# STANDBY I TURBULENT TIMES

*International direct investments in the global and Swedish economy*

# PREFACE

A bloody war of position in Ukraine. A failed military revolt against the Kremlin. A massacre of civilians in Israel. Attacks against container traffic in the Red Sea. China's escalated claims of power over Taiwan. Former US President Donald Trump's comeback on the political scene. Forest fires and floods in the wake of the climate crisis. It is not difficult to understand investors' hesitation about the future in a year like 2023. After the plunge of the pandemic years and the subsequent rapid recovery, the world economy has stabilized, but it is in unknown terrain.

The title of Business Sweden's report *Standby in turbulent times* reflects the internationally operating companies' dilemma when the economic turnaround is delayed, inflation does not fall as quickly as desired and the consequences of the central banks' continued tight monetary policy, after a decade of zero interest rates, are difficult to overview. To invest or not to invest in the foreign market? Today's enormous flow of information can give a sense of knowledge about phenomena that we may know very little about. Or vice versa: The constant noise of scattered information can obscure the view of long-term development lines and events of relevance to the company's operations and market prospects.

According to UN agency UNCTAD's foreign direct investment statistics, partially reproduced in this report, global direct investment stagnated with a minor decline of 2 percent in 2023, to $1,332 billion. It is the lowest level in two decades, only undercut by the lows during the global financial crisis in 2009 and the corona pandemic in 2020. As has been the case in recent years, in 2023 the majority of investments, just under 50 percent, went to markets in Asia and Oceania.

Sweden went against the grain in Europe with a new high for foreign direct investment of SEK 322 billion last year, which gives the Swedish market fourth place in the EU and thirteenth place globally. As these statistics consist of purely financial transactions between parent companies and subsidiaries, with limited relevance for an investment promotion organization such as Business Sweden, the report also contains a compilation of more business-related data, with data from the Financial Times database fDi Markets. It shows that just under a third of the FDI projects in Sweden in 2023 were in business services, as well as that a significant proportion was directed towards environmental technology.

The report concludes with Business Sweden's forward-looking view of factors that will affect international direct investment globally and in Sweden in the next three years. Among these, the climate transition, industrial policy and the challenge of meeting the expansion of Chinese companies in the developing economies, what is today known as the Global South, are noticeable.

Lena Sellgren
Chief economist

BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

# SUMMARY


ÿ The investment cycle in 2023 was negatively affected by the continued slowdown of the world economy and uncertain economic outlook, as well as geopolitical tensions that have increased significantly with Russia's war of aggression in Ukraine, the crisis in the Middle East, and China's increased claims to power in Southeast Asia and especially vis-a-vis Taiwan.

ÿ The capital investments of the internationally active companies in the foreign market (foreign direct investments or *foreign direct investment,* (FDI) fell globally by 2 percent compared to 2022, to 1,332 billion dollars.

ÿ Europe saw in 2023 another weak year for FDI, which landed at a low $27 billion. In North America, FDI decreased by 4 percent compared to the previous year, to $397 billion. Asia recorded a 15 percent decline, to $629 billion. FDI also fell back in the smaller investment regions of Africa, the Middle East and South America.

ÿ Foreign direct investment in Sweden amounted to SEK 322 billion in 2023, which is a decrease of 34 percent from the record year 2022, but still one of the highest ever.

ÿ The accumulated foreign direct investments in Sweden amount to SEK 4,174 billion, which in relation to GDP – around 70 percent – is high in an international perspective. The foreign assets are divided into 72 percent in the service sector and 28 percent in the manufacturing industry.


International direct investments are financial transactions that companies carry out in order to start and acquire business operations or conduct and expand operations in already established subsidiaries in countries other than where the parent company is domiciled. Direct investments are characterized by long-termism and ownership control.

Data on foreign direct investments in Sweden *(foreign direct investment,* FDI) and Swedish companies' direct investments abroad *(outward direct investment,* ODI) are collected by Statistics Sweden (SCB) on behalf of the Riksbank, as part of the basis for the balance of payments.

In Statistics Sweden's reporting for the quarter and the full year, the direct investments are distributed among the three investment items equity, group loans and reinvested profits. The amounts give an indication of the foreign companies' activities in Sweden and the Swedish companies' activities abroad, but cannot be directly linked to the companies' acquisition of business activities or investments in buildings, facilities, machinery or equipment.

The figures for a current year are also often changed through later revisions. In order to simplify the presentation, direct investment is referred to interchangeably as investment in this report. All amounts and calculation basis are in current prices.

# INTERNATIONAL DIRECT INVESTMENTS

### WORSE SITUATION FOR THE COMPANY'S FOREIGN EXPANSION

After the economic plunge of the corona pandemic and subsequent strong recovery, the growth rate of the world economy fell, which continued to slow down during 2023. Uncertain economic outlook combined with increased geopolitical tensions, mainly as a result of Russia's war of aggression in Ukraine, the crisis in the Middle East and China's stepped-up power claims in Southeast Asia, and especially towards Taiwan, affected international direct investment negatively. Globally, investments fell by 2 percent in 2023 compared to the previous year, to 1,332 billion dollars.

Foreign direct investment in Europe turned upward in 2023, but remained at a weak $27 billion. The year before, Europe recorded a negative amount of 92 billion dollars, which means that a greater amount of foreign direct investment was liquidated and left Europe than the amount newly invested in the continent.

According to the UN agency UNCTAD, which compiles the international statistics in its annual publication *World Investment Report,* the weak figures for Europe in 2022 and 2023 can be derived from large amounts of volatile investment capital being channeled through Luxembourg and the Netherlands, which both are so-called *conduit economies.* The continent's weak results would thus be partially illusory and rooted in financial reallocations without major effects on the companies' presence and European operations. But the picture still remains of a reduced interest in Europe, with subdued foreign investment in usually large recipient countries such as Germany, France and Great Britain.

In North America, which in Business Sweden's regional division includes the USA, Canada and Mexico, foreign investments fell back to 397 billion dollars, which is a decrease of 4 percent compared to the previous year. Almost 80 percent of the investments went to the United States.

In Asia, foreign investment declined by 15 percent to 629 billion dollars. Investments in China amounted to 163 billion dollars, which is a decrease of 14 percent and meant that its long-standing position as the world's second largest investment market after the United States was threatened for the first time by another Asian country: Singapore. The newly awakened interest of foreign investors in India failed in 2023, in a near halving of investments to 28 billion dollars. Overall, Asia received half of last year's foreign direct investment.

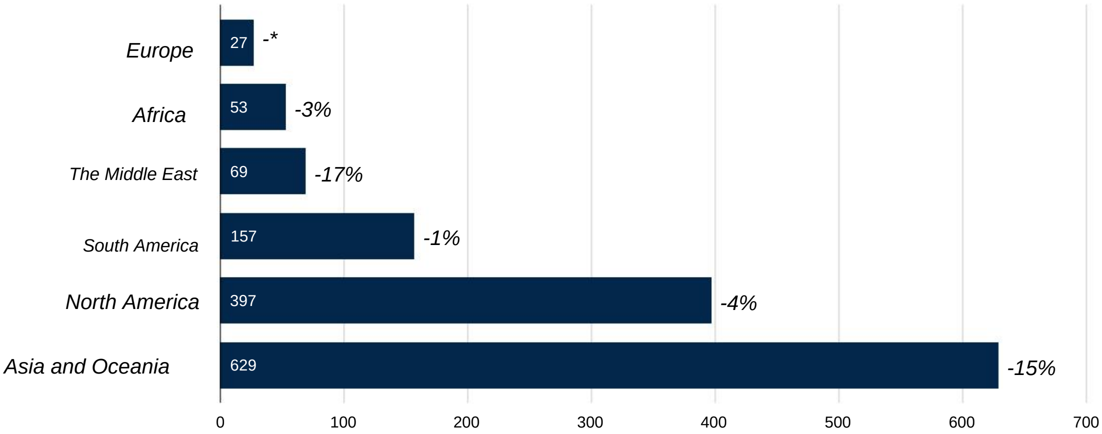
SLOWING GLOBAL ECONOMY IS HOLDING INVESTMENT BACK

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


Source: UNCTAD (2024)

ASIA STILL ON TOP

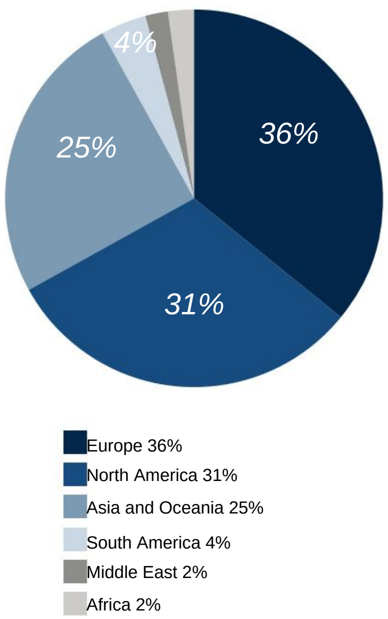
Foreign direct investment by region, inflows in billion USD, 2023




* Europe recorded a negative inflow of USD 92 billion in 2022.
For other regions, the change is shown in percentage between 2022 and 2023.
Source: UNCTAD (2024)

THREE MAJOR INVESTMENT REGIONS

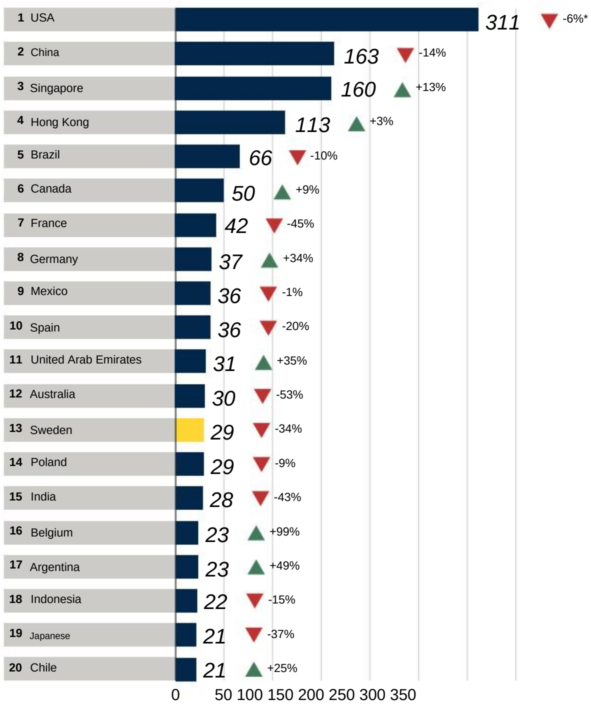
Foreign direct investment assets, distribution by region in percent, 2023




NOTE: Globally, foreign direct investment assets amounted to USD 49,131 billion in 2023.
Source: UNCTAD (2024)

CHINA'S POSITION IS THREATENED BY SINGAPORE

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




* The change in percentage between 2022 and 2023.
Source: UNCTAD (2024)

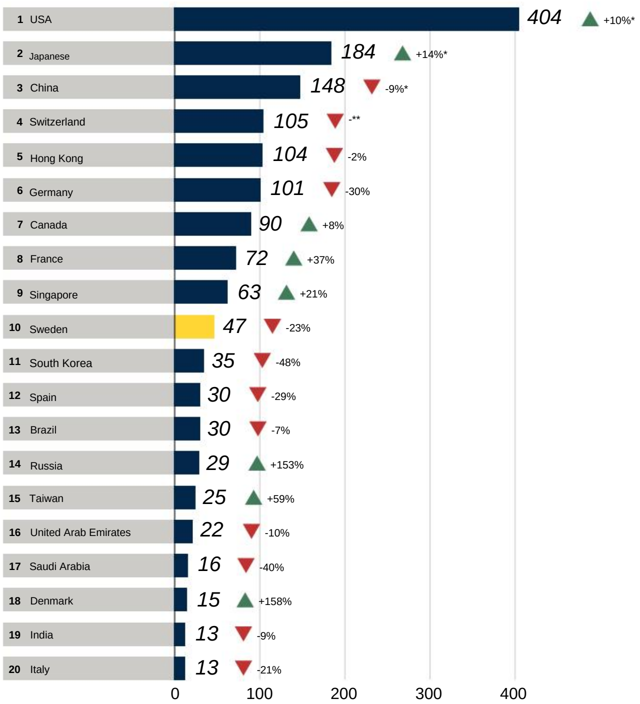
The development in the smaller investment regions was also negative in 2023. In the crisis-stricken Middle East, foreign direct investment decreased by 17 percent to 69 billion dollars. In Africa, investments decreased by 3 percent to 53 billion dollars. In South America, the decrease was a single percent to $157 billion.

Although Asia has emerged as the largest market for new investment, Europe maintains the position as the region with the largest foreign direct investment assets. Over time, Europe has attracted 36 percent of the assets, followed by North America with 31 percent and Asia with 25 percent.

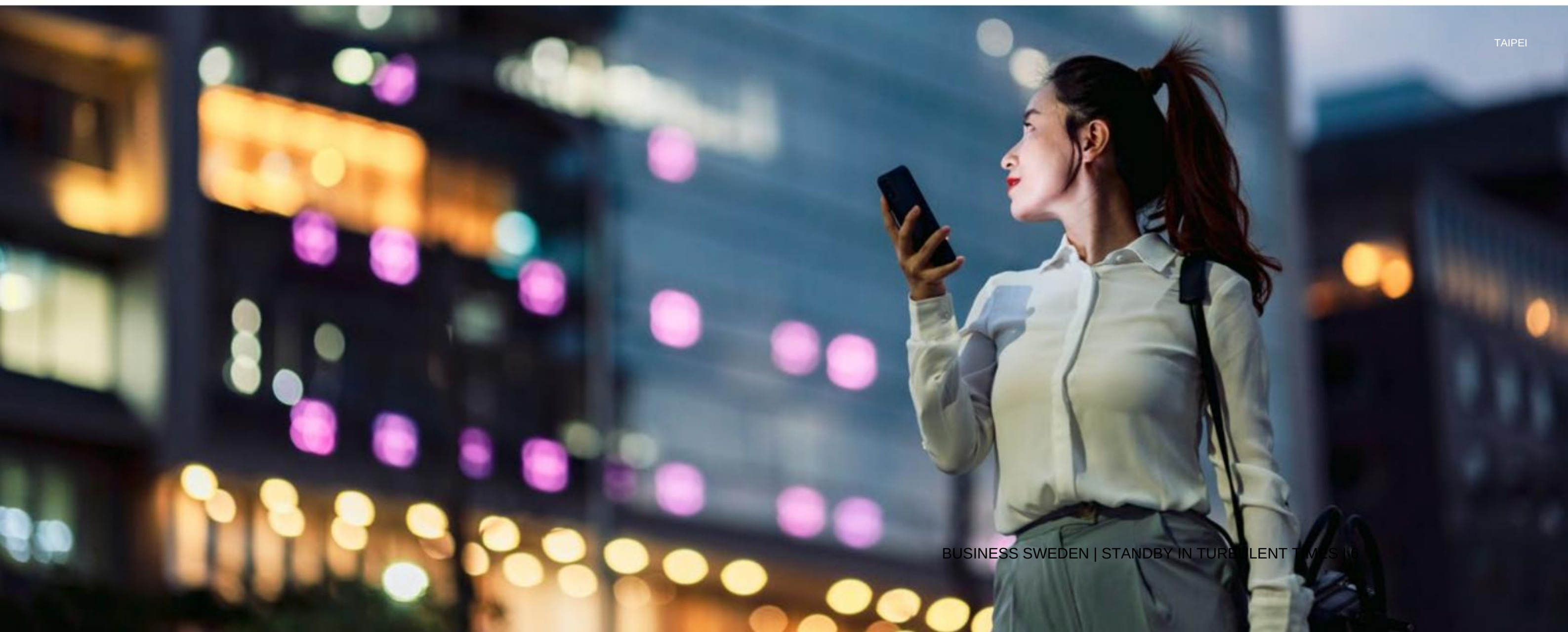
The 20 largest recipient markets for foreign direct investment in 2023 included representatives from all regions of the world except Africa. As usual, the USA was unchallenged first on the list with China in second place, close ahead of Singapore. With a position in thirteenth place, Sweden was the fourth largest recipient market for foreign direct investment in Europe after France, Germany and Spain. Even the list of the 20 largest sending markets for foreign direct investment shows a broad economic geography in the investor circle. Alongside companies from the USA, Japan and China, Swiss, German and Canadian companies were significant foreign investors in 2023. Sweden also had a prominent position here with a global tenth place.

EUROPEAN COMPANIES IMPORTANT FOREIGN INVESTORS

Top 20 Sender Markets of FDI, Outflows in Billion USD, 2023




* The change in percentage between 2022 and 2023.
** Switzerland recorded a negative outflow of USD 74 billion in 2022.
Source: UNCTAD (2024)



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# FOREIGN DIRECT-INVESTMENTS IN SWEDEN

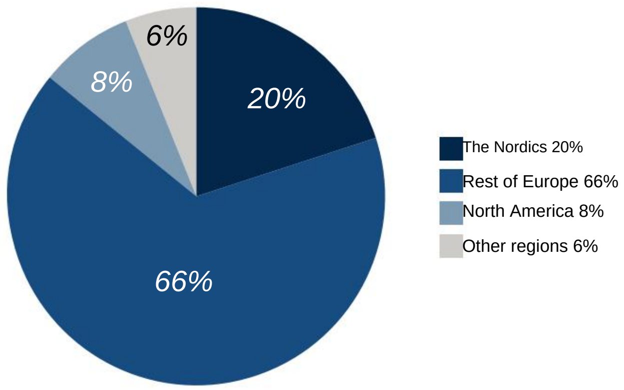
**FOURTH PLACE IN EUROPE** Since the mid-1990s, Sweden has been a significant recipient market for foreign direct investment. With the entry into the EU in 1995, higher economic growth than in large parts of Europe and a period of extensive deregulation and privatization of public activities, investors' interest in Sweden increased. An open and transparent acquisition market made successful Swedish companies desirable acquisition targets, especially in times of a weak Swedish krona. Over time, a large number of Swedish companies have acquired foreign owners. Close to 15,000 foreign companies employ 750,000 people in Sweden today.

The annual foreign direct investments in Sweden have historically fluctuated in line with the economic situation, but in recent years Sweden has gone against the flow and noted large foreign investments even when Europe as a whole has been weak.

The foreign direct investments in Sweden preliminarily amounted to the historical high of SEK 322 billion in 2023, which is a decrease of 34 percent from the record year 2022, but still more than double the annual average of SEK 140 billion for the period 2004 to 2023. As mentioned above in the section *International direct investments* , Sweden was the fourth largest market in Europe for foreign investments during last year and at one thirteenth place globally. It should be emphasized that the basis for finally determining the amount for last year's foreign direct investments in Sweden has not been completed and is partly based on Statistics Sweden's forecast for the companies' reinvested profits. The amount may therefore be revised.

EUROPEAN COMPANIES DOMINATE

Foreign direct investment assets in Sweden, distribution by sending region in percent, 2022

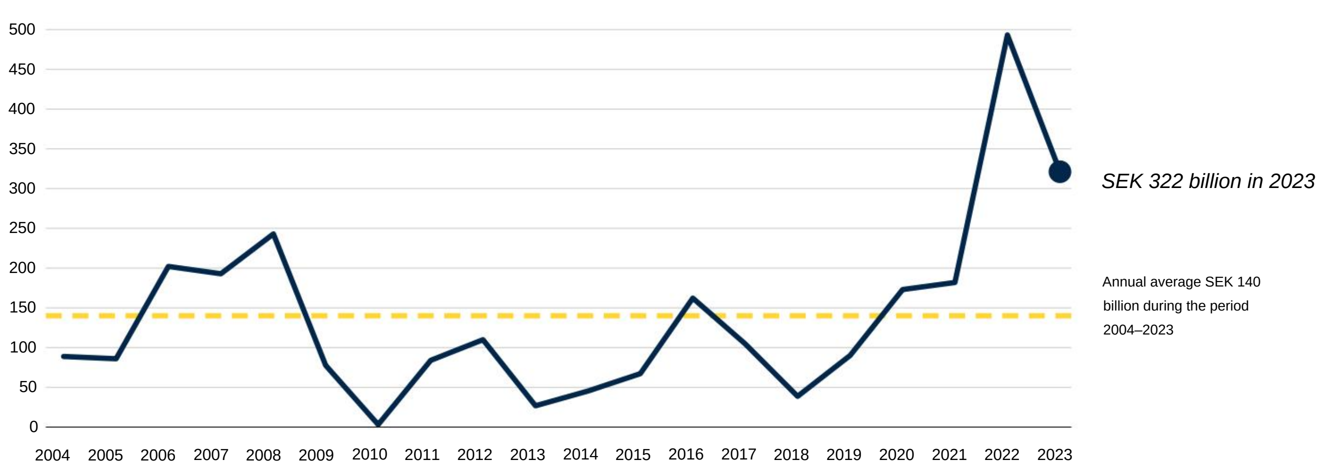



Note: The foreign direct investment assets in Sweden increased by SEK 904 billion in the last three-year period, from SEK 3,270 billion in 2019 to SEK 4,174 billion in 2022. This means an average annual increase of 8 percent.

Source: Statistics Sweden (2024)

CONTINUED HIGH LEVEL OF FDI INTO SWEDEN

Foreign direct investment in Sweden, annual inflows in SEK billion, 2004–2023




Source: Statistics Sweden (2024)


AMSTERDAM, THE NETHERLANDS

## SPECIFICATION FOR EUROPEAN COMPANIES

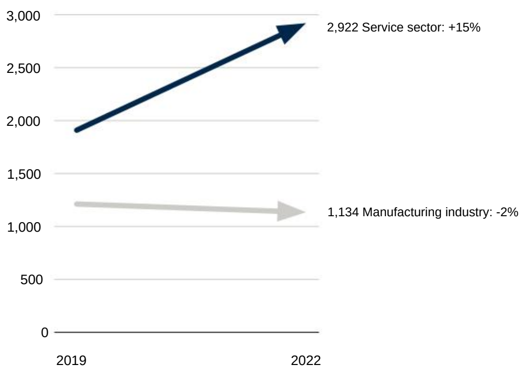
The foreign direct investment assets in Sweden amounted to SEK 4,174 billion in 2022, the year of the latest available outcome figure. It is above all companies based in the neighboring Nordic countries and in other European countries that are present in Sweden, where British companies with SEK 608 billion in assets occupy the first place. Together, European companies account for 86 percent of the foreign assets. Companies with legal domicile in Luxembourg and the Netherlands are statistically major investors, but in many cases the controlling parent company is someone elsewhere, sometimes even in Sweden.

The foreign direct investment assets are distributed to 72 percent in the service sector and 28 percent in the manufacturing industry. Over time, the distribution has resulted in an increasingly large share for the service sector.

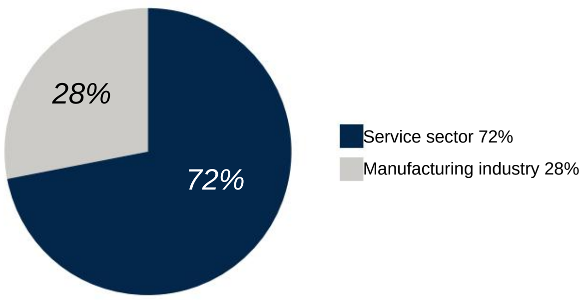
Assets in the service sector amounted to SEK 2,922 billion, with large foreign investments mainly in finance and insurance, business services and real estate. Assets in the manufacturing industry amounted to SEK 1,134 billion. There, foreign companies have made the largest investments in chemicals and pharmaceuticals, with a significant gap in investment volumes to the next industries wood and paper and metal and machinery.

### INVESTORS DIRECTED TOWARDS THE SERVICE SECTOR

Foreign direct investment assets in Sweden, distribution by sector, SEK billion and average annual change in percentage, 2019–2022




Foreign direct investment assets in Sweden, distribution by sector in percent, 2022

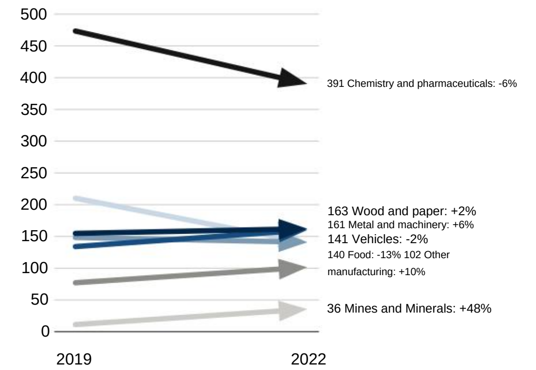



Note: The total of SEK 4,174 billion in 2022 also includes non-sectoral assets of SEK 118 billion. These assets are not included in the summaries above.

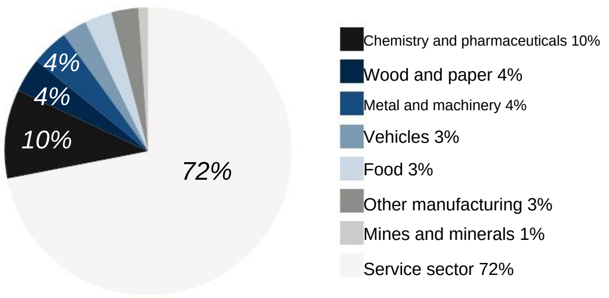
Source: Statistics Sweden (2024)

## GROWING INTEREST IN THE MINING INDUSTRY

Foreign direct investment assets in Sweden, distribution by industry, SEK billion and average annual change in percentage, 2019–2022

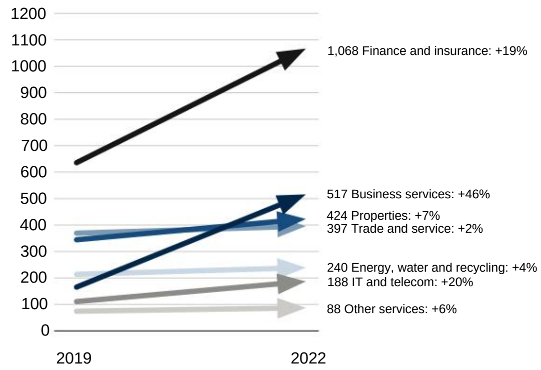



Foreign direct investment assets in Sweden, distribution by industry in percent, 2022

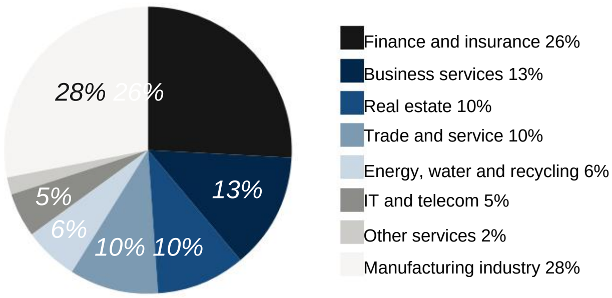



## RAPID GROWTH IN FINANCE AND INSURANCE, BUSINESS SERVICES AND REAL ESTATE

Foreign direct investment assets in Sweden, distribution by industry, SEK billion and average annual change in percentage, 2019–2022




Foreign direct investment assets in Sweden, distribution by industry in percent, 2022

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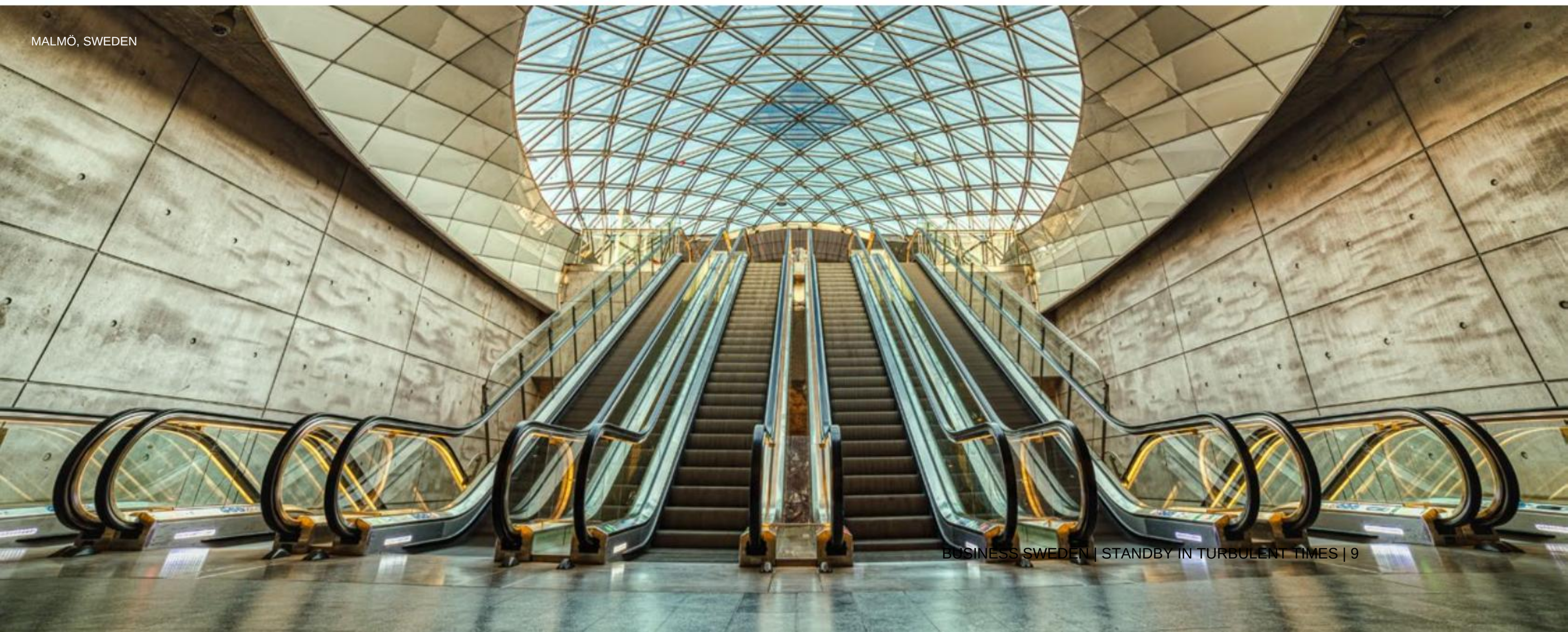
Source: Statistics Sweden (2024)



MALMÖ, SWEDEN

# INVESTMENT PROJECT IN SWEDEN AND EU

### SMALL PRESENCE OF CHINESE COMPANIES

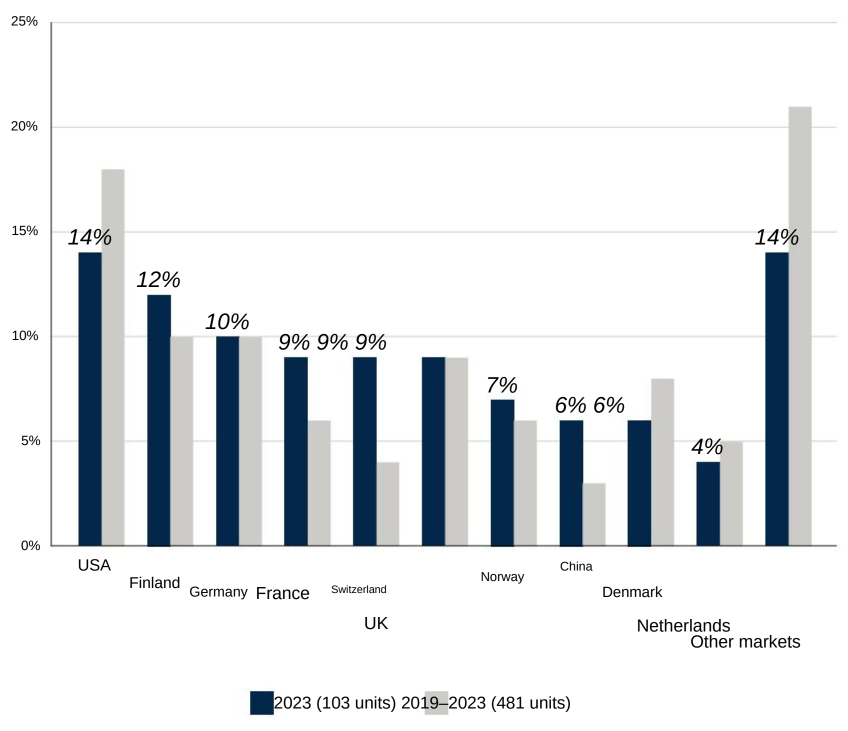
In addition to central banks and national statistical bodies, there are a number of internationally active consulting companies that, with their own databases, provide an incomplete but still complementary, more business-like picture of companies' foreign investments. In contrast to the national statistics on foreign direct investments, which form part of the basis for the balance of payments, the databases identify individual companies and investments made and thus have greater relevance for investment promotion organizations such as Business Sweden.

A review of data from the Financial Times database fDi Markets, which has global coverage, shows that Sweden was the recipient market for a total of 103 FDI projects in 2023, which corresponds to 2 percent of the projects in the EU. Sweden's investment profile is similar to that of the EU as a whole and that of the US companies as major investors, but with a larger element of Nordic investors and a higher proportion of Chinese companies. An industry comparison shows that Sweden has a significantly larger proportion of projects within business services and a somewhat stronger investment profile within environmental technology *(Cleantech)* than the EU as a whole. Sweden, on the other hand, has a comparatively smaller proportion of projects in research and development.

The EU received just under 30 percent of the number of start-ups and expansion investments that companies carried out globally in their respective foreign markets in 2023. In the EU, Germany was the largest recipient market with 22 percent of the foreign projects, followed by Spain and France with 13 and 11 percent respectively. With regard to sending markets for FDI projects to the EU, the spread is large. A whopping 33 percent of FDI projects originated from companies outside the top 10 markets in 2023.

AMERICAN COMPANIES AT THE TOP IN FDI PROJECTS TO SWEDEN

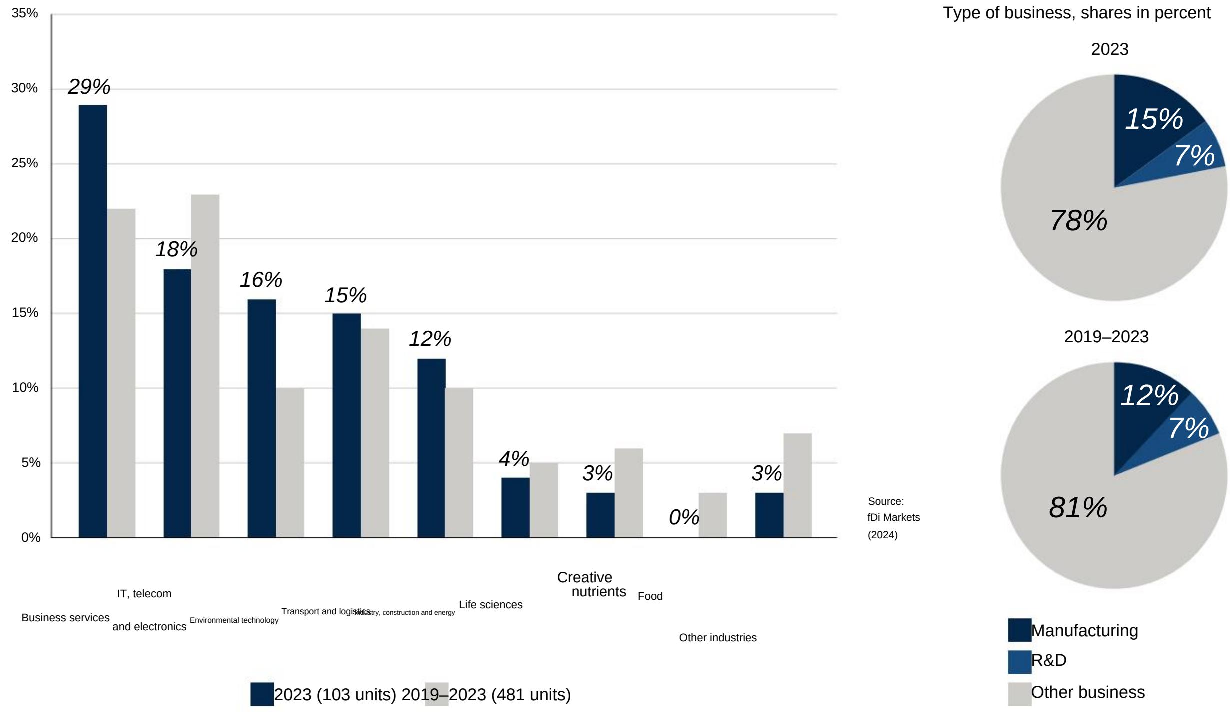
FDI projects to Sweden per sender market, percentage shares in 2023 and 2019–2023




Source: fDi Markets (2024)

## LARGE SHARE OF FDI PROJECTS WITHIN BUSINESS SERVICES TO SWEDEN

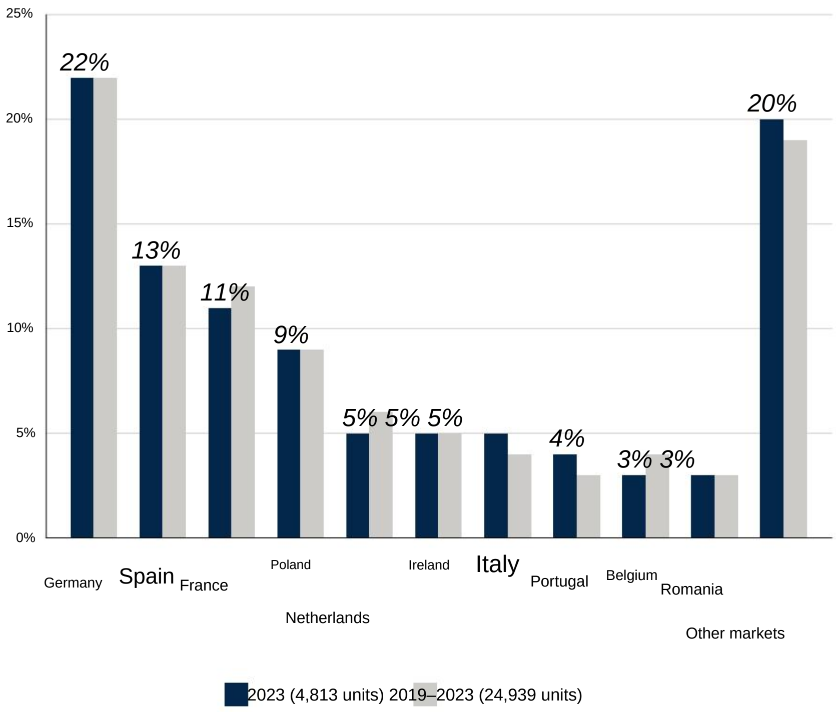
FDI projects to Sweden per industry and activity, percentage shares in 2023 and 2019–2023




The review also shows that US companies accounted for 16 percent of the number of FDI projects in the EU in 2023, which is a notable decline from previous years. German, British and French companies together accounted for a quarter of the projects, while Chinese and Japanese companies accounted for a more modest 4 and 3 percent respectively. Almost one fifth of FDI projects in the EU were made in transport and logistics, followed by approximately equal shares in IT, telecoms and electronics and in business services. Of the total of approximately 4,800 FDI projects, 14 percent were investments in manufacturing and 9 percent in research and development.

## GERMANY LARGEST RECEIVER MARKET FOR FDI PROJECTS IN EU

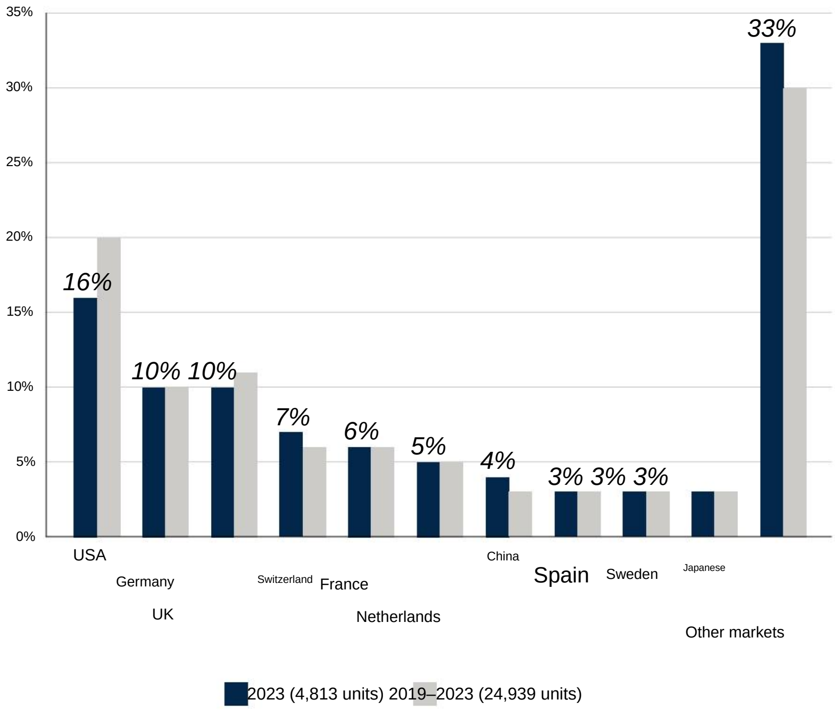
FDI projects to the EU per recipient market, percentage shares in 2023 and 2019–2023




Source: fDi Markets (2024)

## COMPANIES FROM MANY MARKETS INVEST WITH FDI PROJECTS IN THE EU

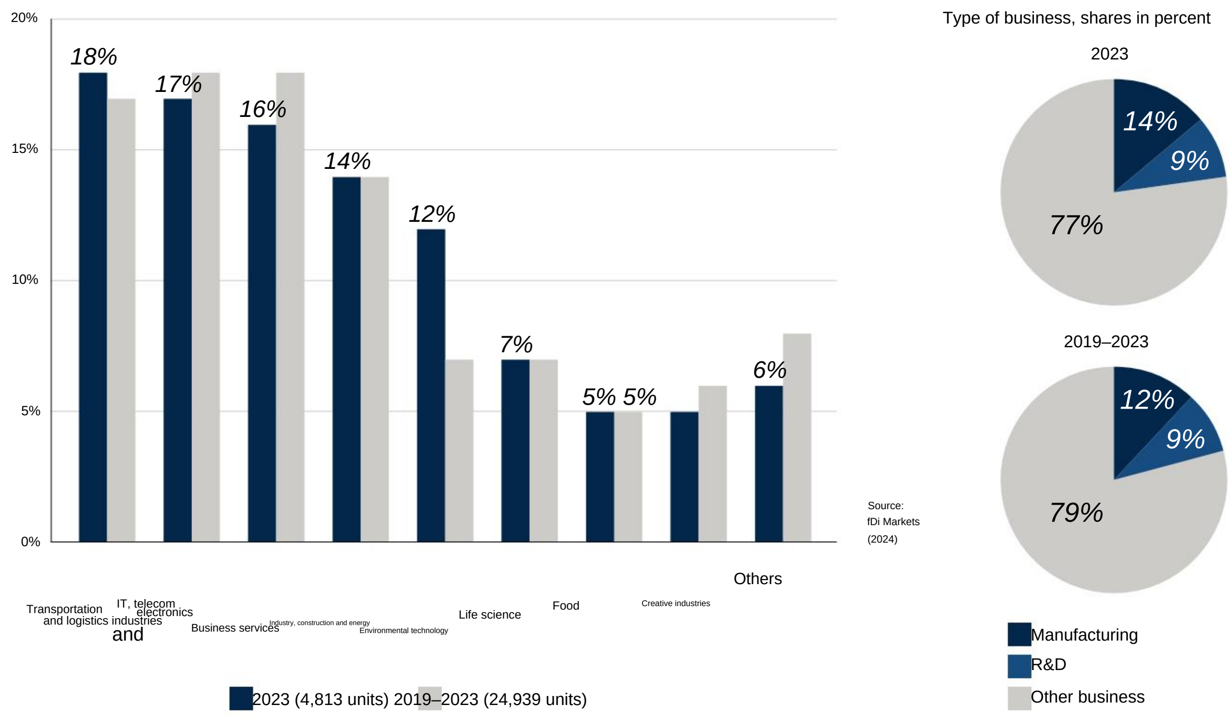
FDI projects to the EU by sending market, percentage shares in 2023 and 2019–2023




Source: fDi Markets (2024)

## PROMOTION FOR FDI PROJECTS IN ENVIRONMENTAL TECHNOLOGY TO EU 2023

FDI projects to the EU per industry and activity, percentage shares in 2023 and 2019–2023




BLACK FOREST, GERMANY

# FUTURE PROSPECTS

The ongoing slowdown in the world economy and uncertain economic outlook combined with increased geopolitical tensions do not speak for any upswing in international direct investment in 2024.

In addition to the economic development, Business Sweden's foresight highlights the following seven factors that will affect international direct investment and foreign investment in Sweden over the next three years.

1. **Climate change.** Industrial companies' orientation towards increased use of environmentally friendly electricity and carbon dioxide-neutral manufacturing requires large new investments, not least in the energy sector. This, together with extensive public support packages and investments in climate change and infrastructure in the USA and Europe, among others, can provide opportunities for foreign investors. But the United States' climate investment, *the Inflation Reduction Act,* has been criticized by the EU and other countries for unilaterally favoring American companies.

2. **Industrial policy.** The ongoing industrial policy investments in the USA and Europe can contribute to companies prioritizing operations in the home market. The investments give the companies incentives to bring some production home and thereby reduce their presence abroad. On both sides of the Atlantic, special efforts are being made to grow a domestic semiconductor industry, while China continues to build its own supply chains for priority sectors.

3. **The natural resources.** Increasing global demand for critical raw materials, including rare earths, requires investment in the mining and metals industries, with opportunities for foreign investment as well.

4. **The regionalization.** Customer and market relations, automation, risk management and, to an increasing degree, environmental concerns drive a continued regionalization of industrial companies' production and trade, concentrated in the three major production regions of Europe, Asia and North America. The companies broaden the base of suppliers to reduce vulnerability in the event of crises.

5. **The service sector.** Parallel to the investment in industry, the service orientation in business and international trade is increasing. At the same time that investments in the service sector are less capital-intensive, corporate deals with highly valued service companies as acquisition targets can raise the amounts for international direct investments.

6. **The new actors.** The internationalization of the developing countries' business life continues and with it the emergence of new foreign investors, but a weaker economic situation in many home markets and deteriorating geopolitical prospects have dampened optimism about rapid development.

7. **China.** Chinese companies continue their overseas expansion, mainly in developing markets in what is today called *the Global South,* but are hampered by stricter national regulations and new examination procedures in the foreign market. New legislation increases the opportunities for foreign companies to acquire Chinese companies, although the restrictions remain large. China's escalating conflict with the US and the EU instead accelerates the companies' reallocation of their market presence to a wider circle of countries in Southeast Asia and other developing markets.

Business Sweden has the government's mandate to be responsible for national investment promotion. The business aims to attract and facilitate foreign investment in Sweden and thereby contribute to increased employment and sustainable growth throughout the country.

This refers to new establishments, expansions of existing foreign companies, strategic partnerships or capital investments in Swedish companies. The assignment also includes reporting on investment obstacles and the investment climate in Sweden.

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# APPENDIX

## MULTIPLE MOTIVES FOR ESTABLISHING ABROAD

Most companies worldwide orient all or most of their operations and sales towards the domestic market, but a growing proportion of companies also export their goods and services abroad. In addition, there are a number of companies that find a limitation in export sales and see new business potential in an establishment on the foreign market with their own subsidiaries that can perform various tasks. These are usually larger resource-rich multinational companies with roots in developed economies in the three major production regions of Europe, North America and Asia.

The overarching motives behind the companies' foreign establishments are the opportunities for increased revenues, reduced costs and management of risks in the business. A local sales company can strengthen the company's brand and deepen the business relationship with foreign customers. A development center can be located to take advantage of the cutting-edge expertise of researchers at a prominent university. A local manufacturing facility can provide more accurate adaptation of the company's products to an important market. The establishment can reduce lead times and transport costs, or secure access to renewable energy, raw materials and other materials. A large corporate acquisition can expand the product portfolio and give a head start on a global playing field. Acquisition of a smaller company can give the company access to interesting patents and innovations.

Often several of the motives play a role in companies' establishment decisions, but they weigh differently in different industries and situations, see for example Business Sweden's report *Right place for production* (2021).

## DOWNSHIFT FOR GLOBALIZATION

The 1990s marked the beginning of a favorable period for world trade and international direct investment. The completion of the so-called Uruguay Round in the newly formed WTO (World Trade Organization) resulted in a broad dismantling of trade barriers. Political and economic integration in the EU progressed. After the end of the Cold War, there was an almost global consensus on the importance of open markets and an attractive business climate. The financial market was deregulated and expanded. The world market for goods and services grew rapidly.

New roads, railway connections, ports and airports gave the companies the conditions to easily transport goods and establish their operations in emerging markets, where China and the countries of Southeast Asia soon took the lead roles. The companies gained opportunities to coordinate their international operations with IT-based business support systems and telecommunications, and to finance their investments in a progressively more internationalized financial market.

A first peak in the development of international direct investment was reached in 2000. The upturn was punctuated by a crisis in the IT and telecom sector, the so-called Dotcom crash, which led to a sharp downward revision of the market value of many companies and contributed to a deteriorating economic situation mainly in the USA and Europe.

Even before China's membership of the WTO in 2001, the country had been subject to a massive establishment of American and European companies, many with the aim of manufacturing goods at low costs and exporting to Western markets. For another decade or so, low costs were the most important determining factor for industrial companies' location of their manufacturing facilities and supplier networks. European companies discovered Eastern Europe, while American companies went to Mexico.

The rapid growth of world trade during the period is to a large extent a reflection of how increasingly large volumes of input goods were gradually refined through processing at facilities in many different countries. The geographical fragmentation of manufacturing and a wave of large corporate acquisitions contributed to a new peak in international direct investment being reached in 2007.

The global financial crisis brought about a dramatic decline in the world economy. The companies were forced to reconsider their plans for international expansion. Funding opportunities deteriorated as banks and other financial actors reoriented themselves towards the home market for a longer period of time. Planned business acquisitions came to a standstill. The decline in international direct investment was still not that deep, but it would take almost a decade before a new record figure could be noted. In Europe, the financial crisis contributed to the subsequent European debt crisis, with lower growth and pessimism in the business world.

The statistics for the last five-year period show, with interruptions for the sudden plunges in the plunge and the recovery in connection with the corona pandemic, a gradual decline and leveling off of the international direct investments at the same time that the market for company acquisitions has been stable and growing.

The downshift may partly be due to industrial companies' increased orientation towards market-close production, which reduces the extent of outsourcing and fragmentation of manufacturing in different countries. A global political upsurge in economic nationalism and aggressive industrial policy may also play a role, as can the increased geopolitical tensions between not least the United States and China. The EU has introduced a review procedure for company deals *(investment screening,* which was introduced by Sweden on December 1, 2023) where non-European companies are buyers, and launched a new industrial policy that should provide increased industrial independence. American companies are encouraged to bring production home from abroad, often referred to as *reshoring.* China is investing heavily in building its own supply chains and making itself independent of foreign expertise, for example for the manufacture of advanced circuit boards *(microchips).*

Another influencing factor is that more and more internationally operating companies are pure service companies. Their production often takes place locally and does not necessarily require large investments. International direct investments in capital-intensive activities such as the process industry have fallen back in recent years.

The companies' foreign establishments may also have become more difficult to capture in the statistics, among other things in step with the increasingly advanced financial arrangements in, for example, company acquisitions. The internationalization of the capital market has facilitated local financing, with loans and other transactions not being registered as foreign direct investment. Various forms of business collaborations and partnerships have also emerged as attractive alternatives to capital investment.



STOCKHOLM, SWEDEN

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