



Opportunities and Challenges for Norwegian Shipping Industry and Its Companies Within Belt and Road Initiative

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Abstract

This research was conducted with the primary purpose of discussing the opportunities and challenges that arise for the Norwegian shipping industry in relation to the Belt and Road Initiative (BRI) proposed by China in 2013. The primary focus of this study is to analyse the 21st Century Maritime Silk Road, and whether this initiative can potentially create successful businesses for Norwegian entrepreneurs within the shipping industry. The first part of this research paper explains BRI in order to create a general understanding of this proposition. Secondly, the Norwegian shipping industry is analysed with all the stakeholders included. The paper also examines the 16+1 initiative for intensifying and expanding cooperation between China and 16 Central and Eastern European Countries (CEEC). Lastly, primary data was collected and data was analysed through the framework of strategic management. The results state that there are several opportunities for Norwegian shipping companies, and that an aggressive strategy ought to be applied to utilize the opportunities brought by the Belt and Road Initiative.

Key words: *Belt and Road Initiative (BRI), China, Norwegian Shipping Industry, 21st Century Maritime Silk Road.*

1. INTRODUCTION

The original Silk Road was established during the Han Dynasty of China more than 2000 years ago. It created and promoted political, economic and cultural exchange possibilities and opportunities along the routes in Europe, Africa and Asia (Mark, 2014). The reopening of the famous Silk Road through the Belt and Road Initiative (BRI) aims to enhance and develop greater trade and connectivity between China and Eurasia, Africa, the Middle East, as well as South and Southeast Asia. The Economic Belt and the 21st Century Maritime Silk Road will include 66 various countries, and will therefore cover 70% of the global population when construction of the infrastructure is finished. BRI will cover a population of 4 billion people, as well as including one third of the world's wealth (Wang, 2017). There are several factors that drive the Belt and Road Initiative ahead for China with Xi Jinping as President. The first one is greater connectivity, with multiple countries involved in the massive infrastructure planning (Fallon, 2015). Secondly, a large benefit resulting from BRI is the security this agreement and project will bring, with contracts forming between

several countries that can strengthen the political ties and security. Finally, there is a boost for several industries due to the reopening of the Silk Road. The Silk Road will, like silken strands on a loom, weave these factors together to create a greater connectivity and interconnected transport channels throughout the various countries involved (Fallon, 2015). The reopening of the new Silk Road will boost the position of China amongst the countries contributing to this great investment of upgraded infrastructure and port facilities, due to the country's encouragement of further trade, advanced security, and greater strategic penetration.

2. SHIPPING

Shipping is considered the backbone of globalization and international trade, as 90% of the world trade is carried through ships today. The total tonnage of sea transport will be doubled by 2030, according to the International Monetary Fund. The shipping industry ought to have a successful and steady market, however the current scenario is far from favourable (Pridel, 2016).

2.1 NORWEGIAN SHIPPING

The Norwegian shipping industry sector started in the mid-1800s, as liberalization and strong economic development gave Norwegians the opportunity to join world-wide shipping. This commercial mobilization laid the foundation for a comprehensive shipbuilding industry based on local resources (Norges Rederiforbund, 2014). The maritime industry cluster in Norway is comprehensive with several different sections of the maritime commerce. The industry is shared between shipping companies, shipyards, equipment manufacturers, seafarers and maritime services, such as banking and insurance. There is extensive cooperation and mutual interdependence between the different sectors of the industry (Maritime Forum, 2017).

2.2 CHINESE SHIPPING

China is the world's largest shipbuilding nation with its port city of Shanghai as the world's largest container port (Forbes, 2017). The shipping industry of dry bulk, containership, tanker or offshore assets, was severely impacted by the slowdown in the economy and has been suffering from the exceptionally weak freight rate environments in the past years (Karatzas, 2017). According to Karatzas (2017), the tendency to overbuild new vessels, as well as subsequent tonnage overcapacity during a time when the trade volume was declining, stands out as the immediate reasons for the shipping industry's poor state (2017). China was especially affected by this as the world's leading manufacturer of ships (Einhorn, 2016). Orders declined immensely, and this led to the first state-owned shipbuilder, Zhoushan Wuzhou Ship Repairing & Building, filing for bankruptcy in December 2015, making the company the first to go bankrupt in China in a decade (Einhorn, 2016). In contrast, President Xi Jinping's vision of the BRI is set out to be China's Marshall Plan of the 21st Century; a massive project which can turn the slowdown around (Karatzas, 2017 and Paris, 2017).

3. 16+1

16+1 is an initiative by the People's Republic of China aimed at intensifying and expanding cooperation with 11 EU Member States and 5 Balkan countries to strengthen the competitiveness of the Silk Road land routes in Europe. The countries involved are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia (CEEC, 2017). Within the framework of the initiative, China has defined three potential priority areas for economic cooperation: infrastructure, high technologies, and green technologies. The coordination is aimed to strengthen cooperation through bilateral and multilateral contacts, aimed at the development and improvement of integrated transport corridors between China and

Europe (CEEC, 2017). The 16+1 is taking the lead in developing strong bonds between the Eastern European countries and China. Central and Eastern European Countries (CEEC) and China's secretary of logistic cooperation is situated in Latvia and is becoming a strong mechanism to develop better connectivity between China and Europe

4. 21st CENTURY SILK ROAD

The main goal of this massive infrastructure project is to revolutionize the deep-sea trade starting from the Southeast Asia Sea, through Africa, all the way to Europe (Klemensits, 2017). Moreover, the participating countries in the Maritime Silk Road will be contributing to further economic development for their region through the upgrades of their coastlines' infrastructure. The Economic Belt – on land – plays an important role with its high-speed railways and pipelines, which have unquestionable significance for trade among the regions. However, the maritime belt will play a primary role in relation to the volume of transport. Consequently, the Maritime Silk Road will, in a global sense, possibly have an even greater significance compared to the Silk Road on land, by its crossing of continents (Klemensits, 2017).

According to Liu Cigui, the maritime belt will connect the Indian and the Pacific Oceans. Thus, China is said to strongly focus on infrastructure upgrades in the China – ASEAN Free Trade Area with the extension to reach the coastal regions of the Indian Ocean, the Red Sea, the Gulf of Aden along with the Persian Gulf (2014). The China-Pakistan Economic Corridor (CPEC) is an important transport route which connects the large network of the BRI with the Bangladesh-China-India-Myanmar Economic Corridor, along with the Silk Road Economic Belt and the 21st Century Maritime Silk Road (Cigui, 2014). This enables the shaping of a safe, open and effective Maritime Silk Road that can further develop economic growth, boost trade and lift transportation. The China-ASEAN Maritime Cooperation Fund will also support improvement for pragmatic maritime cooperation (Cigui, 2014).

5. CHINA AND NORWAY

The beginning of diplomatic relations between China and Norway had, up until 2010, progressed from both political and cultural exchanges, on to further trade agreements boosting the two countries' economies, technology and various industries. However, in 2010, the two countries faced a setback in terms of cooperation. This was due to the Nobel Peace Prize being given to Mr. Liu Xiaobo, who is considered a terrorist by The People's Republic of China. As a result, Norway – the origin of the Nobel Peace Prize committee – was frozen out of several agreements for more than 6 years following the Nobel ceremony, while Mr. Liu was in prison in China (Jacobsen, Blanchard, Aizhu, Solvik, Stonestreet, 2016). The cold front

between the two countries hit the fish industry the hardest, as Norwegian salmon exports to the Chinese market were completely halted. The shipping industry however was not strongly impacted by the situation, although large deals and partnerships between China and Norway battled to reach an agreement.

In December 2016, Norway's foreign affairs minister Børge Brende stated together with the Chinese Foreign Minister Wang Yi, that China and Norway had normalized diplomatic and political ties (Jacobsen, Blanchard, Aizhu, Solvik, Stonestreet, 2016). The normalization was marked with the biggest delegation, consisting of Norwegian congress members and the Norwegian Prime Minister, Erna Solberg, to visit China together. Solberg stated during the April 2017 visit to Beijing that: "I am pleased that we now normalize our diplomatic and political relationship with China. The visit shows that both countries want to rebuild a long-term, broad and future-oriented partnership. Direct contact with Chinese leadership is important for a solid and predictable relationship characterized by mutual interests, trust and understanding" (Regjeringen.no, 2017, para 2).

6. RESEARCH METHODOLOGY

Findings of this research were based on both primary and secondary data. Research was conducted both in China and Norway during the period from December to June 2017. During the research process, five interviews were conducted with people who have experience as top executives within the Norwegian shipping industry today, to find information regarding the industry and the BRI initiative. The interviews included questions regarding how the new BRI initiative influences the companies in the shipping industry on both strategic and operational levels. Consequently, the interviews reflect the current situation of the Norwegian shipping industry, in addition to the impacts BRI has on the future of the industry.

The method chosen for assembling suitable information along with proper data as primary research are in-depth interviews with executives and managers in the Norwegian shipping industry. The interviews were conducted while using a semi-structured interview method. This allowed for an open interview, where new ideas as well as further questions beyond the questionnaire were brought up to give a complete understanding of the chosen topic. This data collection process enables the examiner to ask further questions and the participants to fully explain their beliefs of the topic, in addition to the reasons behind it.

6.1 HYPOTHESES

The research approach applied in this research paper has a deductive approach, due to the origin of primary hypotheses. Consequently, this study's research will base itself on three main hypotheses, followed by the analysis of the data. The three hypotheses were

developed to outline a comprehensive analysis of the research topic through observations made of the Norwegian shipping industry and its companies, BRI's impact on the field, as well as the effect of the normalisation between Norway and China.

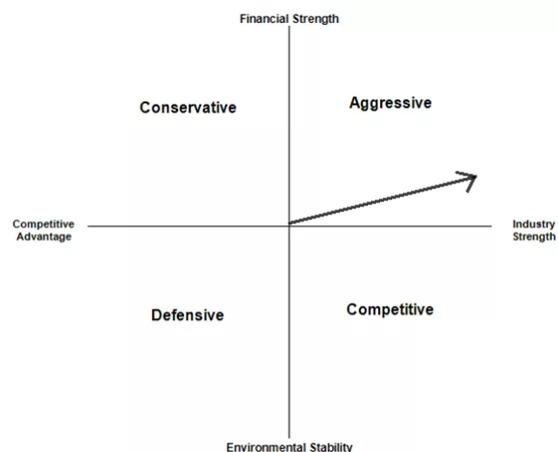
Hypothesis 1 – The Norwegian companies in the shipping industry have, with the recent normalization of the relationship between China and Norway, better business opportunities with the ongoing Belt and Road initiative.

Hypothesis 2 – Norwegian shipping companies will have to adjust their business models because of BRI.

Hypothesis 3 – Norwegian shipping companies face two major challenges in relation to BRI: a lack of clarity of the project, and a lack of natural access to the 21st Century Maritime Silk Road.

6.2 STRATEGIC POSITION

During the research a SPACE matrix was conducted towards the Norwegian shipping company Wilhelmsen, since the firm operates within several division in the maritime industry. According to the SPACE Matrix, Wilhelmsen Group ought to pursue an aggressive strategy in relation to the BRI. Wilhelmsen are in the position to take further advantage of the firm's internal strengths to benefit from the external opportunities, in addition to overcoming internal weaknesses, and staying clear of external threats (David, 2009). Although the shipping industry is facing difficult times, BRI can create a higher demand for the involved companies. SPACE Matrix: (x,y) = (3.08, 0.75).



A Porter's five forces framework was conducted during the research, which showed that the threat of substitute products or services is medium. This is as a result of the investment by China in the Economic Belt. The results of the research show that there might possibly be a shift from sea transportation to land. The reason for this is due to the massive investment by China into the Economic Belt on land. During the primary research, it was stated several times that the massive focus and investment into railroads, pipelines and actual roads might cause a shift from sea transportation to land. Therefore, there might be a threat of a

substitute to the shipping industry. In contrast, sea transportation is large in volume and is highly important for long distance transportation. A ship can carry a greater volume than a train and is therefore essential for large volume transportation. However, there is a change currently happening in the transportation on land, where high speed railroads allow for fast transportation of goods.

7. FINDINGS AND ANALYSIS

This research has been done with the purpose of discussing the challenges and opportunities that arise for the Norwegian shipping industry and its companies in relation to the Belt and Road initiative, with primary focus on the 21st Century Silk Road. Examining the data collected from both primary and secondary research, and applying them to theory showed us that the BRI is a source of entrepreneurship and creates an opportunity gap for Norwegian shipping companies. In order to discuss the findings, the hypothesis will be used as a tool for analysis.

	Hypothesis
1	The Norwegian companies in the shipping industry have, with the recent normalization of the relationship between China and Norway, better business opportunities with the ongoing Belt and Road initiative.

The normalization between China and Norway will create major opportunities for Norwegian businesses as well as further job creation in both countries. Thus, the hypothesis is supported. The Norwegian Prime Minister said: "We hope to resume negotiations on a free trade agreement with China" (Reuters, 2017), and this ideal is supported by members of the market, such as Thor Dahl Ship Management, one of the companies interviewed for primary research in this field, whose partner says that the normalization gives Norway "a ticket to trade". Since 2010, Norway has been completely frozen out on any agreement of deals made, while China has developed in several areas.

"Where there is crisis, there is also opportunity", stated Brasil Karatazas in his article about China's quest to dominate global shipping. The companies who are best prepared to capitalise on such opportunities are in general the ones with the strongest balance sheets or the best strategic assets (Karatazas, 2017). While western ship-owners are speculatively building up their fleets, the Chinese are focusing on using this opportunity to grow its merchant fleet inexpensively. Moreover, the Chinese competitors in the maritime industry are targeting ways to get a large share of the shipping transport market (Karatazas, 2017).

The 16+1 initiative supported by the People's Republic of China can create an opportunity for the Norwegian maritime industry since the cooperation is aimed at intensifying and expanding collaboration with EU Member States and Balkan countries. The 16+1 initiative is created to strengthen competitiveness of the Silk Road land routes in Europe. As the 16+1 is taking the lead in developing strong bonds between the Eastern European countries and China, Norway ought to take steps towards a cooperation with the 16+1. By creating stronger bonds with the countries involved with the BRI, the maritime industry can create opportunities for the future of the industry.

Central and Eastern European Countries (CEEC) and China's secretary of logistic cooperation are situated in Latvia, which is quite close to the Norwegian border, compared to China in the East. To craft stronger cooperation with the 16+1 can be a strategic position for Norwegian shipping companies to move closer to the BRI projects. The initiative of 16+1 is becoming a strong mechanism to develop better connectivity between China and Europe. Therefore, an opportunity for the maritime industry in Norway is to create closer relationships with the countries involved with BRI in Europe.

Consequently, the first hypothesis is supported due to the research findings stating that the Norwegian companies in the shipping industry have, with the recent normalization of the relationship between China and Norway, better business opportunities with the ongoing Belt and Road initiative.

	Hypothesis
2	Norwegian shipping companies will have to adjust their business models because of BRI.

The findings reveal that, in general, the second hypothesis is rejected as of now. The reason for this is that Norway is located too far away from the BRI to be fully involved, along with the lack of clarity on "how and what" of the Chinese proposal and its effect on Norway. The five interviews used as primary data collection demonstrate the fact that the Norwegian shipping companies' lack of clarity about the BRI, may prevent them from taking full advantage of it. Furthermore, findings show that the BRI has an indirect influence on the Norwegian shipping companies interviewed, hence why Norwegian shipping companies will not have to adjust their business models because of the BRI for now. Moreover, the Norwegian shipping companies interviewed are currently not spending much effort on exploiting the BRI initiative's benefits and how it could be applied to their own business model.

The second hypothesis examination in this research paper is rejected by primary data collection and the findings, which state that Norwegian shipping

companies will not have to adjust their business models because of BRI. However, on the contrary, to be able to take part in the BRI, an adjustment in business model or strategy is needed to be able to compete with strong Chinese and other international competitors in the maritime shipping market. Therefore, as a recommendation for the future of Norwegian maritime companies, the hypothesis is supported with the secondary data collection gathered.

	Hypothesis
3	Norwegian shipping companies face two major challenges in relation to BRI: a lack of clarity of the project, and a lack of natural access to the 21 st Century Maritime Silk Road.

The shipping industry has faced many challenges in the past few years, with overcapacity in the market being the main factor as to why the industry has had a weak environment. The general statement from the conducted interviews is that the main challenge in relation to the BRI is, in fact, similar to the third hypothesis. The hypothesis is therefore supported, due to several statements from the interviews showing that it is difficult for Norwegian shipping companies to have natural access to the 21st Century Maritime Silk Road, as well as having an unclear outline of the overall project. Several projects and constructions are currently taking place. However, it seems difficult to grasp the whole framework of the Chinese-led initiative.

The findings display that many Chinese maritime related companies are strategically positioning themselves for the coming years with the Belt and Road initiative. This shows in the massive interest, investment and funding of European ports, especially the Pireaus Port in Greece. Chinese shipping companies are also interested in Norwegian land areas in the North of Norway. This interest is truly special because this means that Chinese companies are already thinking to be first in the possible passage in the north circle, when the ice in the arctic melts. In June 2017, China decided to expand the BRI to include an Arctic sea route linking the project to North Europe, highlighting the polar region's growing economic and strategic importance (Suokas, 2017). The news of the arctic route included in BRI was announced by the National Development and Reform Commission and the State Oceanic Administration on June 20th. The inclusion of the Arctic region in the BRI ought to have an immense impact on Scandinavia, particularly Norway and its shipping industry.

The third hypothesis is supported through the findings showing that the main challenges Norwegian shipping companies face in relation to the BRI, are in fact a lack of clarity of the project, and a lack of natural access to the 21st Century Maritime Silk Road.

8. CONCLUSION

In conclusion, after analysing the interview results, several final points have arisen. Firstly, the research has shown how there are various opportunities and challenges for the Norwegian shipping industry and its companies in relation to the Belt and Road initiative. The massive upgrade in infrastructure in ports, harbours and areas around the ports will benefit the shipping industry and can create a higher demand within the present poor-state shipping landscape in the coming years. Better connectivity, along with free-trade zones and agreements will contribute to a more globalized world. That this can benefit the maritime transportation instability is another opportunity gap for several industries, especially the shipping industry, which is vital for the transportation of goods around the globe. However, Norwegian shipping companies are currently not taking any major steps forward to be a part of the BRI, nor are they taking full advantage of it, findings show. Nevertheless, Norwegian shipping companies, together with other industries and companies, should adapt and move towards the Belt and Road initiative, due to the massive impact this globalization project has.

For the reason that the initiative is very big, it currently has a lack of clarity on what is going to happen in the 66 different nations involved. This is one of the main challenges Norwegian shipping companies are facing in relation to the New Silk Road. Another finding shows that several Norwegian companies believe that the 21st Century Maritime Silk Road is too far away from Norway, and therefore not a natural partner for the Chinese investors due to being located outside of the BRI. Moreover, the strong competition from Chinese shipping companies, who have a strong strategic position due to the massive investment by the Chinese government and the strong presence of Chinese investors in European ports, will be a challenge the Norwegian shipping companies will face once the BRI has further developed. Therefore, the Norwegian companies in the maritime market need to be present in the initiative, and try to get involved to have a stronger strategic position.

A SPACE Matrix was conducted to show which strategy would be suitable to use for Norwegian shipping companies' approach to the BRI. The Matrix indicated the aggressive strategy is the most suitable, which suggests to penetrate the market. The aggressive strategy correlates to the high-risk nature of the industry.

9. RECOMMENDATIONS

In order for Norwegian shipping companies to fully take advantage of the Belt and Road initiative, primarily focusing on the 21st Century Silk Road, the findings of this study suggest they should target the project through several means. Acknowledging the huge impact the BRI will have for the globalization and trade in the world, Norwegian shipping companies ought to

strategically position themselves to be able to compete with Chinese and Southeast Asian companies. Therefore, it is essential for the Norwegian companies to explore partnerships with Chinese companies and to create mutually beneficial agreements and joint ventures. This will enable the Norwegian companies to be close to the Belt and Road initiative's project and planning phases, so as to have greater access to the initiative.

Furthermore, is important to keep a focus on the changes in the European ports through greater Chinese investment. This might be a crucial factor in how the maritime market will look in the coming years. The Northern passage and the inclusion of the arctic region in the BRI are large steps towards collaboration with Asia, primarily China and are highly important for Norway. In addition to this, the 16+1 and European countries in the BRI are important countries for Norway to create stronger bonds with. 16+1 is an important association for Norway and Europe for the future of the BRI project.

Finally, the BRI will play an important role for globalization, trade routes, agreements throughout nations, as well as social and economic development for numerous countries in the next decades. Therefore, this proves several opportunities for the Norwegian shipping industry and its companies.

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