SCHOOL OF ECONOMICS AND MANAGEMENT
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FOREIGN DIRECT INVESTMENT OF SWEDISH FIRMS TO THE CHINESE MARKET

MAIN DETERMINANTS OF ENTRY
AN EMPHASIS ON TELECOM INDUSTRY

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ABSTRACT

Since the Chinese economy's reform in 1980, it has been attracting enormous foreign investments. Many Swedish firms from different sectors such as technology, manufactory production, consumer, service industries and so on, had started their investments in China. China has become the first choice for global manufacturing due to the huge market, continuous economic growth, stable political situation, sound investment environment and the WTO membership. In addition, China's enormous potential in finance, service, infrastructure, telecommunications, wholesales and retail industries will also attract a great deal of foreign capital. In this paper, we will examine factors that have influenced the Swedish firms' decision making of investments in China. Factors include ownership, location, internalization advantages, resources, human capital and so on. Additionally, we will find out what the latest influential factors and changing attitudes are.

Our case study is *Ericsson*, the Swedish telecommunications giant, which's relationship with China dates back to 1892. We analyze this multinational enterprises' investment history and the motivations during its fast growth and expansion period in 1990s, and the changed strategies when it went downhill in the beginning of 2000. Today, it is one of the major players in telecommunication industry in China.

Opportunities and threats exist at the same time. While Swedish firms have enjoying benefits from investments; they also have many difficulties in terms of regulations, limited access to certain industry, government's requirements of technology transfer etc, and we will discuss the problems vertically in each industry and horizontally cross all sectors.

China's WTO accession has brought more attractions because of an ever-growing number of sectors that are opening up to foreign investors. The Chinese government will carry out its commitments to grant greater access in relevant areas step by step and to reduce or abolish tariffs. However, the competitions is getting server from domestic substitutes and international competitors. Swedish investors still keep their enthusiasms and believe that investments in China are beneficial in the long term.

1. INTRODUCTION

Since the 1950s, companies from OECD countries were main investors of Foreign Direct Investment (FDI) globally. Only in the last decade, FDI outflows[a] to developed and developing countries have reached some $1062 billion. The year 2005 is counted as the fourth highest year for the FDI inward[b]; a year in which investments reached $622 billion which was a 27% increase from 2004**1**. Main exporters were Multinational Companies (MNCs) from France, United Kingdom and Japan. US was the largest recipient of FDI due to its fast growing economy, skilled human recourses and high per-capita income, advanced technology, R&D centres, and friendly policies. During the same period, outside the OECD area, developing countries like China or India became more and more attractive for foreign investments. It could be said that, both MNEs and host countries experienced the benefits from the FDI. Like other researchers have highlighted, FDI presents an opportunity for higher profits regarding the MNEs as well as more capital, knowledge and technology for the host countries

Since these benefits are very attractive to both sides, our mission is to search and identify factors that have the most influence for attracting FDI to China; and what kind of MNCs are interested. The research targets are Swedish multinational enterprises (MNEs) which are active in the Chinese market. To examine those important factors; we apply within sector and cross-sectional analysis to explore the general country advantages if they have the same priority in decision-making of FDI whichever industry the MNE belongs to.

China has been in the front line for foreign investments due to its fast growing economy today, new economic reforms and openness toward global market. During 1980s, China attracted investor's attention by the enormous market, low production cost, tax benefit, stable political environment, and strong economic growth which are officially around 10 percent of the GDP per year3. Since the turn of the new century, more and more MNEs are opening their Research and Development (R&D) centres and injecting millions investments due to the improved policy and opening sectors such as capital market, financial service and banking. Motivations for FDI are moved toward skilled labour and high tech industry.

The general FDI environment in China has been changed and improved dramatically in the past few decades. Up to 1986, foreign companies could only be established by joint ventures with Chinese companies. Today, MNEs can establish joint ventures or other kinds of entry mode and

[a] Outward stock refers to the value of capital and reserves in another economy attributable to a parent enterprise resident in the economy**17**.

[b] Inward stock is the value of the capital and reserves in the economy attributable to a parent enterprise resident in a different economy**17**

could sell their products and services in Chinese market. However, in some immature industries, technology transfer is still remaining as a necessary condition. As in the telecom industry, the Government has highly restricted entering barriers in order to protect its monopoly position. Since China joined the World Trade Organization (WTO), the Government committed to follow agreements to open more sectors to global investors.

Among foreign investors, Swedish companies started investing in the Chinese market at an early stage and are still very active today. For example, Ericsson began exporting to China since 1892. According to the United Nations Conference on Trade and Development (UNCTAD) **3**, the main investments are in manufacturing, chemistry, pharmaceuticals and energy industry. Rapid expansion of FDI in IT, software, real estate and services also grow fast.

Our research method is based on a questionnaire survey via e-mail and telephone interview. We follow the Swedish Chamber of Commerce's published companies**5**, which have representative offices or production in China, and categorized them into four industries: consumer goods, technology, service and manufactory.

Due to the limited access to MNEs and lack of time; the response rate is not large, nonetheless it is interesting. We do find that the fast growing economy, size and scope of the Chinese market, large consumer base and low production costs are the main motives for Swedish MNEs. Most of the companies have their wholly owned subsidiaries. Joint ventures and local partners are only in technology and consumer goods industries. In our research, we find that the problems in general are: highly complex administration for the foreign companies entering China's market, cultural differences, vague policies, corruption and unfair competitions that violate the business environment and confuse investors. The Chinese FDI policies and regulations still need to be clarified and improved.

In this work, we take Ericsson as an example among the Swedish MNEs. Because the extensive investment history and successful business make it very appealing to examine how a long-term venture develops. Ericsson came to the Chinese market for source seeking investments and now it is concentrated on R&D and on the local customers. The changing attitude also reflects other companies' reviews of investment in China.

2. THEORY

The theory background of this paper is **Dunning**'s eclectic paradigm**4** which was presented in 1976 at the Nobel Symposium in Stockholm. Contrary to existed theories at that time that mostly highlighted the exchange of goods between the independent companies across national frontiers, this theory was among the first that tried to explain the intra company, cross border exchange. According to Dunning, it is possible to identify some general factors named advantages influencing initial motivation of foreign production by enterprises. Generally speaking all these advantages can be divided into three groups: ownership advantages, location advantages and internalization advantages. Dunning's OLI eclectic paradigm suggests that the greater O and I advantages a firm has; the more possibility to take a FDI to exploiting these advantages.

1. *Ownership Advantages* (O)

Every MNE is confronted with additional costs regarding the entrance to the new market, contrary to the domestic competitors. Dunning uses this fact as a reason to state that why every MNE need to have at least one advantage that overcomes costs of operation in a foreign market. This advantage has to be specific and transferable to the other markets. The typical types of O are:

- Knowledge and technology. Some firms have specific capital such as manpower, advanced technologies, famous brand, reputation, and knowledge-based asset. This capital can be transferred out of the home country without losing its value and may have a relatively low transaction cost. The firm will require the legal right to use their technology in the host country.
- Monopolistic advantages that the company's posses using patent rights, ownership of natural resources and the like.

2. *Location Advantages* (L)

This L is lead by various economic, social and political reasons in choosing production process outside the home country. These reasons are so called country specific advantages which have a huge influence for determine a foreign investment. Advantages like size and scope of the market, transport and telecommunications costs as well as general attitude toward foreigners, language and cultural difference and government policies are considered. Economies of scale have huge impact of this location advantage and also low production cost. Firms usually choose production country which has large customer base. Most importantly, L makes the firm jumping out of trade barriers such as tariffs and quotas procedures to enjoy massive production and provide better services.

3. *Internalization Advantages (I)*

MNEs can chose between different modes of entry when moving abroad. Depending on the external market for transaction costs, risk and uncertainty, government regulations, companies could choose between: exports, licensing, franchising, joint venture and wholly owned subsidiary (WOS). Every entry mode has its positive and negative characteristics, however, more presence on the host market like in the form of joint venture or WOS mean higher governance costs but lower transaction costs. As it is already said on the beginning, the decision is depended when the expected benefits over costs. When MNEs take joint ventures or have contractors in a foreign country; it is risky that the specific capital could be transferred outside the firm and proprietary information e.g. technology or patent could be revealed. In the case of brands reputation; agents might damages it. Firms would prefer to transfer knowledge internally in order to prevent the value of assets. In most cases as Dunning assumed, MNEs prefer the wholly owned subsidiaries.

However, this paradigm is confronted with a lot of criticism, saying that this paradigm is rational and good in explaining general framework of international production, but is insufficient in explaining international profile of particular MNEs. The reason for this is found in the fact that specific ownership; location and internalization advantages that affect MNEs will differ between companies depending on the motives underlying such advantages. For example, advantages influencing a MNE that invests in technology in China will differ from the motives of a MNE that invests in cooper mine in Russia. Also, decision for investing in host country will not be static in time, once chosen it will not necessary remain for ever, but it will be changed according to the change of the environment conditions. Further, different companies could see the host country advantages differently, depending on their risk aversions.

Criticizing this theory gap, **Behrman** (1976)**6** tried to use the same set of factors in formulizing four different typology of FDI, saying that this diversification is more applicable in reality. He highlighted four possible types of FDI and they are:

- *Resource seeking FDI*

Many American companies set up plants in the US-Mexico border to produce and re-export to the US. So do companies have their production centres in China, and sell goods in other countries. For those firms look for raw materials, natural resources, or unskilled labour in a host country are usually at their young age and seek for arbitrage.

- *Market seeking FDI*

MNEs have unique products or services; they would love to explore new markets to get a dominant position. The uniqueness could be high technology, for instance, Ericsson is one of three telecom companies which could provide global access and totally telecom solutions.

- *Efficiency seeking (global sourcing) FDI*

Firms are likely to seek resource-saving and improve their operating efficiency by rationalizing the structure of their global activities. Normally, this is undertaken by network-based MNEs with global sourcing operations supplying in many markets. For example Shell has many logistics around the world and global sourcing net works.

- *Strategic asset/ capabilities seeking FDI*

MNEs pursue strategic FDI through M&A's to protect Ownership advantages in order to maintain global competitive position; such as acquisition of local capabilities, including R&D and human capital; the acquisition of market knowledge etc.

Those four motivations for FDI are applied to different needs from a company. The firm could choose a kind of investment according to its basic instinct. Compare with Dunning's theory, Behrman is more concentrate on nature of an investment.

Researching the production costs, **Miyamoto** (2003)**7** highlights the importance of human capital, claiming that a high level of human capital is one of the key ingredients for attracting FDI (a higher supply of the employees pull the labour costs down). On the other hand, enhanced human resource development accomplished by investing in higher education and employee training, upgrades the skill level of the workforce, making the investments even more attractive for FDI. Two basic questions concerning Miyamoto's analysis are:

Is human capital essential for attracting any type of FDI?

What are the level and type of human capital necessary to attract FDI?

From 1960 to 1970, the human capital, especially highly skilled labour was not necessarily relatively determinant for inward FDI. That is the period when MNEs were looking for the market with big unexploded natural resources and cheap labour costs. However, from 1980 to 1990, the highly skilled labour was very demanded by MNEs. It is evident that in the last decade, the tendency of FDI attractiveness is more toward skilled intensive production and services. Developing countries which want to attract value-added investments must continuously work on the improvement of education level. This also implies the collaboration between universities, educational centres and entering industries. This research indicates that even today labour force especially those highly skilled workers are still one of the most important determinants for attracting FDI.

Noorbakhsh (2001)**8** in his empirical work emphasized the growth of domestic market, a stable macroeconomic environment, supportive business environment and liberalization policies are significant determinants of FDI inflows in China. The contribution of this work is in finding that labour costs are important factor for developing countries. Countries that relay its policy on low

skilled labour and natural recourses will find difficult to attract FDI and they will experienced slower economic growth, contrary to countries that rely its policy on high skilled labour attractive for FDI in high value added industries.

Sun and Tong (2002)**9** categorise three stage of the development of FDI in China 1979-1998 among 30 provinces. The first stage is from 1979; foreign investments were concentrated on small size assembling and processing for exports. The Government lunched a commission to regulate investments and set up four special economic zones (SEZs) to encourage. The second stage started from 1986; the State Council further issued the "Provisions for the Encouragement of Foreign Investment" to attract more investments by promised tax benefits, relaxing restrictions and local policies. As a result, the FDI during that period doubled and majority were in manufactories industries. Since 1991 which was the start of third stage, wholly foreign owned companies increased enormously; the average overseas capital invested enlarged and more focused on large infrastructure and manufacturing projects.

From previous empirical studies, they identify eight potentially important determinants for the Chinese market:

- *Market demand and market size* have direct impact on FDI activities. One of the major motivations for foreign investments is to explore new markets, so the demand and size have a have a positive relation of attract more investments and will decide the future revenue. Key measurements are: GDP, GDP per capita, retail sales, and retail sales per capita.
- *Agglomeration*. This refers to the concentration and co-location of economies activities that give rise to the economies of scale and positive externalities. The level of agglomeration of a certain region should be related to investments.
- *Labour quality* of research scientists, engineers and technicians per 100 of the employees (RSET). It should have a positive impact on FDI.
- *Labour cost* has a negative effect of FDI; however, the more wages paid the better quality labour. Recent studies have found that China attracts investments not purely depend on cheap labour, but sill it is attractive for global production.
- *The level of human capital and the level of general development measure the level of scientific research*. R&D expenditures and the number of R&D centres. The higher scientific research is the more attractive to foreign companies.
- *The degree of openness* could have both positive and negative impact on FDI. It welcomes foreign capital and investors to the host countries; however the competitions for MNEs would be very high.
- *Political risk* is very import for foreign investors especially in developing countries.

- *Local benefits.* FDI can bring many benefits to the local economy such as transfer of technology, employment, taxes etc.

These studies indicate the motivations for FDI are changing from time to time. Wage has positive relationship before 1991 but not after. This indicates the nature of determinants is different since 1991. Labour quality and infrastructure effect foreign investment activities. High labour quality and good infrastructure attract investments. Fro the country as a whole, if it political stable and open to foreign investors that would catch more attention of the world.

It is widely believed that poor governance system unable countries to attract FDI. **Shaomin Liv** (2005)**10** in his analysis states that this general thinking should not be accepted as a rule. Taking China as an example, he also emphasis that some countries can attract FDI even if they have insufficiently regulated governance system.

Despite the communist social regime, centralized governing and immature legal system, China is a country that succeeded to attract huge amounts of FDI. Any MNE which enter this market has to confront and deal with problems such as: not so transparent law, corruption, unreliable public financial information and trust in general. The best solution is always to have or find someone in the government, who will serve as a backup for all eventual problems. This is known as relation-based governance, contrary to rule-based governance. In the last couple of years China is trying to implement new commercial laws, but many of these regulations are not being practiced yet. Foreign investors, especially from rule-based economies should pay attention on the functioning of relation-based economy and be prepared for the possible incompatibility with their rule based-economy.

3. FDI Environment

3.1 FDI in China

After US and Great Britain, China is on the third place for the FDI inward and on the first place among Asian countries, due to its fast economic growth, suitable government policy, market openness and abundances to different restrictions regarding the entrance of MNEs. The following table presents the increase in FDI since 2001.

Year	2001	2002	2003	2004	2005
$US bill.	46.9	52.7	53.5	60.6	53

Figure 1: Key indicators of FDI in China2

Among various location advantages that China used to attract foreign investments, the following are highlighted: enormous market size, continuous fast economic growth, low production cost and government regulations as the most significant.

3.2.1 Market size and economic growth

Empirical researchers emphasized that market size is among the most influential determinants of the FDI in China. As a benchmark for the market size, researchers usually use GDP and GDP growth rate. Since 2000, average GDP growth rate in China was 10 percent annually. In the period from 1984 to 2004, China had a 6-fold increase in GDP, becoming the fastest growing economy in the last 20 years**2**. MNEs use market size in measuring the market potential of the host country and a higher GDP indicates higher possibilities for extra profit. Following the empirical findings, we assumed in our work a positive and significant effect of market size on the inward of FDI.

3.2.2 Production cost

Production costs are the third factor that we will examine assuming its relevance on the FDI. Like Dunning said in his eclectic paradigm, MNEs are looking for countries that offer production inputs like natural resources or labor costs that are cheaper compared with the same inputs in their home countries. They are looking for host countries where predicted profits can overcome predicted costs.

With the population of 1.3 billion, China has high potential of different level of labor force. Supply of labor is very high compared with low demand. This difference makes labor costs very cheap and attractive for MNEs. For example, average wages on annual base for manufacturing

industry is 25000 USD in the USA and just something over 1000 USD in China**11**. Even though small increase in wages exists on annual base, China is well below other Asian countries, like Thailand and Philippines. It is not surprising that overall production costs are munch lower in China than either in developed or developing countries. Parallel with openness of research centers, demands for highly skilled workers have increased; however, it is not significant yet.

A large consumer base, measured by the population, makes it possible for every product to find its customer. The developed coastal areas and industrial centers make a significant impact on the consumption due to its consumption capacity (more citizens with higher wages and different demands for different products). MNEs offer completely new set of products using its knowledge and technology advantage with the aim to fulfill economies of scale and scope and to earn bigger profits.

3.2.3 Regulations

China started to receive a big amount of FDI since 1979, after the acknowledgement of Joint Venture Law which allowing mixed ownership. Ten years later in 1986, China began actively to encourage FDI promoting new Wholly Foreign-Owned Enterprise Law. This law allowed foreign companies to have their wholly owned subsidiaries.

During the 80's China was still very restricted and closed for many foreign companies such as in automobile, telecom etc., industries and not every sectors are allowed to invest. During the time, unique knowledge and technology would give foreign investors a chance to open the Great Wall because starvation of advanced technology in the country. However, the market openness is widened step by step especially after the accession to the WTO. As the commitment, China already gave seven new licenses to European insurers both in life and non-life sectors. Foreign firms and foreign brokers will have joint-ventures in life insurance with a legal guarantee of freedom from any regulatory body and will be allowed to have equity holding to 55 percent. Foreign investments in telecommunication industry will be allowed to have 25 percent on accession, 35 percent after one year and 49 percent after three years**18**. European car makers that have already established in China, the government has agreed to eliminate the joint-venture restrictions for engine production**2**. China will eliminate preferences to domestic producers in the fields of pharmaceuticals, chemicals, cigarettes and spirits, financial sector, transport, retailing. The openings of previously closed sectors in the line with other WTO conditions intensified even more the interests of MNEs. Enhanced incentives for investing in the special economic zones together with granting of equal treatment to foreign investors in relation to local counterparts have been marked as important factors in encouraging FDI in the last decade. Reduction on import tariffs and other non-tariff barriers will shrink cost of entry. Promotion of more fairness and openness in cross boarder trading will also

have a positive affect on FDI. The average import duties dropped to 9.7% in 2005, from 15.6% in 2001. Furthermore, China use ratio of imports to GDP as a measure of an economy's openness, which is high. In 1978 this ratio was 5% and moved to 30% in 2005**12**. Changing administration they cut the time necessary to register a company. It takes 13 steps and 35 days for a company to register itself and start to work**2**.

Indicator	China	Region	OECD
Procedures (number)	13	8.2	6.2
Time (days)	35	46.3	16.6
Cost (% of property value)	9.3	42.8	5.3
Min. capital (% of income per capita)	213.1	60.3	36.1

Figure 2: Starting a business 2006 2

The question is that whether cutting tariffs and taxes could have a positive effect on the FDI. China gives multiple tax benefits to foreign investors that are willing to upgrade technology and to motivate exports. For example, the Government offers a two-year income tax exemption from the year when a MNE starts to make profit and 50 percent tax relief afterwards. Additionally, in the next three year, the MNE has relief of 50 percent for advanced technology transfer**Fel! Hittar inte referenskälla.**. Another fact is China continuously working on prevention of political risk and corruption for foreign investors.

3.3 Does China Have a Healthy Environment for FDI in Telecom Industry?

The telecommunication industry in China presents huge opportunities. The large population of 1.3 billion and the opening of The Great Wall attract every Telecom MNE's attention to get a piece of the pie not only in terms of users but also in terms of equipment supplies. However, this industry is still highly restricted. The government has not allowed any form of direct foreign investment in mobile communication services, even though China's telecommunication equipment market has been open to foreign companies for years. Before the WTO accession in the year of 2001, companies such as Motorola, Ericsson, Nokia and Lucent have supplied the telecommunications equipment in China. However, AT&T is the only foreign company that obtained permission to have a joint venture as a service provider to date.

During the period from 1949 to 1994, the former Ministry of Posts and Telecommunications (MPT) controlled the whole industry. Later, in order to promote fair competition and open environment in the information technology sector, the Ministry of Information Industry (MII) was formed in 1998, that is "… *a regulatory body in charge of the manufacturing of electronic and IT products, communications and the software industry, as well as the promotion of informatization of the national economy and social services in the country*."**13**

3.4 Post WTO Influence on the Trading

Under the WTO agreement, China committed to conduct several changes of its trading policy according to the WTO trade principles. Major changes as a result of the accession were:

- Lower tariffs for importing IT products. By 2003, customs duties would be reduced from 13 percent to zero. All customs duties of IT products would be eliminated by 2005.
- Elimination of non-tariff barriers. Foreign companies and their products would be treated equally as domestics. The requirements of foreign companies' technology transfer, R&D facilities, and import quota would be abolished. The Chinese government would be neutral on the technologies chosen by companies; however, it exercises the right to standardize the nation.
- The opening of the service sector. Mobile phone services would be opened to foreign companies after three years of WTO accession, and foreign investment is allowed to have 49 percent of equity holding; the table below shows the limits.

The main opportunities for multinational companies are in the service providing and equipment manufacturing sectors. The effect for foreign manufacturers is mostly from the elimination of non-tariff barriers and the substantial reductions of tariff barriers. The telecom industry was highly regulated and fully controlled by the government. The state-owned companies centralized equipment production. Foreign companies were required to transfer technology, R&D activities to local firms through joint ventures, and preferential policies to domestic companies even make it harder to entry. As the commitment to the WTO, those principles would be eliminated and deregulate market; which would opens huge opportunities for foreign equipment suppliers.

Under the WTO rules, the Chinese government will be neutral of decision made by local companies about technology choices. The MPT used to decide technologies that would be implemented in the telecommunications industry, such as public networks. Normally, the choosing process is like a beauty contest; few candidates will be tested for different technologies. The final winner has is a high potential of commercial practical. Manufacturers could only access the telecommunications market after the technology is chosen. MPT could ban certain technologies if they do not fit into the "national conditions". Those companies that produce any banned technologies would be excluded. One example is in 1994, when the digital mobile communications technology was introduced to China, MPT chose CDMA instead of GSM. The result was that Motorola lost its leading position in the market. Ericsson and Nokia lost millions of dollars of sales. The Chinese government will be neutral on technology choices after WTO accession; having that companies do not need to bet on one specific technology which means less risk. All different technologies are welcomed for special products

3.5 New Business Opportunities for Foreign Trading

As a commitment to the WTO, China would open its telecom service market progressively in different areas, such as basic fixed-line services, domestic and international phone calls, paging, value-added services (VAS) which include services in which the supplier adds value to customer's information by enhancing its form or content or by providing for its storage and retrieval**14**. The Telecom Regulations defined that services under this category are e-mail, voice mail, online information database storage and search; electronic data inter-change, value-added fax, internet access and information business and videoconferencing services.

The opening of VAS sector could bring huge potential profit for foreign companies. However, Chinese government does not permit any wholly foreign owned firm to open their subsidiaries in the service division. It only allows up to 49 percent overseas equity ownership within a domestic partners. Global Telecommunication Company giant AT&T was the first that obtained a license to have a joint venture with Shanghai Telecom. The benefit for MNEs is to increase global network coverage and more business opportunities. The companies would attract customers by providing quality network and service.

China is a signatory of the General Agreement on Trade in Services (GATS). It implies that China must grant the services to all WTO members. Nevertheless, there is still a gap between reality and policy.

4. METHODOLOGY

The research is managed on the example of the Chinese market as the most prosper in attracting FDI in the last decade. We chose to follow only MNEs arriving from Sweden. The analysis is based on the information received by managers that responded to a questionnaire that we sent out as appendix 1.The strength of the study is based on the observations of real life decisions made by managers.

4.1 Method

Our target companies are members of the Swedish Chamber of Commerce in China**Fel! Hittar inte referenskälla.**. The data was collected in June 2006 and was conducted on a sample of 100 companies. Initial contact was established by phone. At the very beginning, some of the companies refused to participate due to the strategic information requested. The data is collected from last 30 years. According to the Yahoo! Finance industry index**15** we divided all companies into four categories: *technology*, *industrial goods*, *consumer goods* and *services*. These categories cover companies from electronic equipment, technology, hi-tech engineering, IT & software etc. fields.

From the whole sample, we got answers from 32 companies, divided by sectors:

Technology:	11 companies
Industrial goods:	8 companies
Consumer goods:	9 companies
Services:	5 companies

Analysis of the received data follows this classification.

4.2 Questionnaire

Starting from the research issue; we made a closed ended questionnaire that consists of 16 questions. The questions are organized in following order: general questions are placed in the beginning by giving readers information about the company. Further follows questions related to give detailed information about motives like market attractiveness, production costs, regulations which could have effect on FDI decisions. The whole questionnaire is presented as appendix A.

4.3 Pros and Cons

The closed ended questions have its advantages and disadvantages. Some of the advantages are:

- They are quick to answer
- Easy to code

- They offer advantages in time and money
- There are no difference between articulate and inarticulate answers

Some of the disadvantages of closed ended questions are:

- Can cause misleading conclusions because of limited number of answers
- Control of the researcher is limited because of the honesty of the respondent
- It is more subjective than objective

One of the reasons we chose closed ended questionnaire is because companies require privacy and confidentiality for their strategic information therefore all information is strictly confidential including no announcement of the companies name'. The confidentiality is necessary to guarantee to ensure honesty from participants. Validity of the results are more reliant on the honesty and it could be said that the method is more subjective that objective. Method could be useful as the confirmation to other studies and quantitative research methods. Because the tangibility of the data that we ask, we decided to use questionnaire.

5. EMPRICAL FINDINGS

5.1 Within Industry Analysis

5.1.1 Consumer Goods

Consumer Goods industry includes companies such as home appliance, vehicles design and manufacture, paper packing and equipments supply. Most of the companies started investing in China between 1990s and 2000s. Low production cost is the major determinant attracting FDI. Other factors are market size, fast economic growth and large consumer base. The large population of 1.3 billion makes with high supply of labour leads to decreasing production costs. On the other hand, the huge population makes a large consumer base for products and services. 55 percent of the companies consider that market size significantly influences the decision making of moving production to China, together with low production costs. It proves that the economies of scale and scope have huge influential on foreign investments; it gives firms a wider opportunity to survive and make profits. Firms that take a part of our survey, they usually have advanced technology or famous brands which indicates that when a firm have ownership advantages are more likely to undergo FDIs to enhance the global market shares.

Most companies have regulation problems upon entering the Chinese market. As we expected, that is consistent with the other empirical researches that highlighted Chinese's protected attitudes towards some state owned companies, which are relevant for their economy. Most companies think that it is easier to access into the Chinese market today than it was during 90s. However, 77.8 percent of companies think that the Chinese regulations are not clear enough even today. Administration takes a lot of time in establishing the company as well as necessary connections with local authority. "*Changing the rules on daily basis*" is one of the main problems. The easiest entry mode to the market is by wholly owned subsidiary or joint venture. Cultural difference is a universal problem experienced by every company. For the future, investors feel that economic growth, social stability and political security are essential and they believe that long term investments are profitable.

In the text below we provide you with some interesting opinions concerning the difficulties and consideration from companies which belong to Consumer goods industry.

- *Low labour cost and flexibility for the work force leading to a fact that some of the products nowadays are only found in China so again labour cost as factor resulting in global domination in certain sectors.*
- *Governmental rules changing on daily bases, no implementation rules in the local governments for the directives set by the government in Beijing.*

- *The problem is to understand that the rules are not clear and to learn from how others do as the rules are contradictory and not possible to comply with in many cases. What is the common practice becomes the rule, almost like in the Common law system. The practice becomes the law.*
- *The business culture is totally different to "The West".*
- *The importance of relationship building can not be overstated! It is crucial!*
- *Promises should NOT be taken seriously.*
- *Unconventional business practices are widespread.*
- *Patience, persistence, good humour, self-confidence and empathy are useful personal characteristics for relationship building.*
- *Connections are essential!*

5.1.2 Technology

Apart from Ericsson which has 112 years of trading history with China, Swedish technology companies have started investments in China since 1980s occupying the field of telecommunications, wireless, water treatment, air exchangers, testing equipment, laser pattern, engineering and electronic power solutions. Knowledge and technology are the core competence for the most companies in the Chinese market. Consequently, the problems following this competence in the developing countries are the protection of intellectual rights. This problem has been reduced after China joined the WTO. The Government is imposing procedures for the protection of intellectual rights. Almost the same importance is given to the fast economic growth, market size, and large consumer base and low production costs. As earlier researchers agreed about, we also find that advantages which companies exploit the most are: cheap and numerous labours in production, including both unqualified and qualified workers; uniqueness of implemented technology which enabled some companies to establish monopolistic positions on the market; huge consumer potential and fast economic growth measured GDP growth rate. Exploiting these advantages in the China market, almost all companies have experienced significant profit. The survey has small number of companies which did not succeed it.

Again, the huge demand and market size are important as earlier studies shows. Also, we find the labour quality of research scientists; engineers and technicians have positive impact on decision-making. Companies could design products more suitable for local customers by employ domestic researchers. This has been studied by Dunning, when a firm has its ownership advantages; it is likely that the firm takes FDI to increase its monopolistic position. However, China still works on the protection of intellectual property rights, which is crucial to technology companies. The

consequence of lacing of protection could seriously result in diminishing investments. Investors wouldn't feel confident to release their products in the market.

As for the Consumer Goods' companies, regulations are still remaining as the problems. Even though China is one of the most opened toward HI-Tech industry for example, cutting the time of opening the company or providing them with tax benefits, 80 percent of companies still experienced barriers embodied in entering or administration barriers. However, they all agree that it is easier to enter Chinese market today. For a long-term fast economic growth, social stability and political secure are graduated as very important determinant for all companies.

In the text below we provide you with comments concerned the difficulties and future insights of companies in the Technology industry:

- *During the first years of operation, many problems have been encountered considering the organization, management, government regulations, badly trained labour, bad quality of procured material etc.*
- *Foreign investments are prevented by many regulations which does not allowing us to use all segments of the market and to sell our products on the Chinese market. We are struggling with these regulations always.*
- *Lack of the respect for intellectual property rights is the most serious problem for our company, and the poor enforcement of IRP laws. A problem that did slow down our establishment was the difficulty to get bank accounts for local and foreign currency in place, especially since we choose not to use a Chinese bank.*

5.1.3 Industrial Goods

Migration toward Chinese market started in the late 80s and was continuously growing during the 90s and 00s. Firms which have strong ownership advantages experience significant profit determined by low production costs, market size and fast economic growth. It is reasonably to think and it is consistent with our expectations that every company will be motivated by the possibility to decrease the production costs or increase selling revenues in order to provide itself with higher profit at the end. Half of companies considered that regulations in China are clear enough but the other half still experienced some problems. Economic growth both with social stability and political security are still the most important factors for investments.

In the text below we provide you with comments concerning the difficulties and future insights of companies which from the Industrial Goods sector:

- *Local administration rules are complex.*
- *Concerns over environmental problems.*
- *Very good infrastructure.*

- *Unclear interpretation of rules and difference in opinion between different government agencies.*

5.1.4 Services

Swedish promotion, marketing research, consulting services and banking companies started their investment after 1980s. They did not suffer a hard access but 80 percent of them do not assume is it easier today. This is because of the intense competition from global investors since China opened the door of the services sector. All of the companies believe that the labour cost is lower than in the home country. As these companies do not have any production, they emphasized economic growth, government policy and market size as the most relevant determinant. All the companies are wholly owned subsidiaries (WOS); this is an interesting point relating to the theory that when there is entry barriers, companies are more likely to take joint ventures or seek local partners. In this case, service-providing firms have their own unique knowledge such as consulting and way of managing. The local partner may have cultural difficulties to understand. So, the WOS is the most practical solution. In the text below we provide you with answers concerning the difficulties and future insights of companies, which belong to Service industry:

- *All regulations slow down establishment compared with Sweden.*
- *In daily work mainly language issues.*

5.2 Cross Sectional Analysis

Cross different industries, we analysis and find the most important reasons for Swedish MNEs' motivations.

5.2.1 The core influential factors are:

- Market size and large consumer base

We find that Swedish MNEs are eager to move their productions to China because the market size, its expected growth and the large consumer base. The evidence for such conclusion is found in the fact that all industry sectors agreed that market size and large consumer base had remarkable influence which at the first instance dictated the choice of the host market.

China has 1.3 billion populations which makes a substantially large consumer base. As we expected, every company count that their products or services will find enough customers to cover costs. During the time, consumption was even increased with increasing labour income.

GDP is an evidence of economic development of the country. It reflects the country's demand and doing so it is a measure of the market size. Countries with very high GDP growth rate are much more attractive for the FDI than the countries with lower GDP. China is an example. With GDP of 9.5 percent for 2005, much higher than the average world GDP growth; and attract more MNEs than any other developing country.

Market growth rate can be expressed and followed in the growth of a particular industry. The Chinese market attracted more MNEs in sectors where they did not have a strong domestic or foreign competition. Selling on the domestic market is a move that could assure MNEs a monopolist position, giving them the chance not to divide earned profit between other possible competitors.

- Production cost

Empirical researches indicate that production costs are among the most influencing factors in attracting FDI, especially low labour costs showing extremely big influence in the decision of moving and situating the production towards China.

As it can be seen, our sample of companies is divided into four subgroups due to the fact that they belong to different industry sectors: technology, services, industrial or consumer goods. The results from the questionnaire follow this classification. Most of the companies which belong to the technology sector, together with consumer goods and services, agreed that production costs are very important and much lower compared with the same costs in home country. The only exception is industrial goods where we find divided opinions about the significance of this determinant.

Confronted with the demand of customers for lower prices on one side and very high competitions on the other side, all MNEs are looking for a country where their production costs will be lowered. If they realize such a goal, their final products could be sold cheaper on the market, providing higher returns at the same time. Maximization of profit is a leading factor for all companies. Main factors which determine production costs are labour costs and productivity.

Labour costs of low qualified workers are much higher in Sweden than in China, these costs where consisted by low wages, taxes and social charges. Some of the analytics argue that low wages will increase fast with the development of the country. This statement is true, but statistics showed that even if this trend is present, following the data from the last two decade, the level of wages would not increase as high as western countries. It will take time before they attain this high level. As a good example of this we can use the comparison of Chinese and US wages, because of the availability of data. US average yearly manufacturing wages are over 25000USD. China average wages is about 8750RMB which is appropriately around US$1000**2**. It is not surprising then that the production costs are still much lower in China compared to the US or some other developed country.

In recent years trend of increased wages are significant only for high skilled workers. However, even if this trend continues, China still has an efficient supply of low skilled workers in the near future.

- Regulations

Most of the researched companies experienced some kind of regulation problems even though China put a significant effort in changing its policy toward FDI. At least the entrance was enabled, considering the fact of politically and economically China closed some 30 years ago. On the way of its opening, China has to adapt its policy from the west, bringing new and changing old rules continuously. According to our questionnaire, these day to day changes provoked some minor problems to companies embodied in the time needed to follow new procedures and implement them. Most critics were directed toward the inconsistency of interpretation of the same regulations between the different legal authorities "*Common practice became the rule*". Corruption is almost present on all levels: *"Connections are essential"* in overcoming legal problems which could arise. However, even if those changes influenced mentioned problems to incoming FDI, they also brought some positive effects that lead toward the common opinion of most companies that it is easier to enter the Chinese market today than 30 years ago. As an exception to this rule, one small but still significant number of companies, especially those which belong to the consumer goods, agreed about the limited access to the industry. Empirical researches say that the Chinese government is constantly trying to improve the entry conditions, but the process is very slow, sometimes requiring more time between the acknowledgement of some rules and the implementation of the same. What bothers companies the most is a huge administration problems and entering barriers put in front of some industries. "*Foreign investments are prevented by many regulations which does not allowing us to use all segments of the market and to sell our products on the Chinese market*".

All companies experienced tax benefits. These benefits provide them the possibility to keep a larger part of the profit for themselves. This also means that the company can expand their companies' size globally because of a higher amount of free cash flow capital, pumping it into the new profitable investments which will lead to the higher effectiveness of the whole company. In comparison with the Swedish tax system, which could be competitive with the taxes in other EU countries, China is much in front of them. It offers a tax reduction to all companies who decide to establish production or services there.

All in all, every industry sector feels more confidence in the regulations and government system today than earlier. This means that the companies are assured in the case of double-dealing and that they could provide their rights in the court. Our opinion is that this could be the main reason why China became so attractive not only for the companies coming from Sweden but from the whole developed world. Providing a stable environment with arranged legal, social and political questions lead to the fast grow in capital inflows to the country.

- Cultural differences

All of companies participated in our survey experienced and still experience cultural differences. Different language, customs and business culture makes the business environment

totally different to the west. It is a question of time and patience when one side will be adapted to the other. It is essential to understand how the things go in China, partially adapt it, but mainly try to change it toward the already experienced systems in Sweden and the west. Not only transfer of technology but also of good managerial skills and organizations are required.

5.2.2 Summary

Among those companies, we find significant similar motivations compare with previous studies. As Dunning's eclectic paradigm has mentioned, the knowledge and technology together with economies of scale are main core competences for all four industries that we examined. For industrial and consumer goods companies, low production costs and large consumer base are the most influential factors contrary to technology and service sectors. These firms all emphasize that market size and fast economic growth is important for a company's fast expanding. All in all, as we predicted, it can be said that production costs, market size and fast economic growth are significant factors whichever industry sector the company belongs to.

It has been showed that a country with location advantages such as language, openness, clear regulations and friendly FDI policies attracts more foreign investments. Although China hasn't developed these advantages it still is the top destination of FDI. We find that when the estimated profit is excess of risk premiums; companies will be motivated. Beside the conditions we have mentioned in China, foreign companies could produce products and distribute to other Asian countries, therefore to jump out of trade barriers and quotas.

We also find that all these sectors agreed that entrance to the Chinese market today is easier even though the entrance barriers and administration are still a significant problem. The less entrance barriers are in the service sectors. This is due to the fact that China opened its boundaries to the high tech industry at last after the accession to the WTO. Social and political stability play an important role in decision making for all industries making them feel secure to invest in China. While service sectors are presented with 100 percent in a form of wholly owned subsidiary, technology and consumer goods present a mixture of wholly owned subsidiary and joint venture. For the service sector China is still the most attractive country for the FDI, but for technology as well as for industrial and consumer goods companies, other developing countries like India becomes more and more popular to choose. For the future, all companies feel confident that the market's continuous growth and investment is still will be profitable and beneficial in the long run.

5.3 Presentation of Ericsson

Ericsson was established in 1876, now it is the world's leading supplier in telecommunications equipments and has the largest customer base. Ericsson's relationship with

China dated back to the 1892, when the first shipment of 2000 Ericsson handsets were shipped to Shanghai. Now it is one of the major players in the market.

Ericsson provides total solutions covering everything from systems and applications to mobile phones and other communications tools. Its comprehensive products range and high quality service have made that Ericsson has a large amount of loyal customers. China is Ericsson's second largest market in the world of 8 percent of total sales, which can be seen from the following figure:

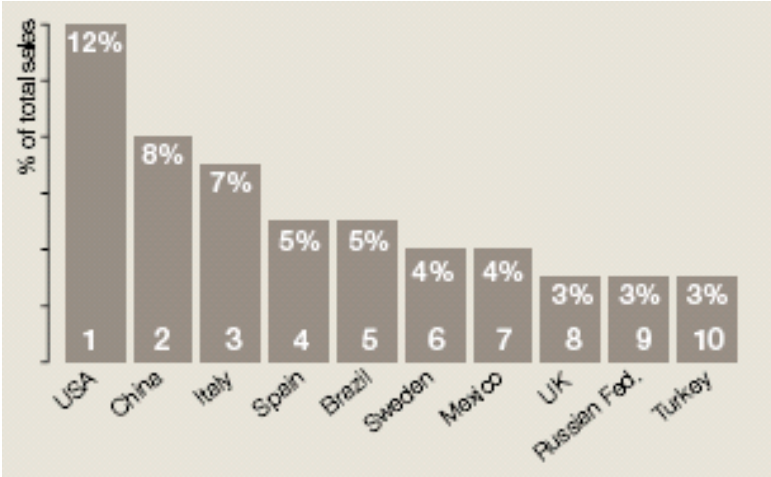

Figure 3: Ericsson world market figures16

The telephone interview with the Ericsson Consumer Lab is provided below. We asked them questions such as what do they think of the Chinese market? How do they see the Chinese market; is it still full of opportunities? What are the advantages about China and what is the future? We used narrative to retell the conversation:

> *China is opening its doors, but the world's largest telecommunication market is in many ways to be understood. There are three great things about china: enormous market, attainable quality demand (consumers are not that picky), foreign brands welcome.*
>
> *It's easy to think of china, the world's fourth-largest economy as a blank state of opportunity, but business must factor in geography, language, not to mention consumers' economic situations. China has three regions first is 400 million population in the developed regions; second is 200-300 million; and finally 50% in the poverty level. In the telecom industry, the operations are state-owned but international business can come into the market as equipment suppliers, handset or device makers or service and content providers. Ericsson has a long relationship with China and still we are one of the main players. However, competition is as crowed as the population itself. They*

have 40-45 brands of handsets available in the market, with variety different models. To survive, we need to be very consumer oriented and design new models.

China's influence may spread to the world through intellectual channels. China is experiencing brain gain. We now see a trend in the last few years to shift research and development to China, benefiting form china's science strengths and mathematics. There is a very strong educational base. There are over 300,000 engineers graduating every year. Ericsson has enjoyed its strengths for its size and technical R&D.

In the future telecoms, you may see less of a global influence on the Chinese market and more of a Chinese influence on the global market. Growth is clearly visible. The telecom industry is no exception. Every year the Chinese carriers spend 25 billion US dollars on their equipment, both fixed and mobile. There is demand, and there is also a desire by the Chinese government to have world-class telecom infrastructure. Ericsson has already increased the R&D investment in china this year and we are trying to wider our business into value-added services.

This talk indicates the changing attitude of foreign investments to China from Ericsson. Related it to the Dunning's OLI eclectic paradigm theory, the original motivations were to enhance their ownership advantages (O) by providing high technology and knowledge to occupy the market. Berhman categorized this kind of motivations are the market-seeking and resource seeking FDI. Low production cost in China was the primary attraction, however, with the fast growing economic conditions; Ericsson realized cheap products wouldn't keep the market share for long time. New technology and innovations is the key of success. Since 2001, Ericsson transferred from a production focused MNE to the R&D of high-tech focused company. And due to the opening of Chinese telecom industry, Ericsson has put more investment in China to fulfil the huge demand and provide total solutions.

6. CONCLUSIONS AND IMPLICATIONS

The research of this study is to identify the most relevant determinants of the entry in the Chinese market for Swedish MNEs. Our starting point is Dunning's eclectic paradigm and other empirical studies which give us a clue of possible factors which make market conditions in one country more attractive than in another for foreign investments. Those works highlighted few factors: production costs, market attractiveness and regulations. Following these factors our further idea is to check their value by applying a questionnaire to be answered by selected Swedish companies. The sample includes 32 companies from Sweden which operate in the Chinese market. Four industrial sectors are included in the research: technology, industrial goods, consumer goods and services. The questionnaires were managed through e-mails with the responsible persons for the Chinese market inside each company. Furthermore, detailed information specifically for the telecommunication industry was collected by a telephone interview with the Ericsson's Consumer Lab. Additionally, our attention in this study is to introduce to the reader the main characteristics of the Chinese market in general for the past 30 years, its openness, FDI policies and recent changes through which it passed after the accession to the WTO. We also want to find out what were the real motivations for Swedish firms to invest and if those motives similar to the theory.

All companies which take part in the questionnaire agree that market size is one of the main reasons by which China succeeds to attract many MNEs. Huge population, and above average GDP give a very good background for the FDI.

Production costs have a big influence on the Swedish MNEs to move its production to China, leaving its headquarters in the home country. China is still a country with a very high supply of cheap labors. Recently, China has become more popular for the highly skilled workers and it has variety level of labours to fill different needs. In the last couple of years, the Chinese government put significant amounts of capital into the education to improve the work force.

In the telecommunication industry, world giant companies like Nokia, Motorola and Ericsson have already invested millions of dollars in the R&D in the Chinese market. They have experienced primary market fast expansion opportunities as well as intensive competition wars.

Even though the regulations were changed during the last 30 years, and readjusted towards FDI, there is still a gap to bridge in order to meet the international standards. Following the WTO agreements, China opened more industries making the competition much more intense today than earlier. There are both MNEs with big brand names and domestic producers with cheap prices. It is very difficult to achieve huge profit in short term. Certain sectors are still restricted to foreign investors. Successful entrance to the market without advanced technology is impossible. However,

the Chinese market still attracts Swedish MNEs to open their representative offices, productions, and research and development centers.

Our opinion for the future is that if China continues its development with this intensity; it could take the dominant FDI position instead of the America. However, China still need to continuous improve its environment, regulations, FDI policies etc., to enhance MNEs' OLI advantages in order to attract more investments. With opening of the Great Wall, Swedish firms would have huge opportunities in the market especially in technology and services industries. All companies thought that the long term investments are profitable and beneficial.

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ABBREVIATIONS

GSM: Global System for Mobile Communications, a digital cellular standard.

OECD: Organization for Economic Co-operation and Development

GATS: General Agreement on Trade in Services under the WTO principles.

GATT: General Agreement on Tariffs and Trade.

MII: Ministry of Information Industry of China. It is a government body for law, strategic decision, plan, production, services standards etc maker for all technologies.

MPT: Ministry of Posts and Telecommunications. Former government of MPT.

MNE: Multinational Enterprises.

SME: Small and Medium Enterprises.

SEZ: Special Economic Zones.

TDMA: Time-division multiple access, a multiplexing scheme in which numerous data streams are combined to form a single stream for transport via microwave radio or satellite.

VAS: Value-Added Services, such as e-mail, voice mail, online information database storage and search, electronic data inter change, value-added fax, internet access and information business and videoconferencing services.

VSAT: Very small aperture terminal, a satellite-based technology using 4-5 m dish antennas, used primarily for data transmission.

This questionnaire is designed for a master thesis in Foreign Direct Investment (FDI) at the Lund University School of Business. The main purpose of this research is to explore multinational experiences of Swedish firms do business with China. In order to protect your privacy, we will NOT reveal your company's identity in our study.

The questionnaire will take you around 5 minutes. Please try to answer all the questions, and be truthful with your answers. We would appreciate if you could return the questionnaire with your answers to the following address as soon as possible:
fdimaster@yahoo.com

Your cooperation will be very much appreciated. If you want a copy of our report, please write down your e-mail address, and we will send you our final thesis in June when it is finished.

E-mail: _____

Best Regards
Danni Cui and Ivana Rakić

1. Toward the production, to which category your company belongs?

Technology _____

Industrial goods _____

Consumer goods _____

Services _____

2. When did the company start investing in China?

1970s	1980s	1990s	2000s

Other _____

3. From following factors choose one that symbolize the best your company's core competence.

Knowledge and technology _____

Economies of scale and scope _____

Monopolistic advantages that the company's posses _____

Using patent rights, ownership of natural resources and the like.

Other _____

4**. Rank factors from 1 to 6 points that influenced your company to invest in China? (6 points is the highest- the most relevant).**

Size and scope of Chinese market _____

Low production costs (cheap imputes, low labour costs) _____

Government policy _____

Natural resources _____

Fast economic growth _____

Large consumer base _____

Neither of them _____

5. Toward company experience, Chinese market size is important factor in deciding to invest in China?

Agree _____

Strongly agree _____

Neither agrees nor disagrees _____

Disagree _____

Strongly disagree _____

6. Production costs are lower than in the home country?

Agree _____

Strongly agree _____

Neither agrees nor disagrees _____

Disagree _____

Strongly disagree _____

7. Did the company experience any regulation problems?

Yes _____

No _____

8. If so, choose the most relevant?

Specific sector's entrance barriers _____

Administration to establish the company _____

Taxes and tariffs _____

Protection of the intellectual property _____

Other _____

9. Do you think that it is easier to enter the Chinese market today?

Yes _____

No _____

10. Are the regulations in China clear enough today?

Yes _____

No _____

11. Have you experiance some tax benefit in China?

Yes _____

No _____

12. How can you graduate impact of continuous economic growth and socail stability in China to your decision to move production to China?

Important _____

Very important _____

Not so important _____

Unimportant _____

13. Do you feel secure politicaly and socially to invest in China?

Yes _____

No _____

14. Did you experience cultural differences?

Yes _____

No _____

15. Which entry mode your company preferred moving to China market? Pick only one choice.

Export _____

Licensing _____

Franchising _____

Joint venture _____

Wholly owned subsidiary _____

16. Today, Chinese market is more attractive than other regional countries?

Agree _____

Strongly agree _____

Neither agrees nor disagrees _____

Disagree _____

Strongly disagree _____

17. If you have other opinions please state:

Question no:	Industry	Technology		Industrial Goods		Consumer Goods		Services	
1	No. of replies	11		8		9		5	
2	1970								
	1980	2	18,18%	1	12,50%			1	20,00%
	1990	7	63,64%	4	50,00%	4	44,44%	3	60,00%
	2000	2	18,18%	3	37,50%	5	55,56%	1	20,00%
3	Knowledge and tech	9	81,82%	5	62,50%	6	66,67%	2	40,00%
	Economies of scale	1	9,09%	1	12,50%	3	33,33%	2	40,00%
	Monopolistic advantages	1	9,09%						
	Other			2	25,00%			1	20,00%
4	Market size	26	2	18	3	26	2	16	2
(in pts.)	Low production costs	23	4	22	1	30	1	10	4
	Government policy	14	5	14	5	10	5	15	3
	Natural resource	8	6	4	6	4	6	7	5
	Fast economic growth	24	3	19	2	18	3	15	3
	Large consumer base	34	1	15	4	22	3	21	1
	Neither		/		/		/		
5	Agree	7	63,64%	2	25,00%	5	55,56%	2	40,00%
	Strongly agree	1	9,09%	5	62,50%	2	22,22%	1	20,00%
	Neither agree								
	or disagree								
	Disagree	3	27,27%	1	12,50%	2	22,22%	2	40,00%
	Strongly disagree								
6	Agree	8	72,73%	3	37,50%	6	66,67%	3	60,00%

	Strongly agree			2	25,00%	2	22,22%	1	20,00%
	Neither agree			1	12,50%				
	or disagree	3	27,27%						
	Disagree					1	11,11%		
	Strongly disagree			2	25,00%				
7	Yes	9	81,82%	6	75,00%	8	88,89%	2	40,00%
	No	2	18,18%	2	25,00%	1	11,11%	3	60,00%
8	Entrance barriers	6	54,55%	4	50,00%	5	55,56%	2	40,00%
	Administration	3	27,27%	2	25,00%	2	22,22%		
	Taxes and tariffs					1	11,11%		
	Intellectual property								
9	Yes	7	63,64%	5	62,50%	7	77,78%	1	20,00%
	No	2	18,18%	3	37,50%	2	22,22%	4	80,00%
10	Yes	5	45,45%	4	50,00%	2	22,22%	3	60,00%
	No	6	54,55%	4	50,00%	7	77,78%	2	40,00%
11	Yes	9	81,82%	7	87,50%	4	44,44%	5	100,00%
	No	2	18,18%	1	12,50%	5	55,56%		
12	Important	5	45,45%	6	75,00%	5	55,56%	3	60,00%
	Very important	6	54,55%	2	25,00%	4	44,44%	2	40,00%
	Not so important								
	Unimportant								
13	Yes	10	90,91%	8	100,00%	9	100,00%	5	100,00%
	No	1	9,09%						
14	Yes	11	100,00%	8	100,00%	9	100,00%	5	100,00%
	No								
15	Export			1	12,50%				
	Licensing								

	Franchising								
	Joint venture	4	36,36%			2	22,22%		
	Wholly owned subsidiary	7	63,64%	7	87,50%	7	77,78%	5	100,00%
16	Agree	2	18,18%	1	12,50%	2	22,22%	2	40,00%
	Strongly agree			1	12,50%			1	20,00%
	Neither agree	7	63,64%	3	37,50%	3	33,33%	2	40,00%
	or disagree								
	Disagree	2	18,18%	1	12,50%	4	44,44%		
	Strongly disagree			2	25,00%				