INTERNATIONAL INVESTMENT AFTER BREXIT

OPPORTUNITIES FOR SWEDEN

BUSINESS SWEDEN, DECEMBER 2016
In this report, Business Sweden analyses new opportunities for foreign investment in the wake of Britain’s exit from the European Union and Single Market and how Sweden can capitalize on these opportunities.

Conclusions:

- Businesses in the UK agree on one thing: that there is great uncertainty about what Brexit means for them. Typical responses to questions about Brexit’s impact are “We don’t know” and “We’ll have to wait and see”.

- As yet, there are no apparent signs of any slowdown in foreign investment into the UK, but businesses have signalled that they are deferring major investment decisions. The fall in sterling since the referendum has made UK companies more attractive as takeover targets. The British economy, meanwhile, has continued to show solid growth following the referendum.

- Close to one fifth of Swedish companies with UK operations may shift investment away from the UK due to Brexit.

- Sweden is perceived as a peripheral location by companies looking for foreign investment alternatives within the EU as a result of Brexit. This conclusion calls for strengthened investment promotion to communicate Sweden’s competitive advantages, favourable investment climate and national strengths, including concrete business opportunities.

- A large majority of businesses believe Brexit will weaken London’s status as an international centre for finance and commerce. Financial services are the most vulnerable sector, with even minor restrictions on access to the Single Market seen as having the potential to trigger an exodus of operations to Frankfurt, Paris and Dublin.
## CONTENTS

1. INTRODUCTION ................................................................. 4
2. ABOUT THE REPORT .......................................................... 5
   2.1 DEFINITIONS .................................................................. 5
   2.2 SCOPE AND DELIMITATIONS ........................................... 5
   2.3 SOURCES AND METHODOLOGY ....................................... 5
3. UK TRADE AND INVESTMENT WITH THE EU ...................... 6
   3.1 FOREIGN INVESTMENT IN THE UK ................................. 6
   3.2 SWEDISH INVESTMENTS IN THE UK ............................... 6
4. RESULTS ............................................................................ 7
   4.1 THE BUSINESS SWEDEN SURVEY ................................. 7
   4.2 INVESTOR PERSPECTIVES ON BREXIT FROM
       THE EU, US AND ASIA ............................................... 8
       UK ............................................................................. 8
       GERMANY .................................................................. 8
       THE NETHERLANDS ................................................... 9
       FRANCE .................................................................... 9
       US ........................................................................... 9
       CHINA ....................................................................... 10
       INDIA ........................................................................ 10
       JAPAN ....................................................................... 10
       SOUTH KOREA ............................................................ 11
       SECTORS AND FUNCTIONS ........................................... 11
5. OPPORTUNITIES FOR SWEDEN POST-BREXIT .................... 12
   5.1 SWEDEN’S ATTRACTIVENESS
       TO FOREIGN INVESTMENT ........................................... 12
   5.2 DETERMINING FACTORS FOR
       INVESTMENT LOCALIZATION TO SWEDEN .................. 12
   5.3 INTERNATIONAL COMPETITION FOR
       FOREIGN INVESTMENT POST-BREXIT ......................... 12
6. CONCLUSIONS .................................................................... 14
7. PROPOSED ACTIONS AND INITIATIVES ............................... 15
INTernational Investment After Brexit

Opportunities for Sweden

1. Introduction

On 23 June 2016 the UK held a referendum on whether or not to leave the European Union. Voters were asked: “Should the United Kingdom remain a member of the European Union or leave the European Union?”

A majority, 52 percent, defied the opinion polls and voted to leave the EU, with 48 percent voting to remain. In England and Wales, 53 percent of people voted to leave and 47 percent to remain. In Scotland and Northern Ireland, majorities voted “Remain” (62 percent and 56 percent respectively). Here, the “Leave” vote was 38 percent and 44 percent respectively. Turnout was 72 percent and 30 million people voted.

The result will lead the UK government to activate Article 50 of the EU Lisbon Treaty, which stipulates that “any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements. […] the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union”.

The political, legal and economic consequences of the UK’s departure from the EU are far-reaching. The British prime minister, Theresa May, has announced her intention to trigger Article 50 and commence negotiations to leave no later than March 2017. The intention is for these negotiations to be concluded within two years.

At the time of writing it is unclear whether the UK will seek a “hard” or “soft” Brexit. The first alternative would involve the UK accepting limited access to the Single Market in return for autonomy over immigration and other areas. The latter could involve the UK retaining its access to the Single Market in return for a contribution to the EU budget and agreeing to compromise with the EU on citizens’ freedom of movement.

A deal between the EU and UK would define the extent of bilateral trade freedoms and future investment – ranging from the openness of the Single Market to the more prescriptive terms of the World Trade Organization (WTO). Within the EU, France in particular has indicated that Brexit must come at significant cost to the UK.
2. ABOUT THIS REPORT

2.1 DEFINITIONS
This Business Sweden report gives a forward-looking perspective on the impact of Brexit on foreign direct investment in the EU, the UK and Sweden. It identifies opportunities for new foreign direct investment in Sweden as a result of Brexit and outlines the actions and initiatives that Business Sweden recommends to harness these opportunities.

In the report, "direct investment" relates to capital commitments arising from the market entry of businesses and other investors through business startups and expansions of existing operations. For convenience, the report refers to "investment" instead of direct investment throughout.

2.2 SCOPE AND DELIMITATIONS
This report should be seen as the first step in an important analytical and strategic effort that will develop over time as the parameters of Brexit become clear. Business Sweden’s inquiries involved the use of internal and external sources to examine whether there is a consensus of views or whether the conclusions point in different directions. The current uncertainty surrounding Brexit’s timeline and format, and the limited data available, mean the report can only offer indicative evidence of how businesses and other investors may act.

2.3 SOURCES AND METHODOLOGY
Business Sweden conducted its analysis using data from three sources, as follows:
1. A survey of representatives of Swedish companies with subsidiaries in the UK.
2. Interviews with representatives of UK companies in the UK and Sweden.
3. Interviews in eight other foreign markets with representatives of companies that have an existing or planned business presence in the UK.

The main question the survey posed was: “How will investment by your company or group be affected in the next three years, from 2017 through 2019, by the UK’s forthcoming departure from the EU (‘Brexit’)?”

In Business Sweden’s view, it is reasonable to infer from the survey responses what affect Brexit will have on the UK investments of foreign businesses generally – not just those businesses and countries directly covered in this report. For example, companies that manufacture goods in the UK and have sizeable exports to the EU will be particularly exposed to curbs on the UK’s access to the Single Market. Accordingly, Business Sweden regards the survey and the interviews conducted in the nine foreign markets as representative of its target group of businesses and investors with existing operations in the UK.

The survey and interviews with business representatives also asked the question, “In your opinion, how will Brexit affect the City of London’s position as a business and financial centre?”

The survey was performed by market research firm Markör on behalf of Business Sweden and took the form of a questionnaire sent to around 600 Swedish companies with UK subsidiaries. Close to 150 companies – 24 percent of the total – answered. This relatively low response rate makes it necessary to treat the results with a degree of caution and suggests that businesses do not yet have much to say about Brexit’s impact on their future investment plans.

The interviews with business representatives were carried out by Business Sweden’s offices in Sweden, the UK, Germany, the Netherlands, France, China, India, Japan and South Korea. Companies from these countries account for more than two thirds of foreign investment in the UK. Most of the Business Sweden offices conducted between three and five interviews, from which they assessed market sentiment towards Brexit from an investment perspective.

Business Sweden also interviewed international investment experts at organizations including Mergermarket, Euromonitor and FDI Intelligence in London, and consulted external reports analyzing the potential impact of Brexit on trade and investment.
3. UK TRADE AND INVESTMENT WITH THE EU

3.1 FOREIGN INVESTMENT IN THE UK
There is a general consensus among European economists, businesspeople and politicians that the question of future UK access to the Single Market will have a major bearing on the ongoing presence of international companies in the UK. The Single Market is the zone in which goods, services, people and capital flow freely between the 28 EU member states. Norway, Iceland and Liechtenstein have a trade agreement with the EU that also makes them part of the Single Market, while Switzerland has access to parts of the Single Market through multiple bilateral agreements.

The EU is the largest export market for many British businesses and foreign companies with UK operations. The majority of the UK’s imports – including large volumes of semi-finished products and services – come from the EU. European businesses are the largest investors in the UK, while British companies are major investors in Europe. The virtually free passage of goods and services across national borders has been a prerequisite for these investment flows.

- The UK is the world’s third largest destination for investment after the US and China. The country’s foreign investment assets totalled over €1,300 billion in 2015, giving the UK 19 percent of the EU foreign investment cake. Only Germany, with €1,000 billion of foreign investment assets, comes close to the UK in a European context.
- Businesses from other EU countries account for close to half of the foreign investment in the UK, with the Netherlands, France and Germany leading the way. US companies contribute nearly a third of UK foreign investment. The financial sector attracts almost half of all foreign investment in the UK.
- The UK is the destination for one third of new foreign business investment and expansion projects in the EU, with London being by far the most popular location.
- Foreign manufacturers operating in the UK play a prominent role in the pharmaceuticals, automotive and aerospace industries, and export a large share of their production to the EU. Foreign companies with exposure to the European market are also well represented in financial services and other service sectors.

3.2 SWEDISH INVESTMENTS IN THE UK
Swedish companies had total UK investments of €20 billion in 2015, equivalent to 6 percent of Sweden’s total foreign investment assets. Sweden’s investments in the UK have declined steadily in recent years from a peak in 2009. Between 2006 and 2015, the UK went from being Sweden’s third largest investment market to its seventh largest.

Sources: Office for National Statistics; Business Sweden (2016).
4. RESULTS

This section presents Business Sweden’s findings on the potential impact of Brexit on investment in the UK, Sweden and the EU.

A Business Sweden survey forms the basis for the report's findings on Brexit’s possible consequences for foreign investment by Swedish businesses. The findings on investment by entities from countries outside Sweden are based on input from Business Sweden’s offices in nine foreign markets, including the UK. The nine offices conducted interviews with business representatives and provided feedback on investment appetite in each market in the wake of the Brexit vote. They also used external data in their assessments.

As explained in section 3, About This Report, the survey results can also serve as a guide as to how Brexit will impact business investment in the UK from countries other than Sweden.

4.1 THE BUSINESS SWEDEN SURVEY

The survey took the form of a questionnaire issued to leading representatives of Swedish companies with UK subsidiaries. The responses indicate that:

- 65 percent of businesses are planning to maintain an unchanged level of UK investment in the next three years, while 15 percent of companies may reduce investment.
- 77 percent of respondent companies focus their UK operations on the British domestic market. Some 16 percent of companies have the EU as their main market.
- 68 percent of companies do not see Brexit as having an impact on their investment in Sweden. However, 17 percent of businesses may increase their investment in Sweden due to Brexit.
- 16 percent of businesses may invest more in other EU countries as a result of Brexit. In many cases, however, investment is more likely to be switched to the US and Asia than to other parts of Europe. Some 19 percent of firms say they may increase their investment outside Europe in the next three years in response to Brexit.
- 70 percent of companies believe Brexit will weaken London’s status as an international business and financial centre. In all, 51 percent of enterprises believe London’s position will “be somewhat weakened”, while 19 percent see...
London’s position as being “significantly weakened”.

Together, the responses indicate an affirmative answer to the question of whether the number of large international business contracts that are negotiated and signed in the UK will decline as a result of Brexit. However, the size of this decrease remains impossible to quantify at this moment in time.

**Impact of Brexit on Swedish investment in the UK**

Survey result, share of respondents

- Do not know / will not answer: 12%
- Significant increase: 1%
- Small increase: 7%
- Small decrease: 13%
- Unchanged: 65%

**Impact of Brexit on Swedish investment in Sweden**

Survey result, share of respondents

- Do not know / will not answer: 11%
- Significant increase: 3%
- Small increase: 14%
- Small decrease: 3%
- Unchanged: 68%

Sources: Markör, Business Sweden (2016).

**4.2 INVESTOR PERSPECTIVES ON BREXIT FROM THE EU, US AND ASIA**

**UK**

British businesses take a more pessimistic view of Brexit’s consequences than their Swedish counterparts. According to the *100 UK CEO Survey*, published by KPMG in September 2016, three quarters of the 100 UK corporations that participated in the study are planning for an eventual relocation of business activities outside Britain’s borders due to Brexit. The survey also reveals that many businesses are considering relocating their headquarters from London to Dublin, which is seen as an attractive alternative. Vodafone, EasyJet and insurance underwriter Lloyds have warned they may be forced to make cutbacks and move operations abroad if the UK loses access to the Single Market.

Brexit will result in the UK losing more than €1 billion a year in EU research funding, which risks having an adverse impact on the life sciences industry in particular. That said, the UK continues, for now, to be seen as a country to invest in. In July 2016 GlaxoSmithKline announced it was investing €350 million in its Scottish and English plants. The same month, Anglo-Swedish AstraZeneca confirmed plans to invest €350 million in its research and development facility in Cambridge, where the company has its headquarters.

The UK is Europe’s largest market for data centres, with a market share of around 40 percent. However, investors point to high setup costs and infrastructure deficiencies, along with high electricity costs and relatively low access to renewable energy. Brexit may give them and others a further reason to look at expanding in other markets, such as Sweden.

*The Deloitte CFO Survey Q3 2016*, published in November 2016, showed a noticeable spike in concern among UK companies over future economic prospects. Two thirds of the chief financial officers interviewed for the survey feared a deterioration in the UK’s business climate as a result of Brexit.

The British government is keen to raise the country’s trade and investment profile in the wake of Brexit and in July 2016 merged the UK Trade and Investment agency (UKTI) with the Department for International Trade.

UKTI employs 1,200 people in 100 foreign markets, a further 500 in London and Glasgow.
and an additional 400 across different parts of England.

GERMANY
German companies also take a relatively pessimistic view of Brexit. A survey by the Association of German Chambers of Industry and Commerce (DIHK) found that 35 percent of German businesses with UK subsidiaries are planning to reduce their UK investment budgets and 26 percent to cut their UK workforces. The appetite for further UK-based investment is low.

The Federation of German Industries (BDI) believes Brexit will have a negative impact on the automotive, energy, telecoms, electronics, metal, retail and financial services industries. Representatives of German industry federations stress that reactions to Brexit have been relatively muted so far as Germany’s business community awaits clear political decisions on the forms under which Britain will leave the EU.

For Germany, Brexit may offer opportunities in attracting young startup companies to Berlin. German IT and telecoms firms expect different standards between the EU and UK to create trade barriers and higher transaction costs, as well as new business opportunities in the UK. The German chemicals group BASF believes Brexit will make it more difficult to attract life sciences companies to invest in the UK. German automakers Volkswagen (Bentley) and BMW (Mini and Rolls-Royce) have a large manufacturing and export presence in the UK.

THE NETHERLANDS
The Dutch companies interviewed said they had no plans to reduce investment in the UK following the Brexit vote, taking a “business as usual” approach. Their UK presence is primarily motivated by closeness to customers and, to a lesser extent, by developing and adapting their products for the UK market.

Many Dutch companies believe it is too early to judge the consequences of Brexit before the nature of the new relationship between the EU and the UK is clarified. However, there is a broad consensus that the future trade agreement between the EU and the UK will make the latter less attractive for new investment. Dutch businesses also anticipate a deterioration in the UK research environment, reflecting Britain’s exclusion from EU-funded research programmes and diminished opportunities for attracting foreign know-how due to tougher visa requirements and a new, more restrictive migration policy.

FRANCE
French companies such as Danone, Orange, BNP Paribas, Thales and Michelin have extensive business operations in the UK. The aircraft manufacturer Airbus has 10,000 employees at two UK plants, which manufacture the wings for the company’s flagship A380 airliner.

On the domestic front, French companies are strongly positive to Brexit. A report by consultants Kantar Public analyzing almost 200 companies found that two thirds see Brexit as a boost for the French economy. Almost half regard Brexit as an opportunity to attract investment to France.

The prevailing view at political level in France is that the UK should not be allowed to leave the EU in a better state than if it had remained a member. In other words, the French view is that the UK should be penalized for leaving so as to dissuade other member states from following suit and to prevent Brexit from undermining EU cohesion.

US
Many US companies use the UK as a gateway to the Single Market. Ford manufactures engines that it exports to its car plant in Belgium. Pharmaceuticals company Pfizer has 2,500 UK employees its manufacturing and global distribution plant in Hampshire. US banks and financial services firms use London as a base to sell their services across the EU.

Large corporations like GE, Cisco and Bloomberg have expressed concern over Brexit and the UK’s future access to the Single Market. However, firms like Apple, Google and Facebook have responded to the referendum result by confirming plans to invest in tech centres in London that will potentially create thousands of jobs.

A key issue for US businesses is the UK’s approach to the EU’s new data protection law, which will apply new rules on personal data management when it takes effect in 2018. American IT and financial services companies are concerned that Brexit may make it more difficult to obtain visas and impede their ability to recruit and retain foreign personnel, in turn undermining the UK’s flexible and international labour market – one of its most important competitive advantages in US eyes. US investment banks JP Morgan and Morgan Stanley have warned that they will move jobs out
of the UK if Brexit reduces their ability to recruit internationally.

By far and away the most important question for US banks and financial services companies is whether their UK operations will retain full access to the EU financial services market. Restrictions on “passporting rights” would raise the possibility of some City of London operations relocating to other European financial centres such as Frankfurt, Paris or possibly Dublin.

CHINA
There are no signs of any loss of appetite among Chinese companies to invest in the UK following the referendum. On the contrary, Chinese investors have continued to acquire UK business assets, in part spurred by the fall in sterling since the vote. Chinese investors have invested €3.7 billion in the UK since 23 June 2016.

After some hesitation, the new British government in August 2016 gave the go-ahead for China General Nuclear (CGN) to build a €22 billion nuclear power plant at Hinkley Point. CGN is also likely to take a leading role in building another nuclear plant near Bradwell. In October 2016, China’s ambassador to the UK suggested that Brexit could help to strengthen commercial ties between the two countries.

INDIA
The UK is often the country of choice for Indian companies looking to establish business operations in Europe, reflecting the presence of a large British-Indian community and ease of communication in English.

The 800 Indian companies in the UK employ more than 100,000 people. Conglomerate Tata Group is one of the UK’s largest carmakers, having acquired Jaguar Land Rover in 2008. Tata Group’s three UK plants produce in excess of 400,000 cars annually, of which 80 percent are exported to the EU.

In interviews with Business Sweden, Indian company representatives identified proximity to customers and access to the Single Market as key reasons for their presence in the UK. They believe Brexit will have a negative impact on their investments, with one company already having delayed a planned manufacturing investment in the wake of the referendum.

JAPAN
The Japanese government is closely involved in efforts to try to minimize the impact of Brexit on Japanese companies in the UK. Businesses are united in taking a wait-and-see approach ahead of the forthcoming exit negotiations. A government memorandum, Japan’s Message to the United Kingdom and the European Union, published at the G20 summit in September 2016, urged both sides to work to maintain a stable business climate and avoid measures with adverse consequences for the business sector.

The Japanese government has expressed concern that the European Medicines Agency (EMA) may move away from London as a result of Brexit. The EMA works with national drugs regulators to coordinate EU drug approvals. For the Japanese government, the EMA’s presence in London is a primary reason why Japanese pharmaceuticals companies have a strong UK presence, and its relocation to another member state would reduce Japanese pharmaceutical research and development in the UK and lead to job losses.

The EMA’s importance to Japanese pharmaceuticals companies in the UK was confirmed during Business Sweden’s interviews. Japanese business representatives also cited the close ties between Japanese pharmaceuticals companies and UK universities. Japanese automakers have a major manufacturing and export presence in the UK. In 2015, Honda produced 120,000 cars at its
Swindon plant and the company has declared that Brexit will not affect its UK operations. Toyota produces 190,000 cars per year at its factory in Burnaston. It and Honda both export around 80 percent of their UK output.

In November 2016 Nissan approved a major investment at its plant in Sunderland, where it produces 500,000 cars per year. The factory will build two new car models, securing 7,000 jobs. Nissan’s CEO explained that the company could not wait for the post-Brexit landscape to become clear and had taken its decision on the basis of guarantees from the British government. The nature of these undertakings remains unclear, but Nissan’s CEO has indicated that he expects the government to compensate the company if its car exports become subject to the EU’s standard 10 percent import tariff.

Japanese companies are also concerned about how Brexit will affect their access to non-EU markets. Turkey, for example, is an important market for UK-produced Japanese goods and the EU has a customs union with Turkey from which the UK will withdraw as part of Brexit, Düsseldorf, Brussels, Amsterdam, Frankfurt and Paris are among the alternatives to London as European headquarters locations for Japanese companies.

SOUTH KOREA
Around 100 South Korean companies have business operations in the UK. A number have already suspended planned investments or have plans to shift operations away from the UK in response to Brexit. The main alternatives are Germany, France, Spain and the Benelux countries. The fact that Brexit will probably involve the UK withdrawing from the EU’s free trade agreement with South Korea is a matter of particular concern to South Korean businesses in the UK.

SECTORS AND FUNCTIONS
In June 2016, prior to the referendum, the consulting firm Global Counsel published a comprehensive report forecasting the economic impact of a British withdrawal from the EU. 

Brexit: The Impact on the UK and the EU also examined the expected consequences of any UK departure from the UK for foreign investment in the UK, concluding that the effects would be adverse. The report suggested there was a risk that many companies would move their headquarters outside the UK and that parts of the car industry would also leave.

Shortly before the referendum, the Economist Intelligence Unit (EIU) published a report titled Down and Out – Mapping the Impact of Brexit, which identified risks – for the financial services sector in particular, and also for the life sciences industry. The report did not consider it likely that the EU would give UK banks and financial services companies unfettered access to the Single Market after Brexit, suggesting that some City of London functions might move to European cities like Amsterdam and Dublin, along with professional services, accountancy and law firms.

The EIU noted that 60 percent of UK pharmaceuticals exports go to the EU. Many of the regulations surrounding intellectual property rights, quality standards, clinical trials and drug approvals are harmonized between EU member states, and the report suggested that Brexit would raise the risk of UK life sciences companies having to confront a more challenging and expensive drug approval process inside the EU.

The Impact of Brexit on Foreign Direct Investment in the UK: Recommendations for Investment Promotion Strategy, a report published by consultants WAVTEQ in July 2016, suggests that foreign investment primarily serving the UK domestic market, notably in the energy, construction, retail and transportation sectors, will be least impacted by Brexit, while foreign investment in operations serving the EU market, including corporate headquarters and R&D, will be hardest hit.
5. OPPORTUNITIES FOR SWEDEN POST-BREXIT

5.1 SWEDEN’S ATTRACTIVENESS TO FOREIGN INVESTMENT

Sweden hosts a sizeable number of foreign companies, reflecting its attractiveness to international business. Close to 14,000 foreign firms operate in Sweden, employing 650,000 Swedish citizens. Foreign businesses account for half of Sweden’s exported goods and for 40 percent of corporate R&D spending.

UK business investment in Sweden totalled €35 billion in 2015, equivalent to a 13 percent share of all foreign investment. UK investment has been stable at this level since 2006, following a sharp increase in the preceding years. The UK was the third largest source of foreign investment in Sweden in 2015. In 2006, the UK was the largest foreign investor in Sweden.

UK companies employed 44,000 people in Sweden in 2015, 16,000 of them in manufacturing and 28,000 in services. In manufacturing, UK businesses employ as many people in Sweden as German companies do.

5.2 DETERMINING FACTORS FOR INVESTMENT LOCALIZATION TO SWEDEN

Sweden scores consistently well in internationally recognized league tables for competitiveness, business climate and innovative capacity. In Business Sweden’s own ranking (see below), Sweden shares first place with the UK.

Business climate in Sweden and EU competitor countries, 2016 rank

<table>
<thead>
<tr>
<th>Country</th>
<th>Overall rank</th>
<th>Global competitiveness index</th>
<th>Ease of Doing Business</th>
<th>Global Innovation Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>1</td>
<td>7</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Sweden</td>
<td>1</td>
<td>6</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Denmark</td>
<td>3</td>
<td>12</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Germany</td>
<td>4</td>
<td>5</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5</td>
<td>1</td>
<td>31</td>
<td>1</td>
</tr>
<tr>
<td>Netherlands</td>
<td>6</td>
<td>4</td>
<td>20</td>
<td>9</td>
</tr>
<tr>
<td>Ireland</td>
<td>7</td>
<td>23</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>France</td>
<td>8</td>
<td>21</td>
<td>29</td>
<td>18</td>
</tr>
<tr>
<td>Belgium</td>
<td>9</td>
<td>17</td>
<td>42</td>
<td>23</td>
</tr>
<tr>
<td>Poland</td>
<td>10</td>
<td>36</td>
<td>24</td>
<td>39</td>
</tr>
</tbody>
</table>

Sources: World Economic Forum; World Bank; INSEAD et al.; Business Sweden (2016).

Note: Overall rank is calculated by combining each country’s position in each of the three indices and dividing by three. The UK and Sweden share the number one ranking, each with an average score of 7.6 (UK (7+7+3)/3 = 7.6, and Sweden (6+9+2)/3 = 7.6).

The interviews carried out by Business Sweden do not indicate that Brexit will automatically lead to increased foreign investment in Sweden. Few businesses highlight Sweden as an investment alternative to the UK.

A primary reason for this is that it tends to be markets and customers that govern investment location decisions. Large, centrally located European markets such as Germany, France and the UK have an edge over smaller, more peripheral markets like Sweden and Denmark, while low-cost countries in Central and Eastern Europe are primarily of interest to companies looking to reduce overheads.

But the picture changes when it comes to foreign acquisitions of established, successful businesses and foreign investments and/or partnerships in research and development, innovation and startup enterprises. Sweden often has an advantage in these areas, thanks to its large pool of innovative and internationally competitive companies operating in sectors such as IT, telecoms, life sciences, automotive, and data centres. Sweden is also of interest to established foreign manufacturers looking to make new investments.

Corporate tax is a significant factor for many companies, and Sweden’s 22 percent rate is competitive by European standards. The UK is planning to reduce corporate tax from 20 percent to 17 percent in 2020, and the government signalled in November 2016 that further reductions may be considered. Along with its Patent Box scheme, which offers reduced corporate tax on income from patented inventions, the UK would offer one of the lowest corporate tax environments in Western Europe.

5.3 INTERNATIONAL COMPETITION FOR FOREIGN INVESTMENT POST-BREXIT

Business Sweden knows that professional investment promotion can help to attract foreign investment. Around Europe, many countries and regions have begun positioning themselves to capture the opportunities that will flow from Brexit.

France has so far been the most proactive player when it comes to attracting investment away from the UK. In the weeks after the referendum, the Paris city administration wrote to 4,000 British CEOs to outline the benefits of establishing operations in the French capital. In November 2016, the French prime minister, Manuel Valls, launched a Choose Paris initiative.
aimed at making the city the natural gateway to Europe.

The Paris initiative will be developed into a programme aimed at helping foreign companies to establish a physical presence. Measures will include support, tax breaks and other incentives for businesses and their foreign employees and families and have been widely endorsed by France’s business sector.

The London-based foreign investment specialist fDi Intelligence has reported a high level of investment promotion activities in the UK aimed at encouraging British and foreign businesses to move to cities including Berlin, Vienna and Dublin. Consultants WAVTEQ have reported on similar initiatives by Amsterdam and Frankfurt. Newspapers have covered Berlin’s efforts to attract tech and FinTech startups.

Amsterdam is interested in the financial sector and in being a corporate headquarters location. Dublin and Luxemburg also have designs on parts of the London financial sector, while Madrid is positioning itself as a hub for startups looking for access to Spanish-speaking markets.
6. CONCLUSIONS

Even after Brexit, the UK is likely to remain an attractive choice for foreign investment. The country has a large domestic market with an advanced service industry and extensive engineering sector. London is a global financial centre and established meeting hub whose multicultural, English-speaking environment is an asset for international businesses.

Business Sweden believes that investment by foreign companies targeting the UK will reflect the state of the British economy and the specific performance of individual market segments. Business Sweden commissioned the consultants Oxford Economics to forecast the development of the British economy based on different scenarios. Oxford Economics’ analysis indicates that economic performance will probably be somewhat weaker due to Brexit, which may lead to lower foreign investment.

The impact of Brexit may be felt more keenly by foreign companies whose UK activities are primarily a vehicle for exports to the EU. Access to the Single Market is not guaranteed and may vary between sectors. In addition to tariffs and other trade levies, technical trade barriers may complicate access to the Single Market as the UK will no longer be party to common EU standards, for instance relating to new drug approvals.

As of today, there are no clear signs of any decline in foreign investment into the UK, but the interviews conducted by Business Sweden with business representatives indicate that companies are deferring large investments. The fall in sterling following the referendum has made UK companies more attractive as takeover targets, while the domestic economy has continued to show strong growth post-referendum.

Business Sweden’s survey suggests that one fifth of Swedish companies with operations in the UK may shift investment away from the British market due to Brexit.

In the interviews with Business Sweden, the feedback from company representatives was that Sweden is too small, peripheral and little known to be an automatic alternative for businesses seeking to invest inside the EU. Business Sweden believes that it is necessary in the aftermath of the Brexit vote to engage in concerted investment promotion that highlights business opportunities in Sweden and the country’s strong business climate.

A large majority of the companies that Business Sweden contacted raised the prospect of Brexit weakening London’s status as an international business and financial centre. Here, the risks are greatest in the financial services sector. Even small restrictions on access to the Single Market could prompt companies to shift operations to Frankfurt, Paris and Dublin.

The imposition of limitations on banks’ passporting rights to the Single Market, tax penalties on dividends paid by EU-based subsidiaries to head offices in London, and tighter UK immigration policies that reduce the inflow and movement of skilled foreign workers all have the potential to trigger a more rapid negative cycle. Businesses express concern at the risks inherent in each of these scenarios, both individually and in combination. However, there is little to suggest at present that they will become reality.

In Business Sweden’s view, the overall impact of Brexit on foreign investment in the UK will not be dramatic. However, some businesses may choose EU countries, or the US and Asia, ahead of the UK when deciding on manufacturing investment locations, and some research and development investments allied to that manufacturing may move in the same direction.

Proactive political measures to strengthen the UK’s attractiveness to foreign investment may be partly able to offset the disadvantages of Brexit. Such measures could include a sharp cut in corporate tax and reduced regulation. The British government has signalled that measures of this sort may be considered, but it is an illusion to imagine that it can act with entirely free hands. The EU is unlikely to allow the UK to offer tax incentives without imposing counter-measures of its own.
7. PROPOSED ACTIONS AND INITIATIVES

The government has tasked Business Sweden with promoting investment based on the knowledge that foreign investment can benefit the Swedish economy in terms of new jobs, technology, innovation, capital, financing, market channels and tax revenue.

Business Sweden and its regional partners seek to attract and help foreign businesses with setting up new ventures in Sweden and expanding existing operations. This mission includes facilitating business partnerships and capital investments. It involves marketing initiatives and targeted investment promotion that seeks to raise Sweden’s profile as an attractive market for foreign investment. Targeted investment promotion in this context means seeking to attract specific investments and to influence investment decisions in Sweden’s favour. Potential investors in chosen markets are identified and engaged in dialogue on concrete investment opportunities in Business Sweden’s priority sectors.

Business Sweden’s strategy is to attract high-quality, value-creating investments in internationally competitive areas and sectors of strategic importance to Sweden. Here, Business Sweden focuses on telecommunications and IT, data centres, life sciences, environmental technology, new materials, bioeconomics, the automotive industry, and service sectors of key importance for effective business operations. Business Sweden divides its resources between Sweden and the markets where the companies offering highest potential in each sector are present. More geographically distant markets in the US and Asia are served by special investment promotion personnel.

As this report suggests, Brexit may lead to increased mobility and a relocation of investment in Europe. Awareness of this fact has prompted European countries, regions and cities to step up their investment promotion activities, especially towards companies operating in the UK. Against this background and in the light of the report’s conclusions, Business Sweden believes that Sweden should strengthen its investment promotion to increase its capacity to attract the investments that may flow from Brexit.

Business Sweden believes the government should consider a substantial increase in investment promotion and a concerted effort by Team Sweden Invest to become a leading European player in attracting the investment that will result from Brexit. An action plan on these lines would have the potential within a relatively short time frame to strengthen Sweden’s image as an attractive country in which to invest, thereby creating conditions for Sweden to compete for investment with the larger European markets.

Business Sweden is positive to the UK as an important partner for Sweden in business, trade and investment after Brexit and sees good cause to assess the scope for strengthening commercial ties between the two countries.
Business Sweden’s purpose is to help every Swedish company to reach its full international potential and help companies abroad to reach their potential by investing in Sweden. The purpose is operationalised through 450 staff deployed at 14 offices in Sweden and at 55 offices in 49 key markets abroad. Feel free to contact us for any questions regarding Swedish international trade or foreign investments in Sweden.