

# China's Political Priorities in the Nordic Countries: from technology to core interests

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## Summary

Chinese policymakers have identified a number of priorities that motivate them to observe and interact with the Nordic countries. While one can assume that the Nordic countries appear far from frequently on China's foreign policy agenda, they have unique competences and are open to increased engagement with China. Moreover, they are perceived as being easy to deal with and have become important partners in Beijing's effort to forge closer ties with governments across the globe.

This Policy Brief is based on the author's report, *China's political priorities in the Nordic countries*, published by FOI in 2014. The report focuses on China's political priorities in the five Nordic countries during 2007-2013. It is based on an analysis of official statements, academic papers and reports from think-tanks, as well as interviews conducted with Chinese diplomats and Nordic officials and scholars in the Nordic capitals during the autumn of 2013.

The author draws the conclusion that China's overarching Nordic-wide priorities include four main areas: to utilise the Nordic region as a sounding board and door opener; to acquire technology and know-how; to promote China's *core interests*; and to improve perceptions of China.

## 1. Chinese perceptions and priorities

In Chinese foreign policy statements on the Nordic countries, one aspect that is seldom left out is their early recognition of the People's Republic of China (PRC) after its establishment on October 1, 1949. From the Chinese perspective, this is a detail that holds important symbolic value, reflecting historic ties between Nordic nations and China. Sweden was in fact the first Western country to establish formal diplomatic relations with the PRC, on May 9, 1950, followed by Denmark, Finland and Norway.<sup>1</sup> Iceland recognized the Beijing government and established formal diplomatic relations in December 1971, after

the PRC had replaced the Republic of China (Taiwan) in the United Nations earlier the same year.

Today, Chinese diplomats describe China's bilateral relations with the Nordic countries as being "comparatively smooth", using China's relationships with the United States and the United Kingdom as points of reference.<sup>2</sup> Bilateral relations are said to have been stable or improving in recent years "in spite of some twists and turns". This holds true in terms of economic ties, which are characterised by a steady growth in trade and, to some extent, increasing investment.<sup>3</sup> That said, the overall level of Chinese investment in the region is modest and economic engagement remains limited to a small number of acquisitions.

The focus of China's foreign policy is on neighbouring countries and global powers. Hence, it is likely that the Nordic countries are of low importance, at least in the context of bilateral relations, i.e. outside of their roles as EU and NATO member states. Nevertheless, China's foreign policy is also to a large extent a tool for coping with domestic challenges and for safeguarding national interests, with the overarching ambition of securing the current political system under the leadership of the Communist Party.

In this context, Chinese officials regard the Nordic region as a potential door opener for activities in the rest of Europe; as a supplier of technology and know-how to support the sustainability of China's economic growth; and – last but not least – an arena for the promotion of Chinese *core interests*. Meanwhile, positive perceptions of China are seen as a prerequisite for success in all these areas in the long run.

<sup>1</sup> The first Western countries to recognize the PRC, on January 6, 1950, were the United Kingdom and Norway. Shortly thereafter, Denmark and Finland recognized the PRC, followed by Sweden on January 14. The new government in Beijing had, however, decided to "recognize" the Swedish recognition before the others, making Sweden the PRC's first non-communist diplomatic partner in Europe. See Bexell, Magdalena (2000) "Det svenska erkännandet av Folkrepubliken Kina 1950 – 'en lagom blandning av idealitet och verklighetssinne'" in *Diplomatiska Erkännanden: Sverige, Danmark och Folkrepubliken Kina år 1950*. Lund: Lund University Press, pp.24-25.

<sup>2</sup> He quotes in this Policy Brief are taken from statements made by Chinese diplomats in interviews conducted in the Nordic Capitals in late 2013.

<sup>3</sup> According to China's ambassador to Denmark Liu Biwei, Chinese investment flows to the Nordic region amounted to 300 million USD in 2014, resulting in 7.6 billion USD in accumulated investment. Liu stated that China's investment in the Nordic countries accounted for nearly 15 percent of its total investment in Europe. See PRC Ministry of Foreign Affairs, "Speech at EY Nordic China Summit 2015 by Ambassador Liu Biwei", May 8, 2015; According to the U.S. research firm Rhodium Group, total Chinese investment flows to Europe amounted to 18 billion USD in 2014. The figures given here suggest that investment by Chinese companies in the Nordic region accounted for less than 2 percent of total Chinese investment in Europe in 2014. See Jones, Claire "Chinese investment in Europe hits \$23bn record", *the Financial Times*, March 10, 2016.

Moreover, the Nordic countries are seen as being easy to deal with; they are politically stable, pro-free trade and, importantly, described as less suspicious towards China than many other “Western” countries. These perceptions also serve as an important basis for Chinese involvement in the region, regardless of the priorities concerned. In summary, from the Chinese perspective, the Nordic region has a role to play.

### 2. The Nordic countries as sounding boards and door openers

Sweden’s Prime Minister Stefan Löfven made his first official visit to China in March 2015. In Beijing, he met with Premier Li Keqiang, who among other things urged his Swedish guest to relax restrictions on high-technology exports to China “so as to achieve mutual benefits and win-win results”.<sup>4</sup> There was a deeper meaning to this; either Premier Li was referring to the export of products with potential military applications (dual-use goods) or to the European Union’s arms embargo on China. The embargo was adopted in 1989 in reaction to the violent suppression of peaceful protests on Tiananmen Square.

Li’s appeal was in itself nothing new; China spoke out against the embargo already in the 1990s. In its two policy papers on the EU in 2003 and 2014, China also called for an abolishment of EU sanctions – referring to them as “restrictions on high-tech exports.”<sup>5</sup> Nevertheless, the idea that Sweden would be able and willing to promote a lifting of the arms embargo could seem somewhat far-fetched. One of Sweden’s most important foreign policy objectives is to promote the respect for human rights, i.e. the very basis for the adoption of the embargo.<sup>6</sup> As such, Sweden is among the EU member states that are least likely to lobby Brussels for a lifting.<sup>7</sup>

Why, then, did China approach Sweden to reiterate its opposition against the embargo? Previously, such statements had been made in high-level meetings with counterparts from Germany, France and the United Kingdom. In fact, Premier Li’s proposal to the Swedish Prime Minister reflects one of China’s political priorities vis-à-vis the Nordic countries; namely the possibility to utilize them as sounding boards and door openers for politically motivated activities elsewhere, not least in the European Union. In the words of a Chinese diplomat, bilateral agreements with the Nordic countries “can have a positive effect on the EU as a whole.”

As the five Nordic countries are regarded as being easy to manage and predictable in terms of how they pursue their political goals, they offer China an environment to conduct “smaller-scale, isolated experiments”, similar to the local experimentation that the Chinese government has engaged in domestically since the foundation of the PRC.

The example above could serve as a case in point. Other examples include the strategic partnership with Denmark in 2008, the currency swap and free-trade agreements (FTA) with Iceland in 2010 and 2013, respectively, and the FTA negotiations with Norway, which China abandoned shortly after the announcement of the 2010 Nobel Peace Prize (see further below). Iceland and Norway, not being EU member states, are easy for China to deal with for the simple reason that Beijing will never have to involve Brussels in bilateral matters.

Commenting on the FTA with Iceland, a Chinese diplomat asserted that the country could serve as a potential “role model” for China’s interactions with small countries. An FTA with Sweden, Denmark or Finland is inconceivable due to their membership in the EU – but what is substantially higher up China’s agenda is an FTA with the EU. The China-Iceland FTA should be viewed against this backdrop. China’s previous Premier Wen Jiabao also stated during his visit to Iceland in 2012 that the agreement would “act as a model for others.”<sup>8</sup>

Importantly, the FTA means that Iceland – unlike the EU – has recognised China as a market economy. The EU’s refusal to grant China market economy status remains one of the most contentious issues in the Beijing’s relationship with Brussels. Hence, the FTA with Iceland is a “side-door approach” to further engagement with the European economy.

### 3. Acquisition of technology and know-how

The Nordic countries, despite being small in terms of population, have developed unique technologies and become known for their innovation capabilities. The investments and trade deals made by Chinese corporations is a reflection of China’s priorities in terms of technology needs, at least in terms of available sectors for overseas investment in the region.

Judging by major completed acquisitions, it is possible to identify three sectors of interest: technology and manufacturing (e.g. the 2011 acquisition of Norway’s Elkem, an energy-efficient producer of high-grade silicon for solar technology and computers), brands (e.g. the acquisition of automaker Volvo Cars in 2010), and services (e.g. the acquisition in 2008 of Norway’s Awilco, which provides oil and gas drilling services and operates oil tankers).<sup>9</sup> These three deals were valued at around 2 billion US dollars each and are among the biggest acquisitions made by Chinese companies in Europe to-date. Additionally, a group of Chinese internet firms offered in early 2016 to acquire Opera Software, a Norwegian provider of web browsers, for 1.2 billion US dollars.

Due to the Volvo acquisition, Sweden ranked four among the EU member states in terms of the value of Chinese investment during 2000-2011, after France, the UK and Germany, with a total FDI of 2.3 billion USD. The fact that the Volvo acquisition makes up the majority of Chinese investment in Sweden during this period highlights a broader challenge for Nordic countries to attract FDI from China: while China is looking to invest in large-scale operations, rather than small- and mid-sized busi-

4 His request went unnoticed in Sweden, where the media was preoccupied with one single issue: whether or not the Swedish PM would characterize China as a dictatorship. Xinhua, “李克强同瑞典首相勒文举行会谈” [“Li Keqiang meets with Swedish Prime Minister Löfven”], March 27, 2015. [http://news.xinhuanet.com/politics/2015-03/27/c\\_1114790890.htm](http://news.xinhuanet.com/politics/2015-03/27/c_1114790890.htm); Spegele, Brian, “China Wants U.S. to Drop Tech Export Limits, or It Will Shop Elsewhere”, *The Wall Street Journal*, April 14, 2015. <http://www.wsj.com/articles/china-wants-u-s-to-drop-tech-export-limits-or-it-will-shop-elsewhere-1429014924>

5 Mission of the People’s Republic of China to the European Union, “China’s Policy Paper on EU” [sic], Oct 13, 2003. <http://www.chinamission.be/eng/zywj/zywd/t1227623.htm>

6 Regeringskansliet, ”Utrikesdeklarationen 2016”, Feb 24, 2016. <http://www.regeringen.se/tal/2016/02/utrikesdeklarationen-2016/>

7 Hellström, Jerker (2010) *The EU Arms Embargo on China: a Swedish Perspective*, Stockholm: Swedish Defence Research Agency.

8 Chen Lidan, and Gao Yanan, “Former ambassador: to Iceland, China not far apart” [sic], *People’s Daily Online*, Nov 5, 2013. <http://english.people.com.cn/90883/8447080.html>

9 Azure International/Cleantech Scandinavia (2013) *China Outbound Investment Strategies in the Cleantech Sector – Nordic Opportunities*, p.17.

nesses, the extent to which larger corporations are up for sale is highly limited in the Nordic countries.<sup>10</sup>

Few areas are given as much focus during Chinese high-level visits and in official statements as the area of renewable energy technologies – regardless of which of the Nordic countries is concerned. This rhetorical emphasis however remains to be reflected in actual business deals.

Moreover, China is eager to gain know-how in the spheres of deep-sea offshore drilling technology (Norway) and geothermal energy technologies (Iceland). There is also an interest in defence technology, both in terms of imports and direct investment (Sweden in particular); however, such deals are hampered by the EU arms embargo. An equally important priority according to Chinese interlocutors is to acquire know-how on Arctic affairs, especially with the prospect of new sea lanes becoming available for commercial shipping due to the melting of the Arctic ice.

#### 4. Promotion of *core interests*

In late August, 2010, Xi Jinping – China’s vice-president at the time – met with Norway’s then-foreign minister, Jonas Gahr Støre, in Beijing. During the meeting, Xi stated that bilateral relations would see a healthy development as long as there was mutual respect for each other’s “core interests”.<sup>11</sup> Only five weeks later, the Norwegian Nobel Committee announced that it would award the imprisoned Chinese regime critic Liu Xiaobo with the 2010 Nobel Peace Prize. Beijing came to the conclusion that Norway had now shown that it did not respect China’s core interests, and initiated a political boycott of Norway that remains to this day.

China’s “core interests” are a set of non-negotiable interests that are increasingly forming part of China’s rhetoric in bilateral relations and in international forums.<sup>12</sup> These interests can be divided into three areas: 1) domestic political stability – i.e. safeguarding the current political system and Chinese Communist Party’s continued monopoly on power; 2) territorial integrity and national sovereignty – including national reunification with Taiwan and issues relating to Chinese sovereignty over Tibet and Xinjiang; and 3) sustainable economic and social development.<sup>13</sup>

From the Chinese perspective, the Nobel Committee – with tacit support from the Norwegian government – had questioned China’s political and judicial system by awarding the Peace Prize to a convicted felon. China’s ambassador later

referred to the incident as “an attempt to undermine China’s stability and development”.<sup>14</sup>

On the one hand, China wishes to steer clear of issues that could put political relations in jeopardy, while, on the other hand, it will not accept perceived external interference in its domestic affairs. In fact, in its interactions with the Nordic countries, the issue of core interests mainly relates to challenges in terms of conflicting values. In countries with a tradition of engagement and activism in the sphere of human rights, there is a constant risk that China’s defence of its so-called *core interests* will affect bilateral relations.

In May, 2009, China put political relations with Denmark on hold after the Danish Prime Minister Lars Løkke Rasmussen and Foreign Minister Per Stig Møller met with the Dalai Lama. Sweden, for its part, has been subject to Chinese criticism related perceived interference in core interests. Such cases include Swedish statements regarding China’s human rights record and the refusal to repatriate Uighur individuals accused by China for having committed acts of terrorism.

There is also evidence that China is working proactively to safeguard external interference in its core interests by other than strictly diplomatic means. For example, an official at China’s embassy in Sweden was involved in espionage on Uighur exiles, according to a verdict by the Stockholm District Court in March 2010.<sup>15</sup> China’s Ministry of Foreign Affairs denied Chinese state involvement in the affair.

#### 5. Improving perceptions of China

Media reporting in the Nordic countries on China’s domestic policies and its role in international affairs is portrayed by Chinese interlocutors as having a negative bias. Chinese officials are concerned with what they see as a predominantly stereotypical image of China, in line with other “mainstream Western media”.

In general, Chinese officials express a wish that Western media would report more on positive aspects, rather than focusing on “negative matters”, e.g. issues involving political dissidents. Faced with these challenges, Chinese diplomats have an ambition to promote an “objective” image of China and to correct what they see as misconceptions.

While Beijing has yet to launch a soft power push in the Nordic countries, it is clear that the Chinese government is increasingly concerned with how it is depicted in western media. This is not least due to its interest in creating an environment for continued investment activities by Chinese corporations and to facilitate technology transfer to China. Chinese officials are concerned that negative perceptions of China in the Nordic countries could put such ambitions at risk.

Several of China’s ambassadors have published opinion pieces in local newspapers on various issues such as bilateral relations with Nordic countries, but also to criticize Japanese politics. The embassies have, moreover, arranged seminars to promote the Chinese government’s narratives on the situation for ethnic minorities in China, mainly the Tibetans and the Uighurs.

10 Data compiled by Rhodium Group suggest that total Chinese investment in Germany during the period was only slightly lower than in Sweden (2.5 billion USD) in 2000-2011. However, Chinese corporations only made six acquisitions in Sweden during the period, compared with 33 acquisitions in Germany. The number of greenfield projects in Germany was also substantially higher than in Sweden (113 versus 14). Hanemann, Thilo and Rosen, Daniel H. “China Invests in Europe – Patterns, Impacts and Policy Implications”, Rhodium Group, June 2012, p.38.

11 It was not clear whether Xi’s statement on core interests was intended as a reference to China’s call on Norway to extradite terrorist suspect Mikael Davud, an ethnic Uighur from the Chinese region of Xinjiang. See Egeberg, Kristoffer and Sæbø, Sun Heidi, “Kinas toppledelse krever at Norge utleverer terrorstikket”, *Dagbladet*, 31 August, 2010. <http://www.dagbladet.no/2010/08/30/nyheter/terror/utenriks/innenriks/utenrikspolitikk/13184834/>

12 For an exhaustive analysis of China’s ‘core interests’, see Swaine, Michael D., “China’s Assertive Behavior – Part One: On ‘Core Interests’”, *China Leadership Monitor*, Nov 15, 2010.

13 Dai Bingguo, 坚持走和平发展道路 [Stick to the path of peaceful development], Oct 2010; Information Office of the State Council, *China’s Peaceful Development*, Sept 6, 2011.

14 Tang Guoqiang, *My Rethinking*, Embassy of the PRC in Norway, 12 Dec 2010.

15 Stockholm District Court, *Dom 2010-03-08, Mål nr B 8976-09* [Sentence 2010-03-08, Case No. B 8976-09], March 8, 2010.

The Chinese government's establishment of Confucius Institutes and cultural centres should also be regarded as part of budding soft power efforts. So far, however, attempts to influence the image of China in the Nordic countries have been rather limited in scope. Nevertheless, some Chinese interlocutors expect that perceptions of China may improve in coming years. As one diplomat puts it, "people are starting to see China from a new perspective, because of the increasing interest in China."

## 6. China's priorities going forward

An important priority for the Chinese Communist Party in coming years will be to absorb "advances in overseas science and technology" in order to improve its capabilities for innovation.<sup>16</sup> In the Nordic context, the region's five countries offer a platform for learning and technology acquisition, but also potential access to larger markets and cooperation with a wider range of international actors.

In the 18th Party Congress work report (2012), which outlines the Chinese Communist Party's strategy over the next five years, the Party also pledges to "never yield to any outside pressure" and to "protect China's legitimate rights and interests overseas" when working to promote public diplomacy.<sup>17</sup> In regard to China's relations with the Nordic countries, this primarily relates to its insistence on countries not to challenge Chinese political norms. Importantly, when Beijing notes interference in its core interests, they trump all other priorities.

The diplomatic boycott of Norway is a case in point. More than five years after the announcement of the 2010 Nobel Peace Prize there seems to be no politically viable approach for Oslo to take in order to normalise relations. Chinese officials expect guarantees from Norway that a similar situation will not reoccur, and suggest a reform of the Nobel Committee as one solution. If the dispute between China and Norway is a precedent, it is possible that Beijing is now ready to interfere in internal affairs of other countries, in order to prevent others from interfering in its own internal affairs.

China has so far managed its relations with the Nordic countries on bilateral terms, i.e. on a country-by-country basis rather than as a group. China could, however, begin to promote its interests in the Nordic countries by establishing a region-wide approach.<sup>18</sup> Just as with China's economic and trade cooperation with Central and Eastern European (CEE) countries, such an approach would involve EU member states (Sweden, Denmark and Finland) as well as non-EU members (Norway and Iceland).<sup>19</sup>

While a Sino-Nordic platform potentially could increase the ability for the Nordic countries to promote any common interests vis-à-vis China, it could be problematic for two reasons; firstly, the Nordic countries have yet to create mechanisms for policy coordination and would therefore be in an inferior political position to Beijing, and secondly, it could be perceived in Brussels as a move to divide the EU, thereby weakening its influence on China.

Given that China's domestic challenges remain in the foreseeable future, it is likely that Beijing will keep its political priorities in the Nordic region. That said, one cannot rule out that the Chinese government could modify its efforts to safeguard these priorities. In regard to core interests, for instance, China has so far mainly defended its concerns by diplomatic means. Attempts to influence public opinion – which have been rare – could be expanded further, especially if Beijing were to improve its capabilities to project soft power in line with its growing economic weight. Such public diplomacy efforts could be limited to specific issues, but would likely be aimed at improving the image of China in the long run.

Lower economic growth rates in China since 2013 have not led to any decrease in Chinese overseas investment, neither globally, nor in the EU. In fact, China invested a record 23 billion USD in Europe in 2015.<sup>20</sup> There is currently nothing to suggest that investment flows from China to the Nordic region will drop amid the downturn. However, in the event of a hard landing for the Chinese economy in years ahead, it is safe to say that the Nordic countries will be affected – just as the rest of the world.

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16 Xinhua, "Full text of Hu Jintao's report at 18th Party Congress", 17 Nov, 2012.

17 Jakobson, Linda, *China's Foreign Policy Dilemma*, Lowy Institute for International Policy, Feb 2013; Xinhua, "Full text of Hu Jintao's report at 18th Party Congress".

19 The so-called "16+1 platform" was created on the initiative of Premier Wen Jiabao in 2012 and involves 16 CEE countries, of which 11 are members of both the EU and NATO.

20 Jones, Claire "Chinese investment in Europe hits \$23bn record", *the Financial Times*, March 10, 2016.

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