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**Norwegian Business Association China**

The Norwegian Business Association China is an active non-profit member-based association for Norwegian companies and business people in China. The NBA China was established in 2015, as a result of a merger between NBA Beijing and NBA Shanghai the same year. NBA China has a substantial membership base with over 80 corporate, individual and student members.

In spite of NBA China’s relatively short history, the association has proven to be well-received by its members & the community. Membership numbers continue to grow and members enthusiastically participate in making the association an active forum.

The NBA China is a dynamic association that organizes on average 20 events every year, ranging from seminars and sessions with corporate representatives from China and Norway, as well as social functions and networking events. Each meeting addresses a pertinent topic suggested by members. Depending on topic, experts are invited to hold an introduction on the subject and share their insights, followed by a discussion. The Board and the Executive Officers conducts everyday services and arranges activities as required.

The Norwegian business environment and activities in China are relatively small compared to the other Nordic countries. Thus, it is important to build a platform where we can share experiences and discuss challenges. We urge business with interest in China to join our association for the benefit of an active organization that strives to close the knowledge gap Norwegian companies may have when doing business in China.
Editorial notes

It’s remarkable how perceptions of a country differ so vastly depending on how close one is to the market. The “experts” on China who have merely spent some time here, and who do not speak the language, often paint a drastically worse picture than those who are truly in tune with Chinese market. Recently, an American investment manager based in New York claimed that China is on a treadmill to hell, another that the Chinese economy is built on sand. The majority opinion among those close to the market is quite the opposite. They speak about growing consumption, and an increasingly innovative private sector. Sequoia Capital’s Chairman, Mike Moritz, recently said that the Chinese entrepreneurial ethic is outshining Silicon Valley’s. Sequoia was the second most active VC in China Q4 2017.

This report is our effort, as Norway’s business association in China, to give a voice to those who are close to the market, who have lived in China for years and, through intense interactions with this ever-changing market, have an important story to tell.

Dan Bjorke
Chairperson, Norwegian Business Association China

This report explores a range of topics pertaining to business between China and Norway, two countries undeniably benefiting from their mutual trade, investments, and other economic interactions — and with clear interests in increasing those. While the former is sometimes described as a continent unto itself, whose massive economy continues to grow at a pace that still surpasses the expectations of many forecasters, the latter is a small but vastly rich nation with key strengths in the areas focused on in the following pages, ones with obvious connections to the former’s development path.

Our aim has been to gather voices by leaders in fields of particular interest to these bilateral economic relations, in order to provide information useful to business managers and various other decision-makers on both sides. We begin with chapters on the Chinese economy and Norwegian business environment from overall perspectives, including insights on what mutual interests might guide intensified collaboration. Then, in the sections to follow, we delve further into specific industries — from fishing to shipping to energy, and various others — and what developments are currently taking place in those, not only from business viewpoints as such, but legal ones, too. Finally, the report contains insights by experts on other topics not specific to one industry, such as Chinese leadership philosophy and how to make the best out of Free-Trade Agreements.

We would like to thank all of our contributors for sharing their important insights in the report, and hope it will not only inspire greater ties between Norway and China in key business areas, but provide the kind of information that helps this happen.

Magnus Jorem
Editor in Chief
The Chinese economy
Qi Zhang
Researcher, Fudan University, School of Economics

China’s importance to the world economy has never been greater, nor its financial clout more obvious. Meanwhile, understanding China’s economic trajectory and its nuances, whether from a Norwegian or global perspective, has never been more complex. In newspaper headlines, the continued growth in the country’s gross domestic product (GDP) is sometimes overshadowed by the slowdown relative to a decade ago. However, the decisive and far more interesting story is structural changes in the Chinese economy, and how various transformations underlying these are taking place.

As China moves from exports and domestic infrastructure investments as economic drivers to consumption and innovation as the engines of the future, what are the key developments to keep an eye on?

In 2010, China’s nominal GDP rose to $5.879 trillion, thereby overtaking Japan to become the world’s next-biggest economy, second only to the U.S. Since then, China’s nominal GDP has risen from 48 trillion RMB in 2011 to 74 trillion RMB in 2016, growing at an annualized rate of 7.3 percent in real terms. As a result, China’s per capita gross national income (GNI) increased from $1,760 in 2005 to $8,100 in 2016. China has already easily crossed the upper-middle-income threshold set by the World Bank at $4,036 per capita and is knocking at the door of high-income countries (defined as $12,476).

China’s economic achievements, however, are not confined to these GDP figures. They are comprehensive and embodied by changes in industrial structure, private economy, openness, innovation, poverty reduction, and other social and economic transformations. For one thing, China is no longer a less-developed country featuring an agriculture-dominant economy. The industry and service sectors have accounted for more than 80 percent of total output (Figure 1). And for the first time, as of 2016, the contribution to GDP from services, such as shops, restaurants, finance, and similar, pull ahead of industry, including manufacturing, mining, and construction.

Along with such a structural transformation, a massive labor migration has flowed out of the countryside and into cities, resulting in breakneck urban growth. As of 2015, migration from the countryside had helped expand the urban population by 500 million people. Over half the population is now urban, giving birth to greater numbers of large and super-large cities. By the end of 2015, more than 100 cities had more than a million people, and megacities have emerged, whose population, including that of their satellite towns, exceed 10 million. Among the 30 cities worldwide that match this criterion, six are in China, even by somewhat conservative population estimates: Shanghai (23 million), Beijing (19.5 million), Chongqing (13 million), Guangzhou (12 million), Shenzhen (11 million) and Tianjin (11 million). This urbanization trend looks to continue into 2018 and onwards for the foreseeable future. With ongoing urbanization and a rising middle class, it is services and consumption that are coming to dominate economic growth. Although at present, private consumption only accounts for 39% of GDP with a size of $4.4 trillion (2016 figure), by 2030 the figure will increase to 43% and $9.6 trillion, respectively, according to an estimate in a report by the investment bank Morgan Stanley. The same report projects that by 2030, household disposable income will reach $8,700; the median age will rise to 43, and internet penetration will increase to 75%. The 2016 figures, by comparison, are “just” $5,000, 37 years old, and 52%, respectively. Moreover, Chinese consumers have not only grown richer and richer, but also become a driving force of high-tech innovations in a wide range of intertwined areas, such as fintech, e-commerce, auto, healthcare, insurance, traveling, and household electronics, reflecting the growing tech-savvy of the population. This may further create a new configuration of Chinese economy. For example, the massive increase in ownership of smartphones and the population’s resulting tech-literacy to benefit from the sprawling e-commerce infrastructure, is likely to make e-commerce a key driver of China’s consumption and hence future growth.

In the ambitious blueprint known as “Thirteenth Five-Year Plan” made in 2015-2016, China made up its mind to double GDP as well and per capita GDP by 2020 from 2010 levels. If this comes to fruition, China will spring up from the middle-income trap to attain the high-income status it has long dreamed of. Indeed, China has made tremendous efforts to make sure this goal happens as scheduled. For example, at the end of the Third Plenum of the 18th Congress of the central committee of the Chinese Communist Party (“the Party”) in November 2013 (the Third Plenum being a crucial policy meeting held regularly, in recent decades every five years, —ed), the Party promised to “give the market a decisive role in resource allocation and give better play to the role of government.” Echoing the statement, since then, the Party has declared to push forward comprehensive reform on state-owned enterprises (SOEs), upgrade its manufacturing industries across the board to move up the value chain (source: Made In China 2025), and promote sustainable and inclusive economic growth, among other key policy objectives.

Hurdles ahead
Apart from these strategic deployments, from 2015 onwards, China has also stepped up efforts...
to address the mounting debts that are believed to be at the “root of weakness in China’s macro financial system,” quoting from Zhou Xiaochuan, China’s Central Bank chief. This includes reducing excess production capacity in the coal and steel sectors (by 10–15 percent of existing capacity over the next three-to-five years), closing down “zombie factories” identified by the central government and local governments, and restricting the role of the local government financing vehicles (LGFVs, which fund among other things local infrastructure investments through deficit spending) so as to put huge debts under control.

Despite China’s ambitious plan to achieve high-income status in the next five years, as well as the across-the-board approach to materialize this goal, getting there won’t be easy. Skepticism and pessimism still exist, as reflected in the accelerating capital flight out of China after 2015. For one thing, such a significant change in economic structure toward a consumption-and-services-dominant economy could take longer than expected, especially since the realities underlying economic statistics are multi-facultal. Despite the considerable rise in China’s services-to-GDP ratio in a row of years, it is still lower than the world average level (Figure 2). And although the services sector overtook the industrial sector by 2016, it is still too early to say whether this will be the new normal, since industrial goods prices saw dramatic fluctuations in the past two years, and the increase in services-to-GDP ratio reflected more the price-slapping of industrial goods than a real growth of services. In the meantime, investments still contribute too much to GDP growth. So far, investment accounts for 50% of economic output, well beyond what even Japan and South Korea registered in their most intensive growth phases. Without rebalancing, and along with huge debts, this can hamper the government’s efforts to reduce the industrial overcapacity problem, and hold off China’s transition from an investment-driven economy to one that relies more on domestic consumption.

Partial equilibria
The biggest challenges may come from the past four decades is based primarily on two pillars: opening up to the foreign world, among others Western countries like the US, EU members, and Norway, and market liberalization, as embodied by the retreatment of the state sector and a rising private sector. The opening up to Western countries has brought about investments, technology, and management know-how, while market liberalization has freed up space for genuine entrepreneurship and innovation. Today, however, on both fronts, China is trapped in a partial reform equilibrium in which further necessary changes have stalled regardless of the success of reform in the past. Although Chinese leaders have promised to treat Chinese and foreign companies as equals, U.S. and European companies have complained about red tape and limited market access, the latter referring to the official approvals foreign firms must win to enter China’s domestic market, besides a long list of strategic industries in which foreign investment is either restricted or off-limits, in addition to the somewhat ad-hoc nature of law- and tax enforcement. As a result, multinationals are no longer as interested in pouring money into China (Figure 3). FDI flowing into China reached a peak of nearly $300 billion in 2013, but has since dropped, whereas Chinese outward investments are skyrocketing. China’s private sector is today the most vibrant part of its economy, but fears are rising that national policy-making is turning the screws on it. In the past five years Beijing has already reasserted control over state-owned enterprises and claimed to take measures to make SOEs, including those titans owned by the central government known as “national champions,” larger and stronger. What this means in practical terms is consolidating the superiority of SOEs over private counterparts with, inter alia, greater access to capital, running counter to the government’s declared objectives of letting the market play a decisive role in resource allocation. This risks cementing skepticism about the central government’s commitment to solving the debt problem, as most debts have been generated by and accumulated in the state sector rather than privately.

The Party also has called on private entrepreneurs to be patriotic, for example by cooperating with the government by turning in data on social media to regulatory agencies and allowing authorities to take at least 1% stakes in IT giants such as Tencent and Alibaba. Perhaps the most worrisome development is the deteriorating private-property security that has long been a focus of foreign China-watchers. This includes not only scenarios in which peasants’ example, private investment rose by merely 2.1% from the same period a year earlier, the lowest rise since records began in 2005. Again, this mirrors the stagnant progress of SOE reform and entrenched policies not favoring the private sector. On the other hand, there is no doubt the central government has realized the danger of slipping this burgeoning private economy. In the end of 2015 and in September 2017, the State Council and the Central Committee of the Party jointly issued two documents that...
All in all, it makes sense to be bullish on the Chinese economy, given the current leadership’s resolve to push forward necessary reforms and the overall healthy macroeconomic indicators, such as a fast GDP growth rate, a high saving rate, strong foreign reserves, a low inflation rate, and so forth. Although problems are apparent, among them a high debt-to-GDP ratio, a large but inefficient state sector, excessive investment and production capacity, they are neither immediate nor fatal threats.

As long as the Chinese government has steady control over its massive resources, the system can still move ahead while avoiding major pitfalls in the foreseeable future.

The Confederation of Norwegian Enterprise (NHO) is Norway’s major organisation for employers and the leading voice for business and industry in Norway. The current membership of 25,000+ companies range from small family-owned businesses to multinational companies.

Ms. Kristin Skogen Lund, you accompanied Prime Minister Erna Solberg during her visit to China in April last year. At the Business Summits in Beijing and Shanghai, you spoke of Norway as a country defined by trade. In your view, what characterizes the Norwegian business environment?

At NHO, our role is to address any shortcomings and constantly press for business-friendly policies and an improved business environment. That said, I believe there are some basic factors that make Norway attractive for foreign investors and national companies alike. Norway has always been a trading and seafaring nation, open to the world. We have a strong economy, stable institutions, a high ranking in the World Bank’s Ease of Doing Business index (no. 8 in 2017), and highly competitive industrial clusters.

And we are part of the European Internal Market, which ensures that any foreign operator established in Norway is accorded free and non-discriminatory access to the whole EU market.

Outside of these factors, I believe there are two defining characteristics of the Norwegian business environment.

The first is competition. For generations, Norwegian companies have developed their competences through competition – not least in international trade. Seafood, shipping, oil and gas – and more recently renewable energy, high technology, systems and services – are just a few of the areas where Norwegian companies have managed to take global positions. To keep these positions, there is a continuous need for increased efficiency, productivity, and competitiveness.

The second defining characteristic is cooperation, and especially cooperation between employers and employees. Norwegian companies are low on hierarchy, and high on employee empowerment. Success is invariably the result of employers and employees pulling together.

How exactly does this cooperation between employers and employees work?

We cooperate centrally – with the trade unions — in collective bargaining over wage levels, and on issues such as inclusion and the climate.

And we cooperate locally – at the individual businesses – working together for common goals. Respect and understanding of each other, and each other’s role and responsibilities, is crucial. A well-functioning social dialog at the company level requires that the organizations and their representatives have legitimacy, and that they acquire the information needed to fulfill their roles.

Both centrally and locally, trust is vital.

Norway enjoys high levels of societal trust in general. If we examine the Norwegian working environment, we find that very same trust in the close cooperation between employers, employees, and authorities – from a national level right down to individual workplaces. A high degree of organization and centrally coordinated wage settlements ensure a steady wage growth, based on competitive industries’ need for sustainable wage levels. The competitive industries negotiate first and set the wage growth norm.

In addition to the stability of the wage leadership model, close cooperation between the authorities and the social partners contributes to a welfare system that offers safety and protection against
A number of important contracts were signed during Norwegian Prime Minister Erna Solberg’s visit in 2017 that laid the ground for new or more extensive collaboration between Norwegian and Chinese parties. The contracts reflect the importance of the normalized bilateral relationship between Norway and China, and how collaborating is crucial to solving our common challenges.

**Contracts signed during the Prime Minister’s visit to China**

### In Beijing
1. Arctic Green Seafood AS & Wu Mart-Wumei Group
2. BI Norwegian Business School & Tsinghua University
3. Bredaene Aa & Guangdong Ronny Fair Heavy Industry Co., Ltd
4. BW Offshore & ICBC Leasing
5. DNV GL & China Shipbuilding Industry Corporation (CSIC)
8. NBT & SANY Group
9. Ocean AquaFarms & Yantai CIMC Raffles Offshore Ltd
10. Oceansaver & China Cosco Shipping & China Cosco Shipping Heavy Industry Corporation
11. Statoil AS & Beijing Gas Group
12. Staur Asset Management & China Equity Group
13. TOMRA Systems ASA & Incom Recycle Co. Ltd & China Environmental Protection Foundation
14. MoU on cooperation between the Confederation of Norwegian Enterprise NHO and the China Enterprise Confederation (CEC)

### In Shanghai
1. Innovation Norway & Invest Shanghai
2. Innovation Norway with partners & China Equity Limited (establishment of nHack)
3. DNV GL Healthcare China & Mei Wei Investment and Management Co., Ltd.
4. ConseptoMed and Wego Group
5. Lion Healthcare Europe AS & Glint Pharmaceutical Group

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**In sum, the Norwegian experience is that trust equals dialogue equals productivity equals growth.**

Let me say a few words on innovation in particular:

In international comparisons, Norway actually is not among the top scorers on indicators for innovation, but does well on productivity indicators, even without considering oil and gas. We are effective in the workplace, but we struggle to identify the reasons why. I believe this is where we may have to revisit the issue of trust.

Internationally, Norway and the Nordic countries lie at the very top of what is called discretionary learning. With little hierarchy and flat organizational structures, work life in these countries is dominated by employees themselves taking initiative in problem solving. I believe this sort of innovation and learning is essential, yet may go unregistered and underreported in innovation statistics.

How do you consider the state of the Norwegian economy?

After the decline in oil and gas prices, Norway went through a few years of low growth and somewhat higher unemployment. However, the Norwegian economy is clearly picking up. So far this year, GDP-growth has been higher than projected trend growth and the unemployment has decreased gradually. I believe that six main factors have prevented a more serious backlash:

1. The shock was lopsided, affecting mainly the industries with the closest connection to the petroleum sector, located at the western and southern regions of Norway. Other regions and industries are far less affected, some unaffected.
2. Labour migration to Norway has declined, preventing the unemployment rate to rise even further.
3. The wage settlement for the sectors exposed to international competition was very moderate. Lower wage growth improves Norwegian competitiveness.
4. The Norwegian krone has been significantly depreciated, improving competitiveness further. The currency works as an effective and important shock absorber in the Norwegian economy.
5. The interest rate has been at a record low since March 2016.
6. Fiscal policy has been highly expansionary, boosting domestic demand.
We expect GDP to increase by a modest 2.1 per cent in 2018 and unemployment to decline somewhat, to 3.8%. Our members are positive in their evaluation of their own situation at the moment and in their expectations for the next year. Far more positive than one year ago.

The petroleum sector activity has been a key driver of economic growth in Norway for decades. This will change over the years to come, starting now. Structural adjustment is still needed.

Where do you see the greatest potential for Sino-Norwegian business cooperation?

Let me first say that few industrialized countries have gained more from China's entry into the world economy than Norway. Our industrial structure has fit China's like hand in glove, and Norway has enjoyed higher export prices on oil and gas and lower import prices, particularly on consumer goods.

Yet now we are entering a new era. As different as we are in terms of the size of our economies and populations, both our countries face transformational challenges on an historic scale.

For Norway, there are economic changes – with low oil prices affecting both financial and labour markets, there are demographic changes, there is the transition to the low-emissions society, and there is an underlying and massive technological change – with digitalization and automation transforming the way we work, replacing old jobs and creating new ones.

In China, we are witnessing the transition from an export-driven economy to a consumer-driven economy with a slower pace of growth. We see China stepping up the fight against climate change amidst rapid urbanization and an aging population.
and see China modernizing and innovating by expanding the service sector and developing its digital economy.

While our challenges may differ in scope and character, they also share one common feature: They must find their solutions within the realm of business. Name the challenge, and the solution lies, at least in part, in new technologies, new products, or new processes—all of which must come from business.

I believe the Norwegian mix of competition and cooperation is a good recipe for efficiency, trustworthiness, and innovation alike. And I am convinced that when Norwegian and Chinese businesses combine their respective strengths, they form resilient partnerships in the face of common challenges.

In the energy sector, Norwegian companies are leading in offshore technology, enhanced oil recovery, LNG, and renewables like offshore wind. Other Norwegian sectors of huge potential are seafood, aquaculture, and tourism.

And just think about the growth potential that lies in Sino-Norwegian business cooperation on green smart cities—we are talking about energy efficiency, renewables, water, waste, ICT, smart transport, health- and welfare technology, and so on.

And of course, there is the maritime sector, where we have the longest standing relations, building on world-class competence.

Likewise, Chinese industry clusters are rapidly moving from "Made in China" to "Innovated in China". There is a huge potential for cooperation within R&D in so many fields. Chinese incubators and business parks are increasingly attractive to Norwegian start-ups, looking for partnership with major Chinese enterprises. In the digital economy, China is on the forefront, particularly in financial technology and e-commerce.

In Norway, we are happy to welcome Chinese investments as Chinese businesses are going global. We are particularly proud that one of the most innovative—Huawei—is a member of the NHO.

We are also most happy to see the Chinese leadership’s clear stance in favour of international trade and investment. Representing a third of global growth, it is of vital importance to the world that China remains open for business.

What is NHO doing to promote trade and investment between Norway and China?

It goes without saying, that China is an ever more important market and trading partner for our member companies. China is a major destination of investment, and increasingly a source of investment. Norwegian and Chinese companies take part in global value chains all over the world.

At NHO, we are working with our Chinese friends along several lines:

First, I am proud of NHO’s long standing cooperation with our Chinese sister organizations, chief among them the China Enterprise Confederation (CEC).

NHO and CEC have been partners from back in the 1980s, exchanging experiences on issues like collective bargaining, management, human resources, HSE and green technologies. More than 2,500 Chinese business leaders have attended seminars in both countries. And I am particularly proud that NHO and CEC in 2009 helped give birth to the Dalian Energy Efficiency Center.

Secondly, we help create arenas where Norwegian and Chinese businesses may meet. In Norway, we are actively supporting the Norwegian Chinese Chamber of Commerce. In China, we are working with CEC on bringing together Norwegian and Chinese business leaders for roundtable talks—most recently during Prime Minister Erna Solberg’s visit to Beijing in April 2017.

Thirdly, on a policy level, we are promoting improved conditions for trade and investment. We cherish the historically warm friendship between our countries and are most pleased to see the resumption of the free trade negotiations. A modern and comprehensive agreement is the best foundation to reach the full potential of Sino-Norwegian economic cooperation and joint innovation.

On a personal note, let me add that I have many fond memories from my visits to China. I am thoroughly impressed by the scale and pace of developments, yet what remains with me is the friendliness and openness of the people I meet.

Together, we have a mutual interest in building economical sustainable societies, with robust businesses based on continuous innovation and harmonious labour relations.

I am convinced that when Norwegian and Chinese businesses combine their respective strengths, they form resilient partnerships in the face of common challenges.

We have worked together with CEC in East Africa, encouraging a dialogue between Chinese business and national employers’ organisations. And we have cooperated regionally with partners in Indonesia and Vietnam on issues like CSR and labour relations.

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China’s seafood market and Norwegian opportunities

Sigmund Bjørgo,
Director China, Norwegian Seafood Council

Whether you look at production or consumption, the Chinese seafood market is massive, and growing steadily. It easily leads the world in volume and value, showing no end to appetites for more, whether on the dinner table or in the boardroom. And while international trade remains a relatively small share of the world’s largest seafood market, its growing figures are a force to be reckoned with.

The following provides a look at the hard figures key to understanding the staggering proportions of the Chinese seafood market, and how Norwegian products, in various categories, play an increasingly important role in it.

China is by far the world’s largest seafood producer, exporter, and consumption market. In 2016, the total volume of seafood production was 69 million tons. Of this, 49% was from freshwater production, 51% from saltwater. Within freshwater seafood production, 93% was farmed, and only 7% wild capture. The corresponding figures for saltwater were 56% farmed and 44% wild capture.

In 2016, the Chinese market consumed 68 million tons of seafood, a figure that in recent years has been growing at an average rate of 2-3% annually. The vast majority of this consumption is produced domestically, with imports constituting just 4% — a large slice, in absolute terms, of a massive pie. At present, China is a net exporter of seafood, having imported 2.6 million tons in 2016, while exporting 4.1 million.

Pollock is by far the biggest imported species, accounting for 31% of the total imports in 2016. Salmon (both wild catch and farmed) accounted for 10% in the same year, followed by cod (10%), inkfish (7%), and prawns, herring, and mackerel (5% each of the imported volume). Russia is the biggest exporter of seafood to China, with 34% of the volume in 2016, followed by the US (14%), Norway (6%), and Indonesia, Taiwan, and Canada (each 4% of China’s imported volume).
Norway's seafood exports to China

Norway exported 181,000 tons of seafood to China — worth NOK 3.4 billion — in 2017. This was a growth of 26% in volume and 23% of value compared to 2016. Mackerel was the largest product in terms of volume, followed by cod, haddock, capelin, and saithe. The export volume of salmon, which is the most famous Norwegian seafood product among Chinese consumers, was reduced to only 2,900 tons — a change very likely to reverse given the expected improved market situation.

Most of this volume is purchased for processing and re-export. Mackerel is mainly re-exported to Japan and South Korea, while the white fish species are re-exported to Europe and the US. The Norwegian Seafood Council estimates that around 90% of the imported seafood volume from Norway is processed and re-exported to other countries, the percentage varying between different species.

In the eyes of the consumer

Norway is perceived to be one of the most important seafood nations in the world by Chinese customers. Over the past five years, in consumer perceptions, Norway’s position as a seafood nation has grown from 7% (2012) to 24% (2017). During the same period, Japan fell from 52% to 25%. It is likely that Norway, in 2018, will become the country most Chinese recognize as a seafood nation.

Association of Seafood nation (1st mentioned)
Salmon — Norway’s biggest brand in China?

Salmon is probably the most famous Norwegian “brand” in China, even after years of market-access challenges. It is mainly eaten raw — between 80 and 90% of total Chinese salmon consumption — as sashimi or sushi. The restaurant market holds by far the largest share, constituting 75-80% of the total. Apart from restaurants, the channels for in-home salmon dining include modern supermarkets, wet markets, e-commerce, restaurant home-delivery, and pick-up. And within that segment, the biggest growth in modern supermarkets is ready-to-eat sushi and sashimi packages.

51% of Chinese consumers prefer Norway as the country of origin for salmon, an increase from 31% a few years ago. Japan, meanwhile, has lost preference, from 39% in 2012 to 21% in 2017. Notably, there is no Japanese salmon in China. The link between salmon and Japanese cuisine is an economic and historical irony. Norway introduced farmed Atlantic salmon as sushi and sashimi into the Japanese cuisine in the 1980. Then, when Japanese cuisine was exported globally during the late 1980s and 1990s, salmon became the most popular fish for sushi and sashimi outside of Japan. However, then as now Japanese salmon is unsuitable for raw consumption.

Source: NSC annual SCI research
The Norwegian Seafood Council has estimated China’s salmon consumption in 2017 to be around 80-85,000 tons. Only a small share of this is imported from Norway, due to the market-access situation. However, with full normalization, the Norwegian Seafood Council estimates that Norway’s fair market share would be around 65%. It also expects strong growth in the Chinese market in years to come.

If production increases allow, the Norwegian Seafood Council expects the Chinese market to consume 240,000 tons of salmon in 2025. With 65% market share, this would account for 156,000 tons of salmon. That is equivalent to around 12% of Norway’s current production of salmon, valued at approximately NOK 10 billion.

Cod — a strong second product

The Norwegian Seafood Council launched the project ‘Cod in China’ in 2014. Through thorough market research and market development, it has established Norwegian cod as a strong second product after salmon in the Chinese market, branding wise. Together with the seafood industry, the Norwegian Seafood Council has built the position of Norwegian Arctic Cod in order to differentiate Atlantic cod from Seafood Council has built the position of Norwegian salmon in the Chinese market, branding wise.

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The reputation of Norwegian salmon and seafood in general has been a catalyst for the popularity of Norwegian cod. The preference of Norway as country of origin for cod is 53%, and no other countries have a real position in this segment.

Which is Your Preferred Country of Origin When You Buy XueYu (cod)

The Norwegian Seafood Council expects around 4,500 tons of Norwegian cod to have been consumed in China in 2017. At the same time, it sees great potential in the market. The volume can grow to 40,000 tons by 2025. This would represent around 10% of current Norwegian capture of Atlantic cod.

Other "new" species

In 2017, Norwegian Seafood Council conducted a study to search for opportunities for species less known in the Chinese market. It included redfish, Greenland halibut, saithe, herring, mackerel, capelin, king crab, snow crab, brown crab, blue mussel, coldwater prawns, scallops, and stockfish.

To the great surprise of Norwegian Seafood Council, more of the imported Norwegian seafood was consumed in China in 2016 than had been previously projected. Based on recent figures, there are in particular four Norwegian species with high potential in the Chinese market. These are mackerel, capelin, redfish, and Greenland halibut. All of these are recognized in the market, with relatively high consumption at present. China already annually consumes around 29,000 tons of Greenland halibut, 15,000 tons of mackerel, 9,000 tons of capelin, and 7,000 tons of redfish (in total volumes, not just Norwegian products). These are the species projected to have the greatest nominal growth in the years to come, besides salmon and cod.

Market access for Norwegian seafood

Norwegian seafood has experienced major market-access challenges over the past seven years. In particular, Norwegian salmon has been affected by such difficulties. However, in 2017, there have been positive developments in the area. Norwegian salmon’s import restrictions have been removed, and chilled Norwegian salmon is again airborne to Shanghai and Beijing.

While Chinese authorities approved new Norwegian seafood producers for import in November 2017, there are still steps to take before market access can be perceived as fully normalized. The Norwegian provinces of Sør Trøndelag, Nordland, and Troms remain suspended for exporting salmon to China, and approval of 30 new species, fish oil, and fish meals are still pending. When we finally reach full normalization, Sino-Norwegian seafood trade will prosper swimmingly.

Norwegian Seafood Council

Norwegian Seafood Council (NSC) works together with Norwegian fisheries and aquaculture industry to develop markets for Norwegian seafood. It does so through market insights, market development, market risk management, and reputational risk management in select markets around the world. A public company owned by the Ministry of Trade, Industry and Fisheries, with a head office in Tromsø and local branches around the globe, including in Shanghai, NSC is the approval authority for Norwegian seafood exporters.
Norwegian seafood – legislative aspects

Grunde Bruland,
Partner, Bergen, Wikborg Rein

Seafood is the second largest export commodity in Norway, and has increasing importance for the Norwegian economy. From the early days, Norwegians have utilized the natural resources that the oceans and fjords provide, and in the last few decades, aquaculture (salmon farming in particularly) has expanded and passed the catch from traditional fishing.

Today, Norway produces approximately 1.3 million metric tons of salmon annually. The Norwegian government has set the goal that the volume shall increase to 5-7 million metric tons in 2050 — but only if this can be done in an environmentally sustainable way. A solid legislative foundation is important to accomplish this goal.

Traditional fisheries

The Norwegian fisheries fleet comprises a varied group of vessels, from the smallest fishermen boats to large factory trawlers. Almost all fishing activity (except non-commercial activities) is license-based, and licenses are reserved for people who have been active fishers in the latest years. Quotas are set each year for all species in order to upkeep the stock in a sustainable way. Norway and other countries in the North Atlantic region also enter into agreements each year to divide the overall quotas between the countries. Within Norway, it is also important to split the quota between separate fishing methods and between the coast vessels and the ocean trawlers. Measured by volume, the cod fisheries (trawlers) and pelagic fisheries (ring net vessels) are the largest industries.

Aquaculture

Aquaculture business, too, is license-based. Salmon licenses are limited in number, and new licenses are only issued in allocation rounds arranged by the government. Each standard license allows the farming company to have 780 metric tons of salmon in the sea. Due to the increased demand for seafood and the limitation on production, the profitability in salmon production has been quite high in recent years. Licenses can also be sold, each one representing great economic value. The licenses are registered in the aquaculture register, and may also be used as security (pledge) in loan financing of the business.

Aquaculture is subject to detailed environmental regulations. Sea lice and escapes have been the largest challenges in recent years. A new regulation has now defined the future growth possibilities, defining the coast in 13 production zones. Only farmers in zones defined as environmentally sustainable (“green” traffic light) will be offered growth. It is the sea lice levels (and the influence in wild fish) that farmers are measured against.

Land-based freshwater licenses are not limited, and may be applied for outside allocation rounds. It is a trend to keep the smolt longer at land-based facilities (post smolt), and new technology for recycling of water makes this possible. The benefit is shorter production times and also reduced sea lice levels and deceases during the sea phase of production.

In 2016 and 2017, the government has introduced new licenses for developing new and innovative production technology. More than 60 applications have been submitted, and some projects have already received licenses for offshore farming equipment and/or closed cages. The licenses can be converted to ordinary commercial licenses when the development project has been finalized, and this is the key element that has made the program very attractive.

Fish farmers have also tried to produce other species than salmon and trout, but so far this has not proved to be very profitable, and today the volume of cod and halibut farming is very low.

Export and trade

Exporters have to be approved and registered in a national register, but the requirements are not very strict. The large fish farming companies export their own products, but there are also independent export companies and traders of seafood products. The EU is the biggest importer of Norwegian seafood, but exports to Asia via air are increasing yearly.
Opportunities for Norwegian and Chinese cooperation in offshore aquaculture

Erlend Ek, Research Manager, and Sarah Eisenacher, Analyst
China Policy

Finding sustainable solutions to feeding a rapidly growing world population is one of the most pressing tasks for leaders around the globe. Nobody knows this better than China’s. Since it embraced globalization nearly 40 years ago, China has lifted 85 percent of its population out of poverty, and is today feeding more than 1.3 billion people every day. For the past few years, production of major staples has even exceeded demands.

Yet these methods are costly and hardly sustainable. It is widely acknowledged, for instance, that most fish stocks in three of China’s four major seas are now depleted, and its fish-farming sector has little potential for growth along an already oversaturated coastline.

There are two ways out of this: firstly, China could import more. But global competition for resources is fierce, and China, accounting for about one fifth of global population, would have demands on a scale unlikely to be satisfied by others. For sure, Norwegian quality fish producers should seize all opportunities they get to gain access to the Chinese market, but even Norway’s entire annual salmon production could only satisfy a tiny proportion of China’s current seafood consumption. Imports will not help China increase food security among its own production, and is therefore undesirable on a large scale.

Alternatively, China could develop new and more efficient technologies. This is where it really gets interesting for Norway. If China were to back offshore aquaculture, it would need significant investment – which Norway, leading in this field, could deliver. In return, China could provide manufacturing expertise and capital.

Vastly different markets

Many Norwegian producers fear that China will copy their technology and turn into a competitor in the sector they currently dominate. But the market and farming environment in China are very different from those of Norway. While Norway concentrates on salmon production, China is interested in native species better adapted to local conditions. Two prominent examples of this are yellow croaker and yellowtail kingfish, which are in high demand both on the domestic market and among neighboring states like Japan for their high nutrition content.

Once Norwegian companies recognize that a mere repetition of the salmon success story is unlikely in China, they can set their mind on capitalizing on the unique chances unfolding in front of them. These opportunities do not come without challenges. Both countries have little experience with one another. Norwegian companies are notably absent from most industry conferences in China and rarely land projects. Because the Chinese government is eager to develop the industry quickly, it tends to give projects to inexperienced domestic companies, which then try to learn from those already in the market. More often than not, these are poorly thought through, highly subsidized signature projects. Current attempts at creating large-scale offshore fish farms, for instance, are heavily biased towards production, giving little thought to management or the commercial side of things.

Likewise, China is conspicuously absent from the Norwegian market. This is at least in part because Chinese enterprises have little experience with production management, dating back to the times when China protected its primary sector with enterprises from secondary and tertiary industries such as construction, processing, fish feed etc. As a result, they often find it hard to identify promising opportunities for investment.

Sino-Norwegian cooperation in offshore aquaculture would take pressure off China’s current production system, while Norwegian enterprises could utilize their know-how in offshore sectors and fish farming to diversify and venture into new areas. If Norway recognizes and seizes this chance to transfer its expertise on China’s case, it will be rewarded with substantial expansion potential for its businesses.

China Policy

China Policy is a research- and strategic advisory based in Beijing and Shanghai. Working with clients at leadership, executive, and research levels, they deliver clear insight into China’s policy world as it affects strategic and operational decision-making in China and around the world.
Deepening and broadening trade between Norway and China

Vibeke H. Madsen
CEO of Virke, the Enterprise Federation of Norway

Trade brings prosperity and wealth to both our countries and people; removal of trade barriers allows us to develop our comparative and competitive advantages for the common good. President Xi Jinping said it well in Davos last year: “China will keep its doors wide open, and we hope that other countries will keep their doors open and maintain a level playing field for us.”

Virke will certainly do its part to further deepen and broaden commercial ties between Chinese and Norwegian companies. The following themes and developments are central for this to happen.

Norwegian trends and imports from China - Trade between China and Norway

First, a look at exports from China to Norway in a historical perspective: In 1995, imports from China were primarily textiles, with a value of approximately US $ 500 million. Now, for 2018, electronics & telecommunications, office equipment & computers have become the dominant import articles, the value in 2016 nearly reaching US $ 8 billion — a 14-fold increase in 20 years!

The Norwegian economy has gained momentum through 2017, as the downturn in oil-intensive industries has come to a halt. Business investments are picking up, and hiring is rising again, causing a decrease in the unemployment rate. Low interest rates and real wage growth point to healthy consumption growth in the years ahead. Inflation has come down after the one-off hike due to the depreciation of the Norwegian krone in the period of 2013-2015.

In recent years, imports have had a larger growth rate than exports. While this is expected to change the next couple of years, imports are still expected to grow some percentage points in real terms.

Expectations and possibilities on the Free-Trade Agreement (FTA) negotiations

When China and Norway resumed diplomatic relations in late 2016, both countries were very clear about the importance of re-starting the free trade negotiations, and we were very pleased when the memorandum of understanding for a re-start was
China has during the last years leapfrogged on technology development within e-commerce, sharing economy, digitalization, automatization, and mobile solutions. Both our countries have growing skill-intensive services, consultancy industries, and high-tech companies with rich diversity.

The business delegation accompanying our Prime Minister on the official visit in April 2017 drew to date the largest number of Norwegian companies of any such occasion. Further, the Chinese pool of companies involved was both large and diversified. Along with the positive feedback from both Chinese and our member companies within knowledge and technology, I firmly believe that they can contribute positively in China.

Virke was one of the partners in the parallel session focusing on entrepreneurship and start-ups, also included the introduction of nHack Start-up Accelerator, which was launched in Shanghai last year and will open in Beijing and Shenzhen in February this year. The accelerator is a great way for Norwegian companies to develop solid strategies and form strong relationships with Chinese business partners. As the CEO of Virke, I would like to see a situation in the near future where Norwegian companies compete in the Chinese market. Equally, we would welcome Chinese investments in Norway.

Sustainable trade
– Customers’ expectations and business partnerships in a long-term perspective

Virke has with great interest noted the increasing Chinese cross-industry efforts at promoting sustainable business. China’s investments in this area will give companies a new comparative and competitive advantage in the global markets with clean technology and climate-friendly products and services.

We want to learn from you, and we believe you can learn from us. Through a mutually beneficial trade relationship, both countries will develop their comparative and competitive advantages in consumer goods.

Norway presents rich opportunities for Chinese exports and investment. Our economy and business climate are characterised by high productivity and competitiveness. Companies and consumers alike are highly digitised. Consumers have high disposable incomes and there is high demand for consumer goods. Through our membership in the European Economic Area, Norwegian business have unlimited access to the EU-Single Market.

For the Norwegian Government, it remains to remove import duties on textiles, as this in effect distorts textile imports from China. Removing the import duties will have a great positive effect, both with reference to improved buying terms and reduced transaction costs.

There are other good reasons to see increasing trade between China and Norway. We should take the opportunity to learn from each other through trade and profitable supply chains. Norwegian companies are constantly looking for new business opportunities. When it comes to open doors, I firmly believe that the Norwegian skill intensive service- and consultancy industries can contribute positively in China. They have the skills, know-how, know-what, and know-when to contribute positively for mutual benefit.

For all business, stable framework conditions and equal rules of competition are crucial. For foreign trade and internationalization, free trade and free trade agreements are likewise of great importance.

Our recommendation to the Norwegian government is to ensure a lasting and effective FTA with China, which should include an automatic upgrade when new FTAs with other countries are negotiated.

Knowledge and technology
– Norwegian companies’ interest in establishing relations with Chinese business partners

Norwegian companies and consumers are highly digitised. The consumers have high disposable incomes and with a resulting high demand for imported goods from China.

FDI from China, 2016, bn NOK
22

ODI to China, 2016, bn NOK
4

Revenue by Norwegian companies in China, bn NOK
15

Number of Norwegian Companies in China
100

Employees of Norwegian companies in China
10,000

Exported goods to China, bn NOK
17

% of total export to China
4%

Exported seafood to China, bn NOK
3.3

Exported goods to China
17

% of total export to China
4%

Imported goods from China
67

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% of total export to China
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2018 – the year of the dog

Virke took part in the official visit by Prime Minister Erna Solberg in April 2017 and we will be following the FTA negotiations very closely. The very last words during my plenary speech in Shanghai was: “I’ll be back” – and I certainly look forward to that possibilities already in the proposed State visit by the Norwegian King Harald V this year. I find it highly interesting and appropriate that the characteristic word for 2018 is ACTION, according to the Chinese Zodiac for the year of the Earth Dog.

Let’s hope for action when it comes to stronger business relations between our two countries.

Virke

Virke - The Enterprise Federation of Norway, is the main organization for enterprises within the trade- and service industry in Norway, and represents 21,000 members. Members range from agents, importers, and wholesalers, to retail chains. Other sectors include knowledge and technology, travel, education, health care, and civil society/NGOs. Virke works to improve the framework conditions for its members, in close collaboration with the Norwegian government and the employee organizations. It also conducts industry- and trend analyses, and builds the image of industries in the public domain.

sustainable products and services. Norwegian companies are constantly looking for business opportunities. I would like to see new sustainable business models and innovations grow out from the renewed Chinese-Norwegian trade relationship.

The Norwegian consumer feels strongly for ethical production and consumption, the millennials are clearly deciding on where to work and what to buy of products and services based on sustainable and ethical foundations. Virke has supported its members on ethical trade e.g. through the founding of Ethical Trading Initiative Norway in 2000 and Eco-light in 2003.

On the surface, the Chinese and Norwegian ways of conducting business may look very different. However, we have a mutual understanding and commitment to long-term partnerships and collaboration.
Leadership and complexity in Chinese philosophy

Professor Jan Ketil Arnulf
BI Norwegian Business School

Ancient Chinese philosophy has inspired many famous leaders around the world. A treasure trove of great insights awaits a person with some time to contemplate.

The magic of Chinese philosophy stems partly from the poetic power of the Chinese language in supporting metaphors. Sentences are never about their surface meaning, as in Deng Xiao Ping’s famous explanation of politics and economy: “It doesn’t matter whether the cat is black or white as long as it catches mice.”

If you are interested in the dynamic, almost chaotic challenges in modern-day leadership, you will find that today’s dilemmas echo an ancient Chinese controversy between the Confucians and the Daoists.

Confucius was famous for his emphasis on knowledge and teaching, but his ideas also stems from a rural society with emphasis on traditions. Rural societies are built on the regularities of seasonal changes and respect for the wisdom of previous generations.

This worshipping of stability was challenged by Daoists such as Lao Zi or Zhuang Zi. To them, wisdom comes from embracing eternal change.

Their core concept called “Dao” can be understood as the constantly moving and changing forces of the universe. You rarely see the “Dao” itself, only its changing manifestations. To them, a wise person is in direct contact with the “Dao” and not with its outdated forms.

According to the great Chinese philosopher Feng You Lan, there is a particularly well-pointed argument from Lao Zi against the Confucians. It is almost like a formula and contains only five sentences. Their translation from ancient Chinese is obviously a matter of dispute. However, if we take the liberty of treating them as metaphors (a part of the tradition), we can arrive at an interesting set of advice for leadership:

失道而后德
“If you lose sight of the ‘Dao’, still there is virtue.” If you see where to go, don’t use a map. When you cannot see clearly, use a map (or a theory, or whatever contains ‘virtue’). This is to remind you that the map is less important than the terrain, and that theories (maps, virtues) of all sorts are second choice.

失德而后仁
“If virtue is lost, still there is benevolence.” If you have no good theory, working things out with other people will bring you far. This is the spirit of a coherent team that can adapt well to unknown situations.

失仁而后义
“If benevolence is lost, still there are rules.” Enforcing rules is possible, but is clearly seen as having low priority. Rules are made for other situations and other people and may not be very adaptive, only to be used where wiser methods fail.

失义而后礼
“If the rules fail, still there are ceremonies.” If all else fails, you can ask people to unite by celebrating some sort of ritual ceremony. But ceremonies are mere traditions and risk being empty. According to professor Feng, this is the blow to the Confucian traditionalists, as gets clear in the final sentence:

夫礼者，忠信之薄而乱之首
“Blind followers of ceremonies are opening the doors to chaos again.”

I have found it valuable to contemplate on these sentences in leadership development. If you take Confucius to represent well-founded management theories and practices, you will find that Lao Zi addresses the nature of change. Sometimes you just see what is necessary (a glimpse of the Dao) and have to go the way alone. Sometimes you can stick to a good theory. Most of the time, you may want to create a strong social network as the backbone of your organization. Rules and the ceremonies are always possible, sometimes even necessary, but that is not where superior wisdom resides.
Several decades of rapid economic growth have turned China into the world’s largest energy market. But its energy demand is dominated by fossil fuels such as coal and oil, which have left a large footprint on the local and global environment. Now, however, the tide is turning. Economic growth is slowing, and its composition is tilting towards less energy-intensive sectors. In addition, China has taken several steps towards a cleaner energy mix. Its investments in renewable energy sources rank far above any other economy in the world. Combined, this will lead to a more sustainable development in China’s growth path.

Introduction and background

China’s footprint on the global economy has increased rapidly in recent decades. After more than thirty years with economic growth at around 10% annually, the country has regained its position as the world’s largest economy. The rapid expansion has been unprecedented in newer history – never before has a country managed to lift its income level, as measured by GDP per capita, as much in such a short period of time. Just to illustrate China’s transition: In 1990 China’s level of GDP per capita on a purchasing power basis was 10% below that of India’s. Today China is nearly 125% ahead of India.

The success has hinged on multiple factors. Low costs and an abundance of cheap labour led to an influx of foreign direct investments. With it came new technologies that raised productivity which in turn boosted wages and motivated large groups to migrate from the countryside to cities. Industrial clusters emerged in several key industries. These lowered manufacturing costs further relative to other low-wage economies, a competitive advantage that is still visible today. Consequently, China quickly became the “manufacturer of the world”, and it should be of no surprise to anyone to hear that it produces nearly 90% of all toasters and microwave ovens and 80% of the Christmas decoration that are sold in Norway today.

Naturally, economic policies have been important. Ever since the early 1980s, it has been clear that China’s leaders have put great emphasis on achieving high and stable economic growth. At the core of this has been the mantra that “a rising tide lifts all boats.” Even the poorest of the poor will benefit as the country becomes richer. Of course, some have benefitted more than others, but that has been in line with Deng Xiaoping’s thought that one has to “let some people get rich first.”

To achieve this, economic growth has been capital-intensive and investment-driven. The government has put in place extensive corporate subsidies, with land, water, energy, and capital being priced well below market prices, and significantly under world averages.

Unbalanced economy has increased energy intensity

One of the implications of the investment- and manufacturing-driven growth has been that the economy has been much more energy-intensive than other comparable economies. As the chart below shows, it is normal that energy intensity increases with the income level up to a certain point. This is due to a range of factors, but the transition from being an agricultural-based economy to a manufacturing-oriented one is among the most important. The process is usually amplified by urbanization, as urban households tend to have higher energy demand for each income unit earned than rural households. However, as the economy transitions towards more services and less manufacturing, a common development for economies with a high income level, energy intensity declines again.
What is striking about China is how high its energy intensity is relative to other middle-income countries. In the period between 2007 and 2014, energy intensity averaged at about 200 energy units per 1,000 GDP units, more than 1/3 higher than the normal level for most middle-income economies. This owes primarily to the fact that the economy has been significantly more manufacturing- and investment-driven than any other economy in the world. Its industrial share of GDP stood at 40% in 2016, around 10 percentage points higher than the normal level for other middle-income countries. The investment ratio, which measures gross investments as a share of GDP, was at 43% in 2015-16, somewhat below the peak ratio, which measures gross investments as a share of GDP. Thus the shift from manufacturing to services will reduce growth in energy demand, even if growth in GDP stays unchanged.

The slowdown in energy demand is amplified by improved efficiency. New technology and improved standards lead to reduced energy demand despite higher activity. This has especially been visible in the manufacturing sector, where production has outgrown primary energy demand almost every year in the last decade.

The outlook for China’s energy demand is therefore likely to involve substantially slower growth than previously in the 2000s. Granted, growth in energy demand has already slowed materially in recent years. In 2015 and 2016 primary energy demand rose by 1.0% and 1.4% respectively, down from an average of 7.5 in the preceding five year period. We estimate that underlying GDP growth (i.e. not the reported numbers) will be around 4-6% yearly in the coming five years. After taking into account changes in the composition of GDP and intra-sector improvements in energy efficiency, the natural growth in China’s primary energy demand should be around 1% per year in the same period.

Shifting towards clean energy

In recent years China has seen significant shifts in the composition of primary energy demand. In particular, the share of coal has declined rapidly, falling from 72% in 2009 to 62% in 2016. Due to the rapid growth in total energy demand, coal continued to surge in the beginning. But as the pace of growth in total energy demand slowed, coal demand peaked in 2013, and has since fallen materially. We estimated that coal demand has declined by about 4% since the peak in 2013.

It is no coincidence that coal is falling. In an effort to improve the environment the government has set new targets for coal in its energy structure. In particular, for the first time the 13th five-year plan has set mandatory target for reducing the share of coal in total energy consumption. Under the plan, coal is set to decline to 58% by 2020, down from 64% in 2015 (the reference year). As a consequence, coal demand measured in physical tons should continue to fall, and we estimate a decline of 1-2% per year in 2017-20.

The government’s target to reduce the coal share to 58% is, in our view somewhat conservative, and we see a clear possibility that China will over-achieve on its targets. Consequently, the pace of decline in China’s coal demand could be somewhat larger than our baseline.

The target to reduce reliance on coal is already having an impact on the energy sector. In September 2017, China announced that it will stop or delay work on 151 planned and under-construction coal plants. The coal plants have a total capacity of 95 gigawatts, equal to that of Germany and Japan combined. The cuts are somewhat larger than the government’s original target for 2017, but are short of the 150 gigawatts targeted for 2020. Hence, more cuts are likely to follow in 2018.

To offset the reduction in coal, China has and will continue to increase capacity in renewables and natural gas. The share of non-fossil energy is targeted to rise to 15% in 2020, up from 12% in 2015, while gas is scheduled to rise to around 10%, up from 6.5% in 2015. These targets, however, are likely to be over-achieved and revised upwards.

By July 2017, China’s solar power capacity had increased to 112 gigawatts, after having installed an impressive 35 gigawatts so far that year. Consequently, the target to install 105 gigawatts of solar power by 2020 has already been surpassed. Not surprisingly, the National Energy Administration has already indicated that the 2020 targets are likely to be set higher, so far indicating an increase to 213 gigawatts. This is more than five times as much as the current capacity in Japan, the world’s second largest solar power nation.

For wind power, the story is similar. China is likely to install around 110 gigawatts onshore in the next three years, meaning that its total capacity will exceed 264 gigawatts — far higher than its target of 210 gigawatts set in the 13th Five-Year Plan.

Growth in energy demand will slow

But China is changing, and gradually, the economy is becoming less manufacturing- and investment-driven. Services are becoming a larger part of the pie, and consumption is increasing its contribution to growth in GDP. This transition, which has barely begun, will lead to a decline in energy intensity. On average, services companies need around 1/6 of the energy required by an average manufacturing company to produce the same amount of GDP. Thus the shift from manufacturing to services will reduce growth in energy demand, even if growth in GDP stays unchanged.

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The target to reduce reliance on coal is already having an impact on the energy sector. In September 2017, China announced that it will stop or delay work on 151 planned and under-construction coal plants. The coal plants have a total capacity of 95 gigawatts, equal to that of Germany and Japan combined. The cuts are somewhat larger than the government’s original target for 2017, but are short of the 150 gigawatts targeted for 2020. Hence, more cuts are likely to follow in 2018.

To offset the reduction in coal, China has and will continue to increase capacity in renewables and natural gas. The share of non-fossil energy is targeted to rise to 15% in 2020, up from 12% in 2015, while gas is scheduled to rise to around 10%, up from 6.5% in 2015. These targets, however, are likely to be over-achieved and revised upwards.

By July 2017, China’s solar power capacity had increased to 112 gigawatts, after having installed an impressive 35 gigawatts so far that year. Consequently, the target to install 105 gigawatts of solar power by 2020 has already been surpassed. Not surprisingly, the National Energy Administration has already indicated that the 2020 targets are likely to be set higher, so far indicating an increase to 213 gigawatts. This is more than five times as much as the current capacity in Japan, the world’s second largest solar power nation.

For wind power, the story is similar. China is likely to install around 110 gigawatts onshore in the next three years, meaning that its total capacity will exceed 264 gigawatts — far higher than its target of 210 gigawatts set in the 13th Five-Year Plan.
However, it is not only capacity that is rising, curtailment is also increasing. Curtailment is when solar panels or wind turbines stop producing power even when they are able to produce more. This happens, for example because the grid is not equipped to handle it, because there is no way to store the power, or due to excessive quotas allocated to coal-fired power plants. Curtailment is especially a problem in China’s northwest, such as the provinces of Xinjiang and Gansu, where curtailment rates have risen to more than 30% in recent years.

To curtail the curtailment, the government has ordered an investment ban on some provinces, while others, such as Shanghai and Beijing, are allowed to install as much solar power as they want provided that it does not cause curtailments in these regions. The hope is that the ban will push provinces towards more efficient power generation and lower the need for coal further.

Slow energy demand, coal in decline

The upshot is the energy sector in China is changing fast. Economic trends will lead to only marginal growth energy demand in coming years, and the energy mix will be tilted away from coal and towards clean energy. Consequently peak coal has already been reached, and coal demand is likely to decline steadily in coming years. The mirror image, of course, is rapid expansion in renewables, where Chinese investments rank far above any other economy in the world. Combined, this will lead to a more sustainable development in China’s growth path.

China’s clean energy economy and Nordic potential

Chinese corporations are already at the global top of the largest 200 clean energy and technology companies across sectors, including biofuels and battery storage, confirming China’s position and emergence as a global leader in the growing clean energy economy. China has undoubtedly taken its challenges seriously and is driving global investments in cleantech.

Annual figures from Bloomberg New Energy Finance (BNEF), based on its world-leading database of projects and deals, show that global investment in renewable energy and energy-smart technologies reached $333.5 billion last year, as divided between sectors in the chart (page 46).

Out of the worldwide total of $333.5 billion, Chinese Investment reached $132.6 billion, up 24% setting a new record. The next biggest investing country was the U.S., at $56.9 billion, up 1% on 2016 despite the less friendly tone towards renewables adopted by the Trump administration. This means that the Chinese invested close to 40% of the worldwide total. (continues on page 46)
China’s two leading cleantech companies are wind-turbine manufacturer Xinjiang Goldwind Science and Technology and GCL-Poly Energy Holding Ltd, the latter making solar-grade polysilicon. The Chinese government’s massive investment- and incentive schemes in renewable energy over recent years is in fact paying off.

Being the only Norwegian law firm in China and the largest Scandinavian law firm in China and in Asia, Wikborg Rein has yet to see Nordic investors and technology corporations take a strong position on cleantech in China. Currently, we see greater interest from a wide range of technology sectors and we expect that in the near term, biofuel- and hydrogen-related businesses and battery-storage companies are expected to attract significant investment.

And then we have offshore wind, a source of renewable energy that is still in its early phase in China compared to solar and onshore wind. In terms of offshore wind, the need to respond to the demands for reduction of the levelised cost of energy from governments and investors remains of key importance. We think that the Nordics have a lot to offer to China in building this industry.

A significant milestone was achieved in April 2017, when Ørsted (formerly DONG Energy) and EnBW were awarded projects in Germany based on bids with zero subsidies. The years towards 2020 will hopefully also bring improved economics through an increase in numbers of projects, size (and output) of wind turbines and the developments of projects further offshore. We are also seeing advances made in respect to floating solar farms. For contractors and service companies in the offshore oil and gas segment and for Chinese yards, these developments may be seen as a welcome diversification of their work prospects. More and more contractors are exploring opportunities in the marine renewables sector and we expect this trend to continue when the market for installation of offshore wind turbines expands and other industries emerge. Contractors should, however, be aware that differences in parties, customs, and frameworks may well impact the negotiation process when it comes to contracting in this sector.

**Chinese investments in Norwegian renewables**

And do we foresee Chinese investments in renewable energy in Norway? Yes, we do. Investors do need to be aware of the strict regulatory framework for energy investments in Norway. For instance, for hydroelectric power companies with a production of 10MW or more there is a requirement that 2/3 of the equity is owned and controlled by public authorities. However, in the cases of wind power, small hydroelectric power (less than 10 MW), and other energy forms such as solar, there are no ownership restrictions. Anyone may in principle invest in such facilities, but one must have a license from the energy authorities to own, build, and operate a production facility; and furthermore, any transfer of more than 90 % of the shares of a company having such a license requires consent from the energy authorities. However, there is no requirement for public ownership and we currently see and advise many international investors and funds that are interested in such facilities and projects, in particular onshore wind power projects in Norway.

We believe it is only a matter of time before we see Chinese money in wind power in Norway or in the Nordics, either directly or indirectly. Furthermore, we would not be surprised if we see Chinese turbines being erected in Norway, although this would require significant technology improvements in China; wind power remains a margin business and European turbine producers are leading the technology race.
FREE TRADE AGREEMENT
Leveraging Sino-Swiss FTA experience and frameworks:

Dr. Patrick Ziltener, 
Professor, University of Zurich; 
Dr. Tomas Casas Klett, 
Assistant Professor, University of St. Gallen (FIM-HSG); 
Dr. Stefan Legge, 
Post-Doctoral Researcher, University of St. Gallen (SIAW-HSG). 
All three authors are researching the Sino-Swiss Free Trade Agreement.

Free-Trade Agreements (FTAs) need to be negotiated. Then, upon coming into force, they need to be utilized. This article provides two frameworks based in part on researching the Sino-Swiss FTA, which was signed in 2013 and came into force the following year. The first framework is for the negotiations preceding the FTA and the other relates to its implementation. As Norway and China work on their own bilateral FTA, these frameworks can provide value to both sides.

Sino-Norwegian FTA

Norway and China resumed talks on a bilateral free-trade agreement in 2017. The first round of negotiations since the two nations agreed to normalize ties in December 2016 was held in August 2017, the next in December in Beijing. On the agenda were trade of goods and services, investment, veterinary regulations, and technical trade barriers, competition policies, and questions related to customs. The 11th round of negotiations will be held during the coming spring in Norway.

The free-trade agreement is an important step for increasing trade between Norway and China, and opening the doors for a wider and more extensive trade collaboration. For Norwegian and Chinese businesses alike, a free-trade agreement will lower the risk of investments and hence motivate an influx of business to both countries.

FTAs matter in a world that is closing up to multilateral arrangements, and where the World Trade Organization (WTO) framework is on the defensive from populist and anti-globalization forces. FTAs are an effective second-best solution. The ultimate purpose of an FTA is to provide firms with greater access to international markets. An FTA ought to bring increased demand for exports, more competition, more jobs, and higher public welfare for both parties.

Since the beginning of the 1990s, Switzerland has been building a network of FTAs with numerous countries outside the EU. In January 2003, an FTA between the European Free Trade Association (EFTA) – which includes both Norway and Switzerland — and Singapore came into force. Historically, this was the first transregional FTA between Europe and Asia. It was followed in 2006 by the EFTA-South Korea FTA. In general, Switzerland prefers to conclude FTAs in the EFTA context, but it is ready to go ‘bilateral’ when necessary, as was the case for the FTAs with Japan (2009) and China (2013). Most importantly, Swiss companies have reached a high level of practical FTA competence — which is valuable since signing an FTA does not mean that companies will utilize it. What have we learned are the success factors for clinching a valuable FTA with a partner country?

FTA negotiation framework

Switzerland currently has a network of 28 FTAs with 38 partners outside the EU. From the country’s ample experience, the following insights for FTA negotiations have emerged:

1. Don’t get entangled in complex situations
2. Don’t expect systemic changes
3. Make it worthwhile, FTA are not automatons
4. Keep the FTA simple and effective
5. Small countries are test beds for China; leverage this privilege

Don’t get entangled in complex situations

China, like other East Asian countries, use FTAs to open new markets, avoid exclusion from or discrimination in established markets, and reform domestic enterprises by exposing them to competition, albeit in a controlled fashion (Hoadley and Yang, 2007). Motives behind FTAs are not just economic, but also diplomatic and security-related and what Solis and Katada (2007) called “leverage motives.” “Leverage” refers to the fact that East Asian countries frequently choose an extra-regional FTA partner in order to break regional inertia, hindering deeper economic integration, to win domestic battles, and to test models that can be used in subsequent intra-regional FTA negotiations. Hence, the fights of domestic political and economic interest groups can make their way into negotiations – agriculture and finance, for example, are two areas that are sensitive. It is advisable that one’s FTA negotiations do not become a “nested game,” where domestic disagreements negatively distort the outcomes of negotiations.

Don’t expect systemic changes

It is unrealistic to expect your FTA partner to implement systemic changes of a legal-institutional or regulatory nature. Unless, that is, a really big player is involved (like the U.S. in the case of the Trans-Pacific Partnership). As part of the FTA deal with Switzerland, Japan accepted the introduction of geographical indications (GI) to the Japanese IPR system. GIs are signs used on products that have a specific geographical origin associated with certain qualities or a reputation. This exception proves the rule.

Make it worthwhile, FTAs are not automatons

FTAs will be utilized only if there are significant incentives offered. That is, if the potential savings resulting from the lower duties associated with utilizing the FTA are significant (in comparison to not utilizing the FTA). At present, in the fourth year of the Sino-Swiss FTA’s implementation, savings potential for Swiss exporters equals about 300 million Swiss Francs or 256 million Euros (Ziltener 2014).

Keep the FTA simple and effective

Long phasing out of tariffs, different treatment of similar goods, and time-consuming paperwork reduce incentives to utilize the FTA. Politicians might be happy at the time of signing, but not business on the ground. What should be done? For instance, consignment rules should be flexible – that is, goods originating from country A on the way to country B should not lose their originating status when transported or temporarily stored in country C, or when a big consignment is split up into smaller ones. Documentary evidence to confirm compliance with the consignment rules is but one example of what should be simple.

Small countries are test beds for China; leverage this privilege

The E.U. has rebuffed attempts to start FTA negotiations with China. An FTA that works with Switzerland — and in the future another that works with Norway — allows the Chinese to show European firms the benefits of having closer economic integration with China. There is also the signaling effect for Chinese firms to partner and invest in countries that have a China FTA. Moreover, China is known for its experimental approach to policy, choosing what works and discarding what does not. An FTA with China allows for original new possibilities. For instance, a small country...
might explore creative e-commerce clauses or data governance regimes with China.

An additional piece of advice could be: ‘make sure the FTA is effective immediately’. Remember, in Western democracies FTAs will be debated domestically. Make sure the FTA is effective upon finalization of negotiations so that the business association stakeholders that benefit are part of the debate that the FTA elicits.

Assuming negotiators have managed to bring about a deep, far-reaching FTA, how can success be ensured?

FTA implementation framework

Informed by simplistic theories based on unrealistic assumptions, there are many – scholars included – who assume that the benefits of an FTA accrue automatically. Our research shows that this is not the case. For a “good” FTA to be successful in practice, we propose a framework with three pillars:

1. Implementation support by government
2. Measuring the FTA and the importance of academic research
3. FTAs as dynamic constructs to be ever upgraded

Implementation support by the government

FTAs have to be actively utilized by companies, and this requires knowledge, expertise, and skills. These are developed at firms if their costs are less that the benefits an FTA bring to firms. In this context, it is very important that an FTA is not perceived by the public or the media as a “done deal” that will materialize from the moment it enters into force automatically. Our research shows that this is not the case. For a “good” FTA to be successful in practice, we propose a framework with three pillars:

1. Implementation support by government
2. Measuring the FTA and the importance of academic research
3. FTAs as dynamic constructs to be ever upgraded

The economic impact analysis of an FTA tries to answer the basic question of whether and by how much lower tariffs foster trade flows. It is based on an extensive econometric analysis of customs data, which must be obtained from both countries. The work can be enormous. Just for starters, statistics of exports from country A to country B seldom matches imports from country B into country A, even if theoretically they should be the same. Through advanced modeling methods, it is possible to establish whether an FTA increases trade or not. Good FTAs can double trade in a decade. Yet research also finds that only a quarter to half of all FTAs actually promote trade.

The FTA utilization rate measures the degree to which the FTA is successfully used to reduce customs duties. That is, a utilization rate of 60% means that 60% of all exports (according to value) in that year were effectively making use of the FTA. A further differentiation is necessary. The General Utilization Rate (GUR) is defined as the value ratio of goods being traded benefiting from reduced or eliminated tariffs under a specific FTA relative to total trade (imports or exports). The measure is subject to a number of drawbacks since (1) a specific FTA does not cover all tariff lines, and (2) a number of tariff lines are set to zero prior to and independently from the FTA (through unilateral decision, plurilateral agreements such as the Information Technology Agreement, or otherwise). The Adjusted Utilization Rate (AUR) is defined as the value ratio of goods being traded relative to total trade (imports or exports) eligible for tariff exemption under the specific FTA, i.e., excluding trade volume exempted for other reasons, or not covered by the specific FTA for different reasons. The AUR reflects the true extent of an FTAs utilization.

For Swiss exports to Germany on the basis of the Free Trade Agreement with the EU, the FTA AUR is 50%, with another 40% being exported on duty-free basis already — as a result, 90% of Swiss exports to Germany are effectively duty free (Ziltener and Blind 2014). For China, we will publish our GUR and AUR results in 2018.

Of key importance is the manager’s survey of firms carried out in collaboration between the business association and universities. Here, a 15-minute questionnaire is delivered to knowledge managers at firms in both countries that trade or invest in the context of a given bilateral relationship. Not surprisingly, the concerns of Swiss and Chinese firms differ — one side might complain about inconsistent application of rules of origin (ROO) while the other sees relevant product categories not covered by the FTA. Unfortunately, bilateral FTAs are not an effective instrument to tackle non-tariff barriers. There is evidence that some countries use non-tariff trade measures to counter or dampen some liberalization effects. The aim of the survey is to uncover the issues in the business trenches that explain the economic impact and utilization rates of the FTA.

FTAs as dynamic constructs to be ever upgraded

It is the combination of the three research approaches (economic impact, utilization rates, and managers’ survey) that will enable policy-makers to bring an FTA to the next stage. Joint research on the effects of the FTA (and the obstacles to effective utilization) based on data exchange should be an explicit part of the Sino-Norwegian FTA. After all, an FTA is never “finished.” The Sino-Swiss FTA has now a biannual upgrade negotiations mechanism that benefits from such research.

Countries with a China FTA can consider themselves as privileged. It has been said that to the Chinese, an FTA is more than just an FTA. It is a platform for bilateral relations. In the context of China’s immense market and its increasing fourth industrial revolution technology powers, this platform can be leveraged in myriad promising directions.

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Sino-Swiss Competence Centre

The Sino-Swiss Competence Center (SSCC) is an academic initiative based at the University of St. Gallen (HSG) in Switzerland and at the University of International Business and Economics (UIBE) in Beijing, China. SSCC’s mandate is to develop research to help enhance the academic relationship between China and Switzerland as well as Europe. All its projects seek to produce evidence-based insight and knowledge to support decision-makers, firms and policy-makers. The Center focuses on various subjects such as China’s Free Trade Agreements with a special emphasis on the Sino-Swiss FTA, China overseas investment and innovation, and the Belt and Road Initiative (BRI).
Investing in Norway

Per Stensland
Special advisor, Invest in Norway

Norway is a politically stable, modern, and highly developed country with a very strong economy. Its gross domestic product (GDP) per capita is in the world’s top five. Norway has always been open to foreign investments, and foreign companies represent a substantial share of value-creation and employment in the country.

As its oil- and gas sector is gradually declining, Norway is open to new industrial development. This naturally includes Chinese investors who would like to participate in building new business in Norway.

Below, you can read a list of key reasons why Norway is a world-class destination for Chinese and other foreign investments — in terms of the country’s business environment, societal development, and competitiveness. The list is followed by concise descriptions of some of the key sectors for Chinese investors to keep an eye on, Norway’s promotion of foreign investment, and important aspects of its business environment.

Investment opportunities

Besides its strong and competitive business climate in general, the following takes a look sectors in Norway of particular interest to investors.

Bioeconomy

Norway aims to be a frontrunner in the emerging bioeconomy. While the petroleum industry has been important to Norwegian development over the last few decades, the country has always been strong in traditional bio-based industries such as fisheries, forestry, and agriculture. With an abundance of high-quality raw materials and a skilled workforce, Norway is presently developing a leading position in advanced biorefining, particularly related to advanced processing of marine co-products and lignocellulose.

Datacenters

Big Data centers are heavy industrial-scale facilities and require huge amounts of electricity. Norway’s offer is unique in this context, not only presenting a 97% share of renewables in its domestic power generation, but also foreseeing a significant surplus and extremely competitive price forecasts for years to come. Long-term power prices in Norway are expected to be the lowest in the Nordic countries, further boosted by a significant tax reduction from 2016.

Electric mobility

Norway is today by far the most important market for electric vehicles (EVs) in Europe, on a per-capita basis. The market share for EVs in Norway is about 20% of new cars sold. This growth is stimulating an industry to do business within IT, services, and energy-related industries like charging. Within the maritime industry, there is a huge focus on zero-emissions, and there are several international players focusing on battery-development in Norway.

Renewable energy

Norway’s electricity generation is 97% renewable, and the Norwegian government has set ambitious targets for even more sustainable energy use. By 2030, Norway aims to reduce emissions of greenhouses gases by 30 percent. Norway has ambitious plans on Carbon Capture Storage- and Usage (CCS/CCU), and can produce large quantities of green hydrogen.

Process industry

The Norwegian process industry produces energy-intensive materials and products based on 100% renewable energy, making these uniquely positioned from a sustainability point of view. This R&D/innovation-intensive industry is characterized by international ownership and exports, B2B relationships, and co-development with customers. Norway is interested in building new process- and manufacturing industries based on renewable power.

Health technology

The need for innovation in health technology has never been so important. Norway has state-of-the-art technology within oncology, neuroscience, and medtech. Norway has two national industrial clusters and Norway Health Tech, both a status as Norwegian Centers of Expertise.

Norway’s promotion of foreign investments

Foreign investments in Norway are widely encouraged by both local and central government. The tax system is neutral towards foreign and local investors, and there are few investment restrictions. Also, Norwegian company legislation contains very few restrictions and disadvantages towards foreign investors. Much of the FDI to Norway is within the oil- and gas industry. There are also substantial investments in the maritime- and shipping industries, the technology field, and the process industry.

Chinese investments in Norway have increased significantly over the past two decades, ranking between 10th and 15th among the countries holding the most investment-related assets in Norway. Companies from China have entered sectors like offshore, maritime, logistics, metals, and IT, represented by companies like China National Bluestar, COSL, Huawei, and Grand China Logistics, HNA. There is also an increasing interest from China in tourism, start-ups, and the seafood sector.

Doing business in Norway

Norway is a safe and easy country for business. The International Finance Corporation and World Bank’s publication Ease of doing business 2015 ranks Norway as 8th among the 189 countries listed. There are no general restrictions on foreigners acquiring assets (asset deals) or shares and interests in Norwegian companies and partnerships (share deals).

Norwegian business culture is based on Scandinavian work values, including a strong focus on equality. As a result, Norwegian work places are characterized by flat structures, low power-distance, and informal communication. In society in general, there is a very high level of trust, whether between government and citizens, employers and employees, or between business partners. This makes cooperation easy, motivates and empowers workers and managers to take initiative and responsibility, and creates an efficient business environment.

Productivity compensates for the fact that average salaries are higher than in many countries. Statistics from OECD show that Norway’s workforce has the third-highest productivity among ranked countries. Additionally, while average salaries are high, the difference between layers are low. This means that cost for expertise in Norway is competitive with other countries. Also, international industrial companies present in the country say Norwegian workers are skilled, efficient, and self-motivated.

Besides these characteristics, Norway’s workforce is highly geared towards international collaboration and business. The estimated percentage of the working population able to speak English proficiently is between 80 and 90%. About 33% of the adult Norwegian population has a higher education, the ratio being significantly higher for younger generations.
WHY INVEST IN NORWAY

• Norway is rich in natural resources like oil and gas, marine resources, 100% renewable hydropower, and forestry resources.

• Norway has world-class industries within sectors like petroleum, maritime, energy, and the seafood sector.

• Norway is in the forefront of electric mobility, having the highest EV-penetration in the world. It is also in the lead on developing zero-emission transport at sea.

• It is easy to do business in Norway, the country ranking in the top ten in the World Bank’s ease of doing business survey.

• Digibarometer ranks Norway as the most digitalized country in the world.

• World Economic Forum ranks Norway as the 11th most competitive country.

• It is a country of choice for R&D; there is a close cooperation between industry and R&D, with about 35 government-funded clusters.

• It is a great place to live. Norway is annually ranked first on the Human Development Index.

• Norway is an open, stable, and predictable country. Political stability and transparency make it a competitive and reliable investment climate.

Invest in Norway

Who can help you invest in Norway? The Norwegian Government has established a number of public organizations to support and stimulate innovation, growth and internationalization in Norwegian business. Among the most important is Innovation Norway: http://www.innovasjon norge.no/en/start-page Invest in Norway is the Investment Promotion Agency, situated within Innovation Norway. They can, together with their offices in China, be your first point of entry to Norway. Read more at www.invinor.no

About Flokk

Flokk is the leading manufacturer of high quality workplace furniture in Europe, developing a growing family of brands. We are the proud owner of product brands HÅG, RH, BMA, Officect, Malmstolen and RBM. About 650 employees all work together to realize the vision of our company: Inspire great work!

To us inspire great work means being at the forefront delivering furniture perfection. Designing for well-being and performance, we aim to inspire the great work of our customers, across the globe.

At the core of our business we keep a long-term perspective. All products are designed and manufactured with a minimum environmental impact in mind, while maintaining a high lifetime value. For this work we are both awarded and certified.

Our head office is located in Oslo, Norway. We have production units in Røros (Norway), in Zwolle (the Netherlands) and in Tibro and Nääs (Sweden). In addition, we keep sales offices in Denmark, Germany, Belgium, the Netherlands, UK, France, Switzerland, Dubai, Singapore, USA, China and Australia.

Add: Room 103, No. 425 Yanpin Road, Jing’an District, Shanghai, China
Tel: +86 21 6266 1197  E-mail: info-cn@flokk.com  www.flokk.com
Norway’s legal system supports free and open business environment

Arne Didrik Kjørnsæ
Partner, Oslo, Wikborg Rein
Geir Sviggum
Partner, Oslo, Wikborg Rein

The Norwegian legal system is characterised by an active legislator, most legal areas being subject to codifications and enactments, partly as a result of a certain legislative co-operation with the other Scandinavian countries.

There is also a legislative tradition for passing statutes with a certain degree of vagueness and ambiguous language, leaving discretionary powers to the government and its administration. An important interpretative source is the purpose for which the legislation was enacted and its preparatory works.

The Norwegian legal system is also characterised by the doctrine of the binding force of precedents, however only applying to decisions by the Supreme Court. Since the early 1990s, implementation of EU legislation based on the European Economic Area (‘EEA’) Agreement has influenced legal development.

Norway is a member of the European Free Trade Association (‘EFTA’). The EU and EFTA signed the EEA Agreement, admitting the EFTA countries to the EU internal market from 1 January 1994.

Under the EEA Agreement, Norway is bound by EU legislation relating to the free exchange of goods, the movement of services, capital and persons, and certain other areas such as anti-trust rules. The EFTA has established the European Surveillance Authority and the EFTA Court for the purpose of monitoring, advising and resolving EEA-relevant issues, similar to the European Commission and the EU Court.

Exchange Controls

Under the Norwegian foreign exchange controls currently in effect, transfers of capital to and from Norway are not subject to prior government approval. However, all payments to and from Norway should be registered with the Norwegian Currency Register. Registration is made by the entity performing the transaction. For physical transfers of payments in currency exceeding NOK 25,000 (approximately USD 3,100) the Norwegian Customs Service shall be notified. They will also be registered with the Norwegian Currency Register. Money transfers may be subject to the Norwegian Money Laundering Act.

Restrictions and permission

There are no general restrictions on acquiring Norwegian businesses. However, in certain sectors such as financing, banking, and insurance activities, government authorization is required. Ownership in such companies is also restricted. No one may hold more than 10% of the shares of a company providing financing, banking or insurance services without government permission. Further permission must be obtained before increasing the ownership beyond 20%, 30% and 50%. For insurance companies, permission to own more than 10% of the shares will normally not be given. The Norwegian concession legislation requires that a government permit be obtained in order to hold title to, or enjoy rights in respect of, certain types of real property and ‘waterfalls’ (hydroelectric power plants). There are no concession requirements in relation to acquiring private real estate for living or business activities.

Public information

The Register of Business Enterprises is responsible for registering all Norwegian and foreign business enterprises in Norway. The Register of Company Accounts receives information from all private and public limited companies and most partnerships, savings banks, mutual insurance companies and petroleum enterprises. They are obliged to submit their annual accounts, annual report and auditor’s report, which are then available to the general public.

The Register of Mortgaged Moveable Property registers entitlements and mortgages/security interests on moveable properties. The registration gives perfection to creditors. The Register of Real Property includes information about properties including owners, purchase, sale, lease and mortgages. The registration also gives perfection to creditors.

Limited liability companies

The limited liability company is the favoured legal entity for business activities in Norway. The shareholders of a limited liability company are only liable for their contribution to the share capital, and not the debts of the company. Limited liability companies are divided into public limited liability companies (‘ASA’) with a minimum share capital of NOK 1 million and private limited liability companies (‘AS’) with a minimum share capital of NOK 30,000. A public limited liability company may offer its shares to the public, whereas a private limited liability company may only offer its shares to invited investors. In order to apply for listing on a regulated market, the company needs to be an ASA.

A limited liability company may have one shareholder. In a private company the board shall consist of one or more board members, and such companies shall have a managing director.

Statutory law provides for employee representation at board level. In summary companies that have more than 30 employees and no corporate assembly, employees are entitled to nominate one representative to serve on the board of directors. There are special rules for companies having more than 50 and 200 employees respectively.

Partnerships

A partnership is an entity that engages in economic activities for the account and risk of two or more participants, provided either that at least one of the participants — who may be a private person, a corporate body, or another partnership — has unlimited personal liability for the aggregate liabilities of the entity, or that two or more participants have unlimited liability for their proportionate part of the entity’s liabilities, provided their aggregate liabilities correspond to the total obligations of the entity.

The choice between setting up an entity in the form of a partnership or a limited liability company is one that should be considered in each separate case in light of the particular features of the individual project. Tax considerations are important elements in this respect. The partnership structure, instead of the limited liability company, has frequently been chosen for single-purpose, capital-intensive projects with a limited number of investors. Typical examples are the use of partnerships as a vehicle for investment in and ownership of ships, aircrafts, and real estate.

Wikborg Rein

Wikborg Rein is an international law firm located in Oslo, Bergen, London, Singapore and Shanghai, and offers a full range of legal services to Norwegian and international clients. The firm is the largest law firm in Norway and the only Norwegian law firm with an office in China which it has had for more than 15 years. Wikborg Rein regularly assists Nordic companies with establishments, projects, or disputes in China, as the firm has Norwegian, English and Chinese lawyers on the ground in China. Among the firm’s specialties is also assisting Chinese companies in outbound investments and projects both in the Nordics and Asia, as well as in international disputes with foreign parties.
Foreign entities in China

Christian James Olsen
Managing Partner, Shanghai, Wikborg Rein
Therese Trulsen
Associate, Shanghai, Wikborg Rein

Most countries allow foreign investors to use the same types of legal entities as local investors (e.g. a Ltd in England or an AS in Norway). This is not the case in China. Further, transferring money out of China is also more complicated for foreign companies.

Most countries allow foreign investors to use the same types of legal entities as local investors (e.g. a Ltd in England or an AS in Norway). This is not the case in China. Further, transferring money out of China is also more complicated for foreign companies. Foreign owned businesses in China may only be organized within a legal framework designed solely for foreigners. The entities being: Representative Office (“RO”), Wholly Foreign Owned Entity (“WFOE”) and Joint Venture (“JV”). Further, a business activity is catalogued as one of the following whereby limitations apply as to the entities that can perform such activity:

“Encouraged”: RO, WFOE or JV;
“Permitted”: WFOE or JV;
“Restricted”: a WFOE with some requirements or JV; or
“Forbidden”: cannot involve a foreign party.

Even if your business is Encouraged there may still be other requirements, e.g. a specific Encouraged business activity may require foreign investors to enter into a JV. There are usually a number of issues a foreign investor will wish to take into account when making their choice as to which entity to choose. Some relevant issues are described in the following.

How to get money out of China

One key focus for all foreign investors in China is how to get capital out of China. There are strict currency regulations in China and the State Administration of Foreign Exchange (“SAFE”) is the authorization authority for money entering and leaving China. There are a number of reasons for why funds held in China may need to be remitted to overseas bank accounts. We commonly encounter two situations: remittance of proceeds from the sale of a Chinese entity, and repatriation of profit generated in a Chinese subsidiary. To transfer money out of China, an application must be made to SAFE, which is made by the bank in charge of transferring the money. In essence the following must be documented: (i) proof of legitimate reason for the transfer, e.g. the share purchase agreement or the shareholder resolution approving the dividend payment, and (ii) proof of payment of relevant taxes paid in China. How time-consuming this process is varies from bank to bank, and transaction to transaction. It can take weeks or months from the application is made until the capital is transferred.

Note that normal trade transfers are subject to less rigid rules and only require a registration. All money transfers above RMB 50,000 per day must be reported to SAFE. Prior to July 2017, only transactions of above RMB 200,000 was required to be reported. The government has said checks on transactions are meant to target money laundering, terrorism financing, and fake outbound investment transactions, and not legitimate business activities.

RO
A RO is similar to a Norwegian “NUF”, meaning that it is not a separate legal entity, but represents its parent. It cannot enter into contracts in its own name, except for the lease contract, as all other contracts must be entered into by the parent. The parent must have been established for more than two years. A RO is not allowed to directly engage in operational activities, cannot issue official invoices, nor receiving payments from customers. It cannot employ employees directly, but must use a manning agency.

WFOE
A WFOE is similar to a limited liability company as the shareholder(s) will only be liable for the share capital (except for exceptional instances such as e.g. piercing the corporate veil). China does not currently have formal requirement for the amount of registered share capital, but the share capital and loans (jointly the “Total Amount of Investment”) may affect the registered share capital. If the Total Amount of Investment is between USD 0 – 3,000,000, the registered capital must be at least 7/10 of that amount. There is also no fixed rule on when the capital must be contributed, but generally it must be contributed within 20 years.

JV
Our experience is that foreign investors underestimate the effort and time required for negotiating the JV agreement. The highest governing body of the JV is the board meeting (compared to the shareholder meeting of the WFOE). Generally, the JV agreement does not have to be filed with the government. There are two types of JVs: Sino-foreign Equity Joint Venture (“EJV”) and Sino-foreign Co-operative Joint Venture (“CJV”). The two forms have similar approval processes, format of agreements, corporate documents, tax treatment, etc. The EJV is however more commonly used to ensure profit control, even though the CJV is less controlled and more commercially.
The medical-care market in China

Michael Mo
National Sales Manager Laerdal (Hangzhou) - Greater China
Michael Yang
General Manager, Laerdal Medical (Suzhou) Co., Ltd.

Insights from a Stavanger-Hangzhou/Suzhou success story

Grand societal shifts in China — from its ageing society to changes in diets and lifestyles — have brought about a range of health challenges for the country’s massive population. This in turn has led to policy changes and investments to address such challenges, and opened new opportunities for medical companies looking to play a role in this pursuit. The following examines some of the rising opportunities in healthcare, and closes with recommendations for other Norwegian companies setting up in China, regardless of sector.

With its continuous national health care reforms, the Chinese government has not only increased investments in hospitals and medical schools on a massive scale, but also, in the past decade, established more and more simulation training centers. The rapidly evolving medical-simulation market provides medical students, doctors, nurses, and other healthcare professionals with various simulation products and services to complement the replication of reality, allowing professionals to learn and rehearse an increasing list of procedures by using medical simulation products and services.

Laerdal Medical, in collaboration with global partners like American Heart Association (AHA), the National League for Nursing (NLN), and American Academy of Pediatrics (AAP), is disseminating the updated and innovative simulation education approach in China. For over a decade, Laerdal Medical has promoted simulation as a teaching methodology to prepare health providers for practice. It maintains that the use of simulation and debriefing, along with other active learning/teaching strategies, creates transformational experiences for health providers and offers diverse perspectives on patient care.

The rate of bystander CPR is much lower in China than in developed countries. In the last decade, the 2000, 2005 and 2010 American Heart Association Guidelines for Cardiopulmonary Resuscitation (CPR) and Emergency Cardiovascular Care were issued based on an increasing amount of basic and clinical research. These guidelines have greatly changed clinicians’ understanding of CPR, and also promoted further research and development of CPR in China.

The Laerdal-AHA Alliance has been cooperating with Chinese Medical Doctors’ Association (CMDA) for more than ten years. In a joint effort, we have developed more than 237 training sites in both Basic Life Support (BLS) and Advanced Cardiac Life Support (ACLS) in Mainland China, and in it turn played a significant role in promoting CPR skills for both healthcare providers and the lay public through a standardized simulation. Moreover, with the efforts devoted at these affiliated sites, we have trained up to 62,657 provider candidates as of 2016, and have gained positive feedback about the standardized AHA training course. We have come this far and there is a long way to go together with more parties to grow our network to accomplish our shared mission of helping to save more lives.

Advice for Norwegian companies in China based on Laerdal’s experience

But what are some of the key lessons for other companies to be drawn from Laerdal Medical’s experiences — regardless of which sector they are in?

Laerdal set up its manufacturing site in Suzhou, Jiangsu in 2003. With almost 15 years of operational experience in China, Laerdal’s team has noted a number of interesting differences between the Chinese and Norwegian cultures and business environments. As a Scandinavian country, Norwegian society encompasses values of egalitarianism and open communication. China, on the other hand, is a rapidly developing nation, and communication takes more of a top-down, hierarchical approach.

Laerdal Suzhou incorporates the values of both countries in its organizational culture under the slogan “Family, Sunshine, and Learning” with team-building at the core of the vision. The Suzhou site has experienced continued production, has been steadily growing, and future aspects seem bright and prosperous. Based on these experiences from the manufacturing site in particular — and the wider success story of Laerdal in China’s medical development — here are some key insights:

Transparency and trust: With honest and clear communication between Laerdal Stavanger and its subsidiary, Manufacturing Suzhou has gained a strong sense of trust with its headquarters. The organization developed slowly yet steadily during the past 14 years, where the original function was solely assembly, and has now grown into having several other functions such as global sourcing, category management, customer service and logistics handling, and product development. The open relationship between office branches is a main factor that has resulted in this expansion of the Suzhou branch.

Localization: Opening a plant in China comes with unique and complex challenges that can be very complicated to deal with as a foreign subsidiary. For this reason, the Suzhou plant operates in quite a localized manner. The Chinese staff and management have a better understanding of both national and local policies, laws, technologies and society as a whole. Local staff are thus suitably equipped to deal with the environment they are operating in, making the overall manufacturing process more effective and efficient.

Laerdal Medical
Based in Stavanger, Norway, Laerdal Medical is a world-leading provider of training, educational, and therapy products for lifesaving and emergency care. Our mission is to help save lives, and our solutions are used by voluntary organizations, educational institutions, hospitals, and many other organization worldwide.
Think Global, Act Local: Many companies, especially ones with supply chains, need to serve a worldwide customer base. Companies, especially those trying to run lean supply chains, want to keep their operations as simple and standardized as possible. That way, they can drive efficiencies and economies of scale. But that misses a key principle of lean — looking at value from the customer’s perspective. Without considering their needs, you run the risk of losing your customers, which can lead to the depreciation of your brand and the loss of your market. Customers usually have local and specific tastes and preferences, which the supply chain needs to understand and act locally in order to meet those needs. As a medium-sized company, Laerdal produces one product at just one manufacturing site, distributes it to the whole world, where other sales offices and retail stores can sell the products in the areas and sectors where demand is highest.

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Sea change
Kjetil Lund
Managing Partner, Shanghai, nHack

Opportunities in China’s rapidly advancing shipping industry

China has for a long time been well known for building cheap bulk carriers and other low-tech vessels. It is also well known that China has a long way to go when it comes to building the most advanced merchant and offshore vessels, especially in relation to design, engineering, quality, and vessels with advanced and modern technology. But China is still the fastest growing and one of the most important shipping nations in the world. So how can a “non-innovative, non-creative” shipping nation like China, known more for low quality than advanced technology, be moving forward so fast?

First let us take a step back in the history, because China has not always been lacking behind on innovation and technology. China is one of the oldest shipping nations in the world, the world’s first ships with watertight compartments having been designed and built in China. Song Dynasty author Zhu Yu wrote in his book of 1119 that the hulls of Chinese ships had a bulkhead build – a forerunner to the modern-day watertight compartments using bulkheads. Going forward, I am sure we will see much more innovative solutions coming out from the China shipping R&D centers, and that China again becomes a shipping powerhouse.

Fronted by President Xi, shipping is again high on the political agenda as one of the most important industries in the current five-year plan, and one of the ten focus industries in the “Made in China 2025” policy initiative, which seeks to upgrade Chinese industries with an emphasis on innovation-driven growth.

Ocean engineering equipment and high-tech ships

China’s shipbuilding industry is guided by government policies and market strategies. The Chinese shipbuilding industry has been undergoing a tremendous development in terms of growth, quality of workmanship, experience, and technological advancement.

Healthy developments in the industry contribute to national economic growth, creating large numbers of jobs while promoting technological progress. This makes the shipbuilding industry strategically important for the government. The Chinese government makes efforts to improve their comparative competitiveness when it comes to building R&D centers, subsidizing yards, improving infrastructure as well as attracting foreign investors and supporting industries. Many of us working in the shipping business have witnessed this development, and this is only the start.

The current market situation makes the timing right for foreign companies to bring more R&D to China. Many Norwegian companies would not agree on this, but in my opinion the right think to do is to partner up with the Chinese interests, and get access to capital, and a huge, growing marked.

In the current downturn of the shipping market, it is less attractive for new entrants to emerge, which gives existing companies time to implement protective strategies. Norway, as one of the world’s biggest suppliers of high-tech equipment to the shipping- and offshore industry, must use this opportunity. This is possible because of the currently lagging innovation capability in China (which will not last forever), as well as the complexity of the products within the industry. In addition, we will see the digitalization also entering the shipping and offshore industry, and this is a fantastic possibility for Norwegian maritime industry to get a step ahead.

Especially over the last few years, the maritime industry has experienced significant change, and we expect a significant development going forward, driven by technology, regulations, and environmental demands.

COSCO Shipping Corp’s vessels with a capacity of more than 85 million deadweight tonnage.

nHack
nHack is a Nordic tech accelerator and VC fund in China, bridging Nordic start-ups with China and Asia. With a strong focus on commercialization, nHack aims to invest in Nordic research-heavy companies that are prime for international scaling, and has offices in Beijing, Shenzhen, and Shanghai. nHack has several strong partners, including Danske Bank. They work with companies within a broad span of business areas, such as healthcare, fintech, AI, VR, robotics, gaming, and ocean technology. In Shanghai they have set up an Ocean Tech Center focusing on aquaculture and maritime business.

New normal, also in the shipping industry
At the 2017 Party Congress last autumn, President Xi declared a “new normal” for the Chinese economy:

- The economy has shifted to medium- to high-speed growth and to private consumption, services, and innovation.
- “Socialist market economy” with Chinese characteristics.
- Focus on reform of State-Owned Enterprises sector and strengthening the marked economy.
- Continuing the fight against corruption and pollution.

The new normal will continue to focus on the very important shipbuilding and shipping business. The Chinese shipbuilding industry has seen a lot of consolidations during the last years, and there are more to come. The maritime industry has been consolidating through mergers between state-owned shipyards, and also via acquisitions in the private sector, and even closure of yards due to financial distress. In this context, to further guide the optimization of the ship and offshore building capacity and promote mergers and acquisitions in the industry, China’s Ministry of Industry and Information Technology has released a “white list” for the commercial shipbuilding industry, which meanwhile comprises almost 70 state-owned and privately owned Chinese shipyards. It is important for the yards to be on this white list, after all, there is no middle ground, either you receive policy support or you don’t. As a consequence, there has been much talk in the market about how the existence of
a white list has in fact created a black list. This goes to show the importance of the selection process, ensuring that the good yards get the support they deserve, and vice versa. Although there has been little transparency surrounding the screening process and the criteria applied, the financial health of certain selected yards proves that most emphasis has been on yards facilities, and little or no emphasis on financial strength. By favoring yards with more sophisticated production facilities, one is in fact focusing on production of more complex vessels. Going forward, we will see more advanced vessels being built in China, including cruise ships, highly advanced merchant vessels, as well as advanced offshore vessels. It is no secret that China aims for most of Chinese cargo to be transported on Chinese-flagged vessels, and it is not only on the yard side that we see mergers.

Last year, COSCO and China Shipping were merged into China COSCO Shipping Corp Ltd. The total fleet of COSCO Shipping comprises of more than 1,100 vessels with capacity of more than 85 million deadweight tonnage (DWT), ranking no 1 in the world. In addition, the company owns several container terminals and ports all over the world. The vision of China COSCO is to undertake the mission of globalizing the Chinese economy, so as to build a world-leading business entity that provides integrated logistic and supply chain services.

COSCO and China Merchant are some of the biggest and most powerful shipping conglomerates in the world today. China is indeed a powerful shipping nation and one of the very important players on oceans of the world – and the Belt and Road Initiative, in which China is building a “Maritime Silk Road”, will only increase its importance.

In conclusion we see that China as a shipping- and ship-building nation has come a long way, but still has room for improvement. In the thirteenth five-year plan, Chinese politicians addressed the reduction of demand for Chinese-built ships; China has surpassed Japan and is catching up to South Korea as a shipbuilding nation. However, when it comes to the most advanced systems and equipment, China still depends on imports. In order to be able to deliver ships of the same quality as South Korea, Japan, and Europe without expensive foreign support, they will have to establish high-level marine equipment-manufacturing companies, research and development facilities, while strengthening the shipbuilding industry as a whole. Mark my words: this strengthening will happen, and the only way for Norwegian maritime business to be a part of it is to establish themselves in China as “local” manufacturers, and team up. Only then can they be a part of the growth going forward.
Recent legislation on Independent Guarantees under Chinese Law

Ronin Zong
Partner, Shanghai, Wikborg Rein
Jiahao Lu
Associate, Shanghai, Wikborg Rein

Recent legislation formally unifies and clarifies Chinese law on independent guarantees and practices, relevant to shipping practices. Previously, independent guarantees have been widely used, but without having such specific provisions.

In November 2016, the Supreme People’s Court of the People’s Republic of China issued Provisions of the Supreme People’s Court on Several Issues concerning Trial of Disputes over Independent Guarantee (hereinafter called “Judicial Interpretation”), which came into force the following month. The following introduces two main provisions of Judicial Interpretation, hereunder those that relate to (i) identification of independent guarantees, and (ii) the way to cease payments, both of which are relevant to shipping practices.

Independent guarantee

Unlike the guarantee provided by the Security Law of the People’s Republic of China, an independent guarantee is independent to the contractual relationship between the applicant and beneficiary. Consequently, the payment by the issuer of independent guarantee is not subject to whether there is actual legal default under the contract. If a guarantee is regarded as an independent guarantee, the issuer and the applicant will not be able to use the contract between the applicant and the beneficiary as a basis for a defense, except for in fraudulent cases.

To understand the definition of the independent guarantee under the Judicial Interpretation is crucial for ensuring the guarantee issued or obtained can serve its function as an independent guarantee as expected by the party concerned.

The Judicial Interpretation provides that an independent guarantee can only be issued by “a bank or a non-banking financial institution”. Most of the independent guarantees in the shipbuilding practices in China are issued by Chinese banks, which obviously satisfy this criteria. Differently, guarantees commonly used to release the vessel arrested are in many cases issued by insurance companies or Protection & Indemnity (P&I) clubs. It is noteworthy that there is argument in China whether the China Shipowners Mutual Assurance Association (CPI), which is registered with the Ministry of Civil Affairs and not the bank administration authority, shall be deemed as a non-banking financial institution or a non-financial institution. Therefore, we are of the view that guarantees issued by the CPI may not be qualified as an independent guarantee under the Judicial Interpretation.

In accordance with the definition as provided in the Judicial Interpretation, we are of the view that the following guarantees that we often see in our shipping practices may not be deemed as independent guarantees: (i) a guarantee that contains a clause which provides a mechanism of suspension of payment due to ongoing court proceedings or arbitrations; (ii) a guarantee that fails to state the supportive documents to be submitted together with the payment demand; and (iii) a guarantee fails to state its “maximum guaranteed amount”.

How to cease payment under the independent guarantee?

An independent guarantee is largely in favor of the beneficiary. Therefore, the issuer and the applicant need to consider the risk associated with the use of an independent guarantee. Other than the requirement for supporting documents and maximum guarantee amounts, the Judicial Interpretation provides a mechanism to cease the payment under the independent guarantee — in fraudulent cases.

The applicant, the issuer, or the instructing party of the independent guarantee may apply to the court for the ceasing of payment under an independent guarantee. There are five reasons for why an independent guarantee may be fraudulent and thus payment may be ceased: (i) false transaction, (ii) presented false documents by the beneficiary, (iii) court decision or arbitration award holding that the debtor is not liable to payment, (iv) confirmation from beneficiary that debtor’s obligation is fulfilled or not triggered, and (v) other beneficiaries’ deliberate abuse of rights of where the beneficiary clearly knows it does not have rights to demand payment. False transaction and false presented documents are obviously frauds. In the third scenario, we are of the view that the ongoing court proceedings and arbitrations are excluded, but foreign court decisions and foreign arbitration awards, even not formally recognized by Chinese court, should fall within the scope if independent guarantee fraud. The fourth scenario refers to the circumstances which beneficiary clearly know that there is no payment claim against issuer. The fifth scenario refers to any other deliberate and malicious abuse of rights to make payment claims against the issuer.

It is not easy to successfully cease the payment under an independent guarantee. The Judicial Interpretation provides stringent conditions to be all satisfied and also provides serious consequences for a wrongful application for ceasing the payment. All the following conditions should be satisfied to support an application for ceasing the payment: (i) the proofs filed by the cessation claimant demonstrates that there is a high possibility of existence of a fraud; (ii) it is in an emergency and failure to cease the payment immediately would significantly harm the legitimate rights and interests of the cessation claimant; and (iii) the cessation applicant has provided a security sufficient to compensate the possible loss incurred to the respondent. Furthermore, the Judicial Interpretation requires the principle of “beyond reasonable suspicion” to be applied in hearing of the dispute over independent guarantee fraud.

While the Judicial Interpretation is a positive step forward, one should be aware that in its formal admission to the independent guarantee, great discrectional power is given to the Chinese court, and provisions on jurisdiction may lead to new disputes in practice. Prudent review with assistance from legal experts will be essential when negotiating and issuance of the independent guarantees to be issued in China.

The Northern Sea Route: Opportunities in the near future

Arthur Guschin
Researcher at Akvaplan-niva and visiting scholar at Fudan Development Institute

The emergence of Arctic sea-routes as stable and reliable transport corridors for Asia-Europe cargo deliveries opens grand, mutually beneficial opportunities for China and Norway. Boosts in investment, technology, and infrastructure can benefit ports and shipyards, offshore energy and green marine fuels, regional development, and near-border cooperation.

Of the three Arctic waterways — through Canadian waters, the Central Arctic Ocean, and Russian waters — the last one, called the Northern Sea Route (NSR), is the most viable in the mid-term future. Moscow’s ambitious investments in Russian port facilities, icebreakers, ground- and satellite communications, and search- and rescue bases are aimed at extensive
commercial shipping by the years 2030-2040.

China Ocean Shipping Group (COSCO), a state-owned enterprise, has already tested the transit with multipurpose vessels four years in a row to elaborate variants and cooperation models with European counterparts on transit patterns (fast-speed delivery, liner shipping, and destination cargo). Nordic countries keep watching the trend. Danish shipping company Maersk plans to transit the NSR next year, while Reykjavik, in collaboration with bremenports, is lobbying for new Arctic port hub construction in Finnafjordur, Iceland. Meanwhile, Helsinki is examining the need to upgrade the port of Kirkenes, Norway and build a railroad to Rovaniemi, Finland to link the Arctic Ocean with continental Europe, increasing regional income and creating jobs.

Myriad dimensions of cooperation

Making use of new transport corridors requires modern technologies to preserve the environment in the Arctic and make voyages safe. Norway’s ship design, autonomous vessels engineering, and green-fuel production are sectors of potential cooperation with Beijing. China’s shipping industry is eager to meet criteria of year-round navigation in Arctic waters, which includes reducing construction costs of ice-class vessels, preparing for zero-sulphur-emissions restrictions in High North waters from 2020, and meeting COP21 conditions. Unmanned autonomous vessels is a crucial element for companies like Kongsberg Maritime and DNV GL, and the Norwegian Maritime Authority. According to DNV GL estimations, vessel types scheduled for 2025 can reduce transport costs by 20 %, taking into account that 44 % of operational costs are crew allowance. Such expenditure cuts are key to strategic Arctic development as a new maritime corridor. Meanwhile, European shipbuilders are drafting the concept of an “intelligent cargo channel” — a special maritime line for unmanned carriers operated on a 24/7 basis with human remote control from the ground — in the region, under Finnish Chairmanship of the Arctic Council.

Well-known competences in Arctic drone technologies make research centers in Bodø, Tromsø, and Andøya in Norway perfect grounds for China-Norway know-how cooperation, and could provide new solutions for safe navigation, weather forecasting, and ice monitoring. Trilateral China-Norway-Russia mechanisms on training of captains and map-exchanges can pave the way for appropriate assistance in emergency situations.

Future shipping growth in the region also poses the issue of Asian port upgrade as a resource base for Arctic transit. Dalian, Liyangyang, and Shanghai in China will compete with Korean and Japanese ports for a role of a main hub in East Asia to serve Arctic cargo shipping. Working groups consultations between Moscow, Seoul and Tokyo are already in force, whereas Singapore is a constant participant on all major Arctic related shipping forums.

The Belt and Road Initiative (BRI) — a major policy initiative from Beijing which includes massive potential investments in infrastructure abroad, linking large parts of the world, among other aspects — and its supplementary proposal of an “Ice Silk Road” could provide great momentum for Norway to attract Chinese investments and increase bilateral trade. Shipping will continue to play a major role in the 21st century as a main source for cargo deliveries, and it is in Beijing’s plans to secure its positions in the market and diversify trading patterns to reduce U.S. influence.

Beijing has declared its readiness to play the role of a sustainable and reliable partner in the Arctic, and adopt gained experience to transform China, and link it more strongly to Norway and the rest of Europe. While environmental, legal, and technological challenges remain to be faced, the NSR could be a major bridge between China and Norway in the near future.

Fudan Development Institute

Fudan Development Institute is an internationally renowned think tank with a mission of serving the Chinese nation and the world through academic excellence. Among its key activities is organizing the annual conference Shanghai Forum, which explores topics related to Asia — and the continent’s rapidly expanding global significance — through panels and debates by Chinese and international scholars and government officials. It is devoted to policy-making consultation, and hosts visiting scholars who research topics of key significance to China and the world.

E-commerce Cyber Security and personal information

Therese Trulsen
Sherry Qiu
Associate, Shanghai, Wilkborg Rein
Associate, Shanghai, Wilkborg Rein

China is held to be the world’s largest e-commerce market and it continues to grow as shown by Alibaba’s Singles’ Day (which takes place annually on November 11), sales hitting a new record of USD 25.3 billion in 2017, which was more than 40 percent higher than sales on Singles’ Day in 2016. The rapidly growing market has caused a need for further legal regulations in China, and multinational companies should have a particular focus on personal information and cross-border transfer of data.

In December 2016, the first draft of the E-commerce Law was released in China. Following a round of comments, it was sent on a second hearing in November 2017. Pursuant to the draft, e-commerce operators are classified as: “those doing business on their own websites, e-commerce platform operators, and store owners on e-commerce platforms”.

One debated aspect of the draft is the obligation for individual web shops on e-commerce platforms to register with the Administration for Industry and Commerce. This may, however, have a positive impact on intellectual property owners; it would make it more difficult for intellectual property infringers in bad faith to avoid enforcement by closing their web shop and opening a new one, as a government authority would keep records. Another significant change from the first draft is the omission of the “personal information” definition, causing e-commerce operators to also become subject to the rules established pursuant the Cyber Security Law (“CSL”).

The Cyber Security Law

While the CSL came into force on the June 1, 2017, the deadline for compliance with cross-border data-transfer requirements has been postponed until December 31, 2018 and may be further postponed. Following the entry into force of the CSL, a series of related regulations have been issued, and further regulations are expected in 2018.

“Network operators” are the main targets of the CSL, and the law is not clear on the content, but it is assumed to be applicable to: almost all businesses that manage a website, e-mail, or other data networks in China, and companies based outside of China that use networks to conduct business within China. Companies that are not registered in China but provide products or services to consumers in China may also be considered a “network operator.” Businesses within “critical information industries” are regulated in further detail.

The CSL provides — inter alia — network operators with a wide range of rights and obligations, including requirements on sourcing of IT products, data storage, and cross-border transfer of data etc. From an international perspective, at least two issues are of particular importance: (i) personal information collection and usage, and (ii) cross-border transfer of data.

Violations of the CSL may include suspension or closing down of business, revocation of licenses, detainment, and a maximum fine of RMB 1,000,000.

Personal information under the CSL

The concept of privacy rights was strengthened in the CSL, and at least three core privacy rights are protected: (i) confidentiality, (ii) right to correction, and (iii) right to erase. Further, the CSL defines “personal information” as “all kinds of information recorded by electronic or otherwise that can be used to independently identify or be combined with other information to identify natural persons.”

Collection of personal information may only occur if the company “follow(s) the principles of legitimacy, rightfulness and necessity” and discloses its rules on data collection, clearly expresses the purposes of the collection and use, and obtains “consent from the persons whose information is gathered.”

Cross-border transfer of information

Pursuant to the CSL, operators of “key information infrastructures” planning to export personal
information and “important data” (an undefined term) out of China are at the outset prohibited from sending such information abroad, but exceptions include security self-assessments. A current draft regulation widens this obligation to also include network operators independent of industry; this may include smaller Chinese subsidiaries of Norwegian companies planning to send data to a Norwegian headquarters. If the amount of data to be exported reaches certain thresholds, e.g., contains personal information of more than 500,000 citizens, exceeds 1,000 gigabytes, or relates to specific fields, etc., government approval is also required.

The draft E-commerce Law is currently also set to be applicable to companies simply selling goods or services to Chinese consumers. If the law is implemented as currently drafted, companies outside of China may therefore become subject to it and may have to complete security self-assessments as stipulated by the CSL, and potentially even seek government approval. This may constitute a challenge for foreign e-commerce companies shipping goods to China and Chinese companies that use cloud services to store data or process payment transactions outside of China. According to the draft law breach of such regulations may be penalized in accordance with the CSL.

The future is regulated

Based on the above, we recommend companies processing personal information in China, and especially multinational companies, across all industries to pay close attention to the CSL and expected future legal developments within the area. Currently, assessment should in particular be made as to whether the company’s data security systems and policies are in accordance with the law. Companies within the Chinese e-commerce market should also remain up-to-date on the development of the expected new E-commerce Law.
We must remember how quickly the Chinese business world has changed since yesterday, in order to understand what it is today and to imagine what it may be tomorrow. In this essay, a Norwegian entrepreneur reflects on his quarter century of experience at the forefront of China’s remarkable economic transformation, and shares what these insights might mean for those whose engagement with China has only just begun.

Lessons from the early days

My first visit to China was in the fall of 1994. I was in charge of one of Norway’s first and biggest endeavours in China, a Joint Venture (JV) between the local government in Leshan, Sichan, the International Finance Corporation (IFC), and Scana Industrier. Moving the family to Leshan was unthinkable at the time, so they stayed in Singapore, where I was responsible for Scana’s other activities in Asia, with frequent and long trips to China. Scana had decided to establish an industrial presence in Asia, and China was the obvious choice. Since the company had great competencies and activities within the steel industry, this became the natural area of focus. At the time, steel was seen as a sensitive industry in China, so we had to travel all the way to Beijing to present our ambitions. There were numerous conditions for establishing a JV, but the one that with hindsight had the greatest significance was that the government could decide which partner we would have, and thereby also the location. Which is why we ended up in Leshan.

It is of course a cliché to say that everything was different in China before, but 1994’s Leshan was truly something else. All the hotels and restaurants were incredibly local in terms of the clientele they catered to, and hot water was only sporadically available. Practically, no one at all spoke English, the internet was non-existent, cellphone networks were only just emerging, it could take up to a day to withdraw money from the only bank holding such a license, and driving to Chengdu took five hours — as opposed to the one hour it takes today.

The airport in Shanghai had no departure screens, all information was conveyed in Chinese over speakers or with chalk and boards. There was no security to pass through, cigarette smoke was everywhere, even on the bus leading to the plane, and cigarette butts would be stomped out on the way up the airstairs. I once was allowed onto a plane to Chengde (in Hebei), even though my ticket was for Chengdu. These are just a few examples of how China has changed in ways not directly related to business management, but which are important to keep in mind when understanding how the conduct of business life has changed and how diverse China as a country was and still is. In 1997, my family moved to Shanghai, and even though the city was still in an early stage of the enormous development it has seen in recent decades, the difference between Leshan and Shanghai was massive. It had a small but pleasant Norwegian community, both in business and socially, and you could exchange experiences and discuss solutions to the many challenges of doing business in China at the time. This was the precursor to Norwegian Business Association, which I had the pleasure of taking part in establishing.

Setting up a JV in such a distant location was an incredibly time-consuming challenge, with such different partners in such a conservative and complicated industry. From the get-go, both the management and local government were very skeptical of allowing capitalism into their world. Suddenly the old Communists had to negotiate with a 38-year-old who represented everything they had been warned against having any kind of dealings with. But the need for capital and new technology soon overshadowed the skepticism, and we could embark on an exciting yet complicated path towards...
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Norwegian Business Association China

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We chose Ningbo in part because of its location in the Yangtze Delta. By the following spring, I was back in China again. I realized that this would be the end to my China experience. But I also thought that the opportunities would be too good to pass up. We concluded that the Ningbo government was sufficiently close to Shanghai, had good infrastructure, and a local government clearly aiming for growth. We would be the first Nordic presence of a certain size in the area, and registered as a Wholly-Foreign-Owned Enterprise (WFOE). This registration and other formal requirements for kicking off manufacturing were relatively problem-free. But we soon discovered how hard it was to recruit local talent with sufficient competence within leadership, quality-ensurance, business development, sales and marketing, and our solution was to import such skillsets from Norway. This was a costly solution for a startup, and there were also challenges connected to the meeting between these foreign competencies and local employees, in terms of culture, management, skills-transfers, and at times a lack of respect. After around two years we had to make a big change in order to move on, one important element being the considerable expense of hiring foreigners. We were in principle faced with two alternatives: either, to reduce access to expertise, (thereby slowing our timetable for business development), or finding additional ways to leverage the expertise my team and I had developed through eight years in China.

Establishing Nordic Industrial Park

We concluded there had to be a demand for the competencies and resources we had — it was just a matter of finding the right concept. After consulting with the local Ningbo government, we developed the concept of Nordic Industrial Park Ltd. — something the Ningbo officials eagerly wanted — the first wholly-foreign-owned industrial park in China. Our reasoning was that there had to be Small- and Medium-sized Enterprises (SMEs) with a need for assistance and guidance setting up in China: Hence the concept of "facilities with content," which besides renting out facilities included turnkey services like taking care of registering the company, recruiting staff, recommending suppliers, reporting to government agencies, and, perhaps most importantly, providing access to a network of key government and business leaders. We provided safety. A solution where the company could focus on quality, production, and sales, while Nordic Industrial Park took care of all the "Chinese factors" which could seem not only challenging but downright scary to many. Back in 2001, when we launched the "facilities with content" concept, some naysayers thought it was madness. Today, Nordic Industrial Park remains the industrial park in China with the highest concentration of Nordic SMEs in any industrial park in China. Reflections after a quarter century in China Adequately summing up developments and differences between then and now is difficult, both because it's a long period of time, and because the types of businesses and their locations are so different. I would still like to offer some overall reflections on what I see as the most crucial changes based on my own experience.

Gather knowledge across industries, language and culture

During the quarter century I have had the privilege of working in China, both the type and way of doing business in China has undergone a radical transformation. Yet some of the lessons I have learned during the years remain relevant to this day, and I suspect will remain relevant for years to come. Early in the 90s, the few Norwegian institutions and companies in China were concentrated around Beijing and Shanghai. There was the Embassy in Beijing, of course, also housing the Norwegian Export Council. The Shanghai Consulate was established in the late 90s, and later the Norwegian Export Council also established an office in Shanghai. What I remember especially from these early days was a near-total absence of established and structured networks where newcomers could look for advice from other Norwegians who had established a business in China. Like many others, I experienced an attitude of not wanting to share experiences. That's why the first Consul-General established a business forum that later became formalized as Norwegian Business Association in the early 2000s, precisely in order to facilitate transfer of experience and network-sharing. Thanks to this initiative, everyone has a forum they can go to for advice from a broad network — an incredibly valuable tool that was not available at the time.

Adapt your needs to the context (not the context to your needs)

The challenges of doing business in China have, obviously, changed enormously. In my view, the biggest difference from today was the considerable lack of laws and regulation back then; the institutional and legal framework was unclear, incomplete, at times even lacking entirely. This entailed not only considerable problems finding and interpreting the appropriate laws and regulations, but also following a perhaps greater challenge was securing the regulatory conditions for one's business in dialogues with government agencies who could be hit by unforeseen developments. With hindsight one could claim that the shrewdest companies could adjust the frameworks to their own needs based on a common interpretation of very general laws and regulations, but there were many examples, unfortunate ones that got great difficulties due to faulty interpretations. Today, the regulations and frameworks are more predictable and transparent, and at the same time they are based on laws that aren't all that different from the ones we are used to. It has been interesting to follow the shift from guanxi-based legal- and regulatory conditions to ones based on a transparent set of laws, and there can be no doubt that today's system makes it easier and more secure to do business in China.

Not all networks are created equal

Having a good network is just as important today as then, however. I would state it so strongly that without the right network one can never reach one's full potential, and that with the wrong network, both businesspeople and their companies can end up in considerable trouble. In the beginning, we did not have the internet, emails, or social media, and hence personal contacts were more important for establishing a good network. Social media have reduced personal contact's role as the means to establish and maintain networks — but certainly not the need to establish and maintain networks itself. Along with change in technology has come a change in demographics, and it is easy to forget the importance of guanxi. I believe the "old" way of building networks perhaps gave a better foundation for quality and endurance of networks, and that the risk of ending up in a not-so-good network was considerably lesser back then.

In recent years, I have held leadership positions in Chinese-owned companies, which combined with my status as an honorary citizen has given me an interesting network and insights which I otherwise would not have had access to. These experiences and network have made me realize clearly how challenges still remain that are nigh-on impossible for foreign-owned companies to find optimal solutions to. The importance of Chinese guanxi, thus, is just as important today, but perhaps this importance has shifted from solving the everyday challenges to ones that have more of an overall significance.
If you want to go far, go together

In the 90s, China was the world’s greatest factory, and everyone who wanted a part of the considerable domestic market, or remain competitive in the global market, had to go to China. If one was able to control the quality of one’s manufacturing output, while getting good advice during the early phases of running a company, success was a near guarantee. China’s manufacturing was so competitive, and at the same time the quality did have some lengths to go for achieving the quality demanded by the market. The threshold, in other words, was not very high.

Today, the situation is different. It can no longer be taken for granted that “low-tech, labor-intensive” production is cheapest in China, even though many other factors point to China remaining an important and competitive location also in the future. China has developed its own high-tech industry, and in certain areas surpassed Norway when it comes to know-how, not to mention scale. For this reason, the main challenge for establishing a business is no longer Chinese regulatory conditions or unpredictability, but rather finding good partners within a narrower segment of technology and future-oriented industry.

In that sense, Norwegian companies no longer have the same competitive advantages as they did earlier, encountering a totally new level of competition from Chinese industry. It thus seems more relevant today to find Chinese partners to establish a partnership or a joint venture — a structure that only a few years ago would have been deemed very risky.

Culture sits below the surface

Here, the changes have been great, both in terms of the Norwegians who come to China, and in terms of the Chinese people who do business. Today, highly educated and qualified Chinese leaders run both government and companies, with a much greater understanding of the Western world, and with clear goals and ambitions for the future. At the same time, it is probably a greater challenge for Norwegians coming to China to really come to terms with this reality, which can lead to conflicting interests in business plans. I believe that a significant change is that the young Chinese leaders of today, who are modern and aspirational, can still have deep ties to and respect for Chinese culture and history, and that it can play an important role in how they make decisions and do business. The young Norwegians of today might have greater trouble understanding and relating to these circumstances, and that can lead to the underlying elements for building a relation of understanding and respect not receiving sufficient attention.

In conclusion, I would agree with those who claim that China will continue to play a significant role in the global economy, having a large impact on the general development of a rapidly changing world. My time in China has taught me that the government, the businesses and the people continue to prepare themselves for such global roles both at home and abroad in a way we may never had experienced before. I remain optimistic for the future of China, and hope that Norway can continue to cooperate and contribute going forward.

As China prepares itself for having a larger impact on a rapidly changing world, it draws its strength both from its rich past and the lessons it has learned since the country opened up. Understanding China as at once what has been and what it is becoming, seems to me key to imagining what China will become in the future: neither traditional nor Western. Of course, that dynamic is common to any country. But China has a very specific past, and a very unique recent history, that makes it likely to assume that China will remain distinctive also in the years to come.

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**Nordic Industrial Park**

Nordic Industrial Park (NIP) became the first 100% foreign-owned industrial park in China when it was registered in 2002 by Norwegian investors. It facilitates a safe and transparent entry into China for small- and medium-sized enterprises from the Nordic countries by providing a variety of services and support, in addition to its tailor-made facilities in Ningbo. These include registering the entity, accounting and financial reporting, recruitment and HR, sub-supplier auditing and quality control, and extensive networking, allowing the SMEs to focus on operating and development rather than deal with challenges often referred to as “Chinese factors.”

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Contact us at:

email: administration@norbachina.com
phone: 0086 139 1783 9679

Our office is co-located with Innovation Norway in Shanghai at the Bund Centre
222 East Yan’an Road Huangpu District, Shanghai 200002