

# WHEN BUDDHA COMES TO TOWN

## INVESTMENT MOTIVES AND PATTERN OF PRIVATE CHINESE FDI TO SWEDEN AND THE PIONEER CASES OF ÄLVKARLEBY AND KALMAR

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### Abstract

A long-standing feature of foreign direct investments (FDI) flows has been the predominance of investments by western firms in other western countries. Gradually, however, investment flows to developing countries have been growing in importance, and during the last 20 years the flows to People's Republic of China (PRC) and India alone have on average accounted for 8 to 10 per cent of world total inward FDI. On the other hand, a new trend of outward FDIs can be observed from these two very countries, heralding a new world economic order. In this paper, the focus is put on Chinese outward FDIs.

However still subject to state approval, outward FDIs have for some years been promoted by the government of PRC in order to relieve the macroeconomic pressures due to increased current account surpluses and the relative wealth build-up in China. As a result, a partial liberalization of capital controls has been enacted. Among the new recipient countries of Chinese FDI are the Eastern European EU countries and Sweden.

Our two cases are Dragon Gate in Älvkarleby and the ongoing work in Kalmar by the Fanerdun group to establish an exhibition centre for promotion of trade contacts between European and Chinese firms. The paper investigates the motives and prospects for the Chinese FDIs to Sweden by focusing on investor characteristics, motives, the reception of these investments locally and the future prospects of continued Chinese FDIs to Sweden.

Building on findings from other countries receiving Chinese FDI and on these two case establishments, the results suggest that the *modus operandi* of these early Chinese investors to Sweden is not completely unique. Also, the managerial characteristics follow what has been found in earlier studies on Chinese business. In other words, the two cases of ours follow by and large a general pattern for market-seeking FDIs.

However, this study has found characteristics of investment motives new to Chinese FDI. Indeed, some unorthodox motives have been identified, such as the use of outward FDI as a “life insurance” against insecure political future of the home country, and a wish to increase mutual cultural awareness. Furthermore, an alternative and to some extent ulterior motive for locational choice is offered in this paper.

**Keywords:** Chinese outward FDI pattern, Chinese outward FDI motives, China, Sweden, Fanerdun Group, Dragon Gate

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## 1. Introduction

A long-standing feature of foreign direct investments (FDI) flows has been the predominance of investments by western firms in other western countries. Gradually, however, investment flows to developing countries have been growing in importance, and over the last 20 years the flows to the People's Republic of China (PRC)<sup>1</sup> and India alone have on average accounted for 8 to 10 per cent of world total inward FDI. The tremendous increase of foreign investment funds pouring into the PRC since the introduction of the "Open door policy" by the late Deng Xiaoping in 1978 is therefore, to say the least, impressive. Together with this development, and less surprisingly, the academic focus has so far been on *inward* FDI to the PRC.

However, with a trade surplus of USD 102 billion in 2005,<sup>3</sup> and a world-largest foreign exchange reserve, amounting to 37 per cent of GDP in 2005,<sup>5</sup> the concerns by the PRC government have grown. Together with then upcoming WTO accession in 2001, increased current account surpluses and relative wealth build-up in China, the foreign calls for instant measures towards a revaluation of the Chinese *renminbi* and more liberalized foreign investment laws put great pressures on the Chinese government to make sincere moves to tackle the macroeconomic problems, where active promotion of investments abroad is just one concrete measure. Therefore, the government of PRC initiated a ground-breaking new initiative in 1999/2000, called "going out" strategy,<sup>7</sup> where one of the areas that were addressed was to promote overseas investments by Chinese firms, regardless of ownership structure, i.e. whether it was private or state-owned. The initiative had the explicit aim to relieve the acute pressures put on the *renminbi* exchange rate by the huge trade surpluses. The Chinese government, along with major provincial administrations such as Guangdong and Shanghai, has since encouraged national and local champion firms to start or increase their outward FDIs.<sup>8</sup> In October 2004, the National Development and Reform Commission (NDRC) and the Export-Import Bank of China (EIBC) issued a joint circular to promote four areas, of which one was "M&As that could accelerate the international competitiveness of Chinese enterprises and *accelerate their entry into foreign markets*".<sup>9</sup> To promote these specially designated areas, the PRC government offers loans at preferential interest rates and other incentives, such as EIBC's "special loans for overseas investments".<sup>10</sup>

As a consequence, 2005 marked a break for the outward FDI trend. Ranked as the 17<sup>th</sup> largest outward foreign direct investor in 2005,<sup>12</sup> the Chinese outward FDIs surged by 465 per cent (*sic!*) compared to 2004; this remarkable development has been observed during a period when all other outward FDIs from countries in the Asia-pacific region plunged.<sup>13</sup> These investment

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<sup>1</sup> In this paper, "PRC" and "China" will be used interchangeably.

<sup>3</sup> UNCTAD (2006), p. 55.

<sup>5</sup> Ibid.

<sup>7</sup> The literal translation of the Chinese word *zouchuqu*. In the literature, the initiative is also translated to "go global" (e.g. Deng, 2004) or "going global" (e.g. UNCTAD, 2006).

<sup>8</sup> UNCTAD (2004), p. 27.

<sup>9</sup> UNCTAD (2006), p. 210; emphasis added.

<sup>10</sup> UNCTAD (2001), p. 26; UNCTAD (2006), p. 210.

<sup>12</sup> UNCTAD (2006), p. 55.

<sup>13</sup> Malaysia was the only exemption to this general trend, by increasing its outward FDI from USD 2 billion to USD 3 billion, which is to be compared to the increase of Chinese outward FDI from about USD 2 billion to USD 11.3 billion in 2005 (UNCTAD [2006], p. 54).

figures are, however, inflated by a number of mega-M&As in manufacturing and natural resources sectors, but still, this development give a fair suggestion for what is to be expected in coming years.

In this post-2000 wave of Chinese investments abroad, the countries in South-East Asia and Sub-Saharan Africa, but also North America and Australia, have been forefront recipients of Chinese FDIs. By 2003, the book value of these investments amounted to USD 35 billion, including investments in 160 countries. Among the new recipient countries, however, countries in Europe have also drawn Chinese attention, and Sweden is not an exception. Swedish entrepreneurs, local politicians and organizations have, for various reasons and from various vantage points, expressed excitement about the new wave of “unexpected” FDI. Examples are the establishment of a Chinese-owned business centre on the south bank of the river Dalälven, called *Dragon Gate*, the trade center called Sweden-China Commodity Wholesale Market, built by the *Fanerdun Group* in the southern city of Kalmar, and the acquisition of a biofuel combine in the northern town of Sveg.

Overall, the positive or curious remarks have been prominent in the Swedish popular debate. Both Li Jinchung, the Chinese investor of the Dragon Gate project, and Luo Jingxing, the investor of the Sweden-China Commodity Wholesale Market, have expressed excitement over their investments as becoming a “China window to Sweden”, and the Invest in Sweden Agency (ISA) is equally enthusiastic because it marks a “new” type of FDI on Swedish soil. Despite all this media attention, the academic reaction is so far relatively lukewarm. However, the academic society has increasingly begun to understand the significance of this wave of Chinese FDI to Europe.<sup>14</sup> Apparently, there is a need to understand what implications these investments have on the local economies in terms of motives, trade opportunities, employment and spillovers.

Our two cases are the SEK 200 million (EUR 21 mn.) project Dragon Gate (DG) in Älvkarleby, and the ongoing SEK 5 billion (EUR 526 mn.) project in Kalmar by the Fanerdun Group (FG). Undoubtedly, globalization efforts that bring jobs and tax revenues are something that local politicians in Sweden have been more than eager to embrace. Johan Persson, Municipal Commissioner in Kalmar, was for example reported as saying that “I do not care where the investments are coming from, as long as they are made here”.<sup>15</sup> With that in mind, the purpose of this paper is to *investigate the motives and pattern of the Chinese FDIs to Sweden* by focusing on the following issues:

- What are the motives of the Chinese investors?
- What are the management characteristics of the Chinese investors?
- What is the market entry pattern for Chinese FDI to Sweden?

In sum, this study will focus on this FDI trend, novel to Europe in general and the Nordic and Baltic regions in particular. In addition, the paper will attempt to fuse international findings from earlier studies on this topic with the experiences of practitioners based in Sweden. By placing the current development on the Swedish FDI scene into a larger context, this study aims to contribute to the literature by addressing the significance of developing countries’ contribution to mature European host countries’ local economies.

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<sup>14</sup> Cf. Jansson et al. (2007).

<sup>15</sup> Kalmar i globaliseringens centrum (2007), report from the Ministry of Education, 2007-11-30, *mimeo* [authors’ translation].

In this paper, we define “Chinese FDI” as being one where individual Chinese entrepreneurs, who are approaching the Swedish market directly from China, and who are backed up with funds generated by *existing* businesses in China *in combination* with a permit from the PRC government to channel funds to FDI projects abroad. Furthermore, we will explicitly address managerial and entrepreneurial characteristics, but these issues will be analyzed as possible *competitive advantages* from RBV perspective and *not* treated within the framework of management or entrepreneurship theories.

This paper is organized as follows. Next, after this introduction, the theoretical framework (Section 2) and methods employed (Section 3) are discussed. In Section 4 then, the general pattern of Chinese outward FDI are presented in brief. After that, our two cases and the empirical conclusions from these are presented in Sections 5 and 6, respectively. The latter includes a short discussion on how these particular projects might contribute to the overall Sino-European trade and investment flows. In Section 7 the theoretical implications of our findings are discussed. Issues for future research are then presented in Section 8. The paper concludes with a postscript that briefly summarizes the empirical developments during late 2007 and early 2008; developments which to some extent lends support to our earlier conclusions.<sup>16</sup>

## 2. Theoretical framework

This paper will analyze the aforementioned two projects mainly from a resource-based view (RBV) perspective to verify whether the motives of the Chinese investors follow the archetypes dictated by RBV as follows e.g. Porter (1980; 1985), Lieberman and Montgomery (1988), Barney (1991) and Peteraf (1993). Generally a firm’s resources are broadly defined as “all assets, capabilities, organizational processes, firm attributes, information, knowledge [...] that enables the firm to conceive of and implement strategies that improve its efficiency and effectiveness”<sup>17</sup>. Firstly, this definition can also be extended to a macroeconomic level, and the “going out” strategy formulated by the PRC government is indeed a policy aiming to improve China’s efficiency and effectiveness. Secondly, in order to achieve the explicit goals of the “going out” strategy, *individual* firms take on a prominent role in enhancing China’s global competitiveness.

Furthermore, the first-mover advantages model as formulated by Porter (1980) has been influential in the RBV literature (cf. Barney, 1986; 1991; Mahoney and Pandian, 1992; Peteraf, 1993), and has also constituted the analytical framework for some resource-based studies (e.g. Wernerfelt, 1984). Barney (1991) elaborates further on this issue, by pointing out the advantages a firm can have by being the first to implement a strategy based on first-mover access to and development of a specific resource, while preventing competitors from gaining to it. This in turn creates incentives for the first-mover firm to create entry or resource mobility barriers. Obviously, a competitive advantage is of less value if it is not sustainable over the long run. If the strategy using some specific resource is hard for competitors to imitate, then the prospects of the firm to sustain its competitive advantage over longer time periods is far better. Thus, *sustained* competitive advantage (Barney, 1991) is an extension of the competitive advantage concept in which no current or future competitor is able to imitate the value-creating strategy a firm is implementing.

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<sup>16</sup> The bulk of this paper, including the conclusions offered in Sections 6 and 7, is based on interviews conducted in the spring of 2007. Earlier versions of the paper has been presented at conferences in 2007.

<sup>17</sup> Barney (1991), p. 101.

However, to only rely on RBV to explain the Chinese investment behavior might lead to misleading conclusions. In parallel to “rational” market or resource seeking motives for outward FDIs, the influence of institutional factors, such as the traditional Chinese business behavior (as pointed out by e.g. Yeung [2004]), is an equally important factor when explaining the motives of investment decisions by Chinese investors. Furthermore, from observations based on earlier research by e.g. Cai (1999), Warner et al. (2004), and Child and Rodrigues (2005), there are reasons to believe that decisions on the form of ownership, the degree of internalization and the choice of a particular location is path dependent and might not follow common wisdom of internationalization theories, where investment flows are assumed to go from developed economies to lesser-developed countries (LDCs), and done sequentially “outwards” by first establishing operations on markets closest to own cultural context (i.e. the psychic distance notion made by Kogut and Singh [1988]). Therefore, when critically analyzing aspects of Chinese businessmen’s pre- and post-entry pattern, the internationalization model of Johanson and Vahlne (1977, 1990) will constitute a reference point for the analysis.

### **3. Methodology and data**

The empirical data is collected through a series of interviews with individuals central to these two projects on one hand, and with Swedish-based trade and investment consultants, specialized in Sino-Swedish relationships. The selection follows a strategic selection strategy, where key actors of these two cases have been identified, contacted and interviewed. The interviews have been semi-structured. In total, nine interviews were conducted, of which eight were made in person and one by telephone. The duration of these interviews varied between 55 and 130 minutes. The locations of these interviews have typically been at the premises of the interviewees’ offices.

### **4. Chinese outward FDI: earlier research**

While the inward FDI to China has attracted due attention, the literature on the *outward* FDI flow is surprisingly thin. Notable contributions are Zhan (1995), Cai (1999), Wu and Chen (2001), Yang (2003), Deng (2004), Child and Rodrigues (2005), and Schüller and Turner (2005) on patterns and motives for China’s outward FDI; Yeung et al. (2001), Wu (2005), and Hong and Sun (2006) on internationalization strategy of mainland Chinese firms; Yeung (2004) on motives and the role of *guanxi* networks in China’s outward FDI; Warner et al. (2004) and Tung (2005) on the investment and management behavior of mainland Chinese firms; and Liu et al. (2005) on the correlation between the level of economic development and China’s rate of outward FDIs. Among these studies, the contributions of Wu and Chen (2001), Deng (2004), Warner et al. (2004), Yeung (2004), Child and Rodrigues (2005), and Hong and Sun (2006) will be of particular interest for our study, and the results presented here will be reflected on the results these studies have arrived to.

#### *Traditional RBV motives*

Mapping out the Chinese outward investment pattern prior to the implementation of the “going out” strategy, Wu and Chen (2001) identifies a number of properties for these FDIs, among which the most prominent are import compensation for scarce domestic resources, acquisition of foreign technology and management practices, and developing and expanding foreign markets. Furthermore, Wu and Chen found a significant propensity among Chinese investors to pay

foreign investments in cash. Deng (2004) and Hong and Sun (2006) align with the conclusions of Wu and Chen (2001) regarding motives for the Chinese outward FDI, but suggest another two motives, that is, diversification and strategic asset-seeking investments, which are novel to Chinese outward FDI after 2000.

### *Guanxi*

Regarding the so-called *guanxi* networks, or personal business networks, which are the traditional way for Chinese to reduce transaction and information costs, Yeung (2004) asserts that these networks are also undergoing changes. Many Chinese capitalists, who are engaged in internationalization, increasingly include non-Chinese (or non-ethnic Chinese) in their alliances and business networks. This is a token for, and even a direct result of, Chinese globalization efforts. This inclusion of foreigners into *guanxi* networks also extends to appointing non-Chinese to managerial positions in fully-owned companies or subsidiaries abroad.

### *HR practices*

Parallel to this changing nature of *guanxi* networks, however, acquisitions of foreign businesses (i.e. non-greenfield investments) and/or hiring foreigners are also identified as a *source of managerial problems* by e.g. Warner et al. (2004). Similarly to the changing composition of *guanxi* networks, this phenomenon is also a natural result of business globalization, where outward investing firms are at a learning stage, and where entrepreneurs inexperienced in human resource management (HRM) and foreign cultures cause managerial problems by employing “management by doing the same as back home” (see e.g. Zhan, 1995). Just as Cai (1999) discuss, the results of a poor handling of HRM can obviously be poor performance in terms of sales and profitability.

### *Chinese business attitudes*

Over the years, UNCTAD (1995, 1997, 1998, 2002, 2004, 2006) has paid increasing attention to FDI flows from developing countries, and then particularly those from the PRC and India. Increasingly being an important source of venture capital also in mature economies, this development is just a token for the current development in the global economy. An important contribution to Chinese outward FDI literature is Yao and He (2005; cited in UNCTAD [2006]), who have conducted a survey among Chinese businessmen what main impediments to outward investments they have experienced. The factors identified were limits to foreign exchange, lengthy application process, limited sources of finance, and costs associated with procedures and regulations.<sup>18</sup>

In the group of earlier studies on Chinese outward FDI, the Yao and He study is worth special attention, not only because it is one of the few surveys made on Chinese outward investors, but also because the hindrances cited in the survey contradicts the intentions of the “going out” strategy implemented in 2000. Therefore, the question remains whether contacts within the state administration still is crucial in order to receive swift services to clear the transfers of investment funds abroad, or whether this is a treatment that all potential outward investors receive.

We end this review by concluding that the Chinese outward investors still struggle with the issues connected to international management that many Western and Japanese firms already have gained experience about and have solved. But this is changing, and as they gain experience by operating a business in a foreign country, the gradual change in Chinese business conduct, which

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<sup>18</sup> UNCTAD (2006), p. 202.

seem to move towards Western standards, is a quiet revolution that is often overshadowed by comments noticing *dissimilarities* and the very fact that a firm from a developing country, to which category the PRC still is classified by UN (UNCTAD, 2006), is able to do a substantial FDI at all.

### *Chinese FDI to Sweden*

On the inward Chinese FDI to Sweden, the academic contribution to the literature still remains modest. This is, however, not surprising, since the phenomenon itself is quite new. Naturally, there are examples of “private level FDI” on micro level, such as individuals starting Chinese restaurants, Chinese grocery stores and Chinese handicraft stores. Even if we extend our definition to this type of micro investments made by Chinese individuals there is still precious little research done in this particular field.<sup>19</sup> Thus, apart from adding to the apparent void in the FDI and IB literature, there exists an urgent need to update the current research on this type of FDI coming from “unexpected” countries or regions.

## 5. Case descriptions

### **The Dragon Gate project**

The Dragon Gate is characterized by a turbulent history, and the DG facilities had originally a very bad reputation. During the heydays of the Swedish real estate bubble in the 1980's, fuelled by preferential tax rules, the Älvkarleby municipality built the facilities, then called “Älvkarlen”, as a “gate” to northern Sweden (and the municipality itself), where tourists were expected to rest, stay and spend money on their way to northern Sweden. Amidst local scandals,<sup>20</sup> and as the Swedish real estate bubble burst, the enterprise went bankrupt, and the municipality itself was close to meet the same fate. The “Älvkarlen” facilities were rented out to private interests; however, the facilities went bankrupt again due to mismanagement. After hosting, for example, a refugee hostel run by the Swedish Immigration Board, the Älvkarleby municipality resumed the management in 1989. The “Älvkarlen” buildings were eventually sold to the current CEO Erland Ågren and his business partner in 1992 at a point where the municipality was contemplating to abandon the facility. However, despite a relatively modest price tag for the property (SEK 5 mn.),<sup>21</sup> the business of Ågren and his business partner was also bad. Ågren even described the situation as almost hopeless.<sup>22</sup>

Ågren assessed the situation to be one where the only means of survival was external funding, as he and his partner ran out of funds. Therefore, similarly to the Kalmar municipality any external investor was seen as welcome,<sup>23</sup> and Ågren was prepared to embrace any orders from new owners regarding the operations of the “Älvkarlen” facilities. Ågren described the process:

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<sup>19</sup> Exceptions include the nascent work by a group of researchers at the Baltic Business School at the University College of Kalmar; cf. citations above.

<sup>20</sup> For example, the Municipality Commissioner and the CEO of the real estate company had to leave office as a consequence of accepting benefits from the constructor to be. The municipality also had to cover large losses connected to the project. *Dagens Nyheter*, 2007-11-02.

<sup>21</sup> The figure may be compared to SEK 15 million in annual interest reportedly paid by the municipality also after selling the property; *Dagens Nyheter*, 2007-11-02.

<sup>22</sup> Interview with Erland Ågren, 16 April 2007.

<sup>23</sup> Cf. the above cited statement by Kalmar Municipality Commissioner Johan Persson where he declared any investments to be welcome, irrespective of its source.

“In May 2003 did I hear about him [Li Jinchung and his failure to establish a “Chinatown” in Tanumshede]. [...] You know how the conference market [in Sweden] has developed – it’s not enough to offer good meeting venues and food, but you have also to offer extras around the whole package. We realized that we had to create such things here [in Älvkarleby], but we did not have the money. Therefore, we had to look for an external business partner, or find a buyer to the establishment. So, in May 2003, I called Mr. Li’s liaison [James Shi] in Tanumshede. They were, however, not interested at that point. But only a few months later, it [the Tanumshede project] went bust, and the he [Li] remembered us. In addition, we happened to have the same real estate broker in Stockholm. He could therefore tell more about us [for Li]. [...] Then, he and his associate [Shi] came here [...], and at this place, everything was to [Li’s] satisfaction. So, we got a deal.” (authors’ translation)

Li realized that his project proposal had to be supported by tangible work in order to be taken seriously, especially since the DG facilities had such a bad reputation due to its negative history. Ågren explained Li’s hurry to start with the construction work as fast as possible:

“They [the Älvkarleby municipal council] [...] were a bit cautious at the beginning, because they wanted to see what’s happening. In the beginning, we were in the same position as the Kalmar [the FG] project is now, that is, there is lots of talking, but Mr. Li was wise enough to start the construction work already in August 2004. The foundation of the gate itself was completed already in 2004. He started something just to show [in a concrete way] that he wanted to do something. [...] There were of course lots of people asking themselves at the beginning whether it will be something here, which is perfectly comprehensible, but those doubts have now disappeared.” (authors’ translation)

The local politicians in the Älvkarleby municipality were excited about the proposal, because the site and the nine-storey building were finally being put to use by being rebuilt into a combined health spa and trade fair. However, the start-up phase was not entirely free from negative surprises. On one hand, and contrary to what would have been expected from earlier experiences of foreign construction firms operating in Sweden,<sup>25</sup> the contacts with the trade unions have been positive. On the other hand, the relations with the Swedish Work Environment Authority have been frosty; during frequent inspection visits by the same inspector at the authority, a number of perceived violations to EU regulations were cracked down upon.<sup>27</sup> Ågren regarded this part of the story as unfortunate, basically based on a cultural clash between the Swedish and Chinese construction customs,<sup>29</sup> but the relations had according to him been improved and/or restored.

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<sup>25</sup> The so-called “Vaxholm/Laval case” in 2004, where the Swedish Building Workers’ Union organized a blockade against the company, which eventually resulted in as bankruptcy of the firm.

<sup>27</sup> The inspector criticized the use of traditional Chinese building techniques and the use of Chinese-made building equipment that the Chinese constructions workers had brought from China (Svenska Dagbladet, 27 July 2005; Dagens Industri, 9 August 2006; Arbetarbladet, 10 August 2006; 15 August 2006; 20 September 2006).

<sup>29</sup> In practice, this meant that the Chinese construction workers, who were given a great deal of autonomy in planning the actual construction work, only did as they were used to do in China. The Swedish inspector therefore found inadequate and worn out equipment – all material, machines, tools and trucks are shipped from China – on the construction site, and ignored working safety equipment such as railing on the scaffolds etc. The construction workers, used to prefer convenience before the use of safety equipment, were amazed how strict the Swedish authorities could be. Thus, a cultural clash was something waiting to happen.

Indeed, media reports on these disagreements have been one of the most enduring features of the DG project. However, Ågren has foremost regarded the media reports on these inspections as “all PR is good PR”, and that they had put the public attention to the project:

“This has been an advertisement worth millions of krona. [...] We are now known in the entire country!” (authors’ translation)

After the opening of DG, the reception of the local population and the general public has been overwhelming. For James Shi, Li’s associate and adviser, this was a positive surprise:

“Despite all the negative issues [with the authorities and negative publicity], we have had a strong support from people, which we never expected. We thought they would say: ‘look, now they are busted by the authorities, they are failures’ and so on. But we haven’t heard anything of that sort. [...] On the contrary, some locals have even approached us and wished us good luck despite everything.” (authors’ translation)

He had expected more hostility from the local population due to the presence of Sverigedemokraterna<sup>30</sup> in the Älvkarleby municipality council. This type of hostility is present in other parts of Sweden such as Kalmar, where the party also has representatives in the city council. In the case of Dragon Gate though, it is indeed difficult to find any strong public dissatisfaction with the project.<sup>31</sup>

In July 2005, the *Guan’yin* statue was erected and inaugurated, and in October 2007, the new highway between Uppsala and Gävle was inaugurated, making direct highway travel from Stockholm city and Arlanda Airport possible. In 2008, a six-storey trade centre located immediately north of the DG facilities was to be ready and in full operation. At the time of the interview, the plans nearest in time for the management of DG was to market the establishment more intensively after the inauguration of the nearby highway and the trade centre. Despite the early stage whether to verify the success or failure of the business concept, Ågren estimated that the concept was promising due to the large interest the project already has attracted from key customer groups, which will constitute the core basis for the earnings. Shi also underlined that DG will be used to attract other Chinese entrepreneurs to Sweden, and any cooperation with other firms and entrepreneurs was to be primarily with other *Chinese* interests (i.e. no Swedish or European partners were considered).

### **The Fanerdun project**

One day in mid-August 2006, the Chinese entrepreneur Luo Jingxing entered the town hall of Kalmar together with an interpreter and the resident representative of Changxing County to the Regional Council in Kalmar County Wang Yue. Less than 72 hours later, a SEK 5 billion deal was struck with the city.<sup>32</sup> The city development head Kyrre Dahl described the first days of negotiations:

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<sup>30</sup> An anti-immigration right-wing party and the largest non-parliamentary party in Sweden.

<sup>31</sup> An exception is the deep concern about the long-term implications of the erection of a 20 meter Buddha statue at Dragon Gate expressed by a religious commentator; it may also be noted that the grouping through which this commentator is based in no place other than Kalmar (*sic!*). See, <http://www.bed.nu/artikel.asp?id=299>.

<sup>32</sup> Veckans Affärer, nr. 14, 2007.

“[...] After a while, the Mayor suggested that we move the talks to the main city hall. There, something magic happened [...] he [Luo] started to ask about kindergartens. [...] We were happy he asked this, because this showed his seriousness about the project. [...] [On the third day] we got a letter of intent, leading to the deal.” (authors’ translation)

The location of the FG project is the former site of one of the major Swedish chocolate brands, which was sold and the factory eventually abandoned in 1999. At the turn of the century, Kalmar had suffered the loss of 2,300 jobs in just five years, equaling 8 per cent of the total labor force in 1994, due to downsizing among the major industrial employers in the city. Kalmar still has the second highest unemployment rate in the region, reaching 10 per cent in 1997 and 5 per cent today.<sup>33</sup> Therefore, the eagerness the city officials showed Luo is understandable. The Kalmar Fanerdun Group CFO Peter Fust said that the city has been overwhelmingly positive to the project, and has helped Fanerdun by being very swift in granting applications and had given FG all required permits.<sup>34</sup>

Thus, the deal was negotiated and signed in only three days; however, Luo had since long done research on Kalmar as the location for his investment. Peter Fust believed that Luo was quite near a final decision already before coming to Kalmar. The visit was made to see the location, and to make sure that all services the city could offer was to be given the project.

Fust believed that the crucial factor for Luo’s investment decision was his simultaneous investment in Sweden – a 42 per cent share in West Baltic Holding AB, which was set up in Västervik, Kalmar County, on the initiative by Luo in August 2006, i.e. at the same time as the first contact with Kalmar City was taken.<sup>35</sup> His choice for the location of the exhibition centre was either Kalmar or Amsterdam, which was Luo’s intended final destination of his trip to Europe. After the positive reception at Kalmar and the rapid closing of the SEK 5 billion investment deal, Luo cancelled the rest of his trip, and never went on to the Netherlands.

Fust continued his description of the start-up phase:

“As a Swede, I think it [the contacts with Kalmar City] has worked out very well. [The City] has really supported us, and I think they worked both fast and enthusiastically on [the Fanerdun project]. On the other hand, there are, because of cultural differences, opinions on the Chinese side that things are going slow. [The Chinese] are not used to work like this. When it comes to permits, [...] you present a rough plan at the start-up phase, which is subject to adjustments after discussions with the authorities how the buildings are to look like and so on. Here in Sweden, you have to have a ready-made plan to present to the municipality before they even consider processing your demand for a building permit.” (authors’ translation)

The concept of the FG project is to offer a package, formed as a limited company, connected to each of the 1,100 exhibition spaces in the main exhibition hall and an apartment in any of the five residential areas around Kalmar especially designated to accommodate all Chinese personnel. A total of 5,000 apartments was to be built, of which FG was to build 1,100 and Kalmar City the

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<sup>33</sup> The County Administrative Board Kalmar (Läsnstyrelsen i Kalmar), NUTEK and authors’ own calculations.

<sup>34</sup> Interview with Peter Fust, 25 April 2007.

<sup>35</sup> Barometern, 4 July 2007; Kalmar.se, 6 February 2007.

rest. In addition, an apartment in Hangzhou is included in the package. An estimated range of 300,000 to 2 million visitors per year<sup>36</sup> were expected to visit the trade fair.<sup>37</sup>

For the future, heavy investments in the local infrastructure are heralded. Luo has, together with Regional Council in Kalmar County and Kalmar City, promised to contribute about SEK 42 million for upgrading Kalmar Airport.<sup>38</sup> This was also confirmed by Fust, who said that Fanerdun was prepared to assist Kalmar City in upgrading the infrastructure (i.e. local roads and airport), both financially and with manpower (*sic!*).<sup>39</sup> However, Fust expressed some doubts whether the air services will be expanded at the airport in the near future. Even though the current capacity of the airport was not an issue for Luo when he decided for Kalmar as the location for his project, Fust expressed concerns over the City's work so far regarding the airport. For the time being, all transports will be made by trucks from Gothenburg harbor.

Speed has been the most crucial variable in this project, and similarly to the DG project, media reports have told about a number of violations to Swedish safety regulations made by the Chinese subcontractors.<sup>40</sup> 70 Chinese construction workers were working on the premises, despite an assessed need for another 150 workers and an involvement of a Swedish construction company.<sup>41</sup> Fust admitted that it would be hard to meet the tough schedule to finish the facilities on time, but still believed that this was manageable. According to him, the bottleneck was rather on the Swedish subcontractors, which were working with a limited capacity due to the current boom on the Swedish construction market. This frustrated the Chinese, as they are "used to get results fast and without any hinders".<sup>42</sup> All problems were on factors outside FG's control, according to Fust. He found it hard to believe that the City would succeed to expand the airport before the end of 2007, and the capacity for hotel accommodation is still not dimensioned for the expected number of visitors.<sup>43</sup> In addition, this project proceeds so rapidly that the transportation capacity will not be improved in time. Fust continued:

"I think that the time plan is very tough, however without saying that it will not be kept. [...] [Luo] is prepared to supply resources in order to keep the time plan. [...] But he [Luo] has set his mind on organizing a fair by September 28th – you really never know about Chinese businessmen, whether they are serious or not, or if they only want to put some pressure on the organization [to get things done]; if things are delayed, [he is] prepared to postpone the date – but if he [Luo] has decided on that particular date, it will be a fair of some sort. I'm convinced about it." (authors' translation)

Eventually, Fust confirmed in July 2007 that the project will probably not be finished by September 28.<sup>44</sup> Instead, the opening was held on another location in Kalmar.<sup>45</sup> However, just days before to the opening ceremony, it was revealed that Luo lacks necessary permissions from

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<sup>36</sup> Kalmar City's and FG's projections, respectively.

<sup>37</sup> Interviews with Kyrre Dahl, 24 April 2007, and Peter Fust, 25 April 2007.

<sup>38</sup> Kalmar.se, 5 April 2007.

<sup>39</sup> Interview with Peter Fust, 25 April 2007.

<sup>40</sup> E.g. Sydsvenska Dagbladet, 30 May 2007; Barometern, 4 June 2007, 22 August 2007, 25 August 2007, and 28 August 2007.

<sup>41</sup> Barometern, 24 July 2007.

<sup>42</sup> Interview with Peter Fust, 25 April 2007.

<sup>43</sup> This worry was not realized, as fewer guests than expected showed up on the grand opening ceremony on 28 September 2007 (Barometern, 18 September 2007, and 2 October 2007).

<sup>44</sup> Barometern, 24 July 2007.

<sup>45</sup> Barometern, 28 September 2007, and 29 September 2007.

NDRC to transfer investment funds to Sweden, and that Chinese regional and national authorities were starting a probe into Fanerdun's and Luo's financial status and investment plans – something that the Kalmar City assumed that Luo already had cleared when he signed the deal with the City the year before.<sup>46</sup> Therefore, there are still a number of question marks remaining that might jeopardize the project.

## 6. Empirical findings and analysis

### Entrepreneurial and managerial characteristics

*What characteristics are typical for Chinese investors?* In the literature (e.g. Child and Rodrigues, 2005), there are suggestions for a preference to rely on information obtained from personal networks and decisions made on “gut's feelings” among Chinese investors. This picture was confirmed by all interviewees. James Shi described a “typical” Chinese outward investor as one who relies on his own intuition, and trust information given by acquaintances.<sup>47</sup> The same description is given by the senior expert business law consultant, who underlined the tendency among the Chinese foreign investors to follow intuition and pay less attention to facts about the cultures and markets they are about to enter.<sup>48</sup>

The consultant interviewees pointed out that a great number of Chinese outward investors have no or limited experience of being abroad.<sup>49</sup> Taking our cases as example, neither of the two investors had been abroad before coming to Sweden; their business experience was entirely based on the home market conditions at the time they first arrived to Sweden.

James Shi supplied an explanation to the investment behavior that is illustratively described by the DG and FG cases. According to Shi, today's Chinese entrepreneurs are the first generation that is allowed to do private business. Private economic initiatives were long condemned as “bourgeois” behavior, and the introduction of the “Open door” policy released a tremendous energy among individuals to “make money”; however, since private business was prohibited for a quarter of a century, a whole generation having a sense of entrepreneurship was more or less extinct by 1978, and everything had to be re-learned from scratch. Shi therefore described today's entrepreneurs as opportunists, who lacks the intuition to analyze business opportunities in any depth, or recognize the usefulness to pay consultants for expertise.<sup>50</sup>

Child and Rodrigues (2005) points to earlier findings by e.g. Cai (1999), Zhang and van den Bulcke (1996) and Warner et al. (2004) that the examples of poor performance and failures among overseas affiliates of Chinese enterprises tend to be characterized by “lack of strategic focus, from the limited scale and fragmentation of many projects, and inexperience of coordinating overseas operations”.<sup>51</sup> All interviewees supported this picture from various aspects. James Shi characterized Chinese private foreign investors as “naïve”, that is, the strong belief in the “cheap sells” strategy, i.e. if you only have cheap merchandise to a fair quality, anyone in the world will buy.<sup>52</sup> According to Shi, investment decisions tend to be made *ad hoc*, based on

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<sup>46</sup> Barometern, 22 August 2007, 23 August 2007, 25 August 2007, 12 September 2007, and 14 September 2007.

<sup>47</sup> Interview with James Shi, 9 May 2007.

<sup>48</sup> Interview with senior expert business law consultant, 26 April 2007.

<sup>49</sup> Interviews with Elisabeth Söderström, 27 April 2007, and expert business law consultants, 26 April 2007.

<sup>50</sup> Interview with James Shi, 9 May 2007.

<sup>51</sup> Child and Rodrigues (2005), p. 387.

<sup>52</sup> Interview with James Shi, 9 May 2007.

discussions with personal *guanxi* network contacts. In other words, a heavy reliance is put on the opinions of the *guanxi* contacts when making investment decisions. The tendency among (ethnic) Chinese to rely heavily on business networks for information on investment or business opportunities is also discussed by Lecraw (1977), Brown (1995) and Yeung and Olds (2000). To hire consultancy services, make market surveys and hire accountancy expertise is not what a typical Chinese foreign investor does. This pattern is confirmed by the expert business law consultants interviewed, whose experience were that Chinese entrepreneurs are reluctant to hire expertise or consultants in order to facilitate the market entry to Sweden and the following operations there. However, they maintained, the Chinese are no different from others; when things go seriously wrong, they go to the court, but the Chinese do it extremely reluctantly, and at a later stage when it is almost too late to reach a positive solution to a negative situation.<sup>53</sup>

The driving force of the contemporary entrepreneurs are opportunism, according to James Shi; being the first generation allowed to conduct private business, Chinese entrepreneurs do not yet have business in their veins, and do FDI based on guts' feeling rather than after careful investment planning. They learn, however, by trial and error, but must do everything from scratch. Through the media,<sup>54</sup> Luo has publicly admitted that he is in a stage of learning in connection with media reports of bad working conditions for the Chinese construction workers, and later, reports on false promises of Swedish citizenship, public pocket-money to children under 16 and public subsidiaries given to Chinese investors, made by one representative of a PR company affiliated to Fanerdun.<sup>56</sup> On the other hand, Li Jinchung of the DG project is characterized as a person "who is very flexible [and] he adapts after the current circumstances".<sup>57</sup>

However, a striking feature cited by the interviewees was the lack of *transparency*, and surprisingly, this was readily acknowledged also by the FG CFO Peter Fust, who asserted that there is no transparency in Chinese companies, but underlined that there are no rules regulating e.g. company accountancy in China. Fanerdun is a private company, and has no obligations to make its financial status public. Fust himself had never seen any annual reports or accounts of the financial status of Fanerdun. The Swedish subsidiaries have expressed a wish to Luo to reveal the whole structure of the Fanerdun organization and financial status, but so far, this has not been revealed by him. The limited information Fust had got about his owner firm was given by Fanerdun's main bank ICBC and *not* Luo. This lack of transparency did not bother Fust much, however, as he explained it as being "the Chinese way". Fust continued that trust is the most important factor when doing business with Chinese, and in a trustful relationship, you do not ask about the financial status of your business counterpart.<sup>58</sup> Similar expressions of trust on the main financier was voiced by the DG CEO Erland Ågren, who said that Li not had formulated any requirements on payback time; rather, he is going to invest as long as "he feels like it".<sup>59</sup> The Sweden-China Trade Council CEO Elisabet Söderström also considered the lack of transparency as a serious problem when dealing with Chinese businessmen; the question is how to assess

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<sup>53</sup> Interviews with expert business law consultants, 26 April 2007, and James Shi, 9 May 2007.

<sup>54</sup> E.g. Barometern, 21 August 2006.

<sup>56</sup> Sydsvenska Dagbladet, 12 October 2006; Sydsvenska Dagbladet, 30 May 2007; Barometern, 4 June 2007; Sydsvenska Dagbladet, *Utskrift från bandad intervju med Fanerdun*, [http://sdsmedia.sydsvenskan.se/archive/00051/Utskrift\\_fr\\_n\\_bandad\\_51374a.doc](http://sdsmedia.sydsvenskan.se/archive/00051/Utskrift_fr_n_bandad_51374a.doc).

<sup>57</sup> Interview with James Shi, 9 May 2007.

<sup>58</sup> Interview with Peter Fust, 25 April 2007.

<sup>59</sup> Interview with Erland Ågren, 16 April 2007.

Chinese investment and business proposals, which are not designed in a standard that Swedes and Europeans are used to, and also how to assess the financial backing these businessmen have at home in the form of e.g. bank guarantees, company solidity and personal wealth.<sup>60</sup> As a comment to this type of complaints about the lack of transparency, James Shi supplied an interesting explanation by saying that in China, there is a low awareness among entrepreneurs about the financial status of their own companies: “The entrepreneurs are running their businesses at full speed, until they realize the money has run out”.<sup>61</sup> However not verified in the literature, a lack of control over the finances of their business – which is supported by the lax accountancy regulations in China and the reluctance to hire external accountants – might be a stronger institutional explanation, rather than a fear of revealing the true nature of the planned projects.

The lack of transparency also connects to the strong reliance on *guanxi* networks, which was discussed above. Yeung (2004) discuss what he calls “excessive reliance on personal relationships in business transactions”,<sup>63</sup> but also underline the changing dynamics within the networks, which increasingly include foreigners. The obvious benefits of relying on *guanxi* networks is the reduced transaction costs; asking compatriots and relatives already established on the targeted market rather than business consultants is also testified to in interviews.<sup>64</sup> Another apparent reason to the preference for *guanxi* networks can be the larger possibility to keep a tight grip on information that is perceived as confidential. Overall, the business and management behavior of the case investors follows what is established in the literature on Chinese entrepreneurship (see Child and Rodrigues, 2005). For our cases, it is obvious in the case of the DG project, where Li at an early stage acquired knowledge about Sweden through his brother, who lived in Sweden, and at a later stage, acquired information on business opportunities through his associate James Shi. For the FG case, it is harder to verify how Luo’s *guanxi* network has helped him to establish his project; however, both Davidsson and Dahl of Kalmar City have mentioned a building up of a strong personal relationship with Luo through his socialization with the key persons within the City administration.<sup>65</sup>

A curious detail was found in the DG case, where Shi expressed Li’s and his strong devotion to traditional *fengshui* philosophy:

“The first thing we did was to check the energy... the *fengshui* philosophy, you know... Mr. Li believes in this firmly, and so do I. [...] Everything has to have a harmonic touch; otherwise, nothing works. [...] Everything [the *fengshui* energy flows] was right. We said: ‘let’s buy this place’. At that point, we had no idea what to do with the [‘Älvkarlen’] facilities. [...] We thought: ‘maybe, we should do something Chinese out of this place.’” (authors’ translation)

Thus, the first priority was to check the investment location’s prospects according to the *fengshui* philosophy, then to find out what type of business that should be there. References to *fengshui* as one of the considerations in investment decisions are new for us, and to the best of our knowledge, this is not mentioned in any studies within the field of IB or FDI.

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<sup>60</sup> Interview with Elisabet Söderström, 27 April 2007.

<sup>61</sup> Interview with James Shi, 9 May 2007.

<sup>63</sup> Yeung (2004), p. 37.

<sup>64</sup> Interviews with expert business law consultants, 26 April 2007.

<sup>65</sup> Interviews with Kyrre Dahl, 24 April 2007, and Thomas Davidsson, 24 April 2007.

From a Swedish perspective, the consultant interviewees had the impression that Swedes lacked the courage to question Chinese business proposals, or even that they did not understand them.<sup>66</sup> However, the interview data from the interviews with the representatives of the municipalities concerned suggest that the fast acceptance of the projects is in part due to a perceived low level of commitment of municipality money, and hopes of increased revenues to the regions. Having in mind that these municipalities have had serious problems with high unemployment and low level of tax revenues, this is understandable. On the other hand, the Swedish counterparties have put a large degree of trust in the Chinese entrepreneurs, and from the interviewees' description of the characteristics of Chinese businessmen, it is evident that they have refrained from question in any serious way the investors' plans.<sup>67</sup> In media interviews, City mayor Johan Persson have shown significant degree of trust to Luo and the information given by him<sup>68</sup>; the Kalmar City even made it public that they have refrained from asking questions that might "provoke" Luo.<sup>69</sup> Interestingly, without being asked, James Shi mentioned the issue of being questioned about investment plans, and he said that personally, he very much disliked such questions. However, having a long experience of doing business in Sweden, he interpreted such questions as a token for ignorance of the Chinese culture and thinking rather than an expression of xenophobia (as compared to e.g. Western FDI's). This is not, however, necessarily valid for other Chinese businessmen.<sup>70</sup>

A final question that remains is: *are there any specific characteristics that makes Chinese more or less successful than entrepreneurs from other countries?* Shi did not believe that "to be Chinese" was a key for success *per se*. Rather, Shi believed that it is all about timing, or in other words, that the Chinese are like any other nationality when it came to the handicraft of conducting business. Needless to say, every success is trailed by a number of unsuccessful initiatives, which Li Jinchung's failed ventures in western and northern Sweden are examples of.<sup>71</sup> Having said this, it is still somewhat early to assess the outcome of the DG and FG projects, but considering earlier research (e.g. Yeung, 2004; Child and Rodrigues, 2005), it is doubtful whether there are any special characteristics in Chinese management that makes it a sustained competitive advantage (Barney, 1991) compared to its Western competitors; rather, the empirical data of this study suggest the contrary – low level of planning, transparency and tight managerial control makes Chinese investments potentially at disadvantage versus similar investments from other countries.

The main conclusion regarding the investment behavior of the Chinese businessmen is that contrary to the Chinese outward FDI prior to the initiation of the "going out" strategy, which had motives perfectly rational seen from traditional RBV and institutionalist perspectives, the *modus operandi* of these private investors is indeed unique, or even "irrational", seen from a theoretical perspective. As the interview data suggest, the strong reliance on the *guanxi* network and trust – that is, application of Chinese cultural institutions on foreign cultural contexts – lead equally to failures as well as to successes (cf. Cai, 1999; Yeung, 2004). From our two cases, we cannot verify how the Chinese cultural conduct in business negotiations and management has contributed to the overall performance of the DG and FG projects so far. The interviewees have

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<sup>66</sup> Interviews with Elisabet Söderström, 27 April 2007, and expert business law consultants, 26 April 2007.

<sup>67</sup> Interviews with Kyrre Dahl, 24 April 2007, Thomas Davidsson, 24 April, and Jan Bendrik, 8 May 2007.

<sup>68</sup> Barometern, 17 August 2007, and 23 August 2007.

<sup>69</sup> SVT, 30 November 2006.

<sup>70</sup> Interview with James Shi, 9 May 2007.

<sup>71</sup> Ibid.

testified the project progress as being a process of “learning from both cultures” – for the Chinese, this has meant e.g. to learn the institutional regulations the hard way.

### **Motives and approaches**

From the interviews,<sup>73</sup> it is evident that Li and Luo state the obvious reasons for investing in Sweden; that is, low population density, a safe society, a stable market, 200 years of peace, no corruption and high transparency (*sic!*). On a more general level, the business consultants also cited similar motives for the choice of Sweden as the destination for investments.<sup>74</sup> Shi underlined that most Chinese investments in Sweden he had knowledge about were made by individuals, who are bringing their families with them. If the main reason is to earn money, then they should go instead to large national markets such as the US, France or Germany. Shi maintained that, obviously, no Chinese liked to lose money, but *business interests do not necessary have to be the primary consideration* when deciding for the location of investments; rather, clean air, open landscape and low population density are motives that get increasingly stronger for Chinese private investors as they are perceived as high quality of life in China. Shi continued that a decade ago, locational considerations were not on the top of the agenda; rather, money-making opportunities were in forefront at that time. These very motives – i.e. small population and clean environment – were also independently cited by the junior expert business law consultant, who underlined that the environmental problems in the eastern part of China already have reached such a level that this type of motives should be taken seriously.<sup>75</sup> Another important factor in this setting is the changing wealth profile of Chinese investors. Rather than going out to *earn* money, today’s investors *already have* made a fortune back home, which they want to put into use by investing in assets abroad. However, *large firms*, such as ICL and Lenovo, make investment decisions not differently than any other Western firm.<sup>77</sup> Thus, by and large, they follow what is expected from RBV on obtaining strategic assets for sustained competitive advantage (cf. Barney, 1991).

As another challenge to established theories on FDI motives found in the literature, Li has also motives for his investment, which could be called *idealistic*, by explicitly wishing to increase mutual cultural understanding between peoples by spreading the knowledge of the Chinese culture abroad. Li Jinchung wanted to do something that no one else has done before, and has created DG not only as a monument to himself, but also as a test of a concept no one has launched before in Sweden, that is, a “touristic trade fair”. He wants DG to become a bridge between Sweden and China in order to facilitate mutual understanding, not only on individual level (i.e. tourists), but also in business relationships. Having DG as an ambassador for Chinese business culture, Li hopes that Swedes will obtain greater knowledge of the Chinese business culture.<sup>78</sup> An important detail is, however, that Li did not have any specific plans or ideas for DG at the time Li learned about the “Älvkarlen” complex; the ideas were formulated along the way.<sup>79</sup> The choice of Sweden as the investment location was not an issue of deeper consideration for Li.

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<sup>73</sup> Interviews with Erland Ågren, 16 April 2007, James Shi, 9 May 2007 and Peter Fust, 25 April 2007.

<sup>74</sup> Interviews with Elisabet Söderström, 27 April 2007, and expert business law consultants, 26 April 2007.

<sup>75</sup> Interview with junior expert business law consultant, 26 April 2007.

<sup>77</sup> Interview with James Shi, 9 May 2007.

<sup>78</sup> Interview with Erland Ågren, 16 April 2007.

<sup>79</sup> Interview with James Shi, 9 May 2007.

He got curious of Sweden after his purchase of a Volvo car in China, and contacted his brother, who already lived here, about business opportunities in Sweden.<sup>80</sup>

For the FG project, Luo has stated costs and infrastructure as motives for choosing Kalmar as the location for the project. Compared to Amsterdam, which was the alternative location, the land was much cheaper in Kalmar, and the airport is located closer to the city center. He also cited the good railway connections and a harbor in the middle of the city.<sup>81</sup>

On the question regarding potential intention to tap Sweden of know-how in e.g. environmental technology, which is a fast growing area for consultancy in the PRC, none of the interviewees believed that Li or Luo had such intentions. Especially for Luo, limitations to time and resources dictated what to put the emphasis on. Currently, Luo has several concurring projects going on both in China and in Sweden, and focused his activities in Sweden on traditional trade business.<sup>82</sup>

Both Li and Luo are said to have chosen Sweden because no one else has done things similar to the DG and FG cases before.<sup>83</sup> By being first on the market, an apparent opportunity of first-mover advantage is present. From the literature, it is known that outward FDI in order to avoid the business environment of the home country can constitute yet another motive instead of creating value for existing businesses at home.<sup>84</sup> As we have seen with the two Swedish examples, the motives of the Chinese investors have been to gain first mover advantage, and to develop a new type of business that has not existed earlier. As the interviewees testified, the connections of Li and Luo's projects to the existing businesses in the home country are only financial; no explicit wishes to export own goods to Sweden, a mature EU market, are expressed. A unique access to the market, together with a firm relationship with local authorities and having a trademark relatively well-known by the host country population, the conditions for successfully implementing strategies to deter potential competitors to the trade promotion and tourist segment exist.

UNCTAD (2004) has cited not only a desire to support exports, expansion of foreign market presence, acquisition of foreign skills, aspirations to build international brands and access advanced technologies as driving forces behind the current outward FDI wave, but also mentions factors such as intensified domestic competition as an incentive for "going out".<sup>85</sup> However, already in 1995, UNCTAD noted that Chinese TNCs targeted their outward FDIs in order to enter new markets and for natural resources procurement. For example, the few investments that were made in the high-tech and manufacturing sectors were aimed for knowledge transfers and circumvention of trade barriers, respectively.<sup>86</sup> Thus, traditional investment motives for outward FDI are still valid, but they are now more differentiated in terms of *modus operandi* and done in considerably larger scale compared to the 1990's.

Earlier, in Yao and He (2005), we have seen that the Chinese investor survey respondents stated long application process and limits to foreign exchange as factors that hinders an effective and fast FDI abroad. In our interviews, we have not encountered any opinions that are in line with

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<sup>80</sup> Näringsliv 24, 27 August 2006.

<sup>81</sup> Interview with Thomas Davidsson, 24 April 2007.

<sup>82</sup> Interview with Peter Fust, 25 April 2007.

<sup>83</sup> Interviews with Erland Ågren, 16 April 2007, James Shi, 9 May 2007, and Peter Fust, 25 April 2007.

<sup>84</sup> UNCTAD (2006), p. 202.

<sup>85</sup> UNCTAD (2004), pp. 25-27.

<sup>86</sup> UNCTAD (1995), pp. 56-58.

this. Rather, there are strong indications that first-hand access to gatekeepers in the regional administrations in China is held by key actors in both DG and FG projects. One of the interviewees even mentioned that governors and key bureaucrats in China were within his *guanxi* network. If true, such *guanxi* connections could have been of vital importance when foreign investment applications of Li and Luo were processed by the provincial government of Changxin.

The prospects to utilize the FG project for emigration and wealth transfer purposes are evident from reports in the media.<sup>88</sup> Also during the interviews with two of the respondents, this interesting motive, which was neither cited by neither of the other interviewees nor found in the earlier research, was mentioned. The junior expert business law consultant, herself a Chinese, and James Shi cited a strong sense among Chinese to protect one's wealth, and to attempt transfer of wealth to safer locations in case of political disturbances at home. It is generally known that since private wealth is officially accepted by the Communist party, significant amounts of private assets has been accumulated by individuals in the eastern provinces. Not surprisingly, the consultant gave tax evasion as an obvious explanation to these attempts, but as she put it "Chinese has a long memory".<sup>89</sup> The turbulent 20th century history of China has taught the Chinese one lesson: nothing can last for ever. This picture was also drawn by Shi, who said "they [the Chinese private investors] simply want a second place [to live], in case something happens to their money in China".<sup>90</sup> There is therefore no coincidence that it is only the wealthiest individuals that are involved in FDIs similar to the DG and FG projects. Also, in the Swedish examples under study, one of the investors to the projects, Li Jinchung of DG, has even bought a house in an uptown residential area in Stockholm, where he stays regularly.<sup>91</sup> Thus, in case any serious upheaval occurs in the PRC, the FDIs abroad can also serve as an "escape hatch" for those who are lucky enough to own foreign bank accounts, land and real estate for a potential exile.

### **Pre-investment market intelligence and market entry**

In Luo's case, he learned about Kalmar through ISA well before arriving to Kalmar. Luo was one among many contacts ISA had cultivated in China since its establishment in 2001, and unbeknownst to Kalmar City, Luo set his mind on the city as the location for his "Sweden-Chinese Commodity Wholesale Market"<sup>92</sup> project (i.e. the FG project) in competition with Amsterdam as an alternative location. In Li's case, as we have seen earlier, he found the location for DG through a real estate broker, but was established in Sweden as a foreign investor before the initiation of the DG project.

Generally, brand recognition and product reputation are considered as important ownership advantage factors of foreign firms when entering new national markets (e.g. Hymer, 1960 [1976]; Dunning, 1988). This is particularly important when entering mature and high income markets, where differentiation and brand recognition are important factors in consumer choice (e.g. Carpenter and Nakamoto, 1990). Thus, for potential market enterers from China, this is particularly challenging.<sup>93</sup> As two interviewees mentioned independently,<sup>95</sup> there is a belief among

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<sup>88</sup> E.g. Barometern, 17 August 2007.

<sup>89</sup> Interview with junior expert business law consultant, 26 April 2007.

<sup>90</sup> Interview with James Shi, 9 May 2007.

<sup>91</sup> Näringsliv 24, 27 August 2006.

<sup>92</sup> Most recently renamed "China Europe Business Exhibition Center" (Barometern, 9 August 2007).

<sup>93</sup> Child and Rodrigues (2005), p. 389.

<sup>95</sup> Interviews with Elisabeth Söderström, 27 April 2007, and expert business law consultants, 26 April 2007.

Chinese entrepreneurs going abroad that the purchase behavior among the Chinese consumers, which is a preference for low price over quality, are valid also on overseas markets.

How about our two cases? We have seen in the previous section that intuition rather than careful market surveys precedes many market entries by Chinese investors. Reconnecting to the discussion on the characteristics of Chinese investors, it is apparent in the case of the FG project that deeper considerations regarding market preferences and locational issues before the investment decision has not been made. Besides the challenges unknown Chinese light manufacturing products might have in the Baltic Sea Region, the lack of double-track, high speed railroads and highways, in combination with a harbor that only can receive container vessels with maximum 8 meters draught *loaded* and an airport that has too short landing strip for cargo jets and currently having passenger departures only for Stockholm, puts tremendous challenges to the FG project if the planned scale of operations is to be realized.

Poor management of external relations is another evidence of deficient knowledge Luo had about Sweden before his investment. A couple of months after the FG project deal was struck, a Swedish journalist revealed that a representative for FG was giving false promises to Chinese investors.<sup>97</sup> The reaction of Luo was drastic; he called the reports, which later turned out to be true,<sup>98</sup> lies and a crime according to Chinese law. Luo also threatened the newspaper with a lawsuit and demanded in a letter to the Chinese foreign ministry that the journalist should be expelled.<sup>99</sup> The Kalmar City council reacted fast to this sudden crisis of trust and informed Luo about the Swedish laws regarding the right of free speech. A few days after, Luo withdrew his threats and demands to the Chinese government.<sup>100</sup>

Compared to the FG project, DG seems to have a more realistic approach by having commodity trade as a minor part of a larger business concept. The location of DG is also favorable factor towards a successful establishment, by having Sweden's largest airport at a close distance connected by a new highway, a high-speed double-track railroad passing by Älvkarlby, and a recently upgraded container port in neighboring Gävle. Contrary to Luo, Li was established in Sweden already before the initiation of the project, and had a prior knowledge of country. Still, the media reports of the construction work at DG suggest a low awareness of the perils of using Chinese construction workers in a Swedish environment.<sup>101</sup>

Our consultant interviewees wished that Swedes would have more courage in the future to ask relevant questions to Chinese investors.<sup>102</sup> As it has been in our cases, the municipalities have been overwhelmed by the investment proposals, attracted by the associated increase of tax revenues and the Chinese enthusiasm, and have been very quick to grant permissions while showing naivety towards business visions and plans. Too much emphasis has been put on "trust the Chinese" mentality, at the same time as the attitude of the municipalities has been

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<sup>97</sup> For details, see the case description section.

<sup>98</sup> Sydsvenska Dagbladet, 21 August 2007; Barometern, 22 August 2007.

<sup>99</sup> Sydsvenska Dagbladet, 14 October 2007; Sydsvenska Dagbladet, *Utskrift från bandad intervju med Fanerdun*; Correspondence with Ola Wong, 20 March 2007.

<sup>100</sup> Sydsvenska Dagbladet, 16 October 2007, and Kalmar.se, 12 October 2006.

<sup>101</sup> E.g. Arbetarbladet, 15 August 2006, and 20 August 2006; SR, 24 July 2007

<sup>102</sup> Interviews with Elisabet Söderström, 27 April 2007, James Shi, 9 May 2007, and expert business law consultants, 26 April 2007.

characterized by an exaggerated sensitivity shown towards foreign cultures – possibly due to a fear to be regarded as a xenophobic.

### **Future prospects**

The decisions to enter the Swedish market with a business concept centered on trade and services are novel. Utilizing first mover advantages (e.g. Porter, 1985; Barney, 1991), there is a potential for these establishments to create a strategy in order to set standards, which may deter potential new entrants. An obvious first-mover advantage is the limited size of the host country/region market. Saturation would probably be reached soon, if not attained already, after these two establishments are completed. Coming Chinese investments with similar focus would not be perceived as novel, which lowers the media impact. Also, the number of visitors would be affected, where the already established projects of DG and FG have better competitive position due to their trademarks, which are more known among the general public than new entrants who have to struggle to make their name known.

All interviewees were convinced that we have only seen the beginning of Chinese outward FDI, and that this will increase in the future. UNCTAD (1995, 2006) also expects Chinese outward FDI to grow even more as the trade and inward FDI surpluses continue to increase.<sup>103</sup> Therefore, the choice of Sweden as the location for Li's and Luo's respective project, means an advantage for Sweden, because the DG and FG projects will help, on a general level, to establish Sweden as a model destination for Chinese outward investors.

An explicit aim of DG is to use it to attract other Chinese entrepreneurs to Sweden, and to utilize it also as a stepping-stone for these firms to establish themselves in the Baltic area. Shi underlined, however, that this potential cooperation with other firms and entrepreneurs was to be with other *Chinese* interests (i.e. no Swedish or European partners are considered).<sup>104</sup> However, Ågren emphasized that DG will not take any major business risks. This strategy will be pursued by only inviting large business partners on equal terms, and not only as a "part" of another venture. The future development will also depend on what type of investors that is attracted from China by Li.<sup>105</sup>

For the FG project, Fust believed that the FG project can be a catalyst for further Chinese FDI to Sweden.<sup>106</sup> However, the immediate aim was to complete the facilities and the main exhibition hall, and therefore, no discussions have been made yet how the business concept might be developed in the future.

In Germany, we have seen investments that actually are migrations, where private investors have brought their entire family to the host country in order to settle there on a permanent basis.<sup>107</sup> Shi doubted this would be the future trend in Sweden, even though he recognized such sentiments among small-scale entrepreneurs in China. From a Chinese viewpoint, it would be too costly in terms of time and money for owners of small-sized enterprises to move all their money and family to Sweden; to do such migrations motivated by *business* opportunities, other countries are to be preferred, such as the Canada or Australia.<sup>108</sup>

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<sup>103</sup> UNCTAD (1995), p. 59; UNCTAD (2006), p. 55.

<sup>104</sup> Interview with James Shi, 9 May 2007.

<sup>105</sup> Interview with Erland Ågren, 16 April 2007.

<sup>106</sup> Interview with Peter Fust, 25 April 2007.

<sup>107</sup> Interviews with expert business law consultants, 26 April 2007.

<sup>108</sup> Interview with James Shi, 9 May 2007.

Interviewees connected to the DG and FG projects all agreed that a failure at either of locations would have a bad influence on future investments, not only because future potential Chinese investors would be cautious to invest in a market that has witnessed major failures, but also because municipalities and local communities would have an image of “what Chinese investments is all about”.<sup>109</sup>

As seen, the projects are only in the starting-up phase, and it is still too early to assess whether they have been successful or not. Furthermore, the business concept of both projects are subject to continuous revaluation, which make it hard to predict the future development of these projects.

## 7. Conclusions

We can conclude that these two cases do not follow the traditional assumption of RBV, where firm and individual investment decisions follow the rationality of *homo economicus*. However, within their context, the investment decisions of Li and Luo respectively, have a rationality as the motives, such as opportunism, idealism, *fengshui*, lack of experience of overseas markets and salvage of wealth, are a result of individually and institutionally determined behavior. Furthermore, it is doubtful whether the business strategy contains any apparent opportunity to create a sustained competitive advantage, as the focus will be on trade and marketing of Chinese light manufacturing products. Seen from a RBV perspective, the only advantage that is created might be a form of entry barrier, since the targeted markets are limited in size and the market opportunities could have been already exploited by these two establishments.

These investments are also characterized by being made on the basis on *guanxi* network information and information from investment agencies present in China. Consequently, this has led to FDI initiatives, which not have followed a sequential internationalization pattern proposed by e.g. Kogut and Singh (1988) and Johanson and Vahlne (1977, 1990). Rather, the notions of psychic, or cultural, distance seem to have less importance here. This observation is also supported by the global pattern of Chinese outward FDI (e.g. UNCTAD, 2006).

For natural reasons, the issue of success or failure for these two cases of Chinese FDI in Sweden is still too early to assess. However, the main challenge the FG project has in Kalmar, compared to the DG project in Älvkarleby, is the sheer scale of the project. In order to survive economically, the FG project has to attract mature market wholesalers from Europe – not only Sweden – *in a scale* that is doubtful whether it is realistic for a peripheral region like Kalmar. In comparison, the DG project is substantially smaller in scale, where the B-2-B connections are only a part of larger business concept, and where the business ambitions are suiting the size of the Gävle-Uppsala region.

Another factor that might complicate the FG project is related to the intended scale of Chinese population affiliated to the project. The fact that such a gigantic project is located to a relatively small town with a population of 61,000, where the expected Chinese businessmen with dependants will account for 12 per cent of the population overnight might put social pressures,

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<sup>109</sup> Interviews with James Shi, 9 May 2007, Erland Ågren, 16 April 2007, and Peter Fust, 25 April 2007.

such as those already witnessed in Italy,<sup>111</sup> on the city. The question remains how the local populations will react to such a sudden population increase by one single ethnic group.

In conclusion, the eventual outcome of these two projects will be path dependent, and especially for the FG project, the overall lack of information and financial transparency of Luo's business will cast a shadow over the project both in Sweden and China.

## 8. Future research

Finally, two propositions can be constructed for future research to investigate. First, together with earlier research on Chinese and overseas Chinese entrepreneurship, this study suggests Chinese foreign investors as having an ability to adapt fast to the business and institutional environment. Furthermore, it cannot be denied that FDI into unknown territory can be perceived as a challenge by virtue of its own right, where success and prestige outweigh costs. Second, based in the first proposition, Chinese investors are less "picky" in their choice for new unchartered markets to develop, and in combination with a reluctance to give up and having a financial endurance, the Chinese SME entrepreneurs are a special category of international investors to be taken seriously.

Obviously, these propositions have to be verified in future research broader not only in scope and size, but also longitudinally, since the two cases discussed in the present paper have hardly started their operations, and possible successes are yet to be seen. Having said this, Chinese outward FDI *to mature economies* constitutes a new field of research, and these two seemingly irrational and surprising investment initiatives by Li Jinchung and Luo Jingxing respectively have to be seen from a global perspective, where these projects not only are small cogs in a giant machinery that has been set in motion by the PRC government, but are also a perfectly logical consequence of the PRC government initiative.

As for the overall trade and investment pattern, these projects are too small in size considering the total volume of the Sino-European, or even the Sino-Swedish economic relations. However, as symbols for a new type of FDI to Sweden, and serving as models for future Chinese investors, these two projects have a merit by virtue of its own right, and importance to the mutual relationship between China and Sweden.

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<sup>111</sup> BBC News, 13 April 2007, and 2 August 2007.

## Postum Scriptum

The winter and spring of 2007/2008 proved eventful times with regard to our two cases. In Kalmar the initial euphoria came to an abrupt ending when it turned out that FG could not pay its dues. It began in the late fall of 2007 with the revelation that the Chinese workers did not get paid. Rather than the promised SEK 28,000 per month they had to suffice with room, board, cigarettes and pocket money. Explanations by the CEO of the Fanerdun Group that Chinese workers prefer to save rather than spend their money did not appease trade union officials.<sup>112</sup> By consequence workers gradually left the country and/or were sent home to China. The fact that FG did not seem able to pay any of their bills (including the rent for its temporary premises) did not help the general image of the project. When in December it was made public that the CFO, Peter Fust, had handed in his letter of resignation already in November and that he would leave office in January 2008,<sup>113</sup> there was no denying that the FG project was in serious trouble.

Amidst accumulating debts and non-existent incomes followed a long period of repeated promises that money was forthcoming;<sup>114</sup> it was said that the problem lay with the Chinese authorities that did not grant the owner, Mr. Luo, permission to transfer the money to his Swedish company. At the time of writing the future for the FG project thus looks bleak rather than rosy. Also, local representatives – which for long were the most ardent supporters – gradually seem to have lost faith. In comparison to the media coverage recently given to the Fanerdun project the Dragon Gate project in Älvkarleby has lived a quiet life. Despite delays though construction goes on; the Chinese workers was to return in April and the revised plans is to open the gates to the general public in July 2008 when also the hotel and the museum is to be opened.

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<sup>112</sup> Bei Bergfeldt, CEO Fanerdun Group, as cited in “Fanerdun lovar loner” ([www.barometern.se](http://www.barometern.se)), 2008-01-29.

<sup>113</sup> “Peter Fust hoppar av Fanerdunprojektet” ([www.barometern.se](http://www.barometern.se)), 2007-12-16.

<sup>114</sup> When the first annual report finally was submitted in March 2008 it turned out that already in August 2007 debts to suppliers amounted to SEK 53 million, and liquid assets amounted to zero. See, “Skulder på 53 miljoner i Fanerduns årsredovisning”, ([www.barometern.se](http://www.barometern.se)), 2007-04-03.

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