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Number 3, September 2011



Society for the Study of Peace and Conflict
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The climate change related developments in the Arctic, the shrinking ice cap, unfolding energy and mineral resource potential of the region, and the new shipping routes through ice/water are some the issues that have begun to attract the attention of the Chinese government. China has initiated a number of research projects and also drawn plans to undertake several polar expeditions aimed at developing a comprehensive strategy for the Arctic. It has begun to play a proactive role in the affairs of the Arctic including seeking a permanent observer status in the Arctic Council and called on the Arctic states to 'strike a balance between their national interests and the common interests of the international community.'¹ China has also made strong overtures towards a number of North European countries by extending its domain and influence into the region through its assiduous diplomacy and grand strategy to nurture and sustain cordial bilateral relations. Quintessentially, the twin dynamic steers China's Arctic Ocean policy and strategy.

A few Arctic nations have begun to warm up to China notwithstanding its poor track record on human rights, absence of freedom of speech, and suppression of democratic institutions. These states see several business opportunities in China and are keen to supply oil and gas, raw materials including minerals and oars, marine living resources such as fishery products and now water. Among these, Iceland has moved much closer towards China setting aside ideological differences if any towards a more pragmatic relationship based on political engagements, free trade agreement, and development of infrastructure for strategic repositioning astride the future Arctic sea routes. It is in the above context this paper at-

tempts to examine the evolving warmth in bilateral relations between China and Iceland.

Political Context

China and Iceland established full diplomatic contacts in 1971 and 2011 marks the 40th anniversary of their formal relationship. In 2002, the Chinese President Jiang Zemin visited Reykjavik on a reciprocal visit made by the Iceland President in 1995. Significantly, President Jiang Zemin's visit was the first ever by any Chinese Head of State.² The Chinese

premiere's visit witnessed sharp reactions from the Icelandic people after the government enforced harsh security measures at the request of the Chinese government including detaining the Falun Gong members at the airport who arrived from overseas. Interestingly, about 450 Iceland members of parliament including eminent persons published advertisements in the local newspapers to apologize to Falun Gong practitioners.¹³ The Minister of Justice Björn Bjarnason too was critical of the government's policy towards Falun Gong.⁴ Notwithstanding that, both China and Iceland continued to enjoy normal bilateral relations; however ideological differences, aggressive ethnocentric policies in Tibet and Xinjiang, democracy and human right violations are some of

Beijing has begun to play a proactive role in the affairs of the Arctic seeking permanent observer status in the Arctic Council and has also made strong overtures towards some of the Arctic states by extending its domain and influence into the region through its assiduous diplomacy and grand strategy to nurture and sustain cordial bilateral relations.

the issues of concern among the Iceland public.

China, Iceland relations may also have witnessed a dip in 2008 following the Icelandic singer Bjork's live concert in Shanghai where she shouted "Tibet! Tibet!" at the end of her encore song "Declare Independence".⁵ The news was not reported in the Chinese official media⁶ but numerous Chinese audiences and countless Chinese netizens were shocked and one of Bjork's fans had observed: "It's no problem for her to express her differences, but when she does it in China, she is disrespectful to her Chinese fans. She's so selfish."⁷

Although both sides continued to engage in bilateral exchanges, the burgeoning warmth in their relationship appears to be a recent phenomenon and emerged partly as a result of Beijing's support to the floundering Icelandic economy and 2008 banking crisis after three of Iceland's banks collapsed. Further, the President of Iceland has made four visits to China and has received more 'Chinese delegations compared to those of the U.S., Britain, Germany, France, Italy and Spain combined.⁸ Importantly, the bilateral cooperation has been "constructive, balanced, positive and definitely not aggressive."⁹

On its part, China has positioned a very large staff at its embassy in Reykjavik in the hope that 'Nordic countries can start laying the foundations for a special Arctic-orientated relationship with China'¹⁰ China also sees the geostrategic potential of Iceland and it could emerge as a major shipping hub along the trans-Arctic shipping route. In that context, Iceland President Ólafur Ragnar Grímsson has stated: "In my discussions with the leadership of China it is absolutely clear that they are very keen to cooperate with Iceland and the other countries in the Arctic region on what is happening in

the Arctic and the northern regions and also of what are the implications of the northern sea routes opening up over the next few decades."¹¹

Financial Bailout

On the economic front, the two sides have engaged in bilateral trade and there are a number of joint projects in the fishing industry, geothermal power generation and ship building. As noted above, the bilateral economic relations received a boost during the 2008 global financial crisis and China came to Iceland's rescue. President Grímsson has stated: "When the banks collapsed in Iceland we faced a situation, where there was no positive helping hand coming either from Europe or the United States, and I and the government decided to approach the government of China [...] to see if China could show some friendship in these times of difficulties."¹² On June 9, 2010, the People's Bank of China and the Central Bank of Iceland Sedlabanki, signed a three year bilateral currency swap agreement amounting to 66 billion kroner (3.5 billion Chinese yuan or Euro 400 million)¹³. The President reportedly remarked that, "China and India lent a helping hand to Iceland in many constructive ways, while Europe was unfriendly and the U.S. was absent."¹⁴ The economic bailout package and the speed with which China salvaged Iceland when its economy was on the verge of collapse, have created a new constituency within Iceland government circles who look at China favourably much to the discomfort of the US, EU and NATO members. This has led to a number of Chinese initiatives in Iceland and these have been supported by the government.

Bilateral Trade and Investment

In 2007, China and Iceland commenced formal negotiations on a free trade agreement and the latter became the first developed European country to conduct a feasibility study on FTA

with China. China enjoys a huge trade surplus in bilateral trade; Iceland's imports from China in 2010 were about ISK 29 billion (about USD 220 million) and exports totaling up to ISK 3.4 billion (about USD 26 million).¹⁵ There are about 30 Icelandic companies that have invested in China in various businesses such as fisheries processing, equipment & machinery, maritime logistics, food processing, pharmaceutical and health care products, banking, sourcing, geothermal energy, real estate, textile, shoes, computer games etc. In December 2010, China ranked 18th in Iceland export market and 7th in imports.¹⁶

In recent times, Huang Nubo, a former Chinese government official engaged in real estate and the chairman of the Zhongkun investment group has shown interest in acquiring 300 square kilometers of wilderness at Grimsstadir a Fjollum which translates as "Grímur's Place in the Mountains". The Chinese business tycoon hopes to make an investment of US \$ 200 million to build a luxury hotel, spa and golf resort with plans to link Vatnajökull and Jokulsargljufur national parks.¹⁷ Incidentally, Huang is not new to Iceland and in the past has supported the Chinese-Icelandic poem festival and donated US \$ 1 million dollars to set up a foundation to support exchanges between Chinese and Icelandic poets.¹⁸

Huang Nubo's proposal for this 'Ecotourism' project received sharp reactions from the public and the Icelandic interior minister Ögmundur Jónasson expressed concern noting that "China has been very active in buying up land around the world so we need to be aware of the international ramifications,"¹⁹ Further,

The economic bailout package and the speed with which China salvaged Iceland when its economy was on the verge of collapse have created a new constituency in Iceland government circles who look at China favourably.

"We face the fact that a foreign tycoon wants to buy 300 square kilometres of Icelandic land. We have to discuss it and not swallow without chewing; would we find it all right if the entire country were sold this way?"²⁰

However, the Iceland tourism department was supportive of the project and had issued a statement that 'all new investment in the region's tourism is welcome; as long as it is in accordance with laws and regulations and adheres to the goal of sustainable and environmentally-aware tourist services; which is a nationwide aim for the tourism industry.'²¹ There are others too who argue 'Let's give Huang the benefit of a doubt before we start judging him, which is not to say we shouldn't look closely into his offer before we accept it-which is simply good practice regardless of an investor's nationality.'²²

Meanwhile, Huang has defended his interest in the project

and stated "The project is a purely commercial move and has no connection with politics. The concerns are groundless...I believe the project will benefit both my company and locals."²³ Apparently, the Chinese government advised Huang Nubo to drop the idea of buying land in Iceland amid fears that China Iceland relations could potentially become strained.²⁴

Clean Energy Development

Iceland is leader in clean energy development and relies on the geothermal energy for industrial purposes such as aluminum smelters, data-storage centres, high-tech industries and other enterprises. It is estimated that Iceland can save in ten years nearly one year's entire GNP by not having to import oil for domestic heating.²⁵

Clean energy is another significant area of cooperation between China and Iceland. Several Chinese leaders have been briefed by their Icelandic counterparts on the projects and China has shown interest in developing clean energy particularly when it is under international pressure to cut down emissions. During his speech at 'Clean Energy - Cutting CO2 Emissions Conference' at the Shanghai EXPO 2010 on September 9, 2010, the President of Iceland Ólafur Ragnar Grímsson noted that

Iceland and China "are fast making the geothermal sector a crucial part of the global energy future and are of great relevance for the development of the Chinese-Icelandic energy cooperation." Further, "For China to become the No. 1 clean-energy country among the major economic powers is an ambitious vision; a startling prediction that will surprise many of my friends in Europe and in the United States. It could, however, become a reality with the combination of Chinese policies and constructive cooperation with other countries, such as Iceland."

Importing Water

Iceland is known to possess nearly 12,000 square kilometers of glaciers, a number of rivers and nearly 10,000 waterfalls.²⁶ Unlike Iceland, China has 20 per cent of the global population, eight per cent of the arable land and 2 per cent of the water. Among other commodities, China has shown interest in importing water from foreign sources. For instance, the Hisjang Group is exploring the possibility of exporting up to 100,000 tons of water from Langanes annually.²⁷

The criticality of water for China emerges from its high use not only in agriculture but also in industrial processes to support its growing economy. The rivers are badly polluted, some have less water during summers and the aquifers have run dry due to excessive extraction. A recent study by the Asia Society suggests that China can be expected to invest nearly \$US 1000 billion in foreign productive assets this decade.²⁸

China's motivation for the nurture of its relationship with Iceland also emerges from the strategic rationale to find a foothold along the trans-Arctic-Atlantic shipping route between Asia and Europe/North America in case the Arctic becomes navigable for longer duration through the year.

Arctic Science

As far as scientific research in the Arctic is concerned, China has dispatched a number of expeditions to study climate related changes. In 1999 and 2003 China dispatched two scientific study expeditions to Bering Sea and Chukchi Sea. In 2004, China Arctic Yellow River station was established in Ny-Alesund for scientific research. In 1993, China acquired Xuelong (Snow Dragon, 163 meters long with displacement of 21,000 tonnes) a non-nuclear polar expedition vessel from Ukraine. To further

augment polar research expeditions, a new high-tech 8000 tonnes polar expedition research ice-breaker is under construction in China which is expected to be operational in 2013. The vessel is being developed with foreign technical assistance and expected to cost about US \$300 million.²⁹ The ice breaker is capable of sailing 18,000 nautical miles and could be deployed for nearly 200 days every year.³⁰ The vessel would have a crew of 90 people and would be capable of operations in up to 1.5 meters thick ice.

China is also exploring the possibility of conducting scientific research in Iceland to study

the aurora Borealis.³¹ The project involves setting up a research station which would be funded by the Chinese but will be operated jointly by the University of Iceland natural sciences department and the Icelandic Met Office. Also, a group of scientists from China recently visited Icelandic research facilities including the University of Akureyri to expand bilateral co-operation.

Northern Sea Route

China's motivation for the nurture of its relationship with Iceland also emerges from the strategic rationale to find a foothold along the trans-Arctic-Atlantic shipping route between Asia and Europe/North America in case the Arctic becomes navigable for longer durations through the year. China also rationalizes its interest in the Arctic route with the fact that it is able to overcome the insecurity to its Sea Lines of Communication (SLOC) in the Indian

Ocean. It is estimated that the Northern Sea Route (also referred to as the Arctic Golden Waterway) has the potential to save nearly \$60-billion to \$120-billion annually.³² The Chinese scholars have urged the government to play a proactive role in Arctic affairs, but the official view is that it would cause alarm in other countries.³³

In April 2011, it was announced that China was planning to dispatch during the summer the icebreaker Xuelong (Snow Dragon) to Iceland at the invitation of Ólafur Ragnar Grímsson, President of Iceland. The vessel would first sail through Sea of Japan, Pacific Ocean, through the Bering Strait and along the Northern Sea Route to Iceland. On its return voyage, the

vessel would transit through the North West Passage, along the Canadian Arctic archipelago and the Alaskan Arctic shore.³⁴ Apparently, this would be a unique event that a vessel would sail through the North Sea Route and North West Passage in one summer. China plans to conduct another voyage by an ice breaking ship next summer 'through the North East Passage from China to Iceland. Icelandic scientists will likely be invited to join the expedition, which will also conduct research on sea ice, climate and more along the way.'³⁵

There is also a speculation that China is keen to establish its naval foothold in the Atlantic by setting up a signal intelligence station in Iceland. In the past, China has been proactive in intelligence gathering and has even installed signal and intelligence equipment in other countries.

There is also a speculation that China is keen to establish its naval foothold in the Atlantic by setting up a signal intelligence station in Iceland. In the past, China has been proactive in intelligence gathering and has even installed signal and intelligence equipment in other countries. For instance, it was widely known that Chinese signal and electronic stations were operational in Myanmar and were being operated by the Chinese ex-

perts. In recent times, China had offered East Timor a proposal to build radar on its territory but East Timor's deputy Prime Minister Jose Luis Guterres declined the offer noting that "The only catch was that the facilities were manned by Chinese technicians. [There were] concerns that the radar could be used for purposes other than those touted by the Chinese...They could instead be used to extend China's radar--based intelligence perimeter deep into Southeast Asia,"

Icelandic Reactions

Iceland has grown from a developing country to a developed state and its people are conscious of their country's strengths. They have witnessed a number of commercial deals signed

by their government and seek judicious and sustainable exploitation of resources keeping in mind that their country is already witnessing the climate induced changes. The Icelanders had vehemently opposed the sale of the Icelandic geothermal energy company HS Orka to Magma Energy of Canada. The petition to the Prime Minister Johanna Sigurdardottir read "For 100 years, good people protected our natural resources and public interest. [Then] the sale of natural resources and irresponsible access to them began. Now it is time to stop that unfortunate development."³⁶ Likewise, there was opposition to building two additional aluminum smelters.³⁷

There is a constituency in Iceland who notes that it unfair to suspect Huang's interest;³⁸ he applied through legal channels and not resorted to 'enter through the backdoor with legal loopholes like Candian energy investor Magma'.³⁹ Apparently, Huang has agreed to surrender water rights to the glacial river Jokulsa a Fjollum that passes through Grímsstadir. According to a public opimiom survey conducted by newspapers Fréttabladid and Stöd 2, 59.1 percent of the respondents approve of Huang's proposal for the development of the desolate Grímsstadir, 22.7 percent were neutral, and only 18.2 percent opposed the investment.⁴⁰

However, it is fair to argue that it may be increasingly difficult for the Iceland government to hard sell to its people the benefits of Chinese investments. This is so because there is a general impression that China is engaged in a buying spree across the globe and could even bid for national sports. For instance, a state-backed Chinese investor announced a US \$1.2 billion bid for the Los Angeles Dodgers, a professional US baseball team.⁴¹

Concluding Remarks

It is evident that China's interest in the Arctic has gathered momentum and it sees several scientific, commercial and strategic opportunities in the evolving dynamics in the Arctic region. Significantly, these are being formally integrated in the Chinese foreign policy and resource acquisition strategy. Iceland too sees this as an opportunity for itself to engage with China whose economy is expected to grow despite financial troubles in the US and Europe.

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