

# Dragon in the North: The Nordic Countries' Relations with China

Bjørnar Sverdrup-Thygeson (ed.)



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# Introduction: Quintet Out of Tune? China's Bilateral Relations with the Nordic States

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A defining megatrend of the 21<sup>st</sup> century, the rise of China has affected the Nordic countries in various ways. In the course of the past decade, China has become a significant partner in terms of bilateral trade, a growing source of economic investments and collaboration, and an important stimulus to the global marketplace in which the Nordic countries operate. Moreover, Beijing has demonstrated a growing capacity, and will, to shape the global institutional framework on which small states like the Nordics depend. For better or for worse, the Nordic countries' relationships with China are likely to become increasingly consequential for the region, directly and indirectly. How best to relate to such an important international trend is being debated in Denmark, Finland, Iceland, Norway and Sweden alike. To date, however, less attention has been paid in these countries as to how their Nordic neighbours have developed their relations with Beijing.

In this focus report we present to a Nordic public an overview of each Nordic country's bilateral relations with China, and how each has handled the challenges and opportunities arising in relations with Beijing. Gathering a team of Nordic researchers, each writing on one Nordic country, this report also asks whether there is a common 'Nordic dimension' to the policies undertaken towards Beijing. The Nordic countries share a common geography and history, as well as a set of common traits based upon political traditions and cultural affinities. Yet, they also differ from one another in many respects, including foreign policy outlook and international institutional affiliations. To some extent this can also be traced in the Nordic countries' current relations with Beijing. As the contributions presented here show, the five Sino–Nordic relationships have followed markedly different trajectories.

The Nordic countries were among the earliest to recognize the People's Republic of China. Over the past decade they have all been seeking to strengthen their economic and cultural ties with the Middle Kingdom, while also benefiting from the opportunities engendered by the rise of China in global markets. On the political level, however, the Nordic countries have followed a more varied range of approaches in critical political dialogues with the Chinese leadership on issues such as human rights – particularly as to whether these matters are best addressed through 'megaphone diplomacy' or in confidential bilateral talks. We can note differences in the strength of the strong political ties the various Nordics have with Beijing, along a broad spectrum from close (e.g. Denmark) to problematic (Norway).

As the following contributions make clear, the Nordic countries have a range of common interests, as well as common challenges, in their relationships with China. Along the political dimension, the Nordics share a deep interest in a rules-based world order that can safeguard their interests through open institutions, ideally underpinned by liberal norms. As such, there is a common interest in ensuring that China is involved and included in the current world order, rather challenging it from the outside. Many of the Nordic countries have had to face the dilemma that arises when the liberal values underpinning Nordic political society conflict with what Beijing regards as its three *core interests*: upholding political stability and the Chinese party-state, protecting national sovereignty and territorial integrity, and promoting economic and social progress. This predicament has become evident with China's repeated protests following meetings between the Dalai Lama and Nordic political leaders, and the current freeze in China–Norway relations following Beijing's reaction to the award of the 2010 Nobel Peace Prize to the jailed dissident Liu Xiaobo. In general, however, the Nordic countries have sought to deepen their political ties and intensify their dialogues with Beijing, even if differences over human rights issues have occasionally provoked clashes.

With regard to the economic dimension, which has been the main driver of their relations with China, the five Nordics share significant common features. They are all high-income economies with considerable resources in technology and human capital, and have benefited from importing consumer goods produced in China. However, we find substantial differences in economic composition, as evident in the relative importance of the Chinese market for each Nordic country's international trade (see Fig. 3, Fig. 4), as well as the composition of their exports to China. From Swedish furniture and green tech to Danish agricultural products, the trade interests of the Nordic countries are more convergent than divergent in nature. Their export interests are, as the following contributions show, more complementary than directly competing on the Chinese market.

As to how China views the Nordic region, Beijing's main foreign policy focus is directed towards neighbouring countries and global powers. That makes the Nordic countries of limited importance, beyond their roles as EU and NATO member-states. Nevertheless, the Nordic region does have a role to play for Chinese policymakers, particularly within certain economic sectors, and there have been quite a few visits of Chinese delegations in recent years (see Fig. 8) This should be understood against the backdrop of Beijing's increased attention to 'sub-regional' politics within Europe, including with the Nordics. China's demand for technology and know-how to support the sustainability of its economic development and reform efforts have become an important driver for deeper ties: few issues are given as much focus in Chinese official statements as the area of renewable energy technologies – regardless of which of the Nordic countries is concerned. Equally important, according to Chinese interlocutors, is acquiring know-how on Arctic affairs, especially with the prospect of new sea lanes becoming available for commercial shipping due to the melting of the Arctic ice.

Moreover, the five Nordic countries are as seen stable and predictable in terms of how they pursue their political goals – and as easy to manage. Therefore, the region has been deemed suitable for foreign policy experiments, including – for non-EU members – free trade agreements. Experiences from engagement with the Nordic countries can be used as a springboard whereby bilateral agreements could serve as the basis for deepened cooperation with the EU as a whole. However, Chinese officials and policymakers face challenges with some Nordic countries in terms of conflicting values. On the one hand, China wishes to steer clear of issues that could put political relations in jeopardy; on the other hand, it will not accept perceived external interference in its domestic affairs. In the Nordic countries, with their traditions of engagement and activism in the spheres of human rights and universal values, China's defence of its *core interests* has had a substantial effect on the political framework within which relations have developed.

Some of the common key features that make the Nordics unique are precisely what China is interested in. How can then the Nordic region best engage with China as a growing political and economic power? In economic terms the main question is whether the Nordics are suitably positioned to address the changing economic situation in China, as the country attempt the difficult leap from being the world's factory to a high-income economy. There are in particular two trends in current economic developments in China from which Nordic involvement might prove advantageous. Firstly, China is in the process of major reform efforts where Nordic technology, brands and know-how could contribute, to the advantage of both sides Secondly, as Beijing seeks to increase and diversify its investments in Europe, the Nordic region could stand to benefit from the influx, not least since current investment levels are relatively low. Under the 'brand-name' of building new Silk Roads between

China and Europe, Beijing is undertaking a range of economic initiatives. A more visible Nordic region could be better placed to make the case for a 'Northern Branch' of the new Silk Road Economic Belt, particularly as Beijing has already shown interest in a possible Arctic Silk Road in the High North.

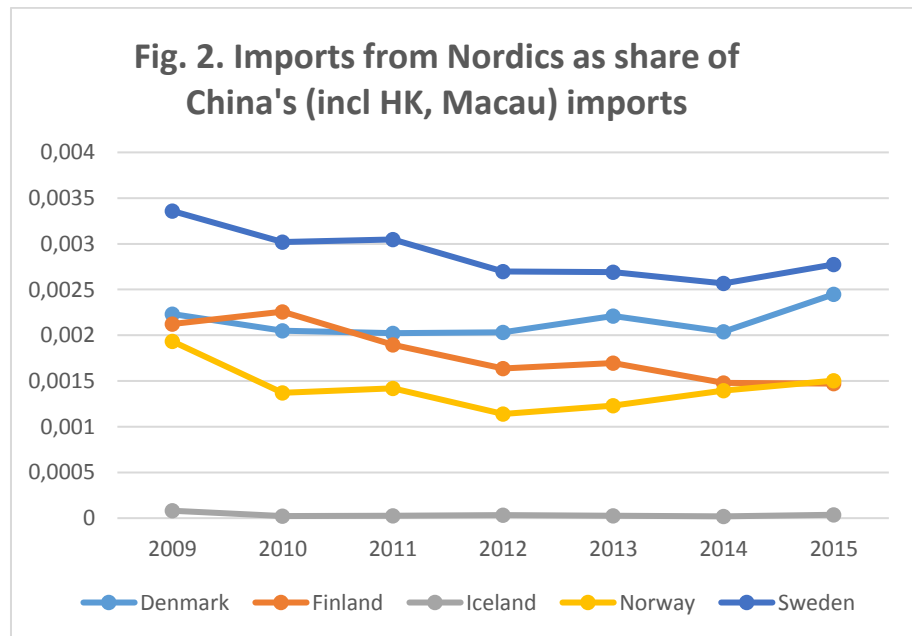
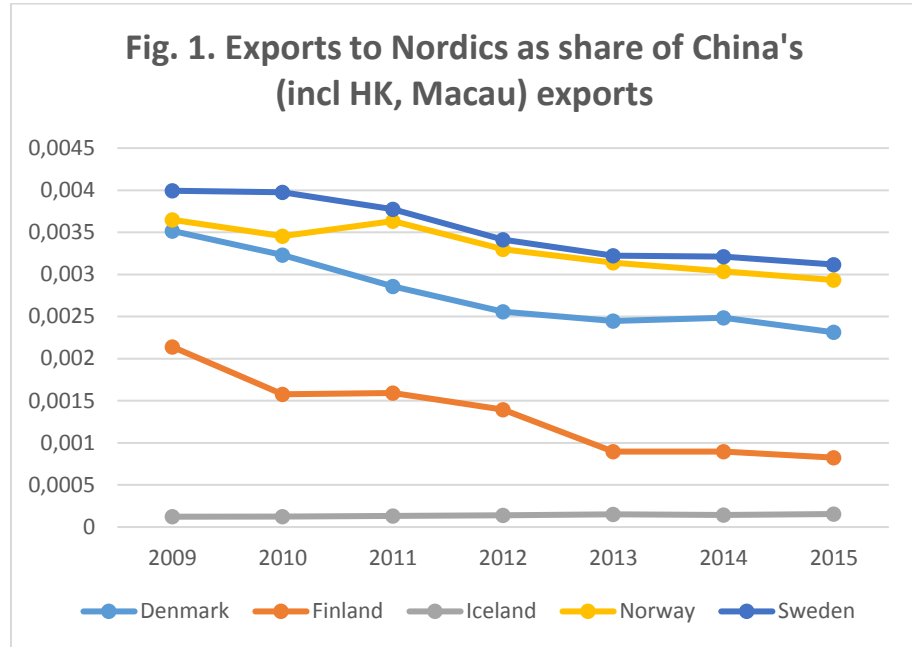
Another central question: how can the Nordic states best secure their political position and defend their values internationally? As these are small states in a changing and increasingly multipolar world order that has come under increasing strain in recent years, calls have been made for stronger coordination between the Nordic countries on various matters of foreign affairs. With the EU experiencing a range of internal and external stresses, from Brexit to refugees to the Russian security challenge, the roles of the various sub-regions are attracting greater attention. The USA has been asking the Nordic countries to act together internationally, as was demonstrated by the state visit of all five Nordic prime ministers to the White House in May 2016. Chinese officials and scholars have also aired the idea of closer coordination in Nordic China policies, for reasons of efficiency, through the creation of a Nordic–China sub-regional platform in a '5+1' format. This avenue is scheduled to be explored by the Nordic Council over the next two years.

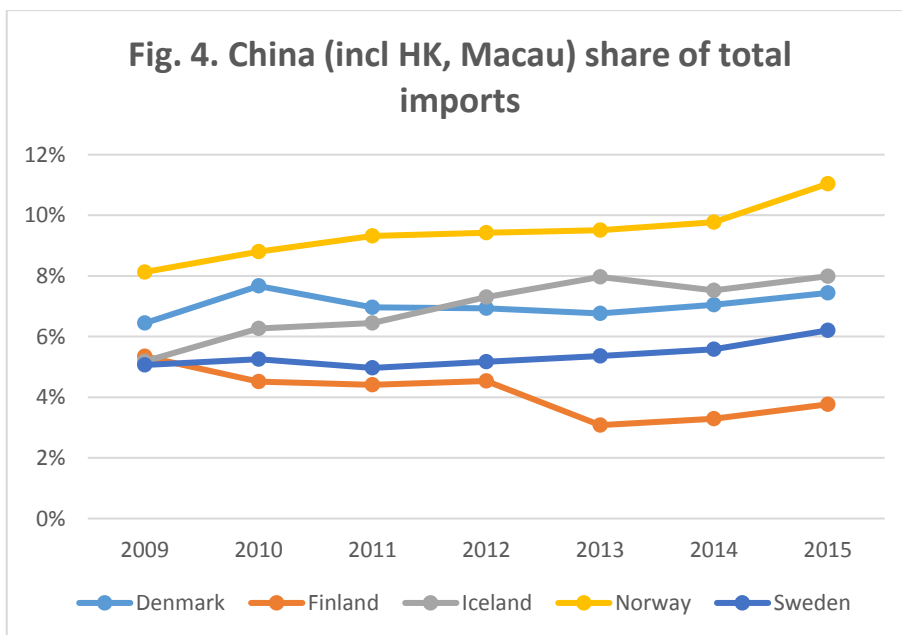
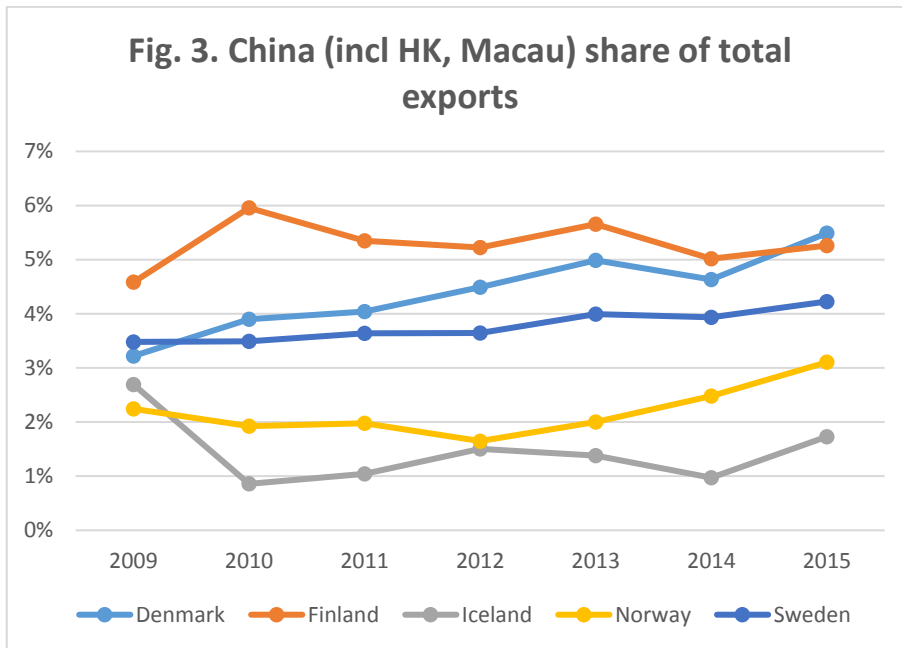
Such a potential 5+1 dialogue, as a common Nordic platform for high-level contact with China, could help to elevate the region's profile in China, leading to greater political access and providing an additional arena for strengthening economic ties. However, such a forum is likely to encounter certain political challenges. The EU, already wary of the current 16+1 dialogue between China and the Central/Eastern European countries, is unlikely to be supportive. Brussels is concerned that Beijing is engaging in 'divide and rule' tactics that could threaten EU cohesion. Further, the fact that only three of the five Nordic countries are EU members may well complicate such issues. Another major impediment to such a platform is the divergence in political approaches towards China within the Nordic countries. A 2011 report by the European Council on Foreign Relations on the EU-members' attitudes towards China placed Denmark and Sweden in the group of 'fairly critical' countries. Finland, however, was classified as being both more mercantilist towards China in economic terms, and, not least, significantly less critical of China in political terms.

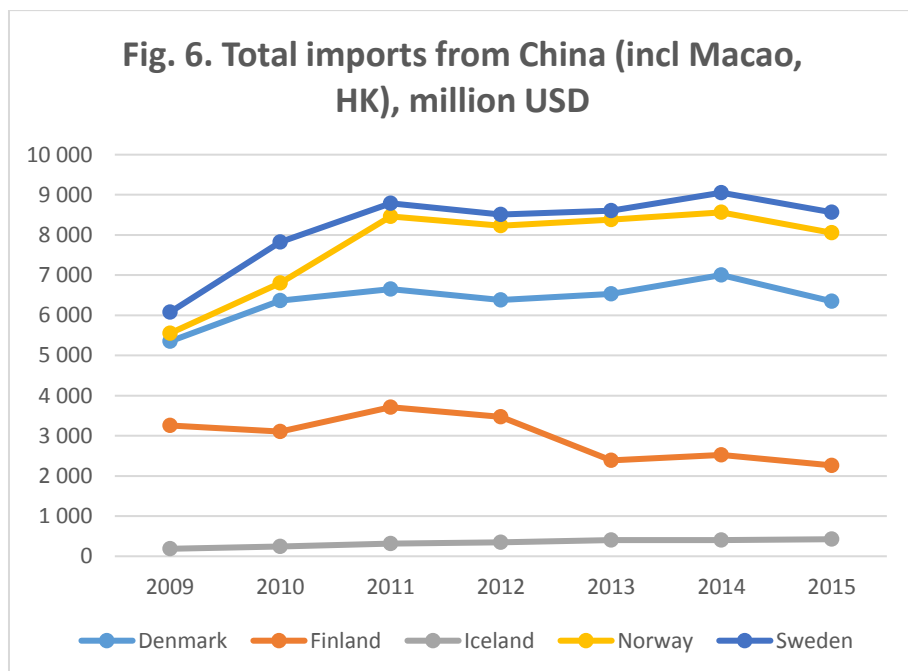
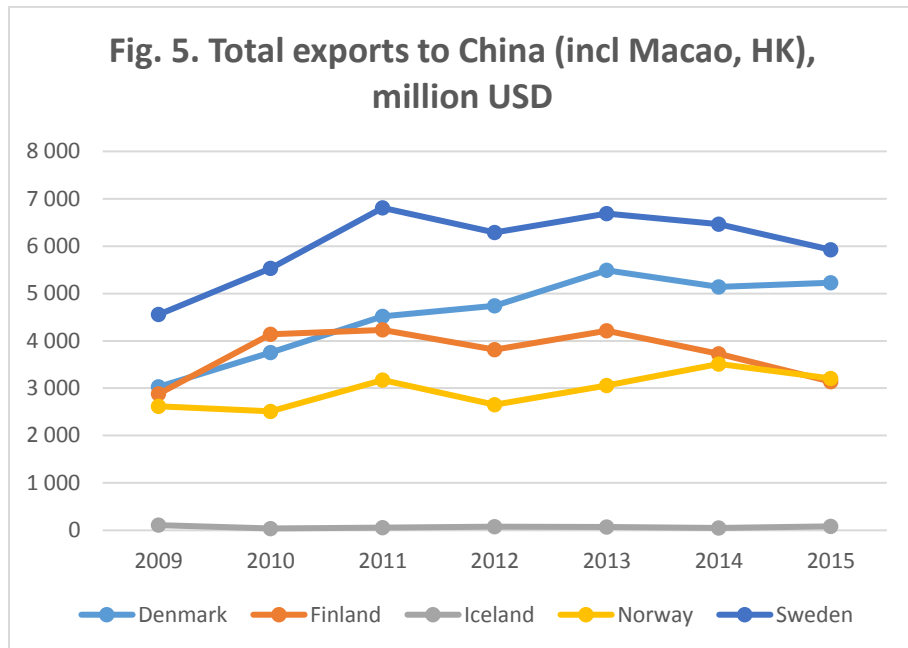
While Chinese interests in the Nordic countries may be fairly similar in nature, we should not assume that the Nordic countries' interests and priorities towards China are necessarily overlapping. Much work remains to be done before it can be meaningful to talk about a distinct 'Nordic approach' to the challenges and opportunities represented by the rising power of China. Key issues in the fault-lines between economic and political interests and values have challenged core tenets of Nordic foreign policy thinking, with important and still ongoing debates in all the Nordic countries. Nor are members of the Nordic quintet always in



tune with each other in deciding how to play the Chinese concert. Thus, as the national debates proceed, there is all the more reason to pay attention to the neighbours' melodies.







# Denmark's relationship with China: First violinist in the Nordic ensemble?

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## **Summary:**

Danish–Chinese relations have grown closer, stronger and more diversified – notably since 2008, when the two countries committed themselves to building a ‘comprehensive strategic partnership’. This development has been accompanied by a steep rise in bilateral trade, rapidly turning China into one of Denmark’s primary economic partners. Meanwhile, shifting Danish governments have opted for a more pragmatic political line with respect to sensitive political issues such as human rights, replacing the ‘megaphone diplomacy’ of the 1990s with non-public critical dialogue with the Chinese authorities. Indeed, given the growing significance and apparent harmony of bilateral relations, Denmark seems to have become China’s most-favoured partner among the Nordic countries. However, the basic strategic dilemma between economic interests and identity-based political concerns still looms in the background.

## **Introduction**

In May 2016, the Danish government published a commissioned report on the country’s foreign policy interests from an overall strategic perspective. While the report calls for systematically narrowing and prioritizing Danish foreign policy interests, it also makes clear that the Sino–Danish relationship will constitute a cornerstone of Danish foreign policy in the years to come. The report proposes strengthening and deepening the strategic relationship with China in order to spur bilateral trade. Yet, it also notes that, ‘one of Denmark’s key partners – for the first time in recent history – is located outside the Western community’ (Taksø-Jensen 2016: 40; author's own translation).

The report thus touches on a strategic dilemma in Denmark's relations with China: on the one hand, there is the desire for deepening bilateral (trade) relations and, on the other hand, the wish to promote or safeguard a set of Western political values based on Denmark's self-understanding as a liberal democracy. To be sure, as a small export-dependent economy, Denmark has a strong interest in gaining access to the Chinese market. However, with ever-closer economic ties to China, Denmark may come under increasing pressure to keep a low profile on sensitive political issues, to avoid challenging China's core interests.

This dilemma is certainly not new. Danish–Chinese relations over the years have experienced two major crises, each triggered by a Danish attempt to maintain a firm stance on a set of political values that ran counter to China's core interests (Østergaard 2011; Sørensen 2016). Nor is it a specifically Danish dilemma, since the other Nordic countries face similar challenges (e.g. Michalski 2013: 895-896; see also the other contributions in this issue). In recent years, Denmark's approach has been one of pragmatic adaptation to the rise of China, where the Danish government has 'outsourced' central aspects of its critical dialogue with China to other actors, while doing its utmost to avoid criticizing China publicly. At the same time, Sino–Danish relations have been expanded and deepened within the framework of the comprehensive strategic partnership programme, in the process turning Denmark into the 'first violinist of the Nordic ensemble'.

This article examines Danish–Chinese relations from a Danish perspective, focusing on the growing strategic partnership and the dilemma between economic interests and identity-driven political concerns.

### **A brief history of Sino–Danish relations**

Denmark's relations with China can be traced back to 1676, when the first Danish merchant ship came alongside the quay at Fuzhou in Fujian province (Brødsgaard and Kirkebæk 2001: 14). Until the founding of the People's Republic of China (PRC), trade constituted the primary driver of the bilateral relationship, with Danish companies holding a key position within shipping and telegraphy (Thøgersen 2016: 42-43). However, from a historical perspective, it is first of all the political dimension of this relationship that endows it with a special character and positive spirit, for three reasons in particular.

First, Denmark is perhaps the only country to enjoy an unbroken record of diplomatic relations with China since 1908 (Petersen, 2016: 69), and Denmark was among the first Western countries to grant formal recognition to the PRC in January 1950, preceded only by the UK (Thøgersen 2016: 43). Second, Denmark supported the PRC in its long struggle to gain a seat in the United Nations, which came to fruition in 1971. Third, the early official visits to the PRC by Danish Prime Minister Poul Hartling in 1974 and Her Majesty Queen Margrethe II in 1979 were

very helpful in strengthening political relations between the two countries. All in all, Denmark's diplomatic support for the PRC during the Cold War was quite significant, because it came at a time when China was extremely vulnerable and isolated in international society (Østergaard 2011: 53-54).

Since the opening up of China and its rise on the international stage, Danish–Chinese relations have been markedly intensified in political, economic and also cultural terms. In the 1980s, Danish state loans were an important catalyst in spurring bilateral trade, generating a ten-fold increase during that decade. Following the brutal crackdown on student protestors by the Chinese regime in 1989, the 1990s proved to be a difficult era in Sino–Danish relations, characterized by extensive Danish criticisms of Chinese human rights violations. Since then, however – with the notable exception of the Dalai Lama visit in 2009 – bilateral relations have been progressing smoothly, especially after the comprehensive strategic partnership was adopted in 2008.

### **A growing and balanced trade relationship**

China has only recently become a major trade partner of Denmark. Until 2004, bilateral trade, including goods and services, amounted to a mere DKK 22 bn, but the next decade saw explosive growth, despite the disruptive effects of the global financial crisis. In 2015, Sino–Danish trade reached DKK 120 bn (around 6% of the total trade volume), placing Denmark at the top of the Nordic countries when measured in per capita terms. Over the past decade, China has become Denmark's second largest non-European trade partner (second only to the US). If the current growth trajectory continues, China is well on its way to becoming Denmark's overall largest trade partner (Udenrigsministeriet 2015a; Worm and Petersen 2016).

Unsurprisingly, Danish companies have profited enormously from the booming Chinese market. For decades, Denmark had been running a substantial trade deficit with China (generally around DKK 10 bn), but since 2013 bilateral trade has either been quite balanced or has yielded a small Danish surplus (see Figure A). Shipping, mink furs and pharmaceuticals generated most of the export revenues in 2014, followed by industrial machinery and meat products (see Figure B). Denmark's imports of goods and services are somewhat more diversified, consisting mainly of shipping and apparel (Udenrigsministeriet 2015a: 3). Moreover, Danish companies are among the largest investors on the Chinese market in relative terms, with around 500 currently operating on the Chinese market via subsidiary companies that employ approximately a quarter of a million Chinese workers (Worm 2016).

Figure A

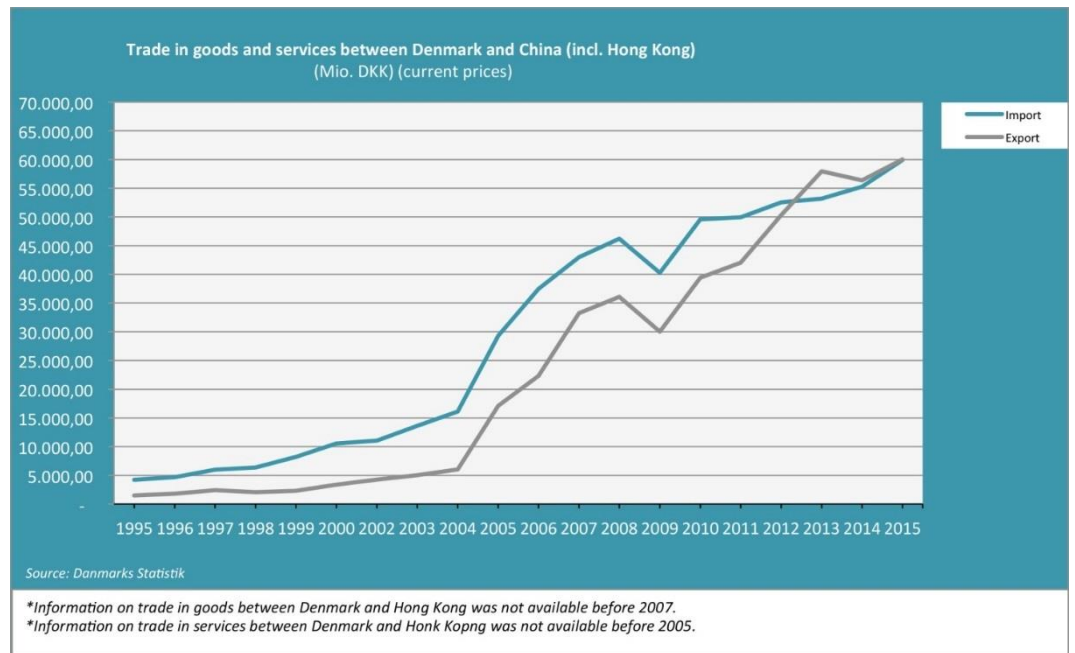
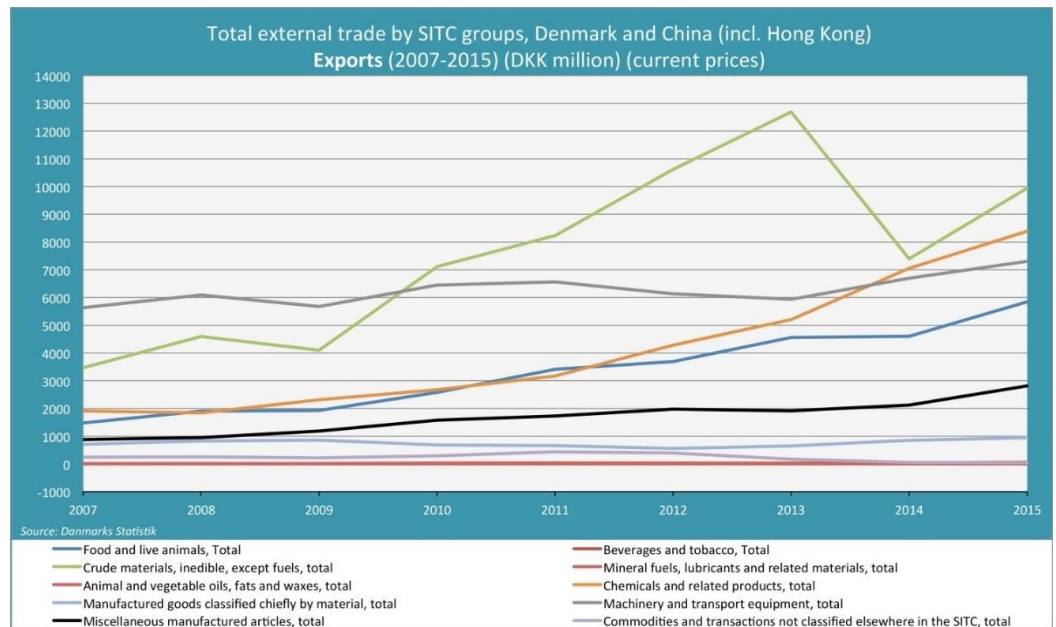


Figure B



It is worth noting that Denmark – despite US opposition – has recently joined the new Chinese-led Asian Infrastructure and Development Bank (AIIB), with capital investments of USD 370 mn. Although the Danish government does not expect to capitalize on its investment in the short run, membership is deemed critical, as the AIIB is likely to become a key actor in China's investment plans in Asia and Europe in coming decades (Udenrigsministeriet 2015b).

### **The Comprehensive Strategic Partnership**

While deepening their economic ties, Denmark and China have striven to enhance their political dialogue. With the signing of the Comprehensive Strategic Partnership (CSP) agreement in 2008, the two countries began systematically institutionalizing their political cooperation on various levels (China.org 2008). The number of official ministerial meetings had averaged three to four a year before Denmark and China committed themselves to the CSP; now there has been a threefold increase in such meetings (Sørensen and Delman 2016: 5). In 2016, for instance, the Danish Prime Minister, Lars Løkke Rasmussen, met with the Chinese President, Xi Jinping in March (allegedly as the only European leader on the sidelines of the nuclear summit in Washington), and Mr Rasmussen will visit Beijing later this year to sign an updated version of the CSP.

As frequently mentioned in official texts, Denmark is the only Nordic country to have a CSP arrangement with China (see e.g. Damsgaard 2016). Apart from facilitating political dialogue at the ministerial level, the CSP identifies specific focus areas where the two countries will concentrate their cooperation. From the beginning, these areas have included research and education, the environment and climate change and especially trade-promoting initiatives. Subsequent memorandums of understanding (MoU) have added additional focus areas, like green technologies, food standards, labour market conditions, anti-corruption measures and people-to-people exchanges (Wang and Lidegaard 2015). The plan is to formalize these new MoUs by incorporating them into the revised CSP, to be signed in late 2016.

The enhanced political partnership between Denmark and China has led to various specific manifestations of the cooperation, like the enlargement of the embassy in Beijing (Denmark's largest diplomatic representation abroad), the opening of the Sino–Danish Centre for Research and Education (SDC; Bech, 2016) and the establishment of institutionalized Sino–Danish cooperation on renewable energy (CNREC; Delman, 2016). Other notable examples include the Danish Cultural Centre in Beijing as well as its Chinese counterpart in Copenhagen, the Confucius Institutes and Classrooms in Denmark, the announcement of a joint year of tourism in 2017/18, and not least the scheduled transfer of two giant pandas from Beijing to Copenhagen Zoo in 2017.



According to Carsten Damsgaard, Denmark's current ambassador to China (Damsgaard 2016), the CSP offers a productive framework for disseminating knowledge about 'Danish solutions' that fit well with China's reform plans. Indeed, with their skills and technology in areas like energy efficiency, climate adaptation, water cleaning, alternative energy, sustainable urbanization, lean administration and effective governance, Danish companies are well-equipped for addressing China's extensive needs for expertise and knowhow to facilitate its ongoing modernization.

There are two additional reasons why Denmark is an attractive partner to China. The first concerns Denmark's significant geostrategic position, stemming from its EU and NATO membership, close relations with Washington, and (via Greenland) its Arctic profile. The Chinese government can use its frequent ministerial meetings with its Danish counterpart to inform the Danish side about Chinese views and interest in these important areas. The second reason is that Denmark – as well as the other Nordic countries – has been able to strike a balance between raw capitalist market forces and socialist ideals about welfare egalitarianism. This Nordic societal model serves as a source of inspiration for the Chinese government in its search for a desirable development path.

### **Critical dialogue: From megaphone diplomacy to non-public conversations**

By far the single greatest source of tensions in Sino–Danish relations has concerned human rights. The critical dialogue emerged with the end of the Cold War, when the Danish government exploited the new strategic environment to adopt a new more activist and value-driven foreign policy line on the international stage (Holm, 1997; Olesen, 2012: Chapter 6; Pedersen, 2012). This change coincided with the Chinese regime's massacre of peaceful student protestors in 1989, which provoked a huge moral outcry in the West, followed by harsh criticism of the human rights situation in China. The Danish government was among the very first countries to adopt sanctions and cancel existing development aid programmes in China (Østergaard 1990). It was also among the last countries to re-normalize relations, 1992/1993 (Østergaard 2011: 57).

In general, Denmark's China policies in the 1990s were permeated by this value-driven activist approach, as the Danish government – spurred by a highly China-critical public opinion – placed human rights at the centre of the relationship, in what has been described as the practice of 'public megaphone diplomacy' with Beijing. This activist line reached a climax in 1997 when Washington persuaded Copenhagen to present its annual China-critical resolution in the UN Commission on Human Rights at a time when most other Western states had embarked on a more pragmatic line. As a result, Copenhagen was forced to swallow its own bitter medicine as Beijing subjected Denmark to political and economic sanctions (Ulbæk 2015: 218-219).

As Danish–Chinese relations gradually re-normalized, Denmark adopted a far more pragmatic approach that has shaped the terms of the critical dialogue ever since. During the government of Anders Fogh Rasmussen, who ironically had portrayed himself as a ‘value warrior’, the critical dialogue was toned down in favour of stepped-up economic engagement (Ulbaek 2015: 216–17). This policy shift was justified in two ways. Firstly, it was claimed that engagement would be the most effective means of strengthening liberal forces within China (Østergaard 2011: 64). Secondly, more sensitive aspects of the critical dialogue were ‘outsourced’ to the EU Commission as well as to specific Danish NGOs. Since the late 1990s, the EU Commission has held a critical, albeit rather toothless, human rights dialogue with Beijing (Kinzelbach 2014), as frequently noted by Danish ministers. Moreover, the Danish government has empowered Danish NGOs like the Institute for Human Rights to conduct a practice-oriented dialogue with specific Chinese authorities on human rights violations, *inter alia* on rules of criminal procedure and prison conditions (IMR 2016).

Despite the general shift towards a more pragmatic course in the 2000s, the Danish government strove to maintain a high profile on one specific human rights issue: China’s repression of human rights in Tibet. During his visits to Denmark in 2000, 2003 and 2009, the Tibetan spiritual leader the Dalai Lama was allowed to discuss the situation in Tibet with the Danish prime minister (Ulbaek 2015: 221–22). However, the meeting in 2009 was accompanied by a humiliating Danish retreat, as the Chinese government forced its Danish counterpart to publish a *note verbale*, stating that Denmark would henceforth ‘oppose Tibetan independence’ (Folketinget 2009).

In the present decade, successive Danish governments still insist publicly on conducting a critical dialogue with the Chinese government. But unlike in the 1990s, today’s dialogue consists of non-public conversations at the sidelines of ministerial meetings. No longer do Danish ministers publicly criticize the human rights situation in China; nor do they meet with the Dalai Lama when he visits Denmark. During the Dalai Lama’s most recent stay in Denmark in 2015, then-Foreign Minister Martin Lidegaard stated: ‘I believe that we are better able to affect the Chinese in this way [i.e. by not provoking them], rather than by meeting him [i.e. the Dalai Lama], which would be like shouting to the Chinese through a megaphone (cited in *Jensen*, 2015: autor's own translation).’

### **Bilateral harmony? The Nordic ensemble and the US conductor**

Against the backdrop of the past 15 years, during which Danish–Chinese relations have grown ever closer, stronger and more diversified, today’s bilateral relationship seems quite harmonious and even characterized by growing strategic depth. However, we should not overlook the

continuing dilemma of how to strike a balance between economic interests and normative-political concerns, stemming from Denmark's identity as a Western liberal democracy. Obviously, the deeper the strategic relationship between Denmark and China becomes, and the more powerful China grows, the harder will it be for Denmark to voice any political concerns that go against China's core interests. On the other hand, a closer look at Denmark's identity-based partnerships with the Nordic countries and the United States reveals that these partnerships enable Denmark in different ways to maintain a focus on sensitive political issues and normative concerns in its relations with China – provided that such a balance is what the Danish government wants.

On the face of it, it is not evident just what Denmark stands to gain from pursuing a Nordic perspective in its relations with China, especially given Denmark's self-perceived status as the 'first violinist of the Nordic ensemble'. Yet, apart from the somewhat outdated notion of Nordic solidarity, there are practical as well as strategic reasons for maintaining this Nordic perspective. As to the practical reasons, given the serious austerity measures that have been imposed on Denmark's diplomatic representation abroad (Taksø-Jensen, 2016: iii–iv), substantial cost reductions might be achieved by pooling Nordic diplomatic resources in China. Moreover, most of what makes Denmark attractive to the Chinese – the social welfare system, knowhow within green technologies and sustainable development, and Denmark's status as an Arctic state – are assets and virtues shared with the other Nordic countries, which is why the Nordic states should work together in promoting the Nordic region in China. Interestingly, the Chinese government itself seems prepared to deal with the Nordic countries as a single region, as demonstrated during the Sino–Nordic conference in Yiwu in 2015. Most importantly, however, by standing together the Nordic countries would find themselves in a far better position to take issue with China in identity-related political matters and thereby reduce the risk of being singled out for political isolation, as has been the case for Norway since 2010.

In comparing Denmark's relations with China and the United States – Denmark's two largest non-European trading partners – the Sino–Danish relationship might appear stronger in some respects. This is primarily a result of the frequent high-level meetings between the two countries and their ever-widening and deepening Comprehensive Strategic Partnership agreement. Ultimately, however, the United States is bound to remain Denmark's most valuable partner outside of Europe – not only because of Washington's indispensable role in providing for Denmark's security, but also because of the shared political values as regards liberal democracy, the rule of law, and human rights. The emerging pattern of strategic great-power rivalry between the United States and China therefore places Denmark in a delicate position. As Washington steps up its human rights criticism of Beijing, Denmark is increasingly likely to become involved on the US side, as shown in March 2016 during discussions on a China-critical resolution in the UN Council of Human Rights

(US government, 2016). Hence, while Danish–Chinese relations have been progressing smoothly over the past 15 years, the tide now appears to be shifting, as Denmark's strategic dilemma between economic interests and moral-political concerns once again assumes a larger role.

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# Finland and China: Bilateral relations characterized by pragmatic rationality

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## Historical overview

The year 2015 marked the 65<sup>th</sup> anniversary of the establishment of diplomatic relations between Finland and the People's Republic of China, as it did for Denmark and Sweden as well. In official statements issued at bilateral meetings between Finland and China, Finland is customarily hailed as one of the first countries to have recognized the People's Republic of China; in fact, Finland came in third among the Nordic countries, after Denmark and Norway, on 13 January 1950. Even then, this recognition came only after a parliamentary query by the Left (Rosenberg 2008: 6–7). Also in regard to establishing diplomatic relations, Finland was the third Nordic country, following Sweden and Denmark, on 28 October 1950. Things moved swiftly after that, with Finland opening an embassy in Beijing in 1952. From the onset, the embassy had a commercial section, and in 1953 Finland became the first non-Communist country to sign a Trade Agreement with the PRC. This was a tri-partite arrangement: Finland would export paper and machinery to China, China agricultural products to the Soviet Union, and Soviet Union fuel and vehicles to Finland (Havrén 2009: 53).

Interestingly, the oldest treaty between Finland and China dates back 90 years, to 1926. This is the Friendship Treaty signed between Finland and the Republic of China, still considered valid because neither party has explicitly declared the contrary (Valtiosopimukset 21/1927, Havrén 2009: 31). The then-young Chinese republic was demanding such treaties as a precondition for establishing diplomatic relations with foreign nations, many of which had subjugated imperial China into giving their own nationals and companies non-terrestrial rights in pacts known as 'unequal treaties' in China. However, Finland – which had been recog-

nized by the Republic of China in 1919 – was able to establish diplomatic relations with the republic already on 9 March 1923.<sup>1</sup> Finland maintained a consulate in Shanghai until the Second World War, largely for the purpose of serving the Finnish business community there.

Since establishing diplomatic relations with the People's Republic of China, Finland has remained one of the few countries never to have broken off or frozen diplomatic relations with China. In the early decades, relations were basically commercial on the one hand, managed by various business actors (Heikura 1995: 78–80), and on the other, cultural exchanges initiated and coordinated by the Finland–China Association (Heikinheimo 2016). Relations at the political level remained subdued, due to the tensions between Soviet Union and China. The first Finnish state visit to China took place in 1988. China reciprocated in 1995, and the second Finnish state visit to the PRC followed already in 1996 (Ulkoasiainministeriö 2014).

During the Cultural Revolution, bilateral contacts were scarce, but the launch of the Opening Up and Reform era in the late 1970s brought new intensity, especially to commercial relations. Finland joined the gold-rush to China somewhat late, due to its flourishing trade with the Soviet Union (Siika 2015: 271). The first Finnish–Chinese Joint Venture, a factory for paper machinery, started in 1989 in Xi'an (Seppälä 2008). That same year, Finland was the first Western country to resume ministerial-level visits to China after the Tian'anmen Square events. The visit of the Minister of Foreign Trade drew criticism both domestically and internationally, but was said to be focused solely on trade (Havrén 2009: 221–224).

### **Stalling exports from Finland, promising start for investments to Finland**

Since the 1990s, Finland's commercial presence in China has grown steadily. Nokia, Kone and Rovio, to name just a few major Finnish companies, have become well-known success stories in China. Finnair started regular traffic to Beijing in 1988, and currently flies to six destinations in China (including Hong Kong) (Finnair 2015).

Total trade volume in 2015 was €6503 mn, of which €3967 mn consisted of imports to Finland (Tilastokeskus 2015). Both import and export figures have fluctuated considerably over the years. Since 2010, China has stood for over 5% of Finnish exports and 6–8% of its imports, making China the fifth largest trading partner for Finland, surpassing even the USA (Tulli 2015). Among the Nordic countries, China's importance for Finland as an export market has consistently remained the highest. China's share of total exports of the other Nordic countries has

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<sup>1</sup> The date of the recognition is based on archival sources in Taiwan, communicated orally by a Republic of China diplomat.



remained below 4% – with the exception of Denmark, whose exports have been rising steadily, surpassing the share of Finland in 2015.

According to Finnish customs statistics, the three largest categories of goods that Finland exports to China (2014) are industrial machinery (26%), electrical machinery and appliances (17%), and pulp for papermaking (17%). The share of furs rose rapidly in the first half of 2015, from 8% to 15%. The five largest import categories (2014) are electrical machines and appliances (41%), other goods (18%), and clothes (17%) (Tulli 2015). Traditional, low-processed export products stand for one third of the total. Combined with the fact the exports to China have shrunk to below the 2010 level, this is a sombre indication of the current state of Finnish export industries, and a reminder that measures must be taken to prevent further decline.

New markets in China are actively sought. The Finnish minister responsible for foreign trade visited China in January 2015, and discussed exports of Finnish foodstuffs to China. Finnish companies have been looking for new markets after exports to Russia have diminished, and some progress has been made. The goal is to achieve a three- to five-fold increase in food exports to China within the next few years (Takala 2015). Other expectations for growth are seen among small and medium-sized Finnish companies, for example in the field of cleantech (Finpro 2014). Finnish companies are also benefitting from Chinese investments in other countries. Although China's new continental Silk Road, the 'One Belt', does not extend to Finland, Finnish companies have participated in related infrastructure projects in Iran (Similä 2016).

In 2013, Chinese tourists in Finland accounted for only 2% of all visitors to Finland (Tilastokeskus 2014), but their numbers are growing. In 2015, overnight stays by Chinese tourists increased by 41%, and a similar growth is estimated also for 2016 (Tilastokeskus 2016). One major pull-factor is Finnish Lapland and its most famous inhabitant, Santa Claus. A further increase in Chinese tourism is likely to be seen due to the opening of 13 new visa application centres in China during the spring of 2016. Until then, Finnish visas could be applied for only in Beijing and Shanghai (Embassy of Finland, Beijing 2016a). Chinese tourists are especially welcome: on average they spend more money per visit than most other nationalities (Visit Finland 2016). Greater efforts to provide services for the Chinese in their own language are important, however.

Currently, there are some 350 Finnish companies operating in China, providing employment for approximately 60,000 people. The total sum of Finnish investments to China is estimated at over €10 bn (Elinkeinoelämän keskusliitto 2015). Chinese investments to Finland are negligible in comparison, estimated at a total of some €200 mn. One of the earliest and biggest investors is Huawei, which set up an R&D centre in Finland in 2012. The Finnish government is actively promoting

investments from China, in particular for innovation and high-tech as well as tourism and travel. Within the next few years, it seems possible that, through acquisitions of Finnish companies, Chinese investments could reach €1 bn in total (BOFIT 2016). In comparison, investments from Japan have ranged from €94 to 227 mn annually 2004–2012; and in 2013 alone, Finland got €1,384 mn in investments from Japan (Suomen Pankki 2014).

### **Towards a practice-oriented partnership**

Directions for the development of Finland's relations with China are set out in the Finland–China Action Plan (2010), produced by the Ministry for Foreign Affairs. The document stresses commercial and economic interests as the core of practical cooperation between Finland and China, but also notes the importance of good political-level relations (Ministry for Foreign Affairs of Finland 2010).

The 2010 Action Plan lists a wide range of goals in various sectors – including political issues; commercial issues; issues related to energy, the environment and climate; cooperation in education, research and innovation; cultural cooperation; development cooperation; and cooperation between law enforcement and border authorities. However, no clear priorities within these goals are specified.

The Action Plan has not been updated, but a new list of goals and priorities is expected to appear in a document, under preparation in national bureaucracies in Finland and China, on the principles for partnership. Such a partnership, discussed by the presidents of Finland and China in 2013, would be aimed at promoting pragmatic and future-oriented cooperation in relevant areas of mutual interest. As it is not expected to follow the model of any of China's current partnerships, it will probably not be called Comprehensive Strategic Partnership, Strategic Partnership, etc. It will be more practice-oriented. In China, the partnership under preparation has been unofficially referred to as 'a new type of partnership'. There are currently no estimates as to when the negotiations will be concluded, but the goal is to announce the partnership during the next high-level visit between Finland and China. Naturally, this bilateral partnership would be complementary to the EU–China Strategic Partnership (UM 2014; UM 2016).

One practical measure put forward by the Action Plan, as well as the general strategy of the Ministry for Foreign Affairs of Finland, is a coordinated approach to providing services to all Finnish actors through a single gateway, known as Team Finland. The Finnish business sector has been positive, and it is hoped that closer cohesion between businesses and governmental actors will enhance Finland's visibility in China and make it more competitive (Embassy of Finland, Beijing 2016b).

From the Finnish side, particularly interesting areas of practical cooperation with China include cleantech, energy and the environment; urbanization; ICT; forestry; education and innovation; Arctic cooperation; and judicial cooperation (Ministry for Foreign Affairs of Finland 2010). Judicial cooperation already has a long history; since 1995, Finnish experts in legal matters – judges, attorneys, prosecutors and prison administrators – have been providing their Chinese counterparts with advice and training, sharing best practices. The year 2015 thus marked the 20<sup>th</sup> anniversary of judicial cooperation between Finland and China. This cooperation, aimed at promoting good governance, rule of law, and respect for human rights in a practical, non-adversarial manner, is often hailed as an especially successful and unique elements of Finland's relations with China (see e.g. Lindström 2015). An interim report prepared by the Finnish side, discussing the achievements, challenges of future goals of judicial cooperation, is scheduled for publication in 2016.

China – specifically, the Ministry of Science and Technology – has set its own major focal areas for relations with Finland. These include nanotechnology, environmental technologies, and Arctic issues (Ministry of Science and Technology 2012: 280). It is noteworthy that Finland has systematically voiced support for observer status for China in the Arctic Council, declaring that all those who are ready to commit to promoting the goals of the Arctic Council through practical cooperation should be entitled to observer status (see Valtioneuvoston kanslia 2010: 36). One indicator of China's interest in Finnish Arctic knowhow is the commissioning of the conceptual and basic design of China's new polar research vessel from Aker Arctic Technology (Helsinki) in 2012 (Maritime Executive 2012).

The Arctic is one aspect of China's interests which unites all the Nordic countries. The 4th China–Nordic Arctic Cooperation Symposium was held in Rovaniemi in June 2016 (Arctic Centre 2016). Over the years, China has mooted the possibilities for creating a head-of-state or government level '5+1' platform with the Nordic countries, and there seems to be renewed interest after the meeting between President Obama and the Nordic Prime Ministers in May 2016 (UM 2016). However, in regard to many emerging areas for cooperation, such as the business prospects related to Arctic cooperation, or environmental technologies, the Nordic countries are to some extent competitors. There is competition also as regards traditional export industries like forestry, pulp and paper between Finland and Sweden. Therefore, it seems unlikely that a formal 5+1 platform would receive an enthusiastic welcome in the Nordic countries, despite the potential interest expressed by the Nordic Council of Ministers (Norden 2016). At least in Finland there seems to be little interest in any formalized platform which would not enable the kind of substantial and practice-oriented talks – in particular aimed at promoting commercial interests – possible in bilateral settings.

Among the general public, views regarding cooperation with China are split. There is the older concern that all manufacturing jobs will disappear into China, together with a newer concern manifested in suspicions that the Chinese will buy up the best Finnish businesses. The first type of concern is becoming less threatening with production costs rising in China, and some Finnish companies have moved their production lines back to Finland (Liimatainen 2016). The second concern could become more pressing in the future. On the other hand, there is the view – shared on the official level – that Finland should deepen its economic cooperation with China, as this is currently the strongest driving force of economic growth. There are also voices from the business and political elite calling for Finland to learn from Chinese efficacy, whereas many civil society activists regard China with suspicion due to the human rights situation.

Nevertheless, people-to-people contacts between Finland and China are on the rise. There are over 2,000 Chinese students in Finnish universities (almost 10% of all foreign degree students), second only to Russian students in numbers. Before 2012, China ranked number one in the countries of origin of foreign students (CIMO 2012). One reason for Finland's rising popularity was probably Nokia's success in China: a large number, if not the majority, of Chinese students are studying technology-related subjects. A Confucius Institute was set up at the University of Helsinki in 2007, and the Ministry of Culture is preparing to open a Cultural Institute in Helsinki (see Ministry of Education and Culture 2015). In cooperation with the city of Beijing, Helsinki City has organized an annual Chinese New Year festival ever since 2007. It has been increasingly popular among both Finns and the Asians living in the capital region; in 2015, it drew a crowd of over 30,000 people (Ax 2016). In return, Helsinki City organized a series of cultural events in Beijing in June 2016 under the slogan 'Moi Helsinki' (Hello Helsinki). The main event was even allowed to be held in Xidan Cultural Square, and was visited by some 25,000 people (Helsingin kaupunki 2016).

### **Can pragmatism lead too far?**

Currently, the bilateral relations can be described as stable and generally unproblematic. Sino–Finnish relations are primarily driven by commercial interests from the Finnish side. In addition, it is important for Finland – as for any other developed nation – to maintain close contacts with the leadership of a global power. Political relations have remained at a high and active level. Both the President and Prime Minister of Finland visited China in 2013, with the President accompanied by a business delegation (Ulkoasiainministeriö 2014). Member of Chinese Communist Party Politburo Standing Committee, Liu Yunshan, visited Finland in 2014. This visit focused on the growing sector of cultural cooperation (Jones 2014). China was chosen as the theme country at the Helsinki Festival held in August 2015.

There are no major issues threatening the continued smooth development of relations in the immediate future. The most immediate concerns for Finland in relation to China are breaches of intellectual property rights and industrial espionage. The former are regularly discussed at joint committee meetings between the Ministry for Foreign Affairs of Finland and MOFCOM, as well as through EU channels (Nieminen et al. 2013). Industrial espionage is likely to be a growing problem for the Finnish Security Intelligence Service.

For China, Finland is one of the smaller and less important partners among the EU member states, probably seen as relatively harmless. Nonetheless, China's core interests are reflected also in Sino–Finnish bilateral relations. The 1926 Friendship Treaty between Finland in China was a manifestation of the foreign policy priorities of the young Republic of China – and the core interests of the PRC today show that those priorities have not changed (see Hellström 2014: 14). China remains sensitive to anything that might call into doubt its position as equal to the other major powers. Beijing considers today's international order as a Western creation, and has maintained a critical attitude towards the universality of human rights. When foreign leaders meet with the 14<sup>th</sup> Dalai Lama, this is viewed by China as undermining its sovereignty in Tibet. On the domestic level, China sees a strong correlation between stability and economic growth, both of which are needed to safeguard the legitimacy of the leadership.

As an EU member state, Finland is actively engaged in the formulation of the Union's policies towards China. The EU–China 2020 Strategic Agenda for Cooperation notes that the EU and China have become highly interdependent (EEAS 2013). With the current financial crisis and economic stagnation in Europe, China's continuous economic growth is vital for the European economy. Because Beijing sees stability as a crucial condition for such growth, Chinese stability is more than just indirectly in the interests of Europe, the Nordic countries included. The question then becomes: how far will any individual countries – with perhaps competing commercial interests – be prepared to go in giving at least implicit support to China's measures for upholding its internal stability?

According to the Ministry for Foreign Affairs, Finland has (at least as of 2012) the highest trade volume with China among the EU member states in relative terms, compared to the size of the national economy (Ulkoasiainministeriö 2014). Also among the Nordic countries, Finland has until 2015 been the most dependent on China, as shown by export figures. This may have repercussions on political relations in the coming years. While Finland has usually restrained from open, public criticism on controversial issues, high-level Finnish visitors to China have systematically taken up human rights, among other matters, in discussions with Chinese counterparts. However, the Speaker of the Parliament of Finland, Maria Lohela (The Finns Party) made an exception when she refused to put human rights on the agenda during her first visit to China

in November 2015 (Mäkeläinen 2015). And indeed, this may prove symptomatic of future bilateral relations between Finland and China. Pragmatism always entails the inherent danger of turning into opportunism.

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# ‘Small is Beautiful’: Iceland’s Economic Diplomacy with China

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‘Icelanders are grateful to meet foreigners who have heard of their country.’ – Halldór Laxness, *Iceland’s Bell* (1946)

## **Introduction: The Big and the Little**

Of all the Nordic countries, Iceland has arguably enjoyed the most multifaceted relationship with China in recent years. This despite the fact that Iceland was the last of the five Nordic states to open relations with the People’s Republic, doing so in December 1971 and in the wake of discussions in Iceland about terminating the US military presence at Keflavik (*New Nation*, 1971). Much credit for the successes of the bilateral relationship has been placed on the completion of a bilateral free trade agreement (FTA) in April 2013. However, it can also be argued that the agreement is a part of a larger set of emerging diplomatic and economic linkages between the two countries related to China’s growing confidence in its commercial diplomacy – meaning the ability to utilize economic power adroitly to influence non-economic decisions, also in the political and strategic realms (see Frost 2007). In the case of China and Iceland, Beijing’s commercial diplomacy has extended not only to liberalized trade, but also to greater cooperation in Arctic affairs as Beijing seeks to develop a greater presence in the circumpolar northern regions.

For Iceland, and especially since the island nation’s financial downturn (*kreppa*) in 2008 and the ensuing recovery, relations with China have contributed greatly to Reykjavík’s policies towards developing a ‘third option’ foreign policy which neither rests on the *status quo* nor veers too close to the European Union. Instead, Iceland is seeking stronger international and Asia ties, with Beijing at the forefront. Sino-Icelandic relations have been marked by emphasis on partnership build-

ing, which can be examined on several levels in the traditional neoliberal theory approach. From an Icelandic viewpoint, this strategy could almost be seen as a form of 'soft omni-balancing'. Iceland today is not facing distinct hard- security threats – although, like the other Nordics, it is concerned about the growing number of Russian military incursions into the North Atlantic. However, Reykjavik is facing economic challenges which call for a foreign policy that accepts building relationships with the EU as well as with non-European actors, including China and East Asia, with a focus on economic security (David 1991). Further, Iceland has become more accepting of closer relations with the United States, as illustrated by the decision in early 2016 to allow US forces to return to the base at Keflavik, after withdrawing in 2006 under considerable post-Cold War domestic pressure in Iceland (Winger and Petursson 2016).

Relations between China and Iceland have a strong economic dimension, even though the direct financial impact of the FTA on the Chinese economy is likely to be minimal. Viewed from a strategic viewpoint, however, strong Sino-Icelandic trade relations illustrate Beijing's deepening interest in economic diplomacy with Europe as a whole, as well as in small-state relations. In its relations with Reykjavik, China has continuously stressed that it does not see this partnership as 'big state–small state', but as one between two states with friendly and compatible economic interests. From a wider viewpoint, this relationship is a clear case example of China's capacity for effectively and confidently channelling its growing external economic power for strategic aims. For China, playing a more pronounced role in Arctic affairs necessitates maintaining strong relations with Iceland, given the island state's growing visibility in Arctic affairs on the regional governmental level but also in non-governmental areas.

### **The Role of Free Trade**

Since joining the World Trade Organization in 2001, and in the wake of the failure of the WTO's Doha Round, Beijing has begun to adapt a more constructive approach to developing free trade agreements of various types, ranging from the multilateral China–ASEAN free trade agreement (CAFTA) which entered into force in 2010, to various bilateral FTAs with industrialized and, more frequently, developing states. Although Iceland agreed to grant China 'market economy status' – a major prerequisite for Beijing to commence the talks – the FTA with Iceland was fraught with complications during its early stages, including a long pause between 2009 and 2012 as a result of Iceland's economic crises, and the strong possibility at the time that Iceland would join the European Union as a response. However, the deal was finally completed April 2013 (Iceland MFA 2016). This marked the first FTA signed by Beijing with a European state, and only the second with a member of the Organisation for

Economic Co-operation and Development (OECD). The first such agreement was with New Zealand, which completed its FTA with China in July 2008 (New Zealand Government 2014).

Since that time, Beijing has gone on to complete free trade agreements with other OECD members, including Switzerland in 2013 and Australia and South Korea in 2015, as well as negotiations with another European state, Georgia, that commenced in February 2016. Iceland was viewed as an ideal choice for one of Beijing's first forays into free trade negotiations with a Western economy, due to the island state's small size and limited number of economic sectors, as well as its distinct position outside the European Union but linked to the EU Single Market through membership in the European Economic Area (EEA) since 1994. Initially, Beijing was especially interested in three major sectors of the Icelandic economy: the fish and seafood sector, Iceland's expertise in thermal energy, and its then-developing banking sector which was seeking to internationalize itself and saw Asia as a major potential market. Beijing was also hopeful that a labour transfer clause, similar to what was added to the China–New Zealand free trade agreement in 2008, could be included in this agreement. However, due to Icelandic internal politics as well as Reykjavík's membership in both the European Free Trade Association (EFTA) and the Schengen Agreement, this was not viable. Two of Iceland's then-largest commercial banks had established offices in China – Landsbanki in Hong Kong, and Glitnir (now Íslandsbanki) in Shanghai. The bilateral free trade talks began in 2006, well before China's current Arctic policies began consolidating; at that time, much of Beijing's motivation for pursuing the agreement was to demonstrate its commitment to deeper economic engagement with Europe, especially in the wake of failed exploratory talks towards a possible China–EU free trade agreement earlier in the decade.

However, the Sino–Icelandic free trade talks were placed in doubt after 2009 as a result of Iceland's financial crisis the previous year, which saw all three of the country's major banks collapse under unsustainable debts, and the Icelandic currency, the *krona*, critically weakened in international markets. One aftereffect of the crash was Iceland's July 2009 application to join the EU as a response to a weakened Icelandic currency and the desire to be linked with the then-safer euro (Lanteigne 2010). Had Reykjavík followed through on its original plans to join the EU, any bilateral FTAs signed by Iceland, including a China agreement, would be automatically annulled as a condition for accession. Beijing suspended further talks with Iceland, out of concern for both the longer-term health of the island nation's economy and the possibility that Iceland might achieve fast-track admission to the EU. By 2012, however, public support for early EU admission had eroded as more traditional concerns re-emerged over whether Iceland would be able to maintain its economic sovereignty within the EU, especially regarding its vital seafood industries. Interest in reviving the China FTA talks had resurfaced,

and an official visit to Reykjavík by then-Chinese Premier Wen Jiabao in April 2012 formally restarted the process (Shanley 2012).

Today, Norway is the only EFTA member to not have a completed China free trade deal, due to the post-2010 diplomatic freeze: a Chinese–Swiss FTA included Liechtenstein as a partial beneficiary, due to the mutual open border and a customs union with Bern dating back to 1924 (Lanteigne 2014). Both the Icelandic and the Swiss FTAs entered into force in July 2014, and there has much anticipation among Icelandic businesses, especially in the fishing industry, concerning potential economic gains from the agreement. Total trade in goods between China and Iceland jumped from ISK 33,889 bn in 2009 to 51,193 bn. by 2014, even before the full effects of the FTA were experienced, with seafood dominating exports but other sectors, notably manufacturing equipment and ferrosilicon, also of importance (MFA Iceland Fact Sheet 2016).

Bilateral financial cooperation was further strengthened by a 2010 currency swap worth CNY 3.5 bn (USD 569 million). This was subsequently extended in September 2013 and was widely viewed as a vote of confidence in the Icelandic economy and its ability to recover from the *kreppa* (*Xinhua*, 30 September 2013). Also during September 2013, the Icelandic government under then-Prime Minister Sigmundur Davíð Gunnlaugsson controversially opted to suspend the EU talks and dissolve the country's EU negotiating committees, further indicating that membership would not be sought in the short term. After a long period of uncertainty, the Icelandic government formally withdrew its EU application in March 2015. The topic remains politically divisive among Icelanders, who felt that the matter should have been decided via referendum, but the centre–right Gunnlaugsson coalition government remained strongly opposed to deepening ties with the EU (Ólafsdóttir Kaaber 2014; *Deutsche Welle*, 12 March 2015).

In April 2013, Icelandic President Ólafur Ragnar Grímsson expressed his support for a greater economic presence for China and other Asian states in the Arctic, given the growing economic importance of the region (Goldenberg 2013). However, there have been some political divisions within Iceland over the country's evolving economic ties with China, as shown by the controversy over plans announced by Chinese investor Huang Nubo, the head of the Chinese property concern Beijing Zhongkun Investment Group, to purchase some 30,000 hectares of land at Grímsstaðir in northeastern Iceland in order to develop tourist facilities, a project worth an estimated USD 200 million. The Icelandic government in 2011, amid public unease, turned down the initial purchasing request by Huang. The bid was reworked the following year as an application for leasing a smaller amount of land for the same purposes. Icelandic authorities delayed the final decision on the proposed lease,

and Huang began to look for investment prospects elsewhere in the region (*Agence France-Presse* 17 August 2013; *Bloomberg News* 12 February 2014; Higgins 2014).

There have been other examples of Chinese interest in Icelandic joint ventures, including the announcement in July 2015 of a new aluminium smelter at Hafursstaðir in northwestern Iceland which would be co-developed by the China Nonferrous Metal Industry's Foreign Engineering and Construction (NFC) firm. In the same month came the announcement that Chinese auto manufacturers, the Geely Holding Group, would invest USD 45.5 million in Iceland's Carbon Recycling International (CRI) Incorporated (Arnarsdóttir 2015; Zhang 2015). There is also the possibility that Iceland may attract sizable foreign investment from third-party firms interested in taking advantage of preferential access to Chinese markets, including green technologies. One example involves a US firm, Silicor, which announced in October 2015 that it was seeking to open a poly-silicon manufacturing centre in Iceland, partially to take advantage of Iceland's preferential trade access to the Chinese market (Semple 2016; Toh 2015).

The possibility has also been mooted that Iceland could develop as a regional trading hub for goods exported to China, potentially including raw materials from Greenland, including base and precious metals, uranium and rare earths. Moreover, in late 2015 it was reported that the number of Chinese tourists to Iceland had increased the most in comparison with other countries, from some 26,000 in 2014 to 43,000 one year later (*mbl.is* 28 December 2015). Given these figures and the FTA, it has been proposed that direct flights between the two countries be established (*Industry Updates / China Daily* 11 July 2014; Huang 2014). Although it is too early to gauge the overall economic and political effects of the Sino–Icelandic FTA, both sides have been enthusiastic about the agreement as a stepping-stone to further areas of economic cooperation. Other doors for economic dialogue between the two states have also been opened, including via the Beijing-backed Asia Infrastructure Investment Bank (AIIB). Iceland joined the AIIB in April 2015, immediately before the deadline for being considered a founding member of that organisation, thus presenting the opportunity for Icelandic energy and other firms to participate in the bank's future development projects (Huang and Sigurdardóttir 2015).

### **Energy Cooperation**

Another dimension of the developing Sino–Icelandic relationship concerns potential fossil-fuel development. In October 2013, an agreement was finalized, granting a licence to the partnership of the China National Offshore Oil Corporation (CNOOC) and the Reykjavík-based energy firm Eykon, for joint exploration for oil and gas in the Dreki region of the North Atlantic between Iceland and Norway. After Eykon expressed its desire to develop potential findings of fossil fuels in the Dreki area, the

Icelandic National Energy Authority (*Orkustofnun*) stressed that Eykon would require a foreign partner to proceed with any successful exploration bid. The Icelandic firm ultimately chose CNOOC, marking the first time the Chinese firm had embarked on a project in the Arctic (Gardiner 2013).

The Dreki region is adjacent to the area around Jan Mayen Island on the Norwegian side of the maritime border. Therefore, under the terms of a 1981 agreement between Oslo and Reykjavík, both sides have the option of requesting a 25% stake in any exploration licence issued by the other government (National Energy Authority of Iceland 1981). The Norwegian government under Prime Minister Erna Solberg also agreed to join the project, and the state-owned energy firm Petoro assumed 25% project oversight, with CNOOC assuming 60% and Eykon 15% (*Reuters* 1 October 2013). Despite the improved local conditions for fossil-fuel extraction in that area of the Arctic Ocean, any offshore platforms in the North Atlantic/Arctic would still have to tackle the issues of harsh climate and ice conditions, and the need to prevent oil spills in this environmentally delicate region. The Dreki agreement not only furthers Beijing's economic presence in the Arctic but also has the potential of bolstering Iceland as a stronger energy actor alongside Norway. Initial surveys began in 2014; assuming sufficient quantities of fossil fuels could be located, production was estimated to begin as early as 2021. However, the rapid collapse of oil prices in 2015 gave rise to questions about the viability of that timetable (*Reuters* 23 November 2013; *RIA Oreanda News* 5 June 2014). Nonetheless, as of early 2016 there have been no plans to suspend the project, despite the withdrawal of other energy firms such as Shell from Arctic energy projects.

### Future Trends

The Sino–Icelandic free trade agreement, and expanded bilateral trade as a whole, will continue to dominate the overall relationship. China has been seeking to develop and expand its free trade partnerships with industrialized states and members of the OSCE, 'starting small' with FTAs with New Zealand and then Iceland, before moving to larger economies like those of Australia and Switzerland. Beijing wishes to show that it is ready, willing and comfortable with developing such agreements with economies of many different sizes, while at the same time pushing for agreements that move beyond the baseline rules of the WTO, especially in the area of services. Further, as Beijing is keenly interested in liberalizing its trade with the European Union (Sito 2016), the agreements with Iceland, and Switzerland, act as key models for a potential China–EU set of trade negotiations.

Beyond trade, Iceland is a core example of China's developing 'small-state' diplomacy, where Beijing wants to come across not as a traditional great power seeking hegemony as it increases its cross-regional ties, but as a partner state interested in both developing economic linkages and



sharing information. Although China has also deepened relations with other Nordic states, notably Denmark, in recent years, Iceland remains distinct due to its non-EU status and its geography. Iceland's relations with the United States are warming and Russia has become a growing concern. On the domestic level, there is a potential shift in government in Iceland with elections planned for late October 2016 and new parties, especially the Pirate Party and *Viðreisn* ('Restoration') growing in support (*Iceland Online* 8 June 2016). Thus there is the question of how well the next government will juggle the island's great-power relations, with the USA and the EU but also with China.

Finally, China is looking to Iceland as a key component of its developing Arctic strategies. Here, Iceland might find itself in competition with the other Nordic states, especially Norway, for being seen by China and East Asia as the gateway to the Far North.

During his last terms in office, President Grímsson expressed his support for developing the Arctic Circle conference, a regional 'Track II' (sub-governmental) policy event now viewed as a supplement to the governmental-level Arctic Council and a competitor of the Arctic Frontiers conference in Tromsø. Since its creation in 2013, the Arctic Circle organization, with its conferences, has developed into a key forum for non-Arctic states, including China, to develop and announce their Arctic strategies. For example, it was at that event in October 2015 that keynote speaker Zhang Ming, Vice-Foreign Minister of China, unveiled a six-point plan for Beijing's Arctic engagement, including a call for the respect of rights and responsibilities of non-Arctic states (Foreign Ministry PRC, 17 October 2015). Reykjavík has sought to manoeuvre politically through the questions of to what degree non-Arctic actors should participate in economic and governance activities in the region, but senior members of Iceland's government have expressed support for a more active role for Beijing in the Arctic (Goldenberg 2013).

Iceland is also factoring into China's developing scientific diplomacy in the Arctic. In June 2014, China's Polar Research Institute joined with the Icelandic Centre for Research (RANNIS) to begin construction of the China–Iceland Joint Aurora Observatory (CIAO) at Kárhóll in northern Iceland (CIAO Kárhóll 2016). In addition, Beijing is seeking to make expanded use of Arctic sea routes as they become more accessible in summer months due to retreating ice. Of special interest is the Northern Sea Route connecting Asia to Europe via the Siberian region, but there is also the potential for greater use of the 'Arctic Bridge' Route, connecting Churchill, Canada, to Murmansk, via the North Atlantic (Stephenson et al. 2011). In the future, Iceland could become vital Arctic port for China and other East Asian economies (especially if mining in Greenland becomes a reality), as well as a partner in regional resource and fossil-fuel extraction.

The China–Iceland relationship, while still developing, represents a key emerging case of Beijing's growing commercial diplomatic capabilities, experienced throughout Northern Europe and on the international level. If Iceland becomes part of a potential China–Nordic '5+1' network, Reykjavík would be an indisputable outlier in multilateral relations with Beijing, given its non-EU status, distinct soft power, and its independent foreign policy in relation to the other Nordics as well as the whole of Europe.

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# Norway and China: Crime and Punishment

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## Introduction

The relationship between Norway and China is a salient showcase for two key factors characterizing the ties between China and the Nordic region. Firstly, it demonstrates the range of reciprocal benefits to be garnered from economic and cultural cooperation between the eastern and the north-western edges of the Eurasian continent. Secondly, Sino–Norwegian relations point up a central dilemma for Nordic countries in their relations with China: how to handle the normative issues that may arise when declared core interests of the Chinese government are at odds with central tenets of the Western liberal order. This is an issue whose potentially far-ranging consequences are exemplified most clearly in the case of Norway, which is currently almost six years into an ongoing political boycott by China. This diplomatic conflict is unprecedented in scope in the recent history of Chinese relations with any OECD country: and precisely for that reason, Sino–Norwegian relations offer a salient showcase of a range of issues faced by small states that must navigate in a multi-polar world where economic, political and normative power is in constant flux.

## 60 Years of Conflict and Cooperation

Along with most of the other Nordics, Norway was among the first Western countries to grant diplomatic recognition to the People's Republic of China. Already on 7 January 1950, Oslo communicated this to Beijing (Sæther 2009). However, soon afterwards, Norway abstained in a UN Security Council vote on whether the PRC should be given a seat at the UN (Løvdal 1997). This perceived snub, and later tensions surrounding the outbreak of the Korean War, led to Norway and China establishing full diplomatic relations only four years later, on 5 October 1954 (PRC FM 2016). During the Maoist era, ties between China and Norway were fairly limited, circumscribed within the broader context of Cold War politics. Norwegian interest in China's political system was concentrated in a

small but vocal group on the left-wing fringe. In these years, Sino–Norwegian relations saw substantial conflict, as with the Chinese protests of Norwegian media coverage of the country in 1959 and 1967, as well as moments of cooperation, like the assistance offered by members of the Norwegian diplomatic corps in helping the PRC assume its UN membership in 1971 (Nilsen and Øgrim 2015).

One particularly tense moment in China–Norway relations came in 1989, when the Dalai Lama was awarded the Nobel Peace Prize in the context of a Chinese political crackdown (Nobelprize.org 2013). As anger from the Chinese side receded, and China continued down the path of economic liberalization, Norway started to build a solid relationship with China, which fed into Norwegian successes in the Chinese market (Pettersen, interview, 2013). Particularly in the past decade, with China’s economic and political growth making it increasingly relevant on the international stage (Norwegian MFA 2009; Norwegian MoD 2008), the two countries built what both agreed was a close and dynamic relationship (PRC FM 2011; Norwegian MTI–PRC MOFCOM 2007). Central areas of bilateral contact have included the annual Human Rights Dialogue initiated in 1997 (Norwegian MFA 2010), and, from 2008, negotiations on a bilateral free trade agreement (PRC MOFCOM 2009).

Political relations between Norway and China have been developing steadily in the new millennium, in many ways fitting into a broader Nordic pattern: a small country receiving a fair amount of Chinese interest, with a considerable range of bilateral visits and high-level political contact, due to interests in that country’s social models, its position as an Arctic littoral state, and with a technologically advanced economy that complemented the Chinese, to the benefit of both parties (Hellström 2014). In addition, Norway’s situation as a non-EU member made it a convenient arena for China to use as a springboard for bilateral policies and trade negotiations that could later be used as a basis for deepening ties with the EU (Lanteigne 2010). Burgeoning bilateral trade was a major driving force for these relations, and the Chinese economic boom after joining the WTO in 2001 was a significant driver for the Norwegian boom in the same period, not least through contributing to higher oil prices on the world market (Dørum 2012). The visitor strolling along Oslo’s fjord promenade will note the new-built skyline, one indication of the indirect effects of China’s economic rise.

Both governments have actively supported initiatives for cultural and artistic exchange. There has long been a mutual interest in the two countries cultures, from the 20<sup>th</sup>-century Norwegian upper-class fascination with Chinese artefacts and art, to the long-standing Chinese admiration for Norwegian playwright Henrik Ibsen, who has been ranked as one of the 50 foreigners with the greatest impact on modern China (Xinhua 2006). A Chinese Confucius Institute opened in Bergen in 2008, as a centre for spreading Chinese language, culture and martial arts traditions; and Norwegian diplomatic stations in China have long been active in

supporting a range of initiatives, from architecture exhibitions to concerts. These are important undertakings for creating cross-cultural understanding, a matter of priority (see e.g. Wang 2016) even as political relations between China and Norway have taken a serious turn to the worse. Whereas the number of Chinese students in Norway has increased considerably over the last decade, Norway has been struggling to convince Norwegian students leave for China. In 2014–2015, 279 Norwegians were studying full- or part-time in China. This is a relatively low number, and it would seem that difficulties in Sino–Norwegian relations in recent years have affected academia as well, with both the number of Norwegian students to China and the number of applicants for programmes in Chinese studies at Norwegian universities showing a downward trend (Skalleberg Gjerde 2015). That Norwegian expertise on China has been eroding, rather than being significantly strengthened, could prove to be a very adverse long-term effect of the downturn in Norway–China relations after October 2010.

### **The 2010 Peace Prize and the Case of the Empty Chair**

Even as economic interests drove the relationship closer, serious concerns lingered on the Chinese side about the risk of the Nobel Committee again awarding the Peace Prize to someone considered a dissident. Beijing's concerns have been clearly communicated to Committee members and leading representatives of the Norwegian government and diplomatic corps, emphasizing the negative consequences such an award would have for Sino–Norwegian relations. (Lundestad 2015: 250–60; Rønneberg 2010). The stage was thus set for what would become the main fulcrum of China–Norway relations in the current decade, when the Norwegian Nobel Committee decided in October 2010 to award the Nobel Peace Prize to the recently jailed Chinese dissident Liu Xiaobo, for his 'long and non-violent struggle for fundamental human rights in China' (Nobelpeaceprize.org 2010). The prize was given *in absentia*, with a symbolic empty chair marking Liu's absence from the awards ceremony.

The Chinese authorities reacted with fury to Liu Xiaobo's award and the Norwegian government's customary endorsement of the Nobel Committee's choice. Awarding the Peace Prize to a sentenced criminal in China was seen as serious interference in the political and legal affairs of the country (China.com.cn 2010). The consequences of the Peace Prize for political relations between Norway and China were severe: Beijing sought to punish Norway while at the same time sending out a strong signal to other Western states that interference in the internal affairs of the rising Chinese power would not be accepted. A Chinese political boycott towards Norway soon made itself felt, with all scheduled political meetings called off (*China Quarterly* 2011:211–12), and the Human Rights Dialogue and negotiations on the proposed FTA placed in



abeyance (Rønneberg 2012). Chinese retaliatory measures were also expressed through certain newfound difficulties for Norwegians seeking visas to enter China (Aanensen 2012).

As of this writing there is still no bilateral political contact between Norway and China, almost six years after Liu Xiaobo was awarded the Nobel Peace Prize (Brende 2016; Havnes 2016). The extent and duration of this political boycott are fairly unique, and reflect the determination of the Chinese authorities to quell outside interference in affairs deemed sensitive for the survival of the party system. However, in 2015, China did accept Norway as a founding member of the Beijing-backed Asian Infrastructure Investment Bank (Lohne 2016). This, together with China's 2013 admission as an observer in the Arctic Council, with Norwegian support, would indicate that the frayed relations between Norway and China are no hindrance for Beijing entering into multilateral institutions involving Norway, if the regimes and political initiatives are deemed important to Chinese long-term strategic interests.

From the outset, each party has seen the job of repairing relations as the being the responsibility of the other (Blindheim 2013; Hong 2012). Moreover, in both China and Norway, the conflict is regarded as closely related to key principles of the countries' political systems, making a viable compromise difficult. To Beijing, awarding the Peace Prize to a dissident runs counter to the existential interest of upholding the party-state's politico-legal system (Fewsmith 2016). The Chinese authorities have repeatedly stated that their foreign policy is built on three fundamental 'core interests': preserving the state system and national security; protecting China's sovereignty and territorial integrity; and upholding the continued development of the Chinese economy and society (Swaine 2011). From Beijing's viewpoint, awarding the 1989 Peace Prize to the Dalai Lama was an affront towards China's core interest no. two, followed by the grave attack on core interest no. one in 2010. The particularly harsh Chinese punitive reactions are founded on how the Norway's actions have been perceived as striking at fundamental Chinese interests. Furthermore, the 2010 Peace Prize was an event that challenged these interests in a period where China, particularly after 2008, had become increasingly assertive in defending its core interests abroad. (Shambaugh 2016; Swaine 2011)

For Norway, the Nobel Committee has long been a symbol of Norway's allegiance to liberal political values, and the official independence of the Nobel Committee, its five members are appointed by the Parliament, not the government, also taps into core principles of the relationship between the government and civil society. Even though the close linkages between the Committee and Norwegian political parties have at times contributed to muddying the waters (Sunde, Kumano-Ensbj and Pettersen 2014), it would be extremely problematic for the Norwegian government to express culpability regarding decisions of the Nobel Committee. For the Norwegian public, the case of Liu Xiaobo is thus not only

about a Chinese political prisoner: it also involves deeply rooted ideals about universal human rights, freedom of speech, and the role of civil society in the Norwegian political system. In summarizing the five main strands of Norwegian foreign policy – values, security, economic interests, global development, and climate change – foreign minister Børge Brende (2015) made it clear that the current Oslo–Beijing stalemate is thwarting many of those strands. The objective of promoting liberal values conflict with the objective of promoting Norwegian economic interests in the case of China. Furthermore, Beijing is an increasingly important partner for international development and poverty reduction, and indispensable for averting major global climate change. To be absent from meaningful political dialogue with such a major international actor is highly problematic for a range of other key Norwegian foreign policy goals. For Norwegian political leaders, these fundamental dilemmas, combined with critical domestic opinion wary of concessions to China (Mikkelsen and Skevik 2014), make the current relationship with China a profoundly complex political knot that has proved extremely difficult to untangle.

### **Trying to Untie the Knot**

Subsequent Norwegian governments have, through various channels, sought to solve the diplomatic impasse since 2010. Former Foreign Minister Jonas Gahr Støre (Labour) published an op-ed intended as a public olive branch in 2011, without getting much softening from the Chinese side in response. The Conservative government of Erna Solberg would later face massive public disapproval for not meeting with the Dalai Lama during his May 2014 Norwegian visit, as a ‘necessary sacrifice to prove to China that being in dialogue with them is important’ (Viseth and Myklebust 2014). Later, Solberg stressed that it should not be assumed that the Norwegian government would necessarily congratulate every future Nobel Prize laureate (*ibid.*). Both these acts are reputed to be amongst Chinese demands for restoring political ties (Magnus, Lote and Senel 2014). However, since 2010 there have also been incidents that further damaged relations, including a February 2015 threat assessment by the Norwegian Police Security Service (PST 2015: 15) citing Beijing as a ‘potential’ cybersecurity challenge, and an incident involving the expulsion of a Chinese student on charges of espionage, later (September 2015) overturned in court.

Of particular interest, a leak made public in September 2014 revealed that one year earlier, a potential negotiated solution to the bilateral relationship had been reached under Foreign Minister Espen Barth Eide, inspired by the Danish solution to the Chinese diplomatic freeze after a reception of the Dalai Lama (Osbakk 2015: 46–48). The solution would, in addition to official statements, include a secret ‘non-paper’ to be sent to China, formulated in language that the Chinese could take as constituting an apology. However, this was blocked by the then-Prime Minister Jens Stoltenberg on the grounds that, according to sources, the content

and secrecy were at odds with Norwegian political values (Skard 2014). The fact that the closest thing to a solution of the Norway–China deadlock we know of was based on key aspects of the agreement being kept secret to the Norwegian public clearly illustrates how it engages key principles of Norwegian value-based politics, and the challenges of finding a solution that is politically viable.

The choir of condemnation that greeted the ‘non-paper’ in the Norwegian public sphere reflects the considerable domestic political disincentives for a solution with China. In similar circumstances of troubled political negotiations, a powerful factor is economic interests in both countries acting on material incentives to push for a solution. However, as will be argued below, although Norway took a hit economically as a result of the 2010 Peace Prize, the impact has proven far more limited than feared. Ironically, this lack of strong economic urgency may be a contributing factor to the longevity of the political freeze in China–Norway relations, since there has been little sustained pressure from economic actors for swift resolution of the diplomatic impasse. Since commercial interests have been the main driver of Norwegian China policy from the 19<sup>th</sup> century onwards, closer analysis of the prevailing trends of Sino–Norwegian economic relations can provide a backdrop necessary for understanding political relations between the two countries.

### **Economic Outcomes of a Frozen Half-decade**

Overall, economic relations between Norway and China have seen considerable development over the last two decades. Particularly after China’s WTO ascension, the growth in bilateral trade has been spectacular, in 2015 making China Norway’s third most important source of imports, and the ninth largest export market (SSB 2016). China accounted for 10.5% and 2.9% of total Norwegian imports and exports, respectively, whereas Norway ranked as China’s 65<sup>th</sup> most important trade partner in 2012, illustrating the differences in size and economic clout between the parties (Norway.cn 2013). As a joint Sino–Norwegian FTA Study Report of 2009 concluded, the economies of Norway and China are to a large degree complementary (Norwegian MTI–PRC MOFCOM 2007). Norwegian imports consist mainly of labour-intensive goods like consumer electronics, textiles and footwear, whereas Chinese imports from Norway are mainly capital- and skill-intensive commodities like machinery and chemicals, as well as raw materials like nickel, and considerable amounts of seafood. (Naughton 2007:394; Norway.cn 2013) Even though Norway is a major petroleum exporter, the share of Norwegian oil that goes to China has been very limited (Tunnsjø 2011). In other words, the economic case for stronger trade ties to China is particularly strong in the case of Norway, as both countries stand to gain from the other’s economic strengths, and there are no major sectors in Norway that would stand to lose out from Chinese competition. In terms of investments, Norway is the Scandinavian country in which China has invested the most (AEI 2016). Chinese outbound FDI in Norway currently

totals USD 5.45 bn, as against 4.9 bn in Sweden, and 700 mn in Denmark. Chinese capital is concentrated in the chemicals and energy sectors, with a landmark USD 2 bn sale of the major silicon producer Elkem to China National Bluestar in the early days of 2011 (Becker 2011), and the acquisition of the Norwegian offshore technology company Awilco in 2008 for USD 2.4 bn contributing significantly to overall investment figures (Reve, Kristoffersen and Bekkevold 2012)

The 2010 Nobel Peace Prize was also a defining event in economic terms. Given Beijing's propensity for using economic measures as a political tool, in particular to punish countries deemed to have transgressed core Chinese interests, it was widely expected that severe economic consequences would also hit Norwegian trade relations with China. A commonly cited figure was that of a 16.9% fall in exports to China for countries that receive the Dalai Lama on higher political levels (Fuchs and Klann 2013). As Chinese political and diplomatic reactions were even stronger in the case of Norway after 2010, many expected equally severe trade effects to materialize (Osnos 2010; Fuchs and Klann 2010). The economic effects of the 2010 Peace Prize have indeed been felt – but, on the whole, they have been considerably milder than expected. Instead of a 16.9% fall in exports the year after the 2010 Peace Prize, exports actually increase by 20% (Sverdrup-Thygeson 2015). After some later difficulties in the wake of the financial crisis, bilateral trade grew at record levels, also in 2015. Norwegian exports to China rose by 18% from 2014 levels, to NOK bn 23.7 billion in 2015, and Chinese exports to Norway rose by 21.5%, reaching NOK 64.8 bn (SSB 2016).

The strong initial complementarity of the two economies does seem to have shielded Sino–Norwegian trade from being severely hit by the strained political ties. By exporting commodities like silicon and aluminium, and technology to the Chinese shipping and offshore businesses, Norway is contributing to core areas for achieving economic modernization (Sverdrup-Thygeson 2015; KPMG China 2011). Although the input of the Norwegian economy is minuscule in terms of total Chinese imports, these commodities cater to key sectors of the Chinese economy, thereby providing disincentives for China to emplace overly strict restrictions on them: continued development in a challenging economic situation is crucial to the legitimacy of the Chinese Communist Party. The most important 'core interest', ensuring the stability of the party-state, is in a sense reason for punitive reactions to the award of the Peace Prize to Liu Xiaobo, but also why these reactions have not been harsher in economic terms.

It is, however, overwhelmingly likely that had it not been for the Nobel Peace Prize, trade levels with China would have been higher. Firstly, Norwegian FTA negotiations, widely expected to be finished and agreed upon by 2011, were put on hold post-2010 (Sunnanå 2013). An FTA would have led to the virtual eradication of most tariff barriers between

the two countries – with a clear potential for increased bilateral trade and investment, had the negotiations been completed (Econ Pöyry 2008; PRC MOFCOM 2013). Secondly, Chinese punitive economic measures towards Norway has been directed mainly towards Norwegian salmon exports, a symbolic Norwegian product to the consumer market that is readily substituted by imports from other countries (Sunnanå, Strømsheim and Foss 2011; Davidsen, Interview 2013; Normann 2012). As a result of selective discriminatory practices towards Norwegian salmon, Norway's market share in the burgeoning Chinese market fell from 90% to around 30% (Trumpy 2015; Chen and Garcia 2016). Although the situation for Norwegian producers has since been improved by Norwegian salmon reaching China via third countries, (Chen and Garcia 2016), and other markets taking up the slack from the Chinese consumers, this has been a notable lost opportunity in a growing market. Thirdly, the political standstill has made new business ventures more difficult, and old relations are at more risk of ossifying. A recent counterfactual study by Ivar Kolstad (2016) estimates that Norway lost between USD 780 mn and USD 1.3 bn worth of export value to the Chinese market, as compared to a scenario where the Nobel Peace Prize was not awarded to Liu Xiaobo. Also in terms of investments, it is likely that instead of the post-2011 lull in Chinese FDI, there would have been an increased influx of Chinese capital to Norway. Of the total Chinese investment stock of 5.45 bn in Norway, 4.68 bn was acquired prior to mid-2011 (AEI 2016). The continued absence of a free trade deal, the erosion of goodwill on the Chinese market, and the political boycott that has meant difficulties in initiating new business entailing Chinese political involvement – all these factors have contributed to today's suboptimal bilateral trade relationship.

### **The Dilemmas of Political Values and Economic Values**

In contrast to the trade relationship, where the degree of mutual overlap in interests is obvious, we find the opposite with regard to the broader political sphere, as demonstrated clearly in the conflict surrounding Liu Xiaobo and the Nobel Peace Prize. Traditionally, Norwegian foreign policy has been firmly embedded in a broadly liberal institutionalist framework (Knutsen, Leira and Neumann 2016). This foreign policy tradition has also been a driver in Norway's engagement with China on human rights issues, notably with the formalized bilateral human rights dialogue, initiated in 1997 as one of a select few such dialogues worldwide. The dialogue was suspended after 2010, although the Human Rights Technical Cooperation Packages (HRTC) has been allowed to continue, promoting and developing understanding of human rights issues with Chinese partners (Stokke 2016). With the bilateral talks now suspended, and the human rights dialogue approach currently undergoing review in Norway, the main forum today is the UN Human Rights Council (Norwegian MFA 2014: 90).

The current state of Sino–Norwegian relations, where human rights were the trigger cause, gives rise to certain key questions about how Nordic small states should act in an increasingly global order where pressure is being put on old institutional frameworks. With regard to China, Norway has come in a position where these questions are felt more urgently than for the other Nordic countries. For small states in general, two factors are important: stable access to foreign markets, and a stable rules-based international order, ideally guaranteed by liberal norms and institutions (see e.g. Beyer et al., 2006). These two factors are foreign policy goals that used to be largely overlapping, not least in the years immediately after the Cold War. The rise of China as a dominant economic actor outside the traditional liberal-democratic sphere is among the factors that may lead to a situation where these objectives no longer run parallel. Increasingly, what benefits Norway in economic terms is not necessarily what supports a liberal international world order. Under these conditions, avoiding such dilemmas is an important and difficult challenge in Norway's relations with China. Norway has proven fairly resilient to Chinese pressure in the economic area, but more vulnerable when it comes to the global governance aspect. For a small country with core vested interests in a stable world order, it is deeply problematic to have a 'non-relationship' to what is likely to become the world's largest economy.

As the Norwegian government has made clear, it remains in the best interest of both Norway and the world that China should succeed in its economic reform efforts, developing in a stable and inclusive fashion that will also help it to contribute to securing international public goods. (Norwegian MFA 2007) It is a dilemma for Oslo to have no political dialogue with China – especially since Norway and China have much to talk about. Common interests for the two countries range from overarching global questions like Arctic governance and development, to reforming global institutions to make them more inclusive, securing development and peace-building on the African continent, and all the way to major domestic tasks like building sustainable welfare systems for their greying populations.

### **A Nordic Perspective for the Road Ahead?**

In Norwegian foreign policy there has been growing realization that geopolitical trends – including Russian assertiveness, the EU's ongoing troubles, and the increasing importance of the Arctic region – point towards the benefits of regional cooperation on the Nordic level (Støre 2008). With Norway preparing for the Presidency of the Nordic Council of Ministers in 2017, Foreign Minister Børge Brende has declared it a priority to strengthen cooperation within the Nordic region in a range of old and new policy areas, so as to safeguard the region in a rapidly changing world. (Brende 2016). Here we may note that the Nordic Council has recently stated its intention to explore opportunities for greater contact

with China on the Nordic level (Nordic Council 2016), an approach also requested by Chinese representatives (Hellström 2014; Bu 2016).

In the current situation, a Nordic platform for dialogue with China would have much to offer Norway. Firstly, it would open up a welcome channel for greater political contact in Sino–Norwegian relations. Secondly, it might open a framework for China dialogue on the regional level, currently unavailable to Norway because it is not an EU member. Of course, such a Nordic forum could not be compared to the broad, institutional European network that has proven so useful for Nordic EU member-countries in their relations with China (Petersen 2016:69). Nevertheless, such a platform could contribute to closer contact and coordination in the China policies of the Nordic countries, which could prove particularly advantageous for Norway. On the other hand, precisely this fact might serve to complicate matters, as the other Nordic countries have more to lose from engaging with China in the company of the only Nordic non-EU country with shaky relations with Beijing.

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# *Lao Pengyou* – a good old friend? Sweden's relations with China

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Sweden's relations with China go back to the days of the East India Company (Ostindiska kompaniet) with its large-scale trading in the 18th century, coupled with a fascination among the Swedish elite for the faraway country.

During the first half of the 20th century a few Swedish companies were established in China, with investments to protect (Leijonhufvud 1999). This contributed to Sweden becoming the first Western country to establish full diplomatic relations with the People's Republic of China in 1950.

The study focuses on political and commercial objectives in relations between the two countries, mainly from a Swedish perspective. To illustrate the balancing act between adhering to democratic values and promoting trade and investments in relations with China, a few events that attracted considerable attention are selected: Sweden's early recognition of the People's Republic, Swedish industrial and trade promotion in the 1970s, the visits by Prime Minister Göran Persson in 1996 and by Prime Minister Stefan Löfven in 2015, and the shift in strategy for development aid to China.

## **Early recognition**

Swedish politicians, diplomats and business people often point out that Sweden was the first Western country to establish diplomatic relations with the government of the People's Republic of China in 1950. Prestige is obviously involved, while they hope – consciously or subconsciously – that Sweden's early recognition can be advantageous for trade and other relations. In top-level exchanges, Swedish ministers seldom fail to mention the early establishment of formal relations, as exemplified by the speech made by Prime Minister Stefan Löfven on his visit to China in 2015 (Bexell 2000: 8, 16–18).

What Swedish representatives fail to mention is that the strategy of the Swedish government after the People's Republic of China was established in 1949 was *not* to be the first country to grant official recognition. Sweden wanted to wait for decision of Great Britain as well as those of the other Nordic countries, and Swedish diplomats stayed in close touch with those governments (Bexell 2000: 8, 16–18).

Sweden's policy after the Second World War has been described as 'the neutrality policy of a small country with the purpose of guarding Swedish, national interests, but consistent and purposeful, coupled with an international policy of solidarity and rule of law within the framework of the United Nations' (Möller, 1990:70).

In practice, Sweden was looking towards Great Britain and the USA. Britain had considerable economic interests to protect in China as well as hopes of securing Hong Kong under the Union Jack. Also Sweden had some companies with fixed assets in China, notably the major ball-bearings producer SKF. Furthermore, the Swedish Chamber of Commerce put pressure on the government to recognize the new Chinese regime 'as soon as possible' (Bexell 2000: 6–8, 17).

In other words, Sweden's early recognition of the PRC was clearly not based solely on the criterion of international law that the new regime was in control of its territory and its population. Economic and trade policy interests figured in the equation from the beginning. Already at the end of October 1949, Swedish Ambassador Torsten Hammarström warned his foreign ministry that 'since the timing for our own possible recognition very likely will be closely connected with the British decision' there was a risk of a fast response from competing shipping powers (Bexell 2000:11).

In January 1950, notification of recognition of the PRC was given by Pakistan, Great Britain, Ceylon, Norway, Denmark, Israel, Finland and Afghanistan (Spence 1990: 125). Not until after then did Sweden send its recognition in the form of a telegram to Foreign Minister Zhou Enlai on 14 January 1950 (Bexell 2000: 13–14).

However, that was not the end of the matter. Normally such a telegram would be enough for diplomatic relations to be considered established, but the new Chinese government requested the above-mentioned countries to come to Beijing for negotiations on establishing relations. Among other things the Chinese wanted to make sure that these countries had severed their relations with the defeated Kuomintang government, which had shifted to Taiwan. Not until this issue and a few other matters had been clarified would the People's Republic recognize the recognition, as it were (Bexell 2000: 25–26).

It was in this prolonged process that Sweden became the first Western country to establish diplomatic relations – but that was because the Chinese side decided to accept Sweden's recognition ahead of all the other countries waiting for the green light. In the Chinese view, diplomatic relations were finally established when the decisions of the two governments to exchange ambassadors were announced simultaneously in Sweden and China on 9 May 1950 (Bexell 2000: 27).

Negotiations with Britain proved more complicated, so the Swedish head of mission Hammarström wanted to wait before delivering his credentials. He told his government that 'it seems less desirable that I will become the first head of mission outside of the Soviet group to hand over my credentials'. But the Chinese had already set the agenda, and on 12 June, Hammarström presented his credentials to Mao Zedong, the head of state, who wanted to receive him, as Sweden was first among the Western countries to establish full diplomatic relations with the PRC (Bexell 2000: 28).

Concerning recognition of Mao's regime, Great Britain, Sweden and others did not follow the US wait-and-see line, and coordinate their efforts. Sweden ended up on the side of the Soviet Union on this issue, although Stockholm was really looking for a middle way as the Cold War was building up (Bexell 2000: 33).

Thus it was only reluctantly that Sweden came to take the lead. However, various Swedish representatives have since sought to cash in on this, in political and economic terms. A recent case is Prime Minister Stefan Löfven, who in a speech in China on 28 March 2015, turned to President Xi Jinping to tell him how proud the Swedes were to have been first in the Western world to establish full relations (Löfven 2015).

Also on the Chinese side, Sweden's early recognition is frequently mentioned (Hellström 2014:11). Most notably, in a speech in Stockholm in connection with the 60th anniversary of Sweden–PRC relations, then-Vice President Xi Jinping (now president) repeated the mantra (Xi Jinping 2010).

### **China, the United Nations and the Swedish industrial offensive**

In the UN, Sweden consistently supported the resolution that the People's Republic should take over China's seat from the Kuomintang government. In bilateral trade, however, development remained quite modest, with the share of Swedish exports at around 0.4% (*Dagens Nyheter* 1972b). Not until around 1980 did trade volumes start to increase.

Sweden's foreign policy positions were often appreciated by the Beijing leadership. That was evident when China in 1971 opened up somewhat after the chaotic early years of the Cultural Revolution. Sweden was



quick to respond, with an exchange of ministerial visits. In September 1971 Rune Johansson, Minister for Industry, came to Beijing. During the visit Chinese officials expressed their thanks for 'Sweden's correct standpoint against the American policy of war and aggression in Indochina' and Swedish criticism of 'the other superpower' – the Soviet Union (*Dagens Nyheter* 1971a).

Johansson was received by Prime Minister Zhou Enlai for a meeting that lasted an hour. As expected, Zhou thanked him for Sweden's early recognition, but otherwise took the opportunity to reach out to an international audience, by speaking of the controversy with the US over China's seat in the UN (*Dagens Nyheter* 1971b). Later that year, the PRC would take over that seat, which contributed to further opening up.

The purpose of Johansson's visit was to prepare the ground for a Swedish industrial exhibition in Beijing in 1972 – a landmark in relations with the People's Republic after a long period when the country had been more or less closed (*Dagens Nyheter* 1971c).

The 1971 visit marked the start of a steadily increasing economic interchange. The industrial exhibition was the largest joint export promotion event to date by Swedish business, although many exhibitors were doubtful as to the outcome already in an early evaluation (*Dagens Nyheter* 1972b; *Dagens Nyheter* 1972d).

Whatever the results, trade and investment subsequently became an essential part of the bilateral exchange. Most ministerial visits and even royal visits to China are routinely accompanied by a sizeable business delegation. As we shall see, members of the Swedish government have sought to balance between dealing with political issues and promoting Swedish industry.

At the same time, Swedish business magnates, especially the Wallenberg family, like to stress how long-term and how good their relations are with the top leaders in Beijing. On a few occasions Swedish ministers while in China have found themselves overshadowed by executives of the Wallenberg group. In China's family-oriented society, pragmatic leaders like Jiang Zemin, Hu Jintao and Wen Jiabao have clearly appreciated the House of Wallenberg and its empire built over three generations. In return, companies in the group have been able to profit from high-level in hierarchical China (Engqvist 2000; *Dagens Industri* 1997; *Dagens Industri* 2007).

Since 2003, China has been Sweden's most important trading partner in Asia, with exports around SEK 40 bn and imports around SEK 60 bn. Some 500 Swedish companies have a physical presence in China while 10, 000 more companies have business relations with China, according to the Swedish Embassy in Beijing (Sveriges ambassad 2016).

The Nordic countries as a high-tech power centre have gained priority in recent years in the eyes of the Chinese leadership. Bilateral relations with Sweden are generally characterized by their wide scope, variation and interactivity. Among other things they cover higher education, research, green tech, information technology, urbanization, corporate social responsibility, and welfare solutions (Hellström 2014; Lagerkvist, Lindh and Hult 2015). When President Hu Jintao visited Sweden in 2007, Swedish Ambassador Mikael Lindström noted that the Chinese were also interested in such Swedish concepts as the principle of public access to official records, transparency and *ombudsman* (*Dagens Industri* 2007).

### **Persson and stability**

Safeguarding core democratic values has gained importance in Swedish politics, in media discourse and in public opinion, since the dramatic spring of 1989, which ended with a massacre of peaceful demonstrators in Beijing.

On China visits in the 1970s, leading Swedish representatives like Trade Minister Kjell-Olof Feldt and trade union executive Arne Geijer praised the Chinese for their revolution and their methods for checking urban growth (*Dagens Nyheter* 1972a; *Dagens Nyheter* 1972c). This was before there was any widespread knowledge in the West about the sufferings which the Great Leap Forward 1958–61 and the Cultural Revolution (especially 1966–69), had inflicted upon the Chinese people. Human rights were not on the agenda of Swedish visitors at that time – they did not feature in the equation until the 1980s.

A much-quoted example of the greater focus on democratic reform and human rights is the outcry caused by Prime Minister Göran Persson on his China visit in 1996. At a luncheon for the Swedish Chamber of Commerce, he remarked: 'To me it is very striking how important political stability is for economic progress when you look at the Chinese example.' Speaking without notes, he then went on to say: 'Of course, this should not be taken so far that you don't criticize if for example there are violations of human rights. That goes without saying. On that point we won't budge one inch.' (*Svenska Dagbladet* 2008; Persson 2007: 184).

Many of Persson's critics focused on the first sentence in the statement, but ignored the next one. Back home, editorial writers and the opposition in parliament reacted immediately. The Conservative Party (*Moderaterna*), the Liberals (*Folkpartiet*) and the Christian Democrats sought a vote of no confidence (*Svenska Dagbladet* 2008). As Christian Democrat leader Göran Hägglund put it: 'there must be no doubt about Sweden's position on democracy and human rights' (*Aktuellt i politiken* 2012).

In his memoirs Göran Persson recounted his difficulties in taking up human rights issues with his hosts in China. He failed at his first meeting with Prime Minister Li Peng and tried again at the banquet, where he said that dissidents in detention should either be released or get a fair trial. 'Li Peng turned straight to me. He stared at me, and said: "If you go on with this kind of talk I will break off this dinner. Immediately."' In the end, a list of persecuted dissidents was delivered after the banquet (Persson 2007: 186–87).

Göran Persson escaped the vote of no confidence, but in his book (2007) he describes how betrayed and vulnerable he felt. The visit had been intended 'first and foremost to help Swedish companies to sell Swedish goods'. He was accompanied by a 'huge' trade delegation with 77 companies. 'But none of those 77 (...) stepped forward to support me when the going got rough.' Nevertheless, Persson holds that his trip helped the telecom company Ericsson to win major contracts and that other companies also did good business (Persson 2007: 184–85).

After Persson's controversial effort in Beijing, Swedish policy became one of always criticizing oppression – but without much fervour, according to news commentator Britt-Marie Mattsson. A practice evolved whereby individual, persecuted critics of the regime would be named in exchanges with China, but in ways that would not make their fate a concern directly linked to the Swedish government (Mattsson 2010: 253).

Subsequently, China's economic and political influence increased; the government arranged the Olympic Games in 2008 without extensive criticism of the human rights situation. Bilateral Swedish–Chinese consultations on human rights seem to burn with a flickering light and are said to be handled by the embassy in Beijing mainly on an *ad hoc* basis (Mattsson 2010: 253; Sida 2011). Sweden appears to have taken a similar track as Denmark, toning down publicity around criticism of human rights and lack of democracy, while giving priority to economic issues (Lagerkvist 2015; also see contribution by Andreas Bøje Forsby in this issue). This impression was reinforced in connection with Prime Minister Stefan Löfven's visit in March 2015.

### **Löfven and dictatorship**

A new indication of how sensitive relations with China can be came with the discussion preceding Stefan Löfven's visit on how to categorize the PRC. Asked about this prior to leaving for China, the Swedish prime minister declared that he 'wasn't going to keep labelling countries' (*Göteborgs-Posten/TT* 2015).

Several times before, during and after the visit he was asked whether China was a dictatorship. He stuck to his line that it is 'a one-party state lacking free elections and that political opposition is not allowed'. That

was as far as he would go. A month after the visit he explained his stand-point: 'we want increased economic exchange with China, but at the same we will express what is important to us.' (*Göteborgs-Posten/TT* 2015; *Aftonbladet/TT* 2015).

Here it is relevant to note that, a few months earlier, Sweden had triggered a crisis with the whole Arab League, after both Löfven and Foreign Minister Margot Wallström had called Saudi Arabia a dictatorship, to explain why Sweden had halted arm sales to the Saudis. The crisis jeopardized the Swedish campaign for a seat in the UN Security Council and may have been among the reasons why the government took greater care when dealing with China. Commentators also indicated that underlying the caution might be memories of China's punishment of Norway when dissident Liu Xiaobo was awarded the Nobel Peace Prize, as well as similar situations involving China and other countries (*Göteborgs-Posten/TT* 2015; Knutsson 2015; Wong 2015).

Maria Weimar from the People's Party (*Folkpartiet*) was critical: 'You have to call a spade a spade. China is a dictatorship.' She wanted Löfven to raise the issue of China's yearly world record in executions, but also the restrictions on freedom of speech and the persecution of dissidents (*Göteborgs-Posten/TT* 2015).

The People's Party followed up with an interpellation in the Swedish Parliament, asking: 'Doesn't it harm Sweden's reputation as a humanitarian big power when the prime minister refuses to call the biggest dictatorship in the world by its correct name?' The question was answered by Foreign Minister Wallström, who replied that Prime Minister Löfven stood by his 'one-party state without free elections' statement. But Wallström added that the prime minister had raised human rights issues during the visit, and noted: 'This is done continuously in the talks we have between the government and the Chinese government representatives. We have a long-standing cooperation in these areas. We use the Embassy for such talks and dialogues.' She also noted that a list of human rights cases had been handed over (the same list which EU had earlier delivered to the Chinese government), and that issues concerning the death penalty, freedom of speech, internet freedom, the situation for human rights defenders, and gender equality had been raised during the talks. Gender equality and women's rights were also subjects that were brought up during the prime minister's meetings, according to Wallström, who said that the government planned to publish human rights reports and 'the one on China is obviously extremely important' (Riksdagen 2015).

### **Official Development Assistance (ODA) strategy**

Sweden has granted China development assistance since 1979, with the PRC as one of Sweden's focus countries. But in June 1979 the government decreased its ODA to China and announced a new strategy for that

cooperation. Regular development assistance was to be phased out, since China was considered to have reached a level where the need for ODA had diminished. Any financial support to China should focus on democratic guidance of society, human rights and civil society. Environment and climate projects could also get support (Utrikesdepartementet 2009; Sida 2011).

These are aims which appear increasingly politically sensitive, especially after Xi Jinping took power as head of the Chinese Communist Party in 2012 and started restricting human rights and civil society.

In an evaluation issued in 2011, which is generally still valid today, the Swedish development aid agency Sida noted that conditions for working with civil society in China had been difficult already by then. Further: 'increased restrictions for defenders of human rights illustrate that there is a long way to go before the political system is based on human rights'. At the same time Sida could point to positive results for the financial support channelled through the Raoul Wallenberg Institute, with programmes for education in human rights for Chinese prosecutors. The Institute also runs courses in human rights at some Chinese universities, in cooperation with the corresponding Norwegian Centre (Sida 2011).

Apart from that, financial support is today channelled through two centres associated with the Swedish Embassy in Beijing and developed cooperation with Chinese authorities. One is a centre for corporate social responsibility (CSR) issues; the other is a centre for environmental technology (Utrikesdepartementet 2015; Sveriges ambassad 2015; *KinaNytt* 2016). In general, the aim is to stimulate self-supporting relations between Swedish and Chinese actors. Criteria for support are common interests, common ownership and sharing of costs and responsibility (Sida 2015).

There are also some expectations that cooperation on CSR issues may favour business for Swedish companies. This was clear from a statement made by Sweden's Minister for Enterprise and Innovation Mikael Damberg in connection with renewal of the bilateral CSR treaty in Beijing in September 2015: 'Active CSR work is a competitive advantage that helps to strengthen Swedish export companies' (Sveriges ambassad 2015).

## Conclusions

Politics and economics are the two distinct poles around which Sweden's relations with China have evolved since diplomatic relations with the People's Republic were established in 1950. Swedish politicians have walked a tightrope between 'promoting economic exchange and expressing what is important to us' – in the words of Prime Minister Stefan Löfven.

Both countries like to shine in the glow of their early relations, but it is difficult to prove that either has enjoyed any concrete gains when it really mattered – as in business negotiations, or at times of bilateral crisis. There is room for further research here. What does it mean to be a *lao pengyou*, ‘a good old friend’, as the Chinese like to stress on grand occasions? The value of Sweden’s early diplomatic recognition of the PRC seems to pale in comparison with, for instance, how dazzled the Chinese leaders are by the powerful Wallenberg business dynasty.

Enlarging the picture and bringing in the Nordic perspective, we may ask: could the Nordic countries form a freestanding quintet that could be heard in Beijing, distinct from the big EU orchestra? Is this worth a try, now that greater dissonance is evident in the European performances? After all, on the whole our Nordic quintet is surely more *lao pengyou* than other European countries.

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