

LILLIPUTIAN ENCOUNTERS WITH GULLIVER

SINO-ICELANDIC
RELATIONS FROM
1995 TO 2021



INSTITUTE OF INTERNATIONAL AFFAIRS
CENTRE FOR SMALL STATE STUDIES
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Lilliputian encounters with Gulliver: Sino-Icelandic Relations from 1995 to 2021



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Abbreviations

AIIB	Asian Infrastructure Investment Bank
BFSU	Beijing Foreign Studies University
BRI	Belt and Road Initiative
CAFF	Conservation of Arctic Flora and Fauna
CCP	Chinese Communist Party
CIAO	Kárhóll Observatory/China-Iceland Arctic Science Observatory
CNARC	China-Nordic Arctic Research Center
CNOOC	Chinese National Offshore Oil Corporation
EEA	European Economic Area
EFTA	European Free Trade Association
EU	European Union
FTA	Free Trade Agreement
GDP	Gross Domestic Product
IMF	International Monetary Fund
IR	International relations
ISK	Icelandic krónur
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organization
NEA	National Energy Authority of Iceland
NSR	Northern Sea Route
PRIC	Polar Research Institute of China
RANNIS	Icelandic Centre for Research
RÚV	Icelandic National Broadcasting Service
UK	United Kingdom
UNSC	United Nations Security Council
UNU-GTP	United Nations University Geothermal Training Programme
US	United States
USD	United States Dollars

Abstract

This report examines whether Iceland has been seeking and is enjoying political, economic and societal shelter provided by China in the period between 1995–2021. It places the case of Iceland within an established small-state theory, shelter theory. In particular, it analyses Sino-Icelandic relations in the aftermath of the economic collapse in Iceland in 2008 and in the light of the growing strategic importance of Iceland in the North Atlantic and the Arctic. Our findings indicate that Sino-Icelandic relations went through four phases during the period: a phase of building closer relations from 1995 to 2007; a phase of active shelter-seeking by Iceland from 2008 to the mid-2010s; a phase of gradual deviation from shelter-seeking in the mid-2010s; and, finally, after pressure from the US government from 2017 onward, a period of stasis and, most recently, some confrontational behaviour towards China. Iceland has turned its attention from Beijing to Washington in the hope of wider-reaching shelter provided by its close ally – the United States (US). Iceland, which tactically used its rediscovered strategic location as an Arctic state to strengthen its bilateral ties with China, is now taking advantage of the increased competition between the US and China in the Arctic to seek wider-reaching political and economic shelter provided by the US. Nevertheless, Iceland and China have set up institutional frameworks needed for the global power to provide the Lilliputian with political, economic and societal shelter. These only need to be activated by a return to a shelter-seeking policy by the Icelandic government.

Introduction

Iceland's strategic location in the middle of the North Atlantic is once again of importance to world powers. This is due to Iceland's potential to serve as a leading hub for container traffic in a transarctic shipping route and increased Chinese and Russian activities in the Arctic and the North Atlantic. A new race for the Arctic is already evident in the form of competition over shipping routes and hubs, natural resources, and political influence. The Arctic race is no longer confined to Western players: Asian powers, and China in particular, have joined the competition over the vast economic and political influence associated with the Arctic regions. Iceland's strategic importance has gone from being regarded as of minimal importance in 2006, at the time of the closure of the US military base in Keflavík, to high importance - as indicated by ruthless public pressure on the Icelandic government through a false statement made by the Vice-President of the United States (US), Mike Pence, that Iceland had decided not to take part in China's Belt and Road Initiative (BRI), during his visit to Reykjavík in September 2019.

Iceland's relations with China have caught the attention of governments on both sides of the Atlantic. They grew closer when the Icelandic government requested assistance from China in the wake of Iceland's economic collapse in October 2008. Iceland's traditional allies (the US, member states of

the European Union (EU) and the European Economic Area (EEA), and the Nordic states) were not willing to provide the country with sufficient assistance to deal with the economic crisis. Moreover, they deliberately stood in the way of the International Monetary Fund (IMF) providing Iceland with a much-needed rescue package. The United Kingdom (UK) and the Netherlands blocked the IMF rescue package, with the support of Iceland's other 'allies', in retaliation for Iceland's refusal to compensate British and Dutch citizens who had lost investments in savings schemes operated by the failing Icelandic banks, in the so-called 'Icesave dispute'. The Icelandic political establishment regarded the actions of its allies as a betrayal. Sino-Icelandic relations, on the other hand, gained momentum.

In 2010, the Icelandic Central Bank and the Central Bank of China made a currency swap agreement. This may not have been of much financial importance, but it was a statement of trust and gave Iceland's credibility a much-needed boost at the time. Furthermore, China supported Iceland's attempt to obtain a rescue package from the IMF. According to the Chinese prime minister, China took a conscious decision to help Iceland within the IMF at the time of the collapse. These events led to close cooperation between the countries. Sino-Icelandic relations flourished: Iceland became the first European country and North Atlantic Treaty

Organization (NATO) ally to sign a free-trade agreement (FTA) with China in 2013; it became a vocal supporter of greater Chinese involvement in the Arctic. The countries have signed several agreements in connection with the Arctic, e.g. regarding cooperation on oil exploration and marine and polar science; they have also signed several other important cooperation agreements in fields such as geothermal energy, and Chinese universities, research centres, cultural organizations and tourist bodies have shown considerable interest in cooperating with their Icelandic counterparts; collaboration in these areas has grown substantially in the last few years. In the early 2010s, only one cloud cast a shadow on this otherwise bright picture, when the Icelandic government prevented a Chinese investor from buying a large tract of land in the country. Iceland's policy towards China has changed considerably since then. Though a few studies have been made of specific aspects of Sino-Icelandic relations, such as the FTA and cooperation in the Arctic, no comprehensive analysis has yet been presented.¹

This report aims to present an extensive analysis of Iceland's policy towards China and relations between the countries. We will identify whether Iceland has been seeking, and has been enjoying, political, economic, and societal shelter provided by China in the period from 1995 to 2021. This is

a case study of a small state that places Iceland within a framework of an established small-state theoretical framework, the shelter theory.² Iceland is typical in terms of the traditional criteria for defining small states: the population stood at a little over 360,000 at the end of 2020; gross domestic product (GDP) amounted to USD 25.7 billion in 2018;³ the country has no armed forces and a small public administration (and foreign service). Moreover, a comparative or a relational element is always associated with the size of states⁴ and Iceland is considerably smaller than all its neighbours, i.e., the Nordic countries, the UK, Ireland, Canada and the US.

International relations (IR) literature has largely neglected to take special characteristics of small states into account and has dealt with small and large states as similar entities.⁵ Shelter theory considers small states as unique actors due to weaknesses associated with their small size. Accordingly, they act in a different way from their larger counterparts. Small-state studies have somewhat filled the gap in the IR literature through extensive case studies of small-state behaviour in the international system.⁶ Nevertheless, research on small states is still mostly conducted within the traditional IR literature and there is a lack of theoretical frameworks that take into account the special characteristics of small states.⁷

Shelter theory derives from small-state literature, in particular its claims that small states need to join alliances so as to survive

and prosper.⁸ It claims that small states are faced with inbuilt structural weaknesses and vastly different needs in comparison to larger states.⁹ Small states are vulnerable in terms of their population size (human capital), smaller geographical area (in terms of potential natural resources), smaller economy, more limited military strength,¹⁰ and smaller public administration (including the foreign service)¹¹ compared with larger states. Small states' weaknesses are also associated with subjective features, such as internal and external actors' perception of their size and capabilities.¹² These features lead to shelter-seeking behaviour by small states in the international system, i.e., small states seek shelter provided by larger states and international organizations.¹³ Small states can buffer from within to compensate for their weaknesses, (e.g. by adopting democratic corporatism),¹⁴ but they also need economic, political and societal shelter provided by larger states in order to prosper. In particular, small states need shelter during crises, according to the shelter theory.¹⁵ They are more prone to economic crises due to their small fluctuating domestic markets and limited defence capacity.¹⁶ Thus, they are more in need of outside assistance (shelter).¹⁷

Shelter theory distinguishes between three forms of shelter: economic, political and social. Economic shelter takes the form of economic assistance, favourable market access, beneficial loans, currency unions, etc. provided

by another state or states, or by international organizations. Political shelter can include diplomatic or military backing and other forms of strategic coverage provided by other states or international organizations, and/or organizational rules and norms. Societal shelter includes the transfer of messages, norms, lifestyles and ideologies, in line with Rokkan and Urwin's¹⁸ historical account of the importance of cultural features in centre-periphery relations and the stagnation thesis which is based on Cardwell's Law, holding that a single economy cannot sustain technological innovation and will eventually tend towards technological stagnation.¹⁹ Shelter theory holds that small states need to compensate for profound disadvantages that small population size has for them 'when it comes to technological, educational, and cultural ideas and practices'²⁰ and seek societal shelter provided by larger states and/or international organizations.

Iceland has enjoyed wide-reaching political shelter (military and diplomatic backing) provided by its bilateral defence treaty with the US and membership of NATO. During the Cold War, the US also provided Iceland with extensive economic shelter (e.g., grants, beneficial loans and infrastructure) and considerable societal shelter (in terms of access to US higher educational institutions, cultural exchanges and modernization of its small technologically underdeveloped economy).²¹ At present, membership of the EEA provides Iceland with extensive economic shelter (e.g.,

beneficial market access) and societal shelter (e.g., in relation to the free movement of people, access to the EU's research funds and its member states' higher educational institutions). Nevertheless, the Nordic countries, and particularly Denmark, continue to be the main providers of societal shelter to Iceland. For instance, in the post-war period, Iceland began to imitate the Scandinavian welfare model and also followed the lead of the larger Nordic countries in legislation, and engaged in extensive Nordic cooperation in social affairs. Icelanders continue in

large numbers to pursue education, seek employment and settle down in Scandinavia.²²

This report draws on close examination of official reports, recent interviews with high-ranking Icelandic and Chinese government officials and policy-makers, discussions and speeches by politicians and media coverage. It is divided into four sections, in addition to an introduction and conclusions. The first section analyses whether Iceland has received societal shelter provided by China with regard to research

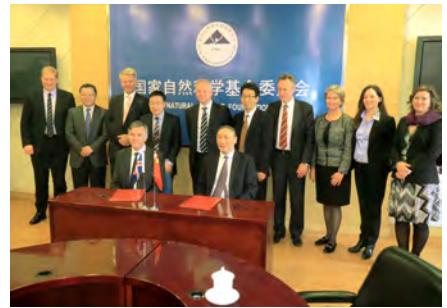
cooperation and collaboration on educational and cultural activities. The second section considers whether China has provided Iceland with political shelter in the form of diplomatic assistance in international organizations. The third section examines whether the relationship between Iceland and China indicates that the superpower provides the Lilliputian with economic shelter in terms of shelter theory. The final section analyses the current setback in Sino-Icelandic relations.

Societal Shelter: Enhanced but Limited Contacts

Scientific Cooperation: Prospering?

Iceland and China have launched scientific cooperation projects in the fields of geothermal energy and oil exploration and engaged in the exchange of expertise. According to a high-ranking Chinese government representative, Iceland's smallness is a hindrance to further scientific cooperation and it needs to increase its effort to meet China's contribution. Also, there is a lack of willingness in the scientific communities on both sides to share information.²³

One of the largest scientific cooperation projects Iceland has engaged in with China is on geothermal energy. Arctic Green Energy Corporation, an Icelandic private company that specializes in renewable energy, has been in cooperation with Sinopec China, a Chinese state-owned company since 2006. China holds 51% of the shares in their joint venture, Sinopec Green Energy, against Arctic Green Energy Corporation's 49%.²⁴ Sinopec Green Energy has become the largest geothermal district heating company in the world.²⁵ Arctic Green Energy Corporation has expanded its operations into sixty different counties in China, replacing the local heating systems with new ones based on clean and sustainable energy. In 2009, Sinopec Green Energy started operations in Hebei Province, which was heavily polluted at the time, and managed to reduce the pollution levels of the



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area significantly in just under six years by replacing the coal-powered heating systems with geothermal energy. This led one of the cities within the province, Xiongxian, to gain the title of China's First Smog Free City in 2014.²⁶ Three years later, President Xi Jinping announced a new plan for the establishment of a smart city in 'Xiong'an New Area' in Hebei Province.²⁷ This has been seen as a strategic move by President Xi to associate his term in office with a successful urban development project.²⁸ In 2015, Arctic Green Energy Corporation signed a cooperation agreement with Sinopec Star Petroleum and the National Energy Authority (NEA) of Iceland on the implementation of an MoU between the governments

of China and Iceland to establish a Sino-Icelandic Geothermal Research and Development Center.²⁹ At present, Arctic Green Energy Cooperation is the only Icelandic company that has engaged in geothermal cooperation with China, though two other Icelandic companies have worked in China under the corporation.³⁰ It employs about 700 people in China, of which about 20 are Icelandic, and also engages Icelandic specialists for various tasks depending on the need.³¹ Since 2006, Arctic Green Energy Corporation has contributed over ISK 1 billion to research in Iceland, mostly in the field of geothermal energy.³²

China became involved in oil exploration in the Arctic³³ for

the first time when an Icelandic company, Eykon Energy, applied for a licence for oil exploration in 2014 in the Dreki region between Norway and Iceland.³⁴ This provided Iceland with the potential to become a fossil-fuel energy producer. Apart from Eykon Energy, which held 15% of the shares, two state-owned companies jointly invested in the project: the Chinese company Chinese National Offshore Oil Corporation (CNOOC), leading the project with 60% and the Norwegian company Petoro, with 25%.³⁵ Two initial oil surveys in 2015 gave quite good results,³⁶ but by 2018 both CNOOC and Petoro announced that they would not continue with the project due to a lack of evidence of sufficient levels of fossil fuels in the area to outweigh exploration costs.³⁷ The NEA of Iceland subsequently revoked the oil exploration permits.³⁸

In 2014, the Polar Research Institute of China (PRIC) entered into a collaborative project with the Icelandic Centre for Research (RANNIS), focussing on natural science research in the Arctic. This resulted in the launching of the Kárhóll Observatory/China-Iceland Arctic Science Observatory (CIAO) in 2018.³⁹ Research at the CIAO is focused on a range of topics in the natural sciences, including the aurora borealis, climatology, volcanology, biology and more. One of the functions of the Kárhóll Observatory is to facilitate exchanges of scientists between Iceland, China and other countries.⁴⁰ The initial exchanges were supposed to take place after the opening of the facilities but never took off

properly and came to a complete halt due to the covid-19 pandemic in 2020.⁴¹ Even so, the laboratories at the Kárhóll Observatory and most of the technical equipment are already being utilized and initial research has begun.

Exchange of scientific expertise between Iceland and China takes place through various other platforms, such as: the China-Nordic Arctic Research Center (CNARC), to which the Icelandic Center for Research and the University of Akureyri contribute,⁴² and the Arctic Council. One of the Arctic Council's working groups, the Conservation of Arctic Flora and Fauna (CAFF), is located in Akureyri.⁴³ There is also considerable participation by China in Iceland's best known Arctic-related event, the Arctic Circle Assembly, which was launched by the president of Iceland in 2013. The assembly has become the largest annual international gathering on the Arctic, with more than 2,000 participants (governmental officials, academics and others) from over 60 countries, and has strengthened Iceland's image as an important venue for discussing Arctic affairs.⁴⁴

Educational and Cultural Activities: Marginal Engagement

The flow of residents between Iceland and China is minimal. China and Japan are the two Asian countries in which the largest numbers of Icelandic citizens reside, 39 in China and 46 in Japan as of January 2019.⁴⁵ By way of comparison, the three Scandinavian

states have the most Icelandic residents, with Denmark hosting the largest number (over 11,000), and close to 7,000 Icelandic nationals are resident in the US.⁴⁶

Similarly, the number of Chinese residents in Iceland is small and it cannot be seen that it has been growing. In 2008, there were 384 Chinese nationals in the country; in 2019, the number had fallen to 312. There were 52 Japanese citizens residing in Iceland in 2008 and 75 in 2019.⁴⁷ For comparison, nearly 20,000 Poles were resident in Iceland in 2019.⁴⁸

On the other hand, the number of Chinese tourists in Iceland has risen significantly, from under 10,000 in 2007 to nearly 100,000 tourists in 2019.⁴⁹ Nonetheless, it is important to bear in mind that Iceland has become an increasingly popular tourist destination and compared to tourists from other countries the number of Chinese visitors is modest. For instance, in 2018, Iceland received nearly 700,000 tourists from the US and nearly 300,000 from the UK.⁵⁰

The low numbers of Iceland-China residents in each others' countries resonate with the number of students graduating with a bachelor's degree in Chinese Studies. In 2007, the University of Iceland started teaching Chinese Studies as a BA subject, with the main focus on Chinese language, culture and history. Soon after that, courses in the Icelandic language became available at Beijing Foreign Studies University (BFSU). The number of students in Chinese Studies at the University of Iceland

peaked in the period 2015–2017.⁵¹ In 2018, the BFSU expressed its plans of establishing a Research Centre in Icelandic Studies in the University, but this has not yet materialized.⁵² In 2019, 5 students graduated in Chinese Studies at the University of Iceland, bringing the total since the start of the programme to 50. In comparison, in 2019, 13 students graduated in Japanese Language and Culture from the University of Iceland, the total since the inception of the programme reaching 121.⁵³

Similarly, the number of exchange students between the University of Iceland and Chinese universities is low, though it has been gradually rising over the years. Since 2008, 90 Icelandic exchange students have studied in China and 106 exchange students from China have studied at the University of Iceland. In comparison, since 2008, the University of Iceland has sent 168 students to Japan, and the University has received 94 Japanese students.⁵⁴

Moreover, the United Nations University Geothermal Training Programme (UNU-GTP) in Iceland has been receiving Chinese students since its establishment in 1978. In 2019, 90 graduates from the programme, out of 629, were Chinese.⁵⁵ Following the establishment of Arctic Green Energy Corporation's Research and Development Center, the NEA of Iceland and Arctic Green Energy signed an agreement with the Chinese government at the Arctic Circle Forum in 2019 in Shanghai to help launch a programme, based on the UNU-GTP's example, in Xiong'an New Area in China.⁵⁶ Additionally,

the Iceland School of Energy of Reykjavík University signed a dual degree contract with Tianjin University and the China University of Geoscience in 2014.⁵⁷ During the contract period, Iceland received three students from China via Erasmus, but no Icelandic students went on exchanges to China. Reykjavík University currently has a cooperation agreement with the China University of Political Science and Law and has welcomed a few students and staff from China, but only one Icelandic student has gone on an exchange under the programme.⁵⁸ Furthermore, the University of Iceland is a member of the Nordic Centre at Fudan University in Shanghai, which is an active platform of collaboration between researchers and students from the Nordic countries and China.⁵⁹

High-ranking Icelandic officials describe cultural interactions with China as marginal, mostly limited to the translation of literature and neither more nor less than the normal diplomatic and cultural engagements that states have with one another on a regular basis.⁶⁰ Since 1953, the Icelandic-Chinese Cultural Society has been active and various Chinese cultural activities have taken place in Iceland throughout the years. Some examples are:⁶¹ the National Theatre of Iceland hosted a Chinese Opera in 1955;⁶² various Chinese musicians have held performances, introducing Chinese instruments;⁶³ the Icelandic company Heilsudrekinn, a Chinese spa and fitness centre located in Reykjavík, has offered Chinese fitness courses such as Tai Chi, Qi

Gong and Wu Shu in cooperation with the Confucius Institute in Iceland,⁶⁴ and Icelanders have studied Chinese martial arts in China;⁶⁵ famous Chinese literary works have been translated into Icelandic⁶⁶ and the Chinese Embassy in Reykjavík, with the Confucius Institute, has organized cultural events, such as the Spring Festival Gala at the embassy and the Spring Festival at the University of Iceland. Similarly, Icelandic books for both adults and children have been translated into Chinese and, in 2018, a translation of the Icelandic novel Hundadagar received an award in China for the best foreign language novel of the 21st century.⁶⁷

The Northern Lights Confucius Institute in Reykjavík: Mixed Signals

In 2008, the Northern Lights Confucius Institute was opened in Reykjavík in partnership with the University of Iceland.⁶⁸ Critics have argued that the Confucius Institutes are an important part of the Chinese Communist Party's (CCP) 'overseas propaganda set-up'⁶⁹ and that they threaten academic freedom,⁷⁰ their aim being 'to increase China's soft power and advance Beijing's version of history'.⁷¹ US Universities have been urged to drop all affiliation with the Confucius Institute to avoid Beijing's interference in academic work, following claims that US universities that have signed a contract with Hanban (the Confucius Institute's headquarters at the time) were unlikely to criticise Chinese policies for

financial reasons and that students of Confucius Institutes graduated with a selective knowledge of Chinese history, excluding mention of China's human rights abuses.⁷² At least ten Confucius Institutes have been closed in the US due to various reasons.⁷³ Nonetheless, the remaining Confucius Institutes in US universities are popular amongst their students.⁷⁴ Sweden has officially become the first European country to close all Confucius Institutes on its territory.⁷⁵

In Iceland, the Northern Lights Confucius Institute has faced little direct criticism, though the Icelandic National Broadcasting Service (RÚV) has reported on the criticism its sister organizations have faced in other countries⁷⁶ and a former Icelandic minister of justice has recently voiced his concern over the institute, stating that Iceland should take notice of international politics.⁷⁷

The role of the Reykjavík-based institute is to raise awareness of Chinese language, culture and society, which it does through various educational programmes (e.g., in elementary and high schools), cultural celebrations (e.g., the Spring Festival; it also used to host free screenings of Chinese films), offering study-grants for Icelandic students studying in China, etc.⁷⁸ However, China does attempt to promote the CCP's image and policies in Iceland through the Confucius Institute. A case in point was an exhibition at the University of Iceland (a number of impressive posters) to celebrate Chinese history and culture on the occasion of the 70th anniversary of the foundation

People's Republic of China in 2019. Some students and academics dismissed the posters as Chinese propaganda and an attempt by the CCP to promote China's image while ignoring parts of its history and human-rights abuses.⁷⁹ In response, Chinese students at the university expressed their dissatisfaction with these remarks about the Chinese government. The Rector of the University of Iceland ordered the removal of the exhibition.⁸⁰

According to a person who is closely familiar with the inner workings of the Confucius Institute in Reykjavík, a certain amount of pressure is, in all likelihood, placed on Chinese staff members to portray China in a positive light and promote the country's image. There are two directors, representing Iceland and China, respectively, and normally about four Chinese teachers working at the institute, as well as one half-time permanent staff member and two to three other part-time workers. The director serving as the representative for China is undoubtedly under pressure from the Chinese government to promote China's image. The same pressure is not put on Icelandic staff members and this pressure does not affect the running of the Institute.⁸¹ There are examples of outright criticism of China being voiced at seminars organized by the institute. A case in point was a lecture given by an outspoken professor of political science, and a well-known critic of communism, in 2012. During the presentation, the professor compared Chairman Mao to Adolf Hitler and described Mao as a 'vicious serial killer'.⁸² The Confucius

Institute provides guest lecturers for the language courses taught in the Chinese Studies courses at the University of Iceland. Their role is strictly limited to language teaching and has remained so since the establishment of the programme. This is contradictive to foreign criticism alleging that students graduate with only a selective knowledge of Chinese history and current affairs.⁸³

In June 2020, the Confucius Institute was rebranded; consequently, it no longer comes under the Ministry of Education. It is currently a non-governmental foundation, operating within the Ministry of Education's Centre of Chinese Language, Education and Cooperation, funded by Chinese universities and private companies.⁸⁴ The rebranding came as a response to Western criticism about the Confucius Institute being an instrument of the Chinese government and promoting a false image of the country. Confucius Institutes will now be placing greater emphasis on language teaching than on cultural promotion, and the Reykjavík-based institute is accordingly following this policy.⁸⁵ Since about 2017, keeping pace with more negative media coverage about China, interest among Icelanders towards the Reykjavík-based institute has declined.⁸⁶ While the Confucius Institute has been lowering its profile, the Chinese Embassy has become increasingly active in the capital, particularly due to the work of the Chinese ambassador, who frequently writes long articles about China's policies in Icelandic newspapers.⁸⁷

Political Shelter: Perceptible Diplomatic Support

Rubbing Shoulders

Political relations between Iceland and China were limited until the mid-1990s. In 1995, Iceland opened an embassy in Beijing and China resumed the practice of sending resident ambassadors to Reykjavík, having opened its embassy in Iceland in the early 1970s. From the mid-1990s, and increasingly after the turn of the century, Icelandic ministers frequently visited China – as did the president of Iceland in 1995 and 2005. Visits by Chinese dignitaries to Reykjavík also became more common; these included one by Jiang Zemin, the President of China, in 2002.⁸⁸

When the Icelandic government put forward its candidacy for membership of the United Nations Security Council (UNSC) for the years 2009–2010, President Hu Jintao declared China's support for it. This was highly unusual, as the great powers do not generally voice their support for states running for the UNSC.⁸⁹ However, Iceland's bid for election was unsuccessful. In the aftermath of the economic collapse in 2008, Iceland was desperate for an economic and political shelter provider and applied for membership of the EU in July 2009. This temporarily halted the FTA negotiations with China which began in 2007, as discussed below (Iceland was to seek resumption of the FTA negotiations repeatedly).⁹⁰ For instance, in 2010, Iceland reiterated its support of the 'One China Policy'⁹¹ and the Icelandic



Above left: ©Rannis / Above right: ©Kristinn Ingvarsson
Below: ©Árni Sigurjónsson

president met Chinese Premier Wen Jiabao and invited him to visit Iceland, which the premier accepted.⁹² In 2011, the countries agreed to expand cooperation in various areas on the occasion of the 40th anniversary of the adoption of diplomatic relations between the states.⁹³

There was, however, a divide within the Icelandic government at the time regarding the premier's visit. The Icelandic foreign minister was keen to sign several cooperation agreements during Wen Jiabao's visit, including an FTA. There was a sense of urgency in the foreign ministry about concluding the

FTA, as other European states had similar aims and Iceland wanted to be the first.⁹⁴ However, Iceland's prime minister was uneasy about the timing of the visit,⁹⁵ which came during a time when the intention of a Chinese investor, Huang Nubo, to purchase land in Iceland was causing much negative media coverage in the country, as will be discussed below. The Chinese embassy in Iceland explained that Premier Wen Jiabao was due to visit Iceland in July, but that date did not suit the Icelandic prime minister's schedule.⁹⁶ The prime minister later stated in an interview that the visit, which was allegedly supposed to

take place in July 2011, had never actually been accepted by China.⁹⁷

Chinese Premier Wen Jiabao finally arrived on an official visit to Iceland in 2012.⁹⁸ Prior to the visit, China had repeatedly asked Iceland what the goal of the visit would be.⁹⁹ The foreign minister wanted to sign an FTA during the visit, but this was not to be done until the following year.¹⁰⁰ Instead, the two signed an MoU covering cooperation in a wide range of fields such as geothermal energy, geoscience, silicon production and enhanced cooperation in the Arctic.¹⁰¹ Also, Iceland and China signed a cooperation agreement on geothermal energy projects in developing countries,¹⁰² and Promote Iceland (a public-private partnership to promote Iceland abroad, mainly commercially) signed an MoU with China Development Bank to define sectors that would offer mutually beneficial investment opportunities in Iceland and China for Icelandic and Chinese companies.¹⁰³ In 2018, Iceland and China signed an MoU on electronic commerce cooperation and an MoU to establish a geothermal working group. The first meeting of the working group of electronic commerce was held in October 2018 in Iceland.¹⁰⁴

Iceland and China had established the foundation needed for any further cooperation between the states to blossom. Sino-Icelandic relations now had every potential to expand.

Arctic Collaboration

Building on their bilateral relations, Iceland supported China in gaining permanent observer status on the Arctic Council,¹⁰⁵ which China started pressing for in 2007.¹⁰⁶ During the consultation period, Norway had considered contesting China's admission¹⁰⁷ but Iceland, Denmark¹⁰⁸ and other states advocated for China. Iceland took its support to a new level when the Icelandic foreign minister launched a dialogue with China and Norway to heal relations between the two and ease the way for China to be granted permanent observer status.¹⁰⁹ Although China did not directly ask Iceland for support, Iceland considered this move to be in its interest in the middle of its FTA negotiations with China.¹¹⁰ In 2013, China gained permanent observer status in the Arctic Council.¹¹¹ Relations between Iceland and China within the Arctic Council are minimal;¹¹² on the other hand, 'China's limited presence in Iceland may have long-term strategic effects that should not be ignored', as will be discussed below.¹¹³

Iceland is identified in a recent report on Iceland-Greenland cooperation by the Icelandic ministry for foreign affairs as a valuable location for China to use as a shipping hub in the Arctic.¹¹⁴ The report claims that recent studies on Arctic shipping routes reveal that the one closest to Iceland, the Transpolar Sea Route, will be the first one to open; this would support the idea of creating a shipping hub in Finnafjörður, northern Iceland.¹¹⁵ Other studies

claim that the Northern Sea Route will open earlier.¹¹⁶ However, the report also states that China has already made a considerable investment in the Northern Sea Route, including several agreements with Russia, and that a shipping hub in Norway, serving the Northern Sea Route, would present strong competition to the one in Finnafjörður.¹¹⁷ Another recent study by the Institute of Economic Studies at the University of Iceland concluded that, at present, a shipping hub in Finnafjörður in Iceland, serving the Northern Sea Route, would not be an economical option, but might become valuable when the Transpolar Sea Route opens following melting of the Arctic ice-cap. The institute anticipates that the Transpolar Sea Route will not be available until 2050 or only slightly earlier and that until then, a shipping hub in Svalbard, Norway or Russia would be a better option.¹¹⁸ Nevertheless, the foreign minister's report claims that given the disagreements between Russia and China in the Arctic, it is not unlikely that China would be interested in investing in multiple shipping hubs.¹¹⁹ If so, Iceland might be a viable option.

Political Shelter Following an Economic Collapse

In the lead-up to the international financial crisis in the autumn of 2008, the Icelandic government was not able to secure sufficient external assistance to prevent the collapse of the economy in early October, and the country's long-term allies were not willing to

help it in the immediate aftermath of the collapse.¹²⁰ Therefore, Iceland turned to the IMF for assistance. However, the UK and the Netherlands blocked a negotiated rescue package between Iceland and the IMF due to the Icesave dispute.

In a desperate move, Iceland turned to China in an attempt to obtain shelter. The President of Iceland, Ólafur Ragnar Grímsson, wrote to the President of China, Hu Jintao, to explore the possibility of financial assistance from China, after consulting Prime Minister, Geir H. Haarde. Consultations between the prime minister of Iceland and the Chinese premier, Wen Jiabao, ensued.¹²¹ According to the Icelandic president, both the president and the premier of China instructed their officials to take Iceland's side before the IMF.¹²² Iceland's relationship with China was on everyone's lips in Brussels and the first question Icelandic officials received at meetings was 'what is it that Iceland is doing with China?'¹²³ As stated by a high-ranking official in the Icelandic government at the time: 'since the era of Chairman Mao, China's policy has always been not to discriminate between large and small states. This policy was made quite apparent to the government of Iceland'.¹²⁴

According to high-ranking Icelandic government officials, opinions were divided within the IMF as to whether or not to make the IMF rescue package contingent on a solution to the Icesave dispute. On the one hand, the vast majority of Western European, African, Asian

and Southern European countries, including former British and Dutch colonies, supported the UK and the Netherlands. On the other hand, in closed meetings with national representatives, various countries, such as China, Egypt, India, Poland and others were sympathetic towards Iceland and considered the treatment it stood to receive from Europe to be unethical. The US remained neutral.¹²⁵ China had been prepared to contribute to the IMF bailout package and preliminary talks took place between Iceland and China on the possibility of bilateral economic assistance, but this did not materialize.¹²⁶ Nevertheless, the British-Dutch blockage of the IMF rescue package prevailed until the Icesave dispute had been resolved, but China had not said its last word in an effort to assist Iceland and the Sino-Icelandic relations began to flourish.

Iceland's request for shelter also resulted in a currency swap agreement between the Central Bank of Iceland and the People's Bank of China, which was signed in 2010. This was the first time China signed a currency swap agreement with a Western nation. The agreement has since been renewed three times: in 2013, 2016 and again in 2020, and is due to expire in 2025.¹²⁷ Originally, in 2008, Iceland had requested a currency swap agreement with the US, but the request was rejected, even though the US approved requests from other states, including the Nordic states, the UK, Japan and Germany; this caused resentment amongst Icelandic officials.¹²⁸

The Sino-Icelandic currency swap agreement was, however, very different from traditional arrangements of this type. The terms were that Iceland could buy goods and services from China in Icelandic krónur; there was no direct swap of Icelandic krónur and Chinese yuan. Though it was very generous, the agreement was not much of help when it came to making payments in western currencies.¹²⁹ Therefore, the agreement may not have been of much financial importance and has never been activated, but it boosted Iceland's much-needed credibility at the time and was a statement of trust. The economic collapse had severely damaged Iceland's trustworthiness abroad and the Icelandic government saw the signing of the currency swap agreement as an important step in gaining confidence.¹³⁰ Accordingly, the currency swap agreement can be seen as more of a political move (political shelter) offered by China to support Iceland during a crisis rather than an economic manoeuvre, or economic shelter.

This development was not popular with Iceland's allies. Officials from the US very clearly expressed their dissatisfaction with it and alleged that China was attempting to gain political influence.¹³¹ According to a high-ranking Icelandic official, 'perhaps the only influence the currency swap agreement had was to agitate the US, NATO and Western Europe' when Iceland found itself cornered and in need of assistance that it did not receive from its long-standing allies.¹³²

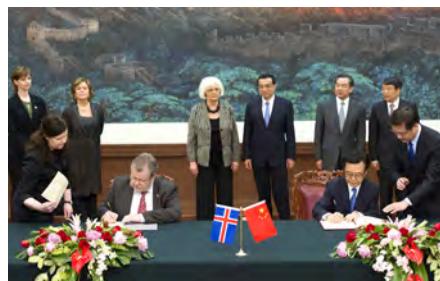
Economic Shelter: Off to a Good Start?

The Free Trade Agreement: A Triumph or a Let-down?

Iceland became the first European country and NATO member to sign an FTA with China. Discussions on an FTA between Iceland and China date back to an official visit by the president of Iceland to China, accompanied by a large business delegation, in 2005,¹³³ when the countries signed an MoU to strengthen economic trade and cooperation. Iceland thereby recognized China as a market economy and initiated exploration of the feasibility of an FTA between Iceland and China.¹³⁴ The negotiations officially started in 2007.¹³⁵ The signing of the FTA in 2013 were aimed mainly at strengthening bilateral relations between the countries and China's support to Iceland after the economic collapse.

Domestically, the FTA was considered to have great economic benefits for Iceland. China found it of benefit in different ways. Iceland was a small nation with a small market, a convenient state for a practice-run of drafting a free-trade agreement with a European country. In that way, China could begin on a small scale and create a reference model before attempting grander and more complicated deals with larger states.¹³⁶

The FTA came into force in 2014, covering trade in goods and services, rules of origin, trade facilitation, intellectual property



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rights, competition and investment. It also stipulates that the two states should enhance their cooperation in several areas, including research, labour and the environment. The agreement introduced tariff-free access for Icelandic seafood exports to China, which was of high importance for the Icelandic fishing industry. Iceland also lowered tariffs on Chinese goods (agricultural goods excluded), which benefits Icelandic consumers.¹³⁷ The Icelandic foreign minister at the time later described the document as the most important agreement since Iceland acceded to the EEA.¹³⁸

Trade in goods and services with China has gradually increased, as the Icelandic authorities had anticipated prior to signing the FTA. By 2018, exports of goods to

China had grown by 358% since the FTA came into force in 2014.¹³⁹ This was by far the highest increase in Icelandic exports to any state outside the EEA. For comparison, the growth in exports of goods to India was 155% and to North America 93% during the same period.¹⁴⁰ The vast majority of Iceland's exports to China (80-90%) have consisted of marine products.¹⁴¹ Nevertheless, in 2018, Icelandic goods exports to China amounted to only 2.6% of the total.¹⁴² Chinese imports to Iceland had risen and the trade deficit had grown by 39% since 2014.¹⁴³ In 2014, imports from China amounted to just over 7.4% of the total; in 2020 the proportion was 8.4%.¹⁴⁴

Several challenges remain when it comes to trade in goods with

China; the fact that the Chinese market is much greater in size than the Icelandic one means that Icelandic companies are often unable to satisfy the minimum order volumes set by larger Chinese companies to export products to Iceland,¹⁴⁵ and the Icelandic Food and Veterinary Authority's standards have on occasions failed to satisfy those of the Chinese government for agricultural product imports.¹⁴⁶ Since the signing of the FTA, Iceland Post has had to pay subsidies on packages arriving from developing countries, and as China classifies as such, parcels arriving from that country are subject to an additional charge.¹⁴⁷ The Icelandic Consumer's Association expressed disappointment towards local businesses that the expected decrease in prices due to the abolition of VAT under the agreement, which should have been 7.8%, did not find its way to the consumer: instead, the reduction was only 4%, implying that business owners were pocketing the difference.¹⁴⁸

Iceland and China have continued to build upon the FTA and have signed several protocols to it. One on health certification of Icelandic lamb was signed in Beijing in 2018,¹⁴⁹ and three were signed in 2019 on health standards for aquacultural products, fish oil, fishmeal, wool and sheepskin.¹⁵⁰ China is a large importer of lamb,¹⁵¹ so the protocol on health certification was a breakthrough for Icelandic farmers in view of the health restrictions that China placed on all imported meat in 2013.¹⁵² However, only one Icelandic

producer qualifies for meat exports to China; its first export consignment was sent in 2020, two years after the signing of the protocol.¹⁵³

Mutual Foreign Investments: Missed Opportunities?

Economic relations between Iceland and China are limited when it comes to foreign direct investment, which was not negotiated as part of the FTA. The total volume of Icelandic investment in China amounted to USD 43 million and Chinese investments in Iceland came to USD 28 million by the end of 2019.¹⁵⁴ Therefore, Iceland is a larger contributor than China when it comes to foreign direct investments between the countries. According to the Icelandic Central Bank, no Chinese citizen owns a direct investment¹⁵⁵ in Iceland, though reference was made to Elkem, which is owned by China National Blue Star and operates a smelting company at Grundartangi in Iceland.¹⁵⁶ However, Egill Níelsson and Guðbjörg Ríkey Hauksdóttir claim that there is one currently active Chinese direct investment in Iceland, in Carbon Recycling International, an Icelandic limited liability company that specializes in sustainable methanol production from carbon dioxide.¹⁵⁷ The Chinese embassy in Iceland regards this investment, of USD 14.5 million, as a 'breakthrough in China's direct investment in Iceland'.¹⁵⁸ Additionally, there have been some instances where Chinese investors operate through subsidiaries based in other EEA countries, such as

Sweden, to invest in Iceland.¹⁵⁹ The reasons for limited investment from China in Iceland are twofold: Firstly, the Icelandic market is very small and labour costs and cost of production are high. Accordingly, Chinese investors believe that investing capital in the market is not worth it. Secondly, Iceland has strict restrictions on foreign investment by parties outside the EEA in, e.g., real estate or land purchases that keep the investment flow to the country limited.¹⁶⁰

In 2012, the Chinese investor Huang Nubo made an offer to buy a tract of land in northeast Iceland, called Grímsstaðir á Fjöllum, measuring 306.39 square kilometres, which is about 0.3% of Iceland's landmass.¹⁶¹ The property is not far from Finnafjörður, a location that is currently being considered as a potential shipping hub for the Arctic and a security area by the government (see discussion below). At Grímsstaðir, Huang Nubo intended to build a state-of-the-art hotel.¹⁶² He said this was a strategic investment and that the value of the property would increase significantly in the near future due to the melting of the Arctic and the opening of new shipping routes.¹⁶³ This led to much discussion in Iceland about the investor's possible motivations, and intensive debate developed in the Icelandic media about the opportunities and constraints involved in selling such a large part of the country to a Chinese investor. In the end, the Icelandic ministry of the interior rejected the bid on the basis that it did not comply with Icelandic law on land

ownership by foreign nationals.¹⁶⁴ According to a high-ranking official in the Icelandic government at the time, the Chinese embassy approached the Icelandic ministry for foreign affairs twice to inform Icelandic authorities that Huang was not a representative of the People's Republic of China and that whatever decision the Icelandic authorities took regarding his case would not affect the bilateral relationship between Iceland and China.¹⁶⁵ This indicates the importance China placed on bilateral relations between the states. To date, there has been no concrete confirmation that Huang's investment pursuits were related to the BRI.

Finally, former Icelandic politicians are affiliated with boards or companies that have relations with China. Ex-president Ólafur Ragnar Grímsson has served on the Advisory Board of Arctic Green Energy, which mainly operates in China through Sinopec Green Energy. Ólafur Ragnar Grímsson maintains that he does not receive payments for his contributions as a board member, but his part in promoting the company during his time as president must be noted. In 2012, Arctic Green Energy financially supported his presidential campaign.¹⁶⁶ A former Icelandic minister of education, science and culture worked for Orka Energy (now Arctic Green Energy), whilst he was on leave from the Althingi. In 2015, the minister designated Orka Energy (together with the NEA) as the executive body on matters relating to geothermal research and development on behalf of the

Icelandic state.¹⁶⁷ This was the first time an Icelandic private company held power equivalent to that of the Icelandic government in a foreign country.¹⁶⁸ Also, a former Icelandic minister for foreign affairs is currently serving as the president of Yutong Eurobus Scandinavia,¹⁶⁹ a Chinese bus manufacturing company which specializes in electric buses. Even though these officials have ceased official duties with the Icelandic government, they make use of the prestige gained from their time in office to actively promote Sino-Icelandic relations and pave the way for mutual investments. For example, the Icelandic bus company Straetó bs. has purchased 14 electric buses from Yutong Eurobus Scandinavia.¹⁷⁰

The Belt and Road Initiative: An Icelandic or an American Holdback?

High-ranking Icelandic and Chinese officials have been discussing common business opportunities in the Arctic since before the economic crisis, such as developing a shipping hub on the Northern Sea Route (NSR).¹⁷¹ This route now falls under the area covered by the controversial Belt and Road Initiative (BRI), a Chinese project focused on globally improving trade with China and stimulating economic growth, mainly through massive infrastructure investments.¹⁷²

In 2018, China formally invited Iceland to join the BRI.¹⁷³ This happened after the Icelandic government had taken a gradual

interest in the initiative since President Xi Jinping announced it five years earlier.¹⁷⁴ For instance, Iceland's status as a founding member of the Asian Infrastructure Investment Bank (AIIB), seen by some as the supporting institution of the BRI, has been regarded as a demonstration of Iceland's positive attitude towards the BRI.¹⁷⁵ The AIIB was founded in 2015 to promote sustainable investments in Asia, improve infrastructure and productivity and secure access to core infrastructure in Asia.¹⁷⁶ Iceland is one of the AIIB's 57 founding members, along with the other Nordic countries. Each member state appoints one governor to the AIIB's board of governors; currently, Iceland's appointee is the minister of finance and leader of the centre-right Independence Party.¹⁷⁷

Nevertheless, Iceland has not taken up China's offer to join the BRI. According to high-ranking Icelandic and Chinese government officials, Iceland's reasons for not yet joining the BRI are fourfold: it currently has no concrete infrastructure projects for which it would need; no Nordic country has yet officially joined the BRI, which might influence Iceland's decision; Iceland and China already have a good relationship and agreements when it comes to free trade, and Iceland therefore needs to evaluate what added benefits the BRI would provide before making a decision, and finally, Iceland is under pressure from the US not to participate in the BRI.¹⁷⁸ Formally, the Icelandic government has not yet made a decision regarding the invitation.

Two events that have received much attention in the Icelandic media are thought to be related to the BRI.¹⁷⁹ These are the case for the development of a container harbour in Finnafjörður and the a bid by the Chinese investor Huang Nubo to buy land in Grímsstaðir á Fjöllum; both sites are in the north-east of Iceland.

In 2007, the Icelandic ministry for foreign affairs granted funding to the Northern Research Forum in Akureyri to examine potential harbour sites in Iceland that would be suitable for a transit port between Asia and Europe.¹⁸⁰ The Icelandic government had discussed this possibility with other states, and by 2012, Icelandic officials had also discussed the idea of a shipping hub informally with officials in Alaska and the European Union.¹⁸¹ In 2013, discussions commenced between the municipal governments in the north-east of the country, the Icelandic engineering consultancy Efla and the German company Bremenports on building a deep-water harbour in Finnafjörður. The president of Iceland presented the project in Bremen as part of his official visit to Germany 2013.¹⁸² In 2019, the parties signed an agreement and negotiations are underway regarding the involvement of a foreign investment fund in the joint

venture.¹⁸³

In 2021, the Icelandic government drafted a proposal for the expansion of the security zone declared in Iceland's Defence Act, No. 34/2008. This provides that the government take full control over the greater part of Finnafjörður and declare the area as part of a nearby security zone where it already has a radar station.¹⁸⁴ The move was justified by the importance for Iceland to be able to react to future harbour developments in the area since it was close to existing state security infrastructure¹⁸⁵ and to honour international commitments, including as regards search and rescue operations, in addition to environmental and security concerns. There is no concrete evidence that the potential shipping harbour in Finnafjörður and the expansion of the security zone are connected with Sino-Icelandic relations. According to a member of the Althingi, the Icelandic national parliament, the push for developing a shipping hub comes from the local municipality eager to seek financing.¹⁸⁶ However, it is interesting to examine US interests in the area. The US Army has stated that the US will work towards 'regaining Arctic dominance,'¹⁸⁷ referring to Russia and China as 'the United States' great power rivals'.¹⁸⁸ Moreover, a

US admiral recently paid a visit to Iceland to explore the benefits of a small, permanent US presence in Iceland. In this connection, the US is evaluating potential investments in eastern Iceland.¹⁸⁹ A social movement, Iceland's Campaign Against Militarism, opposes the expansion of the security zone due to concerns that the government would develop a strategic military hub in the area.¹⁹⁰ During the Althingi's debate on the expansion of the security zone, a member of parliament expressed the view that the parties involved must have realized that there were no commercial incentives for developing a shipping hub in Finnafjörður and consequently that the government was attempting to seek financing from NATO, implying that the government plans to build a military base in the area. The minister for foreign affairs dismissed these allegations as pure fiction.¹⁹¹ The Icelandic Ministry for Foreign Affairs maintains that Iceland currently has no plans for developing security infrastructure in the area but that the state would have the authority to do so if necessary if most of Finnafjörður were declared a security zone.¹⁹²

A Reversal in Sino-Icelandic Relations

After the Trump administration entered the White House in 2017, Iceland policy towards China shifted from active shelter seeking to a cautious approach and, most recently, to some confrontations. During this time, the US government increased its pressure on Iceland and its other allies to be careful in their relations with China, not to participate in the BRI and to refrain from using Huawei telecommunications equipment.

In 2019, US Secretary of State, Mike Pompeo, said: ‘Beijing attempts to develop critical infrastructure using Chinese money, Chinese companies, and Chinese workers – in some cases, to establish a permanent Chinese security presence’.¹⁹³ A similar warning was raised in the Nordic Foreign and Security Policy Report in 2020, written by a former Icelandic minister of justice and officials at the Icelandic ministry for foreign affairs on behalf of the Nordic foreign ministers, stating: ‘Social engineering and economic espionage are Chinese trademarks having social, economic, and financial aims, mirrored in their efforts to gain access through strategic investments and research projects’.¹⁹⁴ The report argues that Chinese influence in the Nordic states makes itself apparent via soft-power interactions ‘through active economic, social, and scientific engagement in the region, including polar research’.¹⁹⁵ As such, the report encompasses US understanding of Nordic security and considers power rivalries



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between the US, Russia and China to be increasing. It argues that Chinese military involvement in the Arctic is marginal, but that China uses other means to gain influence in the region, methods which are considered to be alerting to some degree and should be explored by the Nordic states.¹⁹⁶ A report by the Icelandic foreign minister to the Althingi in 2021, claimed that China has increased its military capability and that NATO was evaluating the challenges Iceland and other member states may be facing in relation to the growing influence of China in the international system: ‘there is a consensus on the need to increase knowledge and understanding of China’s planning and assess the potential risks to defence and security of the alliance.’¹⁹⁷

Iceland’s caution about accepting the Chinese invitation to join the BRI has to be seen in the light of outright pressure by the US government not to develop closer economic and political ties with China. In autumn 2019, Vice-President Pence stated, falsely, that Iceland had declined to participate in the BRI and called on it not to use equipment from Huawei.¹⁹⁸ Also, in 2020, President Trump stated that: ‘It’s [Huawei is] a big security risk and I talked many countries out of using it. If they want to do business with us, they can’t use it.’¹⁹⁹ The Chinese government has, in return, urged countries not to discriminate against Chinese companies. A high-ranking Chinese official stated that if ‘at a certain point it has become very clear that Huawei or other Chinese companies are barred from

the local market of 5G or relevant communication equipment market, we [China] will definitely make our position clear to the Icelandic side because it is not in line with our current level of bilateral relations and it runs against the basic principles of free trade and market economy rules.²⁰⁰ Nonetheless, in spring 2020, the Icelandic minister of transport and local government presented a bill to the Althingi stating that mobile networks in telecommunication frameworks that were considered sensitive for national security, should be partially or wholly purchased from a state with which Iceland was engaged in security cooperation, or from the EEA.²⁰¹ That would mean that such equipment could be sourced only from countries in NATO or the EU/EEA.

Iceland did not criticize China over the situation in Xinjiang Province at its own initiative during its term as a member of the United Nations Human Rights Council (2018–2019) but it did sign a joint statement to the UN Commission on Human Rights, along with 22 other countries, expressing concerns over the arbitrary detention of Uighurs and other Muslim minorities in Xinjiang Province.²⁰² In 2020, it also

joined in a statement by the Human Rights Council condemning the actions of the Chinese government against democracy activists in Hong Kong.²⁰³ The same concerns and other concerns regarding human rights in China were also mentioned in the foreign minister's reports to the Althingi in 2020 and 2021.²⁰⁴ The 2021 report stated that concerns over the status of human rights in China cast a shadow on Iceland's current relations, and the outlook for their extension in future.²⁰⁵ According to a high-ranking Chinese government official, China responded by expressing its dissatisfaction with Iceland's remarks to Icelandic officials.²⁰⁶

These disagreements have not damaged Sino-Icelandic cooperation, as has been illustrated during the covid-19 pandemic, where interactions between the Icelandic embassy in Beijing and the Chinese embassy in Reykjavík developed into daily exchanges through informal channels such as WeChat.²⁰⁷ Several Icelandic companies ordered large quantities of medical goods from China with the help of the Icelandic and Chinese embassies,²⁰⁸ and six Chinese companies delivered gifts

to the Icelandic authorities with a total value of ISK 35 million.²⁰⁹

In April 2021, Iceland participated in sanctions imposed by the EU on four Chinese officials over the detention of Uighurs and other Muslim minorities in Xinjiang Province.²¹⁰ (Iceland normally aligns itself with the EU's foreign policy, as in the case of the sanctions against Russia over Ukraine). Iceland's alignment with EU policy is determined in political dialogue as provided for under the EEA Agreement, the framework for cooperation between the EU and the EFTA states.²¹¹ In response, China imposed counter-sanctions on nationals from the countries that participated in the EU sanctions, including one Icelandic national due to his writings about China in Icelandic newspapers.²¹² The Icelandic foreign minister subsequently made a formal complaint to China and expressed his outrage in the national media over China's attempt to restrict freedom of speech in Iceland.²¹³ The Chinese embassy warned that this move 'severely undermines China–Iceland relations'.²¹⁴

Conclusions

We find that Iceland's policy towards China has shifted in the period 1995–2021, moving through four phases: the building of closer relations from 1995 to 2007; a phase of active shelter-seeking from 2008 to the mid-2010s; a phase of gradual deviation from shelter-seeking after the mid-2010s, and, finally, following pressure from the US government from 2017 onwards, a period of stasis with, most recently, some confrontations between the two countries.

The first phase was marked by a gradual growth in bilateral relations. It began with the opening of the Icelandic embassy in Beijing and was followed by frequent mutual visits of dignitaries. It concluded with exchanges between the states on the possibility of concluding an FTA.

The second phase started in the immediate aftermath of the economic collapse in the autumn of 2008. The Icelandic government launched a dialogue with the government of China to seek shelter. China took a deliberate decision to provide Iceland with political shelter; this was manifested in its diplomatic support in the IMF and building of international trust towards Iceland with the signing of a currency swap agreement. Iceland and China provided each other with diplomatic support in their quest for power in international institutions (respectively, the UNSC and the Arctic Council). China also provided Iceland with economic shelter in

2013, when Iceland became the first European country and the first member state of NATO to make an FTA with China. Political, economic and societal connections between the countries had never been closer.

The third phase was marked by a gradual deviation from shelter-seeking after the mid-2010s. Economic cooperation between the countries did not take off as had been expected. The FTA was not as beneficial to Iceland as its policymakers initially hoped, and mutual investments remained marginal. Moreover, the Icelandic government was not willing to take the economic relations of the countries to the next level and prevented a Chinese investor from buying a large piece of land in the country. Nor was there much growth in societal collaboration, though the number of Chinese tourists in Iceland rose significantly. Research cooperation between the countries within the field of geothermal energy and Arctic research increased, though not as expected in terms of the exchange of researchers. Educational and cultural exchanges between the countries also remained limited, and the movement of residents between Iceland and China continued to be minimal. Also, the role of the Northern Lights Confucius Institute in Reykjavík was restricted in scope. The close encounters in international organizations in the late 2000s and early 2010s, were not followed up by significant political cooperation between the countries.

The fourth and current phase is marked by cautiousness on the part of the Icelandic government towards closer relations with China, a standstill in the countries' relations and, lately, some confrontations. At first a new Icelandic strategy briefly emerged: Iceland did not take a stand on the Chinese 2018 invitation to join the BRI. This could be labelled as a hiding strategy or a neutral stance in a power struggle between competing powers (China and the US).²¹⁵ Since then, however, Iceland's policy has taken closer account of that of its allies (principally, the US, the UK and the Nordic countries) towards China.²¹⁶ Consequently, Iceland's recent relations with China have been marred by some confrontations. This is a drastic U-turn from Iceland's shelter-seeking behaviour towards China in the aftermath of the economic collapse.

The Nordic countries and other EEA member states remain the main providers of economic and societal shelter to Iceland. Icelanders seem largely apathetic towards developing close societal relations with China: the cultural foundation for such cooperation is not in place and the extent of societal connections between Iceland and its neighbouring states (including the US and Canada) seems to be sufficient. Also, in the 2010s, Iceland's economy recovered remarkably quickly and a massive influx of tourists created an economic boom. Iceland

was no longer in desperate need of new economic shelter either from China or the EU (the EU accession negotiations were put on hold in 2013). In 2016, Iceland became a founding member of the AIIB, but gradual deviation from economic and political shelter-seeking was already under way. Geopolitical shifts would soon make policymakers in Washington and Reykjavík turn their attention towards each other.

In 2015, there were already indications that US government officials were considering restoring parts of the Naval Air Station in Keflavík.²¹⁷ In 2019, during the first visit to Iceland by a US secretary of state in nearly 11 years, Mike Pompeo said that Iceland would no longer be neglected²¹⁸ and that the US was intending to increase its military activity on its former base in Keflavík.²¹⁹ Furthermore, the US has been positive towards the possibility of an FTA with Iceland,²²⁰ seven years after Iceland signed one with China. In 2020, a US admiral visiting Iceland stated that the US was interested in investing in security infrastructure in eastern Iceland. The following year, the Icelandic government proposed to expand the designated security zone in northeast Iceland to encompass an area, in Finnafjörður, that had previously been identified

as a potential shipping hub for the Arctic. Moreover, the Icelandic government is considering whether to impose restrictions on the use of Chinese equipment by telecoms in Iceland. Most recently, in 2021, Iceland has decided to join in its allies' sanctions against China.

The renewed US interest in Iceland is mainly a function of increased Chinese activity in the Arctic,²²¹ a more offensive Russian security posture,²²² and concern in Washington over the Sino-Icelandic relationship, particularly in the field of economic ties.²²³ Iceland is giving in to pressure by its closest political ally, the US, and turning its attention from Beijing to Washington in the hope of wider-reaching shelter – including long-wished-for and renewed economic shelter. Iceland, which tactically used its rediscovered strategic location as an Arctic state to strengthen its bilateral ties with China, is now taking advantage of the increased competition between the US and China in the Arctic to seek wider-reaching political and economic shelter provided from the US.

Finally, what can small states and their larger Western allies learn from the case of Sino-Icelandic relations? Firstly, policymakers in small states may feel pressured to turn to China if their long-term

larger Western allies desert them in times of need. They may feel that there is no other alternative. Secondly, liberal democracies have to stick together and be willing to assist each other in times of economic and societal crisis – otherwise, others will step in and may break up their relations. Thirdly, history has shown that the weakness of small states in times of rising security threats can undermine the security of larger powers. Hence, the US has renewed its interest in Iceland.

This last point leads us to the question of how relations between the Lilliputian and Gulliver are likely to evolve in the next few years. Iceland's policy towards China is likely to be determined by US-Chinese relations and US policy towards Iceland – i.e., as long as Icelandic policymakers do not feel that they have no other option than to turn to China for economic and political shelter. Iceland and China have already set up the economic, societal and political institutional frameworks needed for the emerging global power to provide the Lilliputian with shelter. These only need to be activated by a return to a shelter-seeking policy by the Icelandic government. Large Western powers must be careful not to lose their smaller allies into the hands of their main rivals.

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