in the pandemic years and subsequent rapid recovery, the world economy has now stabilised but remains in uncharted waters.

The title of Business Sweden's report *Stalemate in turbulent times* reflects the dilemma facing international companies in today's reality. The economic turnaround has been delayed, inflation is not falling as quickly as hoped, and the repercussions of the central banks' continued tight monetary policy are a hard pill to swallow, after a decade of zero interest rates. These impacts are all difficult to assess.

To invest or not invest in international markets? Today's enormous information flows sometimes give us the impression that we are knowledgeable about events that are possibly hard to clarify. But the opposite could also be true – the constant noise of scattered information could just be obscuring our analysis of long-term trends and important events that will shape the future outlook for companies.

According to the UN agency UNCTAD's foreign direct investment (FDI) statistics, partially presented in this report, global FDI stagnated following a minor decline of 2 per cent in 2023, to USD 1,332 billion. This is the lowest recorded level in two decades. The global financial crisis of 2009 and the Covid pandemic of 2020 are the only two exceptions. In line with the developments of recent years, a majority of investments in 2023 – just under 50 per cent – took place across markets in Asia and Oceania.

Sweden went against the tide in Europe and recorded a new high of SEK 322 billion in FDI last year, putting Sweden firmly in fourth place among EU nations and in thirteenth place globally. Given that these statistics are based purely on financial transactions between parent companies and subsidiaries, with limited relevance for an investment promotion agency like Business Sweden, the report also contains a compilation of business-related data, using the Financial Times database fDi Markets as a reference. This data shows that just under a third of FDI projects in Sweden in 2023 were carried out in business services, and that a significant share occurred in the field of cleantech.

The report concludes with Business Sweden's forecast analysis outlining key factors that will affect FDI globally and in Sweden in the next three years. Among these highlighted drivers are the green transition, new industrial policies and the challenge of keeping pace with rapidly expanding Chinese companies in emerging economies, in what has become known as the Global South.

Lena Sellgren
Chief Economist

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HIGHLIGHTS

- The investment climate in 2023 was negatively impacted by the continued global economic slowdown, an uncertain outlook and rising geopolitical tensions in the wake of Russia's war of aggression in Ukraine, the crisis in the Middle East, and China's growing claims to power in Southeast Asia, particularly Taiwan.
- Foreign direct investment (FDI), meaning capital investments overseas by international companies, fell globally by 2 per cent compared to 2022, to USD 1,332 billion.
- Europe saw another year of weak FDI performance in 2023 with investments reaching just USD 27 billion. In North America, FDI fell by 4 per cent compared to the previous year, to USD 397 billion. Asia recorded a 15 per cent decline, reaching USD 629 billion. FDI also fell in the smaller investment regions of Africa, the Middle East and South America.
- FDI in Sweden amounted to SEK 322 billion in 2023 – a decline of 34 per cent compared to the record year 2022 but still one of the highest levels ever recorded.
- In total, the FDI stock in Sweden amounts to SEK 4,174 billion, which in relation to GDP – approximately 70 per cent – is high from an international standpoint. The services sector accounts for 72 per cent and manufacturing for 28 per cent of the foreign-owned assets.

Foreign direct investment (FDI) is defined as cross-border financial transactions that companies carry out to establish or acquire business operations, or expand business via existing subsidiaries in countries outside of their home markets. These investments are characterised by being long-term with a high degree of corporate owner control.

Data on FDI in Sweden and outward direct investment (ODI) by Swedish companies is collected by Statistics Sweden (SCB) on behalf of the Riksbank (Sweden's central bank), as part of the compilation of balance of payments statistics.

Statistics Sweden's quarterly and full-year reporting divides FDI into three categories: equity, group loans and reinvested earnings. The amounts give an indication of the activities of foreign companies in Sweden and the activities of Swedish companies abroad, but cannot be directly linked to companies' acquisitions of businesses or investments in buildings, facilities, machinery or equipment.

The figures for any current year are also often amended in later revisions. To simplify the presentation in this report, FDI is interchangeably referred to as "cross-border investment" or simply "investments". All figures and calculation data are given in current prices.

GLOBAL CROSS-BORDER DIRECT INVESTMENT

GLOOMIER OUTLOOK FOR EXPANSION ABROAD

Following the economic plunge caused by the Covid pandemic and subsequent strong recovery, global growth softened during 2023. A worsened economic outlook combined with rising geopolitical tensions, mainly due to Russia's war of aggression in Ukraine, the Middle East crisis and China's growing sovereignty claims in Southeast Asia, and especially over Taiwan, had a negative impact on cross-border direct investment. Globally, international investments fell by 2 per cent in 2023 compared to the previous year, to USD 1,332 billion.

FDI in Europe rebounded during 2023 but stalled and reached just USD 27 billion. Europe's performance in the previous year was a negative result of USD 92 billion, which means that divestment outpaced new European investments. According to the UN agency UNCTAD, which compiles the international statistics in its annual publication *World Investment Report*, Europe's weak performance in 2022 and 2023 can partly be attributed to large and volatile investment capital that has been funneled through Luxembourg and the Netherlands, which are both so-called *conduit economies*.

The continent's weak performance would thereby be somewhat illusory and rooted in financial reallocations without significant effects on companies' presence and European operations. However, the overall picture showing reduced interest in Europe remains, with dampened foreign direct investments in typically large recipient countries such as Germany and the United Kingdom.

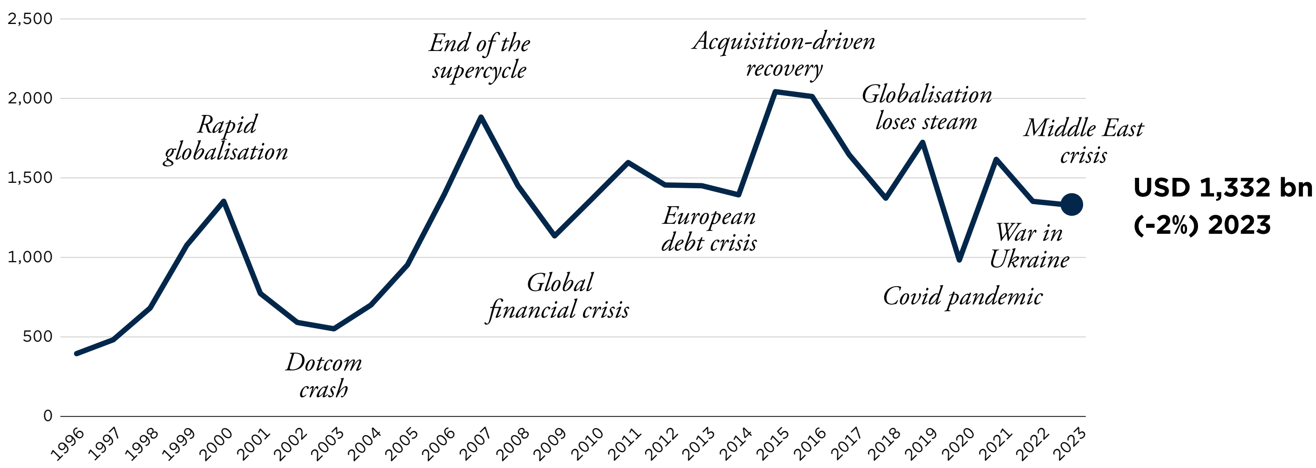
In North America, which includes the US, Canada and Mexico in Business Sweden's analysis, FDI fell back to USD 397 billion, a decrease of 4 per cent compared to the previous year. Approximately 80 per cent of the investments went to the United States.

In Asia, FDI fell by 15 per cent to USD 629 billion. FDI in China amounted to USD 163 billion, a decline of 14 per cent, threatening its long-standing position as the world's second-largest investment market after the US for the first time by another Asian country: Singapore. Foreign investors' newfound interest in India took a hit in 2023, with investments nearly halving to USD 28 billion. Overall, Asia attracted half of last year's total FDI.

The smaller investment regions also saw a negative development in 2023. In the crisis-stricken

WEAK DEMAND IN THE GLOBAL ECONOMY DAMPENS INVESTMENTS

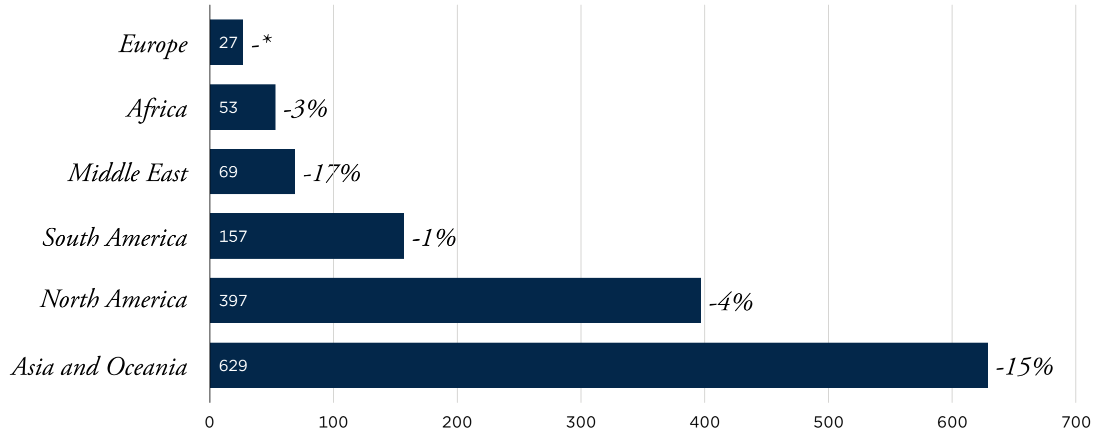
Foreign direct investment (FDI), all markets, annual inflows in USD billion, 1996–2023



Source: UNCTAD (2024)

ASIA REMAINS IN THE TOP SPOT

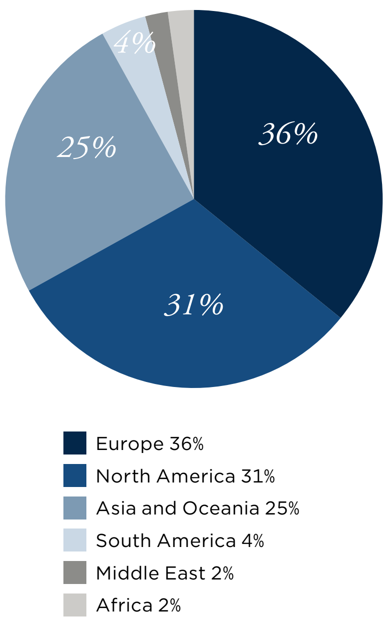
FDI inflows by recipient region, USD billion, 2023



* Europe recorded a negative inflow of USD 92 billion 2022.
The change for other regions is shown in per cent between 2022 och 2023.
Source: UNCTAD (2024)

THREE MAJOR INVESTMENT REGIONS

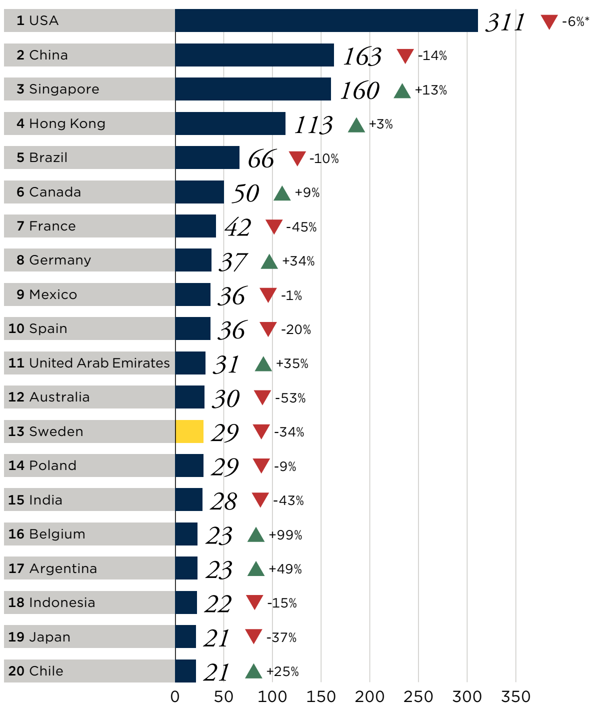
FDI stock by recipient region, share in per cent, 2023



Note: Global FDI stock amounted to
USD 49,131 billion in 2023.
Source: UNCTAD (2024)

CHINA'S POSITION CHALLENGED BY SINGAPORE

Top 20 recipient markets for FDI, inflows in USD billion, 2023



* Change in per cent between 2022 and 2023.
Source: UNCTAD (2024)

Middle East, FDI fell by 17 per cent to USD 69 billion. FDI in Africa dropped by 3 per cent to USD 53 billion. In South America, the decline was just one per cent to USD 157 billion.

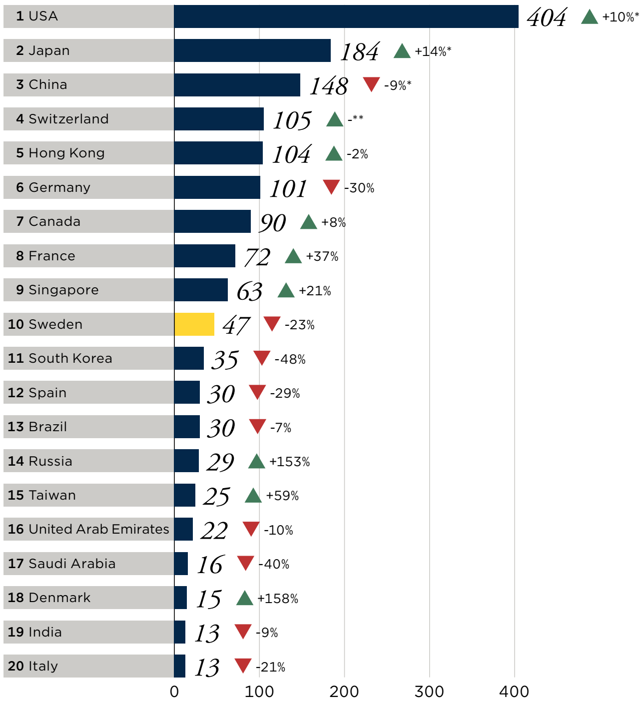
Despite Asia emerging as the largest market for new investments, Europe maintains its leading position as the region with the largest foreign direct investment stock. Over time, Europe has attracted 36 per cent of FDI assets, followed by North America which accounts for 31 per cent and Asia for 25 per cent of assets.

The 20 largest recipient markets for FDI in 2023 were found in all of the world's regions except Africa. Once again, the US took the undisputed top spot with China in second place, closely followed by Singapore. Securing thirteenth place on the global list, Sweden was the fourth largest recipient market for FDI in Europe after France, Germany, and Spain.

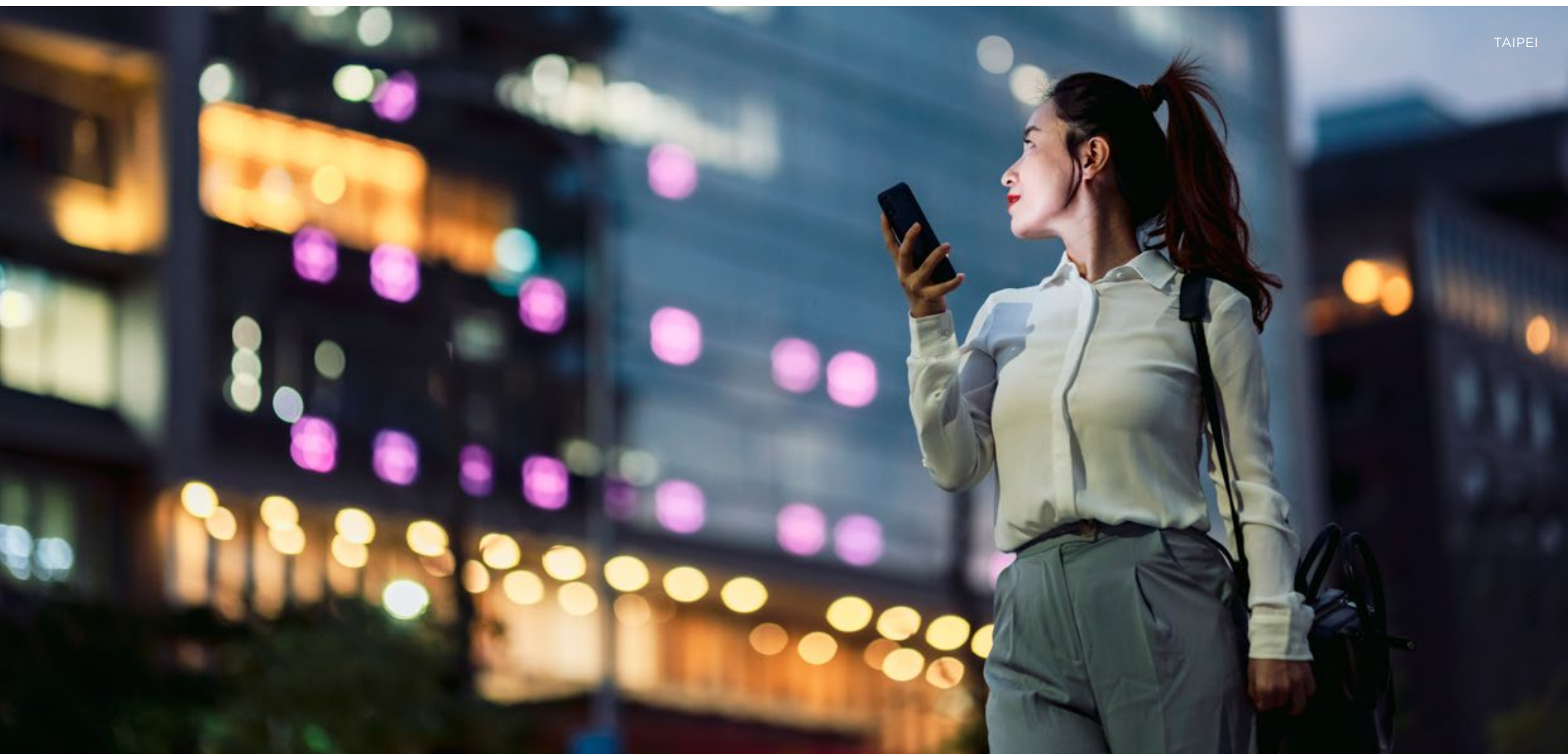
The list of the 20 largest ODI markets (outward direct investment) also reveal a broad geographical representation. Alongside companies from the US, Japan and China – Swiss, German, and Canadian companies were significant investors in 2023. Sweden also held a prominent position and claimed tenth spot in the global ranking.

EUROPEAN COMPANIES IN TOP LEAGUE OF FOREIGN INVESTORS

Top 20 source markets for FDI, outflows in USD billion, 2023



* Change in per cent between 2022 and 2023.
** Switzerland recorded a negative outflow of USD 74 billion in 2022.
Source: UNCTAD (2024)



FOREIGN DIRECT INVESTMENT IN SWEDEN

FOURTH PLACE IN EUROPE

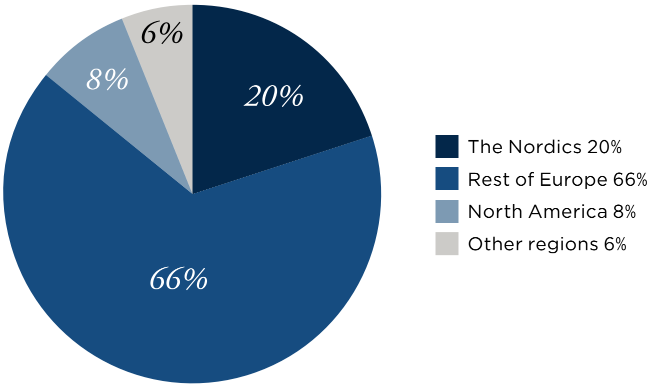
Sweden has been a significant investment destination since the mid-1990s. With Sweden's entry into the EU in 1995, stronger economic growth than in large parts of Europe and a period of comprehensive deregulation and privatisations of state-owned enterprises, investors became more interested in the Swedish market. An open and transparent acquisitions market made successful Swedish companies attractive targets, especially during periods of a weak Swedish krona. As a result, a large number of Swedish companies have over time been acquired by foreign owners. There are approximately 15,000 foreign companies currently employing 750,000 people in Sweden.

The annual cross-border investments in Sweden normally fluctuate with global economic development, but in the past few years Sweden has gone against the tide and attracted large foreign investments, despite weak performance in Europe overall.

FDI inflows to Sweden amounted to the preliminary figure of SEK 322 billion in 2023 – a historically high level. While this recorded level represents a decline of 34 per cent from 2022, it is still more than twice as large as the annual average of SEK 140 billion during the period 2004 to 2023. As mentioned above in the section *Global cross-border direct investment*, Sweden became Europe's fourth most attractive market for FDI last year and reached thirteenth place in the global ranking. It should be noted that the data needed to set the final figure, which is partly based on Statistics Sweden's forecast for reinvested earnings, are not yet complete and the amount of FDI is therefore subject to change.

EUROPEAN COMPANIES DOMINATE SWEDISH MARKET

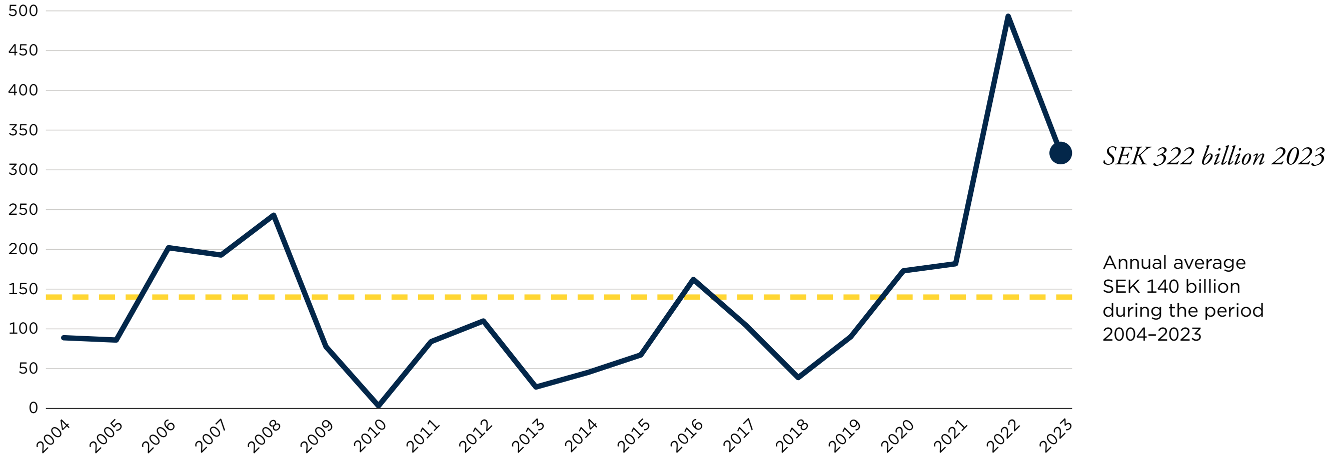
FDI stock in Sweden, distribution by source region in per cent, 2022



Note: FDI stock in Sweden increased by SEK 904 billion over the past three-year period, from SEK 3,270 billion in 2019 to SEK 4,174 billion in 2022. This corresponds to an average annual increase of 8 per cent.
Source: Statistics Sweden (2024)

SWEDEN MAINTAINS HIGH LEVEL OF FDI INFLOW

FDI in Sweden, annual inflows in SEK billion, 2004–2023



Source: Statistics Sweden (2024)

EUROPEAN COMPANIES STAND OUT

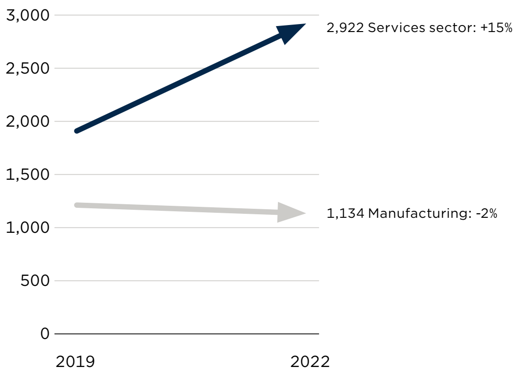
FDI stock in Sweden amounted to SEK 4,174 billion in 2022, the most recent available figure. It is primarily companies based in neighbouring Nordic countries and other European countries that have a presence in Sweden, with British companies topping the list and accounting for SEK 608 billion in FDI stock. In all, European companies account for 86 per cent of the foreign-owned assets. Holding companies primarily in Luxembourg and the Netherlands are large investors judging by the statistics, but in most cases the controlling parent company will be located elsewhere, and sometimes even in Sweden.

The services sector accounts for 72 per cent of FDI stock in Sweden and the manufacturing sector for 28 per cent. Over time, the services sector has attracted an increasingly larger share.

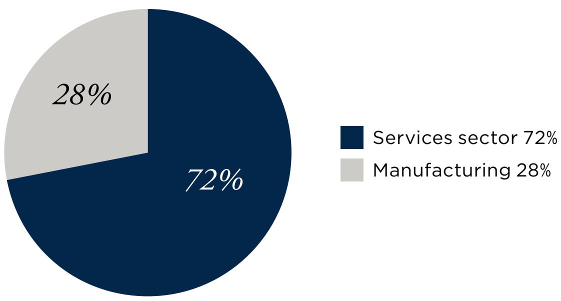
FDI stock in the services sector amounted to SEK 2,922 billion, with large foreign investments mainly taking place in finance and insurance, business services and real estate. The foreign-owned assets in the manufacturing sector amounted to SEK 1,134 billion, where international companies have made the biggest investments in chemicals and pharmaceuticals. There is significant gap in investment volumes until the next industries follow suit in second and third place – wood and paper and metal and machinery, respectively.

INVESTORS FOCUSED ON THE SERVICES SECTOR

FDI stock in Sweden, distribution by sector, SEK billion and average annual change in per cent, 2019–2022



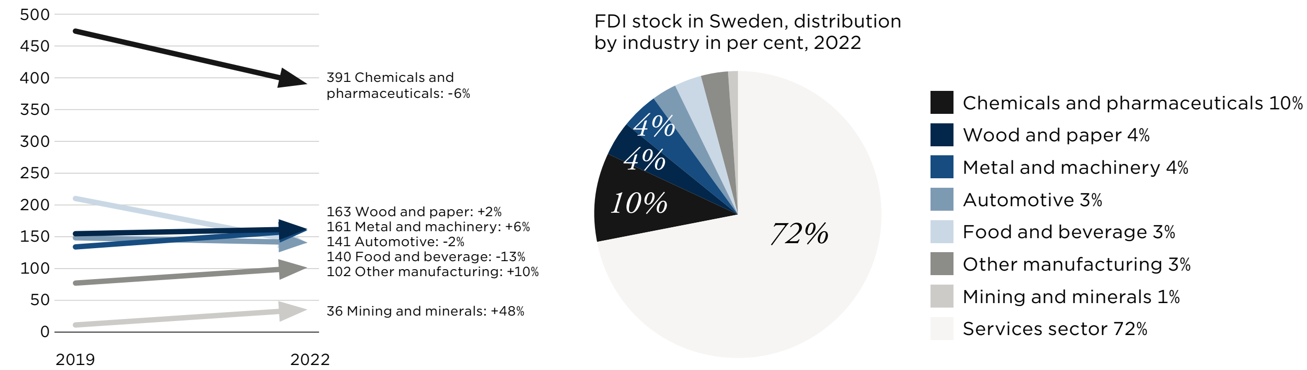
FDI stock in Sweden, distribution by sector in per cent, 2022



Note: The total FDI stock in Sweden of SEK 4,174 billion 2022 includes unspecified assets of SEK 118 billion. Those assets are excluded in the above compilation.
Source: Statistics Sweden (2024)

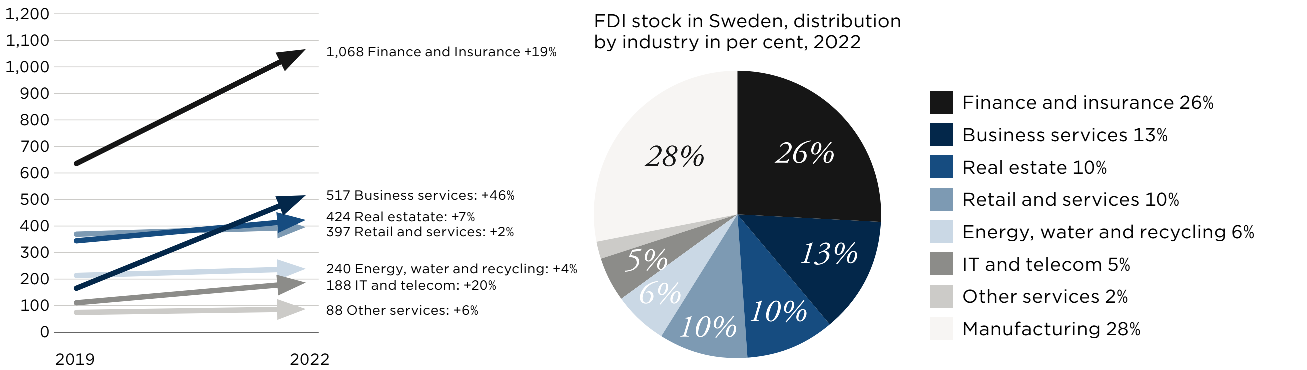
GROWING INTEREST IN THE MINING INDUSTRY

FDI stock in Sweden, distribution by industry, SEK billion and average annual change in per cent, 2019–2022

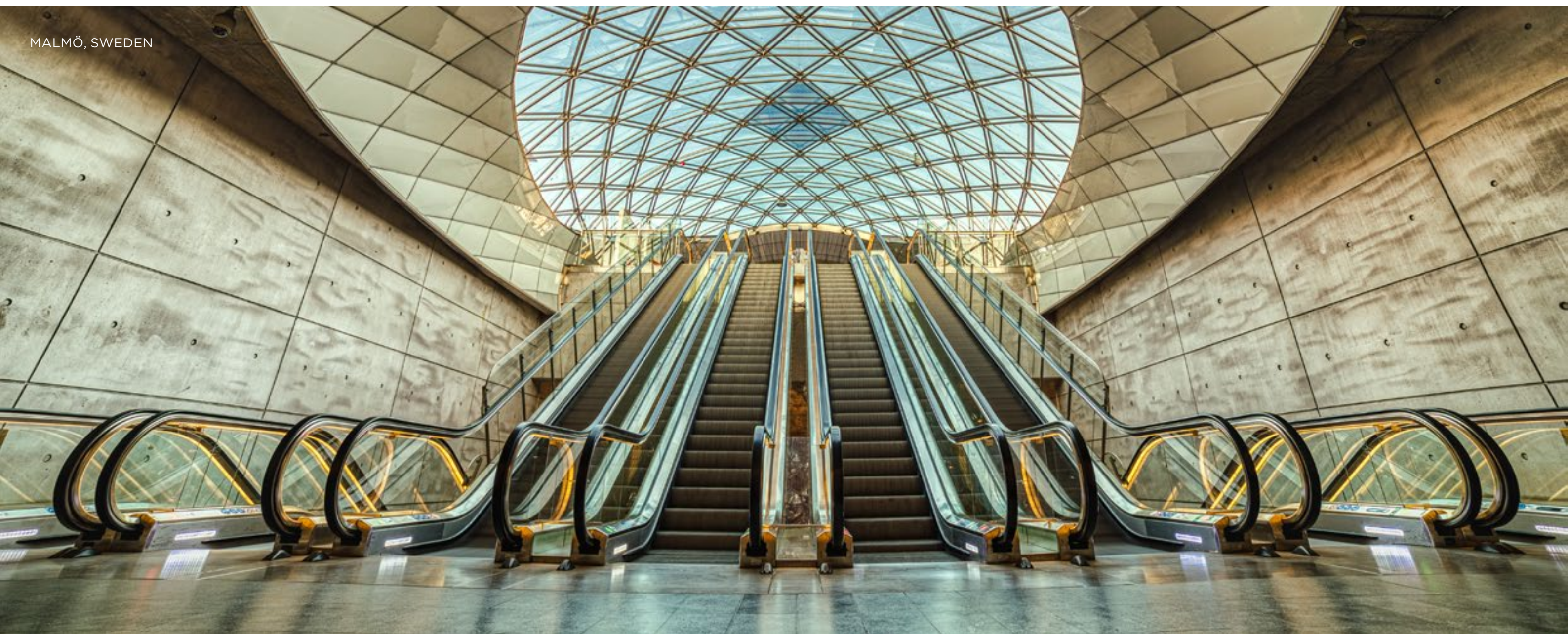


SHARP INCREASE IN FINANCE AND INSURANCE, BUSINESS SERVICES AND REAL ESTATE

FDI stock in Sweden, distribution by industry, SEK billion and average annual change in per cent, 2019–2022



Note: The total FDI stock in Sweden of SEK 4,174 billion 2022 includes unspecified assets of SEK 118 billion. Those assets are excluded in the above compilation.
Source: Statistics Sweden (2024)



MALMÖ, SWEDEN

FDI PROJECTS IN SWEDEN AND THE EU

MODEST PRESENCE OF CHINESE COMPANIES

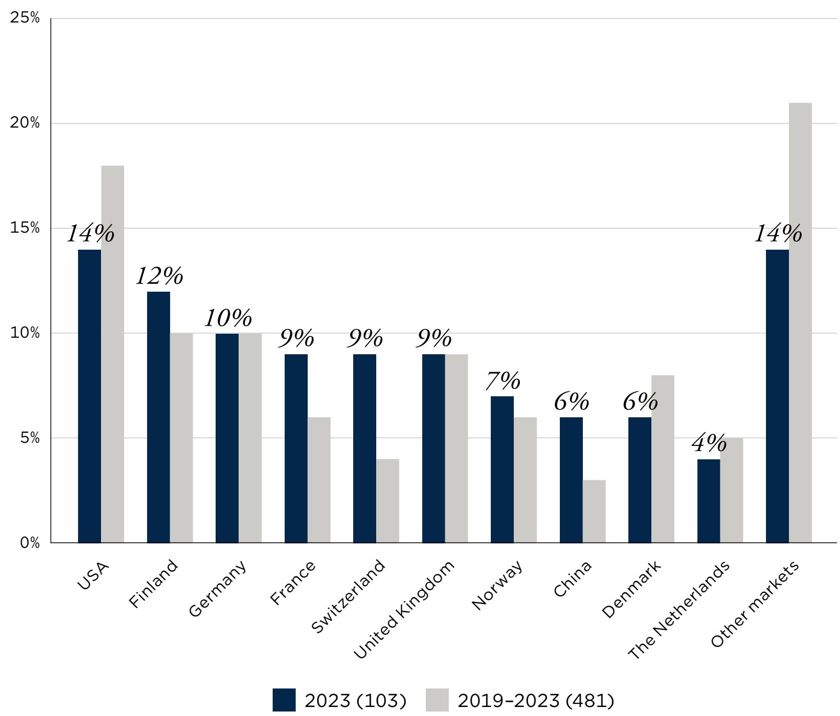
In addition to central banks and national statistics agencies, there are a number of consultancy firms that provide databases giving a somewhat incomplete but still business-related view of companies' overseas investments. In contrast to national statistics on international companies' direct investments, as part of the compilation of balance of payments, these databases identify individual companies and completed investments, and thereby have greater relevance for investment promotion agencies such as Business Sweden.

A review of the data from the Financial Times' database fDi Markets, which has global coverage, shows that Sweden attracted a total of 103 FDI projects during 2023, which corresponded to 2 per cent of all projects in the EU. Sweden's investment profile is similar to the rest of the EU, where American companies are major investors, but has a comparatively larger share of both Nordic and Chinese companies. A comparison of different sectors shows that Sweden had a considerably higher share of projects in business services and a slightly stronger investment profile for clean-tech projects than the rest of the EU. Conversely, Sweden had a smaller share of projects in R&D.

The EU received just under 30 per cent of new establishments and expansion investments that companies carried out globally in their respective foreign markets during 2023. In the EU, Germany was the largest recipient market with 22 per cent of the foreign projects, followed by Spain and France with 13 and 11 per cent respectively. Regarding the source markets for FDI projects in the EU, the geographic spread is wide. As much as 33 per cent of the FDI projects originated from companies outside the top 10 markets in 2023.

US COMPANIES CLAIM TOP SPOT FOR FDI PROJECTS IN SWEDEN

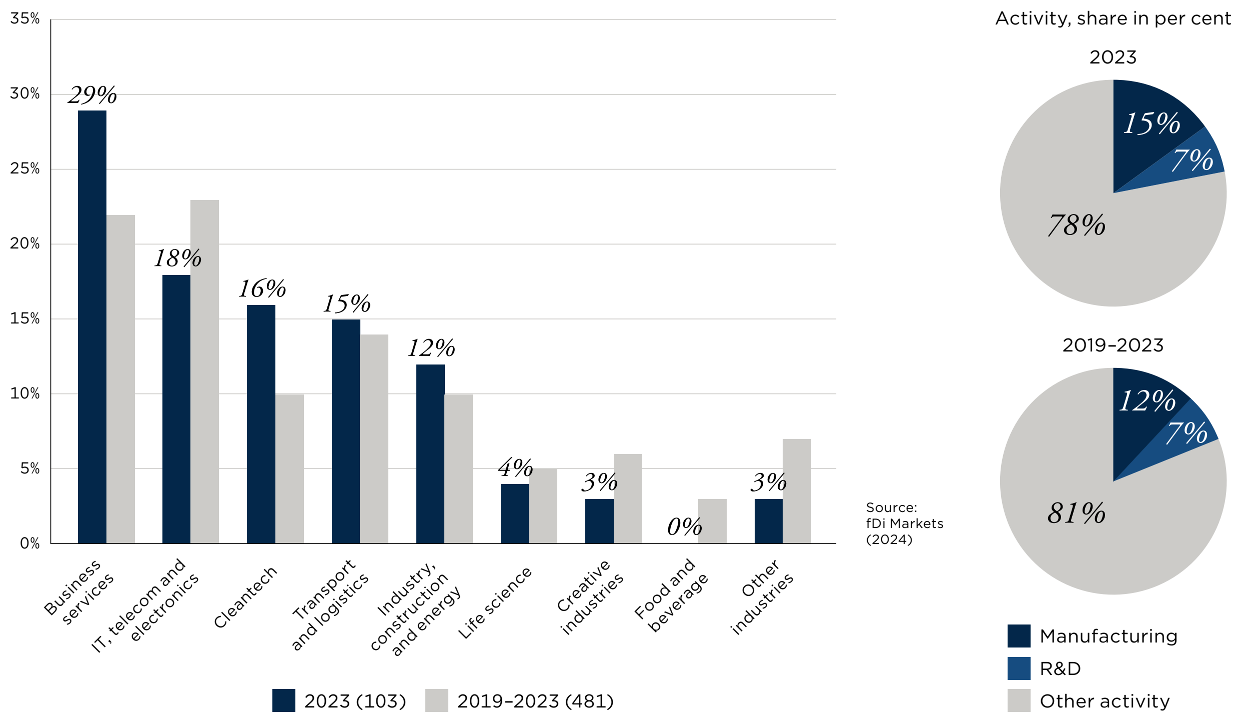
FDI projects in Sweden by source market, share in per cent, 2023 and 2019–2023



Source: fDi Markets (2024)

LARGE SHARE OF FDI PROJECTS IN BUSINESS SERVICES IN SWEDEN

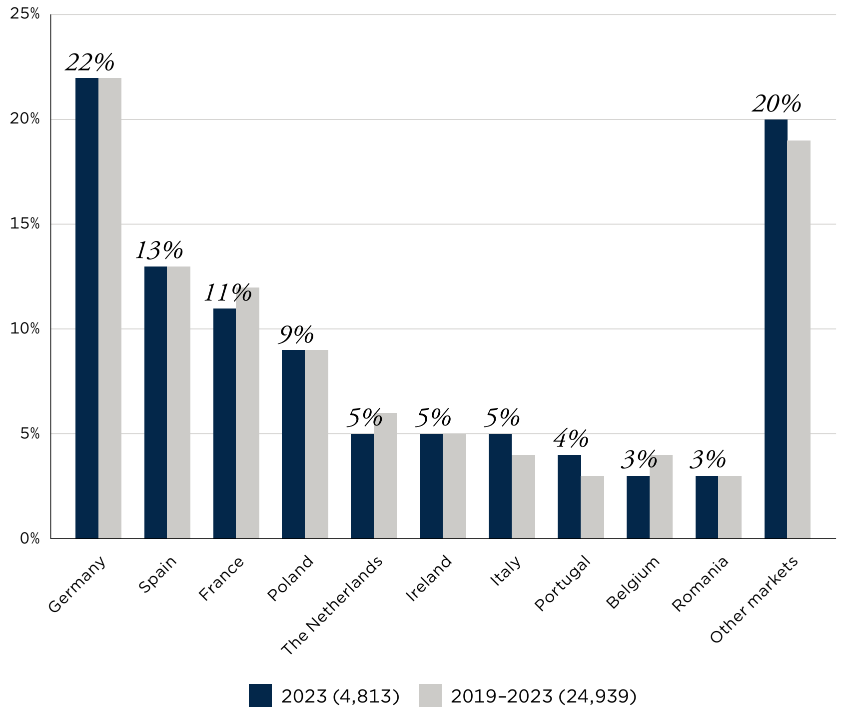
FDI projects in Sweden by industry och activity, share in per cent, 2023 and 2019–2023



The analysis also shows that US companies accounted for 16 per cent of the number of FDI projects in the EU during 2023, which is a notable decline from previous years. German, British, and French companies accounted for a quarter of the projects, while Chinese and Japanese companies accounted for a more modest 4 and 3 per cent respectively. Nearly a fifth of FDI projects in the EU were launched in the transport and logistics sector, followed by roughly equal shares in IT, telecom and electronics, and business services. Of the approximately 4,800 FDI projects in total, 14 per cent were investments in manufacturing and 9 per cent in R&D.

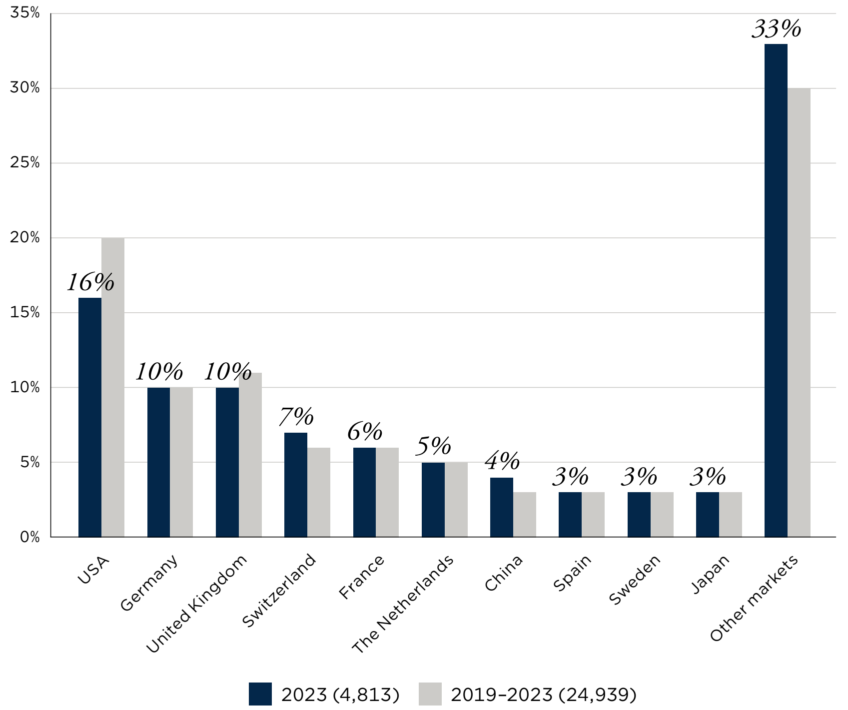
NEW YORK CITY, USA

GERMANY LARGEST RECIPIENT MARKET FOR FDI PROJECTS IN THE EU
FDI projects in the EU by recipient market, share in per cent, 2023 and 2019–2023



Source: fDi Markets (2024)

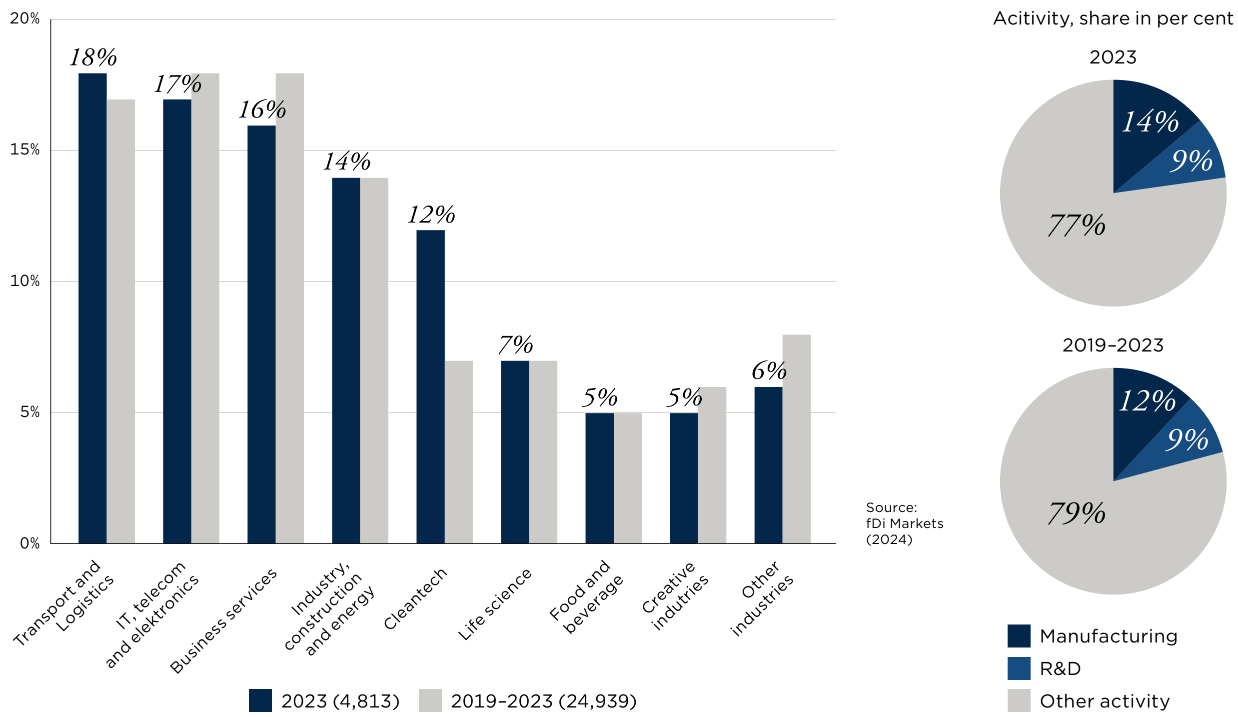
COMPANIES FROM DIVERSE MARKETS LAUNCH FDI PROJECTS IN THE EU
FDI projects in the EU by source market, share in per cent, 2023 and 2019–2023



Source: fDi Markets (2024)

UPTICK FOR CLEANTECH FDI PROJECTS IN THE EU IN 2023

FDI projects in the EU by industry and activity, share in per cent, 2023 and 2019–2023



SCHWARZWALD, GERMANY

FUTURE OUTLOOK

The current slowdown in the global economy and uncertain economic outlook, coupled with rising geopolitical tensions, suggests that an upswing for FDI cannot be expected in 2024.

Besides the impact of the business cycle, Business Sweden predicts that the seven key factors outlined below are likely to chart the course for global cross-border direct investment and FDI in Sweden in the next three years:

1. **Green transition.** Large investments will be required, not least in the energy sector, as industrial companies set their sights on increasing the use of clean energy and adopting net zero manufacturing practices. Coupled with comprehensive government support schemes and investments in climate adaptation and infrastructure upgrades, primarily in the US and Europe, this could unlock new opportunities for international investors. However, the US climate bill, the *Inflation Reduction Act*, has been criticised by the EU and other countries for giving US companies unfair advantages.

2. **Industrial policy.** The industrial policies that are currently taking shape in the US and EU could result in companies choosing to prioritise their home markets. The investments provide incentives for reshoring specific forms of manufacturing which, in turn, is likely to decrease overseas presence. Considerable efforts are being made on both sides of the Atlantic to build domestic semiconductor industries, while China continues to expand its domestic supply chains for prioritised sectors.

3. **Natural resources.** Accelerating global demand for critical raw materials, including rare earth minerals, requires major investments in the mining and metals industries, opening up the playing field for increased international investments.

4. **Regionalisation.** Customer and market relations, automation, risk management and increasing consideration of environmental impacts are driving the continued push toward regionalisation of manufacturing and trade, concentrated to the three large production regions Europe, Asia and North America. Companies are actively expanding their supplier base to reduce their vulnerability in times of crisis.

5. **The services sector.** In tandem with increased industrial investments, the shift toward servicification of the business sector and global trade continues at pace. While investments in the services sector are not as capital-intensive, corporate deals involving highly valued service companies as acquisition targets could give cross-border direct investment a further boost.

6. **New players.** The internationalisation of the business sectors in developing countries continues at pace which is prompting the rise of new international investors. But weaker economic development in many domestic markets and a worsening geopolitical outlook have dashed hopes of any rapid development.

7. **China.** Chinese companies are continuing to expand their presence overseas, primarily in emerging markets in what is today known as the *Global South*, but are being hampered by stricter national regulations and investment screening in foreign markets. New regulations open up the possibility for foreign companies to acquire Chinese companies – but large barriers to entry still exist. China's escalating conflict with the US and EU is prompting more and more international companies to rethink their market presence and focus on a wider spectrum of countries in Southeast Asia and other emerging markets.

Business Sweden is commissioned by the Swedish government to manage Sweden's investment promotion activities. The agency's work is focused on attracting and facilitating international investments and thereby contribute to job creation and sustainable growth across the country.

This encompasses new establishments, expansion of existing foreign-owned operations, strategic partnerships and capital investments in Swedish companies. The assignment also includes continuous reporting on investment barriers and monitoring of Sweden's investment climate.

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APPENDIX

MULTIPLE REASONS FOR EXPANDING ABROAD

Most companies worldwide largely focus their operations and sales on domestic markets, but a growing share of companies also export goods and services abroad. At the same time, some companies feel that they are limited by export sales and see new business potential in establishing an overseas presence through subsidiaries that can perform various functions. These are usually multinational companies with large resources and roots in developed economies in the three major production regions of Europe, North America and Asia.

The companies' overarching motives for expanding abroad include new opportunities to increase revenue, reduce costs and improve risk management. By establishing a local sales entity, companies can strengthen their brand and deepen business relationships with international customers. Likewise, choosing to set up a local R&D centre can help companies tap into the research excellence of prominent universities. Having a local manufacturing facility can provide more accurate adaptation of the company's products to key markets. Moreover, overseas manufacturing can reduce lead times and transport costs, and secure access to renewable energy, raw materials and other commodities. Large acquisitions can help to expand product portfolios and give companies a head start on the global playing field. Meanwhile, acquisition of smaller companies can provide access to important patents and innovations.

A combination of these drivers often comes into play when companies choose to establish operations abroad, but they carry different weight in different sectors and situations, see for example Business Sweden's report *Taking manufacturing to new frontiers* (2021).

GLOBALISATION LOSES STEAM

The 1990s ushered in a prosperous era for global trade and cross-border investment. The completion of the Uruguay Round in the newly formed WTO (World Trade Organization) resulted in a broad dismantling of trade barriers. The political and economic integration of the EU continued at pace. Following the end of the Cold War, there was almost global consensus on the importance of maintaining open markets and an attractive business climate. The financial sector was deregulated and expanded and the global market for goods and services developed rapidly.

New roads, railway connections, ports and airports put all the conditions in place for companies to transport their goods with ease and establish their business in emerging markets, where China and the Southeast Asian countries quickly became the protagonists. In addition, companies got the opportunity to consolidate their international operations through IT systems and telecommunications, and to raise funds for their investments in an increasingly internationalised financial market.

A first peak in the global evolution of FDI was reached in the year 2000. But in the following year the upswing was punctured by the Dotcom crash which led to a sharp downward revision of many companies' market value and contributed to a worsened economic situation, primarily in the US and Europe.

Already prior to China's membership in the WTO in 2001, the country had become a major destination for American and European business establishments, many of which sought to tap into the benefits of low-cost manufacturing of goods for export to Western markets. For another decade or so, low cost was the primary decision-making factor when global companies evaluated where to locate manufacturing facilities and supply networks. European companies discovered Eastern Europe while American companies went to Mexico.

The rapid growth in global trade throughout this period is to a great extent a reflection of how larger volumes of intermediate goods were gradually refined and finished at facilities in many different countries. The geographical fragmentation of manufacturing and a new wave of large corporate acquisitions paved the way for a new peak in cross-border investment in 2007.

The global financial crisis plunged the world economy into dramatic decline. Companies were forced to re-evaluate their plans for international expansion. Securing financing became more difficult as banks and other financial institutions reoriented their activities and focused their attention on domestic markets. Planned company acquisitions were put on hold. Despite this, the decline in FDI was not too steep, but the next peak would not be reached until 2015 when global cross-border investment hit a record level. In Europe, the financial crisis was a contributing factor to the subsequent European debt crisis which resulted in dampened growth and a pessimistic outlook for business.

The statistics for the past five-year period, excluding the fluctuations of the Covid pandemic with a market nosedive and recovery, show a gradual decline and levelling off in cross-border investment at the same time as stability and growth have solidified the international mergers and acquisitions (M&A) market.

The downturn could be the partial result of an accelerating strategic shift towards near-market manufacturing among industrial companies, which reduces the extent of relocation and scattering of operations in different countries. A political upswing for economic nationalism worldwide coupled with aggressive industrial policies could also play a certain role, and the same applies to the increased geopolitical tensions not least between the US and China. The EU has taken the initiative to form an investment screening process (which came into force in Sweden on 1 December 2023) in deals where the buyer is a non-European company and launched a new industrial policy roadmap which aims to facilitate industrial independence. American companies are encouraged to bring manufacturing back to the US, so-called reshoring. China is taking major steps to build its domestic supply chains and eliminate its dependence on foreign skills and competencies, for example in the manufacturing of advanced microchips.

Another factor to consider is that more and more international companies have become pure service companies. Their manufacturing often takes place locally and does not necessarily involve large investments. FDI in capital-intensive sectors such as the processing industry has fallen back in recent years.

Overseas expansions may also have become more difficult to pinpoint in the statistics, for example due to the increasingly advanced financial arrangements when it comes to company acquisitions. The internationalisation of capital markets has facilitated local financing, using loans and other transactions that are not registered as FDI. Various forms of business collaborations and partnerships have also emerged as attractive alternatives to capital investment.

STOCKHOLM, SWEDEN

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