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JÖNKÖPING UNIVERSITY

Sweden – China's Link to the West

Chinese Entrepreneurial Establishment in Sweden

Paper within Business Administration

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Jönköping Januari 2008

Bachelor Thesis within Business Administration

Title: Sweden – China’s Link to the West, *Chinese Entrepreneurial Establishment in Sweden*

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Date: 2008-01-06

Subject: Entrepreneurship and Internationalisation

Background: People’s Republic of China’s entry into the World Trade Organisation in 2001 and the Chinese government’s implementation of the Going global strategy initiated the internationalisation process where Chinese actors are encouraged to seek opportunities in foreign markets. The Sino-Swedish relations dates back as far as the 18th century when Sweden was one of China’s major trading partners. Sweden was also the first country to establish diplomatic relationships with China in the 1950th. In recent years, China has shown an increasing interest of investing in the Swedish market creating a “two-way street”, meaning that the investments are going both ways.

Problem Discussion & Purpose: The markets of Sweden and China both have their own distinctive characteristics and unique business environments. However, the large socio-cultural distance complicates business between the two parts. Sweden is a country with political and market stability that posses advanced technology and know-how. Nevertheless, in relation to other European countries, Sweden has significant drawbacks. The aim of this thesis is to gain further understanding of what motivates Chinese investors to internationalize and why Chinese investors choose Sweden as well as how the entry process is carried out.

Theoretical Framework: The theoretical framework will outline a description of the development of internationalisation theories and the motives for internationalisation. Following is the concept of *Where*, *When* and *How*, focusing on *Where* and *How* through country competitiveness and the entry modes available. The final focus will be on the creation of networks along with the concept of Guanxi and personal relationships.

Methodology: The research is conducted with a qualitative analysis through primary data collection of semi-structured interviews. The study is a combination of explanatory and exploratory since it both tries to seek new insight in the subject and explain relationships between variables.

Conclusion: The internationalisation motives for Chinese companies choosing Sweden are market and strategic, identified as the wish to seek new opportunities, spreading capital risk and through international influences gain technological update and educational upgrade. When it comes to the vital factors to why Chinese investors choose Sweden, they can be categorised as hard and soft factors where the latter is stressed as the most important. Networks and relationships are important aspects in the *Where* factor and they are also vital when it comes to the *How* factor and the es-

establishment process. Relationships are the essence of networks and when looking at the results from the research, several of the Chinese establishments in Sweden would not have happened without the presence of networks.

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1 Introduction

This thesis is a study of China's ongoing internationalisation, with focus on Chinese investments in Sweden. The introduction chapter outlines the background and the problem discussion that further presents the purpose of research.

People's Republic of China is on the merge to become one of the world's most powerful global economies. The development started with the economic reformation in 1978 and China was the number one choice for Foreign Direct Investments (FDI) in 2006 (ISA, 2007). The heavy foreign interests in the Chinese economy has created the foundation of today's blossoming economy. Entering 2008 China's importance as a world economy is acknowledged, and Chinese companies are establishing presence all over the world including Sweden.

1.1 Background

The Sino-Swedish¹ relations dates back as far as the 18th century when Sweden was one of China's major trading partners. Sweden was also the first country to establish diplomatic relations with China in the 1950th. The Business interactions between China and Sweden have been investigated many times but commonly focusing on Swedish investments in China. In recent years, China has shown an increasing interest of investing in the Swedish market creating a "two-way street" (ISA, 2007), meaning that the investments are going both ways. This phenomenon is a relatively unexplored field creating opportunities and challenges and thus making it interesting for further research.

China's outward FDI amounted to 11 billion USD in 2005, which is a significant increase from the 2 billion USD that were registered in 2004, see figure 4.2 (ISA, 2007). One of the most important drivers contributing to the expansion of the outward FDI is the adaptation of the Going global strategy with the essence of promoting international operations to improve resource allocation and international competitiveness (ISA, 2007). The Going global strategy that aims to encourage large and developed Chinese companies to enter foreign markets is a result of China's accession with the World Trade Organisation in 2001. The reason for the implementation was that many of the larger companies were far ahead of the Chinese market and needed influences from other more advanced markets in order to develop further.

Sweden can be seen as an attractive investment market not only due to advanced technology, know-how and stable political and market conditions but also since it brings access to a large amount of customers in the rest of the Europe. Nevertheless, Sweden also has drawbacks so to encourage foreign investments, the Swedish government has founded Invest in Swedish Agency. ISA is a government owned agency that assists and informs foreign investors about the opportunities of investing in Sweden. ISA, the Regional Councils and representatives from the industry are working together to provide foreign investors with information and services in order to increase the number of foreign establishments in Sweden (ISA, 2007).

¹ Sino-Swedish – Chinese-Swedish (Encyclopedia Britannica,2007)

1.2 Problem Discussion

Companies are becoming more internationalised driven by various motives. When planning to enter a foreign market the incentives could either be to achieve market access, gain economic advantages, make a strategic move or a combination of the three (Shenkar & Luo, 2004). When a company decides to expand abroad it is vital to carefully consider the aspects of *Where*, *When* and *How*. This study is conducted in current time which hence make the when factor less relevant thus the focus in this case will be on the more complex factors of *Where* and *How*. *Where* is the aspect of which country or market to enter and *How* embraces the issues of how to go about.

A country with high competitiveness is according to Shenkar and Luo (2004) more likely to be a recipient of FDI since country competitiveness is a measurement of long-term wealth creation and productivity. According to Hollensen (2004), the entry mode selection is fundamental since the wrong selection could create a threat for future market expansions and new market entrances. Nevertheless, depending on different markets and conditions, there are various types of entry modes suitable for the firm. The markets of Sweden and China both have their own distinctive characteristics and unique business environments meaning that a successful approach in one market might cause a mismatch in another. One large difference is that Swedes separates work and private life while as Chinese are famous for highly valuing personal relationships in business interactions (Lee et al. 2001).

FDI is advantageous for the receiving country and hence China's enormous potential - their choice of recipient will have significant effect on the host economy. The Swedish government is actively working to attract Chinese actors to invest in Sweden. In order to win China's interest it is fundamental for the host economy to provide an easy access to the market. An accessible market will be more attractive than an inaccessible one.

In relation to other European markets, Sweden has significant drawbacks such as high tax pressure and the isolation from the European Monetary Union (EMU), yet the market seems to be attractive for Chinese investors. ISA stresses the advantages of low corporate tax, advanced knowledge and stabile economy to promote Sweden as an investment target. These advantages are in many cases the same or even better in other European markets, taking this into concern, one might wonder Sweden is chosen. . If revealing the uniqueness of Sino-Swedish interactions; two-way improvements and developments can be made in order to further increase the accessibility and thus the attractiveness of the Swedish market.

1.3 Purpose and Research Questions

This thesis aims to highlight the vital reasons to China's interest in the Swedish market and to gain understanding in how the entry process go about. In order to fulfil this purpose we will answer the following research questions:

- ✓ Which are the vital factors for Chinese investors when choosing the Swedish market?
- ✓ How do Chinese investors go about when establishing a presence in Sweden?

2 Theoretical Framework

Chapter two will take the reader through a “theoretical cone” starting with the broad perspective of internationalisation, continuing by describing the factors affecting where and how to invest and finally explaining networks and personal relationships.

“The world is flat”

Quoted by Friedman (2006) standing in a conference room in India when he realized that the world is flat. Friedman (2006) states that the world is becoming flatter and flatter, by using the word “flat” as a metaphor in order to describe that physical boundaries such as the geographical distances are becoming less and less restrictive when doing business. Due to the globalisation, firms no longer have to compete only with local competitors but also with competitors from all over the world. When comparing Friedman’s scenario to Fanerdun’s financial manager Fust’s story regarding the surreal feeling of seeing the castle of Kalmar on a big poster along the highway in China, one cannot help wondering; is the world really becoming flat and what are the results of the escalating globalisation?

Globalisation is the general description of the ongoing internationalisation throughout the world affecting, markets, firms and individuals. Shenkar and Luo (2004), exemplifies the globalisation’s effect on the consumers as more choices, lower prices and an increasingly blurred national identity for products and services. According to Griffin and Pustay (2002), there are two contemporary causes to globalisation. First, there is the Strategic imperatives including, leverage core competences, acquiring resources and suppliers, seeking new markets and better competitiveness among rivals. Second, Griffin and Pustay (2002) highlight the environmental change and globalisation as changes in the political environment, technological changes and the challenges of the Internet age.

The theoretical framework will follow the outline in figure 2.1 below, starting with an broad description of the development of Internationalisation theories. Followed by the concept of *Where*, *When* and *How*, focusing on *Where* and *How* through country competitiveness and entry modes available. Finally, the theoretical framework will end with different Network theories highlighting the importance of relationship aspects in internationalisation.

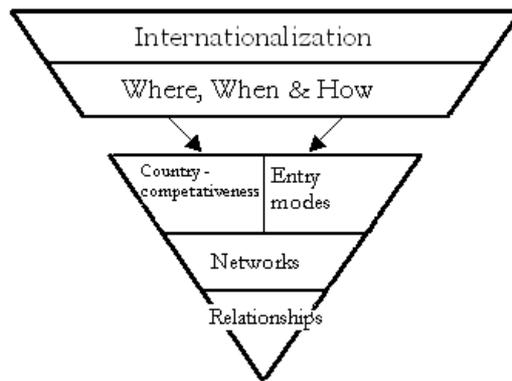


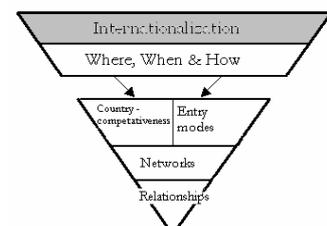
Figure 2.1 The Theoretical Cone

2.1 Internationalisation Theories

Since the beginning of civilisation, the human population has been engaged in trade with others. Throughout time, numerous internationalisation theories have evolved and today the underlying assumptions of foreign business connections are far more complex. The concept that firms tend to gradually increase their internationalisation in stages, together with a progressive deepening of commitment as their experience grows are the main concepts of the Uppsala model by Johanson and Vahlne (1977). Johanson and Vahlne have noted that companies appear to begin their international activities in nearby markets and that they usually start with exports followed by gradual establishment in other forms. Central issues of the Uppsala model are the lack of knowledge of foreign markets and how organisations learn as well as how their learning affects the investment behaviour. Another aspect is that it is a dynamic model, that describes the internationalisation of firms as processes. The already established operations are the main source of knowledge and investment commitments are made incrementally as uncertainty is reduced. Closely associated to the Uppsala model is Hallen and Wiedersheim-Paul's (1979) conception of psychic distance, which attempts to conceptualize and to some degree measure the cultural distance between countries and markets. In the network approach on the other hand, the basic assumption is that international firms cannot be analyzed as isolated actors but has to be viewed in relation to other actors in the international environment. The relationship of a firm within a domestic network, can be used as a connection to other networks in foreign countries (Todeva, 2006). The network model differs from other internationalisation theories regarding the relations between actors through the assumption that individual firms are depending on resources controlled by other firms. The actors are linked through relationships and get access to external resources through the interaction within the network.

2.2 Internationalisation Motives

This theoretical part will present theories regarding incentives and motivators for companies seeking foreign markets. The first issue is thus to explain why firms expand interna-

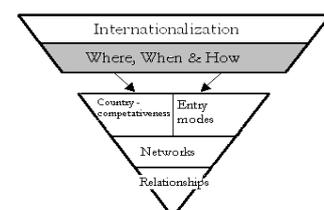


tionally. According to Shenkar and Luo (2004), the motives for conducting international business include Market motives, Economic motives, Strategic motives or a combination. “*For the truth is that today all business firms –whether small or large, domestic or international –must strive for profit and growth in a world economy characterized by enormous flows of products, technology, capital, and enterprise among countries*” (Root, 1994). Market motives can be either offensive or defensive. An offensive motive is to seek market opportunities in other countries while a defensive motive is to protect and try to protect a firm’s marketshare and/or competitiveness from domestic rivalry or changes in governmental policies (Shenkar & Luo, 2004). The motives can also be affected by push and pull factors (Hamid, 2004). Push factors are forcing the company to seek new markets other than the domestic market (Hamid, 2004). Pull factors on the other hand are dragging companies to take advantage of opportunities in foreign markets. The pull factors can arise from for example, a high demand from foreign markets, foreign government incentives and the desire to establish the company brand on foreign markets (Hamid, 2004). Economic motives are those that arise when firms wants to expand their business abroad to increase the return through higher revenue and/or lower the costs. International investments enable the company to take advantage of lower labour costs, natural resources and capital, as well as differences in regulatory treatments such as taxation (Shenkar & Luo, 2004). Wall and Rees (2001), state that foreign locations may be more attractive because of lower cost of skilled or unskilled labour, lower land prices, tax rates or rents. Wall and Rees (2001), are also pointing out that not only labour costs are important but also labour productivity and sometimes countries with low labour costs may be less attractive because of low labour productivity and vice versa for high labour cost countries. Strategic reasons are another big trigger for firm’s internationalisation as emphasized by Shenkar and Luo (2004). Firms may intend to capitalise on their distinctive resources or capabilities already developed in the country of origin. Through creating technologies and economies of scale in the domestic market the company can increase cash inflows by develop capabilities abroad as well (Shenkar & Luo, 2004). Firms may also expand international in order to be the first mover to the target market in order to create a so-called “first mover advantage” that might generate strategic benefits as well as a more competitive position (Shenkar & Luo, 2004).

2.3 Where, When and How

When discussing the process of Internationalisation, the three different features of *Where*, *When*, and *How* are important. The location selection *Where* to expand, concerns not only country selection, but also where within the chosen country.

In order to make a decision, managers need to evaluate factors such as costs, local demand, strategic factors, rules and regulations, economic factors, and socio-political conditions carefully (Shenkar & Luo, 2004). The selection is also depending on the firms’ strategic objectives since further expansion will require integration between the location and other global expansions projects originating from the parent company. The firm may also take into account its knowledge of the location and future opportunities and threats. Timing is the second crucial factor when deciding *When* to start the internationalisation process. Each timing option - early mover or late entrant, have distinct advantages and disadvantages Early movers benefit from greater market power, greater opportunities in marketing, resources, branding. More strategic options are site selection, infrastructure access and competition. Early movers have to face greater uncertainty from rules and regulations as well as from an unstable industrial and

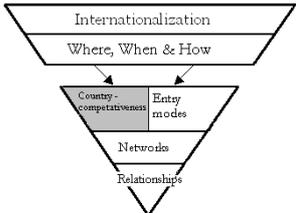


market structure, these disadvantages are most often the late mover advantages (Shenkar & Luo, 2004). Companies that wish to expand abroad need to choose *How* to enter the new market by carefully evaluating various types of entry modes. Entry mode strategies range from export and trade-related modes to different types of foreign direct investments such as Greenfield investments, mergers and acquisitions and joint ventures.

Due to focus on the *Where* and *How* factors in this thesis, the factor of *When* will further on be left out.

2.4 Country Competitiveness

Hollensen (2004) points out information as a key ingredient when it comes to choosing where to expand businesses abroad. Griffin and Pustay (2002) also mention the importance of information by bringing up factors such as, current and potential size of the markets, the level of competition, the market’s legal and political environment as well as socio-cultural factors that may affect the firms operations and performance. The knowledge of some of these factors is relatively objective and easy to obtain, other information about foreign markets is more subjective and may be more difficult to obtain. To allocate the latter information, one might have to visit the foreign location early on in the decision making process, to talk to local experts such as embassy staff, chamber of commerce officials or consultancy firms. To clarify why certain countries are more attractive for investments, Shenkar and Luo (2004) explains that countries differ when it comes to country competitiveness. Shenkar and Luo (2004) explain country competitiveness as to which extent a country generates more wealth than others. They are also explaining that it measures productivity and how the country can provide firms with an environment that sustains competitiveness. Government plays an important role and the effect of government policies can either stimulate or decline country competitiveness. A careful evaluation of market factors is crucial before entering a new market but can also be burdensome for the firm (Griffin & Pustay 2002).



When evaluating country competitiveness in the global marketplace fundamental factors to take into account are summarized in figure 2.2 below.

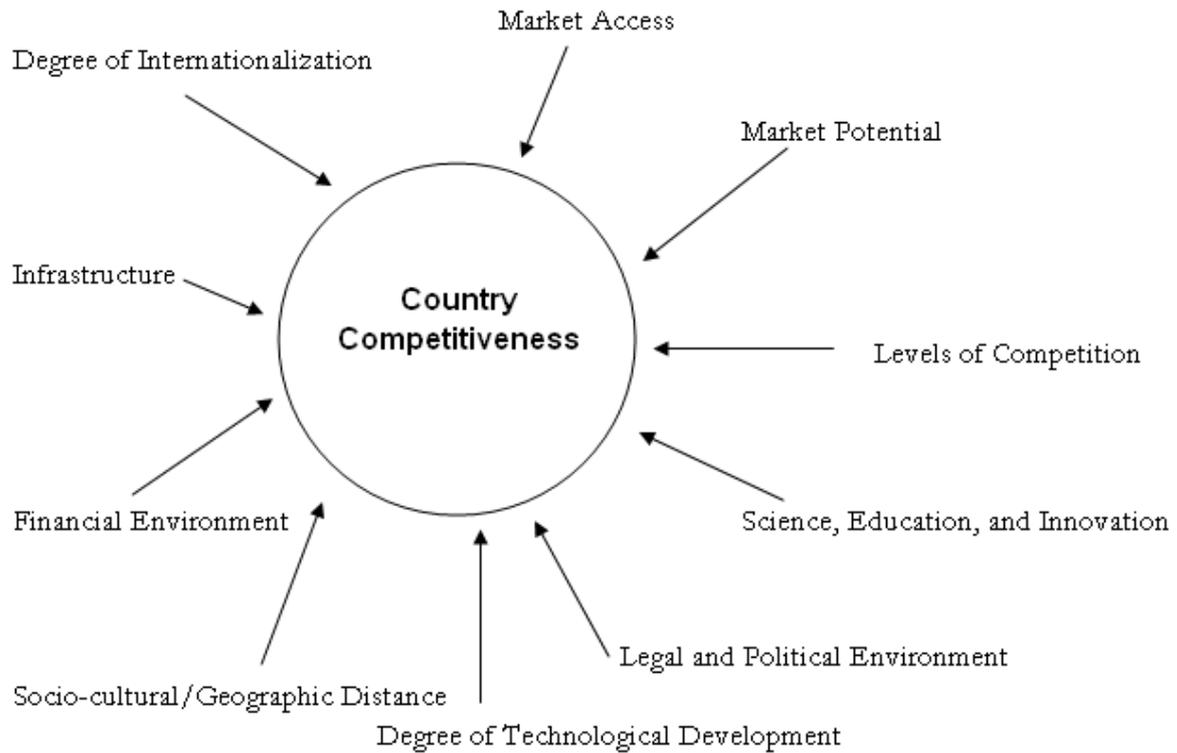


Figure 2.2 Country Competitiveness

Examining international geographical locations is of significance according to Daniels and Radebaugh (1995) since companies seldom have resources to establish themselves in all attractive markets at once. The lack of experience and expertise necessary in the early stages of international expansion usually makes it difficult to decide which location to enter; instead, they rather respond to opportunities that they are aware of.

When evaluating a country's competitiveness Hollensen (2004) divide the international environment into two segments describing general and specific criteria's affecting the choice of market selection. General characteristics are the country factors with a high degree of measurability, accessibility and action-ability, these factors can be measured through statistics and include for example: geographical location, language, political factors, demography, economy, industrial structure, technology, social organisation, religion and education. Specific characteristics are the country features with a low degree of measurability, accessibility and action-ability, however they will have a high degree of relevance in specific situations. Some examples of these specific characteristics are, culture, lifestyle, personality, attitudes and tastes. Hollensen (2004) describes language as the mirror of culture where interpreters often are needed to negotiate. Regarding the importance of political influences, the degree of power that the central government has, may cause difficulties to enter a specific market. The cultural characteristics play an important role when segmenting the world market and in order to gain advantages, the foreign investors need an understanding of customer behaviour, different values and so forth that reflect the investment market's environment. Personality is reflected in certain types of behaviour and different nationalities have all their specific personality traits, one example is the tendency to haggle and bribe.

2.5 Approach to Foreign Entry Mode Selection

When a firm has decided which foreign market to target, the next question will be how to enter the targeted market hence the company’s approach to foreign entry mode selection. A company’s initial choice of entry mode is of significance since a miss-fit between the entry mode and the targeted market could lead to great complications and costs. According to Root (1994) there are several factors of various strengths, making the entry mode decision a complex process with numerous trade-offs between suitable entry modes. The external and internal factors that influence the choice of entry mode are reviewed in figure 2.3 below.

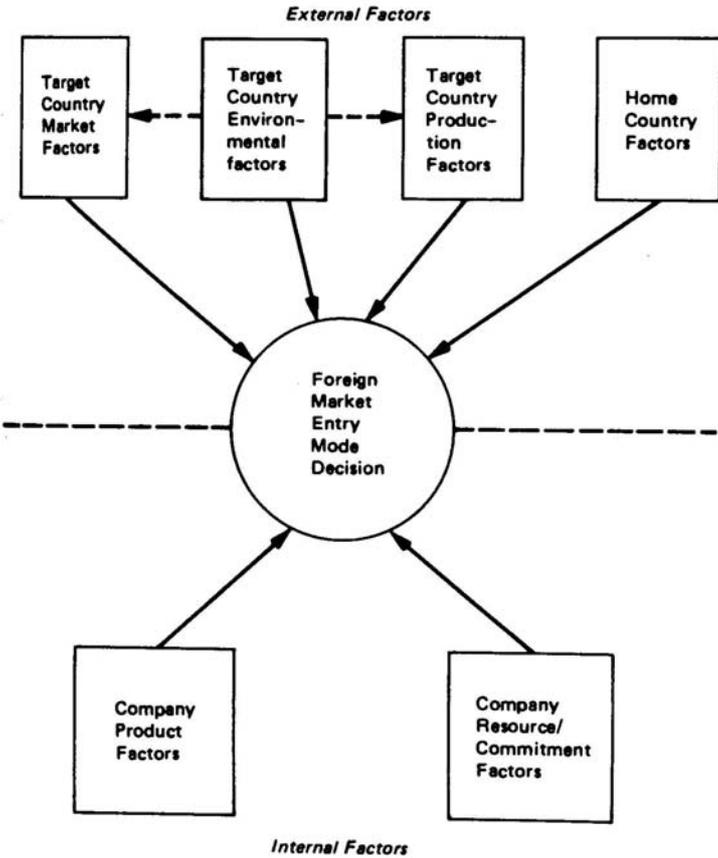


Figure 2.3 Entry Mode Approach; External and Internal Factors (Root, 1994)

2.5.1 External Factors

The target country’s Market, Production and Environmental factors as well as the combination of these three factors in the Home country are external to the company. These factors can rarely be affected by management decisions but may nevertheless encourage or discourage certain entry modes (Root, 1994).

When looking at the target Country’s **Market Factors** the following features will be evaluated. The size of the target market is important; markets with high sales potential can justify entry modes that require higher investment costs (FDI-related entry modes) since they generate more sales volume (Root, 1994). Hollensen (2004), states that country size and rate of market growth are key considerations in determining the entry

mode. In countries with a large market size and a high growth rate, wholly owned subsidiary or joint venture will probably be considered. The chosen market's competitive structure is another aspect where the number of competitors and their dominance affects the entry mode selection. Markets with few or one dominant competitor can be harder to enter and are often requiring entry through FDI while licensing might be a better solution in countries with very strong competition structure (Root, 1994).

The elements considered within the **Production Factors** include quality, quantity and cost of raw material, labour, energy and so forth. The status of the country's infrastructure such as transportation, communication and shipping facilities plays a part in the process of selecting entry mode. In a country with low production costs, a firm will be more motivated to establish some sort of production or local establishment (Root, 1994). Hollensen (2004) has in this category also included, direct and indirect trade barriers. Tariffs and quotas on import of foreign products as well as discouraging trade regulations favour the establishment of FDI related entry modes or other arrangement with a local company. The local partner can also help the firm in establishing local contacts, distribution channels and dealing with the local government. Where product regulations requires a high level of adaptation to the targeted market, the local company may help in establishing local production, assembly facilities as well as simplifying the access to the market (Hollensen, 2004).

Political, economical and socio-cultural characteristics are categorised as **Environmental Factors** by Root (1994) and their magnitude affects the choice of entry mode. Governmental policies and regulations such as restrictive import or investment policies and whether the economy is a market economy or a central planned economy is fundamental since FDI entry modes are more complex in a central planned economy (Root, 1994). The influence of political risk should also be mentioned, where as political instability and the threat of expropriate will favour entry modes with limited commitment. When country risk is high, a firm will make effort to limit its exposure to such risk by restricting its resource commitment in that particular market (Hollensen, 2004). Geographical distance is another environmental factor to consider since high transportation costs can make it impossible for exported goods to compete with local made products. Another important feature is the socio-cultural distance between the home country and the host country. Hollensen (2004) is describing the socio-cultural distance between countries as the difference in business and industrial practice, language, and educational level as well as distinctive cultural characteristics. When these features strictly differ from those of the home country, the managers will feel a greater uncertainty as well as experience a higher cost for information acquisition. The greater the perceived distance in terms of culture, economic system, and business practices, the more likely it is that joint venture will be favoured among the FDI's (Hollensen, 2004). The importance of the cultural factors has also been investigated by Hofstede (2003) that believes that humans are different from culture to culture, creating an obstacle when it comes to business relationships. The result of analyzing different countries' cultures is supposed to help us doing more efficient businesses abroad. By measuring each country's cultural dimensions, Hofstede uses the five different culture dimensions; Power Distance Indexes (Power and inequity), Individualism (The degree individuals are integrated into groups), Masculinity (The gap between the competitive, assertive "masculine" pole and the modest, caring "feminine" pole), Uncertainty Avoidance Index (The societies tolerance of uncertainty, search for truth) and Long-Term Orientation (Values associated with thrift and perseverance, short term orientation values are respect for tradition, fulfilling social obligations and protecting one's face). Hofstede's theory has faced a lot of criticism, mainly because it is old, only focusing on

one type of business and is generalising the whole population (Søndergaard 2003 & McSweeney 2002).

Market, production, and environmental factors in the **Home Country** also influence a company's choice of entry mode (Root, 1994). With a big domestic market, the company can grow before initiating their internationalisation process. According to Root (1994), larger companies are more inclined to use FDI-related entry modes while smaller companies are restricted to exporting. The policy of the home government towards exporting and foreign markets may also hamper or enhance exporting depending on incentives or restrictions (Root, 1994).

2.5.2 Internal Factors

How a company responds to external factors in the choice of entry mode depends on internal factors (Root, 1994). These are a company's production factors, resources and the degree of commitments as well as their willingness to commit their resources.

Company Product Factors reflects the nature of the businesses, products and services where certain characteristics make it more convenient to produce and market the products/services in a country where the company has established a direct presence. Thus, service-intense manufacturing makes local production modes more favourable and the same reasoning goes for service providing firms (Root, 1994). Technologically intensive products give companies the alternative to license technology in the foreign country. The result is that companies with industrial-products are more inclined to enter licensing arrangements than companies with consumer-products (Root, 1994).

The more **Resources** a company possesses like capital, technology, information, production skills, marketing skills among other, the more options the company has when it comes to selecting entry mode (Root, 1994). A company with limited resources is conversely restricted to entry modes with lower **Commitment**. Thus, company size is a critical factor in the choice of entry mode. Hollensen (2004) states that although SMEs may desire a high level of control of the foreign operations and wish to make a larger commitment, they are more likely to start with export modes. Root (1994) also points out that there must also be a willingness to commit the resources for internationalisation development. The commitment is revealed by the corporate strategy and the attitudes of managers as well as a company's earlier experience of internationalisation and the targeted market. According to Hollensen (2004), international experiences reduce the costs and uncertainties of the market and increases the probability of firms committing resources to foreign markets.

2.6 Entry Mode Selection

Shenkar and Luo (2004) describe entry modes as *“specific forms or ways of entering a target country to achieve strategic goals underlying international presence in that country”*.

Shenkar and Luo (2004) broadly categorise the entry modes into three categories: *Trade-related entry modes*, *Transfer-related entry modes* and *FDI-related entry modes*. The trade-related entry modes demand less, resource commitment, organisational control, involved risk, and expected return while FDI-related entry modes involves higher levels of these factors, seen in figure 2.4. Exporting is the most common way for firms to start their internationalisation, as already mentioned in the Uppsala model,



where Johanson and Vahlne (1977) explain firms internationalisation as a gradual process. Through exporting, the firm gains valuable experience about operating internationally as well as country specific knowledge of the market they operate within (Shenkar & Luo, 2004). Transfer-related entry modes are those associated with transfer of ownership or utilization of specified technology or assets in exchange for royalty fees between parts. They differ from the trade-related entry modes since they are used to transfer or buy certain rights of transacted property from the other part. Transfer-related entry modes include leasing, licensing and franchising (Shenkar & Luo, 2004). Further on, the focus will lie on the FDI-related entry modes since these entry modes entail a presence in the target country which will be the main subject of investigation.

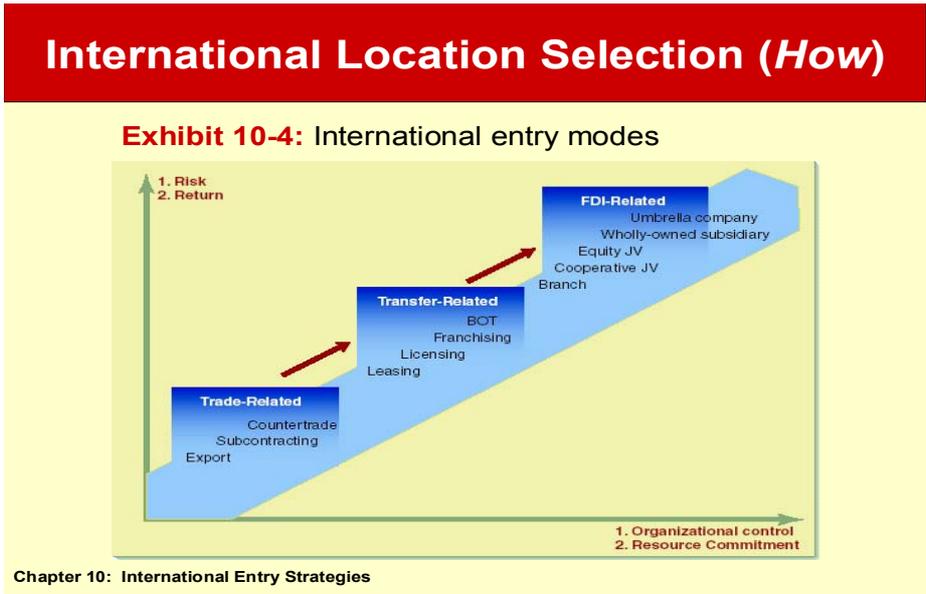


Figure 2.4 How (Shenkar & Luo, 2004)

FDI-related entry modes involve ownership of property, assets, projects, and businesses invested in a host country. These entry modes give the company more control of foreign operation and economic activities but they also involve more risk, long-term commitment and resource and capital investment. FDI-related modes include; branch office, strategic alliances such as joint venture and wholly owned subsidiary (Shenkar & Luo, 2004). A *branch office* is a foreign entity in a host country that acts as an extension of the parent company and is legally constituted as a branch. A branch can engage in production and operation activities and run businesses within a specified scope or location. A branch office offers a relatively simply way to foreign establishment, where the parent company remains responsible. Representative offices are on the other hand prohibited from engaging in business activities that can generate profit, instead they serve as liaisons and are establishing contacts with governments, doing marketing research and provide consulting activities (Shenkar & Luo, 2004).

The cooperation between international organisations can take many forms and are collectively known as *Strategic alliances*, where business arrangements are founded to create mutual benefits (Griffin & Pustay, 2002). The most common foreign entry for MNEs² is through a *joint venture* (Shenkar & Luo, 2004) that is a special form of strategic alliance involving an establishment of a new entity that is jointly owned and

² MNE – Multi National Enterprises

managed by two or more companies, see figure 2.5 (Hollensen, 2004). Each partner contributes with funds, facilities, equipment, intellectual property rights, labour, land and etc. Advantages with joint venture is that it involves less risk with large scale investments, technology is easier to transfer, larger access to resources and markets, reduction of political risk in the host country and a potentially better position against competitors in the foreign market. As with all entry modes there are drawbacks that consist of a loss of control over the foreign business, risk of exposing technology and know-how and potential conflicts that may arise between the partners.

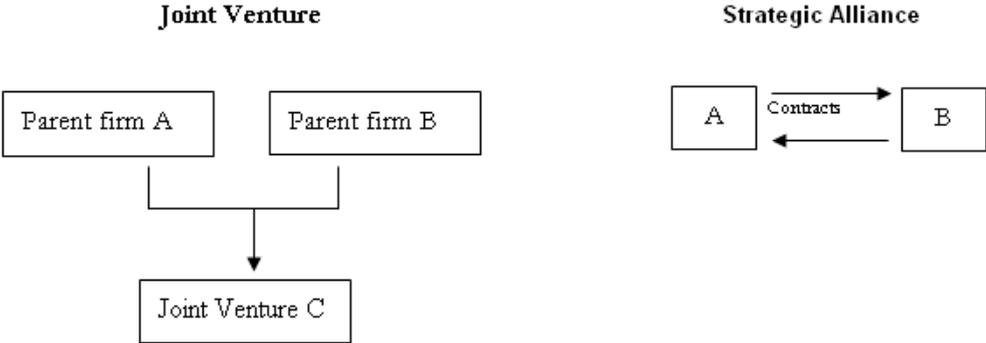


Figure 2.5 Joint Venture vs. Strategic Alliance (Hollensen, 2004)

A *wholly owned subsidiary* is when the investing firm own 100 percent of the new entity located in the host country. The new entity can be built by the parent company and is thus called a Greenfield investment or if the firm is acquiring a local business it goes under the name, acquisition. A wholly owned subsidiary gives managers the highest level of control and the possibility to make their own decisions. Nevertheless, to establish a wholly owned subsidiary can be a complex, costly and time-consuming process. They must also face problems arising from cultural differences such as communication and coordination problems between management and employees. When it comes to acquisition the firm is getting faster access to a production or office construction along with equipment, local knowledge, established brand name, already established supplier, distribution channels, business contacts and customers (Wall & Rees, 2001). The problem is often that it can be costly and difficult to find a suitable local business partner, problems can arise from cultural and managerial differences within the acquired company between the employees. Where the main reasons for establishing a wholly owned subsidiary is the possibility to earn maximum profit, enter a new attractive market, lower production and labor costs, availability of raw material, technology, skilled labor force and other resources. Another important factor can be incentives from the host government such as tax reductions or other motivation. The drawbacks with a Greenfield investment have similarities to the drawbacks of an acquisition, nevertheless a Greenfield investment is more time consuming and leads to a slower entry to the new market. The major drawbacks are that this form of entry mode requires large investment and a high level and long-term commitment (Shenkar & Luo, 2004).

2.7 Networks and Relationships

“No business is an island”

This quotation by Agndal and Axelsson (2002), relates to the complicated organisation of today’s business world that is far from clear-cut and simple when it comes to interaction aspects that impact firms’ operations. Agndal and Axelsson (2002) also brings up the fact that in the last two decades the concept of network has become popular, both among researchers and business practitioners, and is used in a wide variety of contexts such as; describing business systems or creating prosperous regional development.



The Uppsala model by Johanson and Vahlne (1977) is based on the idea that experiential knowledge only can be acquired through operating in a market and that this knowledge is market specific and cannot be transferred. Lindstrand (2003) on the other hand explains in the research of the usefulness of networks in the internationalisation process that knowledge can be transferred without experiencing it. According to Lindstrand (2003) knowledge can for example be gained by acquiring or imitating others, reflecting the importance of networks. This implies that when a firm moves towards the global market it becomes increasingly necessary to rely on a network of relationships with external organisations. Todeva (2006) states that since it’s foundation network theories have been focusing on the structural implication of social interaction and relationships. Where business networks are structures of relationships between actors such as; business organisations, individuals within them, managers that make decisions on the behalf of an organisation and various institutions that are interacting with each other for a business purpose. Further on Todeva (2006) makes the statement; *“One of the strengths of the business network metaphor lies in its bridging function, between the social and economic dimensions of human conduct, between different disciplines and methodologies, between the academic community and the world of practice. Business network is an essential concept that can explain the organisation of the contemporary economy and society and the behaviour of interconnected business actors”*. The concept of business networks can be complicated to manage because of it’s high complexity, meaning that it can stand for many things at the same time. Despite the advantages networks provide, they can be time consuming, costly and generate conflicts. The globalisation of the economy and it’s impact on business relationships has escalated the interest in business networks (Todeva, 2006).

One purpose with business alliances and network relationships according to Hollensen (2004) is to reduce market uncertainties; however they also need more coordination and communication. Nevertheless, the importance of external triggers cannot be ignored and Hollensen (2004) continues by saying that formal and informal meetings among managers from different firms and trade associations, conventions or business round tables often serve as a major change agent. Todeva (2006) continues by arguing that the increased research in this field has led to a gradual change in paradigm in the neo-classical economy theory, where the focus of analysis has shifted from individual firms to business networks, collaborative business relationships and strategic alliances. The increased globalisation can be linked with liberalization policies worldwide that trigger firms’ internationalisation and accessibility to foreign markets. The response by firms is no longer based entirely on cost calculations and expectations of return on investment, but rather is driven by motives for uncertainty avoidance, establishment in strategically significant markets and strategically important global alliances (Todeva, 2006). Moreover one can distinguish between the different sort of networks that are

created with a specific purpose in mind, “alliance networks” and “naturally emerging networks” (Agndal & Axelsson, 2002). Also Todeva (2006) differentiate diverse types of networks such as Entrepreneurial small business networks, Family business networks and Chinese family and community business networks as Guanxi for example.

Håkansson and Johanson (1992) explain the network aspect in a more detailed version by using the A-R-A framework that contains the importance of actors, resources and activities within a network. Figure 2.6 below shows the connection and relationship between the different individuals and firms as actors in a network that controls the resources and carries out the activities. The framework is used to examine of what importance the resources that are being used have in the performance of the activities and what actors that control the relevant resources. Also the connection between the involved actors is examined by distinguishing, social, technical, legal and economical connections.

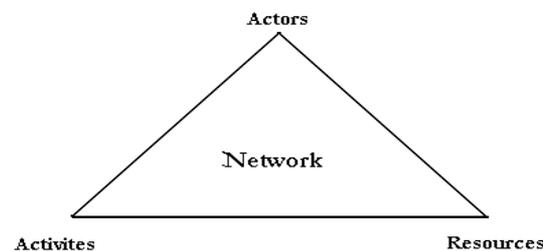


Figure 2.6 The A-R-A Framework (Håkansson & Johanson, 1992)

“Often relationships established in the past, relationship sediments, appear to play crucial roles as driving forces and enablers of internationalisation”

Quoted by Agndal and Axelsson (2002), regarding their way of viewing relationships as assets when it comes to the network theory. Agndal and Axelsson (2002) have created a framework by modelling the different dimensions of relationship sediments that can be identified. The dimensions are summarized into the following five groups, the type of contact or relationship (the sediment origin), its importance or role, its structure, availability and reach. In figure 2.7 below Agndal and Axelsson (2002) describe the five dimensions by dividing them further; explaining the sediment *category or origin* of the relationship as the core. The sediment *structure* of the relationship refers to its content and the commitment to its actors, which can be broad, narrow, deep, shallow, strong, weak or a combination of these. The *availability* of the relationship explains to what extent that the relationship can be mobilized or activated. The *reach or context* of the relationship clarifies the context in which it is embedded and give access to, for example countries, networks or industries. Last Agndal and Axelsson (2002) quotes that; *the importance of the relationship sediment is characterized as being a critical bridge to other relationships or network contacts, or of marginal value where it represents one of several ways of achieving the same end*”, which reveals the uniqueness from relationship to relationship.

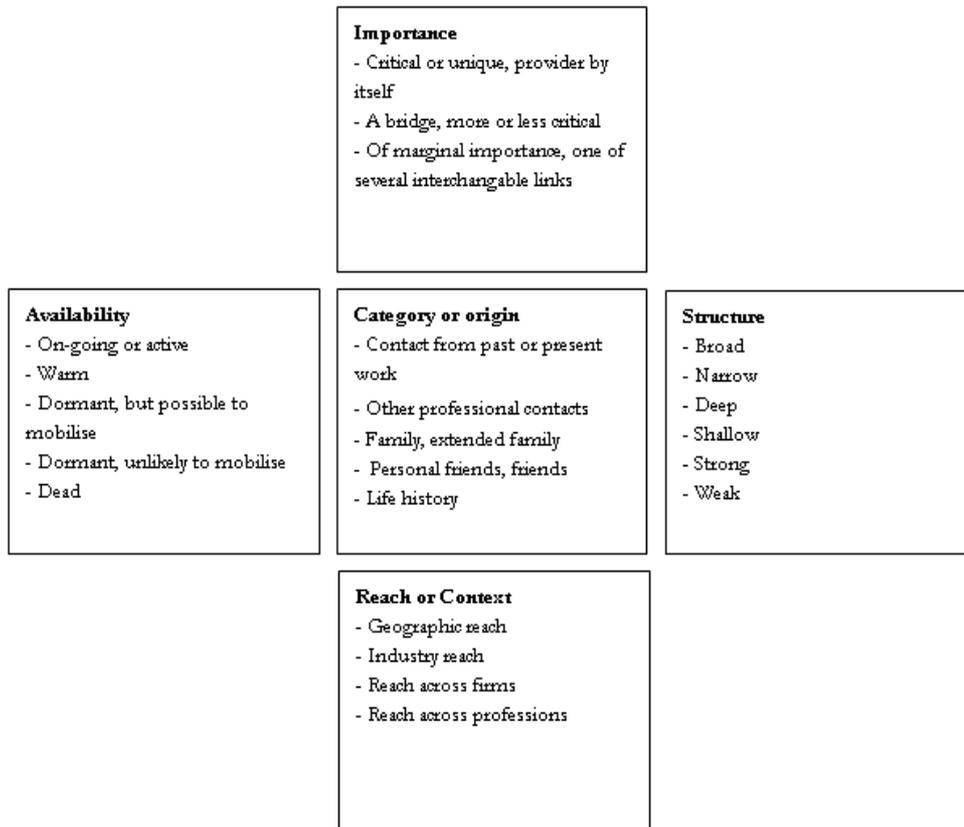


Figure 2.7 The Dimension of Relationship Sediments (Agndal & Axelsson, 2002)

Agndal and Axelsson (2002), explains relationships as an immaterial resources that could be tied either to the firm or to specific individuals that can be used as direct or indirect links to other actors when initiating a development process, acquiring information or for learning experiences. Further on Todeva (2006) conclude that relationships and interaction are the essence of business networks and explains each type of business network as unique, determined by historical, institutional, and cultural conditions. The concept that economic actions are imbedded in social structures and positive and negative effects of social relations in economic activities have been examined by Uzzi (1997). Uzzi divides relationships into market relationships and close/special relationships when studying the degree of trust in existing social structures. Close/special relationships are regarded as embedded relationships that include mutual trust between the actors. Trust is developed over time when close network members are helping each other and Uzzi's research illustrates how unspoken bonds were particularly important in creating an effective business collaboration. Trust is also important when gathering new information as it enables you to faster acquire data and reduce the uncertainty involved. Close relationships are a good way of transferring tacit knowledge between actors and development of trust is important for the overall success of cooperations (Uzzi, 1997). This quote by Agndal and Axelsson (2002) highlight the importance of relationships, "*Relationships are assets just like knowledge, financial and other resources that enable firms' actions and activities*" (Agndal & Axelsson, 2002).

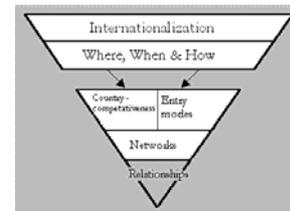
Uzzi's research (1997) needs to be looked upon with a critical eye, first, since his agreements are grounded in observation only made in the garment industry. Second, the small employment size and the personal nature of the ties within this industry may have provided a natural ground for embeddedness. When it comes to relationship theories in general one need to consider the uniqueness of each case, which means that one theory that fit one firm, might be impossible to relate to another.

2.8 Personal Relationships and Guanxi

“Who you know is more important than what you know”

This quotation of Yeung and Tung (1996) is a well-known Chinese saying and can be applicable to the occurrence of Guanxi. According to Dunning and Kim (2007), Guanxi is translated as personal relationship referring to the concept of drawing on established connections in order to secure favours in personal relationships. Guanxi can be explained through six traits (Dunning & Kim, 2007). Guanxi is *utilitarian*, meaning that it is purposely driven by personal interests and it bonds two people through favours rather than through sentiment. It is *mutual* – an individual's reputation is tied up with mutual obligations. Guanxi is *transferable* to a third party through a friend, business partner or a family member. It is *personal* meaning that it exists on individual level hence interpersonal loyalty is seen as more important than organisational relationships. Last, Guanxi is *long-term* and *intangible*; people who share Guanxi are committed to each other through an unwritten code of trust, patience and equity and are built up through continuous long-term interactions. Disregarding the traits of Guanxi can mean serious damage to a person's respectability and social standing.

Guanxi is particularly carried out in China and the Chinese have almost turned it in to a matter of art. Develop and retain Guanxi is a necessary concern for entrepreneurs and managers since without established Guanxi in China you can not get anything done (Dunning & Kim, 2007).



3 Methodology

In chapter three the method of acquiring and analyzing data is outlined and described. The study is of qualitative nature and the primary data is collected through semi-structured interviews.

3.1 Research Approach

There are commonly two views on research approach, Inductive Approach and Deductive approach. Inductive approach involves the development of a theory resulting from the observation of empirical data while deductive approach has a theory as a foundation of research and test if it agrees with reality by stating a hypothesis (Saunders et al, 2003).

This analysis aims to conclude why people make certain decisions and what influence them. The deductive approach is not applicable in this case since the aim is to investigate the stated problem and purpose through theories rather than testing a theory. This thesis is conducted with an inductive approach since data are analyzed to form a theory.

3.2 Research Strategy

Saunders et al (2003) suggest that the research strategy is the general plan of how you will work to answer the research questions. A research question and objective can be tackled differently depending on the research strategy utilized. Saunders et al mention three classes of research strategies yet the borders between them are vague and more than one strategy can be used for the same study. *The Explanatory study* focuses on studying a situation or a problem in order to explain the relationship between variables. *The Exploratory study* aims to seek new insights into phenomena, to ask question and to assess the phenomena in new light and *the Descriptive study* has the purpose to produce an accurate representation of persons, events or situations. The thesis aims to fulfil the purpose through answering two research questions. Since the research, questions are somewhat different from each other in nature; this research strategy is a combination of exploratory and explanatory. The research conducted seek to find understanding in why people and businesses make certain decisions and choices which means that an explanatory strategy is used in investigating relationships between variables meaning if one affects the other. In addition the authors are seeking understanding in the process of Chinese establishing in Sweden to be able to “find out what is happening and to seek new insight” (Robson, 2002:59) accordingly with an exploratory strategy.

3.3 Quantitative Analysis vs. Qualitative Analysis

There are typically two methods of collecting primary data; the qualitative method and the quantitative method. Quantitative data consists of numerical data or data that has been quantified (Saunders et al, 2003). A typical quantitative study is done by gather-

ing data through for example questionnaires or surveys; large numbers are needed and the analysis is accomplished by using statistical tools. Qualitative data on the other hand is data that is non-numerical or has not been quantified (Saunders et al, 2003). A smaller amount of respondents provide more descriptive and in-depth data through words. A typical qualitative study is done by gathering data through interviews where the individual under assessment is given considerable freedom in “telling his story” by using both verbal and non-verbal components (Encyclopedia Britannica, 2007). Questions can be changed and added along the interview in order to get as much understanding as possible about the subject in question. This research is interview based and is seeking to gain understanding in why Chinese investors make certain decisions and how they can go about, therefore a qualitative analysis is conducted.

3.4 Data Collection

Input data is needed when conducting research of this kind and according to Saunders et al (2003); data can be grouped into Primary and Secondary data. Primary data is collected specifically for the research project in question and Secondary data is collected for other purposes. This thesis will be based both on the Primary data in the form of Interviews and on Secondary data in the form of literature and web-information.

3.4.1 Interviews

Interviews have the purpose of gathering data through questioning a person and can be performed both Face-to-Face and by telephone (Nationalencyclopedin, 2007). Saunders et al categorize interviews in three groups depending on their level of structure. *Structured Interviews* are based on a standardized set of questions and the response is recorded on a standardized schedule. The *Semi-structured interviews* are non-standardized and the interviewer has a list or agenda of questions or themes that should be covered. The questions may vary from interview to interview and questions can be added along the way. The responses are recorded through notes by the interviewer or by tape-recording. *In-depth Interviews* are informal with no predetermined questions only a clear idea of the purpose.

Saunders et al states that semi-structured interviews may be used in an explanatory study in order to understand the relationship between variables and it is the most frequent. For the exploratory study the in-depth interview is more frequent but the semi-structured interview may also be used.

An interview contains both verbal and non-verbal components (Encyclopaedia Britannica, 2007) thus the objective was to carry out Face-to-Face interviews with all respondents to collect and observe as much as possible. Unfortunately, the barriers of time and distance enforced the authors to telephone interviews with two of the respondents.

Before the interviews were carried out, an agenda was created for each interviewee with subjects and questions that was to be covered. The questions were to some extent different from each other depending on the respondent and they were broad and open-ended in order to maximize the potential data collection thus the understanding. In order to fulfil the purpose and answer the research questions, the structure of the interview agenda was kept accordingly with the research questions. The agendas (see appendix 1-5) were sent out to the respondents before the meetings to give them a chance to prepare. The responses were tape-recorded and all interviews

were conducted by two persons. By using tape-recording the risks was eliminated that can occur when taking notes such as missing answers and the tone of the voice.

3.4.1.1 The Interviewees

Roger Axmon, CEO of Westbaltic Holding has a strong connection to many already established Chinese investors on the Swedish market. Axmon is actively working with both Chinese investors that are looking for opportunities to invest in Sweden and the Baltic region as well as Swedish investors looking for Chinese opportunities. Due to Axmon's experience and business relations with China, he is working with know-how transfer to China and came in contact with JingXing Lou through The China Baltic Sea Business Forum, 2005 in ChangXing, China. Axmon was looking for a Chinese investor and Lou was in the search of a business opportunity in Sweden. This resulted in Fanerdun's investment of Westbaltic Holding in July 2006 and through Lou's contact with the Swedish market the idea of The China European Business & Exhibition Centre (CEBEC) was launched.

Peter Fust is the financial manager of Fanerdun Group AB, owned by Fanerdun International Holding Group Investment Ltd, a Chinese business entity, with its head quarter in Hang Zhou in the region of Zhejiang in China. Fanerdun Group AB manages the China European Business & Exhibition Centre (CEBEC) that was launched in Kalmar, Sweden 2006 with the idea that Chinese companies will be able to present their products in Kalmar targeting the whole European market.

Sören Pettersson is investment promotion manager (China), of Invest in Sweden Agency (ISA). ISA is the government ISA's main objective is to increase foreign investments in Sweden through creating business contacts and providing support to potential investors as well as promoting Sweden as an investment country. Due to the increased Chinese interest in Sweden after the WTO entry 2001, ISA opened up an office in Shanghai in the end of 2002 as well as branch offices in Beijing and recently in Guangzhou. The Swedish government's decision to set up ISA China was based upon the widely held view that Chinese outward investments would largely grow in the coming years (ISA, 2007).

Magnus Gustafsson is the Investment promotional manager of the Regional Council of Kalmar County that signed a cooperation agreement with the Chinese Province ChangXing in the autumn 2004. The cooperation aims to help establish trade and business exchanges between companies in both regions as well as to create exchanges in education and research. ChangXing opened an office at the Regional Council in Kalmar County in spring 2005 for investments in both Sweden and China. The office is to cover the whole Sweden with the aim to help Chinese companies to establish themselves on the Swedish market. The companies are helped with coming into contact with the right people and with facilitating the establishment process. The cooperation agreement has also lead to an annual business forum to promote closer ties between the regions and companies from both regions

Jue Wang is the Chinese representative of the ChangXing province in Sweden. He has been in Sweden in two and a half years and was previously the director of foreign affairs for the local government in ChangXing. Jue Wang is working very closely with Magnus Gustafsson and is also functioning as mandarin interpreter.

Name	Organisation	Position	Location, Date, & Length	Structure	Interview type
Roger Axmon	Westbaltic Holding AB	CEO	Västervik 071109, 2h	Semi-structured	Face-to-Face
Peter Fust	Fanerdun Group AB	Financial Manager	Kalmar 071108, 1.5h	Semi-structured	Face-to-Face
Sören Pettersson	ISA	Investment Promotion Manager - China	Jönköping 071122, 45min	Semi-Structured	Telephone
Magnus Gustafsson	Regional Council in Kalmar	Investment Promotion Manager	Kalmar 071108, 2h	Semi-Structured	Face-to-Face
Jue Wang	ChangXing Province	Representative	Kalmar 071207 45min	Semi-Structured	Telephone

Figure 3.1 Interviewees

3.4.2 Secondary Sources

Bryant and Bell (2003) argues that there are two main types of secondary data; secondary data collected either for commercial or academic purposes by other researchers and official statistics collected by governmental departments in the course of their work. The secondary data used for this thesis originates from literature, Internet, databases, articles and published material. The literature utilized consists of course books from courses taken by the authors both in Sweden and during exchange programs abroad as well as books from the university library in Jönköping. Data from Internet are background information about companies and organisations looked upon in the empirical findings and statistics. The University Library in Jönköping provides access to several databases that have been useful when conducting research. The published material has been collected simultaneously with the gathering of primary data from the key persons interviewed. The secondary data available is almost unlimited, which brings both advantages and disadvantages. Advantages include the saving of cost and time and that it generally is of high quality. The disadvantages can be the lack of familiarisation of the data, the complexity of the data and the lack of control of the quantity of data. (Bryant & Bell, 2003)

3.5 Sample Selection

The interviewed persons were chosen due to their strong connection to the Chinese market and that all persons are having key roles when it comes to Chinese investments in Sweden. The Regional Council of Kalmar County has focused and worked more actively towards the Chinese market than other Regional Councils. For this matter the data collection and focus lies on the Region of Kalmar and the Chinese establishments undertaken in that there. Nevertheless, the establishment of Chinese investments and promotion activities towards the Chinese market are carried out all over Sweden and have been considered but not brought up in this research.

The sampling for this study is based on the objective and the chosen research strategy and not statistically chosen at random which according to Saunders et al means that non-probability sampling is employed. Several techniques are available within non-probability sampling and the one most applicable is purposive sampling. This technique allows the authors to choose the selection of sample according to what best enables an answer to the research questions. The interviewees were selected since they were expected to be predominantly informative. However when interviewing the key persons, other cases were recommended which enlarged the sample. This technique can be referred to as snowball sampling meaning that the first cases of study are the ones identifying further members of the population (Saunders et al, 2003).

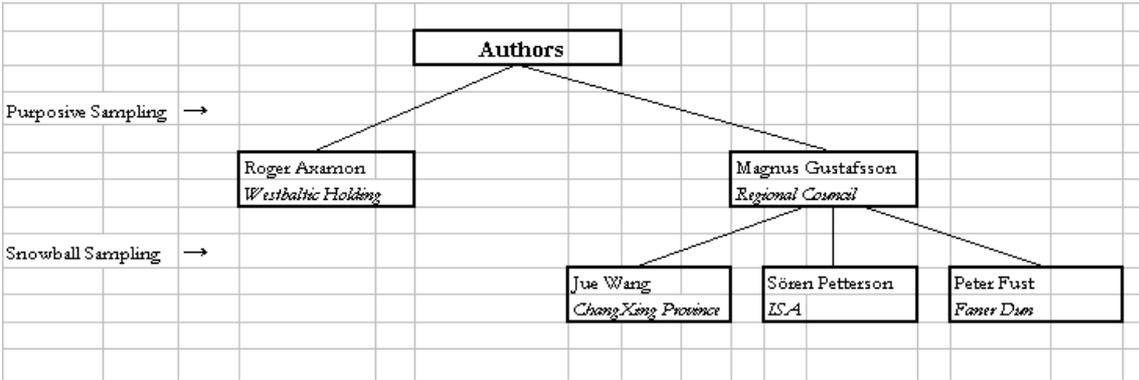


Figure 3.2 Sample selection – Interviewees

3.6 Data Analysis

According to Bryant and Bell (2003), one of the main difficulties with qualitative research is that it generates large quantities of recorded data due to its forms of research strategies of for example interviews and case studies. Due to the fact that all interviews conducted in this study are tape-recorded it generated the possibility of listening to the gathered data several times in order to break it down and conceptualizing it. Since the empirical findings and analysis are presented with the structure of the research questions; the data are put back together in the categories of the research questions accordingly. The empirical findings from both secondary and primary data are analyzed in the perspective of the theoretical framework and the conclusions are drawn from the analysis.

3.7 Quality Standard

When conducting research you can never be certain the result is very reliable or that a future study would generate the same conclusion. However, it is important to minimize the possibility of getting inaccurate answers hence results. Saunders et al stress that the design of research should emphasize validity and reliability when gathering and analyzing data. Validity involves whether the result really agrees with reality while reliability is whether the data and results would be consistent independent of factors such as; when the study is done, by whom and who is providing the data.

3.7.1 Validity

To ensure sufficient validity of research the authors made sure that all group members scanned the data in order to minimize the risk of misinterpretation. The tape recording was important for the validity since it gave the opportunity to go back and listen to the interviews again to clarify potential ambiguities. It was decided to always have at least two persons conducting the interviews in order to have more than one interpretation of the non-verbal components such as gestures and facial expressions. The telephone interviews executed could mean a shortage in Validity since the non-verbal components could not be documented and it might therefore have caused misinterpretations.

3.7.2 Reliability

Documenting the research strategies and methods are a key point in gaining reliability since it informs future researchers in how the study is executed and a similar study can be done again.

All references are documented in the end of the thesis and the methodology part is describing how the research has been carried out.

This qualitative analysis is based on interviews, which mean that it has been dependent on humans in the data collection. People have opinions and perceive things differently, which will defect the reliability. It cannot be ensured that the respondents will have the positions they have today in five or ten years, which means that, a future study would include new respondents.

3.8 Delimitations

Delimitations define the parameters of the investigation and in this research the population through the sample acts as constraints since the number of already established Chinese companies in Sweden is limited. The data retrieved carries delimitations since it is largely dependent on published information directly provided by the company or organisation in question. This delimitation is also a result of the difficulties in finding contact details and getting in touch with Chinese investors and companies that could contribute with information and data relevant for this research. The problems and difficulties with finding primary Chinese sources and getting broad information due to cultural and language barriers is a fundamental delimitation. Moreover, the primary empirical findings are to some extent subjective since the interviewed Swedish actors want to promote Sweden and their work. The subjective views of the interviewed respondents can also have been affected by the political climate in China that restricts Chinese people from entirely expressing own opinions and thoughts since it might be seen as an offence by the Chinese Government.

Moreover, the respondents could have been chosen from a specific, industry or choice of entry mode to receive a more homogenous result, however this was not the purpose and the aim was rather to get a broad and overall understanding. Additional delimitations are that only one person has been interviewed from each organisation and additional sources could have resulted in information leading to further reflections.

To be as objective as possible the auditors have tried to find secondary data about real life examples of Chinese investors to either support or question the information gained through the organisations included in the research. ISA (2007) compile information of which Chinese companies that are established in Sweden and through affärsdatabasen,

information regarding performance and size can be obtained. Out of 67 companies on a list provided by ISA, only 26 were active, the rest had either experienced liquidation or the business had not been up and running long enough to generate financial data. This information is something to take into consideration when doing the analysis since it indicates that the some of the data should be looked upon with a critical eye.

4 Sweden China's Link to the West

This chapter will display the primary and secondary data collected relevant for this research. The aim is to provide further knowledge of the Where and How factors concerning Chinese establishments in Sweden. First, the two countries, Sweden and China will be looked upon through secondary data and then interviews with key-persons will be illustrated.

4.1 China's Investments in Sweden

When foreign firms and private investors want to enter the European market they tend to chose the greater countries such as Great Britain, Germany and France. Hence the fact that Sweden is not one of the first countries a foreign investor might have in mind, the Swedish government is working towards an increased interest in the Swedish market (Mellqvist, 2007). Invest in Sweden Agency (ISA) was founded 1995 and is reporting to the Ministry for Foreign Affairs, with the main objective of providing free of charge assistance and information to foreign investors about business opportunities in Sweden. ISA has been present in China since 2002 with the mission to; identify, visit and develop relations with companies in China, organize visits for Chinese business delegations to Sweden, produce relevant information material in Chinese and establish and extend contacts with Chinese ministries, agencies and other government entities that are crucial to successful investment promotion (ISA, 2007). When promoting Sweden as an investment market, ISA highlights Sweden's central position in the Baltic Sea region, the advantageous investment climate and strong industrialization. One of the largest investments present in Sweden today is the Hong Kong-Chinese company Hutchison Whampoa that together with the Wallenberg group own the cell phone operator 3, with around 1 400 employees in Sweden. An other large Chinese investor in Sweden is the software developer CDC Corporation, with acouple of hundred employees. One Chinese investment that has received more attention from media is the Lizi Group that is building a hotel and conference complex with Chinese design called Dragon Gate in Älvkarleby (Mellqvist, 2007). A similar Chinese investment that has got a lot of media attention, is the Fanerdun's investment, The China European Business & Exhibition Center (CEBEC) in Kalmar (CEBEC, 2007). To get a better understanding in why the Chinese investments in Sweden has increased during recent years a deeper aspect is needed of China's development as a new world economy.

4.1.1 China's Development as a Foreign Investor

In 1988 Campbell and Adlington described what differed China from other markets as five concepts combined as the heart of the Chinese enigma; China's great size, strong culture, communism, underdevelopment and rapid change. Despite still being a communist state and a rather young economy, the World Trade Organisation's (WTO)

General Director Pascal Lamy (2006) estimates China to be the third largest trading economy of today, behind the European Union and the United States. An indication of China's positive development is China's ratio of imports to GDP that partly measures an economy's openness, has increased from 5 percent in 1978 to 30 percent in 2005, about twice as much as the US and more than 3 times the ratio in Japan (WTO, 2006). China's GDP was estimated to 2 251 billion USD and 1700 USD GDP per capita in 2005 (Swedish Trade, 2007). By looking at the figure below, describing China's GDP growth rate development from the reformation 1978 until 2003 throughout major events, one can tell that China's development has gone through a rapid change. Despite China's varied economic growth the GDP rate has been positive the last years, being estimated to 11.1 percent in 2006 (CIA, 2007), which enlighten the fact that WTO's General Director Pascal Lamy (2006) estimated China to be the third largest trading economy of today.

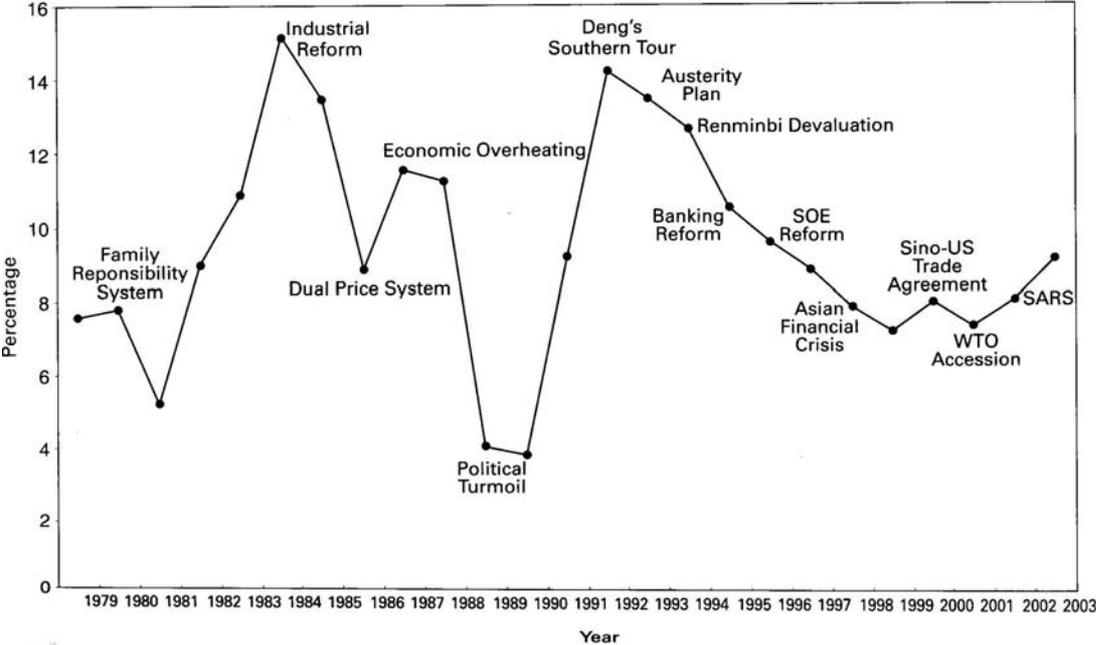


Figure 4.1 China's GDP Growth Rates 1979-2003 (Li, 2006)

After the foundation of People's Republic of China in 1978 (World Factbook, 2007) the GDP growth rate has been affected by several different events of major importance in the Chinese economy. The economic reforms that were introduced in 1990, which aimed primarily at improving economic efficiency, showed to be some of the major reasons behind the positive jump in China's GDP growth the years after. China officially entered the World Trade Organisation (WTO) on December 20 in 2001 after 15 years of efforts to become a member (McGunagle, 2006). The preparations for China's accession sharpened its economic fundamentals such as development in intellectual property rights and reforms in banking and risk management, which is one of the most important factors of China's rapidly development since the reformation. (Li, 2006). The integration with the global trading system strengthened China's political economic position in the international context as well as that it put pressure on China to reshape its economic system in line with WTO norms (McGunagle, 2006). In order to become a member of WTO, there are needs and expectations for fundamental changes in trade

and investment policies within five years. The changes include tariff reductions, elimination of non-tariff barriers, agricultural trade liberalization, opening up of major service sectors and an increase in actual FDI flows by more than 11 percent (McGunagle, 2006).

Another result of China's accession into WTO is the Going global strategy that was developed in 2001. This strategy pushed the Chinese government to implement a new Going global policy that encourages large and developed Chinese companies to grow in foreign market. The reason for this implementation is the diverse Chinese development throughout the country, where the larger more developed companies are far ahead of the Chinese market and needed new influences be on the same level as the world economy. The new Going global policy group Moftec in China have taken on the responsibility for Chinese companies that have an interest in going abroad (ISA, 2007). The Going global strategy should be interpreted in combination with China's long-term strategy from 2006 and 15 years forward on the domestic innovation system that stresses the importance of reducing China's dependence on foreign R&D (ISA, 2007). One of the motives for outward international investment by China is the enhanced competition from foreign companies on the Chinese market. By expanding abroad Chinese companies hope to gain increased competitiveness in terms of skills, technologies and management. The drivers to internationalisation are as follows; access to foreign markets, distribution and service channels, advertising, management and promotion expertise, cost reductions and asset-seeking skills, technologies and natural resources (ISA, 2007).

China has throughout history been one of the greatest nations in the world due to its great size, richness of natural resources as well as early developed artistic and science achievements. Hence China's independence of trade, Campbell and Adlington (1988) believes that the Chinese people early developed a natural tendency of isolation, combined with frustration resulting from exploitation that made Chinese very suspicious of foreign involvement. Another barrier when doing business with China is the strong Chinese business culture Guanxi, which according to Lee et al (2001) means that there are no boundaries between personal and business relationships while as in western countries, personal and business relationships are separated. The division in the west is to a large extent a consequence of following rules and regulations about how relationships can be carried out concerning for example gifts and entertainment when building relationships. In the west this phenomenon is to a certain level seen as bribes and hence illegal. Rules of this kind is more vague in China which in combination with that Guanxi is deeply rooted in the Chinese culture, makes it necessary to employ for entrepreneurs and managers. Lee et al (2001) notifies that adapting Guanxi can be complicated for western companies both due to the cultural differences and that they may need to break rules and laws existent in their domestic market like for example peddling and smuggling (McGunagle, 2006). Guanxi has also made the the Chinese business culture some what ineffecient according to Campbell and Adlington (1988) that further states; *"The punishment for making the wrong decision is much greater than the reward for making a correct one, and given the fluctuations in policy over the last thirty years, it is not surprising that Chinese officials are cautious"*.

Despite China's different business culture the membership in WTO has increased China's trade opportunities of both inward and outward FDI (Shang-jin W., Guanzhong J. W., Huizhong Z., 2002). The going abroad strategy has resulted in an increase in outward Foreign Direct Investment, FDI, which is usually defined as investments in which a domestic company acquires a substantial controlling interest in a foreign firm

or sets up a subsidiary in a foreign country. China's outward FDI flow was estimated to 11 billion USD in 2005, which is a significant raise from 2 billion USD that were registered in 2004, see figure 4.2 below. Statistics from ISA (2007) shows that 75 percent of China's outward FDI is bound for Hongkong and part of these outflows are related to round-tripping, however, the foreign investment of Chinese companies may still be significantly underestimated since several large mergers and acquisition deals are financed outside China (ISA, 2007).

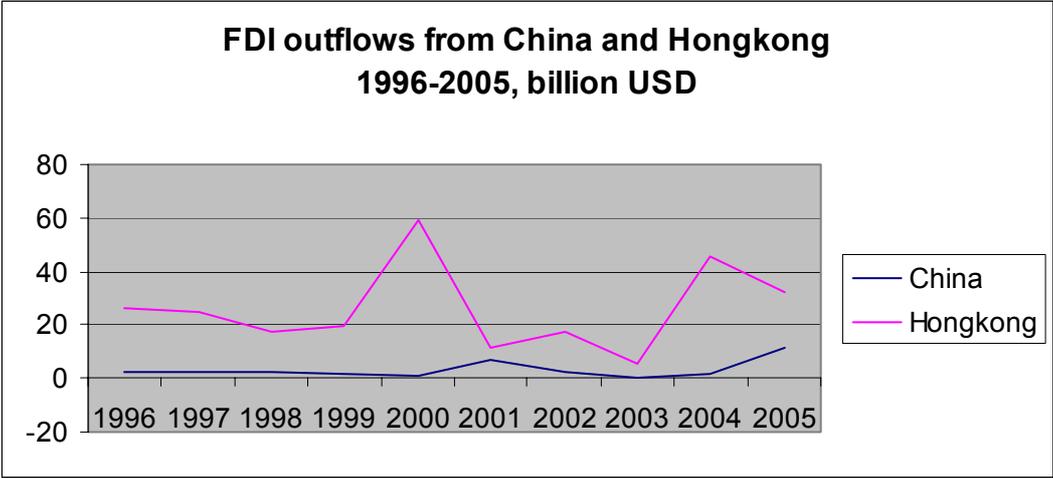


Figure 4.2 FDI Outflows from China & Hongkong (ISA, 2007)

4.1.2 China as a Foreign Investor in Sweden

Sweden and China have a long history of friendly relations, from trading in the 18th century to early diplomatic relations in the 1950's despite the large differences in the two markets. One of the most striking differences might be the size of population, whereas Sweden only stands for 0.2 percent (Fanerdu, 2006) of the total world population compared to China with more than 1.3 billion inhabitants (Swedish Trade, 2006). regardless of the great difference in population and size, China is showing interest to invest in the much smaller Swedish market, in contrast to their earlier trade relationship, were Sweden is the investor in the great production industry in China. In order to describe the Chinese interest in Sweden the following text will illustrate the Swedish market more closely.

Sweden is the largest country in Scandinavia and third largest in Europe, but with a rather small population of 9 million people (SCB, 2007). Sweden's official economic policy focuses on stable central government finances and the national bank, Riksbanken, focuses on low inflation and price stability. Another attractive characteristic of the Swedish economy is the lack of corruption being the 8th least corrupt country in the world in contrast to China that is know for having a complex political situation pervaded by corruption (ISA, 2007). By tradition Swedish businesses and industries have primarily been commodity-based due to the natural resources mainly producing paper, iron and steel. These industries are still today of great importance, but the main competitive factor is knowledge and the flexible use of existing tangible and intangible resources. Due to Sweden's location as well as the focused industry, Sweden is an export-oriented economy that is dependent on other countries' products but also more then half of what is produced is exported. During the last 15 to 20 years Sweden has gone trough a lot of fundamental changes and internationalisation improvements like

the membership in the European Union (1995), World Trade Organisation (1995) and OECD. Also changes within organisational structures in larger Swedish companies have taken place like larger foreign ownership and less production in Sweden. This concerns mostly the simpler production that is much more cost-efficient to perform abroad due to lower labour costs. This movement of “simpler” production has developed the Swedish industry to focus more on knowledge based production and services, such as electrical and telecom equipment, machinery, cars and pharmaceuticals. Paper, iron and steel are also still large exports (Ekonomifakta, 2007). Sweden’s volume of trade accounts for 2 percent of the whole world trade (Fanerdun, 2006), where GDP was measured to 4.5 percent in 2006 (CIA, 2007) seen in figure 4.3.1 below, compared to EU’s and OECD’s GDP development. Sweden is known for its large public sector, which is based on its well-known tax system that provides ambitious healthcare, educational and childcare system. In international terms Sweden has very high income taxes even on low incomes, on the other hand the inflation rate in average been 1.5 percent in Sweden between 2002 and 2006, which is low compared to other countries compared in figure 4.3.2 below.

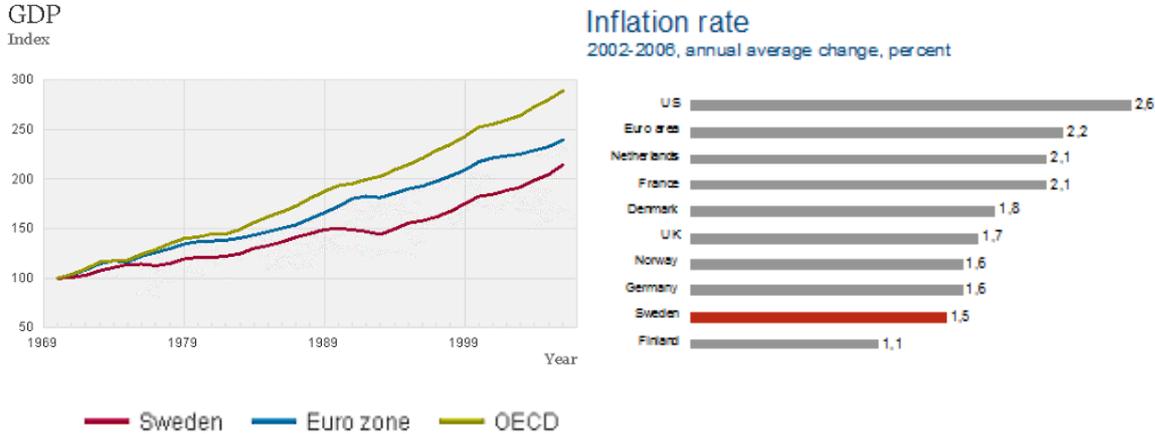


Figure 4.3.1 Sweden’s GDP (Ekonomifakta, 2007), 4.3.2 Inflation Rate (ISA, 2007)

The unemployment rate was estimated to 4.8 percent in August 2007 (SCB, 2007). Sweden is a country of high openness and international influences leading to new immigration during the last 20 years contributing to the present diversity. Today, there is 1 million new immigrant among the 9 million Swedish and 15 000 Chinese including students, researchers and businessmen. Sweden is one of the highest immigrant countries in Europe (Fanerdun, 2006).

There are several reasons for a foreign investor to invest in Sweden, since the market brings a lot of opportunities stated as follows; Sweden is an OECD leader in Research and Development, has a broad participation in higher education with a close connection between Swedish universities, research institutes, the private sector and government institutions as well as high standard basic infrastructure where Sweden remains a leader in terms of per capita access to personal computers and the Internet. Good education, training and multicultural influenced have resulted in that 85 percent of Sweden’s inhabitants older than 15 speaks and understand English, leading to a high level of connectivity in the Swedish society (ISA, 2007). Being ranked as the 6th in the world when it comes to the Human Development Index, Sweden has a higher living standard than most countries in the world. China on the other hand is ranked as the 81st out of the 177 countries included in the Human Development Report of 2007, which

is one other factor why Sweden is valued highly by Chinese people. Also the fact that many internationally well-known companies such as Volvo, Saab, IKEA, H&M, Sandvik, Ericsson, EF Education and so forth, have been founded in Sweden is of high importance, since it indicates high business quality, knowledge and entrepreneurship. ISA (2007) describes the most favourable Swedish industry opportunities to invest in Sweden as follows; automotive, business services, capital investments, clean tech, financial services, information and communications technology, life sciences, natural resources, real estate and packaging. These industries are partly similar with some of the most important Chinese industries, such as; iron, steel, chemistry, electronics, transports, and IT-equipments (Swedish Trade, 2005). The corresponding industries of interest is of great importance, since the Going abroad strategy pushes the Chinese companies to develop further where a great part is developing knowledge within the areas. The World Economy Forum (ISA, 2007) evaluated Sweden to be the fourth most competitive country in the world in 2007. By looking at figure 4.4.1 below one can tell that Sweden holds the position after USA, Switzerland and Denmark.

Most competitive countries in the world
 2007, country rank (world economic forum 2007)

Ranking	Country
1.	US
2.	Switzerland
3.	Denmark
4.	Sweden
5.	Germany
6.	Finland
7.	Singapore
8.	Japan
9.	UK
10.	Netherlands

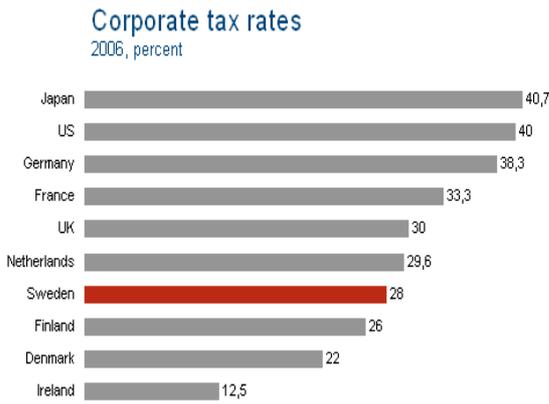


Figure 4.4.1 Most Competitive Countries, 4.4.2 Corporate Tax Rates (ISA, 2007)

According to the World Bank Sweden is one the world’s ten easiest economies to start up a foreign business in. The comparison that was made on 145 countries in 2006, included the factors; starting a business, hiring and firing workers, enforcing contracts, getting credit, closing a business, registering property and protecting investors. Also the legal system is stable and has a good balance between security, reliability, transparency and cost-efficiency. Usually it will only take two to three weeks to establish a foreign business in Sweden one reason to this ease is the standardized contracts and documents as well as simple procedures for mortgaging and title registration (ISA, 2007). The fact that Sweden has one of the lowest corporate taxes in Europe (28 percent) can be seen as another incentive approach towards new business establishments from the Swedish government (see figure 4.4.2). Nevertheless there are factors that make Sweden to a less favourable investment market which will be presented below.

4.1.3 Drawbacks with the Swedish Markets

Sweden is an EU-member but has contrary to most of the other members chosen not to have the EURO currency. Having a different currency is a disadvantage compared to other European markets since it creates a barrier to trade including for example; slow and complicated bank transfers, currency risks, lack of competitiveness and accounting problems.(Stockholm Chamber of Commerce, 2007)

Even though that the corporate tax in Sweden is 28 percent (See figure 4.4.2) which is relatively low; the total tax pressure on Swedish companies is very high (Foretagarna, 2007). The VAT is as high as up to 25 percent and the social fees for personnel is 32.42 percent (Ekonomifakta, 2007). When saying that Sweden is advantageous and easy to establish in for business, one must on the other hand take into consideration that the company might grow and would want to hire local staff. Hiring Swedish citizens brings not only social security costs but also the responsibility of being an employer. An example is that the employer has the responsibility of rehabilitation for long-term sick leaves and should take on necessary actions and adaptations to get the employee back to work. An employee on short- or long-term sick leave can not be given notice. (Forsakringskassan, 2007) Furthermore, when a foreigner from outside of EEA (European Economic Area) establishes a limited company in Sweden there is a need for a Swedish citizen in the board and when starting a sole trader company a Swedish citizen must be assigned as manager to run the company (Bolagsverket, 2007). This means that it is impossible for a non EEA-member to start establish a business in Sweden without any Swedish connections.

There are no minimum wages in Sweden according to law, yet the organized union has great power and companies are obliged to negotiate with the union regarding salaries and conditions (Svensk Lag, 2007). In December 2007, the Fanerdun project was stopped and is currently standing still due to a blockade from the union. Fanerdun through a recruitment company had hired Chinese construction workers to build the buildings of Fanerdun. The Chinese workers were promised a salary of Swedish standard approved by the union but received either a lot less or nothing at all since the recruitment company did deductions for poor performances, accommodations and transport. The Chinese recruitment company was informed about the Swedish laws several times but did still not pay the agreed salaries (Lindgren, 2007). According to Dagens Industri (2007) a part of the problem is the governmental restrictions in China hindering capital to flow out of the country. The application time for bringing capital out of the country is 3-12 months which means that no salaries can be fully paid before an approval.

The consumer market in Sweden is relatively small with only 9 million inhabitants in the country (Ekonomifakta, 2007). The variations in needs and preferences are small and the consumers can be categorized as extremely quality conscious and they want value for money. Low cost and low quality products do not sell well. (Hong Kong Trade Development Council, 2003) The openness for foreign products are rather low when it comes to products targeting essential needs such as food. Swedish companies such as the food retailers ICA and Coop and the dairy producer Arla have close to monopoly positions on the market and foreign actors have experienced hard problems when trying to enter these industries (Hong Kong Trade Development Council, 2003).

Another drawback with Sweden compared to other European countries is the location and infrastructure. Sweden is the only country in Western Europe that does not have a highway between its two largest cities. Due to the fact that Sweden is located relatively

far away from the rest of EU, a more efficient infrastructural and logistical system is needed in order to reach the European market and stay competitive (DN, 2007).

Despite the drawbacks of the Swedish market, China has in recent years become one of the largest investors in Sweden, slightly after the Netherlands and USA. Regarding the foreign investments China is still far behind USA that has invested around 255 billion SEK in Sweden, while China only have invested a couple of billions (Dahlin G., 2006, Svt). Since China entered WTO the Sino-Swedish cooperation has considerably increased both when it comes to Swedish investments in China and the opposite where Chinese investors are showing interest in the Swedish market. Figure 4.5 below illustrates the increase of Chinese investments in Sweden that have been established through the help of ISA from 2001 and forward.

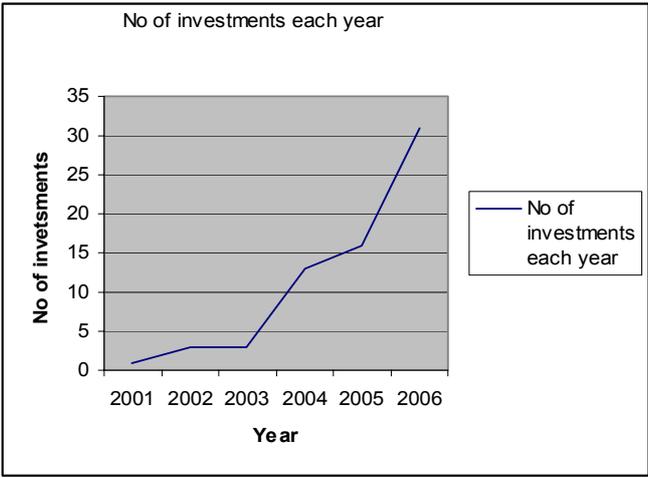


Figure 4.5 No. of Chinese Investments (ISA, 2007)

4.2 Interviews with Persons of Particular Interest

In order to understand why Chinese investors have chosen to expand to the Swedish market, interviews of key-persons in the Sino-Swedish relationship will follow, with focus on why and how the Chinese investors enter the Swedish market.

4.2.1 China's Internationalisation

The Chinese government noticed in the early 1990's that the larger companies within the country needed foreign influence in order to continue their development. As a result, the Chinese Government implemented the Going global policy to encourage Chinese companies to expand to foreign markets and is according to Wang one of the main reasons for Chinese investors to expand abroad. He also mentioned the need of technological update and educational upgrading within the Chinese market as another trigger. Gustafsson said that the going global strategy is the official trigger but that the underlying more important reason is to spread their capital risk by moving capital to a more stable markets. Even though China is one of the largest production countries in the world it is still a developing country with a very dynamic market where everything can happen. Contrary, Europe is a more matured and stable market and by placing

capital there, Chinese investors will spread their capital risk and thus create a more diversified and safe investment portfolio. The same arguments were held by Pettersson and Fust, where as Axmon believed that the three main reasons for Chinese investors to go global are first that they have a lot of capital but don't know where to invest, second, that they want to gain economic profit and last, they want to avoid political risk in the Chinese market. Economic motives behind the foreign expansion was clearly shown early on in the investment process. Noticed by Axmon the Chinese investors have a larger focus on turnover instead of results in contrast to the Europeans. Also a greater interest in measurable figures and numbers has also been noticed by Fust, Gustafsson and Pettersson.

4.2.2 Sweden as an Investment Market

According to Gustafsson the fact that Sweden was the first western country in the mid 1950's to recognize the People's Republic of China and establish diplomatic relations with China, created the foundation of a long-lasting business relation. This was confirmed by Axmon that mentioned the importance of the old trading tradition that goes back to the 18th century when the Swedish East India Company ship Gothenburg were sailing between the two countries serving as a bridge linking the Chinese and Swedes.

Sweden has a very good reputation in today's China according to Axmon, Fust, Gustafsson, Pettersson and Wang. The good reputation is based on Sweden's stable economy, where one of major reason is that Sweden hasn't been involved wars the recent 200 years. Gustafsson also points out the importance of the political stability in Sweden and the total respect of the national law system. In difference to many other representatives in China, Sweden's representatives are mainly involved in the political network, such as state owned organisations and councils, which is treated with more respect by the Chinese than private organisations. Gustafsson mentioned an example of the strong political power in China, when the head of the Kalmar Council visited China he was viewed as a person of very high importance. The Regional council in Kalmar county is one of the four regional partners: *Stockholm Business Region*, *Business Region Göteborg*, *Regionförbundet i Kalmar län* and *Position Skåne*, that are actively working to attract Chinese investments to the region they are representing. The Regional council in Kalmar county has been the most active region and acknowledged as one of the best regions in Scandinavia when it comes to develop relationships with China (ISA, 2007). In the autumn 2004 the Regional Council of Kalmar County and the Chinese province ChangXing signed a cooperation agreement – a strategic alliance. The agreement aims to establish trade and business exchanges between companies in both regions as well as create exchange with education and research. As a result of this cooperation ChangXing opened an office at the Regional Council in Kalmar County in spring 2005 for investments in both Sweden and China. The office covers the whole of Sweden to assist Chinese companies when establishing on the market by providing contact with the right people and facilitation of the establishment process (The Regional Council in Kalmar County, 2007). The cooperation agreement has also lead to an annual business forum to promote closer ties between regions and companies. The forums have participants from ISA, the Regional Council in Kalmar County and the ChangXing region and more than 1200 Chinese and Swedish companies have participated since the first forum in 2005 (The China Baltic Sea Business Forum, 2006).

The prestigious Nobel price is according to Axmon one of the marketing factors that infuse the image of the Swedish to be of high quality. Fust brings up the importance of

Sweden's well functional infrastructure, economical systems as well as the relatively low cooperate taxes. Sweden still has a lot of unexploited land to reasonable prices according to Axmon. Furthermore Sweden has a high educational level, developed healthcare, great social network, good housing and over-all high living standard. Hence the fact that many of these conditions applies to other countries in Europe, Gustafsson argues that some potential Chinese investors' main goal are to establish their business in Europe and not particularly in Sweden. Gustafsson divides the Swedish qualities into hard- and soft characteristics and put them in relation to other countries in Europe. The hard qualities are factors such as; price level, competence level, mobility, criminality, political stability, IT level, company bureaucracy, scientific developments and other measurable performance factors. The soft qualities are; diplomatic relations and cooperation, good reputation, honesty, trust and to the importance of a good first impression.

"It is not two businessmen that are closing a deal in china, it is two persons".

Said by Gustafsson in order to highlight the importance of the soft qualities when it comes to the Chinese business environment. Already established relationships, contacts and an easy accessed market are the factors of most importance when dealing with Chinese investors in particular. According to Wang the Chinese business culture is highly dependent on Guanxi, which he describes as the importance of relationships. One difference Wang mentioned was that; *"In Sweden business comes first and then friendship. While in China you first establish friendship and then you do business"*. He continued by saying that; *there are a lot of differences between the Chinese and Swedish business cultures, but still more similarities"*. For Chinese businessmen it is of great importance to establish trust and friendship before doing business, while Swedish businessmen have recognized and tries to emphasis this in order to win the Chinese investors friendship and trust. Wang who is the representative of the ChangXing province in Sweden is cooperating with Gustafsson at the Regional Council of Kalmar County and together they create a link between China and Sweden. Wang also mentions the importance of the local officials in Kalmar as well as the public organisation ISA and their way of creating what he calls an *"investment surrounding"* with mutual understanding and communication step by step. The acceptance of Chinese investors in Sweden, expressed by the friendly atmosphere, arranged dinner parties, ceremonies and personal guiding to create hospitality and "good feeling" towards the Swedish market. Gustafsson explained that the Chinese investors' demands fits well into the Swedish business culture, which is one of the reasons to today's strong business relationship. Gustafsson also mentioned that when dealing with Chinese investors a great amount of patience is needed due to the long establishment process that will result in the vital trust relationship. This was furthermore confirmed by Fust that said; *"It's not the fact that the Chinese business men are adaptable to the European market, it is rather the Swedish business men that are extremely flexible when it comes to building business relationships"*.

The first step towards the strategic alliance between the ChangXing province and Kalmar county was their in common wish to develop their markets. As Wang expressed it; *"One might wonder why a such a large province as ChangXing wants to create relationships with a city as small as Kalmar that would be considered to be merely a small village in Chinese measures. It's the large differences that creates the opportunities"*. Where as China's overall GDP growth lies around 10 percent, the ChangXing province has a GDP growth between 15 and 20 percent that has been of great importance when it comes to the rapid internationalisation approach according to Mah that works for WestBalitc Holding in Västervik (Froste, 2007). Together the two

markets complement each other by having different qualities that creates the foundation of a long-term 75 million business network hopefully resulting in mutual benefits. Being a small country, Sweden is not considered to be one of the great economies in Europe. Pettersson, mentions that Sweden's greatest competitors when it comes to Chinese investments in Europe are the much larger economies Germany and Great Britain, and to some extent Italy and France. Fust adds the information regarding the Fanerdun investment in Kalmar where the other potential location was Amsterdam, nevertheless Kalmar prevailed due to their forward marketing approach and understanding of the Chinese business culture. Wang agreed upon the fact that Chinese businessmen primary wants to enter the European market and not in particular Sweden, but due to the Swedish hospitality and the *"friendly feeling"* that Chinese investors are more than welcome, Sweden becomes more attractive as an investment country over other European countries.

"The small things matter"

This was an in common opinion shared by Axmon, Fust, Gustafsson, Pettersson and Wang, which explains why many Chinese investors have chosen Sweden rather than other European economies. ISA's and the regional councils' "hands on approach" that involves aggressive marketing campaigns with business forums together with the willingness to understand the Chinese business culture, has resulted in a successful partnership through long-term negotiating processes as well as the creation of trust and personal relationships.

4.2.3 How do Chinese Investors Established Themselves in Sweden

ISA (2007) recommend foreign investors that plan to enter the Swedish market should do so in four steps. First, meet with ISA, second register a company, third find a location and last hire local staff. The first step which is a meeting either in Sweden or any ISA-office in China is meant to discuss and exchange information to see the relevance and commitment of the entry. In real life the first step is highly time consuming and complex and will be discussed further on. One in common opinion throughout the interviews is that Chinese investors without neither established networks nor external help have a hard time succeeding in the Swedish market. Gustafsson explained that one obstacle is that 90 percent of the potential Chinese investors have no previous international business experience. To overcome this barrier Swedish organisations such as ISA and the Regional Councils are working with "competence-transfer" in China. Starting from the bottom line by creating a "knowledge platform" that involves education for the potential Chinese investors regarding the challenges in doing international business, followed by knowledge about the Swedish market such as laws and regulations, accounting standards, labour rights, tax system and so forth. To build the "knowledge platform" Swedish organisations are cooperating with Swedish banks and accounting firms established in China. The next step will be to arrange a contact network in Sweden, involving personal guidance, introduction to helpful contacts, help with personal adaptation like housing, bank accounts, resident permits and other necessary details. The introduction process is pervaded the essential importance of building a trust-worthy foundation and what the Chinese investors call Guanxi, which Gustafsson explains as reliance and brotherhood.

"Pay a lot attention to establish personal relationships"

Quoted by Wang who several times during the interview emphasized the high importance of building trust and friendship to create a safe business environment for the

Chinese investor. He continued, *"If you want to do business with a Chinese, you need to have trust"*.

The governmental officials in China form the *"top of the iceberg"* of the Chinese hierarchy according to Gustafsson. Wang pointed out the Swedish advantage of having a governmental official as a representative in China through ISA that is operating under the Swedish foreign affairs. Due to the increased Chinese interest in Sweden, ISA opened up a local office in Shanghai in the end of 2002 as well as branch offices in Beijing and recently in Guangzhou with local employees. The Swedish government's decision to set up ISA China was based upon the view that Chinese outward investments would escalate in the coming years (ISA, 2007). Moreover, ISA wanted to gain a first mover advantage compared to other European locations and ISA was in 2002 the second national investment promotion agency (IPA) present in China after Invest in UK. ISA also has a close cooperation with the Swedish embassy in Beijing, the Swedish Trade Council and the consulate-general in Shanghai, Guangzhou and Hong Kong. According to Axmon, Fust, Gustafsson and Pettersson the majority of the Chinese investments in Sweden would never have taken place without the work of ISA. ISA's Investment Promotion Manager for China, Pettersson explains the typical investment as a long ongoing process that last for 6 to 24 months depending on the size of the investment. For the Council of Kalmar County the three most common ways to create the first contact to a possible investment is explained by Gustafsson to be either by ISA, the Regional Council itself or by personal contact from the Chinese investor. The Chinese entrepreneurs are usually either directly contacting one of ISA's representative offices in China or by contacting the Chinese embassy in Sweden that further on connect them with ISA (Axmon, 2007). Gustafsson estimates the frequency of which part that make the first contact to 50 percent for ISA, 35 percent for the Council of Kalmar County and 15 percent for Chinese investors. The connection between the Regional Council of Kalmar County and a Chinese entrepreneur can either be distributed to them by ISA's head office in Stockholm or through their strategic alliance with the ChangXing province. As already mentioned, the general investment process usually starts in China where either a Chinese potential investor contacts one of ISA's representative offices in China with an investment request or that ISA is making the first contact through for example matchmaking or investments forums. An example of matchmaking is the partnership organisation Westbaltic Holding, which is a private equity company specialized in acquiring and managing Nordic and Baltic businesses, between today's CEO Roger Axmon and the Chinese investor Mr. Lou. This particular case show the unreliability of the Chinese business culture, where Axmon, ISA, Gustafsson and the revision company Deloitte travelled to China and started a long negotiation with another Chinese investor that later bailed out. Already in China, Axmon got a lot of suggestions and contacts from other potential interested Chinese investors, which resulted in a partnership with Mr. Lou. The investments fairs on the other hand are large marketing events that are set up by ISA to educate potential Chinese investors about the Swedish market and present the opportunities they offer, one example of this is the China Baltic sea business forum 2007 that took place in ChangXing this autumn. In general Axmon evaluates potential Chinese investors by looking at three broad criteria. The first criteria is the personal character of the owner such as open mindset to a new business culture and willingness to adapt to a different business environment. Second, the industry as well as the investor's earlier production experience will be evaluated in order to find similarities with the Swedish industry. Last, but not least the potential investors possession of sales resources in China that could be of an advantage will be considered. Gustafsson also mentioned that it is essential to do a background check-up of the investor. Hence the fact that private investors and com-

panies of major size and have well established political connections will most likely result in a long-term, serious and strategic investment.

“I want an opportunity”

Quoted by Pettersson regarding the request of the Swedish market by Chinese investors. According to Pettersson in difference to other investors Chinese entrepreneurs usually do not have any particular industries or business ideas they want to invest in, they rather want to invest in an opportunity. Pettersson also enlightened this with an example of a Chinese investor, who owned a jeans factory, karaoke houses and real estates that contacted ISA on a business forum with a request about an opportunity in the Swedish market. Typically investors are looking for an investment within the already working industry, but as said before the Chinese investors act a bit different as in this case where the end result was a joint venture with a Greek businessman serving traditional Swedish cuisine in Kalmar. This is why Gustafsson usually presents the Chinese investors with an already composed investment idea, with beforehand calculated facts and figures. Although Gustafsson sometimes gets direct matches where the Chinese investors already know what they have in mind, the most cases are still investors just asking for an investment opportunity.

4.2.4 The Establishment Process

After the first contact has been established depending on the Chinese investors objectives and requirements the Swedish external support will develop a business plan portfolio in order to find a suitable solution. Every investment case is unique and needs a tailor made entry process to match the Chinese client with necessary support, advice and network connections.

When a Chinese investor has decided to enter the Swedish market external support from the local market is of high importance. ISA's Investment Promotion Manager Pettersson, responsible for the Chinese investments in Sweden explained their entry process model as follows.

1. A business case comes to ISA either from Sweden or China
2. ISA looks at different possible regions that fits the investment – Benchmarking
3. Send out fill-out forms to the potential regions
4. The Regions fill in forms and send them back.
5. ISA matches the forms with the Chinese investor demands
6. ISA chooses two or three suggestions and sends them to the Chinese investor
7. ISA books meetings with the chosen regions and investor (at least one day each)
8. The Chinese investor makes the final decision where to make their investment
9. ISA helps the investor through out the establishment in Sweden

10. “After care”

To clarify the entry process above Pettersson exemplified with the case of a big Chinese company producing heavy steel products with the plan to invest in Sweden. Their main demand is to be located near a major logistic center in Sweden whereas ISA’s task is to find out where. The largest Swedish logistics centers today are located in Göteborg, Nässjö and Örebro, which ISA presents to the Chinese investor along with information from fill-out forms made by each evaluated suggestion. The decision is then made by the investor.

The expression “After care” mentioned by Pettersson regards additional help and consultancy after the implementation of the Chinese investment. The consultancy mostly concerns non-business related problems such as visas, education, living and so forth (Pettersson). After the initial introduction to the Swedish market further adaptation will follow by more general information about the Swedish business culture, more extensive education regarding the Swedish law system and accounting practices depending on which entry mode they choose. Hence the uniqueness and size of each investment project ISA usually recommends what establishment form that will be most suitable. According to ISA the most common entry mode for Chinese investors in Sweden is new establishment. Within the entry mode categorised as a new establishment ISA includes both a clean new establishment and the combination of a new investment and a joint venture. This explains the high amount of new establishments in the figure 4.6, below which is based on appendix 6. Also the fact that a new establishment usually is a small sized firm with few employees that only opens up a market- or a sales office, explains the smaller amount of the other entry modes (ISA, 2007). Pettersson pointed out that the most favourable entry mode for a Chinese investor usually is some sort of partnership involving more commonly any of the other three mentioned entry modes in the figure 4.6 below; Acquisition, Strategic alliance and Joint venture.

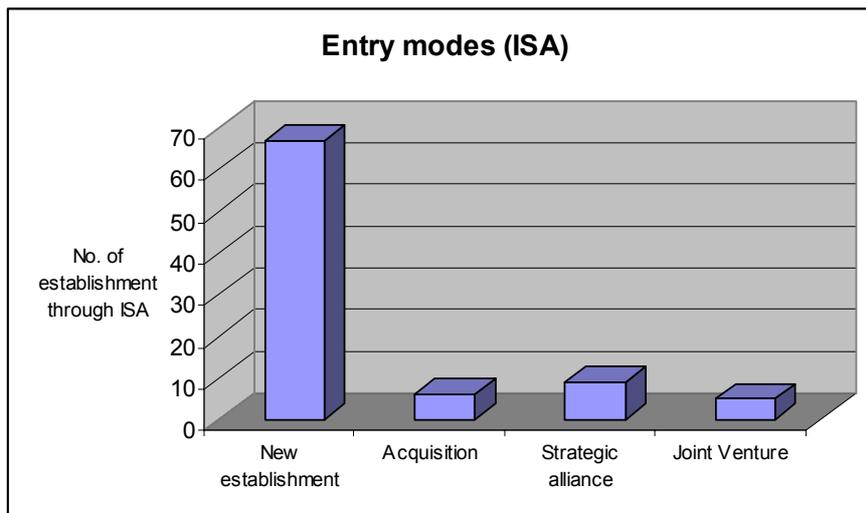


Figure 4.6 Entry Modes –ISA (ISA, 2007)

Pettersson estimated that out of all Chinese investments in Sweden, 70-80 percent have entered the Swedish market through ISA. The other investments are believed to go through consultancy firms such as KPMG and Deloitte or through already established contacts from previous investments in other countries in Europe (Pettersson). Gustafsson on the other hand lists the three most common entry modes for Chinese investors in Sweden as Partnership, Acquisition and Greenfield investment - New establishment, which are equally divided, viewed in figure 4.7 below.

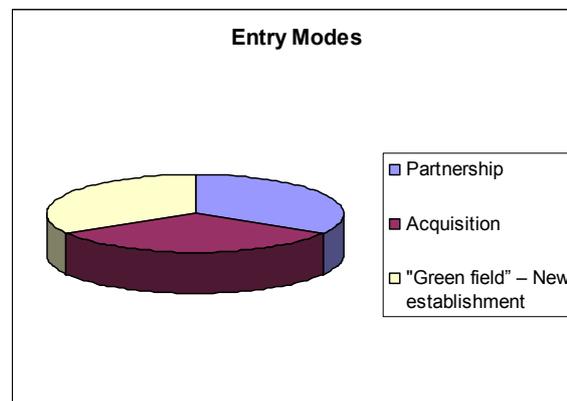


Figure 4.7 Entry Modes –Gustafsson (Gustafsson, 2007)

According to Gustafsson there is no such thing as “the best” entry mode, due to the distinctiveness of each investment. There are different opportunities and risks with each entry mode and the best alternative depends on the characteristics of that particular investment. Gustafsson believes that partnership is the simplest entry mode for a Chinese investor, due to the already established firm as well as help and communication with the Swedish manager. Although this can result in less control over the company depending on if it is an active partnership or a passive partnership were the active partnership is preferred by Gustafsson since it requires mutual efforts by both parts, whereas the passive partnership is merely a pure equity investment. Gustafsson also said that Swedish companies almost always want to keep 50 percent in a partnership, which might create a conflict with Chinese businessmen that are used to keep most of the power due to the hierarchical business climate in China. The underlying factors to this hierarchal behaviour are partly the lack of trust in the Chinese business culture as well as the Chinese way of handling the distribution of the yearly dividends that gives the share holder with majority the right to the entire profit (Axmon). Pettersson described the controlling characteristics of a Chinese CEO as “hands on” when visiting Sweden, reflecting their need for control when in the country, while back in China most CEO’s leave the company in control of the Swedish managers. Problems can originate from the fact that a Chinese owner is used to being the sole decision maker of the company while in Sweden it is the board members that have united power (Wang). Westbaltic holding is a successful partnership where the Chinese investor Lou holds 36 percent of the shares, while the majority belongs to CEO Axmon and three other Swedish investors (Axmon). Together they are working with what they call *Dual Global Concept* - where products and services flow both ways (Westbaltic Holding, 2007). Axmon is also actively working with both Chinese investors looking for opportunities in Sweden and the Baltic region, as well as Swedish investors looking for opportunities in China. Gustafsson described the more complex entry mode acquisition, where a Chinese investor decides to acquire an off-the-shelf company, already fully organized and registered, from a law firm or specialist consultancy. To find acquisition opportunities, ISA in cooperation with the Regional Councils are scanning

the Swedish market and their networks after objects for sale or companies on the merge of bankruptcy. One other reason that an acquisition opportunity occurs is when a CEO of a Swedish family-company decides to quit and they lack a natural replacement alternative. Acquisitions are more risky due to the need of a reconstruction of the management within the organisation at different levels. This can be difficult for a Chinese investor due to the cultural differences especially in leadership, even though there is a functional organisation with Swedish labour force. The third entry mode Gustafsson explained, the Greenfield investment is the most risky and most complicated way to enter the Swedish Market for a Chinese firm. The Greenfield investment is a totally new establishment where a Chinese investor wants to present a totally new business idea but need help with the establishment in the Swedish market. This is by far the most difficult entry mode due to that the Chinese investor might want to manage the business the “*Chinese way*” in the totally different Swedish business culture. Due to this both ISA and Regional Counties usually suggests the Chinese investors to have a Swedish CEO since the he or she will have the knowledge required to succeed in the Swedish market. Fanerdun is one of the largest Chinese investments in Sweden and entered the market as a Greenfield investment in 2006. The owner Lou already had previous business contacts with Sweden through the partnership with Westbaltic holding, which gave him the new business idea of the Greenfield investment Fanerdun’s “The China European Business & Exhibition Center”(CEBEC), with the idea that Chinese companies will be able to present their products in Kalmar targeting the whole European market (Axmon). At the moment Fanerdun runs the temporary exhibition centre in Kalmar of 9000 square metres and 240 exhibition booths, while the real CEBEC exhibition centre will comprise 1 400 exhibitors in 20 000 square metres. Fanerdun was registered by Gustafsson as a Swedish joint-stock company August 19 2006, along with nine other holdings to make it manageable. According to Fust, already established relationships, the work of ISA and Gustafsson was of high importance in the establishment process as well as the help with many practical things, such as law issues, accounting practices, banks, social networks and so forth.

Fanerdun offers a unique approach to enter the Swedish market that could be called the “*Fanerdun entry mode*”. This unique entry mode offers the Chinese investors an investment opportunity that includes an exhibition area of 40 square metres, an apartment, a Swedish joint-stock company and supplementary services such as accounting, social networks, connections and education about laws and regulations (Fust). To attract investors Fanerdun has been running a large promotion campaign as well as setting up sales offices in China. Many of the established investments are medium sized companies that have had limited previous international experience but had a desire to take their business to Europe for further expansion. Fust quoted his first impression of Fanerdun’s promotion campaign in China as follows;

“It’s a surreal vision to see the castle of Kalmar on a large advertisement sign along the highway”

Fanerdun considers a new establishment set up as a joint-stock company to be the easiest way to enter Sweden, this is also the only option available when choosing Fanerdun’s investment package. For the companies that have established a presence in Sweden through Fanerdun it is not the Swedish market in specific that is of interest, it is the ease of the Fanerdun concept. This means that it is not where in Europe that is crucial, it is the way of getting there that is decisive. When questioning weather the Chinese investments through Fanerdun would have established a presence in Sweden without Fanerdun’s help, Axmon, Fust, Gustafsson and Pettersson answered without hesitation, no.

4.2.5 Barriers and Challenges of the Entry Process

“China is the most capitalistic country I have ever been to, even if they argue that they have free social care, such as education and healthcare, the reality implies “hidden costs” such as very expensive schoolbooks and medicin”

This was stated by one of the respondents' when discussing the noticeable obstacles in the Sino-Swedish business relationship. Even if Wang earlier stated that the big differences between Sweden and China are opportunities, this is not always true he admitted. Instead he adds that *“The language barriers are enormous”*, which creates big challenges that are difficult to overcome. Gustafsson agreed on the largest challenge being language barriers as well as cultural differences and dissimilar business management. The Language barrier is a major obstacle since the majority of Chinese business men lacks education within other languages besides their native tongue Mandarin. Hence this, most communication has to go through an interpreter, which increase the risks of misunderstandings even when the Swedish businessman is providing a translator. A more complicated scenario is when the Chinese investor brings the interpreter, which according to Pettersson can result in uncertainty of that the potential business partner fully understands. When it comes to the cultural difference, China and Sweden are different when it comes to how people are thinking, acting and communicating. Being from China, Wang has experienced the language problem from a different angle and described that one great factor based on the language barrier is the Chinese business hierarchy. The owner seldom knows any foreign languages, resulting in complete dependence on an interpreter even when it comes to important thing such as negotiating terms, closing deals and signing contracts. Gustafsson also noted that you do not just need any interpreter, you need a qualified and skilled interpreter that understands and can handle the business set-up. Gustafsson estimated that 90 percent of the Chinese investment cases need interpreters, but that the language barriers will decrease during coming generations.

Gustafsson mentioned that it is of high importance to inform Chinese investors about the Swedish law system before they enter the market. One of the interviewees also stated; *“In China businessmen can disappear when doing something the government dislike”*, whereas in Sweden the political stability is high as well as the respect for laws and regulations. The Chinese business environment is very hierarchal compared to the more flat Swedish business environment. The underlying factor to the strong Chinese top-down decision-making is the lack of trust between the hierarchal-steps within the organisations. Axmon highlighted the importance of trust when it comes to signing contracts when doing business with Chinese investor like; *“The contract was written and we were just about to close the deal after two years of negotiations, when the Chinese investor suddenly changed his mind”*.

As a Swedish financial manager at the Chinese company Fanerdun, Fust has noticed many differences in leadership practice. Fust described the Chinese management to be less efficient than the Swedish partly due to the lack of trusting employees. Since the labour costs in China are lower, the Chinese management does not seem to care as much for the employees as Swedish managers do. Axmon agreed by saying that the Chinese are good businessmen, but they still have a lot to learn when it comes to western business practices. Another more practical problem when starting up a Swedish joint-stock company is the need of having at least one board member with a European citizenship. Fust argued that this will become a futuristic problem for Fanerdun, since they are in process to start around 1100 new Swedish joint-stock companies within one year. In other words Fanerdun needs to find a large number of potential

European stock-holders within the near future. Axmon who is the only European board member in Fanerdun informed that this responsibility withhold a great deal of risk, since he holds the prior economic liability.

One further reflection is the potential threat of unethical establishments of transparent businesses with no real business activity in Sweden, only using the Swedish tax system, due to the low cooperate taxes. According to Pettersson this has not yet been of any great issue in Sweden, but in nearby countries such as Germany this scenario has occurred. Another future challenge that is mentioned by Pettersson is that some of the Chinese investors might have a hidden agenda leading to the risk of illegal immigration.

As mentioned before there are great differences between the Chinese and Swedish culture, where the influence of Guanxi pervades the whole Chinese business culture. Wang describes Guanxi as the importance of creating relationships in order to succeed in the Chinese business environment. Still these relationships can be built in different ways for different reasons, the negative aspects for example may consist of; peddling, smuggling, bribery and lack of respect for a functional legal system. In contrast to the “Swedish equality”, the Chinese business culture demands a high political involvement, since political connections plays an overwhelming role.

5 Analysis

In chapter five the analysis will take form by combining the theoretical framework described in figure 2.1 and the empirical findings. The focus will be on the “Where” and “How” factors and the analysis will be structured accordingly.

5.1 Vital Factors when Choosing Investment Market

As Friedman stated; *“The world is flat”*, which describes the ongoing globalisation of today where the advances within technology have made communication easier making it possible for almost everyone to be a player on the global market regardless of location (Friedman, 2006). China’s accession into the WTO leading to the Going global policy in 2001, is one of the main reasons for Chinese actors expanding abroad according to Wang. Shenkar and Luo (2004) indicates that the motives for conducting international business include: Market motives, Economic motives, Strategic motives or a combination. This case is referring to whether the Chinese entrepreneurs’ internationalisation motives are to seek market opportunities in other countries or a way to protect the firm’s existing marketshare and/or competitiveness. The motive for internationalisation could also be to increase the return through higher revenue and/or lower costs or finally, of a strategic nature to create economies of scale or benefits from a first mover advantage (Shenkar & Luo, 2004). The fact that Chinese people and firms are becoming more wealthy have given them the opportunity and aspiration to invest abroad. This has resulted in the increase of China’s outward FDI flow from 2 billion USD in 2004 to 11 billion USD in 2005 (ISA, 2006). The wealth has given China a chance to seize foreign opportunities all over the world with motives that are of market, economic and/or strategic nature. The only economic motive in this case regarding Chinese establishments are the low corporate tax and the low land prices. Market motives are in line with the theory by Shenkar and Luo (2004) where entrepreneurs and firms seek market opportunities in other countries. This goes hand in hand with the experience that Pettersson has attained when dealing with Chinese investors in Sweden. In contrast to other foreign investors the Chinese are rather asking for just an opportunity than wanting to invest in a particular industry or business area that they already possess knowledge of. This phenomena was illustrated by Pettersson where a Chinese investor, who owned a jeans factory, karaoke houses and real estates in China, ended up investing in a restaurant serving traditional Swedish cuisine. According to Wall and Rees (2001), competitiveness can be obtained through low labour costs and economies of scale, contrary this is not the main reasons for Chinese investors when expanding to Europe since it is rather about gaining technological update and educational upgrade not present in the home market corresponding to Shenkar and Luo’s strategic motive. Another reason mentioned by Gustafsson is that the Chinese companies want to expose themselves to international influences in order to keep up with and gain advantage from the globalisation. Shenkar and Luo (2004) argue that the internationalisation motives can either be offensive meaning; to seek opportunities in foreign markets or defensive, to limit competition from domestic and international actors as well as to protect themselves from the risk of unfavourable changes in governmental directives. China has developed from a typical central planned economy to a more open market economy generating possibilities for firms to be more offensive. Gustafsson mentioned that Chinese investors are more interested in new opportunities rather than to protect themselves from foreign and domestic competition which strengthen the perception of an offensive approach. The defensive approach is thus also applied since spreading the capital risks is an additional reason to the internationalisation where as Europe is a more mature and stable market. Gustafsson even thinks that the going global strategy is the official trigger but that the

underlying more important reason is to spread the capital risk to a more stable market than China. Similar reasoning is discussed by Hamid (2004) who are talking about push and pull factors. The Chinese companies in this case has both been exposed to the push factor through the encouragement from the Chinese government including the going global policy and the pull factor through Sweden heavily promoting investment opportunities. The pull factor can be seen as more emphasized though, since according to Gustafsson 85 percent of the investors are attracted through the outreaching work of Swedish organisations.

To further analyse why in particular Sweden is chosen as an investment market by the Chinese investors, it is important to identify the advantages and disadvantages of the Swedish market, that together creates the expression of Country Competitiveness. Shenkar and Luo (2004) explain Country Competitiveness to the extent to which a country generates more wealth than other countries on the world market. They are further on clarifying that it measures productivity and how well the country can provide investors with an environment that sustains their competitiveness and explains why certain countries are more attractive for investment. There are numerous features that affect a country’s competitiveness and it is nearly impossible to evaluate every single aspect that will have an impact. Due to these restrictions only the most vital factors will be brought up when investigating Sweden’s competitiveness and are summarized in figure 5.1 below.

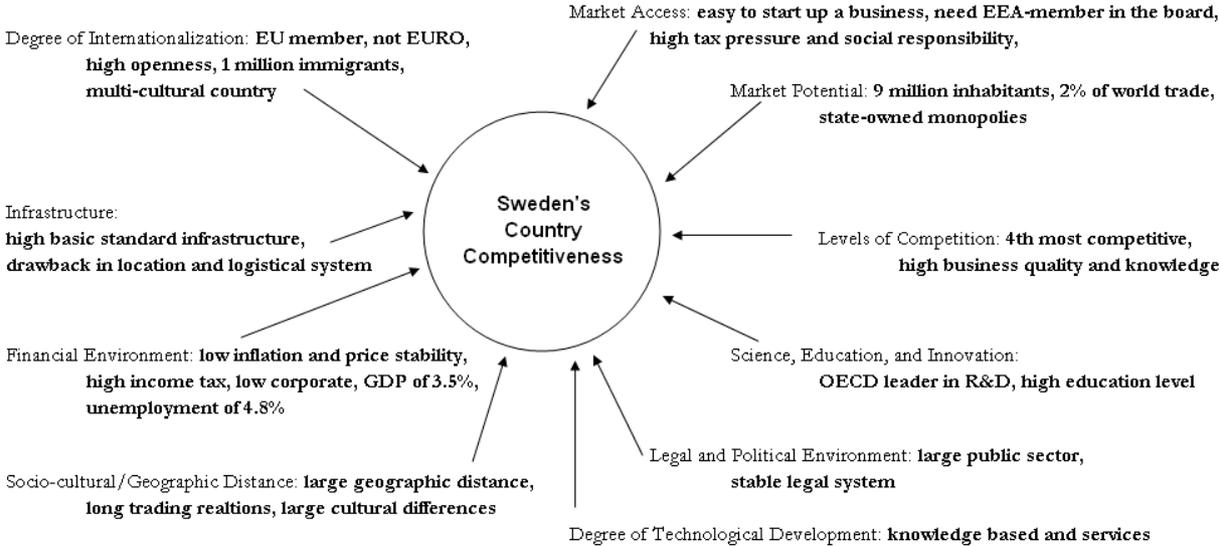


Figure 5.1 Sweden’s Country Competitiveness

Hollensen (2004) stresses that information is the key when choosing which market to expand to. The same argument is held by Griffin and Pustay (2002) who highlights the importance of information regarding the following factor, current and potential size of the market, level of competition, political and legal environment, socio-cultural factors etc. The factors mentioned are also contributors to the concept of Country Competitiveness, seen in figure 5.1 where Sweden is ranked as fourth in Country Competitiveness in the World Economic Forum’s benchmarking. Nevertheless, these market characteristics mentioned by Griffin and Pustay (2002) were less emphasized during the interviews. The secondary data also confirms that Sweden has a rather small market and even though the GDP growth is stabile, there are no indications of any exceptional growth. When comparing the data collected to other European countries, Sweden has a relatively weak position in Europe, which is also confirmed by Mellqvist

(2007) saying that the greater countries such as Great Britain, Germany and France were more often chosen as a investment target by foreign investors. Moreover Hollensen (2004) points out the importance of the industrial factor in both the host and home country which can be related to Chinese and Swedish industries that to some extent have similar industrial focus. Axmon also brought up the importance of matching industrial focus in areas as for example; electronics, transports, and IT-equipments. Additionally, Sweden was in 2006 estimated to be the world's tenth easiest economy to start up a foreign business in. The Swedish population is small but on the other hand the living standard is high with a HDI ranking of 6th compare to the investor China that is on the 81th place. Furthermore when comparing the two countries GDP in 2007 Sweden had a stable GDP growth at 3.5 percent in contrast to China that had 11.1 percent, which indicates the rapid growth of the Chinese economy and its ongoing internationalisation. These kind of data can both be measurable and comparable by using statistical tools, which is appreciated by Chinese investors that prefer to be provided with clear and measurable data according to Axmon. When evaluating the degree of Country Competitiveness it is also depending on the political and legal environment within the country. Sweden has a stable political structure, a functional legal system and a good balance between security, reliability, transparency and cost-efficiency, and is ranked as the 8th least corrupt country in the world in difference to China that is known for having a complex political structure (ISA, 2007). Gustafsson refers to the factors mentioned above as hard factors, although he states that the most important reasons for Chinese investors to choose Sweden is the following three soft factors.; Sweden was the first western country to establish diplomatic relation with China, Sweden's good reputation and already established contacts in the market that provides easy access. What Gustafsson refers to as hard and soft factors can be compared to Hollensen's (2004) categorization of a country's characteristics into general and specific characteristics, depending on their degree of measurability, accessibility and actionability. The fact that Sweden was one of the first western countries to establish diplomatic relations with China, was partly due to their long trading tradition that created a good foundation for future cooperation and a trust relationship. The long trading relation along with the neutral position in wars has contributed to Sweden's good reputation among Chinese as well as the business culture involving punctuality, loyalty and hard-work. An advantage when it comes to the Sino-Swedish relationship is the work of ISA that early established a presence in China which has resulted in additional good relationships. Sweden's diversity and high degree of internationalisation were not in particular brought up during the interviews with the Swedish respondents as a vital factor but Sweden's membership in the European Union (EU) is a fundamental factor, since most Chinese investors want to establish a presence in Europe and not particularly in Sweden (Pettersson, 2007). The assumption is thus that Sweden's country competitiveness would have been weaker without the easy access to the other European countries through the membership of EU. The fact that Sweden has chosen to stick to the Swedish currency, SEK, instead of adapting the European currency EURO, is one of the major drawbacks with the Swedish economy. Standing outside the monetary union has created barriers to trade such as; slow and complicated bank transfers, currency risks, lack of competitiveness and accounting problems. Nevertheless, Sweden is a country of high openness with a multi-cultural environment and according to Wang the Swedish businessman is of high acceptance when it comes to new cultures and adaptation to foreigners' ways of doing business. Wang also mentioned the importance of how the Swedish businessmen welcome the Chinese investors to Sweden which is highly valued to the Chinese. Hence the knowledge of what type of business environment that Chinese businessmen prefers, the Swedes have successfully created a similar business environment that Wang is referring

to as an “*Investment surrounding*”. Along with this argument Root (2007) argues that the geographical and socio-cultural distance between the home country and the host country are two important environmental factors that could either encourage or discourage investments and the choice of entry mode. The geographical distance between China and Sweden was never mentioned during the primary data collection even though it might be of high importance since there is a significant distance. On the other hand, the socio-cultural distance was continuously brought up whereas Gustafsson stated that there is vital differences in many aspects such as the way of doing business, managing companies and the way of thinking. Wang held the same opinion but also pointed out that even if there were many differences, the similarities were greater. Gustafsson reflected in the same direction when explaining the Chinese and Swedish as similar in many ways, resulting one of the reasons to the Sino-Swedish business relationship’s long trading relations. Hollensen (2004) is describing the socio-cultural distance between the home country and the host country as the degree of similarity in business and industrial practice, in common language, comparable educational level and cultural characteristics. In the Sino-Swedish case these features strictly differ and according to Hollensen this will result in managers feeling greater uncertainty as well as higher costs for information acquisition. The aspect of cultural distances has further on been investigated by Hofstede (2003) and the large cultural differences between Sweden and China can be viewed in figure 5.2 below.

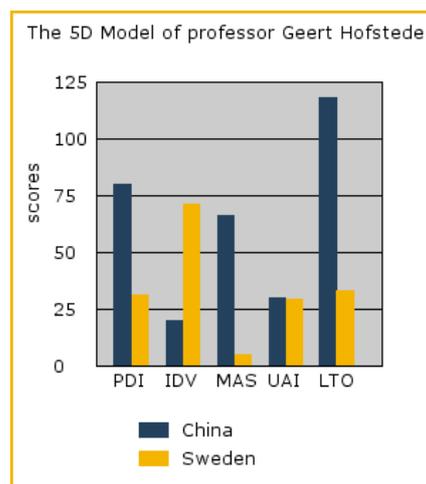


Figure 5.2 Hofstede’s Cultural Dimensions (Hofstede, 2003)

First, the PDI measurement shows a great difference in how the power is distributed within a firm and how inequalities are accepted. Second, IDV, the degree individuals are integrated into groups also shows a large difference. Third, MAS is of great variance between the two nations, where the Swedish society has a much higher tendency to “take care” of one another in accordance with the feminine pole. Forth, the societies tolerance of uncertainty is in contrast to the other indexes similar. The last bar, LTO shows the difference in Long-Term Orientation where China has a more emphasis on long term orientated values with respect for tradition, fulfilling social obligations and the fear of losing face. When analysing Hofstede’s cultural dimensions the great differences between China and Sweden become visible and especially when it comes to the cultural factor that creates an obstacle during business interaction. Even though China and Sweden have cultural variations the two nations have been able to establish good and long-lasting business relationship and accordingly; Wang believes that the differences are the ones that creates the business opportunities. Establishing and maintaining relationships in business is not one of the factors brought up within the Country

Competitiveness model in figure 5.1. Nevertheless, relationships play a vital part, in particular when it comes to business praxis with Chinese businessmen. Established relationships will favour one country over another and are thus enhancing a country's competitiveness against others. The difficulties lie in how to measure the value of relationships and their contribution to a country competitiveness. Another point of interest is that relationships are created between individuals and are thus not tied to a certain country, however the way of communicating and interacting is influenced by the country's culture and can thus lead to large differences. Based on this assumption, it can be argued that relationships is a part of a country's socio-cultural character and are therefore affecting the competitiveness but for Chinese actors, relationships plays a central role and should therefore compose a country competitiveness factor by its own. The importance of relationships when it comes to business interactions have been investigated by Agndal and Axelsson (2002) as quoted earlier; *"Relationships are assets just like knowledge, financial and other resources that enable firms' actions and activities"* (Agndal & Axelsson, 2002). The importance of relationships was also stressed by all interviewees that agreed upon that most of the present Chinese investments would never had taken place if it wasn't for the support and encouragement from Swedish governmental organisations, officials or previous established business relationships. On the other hand, Gustafsson specifically noted that it is not just about business relationships. Even if the relationship is based on economic activities it is important to further strengthen the bond by creating personal relationships in order to found something similar to Guanxi. The Chinese business environment is pervaded by the importance of Guanxi, that is translated as a personal relationship and refers to the concept of drawing on established connections in order to secure favours in personal relationships. Axmon, Gustafsson, Fust, Pettersson and Wang all agreed that the creation of personal relationships and trust were vital in order to establish what Wang referred to as good *"Investment surrounding"* (Wang, 2007). The concept that economic actions are imbedded in social structures and the effects of personal relations when it comes to economic activities have been examined by Uzzi (1997). Uzzi (1997) refers to close/special relationships and highlights the degree of trust in existing social structures. Trust is developed over time and unspoken bonds were particularly important in creating an effective business collaboration. Uzzi's (1997) findings is clearly reflected in the opinions of Axmon, Gustafsson, Fust, Pettersson and Wang, that personal relationships is a vital factor and motive for the Chinese actors to choose Sweden as an investment market. Gustafsson stated;

"It is not two businessmen that are closing a deal in china, it is two persons"

5.2 The Establishment Process

In order to clarify how Chinese investors have established a presence in Sweden, the entry process in general will further on be analyzed. Even though the Sino-Swedish trading relationship goes far back in time, it was until 2001 mostly a one-way relationship, where Sweden invested in China and not the other way around. Below, a timeline has been illustrated (figure 5.3) to give an overview of the Sino-Swedish connections and some of the major events have been pointed out, including the entry processes of the two Chinese companies Westbaltic Holding and Fanerdun Group.

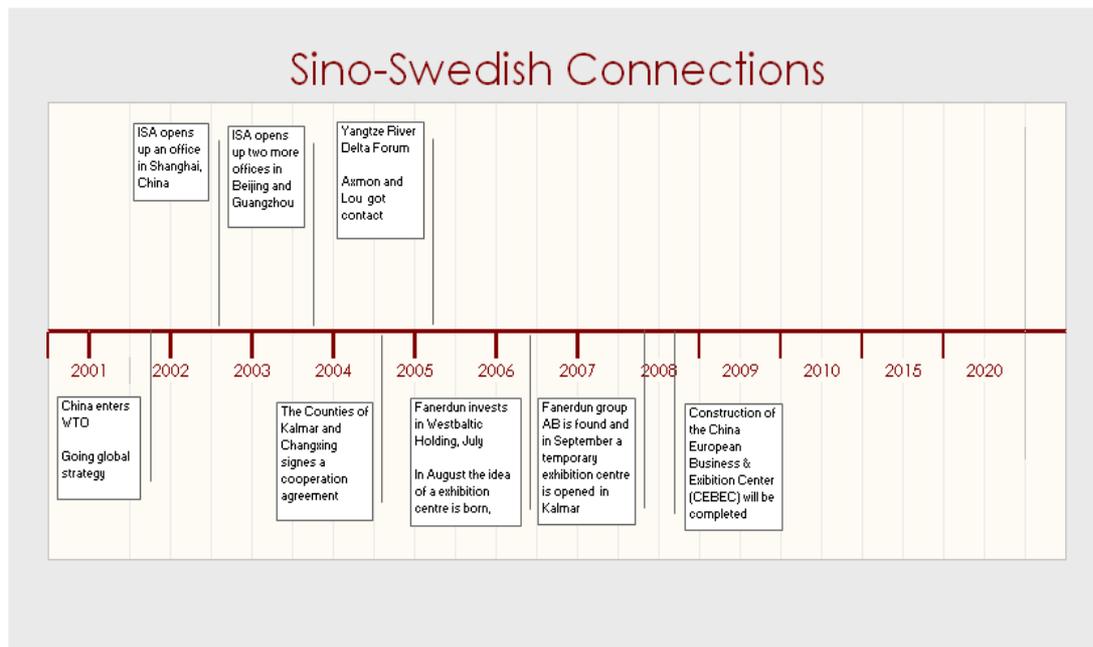


Figure 5.3 Timeline – Sino-Swedish Connections

One of the major turning points that encouraged Chinese investors to expand international was the WTO accession in 2001, which resulted in the Chinese governments implementation of the Going global strategy. According to Griffin and Pustay one of the contemporary causes of globalisation is that it creates a change in the political environment, which reflects the increased openness of the Chinese economy towards the global economy. ISA opened an office in Shanghai in 2002 and in the following years two more offices were established in Beijing and Guangzhou. In autumn 2004 the Regional Council of Kalmar County and the Chinese province ChangXing entered a strategic alliance. Griffin and Pustay (2002) refer to a Strategic alliance as a business arrangement between two or more organisations to cooperate for mutual benefit, which in this case would be to create a link between Sweden and China.

As previously described, the entry process in Sweden is usually starting in China through the first connection and knowledge transfer. Root (1994) agrees with Hollensen's statements regarding the importance of information, by explaining that the more resources a company have, the more options are available when it comes to choosing entry mode. Further on, Hollensen (2004) also points out the importance of previous international experiences that reduce the costs and uncertainty as well as increase the level of commitment. 90 percent of the potential Chinese investors have no previous experience of doing international business according to Gustafsson. This stresses the importance of information flows between China and Sweden, which was supported by Gustafsson who brought up the efficient work by Swedish organisations in China resulting in "competence transfer" by building a so called "knowledge platform". The purpose of the "knowledge transfer" is to educate potential Chinese investors in the most crucial aspects of the Swedish business environment. Daniels and Radebaugh (1995) believe that experience and expertise in the investment market is necessary, Gustafsson agreed and noted that 90 percent of the Chinese investors have no previous international experience. Johanson and Vahlne (1977) also describe knowledge about the investment market as an important factor in the internationalisation process where companies appear to begin their international activities in nearby markets through exports, gradually establishing a local presence. Hallen and Wiedersheim-

Paul's (1979) conception of psychic distance agrees with the Uppsala model by conceptualizing and to some degree measuring the cultural distance between countries and markets. These two theories do not fit the Sino-Swedish case since the presence is usually directly established and more connected to the network approach where international individual firms are analyzed in relation to other actors. This is in line with Lindstrand's (2003) theory that in contrast to the Uppsala model stresses the usefulness of networks in the internationalisation process, where essential knowledge can be transferred without experiencing it.

When a Chinese investor has made the decision to fulfil an investment into the Swedish market, there are several different entry modes to choose from. According to Root (1994) there are a large amount of factors to consider when making the entry mode decision and it is a complex process with numerous trade-offs between suitable entry modes. When matching the entry mode with the market, the Swedish market matches best with the FDI entry mode explained by Shenkar and Lou (2004), due to the environmental factors such as; few trade regulations, safe and stable legal system, ease to start up a business etc. Some drawbacks of FDI when investing in the Swedish market are high labour and living costs as well as the high need of commitment and resources according to Shenkar and Lou (2004). Root (1994) argues that FDI's usually require larger capital investments but since Sweden has a small market with low sale potential one can tell that the Chinese investors might have an underlying aim to reach the whole European market through a Swedish link. Shenkar and Lou (2004) continue by describing three different potential FDI related entry modes as; Branch office, Strategic alliance and Wholly owned subsidiary (Greenfield investment or Acquisition). The most common entry mode according to Shenkar and Lou (2004) is the joint venture, which is a special form of Strategic alliance. The differences are described by Hollensen (2004) in figure 2.5. An example of a successful Strategic Alliance is the cooperation between the Regional Council of Kalmar County and the Chinese province ChangXing, that according to Wang aims to establish trade and business exchanges between companies and education institutions in the regions. Gustafsson divides the most common FDI entry modes into three groups in line with Shenkar and Lou (2004), still slightly different as; Partnership, Acquisition and Greenfield investment– New establishment, which according to him are equally applied, see figure 4.7. When looking at the list provided by ISA, (see appendix 6) the pattern of entry modes differs from Gustafssons statement since when compiling the data from ISA's list the result shows that the majority of investments are undertaken through new establishments. To consider is though, that ISA has made a different categorising of entry modes, nevertheless the result is clearly pointing towards another result. ISA's Investment Promotion Manager, Pettersson is moreover saying that the situation might differ from what is displayed through the list and adds that the uniqueness of each investment sets what entry mode that should be used. The conclusion is that it is nearly impossible to state what type of entry mode that is mostly used it is rather about looking at each individual situation. Gustafsson does not believe that there is such a thing as "the best" entry mode, due to the distinctiveness of each investment, but he believes partnership to be the simplest entry mode for a Chinese investor in Sweden. Gustafsson supported the argument that entering the Swedish market together with an already established Swedish firm is easier since it gives the experience from Swedish managers. The choice of entry mode is also depending on the individual investor and the trade-off between maintaining a high level of control or to enter an alliance with a local business partner to acquire necessary knowledge and information. Gustafsson further on portray Westbaltic Holding as a good example of a successful partnership where the Chinese investor Lou holds 36 percent of the shares, while the majority belongs to

CEO Axmon and three other Swedish investors. Although Hollensen (2004) states that when firms make large commitments, they prefer to maintain high level of control of the foreign operation. Still, a partnership as Westbaltic Holding has resulted in less control of the company not commonly preferable to Chinese investors. An underlying reason to the Chinese control behavior is partly the hierarchy in China as well as the Chinese way of handling distribution of yearly dividends that gives the share holder with majority, the right to the whole profit said Axmon. Wang agreed with Axmon regarding the hierarchical difference between China and Sweden where as the Chinese owner is used to being the sole decision maker while in Sweden it is the board members that have united power. Acquisition is according to Gustafsson a more complex entry mode, since the Chinese investor decides to acquire an off-the-shelf company, already fully organized and registered with a functional business culture and structure. The difficulties mostly emerges from cultural differences since the socio-cultural distance between Sweden and China are of significant concerning business and industrial practices like language, comparable educational level and cultural characteristics, stressed by Hollensen (2004). Swedish organisations like ISA and the regional councils are cooperating to find suitable acquisition opportunities for Chinese investors by scanning the Swedish market through networks after companies on the merge of bankruptcy or family-businesses lacking a natural CEO replacement. Gustafsson finally explained the Greenfield investment as a totally new establishment with the highest amount of risk and complexity for a Chinese investor because of the large differences in business culture and the large start-up costs. Shenkar and Lou (2004) hold the same opinion as Gustafsson, regarding the will to maintain high level of control by the foreign owner, in this case Chinese investors. Hence the complexity of this entry mode, both ISA and Regional Counties most commonly suggests the Chinese entrepreneurs to give up some control by hiring a Swedish CEO when accomplishing a Greenfield investments. The Swedish CEO posses the knowledge about the Swedish market that the Chinese lacks, hopefully resulting in an ability to spread the investment risk. A fourth option to enter the Swedish market for a Chinese investor was illustrated by Fust as the "*Fanerdun entry mode*". This unique entry mode is offered by the Chinese company Fanerdun. According to Axmon, Chinese companies are offered to present their products in Kalmar targeting the whole European market by recommending the Chinese investors a Greenfield investment that includes an exhibition area (40m²), an apartment and a Swedish joint-stock company. Also supplementary services are offered in order to adapt to the Swedish business environment including, help with accounting practices, social network, regulations, connections and so forth. Fanerdun has understood the importance of networks in accordance with Lindstrand (2002) who argues that knowledge can be transferred through networks instead of only experience. However, the Fanerdun project has lately been exposed to difficulties with the Swedish law system whereas the outstanding payment of Chinese salaries has received heavy criticism told by Lindgren (2007). This can be seen as a result of the cultural differences between Sweden and China meaning that the socio-cultural differences are so deeply rooted that they are impossible to overcome on such short notice.

According to the World Bank, Sweden is one of the easiest countries to start up a business in. The opinion is also held by Pettersson who estimated that 70-80 percent of the Chinese investments have entered the Swedish market through ISA. The establishment process usually starts with a business case that is evaluated by ISA in order to find a possible investment match. Without the help from ISA the Chinese investors would most likely have followed the internationalisation process within the Uppsala model to gain knowledge of the Swedish market due to the lack of the essential bridge created by ISA's presence. The first contact is most commonly made in China, by

Chinese businessmen that contact one of ISA's local offices or through exhibitions and networks. It is always up to the Chinese investor to choose how they want to enter Sweden, but still ISA gives entry mode suggestions as well as providing help by knowledge transfer and after care. This can be referred to the importance of creating a functional network with strong relationship as described in the A-R-A framework in figure 2.6 by Håkansson and Johanson (1992) where networks are explained as the connection between the Actors, the Resources and the Activities. When looking from the Sino-Swedish angle, one can connect the network to the A-R-A model, but still not entirely since the three factors do not truly agree. In the Sino-Swedish network the triangle can instead be built by the three following factors; the Potential Chinese Investors, the Swedish ISA and the Swedish market as in the figure 5.4 below, where all three play important roles as both actors, resources and together crates the activities in a well-working network.

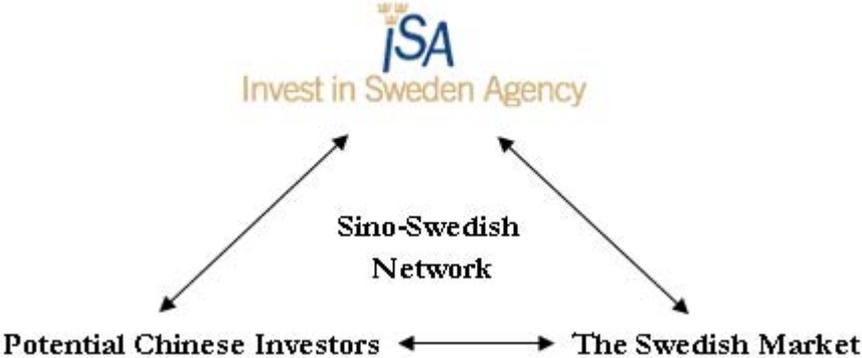


Figure 5.4 This Sino-Swedish Network

Agndal and Axelsson (2002) believe that relationships are of such great importance to individuals and organisation that they describe them as assets in business. Agndal and Axelsson (2002) has moreover constructed a model called the dimensions of relationship sediments and can be seen in figure 2.7. As seen in the model, the five dimensions are described as follows; *Category or Origin, Importance, Availability, Structure and Reach or Context*. When it comes to the Sino-Swedish relationship the *Origin dimension* is of great importance being the core of the total relation since the Sino-Swedish relation as mentioned by Gustafsson is particularly strong due to the long historical relationship between the two nations. The contact from past trading relations in the 18th century as well as the early diplomatic relations in the 1950's have resulted in a sort of national friendship that seems to have become personal and unique over the years. Regarding the dimension of *Importance* the relationship has been of great importance regarding today's international business between the two nations. As both Gustafsson and Axmon mentioned; *"the Chinese investors have not only chosen Sweden due to usual measurable investment factors, such as; price level, competence level, mobility, IT level, scientific developments and other measurable performance factors. Instead they valued the Sino-Swedish relationship including soft qualities as; diplomatic relations and cooperation, good reputation, honesty, trust and to the importance of a good first impression"*. This proves the importance of relationships since many Chinese investors could likewise have invested their anywhere else in the European market. The Sino-Swedish relationship is also of importance for the Chinese as Wang notified when describing how well the Swedish businessmen have learned to understand the Chinese investors needs. Further on the *Availability dimension* explains to what extent the relationship can be mobilised or activated and concerning the Sino-Swedish rela-

tionship it is very active due to the on-going Chinese internationalisation and active work by Swedish organisations. The sediment *structure* of the relationship refers to its content and the commitment to its actors, which in this particular relationship can be described as deep and strong. This is due to the Swedish business men's commitment according to Fust, who stated; "*It's not the fact that the Chinese business men are adaptable to the European market, it is rather the Swedish business men that are extremely flexible when it comes to building business relationships*", as well as the importance of the personal relationship and trust within the Chinese business culture. Last, Agndal and Axelsson (2002) explains the *reach or context* of the relationship that clarifies the context in which it is embedded and give access to. In the Sino-Swedish case, the similarities in industrial interest as well as the active networks through organisations and individuals are of great impact. To sum up, the Sino-Swedish relationship can be seen as a great asset when it comes to why the Chinese have chosen to enter the Swedish market as well as how the entry process proceed since personal relationships are the core of the established network.

In the business connection between Westbaltic Holdings and Fanerdun Group, the concept of Network played a crucial role since they would not have gotten in contact with each other without it. Todeva (2006) concludes the essence of business networks as relationships and the interaction between the actors within each type of unique business network. Westbaltic Holding was created through one of ISA's business forums that acts a network between Chinese and Swedish companies and private investors. This highlights Hollensen's (2004) opinion that the importance of external triggers can not be ignored and that formal and informal meetings among managers from different firms and trade association meetings, conventions or business round tables, often serve as a major change agent. When considering the founding of Fanerdun and CEBEC, the business idea was shaped solely due to already established business connection between the two companies Westbaltic Holding and Fanerdun as well as the personal relationship between Axmon and Lou. The fact that a local partner helps a foreign firm to establish local contacts is brought up by Hollensen (2004) who thinks that already established local contacts will affect a company's approach to foreign entry mode selection. Wang mentioned the importance of trust to Chinese businessmen that can be created through already established local contacts. Trust has been investigated by Uzzi (1997) who illustrates how unspoken bonds can be of great importance when creating an effective business collaboration. Sweden has according to Wang an advantage in being trustworthy due to many governmental officials as representatives in China like ISA and regional councils. The advantage arise from Chinese valuing their own Government highly, or as Gustafsson said the government are , "*the top of the iceberg*" of the economic hierarchy. This has made it easier for Chinese to invest in Sweden, since they need Governmental approval to do foreign business. The close connection between political and economical aspects of the Chinese economy relates to the importance of establishing a business network as well as personal relationships. Todeva (2006) continues with the statement; "*One of the strengths of the business network metaphor lies in its bridging function, between the social and economic dimensions of human conduct, between different disciplines and methodologies, between the academic community and the world of practice. Business network is an essential concept that can explain the organisation of the contemporary economy and society and the behaviour of interconnected business actors*". To bear in mind when evaluating networks and relationships is Todeva's assumption that networks can be complicated to manage as well as the risk of internal conflicts both within and between networks. Further limitations of networks is that it could be time consuming to develop and maintain relationships within the network and could in the

end lead to costs exceeding the benefits. This is confirmed by Gustafsson and Pettersson that stressed the time consuming aspect of doing business with Chinese actors. As already mentioned by Håkansson and Johanson (1992) networks of this kind are created through relationships and are of great importance according to Yeung and Tung (1996) that describe Guanxi accordingly with the quotation; “*Who you know is more important than what you know*”. Dunning & Kim (2007) further on explain Guanxi as personal relationships through six traits: *utilitarian, mutual, transferable, personal, long-term* and *intangible* with an unwritten code of trust, patience and equity. According to Wang, the Chinese business culture is highly dependent on Guanxi and for Chinese businessmen it important to establish trust and friendship before doing business, to create a good “*investment surrounding*”. “*The small things matter*”, is an opinion shared by Axmon, Fust, Gustafsson, Pettersson and Wang that further on explains this as the reason to why many Chinese investors have chosen Sweden before other European economies. A concluding difference that Wang mentioned was; “*In Sweden business comes first and then friendship. In China you first establish friendship and then you do business*”

6 Conclusion

Chapter six will disclose the concluding remarks made by the authors based on the results from the analysis.

This Thesis has the purpose of answering the *Where* question: “*Which are the vital factors for Chinese investors when choosing the Swedish market?*” and the *How* question: *How do Chinese investors go about when establishing a presence in Sweden?*

6.1 Where

The Major triggers for internationalisation by Chinese companies started with the economic reformation in 1978 that opened up the economy and later on lead to the WTO accession and embracement of the Going global policy in 2001. The more open market economy has resulted in great inflows of FDI which has contributed to increased wealth among the Chinese, giving them a chance to expand their businesses abroad.

There are different motives for internationalisation that according to Shenkar and Luo can be divided into Market Motives, Strategic Motives and Economic motives. The internationalisation motives for Chinese companies choosing Sweden are market and strategic motives and can be identified as:

- ✓ Spreading Capital risk
- ✓ Seeking new opportunities
- ✓ Exposure to international influences to keep up with and gain advantage from globalisation.
- ✓ Technological update and Educational upgrade

The motives can be either offensive or defensive and in this case the offensive approach is emphasized since spreading capital risk is the only defensive factor of the one mentioned above.

Hamid is talking about push and pull factors in internationalisation. The going global policy in China can be seen as a push factor but Chinese actors that enter Sweden are mainly affected by the pull factor. Gustafsson estimated that 85 percent of the Chinese investors are attracted through the outreaching work of Swedish organisations and all of the respondents agree that most of the Chinese investments would not have taken place if it weren't for the encouragement and support from Swedish organisations and officials.

The vital factors for Chinese companies choosing Sweden as investment market could according to Gustafsson be divided in to Hard and Soft factors which is in accordance to the general and specific characteristics explained by Hollensen. The soft factors were stressed as the most important by all respondents included in the primary data collection.

The vital hard factors is identified as:

- ✓ The EU membership
- ✓ Similar industries with more advanced technology and know-how
- ✓ Low land prices and corporate tax
- ✓ Easy to start up a business
- ✓ Political and market stability

The vital soft factors is identified as:

- ✓ Diplomatic relations
- ✓ Mutual Trust
- ✓ Sweden's good reputation
- ✓ Personal relationships and already established connections

The identified drawbacks with Sweden, only including hard factors such as high tax pressure, geographical location, small market, expensive workforce and the exclusion from the European monetary union strengthen the assumption that Chinese actors chose Sweden because of the soft factors.

A contributor to the good relationships between Swedes and Chinese are the Swedes' ability to adapt to the Chinese business culture. Both Hollensen and Hofstede stress that socio-cultural differences complicates business between two parts. The differences between Sweden and China are major both when it comes to culture and business practices and the Swedish respondents perceived these differences. Thus the Swedes stressed that they try to adapt to the Chinese way of doing business. The fact that the Chinese respondent perceived the nationalities as more similar than different strengthen the conclusion that Swedish actors succeeds in the adaptation.

6.2 How

About 90 percent of the Chinese investors that come to Sweden has no previous experience from internationalisation according to Gustafsson. Therefore information is essential when starting the establishment process since it educates the Chinese investors about the vital aspects of the Swedish business environment.

The factors influencing Chinese investors' choice of entry mode are identified as:

- ✓ Control behaviour – due to the hierachical Chinese business culture
- ✓ Lack of international experience
- ✓ Socio-Cultural differences

Out of Shenkar and Lou's alternative entry modes, the FDI entry mode can be recognised as the best match for Chinese establishment on the Swedish market due to the low trade regulations, the ease of starting up a business as well as safe and stable legal system. Furthermore, when specifying the FDI entry modes Shenkar and Lou categorised them into branch office, joint venture and wholly owned subsidiary and refers to joint venture as the most common one. Gustafsson on the other hand use the expression of partnership when talking about joint venture and even though he states that there is no entry mode that can be called "the best", he stress partnership as the simplest one. However he estimates that the three most common forms of FDI entry modes are; partnership, acquisition and Greenfield investment and that they are equally applied in Sweden. A unique entry mode that has been identified during the research specific for Chinese investors is the; "Fanerdun entry mode" that is a form of Greenfield investment. The uniqueness of each investment decides which entry mode that will be most suitable and the concluding remark is that it is nearly impossible to state what type of entry mode that is mostly used since it is rather about the distinctiveness of each investment situation. The choice of entry mode is highly based on the

characteristics of the individual investor that creates a trade-off between control, previous international experience and the willingness to adapt to the Swedish business culture.

The Uppsala model by Johanson and Vahlne is not applicable to Chinese establishments in Sweden since they are not gradually entering the market along with gaining experience and knowledge. Instead the Chinese establishment process in Sweden can be related to the theory by Lindstrand, where the Chinese actors are obtaining the necessary knowledge through networks.

Relationships and already established connections are already identified as vital factor in the *where* factor when choosing Sweden as an investment market and also has a great impact on the *how* factor hence the establishment process. The Sino-Swedish relationship is analysed through Agndal and Axelsson's model, the dimension of relationship sediments and the applicability of all five dimension reflects a strong relationship. Since most of the investors are attracted by the pull factor through Swedish organisations working actively in China, connections and relations are established already on spot on the initiative of Swedish officials . Networks also play a crucial role since it can lead to matchmaking between businesses. According to Todeva, relationships is the essence in networks and when looking at the results in this research several of the Chinese establishments in Sweden would not have happened without the presence of networks built by personal relationships.

Country Competitiveness with all due respect, but when it comes to the Sino-Swedish relationship one can tell that it is the Swedish "hands on" marketing in China along with personal networks that will create China's link to the West.

7 Discussion

In Chapter seven the authors will discuss potential subjects for further research.

One remarkable result when writing this thesis is that the secondary data and the primary data do not hold the same perceptions. Swedish organisations such as ISA and the regional councils promote the hard factors to Chinese investors since the more vital soft factors are difficult to support. Even though the soft factors are intangible and therefore difficult to specify it would be interesting to continue Sweden's "hands on" marketing in China with more focus on the soft factors, since they are most vital. In order to create further networks with China, the Swedish market might be able to increase the Chinese interest for foreign investments in Sweden as well as Europe with a link through Sweden. If becoming more trustworthy Sweden might gain other's, especially Asian countries' trust. Gustafsson for example, mentioned India as ISA's future target market. India and Sweden have as China and Sweden great cultural differences. If Sweden succeed in creating a network with actors on the Indian market the outcome could be an interesting topic for further research.

Further discussion that are of interest is how Chinese established companies have performed on the Swedish market as well as if their businesses and adaptation have been successful. Despite the fact that necessary information regarding the Swedish market and business culture is provided to the Chinese investors, there are no guarantees for a smooth entry and performance. Problems have arisen when it comes to existing Chinese businesses in Sweden where several companies have experienced poor results or even bankruptcy. Even though information about the Swedish laws and regulations have been provided the Chinese investors have faced difficulties following the legal aspects since Chinese Guanxi allows more deflections from the law, resulting in this perception being brought to Sweden. As mentioned earlier the Chinese company Fanerdun is facing major financial problems as well as receiving harsh criticism concerning the working environment and therefore the project is put on hold. This is not the first time a Chinese company has experienced problems regarding work and safety regulation in Sweden. The Chinese firm Latep AB that has established the hotel- and conference center, Dragon Gate in Älvkarleby was in 2007 convicted to pay 1.1 million SEK for breaking rules set by Arbetsmiljöverket (Dagens Industri, 2007). This support the assumption that even if the Sino-Swedish relationship is of a strong nature the cultural differences are so deeply rooted that difficulties will arise despite the education and network-building. Hopefully the barriers might be easier to overcome in the future by further research regarding how to handle the Sino-Swedish socio-cultural distance.

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Appendix 1 - Interview Agenda – Magnus Gustafsson

Personal background

- Your position and background -Your connection to ISA
- International experiences

Kalmar regionsförbund

- Tasks and earlier projects involving Chinese investors
- Cooperation between ISA, Regional Council and Municipality
 - When and how were your first experiences with Chinese investors
 - Your recent visit to China
 - Contacts in China

Fanderdun and Westbaltic Holding

- Your role in the project
 - Why Sweden? Why the Kalmar Region?
- Initiation of contact (how, when and why)
- Reasons for the initiation
- People and organisations involved in the project

Process of establishment – Entry mode

- How did Fanderdun enter the Swedish market
- Your organisation's task in the project and ISAs role
- Difficulties during the process
- Your cooperation with other actors within the project
 - Importance of connections when Chinese companies are deciding on location within Europe

Future

- Your organisation's goals and expectations for the future
- Challenges involved
- Other regions in Sweden. Cooperation?
- Trends in China and Sweden

Can we mention your name in the thesis

Appendix 2 - Interview Agenda – Roger Axmon

Personal Background

- Position and background
- International experiences

Westbaltic holding

- General information about the company
- Your position in the company
 - Cooperation with ISA, Kalmar regionförbund

Internationalisation

- **In general**
- **Effect on organisation**

Sweden and China

- **How does the Swedish and Chinese market balance**
- **Experiences with Chinese business connection**
- **Barriers**
- **Culture**

Fanerdun

- Fanerdun – cooperation/connection
- Positive/negative
- Information communicated about the investment
- Implications for Westbaltic Holding

Future

- Possible risks
- Future expectations
- Time frames (short-term, long-term plans and goals)

Can we mention your name in the thesis

Appendix 3 - Interview Agenda - Sören Pettersson

Personal background

- Position and background
- International experiences

About ISA

- Organisation in general
- Which countries are ISA established in
- Do ISA have representatives in each country, (offices)

China

- When did ISA start to cooperate with China? Why?
- When was the first Chinese investment in Sweden and how was it established
- Differences between investments at that time and now

- Marketing in China today – compared to the rest of the world
- **Why do they choose Sweden. What other European countries are of interest**
- **What do they look for in the market**

- What is the greatest problem for Chinese companies that enter Sweden
- What is distinctive problems regarding Chinese investors compared to others foreign investors

Entry mode

- What do ISA provide Chinese companies that want to enter Sweden
- Do ISA suggest entry mode. Which factors are most important; (External, Internal)
- What pros. and cons. have each entry mode

After the establishment

- Most common problem after establishment
- Chinese network in Sweden

Statistics – ISA's Chinese company list

- Chinese companies in Sweden
- How many companies go through ISA (percent)
- To enter Sweden without ISA's help
- Most common way of establishment

Swedish regions

- How does the cooperation with the different Swedish Regions work
- Differences between the Regional Councils
- The Regional Council of Kalmar County and Funerdu

Future

- Further Chinese investments
- Fanderdun's effect on Kalmar's development
- Regional network development in Sweden
- Expectations for the future
- Possible future risks
- Time frames (short-term, long-term plans and goals)

Can we mention your name in the thesis

Appendix 4 - Interview Agenda – Peter Fust

Personal background

- Position and background
- International experiences - Swedish manager in Chinese company

Internationalisation

- **In general**
- **Effect on organisation**

Fanerdu - China

- In general – production, customers, competition
- Internationalisation - previous experiences (Going global strategy)

Fanerdu - Sweden

- Initial business idea for convention center (when, who and why)
- Fanerdu's purpose with the convention center in Kalmar
- Research and evaluation process of possible locations in Europe
- Cooperation with ISA and other local authorities

The establishment process

- **Which entry mode and why?**
- Why Sweden and Kalmar?
- Business relationships/connections in Sweden
- External support (ISA, Regional Council) importance in establishment
- Difficulties and distance (socio-cultural) between Sweden and China (advantages and disadvantages)
- Present situation of the project
- Explain the decision making process

Future

- Future expectations
- Time frames (short-term, long-term plans and goals)
- Regional network development in Kalmar
- Possible future risks

Can we mention your name in the thesis

Appendix 5 - Interview Agenda – Jue Wang

- Could you describe your background and how you started to work with the Regional Council of Kalmar County
- Main responsibilities. What support are you providing Chinese investors in Sweden