



# LOOKING TO EUROPE

*How Swedish manufacturers are  
reorganising their overseas supplier networks*

# FOREWORD AND REFLECTIONS

The pandemic and war in Ukraine have caused considerable disruption to cross-border deliveries of intermediate goods for manufacturing, with major ripple effects for the global economy. The escalating conflict between the US and China risks splitting the world into two blocks of democratic and authoritarian states, both of which will seek to halt trade in high-tech products and other goods with potential military applications. The regionalisation of manufacturing and trade in industrial goods, which is already well underway, has been given an extra boost.

To gain a better understanding of the current situation and how Swedish manufacturers are looking to secure the future supply of intermediate goods, Business Sweden has undertaken the task of mapping the overseas supplier networks of these companies and to uncover how they are evolving. I am not exaggerating when I say that this is one of the most captivating surveys I have commissioned during my time at Business Sweden.

We start by confirming a perfectly reasonable conclusion drawn from the survey results, namely the fact that the number of suppliers tends to increase with company size. Large companies and even some smaller medium-sized companies could have more than a hundred foreign sub-suppliers.

We can also observe that the balance between the manufacturing companies' purchasing of intermediate goods from Sweden and overseas continues to tilt towards foreign markets, but the pace at which inputs are sourced abroad is expected to slow in the next three years. At the same time, it should be noted that this survey does not reveal facts about companies' purchasing volumes – the respondents are only answering whether purchases are increasing, decreasing or if they are unchanged.

The survey shows that the most important geographical region for Swedish manufacturers when sourcing suppliers is Western Europe, with Central and Eastern Europe in second place. However, as many as half of the companies report that they have suppliers in China, whose standing as a significant long-distance sourcing market nuances the otherwise unambiguous trend towards European regionalisation of production and trade in intermediate goods. The US seems to play a peripheral role in the supplier networks for manufacturing in Sweden.

It is also apparent that China is falling from grace. This survey report confirms what we at Business Sweden have heard through anecdotal accounts over the past few years in countless interviews with Swedish business leaders – a degree of reallocation of supplier networks is taking place, away from China and Asia and in favour of Europe. The results reveal that Central and Eastern Europe is the first choice for Swedish manufacturers who are scaling back purchasing of intermediate goods in China to increase purchases elsewhere. Western Europe follows closely behind as the next preferred region.

The upswing in the development of supplier networks in Europe testifies to the fact that European industry stands on a new foundation. It is no longer obvious that intermediate goods are produced and delivered from China or Vietnam. Complex products require close dialogue between end manufacturers and suppliers. Automation and rising wages in Asia have levelled out the cost calculation. Shipping has become more expensive and environmental performance is more important than ever. The recent chaos in international container and freight transport underscores the risks of long-distance supply chains.



**LENA SELLGREN**

Chief Economist  
Business Sweden

My own reflection is that Sweden and Europe now have an opportunity to capture the momentum and ensure that supply capacity and skills are also secured in industries that are critical for the green transition, including fields such as digitalisation, electrification, battery production and carbon-neutral manufacturing.

A minor point on the flipside: all of the above is good news for Europe, but we should be mindful that the same logic around the benefits of setting up local and regional supplier networks applies in reverse for Swedish subsidiaries in, for example, Malaysia. Europe is a far-away region for these entities and, as such, sourcing European components may be considered both costly and high-risk.

In all, we can observe that some of the key factors for companies when selecting suppliers will carry more weight in the future. Around 80 per cent of respondents confirm that environmental impacts and climate issues will take a more prominent role in decision-making. Almost 70 per cent of companies will put more emphasis on the delivery distance to Sweden, and the shortest distance will win. The fight against poor working conditions and corruption will be ramped up. And free trade agreements concluded with friendly nations will play a greater role in the years ahead.

Lena Sellgren  
Chief Economist, Business Sweden



# SUMMARY

- A considerable majority of Swedish manufacturers have more than 10 foreign sub-suppliers of intermediate goods. Some large and medium-sized companies have more than 100 suppliers in their overseas network. The number of suppliers abroad increases with company size.
- Swedish manufacturers are increasingly exposed to foreign suppliers, as the share of purchasing of intermediate goods from abroad increases for operations in Sweden. However, the pace at which companies choose foreign suppliers will slow in the next three years.
- The foreign suppliers of intermediate goods to Swedish manufacturers are mainly located in Western Europe followed by Central and Eastern Europe. As much as half of the companies have suppliers in China. A fourth of the companies have suppliers in the US.
- Many Swedish manufacturers have increased their purchasing of intermediate goods from suppliers in Europe in the last three years, while simultaneously scaling back purchasing from China. This development will intensify in the next three years.
- The environmental and climate impacts of suppliers and delivery distance to Sweden will increasingly govern how companies choose suppliers in the future.

## THE SURVEY

Business Sweden gave the analyst firm Origo Group the assignment of mapping where Swedish manufacturers make their overseas purchasing of intermediate goods for production in Sweden, and how the distribution of purchasing between identified countries and regions is changing over time.

The survey was carried out via telephone interviews with purchasing managers or equivalent representatives at the participating companies between 16 May and 16 June, 2022. The respondents answered a list of 9 multiple choice questions formulated by Business Sweden. A total of 302 companies took part in the survey.

*A considerable majority of Swedish manufacturers have more than 10 foreign sub-suppliers of intermediate goods. Some large and medium-sized companies have more than 100 suppliers in their overseas network. The number of suppliers abroad increases with company size.*

## NUMBER OF SUPPLIERS

The survey shows that Swedish manufacturers normally source intermediate goods from several sub-suppliers abroad, and that most large companies usually have more suppliers than medium-sized companies. This is not surprising and wholly reasonable.

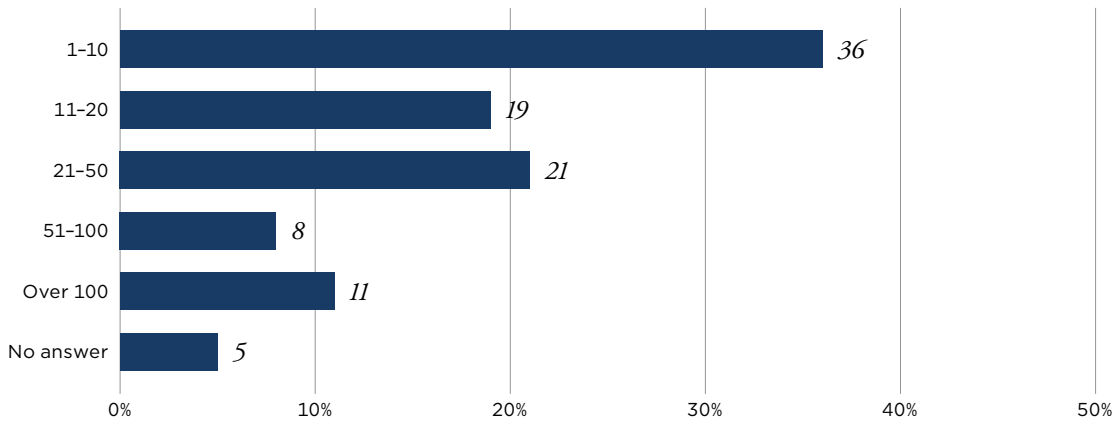
About a third of the companies, 36 per cent, have between 1 and 10 suppliers abroad. This means that an overwhelming majority of companies have more than 10 foreign suppliers. A considerable share of the companies, 11 per cent, have more than 100 suppliers overseas.

Among the smaller medium-sized companies with 50–99 employees, almost half have 1–10 suppliers abroad, while the share of companies that have more than 100 is just 3 per cent. For the large companies the corresponding shares are 14 and 33 per cent respectively. A considerable share of companies in electrical equipment, machinery, chemicals and pharmaceuticals and the automotive sector have more than 100 suppliers abroad, which is not the case in other industries. Companies in basic industries, for example wood and paper, steel and metals, consistently have fewer overseas suppliers by comparison.



## WIDESPREAD SOURCING OF INTERMEDIATE GOODS FROM ABROAD

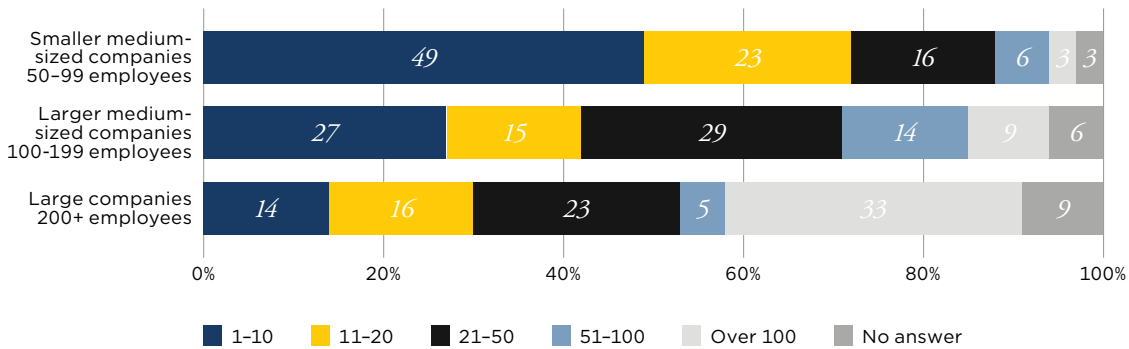
Manufacturing companies' overseas suppliers of intermediate goods:  
Number of suppliers, share of answers, per cent



*Question: Approximately how many foreign suppliers of intermediate goods does your company source from for operations in Sweden?*

## LARGE COMPANIES RELY ON MANY SUPPLIERS

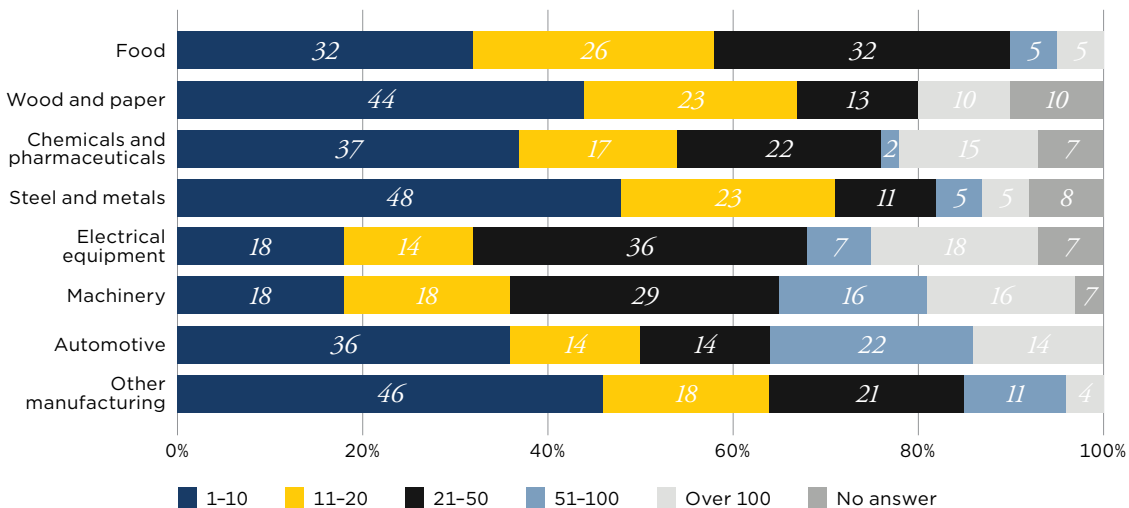
Manufacturing companies' overseas suppliers of intermediate goods:  
Number of suppliers, share of answers, per cent



*Question: Approximately how many foreign suppliers of intermediate goods does your company source from for operations in Sweden?*

## FEWER FOREIGN SUPPLIERS IN BASIC INDUSTRIES

Manufacturing companies' overseas suppliers of intermediate goods:  
Number of suppliers, share of answers, per cent



*Question: Approximately how many foreign suppliers of intermediate goods does your company source from for operations in Sweden?*

*Swedish manufacturers are increasingly exposed to foreign suppliers, as the share of purchasing of intermediate goods from abroad increases for operations in Sweden. However, the pace at which companies choose foreign suppliers will slow in the next three years.*

# INTERMEDIATE GOODS FROM SWEDEN AND ABROAD

The survey shows that 39 per cent of the companies have increased their purchases of inputs from suppliers abroad as a share of the total purchases of inputs for operations in Sweden in the last three years. Only 11 per cent of the companies have reduced their overseas purchases. This indicates that Swedish manufacturers have increased their exposure to suppliers abroad relative to their exposure to suppliers in Sweden. At the same time, 47 per cent of the companies state that the balance between purchases abroad and in Sweden has remained unchanged in the last three years.

Over the next three years, companies' exposure to suppliers abroad is expected to increase further, albeit at a slower rate. Roughly a third of the companies, 36 per cent, confirm that purchases abroad will increase. The share of companies stating that purchases abroad will decrease amounts to 18 per cent, while 39 per cent of companies are expected to have an unchanged distribution of purchases overseas and in Sweden.

A closer examination reveals that it is mainly the smaller medium-sized companies, 44 per cent in this size category, that have increased their purchases of intermediate goods from foreign suppliers in the last three years. Of the large companies,

27 per cent have increased their purchases, while a considerable majority of these companies, just over 60 per cent, report that their purchases from abroad have remained unchanged.

In the next three years, medium-sized companies are expected to continue to increase their purchases from overseas more so than large companies. For all size categories, the percentage of companies expected to reduce their purchases from abroad is rising. Of the large companies, 23 per cent will reduce purchases from foreign suppliers in the next three years.

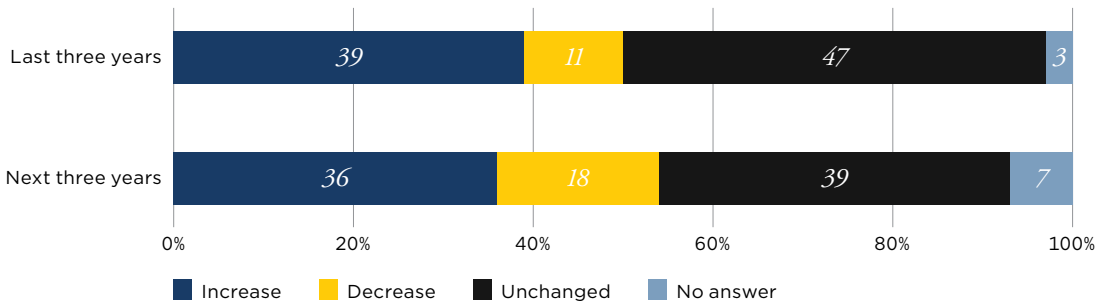
It is mainly in the machinery industry and in chemicals and pharmaceuticals that companies have increased their purchases of intermediate goods from abroad in the last three years. A larger proportion of companies in electrical equipment and the food sector have reduced their purchases, more so than other industries.

In the next three years, a growing proportion of companies in the wood and paper industry, food and electrical equipment will increase their purchases of input goods from overseas. At the same time, 15-20 per cent of companies in all industries will reduce their purchases abroad, with the exception of the automotive sector where only 7 per cent of companies will reduce their purchases.



## INCREASED EXPOSURE TO OVERSEAS SUPPLIERS

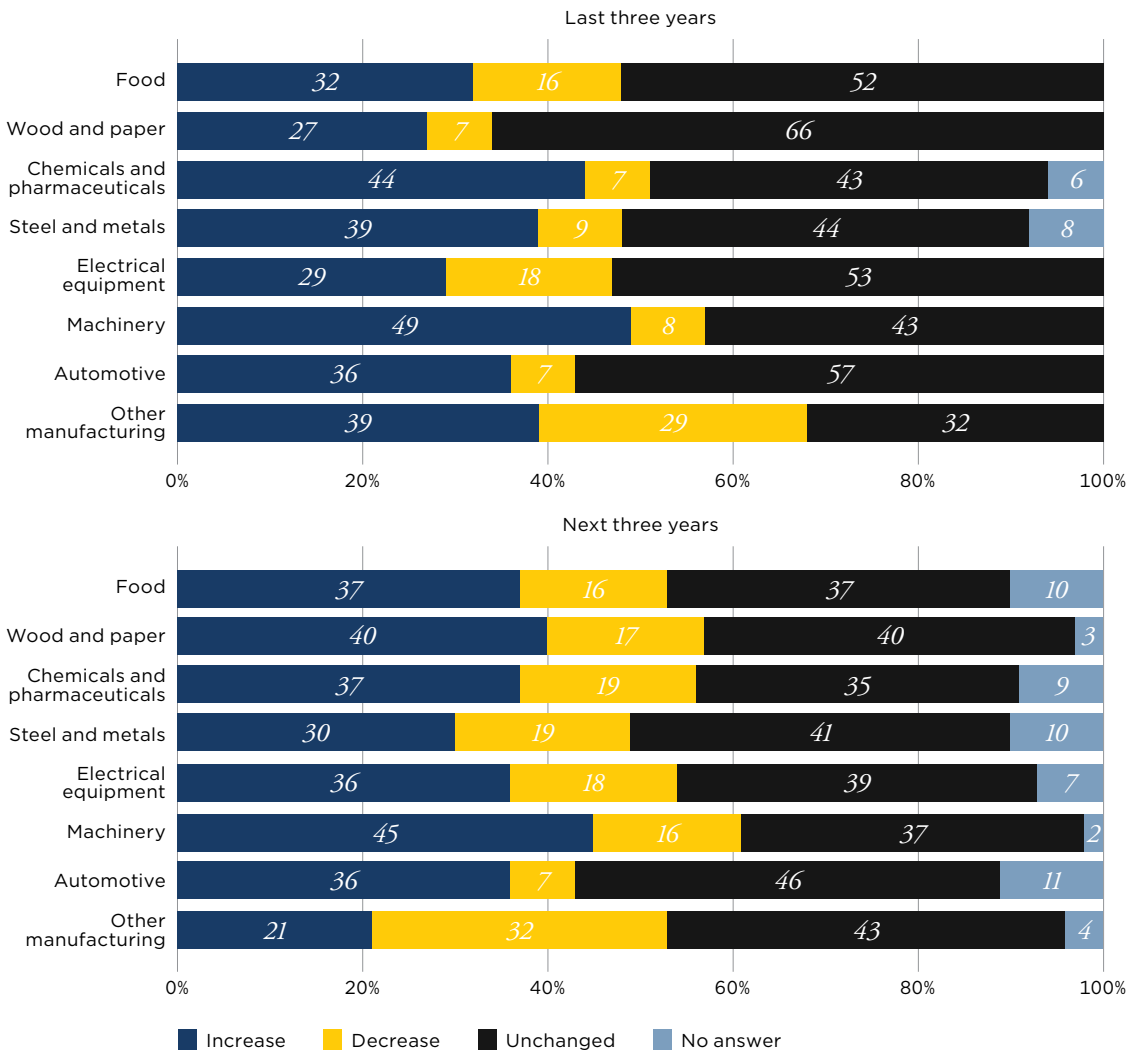
Manufacturing companies' sourcing of intermediate goods abroad:  
Change in purchasing, share of answers, per cent



*Question: In the last three years, has your company increased or decreased its purchasing of intermediate goods from suppliers abroad, as a share of total purchases of intermediate goods for operations in Sweden?*

## THE MACHINERY INDUSTRY LEADS SHIFT TO OVERSEAS SUPPLIERS

Manufacturing companies' sourcing of intermediate goods abroad:  
Change in purchasing, share of answers, per cent



*Question: In the last three years, has your company increased or decreased its purchasing of intermediate goods from suppliers abroad, as a share of total purchases of intermediate goods for operations in Sweden?*

*Question: In the next three years, will your company increase or decrease its purchasing of intermediate goods from suppliers abroad, as a share of total purchases of intermediate goods for operations in Sweden?*



*The foreign suppliers of intermediate goods to Swedish manufacturers are mainly located in Western Europe followed by Central and Eastern Europe. As much as half of the companies have suppliers in China. A fourth of the companies have suppliers in the US.*

# WHERE SUPPLIERS ARE BASED

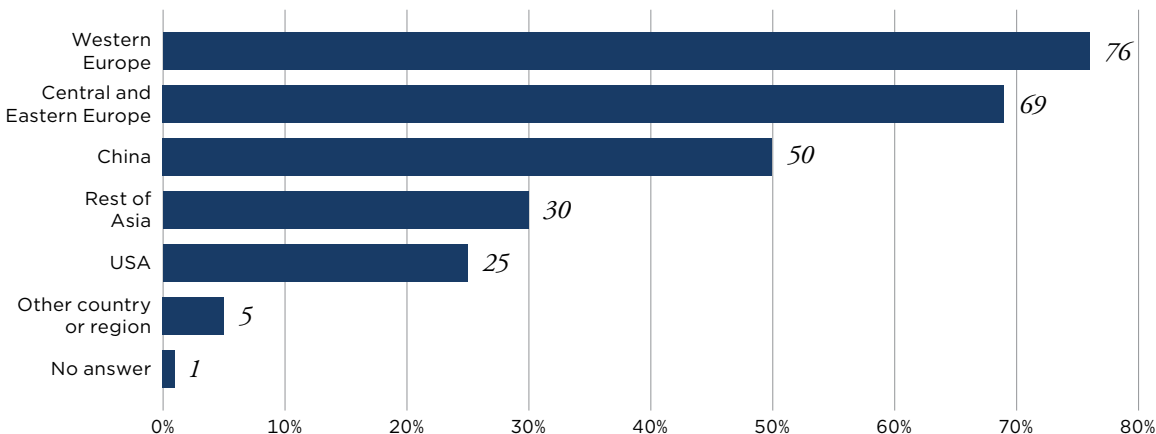
The survey shows that a very large share, 76 per cent, of Swedish manufacturers source their intermediate goods from suppliers based in Western Europe. An almost equally large share of manufacturers have sub-suppliers in Central and Eastern Europe. No less than 50 per cent of the companies source intermediate goods from China, while 30 per cent of companies have suppliers in other parts of Asia. A fourth of the respondents have suppliers in the US.

Around three-quarters of Swedish manufacturers source their intermediate goods from suppliers in multiple countries and regions for their operations in Sweden. The remaining share, 26 per cent, have sub-suppliers in one and the same region.

The distribution of companies that have suppliers in one, two or three regions is fairly even, each region accounting for approximately a fourth of the respondents, while 17 per cent of companies have sub-suppliers in four regions. Only 8 per cent of the companies have sub-suppliers in 5 or 6 identified countries or regions.

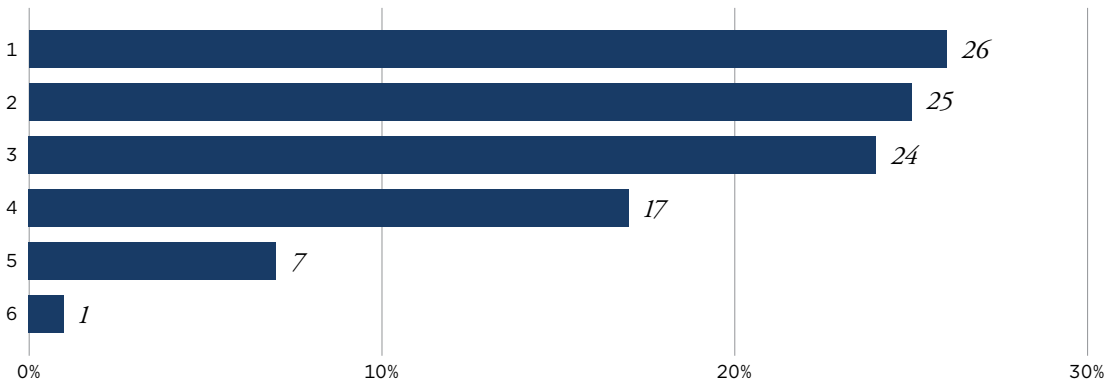
## EUROPEAN SUPPLIERS IN FAVOURED POSITION

Manufacturing companies' overseas suppliers of intermediate goods: Identified countries and regions, share of answers, per cent



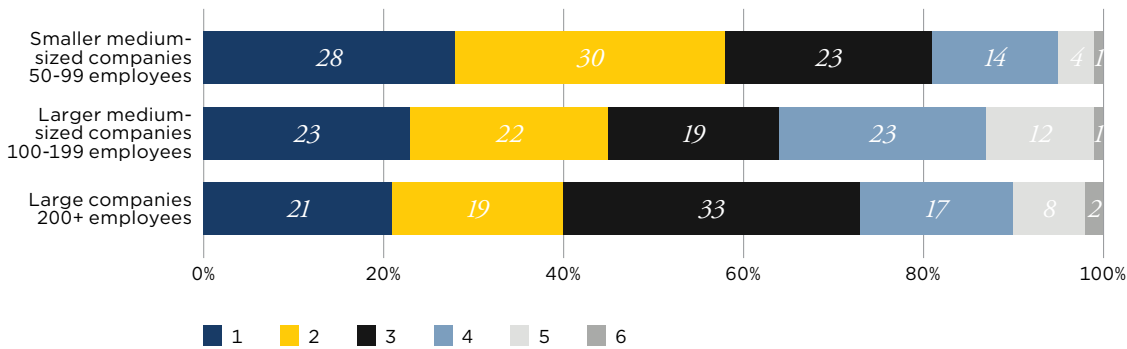
*Question: In which countries and regions are your company's suppliers of intermediate goods for operations in Sweden located? Choose one or several alternatives.*

**SUPPLIERS IN SEVERAL REGIONS THE MOST COMMON SET-UP**  
 Manufacturing companies' overseas suppliers of intermediate goods:  
 Number of identified countries and regions, share of answers, per cent



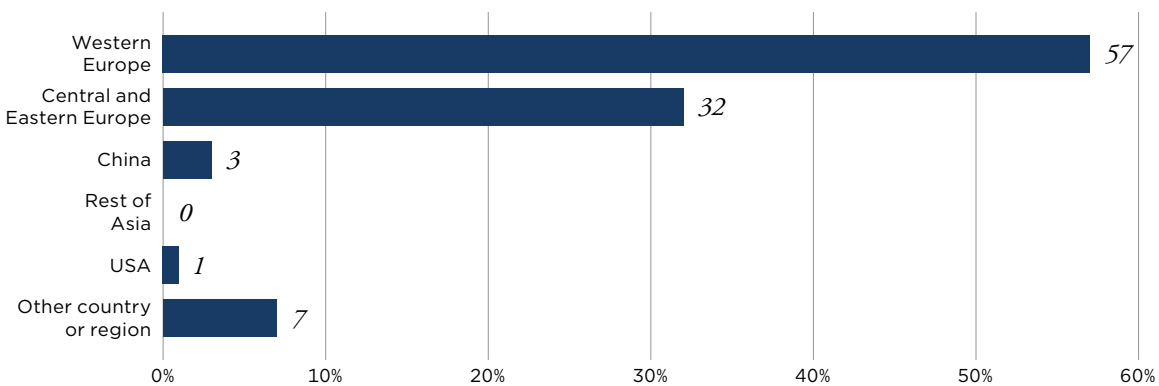
*Question: In which countries and regions are your company's suppliers of intermediate goods for operations in Sweden located? Choose one or several alternatives.*

**EMPHASIS ON THREE SUPPLIER REGIONS AMONG LARGE COMPANIES**  
 Manufacturing companies' overseas suppliers of intermediate goods:  
 Number of identified countries and regions, share of answers, per cent



*Question: In which countries and regions are your company's suppliers of intermediate goods for operations in Sweden located? Choose one or several alternatives.*

**WESTERN EUROPE IS THE FIRST CHOICE**  
 Manufacturing companies' overseas suppliers of intermediate goods:  
 Localisation of suppliers in one chosen country or region only, share of answers, per cent



*Question: In which countries and regions are your company's suppliers of intermediate goods for operations in Sweden located? Choose one or several alternatives.*

For companies with sub-suppliers in just one region, Western Europe is the clear first choice, with Central and Eastern Europe following close behind in second place. Only 3 per cent of these companies have suppliers in China, and 1 per cent have suppliers in the US.

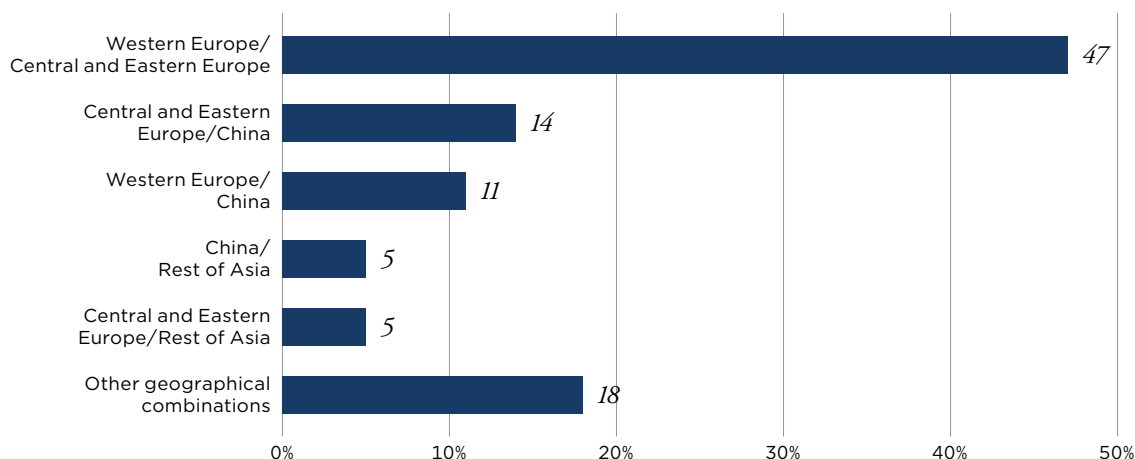
For companies that have supplier networks in two regions, these suppliers are usually located in Western Europe and Central and Eastern Europe. Another fairly common set-up is also that suppliers

are located in either Western Europe or Central and Eastern Europe as well as China.

The most common set-up for companies that spread their suppliers across three regions is that they are located in Western Europe and Central and Eastern Europe and China. Almost half of the companies with suppliers in three regions have chosen this combination of supplier markets, which is particularly common in the automotive and electrical equipment sectors.

### COMBINED FOCUS ON WESTERN AND EASTERN EUROPE

Manufacturing companies' overseas suppliers of intermediate goods: Localisation of suppliers in two chosen countries or regions, share of answers, per cent



*Question: In which countries and regions are your company's suppliers of intermediate goods for operations in Sweden located? Choose one or several alternatives.*

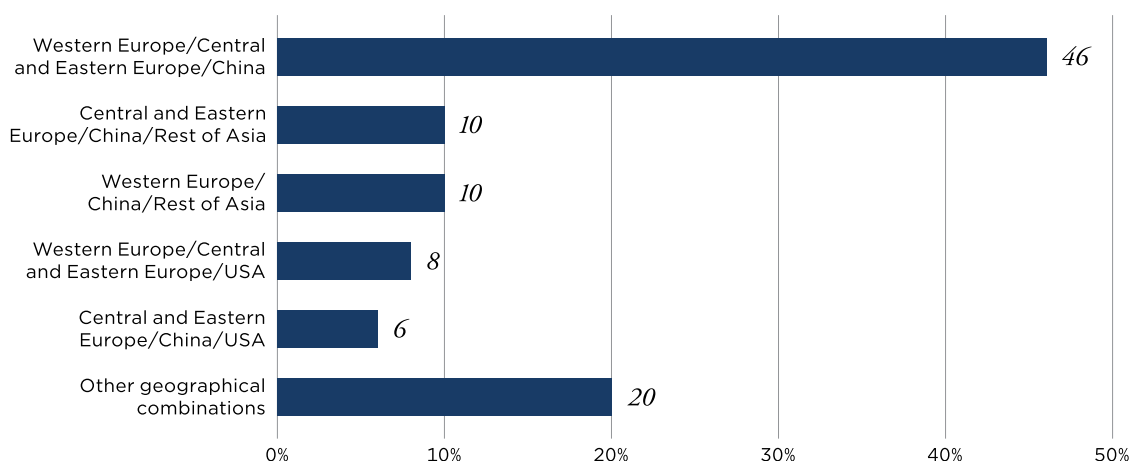
For companies with sub-suppliers in four regions, the most common combination is that they are found in Western Europe, Central and Eastern Europe, China and Rest of Asia. Almost as common is a combination where the US replaces Rest of Asia.

A closer examination of the results shows that

large companies have suppliers in three regions to a significantly higher degree than medium-sized companies, and to a lesser extent have suppliers in one or two regions. Given the often widespread presence of large companies in global markets, this is an expected and reasonable finding.

### EUROPE AND CHINA A STRONG COMBINATION

Manufacturing companies' overseas suppliers of intermediate goods: Localisation of suppliers in three chosen countries or regions, share of answers, per cent



*Question: In which countries and regions are your company's suppliers of intermediate goods for operations in Sweden located? Choose one or several alternatives.*

*Many Swedish manufacturers have increased their purchasing of intermediate goods from suppliers in Europe in the last three years, while simultaneously scaling back purchasing from China. This development will intensify in the next three years.*

# HOW THE GEOGRAPHY OF SUPPLIER NETWORKS HAS CHANGED OVER TIME

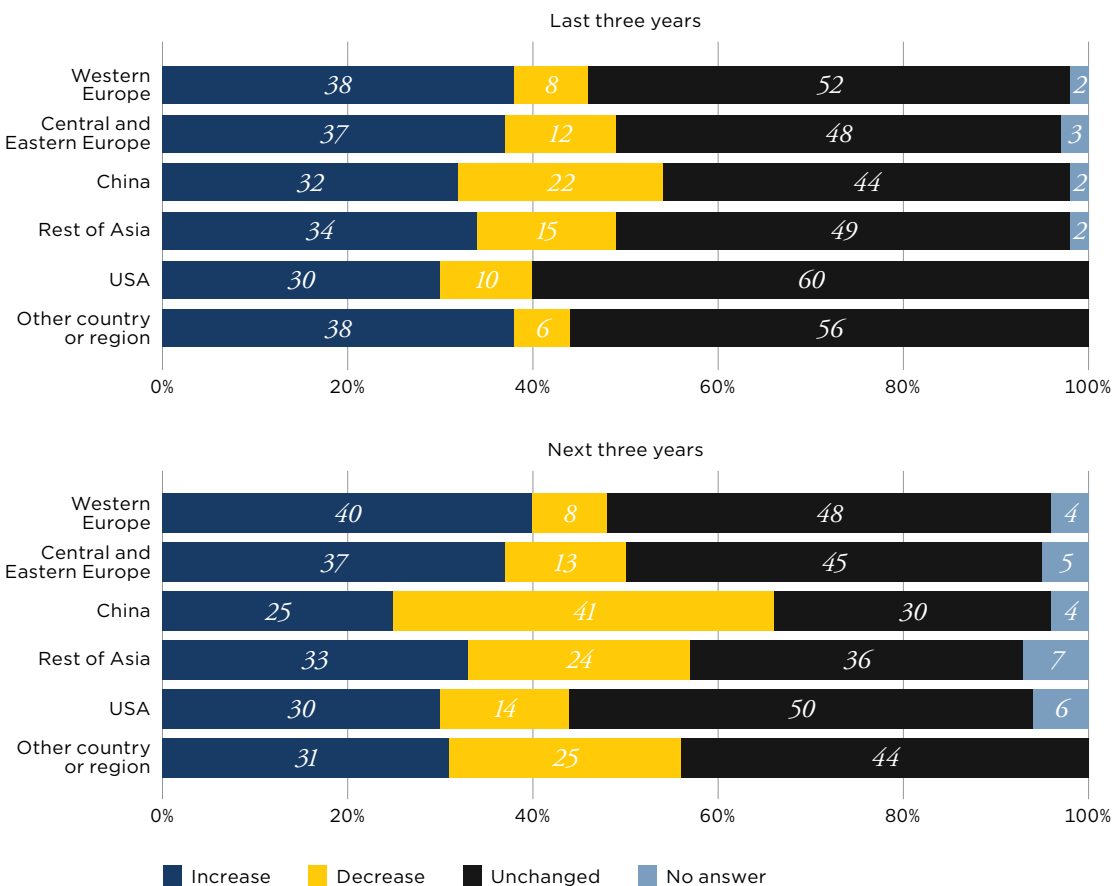
The survey results show that 38 per cent of companies have increased their purchasing of intermediate goods from Western Europe, as a share of total purchases of intermediate goods in the last three years, while only 8 per cent have decreased purchasing from this region. Almost an equal proportion of companies, 37 per cent, state that they have increased purchasing from sub-suppliers in Central and Eastern Europe.

Almost a third of the companies confirm that they have increased purchasing from China. At the same time, no less than 22 per cent report that they

have decreased purchasing from China. Just over a third of the companies state that they have increased purchasing from Rest of Asia, and 15 per cent have decreased purchasing from this region. The share of companies that have increased purchasing in the US remains at 30 per cent. But a smaller percentage of companies – 10 per cent – confirm that have reduced purchasing from the US. The findings for the US are nevertheless characterised by the fact that a large proportion of companies, as much as 60 per cent, state that purchasing levels have remained unchanged over the past three years.

## SUPPLIER NETWORKS IN CHINA ARE INCREASINGLY SCALED BACK

Manufacturing companies' overseas suppliers of intermediate goods: Change in purchasing, share of answers, per cent

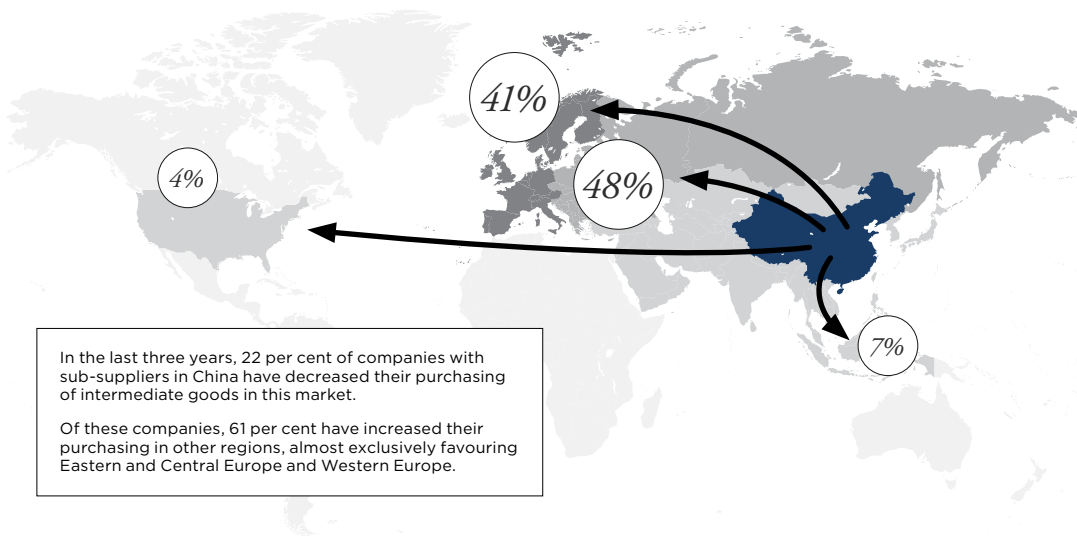


*Question: In the last three years, has your company increased or decreased purchasing of intermediate goods in the countries or regions mentioned, for operations in Sweden?*

*Question: In the next three years, will your company increase or decrease purchasing of intermediate goods in the countries or regions mentioned, for operations in Sweden?*

## PURCHASING FROM SUPPLIERS IN CHINA SHIFTS TO EUROPE

Manufacturing companies' overseas purchasing of intermediate goods: Increase in purchasing, share of answers by countries and regions, per cent



*Question: In the last three years, has your company increased or decreased purchasing of intermediate goods from sub-suppliers in the countries or regions mentioned, for operations in Sweden?*

The companies' views of purchasing from overseas suppliers in the next three years indicate that the trend towards a growing role for Western Europe and Central and Eastern Europe will continue. The major change going forward is that a shrinking share of companies foresee an increase in purchasing from China, while no less than 41 per cent of companies are predicting decreased purchases in this market.

There is a clear link between decreased purchasing in China and increased purchasing in Europe. The survey shows that 61 per cent of companies that have reduced purchasing in China in the last three years have increased purchasing in another country or region. Over the next three years, the share of companies reducing purchasing in China while increasing purchasing elsewhere will increase to 74 per cent. Both historically and looking forward, suppliers in Central and Eastern Europe as well as Western

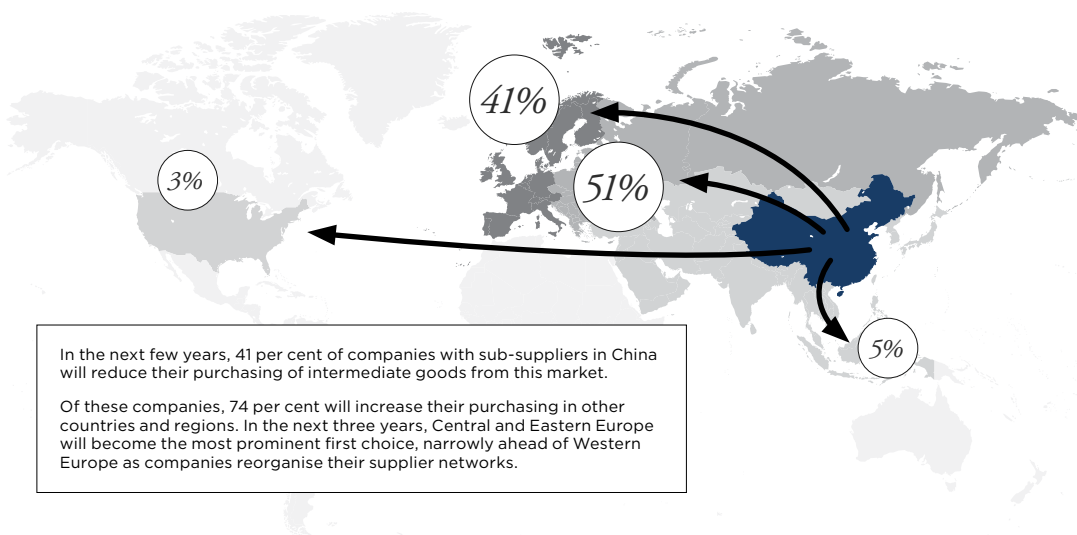
Europe reap the benefits of the companies' reallocation of purchasing from suppliers in China. More than half of these companies are expected to increase their purchasing in Central and Eastern Europe in the next three years, while roughly 40 per cent of companies will increase their purchasing in Western Europe. Only a small percentage of companies will shift purchasing to Rest of Asia or the US.

A closer examination of the findings shows that it is mainly medium-sized companies that are redistributing purchasing in China to suppliers in Europe. This reallocation applies particularly to companies in the electrical equipment, machinery and steel and metals industries.

As such, this trend points toward increased purchasing of intermediate goods from suppliers in Europe, to some extent at the expense of suppliers in China.

## EASTERN EUROPE THE WINNER IN UPCOMING SUPPLY CHAIN SHIFT

Manufacturing companies' overseas purchasing of intermediate goods: Increase in purchasing, share of answers by countries and regions, per cent



*Question: In the next three years, will your company increase or decrease purchasing of intermediate goods from sub-suppliers in the countries or regions mentioned, for operations in Sweden?*

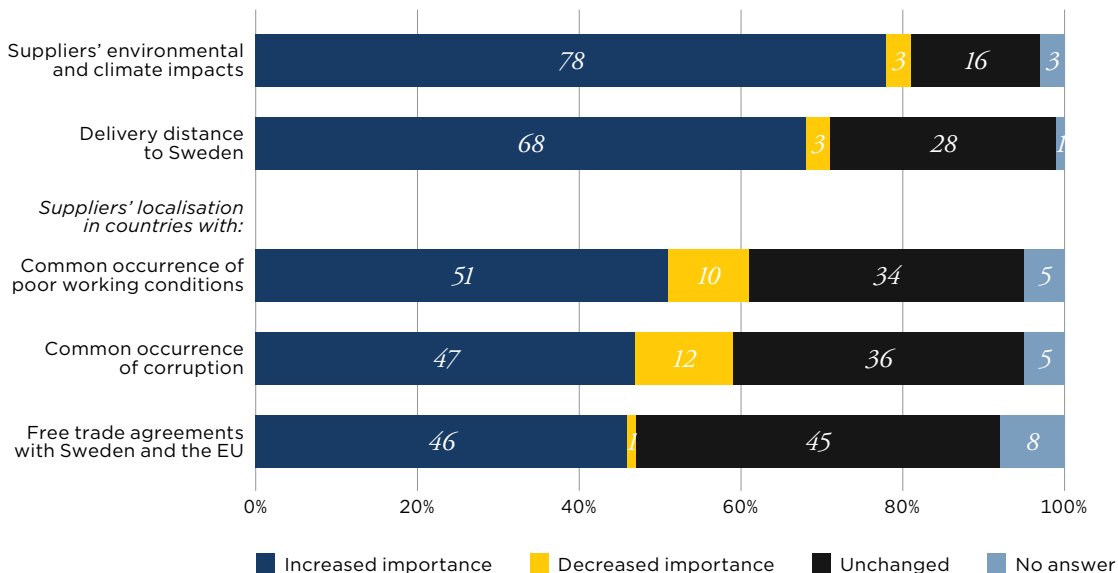
*The environmental and climate impacts of suppliers and delivery distance to Sweden will increasingly govern how companies choose suppliers in the future.*

# CHOOSING THE RIGHT SUPPLIERS

The survey uncovers several key factors that will have a greater influence on where companies choose to source intermediate goods in the next three years. Almost 80 per cent of respondents state that the issue of environmental and climate impacts of suppliers will be more important. Around 70 per cent of companies recognise that

shorter delivery distances to Sweden will be important. Half of the companies believe that countries where corruption and poor working conditions are common will be more strictly assessed. And half of the respondents put greater emphasis on the role of free trade agreements with Sweden and the EU in the future.

**RISING IMPORTANCE OF SUPPLIERS' ENVIRONMENTAL AND CLIMATE FOOTPRINT**  
 Manufacturing companies' overseas purchasing of intermediate goods:  
 Change in decision factors, share of answers, per cent



*Question: In the next three years, will the following factors play a greater or smaller role in your company's selection of sub-suppliers of intermediate goods overseas for operations in Sweden?*

# HOW THE SURVEY WAS CONDUCTED

Business Sweden gave the analyst firm Origo Group the assignment of mapping where Swedish manufacturers make their overseas purchasing of intermediate goods for production in Sweden, and how the distribution of purchasing between identified countries and regions is changing over time.

The target group for the survey is Swedish and foreign-owned companies with manufacturing or assembly operations in Sweden who source intermediate goods from sub-suppliers abroad. The companies have a minimum of 50 employees in Sweden, which means that small companies are not represented in the survey. The register was commissioned by Statistics Sweden and comprised, after a revision and net-selection, some 1,400 companies.

The survey was carried out via telephone interviews with purchasing managers or equivalent representatives at the participating companies between 16 May and 16 June, 2022. The respondents answered a list of 9 multiple choice questions formulated by Business Sweden. A total of 302 companies took part in the survey.

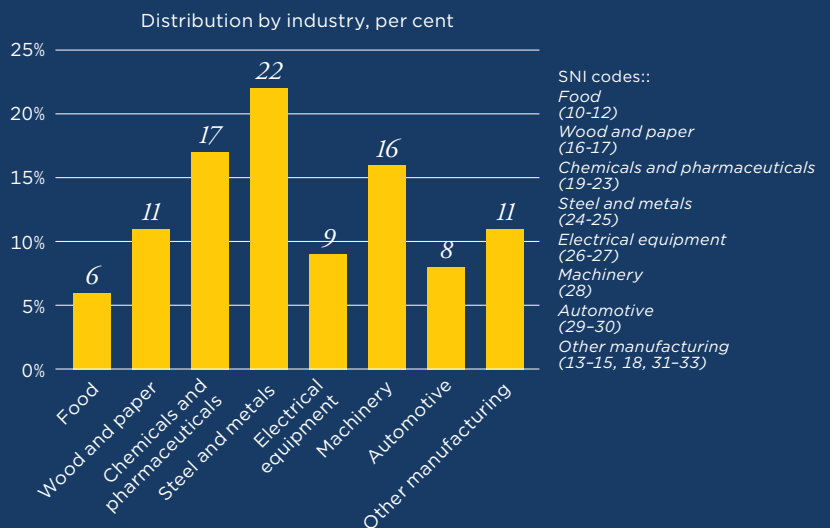
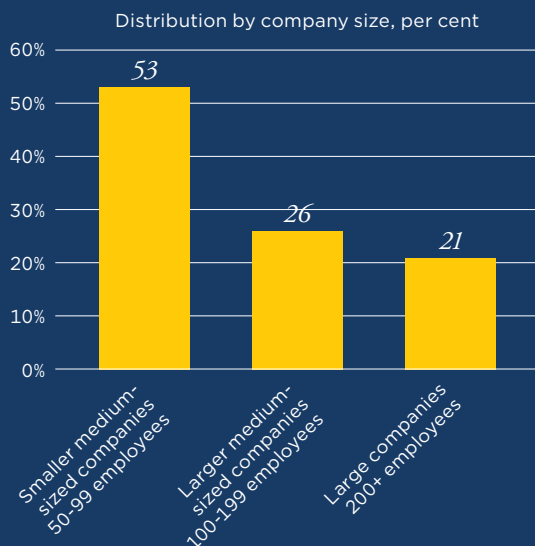
In the analysis of the survey results, Business Sweden has categorised the companies by industry based on their registered SNI codes (the Swedish

Standard Industrial Classification). All participating companies in the survey are from the manufacturing sector (SNI 10-33), in one of the following industries: Food (10-12), Wood and paper (16-17), Chemicals and pharmaceuticals (19-23), Steel and metals (24-25), Electrical equipment (26-27), Machinery (28), Automotive (29-30) and Other manufacturing (13-15, 18, 31-33).

In addition, Business Sweden divides the companies into three size groups based on the number of employees in Sweden, according to data from Statistics Sweden. This categorisation is carried out to enable separate reporting of the survey results to smaller medium-sized companies with 50-99 employees, larger medium-sized companies with 100-199 employees and large companies with 200 or more employees. Access to the respondents' individual answers throughout the survey has enabled Business Sweden to provide deeper analysis of the findings. This makes it possible to, for example, monitor how the companies reallocate their purchasing of intermediate goods between different countries and regions over time. The identities of the respondents have been anonymised by Origo Group.

## BUSINESS SWEDEN'S SURVEY ON SUPPLY CHAIN NETWORKS

Participants: 302 companies





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