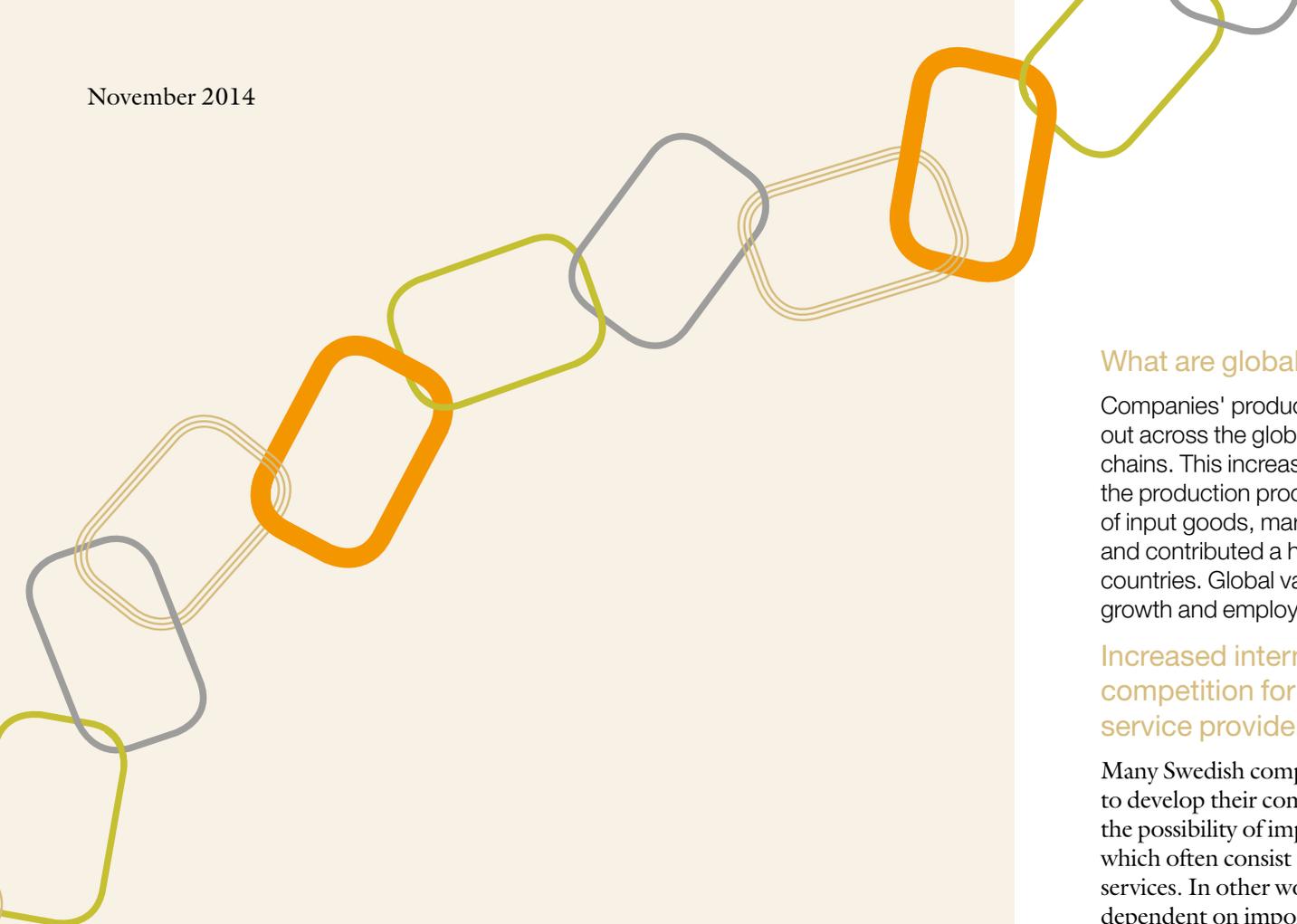




GLOBAL VALUE CHAINS

- Increased import content and increased competitive pressure



What are global value chains?

Companies' production is becoming more and more fragmented and spread out across the globe. This results in the creation of what are termed global value chains. This increased specialisation – that countries focus on different parts of the production process (for example, research and development, the production of input goods, marketing, etc.) have helped to make production more efficient and contributed a higher value added for Sweden, but also for many other OECD countries. Global value chains therefore have a considerable impact on both growth and employment in different countries.

Increased international competition for Swedish service providers

Many Swedish companies find it difficult to develop their competitiveness without the possibility of importing inputs, which often consist of both goods and services. In other words, they are often dependent on imports of input goods and services that are not produced in Sweden in a cost-effective manner.¹ This fragmentation and specialisation has become increasingly necessary for businesses to be internationally competitive.

A new study from Statistics Sweden² shows that in recent years both the manufacturing industry and the services sector have moved abroad even the

support services for their activities in order to increase their efficiency and competitiveness. This can be described as a trend shift and is a further step in the development of global value chains. Of all business support services, administration and management functions are those that have mainly been moved abroad, but even R&D and IT services are included. This is thus a difference from before, when it was primarily core business activities that were moved abroad and not services used as inputs to production in Sweden.

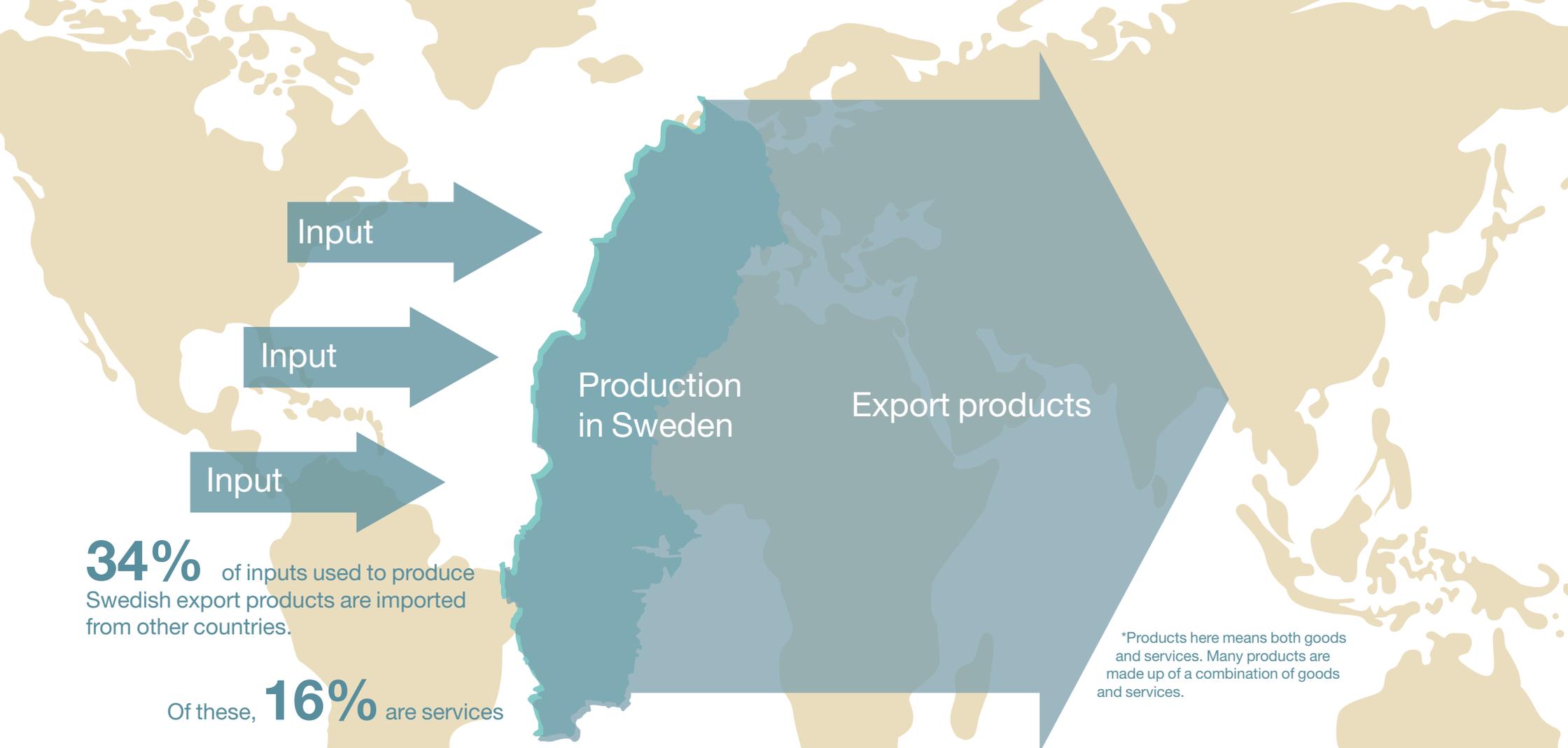
The share of imported inputs in Sweden has increased from 23 per cent in 1995 to 27 per cent in 2010.³ If you look at the share of imports in Sweden's exports alone, the figure is even higher, about 34 per cent – an increase from 28 per cent 1995.⁴

¹ The National Board of Trade, *Made in Sweden, A New Perspective on the Relationship between Sweden's Exports and Imports*, 2011.

² See *Globala värdekedjor och flytt av verksamhet*, SCB, Ekonomisk statistik/Näringslivets struktur (Global value chains and international sourcing), report from 2013 with some English summaries.

³ World Input Output Database (WIOD), EU, 2014.

⁴ OECD, TiVA, Basic decomposition of gross exports.



34% of inputs used to produce Swedish export products are imported from other countries.

Of these, **16%** are services

The increase in the import content of exports is in fact a result of the increased fragmentation of production in global value chains. This has led to Sweden and many other countries having acquired an increase in their value added as well as the emergence of a more knowledge-intensive services production.

If you look at the figure for import of input services alone to production in Sweden, it increased from 7 per cent in 1995

to 10 per cent in 2010.⁵ The corresponding figure for the import of input services alone to the production of Sweden's export products shows an increase from 12 to 16 per cent during the same period.⁶ This means that Swedish service providers are increasingly being exposed to international competition, because more and more foreign companies are supplying input services to Swedish production.

⁵ WIOD.

⁶ OECD, Service industry value added embodied in gross exports by source, (TiVA).

Biggest share of inputs from the business services industry

What types of input services are in fact imported? Overall, it is primarily various types of business services that are imported. They represent 4.6 per cent of the total import of inputs to Sweden, and consequently business services is the industry that delivers the biggest share of inputs from abroad to Sweden compared with other industries. It is also the import share of business ser-

*Products here means both goods and services. Many products are made up of a combination of goods and services.

vices that has increased the most during the period 1995-2010 – from 2.6 per cent to 4.6 per cent. Road transport and postal and telecommunications services are other examples of input services where imports have increased during the same period.⁷

⁷ WIOD.

Increased pressure on prices for business services

As mentioned above, it is imports of business services that have increased the most of all inputs. If you look closer at the price trend for these services, a clear weakening in the rate of price increases is also evident. From having been at around 3 per cent before the financial crisis in 2009, in the second quarter 2014 this figure was only 0.5 per cent (see Graph 1). One explanation for this could be increased international competition.

Sweden's export market share is falling

The development of Swedish exports from a value added perspective shows a clear trend – Sweden is losing export market share. Calculating countries' export market share based on value added is a more accurate way to calculate these figures. A country's export market share shows what a country's share is of the total exports of value added in the world. This differs from the traditional way to calculate export market share, where you measure a country's gross exports in relation to the world's total gross exports. Gross exports also include imported goods and services, while the value added measure excludes the import content in exports. This new way to measure market share gives a more accurate picture of how a country's own production is asserting itself on the global market, and has been made possible thanks to new databases from the OECD for example, which

map the flow of value added between countries.

As the trend towards increased specialisation and global value chains continues, there is greater motivation for seeing exports of value added as a better measure of a country's competitiveness.

When world market share is measured based on value added, Sweden had an export market share of 1.5 per cent in 1995, but up until 2009 it had gradually fallen to 1.2 per cent. While the increased specialisation and fragmentation of production has indeed increased value added in Sweden, the corresponding value added in competitor countries has risen even more.

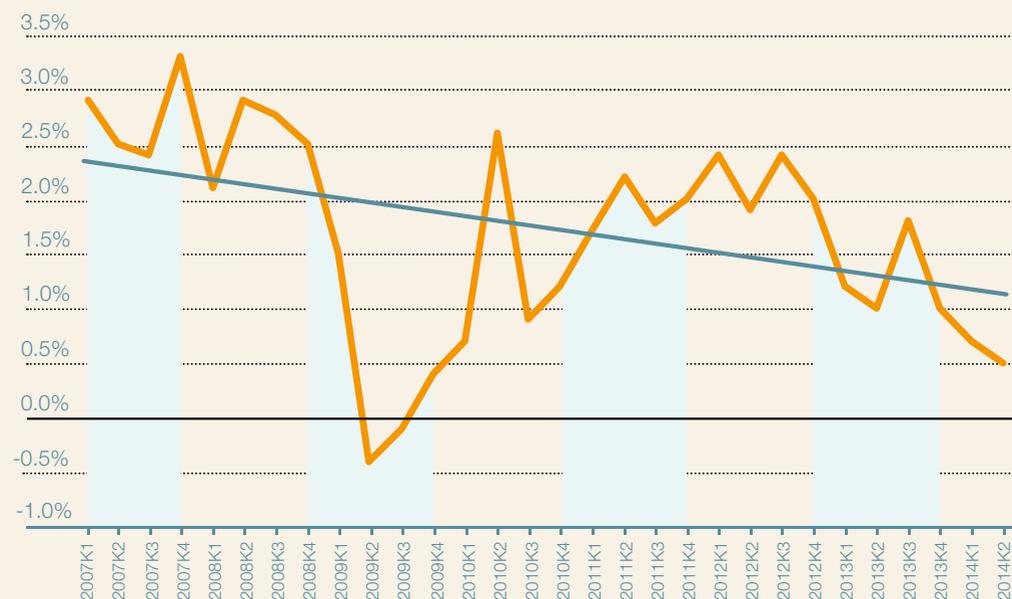
Sweden is losing market share in many industries with the exceptions of the mining industry, where Sweden's market share is unchanged, and business services, which increased its market share by 0.6 percentage points during the period 1995-2009, from 1.5 to 2.1 per cent.

That Sweden is gaining market share in the global market for business services is a good sign, indicating that Sweden has demonstrated strong competitiveness in the area of business services in particular.⁸

⁸ See also Almega's business cycle report in Swedish only *Sverige tappat andelar på exportmarknaden* October 2013 (*Sweden is losing export market share*).

Graph 1: Business services*, annual rate of price increases (%), 2007- Q2 2014, Sweden

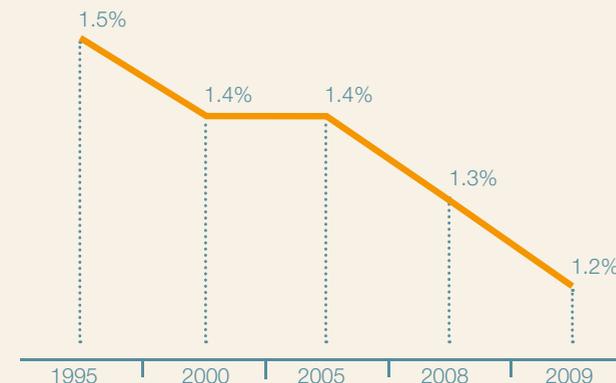
*Business services refers to activities in law, finance, science and technology, as well as finance and insurance activities according to Statistics Sweden's Service Producer Price Index (SPPI).



Source: Statistics Sweden (Service Producer Price Index).

Graph 2: Export market share*, export of value added, Sweden 1995-2009

*Export market share shows what a country's share is of the total exports of value added in the world.



Source: OECD

Access to the right skills essential for Sweden's competitiveness

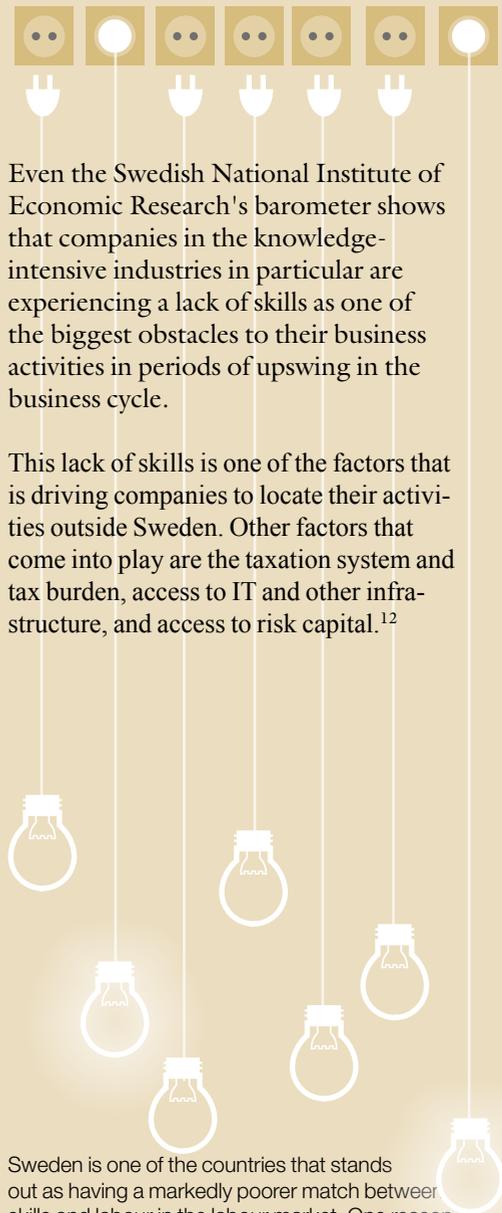
That Swedish companies are part of global value chains has had a positive effect on Sweden's productivity and increased its value added. It has, however, as mentioned above, led to a restructuring of the types of job vacancies in Sweden.⁹ Above all, it is in the knowledge-intensive services industries that jobs have been created thanks to demand from the export industry and also other parts of the economy.

What then are the important factors involved when companies choose to locate their knowledge-intensive activities in Sweden? The increase in the number of knowledge-intensive jobs in Sweden has led to the demand for knowledge-intensive labour increasing faster than the supply, which has led to a mismatch between jobs and skills and skills shortages. According to the OECD, Sweden is one of the countries that stands out as having a markedly poorer match between skills and labour in the labour market¹⁰. This is particularly apparent when you look at Sweden's *Beveridge curve*, which shows the relationship between the unemployment rate and the job vacancy rate. It shows that the unemployment rate in Sweden has increased despite the job vacancy rate remaining much the same¹¹

⁹ *Globala Värdkedjor och Tillväxtpolitik*, Growth Analysis, February 2014 in Swedish only (Global value chains and growth policy).

¹⁰ See OECD *Employment Outlook*, 2012.

¹¹ See Almega's business cycle report in Swedish only *Långdragen återhämtning*, April 2013 (Lengthy recovery).



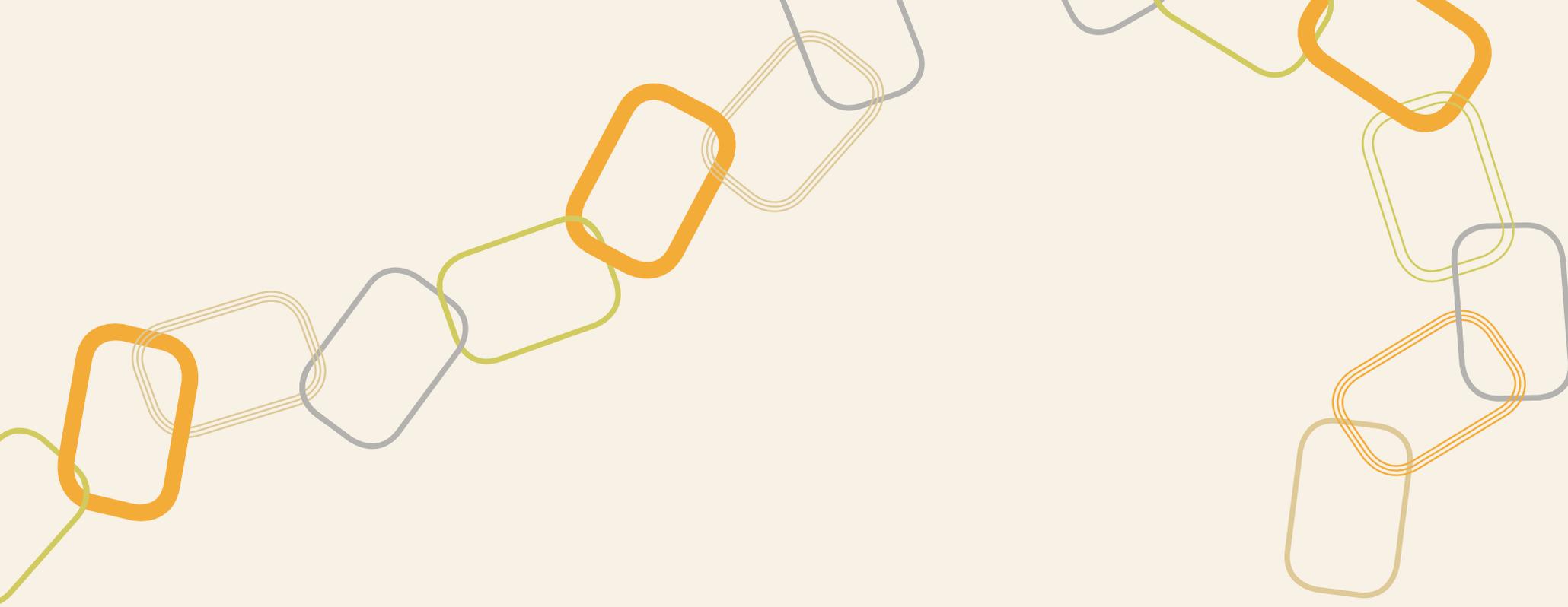
Even the Swedish National Institute of Economic Research's barometer shows that companies in the knowledge-intensive industries in particular are experiencing a lack of skills as one of the biggest obstacles to their business activities in periods of upswing in the business cycle.

This lack of skills is one of the factors that is driving companies to locate their activities outside Sweden. Other factors that come into play are the taxation system and tax burden, access to IT and other infrastructure, and access to risk capital.¹²

Sweden is one of the countries that stands out as having a markedly poorer match between skills and labour in the labour market. One reason is that the demand for knowledge-intensive labour has increased faster than the supply in recent years.

¹² The Confederation of Swedish Enterprise's publication in Swedish only *Företagarpanel* (Entrepreneurs' panel), Q4 2009.

You can read more about this in the report "**Business Services – increasingly important for Sweden's production and competitiveness**" from Almega. This report is available in Swedish only at almega.se



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