

"China is expected to continue growing at a fast pace, the question is now whether Swedish companies are allocating enough resources for taking part in this journey", writes Mats Bergman, Trade Commissioner at the Swedish Trade Council in Beijing



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The collapse of Lehman Brothers in September 2008 made it clear that a global crisis would be impossible to prevent. For a while, experts predicted that the global downturn would mainly affect the financial markets and have less effect on the real economy. However, very soon it became apparent that this was not the case. The question now was, would China be affected?

An export-driven China and falling demand on its main export markets in the West proved to be a bad equation. China was hit hard as global demand plummeted. China's export-driven Southern parts were hit the hardest, resulting in thousands of closed factories and many more laid-off workers.

Swedish companies' investments in China seemed to continue. Our first thought then was that the companies stuck to their long-term goals. Looking back, we can establish that the reason was rather continued momentum from the prosperous previous years.

First quarter 2009: China is hit by the global economic downturn

China has enjoyed several years of a healthy two-digit growth rate, enabling the government to establish a political agenda with a strong focus on economic growth and stability. A prerequisite for the government to be able to maintain social order has been a growth rate of at least eight percent – the Chinese lucky number. Keeping the economy growing at this pace will keep enough people satisfied and avoid political turmoil.

'No one will drag Swedish companies to China'

Written by Johan Nylander

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After the Chinese New Year celebrations in February, the most celebrated of all Chinese festivals, large groups of migrant workers found themselves without jobs to return to in the big cities. Staying in the country side was no alternative. There was no room for them. China's shortage of women, and now also the lack of jobs, could be enough to spark anger among China's less fortunate migrant workers. The Chinese government feared a possible revival of a new frustrated working class and the social unrest and staggering crime rate that could arise as a result.

During the first quarter of 2009, the growth rate slowed down to below eight percent and, according to sources outside of China, even fell below six percent on an annual basis. Official statistics for the whole year gave almost too confident signals that the growth rate would end up at eight percent. Consequently, tension started to spread.

Restrictive tendencies started to emerge among Swedish companies and their investments across China. The appreciation of the Chinese Renminbi, and maybe even more importantly, the sharp drop of the Swedish Crown, resulted in a higher cost level in China and the Swedish companies faced tougher times to attract venture capital for its capital investments. Sweden was about to lose market shares in China.

Second quarter 2009: China standing strong

The political threat brought by the economic crisis, made the Chinese government react rapidly and with strong measures. Without time-consuming political discussions and other bureaucratic detours, the Chinese government launched an extensive stimulus package adding up to the size of two Swedish GDPs. Investments in healthcare, infrastructure and environmental technology should save China from the crisis and to make sure that the money would not spread outside China's borders, clear directives were given: the projects were earmarked for Chinese companies.

At the same time, it became apparent that the demand for Chinese companies' products and services had not faded away entirely. During the prosperous years a large number of Chinese companies had emerged. Together with these, a new middle class of 100-200 million people with strong purchasing power had materialized. The new group of Chinese citizens with a healthy disposable income had been investing only modestly in the international financial markets and consequently, they were not hit particularly hard by the financial crisis. Analysts presented numbers indicating that China's economy might not have been as dependent on export to as previously assumed, but rather driven by domestic investments.

As the rest of the world reached the bottom of the economy during the summer, China emerged in the world's spotlight. Global debates surfaced and people started asking whether China would be the force that turns the world economy around?

Swedish companies in China were cautious. The main priority for many of the companies' management in Sweden was cost saving and focus on the close to home markets. China was too exotic and too far away. Patience and continued investments in China were rare phenomena.

Third quarter 2009: Stability in China

In August, the Shanghai stock exchange had gone up 75 percent since the beginning of the year. Suddenly a number of downward corrections occurred, which according to the broad public, were triggered by unrealistic expectations that hadn't been fulfilled. The stock exchange was still on high levels for 2009, but a more realistic development was yet to be seen. Although China's economy had remained relatively stable during the crisis, many questions remained: How would China deal with the shortcomings of its legal framework, IPR issues, trade barriers, economic reform and corruption?

Although cost awareness was still top of mind after the summer, Swedish companies got their appetite for risk back to a certain extent, and the companies that during the first and second quarter had hesitated, were shifting towards a more positive attitude. In addition, it appeared as if at least some of the money from the government's stimulus package would provide some spillover effect for the advantage of foreign sub-suppliers with the right solutions.

Future Outlook: What will happen with the world's most important economy?

China is predicted to pass Japan as the world's second largest economy sometime between 2010 and 2015 and between 2025 and 2050 it is estimated that China will overtake the United States. The direction of China's economic development is, without questioning, pointing towards a positive future. How China came out of the last crisis is testament to this.

China and Chinese companies are already expecting increased influence on the global arena. In the future, China will be as important in the world economy as the US and the EU, if not more.

China is not there just yet and the road ahead is likely to face some roadblocks. The latest threat seems to come from trade wars and protectionism among the leading economies and

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China.

Although a few challenges on the way, China is expected to continue growing at a fast pace, the question is now whether Swedish companies are allocating enough resources for taking part in this journey. The large Swedish corporations will be active in China just like before, but over time these companies have grown to become increasingly multinational, and will always be present where the market is.

More interesting, however, is how small- and medium sized, innovative Swedish companies with solutions to China's big challenges of energy, environment, water, advanced technology, ICT, healthcare and mechanics will respond to China. For these companies, China provides endless opportunities - But no one will drag them here.

If Swedish companies don't realize these opportunities, then someone else will fill this gap.

Chinese companies are already knocking on the door to our home markets. That China will be very important and affect us is the only thing we can be certain of.

Mats Bergman,

Trade Commissioner and Country Manager at the [Swedish Trade Council](#) in Beijing.

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