Chinese Investment and Icelandic National Security

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The rapid economic development that has taken place in China for the past 36 years is unique in world economic history. Since the initiation of the Chinese economic reform policy in 1978, the country has consistently been the most rapidly growing economy on earth, sustaining an annual growth rate of 10% from 1978 through 2005 (Naughton, 2007, p. 3). This remarkable economic development was made possible through a gradual economic transition away from a state planned socialist economic model to one more dependent on markets.

China’s economic rise has not gone unnoticed in the West, where its growing strength has sparked both admiration and fear. Issues like an undervalued currency and state subsidies have drawn the most attention from statesmen and the public alike, while relatively little attention has been paid until recently to the trend of increased outward direct investments made by Chinese companies, both private and public.

Insofar as western observers and media outlets have paid attention to this latter issue, they have mainly focussed on Chinese investments in Africa and other developing countries, with many warnings about a new phase of colonization taking place in those regions. While others have taken a more sober view of the intentions of Chinese companies in Africa, the fact remains that the rising trend of Chinese investments in the more developed parts of the world went largely unnoticed until recently. Yet in reality, the flow of Chinese outward foreign direct investment (OFDI) into the Western world more than doubled compared to that going to Africa between 2005 and 2010. (Scissors, 2011).

Research question and methodology

In this article, a qualitative research method will be used to analyse the trend of Chinese outward investments, with special attention paid to possible security implications it may pose for a small developed country such as Iceland. The reasons behind increased overseas investments by Chinese companies will be evaluated, while the increased public and political discussion taking place in Iceland regarding Chinese investments will be analysed and placed in perspective as against the real figures. The two following hypotheses will be examined:

Hypothesis 1: Increased investments by Chinese companies and state entities in the West are not only made with commercial interests in mind. The trend can also be seen as part of a bigger plan by China to gain a strategic foothold in the region and is thus a threat to the national security of Iceland (and possibly its allies).
Hypothesis 2: The strategic threat posed by increased Chinese investments in the West is overstated by the Icelandic public (and some of the Icelandic political elite). Chinese investments certainly pose challenges to some aspects of the security of a country such as Iceland, but those do not include “hard” (e.g., military or territorial) national security threats.

What is national security?

No universally agreed definition exists of the concept of national security. In 1952, Walter Lipmann concluded that a nation is secure ‘...to the extent to which it is not in danger of having to sacrifice core values, if it wishes to avoid war, and is able, if challenged to maintain them by victory in such a war’ (Buzan, 2007, p. 36). This is a statist definition which mixes together the absence of threats and the ability for the state to prevail in case of such threats materializing.

Lipmann’s understanding is typical of how national security was viewed during the cold war period, when the concept traditionally included political independence and territorial integrity as primary values to be protected. But the fall of the Soviet Union made the security situation within the world much more complex than before. The United States’ National Security Strategy of 2010 maintains that: ‘Instead of a hostile expansionist empire, we now face a diverse array of challenges’ (National Security Strategy, 2010). In other words, the remodelling of the international security system has prompted a need for revision of the security concept to include factors other than traditional military security challenges.

One such attempt is made by Barry Buzan, who while still emphasising the freedom from threat, makes a distinction between the security of states and the security of societies which do not necessarily go hand in hand. The security of a society and the individuals who live in it cannot simply be viewed as an extension of state security. Buzan maintains that the security of states and societies is about their respective abilities to maintain their independent identity and functional integrity. Security is not only about survival but also includes a range of concerns about the conditions of existence (Buzan, 2007, p. 37).

It is the latter part of Buzan’s definition that provides a basis for a detailed expansion of the security concept for contemporary conditions. He goes on to categorize security into five main dimensions, which do not operate in isolation from each other, but are woven together in a strong web of linkages:

1. Military security - which concerns the two-level interplay of the armed offensive and defensive capabilities of states and states’ perceptions of each other’s strategic intentions;
2. Economic security – which concerns access to the markets, resources and finance necessary to develop and maintain acceptable levels of welfare and state power;
3. Political security – which concerns the system of government, the organizational stability of the state and the ideologies that give them legitimacy;
4. Societal security – which concerns the ability of societies to reproduce their traditional patterns of culture, association, language and religion and national identity as well as customs within acceptable conditions of development; and
5. Environmental security – which concerns the maintenance of the local and the planetary biosphere as the essential support system on which all other human enterprises depend (Buzan, 2007, p. 38).

States are still the principal object of security since they are both the framework of order and the highest source of governing authority in an international system that is characterized by anarchy. But the dynamics of national security is nevertheless highly relational and interdependent between states. Domestic insecurities can dominate the national security agenda and external threats will almost always comprise a major element of the national security problem (Buzan, 2007).

In this article, security is defined as a mixture of the traditional understanding of security as the ability of a nation to protect its values, and more modern definitions that differentiate between the security of the state and the security of societies that make up states. Security can furthermore be divided into numerous different dimensions that go even beyond the ones suggested by Buzan. Energy security, information security and human security are all emerging parts of the modern security spectrum and are constantly evolving, for instance to incorporate more recent concerns such as cyber security.

What is driving the trend of increased Chinese OFDI?

The continuous increase in Chinese outward investment visible since year 2000 has been attributed both to favourable government policies and to the commercial interests of Chinese companies.

**Going global – China’s post-2000 official outbound investment policy**

Since the early 2000s in China, the government's policy to promote outbound foreign direct investment has been given increased impetus under the title of ‘Go global’. This policy was officially initiated in year 2000 by Premier Zhu Rongji in a report to the National People’s Congress. Accordingly, every Five Year Plan that has been implemented since then has emphasised the importance of overseas investment by Chinese enterprises for the future development of the Chinese economy.

This reform of the OFDI administration within the Chinese bureaucracy has taken the form of streamlining approval procedures and relaxing foreign exchange controls for outward investment. Approval authority has furthermore been decentralised from the central-level to the local, while application requirements have been simplified and the application process has been made more effective.

In parallel, the government has carried out step-by-step liberalisation of the restrictions on the use of foreign exchange for outward direct investment purposes. A large portion of the administrative process has been decentralised, with more power given to local-branches of the State Administration of Foreign Exchange (SAFE), the official agency in charge of China’s foreign exchange reserves. Compulsory repatriation of overseas profits back to China has been abolished to allow Chinese enterprises to re-invest their profits overseas. Finally, in 2006 the government abolished the long-imposed quota of $US 5 billion per annum on outbound foreign direct investment (OECD Investment Policy Reviews – China, 2008).

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1 The People’s Republic of China began implementing Five Year Plans in 1953 in order to align the economy with top policy goals and to communicate this directive throughout the government bureaucracy. Five Year Plans are designed to be road-aps for regulators and provincial officials, who are responsible for their implementation. Five Year Plans are key indicators of the direction of, and changes in, economic development philosophy at the highest level of Chinese leadership.
China’s official ‘Go global’ policy furthermore included methods of credit facilitation aimed at Chinese companies planning on investing abroad. In 2011, China’s Ministry of Commerce announced that state owned banks should increase ‘Go global’ credit support for enterprises within certain sectors. The Export-Import Bank was told to improve its offers; local governments should improve their guidance over funding; and the granting of support for equity investment and bond financing should be accelerated. Other instruments of support also came under the spotlight for improvement, such as the provision of credit insurance and the strengthening of cooperation between international organizations and foreign insurance institutions (Clegg & Voss, 2012).

The priority sectors eligible for such government assistance may include: projects to develop natural resources which are in short supply in China; manufacturing and infrastructure projects leading to exports of domestic technology products, equipment and labour; and R&D projects accessing advanced global technology, managerial skills and talents. Merger and acquisition projects with a potential to strengthen Chinese enterprises’ international competitiveness have also been given access to such government-subsidised capital (OECD Investment Policy Reviews – China, 2008).

**Economic Drivers of Chinese Outward Direct Investment**

Academic research on outward direct investment details numerous reasons why firms decide to go abroad. The following are the five key economic drivers behind China’s recent outward direct investment boom:

1. The most frequently reported motivation, in the international media as well as in some academic writings, is China’s need to secure natural resources to fuel growth. Although an important driver of Chinese outward foreign investments, its share of the total has been decreasing in recent years.
2. Chinese firms export large volumes of goods and need services such as shipping, insurance and other trade facilitation measures. Chinese enterprises have realized continuous year-on-year increases in investments made in the service sector.
3. China’s major enterprises are starting to acquire ownership of foreign brands in order to obtain, among other things, technological know-how, foreign market share, management skills and talents.
4. Large state owned enterprises are slowly losing their monopoly positions at home and are looking to diversify internationally; and
5. Some enterprises – despite China’s ample labour supply – are seeking to move their labour-intensive operations to cheaper overseas locations in South-East Asia and Africa.

**Chinese OFDI in numbers**

Different organizations collecting data on Chinese outward foreign direct investment publish different numbers on the total amount of China’s OFDI flow and stock. China’s OFDI outflows totalled US$ 101 billion in 2013 according to figures compiled by the United Nations Conference on Trade and Development (UNCTADstat, 2014), a year-on-year increase of 15%. The Ministry of Commerce of the People’s Republic of China puts that number at US$ 90,2 billion (中华人民共和国商务部, 2014) while the Heritage Foundation - the NGO that has done some of the most extensive research into Chinese foreign investment - estimated total outflows of Chinese OFDI for the year 2013 to be US$ 85 billion (Scissors, 2014).

Which numbers give the most accurate picture of Chinese outward FDI flows is difficult to determine, but all sources point to the same trend of continuous increase
in Chinese foreign investment for the past decade. As can be seen in figure 1, the outward investment flow of China started to accelerate quickly around the year 2000:

![Graph showing China ODI 1985-2013](UNCTADstat, 2014)

Figure 1 - China ODI 1985-2013

If we take official Chinese figures and compare them to the rest of the world, we see that Chinese investment outflows accounted for 7.2% of the world total. That would make China the third largest global investor in 2013, behind the United States and Japan (UNCTADstat, 2014).

Chinese Investments in Iceland

There is not a long tradition of Chinese companies investing in the Icelandic economy. A bilateral agreement is in place between the governments of Iceland and China concerning the promotion and reciprocal protection of investments (Auglýsing um samning…, 1997) but that has not had a visible effect in increasing Chinese investments in Iceland. In fact, the number of Chinese direct investments made in Iceland totals only four instances, all of which have taken place after 2009.

In two of the incidents, the investments did not reach the public’s (nor official) attention until after completed, but an investment proposal in late 2011 by a Chinese entity to invest in land has been met with fierce resistance from the public as well as some elements of the Icelandic government.

A company registered in Hong Kong bought a 43% stake in the Icelandic fishing corporation Stormur Seafood in 2010 through two subsidiaries (Fjärresta i íslenskum sjávarútvegi, 2010). The issue of foreign investments in the Icelandic fishing industry has historically been a sensitive one among Icelandic policy-makers as well as the public. Fearing a loss of control over one of the country’s most valuable resources and the most important source of foreign currency inflow, when entering the EEA agreement Iceland managed to negotiate an opt-out from the principle of free flow of capital regarding the fishing sector. According to the legislation currently in force, foreign entities direct share in Icelandic fishing companies cannot exceed 25% (Nefnd um erlenda fjárfestingu, 2011).

The minister for fisheries and agriculture at the time, Jón Bjarnason, maintained that the investment by the Chinese company was not in conformity with Icelandic
legislation and took a stance against it (Mál Storms í nefnd, 2010). A special committee on foreign investments later concluded that the investment was in fact legal since apart from the 25% direct share, foreign entities were allowed to hold indirect shares of up to 24% (Nefnd um elenda fjárfestingu, 2011). Apart from this exchange, the investment did not cause much debate in Iceland.

In 2011, a Norwegian company that operated a ferroehicon plant in Iceland was acquired by a Chinese firm, National Bluestar. Bluestar is 80% owned by China National Chemical Corporation, a large Chinese state owned enterprise (Jårnlendið óbeint til stjórnvalda í Kína, 2011). Although the acquisition sparked some debate in Norway, where union leaders and the public at large were weary of losing one of the country’s leading heavy-industry corporation into foreign hands, the investment did not cause a great reaction within Iceland.

In January 2014, Iceland’s national energy authority, Orkustofnun, granted a new offshore oil exploration license to a consortium made up of CNOOC Iceland ehf. as an operator with 60% share, Eykon Energy ehf with 15% share and Petoro Iceland AS with 25% share (Atvinnu- og nýsköpunarráðuneytið, 2014). CNOOC (China National Offshore Oil Corporation) is a Chinese state-owned oil company that traditionally focused on the exploitation, exploration and development of crude oil and natural gas in offshore China, but has in recent years acquired companies in the energy sector in regions such as North and South America, Africa and Oceania. According to the Icelandic media, the whole project relating to the Icelandic exploration license will amount to a research cost of US$17-26 million, after which a decision will be taken whether to proceed to actual oil drilling (Í samstarf við eitt stærsta fyrirtæki heims, 2014). If the consortium does decide to start drilling, each borehole will cost in the range of 150-200 million US dollars. It is therefore evident that this investment by CNOOC could prove to be a huge one in the future.

Nevertheless, there was not much public nor official debate at the time in Iceland regarding the investment in question – even if the CEO of the Icelandic partner of CNOOC, Mr. Heiðar Márc Guðjónsson, felt obliged to say in an interview that the investment on CNOOC’s behalf was made for financial, not political reasons (Heiðar Máár Engin pólitík á bakvið samninginn við CNOOC, 2013).

The most controversial Chinese investment in the Icelandic economy has in fact not yet materialized, since it was originally rejected by the Icelandic Ministry of the Interior. In August 2011, a Chinese company called Zhongkun bought a large piece of land in the north of Iceland for a reported US$ 8.8 million (Kínverji hefur keypt eina stærstu jörð Islands, 2011). The investment was conditional upon the approval of Icelandic and Chinese authorities. Since Icelandic legislation forbids citizens from outside the European Economic Area to invest in Icelandic land, a special government approval was needed for the investment to go through. In late November 2011, the then Icelandic Minister of the Interior, Ógmundur Jónasson, rejected the application on the ground that it would set a ‘dangerous precedent’ (Iceland rejects Chinese investor’s land bid, 2011). Some of the municipalities around the piece of land in question supported the plan of Zhongkun, which promised to develop the area as an international tourism destination with US$ 200 million of additional investments, building a hotel, a golf course and a racecourse among other things (Iceland Rejects Chinese Billionaire’s Land Plan, 2011). Eyeing the potential injection of capital into their local economies, the municipalities decided to buy the land with the intention of signing a long-term lease with the Chinese entity, reportedly for 40 years (Huang Nubo leigi Grímsstað til 40 ára, 2012). At the time of writing, however, that deal has yet to be finalized and the Chinese side is thought to be looking at options in north Norway instead.

It can be argued that the reason for the different reactions within Iceland regarding Chinese investments in the country’s resources and heavy industry sector, compared
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to the proposal involving Icelandic land, can be attributed to the timing of news regarding the matter breaking out. In the former two cases, the deal was already done before the public got wind of it. Therefore, no public or official debate could develop before the decision went through. In Zhongkun’s case, on the other hand, the approval of the government was needed, offering the public, parliament and interest groups a chance to engage in a heated debate about the matter. The fact that the investment in Stormur Seafood did not give the Chinese side a controlling share in the company should also be taken into consideration, as well as the size of the land package bought by Zhongkun (0.3% of the total size of Iceland). Even while the outcome of the latter case remains uncertain, the whole affair highlights the controversy as well as difference of opinion regarding Chinese investments in the Icelandic economy.

Is there a security threat?

In this section a judgement will be offered on whether the increases in Chinese OFDI flows into the West do – objectively speaking – pose any threats to the national security of Iceland, as is sometimes claimed in the media. The question will be addressed separately under each of the five security dimensions, as identified by Barry Buzan: (1) military security, (2) political security, (3) economic security, (4) societal security and (5) environmental security (Buzan 2007). The judgement is based both on existing research from various parts of the Western hemisphere and on personal assessments, taking account of multiple media reports as well as policy analyses.

Military Security

Assessing the matter of Iceland’s military security is a difficult task, due to the country’s small population and the fact that Iceland does not have an army. Iceland seeks military protection through its membership of NATO and especially Article 5 (the collective defence clause) of the Alliance’s founding Treaty. The relationship between NATO and China is overall an amicable one, despite a seemingly growing view among some key NATO members (and above all, the United States) of China as an emerging competitor.

Chinese foreign policy has long maintained a principle of non-interference in the internal matters of states. Even though the motives behind such a policy are highly contested among scholars, it is nevertheless a fact that China does not possess any overseas military bases, while countries such as Britain, Russia and the United States maintain hundreds of military installations around the globe (Rogers, 2012). The best indicator of China’s policy of non-interference, however, is to be found in its voting behaviour in the UN Security Council where it has usually vetoed or abstained from any resolution proposing foreign military interventions within sovereign states (UN General Assembly, 2004).

Overall, China’s military capabilities are expected to continue increasing in both quantity and quality in step with the continued growth of the Chinese economy; while at the same time, NATO’s military superiority vis-a-vis China is likely to decrease in the decades to come. However, the role that increased foreign investments by Chinese business entities in the West may play in this shifting ‘hard’ security development is minimal at best. It is worth pointing out here that the notion, reported in some foreign media, of the proposed Chinese land purchase in 2011 being motivated by a plan to establish a Chinese naval base in Iceland is completely without foundation and does not make sense geographically (China’s Wen in Iceland, eyes on Arctic riches, 2012). The land in question is situated 60 km. inland at a height of 384 m. above sea level.
Economic Security

The 2008 financial crisis exposed the vulnerability of the Chinese economic system inherent in its over-reliance on external demand from the West. The State Council’s most recent Five Year Plan highlights the need for the Chinese economy to shift away from being driven by exports and fixed-investment towards a growth pattern driven by local consumption (The State Council, 2012); and according to some analysts, that trend seems to be taking off already (China’s consumer-led growth, 2012). It is thus highly likely that exports to the Chinese market will become an increasingly vital part of the economic growth of many Western countries in the near future, and Iceland has special opportunities in that regard having recently concluded a Free Trade Agreement with China.

The Chinese government has been known to economically punish countries which it perceives as going against its core interests. These unilateral sanctions usually take the form of unofficially denying those countries’ products access to the Chinese market. Exports of Norwegian salmon plummeted by more than 50% in the first eight months of 2011 (Reilly, 2012). Although China never officially admitted to sanctioning the Norwegian salmon industry, the decrease in Chinese demand for Norwegian salmon was widely believed to be a result of the Norwegian Nobel Committee’s awarding Liu Xiaobo, a jailed Chinese dissident, the 2010 Nobel Peace Prize.

A similar trend was noticed by Andreas Fuchs and Nils-Hendrik Klann who conducted an investigation into the extent to which the state of bilateral relations has an impact on exports to China. They ran a gravity model of exports to China by 159 partner countries between 1991 and 2008. The study’s results indicate that China punishes countries that receive Dalai Lama at the highest political level. The punishment is usually characterized by a decrease in exports to the Chinese market and has led to the coinig of the term ‘the Dalai Lama Effect’ (Fuchs and Klann, 2010).

In terms of the present study, the question is whether China could deny (or threaten to deny) any or all Icelandic products access to the Chinese market as a way of forcing better treatment for Chinese-owned companies within Iceland. Could the government of Iceland be tempted to over-favour the interests of those Chinese-invested entities in order to avoid economic punishment by the Chinese government in the form of being cut off from the Chinese market?

The first thing to consider regarding this scenario is what China might gain by such an action. As discussed earlier, Chinese companies tend to invest in Western companies within such sectors as energy, resources, consumer products and manufacturing of high value-added products. The reason for Chinese companies to invest in the energy and resources sectors is China’s need for those materials in order to maintain economic growth within the Chinese economy. Chinese companies furthermore invest in Western hi-tech corporations in order to gain access to technological know-how, management experience and human talent. In any of those sectors it would not make much sense to block such Chinese-controlled companies’ exports back to China: that would not only hurt the companies financially, but deprive China of access to valuable resources needed for future economic growth.

If China should, on the other hand, try to sanction other non-Chinese controlled companies within Iceland and deny their products access to the Chinese market, it could prompt retaliation by Iceland against Chinese companies within its borders. Such an action could even have the unwanted effect of making other Western countries wary of foreign direct investment originating in China and thus possibly do damage to China’s overall OFDI strategy in the West.

Following this reasoning, and given that China wants to be perceived as a responsible business partner, it can even be argued that increased presence of Chinese...
companies as ‘hostages’ within a Western state could reduce the risk of, and scope for, China’s use of politically motivated economic sanctions against that state.

**Political Security**

According to Buzan’s analyses, political security concerns the system of government, the organizational stability of the state, and the ideologies that give them legitimacy. The question we face here is whether increased Chinese investments in Iceland could have the effect of increasing China’s cultural influence over the minds of Icelandic citizens to the extent that the ‘Chinese Model’ of running a society might become more attractive than the current social-democratic model currently in place in Iceland. Will increased investments by Chinese companies in within Iceland increase China’s capacity to influence the Icelandic nation towards identifying with China’s interests as their own?

Despite China’s recent efforts to increase its ‘soft power’ capabilities in hopes of gaining such influence, there are reasons to believe that such an investment is not paying off. The Communist Party of China lacks political legitimacy compared to most Western governments in the eyes of the Western public: it is not democratically elected, it does not allow free speech, it does not have to answer to the judicial system and it is rife with corruption. Data released by the Pew Research Global Attitudes Project demonstrate that while China generates favourable views among respondents in Russia and the Middle East, all the Western countries surveyed except for Greece hold a basically negative attitude towards the country (Pew Research Center, 2013). Although not specifically polled, there is no reason to believe that the Icelandic public holds a different attitude to China than its closest neighbours do.

Overall, it is fairly safe to say that the chances of China’s soft power efforts managing to attract Icelandic public support for a more ‘Chinese way’ of running a society are minimal. And even if such efforts by the Chinese state should in the end prove successful, the role that foreign investments by Chinese companies in Iceland would play in such an evolution would be very limited.

**Societal Security**

Societal security, according to Buzan’s definition, concerns the ability of societies to reproduce their traditional patterns of culture, association, language and religion and national identity as well as customs within acceptable conditions of development. With its emphasis on the reproduction of traditional patterns of culture, language and religion, the concept of societal security bears a distinct relation to the concept of political security discussed above, inasmuch as it revolves around the society’s ability to resist unwanted influences stemming (among other things) from others’ efforts to promote their soft power abroad.

As Alyson Bailes has pointed out, the main executors of societal security at the official level are mainly civilian departments and agencies that are grouped and coordinated in a variety of ways (Bailes & Gylfason, 2008). Those entities might include private sector actors, NGOs and various pressure groups as well as specialized governmental agencies.

The labour market environment of Chinese companies operating within China is different from what we are used to in Iceland, with the main difference lying in the Chinese government’s insistence on not allowing the formation of independent labour unions. This prevents Chinese workers from connecting together to collectively negotiate their labour rights.

It can be argued that the labour conditions record of Chinese companies investing abroad has done much harm to China’s image, particularly because of the visibility and sensitivity of a subject that affects the poorest of the poor. The non-conformity of Chinese companies with local labour laws has been reported and criticised within
developing countries as well as more developed ones (Human Rights Watch, 2011; Kotschwar, Moran, & Muir, 2011; Alderman, 2012).

The protection of the basic labour rights of workers through strong labour legislation is an integral part of Icelandic national identity and its social system. Icelandic authorities and labour unions will have to be extremely vigilant to ensure that Chinese-controlled business entities operating within Icelandic borders adhere to Icelandic labour regulations. It is important here to grasp that labour legislation in any given country, as well as the power of enforcement, lies solely in the hands of the host country’s government. Even though it might be tempting for Icelandic authorities in the current economic climate to cater to the demands of potential investors from China and other countries, insistence on compliance with the state’s legal framework as well as its society’s basic values should never come into question.

Environmental Security

Environmental security, according to Buzan’s national security definition, concerns the maintenance of the local and the planetary biosphere as the essential support system on which all other human enterprises depend.

The environmental problems currently facing the People’s Republic of China are known around the world. The break-neck economic growth that has been taking place within China has taken its toll on the environment in a country with an underdeveloped environmental protection framework and where official corruption is rampant. Environmental degradation in China is now so severe, with such stark domestic and international repercussions, that pollution poses not only a major long-term burden on the Chinese public but also an acute political challenge to the ruling Communist Party.

As with the threats to societal security posed by Chinese businesses investing in Iceland, Icelandic environmental legislation as well as the power for its enforcement lies solely in the hands of the Icelandic government. Even if it could be tempting for Icelandic policy-makers in the current economic climate to ease the conditions for Chinese and other investors in this field as well, insistence on compliance with the state’s legal environmental framework is not just a matter of norms but of practical national interests. Careless and destructive use of non-renewable resources is always bad for a nation’s long-term economic security, and the more so if profits go largely or wholly into foreign hands.

Sound environmental regulations are in place within Iceland, and environmental awareness among both the public and businesses is among the highest in the world. Given the past environmental track record of Chinese industry at home and abroad, government and civil society in Iceland must be ready and willing – without fear or favour – to enforce their own environmental legal frameworks when it comes to Chinese companies operating in Icelandic land or sea space.

Conclusion

This article has systematically examined the possible threats to the security of Iceland posed by the trend of increased foreign direct investments by Chinese business entities. Its findings support the hypothesis that such investments are made with mercantilist economic interests in mind, but not the view that they form part of a bigger plan by China to gain a strategic foothold in the region. In particular, the phenomenon does not appear to pose an imminent threat to the military security of the host countries nor of their allies.

On the contrary, it seems that the strategic threat posed by increased Chinese investments in Iceland is overstated by the Icelandic public as well as some parts of
the Icelandic government. Chinese foreign direct investments certainly pose challenges to some aspects of the security of Iceland, calling for vigilance in the event of an expanding Chinese presence, but these do not include “hard” national security threats.
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