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Country Profile: Sweden

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It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now nearly two decades later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in dark blue ink that reads "James S. White, Jr." The signature is fluid and cursive, with a prominent initial 'J' and a long, sweeping tail on the 'e'.

Sweden: Waking up from the Dream

When referring to Sweden, the egalitarian Scandinavian country safely tucked away in northern Europe between siblings Norway and Finland, the celebrated political slogan “Power to the People” may be better transcribed as “Power from the People.” Descendants of the legendary Vikings, the Swedes enjoy an advanced welfare system, a high standard of living, and a low unemployment rate. A rather overlooked country when compared to powerhouse names, Sweden came away from the 2008 financial crisis relatively prosperous, emerging as one of the most robust economies in Europe. The nation did not enter the European Union until 1995. Then in a 2003 referendum, the people voted to not enter the European Monetary Union, hoping to preserve their booming economy, and choosing instead to remain with the Swedish Kronor.



The Riksdag (parliament) building located at Helgeandsholmen Island in Stockholm, Sweden.

The Swedes pride themselves on their country’s long peace stretch: the nation has not entered a war in nearly two centuries, even staying neutral during both World Wars. And yet, while Sweden remains pleasantly content with its neutrality and isolation both geographically and economically from Europe and the world, the fast-paced, ever-connected world may soon test Sweden’s desire for seclusion.

From a military power to a constitutional monarchy

Sweden’s known history begins when ice from the last glacial period began to melt in the country’s southern lands in 14,000 BCE. The first hunter-gatherer civilization appeared five thousand years later in Segebro, located on the country’s southern tip. Archeological findings reveal that Sweden’s early people used flint-based tools as means to hunt and fish. It was during the Viking era of the 9th and 10th centuries that trade routes flourished, linking Scandinavia to the rest of Europe and to the Middle East. The Swedish chieftains monitored shipments and trading in Eastern Europe between the Baltic and Black Seas.

In 830 AD, a Frankish monk by the name Ansgar attempted to Christianize Sweden. His efforts proved to be futile as the indigenous people expressed little interest in the faith. English missionaries were more successful in their efforts in Sweden's southern lands. But it was not until the end of the 11th century, following the desecration of a Pagan temple in the centrally located city Uppsala that the indigenous began to accept Christianity. Today Sweden is predominantly Lutheran, with other Protestant groups and Muslims vying for the number two slot among most practiced religions. While the exact date of the country's unification is debatable, the documentation of a papal decree recognizing Sweden as an independent kingdom proves the country's various tribes were loosely united by the 12th century.

The Nordic countries have a complicated, intermingled history of strife, marked by the continual swapping of allies and enemies within the group of four countries: Sweden, Norway, Denmark, and Finland. In 1157, Sweden's King Eric IX conquered Finland to prevent the country's inhabitants from raiding towns along the Scandinavian coasts. Finland remained under Swedish rule for over 700 years until Russian conquest in 1809, during which time Sweden was forced to relinquish the country. In 1397, Queen Margaret of Denmark formed the "Kalmer Union," which fused the Nordic lands together under a single monarchy. The high tension among the countries that resulted from the Union culminated in the 15th century when a confrontation between the Swedes and the Danes broke out. However, it wasn't until the 16th century, under the leadership of Gustav Vasa, that Sweden completely broke from the Kalmer Union, gaining independence and establishing a monarchical kingdom. It was also under Gustav Vasa's rule that Sweden broke away from the Catholic Church, giving way to the Reformation.

Sweden and the World	
Nominal GDP (\$)	458.0 billion
GDP Rank	22/193
Per Capita GNI	\$49,930
Per Capita GNI Rank	14/215
Population Rank	88/224
Geographical Area Rank	56/250
Global Competitiveness Rank	3/142
Economic Freedom Index Rank	22/179
Human Development Index Rank	9/169
Major Industries	Automotive, engineering, pharmaceuticals, communication equipment, information technology

During the 17th century, the rest of Europe witnessed Sweden's ascent to power after the country came away victorious in various small wars with Denmark, Russia, and Poland. In 1700, the then Swedish-Finnish empire entered The Second Northern War against Russia, Saxony-Poland, and

Denmark-Norway. In the early years of the conflict, the Swedes won remarkable victories, considering the country's population of just over 1 million people. It wasn't until 1718 when the Swedish king, Karl XII devised a plan to attack Moscow that the tides turned against the Scandinavian country. Sweden's glory days as a strong powerhouse came to a close as the country fell into Russian hands. The Napoleonic Wars further saw to Sweden's destruction, as the nation was forced to relinquish Finland to Russia. The last war Sweden participated in was against Norway in 1814. The result united the two countries, until 1905 when Sweden acknowledged Norwegian independence.



A military guard stands at the Royal Palace of Stockholm. Sweden follows a system of constitutional monarchy.

At present, Sweden is a constitutional monarchy with a parliamentary system, known as the Riksdag. In fact, Sweden's government stems from its ancient Viking traditions. The Riksdag is a time-honored tradition resulting from the election of Viking kings by tribal courts known as Ting. The incumbent king, Carl XVI Gustaf, has resided as head of state since 1973, while Prime Minister Fredrik Reinfeldt took office in 2006, representing the country's Moderate Party. Prior to Reinfeldt's election, the country's Social Democrats governed for over 70 years.

A cultural cauldron

The three major ethnic groups residing in Sweden are the indigenous Swedes, Finns and Sami. The country has a high immigration rate of over 10%—one in five people is an immigrant or has a foreign born parent. The predominant language is Swedish, while English is also widely spoken.

Stockholm, the country's capital since 1523, is the cultural hub of the Nordic countries. It is the country's most heavily populated city and is an eastern seaport that connects the mainland with nearby islands. Sweden is particularly known for its impressive industrial and furniture designs, not only producing designers, such as Ulla Forsell, Mårten Medbo, and Frida Fjellan, but also drawing talent from around the world as a notable place to study and create. [IKEA](#) is one of Sweden's most popular companies, known for its furniture and accessory designs.

As urban dwellings increased in the 20th century, rural customs in Sweden began to fade. But in the 1990s, a surge to resurrect some of the older traditions surfaced. As such, national costumes, folk music, and dances are now a prominent aspect of Swedish culture in provinces such as Gotland and Dalarna. Since Sweden's seasons vary so drastically with a prolonged dark winter,

and a quick, short summer, Swedes recognize the importance of food preservation. With this, cuisine consists of traditional foods such as *lutefisk* (codfish soaked in water), lingonberries, and a crispbread called *knäckebröd*. Swedish food resembles that of its German neighbor in its heavy, meat and dairy based qualities. Historically, seafood has played an important role in the Swedish diet, as the people have always utilized the availability of being located close to water.

Not only do the Swedes have a long life expectancy, but they also have one of the world's wealthiest economies. The government entitles families with children from ages of two to six a place in a public child-care facility. The country's social welfare system allows 480 days of both maternal and paternal paid leave between a child's birth until his or her 8th birthday, as well as the option to take five months unpaid leave. Of the 480 days available, at least 60 must be granted to the father.

The importance of equality among men and women in Sweden came to a forefront in the early 20th century as a result of the works of Elin Wägner and other Swedish feminists. Their efforts eventually resulted in the Swedish woman's right to vote in 1919. As the 20th century came to a close, women occupied nearly half of the seats of parliament.

The Swedes pride themselves on their unique culture that is able to maintain its fundamental values, while simultaneously finding inspiration in the great European cultures such as England, France and Germany. Along with such influences, the Swedes draw upon their landscape, climate and Nordic heritage to create literature, music, fashion, and art. Among Sweden's cultural icons are Romantic-Nationalist painter Carl Larsson; Selma Lagerlöf, the first female and first Swede to win a Nobel Prize in literature; film director Ingmar Bergman; and the musician who has been tagged as "the father of Swedish music," J.H. Roman. A recent Swede who rose to fame is author Stieg Larsson, who

wrote the popular Millennium Series. The first book of the series, *The Girl with the Dragon Tattoo*, was published in Sweden in 2005, and then translated and released in the United States in 2008.



Traditional Swedish pickled herring dish served with crisp bread and butter. Historically, seafood has played an important role in the Swedish diet.

Fairy Tale economies: All's well that ends well

The financial crisis, which engulfed the world in 2009, hit the Nordic countries hard. Currently, all of them are in much better shape, thanks to their healthy public finances. The group of Scandinavian countries, comprised of Sweden, Denmark, Finland, Norway and Iceland, had always charted a way of life somewhat different from the rest of Europe until about the beginning of the last decade. Their idyllic settings and the sharing of a common culture and history made these nations a closely-knit unit. A familiar joke among economists during the second half of the 20th century was that these economies could be measured in terms of gross national happiness, an acknowledgement of the fact that they functioned almost like welfare states. However, the fun-loving Nordic people soon realized that the party could not go on forever. Instead of confining themselves to the cozy cocoons of their Nordic identities, they were required to be a part of a larger European identity. Norway and Iceland have resisted joining the EU so far, while Finland adopted the euro for its currency. Thus, these previously laidback economies became an integral part of the political, social, and economic fabric of the European continent.

Neighbors' envy

Sweden's policy of peace and non-aggression has fostered its economy over the past three centuries. And during the last few decades, Sweden has followed a system of capitalism laced with liberal welfare schemes for its citizens. But the efficacy of this economic model was challenged by the unemployment problem in the 1990s, and in the early years of the last decade, as well as during the financial crisis of 2009. Still, Sweden's fiscal discipline, together with its skilled labor force, helped the country tide over these crises successfully. Considering the stress that most of the Euro-zone experienced after the 2009 financial meltdown, the decision to stick to the Swedish *kronor* proved to be a prudent one.

The primary Swedish exports include automobiles, construction equipment, textiles, and furniture. The resource base of the economy consists of hydropower, timber, and iron ore. The private sector, which is the mainstay of the economy, contributes almost 90% of the industrial output, while the engineering segment accounts for 50% of the country's exports and total output. Export revenues were clocked at \$102.9 billion in 2010, with Germany being the biggest trading partner, followed by Norway and the U.K. The contribution of the farm sector to the country's GDP and employment is negligible.

Sweden is considered an investor-friendly economy, going by the World Bank's ranking of countries based on the ease of doing business. It takes as little as 15 days to set up a business in Sweden, according to a country report prepared by the U.S. Department of State. With solid public finances, Sweden is a sharp contrast to some of its debt-laden European neighbors. All

public spending is in accordance with the spending ceilings approved by the Parliament. For instance, the country has set a public spending limit of \$150.3 billion for the year 2011. Though unemployment is showing a gradual decline, the government's budget for 2011 outlines programs intended to prepare youngsters to become a part of the country's workforce.

From iron ore processing to information technology

Any discussion about industrial activity in Sweden is likely to be focused on well-known global brands such as Volvo, Scania, Electrolux, Saab, and SKF. However, until about the second half of the last century, Sweden was primarily known for industries that revolved around its rich natural resources base. The transition from traditional sectors such as the processing of iron and wood to technology and skill-based industries such as automobile manufacturing and specialized engineering gathered pace during this period. However, the onset of the 1990s marked an even more dramatic change in priorities, with the emergence of knowledge and research-based sectors such as pharmaceuticals, telecommunications, and information technology. The likes of AstraZeneca, which was formed out of the merger of U.K.'s Zeneca Group Plc. and Swedish drug maker Astra AB, as well as technology company Ericsson, have come to represent the evolution of the newest phase in the Swedish economy.

The Swedish auto sector has carved a niche for itself in the global automobile manufacturing industry over the course of last several decades. The iconic carmaker Saab Automobile AB, which filed for bankruptcy protection recently, had attracted the likes of General Motors during its heyday in the 1990s. Ford Motor Co. acquired home-grown Volvo's car division in 1999. With the acquisition of a majority stake in the second biggest Swedish truck maker Scania, Volvo has become a name to reckon with in the global commercial transport space.



Before the emergence of knowledge and research-based sectors such as pharmaceuticals, communications, and information technology, Sweden was known for its automobile brands such as Volvo, Scania, and Saab.

Jolted by the financial crisis

Until 2008, Sweden had everything going for it beginning in the early 1990s, as strong exports and domestic demand ensured steady economic growth. Encouraged by the sound financial conditions, the government implemented several reforms intended to improve the lot of citizens and create new jobs. As they say, all good things eventually come to an end. Despite the country's strong finances and overall stability, the economy slipped into a recession during the third quarter of 2008. The export-dependent economy of Sweden, the largest in the Scandinavian region, was the most affected by the financial crisis as dismal global economic conditions crippled export demand and consumption. After contracting 4.9% in 2009, the economy staged a remarkable recovery in 2010, expanding 5.5%, thanks to strong public spending and a pick-up in external demand. The increase in commodity exports and the recovery in the banking sector also helped the economy rebound. When the financial crisis struck, Sweden had a budget surplus of \$8.2 billion, thanks to a conservative fiscal policy and the economic growth achieved over the past several years. This single factor helped Sweden emerge from the crisis better than many of its peers. Though the surplus turned into a budget deficit of \$24.8 billion in 2009, Sweden's budget for last year showed only a slight deficit.




Sweden has made a name for itself by offering specialized manufacturing and engineering services. Small wonder the country is home to global brands such as SKF AB, the world's largest maker of ball bearings.

The country, which is home to big brands such as furniture maker IKEA, truck maker Volvo AB and SKF AB, the world's largest maker of ball bearings, raised interest rates several times during the second and third quarters of 2011 to cool down the scorching pace of growth. The central bank maintained that higher rates are required to slow lending growth. However, in September 2011, the Riksbank left the key interest rate unchanged at 2%, taking note of the risks for global growth. The bank also lowered its estimates for Sweden's annual average growth next year to 1.7% from its earlier projection of 2.2%. Home prices in Sweden have also been rising since the fall of 2009, helped by strong credit growth. The government plans to bring down Sweden's national debt to about 38% of the GDP in 2012. To achieve this objective, the administration has plans to sell state assets to the tune of 100 billion kronor by 2014. In February 2011, Sweden sold a part of its stake in the region's biggest lender, Nordea Bank AB, for about \$2.94 billion. Other companies lined up for divestment

include mortgage lender SBAB and phone company TeliaSonera AB. The solid economic growth has created demand for labor, which is likely to lead to a 2% employment growth in 2011. During this year, it is estimated that the Swedish economy will grow 4.2%.

Well-positioned despite global economic risks

Despite the country's impressive domestic credentials, the current slowdown in the global economy and the spillover effects of the debt crises are bound to impact traditional export markets such as Sweden. Thankfully, the domestic economy has remained stable so far amid the churn. Domestic demand may be propelled by sound economic fundamentals, but that alone may not be enough to sustain the country's economic growth. However, the Swedish government and the central bank have the financial muscle to deal with any eventuality, considering the heightened global economic risks. What's more, unlike many other economies, Sweden can afford to ease its monetary policy if required. Truth be told, the financial crisis turned out to be a wake-up call for Sweden, which had relapsed into a state of slumber after years of uninterrupted economic growth and prosperity. Having recovered from the economic downturn relatively quickly, the country appears set to retain its rightful place as a truly globalized and competitive economy in the years ahead. 

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