

# CHARTING A STEADY COURSE IN A TURBULENT WORLD

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Alesund, November, 2017







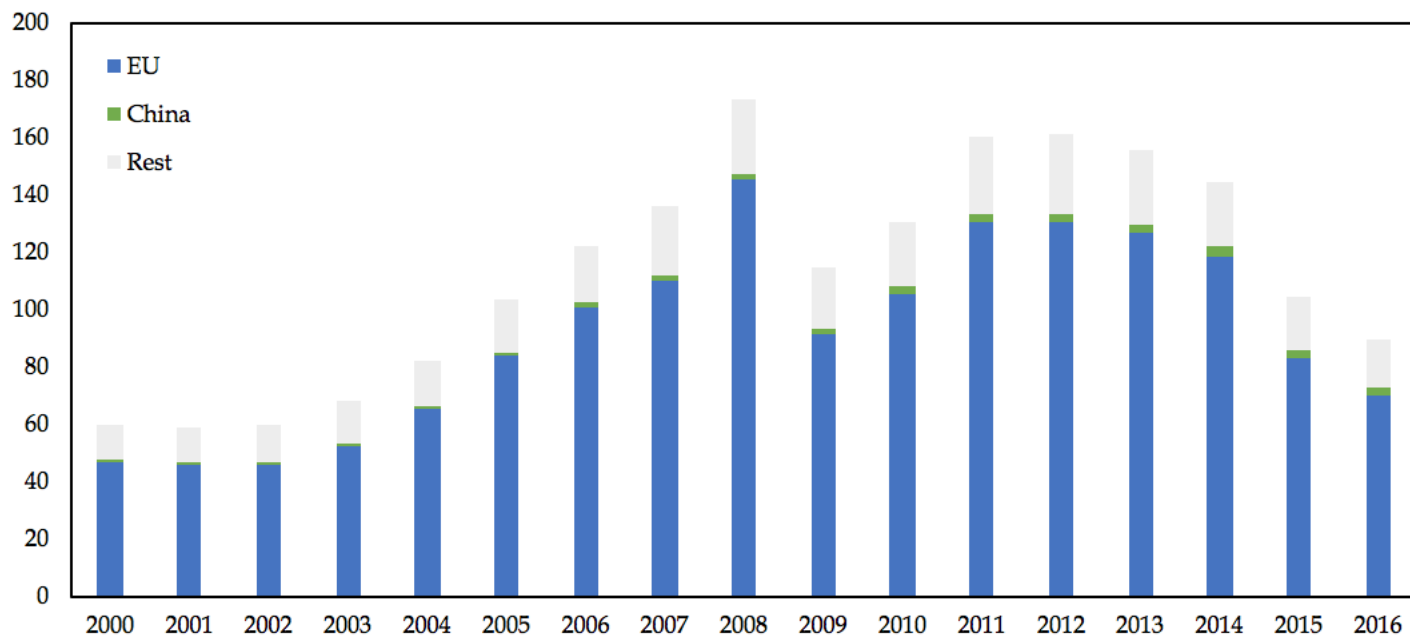


Table. Norwegian export (US\$ bn) Source: Unctad Stats.

**The world is at the crossroads.** Markets and democracies  
remain resilient, but for how long?

**What are the explanations?**



The balance of power

The nature of growth

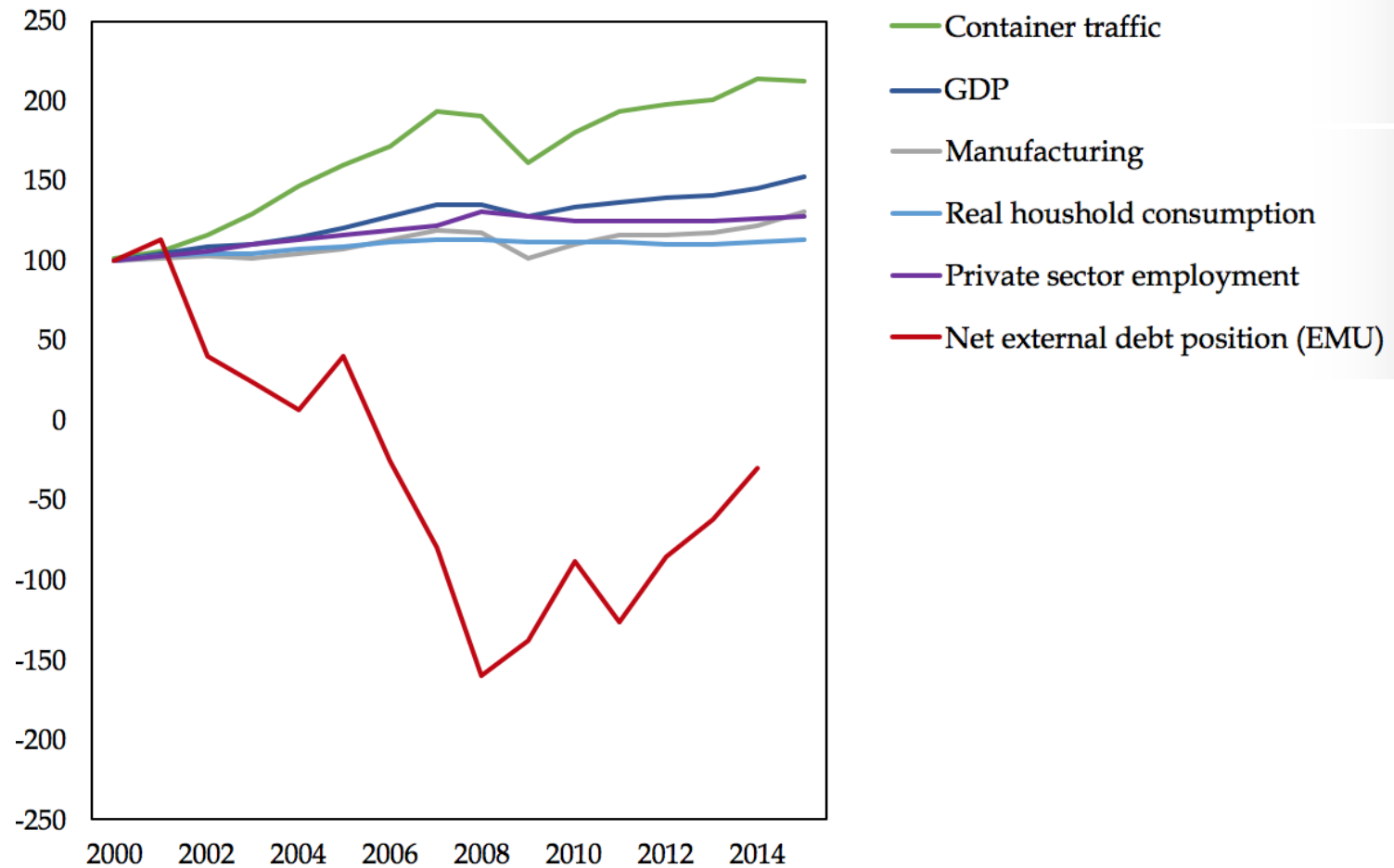
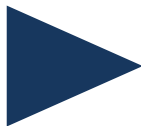


Table. Growth rate of selected economic indicators for the EU (%). Source: Eurostat and ECB.

|                                | 1970-1990 | 1990-2014 |
|--------------------------------|-----------|-----------|
| GDP(US\$ billion)              | 747       | 1.550     |
| Real disposable income (US\$)  | 117       | 100       |
| Formal employment (million)    | 30        | 16        |
| Population 15 and 64 (million) | 40        | 43        |

*Table.* Selected data on economic developments (annual averages). *Source:* Calculations based on WDI, ILO stats for 24 countries (accounting for 60 percent of the world population and sampling from all income categories).





**What are the explanations?**



The balance of power

The nature of growth

Scarcity

Crisis of man

**The tangible benefits of growth decrease and that is dangerous.**



## China's connectivity war





July 2006: "China's economic growth is unstable, unbalanced, uncoordinated, unsustainable."

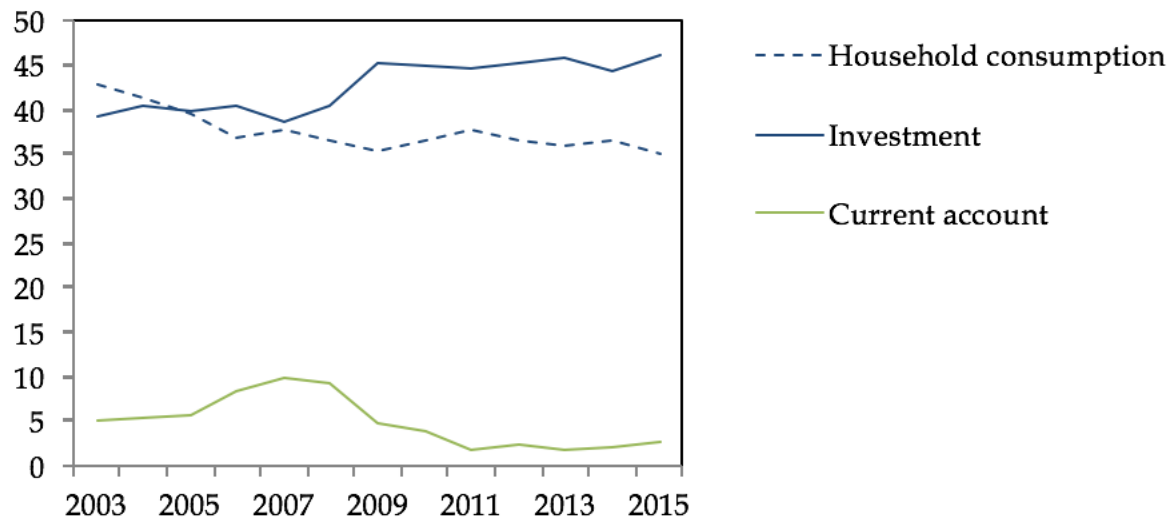


Chart. Components of China's GDP (%). Source: China Department of Statistics.

## China's US\$ 7,5 trillion gamble



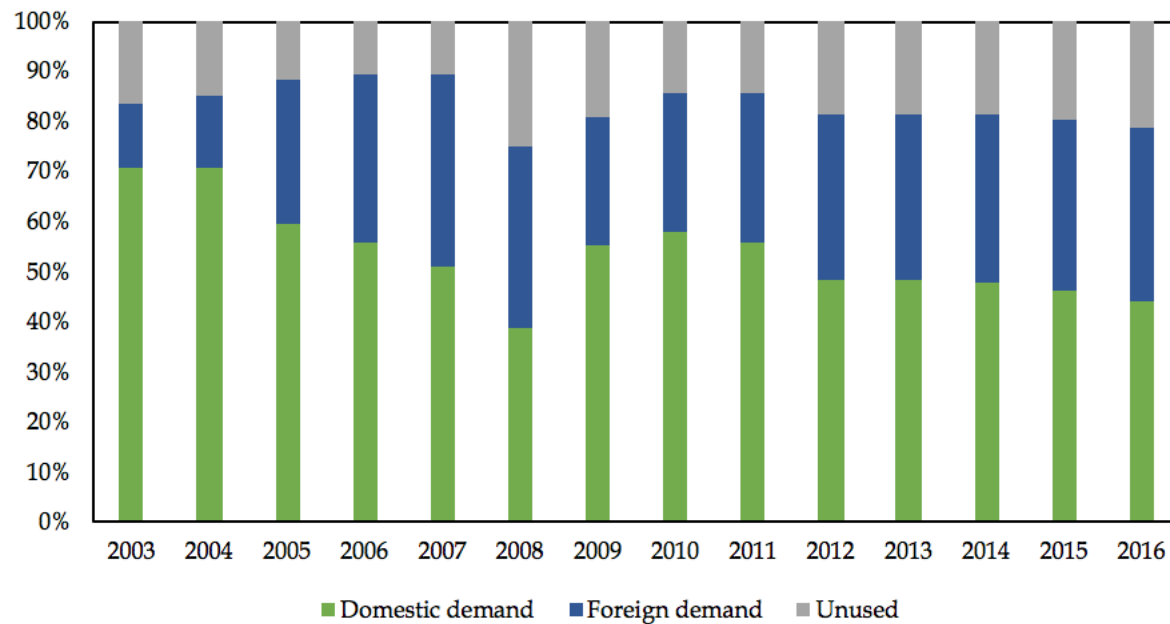


Chart. Usage of Chinese industrial capacity (%). Source: Calculations based on UNCTAD Stats, China Stats, BPC.





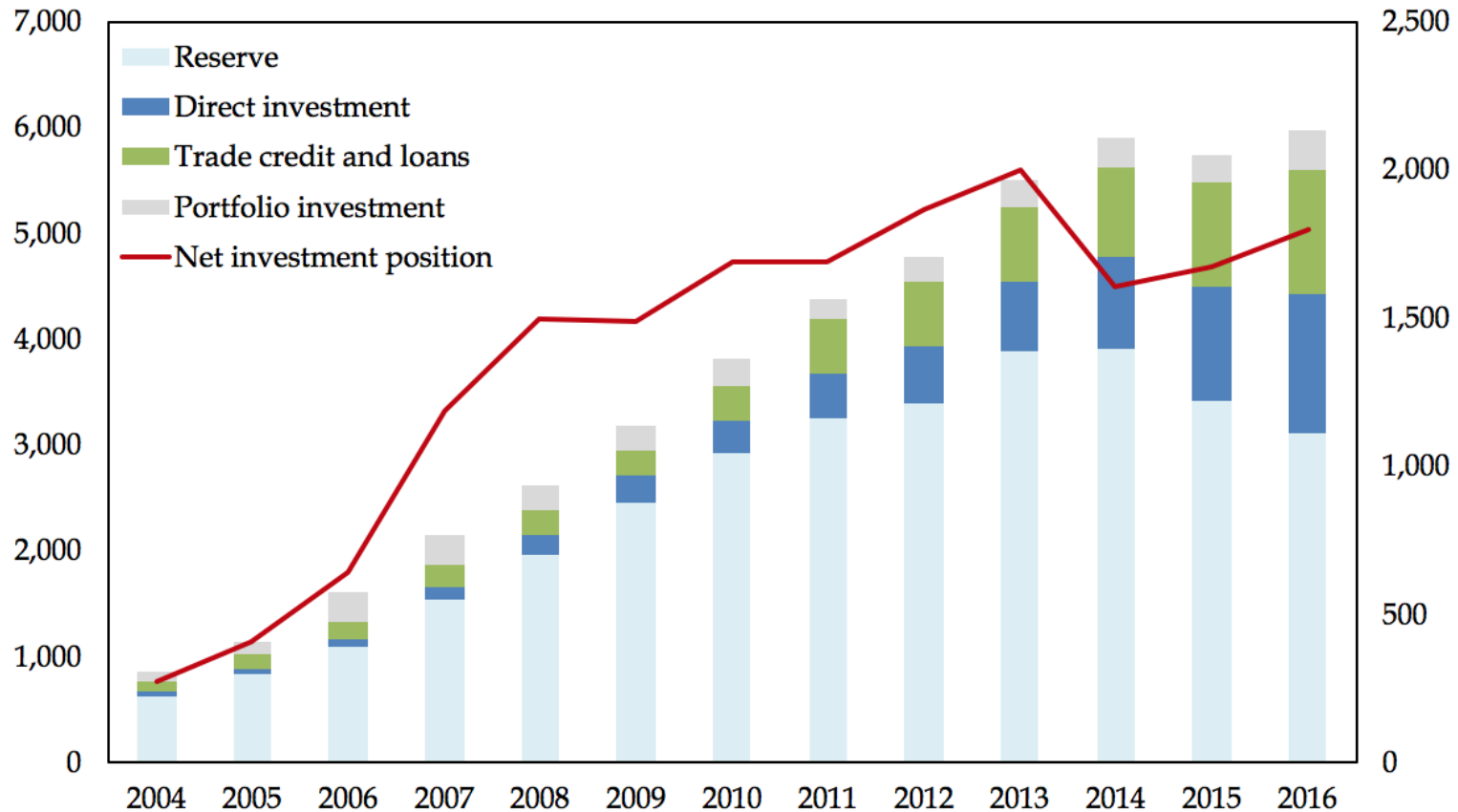
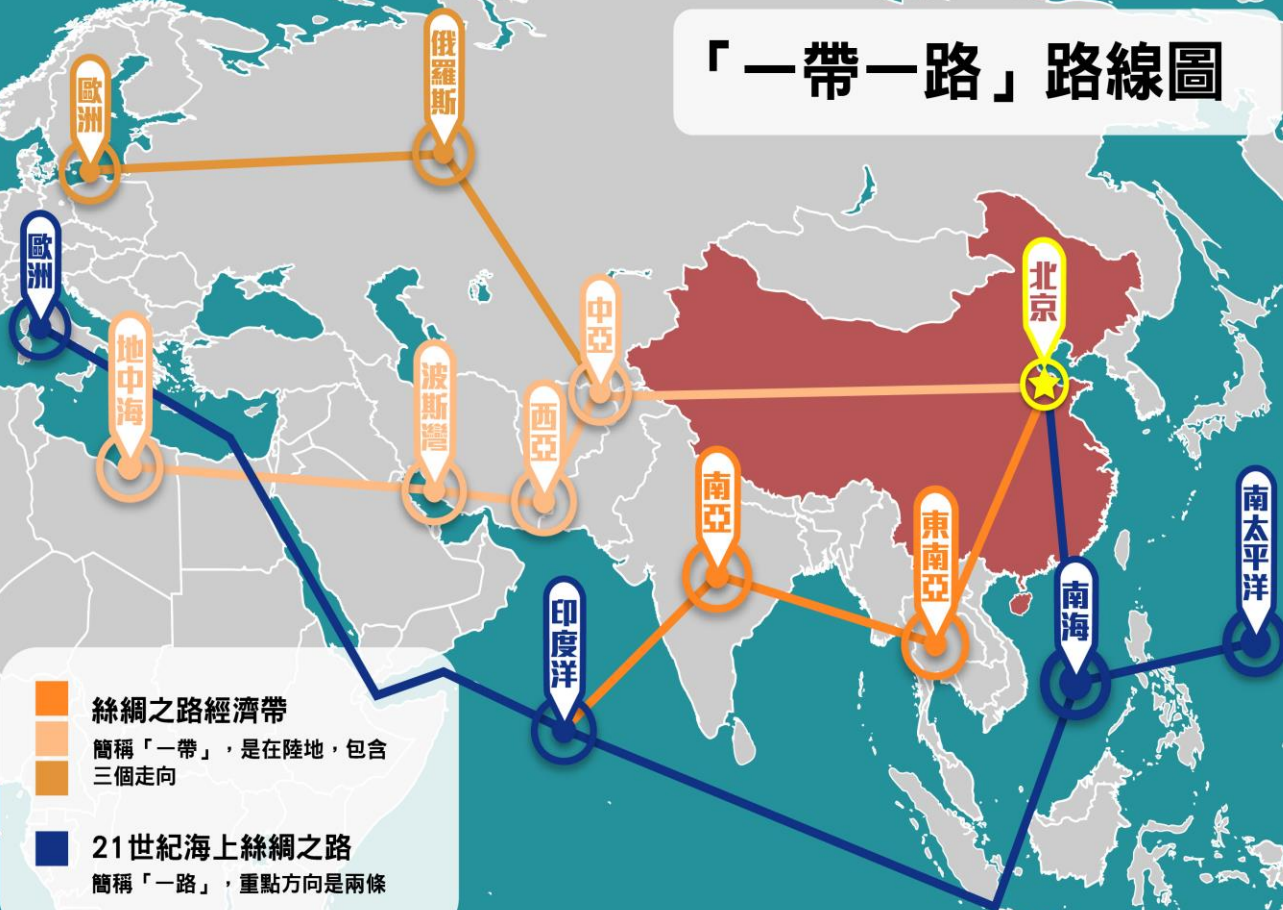


Chart. China's foreign investment position (gross and net, US\$ bn). Source: China State Administration of foreign exchange. Note: Net investment position on right axis.



## 「一帶一路」路線圖



NDRC, MOFCOM, MFA, 2015. 推动共建丝绸之路经济带和21世纪海上丝绸之路的愿景与行动 [Pushing to build the Silk Road Economic Belt and the 21st Century Maritime Silk Road through vision and action]. Beijing: State Council,

## Norway and China

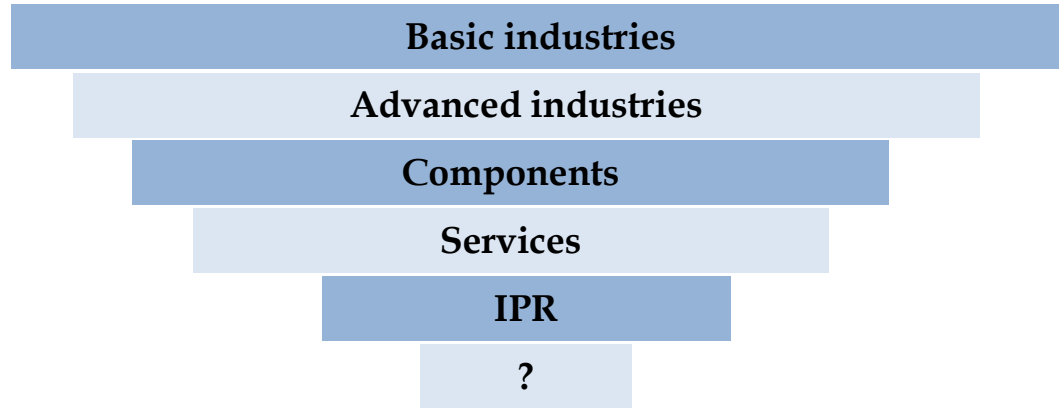
**China**

**Current account:** US\$ 6bn deficit

**Third markets:** OBOR: exports down

**Technology**

**Norway**



Our approach towards Chinese shipbuilding

***Alice in Wonderland***



## **China's maritime ambitions are nothing new**

1850s: Britain

1880s: USA, Japan and Germany

1950s: Japan ctd

1970s: ROK

1990s: China



What is different is its scale, the scope of its strategic ambitions and the security outlook

**Planning**

**Who's in charge?**



## **Planning**

### **Who's in charge?**

### **Main policies**

1995: SDPC: National Marine Development Plan

1996: State Council: Ocean Agenda

2003: State Council Outline for the Maritime Economy Development

2006: Medium and Long-term plan for shipping (2006-2015)

2008: Ocean Agenda

2010: NDRC: Innovation Development Strategy of Marine Offshore Equipment (2011-2020)

2010: State Council plan for Strategic Industries

2013: MIIT: Five-year plan for the shipping industry

**National People's Congress of China, 2008. 中国海洋21世纪议程 [China's Ocean Agenda for the 21st Century]. Beijing: National People's Congress, May 2008.**

The ocean is one of the hot spots in international trade, military, scientific and regulatory competition. The world's maritime powers have a comprehensive maritime strategy and must be fully competitive in all these areas. §1.13

At present, China's marine industry is small, backward technology and equipment, the development of new marine industry needs to be accelerated. §2.6

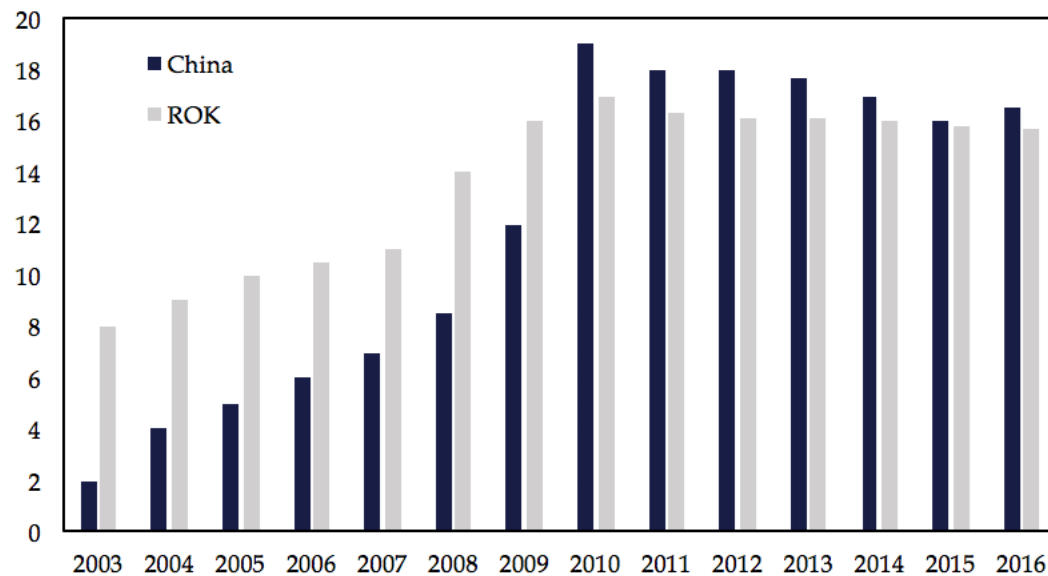


**National People's Congress of China, 2008. 中国海洋21世纪议程 [China's Ocean Agenda for the 21st Century]. Beijing: National People's Congress, May 2008.**

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## The ship building overcapacity problem



*Chart. Chinese and ROK production (million CGT).*

**State Council, 2013. 国务院关于印发船舶工业加快结构调整促进转型升级实施方案 [Notice of the State Council to Accelerate the Implementation of Structural Adjustment Programs to Promote the Transformation and Upgrading of the Shipbuilding Industry]. Beijing: State Council, Guo Fa number 29, 31 July 2013.**

- . Shipbuilding is a strategic industry that integrates military and civilian interests.
- . It is of great significance to safeguard our national maritime rights and interests, to speed up the development of the oceans, to safeguard strategic transportation, to promote the sustained growth of the national economy and to increase the employment of the labour force
- . The shipbuilding industry will be developed according to our countries national strategic interests
- . Technological strength: indigenous development and tech transfer
- . Integrate shipyards
- . Master components production

**State Council of China, 2015.国务院关于促进海运业健康发展的若干意见 [ Several Opinions of the State Council on Promoting the Healthy Development of Maritime Industry]. Guo Fa, 32, 15 August 2015.**

Our core competitiveness is weak § 1

The maritime industry is an important strategic industry for economic and social development. It plays an important role in safeguarding the national maritime rights and interests and economic security, promoting the development of foreign trade and promoting the transformation and upgrading of industries. § 1

Our maritime industry merits state support so as to become a maritime power, to advance our international competitiveness, to advance our national economic security (国家经济安全), to secure our maritime rights and interests, as well as to increase our comprehensive national strength (综合国力). § 1.A

We must prioritize the of strong internationally competitive shipping enterprises, port construction companies, port operators, and global logistics businesses, so as to gain international influence. § 1.C.

The implementation of “going out” strategy to encourage Chinese-funded shipping and port operating enterprises to acquire assets abroad. § 6

**国务院关于推进国际产能和装备制造合作的指导意见国发, Opinions of State Council and Guidance for Cooperation on the Promotion of International Production Capacity and Equipment Manufacturing. Beijing: State Council; State Council, China, 2016. 船舶工业十二五发展规划, Twelfth Five-Year Programme for the Shipbuilding Industry. Beijing: State Council.**

China had gained competitiveness mostly in assembling components, but continued to lag behind in designing and constructing very large ships, in producing advanced components like propulsion systems, and in delivering advanced ships, like cruise ships, large yachts, ice breakers, LNG-tankers and so forth (crown jewels of ship building)

Domestic shipyards building at least 70 per cent of domestic orders

**NDRC et al., 2016. 船舶工业深化结构调整加快转型升级行动计划(2016-2020), Action Plan to Deepen and Accelerate the Transformation and Upgrading of the Shipbuilding Industry. Beijing: NDRC:**

- . By 2020 we will build a shipbuilding system on par with the advanced countries
- . Increase the market share of China high-tech ship/offshore exports from 35 to 40 per cent
- . Strengthen backbone enterprises
- . Upgrading to deal with excess capacity, not capacity reduction
- . Encourage backbone enterprises to actively carry out overseas mergers and acquisitions
- . Shape international shipbuilding rules and regulations
- . Innovation: deep-sea, cruise ships, low-speed machines, drilling, arctic, etc.
  - . financing indigenous development
  - . tech transfers via joint-ventures
  - . tech transfers via cooperation
  - . acquisitions



**Jia, Dashan, 2017.什么是海运强国 [What is Sea Power?] China Shipping Inspection, 26 April 2017:** The rise of great powers depends on the ocean. The strength of a nation depends on production, production requires the security of supply, which on its turn demands countries to engage in global maritime competition. National security, defense, and economic security are interlinked... Maritime power is the efficiency with which a country can dominate the global maritime flows. It is about technology, management, infrastructure, and coordination... Global environment is favourable: cash is king (现金为王) and bargain hunting (抄底)

**COSCO, 2017. Annual Report COSCO Group.** COSCO has greatly promoted China's national economy, foreign trade, energy security, the supply security of materials transportation and other aspects of our national economic security. As a backbone shipping enterprise [骨干航运企业], COSCO Group has greatly enhanced China's power in international maritime affairs... The development of the COSCO Group has an important role in promoting the stable development of Chinese global supply chains and national industrial development... We should respond to SASAC' call to central enterprises to hold each other warm in difficult times [抱团取暖]

China's policies are characterized by economic nationalism and it  
will not change

**So:**

Economic security first

70 per cent domestic market

35 to 40 per cent of global high-end and offshore market

From bigger companies to stronger companies

Chinese technology for Chinese ships

How?

|  |  |
|--|--|
| <p><b>Build large shipyards</b></p> <p>Goal: efficiency gains, bargaining power<br/>How: mergers, funding, alliances with Chinese shipping companies</p> | <p><b>Hu Wenming</b>, Chair CSIC “China now accounts for 30 per cent of the world market. This is the time for backbone industries to take on the world with strong hand.”</p>     |
| <p><b>Finance ship builders</b></p> <p>CSSC and CSIC: US\$ 44 billion of policy bank loans since 2009; stock-markets</p>                                 | <p><b>Scrapping</b></p> <p>Chinese flagged, scrapped tonnage equals new build, and to be produced domestically</p>   |
| <p><b>Finance foreign customers</b></p> <p>Tied loans and export credit: 37% of export covered; package deals; OBOR</p>                                  | <p><b>Chinese customers</b></p> <p>Leasing companies, defence, shipping companies, cruise lines, offshore, fishing</p>   |
| <p><b>Finance foreign acquisitions</b></p> <p>US\$ 3.7 billion to CSSC vor Fincantieri JV</p>  | <p><b>Technology</b></p> <ul style="list-style-type: none"> <li>. TT through foreign partnerships</li> <li>. Indigenize knowledge, defence</li> <li>. Setting standards</li> </ul> |

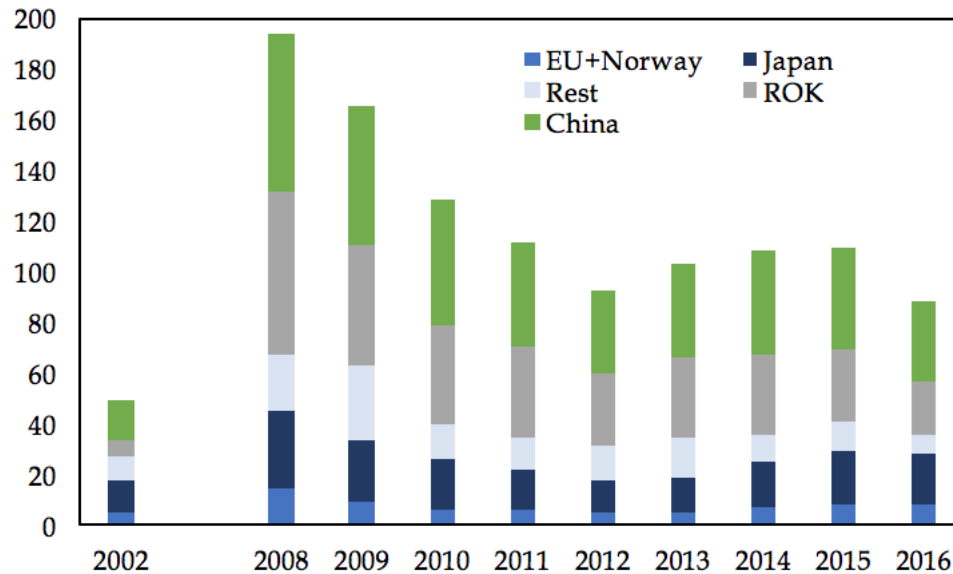


Chart. Orders (million CGT). Source: UNCTAD.

36-40 per cent of world orders ► Economic leverage



## Some state-financed R&D projects

- . dynamic positioning system on ships
- . high frequency ground wave radar
- . deep-water oil and gas exploitation
- . deep-water terminals
- . integrated monitoring and control systems
- . energy efficient propulsion
- . hybrid autonomous cruise observation
- . high-end steel and welding
- . high speed diesel engine
- . energy saving bow and hull design
- . LNG-FSRU
- . double engine tech
- . on board automation
- . large high-tech and high value ship design
- . large (+5000) vehicle carrier
- . large cutter suction dredger
- . large drag suction dredger
- . deep water pipe laying vessel
- . floating crane vessel
- . marine and intertidal wind turbine installation vessel
- . C-type LNG carrier
- . marine engineering equipment

- . Strategic vision for Arctic and tourism (一带一路”建设海上合作设想)
- . Indigenization technology
- . Made in China 2055
- . Independent construction



Reinforced steel, special  
welding: 78 articles, 4 patents

Reverted bow: 34 research articles, 1  
patent (VS bow)

Propulsion: 32 articles, 2 patents

How to go about it

Understanding

Realism

Leadership





“We should always remember that what we labour for,  
what trade for, and what we fight for, should be the  
wellbeing of the largest possible number of citizens and the  
prosperity of our children, for that is the bedrock of the  
stability and the power of our city.”

Cosimo De Medici, 1451