BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

CLOUDS ON THE INVESTMENT HORIZON

Cross-border direct investment in the global and Swedish economy

EXECUTIVE SUMMARY

After the market plunge of the pandemic years and subsequent rapid recovery, the world economy has stabilised but remains in stormy waters. The legacy of the Covid-19 crisis with high inflation, amplified by Russia's war of aggression in Ukraine, continues to dampen the purchasing power of households primarily in Europe and the United States. Most companies have faced soaring costs of doing business. The support packages launched by governments during the crisis have either tapered off or been dismantled. Meanwhile, the raising of interest rates by central banks has further taken the steam out of global economic growth. In China, the long-awaited reopening following the lockdowns turned into an economic flop.

On a positive note, international freight and container transport has returned to normal with transport costs falling below pre-pandemic levels. Europe has fought its way out of last autumn's energy crisis, thanks to an unexpectedly rapid shift to liquefied natural gas imports, the restarting of French nuclear reactors and a mild winter. And the US economy seems to be heading for a soft landing.

The title of Business Sweden's report *Clouds on the investment horizon* alludes to the prevailing uncertainty in the global economic outlook, especially in the three growth engines US, China and Germany. In addition, the risk of foreign direct investment, FDI, getting caught up in the increasingly tense geopolitical standoff between the US and China has only increased.

According to statistics from the UN agency UNCTAD, which are partly presented in this report, FDI fell by 12 per cent last year, to USD 1,295 billion. This is the lowest recorded level, excluding the pandemic year 2020, since the global financial crisis more than a decade ago. As in the past few years, the lion's share of the investments – around 60 per cent – have been allocated in Asia and Oceania.

Sweden went against the tide of dampened international investments in Europe last year and recorded an all-time high FDI inflow of SEK 512 billion. This new record puts Sweden in the lead among EU nations and at a ninth place in the global statistics. Given that these figures partly represent financial transactions without any direct relevance for an investment promotion agency such as Business Sweden, the report also contains a compilation of business-related statistics, using excerpts from the Financial Times' database fDi Markets.

The report concludes with a review of the results of Business Sweden's survey *Sweden's Investment Climate 2023* coupled with an assessment of the future outlook regarding key factors affecting cross-border direct investment in the next three years.

Lena Sellgren
Chief Economist

BUSINESS SWEDEN
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HIGHLIGHTS

- The development of foreign direct investment, FDI, during 2022 was negatively affected by the rapidly worsening outlook for the world economy and rising geopolitical tensions, which soared following Russa's war of aggression in Ukraine and China's ramped up threats against Taiwan. Global FDI fell by 12 per cent compared to the previous year, to USD 1,295 billion.

- In Europe, FDI fell to a negative result of USD -94 billion, which meant that a net exodus of invested capital took place. In North America, investments shrank by 23 per cent compared to the previous year, to USD 373 billion. Conversely, FDI in Asia rose by 8 per cent to USD 733 billion.

- FDI in Sweden amounted to SEK 512 billion in 2022, which represents a near three-fold increase compared to the previous year, and the highest recorded level to date by a wide margin.

- In total, the FDI stock in Sweden amounts to SEK 3,722 billion. The services sector accounts for 66 per cent of the foreign-owned assets and the manufacturing sector for 34 per cent.

- A recent survey conducted by Business Sweden shows that Sweden offers foreign companies a fairly attractive investment climate. An assessment of 17 key factors shaping the conditions for establishing a presence in Sweden resulted in an average score of 3.6 for the investment climate, on a scale of 1 to 5 (where 1= unfavourable and 5 = highly favourable).

Foreign direct investment (FDI) is defined as cross-border financial transactions that companies carry out to establish or acquire business operations, or expand business via existing subsidiaries in countries outside of their home markets. These investments are characterised by being long-term with a high degree of corporate owner control. Data on FDI in Sweden and outward direct investment (ODI) by Swedish companies is collected by Statistics Sweden (SCB) on behalf of the Riksbank (Sweden's central bank), as part of the compilation of balance of payments statistics. Statistics Sweden's quarterly and full-year reporting divides FDI into three categories: equity, group loans and reinvested earnings. The amounts give an indication of the activities of foreign companies in Sweden and the activities of Swedish companies abroad, but cannot be directly linked to companies' acquisitions of businesses or investments in buildings, facilities, machinery or equipment.

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

GLOBAL CROSS-BORDER DIRECT INVESTMENT

MULTIPLE REASONS FOR ESTABLISHING ABROAD

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

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

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

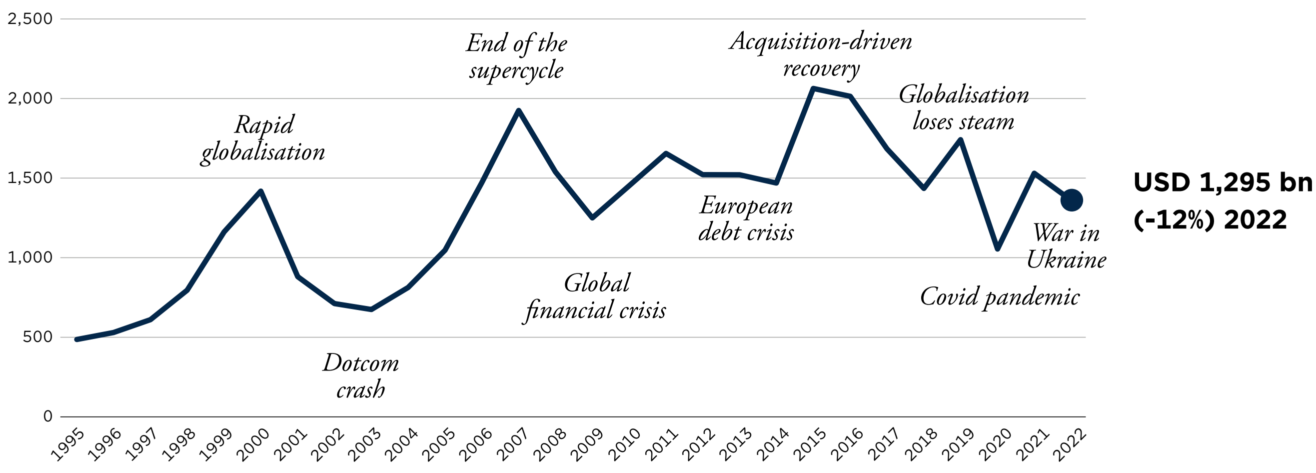
GLOBALISATION LOSES STEAM

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

New roads, railway connections, ports and airports put all the conditions in place for companies to transport their goods with ease and establish

WEAKENING GLOBAL GROWTH DAMPENS INVESTMENTS

Foreign direct investment (FDI), all markets, annual inflows in USD billion, 1995–2022



Source: UNCTAD (2023)

their business in emerging markets, where China and the Southeast Asian countries quickly became the protagonists. In addition, companies got the opportunity to consolidate their international operations through IT systems and telecommunications, and to raise funds for their investments in an increasingly internationalised financial market.

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

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

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

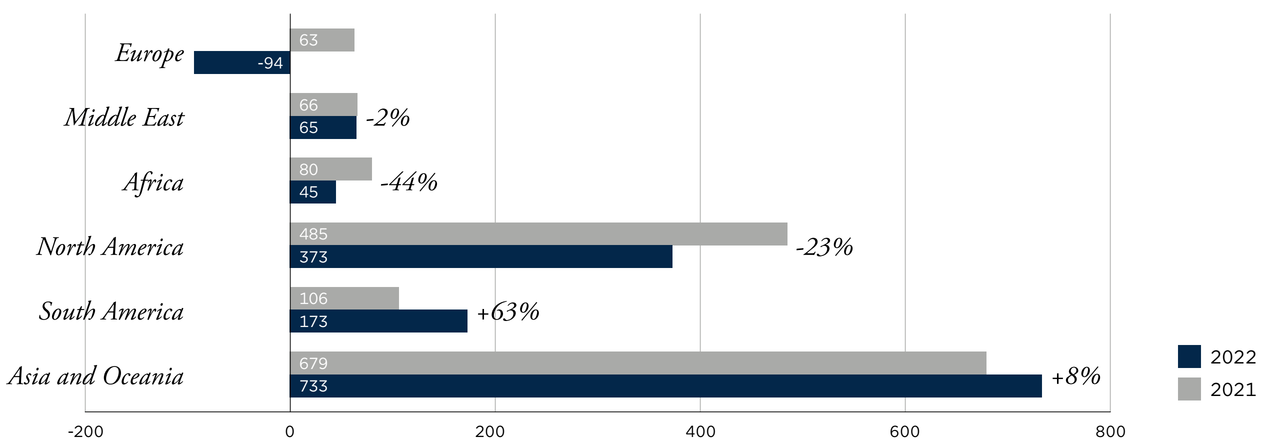
The global financial crisis plunged the world economy into dramatic decline. Companies were forced to re-evaluate their plans for international expansion. Securing financing became more difficult as banks and other financial institutions reoriented their activities and focused their attention on domestic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

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

The downturn could be the partial result of an accelerating strategic shift towards near-market manufacturing among industrial companies, which reduces the extent of relocation and scattering of operations in different countries. A political upswing for economic nationalism worldwide coupled with aggressive industrial policies could also play a certain role, and the same applies to the increased geopolitical tensions not least between the US and China. The EU has taken the initiative to form an investment screening process (which comes into force in Sweden on 1 December 2023) in deals

ASIA REMAINS IN THE TOP SPOT 2022

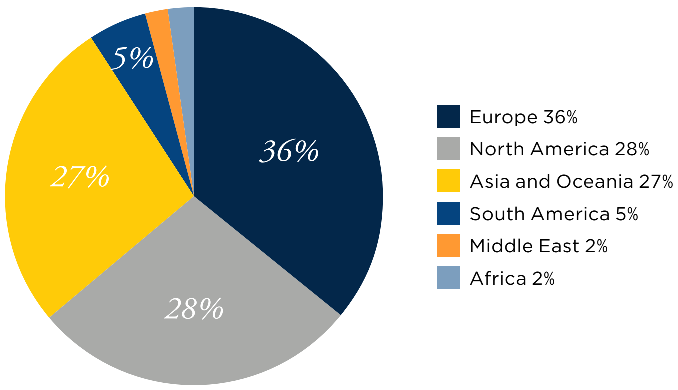
FDI by region, inflows in USD billion and percentage change, 2021 and 2022



Source: UNCTAD (2023)

THREE MAIN INVESTMENT REGIONS

FDI by recipient region, share in per cent, 2022



Note: Global FDI stock amounted to USD 44,253 billion 2022.
Source: UNCTAD (2023)

where the buyer is a non-European company and launched a new industrial policy roadmap which aims to facilitate industrial independence. American companies are encouraged to bring manufacturing back to the US, so-called reshoring. China is taking major steps to build its domestic supply chains and eliminate its dependence on foreign skills and competencies, for example in the manufacturing of advanced microchips.

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

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

GLOOMIER OUTLOOK FOR FDI

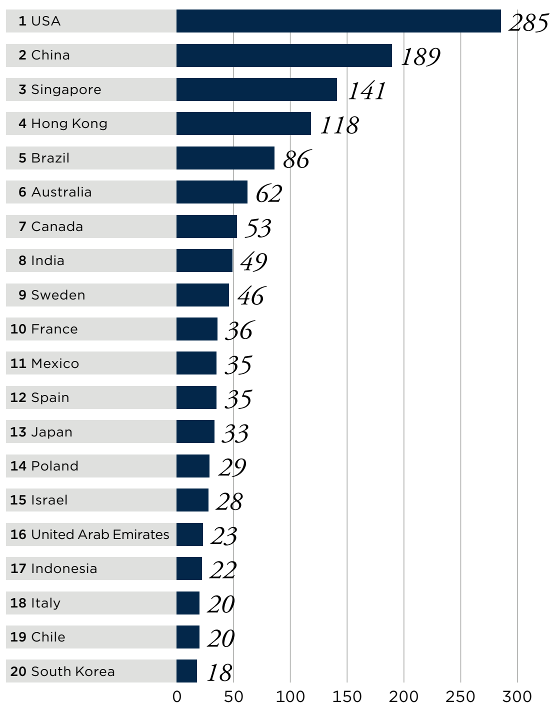
Following the economic plunge caused by the Covid pandemic and subsequent strong recovery, global growth fell back during 2022. A worsened economic outlook combined with rising geopolitical tensions, mainly due to Russia's war of aggression in Ukraine and the escalated conflict between the US and China around Taiwan and other issues, had a negative impact on cross-border direct investment. Globally, international investments fell by 12 per cent in 2022 compared to the previous year, to USD 1,295 billion.

FDI in Europe hit a negative result of USD 94 billion for 2022, which means that divestment outpaced new investments in Europe last year. According to the UN agency UNCTAD, which compiles the international statistics in its annual publication *World Investment Report*, this net divestment is largely due to a major financial transaction in Luxembourg related to the telecoms sector. But the overall picture of falling interest in European markets still stands, reflected by dampened FDI figures for normally large recipient countries such as Germany, France and the UK.

In North America, including the US, Canada and Mexico, FDI fell back to USD 373 billion, a decrease of 23 per cent compared to the previous year. Approximately 80 per cent of the investments went to the United States.

THE US AND CHINA STAND OUT AS INVESTMENT MARKETS

Top 20 recipient markets for FDI, ranking and inflows in USD billion, 2022



Source: UNCTAD (2023)

In Asia, FDI jumped by 8 per cent to USD 733 billion. FDI in China amounted to USD 189 billion, which is the highest recorded level to date. Foreign investors' newfound interest in India resulted in a 10 per cent spike in FDI to USD 49 billion, but the gap between India and China is still large. In all, Asia and Oceania attracted almost 60 per cent of last year's FDI inflows.

The development in the smaller investment regions varied considerably. FDI in the Middle East fell by 2 per cent to USD 65 billion. In Africa, investments halved to USD 45 billion. In South America, FDI leapt by 63 per cent to USD 173 billion.

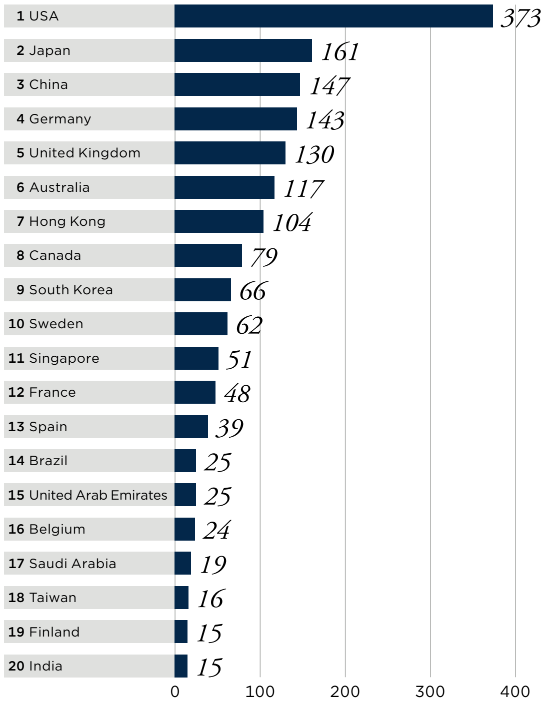
Despite the fact that Asia claimed the position as the most attractive market for cross-border direct investment, Europe retains its top spot as the region holding the greatest share of FDI stock. Europe has attracted 36 per cent of the total stock, followed by North America claiming a 28 per cent share and Asia holding 27 per cent of total FDI stock.

The 20 largest recipient markets for FDI in 2022 mainly include countries in North America and Asia, with Europe playing an unusually marginal role. Not surprisingly, the US remains unchallenged at the top spot of the list with China trailing behind in second place. Claiming a ninth place on the list of countries, Sweden was the largest recipient markets for FDI in Europe in 2022.

Europe has a more prominent spot on the list of the 20 largest markets of outward direct investment, ODI. Alongside companies from the US, Japan and China were German and British companies who were important investors in 2022. Sweden also had a strong position in ODI as it ranked tenth globally, as Swedish companies made record-breaking investments abroad last year.

JAPANESE COMPANIES KEY INVESTORS

Top 20 source markets for FDI, ranking and outflows in USD billion, 2022



Source: UNCTAD (2023)

TOKYO, JAPAN

FOREIGN DIRECT INVESTMENT IN SWEDEN

CLAIMING EUROPE'S TOP SPOT

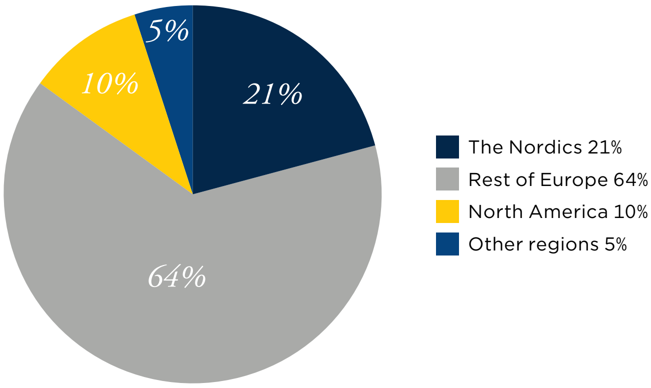
Sweden has been a significant investment destination since the mid-1990s. With Sweden's entry into the EU in 1995, stronger economic growth than in large parts of Europe and a period of comprehensive deregulation and privatisations of state-owned enterprises, investors became more interested in the Swedish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

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

FDI inflows to Sweden amounted to SEK 512 billion in 2022, which is almost three times higher than in 2021, and well above the annual average of SEK 126 billion for the period 2003 to 2022. As mentioned in the previous section, Sweden was thereby the most attractive market in Europe for FDI last year and reached ninth place globally. It should be noted that the data needed to set the final figure, which is partly based on Statistics Sweden's forecast for reinvested earnings, are not yet complete and the amount of FDI is therefore subject to change.

EUROPEAN COMPANIES DOMINATE SWEDISH MARKET

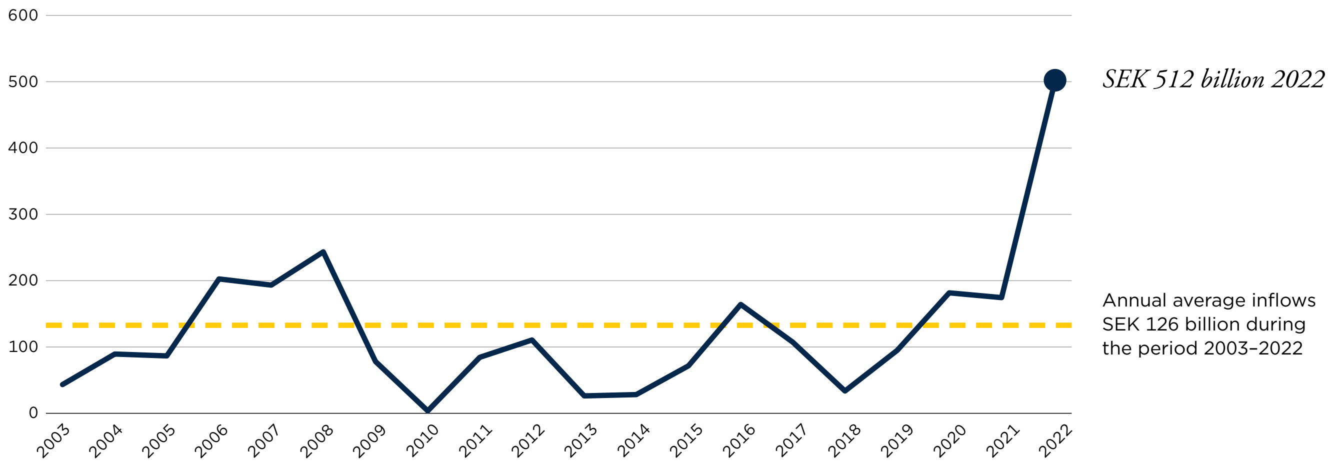
FDI stock in Sweden, distribution by source region in per cent, 2021



Note: Note: FDI assets in Sweden increased by SEK 692 billion over the past three-year period, from SEK 3,030 billion in 2018 to 3,722 billion SEK in 2021. This represents an average annual increase of 7 per cent.
Source: Statistics Sweden (2023)

A RECORD YEAR FOR SWEDEN

FDI in Sweden, annual inflows in SEK billion, 2003–2022



Source: Statistics Sweden (2023)

EUROPEAN COMPANIES STAND OUT

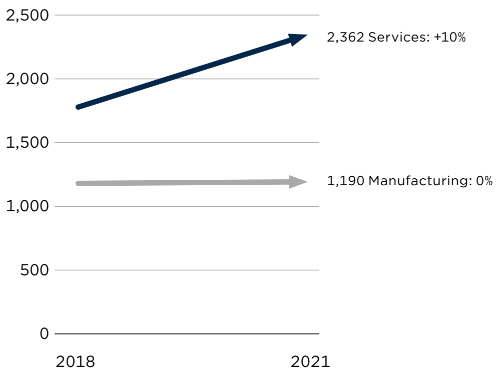
FDI stock in Sweden amounted to SEK 3,722 billion in 2021, the most recent available figure. It is primarily companies based in neighbouring Nordic countries and other European countries that have a presence in Sweden, with British companies topping the list and accounting for SEK 624 billion in FDI stock. In all, European companies account for 85 per cent of the foreign-owned assets. Holding companies primarily in Luxembourg and the Netherlands are large investors judging by the statistics, but in most cases the controlling parent company will be located elsewhere, and sometimes even in Sweden.

The services sector accounts for 64 per cent of FDI stock in Sweden and the manufacturing sector for 36 per cent. Over time, the services sector has attracted an increasingly larger share.

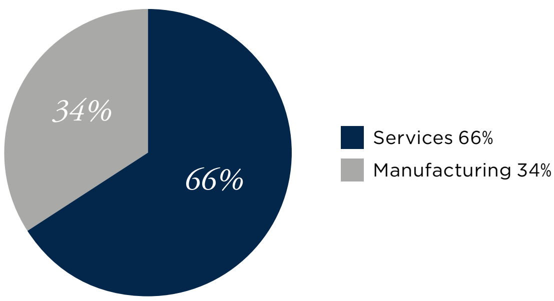
FDI stock in the services sector amounted to SEK 2,362 billion, with large foreign investments mainly taking place in finance and insurance, real estate as well as retail and services. The foreign-owned assets in the manufacturing sector amounted to SEK 1,190 billion, where international companies have made the biggest investments in chemicals and pharmaceuticals, followed by food and beverage.

INVESTORS FOCUSED ON THE SERVICES SECTOR

FDI stock in Sweden, distribution by sector,
SEK billion and average annual change in per cent, 2018–2021



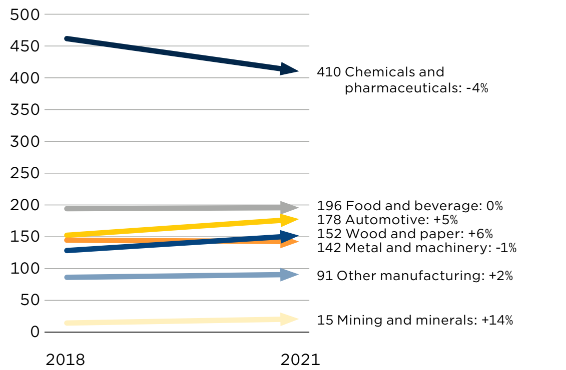
FDI stock in Sweden,
share by sector in per cent, 2021



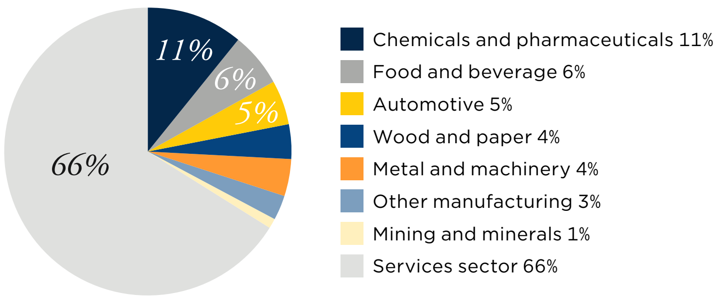
Note: The total figure of SEK 3,722 billion 2021 includes unspecified assets of SEK 170 billion. Those assets are excluded in the above compilation.
Source: Statistics Sweden (2023)

GROWING INTEREST IN THE MINING INDUSTRY

FDI stock in Sweden, distribution by industry,
SEK billion and average annual change in per cent, 2018–2021

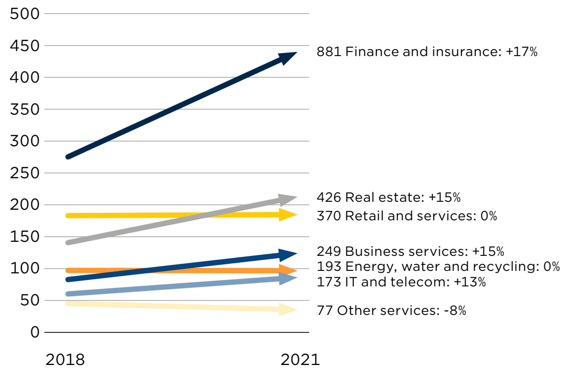


FDI stock in Sweden,
share by industry in per cent, 2021

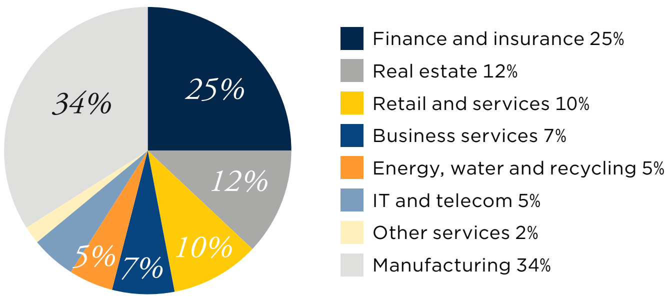


SHARP INCREASE IN FINANCE AND INSURANCE, REAL ESTATE AND BUSINESS SERVICES

FDI stock in Sweden, distribution by industry,
SEK billion and average annual change in per cent, 2018–2021



FDI stock in Sweden,
share by industry in per cent, 2021



Note: The total figure of SEK 3,722 billion 2021 includes unspecified assets of SEK 170 billion.
Those assets are excluded in the above compilations.
Source: Statistics Sweden (2023)

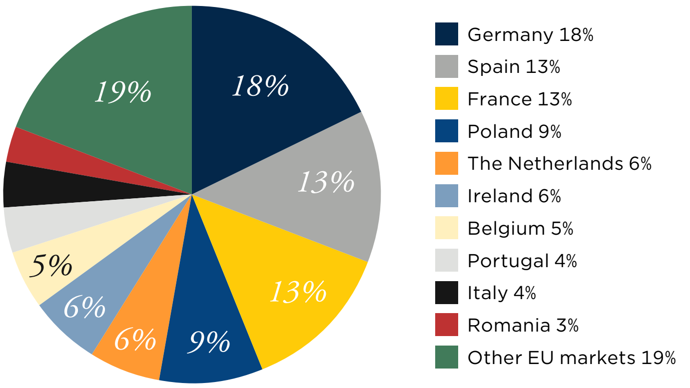
INVESTMENT PROJECTS IN THE EU AND SWEDEN

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

A review of the data from the Financial Times' database fDi Markets, which has global coverage, shows that the EU received just under a third of the total number of new establishments and expansion investments that companies carried out in their respective overseas markets in 2022. Germany was the largest recipient in the EU with 18 per cent of the FDI projects, followed by Spain and France accounting for 13 per cent each.

GERMANY A FAVOURED DESTINATION IN EUROPE

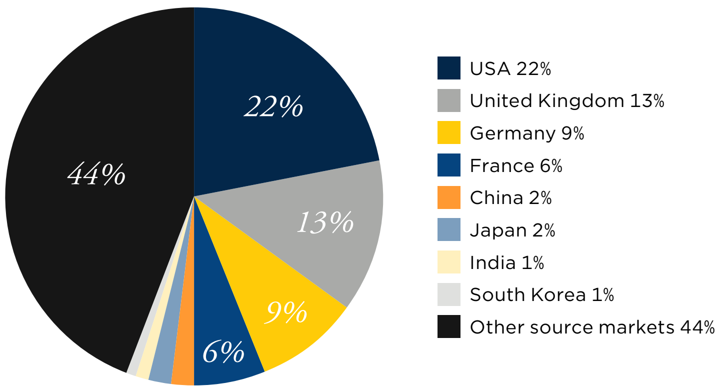
FDI projects in the EU, distribution by top 10 recipient markets, share of total number of projects in per cent, 2022



Note: EU markets attracted a total of 5,368 FDI projects during the period 1 January – 31 December 2022, of which Sweden received 118 projects, or 2 per cent.
Source: Financial Times/fDi Markets (2023)

LARGE NUMBER OF UK INVESTMENTS IN THE EU

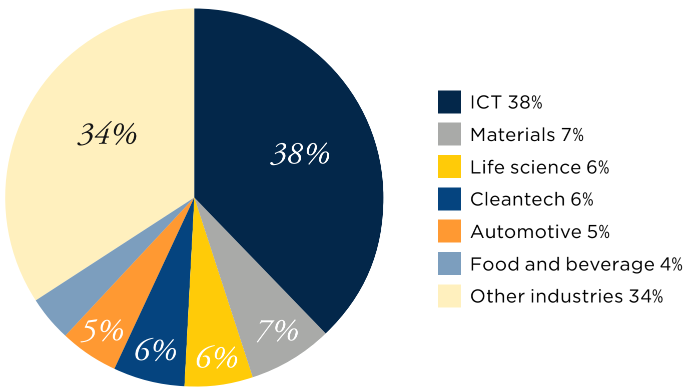
FDI projects in the EU, distribution by source market*,
share of total number of projects in per cent, 2022

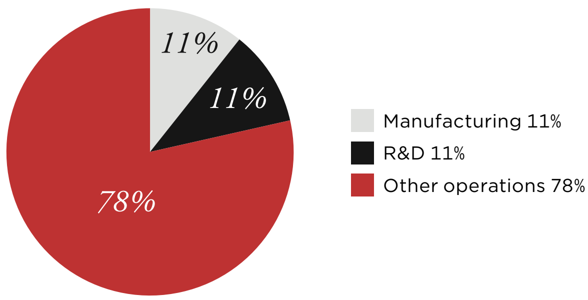


*The named source markets in the diagram only include Business Sweden's focus markets.
Note: EU markets attracted a total of 5,368 FDI projects during the period 1 January – 31 December 2022.
Source: Financial Times/fDi Markets (2023)

INCREASED FOCUS ON CLEANTECH

FDI projects in the EU, distribution by industry* and activity,
share of total number of projects in per cent, 2022

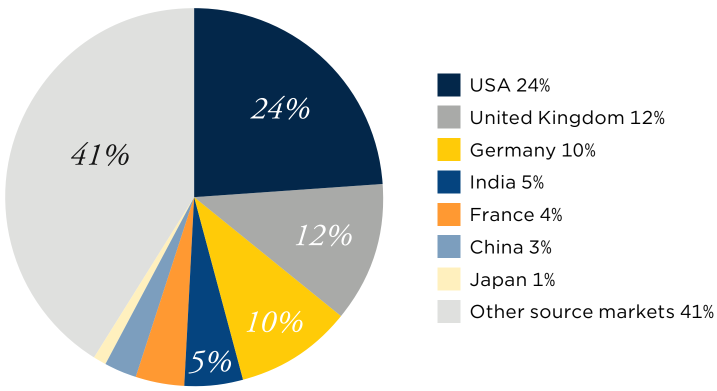




* The named industries in the diagram only include Business Sweden's focus industries.
Note: EU markets received a total of 5,368 FDI projects during the period 1 Januari – 31 December 2022.
Source: Financial Times/fDi Markets (2023)

AMERICAN COMPANIES ARE INVESTING HEAVILY IN SWEDEN

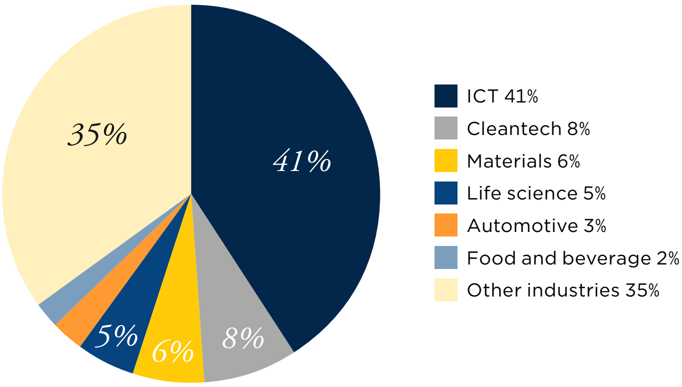
FDI projects in Sweden, distribution by source market*,
share of total number of projects in per cent, 2022

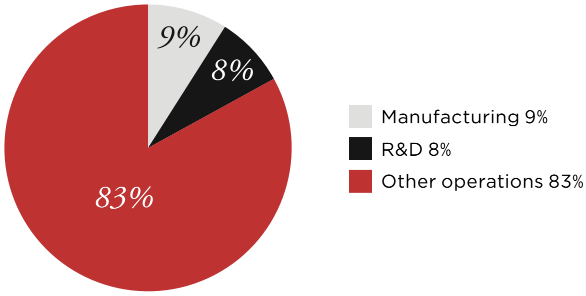


* The named source markets in the diagram only include Business Sweden's focus markets.
Note: Sweden received a total of 118 FDI projects during the period 1 January – 31 December 2022.
Source: Financial Times/fDi Markets (2023)

SWEDEN AN ATTRACTIVE LOCATION FOR IT AND TELECOM

FDI projects in Sweden, distribution by industry* and activity,
share of total number of projects in per cent, 2022





* The named industries in the diagram only include Business Sweden's focus industries.
Note: Sweden received a total of 118 FDI projects during the period 1 January – 31 December 2022.
Source: Financial Times/fDi Markets (2023)

The review also shows that US companies accounted for almost a quarter of the number of FDI projects in the EU in 2022. British, German and French companies accounted together for another quarter, while Chinese and Indian companies accounted for modest shares of 2 and 1 per cent respectively.

Information technology and telecommunications (ICT) was the dominating sector for FDI projects in the EU, accounting for a 40 per cent share approximately. FDI projects in manufacturing and R&D accounted for 11 per cent each of the total number of projects.

According to fDi Markets, Sweden received 118 FDI projects in 2022, which corresponded to 2 per cent of the total number of projects in the EU. Sweden's investment profile is similar to the rest of the EU, where American companies are major investors, but it has a comparatively larger share of Indian and Chinese companies. A comparison of different sectors shows that Sweden had a slightly higher share of cleantech projects than in the rest of the EU. Conversely, Sweden had a smaller share of projects in manufacturing and R&D than in the EU as a whole.

NEW DELHI, INDIA

SWEDEN'S INVESTMENT CLIMATE

During the spring of this year, Business Sweden commissioned the survey *Sweden's investment climate 2023*, which reflects the views of senior management at foreign companies that have been established in Sweden in the past five-year period, 2018–2022. The survey was carried out through telephone interviews in English or Swedish by the research company Origo Group, using a questionnaire developed by Business Sweden. The interviewees were CEOs or representatives tasked with overseeing expansion in the Swedish market. The target group for the survey encompassed all sectors except companies in finance and insurance, the hospitality industry, as well as real estate. A total of 221 interviews were carried out.

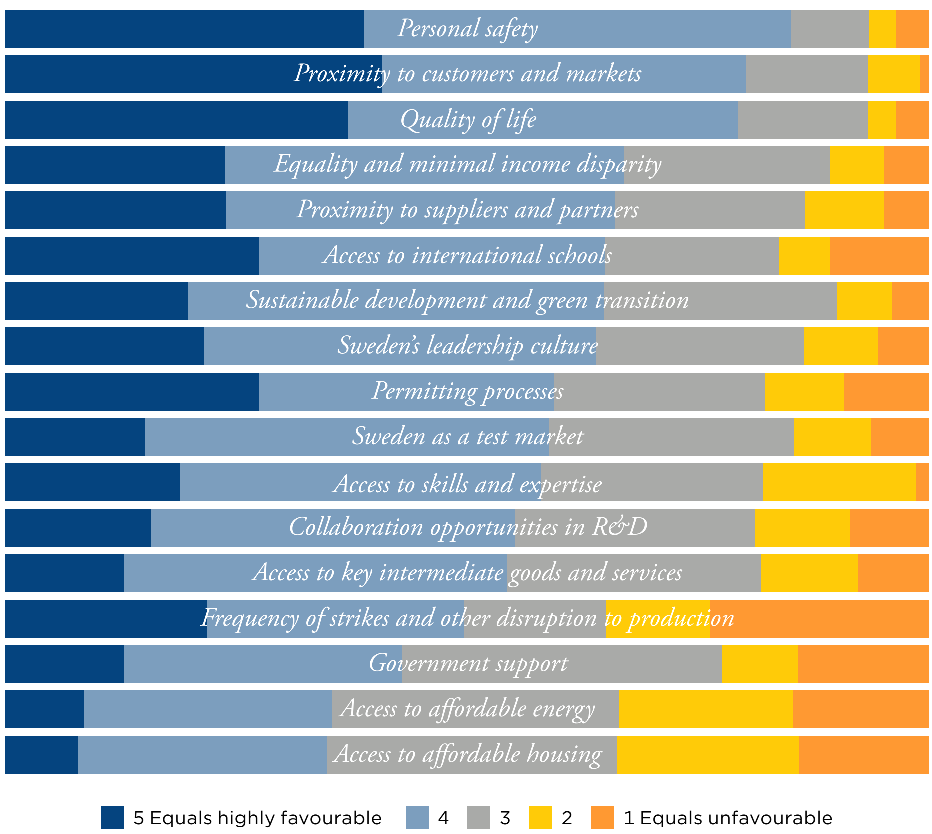
DECENT MARKS BUT NO APPLAUSE

The diagram shows how foreign companies have evaluated 17 factors that shape conditions for establishing a business in Sweden, on a scale of 1–5 where 1= unfavourable and 5 = highly favourable. The results show that Sweden's main strengths include access to customers and markets, quality of life and personal safety, which all got an average score of 4.1. Sweden's weaknesses were mainly access to affordable energy and housing, which received a score of 3.0 and 2.9 respectively.

When comparing with a similar survey that Business Sweden carried out in 2018, it is clear that companies now consider the risk of disruptions to production in Sweden to be higher, illustrated by

DECENT MARKS BUT NO APPLAUSE

Sweden's investment climate: Assessment of conditions for foreign establishments in Sweden, 2023 and 2018



	2023	2018
Personal safety	4.1	–
Proximity to customers and markets	4.1	4.1
Quality of life	4.1	–
Equality and minimal income disparity	3.8	3.6
Proximity to suppliers and partners	3.7	3.6
Access to international schools	3.7	3.4
Sustainable development and green transition	3.7	3.6
Sweden's leadership culture	3.7	3.7
Permitting processes	3.6	–
Sweden as a test market	3.5	3.5
Access to skills and expertise	3.6	3.8
Collaboration opportunities in R&D	3.4	3.6
Access to key intermediate goods and services	3.4	–
Frequency of strikes and other disruption to production	3.1	3.8
Government support	3.2	–
Access to affordable energy	3.0	3.3
Access to affordable housing	2.9	3.0

Note: "–" in the column indicates that the assessment was not included in 2018 survey.

a sharp decline in the average assessment of this factor, from 3.8 to 3.1.

In all, the results show that Sweden offers decent conditions for foreign companies establishing business operations, with an unweighted average assessment of the 17 factors resulting in a score of 3.6. At the same time, this is not an exceptional verdict in any way.

On the more positive side, the survey shows that a considerable majority of the companies are planning to expand in Sweden, and that this share has jumped further since the previous survey. No fewer than 82 per cent of the interviewed companies confirm that they have expansion plans in Sweden.

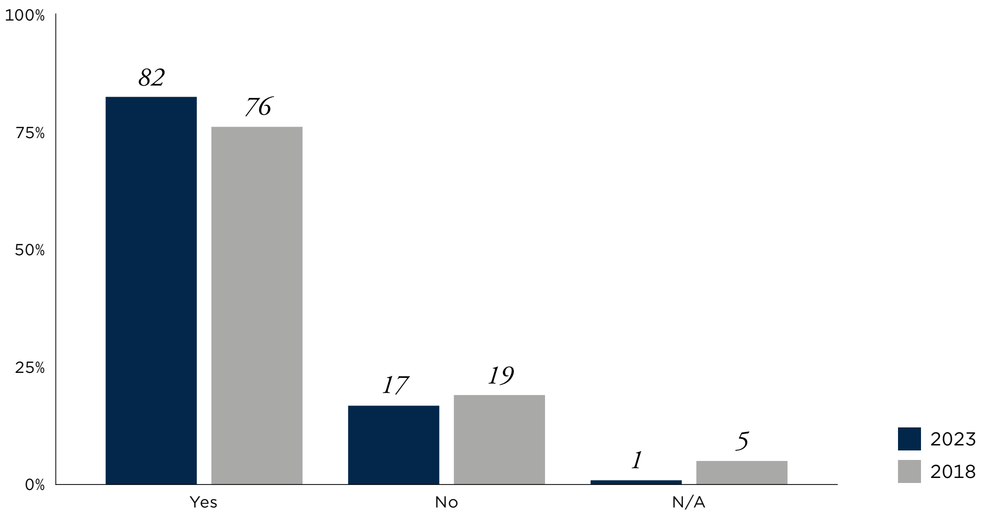
In addition, the so-called *Net Promoter Score* (NPS) shows a stronger result for Sweden in 2023 than in 2018. On the question *How likely are you to recommend establishing in Sweden to a business contact who is a non-competitor?*, the respondents answered on a scale from 0–10. The respondents that gave a 9 and 10 score are considered advocates for Sweden, while respondents giving a 0–6 score are considered critics. The middle group answering 7 and 8 are considered passive in their view of Sweden.

The advocates for establishing in Sweden amounted to 28 per cent in the survey, and the critics to 19 per cent. NPS is calculated as the difference in percentage points between the share of advocates and the share of critics, which results in an NPS of 9. This can be compared to an NPS of 2 in the survey from 2018.

FOREIGN COMPANIES ARE RAMPING UP

Sweden's investment climate: Foreign companies' expansion plans in Sweden, distribution of responses in per cent, 2023 and 2018

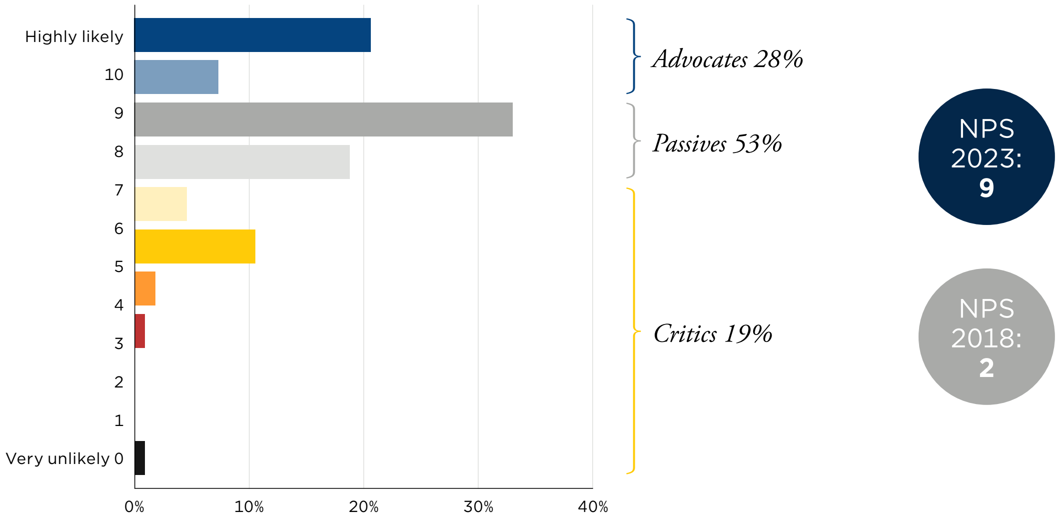
Question: Is your company planning to expand its operations in Sweden in the next three years?



MORE INVESTORS ARE RECOMMENDING SWEDEN

Sweden's investment climate: Net Promoter Score (NPS), 2023 and 2018

Question: How likely are you to recommend investing in Sweden to a business contact who is a non-competitor?



TORONTO, CANADA

FUTURE OUTLOOK

The current slowdown in the world economy in the wake of increased costs and elevated interest rates, coupled with rising geopolitical tensions, is setting the stage for stagnation, or a continued downward trend for cross-border direct investment in 2023.

Besides the impact of the business cycle, Business Sweden projects that the seven key factors highlighted below will affect cross-border direct investment overall and FDI in Sweden in the next three years.

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

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

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

4. **Regionalisation.** Customer and market relations, automation, risk management and increasing consideration of environmental impacts are driving the continued push toward regionalisation of manufacturing and trade, concentrated to the three large production regions Europe, Asia and North America. Companies are actively expanding their supplier base to reduce their vulnerability in times of crisis. Foreign ownership of assets could shift toward more international investors who are close by, in nearby markets, rather than from far away.

5. **The services sector.** In tandem with increased industrial investments, the shift toward servicification of the business sector and global trade continues at pace. Corporate deals involving highly valued service companies as acquisition targets could further boost the amount of cross-border direct investment.

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

7. **China.** Chinese companies are continuing to expand their presence overseas but are being hampered by stricter national regulations and investment screening in foreign markets. New regulations open up the possibility for foreign companies to acquire Chinese companies, and according to UNCTAD, acquisition figures jumped three-fold to USD 15 billion in 2022, despite the continued restrictions. China's escalating conflict with the US and EU is prompting more and more international companies to rethink their market presence and focus on a wider spectrum of countries in Asia.

Business Sweden is commissioned by the Swedish government to manage Sweden's investment promotion activities. The agency's work is focused on attracting and facilitating international investments and thereby contribute to job creation and sustainable growth across the country. This encompasses new establishments, expansion of existing foreign-owned operations, strategic partnerships and capital investments in Swedish companies. The assignment also includes continuous reporting on investment barriers and monitoring of Sweden's investment climate.

BUSINESS SWEDEN
THE SWEDISH TRADE & INVEST COUNCIL

3958 (EN) 2023

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

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