

The Globalisation of Swedish Economy

ULF JAKOBSSON

MARCH, 2007



Preface

Not so long ago, power over Swedish economy was embodied by a handful of people. An important part of the conceptions surrounding the "Swedish model" was that the future development of the Swedish economy was to be a result of negotiations between these men and the leaders of the political and trade union branches of the Labour Movement. This conception was certainly exaggerated, but it contained a grain of truth.

Over the course of the last two to three decades, the basis for this old Swedish model of negotiation has changed radically. The most important change is globalisation, which leads to the strategic decisions on the future of a company to an ever greater extent being taken against the backdrop of a global perspective.

Sweden is one of the countries in which the trend towards increased globalisation of recent years has been strongest. The aim with this treatise is to shed light on the main features of this change, seen from a Swedish perspective.

Contents

WHAT IS NEW?.....	6
FREE MOVEMENT OF CAPITAL.....	6
LOWER TRADE BARRIERS AND FREE RIGHT OF ESTABLISHMENT IN THE INTERNAL MARKET OF THE EU	6
NEW TECHNOLOGY AND BETTER-FUNCTIONING MARKETS CONTRIBUTE TO FRAGMENTATION OF THE VALUE CHAIN	6
NEW TECHNOLOGY CONTRIBUTES TO THE GROWTH OF THE EXTENT OF THE COMPETITIVE SECTOR	7
INTEGRATION OF LARGE, ADVANCED LOW-COST COUNTRIES INTO THE WORLD ECONOMY	7
STATISTICAL AND EMPIRICAL ILLUSTRATION OF THE GLOBALISATION PROCESS.....	9
OUTSOURCING AND OFFSHORING.....	11
HIGH AND LOW-COST ACTIVITIES	12
INTERNATIONALISATION OF OWNERSHIP	14
THE TRANSFORMATION OF OWNERSHIP IN SWEDISH ECONOMY	17
FOREIGN ACTIVITIES OF SWEDISH COMPANIES.....	19
INTERNATIONALISATION OF OWNERSHIP AND THE LARGEST SWEDISH COMPANIES.....	21
INTERNATIONALISATION OF THE LARGE COMPANIES	26
DISCUSSION	29

THE GLOBALISATION OF SWEDISH ECONOMY

The Swedish economy has long been dependent on trade with the surrounding world. Swedish companies were also early to start establishing themselves abroad. Both of these circumstances have contributed to Swedish prosperity. Because Sweden is a small country, a company which wants to grow as a rule cannot rely on the Swedish market. It is therefore safe to say that both trade and establishment abroad have been a necessity for the growth of Swedish enterprises.

With regard to trade, reciprocity has always been a matter of course in Swedish politics. At the same time as Swedish enterprises have grown by exporting to foreign countries, Sweden has supported free trade, with Swedish markets being open to foreign companies. A result of this has been that Swedish industry has learnt to exist and develop in the face of tough international competition. This has benefited the entire Swedish national economy.

As for the service sector, the picture has been more mixed. Trade opportunities have been limited on account of technical and communication reasons. Trade has also been limited by various types of trade barriers. These circumstances long made it natural in Sweden to speak of the protected sector and the competitive sector – the “S” and “K” sectors, for the Swedish words for protection and competition. The latter consisted of the manufacturing industry, while the former was primarily comprised of agriculture, the service sectors and the construction industry. Technological development and Sweden’s membership in the EU have contributed in recent years to an increased competition in these sectors. On the whole, these sectors are, however, still more protected than the industry.

With regard to foreign investments and ownership abroad, Swedish policy was for a long time strikingly asymmetrical. While in particular the large Swedish industrial companies grew through extensive foreign acquisitions, there were great obstacles to foreign acquisitions in Sweden itself. In certain areas, foreign ownership was outright prohibited. Foreigners were not allowed to own Swedish land, either directly or indirectly. A large portion of the shares on the Swedish stock exchange were so-called restricted shares, thus inaccessible for foreign acquisition. A foreigner who wished to acquire non-restricted shares had to find his way through the labyrinthine Swedish foreign exchange regulations.

Swedish regulations of foreign acquisitions were among the toughest in the industrialised countries, although considerable obstacles existed in other countries, as well. Swedish protection of the “S” sector also had its counterparts in many other countries.

Towards the end of the 1970’s and during the 1980’s, a wave of deregulation swept over the economies of the developed industrialised countries. In Europe, much of this was related to the creation of the internal market of the EU.

In part due to pressure from the EU, Sweden found itself unable to avoid being involved in these developments. The 1980’s became a period of extensive deregulation in our country. As a result of this, by the end of the 1980’s, Sweden was a full participant in a world of free capital movement and highly liberalised service trade. At that time, we found ourselves at the beginning of the development of intensified internationalisation. The term *globalisation* is often used to characterise this development. The concept of globalisation is based on the presumption that

international division of work is determined based on decisions about production, investment and consumption which take into consideration the entire global line of business. The starting point is that technical developments, particularly in ICT¹, have in the context of deregulation and organisational changes made global strategies not only possible, but many times necessary.

Globalisation has fundamentally changed the prerequisites for Swedish economy. During the past two or three decades, the companies operating in Sweden have increasingly had the entire world as a field of operation. This applies to all dimensions of the companies' activities: production, employment, sales and ownership. The aim with this treatise is to shed light on the extent of this change. In order to give these developments a concrete form, we will in particular study the development of the 50 largest companies in Swedish economy. Before we do this, we will offer a general illustration of the development of globalisation from an international and a Swedish perspective.

¹ Information and Communications Technology

What is new?

Before we proceed to describe actual developments, we will review point by point a number of factors which have contributed to the fact that we have, since the middle of the 1980's, been presented with a qualitatively new situation with respect to the internationalisation of the economy.

Free movement of capital

During the first post-war decades, international movement of capital was strictly regulated. This meant that in the cases when foreign acquisitions were not outright prohibited, they often were subject to granting of various types of permits. Stock exchanges in the different countries were also in most cases strictly national. This meant also that no functioning international capital markets existed. At times this led to the fact that individual countries could find it difficult to finance trade balance deficits, which placed considerable constraints on the economic policies of these countries.

During the 1980's, the countries liberalised their policies with respect to cross-border movement of capital, so that we – at least in the developed industrialised countries – finally achieved something which could be called free movement of capital across borders. Among other things, this means that we have obtained genuinely international markets for stocks and bonds and that a Swedish company can, for example, be listed on the stock exchanges of London or New York.

This also means that, in principle, there are no obstacles to cross-border corporate acquisitions. The legal review of corporate acquisitions performed nowadays is related to the question in what extent the acquisition affects the competitive situation in different markets. In such a review, an international acquisition may often fare better than a strictly domestic acquisition. The result of this has been that, during the most recent decades, we have seen a very rapid internationalisation of ownership.

Lower trade barriers and free right of establishment in the internal market of the EU

During the entire post-war period, trade has been liberalised through a continuous lowering of customs duties. In this respect, the internal market of the EU has led to a qualitatively new situation by counteracting, in a more powerful way than previously, the so-called non-tariff trade barriers, i.e., trade barriers to goods and services raised by different types of national regulatory frameworks. The internal market of the EU has also contributed to freer trade in services and increased competition in the whole area by means of a free right to establishment in the whole internal market of the EU for EU-based companies.

New technology and better-functioning markets contribute to fragmentation of the value chain

The classic Swedish paper or pulp mill controlled all parts of the value chain, from the raw material, the source of which it often owned, to final production. Moreover, all operations were carried out within a geographically defined area. All added value of the final product was created by one and the same company in one and the same place. Until not long ago, the major companies bore the traits of “the old mill”. Large companies were often described as islands of planned economy within the market economy. The new ICT technology and better-functioning markets in many areas have

contributed to a possibility for large companies to outsource considerable parts of their operations in the market.

This means that the production process has become more fragmented. Each specialised part of the value chain can be produced within the framework of a business that is specialised in that particular task. Specialisation also involves localisation of operations. Each individual part of the production process can thus be localised to the region with the best conditions for that particular production segment. Fragmentation of the production process leads, moreover, to the fact that global restructuring obtains a considerably greater scope than previously. We are going to get back to this point.

New technology contributes to the growth of the extent of the competitive sector

Deregulation and new technology contribute to the exposure of an increasing share of the service sectors to international competition through trade. This also means that a growing share of the service sector can become a target for outsourcing. The fundamental factor behind this development is the development in ICT. New technological breakthroughs have made it impossible to maintain old regulations or have made them appear to be less meaningful.

The transport, telecom services and media markets have all become competitive by means of this combination of changes. In addition, Internet has introduced an element of international competition in the retail of shopping goods. Reduced costs of transportation furthermore lead to the increased importance of trade in tourism services.

American economist Alan Blinder has analysed the potential for outsourcing in the service sector taking a starting point in the technological changes we have pointed out here. He concludes, with a degree of simplification, that the traditional criterion as to whether a product could become the object of international trade was whether it could be “placed in a box”. The new technology means, as we have seen, that the scope of products that can become the object of international trade has been augmented by those products that can be delivered in electronic form. This signifies a very considerable expansion of the scope of international trade and thus also of potential relocation of operations.

Nor are the limits on expansion set for all time. Through technological change and increased digitalisation of operations in all areas of the economy, the proportion of products which can be traded and outsourced will grow in the foreseeable future. The great dividing line between what can and what cannot be traded internationally is now determined by whether production requires local presence, which, when it comes to services, means that production must occur “person to person”.

Integration of large, advanced low-cost countries into the world economy

Labour costs in the old Eastern European economies are lower than those in Sweden by a factor of ten. In China and India, it may, in some areas, be a question of a factor of thirty or more. If we consider trade between these countries and the established industrialised countries, the conditions of the *Heckscher-Ohlin factor price equalisation theorem* should be reasonably well met. According to this central theorem in foreign trade theory, the transformation process would not be finalised until the wages of industrial workers in low-cost countries become equal to those in Europe. This has been the development on earlier occasions when advanced low-cost countries have entered

the scene. Japan, Korea, Hong Kong, Taiwan and Singapore all now have wage levels that are comparable to those of Europe.

The potential supply from China and India is however enormously greater, which considerably boosts the pressure for transformation. American economist Richard Freeman has pointed out that the aggregate effect of the integration of China, India and the former Soviet Union into the world economy would mean the addition of a workforce of 1.5 billion people, a doubling of the total world workforce. Freeman has therefore coined the expression *The Great Doubling* to describe the process.

Economic conditions have thus undergone fundamental change in several areas. As we are going to see, this has also resulted in great changes in the world's, as well as the Swedish economy. The debate has focused on competition from the low-wage countries and on the threat this competition can pose to the companies in our country. Most studies, however, indicate that this particular aspect of globalisation does not have great demonstrable effects. One important reason for this would be that the greatest changes in this area still lie ahead. For the time being, the restructuring of the economy of which Sweden is part occurs to a much greater extent within the established industrialised countries.

Also here, it is possible that most developments lie ahead of us. An important difference between Europe and the U.S.A. is that most industries in the U.S.A. have two or three centres, while the corresponding industries in Europe often have as many centres as there are countries. As the internal market of the EU gets more and more developed, it can be expected that we Europeans will see a restructuring as a result of which Europe will become increasingly similar to the U.S.A. This development will contribute to a higher efficiency of the European economy, but we have an extensive restructuring process ahead of us before we reach that stage.

Statistical and empirical illustration of the globalisation process

Even if most of the restructuring of the economy lies ahead of us, developments during the last decades have entailed a considerable deepening of international integration. In many respects, Sweden is among the countries whose economies demonstrate the highest degree of integration with other economies.

This is due to the fact that Sweden has traditionally applied a policy in favour of free trade and that the large Swedish companies were highly internationalised at an early stage. Both of these circumstances can in turn be explained by the fact that, in a small country like Sweden, a specialised economy cannot develop if it is only based on the domestic market. It is therefore natural that we find international integration to be most advanced in small countries. It is these countries that have the most to gain from extensive international integration.

In this section, we will statistically illustrate the development of international integration during the last decades from an international and a Swedish perspective. A natural starting point is to study the development of world trade during the last decades. This development is illustrated in *figure 1*, which shows world trade as a proportion of world GDP since 1970.

Figure 1. World trade as a proportion of world GDP 1970-2005 (per cent)

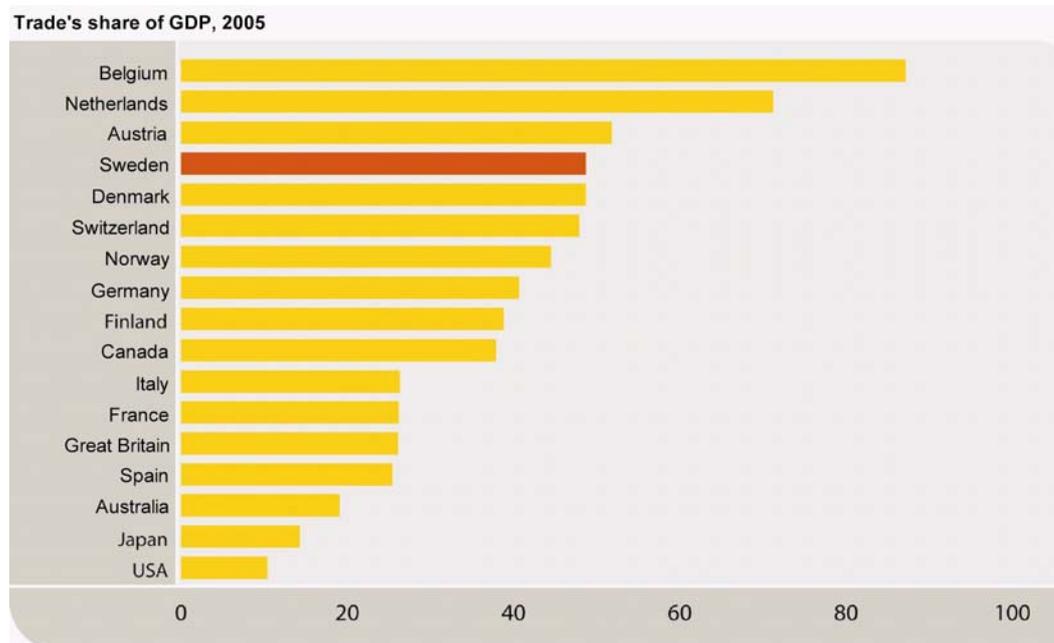


Source: WTO

We find a trend of a growing proportion over the entire period. The 1980's were a phase of consolidation, with stagnation at a relatively high level. The strong increase resumed after that. We would particularly like to point out a couple of factors which have been of importance in the development in recent years. First of all, especially the new Asian economies have contributed to the increase in world trade, in part due to considerable openness in their own economies. Secondly, fragmentation of the value chain and a transition to cross-border network production have led to a strong increase in trade in intermediary products. We are going to get back to this.

During this entire process, Sweden has maintained its position as one of the world's most open economies. The situation in this respect at the end of the period is illustrated by *figure 2*.

Figure 2. Trade's share of GDP in the developed industrialised countries in 2005 (per cent)



Source: Each country's official statistical office

As indicated by the figure, Sweden belongs to the group of the world's most open economies with respect to trade. The very high figures for Belgium and the Netherlands are to be viewed against the backdrop of the fact that the large seaports of these countries handle extensive transit traffic, which contributes to inflated export and import figures.

Outsourcing and offshoring

Earlier, we pointed out the importance cross-border network production has had for the rapid growth of trade during the last decade. This phenomenon is closely related to the fragmentation of the value chain and the increasing use of *outsourcing* and *offshoring* in the economy. While it is clear from various micro-studies and from direct observations of companies that the process of which we speak is important, it is more difficult to capture it on the macro level with one or two measurements taken from existing statistics. We can get a certain idea of the extent of internal corporate offshoring by studying foreign direct investments. We will later see that we have had a considerable increase here over the last decades. This measurement, however, captures only offshoring that occurs within existing companies. No aggregate measure of outsourcing or offshoring through outsourcing is available. On the other hand, it is possible to capture the total effect of offshoring to individual countries by studying the development of imported feedstock to each country. One such study has been presented by Sinn (2006). It is summarised in *table 1*.

Table 1. Share of foreign intermediary goods and services

Countries	Year	Proportion (%)	Change
Italy	1995	17	
	2000	19	+2
Denmark	1995	22	
	2000	26	+4
Finland	1995	20	
	2000	24	+4
Austria	1995	25	
	2000	29	+4
Netherlands	1995	29	
	2000	30	+1
Sweden	1995	23	
	2000	28	+5
Germany	1995	20	
	2000	26	+6

Source: Ces Ifo (2006)

With the exception of Italy, the countries included are countries in which the share of trade in GDP is high. The table demonstrates that the share for all countries is high and growing, which can be interpreted as a sign that cross-border outsourcing is a significant and growing phenomenon in the studied economies. We can also ascertain that Sweden has a leading position both with regard to extent and relative growth of this type of trade. The measurement is taken as the share of the total volume of intermediaries. It should be noted that the sum total is also growing. This reflects the fact that outsourcing and network production in the country are growing in importance.

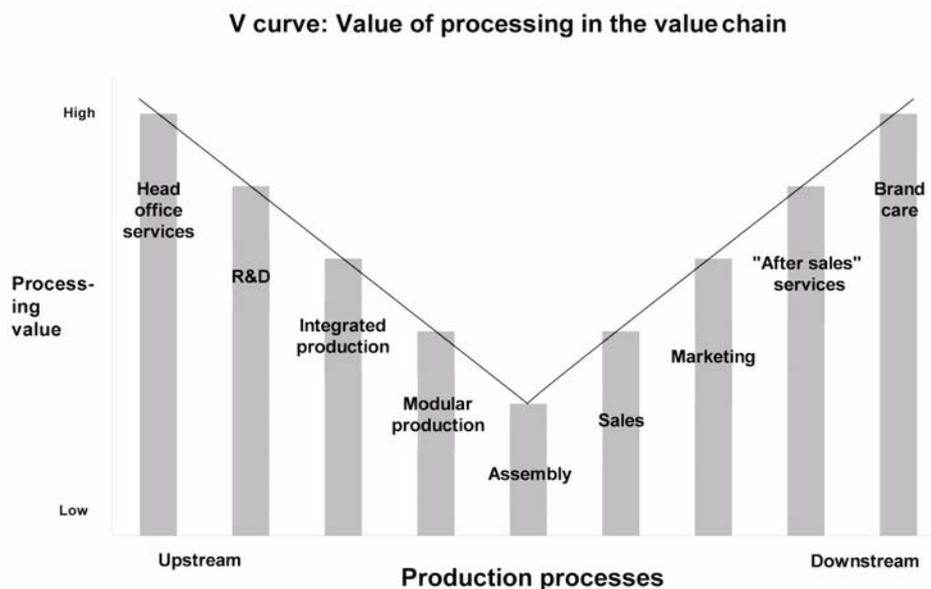
High and low-cost activities

During the period when restructuring was primarily horizontal, it appeared natural to differentiate between “high-technological” industries, which are high-processing and can bear high wage costs and “low-technological” industries that are low-processing and therefore cannot bear high wage costs and are sensitive to cost competition.

This way of viewing the matter gets less interesting when restructuring increasingly becomes vertical. An important driving force for vertical restructuring is precisely that, in a given industry, considerable differences may exist in the level of processing in the various parts of the value chain. For a high-technological product, the high degree of processing may lie in the content of the product, while the actual manufacturing process is simple. A product with low technological content may, on the other hand, have a complicated production process. The conclusion is that in order to differentiate between high-processing and low-processing activities, one should divide the processing chain into smaller parts. Using this starting point, one can divide the value chain in a standardised way according to the “V curve” shown in *figure 3*. It gives a stylised picture of the relationship between the different parts of the chain with regard to degree

of processing and capacity to pay wages. If one views the different parts of the company's activities as completely separable, it would be a natural ambition for a company in a high-cost country to only localise activities that are near the V curve's upper points to the home country, while activities farther down and in the middle can be localised to low-cost countries. In the same way, it would be a natural ambition for an advanced industrialised country to strive as much as possible to become the place where activities in the beginning and end of the V curve are localised. Should the country not succeed in this, it will be increasingly forced to compete with low costs in order to keep employment high.

Figure 3. Value of processing in the value chain



Source: Andersson T, Braunerhjelm P and Jakobsson U (2006) "Det svenska miraklet i repris?" SNS förlag

There are also plentiful examples of such strategies by individual companies. The American company Nike is often used as the typical example of such a strategy. The main office, design, marketing and brand care are located in the U.S.A., while practically all production is done in low-cost countries. Conditions are likely to be similar in most brand-name companies in the sports equipment branch. The same applies to several Swedish textile companies, which have been very successful in recent years: GANT, Peak Performance, Filippa K and Oscar Jakobsson to name the most prominent. What these companies have in common is a high brand profile and an investment in advanced and distinguishing design. The actual manufacturing of the products must, on the other hand, be a relatively simple process. It is not carried out in Sweden.

Electrolux is a large, established company that to an increasing extent works with *offshoring* within the company itself. Production for the European market is carried out in the low-cost countries of Eastern Europe. What is characteristic for production in Electrolux is that it is relatively simple and that there is nothing that is unique in the actual production process. The products are relatively mature and margins are very small. For these reasons, cost savings that can be effected by locating production in low-cost countries become almost imperative. Sony Ericsson is another Swedish example of companies acting in accordance with the V curve. The development and

design of mobile phones are carried out to a large extent in Sweden (Lund), while practically all manufacturing is located in other countries, where production costs are lower. This is an example of a product for which design is an advanced activity, while production and assembly of the product are relatively simple activities.

One conclusion to be made from the analysis would seem to be that well-nigh all manufacturing production, i.e., the classic industrial activity, would be ready to be moved out of Sweden. This is of course an overly simplified picture. There is still production activity which, even if located in Sweden, is able to keep up with international competition.

It often turns out that the production which is kept and developed in Sweden is often what is called in *figure 3* (the V curve diagram) *integrated production*, while it is often difficult to retain so-called *modular* production in Sweden². In the latter case, demands on the professional skill of the employees are low and specialisation required usually regards an individual production step.

In an *integrated production process*, on the other hand, the interplay between the components used in the product is more multifaceted. The manufacturing of motor cars and lorries is a typical example of products which are manufactured in an *integrated production process*. For example, the steering wheel of a car is connected to the car's steering, but the steering characteristics of the car are affected by a number of its other parts. These parts, on the other hand, do not only affect the steering characteristics. This complicated interplay between the different parts of the product result in the requirement for a high degree of professional skill and a multi-dimensional competence profile of the employees.

Usually, strong integration exists between design and development, on the one hand, and the production process on the other. The car must, for example, be designed in such a way that time required for the production process is kept low.

Also, the design of the car develops through an ongoing learning process within the production process. Toyota's production is often held forth as a successful example of such an interconnection between production and design.

In Sweden, Scania has in a very purposeful way developed its collaboration between production and design.

When development, design and production are integrated, the aggregate activity that results in a final product becomes very advanced and the most suitable localisation of this type of activity would be an advanced high-cost country. However, rapid development and the build-up of knowledge in the low-cost countries mean that the boundaries for which types of activities that clearly should be localised to the established industrialised countries may shift very quickly.

Internationalisation of ownership

One way of illustrating the extent of the internationalisation of ownership is to study the development of *foreign direct investments*. These come about, on the one hand, when a company establishes a new production unit abroad, green-field investments, and on the other through acquisitions and mergers (A&M). A&M refers to either two companies merging and forming a new one or one company taking over a part of another company's share capital. A&M constitutes by far the dominant part of foreign investments. Nowadays, these represent 85 percent of foreign direct investments worldwide.

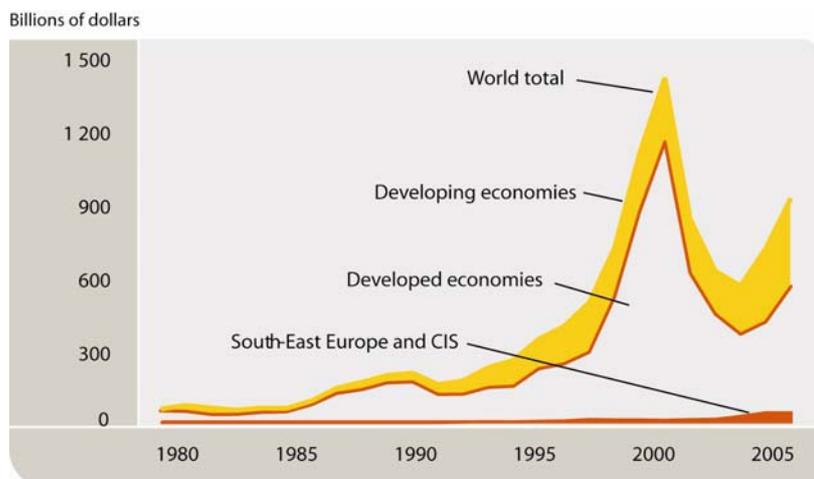
² These concepts were introduced by the Japanese professor Fujimoto, who has used them in studies of relocation of industrial activities in Japan.

A foreign direct investment is considered as such when a company has acquired such an influence over a foreign company that it *de facto* controls its activities. In practice, this is usually defined as ownership equivalent to at least ten percent of the share capital. Acquisitions of less than ten percent of the share capital are called portfolio investments and are considered purely financial investments.

One usually distinguishes between horizontal and vertical direct investments. Horizontal refers to investments in companies within the same industry or the same segment of the processing chain, while vertical refers to buyer or supplier companies. The former can be expected to dominate direct investments between developed countries, while the latter can be expected to be most common when levels of development and production costs differ between the countries.

Statistics of the development of direct investments thus provide a picture of the extent of changes in international ownership. *Figure 4* shows the total flow of direct investments in the world since the beginning of the 1980's. The picture demonstrates a very strong increase since the end of the 1980's. It also demonstrates that the majority of the host countries for investments are developed industrialised countries. The majority of direct investments also come from developed industrial countries. One conclusion that can be drawn from the previous discussion and from *figure 4* is that ownership has experienced strong internationalisation over the course of the last 15 years.

Figure 4. Total direct investments in the world 1980-2005



Source: UNCTAD based on its FDI/TNC database (www.unctad.org/fd)

This is another area in which Sweden is one of the most highly internationalised countries.

While Sweden for a long time had only significant flows of outgoing direct investments, both incoming and outgoing flows are, after the liberalisations of the 1980's, significant in an international perspective. This is illustrated by the summary below, which divides the developed industrialised countries into groups with regard to the size of their outgoing and incoming direct investments, respectively.

Table 2. Incoming and outgoing direct investments in developed industrialised countries

Developed countries: country distribution of FDI flows by range*, 2005

Range	Inflows	Outflows
Over \$50 billion	United Kingdom, United States and France.	Netherlands, France and United Kingdom.
\$10–49 billion	France, Netherlands, Canada, Germany, Belgium, Spain, Italy, Sweden and Czech Republic.	Japan, Germany, Italy, Spain, Canada, Sweden, Belgium, Norway and Ireland.
\$1–9 billion	Austria, Poland, Hungary, Israel, Denmark, Finland, Luxembourg, Norway, Portugal, Estonia, Japan, Iceland, Slovakia, New Zealand, Cyprus and Lithuania.	Denmark, Austria, Iceland, Luxembourg, Finland, Israel, Poland, Greece, Hungary and Portugal.
Less than \$1 billion	Latvia, Greece, Malta, Slovenia, Gibraltar, Ireland and Australia.	Czech Republic, Estonia, Slovenia, Cyprus, Lithuania, Slovakia, Latvia, Malta, New Zealand, United States and Australia.

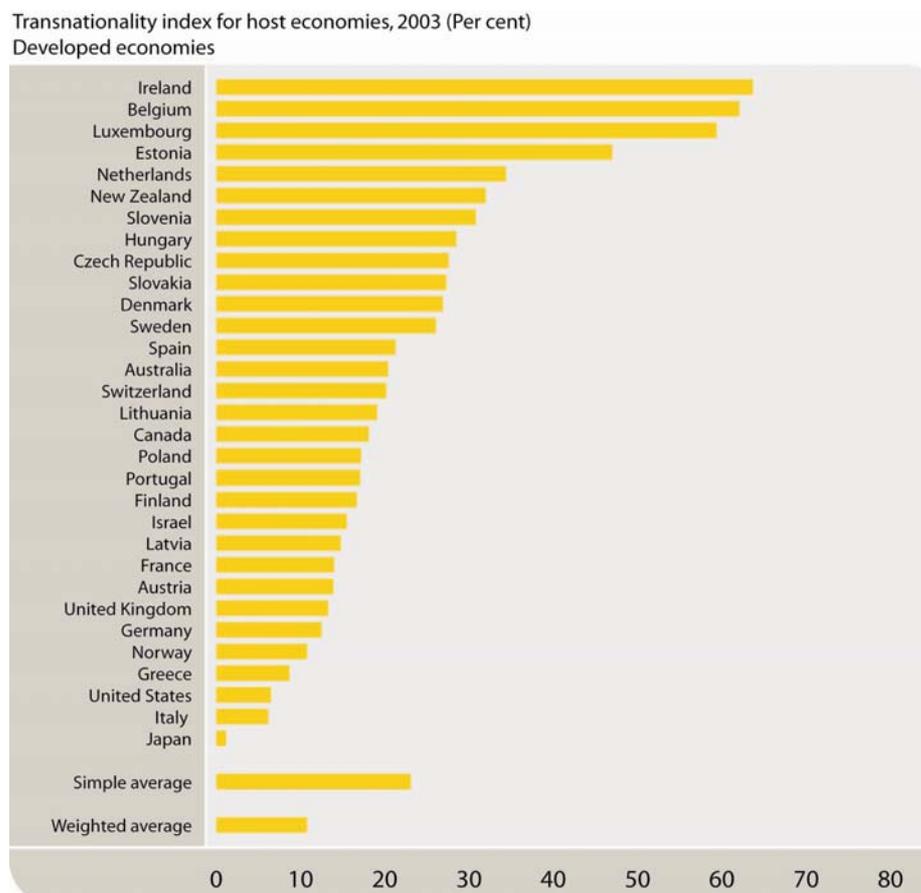
* Countries are listed according to the magnitude of FDI.

Sources: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1

In spite of the relatively small size of the Swedish economy, we are placed in the second highest group, both for incoming and outgoing direct investments.

The UN body UNCTAD, which annually publishes the World Investment Report, created in its latest edition a "Transnationality index", intended to reflect the importance of foreign ownership in each country.³ The values of the index for the different countries are indicated in *figure 5*.

³ The index is comprised of the following four percentages: Inflow of direct investments as a percentage of gross investments over the last three years (2001-2003); foreign-owned capital stock 2003 as a percentage of GDP; processing value of foreign subsidiaries as a percentage of GDP 2003; employment in foreign subsidiaries as a percentage of total employment.

Figure 5. Transnationality index

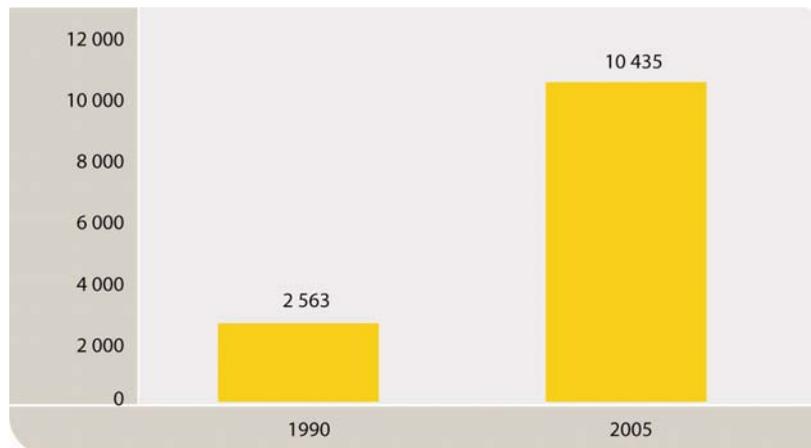
Sources: UNCTAD calculation, page10 of 37, chapter 1 GLOBAL TRENDS: RISING FDI INFLOWS

The index indicates that as regards foreign ownership, Sweden is among the world's most internationalised countries. It is interesting to compare Sweden with a country like the United Kingdom, which is considered to have a very substantial international ownership. The index for that country is less than half the value for Sweden. This also applies to France and Germany, where there is a debate at present triggered by voices saying that foreign ownership in the respective countries has gone too far. We are going to get back to the question as to whether a high degree of internationalisation is good or bad for Sweden. But first we will attempt to formulate in concrete terms the picture of the restructuring of the Swedish economy, to which globalisation has contributed.

The transformation of ownership in Swedish economy

As previously mentioned, until the beginning of the 1980's, obstacles to the ownership of Swedish companies by foreigners were very substantial. This meant that, until then, foreign corporate ownership in Sweden was insignificant, while Sweden, primarily through the major companies, had significant ownership in foreign companies. Since restrictions on foreign ownership were removed, the ownership of Swedish companies has, as we have seen, become internationalised at a rapid rate. An illustration of these developments is given in *figure 6*, which shows the development of the number of foreign-owned⁴ companies in Sweden between 1990 and 2005.

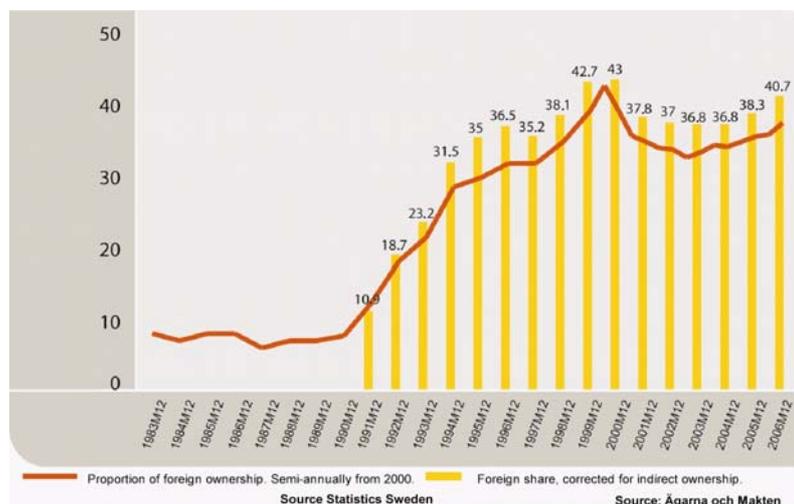
⁴ ITPS counts companies in which foreign voting rights amount to over one half of the capital as foreign-owned.

Figure 6. Number of foreign-owned companies in Sweden 1990 and 2005

Source: ITPS (2006)

Studying ownership on the stock exchange provides us with another illustration of the development of foreign ownership. Foreign ownership has increased strongly here, as well, as shown in *figure 7*. We find that foreign ownership on the stock exchange has increased five-fold since the beginning of the 1980's. It should be noted that when a Swedish company listed on the stock exchange is taken over and becomes a wholly-owned subsidiary, it is removed from the stock exchange and thus is no longer included in the diagram.

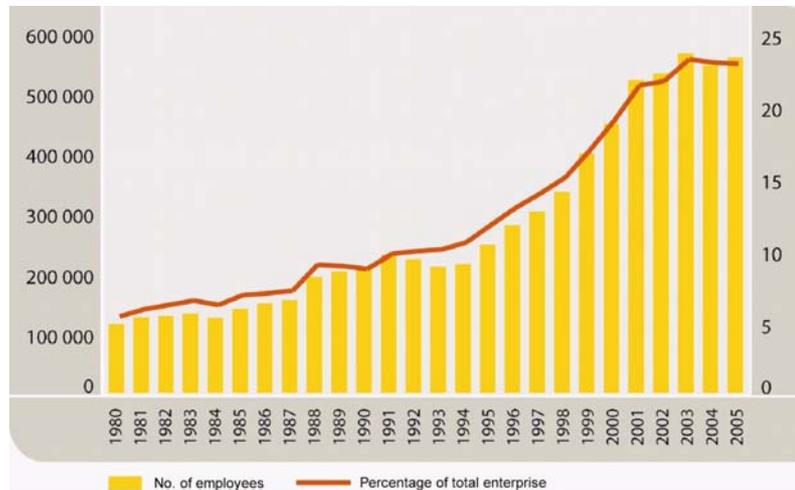
This may explain the decrease towards the end of the period. During this period, a great number of Swedish listed companies became wholly-owned subsidiaries. At the same time, it should be remembered that there is very extensive Swedish ownership outside the stock exchange. It could therefore be possible to gain a more comprehensive picture of the development of ownership by studying the employment ratio in the foreign-owned companies.

Figure 7. Foreign ownership in Swedish listed companies (percentage of total market value)

Sources: Statistics Sweden and Ägarna och Makten

In *figure 8* we provide a picture of the development of employment in foreign-owned companies.

Figure 8. Employees in foreign-owned companies 1980-2005



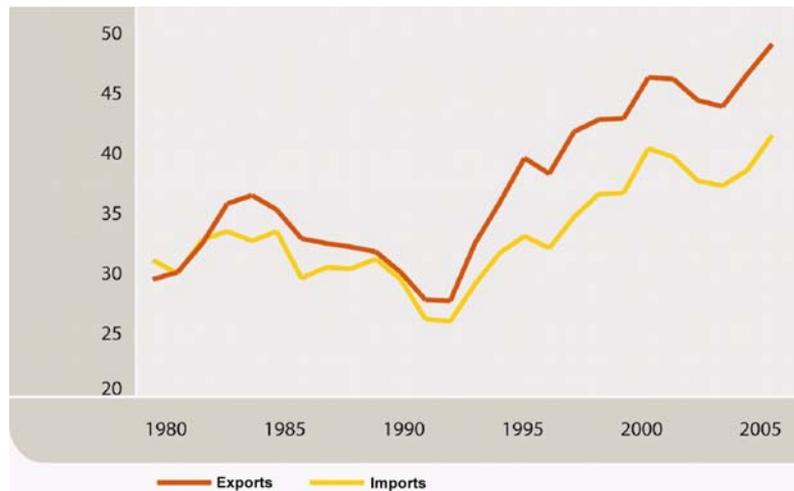
Source: ITPS

This figure also emphasises the great increase in foreign ownership in Sweden that has taken place after 1990. The percentage of employees in Swedish economy working in foreign-owned companies is now just under 25 percent. Foreign ownership is naturally enough concentrated in the largest Swedish companies. We have therefore carried out a special study of the development of these, to which we will return.

Foreign activities of Swedish companies

In parallel with the increase in foreign ownership in Sweden, the internationalisation of Swedish companies has continued. *Figures 9* and *10* illustrate this. In *figure 9*, we see the development of exports and imports in Sweden. We see a dramatic rise after 1990 here, as well. As we have previously seen, a significant share of the increase in trade has consisted of increased trade in intermediary goods. This means that Swedish companies are getting increasingly engaged in international network production.

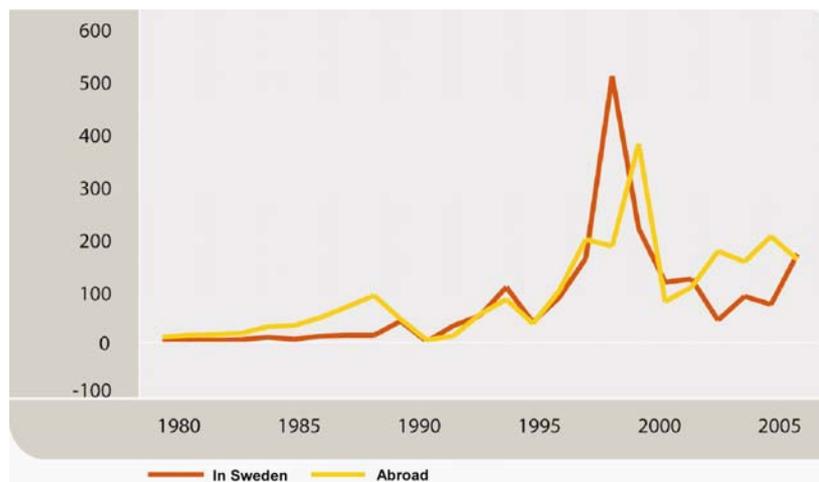
Figure 9. Swedish exports and imports as a proportion of GDP (percent)



Source: Statistics Sweden

Figure 10 demonstrates that both incoming and outgoing direct investments in Sweden increased strongly after 1990.

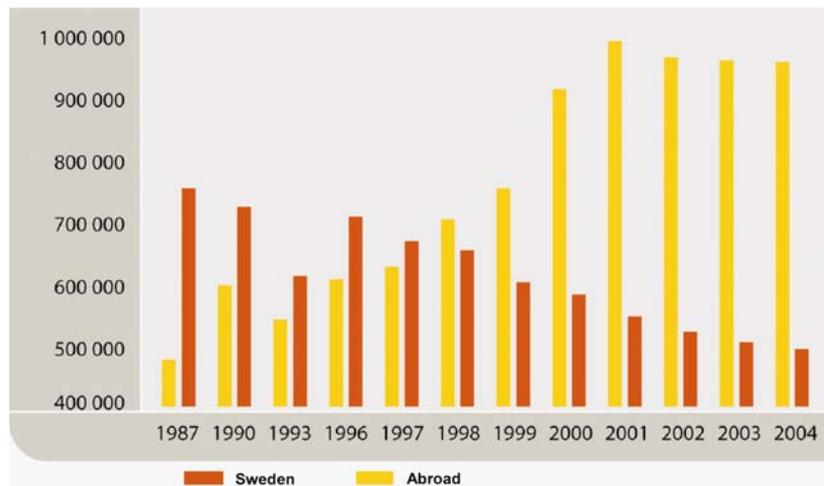
Figure 10. Swedish direct investments abroad and foreign direct investments in Sweden 1980-2005 (MSEK)



Source: The Riksbank

In the same way as for the foreign-owned companies, we can illustrate the extent of the internationalisation of Swedish companies by studying employment figures. In figure 11 we can study the employment abroad and in Sweden of Swedish multinational companies since the middle of the 1980's.

Figure 11. Number of employees in Sweden and abroad in Swedish multinational companies



Source: ITPS

It is also here that we see a very dramatic development after 1990. In that year, the multinational companies in Sweden still had a larger proportion of employees in Sweden than abroad. In 2005, foreign employment in this group of companies was almost double the employment in Sweden. The stagnation in foreign employment after 2001 could be interpreted by a turning of the trend of internationalisation. This interpretation is likely to be incorrect.

During the beginning of the 2000's, a number of foreign acquisitions were made by large Swedish companies. When this occurs, the company disappears in its old guise, as a large Swedish company with significant activity abroad. Instead, the company appears in Sweden as a foreign-owned subsidiary, with its principal activities in Sweden. The old foreign activity is now linked to the foreign parent company, with its head office abroad. This activity does not appear in Swedish statistics. We will shed light in the next section on these developments.

Internationalisation of ownership and the largest Swedish companies

The openness of the Swedish economy has contributed to the fact that Swedish companies to a great extent have participated in the international restructuring of enterprise brought by globalisation. It is natural that it is the largest companies with already significant international exposure that are primarily affected by this process.

In the following, we will illustrate some aspects of this process through a couple of special studies of developments in the largest Swedish companies. In the first study, we will study the development of the 50 largest companies in Sweden with regard to turnover. We can gain a picture of changes in ownership and structural transformation in these companies by studying this group of companies over a longer period of time. We have therefore chosen to study this group of companies in 1975, 1985, 1995 and 2005.

Table 3 presents the 50 largest companies of all categories, ranked by turnover for each year. We have highlighted 16 companies for each year in yellow in the table. These companies existed during the entire study period. In some cases, these companies have changed their names or merged over the course of the years. Kooperativa Förbundet, KF, has become Coop Norden, AB Skånska Cementgjuteriet has changed its name to Skanska and OK has been taken over by Preem Petroleum. In table 3, we have also

marked several companies with a U in the column for 1975 and 2005. This indicates that these companies are over 50 percent foreign-owned. The high degree of internationalisation is clearly demonstrated, as only four companies were foreign-owned in 1975 as against a total of 18 companies in 2005.

The companies which are not highlighted in yellow in *table 3* (34 companies for each year) express in different ways the dynamics of the economy. We have grouped these companies in one of these four categories:

1. Still exist, but do not make the top 50 list
2. Defunct
3. Merged with or taken over by another Swedish company
4. Merged with or taken over by a foreign company

Table 4 lists the companies which still exist according to category 1, but do not make the top 50 list. *Table 5* lists companies according to category 2, 3 and 5. Also in this table, internationalisation is illustrated, as a majority of the companies are in category 4, i.e. merged with or taken over by foreign companies.

Table 3. The 50 largest (ranked by turnover) companies in Sweden in 1975, 1985, 1995 and 2005

1975		1985		1995		2005					
	Empl.		Empl.		Empl.		Empl.				
1	KF	69,7	1	Volvo, AB	64,9	1	Volvo, AB	80,4	1	Volvo, AB	81,2
2	Volvo, AB	62,9	2	Asea AB	61,0	2	Electrolux (koncernen)	112,3	2	Ericsson, Telefonaktie	54,2
3	ICA AB	36,0	3	Electrolux (konc.)	93,6	3	Ericsson, Telefonaktieb.	80,3	3	Electrolux (koncernen)	69,5
4	Axel Johnson AB	28,6	4	Ericsson, Telefonaktieb.	74,7	4	SCA, Svenska Cellulosa A.	34,9	4	Vattenfall AB	32,2
5	Statsföretag AB	46,0	5	Saab Scania Gruppen	45,2	5	Stora Kopparbergs.	25,6	5	Skandia, Försäkrings AB	5,8 U
6	Saab Scania Gruppen	37,5	6	KF	29,7	6	Skandia, Försäkrings AB	10,0	6	Skanska AB	53,8
7	Asea AB	43,6	7	ICA AB	12,8	7	Investor AB	29,4	7	Volvo Personvagnar	19,8 U
8	Ericsson, Telefon	84,1	8	SEB	8,1	8	ICA AB	9,6	8	SCA, Svenska Cellulosa	50,9
9	SKF, AB	61,0	9	SAS AB	29,7	9	Telia AB	32,8	9	Coop Norden AB	23,2 U
10	Electrolux (koncernen)	65,9	10	SKF, AB	44,3	10	Asea Brown Boveri AB	27,3	10	TeliaSonera AB	27,4
11	AB Skånska Cement.	20,7	11	Svenska Handelsbanken	6,1	11	Skanska AB	32,7	11	ICA AB	11,6 U
12	Gränges AB	23,8	12	Saba Företagen AB	17,2	12	SKF, AB	42,6	12	Scania AB	29,9
13	Systembolaget	3,4	13	PK-banken	3,6	13	Astra AB	17,0	13	Sony Ericsson Mobile C.	5,6 U
14	Saba Företagen AB	4,5	14	Nordstjernan AB	22,5	14	SAS AB	22,8	14	Securitas AB	217,0
15	Swedish Match AB	34,8	15	Axel Johnson AB	4,7	15	KF	21,1	15	Sandvik AB	39,0
16	Svenska Slakteriförb.	11,1	16	SJ	48,1	16	Sandvik AB	29,9	16	SAS AB	32,4 U
17	Beijerinvest AB	11,7	17	Skanska AB	28,2	17	Axel Johnson AB	10,9	17	H & M Hennes & Mauritz	34,6
18	Svenska Mejerierna	10,6	18	Sparbankernas Bank	1,1	18	Avesta Sheffield AB	8,1	18	Nordea Bank AB (publ)	29,7
19	SAS AB	19,0 U	19	Stora Kopparbergs B.	17,7	19	Vattenfall AB	8,5	19	Preem Petroleum AB	1,8 U
20	Svensk Lantmännens Riksförb.		20	SSAB	14,9	20	Atlas Copco AB	19,8	20	Atlas Copco AB	26,5 U
21	Sandvik AB	26,9	21	SPP	1,0	21	Incentive AB	18,6	21	Nordstjernan AB	21,9
22	Alfa Laval AB	18,0	22	SCA, Svenska Cellulosa	16,4	22	Posten AB	46,0	22	Tele2 AB	3,9
23	SCA, Svenska Cellulosa A.	16,4	23	Sandvik AB	23,9	23	Mo och Domsjö AB	9,7	23	SKF, AB	37,5 U
24	Atlas Copco AB	18,2	24	Procordia AB	24,3	24	Assi Domän	13,1	24	Investor AB	0,1
25	Stora Kopparbergs B.	15,1	25	ICA Hakon AB	5,0	25	Trelleborg AB	12,4	25	AstraZeneca AB	10,0 U
26	BPA	15,0	26	Rauma-Repola Svenska	17,6	26	SPP		26	If Skadeförsäkring H.	6,6 U
27	Åhlen & Holm AB	10,5	27	Systembolaget	2,5	27	Apoteket AB	9,6	27	Apoteket AB	10,9
28	Vivo-Favör Förbundet	5,1	28	Nobel industrier	15,9	28	Saab AB	7,2	28	SEB (koncernen)	19,9
29	Förvaltnings AB Ratos	4,5	29	Swedish Match AB	25,3	29	SSAB	9,9	29	Autoliv Holding AB	23,9 U
30	AB NK	12,3	30	Esselte AB	16,4	30	SJ	24,8	30	Lantmännen ek för	12,2
31	Byggnads AB Balken	11,3	31	Svenska BP AB	1,2	31	Preem petroleum AB	2,0	31	Swedbank AB	17,1
32	OK	5,6	32	Atlas Copco AB	16,7	32	IBM Nordic	7,6	32	Axfood AB	7,1
33	Scansped		33	Alfa Laval AB	15,4	33	NCC AB	14,1	33	IBM Nordic AB	13,1 U
34	Svenska BP AB	U	34	ICA Eol AB	4,7	34	Förvaltnings AB Ratos	9,8	34	SSAB Svenskt Stål AB	8,8
35	Apoteksbolaget AB	9,8	35	AGA AB	14,4	35	Bilspedition	9,5	35	Assa Abloy AB	29,6
36	Boliden AB	10,4	36	Svenska Shell	1,4	36	Systembolaget		36	Handelsbanken	9,4
37	AGA AB	15,0	37	Fläkt AB	14,6	37	Stockholm Stadshus AB	5,8	37	E.ON Sverige AB	5,4
38	Fläkt AB	11,4	38	Arla	7,4	38	Tetra Laval Holdings AB	8,1	38	Saab Automobile AB	5,2 U
39	Industri AB Euroc	12,8	39	Svensk Lantmännen	3,2	39	SEB	9,7	39	Peab AB	11,3
40	Uddeholmskoncernen	12,6	40	Armerad Betong Vägf.	12,8	40	Celsius AB	16,5	40	Posten AB (publ)	33,5
41	Svenska Esso AB	3,3 U	41	Vivo-Favör Förbundet	8,5	41	Sparbanken Sverige	9,7	41	Kooperativa Förbundet	1,2
42	Pressbyråföretagen AB	10,1	42	OK	1,0	42	Nordbanken	7,1	42	Södra Skogsägarna	3,8
43	Incentive AB	10,0	43	Skandia Liv		43	Scancem AB	8,7	43	Trelleborg AB (Publ)	21,7
44	Svenska Shell	U	44	Bilspedition	4,2	44	Handelsbanken	7,4	44	IKEA AB	4,6
45	Södra Skogsägarna	7,1	45	IBM Svenska AB	4,4	45	AGA AB	10,5	45	Statoil AB, Svenska	0,5 U
46	Saléninvest AB	2,8	46	Apoteksbolaget AB	10,2	46	Perstorp AB	9,9	46	Investors Trading AB	0,0
47	Broströmkoncernen	8,6	47	Mo och Domsjö AB	7,1	47	AB Catena	4,1	47	ABB AB	8,8 U
48	PLM AB Plåtmanufaktur	9,8	48	Svenska Varv AB	16,6	48	Arla Ek för.	6,0	48	GE Stockholm AB	0,4 U
49	AB Bofors	13	49	Incentive AB	11,2	49	HM	9,5	49	Stena Metall AB	2,6
50	AB Godstrafik & Bilspedition		50	BPA		50	Sydskraft AB	5,6	50	Outokumpu Stainless AB	2,3 U
		970,2			931,3			968,9			1179,3

Table 4. Swedish companies which still exist, but do not make the top 50 list

Company	Category
AB Catena	1
AB NK	1
Alfa Laval AB	1
Arla	1
Axel Johnson AB	1
Beijerinvest AB	1
Boliden AB	1
Förvaltnings AB Ratos	1
Incentive AB	1
NCC AB	1
Posten AB	1
SJ	1
Stockholm Stadshus AB	1
Swedish Match AB	1
Svenska Shell	1
Systembolaget	1
Tetra Laval Holdings AB	1
Vivo-Favör Förbundet	1

Source: Sweden's Largest Companies, various yearly editions, Nordic Netproducts AB

Table 5. Grouping of companies whose ownership has changed 1975-2005

Company	Category	
Byggnads AB Balken	2	Category 2 – defunct 3 – merged with or taken over by another Swedish company 4 – merged with or taken over by a foreign company
Celsius AB	2	
Saléninvest AB	2	
Statsföretag AB	2	
Svenska Varv AB	2	
Uddeholmskoncernen	2	
Armerad Betong Vägförbättringar AB	3	
Assi Domän	3	
BPA	3	
Broströmkoncernen	3	
Gränges AB	3	
Industri AB Euroc	3	
Mo och Domsjö AB	3	
OK	3	
PK-banken	3	
Saba Företagen AB	3	
Sparbanken Sverige	3	
SPP	3	
Svenska Mejerierna	3	
Svenska Slakteriförbundet	3	
Sydkraft AB	3	
Åhlen & Holm AB	3	
AB Bofors	4	
AB Godstrafik & Bilspedition	4	
AGA AB	4	
ASEA AB	4	
Astra AB	4	
Autoliv Holding AB	4	
Avesta Sheffield AB	4	
Bilspedition	4	
Esselte AB	4	
Fläkt AB	4	
GE Stockholm AB	4	
IBM Nordic	4	
ICA Eol AB	4	
ICA Hakon AB	4	
If Skadeförsäkring Holding AB	4	
Nobel industrier	4	
Outokumpu Stainless AB	4	
Perstorp AB	4	
PLM AB Plåtmanufaktur	4	
Pressbyråföretagen AB	4	
Rauma-Repola Svenska AB	4	
SAAB Automobile AB	4	
Scancem AB	4	
Scansped	4	
Skandia Liv	4	
Statoil AB, Svenska	4	
Stora Kopparbergs Bergslags AB	4	
Svenska BP AB	4	
Svenska Esso AB	4	
Volvo Personvagnar AB	4	

Source: Sweden's Largest Companies, various yearly editions, Nordic Netproducts AB

Some observations can be made in connection with tables 4 and 5. Table 4 lists the 18 companies which still exist as Swedish companies, but are no longer in the top 50 list.

Table 5 demonstrates that six companies have become defunct, 16 have merged with other Swedish companies and a full 30 companies have been taken over by or merged with a foreign company. The latter group is thus the largest group, and it contains a great number of large and important companies.

There is a high proportion of goods-producing companies among the Swedish companies which are no longer in the list, e.g. Alfa Laval, Boliden and NCC. These companies have not necessarily become smaller; it is rather the case that the new companies in the 2005 list have grown more rapidly. Among these fast growers, we find a large proportion of service companies, e.g. Vattenfall, the banks, Securitas and telecom companies. The dynamics in the economy shown by other statistics, i.e. that the goods-producing part of the economy is successively shrinking and the service-producing part is growing, is therefore demonstrated in these tables.

If we consider foreign ownership, we can conclude that, of the 50 largest companies active in Sweden, only four were foreign-owned in 1975 (the petrol companies and SAS). In 2005, 18 of the 50 largest companies were foreign-owned. At the same time, many of the companies included in the list have either merged with or been taken over by foreign companies. This normally means that we, after the acquisition, have a foreign-owned subsidiary in Sweden that is considerably smaller than the company that originally participated in the merger⁵.

In many cases, this has meant that the new subsidiary drops out of the list. In some cases, they have remained, but in a more modest position.

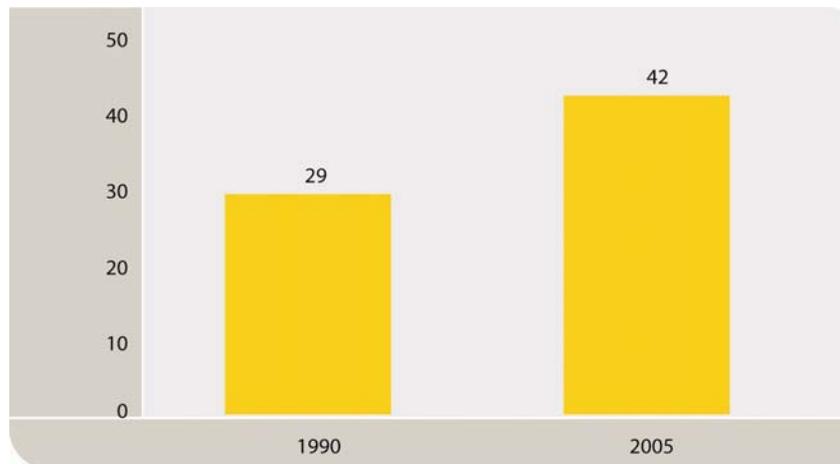
Internationalisation of the large companies

With regard to their activities, the large companies are internationalised to a greater degree than the smaller companies. We will illustrate this using a special study of the 50 largest companies as a starting point. Access to relevant data and concentration on the international dimension have, however, compelled us to concentrate on the 25 largest companies with operations abroad.

To begin with, we can ascertain that foreign ownership during the last decade has grown in these companies, as well, and that the share of foreign ownership in them is greater than in the economy as a whole. This is illustrated in *figure 12*.

⁵ A company is deemed to be Swedish when its head office is located in Sweden. If we take Stora Kopparberg as an example, prior to its merger with Enso it used to be a Swedish company with global operations. After the merger with Enso, Stora Enso is a Finnish company. In Sweden, there is a wholly-owned subsidiary. The subsidiary is a Swedish company with its head office in Sweden. Operations are, however, concentrated in Sweden, and the company is not in the top 50 list.

Figure 12. Share of foreign ownership in the 25 largest Swedish companies (per cent)

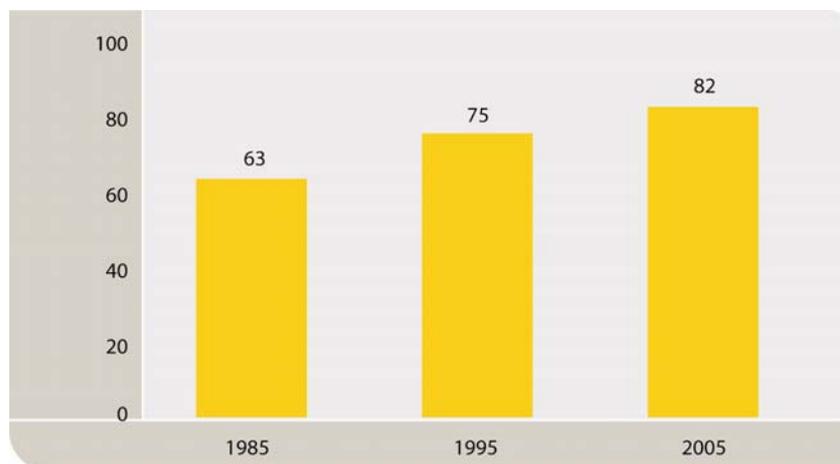


Sources: Annual reports, SIS Ägarservice, own calculations

These companies have also come to have an increasingly great share of their turnover abroad.

In 2005, this share stood at a total of 82 per cent. This is illustrated in *figure 13*.

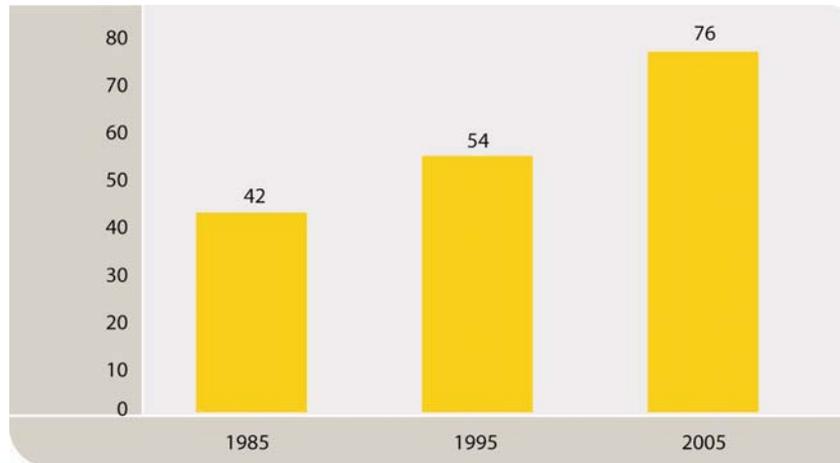
Figure 13. Share of foreign sales in the net turnover of the 25 largest Swedish companies in 1985, 1995 and 2005 (per cent)



Source: Sweden's Largest Companies, various yearly editions, Nordic Netproducts AB

With increased turnover abroad, it is natural that employment, too, has increased in this group of companies. This is illustrated in *figure 14*.

Figure 14. Share of employees abroad of the 25 largest Swedish companies in 1985, 1995 and 2005 (per cent)



Source: Sweden's Largest Companies, various yearly editions, Nordic Netproducts AB

It is also here that we find a rapidly rising share. This share is at a higher level than that of the multinational Swedish companies as a whole in *figure 11*. We can ascertain that the internationalisation of the large companies in all areas has increased rapidly. Internationalisation has furthermore been more extensive among the largest companies than among others.

Discussion

We have illustrated the significance of the development of globalisation during the past decades. Throughout the world, internationalisation has grown in a number of different dimensions. We have also seen that Sweden, in all of the dimensions we have studied, takes a leading position. Irrespective of which angle it is viewed from, Swedish economy is among the most internationalised in the world. We have shown that change in the direction of increased internationalisation in Sweden has been particularly strong during the last fifteen years. There is also a clear tendency that internationalisation is most extensive in the largest companies.

At the international level, debate runs high on the subject of globalisation. In Sweden, however, the development we have seen toward increased internationalisation has not met with any significant political resistance. This open Swedish attitude has much to recommend it. There are many strong theoretical arguments that support globalisation being beneficial to the individual countries. Developments in Sweden do not gainsay this. Sweden is one of the most internationalised countries in Europe and the world. In the period after 1990, internationalisation has taken a giant leap with regard to the previous situation in Sweden. At the same time, the development of Swedish economy after 1990 stands out as very positive from an international and an historical perspective.

Globalisation has meant that a growing share of Swedish economy has foreign owners. If we consider those companies that are Swedish-owned, these have increasingly transferred their activities abroad. As a whole, these changes mean that the strategic decisions surrounding production, investments and employment in Swedish economy are being taken in an ever increasing degree against the backdrop of a global perspective, and decision-making is often done outside Sweden. As far as Sweden is concerned, this is important in several ways. One consequence is that the relevance of the old Swedish model of negotiation with respect to the development of the economy is diminishing. Positive economic development must to an even higher degree than previously build upon the creation of satisfactory conditions for business and investments in Sweden.

It is not possible for a high-wage country like Sweden to compete with low costs. This means that the positive economic development in Sweden requires an ability to attract and develop advanced economic activity which is capable of bearing high wage costs. This is bound to happen in competition with other industrialised countries with the same ambition. In this respect, it is as yet unclear whether Sweden is headed in the right direction. Increased foreign ownership has meant that the management functions of companies have to a large degree been moved from Sweden. This development runs contrary to what is desirable. Experience dictates that there is a tendency that other advanced activities are moved to the place where the head offices are moved. Nor does the trend of loss of terms of trade in our foreign trade indicate that Swedish structural transformation is headed in the direction of increasingly advanced activities.

It is therefore important that the openness of Swedish economy to globalisation in the coming years be complemented by policies clearly orientated toward providing the Swedish economy with an environment which is attractive for the establishment and development of advanced economic activities. Dynamic small business is part of such an environment.

This is also important if we wish to have an economy with extensive Swedish ownership in the future. In a globalised world, a small country like Sweden cannot expect to have national ownership of world-leading companies on the scale we had only a couple of decades ago. For this reason, blue-and-yellow enterprise of the future will be found among smaller and medium-sized companies.