

## **Swedish business sector in a globalised world**

Impact of internationalisation on productivity and employment

## **Svenskt näringsliv i en globaliserad värld**

Effekter av internationaliseringen på produktivitet och sysselsättning

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### **Summary in English**

The Swedish economy has over time become increasingly internationalised and more closely tied to developments in the world economy. This growth in international trade flows and international ownership is not specific to Sweden, it is a global phenomenon. The change has been driven primarily by the liberalisation of trade policy that has been in progress for half a century. Other factors range from the trend towards lower costs in transport, communications and information transmission between countries and – not least importantly – towards faster and safer transport, which has created new forms of trade. As far as international investment is concerned, many countries – including Sweden – have dismantled much of the regulation that stood in the way of foreign ownership of enterprise.

Growth in trade has led to greater specialisation in the business sector. Of this, growth in intra-industry trade represents the overwhelming share, whereas inter-industry trade – the sum of net exports plus net imports across all sectors – has increased only marginally. This indicates that impact on productivity may be expected above all at industry and firm level. It emerges that firms that start exporting show higher productivity – all else being equal – than non-exporters even before setting foot in the export market. As a result, lower trade barriers, which lead to higher production in exporting firms at the expense of nonexporters, will raise average productivity within the particular industry. On the import side, too, structural change will lead to higher average productivity within the industry. In industries where the market share of imports increases, low-productivity plants are exposed to the greatest risk of closure, while among the surviving firms, it is employment at low-productivity firms that will be hardest hit.

In a small open economy, such as Sweden, a high proportion of new knowledge comes from the outside. Internationalisation can stimulate the spread of knowledge across borders in many different ways. This may be through the import of input and capital goods, or because firms are active in the export market, or from direct investments from abroad. Immediate effects on productivity from inward foreign direct investments to Sweden arise when knowledge is transferred within foreign-owned enterprises, to their Swedish

subsidiaries. In all cases where international knowledge is spread, the ability to make good use of these knowledge flows will depend on the firms' capacity for assimilation.

There is nothing to suggest that the rise in foreign trade has any impact at all on overall employment or the level of unemployment. On the other hand, the rise in foreign trade seems to have significantly affected the extent of job turnover, at least in Swedish manufacturing. In addition, there are no indications that higher outward foreign direct investments lead to reduced employment in parent companies in Sweden. In contrast, the relative demand for less skilled labour declines when imports from, and foreign direct investment in, low-wage countries increases. In the economic debate, it has sometimes been claimed that businesses that use very highly skilled labour tend to disappear from Sweden when multinational enterprises invest in other high-wage countries or when foreign-owned enterprises acquire Swedish multinational enterprises. This report cannot establish any evidence to confirm that this is the case.

Among the fast-growing industrial economies, China is perhaps the most interesting and important country to the Swedish economy. China's comparative advantages today lie in production relatively intensive in using low-skilled labor. This totally concurs with the fact that China's *relative* endowments of highly skilled labour are in short supply. As a result, China is currently competing with Swedish enterprises on a low level. Swedish consumers benefit from pressed prices for the type of products made by China. The fast-rising incomes and the extensive investments that are being made in real capital and the infrastructure in China should lead to real opportunities for Swedish enterprises to find a market there for their products. This may emerge either in the shape of exports or via establishment of operations in the Chinese market by foreign direct investments. With rising productivity, wages in China will increase and its export structure will increasingly resemble the structure that prevails in the established industrialised economies. As a result, the trade between China and Sweden will increasingly consist of intra-industry trade, which often is expected to result in lower costs of structural change.

Globalisation cannot be halted. The relevant issue to Swedish industrial policy is instead how it will be possible to obtain maximum benefit from the gains that continued internationalisation will bring. One of the main conclusions of this report is that efforts should be made to ensure that liberalisation of the international trade in goods and services continues, as well as deregulation and dismantling of obstacles to international investment.

The report can be downloaded from the webpage of the Swedish Institute of Growth Policy Studies (ITPS): [www.itps.se/Listor/Publikationssok.asp](http://www.itps.se/Listor/Publikationssok.asp).