

Swedish Firms in Global Value Chains: Integration, Dependencies and Policy Challenges

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Summary

Global value chains are now at the heart of economic policy debates. Trade wars, the pandemic, sanctions against Russia, Brexit and growing geopolitical tensions have raised concerns about dependence, vulnerability and the resilience of supply chains. These issues matter especially for a small, open economy such as Sweden. Swedish firms rely on imported inputs, export markets and advanced business services, while industrial policy, strategic autonomy and protectionism are playing a larger role in the EU and elsewhere.

What the report shows

This report examines Sweden's role in global value chains using trade data, international input-output data and detailed firm-level data from Statistics Sweden (SCB). It describes how trade in intermediate inputs and services has changed, which types of firms take part, and whether supply chains have shifted after recent global disruptions. It also compares firms that participate in global value chains with other firms in terms of size, productivity and skills. Finally, it estimates how firms develop after they begin importing intermediate inputs and how firms in global value chains contribute to employment and productivity growth in the Swedish business sector.

Six main findings

The report's findings can be summarized in six main points.

1. SWEDEN IS STRONGLY INTEGRATED INTO GLOBAL VALUE CHAINS

Around half of Swedish goods exports, and a somewhat smaller share of goods imports, are intermediate inputs used in further production. Sweden's participation in global value chains increased sharply up to the financial crisis and has since remained high and fairly stable. Sweden is not unusually integrated by international standards, however: its participation is somewhat below the EU-27 average and below that of many smaller EU countries. This partly reflects Sweden's export structure, which includes capital- and natural-resource-intensive products. It may also reflect that standard measures do not fully capture services, head-office functions and knowledge-intensive activities within Swedish multinational firms.

2. TRADE IN INTERMEDIATE INPUTS IS CONCENTRATED IN EUROPE

Germany, Norway, Denmark, the Netherlands and other European neighbors are Sweden's main partners for both imports and exports of intermediate inputs. The US and China are also important, but their shares are considerably smaller than the EU's overall share.

3. SUPPLY CHAINS HAVE BEEN SURPRISINGLY STABLE

The US-China trade war, the pandemic, sanctions against Russia and Brexit have changed trade with some countries – most clearly Russia and the UK – but they have not led to a broad reshaping of Sweden's supply chains. Firm-level data point to the same conclusion: shifts in imports away from or towards China do occur, but they account for a small share of total imports of intermediate inputs.

4. SERVICES ARE PLAYING AN INCREASINGLY IMPORTANT ROLE IN GLOBAL VALUE CHAINS

Services now make up close to 40 percent of Sweden's total trade, well above the global average. Much of this consists of business services – including IT, research and development, legal services, marketing,

transport and intellectual property rights – that firms use in production. Growing trade in services has therefore offset part of the decline in goods-based trade in intermediate inputs. Services trade also has a different geography: the UK, the US, Ireland and Switzerland are particularly important, while China plays a limited role.

5. TRADE IN INTERMEDIATE INPUTS IS HIGHLY CONCENTRATED AMONG A SMALL NUMBER OF FIRMS

Only a small and declining share of Swedish firms import or export intermediate inputs. Most of these firms trade a limited number of products with a limited number of countries. A small group of large firms accounts for most of the value: the top decile of trading firms accounts for the vast majority of trade in intermediate inputs, and the top one percent for a large majority. Firms that trade intermediate inputs are also substantially larger and more productive than other firms.

6. FIRMS PARTICIPATING IN GLOBAL VALUE CHAINS MAKE AN IMPORTANT CONTRIBUTION TO PRODUCTIVITY AND EMPLOYMENT GROWTH

They make up a small share of all firms but account for a large share of productivity growth in the business sector during the period studied. Firms that start importing intermediate inputs subsequently experience stronger productivity and employment growth than comparable firms that do not start importing. The results also point to higher total factor productivity, a larger share of highly educated workers and a higher export share. Similar patterns emerge for firms that start exporting intermediate inputs. Together, these results show that participation in global value chains is closely linked to the dynamism and productivity growth of Swedish firms.

Policy implications

The findings show that global value chains matter for Sweden's competitiveness, productivity and employment. At the same time, participation is concentrated among relatively few firms, entering international markets can involve substantial costs and information barriers, and trade policy has become more uncertain. Policy should make it easier for firms to operate internationally, rather than directing supply chains or bringing production back to Sweden on a large scale.

I. FACILITATE FIRMS' INTERNATIONALISATION

Small and medium-sized firms can face sizable start-up costs when entering global value chains. They need to find customers and suppliers abroad, understand rules and standards, and manage finance, logistics and country risk. Public and publicly funded organizations, including Business Sweden, the Swedish Export Credit Agency, the Swedish Export Credit Corporation, the National Board of Trade Sweden, the Swedish Agency for Economic and Regional Growth, Almi and regional actors, can help reduce these barriers. Their support should be well coordinated.

2. PROMOTE A MORE INTEGRATED EU MARKET FOR SERVICES

Services are an increasingly important part of Sweden's global value chains, but the EU single market is considerably less integrated for services than for goods. National rules, licensing requirements and administrative barriers make it harder to trade services across borders. Sweden should support reforms that simplify services trade and benefit both service firms and industrial firms that use advanced services in production.

3. PROMOTE FREER TRADE AND A STRONGER RULES-BASED TRADING SYSTEM

In a more fragmented world, Sweden should work through the EU to promote open markets, conclude and update free trade agreements, reduce non-tariff barriers and strengthen the rules-based trading system. The EU should also pursue reforms within the World Trade Organization that allow willing countries to move ahead when broader multilateral agreements are blocked. This would give Swedish firms better opportunities to diversify their trade and supply chains.

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