

Presentation of a book project: History of Swedish business in China



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It is nice to come back to Shanghai and address the Swedish business community. You are the vanguard of our business community in Asia. I appreciate that consul-General Lisette Lindahl as a host has invited us.

At the end of a life-long work one might feel one can still make a contribution by starting a big project, but time is short and one has to plan every step, in order to finish in time. I have spent most part of my career working to promote Swedish trade with China, above all Swedish exports. When I published my first book on the history of the Swedish community in Shanghai I was advised to continue and write about Swedes in all of China. Leaving aside the missionaries who wrote a lot about their activities and the academics in Beijing and nearby provinces working on Chinese history this mainly boils down to the history of Swedish business in China.

Had I written such a book at the same time as I published my Shanghai book, in 2012, it would have been about a steady increasing trend where only the sky is the limit. Fortunately, I did not write anything at that point in time, it would have been useless today. Instead I waited some years to see how other qualified Swedish observers have written about trade with China. I am thinking especially of the books published by Frederic Cho, Göran Leijonhufvud and Per-Olof Björk. One must always be respectful of what other experts write but I felt still that the book I had in mind had not been written.

Today, when the surge in Swedish investments is over and even the later surge in Chinese investments to Sweden seems to have taken a pause, I think we all need to reflect a bit on the ever-changing face of Swedish-Chinese trade. To make it easy I want in my book project to start with the first contacts after the Cultural Revolution and stop at the situation today. The future is for others to guess about. I have made many mistaken forecasts of the development linked to China and I want this work to have a long shelf life.

1. Working from Sweden with very little knowledge

I started working with China in January 1974 but the real starting point for a study like this is of course the Swedish Industrial Exhibition in 1972. It was a huge privilege for Sweden to be the first country to mount an industrial exhibition in China after the Cultural Revolution. My job as China manager at the Swedish Export Council, as it was called at the time, was to sort out all threads from that exhibition and build upon the strong interest for China in Swedish industry.

We did however not know much and I recalled a meeting in early 1974 of industrialists interviewing Ove Canbäck of ASEA. ASEA produced all sorts of electric equipment such as, locomotives, elevators, steel making equipment, turbines, generators, transmission lines electric motors of course. All of that was of tremendous importance for China and the natural question to Ove was: Can you measure the demand for electric equipment in China? His answer was very simple. The market for ASEAs equipment in China is the same as the market in Sweden as China's electricity production equals that of Sweden. Today the difference is 47:1. We were all slightly dissatisfied with the answer as we all thought the market was much bigger than in Sweden.

In the 1970's the Canton fair played an important role for both Swedish exporters and importers. The importers placed most of their orders during the spring and the autumn fair and for exporters it was

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the only chance of meeting with one of the state foreign trade companies. Often, they had no idea if there would be any result of the talks.

One of my tasks was to introduce a number of Swedish companies who had taken part in the 1972 exhibition but otherwise had no experiences from China. Through our cooperation with CCPIT we could arrange technical seminars where the Swedish companies presented their products. I recall that we had to underline that many Chinese participants had only interest in copying so we asked companies to be very careful if they got questions like "What steel quality and plate thickness do you use in your products?"

We also received many delegations visiting Sweden. This was an easy and pleasant part of the job. The Chinese were always polite and had good interpreters.

2. The government takes a number of initiatives

At the end of the 70's I recalled that we decided to give China access to the GSP system, that is customs free import. The system gave us an option of making several exceptions and I remember there were cautious voices in the state administration saying that we could not backtrack on this and had to keep in mind that China one day could sell products to our country on large scale. It was something else than giving custom free access to an African country.

In the early 1980s the government got more engaged through the Ministry of Industry and we started to have business discussions on political level. Liberalisation made great steps forward and I remember the first discussions about China's application to GATT. There were quite a lot of people who were willing to accept China as a member with the usual developing country exceptions. The Tiananmen massacre put an effective end to that discussion and when China was back GATT had changed name to WTO.

Before the Tiananmen massacre there was another government initiative that helped some companies – the soft credits. We were under constant pressure from development experts that the gift element of these credits should be increased. They wanted real aid and not subsidized trade. For those Swedish companies that were eligible this was good news and with a 30% gift element you could sell anything.

3. Swedish companies establish themselves, in Beijing, Joint ventures are initiated

Very shortly after the Tiananmen massacre our largest companies started to set up companies in China. The first companies were in Beijing that had replaced Canton as the centre of foreign trade. The companies establishing offices were all industrial companies, like ASEA (now merged with BBC as ABB), Ericsson, SKF. Time was not ready for companies working on the basis of agencies.

The joint venture legislation was introduced as a way of creating business opportunities with foreign companies. We had two very early Swedish-Chinese joint ventures. One was the SSPC medical factory in Wuxi with all five Swedish drug producers as co-owners. The other was Bulten Kanthal j-v with Beijing Capital Steel Company to produce heating conductors and fasteners. The latter example followed the lesson never to go into a j-v with a much larger Chinese company. In this case it was easy for the giant Beijing Capital Steel Co to start a production of the same product next door and sell it to foreign markets.

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In spite of these lessons, a j-v was often the only way to go forward. I took briefly part in talks between Volvo AB and China National Heavy-Duty Truck Corporation to set up a truck manufacturing in Jinan, Shandong province. I noted that both sides had the same Chinese adviser and felt I had to ask Volvo for which side that guy was working. Probably he was useful for both sides, but the outcome of the whole thing was that Volvo had to withdraw after spending millions of Kronor and the Chinese side started to produce a copy of Volvo truck. It was probably the biggest flop of all Swedish investments in China.

Just before China entered the WTO the Chinese government introduced a decision to require local content in telecom production. Ericsson had to tell more than half a dozen companies to open manufacturing in China if they wanted to stay on as supplier. This we saw an “invasion” of small telecom sub-suppliers coming, such as Allgon, Swedform, Electro Scandia and NEFAB.

4. China in the WTO, open door for wholly foreign owned companies

Then came the 21st century and in 2001 China was admitted to the WTO. The outside world was sceptical as a heavy internal Chinese opposition to this move was noticed, but the Chinese leadership must have taken other gains into consideration. Today we know that China is the main winner of globalization and without WTO memberships this would not have been possible. Of particular importance was the clause that foreign wholly owned companies should be possible with the exception of certain strategic sectors like telecom, energy production and vehicles.

When you are on your own and start a company in China the location is your own choice, there is no Chinese partner who tells you where to invest. Now the efficient industrial parks outside of Shanghai saw their big chance. We had a stream of companies opening in Kunshan which is a part of Suzhou municipality, lying at the border to Shanghai. If you have a company there, some foreign staff can still live in (Western) Shanghai. Later Suzhou itself became attractive as a number of foreign schools opened in Suzhou. Also, Shanghai suburbs such as Jiading and Qingpu saw several companies coming.

Several companies tried to buy out their Chinese partner in order to have a fully foreign owned company. I witnessed one case very closely, Inexa in Nantong, that used to be a joint venture with a chemical company in Nantong. The foreign partner had some marketing and production knowledge, but most of all they had local contact with officials, something that is important perhaps with exception for the industrial parks.

5. Increased competition from Chinese companies

I noticed at the end of the first decade that some Swedish companies had lower profits due to competition from Chinese companies. If you are producing machinery and transport equipment you might not have any technical advantage any longer, but instead some cost disadvantage. At the time of the Shanghai World EXPO in 2010 we had still many foreigners with expat contracts but from then on, their number declined and most companies had local staff, or foreigners on local contracts.

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The cost of having a driver, an interpreter, foreign school tuition fees were skyrocketing, and salaries for Chinese staff usually went up yearly by double digit numbers. Typically, a company was set up by a foreigner and after 3-4 year he was replaced with a local Chinese or a HK or Singaporean Chinese. We also saw an increasing number of young Swedish businessmen who could speak Chinese and were able to manage business in China better than the first generation of Swedes in China.

Around this time, I also noticed some companies that disinvested. Before, the only companies that left were forced out of China was due to new Chinese legislation. This was the case of e.g. the construction companies.

Some companies were attracted by the Go West policy that was launched in 2011. In Chongqing and Sichuan there was said to be an abundant labour supply and good business. One problem was that transportation to clients in Shanghai took 4-5 days and living conditions for foreigners were tough. I did not believe in "Go West" if not for special circumstances, such as car industry where the jv-partner had big influence on decision making.

6. Selling via Alibaba?

Around 2014-15 there was an idea that all Swedish companies could sell through Alibaba and Taobao and thereby reach out to the whole Chinese market. I do not recall many successful examples but Daniel Wellington and Fjällräven are often mentioned.

7. Expanding through Chinese companies?

In 2015 Business Sweden started a campaign to penetrate the Chinese market through Chinese brands. Rather than expanding your Swedish or European brand it was wiser to do it through a well-known Chinese brand. One example was SCA that bought a tissue seller, Vinda, which is a HK listed company, and was selling its products under the Vinda brand. The idea was good but some companies had already a well-known brand, such as IKEA and H&M, so this method was perhaps limited to some companies.

Still there are many aspects I would like to cover apart from the interesting everchanging business landscape. To my knowledge there has never been any good study of the profitability of Swedish companies in China, or even how representative they are of Swedish companies in Sweden. How has employment in Sweden and China been affected. Have some companies moved back production to Sweden and is there any division of labour that can survive the test of time?

I plan to do this job in cooperation with Centrum för Näringslivshistoria (Centre for Business History) in Stockholm. The book will be in Swedish and through the archives of the Centre I assume we can have a large number of interesting illustrations.

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