**The Nordic states: Keeping cool at the top?**

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**Abstract:** The Nordic states have an international reputation for being among the most advanced, liberal, and egalitarian welfare societies in the world, as well as being active international players. Given their small state status, however, they face similar challenges when it comes to maintaining their influential positions, both at home and abroad. The main aim of this chapter is to examine how the Nordic states have dealt with these challenges and kept the Nordic model and their active international engagement intact. We argue that the Nordic states’ responses to current challenges are based on a profound understanding of their position as small states. They use their traditional, cautious and flexible approach, as well as their consensus seeking behaviour, when responding to economic, welfare and migration problems domestically, as well as confrontations by aggressive external actors. Simultaneously, they have sought political, economic and societal shelter provided by their close allies and international organizations and use these fora to continue their active international engagement. Thus, Nordic states generally cope and even prosper despite their size and related political, economic and societal vulnerabilities.

**Introduction**

The Nordic states and territories represent stable, well-functioning democratic societies where the rule of law, human rights and respect for and protection of minorities are guaranteed through established state institutions. They possess a functioning market economy and a high standard of equality, personal freedoms and civil liberties. In fact, the Nordic countries have been described as role models for advanced, postmodern societies, i.e. progressive, activist and egalitarian welfare states (Nedergaard & Wivel, 2018). Although political and demographic developments in the region have resulted in a reformed Nordic welfare model, the Nordics still build their societies on the fundamental principles of stateness (an extensive role for the state and the public sector), universalism, equality and social corporatism (Kuhnle & Alestalo, 2018).

 In addition to the five independent Nordic states - Finland, Iceland, Denmark, Sweden and Norway - this chapter will include some discussions about the external affairs of three Nordic subnational island jurisdictions: Greenland, the Faroe Islands and Åland. The former two autonomous self-rule but are part of the Kingdom of Denmark; Åland has an autonomous status within Finland.

In comparison to the more powerful neighbouring European states, namely Germany, the United Kingdom (UK), Russia and France, all the Nordics can be classified as small states, even though their sizes vary. Their limited population numbers affect other traditional parameters of size, i.e. their military, economic, and administrative capabilities. Their military spending and sophistication, as well as their individual military capabilities in terms of numbers of armed force personnel, are limited, making it difficult for them to defend their territorial integrity on their own. The size of their diplomatic corps also pales in comparison to their larger European neighbours. Moreover, their domestic market size prevents them from maintaining high GDP per capita numbers on their own, thus making it impossible to build sustainably prosperous societies without external market access (Thorhallsson, 2006).

Accordingly, the Nordics require shelter, or need to form alliances with larger states and join regional and international organizations to protect their political, economic and societal interests. This also holds true for ensuring their ability to wield influence internationally (Thorhallsson & Bailes, 2017). It is within this theoretical framework that our analysis of the Nordic states and entities will be built, taking into account different dimensions of their political, economic and societal vulnerabilities *qua* small states, and the different solutions available for small states seeking to alleviate, contain or usurp these (Thorhallsson, 2011, 2012; Thorhallsson & Bailes, 2017). Table 1 provides a glimpse of the size of the Nordic states and territories.

**Table 1: The Nordic states and entities: comparison of key “size” variables.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Population****\*** | **Territory****(sq. km.)\*** | **GDP per capita (US$)\*\*** | **Military Capacity** |
| Military Spending (% of GDP) \*\*\* | ArmedForces Personnel\*\*\*\* |
| **Sweden** | 9,995,000 | 447,435 | 50,090 | 1 | 30,550 |
| **Denmark** | 5,749,000 | 42,926 | 50,564 | 1.2 | 16,100 |
| **Finland** | 5,503,000 | 338,430 | 45,204 | 1.4 | 24,200 |
| **Norway** | 5,258,000 | 323,781 | 61,039 | 1.6 | 23,950 |
| **Iceland** | 338,000 | 103,492 | 53,817 | - | - |
| **Greenland** | 56,000 | 2,166,086 | 37,600 | - | - |
| **Faroe Islands** | 50,000 | 1,396 | 40,000 | - | - |
| **Åland** | 29,000 | 1,581 | 38,200 | - | - |

\* (Nordisk Ministerråd, 2017)

\*\*(CIA, 2018a, 2018b; OECD, 2018a)

\*\*\*(SIPRI, 2018)

\*\*\*\*(World Bank, 2018)

The Nordic region is an important economic actor, comprising the 12th largest economy in the world. Moreover, the Nordic population is growing faster than the EU average and the Nordic labour market is known for its high levels of unionisation, compressed wage structures, high female employment rates and low share of unskilled jobs, as well as the Nordic welfare system, which has proved resilient both in times of economic boom and crisis (Nordisk Ministerråd, 2018b). Furthermore, the Nordic states are renowned for their active engagement in international affairs, especially within the United Nations (UN), and for having developed extensive regional collaboration over the decades, e.g. through the Nordic Council and the Nordic Council of Ministers. This collaboration has moreover served the countries well when acting within international organizations, such as the European Union (EU). Even though the countries do not always take the same stance on matters within the EU, they are accustomed to sharing information (Rûse, 2015). Historically, however, the Nordic states have been reluctant to take part in the European integration process, though they are all highly engaged in it.

In spite of their successes, the Nordic states face a number of domestic and external challenges. First, the Nordics cannot escape feeling the looming threat of an increasingly aggressive Russian neighbour. This threat has been met with increased collaboration with NATO, the United States (US) and amongst themselves, and increased spending in the field of security and defence. Secondly, the Nordics are all affected by Brexit, although the level and the nature of the negative effects differ. While some rely more heavily than others on trade with the UK, all of them have a vested interest in a well-functioning and economically stable EU. Thirdly, taking into account the fact that small states benefit from international stability and are completely reliant on widespread respect for international laws and norms, the multifaceted international instability caused by the US presidency of Donald Trump has negative effects on the Nordic states. Fourthly, the ongoing migration crisis in Europe has had political, societal and financial effects, witnessed in the rise of populist parties, more restrictive migration and border policies, and ongoing changes and adaptations to Nordic welfare policies in order to ensure the sustainability of the signature welfare model. Finally, the openness of the Nordic markets has made them vulnerable to the fluctuating international economy and they are regularly faced with deep economic downturns. Moreover, they have to find a delicate balance between keeping their export industries internationally competitive while maintaining their high public spending on the welfare state.

This chapter will next delve into the Nordic model and other more specific domestic affairs covering economic and migration policies and the latest political development in the Nordic states. It will then examine the Nordic states’ external affairs, i.e. foreign policy, security, and defence, as well as giving an account of the position of the Nordic countries, as small states, vis-à-vis today’s most powerful states acting in the region. A conclusion offers an overview of coping strategies.

**Domestic affairs**

The Nordic region has a long history of being conceptualised as such, i.e. as a region, or a region within a region within Europe. It builds on a strong heritage and common Nordic identity that has developed over centuries, resulting in what has been termed the Nordic model. The Nordic countries are top performers according to numerous metrics of national performance and the well-being of their citizens such as happiness, life expectancy, education, environmental activism – and their well-being is grounded on welfare systems that, in the 20th century, supported the move towards unparalleled social equality (in broad terms), social coherence and support for redistribution (Kuhnle & Alestalo, 2018). Nevertheless, the Nordic states face a number of challenges in their attempt to adjust the Nordic model to changing domestic and external circumstances.

***The Nordic model***

What has characterized the Nordic countries is the overall willingness of their electorates to pay a large proportion of their earnings to shared funds. This willingness is based on the universal character of the welfare systems in these states, which means that most of the population reap benefits from the system. The Nordic welfare system is grounded on this social contract; that is, as a contributor to the system, one has the same right to benefit from it, regardless of one’s earnings (Kuhnle & Alestalo, 2018).

This unique system came about under unique circumstances where the labour movement in the countries were just powerful enough to have an effect on social developments, without taking over, i.e. it brought about cross-class coalitions, which meant that the Nordic middle class would also benefit from the system (Jensen & Kersbergen, 2018, pp. 70-71). Moreover, the state was just strong enough to be able to carry out its welfare policies, albeit through continued consultations with unions and employer associations. This meant that while the state apparatus was incorrupt and professional, it also left a lot of power to the labour market partners, in terms of developing and administering the labour market and even welfare programme policies. This has been described as a “strange mix of state interventionism in some areas and laissez-faire in others” (Jensen & Kersbergen, 2018, p. 71), better known as social corporatism or Scandinavian corporatism, which also allowed these small economies to adjust well to developments in the international economy (Katzenstein, 1985).

In recent decades, Nordic political culture has been changing. Political reform policies have been met with opposition from the social partners thus creating a distance between the politicians and policy makers and the social partners during the policy making process. Nevertheless, interest groups still enjoy privileged access to the Nordic countries’ administrations. The decision making processes, from policy to legislation to implementation, are still characterized as being consensual (Christiansen, 2018). This consensual culture is further strengthened by the fact that Nordic states have a multi-party system where coalition governments are the norm, creating a fertile ground for a culture of negotiation with minority parties and political compromise (Kuhnle & Alestalo, 2018).

Another important factor in the development of the Nordic model was the low unemployment rates following the first 20 years after the Second World War, which came at the same time as women in the Nordic countries started entering the labour force *en masse*. This allowed for the establishment of strong sectors of eldercare and childcare, operated mostly by female workers, which would make it almost impossible to reverse that development when economic turmoil hit the countries (Jensen & Kersbergen, 2018).

The Nordic countries have a strong reputation for equality between sexes and classes as well as low income disparities. Moreover, the states seek to provide housing to all their citizens, through collaboration with key players in society, i.e. the national government, local governments/municipalities and private actors, as well as introducing different types of subsidies and housing support to help ensure general access to housing (Lujanen, 2005).

The Nordic administrative model is based on rule-of-law culture, transparency and accessibility. It builds on five common values, i.e. neutral professionalism grounded in expert knowledge, coupled with political loyalty based on majority rule and the parliamentary principle of governance; the so-called Rechtsstaat values, such as impartiality, neutrality, fairness, predictability, due processes and rule of law; evidence-based policy making; responsiveness and inclusiveness; and financial and administrative efficiency (Lægreid, 2018). In fact, efficiency, professionalism, and adaptability are key to small states’ ability to function, especially internationally. Furthermore, the Nordics enjoy high levels of social capital: they display both a higher level of social trust than the largest European countries (UK, Spain, Germany, Italy, France, Russia and Poland) as well as high civic engagement (Andersen & Dinesen, 2018).

However, everywhere in the region, except in Iceland, income inequality has trended upwards, although it is necessary to view this in in the context of very high initial redistribution, rising demands for economic efficiency as well as looming demographic and social changes that will require further adjustment (Egholt Søgaard et al., 2018). According to a recent study by Bergh (2016, p. 202), the Nordic countries have “become more similar to the OECD countries when it comes to expenditure on cash transfers, but they have actually become more different in spending on welfare services. Welfare services have thus become an increasingly important characteristic of the Nordic welfare states.” Bergh (2016, p. 6) moreover notes that “[w]elfare services are also an important mechanism by which the welfare states affects the income distribution and promotes equality more generally”. It is however clear that the Nordic welfare model will need to adjust further in response to demographic changes and migration in order to remain sustainable (Brochmann, 2018).

 Middle class support for the welfare state system is essential for its survival, making it important that its universal characteristics remain in place. However, immigration flows put the universal character of the system under strain, both financially as well as politically, especially since “[…] a huge gap remains between migrant and native employment rates. This has opened up a Pandora’s box of political debate around issues of reciprocity and deservingness” (Jensen & Kersbergen, 2018, p. 77). At the same time, as societies get richer, as is the case in the Nordic countries, citizens’ demands for and on welfare services increase, which in turn leads to increased cost (Bergh, 2016). This typically means higher taxes, which for the Nordic countries, who have comparatively high taxes, is likely to be met with political opposition (Jensen & Kersbergen, 2018). The application of a mixed method of increasing taxes, as well as allowing for a so-called *topping up strategy* (adding private financing on top of a publicly financed welfare service) and even a *paying twice strategy* (buying private insurance arrangements on the market for privately provided welfare services) is therefore likely to be increasingly applied in one form or another. The latter two strategies, i.e. facilitating topping up and paying twice strategies, may however lead to increased inequality of access to welfare services on the one hand and risking political support for the welfare state on the other (Bergh, 2016).

In sum, the Nordic welfare system will need to continue adapting to societal changes, stemming from internal demographic developments and the challenges brought on by conflicts and economic troubles in other parts of the world. In the short term, the Nordics will need to apply their renowned skills for adaptation and flexibility, such as investing heavily in the education system and collaborating effectively with the labour market partners in retraining the unemployed, thus adjusting them to the needs of the labour market. Moreover, in the longer term, mixing other, more controversial measures such as the ones mentioned above, with the more traditional methods, may be increasingly needed in order to secure the sustainability of the Nordic model.

***Economic policy and crises***

From a macro-regional perspective, the Nordics are considered to constitute a very coherent region economically (Nordisk Ministerråd, 2018c). Their economic growth numbers have been reasonable - despite economic difficulties at times -, their R&D expenditure is stable and the region is considered an attractive destination for foreign investment, accounting for 7% of Europe’s total FDI inflows (Nordisk Ministerråd, 2018c).

The Nordics are marked by their small internal market size. This has led to their participation in the EU’s internal market and adoption of its four freedoms (free movement of goods, capital, services and labour). Their participation in the European project nevertheless differs greatly, as discussed below. They are known for the way in which they have been able to not only meet the challenges that come with globalization and increased international competition but to turn them to their advantage (Grøn & Wivel, 2018). Yet, these have not been easy lessons to learn. The Nordic countries have had to undergo tough reforms in recent decades, following harsh recessions and economic crises, more often than not brought about by external developments. A common Nordic feature is that, while all adopted different sets of measures, all Nordic states introduced major reform programmes – most notably in the field of pensions – and fiscal consolidation to overcome their economic crisis and underpin the resilience of the welfare state in the long run. Moreover, their ability to act decisively, promptly and with a broad social consensus has enabled them to restore international credibility and trust relatively quickly. This, in turn, has had positive effects on and strengthened their national economies (Bergman, Jensen, & Thøgersen, 2018). This ability relates directly to their small size. In fact, the Nordic states have all been forced to develop and nurture adaptability and flexibility in their economic systems and administrations. In a way, they have been able to turn weakness, which comes with their small size, into a necessary strength, thus enabling them to run economically prosperous welfare states (Thorhallsson, 2015).

***Immigration and migration crises***

Immigration is not new to the Nordic countries, which have a long tradition of intra-Nordic immigration. This tradition was formalised in 1952 with the Nordic passport union, allowing any citizen of a Nordic country to reside in any other Nordic country. Immigration from non-OECD countries however, did not become pronounced in the region until after the start of the 21st century (Karlsdottir et al., 2018). The huge influx of asylum seekers and refugees from war-torn countries as well as from poorer countries outside the OECD, notably since 2015, has increased support for populist anti-immigration and anti-multicultural parties and led to more restrictive immigration policies (Brochmann, 2018). Moreover, populist parties in Finland, Denmark and Norway have developed from generally marginalized actors into accepted political players with real political sway and the capacity to influence policy (Jungar, 2018).

 Sweden, Denmark and Norway have traditionally been known for liberal, “humanitarian” approaches to immigration, focusing on multiculturalism and integration. In fact, Sweden has been labelled as the “leading immigrant state in the region in terms of seniority, scope and policy making” (Brochmann, 2018, p. 230). Denmark and Norway followed Sweden until the 1980’s, when they chose different and more restrictive paths, accepting fewer immigrants, although – as in Sweden – once immigrants were “in”, they enjoyed a treatment equal to that of other citizens (Brochmann, 2018, pp. 230-231).

Finland and Iceland differ from their Nordic partners in this field. They were net emigration countries until the 1980’s and 1990’s respectively. At the turn of the century, Finland would follow closely in Sweden’s liberal steps with regards to policy. Iceland however, which had very few immigrants, resembles Denmark more than Sweden in this regard. Unlike its Nordic partners, immigration has not become a major political issue in Iceland. However, both Finland and Iceland have experienced changes in the flow of immigrants to their countries since the beginning of the European migration crisis. This may affect political developments at home and thus policies in the near future (Brochmann, 2018; MPI, 2018).

The small size of the Nordic states, their populations and economies, makes them more vulnerable, economically and socio-politically, to international developments. The ongoing refugee crisis has put extreme pressure on public finances at the central, regional and municipal levels; in Sweden, there was a doubling in the amount of asylum applications, from around 81,000 in 2014 to 160,000 in 2015, before falling back to around 30,000 annually in 2016 and 2017. This mirrors a move towards a more restrictive approach to immigration (Bergman, Jensen, & Thøgersen, 2018; Brochmann, 2018; MPI, 2018). Although the numbers were much less pronounced in the other Nordic states, they all saw an increase during 2014-2016: Iceland took the lead in 2016 with 3.4 asylum seekers per 1,000 native citizens, having gone from receiving just 45 asylum applications in 2010 to receiving 1,085 in 2017.

The heavy flows of migrants to the region has put a lot of pressure on the countries’ traditional political parties; voting patterns suggest that an increasingly large part of the Nordic electorate opts for parties that emphasize stricter immigration rules in their political agendas (Önnudóttir & Hardarson, 2017). Nevertheless, according to a study by Önnudóttir and Hardarson (2017), the attitudes towards immigrants remained relatively stable between 2002-2014. The Nordic countries have been generally more positive towards immigration than their European neighbours (ESS, 2018). So, immigration is becoming increasingly important on the political agenda, there has been a move away from the traditionally more open border policies (Brochmann, 2018; Kuhnle & Alestalo, 2018), and there has been a rise in support for anti-immigration parties; nevertheless, the Nordic public remains overall relatively well disposed towards immigration and immigrants.

 Populism “has been a long-standing political current in the Scandinavian political systems and goes against common perceptions of populism as short-lived, personalized and weakly institutionalized political forces” (Jungar, 2018, p. 157). Populist parties have maintained a presence in all Nordic countries since the 1950’s, except in Sweden and Iceland where their development is much more recent. Throughout the decades, these parties have mobilised public support in different policy niches at different times, ranging from anti-establishment, anti-tax-issues, anti-EU policies to anti-immigration/anti-multiculturalism (Hansen & Kosiara-Pedersen, 2018; Jungar, 2018). Today, these populist parties have been accepted by the traditional political parties as real political players (with the exception of Sweden) in line with the universal consensus seeking policy-making framework in the region. The Progressive Party in Norway is in government for the second consecutive term, after having supported centre-right governments twice between 1997 and 2005 and having gained 15.2% of the vote in 2015 (Milne, 2017). A fragment from the anti-immigration/anti-multiculturalism and anti-EU/anti-establishment Finns Party (which received 17.7% of the votes in 2015), Blue Reform, continues to work in the Finnish coalition government that was formed in 2015 (NEOnline, 2017). The Danish People’s Party, which has been running on a similar ticket, has provided parliamentary support to the government four times over the last six government terms and in the 2015 parliamentary election, it became the second largest party in Denmark with 21.1% of the votes (BBC, 2015). The Sweden Democrats won 17.5% of the votes in 2018. Having been treated as a pariah since their first parliamentary success in 2010, the party has been actively working towards becoming a legitimate party with government credibility, expelling openly racist and neo-Nazi members (Jungar, 2018). Interestingly, the parties that were traditionally more right leaning in terms of economic issues, especially in Denmark and Norway, seem to be gaining increased support from adopting left of centre/centrist and welfarist socio-economic policies (Hansen & Kosiara-Pedersen, 2018; Jungar, 2018). This also holds true in Iceland where it is mirrored in the People’s Party (which received 6.9 % of the votes in 2017): it boasts a strong focus on increased public spending on welfare, as well as strong anti-establishment/anti-EU and anti-immigration views (Flokkur fólksins, 2017).

**External affairs**

The Nordic states share many foreign policy objectives and work closely together within the UN and other international organizations. Moreover, formal Nordic cooperation has a long tradition and constitutes one of the most advanced and integrated regional collaborations in the world today. The cooperation is founded on strong political, financial and cultural roots originating in nineteenth century Scandinavianism, a Nordic movement paralleling the nationalist movements in Europe at the time. Consequently, the Nordic peoples started organizing and working together through various grassroots organizations and partnerships, e.g. in the Nordic Association of Civil Associations (“Foreningen Norden”), which was established in 1919. Nevertheless, the states have developed a culture of being united in diversity when it comes to foreign affairs, as well as security and defence. When it comes to type and size of shelter to secure their vital national political, economic and societal interests, their needs have differed, resulting in a scattered image when it comes to the nature and level of international engagement.

***Nordic cooperation***

The Nordic countries have developed vibrant cooperation in many public policy fields, the collaboration being strongest in the fields of social, education and labour market policies. They also collaborate closely in areas such as passport issues, citizenship and national registration, legal and tax issues, culture and research. Moreover, collaborations between civil society, trade unions and employers’ associations have developed and are mirrored in such institutions as the Council of Nordic Trade Unions (NFS) and regular meetings of representatives of the Nordic Employers’ Associations.

The Nordic countries have traditionally been unable or unwilling to cooperate in high-political policy areas, such as traditional (economic) foreign policy and security and defence. However, the widening of what constitutes international high-political foreign policy areas has created new cooperation opportunities for the Nordic states. This is not lost on the Nordic leaders who have launched a three-year initiative on the Prime-Ministerial level called *Nordic Solutions to Global Challenges* (Nordisk Ministerråd, 2018a).

 Nordic political cooperation has a formal (institutionalised) dimension as well as an informal dimension, both of which include cooperation among ministers, parliamentarians and civil servants. The work takes place within the framework of the Nordic Council, the parliamentarians’ forum for cooperation, established in 1952, and in the framework of the Nordic Council of Ministers, the governmental forum established in 1971. The role of the Nordic Council, which consists of 87 members elected by their respective parliaments, is to take initiatives and advise Nordic ministers, as well as to oversee the respective governments’ implementation of decisions on Nordic cooperation. Decisions within the Council are determined by unanimity among member countries. The three Nordic subnational jurisdictionsare associate members of the Nordic Council.

The Nordic states also collaborate extensively, albeit on an informal footing, on the high-political issues not covered by the Nordic Council format, i.e. on foreign policy, hard security and defence, as well as on development cooperation in what has been called the N5 format. Moreover, the Nordic countries’ embassies and representations have developed a comprehensive informal and practical cooperation, a good example of the latter being the joint Nordic embassies in Berlin (Germany) and the Nordic House in Yangon (Myanmar). The Nordic states also benefit from Nordic cooperation in other regional and international fora, most notably in their work within the EU and UN. A good example of their UN collaboration is the decades-long tradition of rotation between the Nordic states when it comes to running for an elected seat on the UN Security Council (UNSC). In addition, they often collaborate on campaigns for official roles and responsibilities within different UN bodies, as well as developing and adopting, when possible, common Nordic positions on different issues of international importance (Jakobsen, 2018; Utanríkisráðuneytið, 2018).

Since the end of the Cold War, the Nordics have also developed a close relationship with the three Baltic states, Estonia, Latvia and Lithuania, in both a formal and informal NB8 setting. The eight Ministers of Foreign Affairs meet twice a year, once under the NB8 setting but also once with the Visegrad states, i.e. Poland, Slovakia, Czech Republic and Hungary (NB8-V4).

***Not so special any more***

Except for Iceland (until recently), the Nordic states have a history of being active in development, peacekeeping and peacebuilding missions all over the world through their UN membership. Their active participation in these fields, which builds on what has been termed the *Nordic UN model*, has helped these states build their *Nordic* brand internationally and lead by example. (Jakobsen, 2006, 2018). For instance, Denmark, Norway and Sweden have been among the OECD countries with the highest relative aid disbursements since the 1960’s (Olesen, 2018).

Whereas their image building was almost solely confined to the UN until the end of the Cold War, Nordic states have started to use other media, in addition to their UN activities, to build up their identity. According to Jakobsen (2018) the Nordic states’ foreign policies are not that unique anymore, when it comes to peacekeeping and peacebuilding and their contributions to the UN in this field have been significantly reduced as they now spend more attention and resources on conflict management embedded in other organizations, such as the EU and NATO (Jakobsen, 2018). This shows the way in which the Nordics, as small states, adapt to the international environment in order to safeguard their interests and sovereignty in the world. That is to say that when international circumstances change, small states are required to adapt to those changes in order to protect vital national interests. This was part of their tactic during the Cold War, where they abstained from taking a position on matters of conflict between the US and the Soviet Union in the UN (Jakobsen, 2018), as well as today where they have a vested interest in siding with the Western military powers within NATO, on whom they depend for military shelter. This is also true for the non-aligned countries, Sweden and Finland, who have developed extensive collaboration with NATO, the US and their Western allies (Economist, 2017; NATO, 2018a, 2018b, Creutz forthcoming).

Interestingly, the Nordic states have all emphasised close cooperation with Russia and China, despite their differences with these powers.China has showed an increased interest in developing bilateral and multilateral relations with the Nordic countries in recent years (Gudjonsson & Nielsson, 2017). This allows China to project its identity as a “near-Arctic state”, in an effort to secure its possible future interests in the region (Hong, 2014). Moreover, this has been positively received by the Nordic states who all expressed support for China’s application for permanent observer status on the Arctic Council (Jakobson & Peng, 2012, p. 13). Development of Sino-Nordic relations are also mirrored in reciprocal visits by state leaders, where the Arctic and the Chinese Belt and Road Initiative are among key topics of discussion (e.g. Jing, 2017).

The Nordics have made sure that they nurture good bilateral relations with Russia, despite increased Russian military activity in the North Atlantic and near the Norwegian-Russian border. For instance, close cooperation in the Arctic Council, the main decision-making body of the Arctic, has not been interrupted by Nordic participation in the Western restrictive measures against Russia (both regarding Ukraine and the Salisbury nerve agent attack) and Russian counter-sanctions on them.

***Security policy***

Collaborating on security and defence has always been a challenge for the Nordic countries, not least because of their very different geopolitical concerns, as well as different history, economic means and prioritization. Nevertheless, since the Russian annexation of Crimea, as well as increased international interest in the Arctic, there has been some revival of interest in closer collaboration through the Nordic Defence Cooperation (NORDEFCO).

Three of the Nordic states, Denmark, Norway and Iceland, are founding members of NATO and have adopted an “Atlanticist” approach in their geopolitics; whereas Finland and Sweden have, to this day, decided to remain outside the Alliance and, arguably, maintain their foreign policy principle of “non-alignment in peacetime and neutrality in war” (Gebhard, 2018). Nevertheless, the two “non-aligned” states have developed a close collaboration with NATO and the US since the end of the Cold War, beginning with entering into NATO’s Partnership for Peace in 1994 and only three years later their membership in the Euro-Atlantic Partnership Council (NATO, 2018a, 2018b, Creutz, forthcoming). There have been considerable discussions in the states about the possibility to join NATO, especially in Sweden where the right-of-centre parties are pro-NATO. This is however unlikely to materialize since public opinion still remains set against the idea in both countries, although there are some signs of change in public opinion becoming more pro-NATO in Sweden (Salonius-Pasternak, 2018). There is consensus amongst security experts that, if Sweden would join NATO, Finland would swiftly follow; but, for that to happen, the leading Swedish political party, the Social Democratic Party, would have to abandon its policy of neutrality (Institute of International Affairs, 2018)

Since the end of the Cold War, Denmark has shifted from mainly focusing on its contributions to UN peacekeeping missions towards a more militaristic foreign policy, which also reflects the growing importance of the DK-US relationship (Wivel, Mariager, & Mortensen, 2018). The relationship is also firmly grounded on the common interests that the two states share when it comes to geo-strategically important Greenland: the US-run Thule Air Base in Greenland hosts a forward early-warning radar system and a satellite communication centre (Bailes, Herolf, & Sundelius, 2006).

Similarly, Iceland has historically nurtured a strong bilateral relationship with the US, with which it has had a bilateral defence agreement since 1951 (Bailes & Thorhallsson, 2006). The US also remains Norway’s closest ally and is substantially increasing its presence of military forces on its soil (Haugevik & Sending, forthcoming). Importantly, Finland and Sweden are strengthening their ties with Washington. For instance, in May 2018 they signed a trilateral statement of intent, to deepen defence cooperation (Creutz, forthcoming). Moreover, the NATO Nordics have increased their security and defence spending in line with US and NATO demands (Gronholt-Pedersen & Skydsgaard, 2016; Long, 2018; RÚV, 2017).

In recent years all five Nordic states have voiced an interest in furthering their cooperation in NORDEFCO, although to different degrees (Gebhard, 2018). There are several reasons for this revived interest, ranging from strategic necessity, to geopolitical and economic factors. Created in 2009, NORDEFCO is a comprehensive institutional framework for cooperation in the field of security and defence. It is the result of developments in the global security environment, especially pragmatic, economic reasons, in terms of balancing the increased costs of defence technology and maintaining a functioning military force. However, the increased international strategic interest in the Nordic region, notably in the US during Obama’s presidency, has also supported the revived interest among Nordic authorities (Harris, 2016). Moreover, the much firmer tone being sent from the Trump administration, chastising the low levels of military spending in the countries that enjoy the US’s military shelter, may have strengthened the revived interest in the Nordics states of pooling resources and working together.

There is also reason to believe that a more aggressive Russia has pushed the Nordic states in this direction. Since small states rely on great powers respecting international laws and norms, the Russian annexation of Crimea, and the continued conflict in eastern Ukraine, is perceived as a serious threat to the Nordic countries’ sovereignty. This is reinforced by Russian provocations in the region, the Zapad-17 military exercise in September 2017 being the most pronounced and serious example (Economist, 2017), as well as the significantly increased Russian submarine traffic in North Atlantic waters and the Arctic, which has reached new heights since the end of the Cold War (Woody, 2018a, 2018b). Yet another perceived threat is the continued airspace violations and jet scrambles by Russian fighter jets in the region (Nardelli & Arnett, 2015), as well as a recent chemical weapons attack in Salisbury, UK, in March 2018. All this supports worries of a more aggressive and assertive Russia, at a time when the US seems to be less willing to lend a helping hand (Rogin, 2018; Woody, 2018c).

***European integration***

The small size of the Nordic market has made them dependent on the much larger European market. Nonetheless, the relationship between the Nordics and the EU is complicated (Grøn & Wivel, 2018). They are all highly involved and integrated into the EU, albeit to differing degrees, and in some cases to such an extent that the Nordics who have chosen to stay outside of the EU are even more integrated in some policy-areas than other EU members.

Both Norway and Iceland have chosen not to enter fully into the EU, but enjoy access to the internal market through the European Economic Area (EEA). The European Free Trade Area (EFTA) manages the functioning of the EEA and conducts many free trade agreements on behalf of its members (Norway, Iceland, Liechtenstein and Switzerland). Denmark (excluding the Faroe Islands and Greenland), Sweden, and Finland (including Åland, albeit with opt-outs) are EU members; but only Finland has adopted the euro. Sweden and Denmark both have their own national currencies. Whereas Denmark opted for a fixed exchange rate through the ERM II in 1999, Sweden runs an independent monetary policy with a floating krona (European Commission, 2018). Greenland departed from the EU in 1986, after having been obliged to join it as part of Denmark in 1973, and the Faroe Islands has never been a member. After the financial crisis hit Iceland in 2008, Iceland applied for EU membership but as the economy was quick to pick up on the island, almost at the same time as the euro crisis reached the EU, interest in the matter dwindled. With a new government in 2013, the accession negotiations were put on hold.

Since 1993, Denmark has formal opt-outs from the Euro, EU defence cooperation and Justice and Home Affairs (JHA) (European Commission, 2018), whereas Norway has attempted to strengthen its collaboration with the EU on JHA, security and defence. Moreover, the “non-aligned” states, Finland and Sweden, have participated fully in the development of the Common Security and Defence Policy (CSDP) of the EU, making no reservations with regards to the solidarity clause, which has been compared to Article 5 of the NATO treaty, to which the two states are not party. All five Nordic states are however members of Schengen. In general, the Nordic states and entities have been suspicious of the supranational character of the EU, as they seek to safeguard their “way of life” and protect their fisheries and agrarian sectors (Neumann, 2001; Rebhan, 2016).

The fact remains that the Nordic economies are burdened by the challenges that follow their smallness; they are sensitive to developments in the international arena, which has led to their participation in the EU internal market. At the same time, the specific nature of their national economies, such as the status of key export industries, as well as different geopolitical and socio-historical factors have led them to choose different types of shelter provided by larger states and international organizations, as shown in Table 2.

**Table 2: Present economic, political and societal shelter of the Nordic states and entities.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Shelter****Type** | **Economy** | **Political** | **Societal** |
| **Sweden** | EU | EU | EU/NC |
| **Denmark** | EU | EU/NATO | EU/NC |
| **Finland** | EU | EU | EU/NC |
| **Norway** | EEA/EFTA | NATO/Schengen | EEA/NC |
| **Iceland** | EEA/EFTA | NATO/US/Schengen | EEA/NC |
| **Greenland** | DK | DK/US/NATO | DK/NC |
| **Faroe Islands** | DK | DK/NATO | DK/NC |
| **Åland Islands** | EU/FI | FI/SE/EU | FI/SE/EU/NC |

NC: Nordic cooperation, DK: Danish Kingdom, FI: Finland, SE: Sweden.

The three NATO Nordics also share strong ties with the UK, and their trade relationship is currently under threat from the UK’s decision to leave the EU. The UK is Norway’s top export destination with 19% of its exports going there (followed by Germany with 14%); and it ranks second and third for Iceland (12%) and Denmark (7%) respectively. This puts considerable strain on the foreign services in these countries which have had to adapt and prioritize accordingly within their administration in order to ensure their countries’ business interests after Brexit. Meanwhile, since 1999 Norway has emphasized building a special relationship with Germany (Haugevik, 2017), referring to it as its “most important partner in Europe” (Regjeringen, 2014), thus indicating its emphasis on participation in the European project and the increased weight of Germany in Norwegian foreign policy.

**Conclusion: Keeping cool at the top**

The Nordic model has been kept intact despite considerable domestic and external challenges. The Nordic states also continue to run their distinctive foreign policy and remain united in diversity when it comes to NATO and EU engagements. At the same time, they have shown adaptability and found a delicate balance in relation to: their competitive export oriented economy and costly social policies; domestic uproar in relation to an increased number of asylum seekers and refugees and inclusion of anti-immigration parties in governmental decision-making; and closer security and defence engagements with NATO, the US, and the EU, as well as close bilateral relations with Russia and China.

Challenges posed by external events, such as Brexit, Russian aggression and an unpredictable ally (the United States) are being met with closer Nordic collaboration on high political issues. Policy responses to such challenges are driven by a deep and intimate understanding of their position as small states, susceptible to the fluctuating international economy, external aggression and a fractional world order. They seek either informal or formal political, economic and societal shelter provided by their closest allies (the US, the EU and NATO), while simultaneously building bridges to other leading world powers (Russia and China) and continuing their long term policy objective of stabilizing the world through active UN engagement. The Nordic states meet unpredictable world leaders with caution but their long-time consensus-seeking behaviour at home and abroad during the Cold War taught them not to overreach in crisis situations but rather to adopt a cautious and flexible approach. They keep cool at home and abroad. This is precisely how they dealt with challenges to their domestic order and the international world order in the past and how they are dealing with them at present.

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