

CHINESE CHESS IN THE WILD WEST: HOW ICELANDERS VIEW THE GROWING ICELAND-CHINA RELATIONSHIP

INSTITUTE OF
INTERNATIONAL
AFFAIRS
—
THE CENTRE FOR
ARTIC POLICY
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OCCASIONAL PAPERS



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ABSTRACT

Recent years have seen an exponential growth in political, economic and scientific ties between Iceland and China. While there is a rising consensus amongst the Icelandic political and entrepreneurial elite that engagement with China can strengthen Iceland's strategic position, less is known about how the general Icelandic public views this engagement. This paper presents the results of a phased, mixed-methods research project designed to gauge the Icelandic public's opinion on the deepening Sino-Icelandic relationship. Results indicate that while the Icelandic public views political and scientific engagement with China either positively or neutrally, factors specific to both China and Iceland - including a pronounced lack of trust in the Icelandic political establishment and a suspicion of Chinese motives in Iceland and the Arctic - cause any economic engagement with China that is deeper than conventional beyond trade to be viewed with a mixture of caution and fear. These findings contribute to an on-going debate amongst Icelandic foreign affairs and economic practitioners as well as international relations scholars interested in the changing nature of Arctic relationships.

CONTENTS

| | |
|--|----|
| INTRODUCTION | 4 |
| METHODS | 8 |
| RESULTS | 10 |
| Scientific Engagement with China: | 11 |
| An Opportunity to Boost Iceland's Capacity | 11 |
| Political Engagement with China: | 13 |
| A Minefield of both Benefits and Risks | 13 |
| Economic Engagement with China: | 15 |
| Trade or FDI? It makes a Big Difference | 15 |
| Perception of Chinese Investment | 21 |
| Linked to Expectations of Future Job Market? | 21 |
| DISCUSSION AND CONCLUSION | 23 |
| ACKNOWLEDGEMENTS | 27 |
| TABLES | 28 |
| Table 1: Informants Interviewed | 28 |
| Table 2: Focus Groups | 29 |
| REFERENCES | 30 |
| ABOUT THE AUTHORS | 32 |

INTRODUCTION

Iceland, with a population of around 320,000 people, could by almost any measure be considered a small state. As a small state fundamentally constrained in terms of geopolitical, military, and economic power, the country has often had to balance the desire to build alliances with great states which enhance its position and influence but sacrifice autonomy (Tetreault 1991) with the desire to act unilaterally so to maintain independence and autonomy (Bräutigam and Woolcock 2001; Cela 2011; Vital 1967; Wivel 2005). While all states fundamentally seek to maintain independence and autonomy, small states risk isolation and vulnerability when doing so since being left without allies in times of crisis can lead to economic or political domination (Keohane 1969; Rickli 2008).

Iceland's own history illustrates this balance. Iceland was settled in the 800s and 900s by Norse emigrants harnessing new navigation technology and looking for freedom and independence from the rule of King Harald Fairhair (Derry 2000). However, in 1262 Icelandic chieftains voluntarily signed the *Gamli sáttmáli* and entered into a union with the Kingdom of Norway following a long spell of civil war known as the *Sturlungaöld* (Derry 2000). This agreement led to hundreds of years of domination by the Kingdoms of Norway and Denmark. By the modern age, concomitant with growing nationalism in Europe, the desire for autonomy emerged also in Iceland, culminating in the independence movement from the mid-1800s onwards and the founding of the Icelandic Republic in 1944 (Karlsson 1995). Books of this period – including the novel *Independent People* (Laxness 1946) where the protagonist Bjartur of Summerhouses is a metaphorical device for Iceland as a nation – describe the relentless and often stubborn Icelandic drive for self-determination at almost any cost. However, after Iceland became a republic it proceeded to often sacrifice independence for alliance-

building and protection, most notably by allowing the USA to maintain troops and a naval base at Keflavik from 1951 until 2006 (Ingimundarson 2007; Haftendorn 2011). While Iceland arguably gained a lot from this relationship, including employment opportunities, geopolitical leverage during the Cod Wars (Capece 2011), and military protection, it nevertheless once again placed Iceland under the sphere of influence of another great power. The question of to what extent Iceland should embrace one choice or another continues to this day, with the see-sawing on the question of European Union (EU) membership for Iceland being the most prominent recent example (Kaute 2010).

In recent years, political, economic, and scientific ties between Iceland and China have grown considerably. An Iceland-China free trade agreement (FTA), the first between any European Economic Area country and China, went into effect in July 2014 (China FTA Network 2014); the China-Nordic Arctic Research Centre (CNARC) was inaugurated in 2013 (Arctic Centre 2013); and the Icelandic company Eykon Energy has partnered with China National Offshore Oil Corporation (CNOOC) to pursue oil exploration opportunities in the Dreki area on the Jan Mayen Ridge (Telegraph 2013). Chinese and Icelandic delegations now regularly stage high profile visits to Iceland and China respectively, while speaking of bilateral goodwill (Lanteigne 2014; Sakhuja 2011). Official governmental support has flowed in both directions: Iceland supported China's 2013 application for observer status on the Arctic Council and its entry into Arctic governance more generally (Bailes and Heininen 2013; Hastings 2014), while China gave various kinds of support to Iceland during the depths of the 2008 economic crisis when Iceland's traditional allies were seen to have abandoned it (Einarsson and Bergmann 2014).

There is a growing consensus amongst the Icelandic elite that scientific, political, and economic engagement with China can strengthen Iceland's

strategic position in the Arctic and elsewhere (Hastings 2014; Sakhuja 2011). In the elite view, political engagement with China and welcoming it into Arctic governance expands Iceland's suite of allies as well as strengthening multilateral institutions such as the Arctic Council; scientific engagement enables leveraging of domestic scientific resources and increases knowledge about regional and global phenomena; economic engagement including trade and foreign direct investment (FDI) is positive as it has the potential to revitalize the Icelandic economy, while bringing new investments into Arctic infrastructure such as the much-discussed trans-shipment port (Hastings 2014). However, little is known about how the Icelandic public views these growing ties, and about the foundations for such views. Is there a fundamental split between elite and public opinion on the China issue, and to what extent do these opinions reflect small state tendencies towards independence-seeking and alliance-seeking?

This paper presents the results of a phased, mixed-methods research project designed to gauge and understand the Icelandic public's opinion on the deepening Sino-Icelandic relationship. The results have both theoretical as well as practical relevance. On the theoretical level, the results deepen the understanding of small state behavior by going beyond the typical, government-centric analysis found in international relations and small state studies. In these fields, states are often presented as monolithic blocks with unified interests (interests which are represented by government behavior), when in reality states are societies with diverse collections of conflicting interests, opinions, and belief systems. On a practical level, the results can help Iceland and other small Arctic and sub-Arctic nations by informing culturally sustainable strategies for engaging with China. In Iceland, several regional or country-wide efforts are ongoing that aim directly or indirectly to attract Asian investment, including "Invest in Iceland" (www.invest.is) and Arctic Services (www.arcticservices.is). Elsewhere, China and Chinese investors continue making inroads into the Arctic (Jakobson and Peng

2012a; Stephens 2012; Myers 2013; Lanteigne 2014). For example, the Chinese billionaire Huang Nubo has proposed investment schemes in the Arctic, most recently in Norway after the failed attempt in Iceland (Huijbens and Alessio 2013; Lindblad 2014; NY Times 2014).

METHODS

Methods to gather data for this project included semi-structured interviews, focus groups, and a national survey. A phased, mixed-method approach was used so to collect a mixture of in-depth, qualitative data from key informants and the general public as well as quantitative representative data from a sample of the entire Icelandic population. Qualitative data was analysed using SPSS while quantitative data was analysed using Dedoose qualitative analysis software.

From September-December 2014, 38 semi-structured interviews were held with a cross-section of key informants, including (but not limited to) representatives of the Althingi (Icelandic parliament), local mayors and municipal council members, trade and employer union representatives, foreign diplomats, business leaders, academics, and the media. Informants were selected using expert sampling; e.g., informants who represented a certain constituency in Iceland (and could be expected to be aware of their constituencies' opinion) were most likely to be selected. Needing a geographically-diverse spread of perspectives, interviews were held with informants in the south, north, and northwest of Iceland as well as in Reykjavik. Each interview proceeded on the basis of a standard interview guide (adjusted for informant positionality), but remained dynamic to accommodate new themes identified during the interview. Interviews lasted between 30 and 90 minutes. The full list of informants interviewed is in Table 1.

Five focus groups were held with members of the general public, including in Reykjavik, Ísafjörður, Akureyri, and Kirkjubæjarklaustur (Table 2). Those involved in the focus groups were recruited through a combination of e-mail solicitations, printed advertisements, and personal networks. Each focus

group was moderated by a member of the research team and had between 5-8 participants, with a total discussion time of approximately one hour. Like with the interviews, focus groups proceeded based on a standard guide. However, more flexibility was given to moderators to allow the group conversation to flow naturally. Group discussions in Reykjavik and Ísafjörður were held in English, while those in other regions were held in Icelandic.

A national survey was conducted so to collect quantitative data from a representative sample of the entire Icelandic population. The survey was designed/pre-tested by the research team and contained eight questions in total, focused on quantifying Icelandic support for different types of engagement with China. All questions were written in Icelandic. The Social Science Research Institute at the University of Iceland ran the survey implementation using an online tool. From a stratified random sample of 1500 there was a 63% response rate (948 respondents). Data were weighted by background variables of gender, residence, age, and education so that each group in the sample was proportionate to its appearance in the entire Icelandic population.

The qualitative data were analysed with collaborative qualitative analysis software called Dedoose (www.dedoose.com). Interviews and focus groups were transcribed and coded using a grounded theory method (Glaser and Strauss 1967) where dominant themes were allowed to emerge from the data. Quantitative data was analysed using statistical software SPSS.

RESULTS

Iceland has long had ties with Asian countries besides China. Japan and Iceland have a long diplomatic friendship (relations formally established in 1956) and a common interest in whaling and fishing; discussions of a free trade agreement between Iceland and Japan are underway (Kyodo 2014). India has served as a strong scientific partner to Iceland in climate change research under the “Third Pole Environment” scientific initiative (www.tpe.ac.cn). Singapore – while a relative newcomer to the Arctic – is building a stronger relationship with Iceland, exemplified by a large Singaporean delegation at the Iceland-organized Arctic Circle Conferences in fall of 2013 and 2014 and bilateral Ministry of Foreign Affairs meetings.

However, the relationship between Iceland and China remains the most visible and newsworthy Asian relationship in the eyes of the Icelandic public. There are several reasons for this. First, Chinese investor Huang Nubo and his failed investment plan for Grímsstaðir á Fjöllum (2011 - 2014) was a long-running, highly visible story in the Icelandic media, bringing discussion of Chinese ambitions in the Arctic and Iceland out of governmental ministries and into the public square. Some in Iceland argued that Nubo was not a representative of the Chinese government and instead acting as a private individual (Sakhuja 2011). However, he was largely seen as a governmental representative because of his past ties to the Chinese Communist Party (CCP), the suspicion that the land was to be used for hidden reasons including for a Chinese military base (Jakobson and Peng 2012b), and the fact that his tourism ambitions seemed dubious at best (Huijbens and Alessio 2013). Second, discussions around the Iceland-China FTA brought the issues of bilateral trade of goods and services into view. Experiences with the earlier use of Chinese labor for the building of Harpa and the Kárahnjúkar dam meant that trade and employer unions in Iceland

were keen to publicize and be involved in the FTA negotiations. Third, President Ólafur Ragnar Grímsson has maintained a public focus on China as a geopolitical and economic partner for Iceland for years (Bailes and Heininen 2013; Hastings 2014). Finally, China dwarfs other Asian countries in size and influence and thus it is natural that a relationship with an economic behemoth would get the greatest deal of attention.

“Asia is quite a big place and encompassing a lot of areas. I would say that the only Asian country that people worry about it or as it relates to politics in Iceland is China.” –
Media representative, Reykjavik

“There has never been a focus on other Asian countries besides China [in Iceland]. Other countries we know just because of their... foreign food.” – *Focus Group, Reykjavik*

How the Icelandic public views this engagement with China depends upon whether the engagement is seen as scientific, political, or economic. The public response to each type of engagement is detailed in what follows.

*Scientific Engagement with China:
An Opportunity to Boost Iceland's Capacity*

Iceland, as is the case with other small states, is limited in its ability to fund a comprehensive globally-recognized scientific research programme. Iceland has had a strong focus on Arctic research for decades. For example, it oversaw work on the Arctic Human Development Report during its chairmanship of the Arctic Council from 2002 until 2004, and hosts many home-grown Arctic research centres including the Center for Arctic Policy Studies and the Stefansson Arctic Institute (Hastings 2014). However, it has

also long amplified its scientific efforts by cooperating scientifically with other Arctic and particularly Nordic states through regional initiatives such as the University of the Arctic (www.uartic.org) and Nordforsk (www.nordforsk.org).

Growing cooperation with China on scientific research is seen by the public as a continuation of this amplification tradition. Seen as a way to enhance Arctic science, share scientific and technical knowledge, build human capacity, and make up for perceived gaps in domestic scientific funding, engagement with China on scientific matters is accepted and even encouraged. In the national survey, 54% of respondents were supportive of scientific engagement with China, while only 15% were opposed. Just under a third (31%) were neutral (neither supportive nor opposed).

“I think it is necessary for Iceland to have as much collaboration in this regard as possible. It is very valuable, not in the least because of what I have been describing of the youngness of the country and its government. We need to get a lot of interaction to kind of develop the nation and also its policymaking and knowledge.” – *Municipal government employee, Ísafjörður*

“Mainly positive. Like when they came here, Chinese research ship came here last summer. That went over pretty well ... They just came and showed up. I think with scientific research we are pretty much okay. I think the scientific community is probably pretty open to other resources because we don't invest enough, I guess.” – *Focus Group, Reykjavik*

In interviews, objections to scientific cooperation with China in Iceland mainly arise not due to objections to scientific cooperation *per se*, but rather because science is seen as a Trojan horse for other more nefarious motives (such as land grabs by the Chinese government).

*Political Engagement with China:
A Minefield of both Benefits and Risks*

The Icelandic foreign policy establishment is focused on developing a deeper political and diplomatic relationship with China. Bilateral meetings, high-profile visits, increased diplomatic staffing, support in Arctic governance forums, and presidential speeches make it clear to the outside world and the Icelandic public that the Icelandic elite prioritizes this relationship. Behind the scenes, increased cooperation on diplomatic and economic issues indicates that the cooperation is not just pretty words.

The Icelandic public views this political engagement as possessing both benefits and risks. Iceland has a long history of pragmatic rather than dogmatic alliance building - to develop a *range* of conventional and unconventional alliances to ensure alternatives, gain leverage with traditional allies, and capture the best possible deal for Iceland in global affairs. For example, despite being firmly rooted philosophically in the 'western world' and a member of NATO, Iceland traded with the Soviet Union during the Cold War, and did not hesitate to approach Russia and China for economic assistance during the economic crisis. The public sees the emerging relationship with China similarly, as a way to ensure options for Iceland and create leverage in traditional relationships such as those with the United States and the European Union. Likewise, talk in Iceland of Arctic changes being a global issue (Hastings 2014) is seen as a discourse-based strategy to open up the 'Arctic space' to other players from outside the region who will then support Iceland in political and economic ventures.

“Iceland is using China as an alternative, just to point out okay, we have alternatives. It’s not just the US, the EU, we have the world. So it’s mostly like that, I believe.” – *Foreign diplomat, Reykjavik*

However, political engagement with China is seen by the public as risky for Iceland’s reputation and culture. Many respondents questioned the possible reputational fall-out from being associated with an economically aggressive, expansionist power. Further, as Iceland is steeped in western values including freedom of speech/assembly and labor rights, many Icelanders felt alarmed by China’s environmental and human rights record. Particularly, trade unions in Iceland felt that the Chinese treatment of labor during the building of Kárahnjúkar dam revealed a management culture that treats labor disposably; the unions want to avoid this culture being imported into Iceland.

“... and I know it was discussed in the background of the Chinese Icelandic agreement. Because Iceland is nevertheless of the Council of Europe and the OECD. It does belong to the western hemisphere of those countries who are straightforward on human rights and rule of law. So there were some lingering doubts in Althingi here, what about human rights and workers’ rights in China? Can we really enter into an agreement with a country like that, you know?” – *Trade Union representative, Reykjavik*

In the national survey, support for political engagement with China was neither very high nor very low – approximately one third of respondents were supportive (32%), opposed (34%), or neutral (34%).

*Economic Engagement with China:
Trade or FDI? It makes a Big Difference*

The public's opinion on economic engagement with China depends heavily on whether the engagement is simple trade or involves Chinese FDI into Iceland and the Arctic. Many respondents, particularly those involved in business ventures or international trade, spoke positively of how trade with China could lead to a growing market for Icelandic goods and services. Iceland has clear competitive advantages in fishing, fish processing, and geothermal expertise; respondents believed Iceland would gain from selling these goods, services and know-how to China under the Iceland-China FTA. In the other direction, Icelanders see opportunities for household savings by taking advantage of cheap Chinese consumer goods such as clothing. In the national survey, 45% of respondents were supportive of developing trade with China, while 25% were opposed. Less than a third (30%) were neutral.

“I think the benefit is mostly, you know, due to trade. The possibility of buying products from there and the possibility of selling unique Icelandic products to this larger market. I think that would be one of the highest benefits, more than trade of services...because of geographical situation of the countries.” – *Businesswoman, Ísafjörður*

“If you look at Icelanders, you ask what are the benefits? And the answer... for Icelanders generally speaking, if a man on the street is asked what is the main difference between now and before, they would say well, we are now buying things from China in the mail. And usually if you buy a good piece of clothing – a shirt or a trousers or something – you would

get this for one-third the price if you bought it in this country.” – *Businessman, Reykjavik*

On the contrary, economic engagement with China beyond trade is viewed by Icelanders with a mixture of caution and fear. Icelanders are particularly opposed to and fearful of Chinese direct investments into Iceland’s land, fisheries, and energy sectors. In some respects, this opposition is related to a general reluctance of Icelanders to have *foreigners* controlling these sectors; however, sensitivity to *Chinese* FDI is particularly pronounced. Only 17% of Icelanders were supportive of Chinese FDI, while 63% were opposed. Reasons for this sentiment include:

1. *Low knowledge of Chinese culture.* China is a relative newcomer to the Arctic region and as such most Icelanders know little about Chinese history, culture, and government. There is not a history of public interaction with and travel to China, meaning that most perceptions of China and its intentions are built through media exposure. Icelandic media representation of Chinese interest in Iceland has been far from favourable. Ignorance goes both ways – China knows little about Icelandic culture and laws, as exemplified by the numerous cultural gaffes and missteps during the Nubo ordeal.
2. *Suspicion of the Chinese Government and Chinese motives.* There is a large amount of suspicion and distrust of the Chinese government in Iceland, for reasons including China’s human rights record, its communist government, and its tendency to be economically aggressive in its relationships. Icelanders view Chinese motives towards Iceland as opaque and inadequately explained. Examples including the size of the Chinese embassy in Iceland, the mysterious 2014 disappearance of the Chinese ambassador, and the economic behaviour of China in African countries were repeatedly brought up

in interviews and focus groups as confirming China's hidden (and possibly nefarious) motives.

“Their strategy is always the same. They offer a great deal, cheap loans, construction of infrastructure, which incidentally always serves their needs. When railway tracks are laid down it is always from where the resources are and down to the harbour so they can export them – this is all part of a greater resource war that is being waged in the world today. And we have to look at Chinese interest in Iceland from that standpoint.” – *Member of Parliament, South of Iceland*

3. *Differences in size and economic power, threats to Icelandic ownership of natural resources.* Icelanders see the huge difference in size, population, and economic power between China and Iceland as necessitating caution in developing economic relationships and accepting Chinese FDI. Iceland's 320,000 inhabitants correspond to just 0.02% of China's 1.36 billion population. Chinese FDI in Iceland is seen as a threat to national sovereignty and Icelandic ownership of natural resources, leading to a slippery slope where all of Iceland is controlled by China.

“That is reasons why many people are not too interested to get too close to China, because they would eat us. Not in a military way or whatever, but it is a huge population and you just give them a little bit and they would overtake you very easily.” – *Academic, Reykjavik*

4. *Lack of trust in the Icelandic political establishment.* Icelanders do not trust their own political elites to act in the best interests of Iceland. This lack of trust in political leaders makes the public more hesitant

in supporting Iceland-China projects as they fear they will be ‘duped’ by both the Chinese and their own leaders. In the national survey, only 30% of respondents said they trust Icelandic political leaders to act in the best interests of Iceland when developing partnerships with China, while 51% disagreed. Just under a fifth (19%) of respondents were neutral.

The reasons for this mistrust lie first and most importantly in the financial crisis of 2008 in Iceland. The crisis revealed huge levels of mismanagement, hubris, and corruption within Icelandic politics and business. Despite the crisis being seven years ago at the time of this research, with an economic recovery underway, this event remains in the national memory and as such trust has not returned to previous levels. Second, Icelanders see the Iceland-China relationship as driven by elites – particularly President Ólafur Ragnar Grímsson, who was also a major figure in the pre-crisis years – and are uncertain and sceptical as to where leaders are going with it.

“So, this kind of government we have now, they are willing to do anything for money. So they are just kind of tolerating touristic industry, because it is something that works in the moment. But if you offer them some heavy industry, they will put it in every small village. And because Asia is huge, and they need space and they need water or whatever...or as I think, they need image. The government here will be willing to sell every street if they get paid for it.” - *Focus Group, Ísafjörður*

“The crash we had made a lot of effects on our thoughts of ourselves. Before the crisis we really thought that we were doing everything right, and then suddenly came this crisis

and we found out that the whole governmental system and the whole framework and the government was not working properly. And now we have a little fear of our own system”
– *Academic, Ísafjörður*

5. *Lack of trust in Icelandic legislative framework.* Respondents in the research were asked whether or not they believed the Icelandic legislative framework was well-developed enough to protect Icelandic interests when dealing with FDI from China.

First, interview respondents in high-level positions in the private sector and government generally agreed that current legislation was well-developed enough to protect Icelandic interests. However, those in the private sector often mentioned how rules on FDI needed to be clarified and changed so that all investors would be treated the same (i.e., no discrimination based on country of origin), while those in government mentioned the need for more coordination between the municipal and national levels in terms of attracting FDI and developing a coordinated national FDI strategy.

“So it’s kind of the Wild West, you know. Everyone has to take care of himself in this, in what I would say in the economic development industry in Iceland. There’s no regional kind of strategy coming from the government saying this area can focus on bringing in high-end fish byproducts to the Asian market, so then we’ll take a delegation with people to visit that area. I can really say that in the time I’ve been with the agency, no delegation like that has ever come to this region to look at the opportunities.” – *Manager, Economic Development, Ísafjörður*

In contrast, those respondents in focus groups (arguably those respondents more representative of the public) indicated that while Icelandic legislation is present, it is fragile and vulnerable to special deals based on political connections. There was little trust that the legislative framework would be sufficient to protect Icelandic interests against special deals for the politically connected. This arguably connects back to the lack of trust in the political establishment mentioned in point 4 above.

“I think we do not have a strong enough framework nor a clear enough vision about the information we need in order to make a strong enough frame, and what I fear that most is that in future our [economic] desperation is so great that we will not create such a framework” – *Academic, Akureyri*

6. *Differences in levels of strategic thinking/planning between Iceland and China.* Icelanders view China as outmatching it in terms of its ability to think strategically and in a long-term perspective. China is seen as having a culture of long-term strategic thinking; conversely, Iceland is seen as having a culture of short-term, opportunistic thinking. This mismatch means that China is better positioned when setting terms for joint projects.

“I don’t think we have thought anything through enough in order to see what the plan was. China... I always feel like China is playing a chess game and they are thinking all the way to the end. This is Iceland, we have this idea of “it will

all work out in the end”. We think day by day.” – *Focus group, Reykjavik*

“We do everything tomorrow we thought of today. In China they are building cities before the first person moves there ... What is the plan?” – *Focus Group, Akureyri*

Perception of Chinese Investment
Linked to Expectations of Future Job Market?

While in the national survey the majority of all respondents across all categories strongly opposed Chinese FDI into Iceland, females are more likely to oppose it versus males (76% female opposition versus 52% male opposition), while older respondents are more likely to oppose Chinese FDI than those younger (60% opposition for those 18-29 versus 81% opposition to those older than 60). Those seeking work were slightly less likely to oppose Chinese investment versus those employed (53% opposition by unemployed versus 58% opposition by those employed). All three differences in variables are statistically significant at the 99% confidence level.

One interpretation of these results may be that those with a larger stake in the future job market and more likely to directly benefit economically from Chinese FDI may be less opposed to it. For example, since the national conversation in Iceland around Arctic ambitions has focused on financing for large infrastructure projects that typically employ younger male workers, younger male workers searching for work may be less opposed to FDI that would finance this infrastructure and bring jobs.

When asked which groups would support Chinese FDI into Iceland, respondents repeatedly mentioned that the presence of economic stress would make an individual (or a region) more receptive to Chinese FDI. For example, informants suggested that the more rural regions of Iceland - those suffering from depopulation and lack of job opportunities – are more likely to support Chinese FDI as against the Reykjavik region. In the national survey, those in rural regions were slightly less likely to oppose Chinese FDI than those in Reykjavik (59% opposition versus 66% opposition), with the difference statistically significant at 95% confidence level.

“Of course, those people that I describe, highly educated, working with the government, live mostly in Reykjavik. And, so I would assume that people living in the rural would like it more, because there is a lack of jobs in the rural ... so people living outside of Reykjavík are always more willing to develop new job oppor-tunities...” – *Businessman, Westfords*

DISCUSSION AND CONCLUSION

Is there is fundamental split between how political and entrepreneurial elites and the Icelandic public view engagement with China? Results indicate that while scientific engagement and trade-based economic engagement with China are viewed positively by the Icelandic public, in harmony with the elite view, political engagement and economic engagement going beyond trade are viewed very differently by the public versus elites. In particular, the public is strongly opposed to any engagement with China that threatens Iceland's ownership of sensitive sectors and by extension, its sovereignty.

As discussed in this paper, scientific engagement with China is seen by both groups as a way to leverage and enhance domestic science funding and build global scientific networks that are beneficial to Icelandic scientific institutions. Science has always been a joint enterprise, and Icelanders recognize that collaboration and scientific alliances with China will amplify Iceland's efforts. Trade is seen as a way to play to Iceland's competitive advantages and expand access to an expanding market. These opinions clearly epitomize the small-state tendency to seek to grow power and influence through bilateral and multilateral alliances (Vital 1967; Wivel 2005).

On the question of political engagement and economic engagement beyond trade, elite and public opinion are split. Both elites and the general public see political alliance-building with China as a way to gain leverage with traditional friends and provide a source of political and economic support for Iceland in times of crisis. However, the public seems to have a much greater concern than elites about risks to Iceland's reputation, culture, and sovereignty. Chinese FDI into Iceland is especially feared. While Icelandic

elites see Chinese FDI as leading to investment, jobs, and enabling of Arctic opportunities (Hastings 2014), the public sees this same FDI as posing an existential risk to Iceland's nationhood. In this context, the desiderata of Iceland's being independent and standing on its own two feet are valued over economic alliances that may bring benefits, but also high perceived risks.

The reasons for this public view can be summed up in one word – *trust*. While the Icelandic elite (perhaps due to their increased knowledge and international perspective) have a certain trust in Chinese and Icelandic institutions, a high proportion of average Icelanders do not. They do not trust their own knowledge about the Chinese, they do not trust the Chinese government, they do not trust Iceland's political leaders, they do not trust Iceland's legislation, and they do not trust Iceland's capability to plan for the future. Because trust in these people and institutions is lacking, Icelanders perceive certain types of engagement with China as too risky.

Will public sentiment effect future Iceland-China engagement? As the world's oldest parliamentary democracy, and as a country with a history of vocal public engagement (for a recent example, around 8,000 Icelanders protested against the abandonment of EU accession talks in March 2015), Iceland's elites may risk much by not being attuned to public sentiment. If things proceed as they are now with no change to the political or institutional landscape, there is the risk that what happened with the Huang Nubo investment - namely, a long, drawn-out affair leading to ultimate rejection amid international embarrassment and discord over the process – may be repeated over and over again. A different future is however possible if there is a movement towards building the public's *trust*. Trust could be built in the following ways:

1. *Begin a national dialogue about Iceland's growing relationship with China.* If Iceland's political and economic leaders wish to continue developing a political and economic relationship with China, it is important to begin a national dialogue so to understand and take into account the public's views on this relationship. This dialogue could take the form of debates in the media, moderated discussion groups in local communities, opinion pieces in national newspapers, and the use of other fora (such as social media) that allow a back-and-forth process with the public. This dialogue should be proactive rather than reactive, focused on developing a forward thinking Iceland-China policy as opposed to a reactive one, driven by specific opportunities and projects.

2. *Urge increased transparency from Chinese representatives in Iceland.* Likewise, if China wants to gain the support of Icelanders, it should publicly discuss its motives, goals, and plans for Iceland. This information needs to be available in English and online. Suspicious developments such as missing ambassadors and huge embassies do not help China's reputation in the public sphere.

3. *Promote a greater Icelandic understanding of Chinese culture.* Much of the public wariness towards China stems from a low level of knowledge about its government, culture, and people. Icelandic organizations and institutes that focus on Iceland-China dialogue and awareness, such as the Confucius Institute at the University of Iceland, should be supported through increased government funding and high-level governmental attention.

4. *Clarify and standardize laws on FDI.* The Huang Nubo case showed that Iceland's legislative framework is unprepared for large-scale FDI from

China or other areas outside the EEA. While legislation governing FDI exists on paper, the laws appear to be fragile, discriminatory, and confusing. The effort begun in 2013 by the Ministry of Interior to streamline rules on FDI should be continued and enhanced. Once new draft rules are proposed, there should be an open discussion period allowing stakeholders from different sectors to comment and have their concerns addressed. Any rules on FDI should protect Icelandic ownership of sensitive sectors.

5. *Develop a coordinated national strategy for FDI.* The Huang Nubo case illustrated that municipalities and the national government are not collaborating enough in regards to FDI. Municipal and national leaders, along with quasi-governmental organizations such as Invest in Iceland, should jointly develop a national FDI strategy that lays out sectoral and geographic priorities and incorporates long-term planning.

Both the discussion around the EU question in Iceland and the split between the elite and public opinion on certain types of Iceland-China engagement illustrate the fact that the two tendencies of small states – alliance-seeking or independence seeking – do not just fluctuate over time, but can be promoted simultaneously by different stakeholder groups within a small state. Understanding the diversity of opinions *within* states can provide an improved lens for understanding small state behavior and the motivations behind public policy decisions. The authors hope that these findings may start a conversation amongst Icelandic foreign affairs and economic practitioners, as well as amongst international relations scholars interested in the changing nature of Arctic relationships.

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TABLES

Table 1: Informants Interviewed

| # | SECTOR | LOCATION |
|----|-------------------------------|------------|
| 1 | Althingi | Reykjavik |
| 2 | National Government | Reykjavik |
| 3 | National Government | Reykjavik |
| 4 | Municipal or Local Government | Reykjavik |
| 5 | Quasi-Governmental | Reykjavik |
| 6 | Quasi-Governmental | Reykjavik |
| 7 | Quasi-Governmental | Reykjavik |
| 8 | Business | Reykjavik |
| 9 | Business | Reykjavik |
| 10 | Business | Reykjavik |
| 11 | Business | Reykjavik |
| 12 | Foreign Diplomat | Reykjavik |
| 13 | Foreign Diplomat | Reykjavik |
| 14 | Foreign Diplomat | Reykjavik |
| 15 | Foreign Diplomat | Reykjavik |
| 16 | Academia | Reykjavik |
| 17 | Academia | Reykjavik |
| 18 | Academia | Reykjavik |
| 19 | Academia | Akureyri |
| 20 | Media | Reykjavik |
| 21 | Media | Reykjavik |
| 22 | Municipal or Local Government | Ísafjörður |
| 23 | Municipal or Local Government | Ísafjörður |
| 24 | Municipal or Local Government | Ísafjörður |
| 25 | Municipal or Local Government | Ísafjörður |
| 26 | Municipal or Local Government | Ísafjörður |

| | | |
|----|-------------------------------|-------------------------|
| 27 | Quasi-Governmental | Ísafjörður |
| 28 | Business | Ísafjörður |
| 29 | Business | Ísafjörður |
| 30 | Business | Akureyri |
| 31 | Althingi | Keykjavik and surrounds |
| 32 | Althingi | Keykjavik and surrounds |
| 33 | Municipal or Local Government | Keflavik and surrounds |
| 34 | Municipal or Local Government | Keflavik and surrounds |
| 35 | Municipal or Local Government | Vik I Myrdal |
| 36 | Municipal or Local Government | Kirkjubaerjarklaustur |
| 37 | Municipal or Local Government | Kirkjubaerjarklaustur |
| 38 | Municipal or Local Government | Akureyri |

Table 2: Focus Groups

| # | LOCATION | NUMBER OF PARTICIPANTS |
|---|-----------------------|------------------------|
| 1 | Reykjavik | 7 |
| 2 | Reykjavik | 8 |
| 3 | Ísafjörður | 8 |
| 4 | Kirkjubaerjarklaustur | 5 |
| 5 | Akureyri | 7 |

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