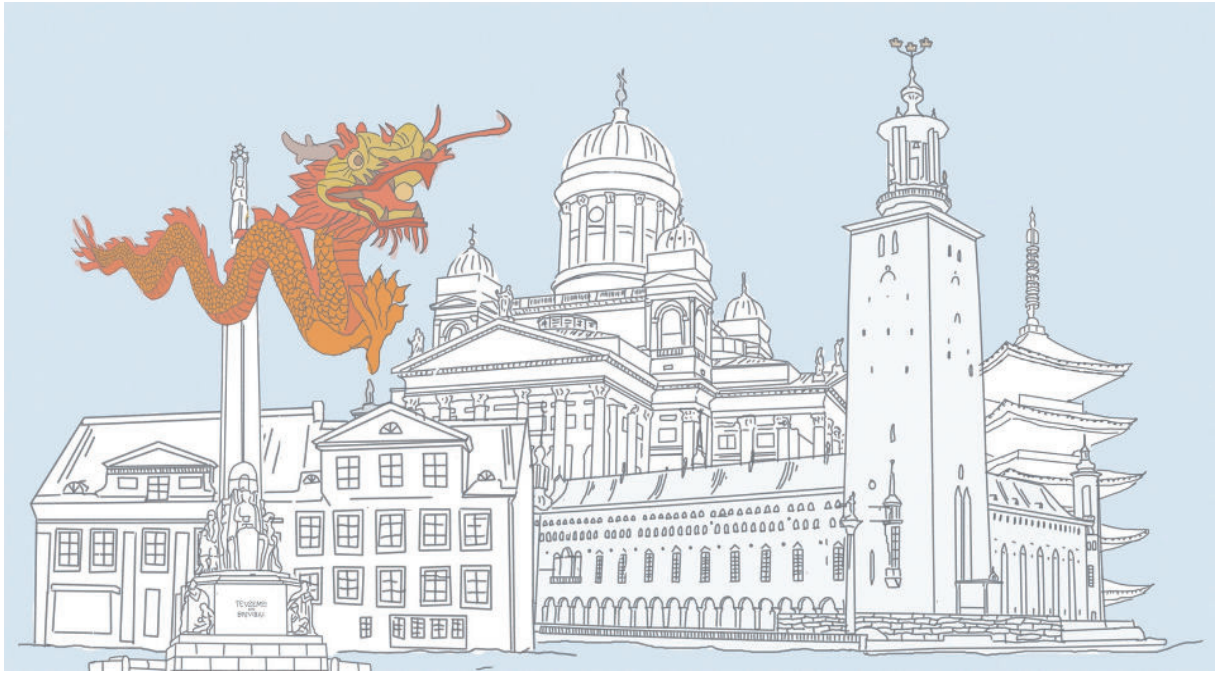
BASAAR Project

Baltic Sea – Asia Agenda for Regions in a Globalising World



WP3 Resource Inventory
Final Report

City of Stockholm
City of Uppsala and
Office of Regional Planning, Stockholm County Council

Stockholm, 25 November 2010

CENTRAL BALTIC
INTERREG IV A
PROGRAMME
2007–2013

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Abstract This report provides a final summary of one of the subprojects carried out as part of the BASAAR Project, known as *Resource inventory*. The report aim to assess the scope of the current relationship between the Central Baltic Sea region and China and India with regard to trade and direct investments. The project also aims to learn from earlier Chinese and Indian investments and cooperation projects in order to improve the region's receptiveness toward investments. Regional planners require better knowledge of what can be done on the local level to attract capital and direct investments to the region.
Keywords BASAAR, Globalisation, Asia, Central Baltic Sea region, Investment

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1 Foreword

This report is one in a series produced by the project "Baltic Sea – Asia Agenda for Regions in a Globalising World" (hereinafter – BASAAR). The BASAAR project was co-funded by EU's Central Baltic INTERREG IV A Programme 2007-2013 under the priority 2 "Economically Competitive and Innovative Region". This priority focuses on enhancing the overall economic development and competitiveness of the programme area. It emphasises innovations and broad, qualitative co-operation. Moreover, the development of connections to facilitate cross-border co-operation and a better flow of goods and people is another focus, together with the utilisation of the labour force and the development of the tourism sector[1].

One of the main aims of the BASAAR project is to improve the capacity of the Central Baltic region to adjust to globalization, with special focus on how the developing Asian economies will affect the Central Baltic Sea region. The project was organised around three main themes: 1) Knowledge society, 2) Resource inventory and 3) Networks and flows. The findings related to the three themes were complemented by a scenario study presenting four long-term scenarios for the region and its relation to Asia. To get an independent view, Asian experts were invited to comment on the scenarios.

The project results are presented in a set of three independent reports providing benchmark results, analysis and action recommendations related to each of the three project themes, an executive summary of all recommendations and the scenario report. Project reports are mainly intended to serve as background papers for planners involved in regional planning processes of the project partners and other organisations. All reports can be downloaded from the websites of the project partners.

[1] Central Baltic INTERREG IV A Programme 2007-2013, p. 56; http://www.centralbaltic.eu/programme, accessed on 30.01.2010

The BASAAR project partners:

- City of Helsinki Urban facts, Finland
- City of Stockholm, Sweden
- City of Uppsala, Sweden
- Harju County Government, Estonia
- Office of Regional Planning, Stockholm County Council, Sweden
- Regional Council of Southwest Finland, Finland
- Riga City Council, Latvia
- Riga Planning Region, Latvia
- Tallinn City Office, Estonia
- Turku Science Park Ltd., Finland
- Uusimaa Regional Council, Finland (Lead Partner)

2 Introduction

Asia's economic and political influence throughout the world has increased significantly in the past two decades, and many signs indicate that future global growth will be closely linked to the development of Asia, particularly China and India. While China has established itself as the world's second largest economy and currently serves as the hub of the Asian economy, India is also an up-and-coming economic superpower with a large potential market. According to UN assessments, Asia's share of the global economy is expected to grow to nearly 50% by 2050, which underlines how important it will be for Sweden and the other countries in the Central Baltic Sea region to develop their economic ties with the Asian countries. One of the principal objectives of the BASAAR Project is to provide a better understanding of how small countries, such as Estonia, Finland, Latvia and Sweden, can prepare and work together to utilise the opportunities being generated by increasing globalisation.

This report provides a final summary of one of the subprojects carried out as part of the BASAAR Project, known as *Resource inventory*. The aim of the project is to assess the scope of the current relationship between the Central Baltic Sea region – defined here as Sweden, Finland, Estonia and Latvia – and China and India with regard to trade and direct investments. The project also aims to learn from earlier Chinese and Indian investments and cooperation projects in order to improve the region's receptiveness toward investments. Regional planners require better knowledge of what can be done on the local level to attract capital and direct investments to the region. An understanding of how to attract and retain a skilled labour force and students from other parts of the world is also necessary.

As part of the project, a number of supporting reports have been prepared and these form the basis for this final report. Two of the supporting reports examine the flow of trade and direct investments from China and India to the Central Baltic region: *Survey of Chinese investment flows to the Baltic Region* and *Survey of Indian business flows to the Baltic Region.*[2]

These reports have been supplemented with a report summarising the data collected by the various project participants with regard to trade and direct investments: *Asia and the Central Baltic Region – trade, investments, and Asian*

[2] These reports were prepared by Inno Scandinavia on behalf of the BASAAR Project

companies.[3] A qualitative report has also been prepared that contains interviews with experts and Chinese companies regarding their experiences of investing in the Stockholm region: *Qualitative findings – Presence of Asian Business in the Stockholm-Uppsala region.*[4] Unless otherwise specified, these documents form the main basis for this final report. All supporting reports are available on the BASAAR Project's public website.[5]

3 Starting position

A large portion of today's global financial activity takes place in China and other Asian countries. While investments have been flowing into China for some time, the trend of Chinese companies making extensive investments in other countries is still relatively new. China's interest in investing in foreign countries has increased in recent years, and many countries now hope to benefit from the investments of this economic giant. The following chapter provides a brief overview of the prevailing trends in China and a description of the country's trade activity and the scope of the investments being made in the Central Baltic region.

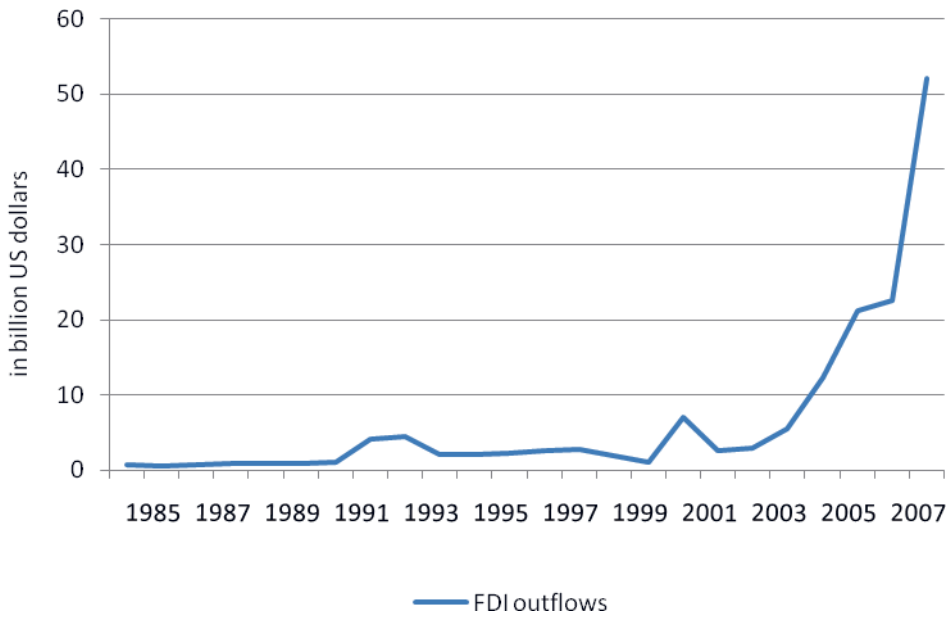
3.1 Trends in China

Since the early 1990s, China has been an attractive market for foreign companies. Direct foreign investments have flowed into the country in the form of corporate acquisitions and outsourcing of production, attracted by low production costs and, in recent years, the need for proximity to an emerging market. These foreign investments have been one of the primary contributing factors to China's economic growth.

Recently, however, China has also started to express its interest in foreign countries. To gain access to new markets, new technology, strong brands and a reliable supply of natural resources, Chinese companies have increasingly begun establishing operations overseas. During the past decade, China's share of global foreign capital has risen sharply. In 2008, China invested USD 52.1 billion overseas, making the country the world's seventh largest investor.[6]

[3] This report was prepared by USK AB on behalf of the BASAAR Project
[4] This report was prepared by USK AB on behalf of the BASAAR Project
[5] www.wikivision.fi/basaar
[6] United Nations Conference on Trade and Development (UNCTAD). UNCTAD (2009a); UNCTAD (2009b), pp. 247-253

Figure 1: Development of China´s FDI outflows, 1985-2008.



Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region

China's share of global direct investments increased from 0.6% in 2004 to 2.8% in 2008. However, the US and several major EU countries are still far ahead. The US, for example, accounted for 17% of the world's total direct investments in 2008 and France for 12%. It is also worth noting that China's share of international trade is significantly larger. However, China's share of the world's investment capital is growing at a rapid rate and, in the future; the country will undoubtedly become a major source of global foreign direct investments. Potential recipient nations have begun to realise this and have started competing to offer incentives to attract Chinese multinational companies.

The substantial increase in China's direct investments is largely attributable to the country's domestic policy. The development of Chinese policy can roughly be divided into four stages. In the early 1980s, China introduced an "open door policy," enabling state-owned companies to make foreign investments. From 1985, the country's policy was expanded to allow private companies to make foreign investments with state approval. China's investment campaign was intensified between 1991 and 2000, and the state actively encouraged companies to make direct investments overseas, although still under the strict supervision of the Chinese authorities. In 2001, China became a member of the World Trade Organisation (WTO). In the same year, China's "go global" strategy was introduced and the foreign investment boom really took off, as shown in the diagram above. "Go global" is part of a five-year plan to promote national economic and social development. The aim of the strategy is to minimise the

foreign trade obstacles that could impact foreign direct investments in order to advance China's international competitiveness. Despite its accession to the WTO in 2001, the Chinese government continues to exert control over foreign trade, and support for foreign direct investments remains subject to strict controls and numerous reservations.

China's state planning body, the National Development and Reform Commission (NDRC), regularly updates the guidelines for Chinese companies in terms of prioritised countries, regions and sectors for foreign investments. Prioritised investments include natural resources and raw materials, such as oil-related investments made in Africa and South America to secure the country's energy supply. Other prioritised investment areas are communication technology, environmental and energy technology, biotechnology and investments in infrastructure and construction technology.

To stimulate foreign direct investments within the framework of the "go global" strategy, the Chinese government provides stimulus packages for companies that conduct foreign business, such as offering tax reliefs, export credits and special treatment by Chinese authorities. Since 2004/2005, the NDRC, the Export-Import Bank of China (China Eximbank) and the China Development Bank (CDB) have provided financial support for specific investment projects.

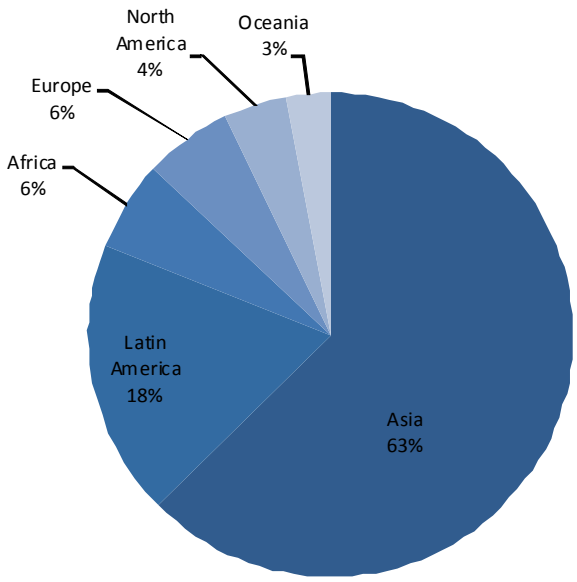
Today, state-owned companies account for the majority of Chinese direct investments, with the exception of the private companies Huawei and Lenovo. Even when private companies carry out investments, the capital largely comes from state-owned banks. For example, the Chinese Zhejiang Geely Holding Group, which recently took over Volvo Cars, is a private company backed by Chinese state-owned banks.

The following diagram shows the geographic distribution of China's direct investments. Most of the country's investments are made in nearby areas. In 2007, the majority of investments, nearly 52%, were made in Hong Kong and 63% were made in Asia as a whole. Latin America accounted for 18% of the country's investments, followed by Europe and Africa with 6% each. However, these figures are somewhat misleading, since they do not show the actual final destinations of the investments, as the money is often used in "round-trip transactions" through tax havens. Many investments made in Hong Kong pertain to tax planning[7] and a large number of investments in Latin America are used in round-trip transactions and ultimately go to islands such as the Cayman Islands and British Virgin Islands.

[7] From 2008, the tax regulations in China have been homogenised

While the desire to secure the country's supply of natural resources is often cited as the main driving force behind this increase in foreign investments, the large Chinese export industry's need for advanced banking and insurance services and various types of shipping services (loading, marine transport, customs clearance, insurance during sea voyages, etc.) is another key driving force. According to China's Ministry of Commerce (MOFCOM), China's direct investments are dominated by the service sector with a share corresponding to 70% of the total investments. The country's goods producing sectors, including construction operations, accounted for 16%, and the remaining 14% was distributed between extraction and oil production (13%) and agriculture and fishing (1%).

Figure 2: Geographical distribution of China´s outward FDI , 2007



Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/National Bureau of Statistics

Although the statistics regarding the geographic distribution of Chinese direct investments do not present an entirely accurate picture, China's foreign direct investments in the developed world, particularly in Europe and North America, are disproportionately small considering that a large share of Chinese trade is conducted with these regions. As shown in the table below, the EU-27 is China's largest trade partner. A total of 21% of China's exports goes to the EU and 17% of China's foreign trade is conducted with these countries.

Table 1: China´s main trade partners (2008)

Major import partners				Major export partners				Major trade partners		
Ranking	Partner	Share		Ranking	Partner	Share		Ranking	Partner	Share
	World	100.0%			World	100.0%			World	100.0%
1	Japan	13.5%		1	EU27	21.0%		1	EU27	17.0%
2	EU27	11.8%		2	USA	19.0%		2	USA	13.9%
3	South Korea	11.1%		3	Hong Kong	13.0%		3	Japan	10.6%
4	USA	7.3%		4	Japan	8.4%		4	Hong Kong	9.7%
5	Hong Kong	5.4%		5	South Korea	5.2%		5	South Korea	7.8%
6	Australia	3.2%		6	Russia	2.3%		6	Australia	2.3%
7	Malaysia	3.2%		7	India	2.2%		7	Russia	2.3%
8	Saudi Arabia	2.8%		8	Singapore	2.2%		8	Malaysia	2.2%
9	Brasil	2.7%		9	Canada	1.8%		9	India	2.2%
10	Ryssia	2.3%		10	Australia	1.7%		10	Singapore	2.1%
	...	...								
36*	Sweden	0.36%		35*	Sweden	0.49%		35*	Sweden	0.43%
41*	Finland	0.28%		40*	Denmark	0.44%		40*	Denmarkk	0.34%
47*	Denmark	0.20%		46*	Finland	0.32%		44*	Finland	0.30%
48*	Norway	0.20%		53*	Norway	0.23%		54*	Norway	0.21%
**	Estonia	0.01%		**	Estonia	0.03%		**	Estonia	0.02%
**	Latvia	0.003%		**	Latvia	0.03%		**	Latvia	0.02%

Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Eurostat

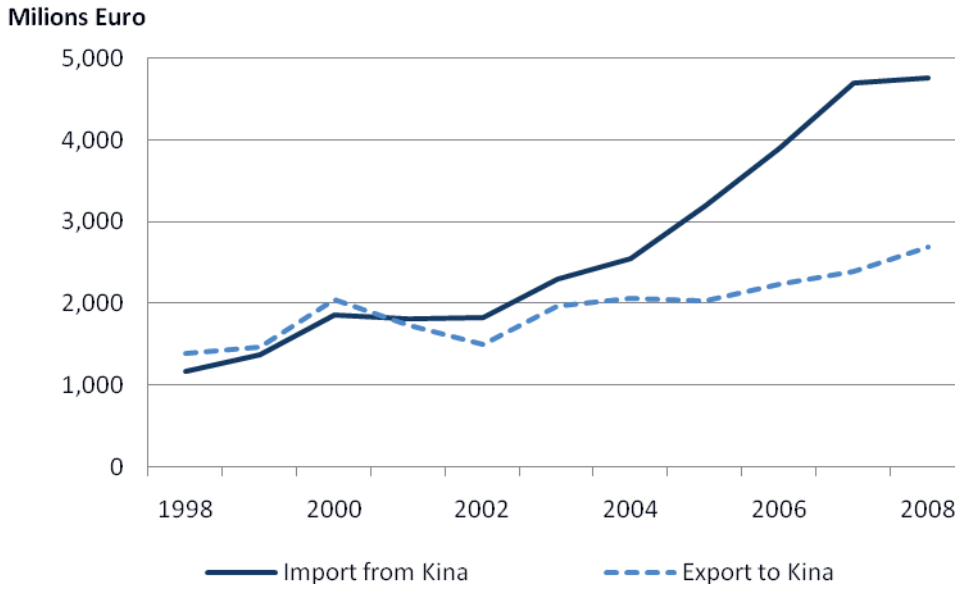
3.2 China's investments in the Central Baltic region

This chapter examines China's trade patterns and investments in the Central Baltic region. In this context, the Central Baltic region refers to Sweden, Finland, Latvia and Estonia.

3.2.1 Sweden

Since China's accession to the WTO in 2001, trade between Sweden and China has increased substantially, particularly imports from China, which now significantly exceed the level of exports. The import value in 2008 was EUR 2 billion higher than the export value. Exports to China currently account for approximately 3% of Sweden's total exports, and imports to China for about 4%. Both exports and imports largely comprise engineering products.

Figure 3: Trade between Sweden and China

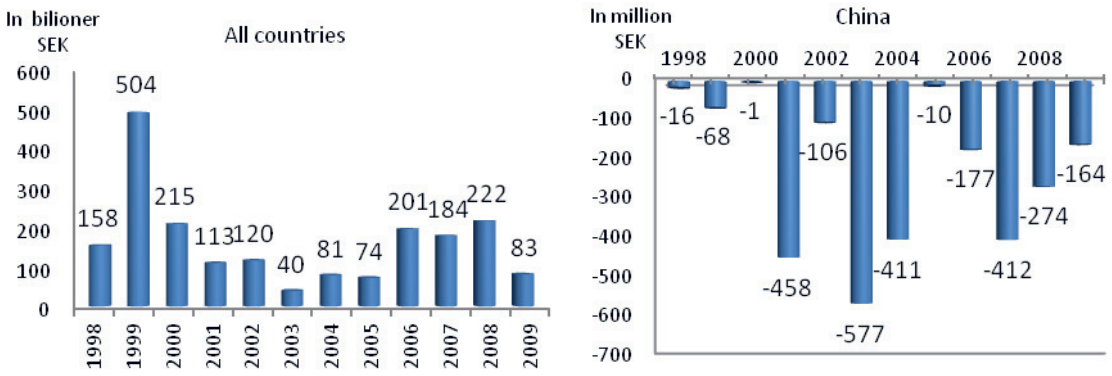


Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Eurostat

Foreign direct investments are playing an increasingly important role in the development and financial growth of individual countries. Jobs, income levels and technological development are dependent on the establishment and growth of companies in the region. The diagram below shows the foreign net investments made in Sweden in the past ten years (net of capital inflow and capital outflow). The value of the net investments varies between years, but has remained stable in recent years at approximately SEK 200 billion per year, with the exception of 2009, when foreign investments amounted to only SEK 83 billion due to the global recession. The net figure serves as an indicator of Sweden's attractiveness as an investment country. A positive net figure shows that foreign companies with investments in Sweden have invested more than they have disinvested (reduced the scope of their investments).

The diagram to the right shows that the net figure for Chinese investments in Sweden was negative throughout the period from 1999 to 2009. These negative investment figures are probably due to Chinese companies with investments in Sweden lending more money to their Chinese sister companies/parent companies than Chinese sister companies/parent companies lending to their Swedish sister companies/subsidiaries.

Figure 4 and 5: Net inflow of FDI in Sweden 1998-2009

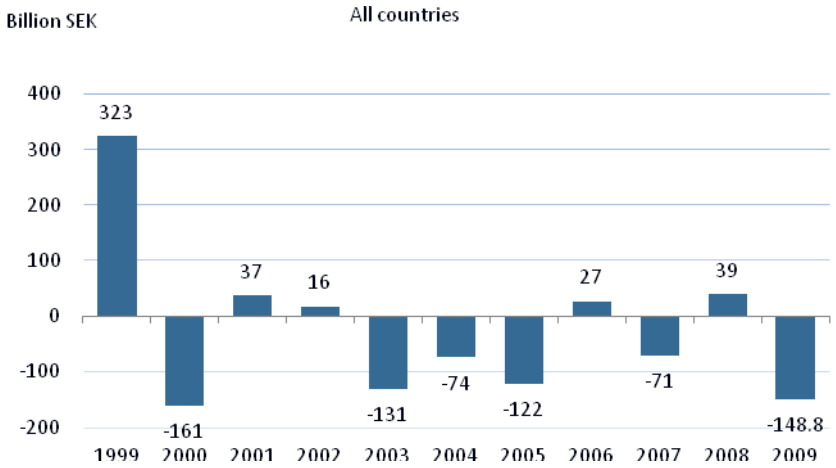


Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/ Statistics Sweden

Another way of illustrating direct investments is by showing the net balance between Sweden's inward and outward direct investments during the past ten years. A negative figure indicates that the net outflow, meaning Swedish direct investments in foreign countries, exceeds the inflow of foreign direct investments to Sweden. Both the origin of foreign direct investments in Sweden and the direction of Swedish direct investments in foreign countries vary significantly from year to year. However, the largest players are often the US or countries in the EU.

Although the net figure varies significantly between years, the average level of Swedish direct investments in foreign countries for the period exceeded the level of investments in Sweden. The diagram to the right shows Sweden's net investments in China, with a consistently negative net figure for the past six years.

Figure 6: FDI net value between in- and outflow in Sweden 1999-2009



Source: Statistics Sweden

The number of foreign-owned companies in Sweden is increasing continuously. In 2008, Sweden was home to 12,861 foreign-owned companies with 620,721

employees. Of these, 26 companies, or 0.1%, had Chinese owners. These companies had a total of 403 employees. Norway owns the most companies in Sweden (1,985 companies), followed by the UK (1,373 companies) and Denmark (1,335 companies). The single largest owner country in terms of number of employees is the US with 101,700 employees, followed by the UK and Finland with 74,027 and 63,186 employees, respectively.

Foreign ownership remains concentrated to the country's metropolitan areas. Of all foreign workplaces in Sweden, 34% were located in Stockholm County, 16% in Västra Götaland County and 14% in Skåne County.

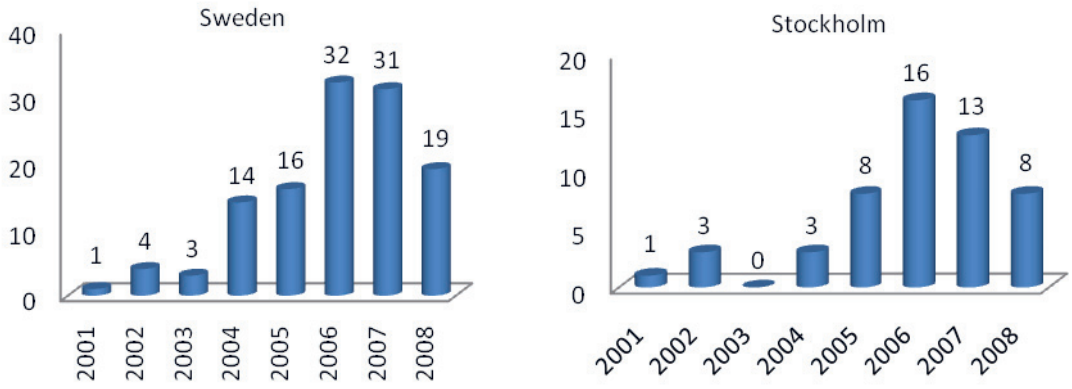
Table 2: Number and foreign-owned establishments by region year 2007 and 2008

Region	Number of foregin-owned companies			Employees in foreign-owned companies	
	2007	*2008*		*2007*	*2008*
Stockholms county	7,364	7,773		187,837	185,403
Stockholm municipality	4,522	4,756		100,573	100,497
Uppsala municipality	467	493		12,213	12,167
Sweden	21,872	22,971		612,326	620,721

Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Statistics Sweden

Invest Sweden, the government authority responsible for work pertaining to foreign investments in Sweden, monitors the progress of the Chinese investments it has helped established. Since Huawei Technologies Co. Ltd opened a Swedish office in 2001, the number of Chinese investments has increased steadily.

Figure 7 and 8: Number of Chinese investments in Sweden and Stockholm 2001-2008



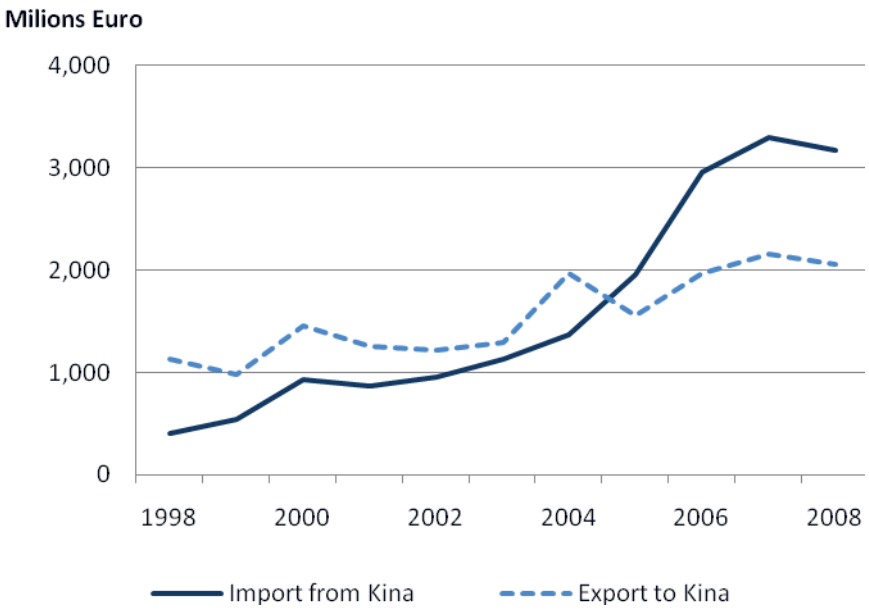
Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/ISA

Stockholm County accounts for most of the Chinese investments in Sweden (43%). The second largest destination for Chinese investments is Västra Götaland (15%), while Uppsala Municipality has received 3% of Chinese investments. According to the Invest in Sweden Agency (ISA), 75% of the investment decisions in Stockholm Municipality were market-driven, 23% were motivated by expertise and 2% by business representation. The corresponding figures for the country as a whole were 70%, 25% and 5%. A clear pattern has emerged with regard to the type of investment projects from China. Since 2001, 71% of investments have pertained to new establishments and 17% to strategic alliances. Investments primarily occur in the retail sector and other industries, followed by information and communication technology (ICT).

3.2.2 Finland

Finland was one of the first countries in Europe to enter into an international trade agreement with China in 1953. In recent years, Finland has become one of China's largest trade partners in northern Europe.

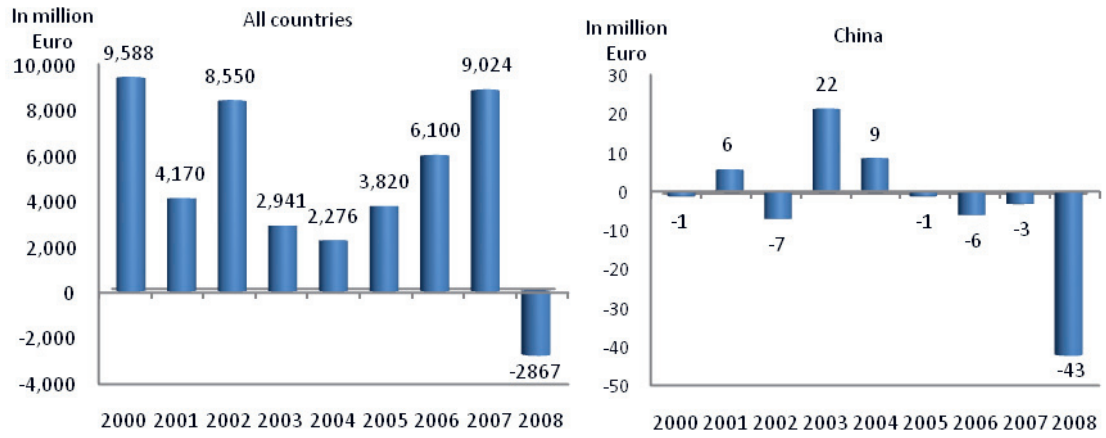
Figure 9: Trade between Finland and China



Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Eurostat

China is currently Finland's fourth largest trade partner. Despite the long-term cooperation between the two countries, Chinese investments account for only 2% of Finland's direct investments. The trade volume between the countries has grown in recent years, and imports have exceeded exports since 2004. The following diagrams show Finland's total direct investments from the world as a whole and China, respectively.

Figure 10 and 11: Inflows of FDI in Finland 2000-2008



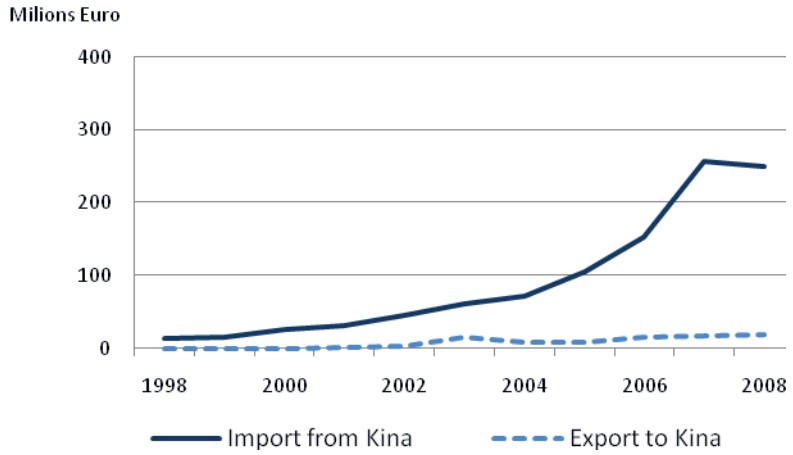
Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Bank of Finland

Finland is home to 4,000 foreign-owned companies, of which 1,000 are located in the Helsinki region. Approximately 13 of these 4,000 companies have Chinese owners, along with the sales companies that for a limited period of time were included in the Nordic China Centre in the town of Kouvola. China's investments in Finland are primarily in the telecom and information technology industry. The establishment of an office devoted to Chinese industrial interests was also important to the Central Baltic region. The office was established in Helsinki in 2007 by the Chinese government in order to help its members invest in and trade with countries in the EU.

3.2.3 Latvia

Trade between Latvia and China has also grown steadily in recent years. Since 1998, imports from China have exceeded the level of exports.

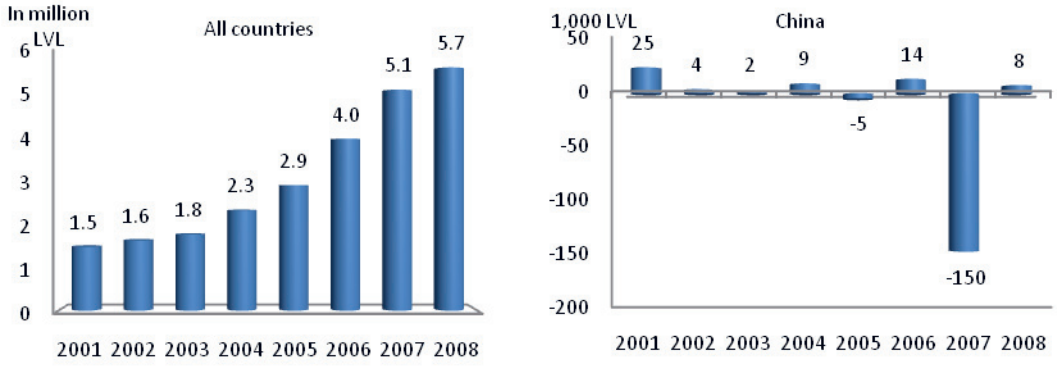
Figure 12: Trade between Latvia and China 1998-2008



Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Eurostat

According to Latvia's Investment and Development Agency, trade relations between the two countries have been strengthened and advanced through bilateral agreements pertaining to joint marketing and protection of investments. Nevertheless, the scope of China's investments in Latvia is limited.

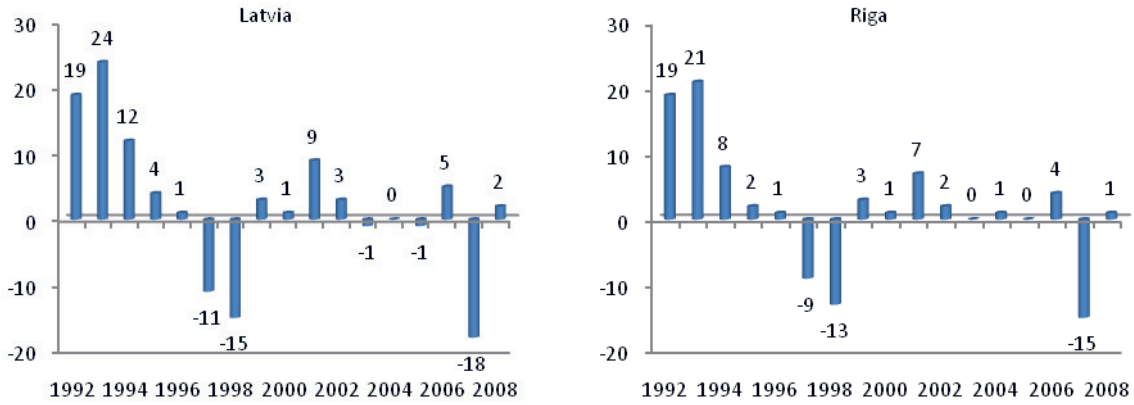
Figure 13 and 14: Inflows of FDI in Latvia 2001-2008



Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Lursoft Database

The first Chinese investment in Latvia was carried out in 1992 and, over the course of one year, approximately 50 Chinese investment projects were established in the country. As a result of the crisis in China in 1997 and 1998, the number of companies declined by 25 (the same pattern is seen for 2007). Since then, the number of companies has increased somewhat.

Figure 15 and16: Number of Chinese investments in Latvia and Riga 1992-2008

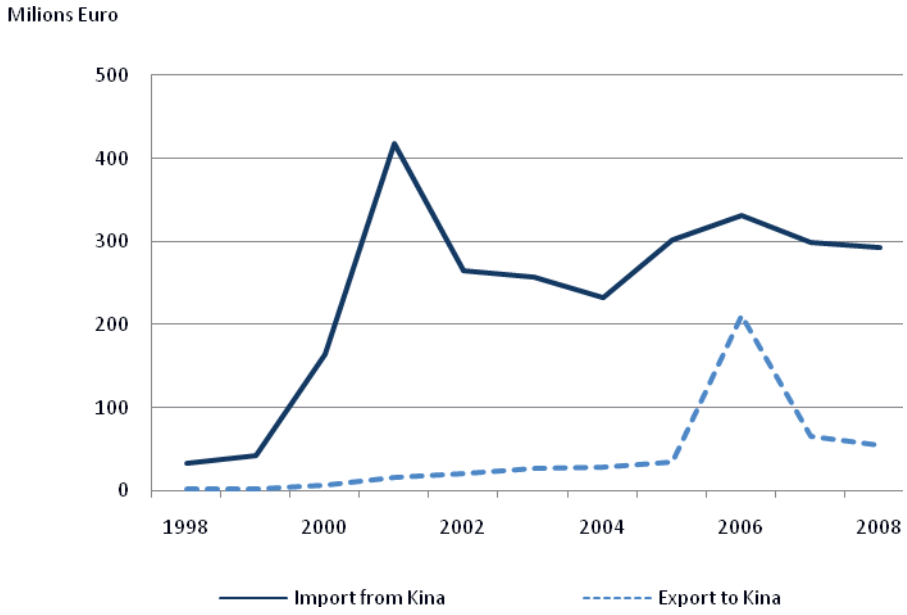


Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Lursoft Database

3.2.4 Estonia

Diplomatic relations between China and Estonia were initiated in 1991, and investments have fluctuated since that time. Imports from China exceeded the level of imports during the period from 1998 to 2008.

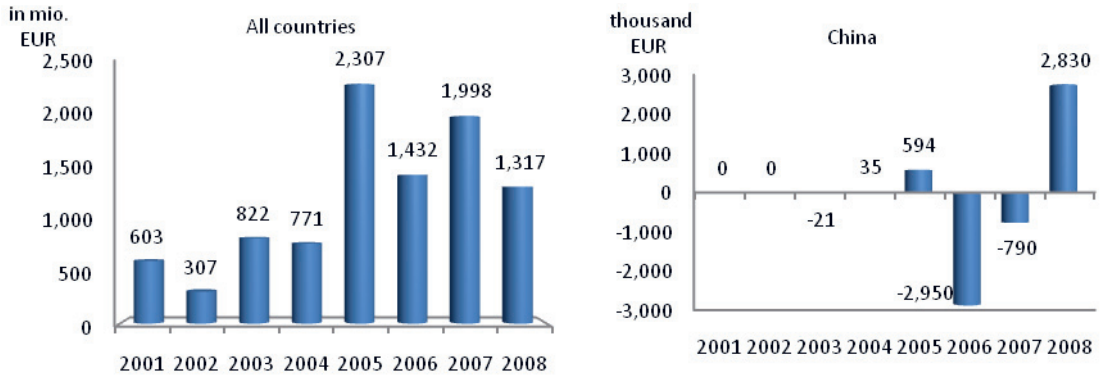
Figure 17: Trade between Estonia and China 1998-2008.



Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Eurostat

In recent years, Estonia has become more attractive for foreign investments. Although the total number of foreign investments is on the rise, Chinese investments declined in 2006 and 2007. Nonetheless, investments reached a record of EUR 2.8 M in 2008, albeit from previously low levels.

Figure 18 and 19: FDI inflows to Estonia by origin 2001-2008



Source: Inno Scandinavia, Survey of Chinese investment flows to the Baltic Region/Bank of Estonia

In addition to an increase in the value of direct investments, the number of foreign-owned companies doubled from 2003 to 2008. Of the 5,650 foreign-owned companies operating in Estonia in 2008, 72% were located in Harju County (including Tallinn). In 1996, Estonia was home to 87 companies with Chinese owners, while the corresponding figure in July 2009 was 13. Most of these 13 companies were located in Tallinn and conducted operations in the sales and restaurant industries or service sector. An investment project targeting the harbour in Tallinn is currently under way. The purpose of the investment is to transport containers by sea between Europe and Ningsbo Port in China.

The motivating factors driving Chinese companies to invest in Estonia are Estonia's strategic location as a node between Russia and Western Europe, its sound infrastructure and research potential. China is also showing interest in the biotechnology and oil areas. Other potential motives for foreign investors are low labour costs and highly educated personnel.

3.3 Examples of investments

Although Chinese investments in foreign countries have increased substantially in recent years, most of these investments thus far continue to be made in nearby countries, and Chinese investments in the Nordic and Baltic regions are still at an early stage. Gaining a comprehensive picture of the investments being made in the BASAAR area has been difficult, but it is evident that Sweden has so far been the recipient of the largest share of investments, followed by Finland.

The investment projects that have garnered the greatest attention in Sweden and Finland have perhaps been the least successful, such as the Fanerdun Exhibition Centre in Kalmar, Sweden, the Nordic China Centre in Kouvola, Finland, and Dragon Gate in Älvkarleby, Sweden. The following section describes some of the investment projects that have received the most negative attention, followed by some of the most successful.

3.3.1 China Europe Business and Exhibition Centre (CEBEC) (Kalmar Municipality)

Fanerdun in Kalmar has given Chinese investments a dubious reputation in Sweden. In 2006, an agreement was signed between Fanerdun Group AB and Kalmar Municipality regarding the construction of Europe's largest wholesale market for Chinese goods (the ISA and Kalmar Regional Council were also involved). The objective was to allow Chinese companies to display their products for buyers from across Europe in the 70,000-square-metre exhibition centre. The investment was also to include a four-star hotel, restaurants, 300 residential units and a spa facility. A total of 800 new jobs were expected to be created in the Kalmar region.

Fairly soon after the agreement was signed and work had begun, flaws were discovered in the project. Among other shortcomings, criticisms were raised against the Kalmar Municipality for not conducting an adequate evaluation of Fanerdun's finances and for breaches against Swedish occupational safety rules. The Chinese authorities began a review of Fanerdun and, according to officials in China, Fanerdun did not have the right to transfer money from China. It also turned out that Fanerdun's representatives in China were marketing the establishment in Sweden by claiming that individuals who purchased exhibition space would be granted a permanent residence permit, free schooling for their children and an allowance.

Despite this, construction of the exhibition centre, hotel and restaurants continued, and the project was launched in temporary exhibition premises in autumn 2007 (since the exhibition halls had not been completed). Although Fanerdun was faced with various problems, the company's management

promised that the initiative would be carried through to completion. Nevertheless, the project was put on ice in December 2007 due to financial problems and the labourers were sent home to China. The project was never completed and Fanerdun incurred substantial debts. Kalmar Municipality stated that it did not report a net loss due to the project, and the actions of the Municipality were supported in an external audit report from March 2009. Fanerdun has since declared bankruptcy.

3.3.2 Dragon Gate (Älvkarleby Municipality)

Dragon Gate is another project that generated considerable adverse publicity. In 2004, Chinese businessman Jingchun Li purchased the Älvkarlen Hotel with the aim of converting the property into a meeting place for Swedish and Chinese businessmen. The investment was supported by the Invest in Sweden Agency. However, the plans for an international meeting place for businessmen were never realised, and Dragon Gate was instead converted into a cultural centre with a museum, conference hotel, restaurant and health centre. The appearance of the property borrowed heavily from Chinese models and was surrounded by a miniature version of the Great Wall of China. Next to the hotel, a Chinese square was built and a 20-metre-high statue of the Buddhist saint Guan Yin was erected. Since the start of the project, the centre has been the subject of harsh criticism due to poor working conditions and the fact that parts of the facility were built without a permit. The remote location of the centre made it difficult to generate a profit. The Älvkarlen Hotel had already declared bankruptcy and all of the companies that conducted operations at Dragon Gate up until 2009 have followed suit. Now the centre has been operated by Eastern Expo Centre AB for approximately a year.

3.3.3 Nordic China Centre (Kouvola)

Kouvola, located on Finland's southern coast between Helsinki and the Russian border, is a key logistics centre in Finland. The St. Petersburg market across the border is not far, and the Trans-Siberian Railway facilitates a direct rail link all the way to China. Due to the economic development in China, Kouvola is expected to play an increasingly important role and thus strengthen Kouvola's position as a logistics hub. This attracted the attention of a Chinese businessman who was looking for a shorter and cheaper route for deliveries of Chinese goods to the European market. Kouvola Municipality was highly interested in creating a node between the Chinese and European markets, and the Nordic China Centre was established in 2007 as a meeting place for Chinese wholesalers and European and Russian buyers. Shortly after the centre was established, a number of problems arose. Finnish consumers were dissatisfied with the quality of the Chinese products, and the railway connection did not live up to expectations. In 2009, more serious problems were identified, including illegal labour and tax crimes. Nonetheless, the centre remains in operation today.

The common feature of these three investments is that the reception capacity of the Swedish and Finnish partners involved was inadequate. Their knowledge of the projects' prerequisites and counterparties was insufficient and the preparations inadequate. We will return to this point in the final recommendation section of this report.

The Chinese companies were also insufficiently prepared to cooperate with their partners in the host countries. Above all, the Chinese companies proved to be unprepared for their new relationships with foreign authorities, legislators, trade unions, financial institutions and customers. They were headed by entrepreneurs with limited or no international experience. Their manner of planning and managing their investment projects was vastly different from the standards of their host countries. The locations of the projects were not optimal, and the entrepreneurs did not seem to have realistic expectations. The financing for the projects was also uncertain.

3.3.4 Huawei Technology Sweden AB in Kista (City of Stockholm)

Huawei Technologies Co. Ltd is a fast-growing global company in the telecom sector. The company was formed in 1988 and is the world's second largest manufacturer of mobile systems after Ericsson. Huawei has approximately 95,000 employees worldwide, of whom 43% work in research and development. In addition to mobile systems, Huawei develops and manufactures mobile phones and USB modems, a market in which it is a global leader. The company is privately owned and its head office is located in Shenzhen, China.

In 2001, Huawei opened its first research and develop centre outside China in Kista, Stockholm, where it focused on the next generation of wireless technology. Following the establishment of Huawei Technology Sweden AB in Kista, Huawei became the first Chinese company to invest in Sweden. Kista's ample access to specialists and engineers and proximity to Ericsson were the main driving forces behind the company's choice of location. Most of the company's approximately 280 employees in Kista are former Ericsson employees. To transfer expertise from Sweden to China, Huawei feels it is important that a large number of its employees are Chinese, on relatively short contracts, who will later return to China to share their new knowledge.

In 2009, Huawei opened another unit in Kista specialising in mobile phone development. The company decided to form this group when Sony Ericsson in Kista began laying off employees, allowing Huawei to employ experienced personnel. Huawei has also opened a development office in Gothenburg that specialises in microwave technology, base stations and IP-based networks.

3.3.5 Zhongxing Telecom Equipment (ZTE) Corporation in Kista (City of Stockholm)

Unlike Huawei, which is privately owned, ZTE is owned by the Chinese government (58%) and various private and public joint owners. The Chinese government has a strong influence on ZTE's work. ZTE was formed in 1985 and listed in 1997. The company's share is traded on the Hong Kong and Shenzhen Stock Exchanges and it has approximately 50,000 employees. ZTE manufactures infrastructure for mobile and fixed communications and, like Huawei, is one of Ericsson's competitors. After initially selling its products in the Chinese domestic market, the company began expanding into foreign countries ten years ago, initially in emerging markets such as India, Brazil and Russia. A few years ago, ZTE began increasing its investments in the European and North American markets, where it received orders from such companies as Telia, Telenor, 3, Vodafone and Telefonica.

Investments in research and development account for at least 10% of ZTE's revenues and 40% of its personnel. ZTE's investment in Sweden took the form of two establishments: ZTE Wistron Telecom AB was founded as a research and development centre in 2002 and ZTE Sweden in 2005. In addition, the company formed a strategic alliance with the Swedish software and service company Enea in 2006 to gain access to an established distribution network. Kista was selected as the location for the company's European head office, with responsibility for the operations in northern Europe, the Benelux countries, Austria and Switzerland.

The primary driving forces behind ZTE's establishment in Kista were the area's status as one of the world's main telecom clusters and Ericsson's presence in the area. Another motivating factor was that the Nordic market was home to attractive customers with which ZTE wanted close proximity.

One of the main characteristics of these successful investments was that the companies established themselves in the region because they wanted to utilise certain specific competencies and technologies. The investments were largely strategic. Both Huawei and ZTE opened research and development centres in a well-established knowledge environment and recruited employees from a strong telecom cluster. This helped the companies to strengthen their technological know-how. Both companies are major competitors of Ericsson and Nokia. Competition in the field is expected to further intensify when telecom operators such as Telia Sonera, Telenor, Tele2 and 3 begin planning for the implementation of the latest mobile technology, LTE.

4 Opinions of Chinese companies and experts on investing in the region

To illustrate how Chinese companies perceive the experience of investing in the Stockholm-Uppsala region, this section presents the results of a number of interviews conducted with companies in the region.[8] The interviewees included managing directors, corporate advisors and representatives of Invest Sweden and the Stockholm business region. A list of interviewees is available in the report *WP3 qualitative findings – Presence of Asian Business in the Stockholm - Uppsala region*.

4.1 Why establish operations in the Stockholm-Uppsala region?

The reasons for choosing to establish operations in the Stockholm-Uppsala region vary depending on the size of the company. For small and medium-sized companies, the choice is often based on personal contacts or chance. In the Chinese business community, good personal contacts are vital. People want to work with individuals they know and trust and the interviewees seem to prioritise personal relationships over business contacts. Sweden is not particularly well known among companies in China, and the companies that show an interest in Sweden tend to already be well-acquainted with the country and follow its market trends.

The large, multinational companies interviewed tended to more closely follow the logic of China's "go global" strategy, with investors thus seeking out new technology, research and development and/or new markets for their products. Interest is focused on technology and research-intensive industries, particularly IT and telecom, areas in which companies aim to take advantage of the cluster of expertise in Kista. The fact that it is easy to recruit is critical. In addition, companies are showing interest in the fields of environmental technology and life science, which also constitute strong clusters in the Stockholm-Uppsala region. The interviews also revealed that the Swedish market is considered advanced in terms of consumers and that the Stockholm-Uppsala region is often used as a test market for new products and services.

[8] WP3 qualitative findings – Presence of Asian Business in the Stockholm -Uppsala region, Stockholms utrednings- och statistikkontor AB (2009)

The Stockholm-Uppsala region is seen as a logistics hub for the Nordic market, due to its high concentration of head offices. The large companies interviewed not only consider Stockholm to be an excellent geographic location for managing the Nordic market, but also a good access point to all markets in the Baltic region. In addition, Sweden is seen as a humane, transparent country that is also beautiful, stable and secure.

4.2 What problems have been encountered?

Some investments were never completed, despite interest from China, often because the companies were uncertain how to proceed. Language barriers often represent an obstacle, and expert assistance is costly. It can be difficult to obtain accurate information, and companies must establish contact with many different Swedish authorities. Rules and legislation differ between countries, as do negotiation techniques. It can be difficult to accept that Swedish rules are so rigid and that exceptions and special solutions are not possible. However, it should be noted that contacts with authorities were also characterised by cooperation and that the perception of Swedish authorities, on the whole, is positive.

Expectations and reality often differ. Individual Chinese entrepreneurs can have unrealistic expectations, perhaps believing the market to be bigger than it actually is and expect a quick return on their investment. The Swedish market is more mature and the growth rate is slow. Larger companies have a better understanding of the Swedish market and their expectations are somewhat different.

The interviews also revealed that some of the respondents experienced a slight prejudice against Chinese people in Sweden. A sense of scepticism exists; Swedes believe they might be deceived and that Chinese products are of poor quality. The differences between the two cultures create a sense of fear. This Swedish prejudice was evident, for example, when Geely became the final bidder on Volvo Cars. The initial reaction in the Swedish media was that this would be the end of Volvo. Now that the deal has been completed, public opinion has changed. Being owned by a dynamic Chinese company with an enormous domestic market is now considered an opportunity for Volvo. The expectations are that this will mark the beginning of a highly developed industrial and economic cooperation between China and Sweden.

4.3 Advice to other Chinese investors and Swedish regions

In our interviews, we asked what advice Chinese companies established in Sweden and Swedish experts on China would give to other Chinese investors and Swedish authorities and regions.

One notable piece of **advice to Chinese investors** was that they must familiarise themselves with the Swedish market before establishing operations

there. How does the market work and who would be your competitors there? It is also important to be determined and persistent – to maintain your vision and keep your dreams alive. Companies and investors must be aware that the process will require considerable hard work.

Companies and investors must also utilise local expertise, since laws and regulations in Sweden differ significantly from China. They must be somewhat open minded in order to understand the reasons behind the decisions of Swedish authorities.

It is also important to understand Swedish culture, particularly Swedish corporate culture, which differs from Chinese corporate culture. The division between managers and employees is more pronounced in China. Swedish corporate culture is less hierarchical, and Swedes are accustomed to collaborating and taking personal responsibility. People in Sweden differentiate more clearly between work and leisure time: “In China, people live to work; in Sweden, they work to live.”

The **advice for Swedish authorities** is to become better at building trust and relationships and to make an effort to establish a mutual understanding. Swedish authorities are too rigid and slow to be able to meet Chinese companies’ expectations in terms of service. Greater flexibility is needed.

Another concern is that very little information regarding laws and regulations and assistance in starting a business is available in English, and essentially none is available in Chinese. The marketing strategy for Sweden and the Stockholm-Uppsala region is perceived as inconsistent and inadequate. The region must improve at conveying the arguments in favour of establishing a business in the area rather than, for example, in Hamburg or Amsterdam.

Authority is important to Chinese people. Politicians, representatives of the royal family and other officials should be utilised more and in a smarter manner in order to market Sweden. Sending a salaried employee rather than a politician may give the impression that you are not seriously interested in pursuing a partnership. Another point raised is that Swedes must be more approachable in their manner of communicating their convictions regarding human rights and democracy so as not to impede corporate partnerships.

To avoid prejudice and enhance interest in the area, the municipalities could host events to promote a sharing of Chinese and Swedish cultural experiences. For example, they could arrange meeting places focused on cultural activities – both Swedish and Chinese – and actively invite Chinese residents. The region needs to provide clearer signals of its interest in China.

5 Importance of China expertise

Hamburg, Germany, is home to the largest concentration of Chinese companies in Europe and to a well-established cooperation with a long history. To learn from these experiences, the BASAAR Project visited Hamburg in spring 2010. One of the main lessons learned was the importance of building up expertise of China based on commitment and knowledge about culture, language and history in order to develop long-term relations with the country. This chapter will begin with some lessons learned in Hamburg, followed by examples of how the Stockholm-Uppsala region is working to expand its cooperation with China.

5.1 Lessons from Hamburg

Hamburg – known to the Chinese as *Hanbao*, meaning Chinese fortress – is the centre for Chinese companies in Germany and Europe in general. Hamburg is regarded as the gateway to the rest of the European market, and more than 400 Chinese companies have established operations in the region, the majority of which retail companies. Hamburg's harbour, one of the largest in Europe and the seventh largest in the world in terms of container shipping, naturally plays a key role.

The growing Chinese presence in Hamburg is considered one of the most crucial drivers of growth in the region, where strategic efforts are being made to develop strong expertise regarding China. The City of Hamburg, the region, the chamber of commerce and the business community are also involved in this work. A key component in this is that Hamburg and Shanghai became sister cities in 1986. The cooperation between the cities is described as proactive and mutual and, among other effects, has resulted in the City of Shanghai financing the construction of a replica of Shanghai's classic teahouse in Hamburg, where a variety of activities are organised in an effort to establish a dialogue and promote cooperation between Hamburg and China.

The city's expertise regarding China includes a broad network of institutions and the identification of key individuals with specialist knowledge of China. Hamburg offers Chinese investors access to a wide range of specialised services with a Chinese focus, such as lawyers, accountants, banks and translators. By gathering several of Hamburg's major players and together working strategically to target the Chinese market, the region has succeeded in concentrating its resources and creating an efficient system for facilitating cooperation. One ambition is to make it possible to offer Chinese stakeholders a comprehensive solution and to meet all of their potential needs in one place.

An important building block in the process of establishing this type of expertise is "China Time," which has been arranged every second year since 2006 by the City of Hamburg. China Time is a two-week event featuring a number of activities focusing on Hamburg's long-term relations with China. The programme is based on five pillars: politics, society and law, economy and the environment, education and science, culture and lifestyle, and sports and health.

China Time has enabled Hamburg to further increase its expertise regarding China. Many national and local institutions, companies, foundations, associations and trade unions participate in the event through lectures, panel discussions and cultural projects, thereby strengthening their networks. Another important event is "The Hamburg Summit: China Meets Europe," which is being arranged for the fourth time by the Hamburg Chamber of Commerce. The conference takes the form of a political summit focused on Chinese-European relations.

In summary, Hamburg has effectively learned to utilise its existing expertise and experience of China.

5.2 China expertise in the Stockholm-Uppsala region

It is difficult to assess the scope of the Stockholm-Uppsala region's expertise regarding China. Many international companies possess considerable knowledge about cooperation with China. A number of company lawyers and consultants work specifically with Chinese companies, some of whom we have interviewed. A Sweden-China Trade Council has also been established, serving as a network for companies conducting business with China. Sweden attracts many Chinese exchange students, researchers and student associations, and several universities and colleges have cooperation agreements with the country. Some schools also offer part-time instruction in Chinese, as do Chinese weekend schools. Unlike Hamburg, however, the region does not have a clear strategy for compiling this expertise and benefitting from each other's experience. The section below provides some examples of how Uppsala Municipality and the City of Stockholm are working to strengthen their expertise regarding China. The section concludes with a discussion of the significance of Asian exchange students in the Stockholm-Uppsala region.

5.2.1 Uppsala Municipality cooperating with Nanjing

An important component of Uppsala Municipality's international strategy is its cooperation with the Chinese town of Nanjing. Considering China's size, Uppsala opted to concentrate its contact efforts to a single city in China. The Municipality chose early on to focus on the town of Nanjing, based on the location and profile of the town, as well as the fact that Uppsala was already somewhat familiar with Nanjing, since both cities participated in the same networks.

The strategy for Uppsala's Chinese initiatives was to:

- focus its efforts on a single city in China
- create a long-term relationship
- maintain continuity in its contacts
- cooperate at the local level in Uppsala – with various partners working toward a common goal, including Uppsala University and the Uppsala Regional Council
- cooperate in broader geographic constellations – for example, with the Stockholm Business Region (SBR) and sister communities in the Baltic region
- focus on a variety of small-scale activities, rather than one major project – such as a direct investment
- gradually expand the cooperation to several other areas – such as industry and commerce, research and planning

One component of this work has involved delegates from Uppsala conducting visits to Nanjing, and vice versa. These visits have taken a practical and tangible approach and have focused on such fields as life science and ICT. The long-term objective has been to stimulate economic growth, and the goal has been to achieve this objective by gradually taking small, tangible steps. While the overall objective has been to achieve tangible results, one of the aims has been to create a platform, on which companies and organisations can base their work, which:

- provides Swedish players with knowledge about local conditions and establishes contacts with Chinese authorities and potential Chinese partners
- generates opportunities for companies in Nanjing to identify business opportunities in Uppsala/Sweden/the EU
- creates mutual contacts and enables continued cooperation

For example, Uppsala has been one of the co-organisers of the Sino-Baltic Forum in Nanjing, a forum for knowledge-sharing and business opportunities in the field of ICT attended by approximately 300 participants. Uppsala invited its sister communities and other parties in the Baltic area to participate in the event.

Uppsala has also processed a number of business requests from Nanjing-based companies interested in establishing themselves in the area. With the aim of avoiding failed investments/establishments – which would entail a fiasco for both parties – Uppsala commissioned experts to evaluate all of the requests submitted. In all cases, the final assessment was that carrying out the investment according to the company's plans would not be sustainable, and none of the plans were implemented.

5.2.2 Stockholm Business Region/Alliance

Stockholm Business Region Development constitutes a key component of the Stockholm region's China expertise. The company is owned by the City of

Stockholm and is part of the Stockholm Business Region (SBR) Group, which also includes the Stockholm Visitors Board. The Group focuses on marketing Stockholm at an international level and aims to promote investments in the region through cooperation agreements with the Stockholm Business Alliance (SBA), which comprises 49 municipalities. A central aspect of this cooperation involves establishing a shared approach to marketing, processing and reception services, regardless of municipal borders. The goal is to become Europe's leading growth region by 2030.

Stockholm Business Region Development offers companies aiming to grow and establish themselves in the Stockholm area skilled and cost-free service. Among other tasks, the organisation strives to match Chinese companies looking for partners and helps companies obtain premises, land, permits and other important establishment requirements. SBR also works closely with consulting companies and lawyers offering business services for Chinese companies aiming to establish themselves in the Swedish market.

SBR acts as an intermediary in contacts with the relevant authorities, including cooperation with Invest Sweden.[9] The Stockholm region is dominant in Sweden when it comes to attracting investments. In 2009, 46% of all foreign direct investments were made in the Stockholm region. Most of these investments pertained to new establishments and cooperative ventures in the field of information and communication technology. Asia is becoming an increasingly important partner. Of the total number of investments in 2009, a full 60% came from China, Japan and India.

The City of Stockholm does not pursue sister city relationships, but always considers capital cities to be particularly attractive partners. The city receives many delegations from China every year, the majority of which come from Beijing and Shanghai and represent government authorities and municipalities. Many visits in 2010 focused on Stockholm's status as the "European Green Capital 2010."

5.2.3 Global Citizen – "Next China" and "Next India"

The City of Stockholm's Education Administration includes a project known as Global Citizen, Next China/Next India, which was started to enhance interest in the development of Asia and to prepare Stockholm schools and students for increasing globalisation and the challenges this could present. The background

[9] Invest Sweden is a government authority under the supervision of the Ministry for Foreign Affairs. The main task of the agency is to increase foreign investments in Sweden. This is done directly by establishing contacts with and providing advisory services for potential investors and indirectly by promoting increased interest in Sweden as an investment country. Invest Sweden has an established network designed to promote investments in Sweden's various counties and regions. Invest Sweden is a member of the World Association of Investment Promotion Agencies (WAIPA), an umbrella organisation for investment promoting organisations.

to the project was that Swedish students' interest in studying abroad had decreased over a number of years. The project aims to encourage more Swedish students to take the opportunity to study abroad. If more students are given this opportunity and are able to establish international contacts, this would benefit not only the individual students but society as a whole.

A total of 13 upper-secondary schools are currently participating in the projects, along with Swedish universities and Swedish organisations and companies located in China and India. Schools, research institutions and universities in China and India are also involved, as are Chinese and Indian companies and organisations in Stockholm. The focus is on Chinese and Indian history, development and future, as well as increasing knowledge of global conditions and working life. The project also focuses on corporate social responsibility, meaning companies' responsibility for their economic, environmental and social impact on society. Students also have the opportunity to conduct special projects in Swedish companies and organisations operating in China and India, as well as Chinese and Indian companies in Sweden. The project was presented in the Swedish pavilion during the world exhibition in Shanghai.

5.2.4 Significance of foreign students

Gaining an accurate picture of the number of Chinese students in the Stockholm-Uppsala region is difficult. However, it is clear that there are numerous students and that the number of students has increased sharply in recent years. Incoming students can be divided into those who are studying as part of established exchange programmes and those who organise an exchange on their own, so-called "free movers." According to Statistics Sweden, the number of foreign students in Sweden during the 2008/09 academic year amounted to 36,600, which means that the number has tripled since 1999/2000. Universities possess ample information on the students involved in exchange programmes, while less information is available about free mover students. A total of 80% of exchange students come from European countries, while many free mover students come from Asia – slightly more than one third of incoming students in 2008/09. The majority of students come from China and Pakistan. This is reflected in the number of residence permits granted for study purposes.

Within the framework of the BASAAR Project, interviews were conducted with international study coordinators at some of the major universities and colleges in the Stockholm-Uppsala region (The Royal Swedish Institute of Technology, Karolinska Institute, Stockholm University and Uppsala University). The main objective was to determine why Chinese students choose to study in Sweden, where they go after completing their studies, problems and difficulties students encounter and their view of the future with respect to the implementation of tuition fees for students outside the EU and EEA as of 2011.

The exchange programmes at the Swedish universities work together with partner universities in China and market their programmes at student fairs and conferences and in various networks. It is easy to fill spots in the programmes with qualified students, since they have good reputations. These exchange programmes will not be affected by the implementation of tuition fees next year.

This far, the universities in the Stockholm-Uppsala region have not had to do much to attract free mover students, as they have come on their own initiative. The main reason seems to be that studies in Sweden have been free, as well as the extensive range of English language courses offered in the Stockholm-Uppsala region. Many students come on the recommendation of acquaintances who have studied here in the past.

The main problem for these students is finding accommodation. While students involved in exchange programmes receive assistance from their host universities, this can be difficult for other students. Another problem mentioned is that Asian students find it strange to address teachers on familiar terms or find it difficult to adjust to such an independent approach to studying as we have in Sweden. Chinese students tend to distinguish themselves as being highly academically motivated and capable, often studying several courses at the same time. But if they do not do well in their studies, they often react very strongly. “They cannot return home having failed.”

All of the study coordinators stated that they did not have much information about where these students went after their studies in Sweden. Chinese students tend to be goal-oriented and many want to return home with their newfound knowledge to establish careers and contribute to China’s development. This is often used as an argument in favour of implementing tuition fees. However, even if students return to China directly after their studies, they usually do so with a positive attitude toward Sweden, becoming informal ambassadors from the Stockholm-Uppsala region. The contacts that a Chinese student establishes in Sweden can be crucial to future cooperation. Students with an education and knowledge about Sweden also form a critical recruitment base for Swedish companies in China.

The universities in the Stockholm-Uppsala region are generally poorly prepared for the implementation of tuition fees in 2011. Everyone agrees that there will be a major decline in the number of students, which will impact the schools’ finances and study environments. How the schools will deal with this change remains unclear. Competition for students will intensify. To attract non-European students to Sweden despite the implementation of tuition fees, the government has decided to introduce a scholarship programme, although this has not yet been established. Study coordinators believe that the level of service offered to students must be improved when the fees are introduced. For example, schools

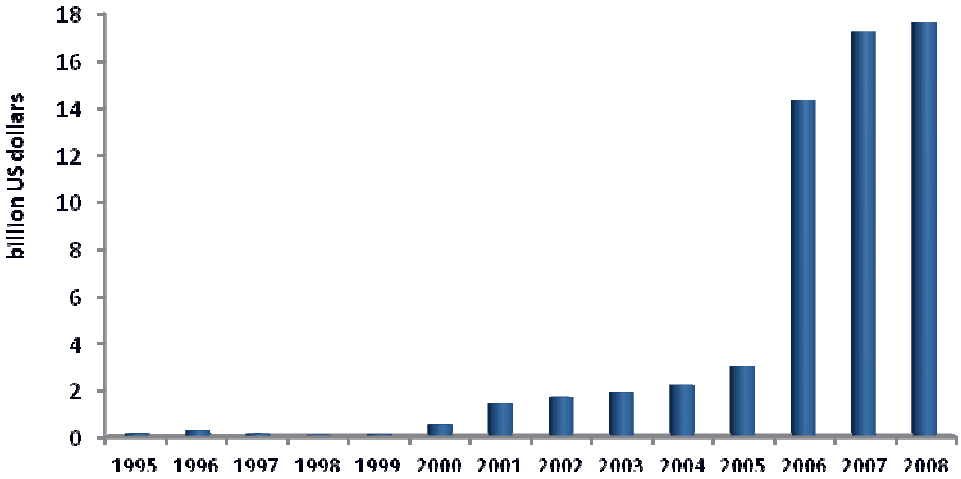
will need to assume greater responsibility for helping students find accommodation. The question is how to resolve these issues?

However, everyone agree that foreign students are an important asset for the development and quality of educational and research institutions. They contribute to strengthening the international environment and diversity and help promote an understanding of other cultures and traditions in Sweden.

6 Focus on India

The BASAAR Project has mainly focused on China's growing influence in terms of trade and investments. However, the work involved in the project also revealed that the development of India is having a significant impact on our region. Accordingly, a report was prepared on the development of trade and investments between India and Sweden, Finland, Estonia and Latvia. The results of this study show that India's outward investments follow the same patterns as China's. As in China, the guidelines specified in India's national policies have influenced the development of the country's foreign direct investments. India's proactive investment policy started a few years prior to the introduction of China's "go global" strategy, and the scope of the country's outward direct investments has increased substantially in recent years.

Figure 20: Development of India´s outward FDI, 1995-2008.



Source: Inno Scandinavia, Survey of Indian investment flows to the Baltic region

In Sweden, Finland and Latvia, a clear increase in Indian investments is noticeable, primarily in the ICT sector and medical technology, but also in the areas of environmental technology and business services. As in China, the main driving force behind Indian establishments is the desire to utilise the expertise and technology in the fields in which Sweden and the other countries mentioned above are global leaders. Companies also want to gain access to a small but advanced market of critical consumers.

Trade between India and the Central Baltic region has also grown substantially in recent years. The EU-27 is India's most important trade partner, with Sweden

ranking as the eighth most important country among the EU states. Finland ranks number 12 among the EU-27.

Overall, a comparison of Indian and Chinese investments in the Central Baltic region reveals both similarities and differences. This should be taken into consideration when preparing an Asian agenda within the framework of the BASAAR Project. Although India and China's economic ties with countries in the Central Baltic region have intensified in recent years, the opportunities to strengthen trade relations and the number of foreign direct investments should not go unutilised.

7 Analysis and recommendations

The economic trend in both China and India has a major impact on countries in the Central Baltic Sea Region. China is currently the world's second largest economy and represents the hub of the Asian economy, and India is also a future economic superpower, with a large potential market. By 2050, Asia's share of the global economy is expected to grow to nearly 50% according to UN forecasts. This accentuates the importance of the efforts of Sweden and the other countries in the Central Baltic Sea Region to develop economic relations with the Asian countries.

To date, Asian investments in the Central Baltic Sea Region have not increased to the same extent as trade. One of the primary objectives in this report is to identify recommendations regarding measures that could be implemented, locally and regionally, to support a development toward more direct Asian investments and joint ventures in the region. The significance of foreign investment for growth and employment is growing and most countries have ambitious programmes to attract investments. It is important that the inflow of foreign capital, technologies and human capital increases, particularly as a growing number of companies – primarily in Sweden and Finland – are moving their production, and their research and development, abroad. Competence-driven investments, such as Huawei's and ZTE's research centres in Kista, contribute to technology development in Sweden and broaden the base of qualified labour.

The recommendations below are written mostly from a Swedish perspective, but are hopefully applicable to all regions within the BASAAR project.

7.1 Careful preparation is necessary

Based on experiences from previous Chinese investments, we have learnt that thorough preparation plays a vital role. Without careful preparation, there is a significant risk of failure. This applies to the involvement of municipalities and regions – and individual companies to an equal degree – in various investment and collaboration projects involving China:

- A starting point is to ask why the municipality or region should become involved in a project with China. It is important that the cooperation is founded on the basis of well-reasoned and commercially viable grounds, not because others have done so.

- It is also important to consider what types of cooperation and projects will be most beneficial? What are our comparative advantages, which areas, which sectors? Which city/region shall we cooperate with? Could it generate employment in our region?

- Which other municipalities/regions engage in cooperation with China, which were successful, not so successful and why?

- Do not be hasty to sign agreements. If something seems too good to be true, the chances are it is probably too good to be true.

7.2 Build and utilise qualified networks

Another recommendation that recurred throughout this project is the significance of forming qualified networks of individuals with extensive and in-depth experience of China. The right contact person who can arrange an introduction under the right circumstances can open many doors.

- It is particularly important to utilise and build up networks with Chinese exchange students before they return home, since these contacts could prove to be important points of entry in the future. Swedish local politicians and companies can, for example, become much better at meeting and building networks with Chinese people in Sweden. A specific recommendation is to actively invite Chinese researchers and students in Sweden to various events, such as the celebration of Lucia Day, Walpurgis Night and Midsummer.

- It is also important to identify and use *brokers*, meaning individuals with knowledge of both countries and who can match expertise from Sweden and China. There is a shortage of such individuals, since the majority only have knowledge of one of the two countries.

- It is moreover beneficial if “informal ambassadors” are involved in the cooperation. Sweden is a respected country in China, and is known for supporting free trade. The countries have long historic relations in terms of trade and Swedish establishments in China. Sweden’s relations with China commenced already in the days of the East India Company in the 1700s. In 1820, Sweden received its first official representative in China and the first bilateral agreement was signed in 1847. Already at the beginning of the 1900s, a number of Swedish companies, led by Ericsson and SKF, were active in China. This goodwill can be utilised!

7.3 Better business services

How companies are received and how rules and regulations are applied has a major impact on the local business climate and indirectly influences the interest in new investments.

- It is vital that the region's service to businesses operates effectively, for example, in connection with the issuing of permits and regulatory issues. Efficient procedures and rapid processes and, preferably, a common point of contact for newly started companies have been requested. This would mean that company officials would only need one contact address where they could do all of their administrative business (e.g. register the company and pay tax, VAT and social security fees).

- It is necessary to provide more and better information in English, or preferably Chinese. Authorities must be multi-lingual, particularly on the Internet.

- The provision of qualified "aftercare" to retain, expand and create new company establishments is equally as important as a well-functioning reception service for foreign companies. This could include following up how companies perceive the business service and what problems they have experienced.

7.4 Better marketing required

Sweden and the Stockholm-Uppsala region are essentially unknown in much of Asia. The same can be said –perhaps to a greater degree – of the Central Baltic Sea Region. It is important to improve marketing activities and highlight our strategic sectors and profile areas.

- To ensure that the region's limited resources will be used in the most efficient manner possible, it is important to coordinate efforts in a joint long-term strategy. This can be achieved by focusing and restricting measures geographically to regions that are regarded as key regions or regions of particular importance.

- An additional strategy could be to intensify focus on target groups that have already shown interest in the region. These groups could subsequently become bridge-builders in relation to new groups in the region.

- Marketing activities could try to latch on to something bigger that is in progress and thus generate a greater impact, such as Expo 2010 Shanghai.

- The image of the region that is communicated should be well reasoned and build on the region's advantages and the positive view prevailing in Asia of the region – if indeed any such view of the region exists at all. Soft factors, such as high quality of life and effective welfare system, contribute to the positive view of Sweden abroad.

7.5 Development of an Asian agenda

Global growth is closely linked with development in Asia. At the same time, it is difficult to maintain knowledge at a local and regional level of events in Asia and

their impact on us. A regional partnership on the build-up of a knowledge base and a joint Asia strategy in the Central Baltic Sea Region is justified.

The main elements of the strategy could be as follows:

- To jointly take stock of the region's China expertise – without knowledge of the expertise that actually exists in the region, we will not be able to utilise our full potential. By utilising each other's networks, and informal ambassadors, more channels could be utilised.

- To create better follow-up possibilities to gain an accurate picture of developments, such as through reliable statistics over the number of Chinese companies and students.

- To learn from and cooperate with regions that has advanced further. There is much to learn about how Hamburg was able to strengthen its China expertise and attract Chinese investments

- To identify and profile sectors with potential for a developed flow of trade and increased foreign direct investments from China and India. Demand is expected to increase significantly in both China and India, particularly in the areas of environmental technology and energy and water supply.

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