BUSINESS SWEDEN

WHEN COMPANIES INVEST

SWEDEN IN THE GLOBAL MARKET FOR DIRECT INVESTMENT

INDEX

FOREWORD

SWEDEN – AN OPPORTUNITY FOR FOREIGN INVESTORS

Sweden is a small, open economy that needs foreign markets and foreign direct investment (FDI). Through the provision of capital, competencies and global networks, our internationalised industry contributes to growth and employment, ensuring that Sweden can remain at the forefront of global competition. The mere presence of foreign companies in Sweden increases the pressure on domestic companies to innovate and grow.

Foreign direct investment is a cornerstone of the Swedish economy, which is clearly illustrated by the fact that foreign companies account for almost half of Sweden's exports. Consequently, it is a key focus area for political decision-makers and many other players. It is thanks to our investment-friendly climate that we are able to compete for capital and competencies in the global arena.

Business Sweden is responsible for Sweden's investment promotion programme. Our assignment is to promote, and therefore increase, foreign investment in Sweden with the emphasis on investments that create the greatest value for the Swedish economy and where company-related investments can do the most good and make the biggest difference.

The strategy for investment promotion is to focus on areas that are both important for Sweden and attractive for international investors. These investments take many forms, such as new establishments, expansion investments, various types of business alliances and capital investment.

International interest in Sweden as an investment opportunity continues to be robust and has the potential to increase further, for example when it comes to large-scale data centers. Sweden has a good brand and is strongly associated with innovation, transparency and stability. These are important parameters for foreign investors, especially at this time when geopolitical uncertainty in the world is increasing. In this context, it is vital for Sweden that we present and market clear, cutting edge opportunities to international companies and other players so that they choose Sweden as the place to locate and conduct their businesses.

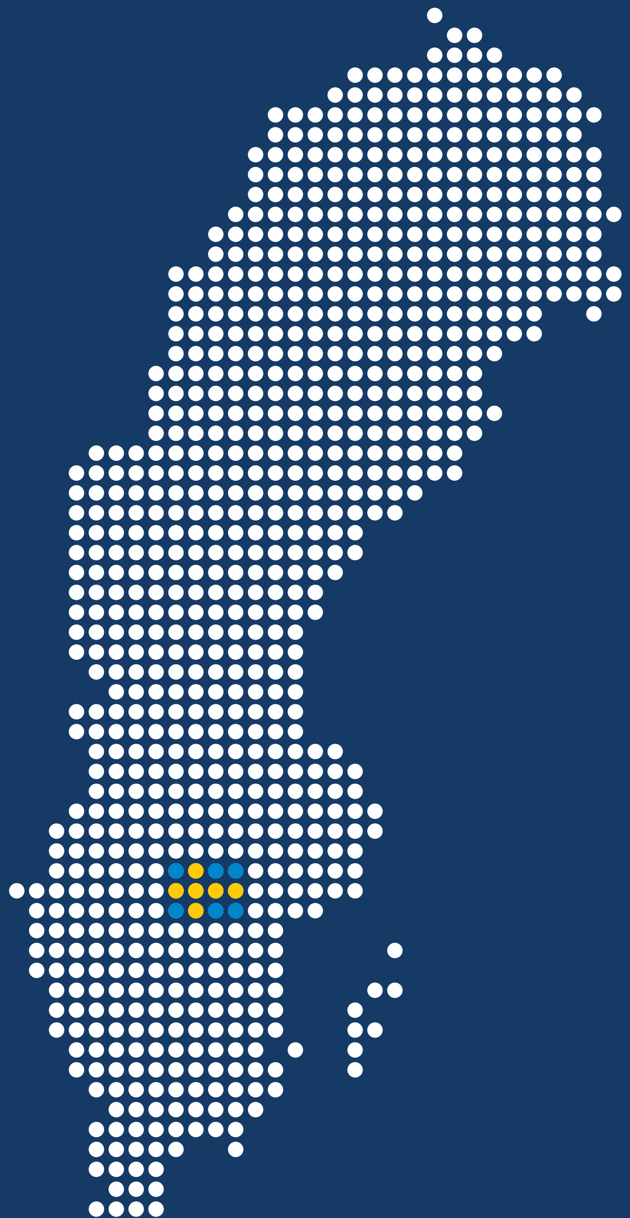
This report shows how foreign direct investment has developed from the 1990s, the era of radical change, to the present – both globally and in Sweden. It also illustrates the statistics with some examples of foreign companies that have recently decided to invest in Sweden. It highlights the correlation between the statistics and the practical, operative work that is under way to promote investment, and concludes with what we can expect for the future.

In an appendix there is more detailed information on how the statistics for foreign direct investment in Sweden are compiled. The figures give an overview of the foreign business interest in Sweden and Swedish companies and how this has changed over time and with fluctuations in the economy. At the same time, the growth in direct investment also reflects the structural changes that have taken place in the world economy and in Sweden during recent decades.

We hope that this report will be interesting reading and will contribute to the knowledge of how Sweden can strengthen its international competitiveness through the benefits of foreign direct investment. We strive to make Sweden a natural domicile for global companies.

ULRIKA CEDERSKOG SUNDLING
Executive Vice President
Invest, Business Sweden

LENA SELLGREN
Chief Economist
Business Sweden



EXECUTIVE SUMMARY

- Since the transformative 1990s, the conditions for international business have improved radically. The rapid development of IT, expanded communications and transport and the global capital market have all contributed to lowering the bar for foreign expansion. In addition, countries now make more effort, using various means, to attract foreign investment. At the same time, the current political opposition to globalisation has, to a certain extent, slowed down the continued internationalisation of the business community.

- Sweden, with its internationally competitive industry and favourable investment climate, is in a strong position to attract foreign investors, even if it has lost out somewhat in recent years to competing countries. In 2016, the flow of foreign direct investment (FDI) into Sweden amounted to SEK 104 billion, which is in line with the average for the period 2000–2016. Overall, foreign direct investment stock in Sweden amounted to SEK 2,625 billion, which represents 62 per cent of GDP. As yet, there are no reliable figures available for 2017.

- At the operative level, investment promotion organisations – in Sweden, Business Sweden – are working to attract foreign companies and make it easier for them to invest in and expand their businesses. The results are measured in the form of actual investments and expansion projects. Interesting foreign establishments in Sweden in 2017 include Amazon Web Services (US), HCL (India) and UNIQLO (Japan).

- Business Sweden's trend forecast suggests that global direct investment will be positively influenced by a continued, positive development of the world economy, the internationalisation of the business community in emerging markets and the increased presence of small and medium sized companies in the international marketplace. In the near future, the recently enacted US tax reform will have a powerful impact on FDI worldwide: A substantial tax break will provide American companies with an incentive to bring home profits from foreign businesses at the same time as the lowered corporate tax may attract foreign companies to the US.

- From a Swedish perspective, it is mainly the rapid internationalisation of Asia and the UK's impending exit from the EU (Brexit) that will open new doors for foreign investment.

INTERNATIONAL DIRECT INVESTMENT

THE BIG LIFT

Behind the decisions made by individual companies with regard to foreign investments there are primarily three types of motives: to access new markets, lower costs, and thereby increase productivity, or obtain access to strategic resources. In many cases there are several motives behind an investment decision, but they vary in importance in different situations. In this context, strategic resources include, for example, talent and competencies, research and development (R&D), technology, brands and patents as well as, in some industries, raw materials such as oil, gas, minerals, and even "green" energy. For most companies, the overriding motive behind foreign investment decisions is the constant drive for increased revenue and improved profitability.

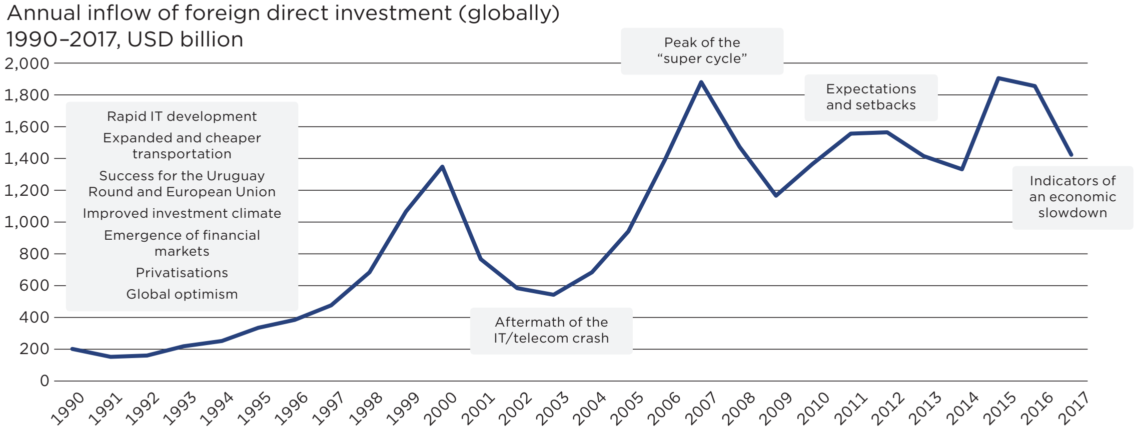
DIFFERENT COMPANIES, DIFFERENT NEEDS

How each foreign investment project is designed is based on a combination of factors. Apart from the reasons mentioned above, it depends on the company's internal prerequisites and the nature of the business, its competitor situation, and the prevailing conditions in different markets. Market driven, *horizontal investment* means that parts of the company's business in its home country are duplicated in one or more foreign markets.

Today's advanced technology, communications and transport also make it possible to break up the production of goods into their constituent parts and localise it geographically to countries and regions that offer good conditions for pricing, quality and availability. These primarily cost-driven *vertical investments* split the production process into different stages in the value chain and exploit synergies for profit as well as differences in costs (wages, interest etc) between countries.

In recent years, the pace of locating manufacturing to low cost countries has slowed, and in certain cases the whole process has been reversed. This so-called *re-shoring* is the result of increased

A PLATFORM FOR PROGRESS
Annual inflow of foreign direct investment (globally) 1990–2017, USD billion



Sources: UNCTAD; Business Sweden (2018)

automation, digitalisation, and the demand from the companies' customers for innovation capacity and rapid adaptability in production as well as in deliveries.

WHEN THE STARS WERE ALIGNED

The diagram on page 6 shows how global direct investment accelerated at the beginning of the 1990s through a combination of positive factors. The rapid development in information technology dramatically improved the possibilities for companies to effectively control and monitor their business activities abroad. Companies were able to introduce new, efficient business support systems and, at the same time, benefit from a fast, modernised and expanded infrastructure for the transport of people and goods in large parts of the world, with lower costs as a result. Outsourcing of production and other activities to low cost countries surged.

The multilateral trade negotiations in the so-called Uruguay Round were successfully concluded in 1995 with a wide-reaching and ground-breaking deal, which meant a dramatic lowering of customs tariffs and the phasing out of other trade barriers. In the same year, the World Trade Organization (WTO) was created with its headquarters in Geneva. The European Union was in the midst of a progressive, political process with the creation of the single market, with the aim of establishing the free movement of goods, services, people and capital. In many countries, extensive privatisation of previously state-owned businesses was carried out, which paved the way for new investment across national borders. Through technical development and comprehensive de-regulation, national banks and credit institutions became part of a global capital market.

From the fall of the Berlin wall in 1989 and little more than a decade later, investors were surfing on a wave of global optimism with a broad-based political consensus on the importance of successful companies and a positive business and investment environment. As the diagram above shows, global direct investment also soared with a seven-fold increase in volume from 1990 to the height of the global economic boom in 2007. Since then, the pace of growth has levelled out.

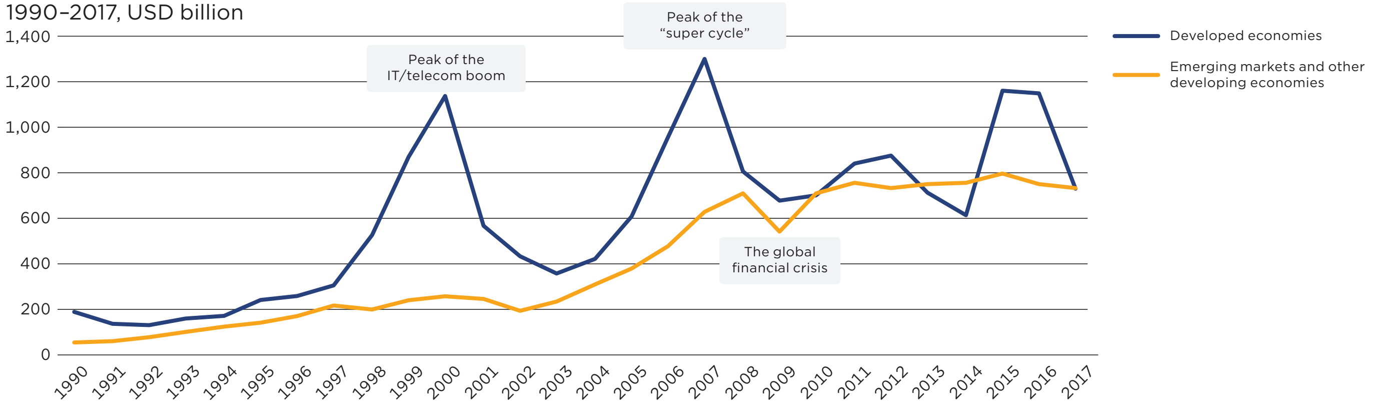
THE OPTIONS FOR ESTABLISHMENT

Companies expand abroad through the establishment of new subsidiaries or acquisition of existing companies and operations. A special case is when two companies of different nationality – often equal in size and market value – decide to merge. Establishing a new business can be anything from the opening of a smaller sales office to a large-scale investment, in, for example, a new production facility or research center. In practice, an establishment is often implemented in stages, where companies first get acquainted with the market and then successively evaluate different strategic alternatives before a larger investment takes place. A number of expansion investments can then follow the initial investment in order to increase the existing business or expand further into other areas.

The most common mode of entry in developing economies is through new entities followed by successive investments in new capacity, as the main motive for expansion usually is to take advantage of a new market (which can also be a platform for exports). Another reason is that emerging markets may offer fewer opportunities for acquisitions. Weaknesses in the regulatory system and lack of transparency mean that

PARALLEL EXPANSION

Annual inflow of foreign direct investment (globally) 1990–2017, USD billion



Sources: UNCTAD, Business Sweden (2018)

the acquisition of a local company can be a risky venture. Conversely, to access the markets of the OECD countries, acquisitions are the dominating form of cross-border establishment. In Western Europe, it is now quite rare for companies to start "from scratch" with a completely new production facility (a so-called *greenfield* investment). Instead, the most common mode of entry is to build up new capacity around an already existing operation.

The diagram on page 7 shows how foreign direct investment in developed countries as well as in emerging markets and other developing economies have accelerated. While investments in developing economies have mainly focused on establishing a presence and building up new manufacturing capacity, the peak years of 2000 and 2007 clearly show how an increased rate of acquisitions and high company valuations are reflected in the figures for foreign direct investment in advanced economies. The illustrations on the facing page illustrate the dramatic increase in many countries' foreign direct investment in relation to GDP between 1995 and 2017.

UPSIDES FOR SWEDEN

Foreign investment has contributed to the success of Swedish multinational companies and – in a number of industries – their strong global positions. The experiences gained from international markets have been instrumental in terms of developing domestic technical and organisational competence with an increase in productivity and greater efficiency as a result. Competitiveness at home has increased in parallel with competitiveness abroad. In an economy which has long been open to international trade, Swedish local competitors and suppliers have felt the push to innovate. This has led to positive results for the Swedish business community as a whole.

Foreign investments have proven to create good effects also for the host country's economy, primarily through the increase in productivity and the competitive pressure that new companies bring to the table. The dividing line here is not between foreign and domestic companies, but between national and multinational companies which become more effective through, for example, larger R&D resources, better educated personnel and access to a global manufacturing network. The productivity increases are realised irrespective of how the investment takes place. Academic research clearly indicates that national companies increase their productivity when they are acquired by multinational companies (domestic or foreign).

The socio-economic benefit also lies in the fact that the host country's companies and consumers get access to new goods and services of high quality. Many foreign company establishments are made in view of adapting their products to the local market. Transfer of knowledge to the local industry (so called *spillovers*) of parts of the foreign companies' strategic resources through information leaks, circulation of key personnel and copying, further contribute to the dynamics and growth in the host economy. The spillover effect varies from industry to industry and between economies in various stages of development. For Sweden, the spillover effect is clearly evident among start-up companies, which benefit from Sweden's broad range of competencies for this type of business and ability to quickly adopt the latest technologies and business models.

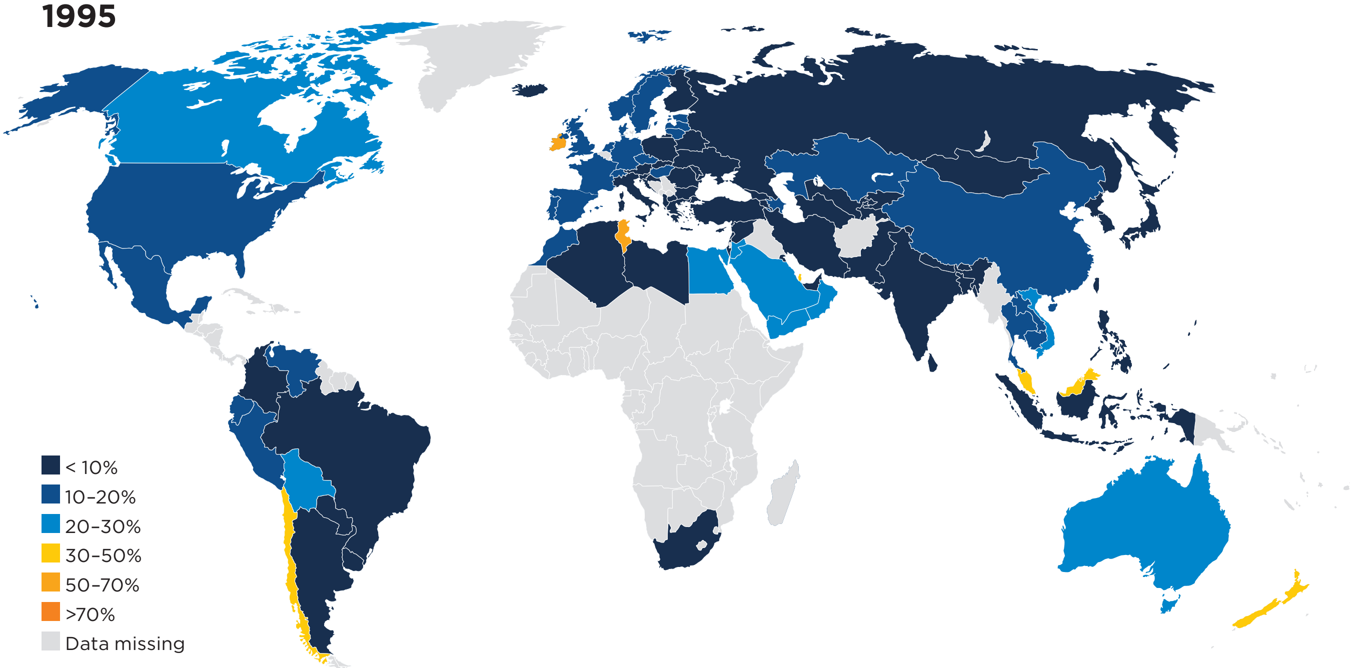
INVESTMENTS AND SOCIETY

Despite the fact that foreign investment brings productivity increases at both company and industry level, certain conditions must be in place in order for the economy of the host country to benefit as a whole. In general, the benefits from investments increase at a higher level of economic and institutional development, where the degree of export orientation and the finance market function also play a part. Research also confirms the rather obvious fact that the level of education is of great importance for the host country industry's ability to absorb advanced technology, ideas and innovations from foreign investors. A good absorption capacity in the economy for advanced technology contributes to increasing the country's growth rate. The more developed the social and physical infrastructure, the more the host countries benefit from foreign investment.

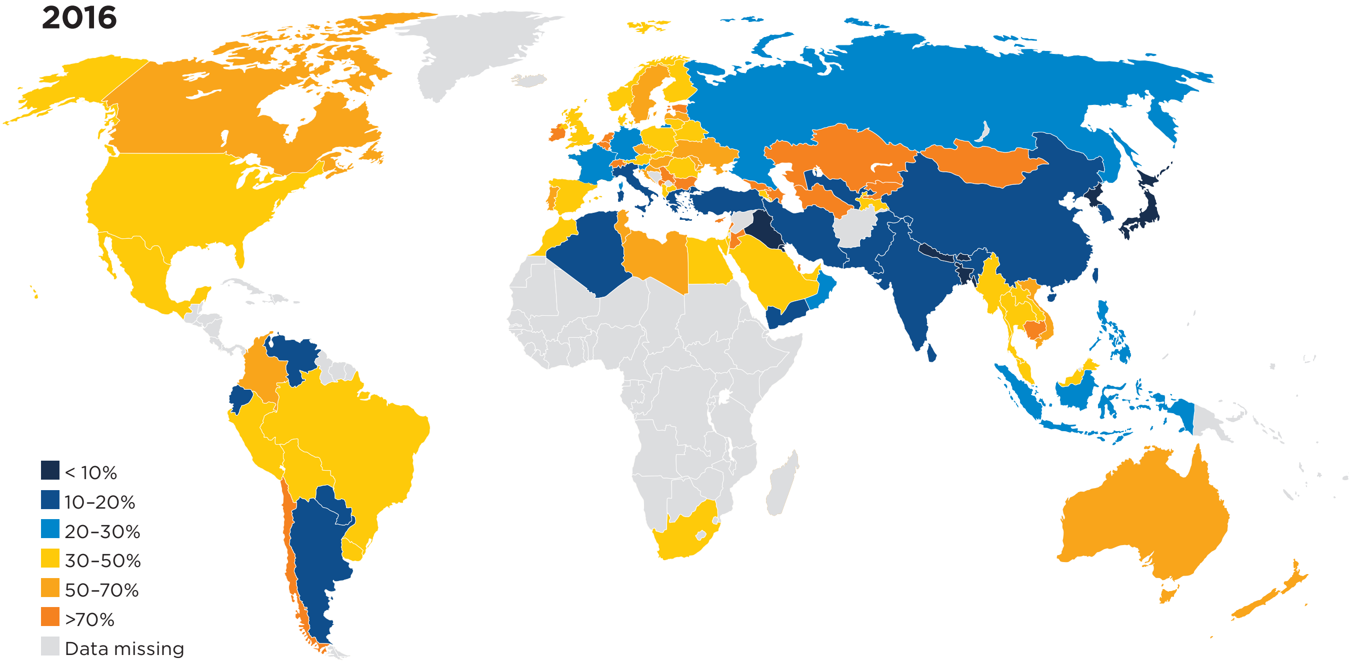
In terms of company acquisitions and mergers, the initial outcome depends on the qualities of the companies involved. But the subsequent development is influenced by the host country's environment and the possibilities to be able to develop the business further.

FOREIGN DIRECT INVESTMENT REFLECTS GLOBALISATION
Foreign direct investment stock as share of GDP, per cent

1995



2016



Sources: UNCTAD: Business Sweden (2018)

FOREIGN DIRECT INVESTMENT IN SWEDEN

THE ROAD TO THE TOP

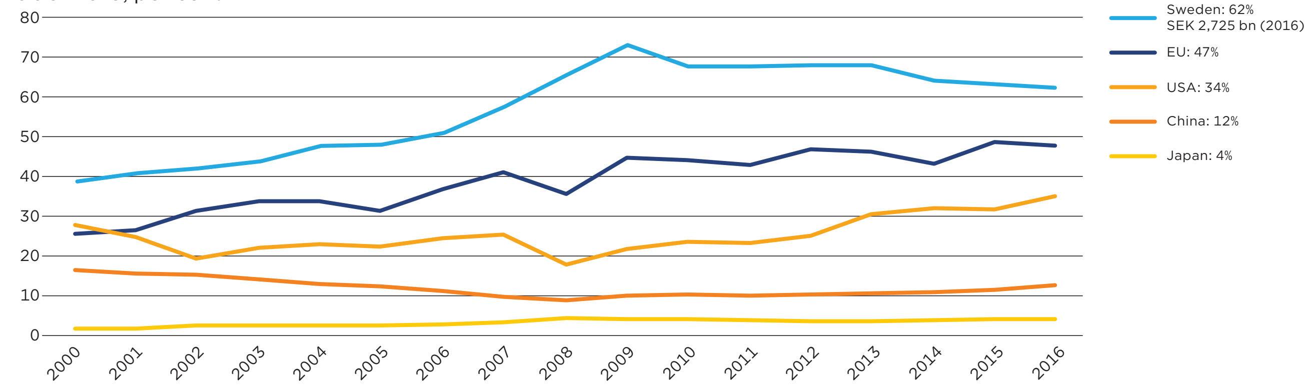
Since the middle of the 1990s, Sweden has been a significant host country for foreign direct investment. A large number of domestic and international factors (see previous chapter) interacted to promote an interest in Sweden among foreign investors. Sweden's membership in the EU in 1995 as well as a period of considerable deregulation and privatisation of previously state-controlled businesses, gave foreign companies new incentives to exploit the potential for investments in Sweden. The Swedish krona went through a period of depreciation, which made it more advantageous to acquire Swedish companies.

Several major transactions were conducted, among them the British pharmaceutical company Zeneca's acquisition of Astra (1999) and the acquisitions of the Swedish automotive companies, Volvo Personvagnar (Volvo Cars) by Ford (1999), and Saab Automobile by General Motors (2000). A range of structural reforms – which were carried out during the consolidation of Sweden's public finances at that time – simultaneously contributed to making Sweden's investment environment rank increasingly higher in international comparisons. This provided a solid platform for Sweden's possibilities to attract new foreign business establishments and expansion investments on a broad front.

As the diagram below illustrates, Sweden is today strongly internationalised in terms of the size of foreign direct investment stock in relation to GDP. The downward trend since 2009 is due to the fact that the foreign assets have only grown slowly at the same time as the Swedish economy has been in a period of strong growth. But in recent years Sweden has also declined in international indices on competitiveness – primarily due to shortcomings in the education system, infrastructure and in the labour and housing markets. Some studies indicate that Sweden's attractiveness to foreign investors has been somewhat diminished compared to other countries in the Nordic region and Western Europe.

SWEDEN STILL ATTRACTIVE

Foreign direct investment stock as share of GDP 2000–2016, per cent



Sources: UNCTAD; Statistics Sweden; Business Sweden (2018)

THE ECONOMY IN THE DRIVING SEAT

The structural prerequisites for international business have, in combination with Sweden's domestic attractiveness, contributed to the strong increase in the presence of foreign businesses. But the level of annual foreign direct investment inflows in Sweden also rises and falls in line with the economic cycle. The varying investment levels reflect the fact that companies tend to expand their activities and take on new markets in good times (when prices are also often higher), while their enthusiasm for foreign expansion cools when times are worse.

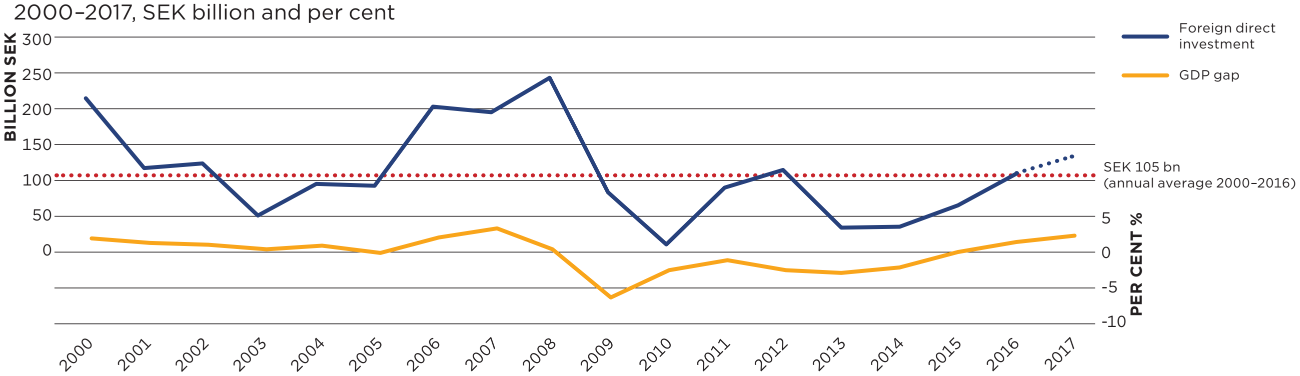
The diagram below shows how the annual volumes of foreign direct investment in Sweden vary with the so-called GDP gap, which shows the difference between actual and potential GDP. When the curve is above the zero mark, Sweden's economy is in an expansionary phase, and vice-versa. Foreign direct investment in Sweden amounted to SEK 104 billion in 2016, which is average for the period 2000–2016. At the time of writing of this report, there was still no reliable figure for 2017.

As the diagram at the bottom of this page shows, it is mainly companies from the Nordic region and other major European countries that have a presence in Sweden. The importance of American companies has diminished over the past decade, whereas Asian companies – primarily Chinese and Indian – have increased their presence in Sweden considerably over the same time period, albeit from low levels.

It should be noted that holding companies in primarily Luxemburg and the Netherlands appear, on paper, to be major investors in Sweden, but that in most cases, the controlling parent company is located somewhere else, sometimes even in Sweden. Statistics Sweden has made a survey of foreign, so-called *Special Purpose Entities*, which are enterprises that are created for other purposes than operating a business, for tax reasons for example. In 2015, the foreign direct investment stock held by such enterprises in Sweden amounted to SEK 185 billion, which is 8 per cent of the total.

INVESTMENTS TAIL THE ECONOMY'S PERFORMANCE

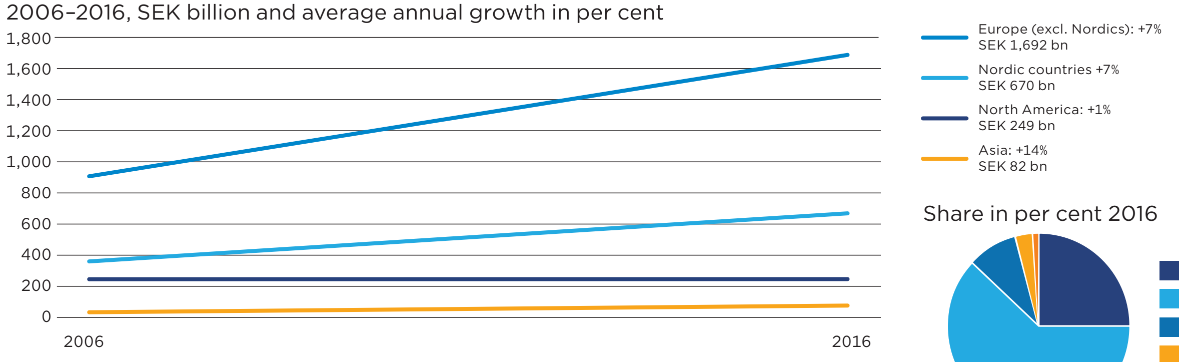
Annual inflows of foreign direct investment and GDP gap in Sweden 2000–2017, SEK billion and per cent



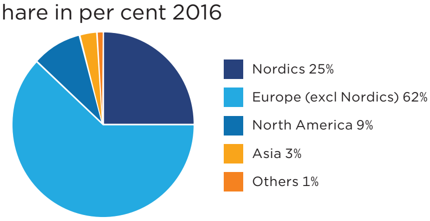
Sources: Statistics Sweden; National Institute of Economic Research; Business Sweden (2018).

EUROPEAN COMPANIES DOMINATE

Foreign direct investment stock in Sweden 2006–2016, SEK billion and average annual growth in per cent



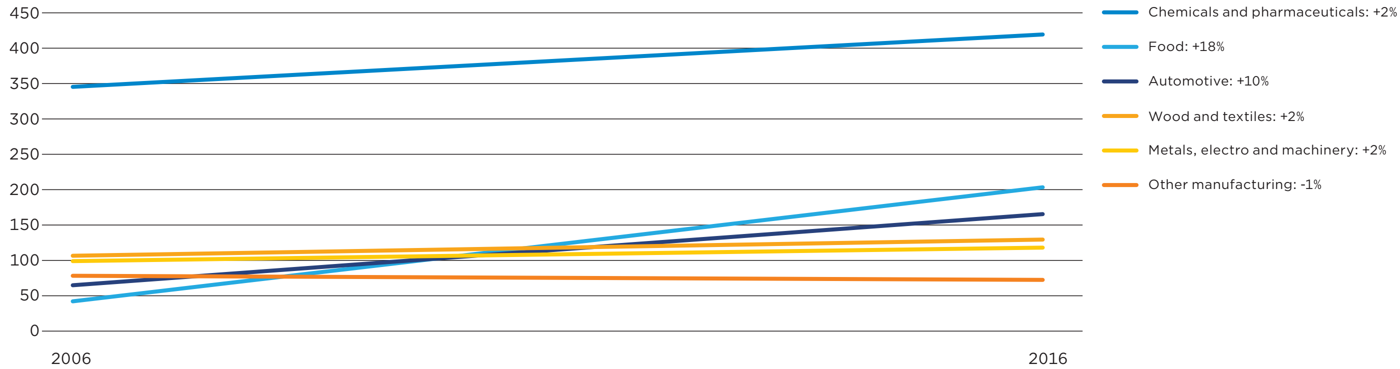
Share in per cent 2016



Note: Total foreign direct investment stock in Sweden amounted to SEK 2,725 bn in 2016; all calculations in current prices
Sources: Statistics Sweden; Business Sweden (2018)

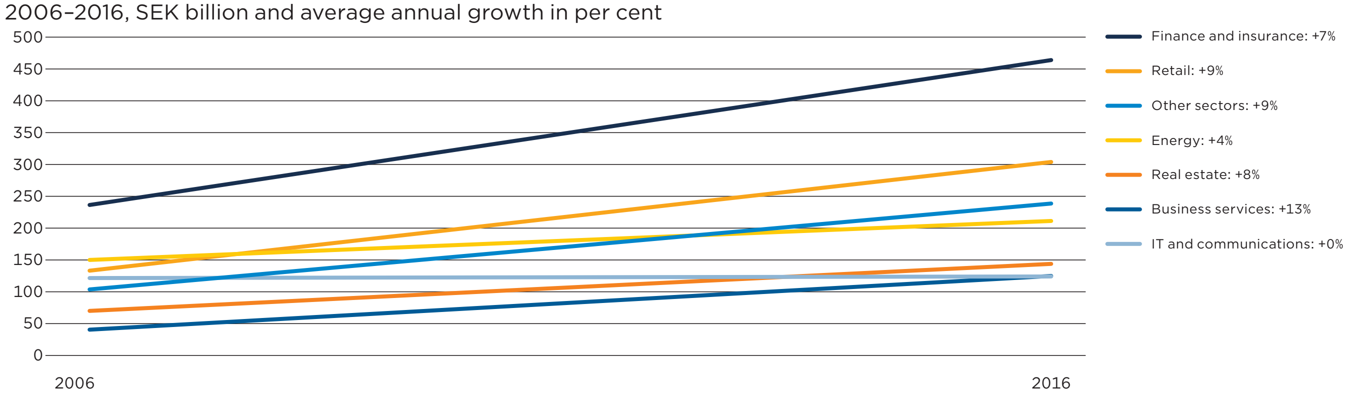
LARGEST INVESTMENTS IN MANUFACTURING...

Foreign direct investment stock in Sweden
2006–2016, SEK billion and average annual growth in per cent



... BUT OTHER SECTORS GAINING GROUND

Foreign direct investment stock in Sweden
2006–2016, SEK billion and average annual growth in per cent



Note: All calculations in current prices
Sources: Statistics Sweden; Business Sweden (2018)

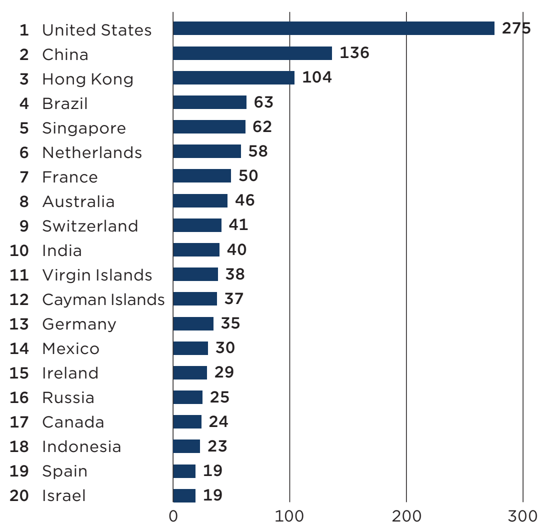
Foreign direct investment stock in Swedish manufacturing amounted to SEK 1,110 billion in 2016. This includes sectors such as chemicals and pharmaceuticals (SEK 420 billion), food (SEK 204 billion), automotive (SEK 166 billion). See diagram above.

Besides manufacturing, it is finance and insurance (SEK 465 billion), retail (SEK 306 billion) and energy (SEK 212 billion) that attract large foreign investments. The diagram above shows particularly rapid annual growth rates for investments in business services and retail.

The diagram to the right shows the most important recipient countries for foreign direct investment in 2017. Sweden was the 23rd largest recipient.

TOP 20 COUNTRIES

Inflow of foreign direct investment
2017, USD billion



Sources: UNCTAD; Business Sweden (2018)

STATISTICS AND INVESTMENT PROMOTION

THE BENEFITS FOR SWEDEN

There is a long-held understanding within investment promotion organisations the world over that statistics on foreign direct investment are not a particularly good tool with which to judge the results of investment promotion. Not because the statistics are thought to be incorrect or misleading. On the contrary, they serve their purpose extremely well as one piece of the puzzle in calculating a country's balance of payments and other components of the national accounts. The statistics are also widely used by politicians and in the media because they have an impact and are internationally comparable.

OTHER WAYS TO MEASURE

For organisations such as Business Sweden, there is a reason to follow the development of various related ("benchmark") statistics, of which some examples are listed in the table below. Benchmarks give an indication of how foreign direct investment is used in various initiatives and development of businesses in Sweden over time. These statistics and other data can be used for evaluating the contribution of investment promotion in channeling financial transactions (whose volumes are shown in the FDI statistics) to foreign operative businesses in Sweden.

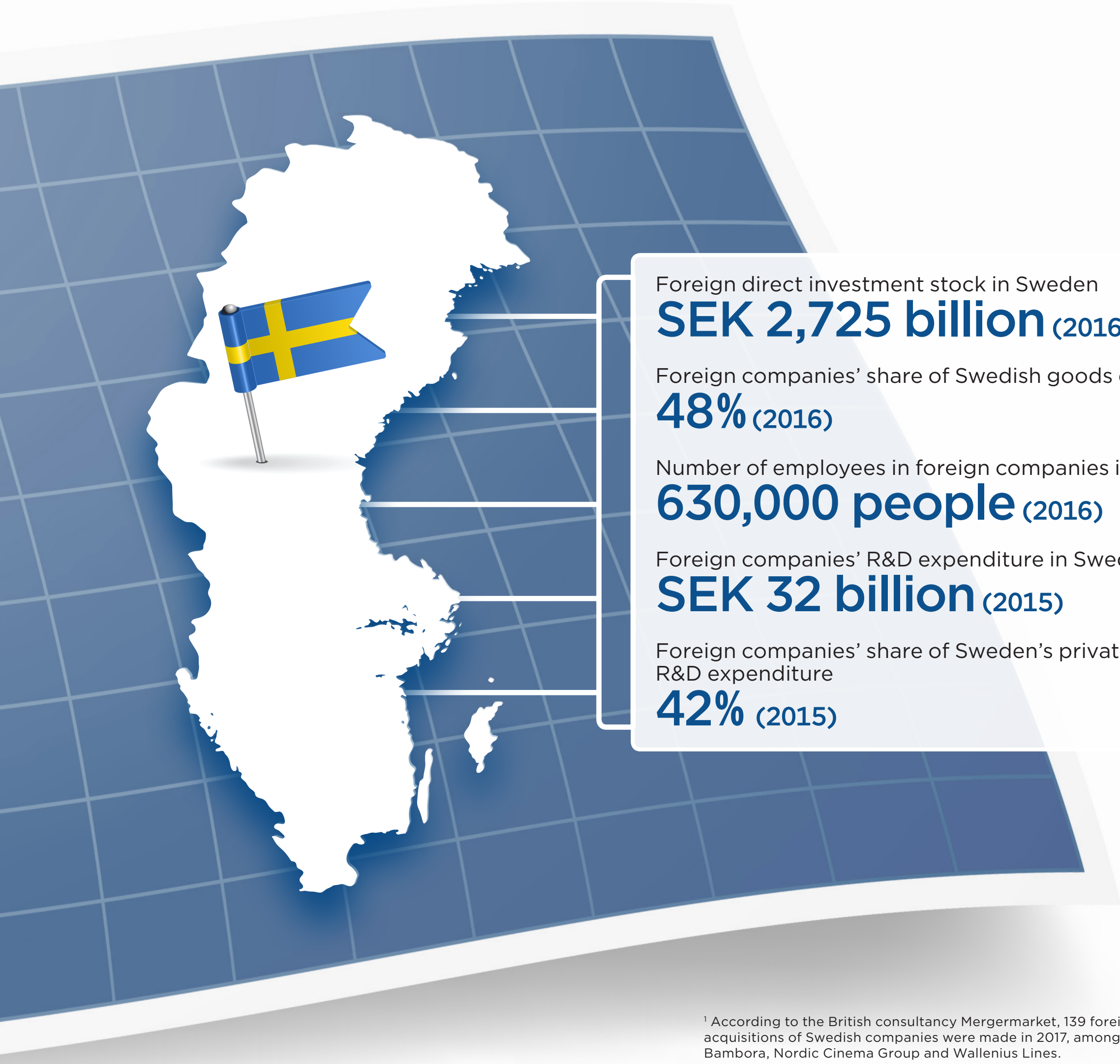
Investment promotion organisations, including Business Sweden, follow up the results of their operations by other means, primarily by registering and describing the concrete investment projects that they have contributed to.

This company-specific statistic takes into account aspects that are not reflected in the direct investment statistics. It relates to the establishment of smaller, innovative foreign companies with interesting businesses for Sweden and which, in time, may make an important contribution to the dynamics of the Swedish economy and its ability to adapt. The same goes for strategic alliances and other types of co-operations between international companies.

Most investment promotion organisations are not involved in foreign acquisitions of domestic companies, except in very special cases, and only then as one operator of many[1]. Acquisition values account for a large portion of the statistics. Furthermore, the statistics include many accounting transactions that are carried out within company groups, among them various loan arrangements that are linked to tax planning.

MERITS AND SHORTCOMINGS

As a result of this, there is a need for more business related – and for investment promotion organisations like Business Sweden – more relevant information about newly established foreign businesses and expansion investments than the official statistics on direct investment can offer. A number of consulting companies have set up databases that continuously collect information on cross-border direct investments (FDI projects) throughout the world, or parts of it. This data identifies the companies and describes the investments, including the size of the invested capital and the number of jobs being created. However,



Foreign direct investment stock in Sweden

SEK 2,725 billion (2016)

Foreign companies' share of Swedish goods exports

48% (2016)

Number of employees in foreign companies in Sweden

630,000 people (2016)

Foreign companies' R&D expenditure in Sweden

SEK 32 billion (2015)

Foreign companies' share of Sweden's private sector R&D expenditure

42% (2015)

[1] According to the British consultancy Mergermarket, 139 foreign acquisitions of Swedish companies were made in 2017, among them Bambora, Nordic Cinema Group and Wallenius Lines.

Sources: Statistics Sweden; Growth Analysis, Business Sweden (2018)

the latter information is rarely reliable and is based on assumptions through comparisons of similar projects.

Neither are the databases fully comprehensive, relying only on the company's own information, press releases and other media channels. Investment promotion organisations often contribute to highlighting their own country's results by regularly reporting to the consultant companies. Nevertheless, for monitoring companies' foreign expansion strategies, making comparisons with competing countries and certain sector analysis, this information can still be of value.

EXAMPLES OF FOREIGN COMPANIES' INVESTMENTS IN SWEDEN

NEW ACTORS

In 2017, Business Sweden and its regional partners contributed to 55 foreign investments in Sweden in the form of new company establishments, business alliances, capital investments and expansions. On the following pages are presentations of three foreign establishments which received particular attention during the year.

The next stage in the internationalisation of the Swedish economy will most likely be about more small and medium size companies going abroad, the location of corporate headquarters and R&D, strategic alliances, global entrepreneurship and *born globals*, and about individuals who circulate in and out of Sweden for highly qualified work, research and studies. Today, as well as in the future, Business Sweden's focus will not be on investment volumes but on the qualitative, interesting development of foreign companies' presence and operations in Sweden.

DATA CENTERS

The aim of this investment area and the project "Data Centers by Sweden" is to market Sweden as a location for large or strategic data facilities. The primary target group is international web services companies with a need for server capacity of their own in Europe. The secondary target group is management companies that build and operate large scale data centers for customers who want to outsource the management of their IT operations.

AMAZON WEB SERVICES (AWS)

AWS delivers digital, cloud-based infrastructure to companies and is one of the world's leading operators in this field. AWS's cloud platform is used by companies in 190 countries, and to meet the demand the company has to date established data centers in 18 geographical regions around the world. AWS is part of the American Amazon group which has an annual turnover in the region of USD 180 billion and some 566,000 employees. AWS' turnover is approximately USD 17 billion.

In April 2017, AWS announced plans to establish a new data center region in Mälardalen, with three data centers; located in Katrineholm, Västerås and Eskilstuna. This complements the company's current European data center activities in London, Frankfurt, Dublin and Paris. The large-scale data centers to be located in Sweden are expected to go into operation during 2018. It represents the largest single investment of its type in Sweden, but is even one of AWS' biggest global investments in that they have chosen to build their own facilities in all three locations. AWS has a growing customer base in Sweden and consequently the company sees a possibility to offer a stronger digital infrastructure with maximum speed for Swedish and Nordic cloud customers. Darren Mowry, who is in charge of the company's business development within EMEA commented that Sweden's blooming start-up environment, strong fibre infrastructure, high share of renewable energy and skilled workforce were other factors that influenced the decision to establish their next AWS-region in Sweden.

The size of the investment is not official, but AWS' CEO Andy Jassy says, "It is a major investment, not just in the actual infrastructure, but also in terms of the personnel we are employing.

Over time, it could reach billions of dollars if Stockholm becomes a successful region, and all regions we have launched so far have been successful."

To illustrate the economic effect of data center development, the consulting company SWECO produced a report in 2017 on the establishment of Facebook in Luleå. The analysis points to a collective effect during the building construction phase of 4,700 annual work units (AWU) for the period 2012–2016 as well as 400 AWU, direct and indirect, in the operation of the facility. Added to this are the capital investments and the number of jobs related to the upgrading of equipment, tax revenues from electricity supplies, as well as a range of other supply and qualitative effects.

ICT (INFORMATION AND COMMUNICATION TECHNOLOGIES)

The aim of this investment area is to speed up the digitalisation process and strengthen the Swedish ICT sector by encouraging international IT and telecom companies to locate their research and development operations (R&D) or their Nordic head offices in Sweden. To maintain Sweden's position among the leading innovative countries, both when it comes to the development and utilisation of new technologies, it is important that the Swedish ICT sector works with the best companies in the world. This is why the establishment of world leading ICT companies in Sweden is vital.

HCL TECHNOLOGIES

HCL Technologies is a multinational IT company based in India. Its business centers on innovative technical solutions, within the Internet of Things, cloud, automation and cyber security. The company has operations in 32 countries and a global turnover of USD 7.2 billion.

During 2015, the company acquired Volvo IT's external business, which was one of the biggest IT transactions that an Indian company has ever carried out. Anant Gupta, the company's CEO, commented on the acquisition by describing it as "a perfect reflection of HCL's mission to develop its business with an innovation driven attitude," adding that "we are delighted to be driving the transformation of business through IT for one of the world's leading companies".

As the next step in its Nordic development, the company decided in 2017 to open a new global distribution center in Gothenburg with more than 150 employees. The center focuses on the handling of main frame computers and services for the automotive industry, and represents an investment of more than SEK 20 million. The number of employees is expected to double within a year. The new office functions as a hub in HCL's global distribution network, which provides modern IT services with the aim of assisting companies and government authorities to develop their operations.

Pankaj Tagra, Senior Vice President and Nordic regional manager at HCL Technologies, says: "The Nordic Region is a strong growth market for HCL and we have consistently invested in local distribution centers to give the customers added value. Our new distribution center in Gothenburg supports this growth and makes it possible for us to get closer to many of our customers in the Nordic region. At the same time, the new center is part of our efforts to establish a global, so-called Shared Services model, through which we provide our customers with high qualitative, industrialised services for mainframe computer environments, open systems and digital investments."

During the autumn of 2017, HCL was awarded the key to the City of Gothenburg after being identified as one of the international companies that are most important for the development of the region.

RETAIL

Foreign establishments within the Swedish retail industry create growth and more jobs, primarily for young people. They also create diversification and make the market more attractive from the point of view of local residents, visitors, cities and property owners as well as contributing with competence, innovation in processes, services and new technologies. The presence of international players in the retail trade also increases the demand for Swedish service suppliers within logistics, marketing communications, etc.

UNIQLO

UNIQLO is a global Japanese clothing chain store and the world's third largest retailer after H&M and Inditex. The company was founded in 1949 and has since expanded to today's 1,920 stores around the world and a turnover of approximately USD 50 billion. UNIQLO has previously had shops in five European countries. In January 2018, the company announced the opening of a Nordic flagship store in Stockholm during the autumn of the same year. The store is 1,580 square metres in size, has four floors and is situated on Hamngatan near Kungsträdgården.

The company's CEO. Tadashi Yanai, commented on the investment decision:

"We are extremely proud and feel greatly honoured in preparing for our launch in Sweden in 2018, the year that also marks 150 years of diplomatic relations between Japan and Sweden. Our entry into the Swedish market also means our first establishment in the Nordic region, which is well in line with our plans for continued expansion in Europe. Sweden is one of the world's most innovative nations and is a country that appreciates technology as well as design and is a leader in modern lifestyle. I hope that the Swedish people will take our concept LifeWear to heart and make it their own."

UNIQLO has previously co-operated with a large number of designers in Sweden, including Almedahls, Petra Börner, Nina Jobs, Bengt & Lotta, Lisa Larson, and 10-Group, where the patterns have been used in UNIQLO's collections the world over.

FORECASTING TRENDS

FOREIGN DIRECT INVESTMENT TO 2025

Newly released figures from UNCTAD show that global direct investment fell by 23 per cent in 2017 compared with the previous year – to USD 1,430 billion from USD 1,868 billion – primarily as a result of a substantial decline in Europe and North America. The number of international company acquisitions and mergers as well as transaction volumes fell, but were still at a high level.

The figures go against the continued positive development of global GDP and international trade. This levelling out can possibly be an indication that the economic cycle has now reached its peak in Europe and North America. Business Sweden's forward glance towards 2025 identifies the following factors that will influence global direct investments.

- Global economic growth will level out but remain positive in the near and medium term, which provides a good basis for a robust development of cross-border direct investment. After many years of under-investment there is an accumulated need for investment in Europe, and in certain sectors in emerging markets and other developing countries, such as in agriculture and infrastructure. If the Trump administration's investment program for the US infrastructure becomes a reality, it may also create opportunities for foreign investors.

- As Business Sweden states in its recently published report *The Services Revolution – a global opportunity for Sweden and Swedish companies* (2018), manufacturing and international trade will become increasingly service-oriented. This means that future international expansions will rarely be about large capital investments in machinery and equipment. Meanwhile, the FDI figures can soar as a result of cross-border acquisitions of highly valued companies in the services sector.

- New conditions for the manufacturing industry will slow the pace of locating production in low wage countries, which has been a main driver behind the strong FDI increases in recent decades. Increased automation, digitalisation and the demand from customers for a high level of innovation and the ability to quickly adapt to change, make it less interesting for companies to handle intermediate goods with extensive delivery distances.

Business Sweden highlights these new prerequisites in the report *Därför tillverkar vi i Sverige* (*Why We Manufacture in Sweden,* 2015).

- The internationalisation of the business community in emerging markets and other developing countries will continue at a rapid pace, which increases global direct investment. The diagram below illustrates the foreign expansion of Chinese companies since 2000. China, in its capacity as the investing economy, was in third place after the US and Japan in a ranking of the most important countries for outward direct investment in 2017.

- The expansion of Chinese companies has prompted negative political reactions in primarily advanced economies, coupled to the lack of reciprocity in investment policies as well as the perception that Chinese companies compete under unfair conditions, supported economically by the Chinese government. Going forward, these reactions may be converted into concrete policies and create a counterweight to the ongoing globalisation of the business community. The US, for example, has stopped attempts by Chinese companies to acquire American companies during the past year. In the EU, several countries have taken action to create a common framework for the monitoring of non-European acquisitions of European companies.

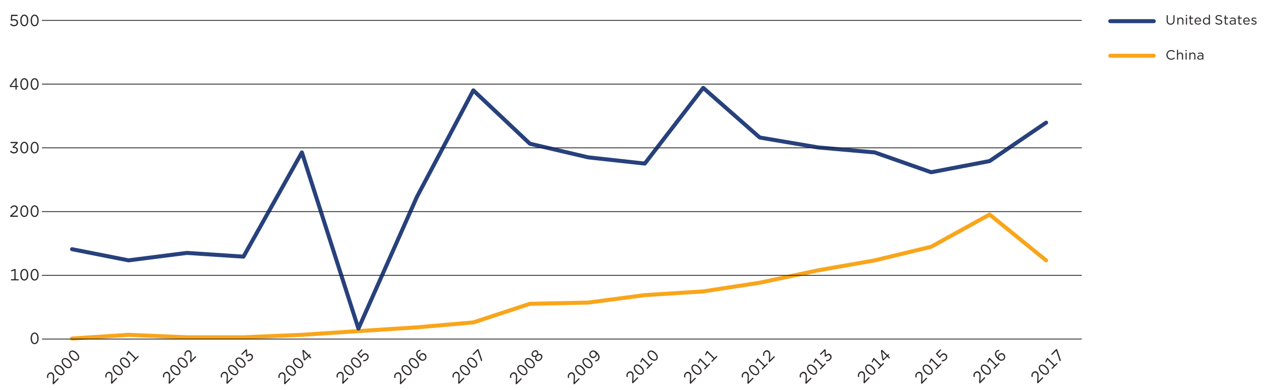
- The fact that small and medium size companies will become internationalised faster and to a greater degree than at present will have a certain positive impact on the figures relating to international direct investment. The trend towards *open innovation* – whereby large companies invite smaller companies to partake in their research and innovation environments – will be intensified.

- In all probability it is still the US' recently introduced tax reform – a substantial reduction in the rate of corporate taxation as well tax relief on corporate profits repatriated to the USA – that will have the biggest impact on global direct investment in the near future. The diagram below shows the dramatic effect of a temporary American tax rebate on the repatriation of profits earned overseas (2005). Almost half of the US direct investment stock abroad of USD 7,800 billion are located in Europe.

- From the Swedish perspective, the rapid internationalisation of Asian industry gives rise to opportunities to attract Asian companies looking to establish a presence in Europe. Also, the UK's impending exit from the EU (Brexit) may result in certain new opportunities for foreign direct investment in Sweden.

CHINESE COMPANIES ON THE RISE

Annual outflow of direct investment
2000–2017, USD billion



Sources: UNCTAD; Business Sweden (2018)

APPENDIX

INVESTMENTS IN STATISTICS

Cross-border direct investments are financial transactions carried out by a parent company in connection with a new establishment or acquisition of a business abroad and within the economic relationship of its already established subsidiaries. Depending on whether the perspective is the recipient economy or the investing economy, statistically the transaction is described as inward (or foreign) direct investment, or outward direct investment respectively *(Foreign Direct Investment, FDI,* or *Outward Direct Investment, ODI)*.

At some stage it may be necessary for an internationally-oriented company to establish a presence in the foreign market, to expand and diversify the business in situ in order to further increase sales. This can be done through the establishment of a local subsidiary and through building up the business from scratch.

The company can also choose to start up the business in a foreign country by acquiring a domestic company that is already active in the market. In both cases, the company is said to have made a foreign direct investment, from the perspective of the host country.

This is an internationally agreed technical term that is used by statistics authorities throughout the world. It signifies that the investing company acquires a minimum of 10 per cent of the voting power (often tied to the number of owned shares) in the foreign company with the aim to own and control the company long term. In practice, most foreign establishments imply that the investing company assumes full control over the acquired company and the business.

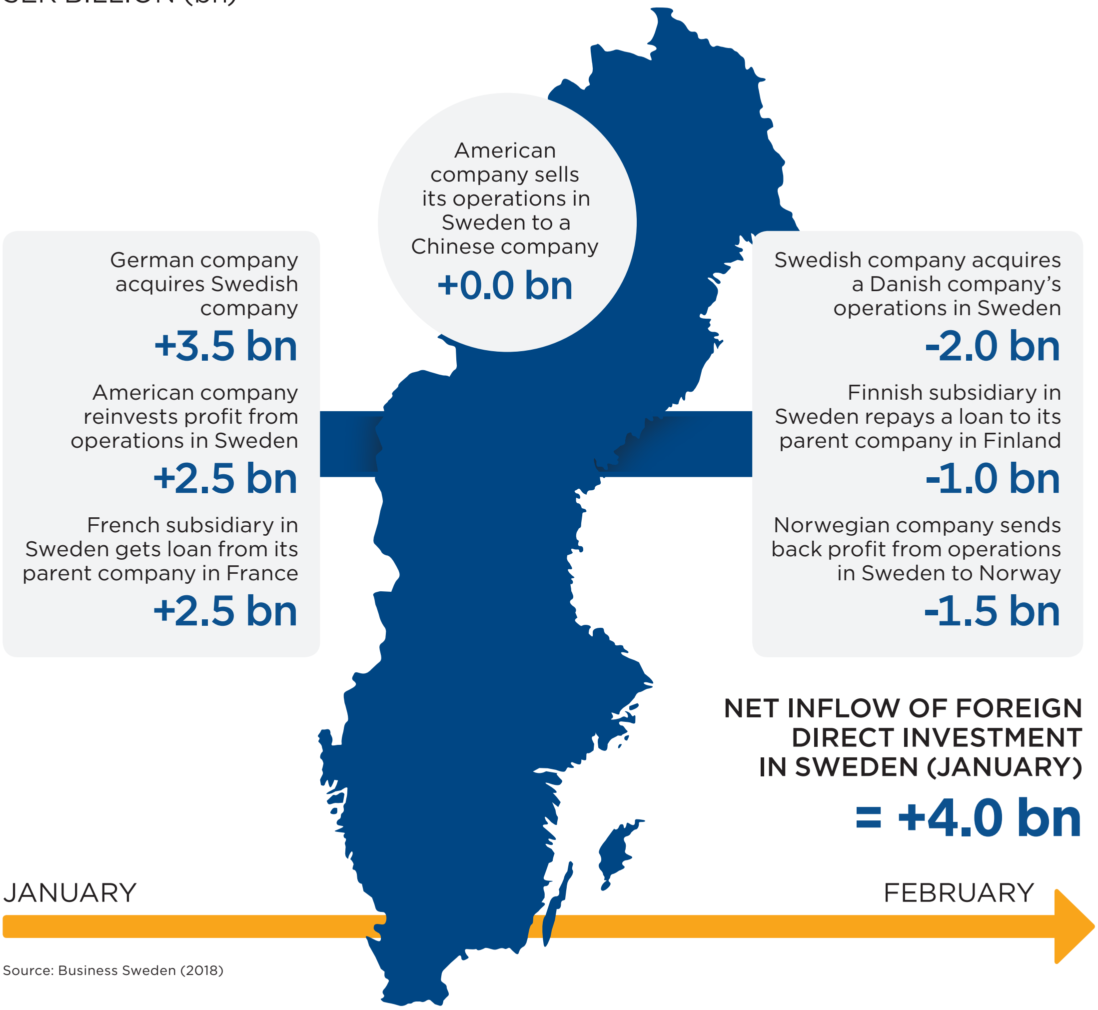
WHAT THE FIGURES MEAN

Information on foreign direct investment in Sweden is collected by Statistics Sweden on behalf of the Riksbank, Sweden's central bank, as part of the statistics used for the balance of payments and national accounts. The reporting of financial information from companies that establish themselves in Sweden, or which are already active here is mandatory. The information is collected on a monthly basis with reporting of foreign direct investment transactions every quarter, as well as in annual surveys of the foreign direct investment stock in Sweden – the equity (shares) and net balance of assets and liabilities between parent companies and their Swedish subsidiaries.

As the diagram on the facing page shows, the inflow of foreign direct investment in Sweden consists of many different transactions. It is important to bear in mind that all of these transactions are financial in nature and that they take place in a foreign direct investment relationship between parent companies abroad and subsidiary companies in Sweden. They are irrespective of whether the money is used to expand a factory area, purchase new equipment, pay wages to employees or is simply placed in a bank deposit .

To track the physical investments that companies make in Sweden – in buildings, machinery and equipment, other statistics are collected (that are not described here). It is also a fact that an increasing share of company investments go to IT equipment and software, training of personnel

A MONTH OF FOREIGN DIRECT INVESTMENT INFLOWS IN SWEDEN (EXAMPLE)
SEK BILLION (bn)



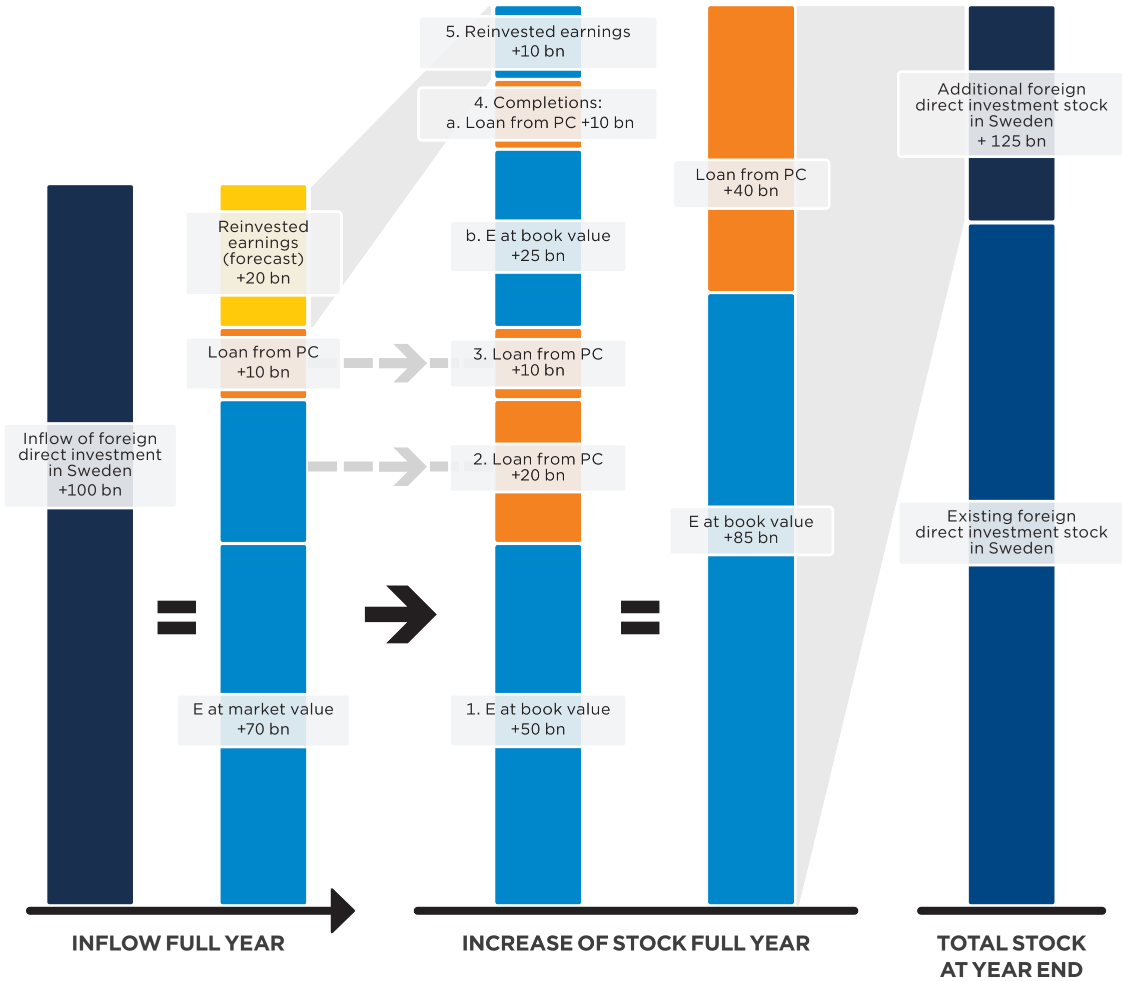
Source: Business Sweden (2018)

and development of new products. These expenses are not accounted for as investments in the books, but can be just as important as, for example, the upgrading of machinery.

The acquisitions of Swedish companies by foreign companies normally show up as a large plus item in foreign direct investment statistics under the heading "Equity". The inflow of foreign direct investment is correspondingly reduced by Swedish companies' acquisitions of foreign companies' businesses in Sweden, or in the event of a foreign company closing its Swedish operations. The statistics show the net of all transactions involving foreign acquisitions and sales of Swedish companies. If, for example, the transaction involves the purchase by an American company of a French company's business in Sweden, the net will be zero – the American parent company reports an acquisition of shares and the French parent company reports a sale of shares. The foreign ownership remains unchanged but has changed its identity, from French to American.

Another item is the parent company's loan to the subsidiary, which is perhaps made to finance an expansion investment. The subsidiary's repayment of the loan to the parent company means in this case a reduction of foreign direct investment in Sweden. Statistics Sweden makes a forecast on the profit that the foreign companies will generate in Sweden during the year – and assumes that a certain portion is reinvested in their Swedish operations – and also adds this amount to the annual statistics on the inflow of foreign direct investment.

THE RELATIONSHIP BETWEEN INFLOW AND STOCK (EXAMPLE)
SEK BILLION (bn)



Note: E = Equity; PC = Parent Company
Source: Business Sweden (2018)

FROM INFLOWS TO ASSETS

In the annual compilation of data concerning the foreign direct investment stock (assets) in Sweden, equity is reported at book value, as opposed to the inflow statistics (relating to transactions), where equity is reported at market value. This means that the item “Equity” is reduced by the exceeding amount, while the item “Loans from the parent company” is increased by the same amount (see 1. and 2. in the illustration above). The existing loans from the parent company are simply carried over to the assets statistic (see 3).

In the stock compilation process, completions and adjustments are made to the amounts included in the inflow statistics (see 4.a and 4.b). Smaller transaction values that have not previously been taken up may now be entered. The forecast for reinvested earnings is replaced by the actual amounts (see 5.) that are reported by the companies and and become part of the item “Equity”. Experience shows that the forecast often overestimates the size of the reinvested earnings.

In the example above the reported foreign direct investment therefore increases from SEK 100 to 125 billion in the conversion from annual inflow to additional stock at the end of the year. The allocation of the assets is then SEK 85 billion in equity (SEK 50 billion equity at book value + SEK 25 billion in completions and adjustments + SEK 10 billion in reinvested earnings); SEK 40 billion in loans from the parent company (SEK 20 billion being the difference between reported equity at market value and book value + SEK 10 billion in reported new loans during the year from the parent company + SEK 10 billion in completions and adjustments).

Sources:
Swedish Entrepreneurship Forum
Eurostat
The National Institute of Economic Research (NIER)
Statistics Sweden (SCB)
The Swedish Agency for Growth Policy Analysis
United Nations Conference on Trade and Development (UNCTAD)

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

BUSINESS SWEDEN Box 240, SE-101 24 Stockholm, Sweden
World Trade Center, Klarabergsviadukten 70
T +46 8 588 660 00 F +46 8 588 661 90
info@business-sweden.se www.business-sweden.se

BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL