

Russia and China in Iceland?

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Summary

The Arctic region has become the site of renewed great power interest. Not only are the US and Russia actively engaged in the Arctic Council, but China has also become an observer. In addition to that, a number of policy commentators have claimed that great power interest in the Arctic region is more than cooperation over natural resources and climate change, and that this “scramble for the Arctic” may, in fact, herald a renewed geopolitical engagement in the region. In the case of Iceland, commentators have pointed to the increased activity of both Russia and China as evidence of this. To the extent that there may be such an interest underlying the Arctic policies of Russia and China, in effect linking economic and public goods to security, we set out to probe this link here.

Rather than being able to conclude that there was a clear great power competition going on over influence in Iceland, we suggest that much of the great power presence and interest in Iceland is the result of Iceland’s willingness to play great powers off against one another. We encountered little evidence of a strong Chinese presence in Iceland, although the few avenues China had pursued had resulted in a fair amount of distrust. As for Russia, there seems to have been Russian willingness to provide a loan to bail out Iceland in 2008, but it remains unclear what, if any, the ulterior motives were. For Iceland, the motive seems to have been the ability to use Russia as international leverage.

On the balance, the case of Iceland gives little evidence of a strong competition between China, Russia and the US for influence on the island. On the other hand, Iceland’s ability to play different public goods providers up against each other suggests that the model of public goods substitution may have given to little emphasis on the agency of ‘client’ states.

Introduction

Much of the public debate around the Arctic region, especially in terms of great power interest, has suggested that the security situation in the region may be changing. In fact, recent events in Iceland make the case for probing the public goods substitution framework (see Cooley et al. 2015) there, as Iceland’s defense, which hitherto had been guaranteed through a direct US presence at the Keflavik base, was no longer guaranteed by direct military presence. With the closure of the Keflavik airbase in 2006, one would expect there to be a greater interest in Iceland from the part of Russia and China.

In addition to this comes the fact that while the closure of the Keflavik airbase had long been announced, the way in which negotiations between Iceland and the US took place left many Icelanders unhappy with the hegemon, particularly the ones who had been supporting the US military presence for decades. Through our interviews, we were told that many key supporters of the US alignment had felt a sense of betrayal. Yet, in spite of this, we did not get the impression that there was a sense of a security vacuum in Iceland as only a handful of our interviewees floated this notion.

Most of our respondents were clear in that there was now a sense of a reduced attachment to the West in Iceland. Especially since the economic crisis in 2008, many told us they had felt a sense of “shock” at how Iceland had been portrayed by Western media, and by the fact that it took long before any financial help was pledged from Iceland’s allies. Especially the United Kingdom’s enforcement of anti-terrorist legislation against Icelandic banks was mentioned as a key moment in that respect.

The Logic of Hegemony and Asset Substitution

The main claim underlying the project for which this Policy Brief has been written (Undermining Hegemony) is that the politics of goods substitution lie “at the heart of key concerns in world politics: the fate of hegemony, the dynamics of international order, and the work-

ings of the balance of power.” (Cooley et al. 2015; see also Cooley 2015; de Carvalho and Leira 2016) Yet, while the politics of goods provision by hegemonic powers is central in upholding international order, the topic receives surprisingly little scholarly attention. Conversely, little attention has been paid to the interplay of goods provision and “goods-shopping” and how this influences the agency of receiving states.

In fact, “[a]t the most basic level, the dynamics of ‘goods substitution’ involve attempts by actors to either seek, or to attempt to serve as, a supplier for an asset currently provided by another actor— such as a state or an international institution—or the international order itself. In some cases, the provision and consumption of the relevant asset takes an additive form: the consumer gains additional providers of a similar good, such as foreign aid or security guarantees. In other cases, the politics extend to actual exit from an existing relationship, such as when client switches to a different security patron. Sometimes, however, the game involves leveraging the threat of exit for a better bargain.” (Cooley et al. 2015)

By goods substitution we mean competitive dynamics surrounding efforts by states to seek—or provide—alternative sources for economic, military, or social assets. When actors view the existing supply of such assets as politically or substantively problematic, they face incentives to seek substitutes. They may provide the relevant good for themselves, contract with another actor for supply of the good, or pool their resources to jointly produce the good.

Overview

The Russian interest in Iceland is largely associated with the proposed loan in 2008. As the Icelandic economy was about to falter, and Iceland struggled to find Western or international loans which would secure the economy, attempts were made to negotiate such a loan with Russia. While we understood from our interviews that the loan negotiations were quite advanced, the loan nevertheless never materialized as other loans were made available to Iceland at the last minute. In fact, the case is interesting in a public goods perspective, as it could be argued that Iceland actively sought substitutions from Russia given the US initial refusal. Yet, while there is here a clear case of suggested asset substitution, that case was the only one we were able to identify.

By contrast, the Chinese interest is more multi-faceted and has attracted more attention. And while elements of it can be interpreted in terms of public goods substitution, the case is either not convincing or poorly executed. Furthermore, in spite of the importance of the Chinese and Russian interest in the Arctic, we found little involvement from either states which could substantiate such claims. In fact, in spite of there being a lot of attention given to the Chinese interest in Iceland, this seems in practice to have amounted to little more than the interest from a private actor in acquiring a large tract of land on the Eastern coast of Iceland, and the China-Iceland Joint Aurora Observatory (CIAO), a scientific cooperation between Icelandic and Chinese research institutions. In spite of this, many of our interviewees seemed genuinely preoccupied with the modest

Chinese presence in Iceland – an attention, it seemed to us, quite disproportional to the Chinese involvement in Iceland.

Russia, on the other hand, was largely absent in our conversations. Even the possibility that there may have been a promise involving some use of the Keflavik airbase against financial assistance from Russia in 2008 seemed to have had little impact on the population. In terms of public goods substitution, this point was the most interesting one, as none of our interviews precluded the fact that Iceland may have made the loan deal with Russia public in order to leverage a deal from the West in 2008.

Many of our interviewees, including commentators, journalists and politicians were quite open about how this would have fit the pattern of Iceland’s relations to the West, and particularly to the US, during the Cold War, when Iceland kept trading channels with the USSR open and did not hesitate to pressure the West for better deals. However, we encountered few reflections on the strategic course of Iceland today. Defence in Iceland, we were told repeatedly, was about security, and the population feared natural disasters more than they did military threats. Indeed, to Icelanders, we were told repeatedly, all politics is local.

The Russia Loan

In terms of counter-hegemonic public asset substitution, the most interesting avenue to pursue in what concerned Russia’s interest and involvement in the Arctic was the discussions of a possible loan from Russia to bail out the Icelandic economy in 2008. Yet, throughout our interviews, we encountered very little interest in and knowledge about what the conditions of that loan were set at. Many actors with intimate knowledge of Icelandic politics assured us that the negotiations with Russia had reached an advanced stage, yet we could get little information about the conditionalities attached to the loan itself. Academics too confirmed that while the conditions of the loan package Iceland ended up accepting from the IMF and Western states has been the object of academic scrutiny, the Russian deal had been left in the dark. Although the negotiations had reached an advanced stage, it is likely that only four to five people on the Icelandic side were fully informed. Conversely on the Russian side, we were informed that the loan had bypassed the normal bureaucratic channels and gone straight from the Russian Embassy in Reykjavik to the Kremlin. The ministry of finance, we were informed, had been kept outside of the deal. This would suggest that on the Russian side, the deal could have been eyed as an opportunity to advance a more security-oriented agenda in the Arctic, as the Keflavik airbase remained unused by the US or, at the very least increase Russia’s presence in the Arctic.

Although the negotiations had started in the summer of 2008, before the final collapse, they had received no public attention. As Iceland was denied help from both the US, the IMF and other Western states, the head of the Icelandic central bank went public without informing the Russians. Conditionalities were denied on the Russian side, although the content of a meeting between Icelandic president Ólafur Ragnar Grímsson and the Reykjavik diplomatic corps was

leaked to the Norwegian newspaper *Klassekampen*, which revealed that the Russian ambassador had denied any Russian interest in the Keflavik airbase at all. During interviews in Reykjavik, we were told that what had been said during the meeting was not that there was no Russian interest in Keflavik at all, but that there was none “at the present moment.” Again, this would suggest that although there are few examples of goods substitution by the Russians, this is certainly a possibility which remains open from the Russian side. As we were told, while full Russian use of a former US airbase was unthinkable, the possibility of allowing the Russians refuelling rights and the partial use of Keflavik was not outright unthinkable.

During the crisis, we were told many times, Icelandic officials had made no secret of the fact that Iceland needed to look for help elsewhere, with the Icelandic Prime Minister Geir Haarde explicitly chastising “old friends” for not helping, and arguing that Iceland needed to seek out “new friends”. Iceland had experience in playing the “Russia card”, we were told by several informants. In spite of this, it was difficult for us to establish the extent to which the discussions between Iceland and Russia in 2008 were indeed as advanced as we were given the impression of. Some of our informants saw the negotiations that had been going on as the outcome of a real belief in the need to find “new friends” on the part of Icelandic officials, others pointed to overzealous Russian diplomats with connections directly to the Kremlin who had oversold the possibility of reaching an agreement with Reykjavik, while, finally, others saw it as an overture on the Icelandic side which needed leverage against its Western allies reticent of helping them.

China: A Faint and Loud Presence

While limited in scope and not confirming that Russia is in fact actively involved in underselling the US in the provision of public goods in the Arctic, the Russian interest in Iceland opens up the possibility of such a perspective. The Chinese involvement on the island, however, is more diverse and less understandable in those terms. The Chinese interest in Iceland revolves around four main points, as emphasized by our informants. Firstly, the Aurora Observatory noted above was one of the key aspects pointed to by our informants. Beyond naming the Chinese-Icelandic cooperation, however, we were given very little information as to the scope of the collaboration. Secondly, most of our informants mentioned the attempted land-buy of Grímsstaðir by Huang Nubo (and similar projects) in 2011 as a key indicator of the Chinese interest. This was often mentioned in conjunction with the possible opening of arctic trade routes, and the possibility of building a trade hub in Iceland in the future. Thirdly, the free trade agreement between China and Iceland figured prominently in discussions about China’s involvement in Arctic. And, finally, a number of informers spoke about the Chinese presence in Iceland, although it was difficult to gauge the extent of this involvement based on our interviews.

The attempted purchase of a large tract of land amounting to about 0.3 percent of Iceland’s total area by Huang Nubo, a Chinese tycoon/philanthropist, allegedly to build a holiday resort including golf courses and hotels figured most prominently in our discussions

about the extent of China’s interest in Iceland. The purchase had gained the backing of local and national political interests, and we were told that it had been stopped only at the last minute by a minority in government – against strong pressure. Most of our informers, however, did not believe Nubo’s plan to be viable, and judged that there had to have been ulterior motives. Some of our interviewees mentioned the possibility of building an airstrip or a harbour along the northern sea route, although few were interested in elaborating on it.

This was symptomatic of our discussions about the Chinese interest in Iceland. While estimates about the Chinese involvement varied a great deal, few were able to make sense of it. The same went for the free trade agreement. In practice, we were told, the agreement did little to better trade relations, as Iceland was too small of a market, and so goods travelled through third countries (EU, US) in spite of the agreement. The process, though, was perceived to be fair and unproblematic, and in line with Iceland’s general belief in free trade. If anything, the Icelanders believed to have been more in the lead than the Chinese, and were able to change a number of points to their liking. As to the drivers behind the agreement on the part of China, few of our informants agreed. Some saw the agreement and the increase in mutual official visits as beneficial to China, as was seen as boosting China’s internal legitimacy by showcasing support in the West for Chinese internal policies, thereby discouraging dissidents at home. Icelandic officials too, we were told repeatedly, cherished the opportunity of being photographed alongside important foreign state officials. On the whole, the image that emerged was one in which China is seeking to gain friends and increasing their presence in the Arctic, but also as having signed the agreement with Iceland as a “test case” for further agreements with European states.

On the whole, China was more of a presence in the Icelandic discourse than Russia, although not only in positive terms. There seemed to be a fair amount of distrust of China, and its policies seemed to raise distrust and suspicion. Elements of public diplomacy such as exchanges of poets and the visit of the Snow Dragon icebreaker did not seem to have altered that. A case in point is the new Chinese embassy building in downtown Reykjavik. Estimates we were given by our informants ranged between 15 and 500 staff working inside the embassy, although the former seemed much more accurate to us. In general we found that representations of a threat from China went hand in hand with a more nationalistic stance on Iceland’s foreign policy, one respondent even making what seemed to us a highly unlikely case that the Chinese were “infiltrating” Icelandic society.

Conclusions

Whereas Iceland is an outward-looking country, with a strong interest in the world, the political discourse is decidedly local, in the sense that the world is made to matter for Icelandic politics. As evident in the cases of the proposed Russian loan, the Chinese attempted land acquisition and the Chinese embassy, the important factor is how these things play out in the local discourse. “Russia” and “China” can be used for political leverage and to mobilise support domestically. The focus is nevertheless almost exclusively local – what will be the

implications for Iceland – rather than geopolitical or economic.

While we cannot conclude that either China or Russia have attempted to gain influence at the expense of the US in Iceland through public goods substitution, the case of the proposed Russian loan to Iceland nevertheless highlights an important feature of public goods substitution which may have been underemphasized by the initial model (see Cooley et al. 2015): The mechanism of public goods substitution is not only one through which great powers may compete for influence over smaller ‘client’ states, but also one which these ‘client’ states can take advantage of by enticing competition for the provision of public goods with the view to force the hand of an unwilling hegemon.

References

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