



Stockholm Business Alliance Investment Promotion and International  
Marketing Programme

---

Tuesday 3 November, 2015



# Business Intelligence 1

## The Global Economic Context, Sweden and European Investment Context

# About this module

This module provides investment promoters with the following:

- A picture of the global economy today: Economic growth prospects, GDP growth, and FDI
- Sources and destination of the various forms of FDI
- The principal corporate investment drivers
- FDI investment types
- New and transient forms of investment, and new investors

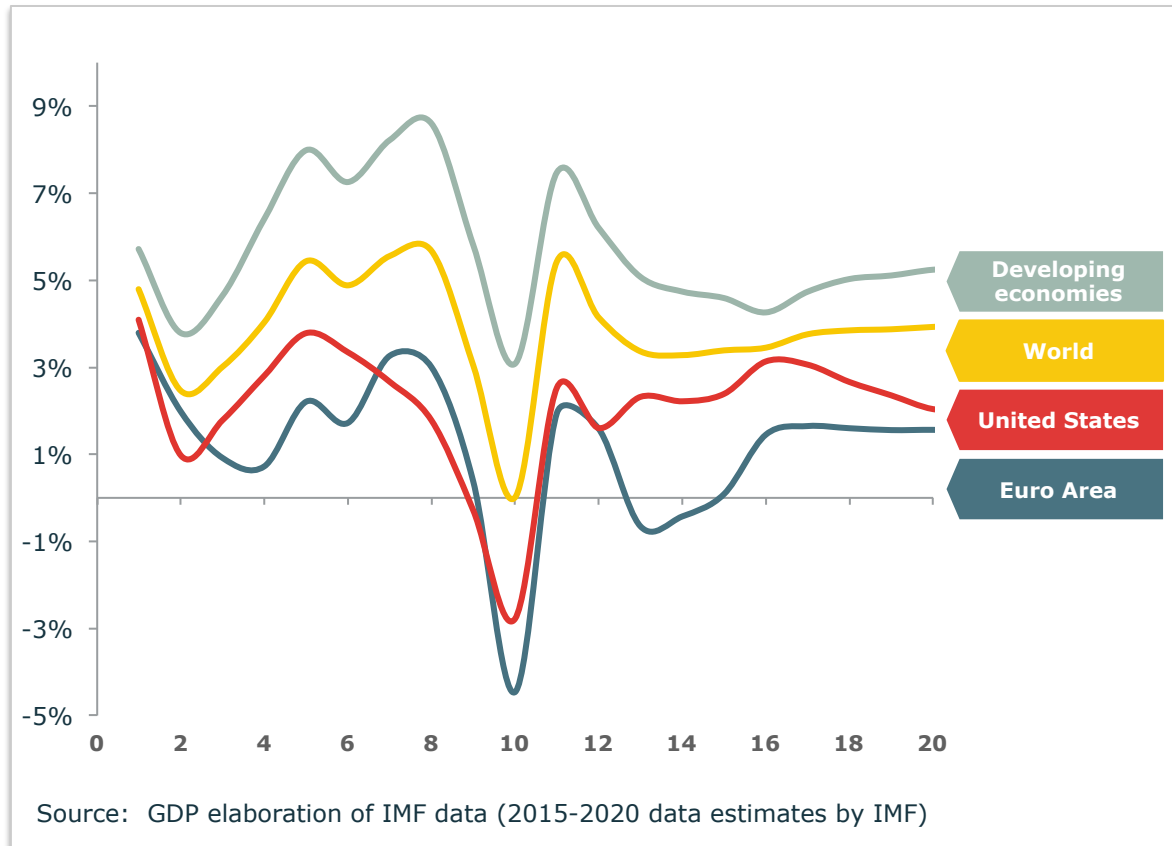
# Global growth in 2014 was lower than initially expected

- Growth picked up only marginally in 2014, to 2.6 percent, from 2.5 percent in 2013
- The recovery has been weaker than anticipated, partly for one-off reasons, with a string of disappointing growth outturns in the Euro Area, Japan, parts of emerging Europe (especially Russia) and Latin America
- While activity in the United States and the United Kingdom has gathered momentum as labour markets heal and monetary policy remains extremely accommodative
- China is undergoing a carefully managed slowdown
- The key features of the lacklustre global recovery have been accommodative monetary policies, falling commodity prices, and weak trade
- Complex forces that affected global activity in 2014 are still shaping the outlook: medium- and long-term trends, global shocks, and many country specific factors

Source: World Bank

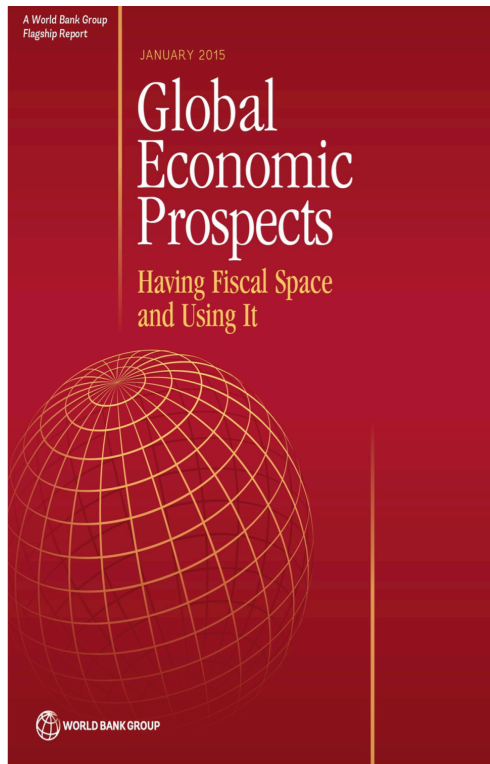
# Global growth is forecast to remain moderate and uneven

## Real GDP Growth (percentage change)




- Forecast of global growth:
  - 3.5% in 2015 and 3.8% in 2016
  - Uneven prospects across the main countries and regions
- Growth in **emerging market** economies is softening
- The outlook for advanced economies is showing signs of improvement
  - **United States** and Canada: A solid recovery, growth is projected to reach 3.1 percent in 2015 and remain 3.1 in 2016
  - In the **Euro Area** there are sign of a pickup, but risks of prolonged low growth and low inflation remain

# Advanced and developing economies have an important structural reform agenda



*"The sharp decline in oil prices means that policymakers could implement subsidy and tax reforms to help rebuild fiscal space or finance better- targeted pro-poor policies while removing distortions that hinder activity. The challenge now is for policy- makers to seize this opportunity"*



## Interim Economic Assessment

18 March 2015

### Tailwinds driving a modest acceleration... but storm clouds on the horizon?

*Growth prospects in the major economies look slightly better than at the time of the OECD November 2014 Economic Outlook, but the near-term outlook is still one of moderate, rather than rapid, world GDP growth. Lower oil prices will boost global demand and have created conditions for many central banks to lower interest rates. Bold and open-ended action by the European Central Bank has boosted asset prices in the euro area and added to easier global financial conditions.*

*The favourable tailwinds create an opportunity for the euro area and Japan to get back to somewhat stronger growth rates, and on balance the most recent indicators are encouraging. In the United States, a cyclical recovery continues, although one-offs like the severe winter weather in the Northeast may disrupt the quarterly profile of growth. Over the next two years India is set to grow faster than China, where growth is slowing towards the official target of around 7%. Oil and commodity exporters are facing weaker growth prospects as the result of lower prices.*

*"Lower oil prices will boost global demand and have created conditions for many central banks to lower interest rates"*

Source: The World Bank Global Economic Prospects, January 2015 & OECD Economic Outlook Mar 2015

# Macroeconomic policy requirements vary from country to country

- The recovery remains fragile in a number of advanced economies, marked by weak investment, and medium-term growth is low in many economies. Raising actual and potential output therefore continues to be a general policy priority.
- In many advanced economies, accommodative monetary policy remains essential to prevent real interest rates from rising prematurely
- In many emerging market economies, With limited fiscal space, a general rebalancing of fiscal policy through budget-neutral tax changes and reprioritization of spending can help support growth
- Lower oil prices also offer an opportunity to reform energy subsidies and taxes in many oil exporters and importers



Source: IMF World Economic Outlook, April 2015

# Foreign Direct Investment



# FDI in context

- FDI and the global economy: Source and destination analysis
- Development of FDI trends
- Business drivers for FDI: cost, market access, resources, technology
- FDI in world regions



# What is FDI?

- **FDI inflows and outflows** comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to a FDI enterprise, or capital received by a foreign direct investor from a FDI enterprise. **FDI includes the three following components: equity capital, reinvested earnings and intra-company loans.**
  - **Equity capital** is the foreign direct investor's purchase of shares of an enterprise in a country other than that of its residence.
  - **Reinvested earnings** comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.
  - **Intra-company loans** or intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.
- Data on FDI flows are presented on net bases (capital transactions' credits less debits between direct investors and their foreign affiliates). Net decreases in assets or net increases in liabilities are recorded as credits (with a positive sign), while net increases in assets or net decreases in liabilities are recorded as debits (with a negative sign). Hence, FDI flows with a negative sign indicate that at least one of the three components of FDI is negative and not offset by positive amounts of the remaining components. These are called reverse investment or disinvestment.

## What is FDI Stock?

FDI stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprises.

Source: UNCTAD, WIR 2008

# What is FDI – foreign direct investment?



- Long term investment
- Fixed capital investment in equity: voting shares, physical assets 10% +
- Acquisition of another business
- Usually involves the creation of jobs



- Greenfield investments
- Expansions
- Mergers and acquisitions
- Joint ventures



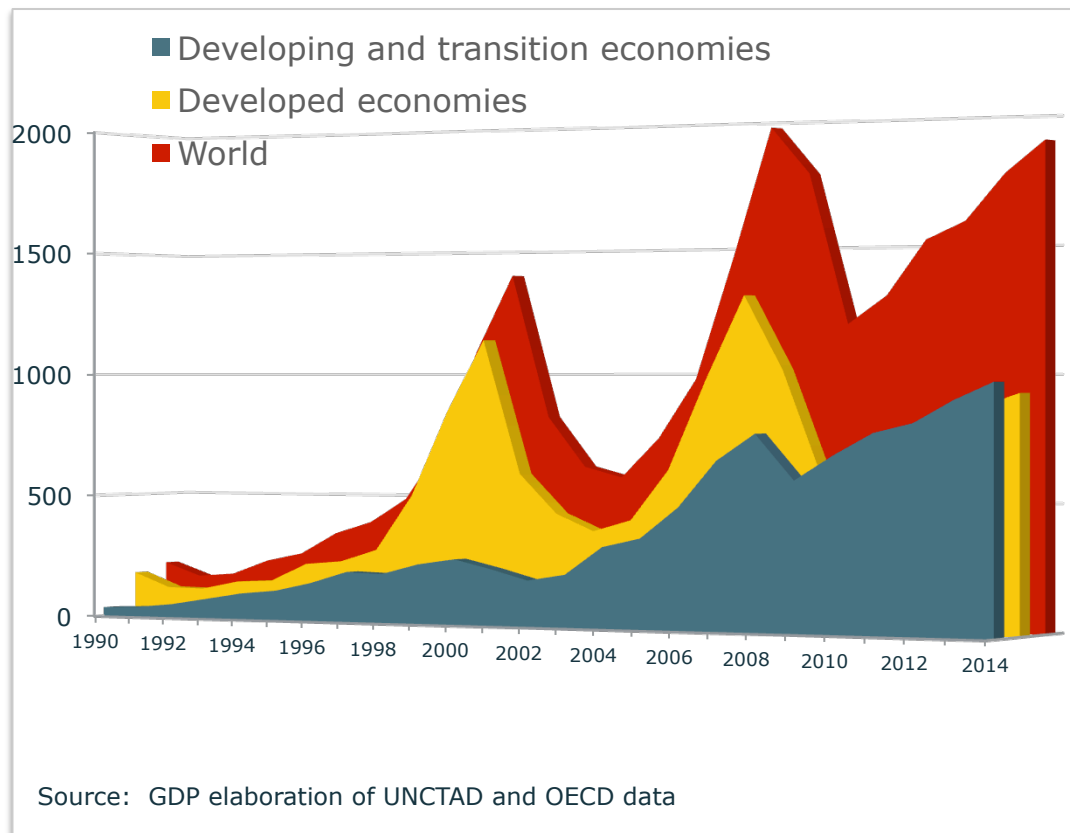
- Short term share purchases
- Short term financial investments
- Fixed capital investment in voting shares, physical assets <10%
- Loans and finance



The corporate choice of entry or expansion into markets (in many cases through outsourcing or other contractual means) defines the impact on their financial control of these activities and also the FDI flows.

# World FDI overview

## Inward flows



### History

1. FDI exploded in mid 90s
2. Peak FDI in 2000
3. Dot com tech crash in 2001
4. New FDI peak in 2007, crash in 2008
5. 2012 – starts recovery

### Trends

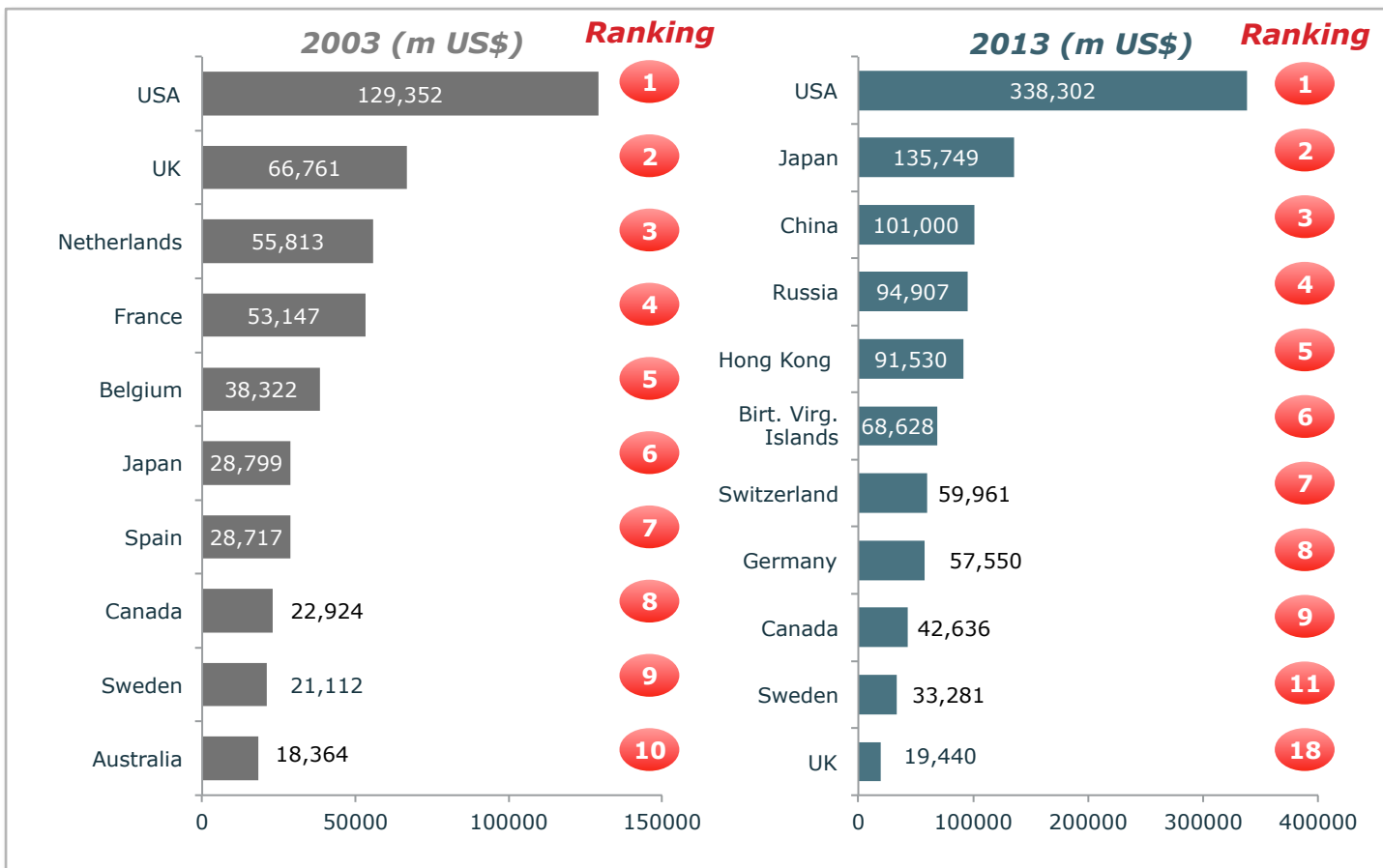
6. Collapse of FDI in mature markets
7. Almost same levels of FDI in developed and developing countries
8. Indications suggest that developing and transition economies will continue to keep up with the pace of growth in global FDI in the medium term
9. New forms of FDI and business investment

### Facts

10. Very little FDI is truly mobile and contestable.
11. As much as 50% of all FDI is M&A; 80% of FDI can be re-investment
12. Increasing role of new actors like sovereign wealth funds in M&A deals
13. New forms of investment do not register as FDI

# China has become an important investment source

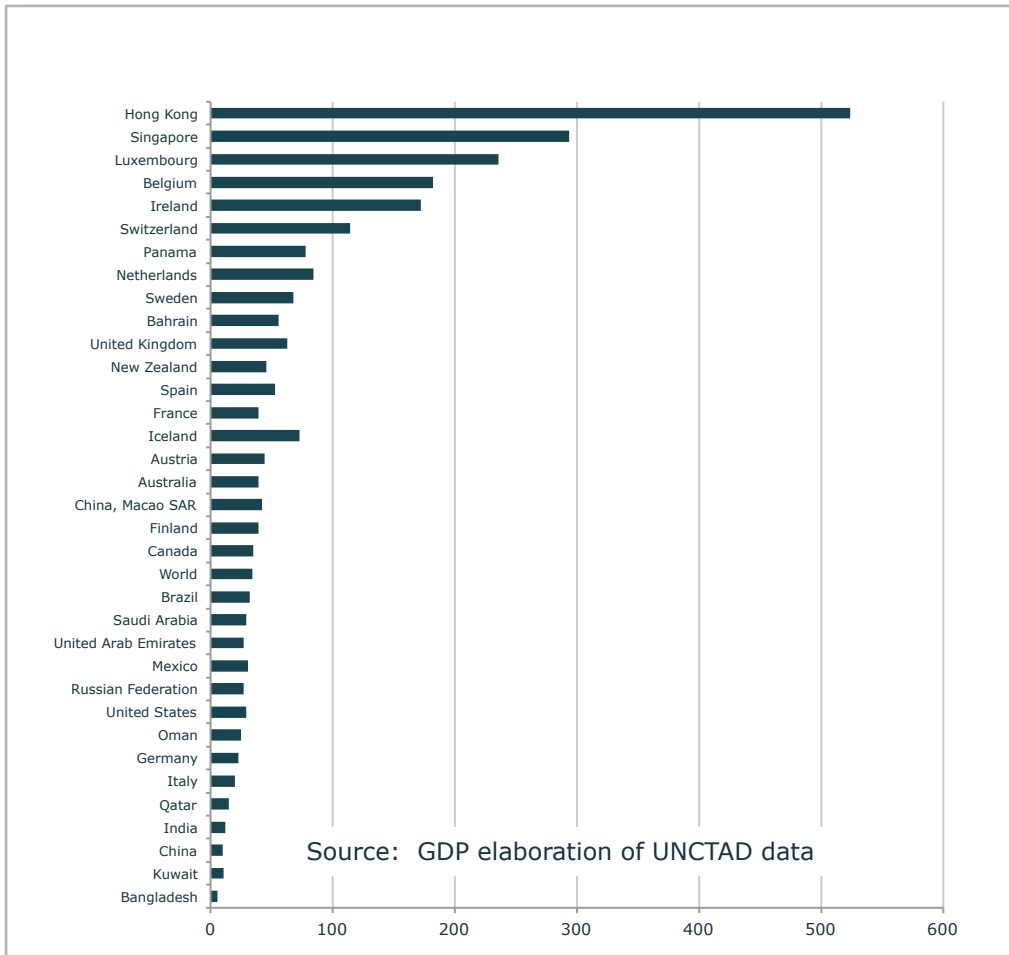
## Top 10 outward investors



- Top five outward investors: USA, Japan, China, Hong Kong and Russia account for 54% of total outward flows
  - In 2003 no developing country ranked among top investors, in 2013 China invested 100 billion abroad
- Outward FDI from Swedish investors remains important, in 2013 it represent 2.4% of global, occupying 11<sup>th</sup> position

# How internationalised is your economy?

## FDI Inward stock as percentage of GDP (2013)



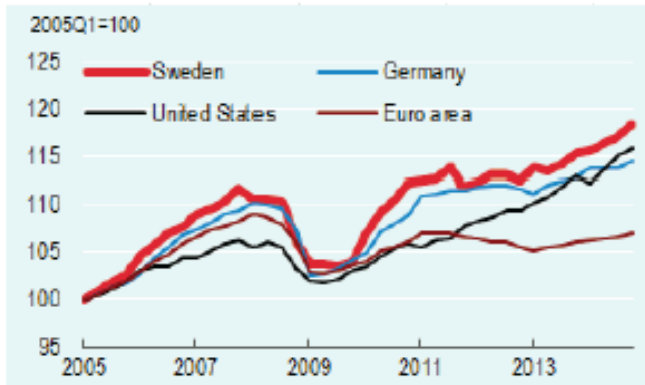
***...FDI stock in economies of similar size (population, or GDP) often have much greater levels of FDI exposure...***

- World average FDI inward stock is 34% of GDP
- USA is only 29% of GDP despite being the largest recipient of FDI
- Higher inward FDI means a more liberalised economy, with higher exposure to global opportunities and threats

# Sweden: working on strengths and opportunities

# Sweden today

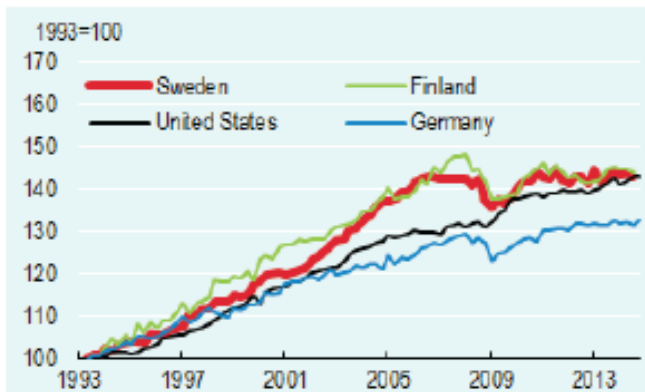
**The economy has been resilient**  
Geal GDP



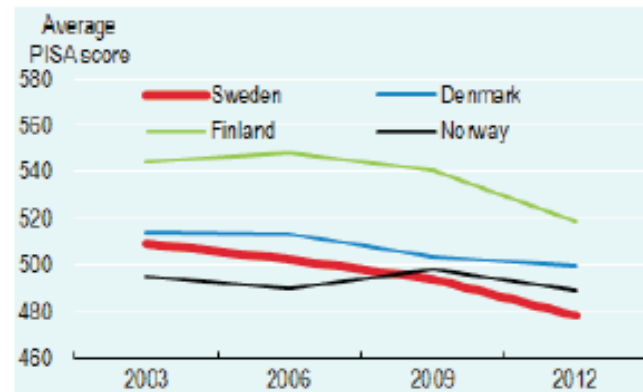
**Labour market performance is mixed**  
Labour force and employment



**Productivity has slowed**  
Real GDP per hour worked



**Educational results have weakened**  
PISA results in the Nordics

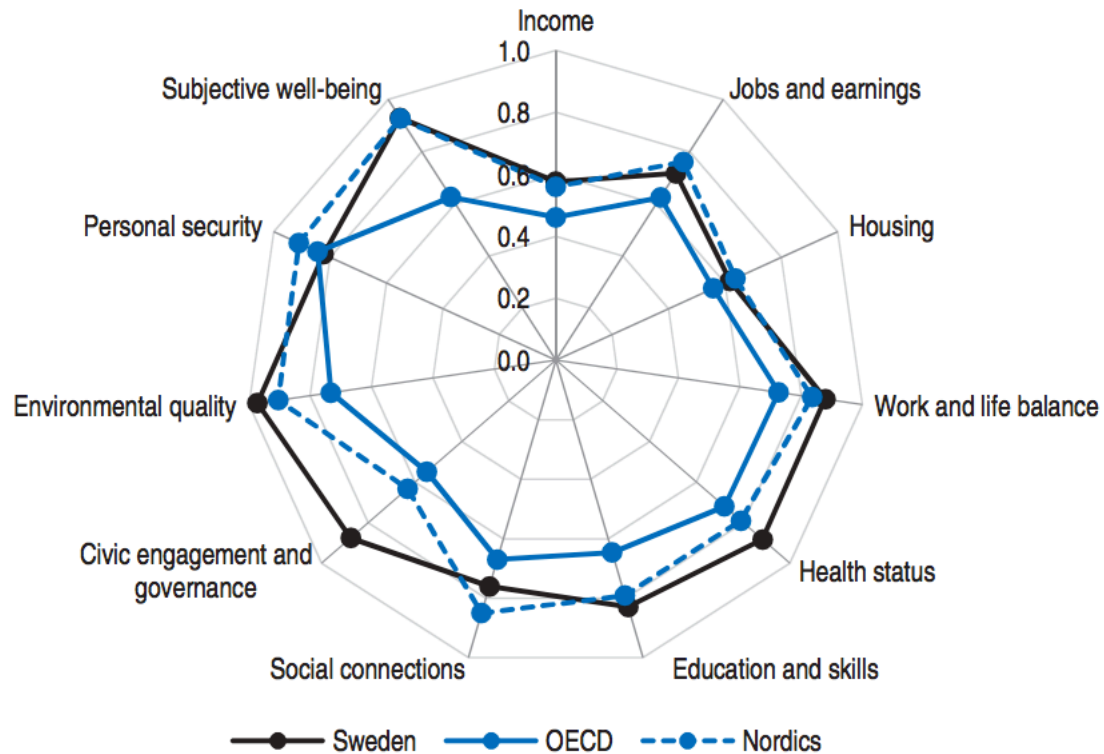




# Sweden today

Figure 2. **Well-being is high in Sweden**

OECD Better Life Index<sup>1</sup>



# Sweden today

- Sweden is on the innovation frontier. Raising productivity further will depend on framework conditions and co-ordination of research and innovation policies.

**Stockholm**  
The Capital of Scandinavia

## The Stockholm Cleantech Hotlist

**Book a meeting!** Looking for business opportunities? **YES, CONTACT ME**

The Stockholm Cleantech Hotlist features a carefully selected list of some of the most interesting Cleantech companies in one of the world's leading tech regions. Curated by Stockholm Business Region Development, the list is a useful tool for investors who seek an up-to-date overview of the Cleantech sector in Stockholm. The hotlist is updated continuously.

[Request full version as PDF](#)

[More facts about the hotlist](#)

**Hotlist view**

Category

**Do you want to add a company?**

Should your company be on the list? Or do you know of a rising star that should be here? Welcome to submit your nomination!

**NOMINATE**

# Sweden today



- Sweden's main comparative advantage is in knowledge-intensive activities.
- Investing in skills and education is essential to foster growth and contain inequalities.

# Sweden today

# ASSET

Association of Swedish Environmental  
Technology Industries

*"...Strong immigration provides human resources which will support economic growth if labour market inclusion is successful. This potential is, however, currently underused..."*

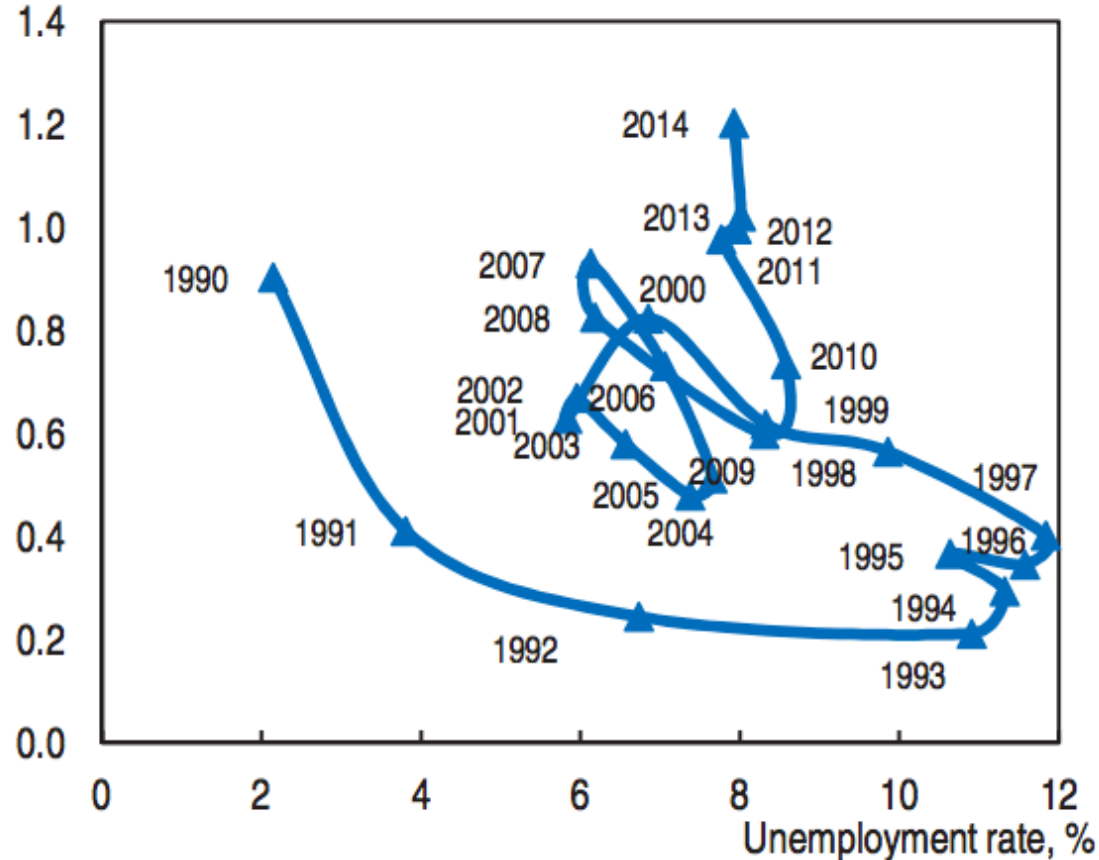
ASSET is the umbrella organisation for the Swedish environmental technology sector. We strengthen Swedish cleantech companies through business driven collaboration.

# ENVIROSWEDEN

# Sweden today

Job vacancy rate, %

**F. The Beveridge curve has shifted outwards**



- The Beveridge Curve measures the relationship between unemployment and vacancy rates.
- Normally, high vacancy rates are associated with low unemployment, and low vacancies with high unemployment.
- If the curve shifts outwards, this suggests that matching workers to vacant jobs is becoming more difficult, pointing to a higher structural unemployment rate.

# International business prospects

# New business trends

- Rightsizing
- Outsourcing
- Offshoring
- Licensing
- BPO
- Nearshoring
- Reshoring
- Franchising
- Sovereign Wealth Funds SWF
- State owned enterprises SOE



Gearing for Growth: Future drivers of corporate productivity  
See EIU report in dropbox

# What IPAs like Invest Stockholm should do



# Implications for FDI promotion

- **Are you focusing at the right target markets?**
  - Sectors; manufacturing vs. services; business activity; source markets
- **Are you promoting your resources and assets effectively?**
- **Be realistic**
  1. Know your region's position globally, and locally
  2. Develop and promote value based niches
  3. Know your investors
  4. Understand the (dis)investment drivers
  5. Respond with improved economic development strategy and service
  6. Go radical on implementation
  7. Create region loyalty



# Key abbreviations and acronyms

1. AGOA African Growth and Opportunity Act (of the United States)
2. AMU Arab Maghreb Union
3. ASEAN Association of Southeast Asian Nations
4. B2B business to business
5. B2C business to consumer
6. BIT bilateral investment treaty
7. BPO business process outsourcing
8. BRIC Brazil Russia India China
9. CARICOM Caribbean Community
10. CBI Cross Border Initiative
11. CEMAC Economic & Monetary Community of Central Africa
13. CIS Commonwealth of Independent States
14. COMESA Common Market for Eastern and Southern Africa
15. CSR corporate social responsibility
16. DFI development finance institution
17. DTT double taxation treaty
18. EAC East African Cooperation
19. ECA export credit agency
20. ECLAC Economic Commission for Latin America and the Caribbean
21. ECOWAS Economic Community of West African States
22. EIU Economist Intelligence Unit
23. EMU European Monetary Union
24. EPA economic partnership agreement
25. EU European Union
26. FDI foreign direct investment
27. FTA free trade agreement
28. GATS General Agreement on Trade in Services (WTO Agreement)
29. GCC Gulf Cooperation Council
30. GDP gross domestic product
31. GFCF gross fixed capital formation
32. GLC government-linked company
33. IAIGC Inter-Arab Investment Guarantee Corporation
34. ICSID International Centre for Settlement of Investment Disputes
35. ICT information and communications technology
36. IDP investment development path
37. IGAD Inter-Governmental Authority for Government
38. IIA international investment agreement
39. IOC Indian Ocean Commission
40. IPA investment promotion agency
41. IPR intellectual property rights
42. ISDS investor-State dispute settlement
43. ISO International Standards Organization
44. IT information technology
45. LAC Latin America and the Caribbean
46. LDC least developed country
47. M&A merger and acquisition
48. MERCOSUR Mercado Común del Sur (Southern Common Market)
49. MIGA Multilateral Investment Guarantee Agency
50. MFA Multi-Fibre Arrangement
51. MFN most-favoured nation
52. MNC multinational corporation
53. MNE multinational enterprise
54. NEPAD New Partnership for Africa's Development
55. NIE newly industrializing economy
56. NOI net outward investment
57. OECD Organisation for Economic Cooperation and Development
58. OEM original equipment manufacture
59. R&D research and development
60. SACU Southern African Customs Union
61. SADC Southern African Development Community
62. SAFE State Administration of Foreign Exchange (China)
63. SSC shared services centre
64. SME Small and medium-sized enterprise
65. SPE special purpose entity
66. TNC transnational corporation
67. TPO trade promotion organization
68. TRIPS Trade-related Aspects of Intellectual Property Rights (WTO agreement)
69. UNCTAD United Nations Conference on Trade and Development
71. UNDP United Nations Development Programme
72. UNIDO United Nations Industrial Development Organization
73. WAEMU: West African Economic & Monetary Union
74. WAIPA World Association of Investment Promotion Agencies
75. WTO World Trade Organization