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Arctic

China's economic influence in the Arctic region

The Nordic and Russian cases

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Title	China's economic influence in the Arctic region--The Nordic and Russian cases
Titel	Kinas ekonomiska inflytande i den Arktiska regionen – Fallen Norden och Ryssland
Report no	FOI-R--5326--SE
Month	June
Year	2022
Antal sidor/Pages	117
ISSN	1650-1942
Customer	Försvarsdepartementet
Forskningsområde	Säkerhetspolitik
FoT-område	Inget FoT-område
Project no	A12213 + A12220
Approved by	Malek Finn Khan
Ansvarig avdelning	Försvarsanalys

Cover: Shutterstock, Poring Studio/Samuray Studio

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Preface

This study is a part of a research collaboration between FOI and the RAND Corporation on China's activities in the Arctic. FOI studied Chinese economic influence in the Nordic region and Russia, and RAND studied Chinese investments and other activities in the North American Arctic. The collaboration involved a table-top exercise (TTX) led by RAND in January 2022. The result of the TTX has been integrated into this report.

Sammanfattning

I takt med att kinesiska investeringar och engagemang i Arktis har ökat har inte bara de nordiska staternas utan även Rysslands misstankar och oro för säkerhetskonsekvenserna av ett större kinesiskt engagemang i regionen ökat. Att använda sitt ekonomiska inflytande för strategiska syften har blivit en huvudkomponent i Kinas utrikespolitiska strategi, eller vad som ofta kallas Kinas ekonomiska statskonst. Denna studie undersöker kinesisk ekonomisk statskonst gentemot de nordiska länderna och Ryssland med fokus på Arktis. Studien visar att kinesiska aktörer har gjort ansträngningar för att försöka investera i Arktis, men få av dessa planer har resulterat i genomförda affärer. När det gäller de nordiska länderna fortsätter kinesisk handel och investeringar att öka. Samtidigt är den allmänna ekonomiska exponeringen mot Kina fortfarande begränsad. När det gäller Ryssland är den ekonomiska sårbarheten relativt sett högre. Kina är Rysslands största handelspartner men Ryssland är mycket mindre viktigt för Kina. Den ryska ekonomin blir gradvis mer kopplad till den kinesiska marknaden och ekonomin, särskilt inom energiområdet. Dessa trender har alla förstärkts på grund av det pågående kriget i Ukraina. Kinas ekonomiska statskonst är inte alltid riktat mot ett lands ekonomi som helhet utan kan rikta sig mot specifika företag eller sektorer. Som framgår av denna studie har Kina med varierande grad av framgång använt bestraffande ekonomiska metoder mot vissa nordiska regeringar och andra aktörer för att nå politiska mål. När det gäller specifika investeringar identifierar studien ett antal fall som potentiellt kan få negativa nationella säkerhetskonsekvenser. Skyddsåtgärder såsom lagstiftning om investeringsgranskning och uteslutning av kinesiska företag från att delta i utvecklingen av 5G har begränsat riskerna med kinesiska ekonomiska aktiviteter i de nordiska länderna.

Abstract

As Chinese investment and engagement in the Arctic have increased, so have the suspicions and concerns, of not only the Nordic states, but also Russia, for the security implications of larger Chinese engagement in the region. Using its economic influence for strategic purposes has become a main component in Chinese foreign policy strategy, or in what is often referred to as China's economic statecraft. This study examines Chinese economic statecraft towards the Nordic countries and Russia with a focus on the Arctic region. The study finds that Chinese actors have had many intentions and expended much effort in attempting to invest in the Arctic, but few of these plans have actually resulted in completed deals. For the Nordic countries, while trade with China and Chinese FDI (foreign direct investment) in the region keep increasing, general economic exposure to China is still limited. As for Russia, economic vulnerability is relatively higher. China is Russia's largest trading partner but Russia is far less important for China. The Russian economy is gradually becoming more linked to the Chinese market and economy, especially in the domain of energy. These trends have all been exacerbated due to the ongoing war in Ukraine. Chinese economic statecraft is not always directed against a country's economy as a whole but may target specific companies or sectors. As shown in this study, China has, with varying degrees of success, used punitive economic methods against some Nordic governments and other actors in order to attain political goals. In terms of specific investments, the study identifies a number of cases that could potentially have negative national security consequences. Policy measures, such as legislation on investment screening and excluding Chinese companies from participating in the development of 5G, has reduced the risks of Chinese economic activities in the Nordic countries.

Acknowledgements

Our research was greatly enriched by our collaboration with partners at the RAND Corporation, particularly Stephanie Pezard and Stephen Flanagan.

We would like to thank Niklas Granholm for reviewing the text, participating in discussions and exercises, and giving valuable advice. Thanks also to Johan Englund for research assistance and comments. A number of persons have read and commented different parts of the manuscript in various stages of the research process. Thanks to Jerker Hellström, Per Olsson, Tobias Junefält, Andreas Jonsson, Krister Pallin, and Liisa Kauppila.

Our final thanks goes to Per Wikström for help with maps, Lena Engelmark and Marianna Serveta for layout, and Richard Langlais for language-editing.

Any remaining errors are our own.

Executive summary

As Chinese investment and engagement in the Arctic have increased, so have the suspicions and concerns that not only the Nordic states, but also Russia, have over the security implications of China's increasing engagement in the region. Using its economic influence for strategic purposes has become a main component in Chinese foreign policy strategy, or in what is often referred to as China's economic statecraft. This study examines Chinese economic statecraft towards six Arctic countries: the Nordic countries and Russia. The study poses the following questions: What is the extent, with a specific focus on the Arctic, of China's economic influence in the Nordic region and Russia? How does China's economic statecraft differ between the Nordic region and Russia? What are the security implications of China's economic engagement in the region?

In the study, economic influence was analysed through two dimensions. The first dimension is *general economic exposure*, which was measured as China's share of a country's export and import and Chinese foreign direct investment, FDI, as well as sector-specific trade and investments, in order to examine Chinese economic influence in certain sectors. The second dimension examines *specific Chinese investments*.

The main findings of the study are as follows:

- While China has been an active investor in several of the Nordic countries and Russia, few of those investments are located within the Arctic Circle. Chinese actors have had many intentions and expended much effort in attempting to invest, but few of these plans have actually resulted in completed deals.
- Major obstacles to further development relate not only to the harsh physical environment that the Arctic represents, but also the response and willingness of Arctic states to welcome a greater Chinese economic presence.
- For the Nordic region, while both trade with China and Chinese FDI in the region keep increasing, the general economic exposure to China is still limited. China's share of trade with the Nordic countries remains between 5–9 per cent. The exception is Norway, where China was the main source of Norwegian imports in 2021, with a 13.1 per cent share. China is also a major source of foreign investment, especially in Finland, where Chinese investment has reached 5.7 per cent of GDP (2020) and is now the third-largest source of FDI.

- In terms of specific investments, the study identifies a number of cases that could potentially have negative national security consequences. Chinese acquisitions of small and medium Nordic high-tech companies could serve to strengthen China's military modernisation. In general, realised Chinese infrastructure investment in the Nordic region is limited. In many cases, this is due to government intervention, for security reasons.
- As for Russia, economic vulnerability can be said to be relatively higher. China is Russia's largest trading partner, but Russia is far less important for China. The Russian economy is gradually becoming more linked to the Chinese market and economy, especially in the domain of energy. In addition, China is also strengthening its position vis-à-vis Russia in other domains of the relationship. These trends have all been exacerbated due to the ongoing war in Ukraine. Russia's need of Chinese capital, financing and markets in the face of continued Western sanctions and more broadly persistent West-Russian tensions will leave Russia with few options than to move even closer to China.
- Chinese economic statecraft is not always directed against a country's economy as a whole but may target specific companies or sectors. Therefore, general economic exposure cannot fully capture all economic exposure to Chinese economic statecraft. As shown in this study, China, with varying degrees of success, has used punitive economic methods against some Nordic governments and other actors in order to attain its political goals. This differs from the case of Russia, where China has used positive incentives rather than punitive economic statecraft measures.
- Centralisation of power during the reign of Xi Jinping has improved the conditions for China's capacity to *exercise* economic statecraft. However, the Communist Party's increasing control over business has made many target countries more suspicious towards Chinese investors. Increased suspicion has resulted in countermeasures, such as legislation on investment screening and exclusion of Chinese companies from participating in the development of 5G, which has made some Chinese economic activities in the Nordic countries more difficult. This has reduced China's chances for successful economic statecraft.
- In the Nordic countries, an elevated awareness among governments and society in general of the risks regarding Chinese economic influence, together with recent and coming legislation restricting foreign investments, are factors that should work to reduce the risk that China will invest in sensitive sectors in the future.
- Much of what happens to China's presence in the Arctic is decided by China's domestic political development. For it to increase its presence there in terms of investments and scientific cooperation, it must be accepted by the Arctic countries. In order for a more accommodating view to replace the present scepticism about its intentions, China would have to improve its image.

Abbreviations

AC	Arctic Council
AEI	American Enterprise Institute
AI	Artificial intelligence
BCI	Beijing Capital Investment
BRI	Belt and Road Initiative
CCP	Chinese Communist Party
CDB	China Development Bank
CEO	Chief Executive Officer
CGN	China General Nuclear
CIC	China Investment Corporation
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
CNARC	China-Nordic Arctic Research Centre
CNCEC	China National Chemical Engineering Group
CNOCC	China National Offshore Oil Corporation
COSCO	China Ocean Shipping Company, Limited
CRI	Carbon Recycling International
CRTG	China Railway Tunnel Group
CYL	Communist Youth League
DSME	Daewoo Shipbuilding and Marine Engineering
DSR	Digital Silk Road
EEA	European Economic Area
EEF	Eastern Economic Forum
EEC	European Economic Community
EEU	Eurasia Economic Union
EFTA	European Free Trade Association
EISCAT	European Incoherent Scatter Scientific Association
ESPO	Eastern Siberia Pacific Ocean Oil pipeline
EU	European Union
FAS	Federal Antimonopoly Service

GDP	Gross domestic product
GW	Gigawatt
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and communication technology
IMF	International Monetary Fund
JBIC	Bank of Japan for International Cooperation
LNG	Liquefied natural gas
MIC2025	Made in China 2025
NATO	North Atlantic Treaty Organization
NDRC	National Development and Economic Reform Commission
NFC	China Nonferrous Metal Industry's Foreign Engineering and Construction
NGO	Non-governmental organisation
NSIG	National Silicon Industry Group
NSR	Northern Sea Route
FDI	Foreign direct investment
FOI	Swedish Defence Research Agency
IPO	Initial public offering
OECD	Organization of Economic Co-operation and Development
PTS	Post and Telecom Authority
RFA	Russian Far East
RMB	Renminbi (Chinese currency)
SAFE	China State Administration of Foreign Exchange
SASAC	State-owned Asset Supervision Administration Commission
SCO	Shanghai Cooperation Organization
SEK	Swedish Krona (Currency)
SEZ	Special Economic Zone
SDIC	State Development and Investment Corporation
SME	Small and medium enterprises
SOA	State Ocean Administration
SRBG	Sichuan Road and Bridge Group
SSC	Swedish Space Corporation

THAAD	Terminal High Altitude Area Defense
TWh	Terawatt-hour
UAE	United Arab Emirates
UNCLOS	United Nations Convention of the Law of the Sea
WTO	World Trade Organization

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1 Introduction

This study is concerned with the security implications of Chinese economic influence in the Arctic, specifically in the Nordic region and Russia. China's scientific, economic and political engagement and presence in the Arctic has increased substantially in recent years.¹ The extent to which China can exercise economic statecraft against the Nordic countries and Russia is relevant for our understanding of the security implications of China's investments in the region.

A key component of China's Arctic strategy is to strengthen bilateral cooperation with Nordic nations and Russia, in particular through scientific collaboration and closer economic, trade and investment engagement. China has already established a presence in the Nordic countries. It has been operating a research station on Svalbard (Norway) since 2003, and together with Iceland set up a joint scientific research station, in 2018. Investments in Greenland (Denmark) focus on natural resource extraction, especially in mining. China's bilateral Arctic engagement with Russia stands out as perhaps the most far-reaching, where Chinese participation and investment in energy, shipping and infrastructure have led to the emergence of a potential Sino-Russian Arctic partnership.

As Chinese investment and engagement in the Arctic have increased, so have the suspicions and concerns, of not only the Nordic states, but also Russia, for the security implications of larger Chinese engagement in the region. While the Nordic states and Russia still welcome a Chinese presence on a general basis, some states, such as Denmark and Sweden, have recently, following an European Union (EU) directive in 2019 that established a framework for foreign direct investment, called for and enacted stricter policies and mechanisms for investment screening. On top of this, there is the increased strategic global rivalry between the US and China, which is having an impact on the dynamic between Arctic and non-Arctic states, China foremost among the latter.

1.1 Aim and scope of the study

The overarching aim of this study is to better understand China's economic influence in the Arctic region and its security implications. This is achieved through an examination of China's economic statecraft in two Arctic cases: (1) China and the Nordics, and (2) China and Russia.

The study aims to achieve two specific objectives. First, a case study on Chinese economic influence and economic statecraft in the Arctic nations provides an

¹ See, for instance, Timo Koivurova and Sanna Kopra (eds.), *Chinese Policy and Presence in the Arctic* (Leiden: Brill, 2020); Nong Hong, *China's Role in the Arctic. Observing and Being Observed* (London: Routledge, 2020); Ann-Mary Brady, *China as a Polar Great Power* (Cambridge: Cambridge University Press, 2017).

opportunity to gain further insights into China's use of economic tools to obtain power and influence. Using its economic influence for strategic purposes has become a main component in Chinese foreign policy strategy, or in what is often referred to as China's economic statecraft. Previous studies have mainly examined Chinese economic activities in the Arctic region from the perspective of China as an actor, so there is a need for more detailed studies, particularly on the Nordic countries, of China's economic influence there.² Second, by selecting two sub-cases, i.e., the Nordics and Russia, we are not only able to make comparisons between these cases, but also internally, within the cases themselves (specifically, between the Nordics).

Geographically speaking, we define the Arctic as all areas, including oceans and territories, north of the Arctic Circle. However, China's economic influence over the Nordic countries and Russia is of course not limited to investments above the Arctic Circle. The extent to which China can successfully exert economic statecraft is related to its general economic influence over the target countries, including their areas located outside the Arctic Circle. Therefore, in this study, we first examine China's economic influence such as through its trade and investments, in the Nordic countries and Russia more generally. Secondly, we analyse specific Chinese investments, such as in critical infrastructure, in order to examine the security implications of China's economic engagement in the region.

The study has three overarching research questions: What is the extent, with a specific focus on the Arctic, of China's economic influence in the Nordic region and Russia? How does China's economic statecraft differ between the Nordic region and Russia? What are the security implications of China's economic engagement in the region?

In order to examine these questions, the following sub-questions have guided us: What are the characteristics of and developments in China's trade and investment relations with the Nordics and Russia? How has China used economic statecraft in the two regions? How exposed are the two regions to that use? How have the Nordics and Russia responded to that situation?

1.2 Methodology and sources

In order to study Chinese economic statecraft in the Nordic region and Russia, the study first examines the extent of China's economic influence, through two dimensions. The first dimension is *general economic exposure*, which is measured as China's share of a country's export and import and Chinese foreign direct investment (FDI), as well as sector-specific trade and investments, in order to

² Some recent studies include Rush Doshi, Alexis Dale-Huang, and Gaoqi Zhang, *Northern Expedition: China's Arctic Activities and Ambitions*, Foreign Policy at Brookings, April 2021; Mark E. Rosen and Cara B. Thuringer, 2017, *Unconstrained Foreign Direct Investment: An Emerging Challenge to Arctic Security*, CNA, November 2017.

examine Chinese economic influence in certain sectors. The second dimension examines *specific Chinese investments*. This dimension is particularly concerned with specific investments in sensitive sectors and the possible security risks related to them. Each of these dimensions relate in different ways to both economic statecraft and security risks, as further elaborated in the theory section, below. In other words, the security implications of China's economic engagement in the region are analysed by using theories of economic statecraft as well as security risks related to specific investments.

The research design is that of a comparative study between two cases: China in the Nordic region and China in Russia. In addition, comparisons are also made between the Nordic countries. The comparison serves to analyse similarities and differences in order to better understand China's economic statecraft in the region.

As part of the research collaboration between FOI and RAND Corporation, a tabletop exercise (TTX) titled "China's Arctic Reach" led by RAND was conducted in January 2022. The exercise revolved around a scenario set in 2035 in which China had strengthened its presence in the Arctic and gathered a large number of Arctic experts, who identified possible mitigation strategies for the pathways leading to the scenario. Experience from the TTX has been integrated into the analysis of this study.

Some delimitations should be clarified. While we acknowledge that Nordic and Russian FDI in China is a factor that should be taken into account in order to get a fuller picture of economic (inter)dependence, due to time and space limitations we do not examine Nordic/Russian investment in China, although we refer to it in the study, for example in relation to economic boycotts against Nordic companies (Chapter 3).

In the case of Russia, the section analysing specific investments in infrastructure and other sensitive sectors is geographically focused on the Russian Arctic region. This differs from the Nordic region, where the investments analysed cover the entire national territories.

The main part of this study was written before Russia's invasion of Ukraine, on February 24, 2022. The war could potentially and fundamentally change the conditions for China's presence in the Arctic, as China will now have to deal with an isolated Russia in the Arctic. This implies both challenges and opportunities for China. Certain adjustments in the analysis have been made to reflect these new conditions, but the report does not include an in-depth analysis of the war's future consequences for the Arctic.

The study is based on a combination of primary and secondary written sources, in English, Chinese, Finnish, Swedish, Danish and Norwegian. Data on Chinese economic activities in the Nordic region has been gathered through a compilation of existing data from public sources, such as national statistics bureaus, the Organization of Economic Co-operation and Development (OECD), open

databases, the Swedish Companies Registration Office's Beneficial Ownership Register, and our own compilation of Chinese acquisitions in the Nordic countries, as well as other previous research. The data has been further analysed and is presented with descriptive statistics. Except for aggregate figures on numbers of investments, which are sometimes published by different state organs, detailed information on FDI is generally not publicly available. Therefore, in order to find out which companies have been acquired, it is necessary to combine information from different sources, including media reports and information from both investors and acquired companies. As a consequence, there are with few exceptions no openly available surveys of Chinese FDI. This makes it difficult to compare and analyse data from different countries, since we do not know what is behind the aggregate figures. Table 2 (Chapter 3) lists Chinese FDI in the Nordic countries. In 2019, FOI published a study that listed Chinese corporate acquisitions in Sweden. The survey identified 51 majority acquisitions and an additional 14 minority acquisitions, for a total of 65 Chinese acquisitions in 2003-2019.³ Since then, one of this study's authors has identified an additional eight majority and four minority acquisitions, for a total of 59 majority acquisitions.⁴ In a similar survey currently underway in Finland, the researchers have identified 38 majority acquisitions.⁵

For Denmark, Norway and Iceland, there are no openly available surveys of Chinese corporate acquisitions.⁶ In Table 2, the listed figure of Chinese acquisitions of parent companies is based on FOI's compilation of identified acquisitions, but should not be treated as a definite figure. Some of the Nordic countries publish official figures on the number of Chinese investments. These figures include not only mergers and acquisitions, but also Greenfield investments, i.e., when a parent company establishes new operations in a foreign country. Nor do the figures distinguish between parent companies and subsidiaries. As an example, among the 147 Chinese-owned companies in Sweden in 2019, more than 40 were subsidiaries of Volvo Cars.⁷ Finally, it should be pointed out that minority ownership can sometimes result in considerable influence over a company. We have included

³ Jerker Hellström, Oscar Almén and Johan Englund, *Chinese corporate acquisitions in Sweden: A Survey*, Stockholm, Swedish Defence Research Agency (FOI), February 2021.

⁴ Some of the added companies are earlier acquisitions that were not included in the original survey; others are new acquisitions made in 2020.

⁵ Continuous dialogue with Liisa Kauppila, regarding ongoing research project, 2021-2022.

⁶ Lists of Chinese FDI in Denmark have been published but these do not distinguish between greenfield investments, Danish subsidiaries of foreign companies, and smaller individual companies, and therefore is not useful for a comparison. See, for example, Leonora Beck and Nicolai Raastrup, "Se listen: Her er virksomhederne med kinesiske ejere" [See the list: Here are the businesses with Chinese owners], *FINANS*, September 13, 2020. <https://finans.dk/erhverv/ECE12408212/se-listen-her-er-virksomhederne-med-kinesiske-ejere/?ctxref=ext>; and Xu Xiwen and Michael W. Hansen, "The Arrival of Chinese Investors in Denmark: A Survey of Recent Trends in Chinese FDI in Denmark", *CBDS Working Paper* 2, 2017. https://www.cbs.dk/files/cbs.dk/the_arrival_of_chinese_investors_in_denmark_workingpaper.pdf

⁷ Correspondence with representative of Tillväxtanalys (Swedish Agency for Growth Policy Analysis), May 5, 2021.

minority acquisitions in the figure for the total value of FDI, but we treat it separately from majority acquisitions for the total number of acquisitions because statistics on foreign-owned companies usually only include majority ownership.

For Chinese economic activities in Russia, the study draws on Chinese and Russian data, which are in some cases complemented with authoritative non-official reporting from either Chinese or Russian sources and non-Russian or non-Chinese sources and material. Much of the data concerning trade and investment statistics is drawn from an annual joint China-Russia report, as this provides a reliable and consistent source of data information.⁸ The study has also drawn on in-depth interviews with experts and policymakers in the Nordic region, and specialists and experts working on China-Russia relations and Arctic issues.

1.3 Theoretical starting point: Economic statecraft and national security

Economic means are often used to achieve political goals. In this way, economic power has a strategic value similar to military power, as a way to achieve geopolitical goals.⁹ Similarly, economic statecraft can be broadly defined as “state manipulation of international economic activities for strategic purposes”.¹⁰

Economic statecraft has a long tradition and is certainly not an exclusively Chinese strategy.¹¹ Economic sanctions in order to achieve political goals have been used by many states throughout history and China has often been the target of such activities. For example, after the violent suppression of the student protests in 1989, many countries implemented economic sanctions against China. More recently, during 2021, the US and EU used economic sanctions against Chinese individuals considered responsible for human rights violations in Hong Kong and Xinjiang.¹² Similarly, the EU parliament’s refusal to approve the investment

⁸ The report is a joint project conducted annually by several Russian and Chinese scholars and experts. The report is considered an authoritative joint account from both sides regarding developments and issues on Sino-Russian relations. See Sergey Luzyanin and Zhao Huasheng, *China-Russia Dialogue: The 2021 Model*. Moscow: Russian International Affairs Council (RIAC); the report, on the other hand, relies much on data from Russian sources, mainly the Russian Central Bank.

⁹ Sören Scholvin and Mikael Wigell, “Power politics by economic means: Geoeconomics as an analytical approach and foreign policy practice”, *Comparative Strategy*, 37:1, 2018, 73-84. See also a recent FOI study, Evelina Bonnier and Peter Wikman, *Hur kan geoekonomisk rivalitet analyseras utifrån en strategisk ansats?*, Stockholm: Swedish Defence Research Agency (FOI), November 2021.

¹⁰ William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*, Ithaca: Cornell University Press, 2016, p. 3.

¹¹ The U.S also has a long history of using economic statecraft, see for instance Daniel Drezner, “The United States of Sanctions”, *Foreign Affairs*, September/October, 2021, <https://www.foreignaffairs.com/articles/united-states/2021-08-24/united-states-sanctions>

¹² Jacob Fromer and Finbarr Bermingham, “US, U, UK, Canada launch sanction blitz against Chinese officials; Beijing hits back”, *South China Morning Post*, March 22, 2021. <https://www.scmp.com/news/china/diplomacy/article/3126487/xinjiang-eu-hits-china-first-sanctions-tiananmen-square>.

agreement with China in 2021 was related to similar political questions.¹³ The debate about Chinese economic statecraft has developed because China's huge international economic influence has made such activities more useful as a strategic tool for the Chinese government.

Economic statecraft can be, and often is, directed against individuals and companies and not only against states. In this study we are mainly concerned with states as targets of economic statecraft. We argue that sanctions directed against individuals and companies within a particular state will also indirectly affect that state. The fates of companies in a certain state will affect the government of that state both in terms of the economic impact they have on the economy, but also through pressure from public opinion and lobbying on the government from the companies.

Economic statecraft requires some degree of state control but that does not necessarily mean state ownership. Norris, focusing on China as an actor, shows that the most important factor for state control is when the Chinese state has been able to achieve unity, "whether the state is acting as a unified, rational actor in any particular, case-specific empirical context".¹⁴ He explains that if the state suffers from too much intrastate division it will be difficult to coordinate commercial actors. Sometimes, even though state unity exists, the state and the firm might have incompatible goals. In these cases, factors such as relative resources, market structure, and reporting relationship decide whether state control is achieved or not. Arguably, the development in China since Norris' study (2016) has moved towards greater state unity (centralisation) and more state control of private actors, including their resources. A number of laws and regulations, including the 2017 National Intelligence Law and the 2020 Chinese Communist Party (CCP) Central Committee opinion on strengthening united front work on the private economy, serve as confirmation of the party state's increasing control over business.¹⁵ This would theoretically increase Chinese economic statecraft's opportunities to succeed. In other words, the conditions for China's capacity for economic statecraft have improved during the reign of Xi Jinping.

However, the success of economic statecraft relates not only to the acting state, but also depends on factors related to the target country. Reilly lists three strategies

¹³ Vincent Ni, "EU parliament 'freezes' China trade deal over sanctions", *The Guardian*, May 20, 2021. <https://www.theguardian.com/world/2021/may/20/eu-parliament-freezes-china-trade-deal-over-sanctions>.

¹⁴ Norris, 2016, p. 29.

¹⁵ For example, The National Intelligence Law requires Chinese companies to inform the Chinese authorities about issues of national security: 全国人民代表大会[National People's Congress]中华人民共和国国家情报法 [People's Republic of China's National Intelligence Law] 6 June 2018. www.npc.gov.cn/npc/c30834/201806/483221713dac4f31bda7f9d951108912.shtml; Murray Scot Tanner, "Beijing's New National Intelligence Law: From Defence to Offence", *Lawfare*, July 20, 2017. www.lawfareblog.com/beijings-new-national-intelligence-law-defense-offense; 中办印发《意见》 加强新时代民营经济统战工作 [China's Communist Party Central Committee, "Opinion on strengthening united front work on private economy in the new era"], September 16, 2020. <http://cpc.people.com.cn/n1/2020/0916/c64036-31862864.html>.

of economic statecraft: providing capital through foreign aid or direct investment; expanding trade via preferential trade agreements or state procurements; and altering monetary policies, such as by purchasing foreign bonds or intervening in currency markets. All these can be used either as positive incentives or punitive measures.¹⁶ Some punitive economic statecraft measures, such as trade boycotts, are easily detected, especially when they are accompanied by official demands. However, other measures may be hidden and implicit. As Kastner and Pearson point out, this is particularly the case for Chinese economic statecraft, since Beijing has taken a principled stance against economic sanctions undertaken without United Nations authorisation.¹⁷ China has for example taken a clear stance against Western sanctions against Russia following the invasion of Ukraine. Positive economic statecraft measures are even more difficult to pinpoint, since they can be seen as part of the general economic relationship. It can often be difficult to distinguish between intentions to gain influence or simply profit.¹⁸

The extent to which China can wield these measures successfully or not depends on the size of the target state's economy and the extent to which the economy in question is exposed to China. Research on economic vulnerability shows that the risk of becoming economically vulnerable in a relationship is related to factors such as the size of the economy, the degree of asymmetry between the two countries and the extent to which the target state can find alternative sources for its products.¹⁹ In other words, smaller nations, with high economic exposure to China and that have few other trade partners than China for a particular product, are vulnerable to Chinese economic statecraft. This may force them to make political concessions to the Chinese government that go against the national security interests of the country.

While China has employed coercive economic measures against other states on numerous occasions, results have been mixed. China has been relatively successful in discouraging national leaders from meeting with the Dalai Lama and selling arms to Taiwan. These are issues that China considers to be core national interests, but not necessarily of similar importance to the target country, hence concessions can more easily be gained from the target country. However, China has found it more difficult to succeed with economic punitive measures when the conflict issue

¹⁶ James Reilly, *China's Economic Statecraft: Turning Wealth into Power*, Lowy Institute, 2013. Clearly, in the Arctic case, foreign aid is not a relevant tool of economic statecraft, since the countries involved are economically developed nations.

¹⁷ Scott L. Kastner and Margaret M. Pearson, "Exploring the Parameters of China's Economic Influence", *Studies in Comparative International Development*, No. 56, 2021, p. 26. For an in-depth study of the domestic processes behind China's economic statecraft, also see James Reilly, *Orchestration: China's Economic Statecraft Across Asia and Europe*, Oxford: Oxford University Press, 2021.

¹⁸ Kastner and Pearson, 2021, p.27.

¹⁹ Robert Keohane and Joseph Nye, *Power and Interdependence, World Politics in Transition*, Boston: Little, Brown, 1977, p 11; Timothy Peterson, "Reconsidering economic leverage and vulnerability: Trade ties, sanction threats, and the success of economic coercion", *Conflict Management and Peace Science*, Vol. 37 (4), 2020, pp. 409-429.

has been of great national security importance for the target country. Examples of this include China's stop of rare earths export to Japan following Japanese nationalisation of the Senkaku/Diaoyutai islands, in 2010, and trade sanctions against South Korea after the South Korean government accepted deployment of the US THAAD missile defence system 2016.²⁰

1.3.1 Security risks related to foreign investment

Clearly, a country's economic exposure and general economic dependence logically opens up for greater potential risk of being subject to economic statecraft. In order to examine such risks in relation to China's economic influence in the Arctic region, we examine the extent of China's general economic influence as well as cases of Chinese economic statecraft in a part of the region, namely the Nordic countries and Russia, in the following chapters.

But there are other security risks involved in foreign investment than general economic dependence. Individual investments in sensitive sectors might have security implications even though the general economic exposure to China is limited. This is one reason why there has been such an intense debate regarding China's Belt and Road Initiative (BRI), with its focus on infrastructure. Chinese ownership of critical infrastructure, such as ports, electricity, or telecom, may give the Chinese state direct influence over sectors that are of strategic significance.

In order to analyse security risks related to Chinese investments, it is useful to distinguish between different kinds of threats. Moran and Oldenski list three threats in relation to foreign investment in the US: denial of goods or services from a foreign supplier who is crucial to the functioning of the economy (threat 1); leakage of sensitive technology that could be used in a manner harmful to U.S. interests (threat 2); and infiltration, espionage and disruption (threat 3).²¹ Similarly, Hemmings lists the following five risks related to Chinese investment: "(i) the lack of investment reciprocity; (ii) imbalances caused by China's massive state-owned enterprises; (iii) the monopolistic control of strategic industries; (iv) the geopolitical nature of China's investment portfolio, and underlying exchange of investment for influence within a given state; and (v) the security and public safety issues raised by Chinese ownership."²² Complete control of the company is

²⁰ Reilly, 2013; Kwon, 2020; Sukjon Yoon, "Upgrading South Korean THAAD", *The Diplomat*, May 10, 2021, <https://thediplomat.com/2021/05/upgrading-south-korean-thaad/>. For an alternative view on the outcome of the THAAD conflict, see David Josef Volodsko, "China wins its war against South Korea's US THAAD missile shield—without firing a shot", *South China Morning Post*, November 18, 2017.

²¹ Theodore Moran and Lindsay Oldenski, *Foreign Direct Investment in the United States: Benefits, Suspensions, and Risks with Special Attention to FDI from China*, Washington D.C., Peterson Institute for International Economics, 2013.

²² John Hemmings, *Safeguarding our Systems: managing Chinese Investments into the UK's Digital and Critical National Infrastructure*, London: The Henry Jackson Society, 2017, p. 16. A recent study on foreign investment in sensitive sectors in Sweden identified four risks with FDI: the risk of decreased external (1) and internal (2) security; risk of damage of nationally important sectors (3); and risk of

not always necessary to gain influence over it. Even a minority share may give the owner, and indirectly a state, leverage over management, and influence over the development in sensitive infrastructure. In a case study, Otero Iglesias and Weissenegger argue that the 35 per cent stake that China's State Grid Corporation has in Italian CDP Reti, which controls Italy's electric grid, will enable China to exert geopolitical power over the grid.²³ Clearly, security risks are multidimensional and complex. In order to understand the security implications of Chinese investments, we must examine the particularities of each individual case. Previous research, including the above-mentioned studies, guides our analysis of the security implications of Chinese investments in sensitive sectors in the Nordic region and Russia.

Following the above discussion, in order to understand China's economic influence in the Arctic, we must look at *both* the general economic impact on the Arctic nations *and* the risks related to specific investments. Before examining China's economic influence, we should take a look at China's strategic interests in the Nordic and Russian Arctic regions.

1.4 Outline of the study

Chapter 2 presents an overview of China's Arctic strategy and priorities with a focus on Chinese interests in the Nordics and the Russian Arctic. Chapter 3 and 4 examines general trade flows and Chinese investments in the five Nordic countries and Russia respectively as well as more specific sector-specific investments and investments in the Arctic region by China. The two chapters also describe policy responses to Chinese economic statecraft in the respective regions. Chapter 5 compares the Nordic countries with Russia and assesses the similarities and differences in China's economic statecraft in each of them. It also analyses security implications for the selected countries and the Arctic region more broadly. Chapter 6 concludes the main findings and discusses possible future development.

damage to the Swedish economy (4). Magnus Peterson (ed.), Oscar Almén, Carl Denward, Erika Holmquist, Tomas Malmlof and Maria Ädel, *Utländska direktinvesteringar i skyddsvärda verksamheter*, Stockholm: Swedish Defence Research Agency (FOI), November 2020.

²³ Miguel Otero Iglesias and Manuel Weissenegger, 'Motivations, security threats and geopolitical implications of Chinese investment in the EU energy sector: the case of CDP Reti', *European Journal of International Relations*, Vol 26, No. 2, June 2020, pp. 594-620.

2 China's Strategy and Presence in the Arctic

Since economic statecraft means “state manipulation of international economic activities for strategic purposes”²⁴, in this chapter we first outline China's strategic objectives in the Arctic. Then follows a description of China's activities in the Nordic and Russian Arctic regions.

2.1 Overall strategic objectives and policies

China's Arctic presence and interests have come to play an increasingly important role in its overall grand strategy of asserting itself as a global great power. While China dates its legitimate role in Arctic affairs back to the time when the country became a signatory country to the Svalbard Treaty, in 1925, it was not until the 2010s that China began to emerge as a more present and, indeed, active actor in the region. Some observers in particular noted how Russia's flag-planting on the seabed at the North Pole, in 2007, meant a crude awakening for Chinese strategists and analysts about a potential resource scramble for oil and natural gas riches and, more broadly, geopolitical competition.²⁵ In 2004, China opened its first Arctic research station, the Yellow River Station, on Svalbard. Between 1999 and 2020, China has concluded 11 research expeditions to the Arctic.²⁶ An important step towards a more participant role in Arctic affairs was taken when China became an observer state in the Arctic Council (AC), in 2013.

Since 2014, China has further elevated the importance of the Arctic region. This was the year that Chinese president Xi Jinping first committed China to becoming a “polar great power”, signaling China's greater ambitions in the Arctic and Antarctica.²⁷ China defines the polar regions (the Arctic and the Antarctic), along with the deep seabed and outer space, as “new strategic frontiers” (*zhanlǚe xīn jiāngyù* 战略新疆域), crucial domains for China to manage in order to gain strategic advantages that will ensure it a leading, dominant position in the great power competition of the 21st century.²⁸ Moreover, Arctic sea lanes are now also formally incorporated in China's BRI, as a “Polar Silk Road”, further indicating the growing importance of the Arctic region in China's global infrastructure plans.

²⁴ Norris, 2016, p. 3.

²⁵ See for instance Linda Jakobson and Jingchao Peng, “China's Arctic Aspirations”, *SIPRI Policy Paper* 34, Stockholm: Stockholm International Peace Research Institute (SIPRI), 2012.

²⁶ Rush Doshi, Alexis Dale-Huang, and Gaoqi Zhang, *Northern Expedition: China's Arctic Activities and Ambitions*, Washington D.C.: The Brookings Institute, April 2021, April 2021, Chapter 6.

²⁷ Doshi, 2021.

²⁸ Xinhua, “国家安全法草案拟增加太空等新型领域的安全维护任务” [The draft national security law will increase security in space and other new areas], June 24, 2015. <http://www.chinanews.com/gn/2015/06-24/7363693.shtml>.

There is a broad range of official policy documents with relevance for China's Arctic policies and engagement. For instance, China's 14th Five-Year Plan (its latest), published in May 2021, mentions that China should engage in practical cooperation in the Arctic to build a Polar Silk Road.²⁹ In an earlier official document from June 2017, the "Vision for Maritime Cooperation under the Belt and Road Initiative", released by the National Development and Economic Reform Commission (NDRC) and the State Ocean Administration (SOA), the Arctic is described as one of three main "blue economic passages", which link up to broader connectivity goals in China's BRI.³⁰

However, Chinese interests and policy positions are to date most clearly articulated in its Arctic White Paper, published in January 2018, by the State Council.³¹ The Foreign Ministry was the lead ministry in coordinating efforts to produce the paper.³² It is primarily a summary of previous statements and articulations by senior Chinese officials. In the paper, China refers to itself geographically as a "near-Arctic State"³³ and articulates what it sees as both its legitimate interests and rights but also obligations in the Arctic. In the document, China reiterates its respect for the territorial sovereignty of Arctic states, its commitment and adherence to international laws and regulations (in particular UNCLOS) and regional global governance structures. China also wishes to assume the role of "responsible major power" and make positive contributions to the sustainable development of the Arctic.

At the same time, in the White Paper, China also clearly spells out its own interests and what it sees as its legitimate rights. It lists its interests as falling into five distinct areas: (1) deepening the exploration and understanding of the Arctic, (2) protecting the eco-environment of the Arctic and addressing climate change, (3) utilising Arctic resources in a lawful and rational manner, (4) participating actively in Arctic governance and international cooperation and (5) promoting peace and stability there.³⁴ For the purpose of this report, China's commercial interest is of greatest concern, although the other Chinese interest areas obviously shape and impact China's economic and commercial engagement in the Arctic. For instance, Chinese research expeditions and scientific collaboration can also be used to open up for Chinese economic interests in the Arctic.

²⁹ State Council Information Office, *14th Five-Year Plan for Social and Economic Development of the People's Republic of China, 2021 – 2025*. March 13, 2021, http://www.gov.cn/xinwen/2021-03/13/content_5592681.htm.

³⁰ Xinhua, "Full text: Vision for Maritime Cooperation under the Belt and Road Initiative", June 20, 2017, http://www.xinhuanet.com/english/2017-06/20/c_136380414.htm.

³¹ State Council Information Office, "China's Arctic Policy", January 26, 2018, <https://www.chinadailyasia.com/articles/188/159/234/1516941033919.html>.

³² Anders Christoffer Edström, Iselin Stensdal and Gørild Heggelund, "Den «nye supermakten»: Hva vil Kina i Arktis?", *Internasjonal Politikk*, Årgang 78, Nummer 4, (2020), p. 525.

³³ The document says here that "[China is] one of the continental states closes to the Arctic Circle"; see White Paper.

³⁴ See State Council, "China's Arctic Policy", 2018.

China's Arctic White Paper expresses a clear commercial interest in the region. Four broad categories are spelled out: (1) Chinese participation in and use of Arctic shipping routes, notably the Northern Sea Route (NSR); (2) exploration and exploitation of oil, gas, mineral, and other non-living resources; (3) participation in conservation and utilisation of fisheries and other living resources; and (4) participation in developing tourism resources.³⁵

While it is clear that China is expressing an open interest in participating in the development and exploitation of Arctic natural resources and utilising the potential of Arctic sea lanes, the reality of its actual engagement is more limited. Chinese energy exploitation is largely confined to the Russian Arctic, and in particular, the Yamal LNG projects. In terms of shipping, despite frequent official statements and often optimistic assessments from Chinese Arctic scholars and analysts, the commercial engagement by Chinese companies and actors remains cautious. Arctic sea lanes and especially the NRS have not lived up to general expectations nor the commercial interests of outside actors, including those of Asian actors such as China, which remain limited.³⁶ Moreover, it is true that China's huge fishing fleet is ever searching for new regions to fish. And although no Chinese-flagged fishing ships have entered the Arctic, so far, the region is now included in China's policy on distant water fishing; China is likely to strive for fishing rights in the area around Svalbard.³⁷ At the same time, China has signed the Central Arctic Fishing Ban Agreement, which bans commercial fishing in the high-seas portions of the Central Arctic Ocean for at least 16 years.³⁸

It should finally also be pointed out that although the Arctic has increasingly become a more prominent feature of China's foreign policy strategy and broader engagement with the outside world, it has not assumed a top leadership priority. The Arctic is not a "core national interest", while China's pressing security interests remain firmly in the East Asia region.³⁹ For instance, some argue that if the Arctic had been a more concerning foreign policy objective, it would not have taken the Chinese government so many years to finally produce a White Paper on the subject.⁴⁰

³⁵ Ibid.

³⁶ Arild Moe and Olav Schram Stokke, "Asian Countries and Arctic Shipping: Policies, Interests and Footprints on Governance", *Arctic Review on Law and Politics*, Vol. 10, 2019, 24–52.

³⁷ Nengye Liu, "China and one hundred years of the Svalbard treaty: Past, present and future", *Marine Policy*, 124, 2021, p. 4.

³⁸ David Balton, "Landmark Arctic fisheries agreement enters into force", *China Dialogue Ocean*, August 14, 2021, <https://chinadialogueocean.net/en/fisheries/18300-landmark-arctic-fisheries-agreement-enters-into-force/>.

³⁹ Øystein Tunsjø, "The Great Hype: False Visions of Conflict and Opportunity in the Arctic", *Survival*, Volume 60, 2020.

⁴⁰ Edström et al, 2021.

2.2 Interests and activities in the Nordic countries related to the Arctic

Being geographically separated from the Nordic region by Russia and Central Asia, China has no obvious immediate geopolitical interests in the region than the Arctic. China considers the Nordic region interesting as a source of technology and know-how, which is also reflected in trade and investment patterns. Hellström, in a study from 2014, defines China's Nordic-wide priorities as 1) promotion of China's core interests; 2) acquisition of technology; 3) acquisition of know-how, in particular on issues concerning developments in the Arctic, such as climate change and potential sea routes and energy resources; 4) utilising the Nordic region as a sounding board and door-opener for politically motivated activities elsewhere; and 5) improving perceptions of China.⁴¹

The Nordic countries are also important for China's efforts to establish itself in the Arctic, as they are geographically located within the Arctic Circle and members of the most important governance organ for the Arctic, the Arctic Council. China managed to gain the support of the Nordic countries in its successful bid to become an observer at the council, in 2013.⁴²

2.2.1 Scientific collaboration

So far, scientific collaboration is the priority that has come furthest and, as has been noted, is ranked first among the policy goals in China's 2018 Arctic White Paper.⁴³ This is also an area in which cooperation with the Nordic countries is more developed than with Russia.⁴⁴ China has established a number of research stations in the Nordic countries over the years. Norway allowed China to build its first Arctic research station, the Yellow River, which was opened in 2004, on Svalbard.⁴⁵ In Kiruna, Sweden, China built two facilities, a meteorological ground receiving station, in 2010, and, in 2016, the China Remote Sensing Satellite North Polar Ground Station, which is China's first satellite station outside China. China also opened the China-Iceland Arctic Science Observatory, on Iceland, in 2018.⁴⁶ The same year, China and Finland agreed to establish a joint research centre for Arctic space observation, at the Finnish Space Centre, in Sodankylä.⁴⁷ Another example

⁴¹ Jerker Hellström, *China's Political Priorities in the Nordic Countries*, Stockholm: Swedish Defence Research Agency (FOI), March 2014, pp. 30-34.

⁴² Hellström, 2014, p. 30.

⁴³ Taylor M. Fravel, Kathryn Lavelle and Liselott Odgaard, "China engages the Arctic: a great power in a regime complex", *Asian Security*, 2021, p. 13.

⁴⁴ *Ibid*, p.14.

⁴⁵ Liu, 2021, p. 2.

⁴⁶ Doshi, 2021.

⁴⁷ Chinese Academy of Sciences, "China, Finland, to Enhance Arctic Research Cooperation", October 31, 2018, https://english.cas.cn/Special_Reports/Belt_of_Science_Road_for_Cooperation/Technology_Cooperation/201810/t20181029_200564.shtml

of research collaboration is the China-Nordic Arctic Research Centre (CNARC), which was established in 2013, in Shanghai. It involves four Chinese and six Nordic research institutions. CNARC's annual symposiums include an academic conference and a business roundtable, highlighting mutual interest in deepening economic collaboration.⁴⁸

While scientific collaboration has long been considered uncontroversial, voices have lately been raised regarding how even this domain poses security risks. Space observation in particular, it is argued, can both serve to enhance China's military capability and be used for military surveillance of the Arctic and of other nation's satellites. It has also been suggested that China uses scientific collaboration as a way to acquire a foothold in the Arctic and thereby gain further strategic influence in the region.⁴⁹

2.2.2 Investments

While China has been an active investor in several of the Nordic countries (as further discussed in Chapter 3), few of those investments are located within the Arctic Circle. Chinese actors have had many intentions and expended much effort in attempting to invest, but few of these plans have actually resulted in completed deals. Sometimes this was related to legal or financial difficulties experienced by the Chinese companies at home.⁵⁰ Other times they encountered problems in the countries of investment.

There are numerous examples of Chinese investment projects in the Arctic region that have not yet been realised. In 2015, the Icelandic company, Klappir Development, and Chinese state-owned China Nonferrous Metal Industry's Foreign Engineering and Construction (NFC) signed a declaration of intent for a USD 780 million investment in an aluminium smelter in Iceland.⁵¹ Due to lack of local energy to support the smelter, however, the project has been put on hold.⁵² In 2016, China's Shenghe Resources joined with Australia-based Greenland Minerals for a planned uranium and rare earth mine in Kvanefjeld. However, the Greenland general election, in March 2021, resulted in a new government, led by

⁴⁸ Koivurova et al 2019, p 64.

⁴⁹ Jana Robinson, "Arctic Space Challenge for NATO Emerging from China's Economic and Financial Assertiveness", *The Journal of the JAPCC*, Spring/Summer 2020, pp. 35-42.
<https://www.japcc.org/arctic-space-challenge-for-nato/>; Doshi, 2021; Niklas Granholm, *Utvecklingen i Arktis – påverkan på och implikationer för Sverige*, Stockholm: Swedish Defence Research Agency (FOI), 2019, p. 9; Taylor (et al.), 2021, p. 12.

⁵⁰ Doshi, 2021.

⁵¹ Iceland review, "Chinese to Fund new Smelter in Northwest Iceland", July 3, 2015.
<https://www.icelandreview.com/news/chinese-fund-new-smelter-northwest-iceland/>.

⁵² The latest information regarding the project is from a local blog published in 2018. Húnahornið - Fréttavefur allra Húnavetninga [Húnahornið - News website for all Húnavetnings], "Lítið að fréttu af álvarsáformum", October 15, 2018. Accessed 10 November 2021.
<https://www.huni.is/index.php?pid=32&cid=15232&template=print.php>.

the left-of-centre Inuit Ataqatigiit party, which has a strong focus on environmental protection. As a consequence, the mining project is unlikely to proceed.⁵³

Some of these investment efforts have been cancelled because of security concerns in the concerned states. The Danish government intervened when Chinese company General Nice Group tried to buy an abandoned naval base in Greenland in 2016, and Denmark and the U.S. have stopped other efforts by Chinese actors to build airports on Greenland. The U.S. sent a clear message to the Danish government that Chinese companies shall not be allowed to invest in Greenland. In 2019, the U.S. announced the opening of a consulate in Greenland's capital, Nuuk, and opened an investment fund for Greenland, of more than USD 12 million. In addition, the Danish military has increased its military presence in the area.⁵⁴

There are several cases of failed Chinese investment initiatives in other parts of the Arctic region. Businessman Huang Nubo failed in his attempt to buy land in Iceland in 2011 and on Svalbard in 2014. In both cases, the purpose of the purchase was unclear, and the deal was blocked.⁵⁵ In 2018, the Chinese Arctic and Antarctic Administration (CAA) tried to purchase Finland's Kemijärvi airport, in Lapland, but the Finnish Ministry of Defence put a stop to the plans, as the airport was located close to a strategic military range.⁵⁶

China has also shown interest in the Norwegian harbour of Kirkenes and Iceland's Akureyri, which would give China access to the Arctic Ocean (see map 1). Plans include connecting Kirkenes with Rovaniemi in Finland and further down to Europe through an Arctic railway and the Rail Baltica concept. This would also include a Helsinki-Tallin tunnel.⁵⁷ However, in 2020, the Estonian government rejected the project citing security concerns.⁵⁸ Considering the intense debate about the possible security implications of China's presence in the Arctic, most of these investment plans are highly unlikely to proceed in the near future.

⁵³ Yasuo Takeuchi, "Greenland says no to China-backed rare-earth mine in Greenland", *Nikkei Asia*, April 8, 2021. <https://asia.nikkei.com/Business/Markets/Commodities/Greenland-says-no-to-China-backed-rare-earth-mine-in-election>.

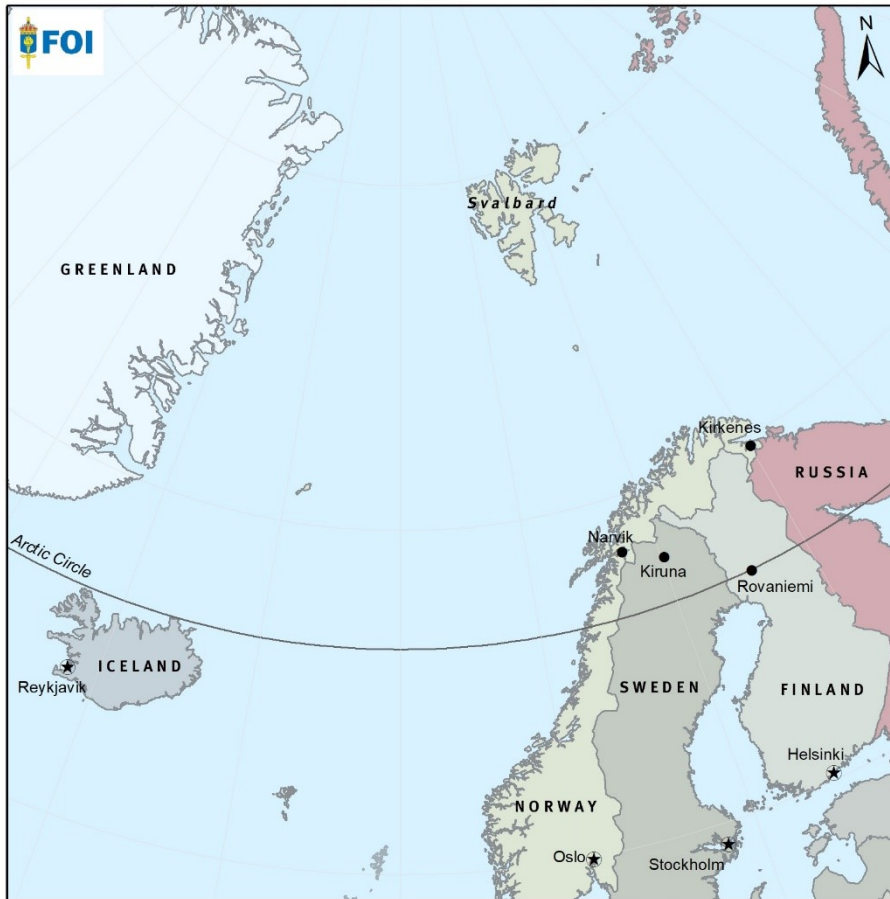
⁵⁴ Niklas Granholm, *Too Big Not to Care – USA:s långsiktiga strategier för ett nytt Arktis*, Stockholm: Swedish Defence Research Agency (FOI), April 2021.

⁵⁵ Doshi (et al.), 2021, Chapter 6.

⁵⁶ Fravel (et al.), 2021, p.15.

⁵⁷ Timo Koivurova, Liisa Kauppila, Sanna Kopra, Marc Lanteigne, Mingming Shi, Malgorzata (Gosia) Smieszek, and Adam Stepien, *China in the Arctic and the Opportunities and Challenges for Chinese-Finnish Arctic Co-operation*, February 2019, Publication series of the Government's analysis, assessment and research activities 8/2019, p 83.

⁵⁸ Joshua Posaner, "Estonia to reject China-backed Baltic tunnel plan over security fears", *Politico*, July 31, 2020. <https://www.politico.eu/article/estonia-to-reject-china-backed-baltic-tunnel-plan-over-security-fears/>.



Map 1: The Nordic Arctic region

Clearly, China has made much effort to increase its presence in the Nordic Arctic in terms of scientific cooperation and investments. Some activities, such as access to space antennas have direct strategic consequences which are further elaborated in section 3.5.3. Increased presence serves China's strategic interest to gain know-how of Arctic related issues. Activities such as investments that have *not* been realized is informative of China's strategic interests in the region. China has tried to get a foothold in the region with investments in mining, airfields, and ports as important steps to become a more active Arctic player.

2.3 Interest and activities in the Russian Arctic

The Russian Arctic generates 10 per cent of Russia's GDP and approximately 20 per cent of its exports. Hydrocarbons comprise the majority of exports but also include valuable minerals such as nickel and diamonds and rare earth elements. A third of Russia's fish stocks are in the Arctic.⁵⁹ Moreover, it is hoped that the NSR will provide a new trade route for transcontinental trade between Asia and Europe, as climate change is gradually pushing back Arctic sea ice, opening up new shipping possibilities.

From a security perspective, the Arctic figures as a core strategic area in Russia's nuclear deterrence strategy and posture, with its Northern Fleet as its key instrument.⁶⁰ In Russia's latest Arctic Strategy, providing improved conditions for realising the commercial and economic potential of the Arctic is a key objective. Foreign investment and cooperation support are welcomed, including from non-Arctic states such as China.⁶¹ Finally, the Arctic has major population centers, such as Arkhangelsk and Murmansk, and Russia's President Vladimir Putin has sought to raise nationalistic and patriotic sentiments over the Russian Arctic.⁶²

For China, Russia has come to assume an important role in its Arctic engagement, not least on the economic side. China is interested in developing natural resource extraction projects with Russia and to make use of increased shipping along the NSR for maritime trade between Asia and Europe (see map 2). Investments in the Arctic energy sector and, to a large extent, interest in Arctic shipping lanes can be understood as part of Beijing's larger resource and trade diversification strategy. Major parts of China's petroleum imports originate from the Middle East and Africa and have to transit via the Malacca Strait. Over 60 per cent of Chinese international trade travels by sea, to a large extent transiting the South China Sea. Because of concern over a Malacca Strait blockade of its energy imports and maritime trade flows, the development of alternative routes such as those through the Arctic can function as an energy security strategy for China.⁶³

⁵⁹ Eugene Rumer, Richard Sokolsky, and Paul Stronski, *Russia in the Arctic—A Critical Examination*. Washington D.C: Carnegie Endowment for International Peace, 2021, p. 6.

⁶⁰ Dmitri Trenin, "Russia and China in the Arctic: Cooperation, Competition, and Consequences", *Carnegie Moscow Center*, March 31, 2020, <https://carnegiemoscow.org/commentary/81407>.

⁶¹ Ekaterina Klimenko, "Russia's new Arctic policy document signals continuity rather than change", *Commentary*, April 6, 2020, Stockholm: Stockholm International Peace Research Institute, <https://www.sipri.org/commentary/essay/2020/russias-new-arctic-policy-document-signals-continuity-rather-change>.

⁶² Stephanie Pezard, "The New Geopolitics of the Arctic. Russia's and China's Evolving Role in the Region", Testimony presented before the Standing Committee on Foreign Affairs and International Development of the Canadian House of Commons on November 26, 2018, <https://www.rand.org/pubs/testimonies/CT500.html>.

⁶³ Li Xing and Rasmus Gjedssø Bertelsen, "The Drivers of Chinese Arctic Interests: Political Stability and Energy and Transportation Security", *The Arctic Yearbook 2013*, <https://arcticyearbook.com/arctic->

While Russia long remained skeptical about China's presence and involvement in the Arctic, as evidenced most clearly in Moscow's hesitation in admitting China's observer status to the Arctic Council, in 2013, recent years have seen a gradual step-by-step movement towards closer cooperation. In particular, Russia's annexation of Crimea, in 2014, and the subsequent Western sanctions against Russia, have created new momentum for cooperation. This is especially evident in the energy sector as will be detailed more below. Furthermore, China and Russia have officially called for collaboration on China's Polar Silk Road with Russia more broadly coming to accept the BRI and its potential impact on the entire Eurasian continent.

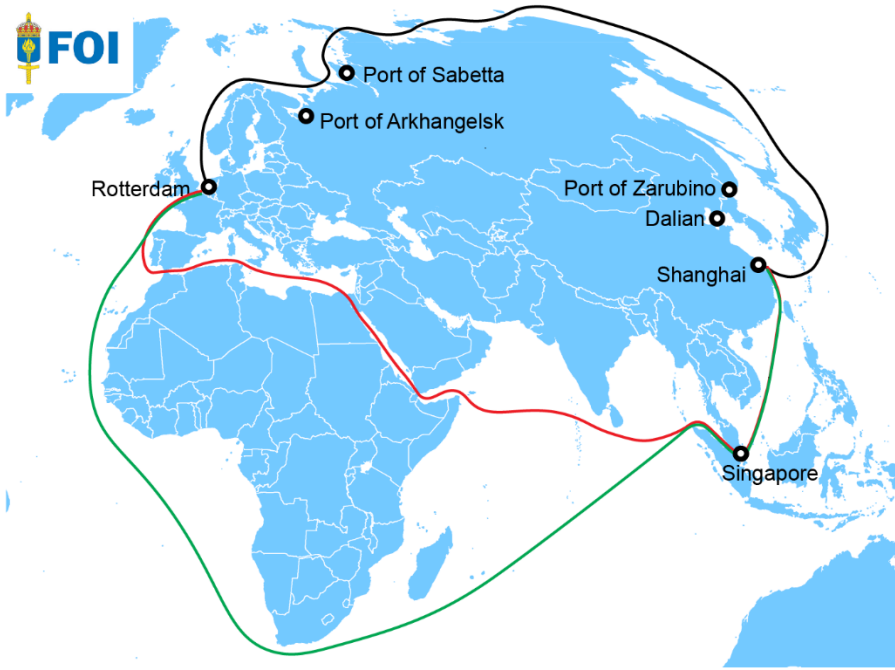
In 2012, China and Russia began holding the annual China-Russia Arctic Forum gathering of Arctic specialists and experts and, since 2015, the China-Russia Dialogue on Arctic Affairs (foreign-ministry level). In 2019, a joint China-Russia scientific centre was established. Beijing views Russia as its crucial gatekeeper to its Arctic ambitions, while Moscow sees China as an increasingly vital source of financing for various energy projects and enhancing Russia's plans to economically develop the Arctic region, as well as the Russian Far East. Overall, as pointed out by a long-time observer of China-Russia relations, both countries view Arctic cooperation as a symbol of what they can achieve in their bilateral interaction.⁶⁴

From a Chinese perspective, investment and, more generally, economic engagement in the Arctic thus constitute a part of broader Chinese efforts to enhance its global economic outreach and in particular everything related to the BRI. Connecting the Arctic with the BRI is also linked to China's efforts to rejuvenate its own northern provinces. By providing improved conditions for these provinces to develop closer economic ties with the Russian Far East and Siberia, where the Arctic functions as an "overarching sub-region" to China's "north-Russia link", economic development in these provinces is hoped to improve. Heilongjiang province alone, for instance, accounts for a large bulk of Sino-Russian trade, testifying to the importance of border trade in the overall economic interaction.⁶⁵

yearbook/2013/2013-scholarly-papers/33-the-drivers-of-chinese-arctic-interests-political-stability-and-energy-and-transportation-security.

⁶⁴ Interview of an American China-Russia scholar, June 7, 2021.

⁶⁵ Victor Larin, "Russia-China Economic Relations in the 21st Century: Unrealized Potential or Predetermined Outcome?", *Chinese Journal of International Review*, Vol. 2, No. 1 2020, <https://doi.org/10.1142/S2630531320500018>.



Map 2: China's Polar Silk Road and traditional transit routes.

2.4 Emerging skepticism towards China's Arctic presence

China has had a consistent strategy to increase its Arctic presence in both economic and scientific fields. In recent years, Western skepticism against Chinese intentions in the Arctic has slowed the process towards building a stronger Chinese presence. Many of the initiatives for investment and scientific cooperation were attempted during a different time, when China's interest in the Arctic was not widely seen as a security problem. Today, few of these initiatives have resulted in completed deals. In the West, security issues are increasingly being considered when Chinese scientific cooperation and economic investment in the Arctic are being discussed. This makes further expansion of Chinese economic and scientific expansion into the Nordic region of the Arctic more difficult and costly. Resistance from the Nordic countries is likely to negatively affect China's willingness to keep trying to increase its presence in the Nordic Arctic. China's strategic interests in the Russian Arctic are primarily commercial, focused heavily on energy-related resource extraction and potential shipping possibilities using the NSR. As other Arctic states are becoming increasingly cautious towards an enlarged

Chinese economic presence in the Arctic, China has come to view Russia much as its main partner in the region.

The following chapters will examine Chinese economic influence and economic statecraft in the Nordic region and Russia. This has a direct impact on how these countries relate to China's presence in the Arctic. As stated above, one of China's strategic interests is to expand its presence in the Arctic. The extent to which China can successfully exercise economic statecraft towards the Arctic countries is therefore directly related to its capacity to increase its Arctic presence.

3 China's economic influence in the Nordic countries

In the introductory chapter, we argued that in order to analyse the national security implications of China's economic statecraft, we must look at both its general economic impact and specific investments. Following the discussion in the previous chapter on China's strategic interests, this chapter continues with an analysis of China's general economic influence in the Nordic region by looking at China's share of trade and foreign investment in each of the five Nordic countries, as well as its sector-specific dominance. The discussion proceeds to a consideration of how the Chinese government has used economic statecraft measures against Nordic countries and to what extent it has been successful. Then follows an examination of investment in specific sectors, such as critical infrastructure, and the security implications thereof. The concluding section discusses the different policy responses of the Nordic countries against Chinese economic statecraft.

3.1 China's trade with the Nordic countries

China is an increasingly important trade partner for most of the Nordic countries. Between 2018 and 2021, China's share of total trade increased for all the Nordic countries. Most noticeable was the increase in Norway, where China's share increased from 5.2 per cent, in 2018, to 9.9 per cent, in 2020 (see Figure 1). In 2021 the share was reduced to 8.5 percent due to a record year for Norwegian export in general which increased more than its export to China. All Nordic countries have trade deficits with China. Hence, China exports more to the Nordic region than it imports. This is also reflected in China's rank as trade partner with the various Nordic countries. In 2021 China positioned between 1st (Norway) and 5th (Sweden) as source of import in the Nordic countries and between 6th (Finland) and 9th (Iceland) as export destination (see Table 1).

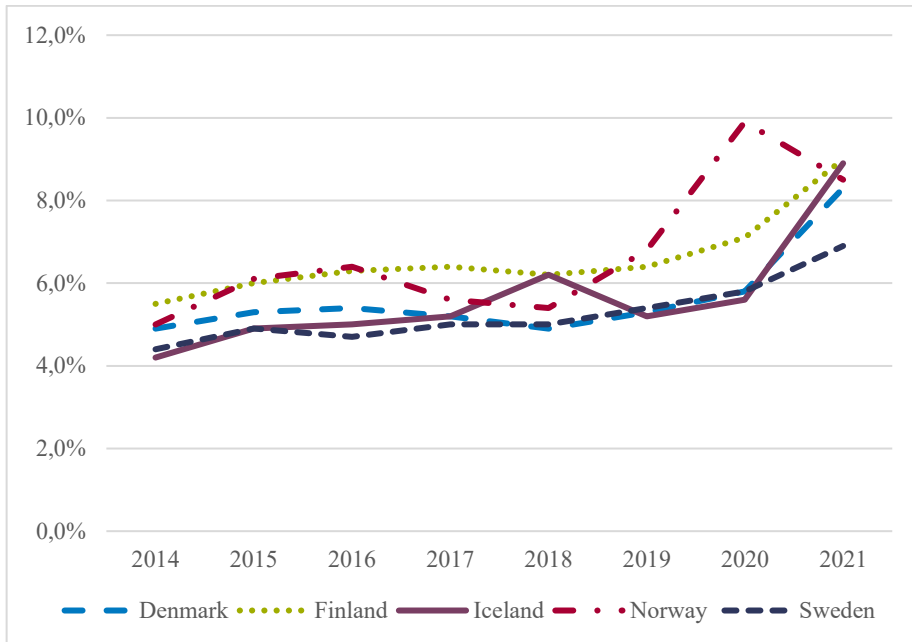


Figure 1: China's share of Nordic import and export

Source: Calculated from UN Comtrade database: <https://comtrade.un.org/data/>

In 2020, China for the first time became the number one source of Norway's import, with 12 per cent of all import, edging ahead of Germany (11.4 per cent) and Sweden (10.6 per cent).⁶⁶ In 2021 China's share of Norway's import reached a record 13.1 per cent (see Figure 2). While China's exceptionally strong position as a source of imports in 2020 and 2021 might be a temporary effect of the pandemic, all countries show a long-term trend of a slow increase in China's share of trade.

⁶⁶ Statistics Norway, 'Utenrikshandel med varer', 20 September 2021.

<https://www.ssb.no/utenriksokonomi/utenrikshandel/statistikk/utenrikshandel-med-varer>; Statistics

Norway, 'Norges viktigste handelspartnere', 2 March 2021.

<https://www.ssb.no/utenriksokonomi/artikler-og-publikasjoner/norges-viktigste-handelspartnere>

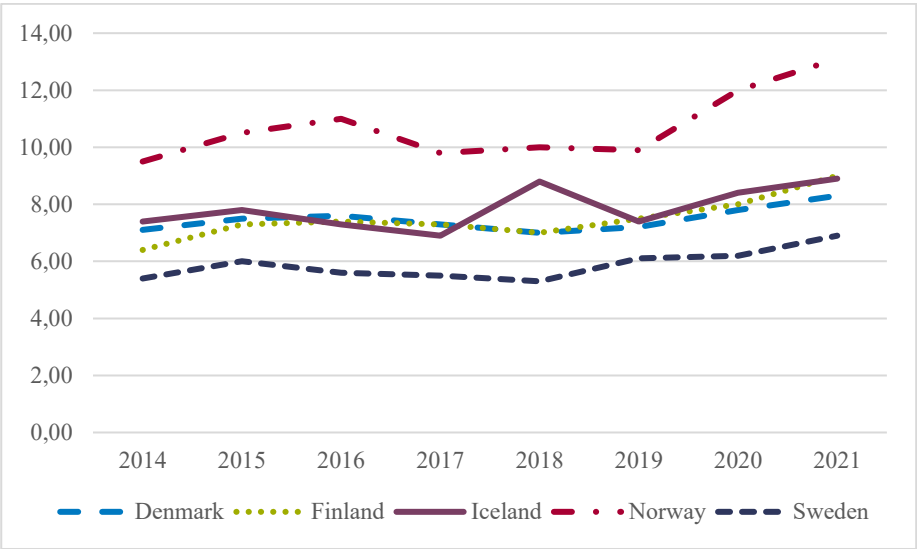


Figure 2: China's share of Nordic import
Source: Calculated from UN Comtrade database: <https://comtrade.un.org/data/>

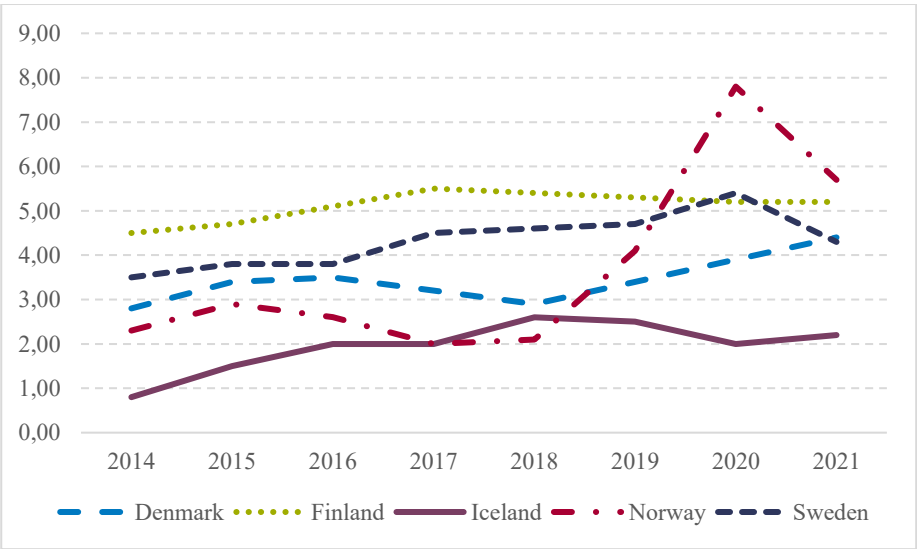


Figure 3: China's share of Nordic export
Source: Calculated from UN Comtrade database: <https://comtrade.un.org/data/>

Based on China's reported trade statistics, with figures that differ quite a lot from those reported by the Nordic countries, Chinese export to the Nordic countries in 2020 totalled USD 22.4 billion. If the Nordic region were treated as one unit, this

would rank the Nordics as 25th among China's export destination countries.⁶⁷ Total imports from the Nordic countries during the same year totalled USD 27 billion, which ranks 17th compared to other states. The discrepancies in trade statistics between countries are sometimes remarkable, which calls for treating the figures with some caution. Interestingly, Chinese trade statistics show a trade deficit with the Nordic region of more than almost USD 5 billion in 2020, while Nordic statistics in contrast show a trade deficit of more than USD 10 billion for the Nordic region with China. In 2021, the trade deficit between the Nordic region and China was more than USD 18 billion (See Table 1).

Table 1: Nordic-Chinese trade and China's rank as trade partner 2020-2021

2020					2021			
Country	Export to China	Import fr China	Exp. share (and rank)	Imp. share (and rank)	Export to China	Import fr.China	Exp. share (and rank)	Imp. share (and rank)
Denmark	4315	7537	3.9% (7)	7.8% (4)	4366	9802	4.4% (7)	8.3% (4)
Finland	3422	6149	5.2% (5)	8.0% (4)	4277	7765	5.2% (6)	9.0% (4)
Iceland	91	480	2.0% (12)	8.4% (3)	129	694	2.2% (9)	8.9% (2)
Norway	6417	9810	7.8% (5)	12 % (1)	9357	13032	5.7% (7)	13.1% (1)
Sweden	8433	9248	5.4% (6)	6.2% (5)	7830	12850	4.3% (8)	6.9% (5)
Total	22,678	33,224			25,959	44,143		

Note: Figures are in USD millions. Export and import share are share of total export and import.
Source: Calculated from UN Comtrade database: <https://comtrade.un.org/data/>

In order to examine asymmetries in trade relations, we have analysed which products dominate trade between China and the Nordic countries. The import product mix from China to the Nordic region does not differ much between individual countries. It is dominated by engineering products, such as machinery, and electronic equipment, such as mobile phones, TVs, computers and printers, which made up about half of Chinese exports to Sweden, Norway, Iceland and Finland, and about a third of exports to Denmark, in 2020. Chinese machinery and electronics are particularly strong in Norway and Finland, where China is the source for about 20 per cent of global imports of engineering products. Clothing is another major product exported by China to the Nordic countries.⁶⁸

⁶⁷ While Norway's official trade statistics report that Norway's import from China totalled USD 9,810 million in 2020, Chinese statistics only report export to Norway of USD 3,521 million. Individually, the Nordic countries ranked as follows among China's export destinations: Sweden 43, Denmark 45, Norway 63, Finland 72, and Iceland, 168. Among import sources, they ranked as follows: Sweden 36, Norway 40, Denmark 50, Finland 57, and Iceland 131.

⁶⁸ *Trading economics*, 20 September 2021. The figures are based on United Nations COMTRADE database on international trade: <https://tradingeconomics.com/china/exports-by-country> ; <https://tradingeconomics.com/china/imports-by-country>.

In contrast, the variety of products exported to China differs significantly between the Nordic countries, which illustrates the different industrial structures in the region. Swedish export to China is dominated by engineering products, comprising about half of all exports. A fifth of Swedish exports are pharmaceutical products.⁶⁹ Oil made up 62 per cent of Norway's export to China in 2020, which was almost 10 per cent of Norway's total oil exports that year.⁷⁰ Other important export products include ship equipment, seafood and fertilisers.⁷¹ Danish export to China is dominated by machinery and electronics products (34%) and meat products (31%). For the latter, Danish meat products, China stands for 33 per cent of the export market, mainly because of Chinese demand for pork, driven at least partly by the continued problems with African Swine Fever.⁷² Finland's export to China consists mainly of raw materials such as timber and minerals (39%) and machinery and electronics (39%). Almost 70 per cent of Iceland's export to China consists of fish products. Another 20 per cent is aluminium.⁷³ These figures show that for some products China makes up a large part of the export market. A directed trade boycott against a particular product could potentially hurt companies in that sector.

3.2 Chinese investments

Like in the rest of Europe, the number of Chinese investments in the Nordic region started to take off in 2014 and has slowed down since 2018. However, some of the main acquisitions, such as Swedish Volvo Cars, and Norwegian Elkem and Awilco Offshore, all took place before 2011, which shows that there has long been keen Chinese interest in Nordic industry.

We have included available data on Chinese FDI in the Nordic countries in Table 2 in order to present a picture of the extent of Chinese FDI. It should be noted however, that data comes from a number of different sources, which complicates comparison.⁷⁴

⁶⁹ Embassy of Sweden, 'Trade Sweden-China', 20 September 2021: <https://www.swedenabroad.se/en/about-sweden-non-swedish-citizens/china/business-and-trade-with-sweden/trade-between-sweden-and-china/>.

⁷⁰ Trading Economics, 20 September 2021. <https://tradingeconomics.com/china/imports/norway/mineral-fuels-oils-distillation-products>.

⁷¹ Government of Norway, "Kina-frihandelsavtale" [China – free trade agreement], May 6, 2020. <https://www.regjeringen.no/no/tema/naringsliv/handel/nfd---innsiktsartikler/frihandelsavtaler/partnerland/kina/id457436/>.

⁷² Xinhua, "Roundup: Danish companies eye lucrative opportunities at CIIE in Shanghai", *Xinhua*, November 10, 2021; Euromeat, "Danish Crown foresee increased demand for pork in China", April 6, 2021.

⁷³ Trading economics, September 20 2021.

⁷⁴ For further information on data and figures related to Table 2, see the methodology section.

Table 2: Chinese investment in the Nordic region as of 2020

Country	GDP 2020 ⁷⁵	Accumulated value of CN FDI ⁷⁶	CN FDI as share of GDP	No. of Chinese-owned companies ⁷⁷	No. of Chinese corporate acquisitions ⁷⁸
Denmark	348,881	1,440	0.4%	n.a.	25
Finland	277,873	15,960	5.7%	109	38
Iceland	20,406	129	0.7%	n.a.	0
Norway	366,922	7,470	2.0%	69	16
Sweden	559,084	9,480 ⁷⁹	1.7%	147 ⁸⁰	59

Note: Figures are in million USD based on exchange rate Euro-USD 1.2-1.

In terms of value, the share of Chinese investments is largest in Finland, where it comprises as much as 5.7 per cent of GDP.⁸¹ Norway and Sweden follow, with a share of around 2 per cent of GDP. It is important to note that with measurement by value the presence of a few large acquisitions may create a skewed picture of the investment activity. For example, Chinese FDI in Finland is dominated by two very large acquisitions. Tencent's acquisition of Supercell in 2016 and Anta

⁷⁵ OECD 60 years data, September 20, 2021. <https://data.oecd.org/gdp/gross-domestic-product-gdp.htm>

⁷⁶ Sources: Agatha Kratz, Max Zenglein and Gregor Sebastian, Chinese FDI in Europe 2020 update, Rhodium/Merics, June 2021 (covering Denmark, Finland and Sweden); China Investment Tracker (Norway); OECD (Iceland). Figures only include investments over 10 million EURO and at least ten percent ownership.

⁷⁷ This includes majority ownership in mergers and acquisitions, greenfield investments and subsidiaries. Sources: Finland, Mikael Mattlin's includes figures from Business Finland in the study, 'Kanariefågeln som tystnade: Finlands gestalt shift om kinesiska investeringar', *Internsjonal Politikk*, Vol 78, No. 1, 2020; Sweden, Tillväxtanalys, *Utländska företag 2019*, September 2021; Norway, Hans Jørgen Gåsemyr and Hege Medin use Norwegian Statistical Bureau's figures in the study, "Norge som mål for utenlandske investeringer: trender og forklaringer", *Internasjonalt Politikk*, 80:1, 2022, p. 118.

⁷⁸ Chinese (incl. Hong Kong) majority mergers and acquisitions of parent companies. Minority acquisitions and subsidiaries are not included in the figure. Sources: Finland, compilation by Liisa Kauppila in ongoing research project; Sweden, Hellström, Almén and Englund, 2021 and author's compilation; Norway, Denmark, and Iceland, author's compilation. Minority acquisitions and subsidiaries are not included in the figure. Note that these are identified and verified acquisitions. There may be more unknowns.

⁷⁹ Only investments above ten per cent are included, which excludes Tencent's acquisition of 9,2 per cent of Spotify, valued at USD 1690 million. If that is included, the total value of Chinese FDI in Sweden reaches USD 11,170 million and Chinese FDI in relation to GDP reaches 2%.

⁸⁰ Hong Kong ownership 79.

⁸¹ According to official statistics in Finland, based on the FDI stock of the ultimate owner, China was the third-largest investor country in Finland by December 31, 2019, behind only Sweden and the U.S. However, the investment stock was lower (about EUR 8 billion) than the figure from Rhodium used in Table 2 and consequently the Chinese FDI share of GNP in Finland would also be less than 5.7 per cent. As a contrast, according to OECD data on FDI, the Chinese FDI share of GNP in Finland was as high as 9.7 per cent in 2016, which was by far the highest among all OECD countries. This illustrates the inherent challenges of FDI statistics. Sources: Official Statistics of Finland (OSF), 'Foreign direct investments' [e-publication]. 2019, 1. Foreign direct investments in 2019. Helsinki: Statistics Finland [referred: 5.11.2021]: http://www.stat.fi/til/ssij/2019/ssij_2019_2020-09-30_kat_001_en.html; OECD Data, Inward FDI stocks by partner country. September 20, 2021. <https://data.oecd.org/fdi/inward-fdi-stocks-by-partner-country.htm#indicator-chart>.

Sports' acquisition of Amer in 2019 had a total value 13,650 USD million, which constitutes 85 per cent of total Chinese FDI in Finland. Similarly, China's acquisition of Volvo Cars in 2010 is the single most important investment, even though the estimated price tag was a bargain USD 1800 million. As a comparison, in Volvo Cars' initial public offering (IPO), in October 29, 2021, it had a value of USD 18,000 million.⁸² Volvo Cars employs 23,000 people in Sweden,⁸³ making up almost 90 per cent of the workforce employed in Chinese-owned businesses in Sweden.⁸⁴ In terms of value, however, Geely's 8.2 per cent (15.6 per cent voting share) stake in truckmaker AB Volvo, which cost Geely USD 3300 million, is the largest Chinese investment in Sweden so far.

The two largest Chinese acquisitions in Norway were made more than a decade ago. China National Offshore Oil Corporation's (CNOOC) acquisition of oil-drilling company Awilco Offshore, in 2008, and China National Bluestar's purchase of Chemical company Elkem, in 2011, had a total value of USD 4500 million, which is more than half of total Chinese FDI in Norway. An interesting fact is that the purchase took place during the Chinese diplomatic boycott of Norway, following the award of the Nobel peace prize to Liu Xiaobo.

Chinese investment in Denmark is far less in terms of value than in Norway, Sweden and Finland, and only amounts to 0.4 per cent of GDP. The largest acquisition in Denmark so far is Geely's USD 730 million purchase of a majority share in Saxo bank, in 2018. Other than that, most Chinese investments are in Danish small and medium enterprise (SMEs). According to an interviewee with extensive experience of Chinese business, one reason for China's comparatively small investment in Denmark is that the few large companies that could be interesting for China to acquire, such as Carlsberg and LEGO, are owned by foundations, which makes foreign acquisition very difficult.⁸⁵ Instead, in Denmark, most of the discussion regarding the risk of Chinese investment concerns Greenland. Except for the failed Chinese efforts to gain contracts for upgrading and refurbishing airports mentioned in Chapter 2, the same company involved in those attempts, General Nice, bought the rights to explore the Isua iron

⁸² Richard Milne, "Volvo Cars scales back IPO after investors balk at control by Chinese owner Geely", *Financial Times*, October 25, 2021, <https://www.ft.com/content/f3cb197f-7567-474a-aca1-bc1e4cb597cb>; Helena Soderdal, Arno Shuetze and Abhinav Ramnarayan, "Volvo Cars gears up for \$20 bln IPO in coming weeks", *Reuters*, 15 September 2021. <https://www.reuters.com/business/autos-transportation/volvo-cars-gears-up-20-bln-ipo-coming-weeks-sources-say-2021-09-15/>. Geely sold a total of 16 per cent of its shares.

⁸³ Volvo Cars Webpage, 21 September 2021: <https://www.volvocars.com/se/om-volvo/foretaget/karriar/arbetsgivare>.

⁸⁴ Chinese companies employed 25,550 people in Sweden in 2019. Tillväxtnalys, *Utländska företag 2019*, September 2021, p. 17.

⁸⁵ Interview of Hans Henrik Pontoppidan, Secretary General Danish-Chinese Business Forum, May 24, 2021.

ore mine project from London Mining, in 2015. However, due to low iron ore prices, the mine is still not in operation.⁸⁶

Chinese FDI in Iceland is very limited. According to OECD figures, Chinese investments make up 0.7 per cent of Iceland's GDP. Despite one widely quoted report that Chinese FDI in China makes up six per cent of Icelandic GDP,⁸⁷ official figures and our investigations show a different picture. A study by Nielsson and Hauksdottir presents strong arguments for questioning the figures presented by Rosen and Thuringer.⁸⁸ Despite much speculation about Chinese interest in Icelandic ports and resources, we have only been able to find three Chinese minority acquisitions in Iceland. They are Geely's USD 45 million investment in Carbon Recycling International's (CRI) ethanol factory, in 2015, China Everbright's and CITIC's USD 100 million equity in Arctic Green Energy 2018 and Tencent's investment in an undisclosed share of the gaming company, 1939, in 2018.⁸⁹

In general, Chinese investments in the Nordic countries have had a strong high-tech focus. In 2016, China's state-owned Beijing Capital Investment (BCI) created a fund of Euro 400 million for the purpose of making acquisitions in Nordic high-tech companies.⁹⁰ The previously mentioned study by FOI found that almost half of Chinese corporate acquisitions in Sweden were made in sectors that were highlighted in the Chinese industrial strategy Made in China 2025 (MIC2025). Most acquisitions were in health and biotechnology, information and communication technologies (ICT), electronics, automotives, and industrial machinery and equipment.⁹¹ In Finland, 36 per cent of the number of Chinese investments have been made in ICT and digitalisation.⁹² Also, a majority of the identified majority acquisitions in Denmark in Table 2 are in MIC2025 sectors, such as ICT and green energy, including a number of fuel cell companies.

⁸⁶ Gwladys Fouche, "Chinese firm unlikely to develop USD 2 billion Greenland iron ore mine soon: minister", *Reuters*, January 26, 2016: <https://www.reuters.com/article/us-greenland-mining-china-idUSKCN0V425D>.

⁸⁷ Mark E. Rosen and Cara B. Thuringer, 2017, "Unconstrained Foreign Direct Investment: An Emerging Challenge to Arctic Security", *CNA Occasional Paper*, Washington: CNA, November 2017.

⁸⁸ Egill Thor Nielsson and Gudbjorg Rikey Hauksdottir, 'Kina, investeringer og sikkerhetspolitikk: Politikk og perspektiver i Norden – Island', *Internasjonal Politikk*, 2021.

⁸⁹ AFP, "China's Geely Invests in Iceland Methanol Factory", *Industry Week*, 5 Jul. 2015. <https://www.industryweek.com/leadership/companies-executives/article/21965501/chinas-geely-invests-in-iceland-methanol-factory>; Arctic Green, "Arctic Green Energy Completes USD 150 million equity and debt funding", April 26, 2018. <https://arcticgreen.com/2018/04/arctic-green-energy-completes-usd-150-million-equity-and-debt-funding/>.

⁹⁰ Mikael Mattlin, "Kanariefågeln som tystnade: Finlands *gestalt shift* om kinesiska investeringar", *Internasjonal Politikk*, Vol 78, No. 1, 2020, p 60.

⁹¹ Hellström, Almén and Englund, 2021.

⁹² Mattlin, 2020, p. 60.

3.3 How exposed are the Nordic economies to China?

What if the Chinese government would decide to intervene in trade or investment relations to gain political concessions from the Nordic countries? How exposed are the Nordic countries to possible Chinese economic coercion? It is relevant to examine this question in relation to other cases where China has used coercive trade policies. Australia is a recent and very relevant case for such a comparison, because of its large economic exposure to China. Currently, China is trying to exploit Australia's strong trade dependence on China in order to obtain political concessions. China's share of Australia's export in 2020 was 41 per cent. Chinese trade sanctions dramatically reduced Australian export to China for sanctioned merchandise such as coal, wine and barley, in 2020. However, except for wine producers, Australian exporters have managed to replace the Chinese market with markets elsewhere and the effects on the Australian economy have so far been limited.⁹³ Two researchers even claim that "market access is revealed to be a weak coercive tool for Beijing".⁹⁴ In comparison to Australia, the Nordic countries are far less economically exposed to China, with 5 to 8 per cent of total exports going to China. In addition, all Nordic countries have diversified trade networks. A Chinese trade boycott against Nordic countries is far less likely to succeed than against Australia. Yet, as is further elaborated below, Norway is the Nordic country that has most directly experienced Chinese economic statecraft. Despite the limited economic effect of China's boycott on Norway's trade, China did manage to get an official compliance statement from Norway that tempered the "hurt feelings" of the CCP enough for normal diplomatic and trade relations to resume in 2016.

In a recent working paper, Jikon Lai and Amalina Anuar develop an economic vulnerability and interdependency index.⁹⁵ They do this by measuring export of goods and services, and inflow of investments and remittances from a particular country, as share of total export of goods and services, and investment and remittance inflows. Using the average of years 2015-2017, they find that countries in general are far more vulnerable in relation to the U.S. than to China. Developing countries, such as South Sudan and North Korea, were highly vulnerable towards China. The Western country most vulnerable to China was Australia, in 35th place,

⁹³ Roland Rajah, "The big bark but small bite of China's trade coercion", *The Interpreter*, Lowy Institute, 8 April 2021. <https://www.lowyinstitute.org/the-interpreter/big-bark-small-bite-china-s-trade-coercion>; James Laurenceson and Thomas Pantle, "Australia's export exposure to China: Assessing the costs of disruption", *UTS Working paper*, Australian-China Relations Institute, September 2021.

⁹⁴ Laurenceson and Pantle, p.2.

⁹⁵ Jikon Lai and Amalina Anuar. "Measures of Economic Vulnerability and Inter-Dependency in the Global Economy", *RSIS Working Paper*, January 2021. Singapore: S. Rajaratnam School of International Studies, <http://hdl.handle.net/11540/13109>.

with a vulnerability rate of 11.31 per cent. The Nordic countries had very low vulnerability rates towards China.⁹⁶

Another possibility for China to use trade as a punitive measure would be to stop export of a certain product deemed critical for a country. This tactic was used against Japan in 2010, when China enforced export quotas of rare earths as a response to territorial issues over the Senkaku/Diaoyutai islands. The export reduction did not have the intended consequences, however, as Japan managed to find new import markets for rare earths and as a result reduced its dependence on China. Following China's ban of rare earth exports to Japan, the Japanese government decided to invest in rare earth production in Australia. This way, Japan managed to reduce China's share of Japan's rare earth imports from 95 to 58 per cent. Moreover, the U.S. successfully sued China in the World Trade Organisation (WTO) and, in 2015, China abandoned the quotas. The issue of rare earth export limits has come up again in China's trade conflict with the U.S.⁹⁷

Protective masks and other medical supplies, which became an issue during the Covid 19 pandemic, are yet another example of politicised Chinese export products. In 2020, China produced half of the world's protective masks.⁹⁸ Export of masks to countries in desperate need were used by the CCP to support a narrative "aiming to cover up China's leadership's failure to contain the pandemic in its initial stage, while also turning acts of foreign gratitude to its advantage in seeking domestic public approval and the legitimacy of the Chinese Communist Party governance."⁹⁹

We do not have a full picture of whether or not China dominates, in all the Nordic countries, in certain specific sectors or products that could potentially be used to deny access in order to pressure for political concessions. However, based on the available trade data, we have not identified any Chinese sector or product dominance.¹⁰⁰

As for investments, while China is not among the top investor countries in most of the Nordic countries, China's share of 5.7 per cent of Finland's GDP stands out as a high figure. According to official statistics in Finland, based on the FDI stock of

⁹⁶ The Nordic countries had the following rank and vulnerability rate towards China: Sweden, rank 76, rate 2.67%; Finland, 77, 2.66%; Denmark, 86, 1.91%; Norway, 93, 1.64%; and Iceland, 143, 0.60%. Russia was ranked 61, with a vulnerability rate of 4.81%. (consider here to change to "per cent")

⁹⁷ Lucas Trakimavicius, "EU, U.S. exploring new sources of Rare Earth Minerals, should China limit exports", *Energy Post*, February 25, 2021. <https://energypost.eu/eu-u-s-exploring-new-sources-of-rare-earth-minerals-should-china-limit-exports/>; Mary Hui, "Japan's global rare earth quest holds lessons for US and Europe", *Quartz*, December 28, 2021. <https://qz.com/1998773/japans-rare-earths-strategy-has-lessons-for-us-europe/>.

⁹⁸ Keith Bradsher, "China Dominates Medical Supplies, in this Outbreak and the Next", *New York Times*, July 5, 2020, <https://www.nytimes.com/2020/07/05/business/china-medical-supplies.html>.

⁹⁹ Bartosz Kowalski, "China's Mask Diplomacy in Europe: Seeking Foreign Gratitude and Domestic Stability", *Journal of Current Chinese Affairs*, April 2021.

¹⁰⁰ Regarding Sweden, we have been able to acquire detailed figures on import. For the other Nordic countries, data is only at a higher aggregate level.

the ultimate owner, by 31 December 2019 China was the third-largest investor country in Finland, behind only Sweden and the U.S.¹⁰¹ As a comparison, China's FDI stock as share of Australia's GDP stood at 2.3 per cent in 2020.¹⁰² This indicates that in Finland's case, Chinese FDI as share of GDP is one of the highest among developed economies. As mentioned, this is mainly due to two very large acquisitions.

Again, it is important to distinguish between aggregate national figures and the effects of individual investments. While Geely's acquisition of Volvo did not stand out as a particularly large monetary investment at the time, the Chinese owner today controls the fate of a company employing 23,000 people in Sweden. In addition, thousands more are employed in subsidiaries and suppliers to Volvo Cars. In total, this means that Geely's ownership of Volvo has a strong economic and social impact in Sweden. Some fear that tensions between China and the West, and China's increasing assertiveness abroad and repression at home, increase the risks in having a Chinese owner of Volvo.¹⁰³

Taken together, the above analysis of the Nordic countries' economic exposure to China in terms of trade and investments shows that they are not in a generally vulnerable economic position to it. China is an important trade partner for most of the Nordic countries and a major source of foreign investment, especially in Finland. The trend also points toward increasing economic interactions with China. However, the Nordic countries have a diversified range of trade partners and, similarly to Australia, would likely find alternative markets for their products if exposed to Chinese trade sanctions. It is also useful to recall that even though the Nordic economies are far smaller than the Chinese, China has need of Nordic high-tech products and know-how. To that extent, economic relations between the Nordic region and China are characterised by interdependence rather than dependence.

As the following sections show, security issues and Chinese economic statecraft are instead often linked to individual companies, sectors and investments.

¹⁰¹ See discussion on different statistics for Finland's FDI in Note 82. Official Statistics of Finland (OSF), 2020.

¹⁰² Australian Trade and Investment Commission, "Who invests in Australia? Analysing 2020's 4 trillion record for foreign investment", March 26., 2021: <https://www.austrade.gov.au/news/economic-analysis/who-invests-in-australia-analysing-2020-s-4-trillion-record-for-foreign-investment>.

¹⁰³ PM Nilsson, "Volvo måste hem", *Dagens Industri*, September 13, 2021, <https://www.di.se/ledare/volvo-maste-hem/>; Thomas Erdbrink and Christina Anderson, "Fears for Volvo Expose Sour Turn in Sweden's Ties with China", *New York Times*, June 14 2020, <https://www.nytimes.com/2020/06/14/world/europe/sweden-china-volvo.html>.

3.4 China's economic statecraft measures towards the Nordic countries

This section discusses China's economic statecraft against the Nordic countries. As argued in the theoretical discussion in Chapter 1, economic statecraft may involve directed sanctions against individuals and companies rather than the state as a whole. For example, the U.S. government's entity list is an example of economic statecraft directed against individual companies and individuals. In July 2021, 14 Chinese companies were added to the list because of their involvement in "enabling human rights abuses in Xinjiang or that use U.S. technology to fuel China's destabilizing military modernisation efforts".¹⁰⁴ While such sanctions may have limited direct effect on the economy of the target country, the damage done to individuals or companies may also put pressure on the government. Below are several examples of companies being targeted by Chinese economic statecraft measures.

Economic statecraft measures can be used as positive incentive or punitive measures.¹⁰⁵ As has been detailed above, China is expanding trade and foreign investments with the Nordic countries. Investments and preferential trade agreements are possible forms of positive economic statecraft measures. Among the Nordic countries, only Iceland have since 2013 a free trade agreement with China.¹⁰⁶ The agreement has so far not resulted in a significant increase in Chinese-Icelandic trade, however. China and Norway were negotiating a free trade agreement in 2010, but the Liu Xiaobo case, described further below, put a stop to the negotiations.

Relations between China and the Nordic countries have over time generally been stable, especially in the economic field. As small trade-dependent states, Nordic countries have welcomed Chinese trade and investments and China has enjoyed Nordic economic openness and valued the region as a source for high-tech know-how. However, the Chinese government has not hesitated to retaliate with political and economic measures when it considered its "core interests" to be challenged.

The most obvious example of China's use of economic statecraft was directed against Norway after the Norwegian Nobel Peace Prize Committee awarded the prize to Chinese dissident Liu Xiaobo, in 2010. The Chinese government put Norway in a diplomatic deep freeze and issued administrative regulations that

¹⁰⁴ U.S. Department of Commerce, "Commerce Department Adds 34 Entities to the Entity List to Target Enablers of China's Human Rights Abuses and Military Modernization, and Unauthorized Iranian and Russian Procurement", Accessed 26 October 2021. <https://www.commerce.gov/news/press-releases/2021/07/commerce-department-adds-34-entities-entity-list-target-enablers-chinas>

¹⁰⁵ Reilly, 2013.

¹⁰⁶ Government of Iceland, "Free trade agreement between Iceland and China", April 2013. <https://www.government.is/topics/foreign-affairs/external-trade/free-trade-agreements/free-trade-agreement-between-iceland-and-china/>.

effectively stopped the export of Norwegian salmon to China. China also stopped negotiation of a free-trade agreement that was ready to be finalised at the time. The boycott lasted for six years, until 2016, when the Norwegian government managed to appease the Chinese with a statement that it would not support actions that undermine China's core interests and major concerns.¹⁰⁷ Research has later shown that the actual effect on Norwegian salmon export was negligible as most of the salmon found its way to China through Vietnam, instead. Moreover, Norwegian-Chinese overall trade actually increased during the years China punished Norway (2010-2016).¹⁰⁸ The free trade agreement has still not materialised, but both sides have stated their intention that such an agreement should be signed.¹⁰⁹ While the economic effects on Norway were limited, it is difficult to evaluate how China's coercive actions affected the Norwegian government's future diplomatic and political considerations. To what extent did the affair stop Norway from criticising China? Would the Nobel Peace Prize Committee award the prize to another Chinese dissident today?

Since 2016, relations between Norway and China have been relatively smooth, especially in comparison with the strained Swedish-Chinese relationship. The problems started with the abduction of Swedish citizen Gui Minhai, in Thailand, in 2015. In 2020, Gui was sentenced to ten years in jail for providing state secrets to foreign agents.¹¹⁰ Protests by the Swedish government, media and civil society were met with fierce reactions from the Chinese government. The then Chinese ambassador to Sweden, Gui Congyou, often described as one of China's "wolf-warrior diplomats", made a number of controversial statements and threats against both the Swedish government and certain individuals.¹¹¹ In November 2019, the non-governmental organisation (NGO), Swedish PEN international, awarded Gui Minhai the Tucholski Prize, given to authors who face persecution or are forced into exile. Sweden's Minister of Culture was invited to speak at the award ceremony and despite the Chinese ambassador's threats of unspecified "countermeasures", the minister went ahead with the speech. Later, the ambassador again claimed that China would retaliate with restrictions in the field of culture as well as economics and trade.¹¹² In practice, the consequences

¹⁰⁷ Lieke Bos, "Norway-China Relations 'Unfrozen'", *The Diplomat*, December 21, 2016, <https://thediplomat.com/2016/12/norway-china-relations-unfrozen/>.

¹⁰⁸ Gåsemyr and Medin, 2022.

¹⁰⁹ China Briefing, "Norway and China strive to complete free trade agreement negotiations", March 14, 2021, <https://www.china-briefing.com/news/norway-and-china-strive-to-complete-free-trade-agreement-negotiations/>.

¹¹⁰ The case of Gui Minhai is described in more detail in Oscar Almén, *China's Communist Party and the Diaspora: Beijing's extraterritorial authoritarian rule*, Stockholm, Swedish Defence Research Agency (FOI), March 2020.

¹¹¹ Marianne Björklund, 'Sällan har en diplomat varit så odiplomatisk', *Dagens Nyheter*, 23 September, 2021. <https://www.dn.se/varlden/marianne-bjorklund-sallan-har-en-diplomat- varit-sa-odiplomatisk/>

¹¹² Tobias Andersson Åkerblom, "Kinas ambassadör till GP: Handelsrestriktioner ska införas mot Sverige", *Göteborgs Posten*, December 5, 2019. <https://www.gp.se/ekonomi/kinas-ambassad%C3%B6r-till-gp-handelsrestriktioner-ska-inf%C3%B6ras-mot-sverige-1.21197960>.

following the ambassador's threats were limited to banning the Minister of Culture and other cultural officials from entering China. There were no apparent direct effects on trade, but long-term effects might be difficult to identify. However, just a few months later, Gui Minhai was sentenced to ten years in prison and was forced to revoke his Swedish citizenship.¹¹³ It is possible that the Chinese government found the sentencing of Gui to be a sufficient measure and that there was no need to also implement trade sanctions. Trade sanctions are generally only used when China's core national interests are considered to be violated and the fate of a single individual might not have qualified as a core interest.

But Swedish-Chinese relations would continue to deteriorate. In 2020, the Swedish Post and Telecom Authority (PTS) decided to ban Chinese companies Huawei and ZTE from participating in the development of 5G in Sweden. The decision of the authority followed a recommendation from the Swedish Security Services. The Chinese government criticised the decision and said that it will have consequences for the opportunities that Swedish companies, such as Huawei's competitor, Ericsson, would have for doing business in China. In June 2021, Ericsson reported a 60 per cent drop in sales in China, which Ericsson's CEO, Börje Ekholm, said was definitely related to PTS's decision to ban the Chinese telecom companies.¹¹⁴

Meanwhile, in March 2021, Swedish apparel giant H&M Group was suddenly the focus of attack by Chinese media and citizens. The background was H&M's decision, in September 2020, to stop buying cotton from Xinjiang because of concerns of possible forced labour. Half a year later, the Communist Youth League (CYL) published a message on the microblog, Weibo that accused H&M of spreading evil rumours about China. This started a campaign in Chinese social media to boycott the company. H&M products were removed from e-commerce platforms, such as Alibaba, and several H&M stores in China had to close.¹¹⁵ In September 2021, H&M reported a 40 per cent fall in revenue in China.¹¹⁶ It is difficult to know whether the attack on H&M was a coincidence. Other companies had also made statements against using cotton from Xinjiang and brands such as Nike and Burberry were also attacked later, although with less extreme consequences than for H&M. It is also possible that the CYL selected H&M because it wanted to punish Swedish business as a part of the Chinese government's punitive economic statecraft against Sweden. It is important to note that Chinese economic statecraft does not always appear as official sanctions, as in the case of China's trade sanctions against Australia. Unspecified threats of

¹¹³ Sweden still considers Gui Minhai a Swedish citizen.

¹¹⁴ Mikael Törnwall, "Ericssons vd: Kina agerar inte konstigt", *Svenska Dagbladet*, July 16, 2021, <https://www.svd.se/ericsson-vd-kinas-agerar-inte-konstigt>.

¹¹⁵ Resumé, "Kampanjen mot H&M växer: Detta har hänt", March 30, 2021, <https://www.resume.se/kommunikation/varumärke/kampanjen-mot-h-m-vaxer-detta-har-hant/>.

¹¹⁶ Thomas Mulier and Anton Wilen, "H&M's Revenue in China Plummets after Labor Rights Controversy", *Bloomberg*, September 30, 2021, <https://www.bloomberg.com/news/articles/2021-09-30/h-m-s-revenue-in-china-plummets-after-labor-rights-controversy>.

retaliation, such as making it difficult for foreign companies to do business in China, can be a very effective way of making governments as well as business and other actors hesitate before criticising the Chinese government.

Denmark also drew the ire of the Chinese government when the Danish prime minister met with the Dalai Lama, in 2009. Although the Danish government had informed the Chinese embassy about the meeting beforehand, China reacted by suspending political relations and stopped a number of business deals and trade delegations. Seven months later, after the Danish government publicly restated its opposition to Tibetan independence and indicated that it would carefully consider China's reaction before inviting the Dalai Lama again, China resumed political relations.¹¹⁷ Recently, developments indicate a less smooth relationship between the two countries. China reacted strongly when, in 2021, the Danish Foreign Minister participated in a meeting with Taiwan's president Tsai Ying-Wen, arranged by the Alliance for Democracy.¹¹⁸ In 2020, the China-Denmark joint work programme should have been renewed but because of inaction from the Chinese side this has not happened. Increasing concern from the Danish political establishment regarding Chinese technology acquisition activity as well as pressure from the US are other stumbling blocks in the relationship.¹¹⁹

Among the Nordic countries, Finland and Iceland have had a more smooth relationship with China in recent years. However, worried voices have also been raised in Finland against China's repressive domestic politics, assertive foreign policy and the risks that Chinese investments entail.¹²⁰ In 2021 Finland's Ministry for Foreign Affairs published a Governmental Action Plan on China. The plan highlighted the risks of collaborating with China.¹²¹ As part of the West's increasing general wariness about China's expanding global influence, attitudes in the Nordic countries towards China and the Chinese regime have become more negative. For example, a PEW survey from 2020 found that 82 per cent of respondents in Sweden and Denmark had no confidence in Xi Jinping's doing the

¹¹⁷ Hellström, 2014 pp. 17-19.

¹¹⁸ Reuters, "Denmark draws China's ire for inviting Taiwan leader to speak at 'democracy summit'", May 10, 2021, <https://www.reuters.com/world/denmark-draws-china-ire-inviting-taiwan-leader-speak-democracy-summit-2021-05-10/>.

¹¹⁹ Interview of Camilla Sørensen, May 17, 2021.

¹²⁰ Interview of scholar specialising in Finnish-Chinese relations, May 18, 2021.

¹²¹ Ministry for Foreign Affairs of Finland, *Governmental Action Plan on China*, 2021, https://um.fi/publications/-/asset_publisher/TVOLgBmLyZvu/content/valtionhallinnon-kiina-toimintaohjelma/35732.

right thing regarding world affairs.¹²² Another survey found that Nordic attitudes towards Chinese investments had become more negative.¹²³

In conclusion, China has on several occasions used punitive economic statecraft measures against Nordic countries, which sometimes has resulted in official conciliatory statements. These “apologies” have been used in China’s propaganda to show China’s increasing international power and to support its narrative about the legitimacy of China’s national core interests. However, there is no evidence that the official trade measures have had any significant economic effect on the target countries. This indicates that there are limits to China’s economic influence in the Nordic region. As noted, however, it is difficult to evaluate whether Chinese threats have had any effect on Nordic actors’ willingness to do business in China or resulted in proactive self-censorship in order to avoid retaliation.

The analysis now moves on to the second aspect of China’s economic influence, the national security risks related to specific Chinese investments.

3.5 Chinese involvement in Nordic infrastructure and other sensitive sectors

Chinese investment in foreign infrastructure projects has been the focus of much discussion on the risks of Chinese economic influence. Since the launch of BRI, in 2013, Chinese firms and banks have financed and built infrastructure in 139 countries around the world.¹²⁴ The World Bank estimated the cost of executed or planned projects by 2018 as USD 575 billion.¹²⁵ None of the Nordic countries have signed on to the BRI and there are actually few Chinese infrastructure investments in the Nordic region. However, Chinese companies are to a larger extent involved as operators and as entrepreneurs in building infrastructure. For instance, Hongkong-based Hutchinson Whampoa operates the container port in Norvik, in Nynäshamn, Sweden, and state-owned Sichuan Road and Bridge Group has built two large bridges in Norway.

According to paragraph 2 in the EU council’s directive on European Critical Infrastructure, “critical infrastructure” means an asset, system or part thereof

¹²² Laura Silver, Kat Devlin and Christine Huang, “Unfavourable Views of China Reach Historic Highs in Many Countries”, *Pew Research Center*, October 6, 2020, <https://www.pewresearch.org/global/2020/10/06/unfavorable-views-of-china-reach-historic-highs-in-many-countries/>.

¹²³ Morten Andersen, Henrik Hiim and Ulf Sverdrup, “The Nordic shift: China’s uphill battle for public approval in Northern Europe”, *Commentary*, Brussels: European Council on Foreign Relations, 18 March, 2020, https://ecfr.eu/article/commentary_the_nordic_shift_chinas_uphill_battle_for_public_approval_in_nor/.

¹²⁴ Jennifer Hillman and David Sachs, *China’s Belt and Road: Implications for the United States*, Independent task Force Report No. 79, New York: Council on Foreign Relations, , 2021.

¹²⁵ The World Bank, “The Belt and Road Initiative”, March 29., 2018, <https://www.worldbank.org/en/topic/regional-integration/brief/belt-and-road-initiative>.

located in Member States which is essential for the maintenance of vital societal functions, health, safety, security, economic or social well-being of people, and the disruption or destruction of which would have a significant impact in a Member State as a result of the failure to maintain those functions”.¹²⁶ Power grids, transport systems and information systems are examples of such critical infrastructure.

3.5.1 Energy

China has invested heavily in energy on the global level as part of the BRI. By 2019, two-thirds of Chinese spending on completed BRI projects went into the energy sector.¹²⁷ According to one study, between 2000-2017 Chinese firms invested USD 115 billion in global electric power assets, with a total capacity of 81 Gigawatt (GW).¹²⁸

Ownership in strategic sectors such as power grid companies may give a company, and indirectly the Chinese state, access to sensitive information and an opportunity to influence the development of the operation. Chinese companies have part ownership in several power grid companies in southern Europe, including Greece, Italy and Portugal, and have also tried to acquire grid companies in Germany.¹²⁹ The main Chinese actor, State Grid Corporation, reportedly showed interest in bidding for Swedish ABB Power Grid, which was eventually acquired by Japanese company, Hitachi, in 2018.¹³⁰

In the Nordic region, Chinese energy investment is limited to Norwegian oil and Swedish wind power. Energy investments dominated early Chinese investment in Norway. As early as 2003, China acquired oil-drilling company Awilco Offshore for USD 2.5 billion. The same year, Sinochem acquired the company, Atlantis, which included an oilfield outside UAE. However, none of these acquisitions are to be considered part of Norwegian energy production infrastructure.

In Sweden, state-owned China General Nuclear (CGN) has invested SEK 12.9 billion (USD 1.5 billion) in new wind power, with a total capacity of 3.5 TWh. This equals 10.5 per cent of all Swedish wind power production in 2021. However, by 2024 this share will fall to 7.3 per cent as more wind parks start production. It is further estimated that foreign companies will own 66 per cent of all wind energy

¹²⁶ European Council, “COUNCIL DIRECTIVE 2008/114/EC: on the identification and designation of European critical infrastructures and the assessment of the need to improve their protection”, December 8, 2008: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:345:0075:0082:EN:PDF>.

¹²⁷ Thomas Eder and Jacob Mardell, “Powering the Belt and Road”, *Merics Tracker*, June 27, 2019.

¹²⁸ Zhongshu Li, Kevin Gallagher and Denise Mauzerall, “China’s global power: Estimating Chinese foreign direct investment in the electric power sector”, *Energy Policy*, 136, 2020.

¹²⁹ Kristina Westerdahl, ”Omvärldsanalys avseende europeisk elsektor 2020”, *Svenska Kraftnät*, October 19, 2020, p. 6.

¹³⁰ Göte Fagerfjäll, ’ABB säljer power grids till Hitachi’, *Elektronik i Norden*, 17 december 2018. <http://www.elinor.se/abb-saljer-power-grids-till-hitachi.html>

capacity by 2024.¹³¹ CGN's share made up an estimated 2 per cent of total yearly energy production in Sweden by 2021.¹³² While this is not enough to seriously affect overall power production in Sweden, some have argued that ownership gives CGN access to critical technology in the Swedish electricity system.¹³³ CGN's ownership in Sweden is also potentially complicated by increasingly strained relations between the U.S. and China. CGN was convicted of nuclear espionage by a U.S. court in 2017 and has since August 2019 been on the US government's 'entity list', barring U.S. companies from selling products to the CGN.¹³⁴ Another Chinese energy company, SDIC Power, also entered the Swedish wind energy market through its ownership of British company Red Rock, which in 2021 acquired a 50 per cent stake in Överturingen wind-park, with a capacity of 0.78 TwH.¹³⁵

3.5.2 Transport

Critical infrastructure in the transport sector includes ports, airports, railway, roads and bridges. Chinese companies have invested heavily in foreign ports as a part of the BRI. Commercial port ownership is considered an important part of securing Chinese access to necessary resources as China lacks formal agreements and allies.¹³⁶ In Europe, Chinese companies own ports mainly in the southern areas, most prominently the Greek deep-sea port of Piraeus, which gives China a foothold in the EU.¹³⁷

Although there has been much speculation and discussion about possible Chinese investments in Nordic ports, there are thus far no Chinese-owned ports in the Nordic region. Hong Kong's Hutchinson Whampoa has an operating contract for the Swedish container port, Norvik, outside Stockholm, but the port is publicly

¹³¹ Interview of Tomas Hallberg, at the Swedish Wind Energy Organisation, October 22, 2021. See also: Svensk Vindenergi, "Ny svensk vindkraft 2017-2024", accessed 03-05-2022. <https://svenskvindenergi.org/wp-content/uploads/2021/06/Ny-vindkraft-2017-2024-SVENSK-VINDENERGI.pdf>.

¹³² Total power production in Sweden in 2019 was 165 TwH. Sveriges Officiella Statistik, "El-, gas- och fjärrvärmeförsörjningen 2019", Slutliga uppgifter [Electricity supply, district heating and supply of natural gas 2019. Final statistics.] https://www.scb.se/contentassets/f3feaf1fd8f6040e8b78b9408f49adbc8/en0105_2019a01_sm_en11sm2001.pdf.

¹³³ Conversation with staff at a Swedish energy company, May 2021.

¹³⁴ Peter Mattis and Matthew Brazil, *Chinese Communist Espionage: An Intelligence Primer*, Annapolis: Naval Institute Press, 2019, p. 151.

¹³⁵ Kristy Dorsey, "Red Rock makes 'essential' move into Europe's renewables market", *The Herald*, December 23, 2020, https://www.heraldscotland.com/business_hq/18963620.red-rock-makes-essential-move-europes-renewables-market/.

¹³⁶ Hillman and Sachs, 2021. p. 63.

¹³⁷ China Ocean Shipping Company (COSCO) increased its ownership from 51 percent in 2016 to 67 percent in 2021. The Maritime Executive, "COSCO Solidifies Hold on the Port of Piraeus", August 22, 2021, <https://www.maritime-executive.com/article/cosco-solidifies-ownership-of-the-port-of-piraeus>.

owned by Ports of Stockholm.¹³⁸ In 2017, a Chinese consortium proposed building Scandinavia's largest port, in Lysekil, on Sweden's west coast. A domestic debate concerning environmental and security risks followed, which eventually made the consortium withdraw the offer.¹³⁹

In Finland, when the state sold its stake in real estate company Sponda, in 2010, it started a chain of events that eventually led to Finland's logistic hub being in Chinese hands. In a series of deals following the original sale, Sponda ended up being owned by the American real-estate giant, Blackstone. In 2017, Blackstone sold their European logistics company, Logisor, for Euro 12.25 billion (USD 13.8 billion) to the state-owned China Investment Corporation (CIC).¹⁴⁰ Finnish logistics centres were part of the deal. Since then, CIC has been managing more than one million square metres of logistics properties in Finland, including almost 90,000 square metres in the IA Vuosaari harbour area, in Helsinki, and Kouvola railway logistics centre, as well as logistics and warehouse space at Helsinki-Vantaa airport.¹⁴¹

In Sweden, Chinese (including Hong Kong) companies have been active as investors in and operators of railway traffic. Since 2014, China State Administration of Foreign Exchange (SAFE) owns 37 per cent of Stockholm's airport train, Arlanda Express. Meanwhile, MTR, which is owned by the Hong Kong government, has operated the subway and commuter trains in Stockholm since 2009. MTR's contract runs until 2025, and several politicians, citing security risks, have objected to allowing Chinese companies to continue operating the subway and commuter trains after 2025.¹⁴² In 2015, MTR also became the main commercial competitor of the Swedish state-owned company, SJ, for rail traffic between Stockholm and Gothenburg.¹⁴³ Another Chinese company, the state-owned China Railway Tunnel Group (CRTG), was in 2019 awarded the contract to build extensions to Stockholm's subway system. The deal was criticised by competitors, who argued that Chinese state support made it impossible for other entrepreneurs to

¹³⁸ Correspondence with staff at the owner Ports of Stockholm, April 21, 2021.

¹³⁹ Jerker Hellström, "Solving Sweden's China Puzzle", *Echo Wall*, June 30, 2020, <https://web.archive.org/web/20210509015926/https://www.echo-wall.eu/knowledge-gaps/solving-swedens-china-puzzle>.

¹⁴⁰ Blackstone Press Release, "Blackstone Announces €12.25 billion Sale of Logisor to China Investment Corporation", June 2, 2017, <https://www.blackstone.com/press-releases/article/blackstone-announces-12-25-billion-sale-of-logisor-to-china-investment-corporation/>.

¹⁴¹ Kaija Ahtela, "Kiinalainen sijoitusyhtiö hallinnoi nyt Suomen logistiikkakiinteistöjä" [A Chinese investment company now manages logistics properties in Finland], *Kauppalehti*, March 6, 2020, <https://www.kauppalehti.fi/uutiset/valtio-luopui-spondasta-ja-lopulta-suomen-logistiikan-solmukohdat-paatyivat-kiinan-hallintaan/e6962d39-5a91-4e34-8916-16ae8fa27781>.

¹⁴² Tomas Augustsson, "T-banedriften: "Vi måste vara ytterst försiktiga"", *Svenska Dagbladet*, 14 June 2021: <https://www.svd.se/t-banedriften-vi-maste-vara-ytterst-forsiktiga>.

¹⁴³ MTR Nordic webpage, September 1, 2021, <https://www.mtrnordic.se/om-oss/om-mtr-nordic/>.

compete.¹⁴⁴ This did not stop the municipal government from awarding two more tunnel contracts to CRTC in October 2021 and April 2022. In total the three contracts were worth USD 180 million.¹⁴⁵ Several new laws that aim to regulate foreign acquisitions as well as tenders for critical infrastructure projects have been or are due to be enacted. These are further discussed below.

In Norway, state-owned Sichuan Road and Bridge Group (SRBG) won contracts to build two bridges. In 2013, SRBG was awarded the contract to build Hålogalandbrua, outside Narvik, in Norway's far north. The bridge was opened for traffic in 2018. The second bridge, Beistadsundbrua, outside Trondheim, opened in 2020.¹⁴⁶

In Finland, there have so far not been any Chinese infrastructure investments. However, there has been much speculation about the possibility of an Arctic railway and a Helsinki-Tallinn tunnel project, together known as the Arctic Corridor that would connect continental Europe with the Arctic Ocean via Finland. The railway would link Rovaniemi, in Finland, with the Norwegian port town of Kirkenes, the northernmost ice-free port located by the Barents Sea and the closest Western port to East Asia via the NSR.¹⁴⁷ An Arctic railway would make the NSR more reasonable as a secure alternative in case of disturbances along the Indian Ocean shipping lane; moreover, it could reduce the times, costs and environmental pollution of transportation between Europe and China. Chinese companies are expected to be interested in taking part in the project, both in the construction and operation of the railway, as well as in the port in Kirkenes. However, critics point to many problems, including the fact that a railway would need to be built on the land of the indigenous Sami.¹⁴⁸ The Arctic railway project is highly unlikely to be realized in the foreseeable future.

3.5.3 Space

Starting in the early 2000s, China has collaborated with the Swedish Space Corporation (SSC) and, since 2016, has had access to antennas at the space base, Esrange, in Kiruna. The antennas provide China with a five- to twelvefold increase in its capacity to communicate with its satellites. An FOI study relates that the

¹⁴⁴ Hanna Malmödin, "Grönt ljus för kinesiska tunnlar i Nacka", *Sveriges Radio*, October 8, 2019, <https://sverigesradio.se/artikel/7317232>.

¹⁴⁵ Linda Öhrn, 'Kinesiska staten vinner nytt prestigeprojekt i tunnelbanan', *Dagens Industri*, 8 October, 2021. <https://www.di.se/nyheter/kinesiska-staten-vinner-nytt-prestigeprojekt-i-tunnelbanan/>; Linda Öhrn, 'Trots kritiken: Kinesiskt företag tar hem nytt tunnelbanekontrakt', *Dagens Industri*, 26 April, 2022. <https://www.di.se/nyheter/trots-kritiken-kinesiskt-foretag-tar-hem-nytt-tunnelbanekontrakt/>.

¹⁴⁶ Sindre Sverdrup Strand, 'Nå åpner Beistadsundbrua – lyser ut ny strekning', *Byggindustrien*, 1 April, 2020. <https://www.bygg.no/na-apner-beitstadsundbrua-lyser-ut-ny-strekning/1429224/>.

¹⁴⁷ Henry Tillman, Yang Jian, and Egill Thor Nielsson, 'The Polar Silk Road: China's New Frontier of International Cooperation', *China Quarterly of International Strategic Studies*, Vol. 4, No. 3, p. 357.

¹⁴⁸ Koivurova (et al), 2019, p 73.

satellites can be used for military and information-gathering purposes.¹⁴⁹ The study led to a debate about the security consequences of allowing Chinese access to the antenna. In 2020, the Swedish Space Board reported that the contract for the antenna collaboration would not be extended.¹⁵⁰ China is also a member of the European Incoherent Scatter Scientific Association (EISCAT), which owns and operates radar antennas in Norway, Sweden and Finland.¹⁵¹ The EISCAT 3D antenna is a valuable sensor of space objects and China's membership gives it full access to data. Another more recent FOI study, of EISCAT 3D, warns of the risks related to the transfer of technology and knowledge that can be used for military purposes.¹⁵²

3.5.4 Telecom

Much of the debate about the risk of Chinese investments has been related to Huawei's participation in the development of 5G systems. Following decisions by the U.S. and Australia to ban Chinese telecom companies from providing equipment and taking part in 5G development, European countries have had to balance security interests and relations with the U.S. on the one hand, against economic interests and relations with China on the other. Huawei has provided equipment for the 4G network in all the Nordic countries.

Huawei's participation in building the 5G network has been dealt with differently in the Nordic countries. Sweden has had the most openly restrictive policy, which has led to strong reactions from the Chinese government, threatening to stop Swedish Ericsson from participating in China's telecom development. Citing national security reasons, the PTS decided in 2020 that Chinese operators Huawei and ZTE would not be allowed to supply equipment to the network. The decision was unusual in that it explicitly named China and the Chinese companies. Huawei challenged PTS's decision in the Administrative Court (Förvaltningsrätten), but this was denied, in June 2021.¹⁵³ Huawei subsequently appealed the decision to the Administrative Court of Appeal in October.¹⁵⁴ In January 2022, Huawei sued the Swedish state in the International Centre for Settlement of Investment Disputes

¹⁴⁹ Sandra Lindström and John Rydqvist, *Kinas rymdprogram och rymdförmågor*, Stockholm:Swedish Defence Research Agency (FOI), March 2019.

¹⁵⁰ SVT Nyheter, "FOI varnar för svenskt rymdsamarbete med Kina", January 13, 2019, <https://www.svt.se/nyheter/inrikes/foi-varnar-for-svenskt-rymdsamarbete-med-kina>.

¹⁵¹ CSC – (Center for Science Finland), "The EISCAT 3D radar system to revolutionize atmospheric research", August 12, 2020. <https://www.csc.fi/en/-/the-eiscat-3d-radar-system-to-revolutionize-atmospheric-research>.

¹⁵² Kristofer Hallgren, Jonatan Westman, Matti Nylund and Niklas Granholm, *Säkerhetsaspekter vid inmätning av rymdobjekt med EISCAT-3D*, Stockholm:Swedish Defence Research Agency (FOI), October 2021.

¹⁵³ Tomas Augustsson, "'Sveriges säkerhet tungt skäl'—Huawei stoppas", *Svenska Dagbladet*, June 22, 2021. <https://www.svd.se/huawei-stoppas-i-sverige>.

¹⁵⁴ TT, 'Prövningstillstånd i Huawei-tvisten', *Svenska Dagbladet* 11 October, 2021. <https://www.svd.se/a/MLERU/provningstillstand-i-huawei-tvisten>.

(ICSID), for breaching an investment protection agreement between China and Sweden. The initial suit was for 5.2 billion SEK (USD 560 million), but the final claim is expected to be far higher.¹⁵⁵

Norway and Denmark also selected other companies than Huawei or ZTE but, in contrast to Sweden, never explicitly said that Chinese companies are not allowed to participate in the 5G development. Norway's government decided in 2018 that a maximum of 50 per cent of a telecom operator's base stations may use equipment from a country with which Norway has no security collaboration. Shortly thereafter, Norway's largest telecom company decided to drop Huawei for its 5G development and opted for Ericsson, instead.¹⁵⁶

In 2019, Denmark's largest telecom company, TDC, decided to use Ericsson for the development of the national 5G network. This came as a blow to Huawei, who had developed TDC's 4G network and had high hopes of also getting the 5G contract. The main reason for not selecting Huawei appears to have been U.S. pressure on the Danish government as part of Denmark's intelligence-sharing collaboration with the US.¹⁵⁷ In December 2019, Danish media reported that the Chinese ambassador to Denmark, Feng Tie, had pressured Faroe Island's telecom company, Føroya Tele, to make a deal with Huawei for the 5G development. Faroe Islands, similarly to Greenland, is a self-governed part of Denmark. According to recordings of the meeting, the ambassador said that Faroe Islands could forget about a free trade agreement with China if Huawei was not selected as the provider of 5G development.¹⁵⁸ While the Chinese embassy denied the incident, it cast further doubt on Huawei's claimed independence from the CCP.

Iceland has not yet made any formal decisions regarding Chinese companies' participation in the 5G network. Two out of Iceland's three telecom operators have used Huawei equipment, while the third has used Ericsson. The U.S. government has made its position clear to the Icelandic government over the use of Chinese equipment in 5G.¹⁵⁹

Finland, which like Sweden is home to one of Huawei's competitors, Nokia, in 5G development, did not explicitly ban Huawei from participating in its 5G development. In fact, some Finnish telecom operators have partly used Huawei equipment in the rollout of the 5G network. But, in December 2020, the Finnish parliament passed a law that allowed the authorities to ban the use of telecom

¹⁵⁵ AFP, "Huawei is taking Sweden to court after the country banned its 5G products", *Euronews*, January 31, 2022, <https://www.euronews.com/next/2022/01/31/huawei-is-taking-sweden-to-court-after-the-country-banned-its-5g-products>.

¹⁵⁶ SVT Nyheter, "Forskaren: därför kan man inte lita på Huawei", February 4, 2020, <https://www.svt.se/nyheter/utrikes/forskaren-darfor-kan-man-inte-lita-pa-huawei>.

¹⁵⁷ Yang Jiang, "Danmarks politik i forhold til kinesiske investeringer", *Internasjonal Politikk*, Vol 78, No. 1, pp. 43-55, 2020; Interview of Camilla Sørensen, May 17, 2021.

¹⁵⁸ SVT Nyheter, "Danska medier: Kina pressade Färöarna om mobilnät", December 12, 2019, <https://www.svt.se/nyheter/utrikes/danska-medier-kina-pressade-faroarna-om-mobilnat>.

¹⁵⁹ Interview, Icelandic China scholar, June 3, 2021.

equipment that is considered a threat to national security.¹⁶⁰ Finland is also involved in an information and telecom project Arctic Connect together with Russian and Asian partners, including China. This is further discussed in Chapter 4.

3.5.5 Dual-use technology

Returning to the discussion in Chapter 1 about national security risks, some of the Chinese investments clearly fall within the category of leakage of sensitive technology, or “threat 2”, in Moran and Oldenski’s categorisation. One example of sensitive technology is semiconductors, which are dual-use products, and have recently become the centre of attention in the high-tech competition between China and the West. China has explicitly expressed its intention to be self-sufficient in semiconductors in order to avoid dependence on the West. Between 2014 and 2016, the three Swedish semiconductor companies, Imego, Norstel and Silex were acquired by Chinese companies. Imego and Norstel were sold by the Swedish government. In at least one of the cases, Silex, it turned out that the ultimate owner in China, Navtech technology, had close connections to the Chinese military.¹⁶¹ Similarly, in Finland, Chinese National Silicon Industry Group (NSIG) acquired the semiconductor company, Okmetic, in 2016.¹⁶²

In 2014, the Jilin-based Chinese company, Connell Chemical Industry, acquired Swedish chemical company Chematur Technologies. Chematur was previously a part of the defence giant, Nobel Industries, and specialises in building factories for explosives, among other things. By 2014, it had sold off its explosives section; however, the company is still located in the heart of the Swedish defence industry and retains much of its previous know-how. In 2019, Wanhua Chemical Group became the new owner of Chematur. Wanhua’s largest owner is the Chinese state-owned Asset Supervision Administration Commission (SASAC).¹⁶³

Acquisitions such as these may give the Chinese state access to technology that can be used for military purposes and gaining a technological advantage over the Nordic countries and their democratic allies. It is becoming increasingly apparent that Chinese acquisitions of sensitive technology are security factors in the current context of great-power competition.¹⁶⁴ Ownership or other forms of influence over critical infrastructure brings with it other security risks, including infiltration, espionage and disruption.¹⁶⁵ As shown, Chinese infrastructure ownership in the

¹⁶⁰ Anne Kauranen and Supantha Mukherjee, “UPDATE 1-Finland approves law to ban telecom gears on security grounds”, *Reuters*, December 7, 2020. <https://www.reuters.com/article/finland-5g/update-1-finland-approves-law-to-ban-telecoms-gear-on-security-grounds-idUSL1N2IN1O4>.

¹⁶¹ Peterson (et al), 2020, p. 54.

¹⁶² Mattlin, 2020, p. 59.

¹⁶³ Peterson (et al), 2020, p. 54.

¹⁶⁴ William Hannas and Didi Kirsten Tatlow, *China’s Quest for Foreign Technology: Beyond Espionage*, London: Routledge, 2021.

¹⁶⁵ Moran and Oldenski, 2013.

Nordic countries is very limited, but Chinese companies are to a larger extent involved as operators and in building infrastructure, such as subways and railroads.

In summary, the Nordic region is not overly exposed to Chinese investments, in general. Although trade and investment have steadily increased, China's general economic influence does not put the Nordic countries in a vulnerable economic position. However, as discussed herein, there may be security risks related to some specific investments in certain sectors. In the final section of this chapter, we explore what policy and legal instruments the Nordic countries have used in response to the security risks carried by Chinese investments.

3.6 Nordic policy responses to Chinese economic statecraft

Being small and trade-dependent, the Nordic countries have traditionally favoured free-trade policies and an open foreign investment climate. The general view is that protectionist policies would risk negative economic consequences for the Nordic economies. Nevertheless, in recent years, as the international debate on security risks related to foreign investments has expanded and resulted in policy measures, the Nordic countries have developed similar debates, to different degrees. In all countries, an increasing awareness of the risks related to Chinese investment is apparent.¹⁶⁶

In March 2019, the EU parliament and the European Council adopted a regulation on the coordination of foreign investment screening mechanisms in all EU member states. This directly affected the three EU members of the Nordic countries, Denmark, Finland and Sweden, which since 2020 have established coordination nodes responsible for reporting FDI from outside EU to other EU member states.

In Sweden, the existing regulations for foreign investment screening were abandoned in 1992, as a result of Sweden's becoming a member of the EU. Since then, there has been very little in terms of foreign investment screening and the government has had limited opportunities to stop foreign acquisitions of Swedish companies. In 2019, the government commissioned a public inquiry on foreign direct investments, which presented its results in November 2021. The inquiry suggested a far-reaching and comprehensive investment screening mechanism that would require an investor to inform the authorities of a planned investment in protected activities.¹⁶⁷ The lower limit for the screening mechanism to be used in

¹⁶⁶ Bjørnar Sverdrup-Thygeson and Ulf Sverdrup, "Introduksjon: Når geoøkonomi møter den nordiske modellen", *Internasjonal Politikk*, Vol. 78, No. 1, 2020.

¹⁶⁷ The protected activities include: essential services; security-sensitive activities; activities that prospect for, extract, enrich or sell raw materials that are critical to the EU, or other metals and minerals that are critical to Sweden; activities whose principal purpose is the processing of sensitive personal data or location data; activities related to emerging technologies and other strategic protected technologies; activities that manufacture, develop, conduct research into or supply dual-use products or supply

a foreign acquisition is 10 per cent of voting rights in the acquired company, which is a low bar compared to similar screening mechanisms in many other European countries.¹⁶⁸ To make sure unwanted investors do not by-pass the screening mechanism by using a local investor, the inquiry suggests that all investments in the named sensitive sectors, including from Swedish nationals, must be reported to the screening authority.¹⁶⁹

While the investment screening mechanism still has to be enacted into law, which is planned to take effect in January 2023, the Swedish parliament made revisions to the existing National Security Protection law (2018) that requires Swedish companies dealing with security-sensitive issues to seek approval from the authorities before a foreign acquisition can take place.¹⁷⁰ The revision took effect 1 December 2021.¹⁷¹

Finland became an EU member in 1995. In contrast to Sweden, however, Finland replaced the previous strict law on foreign ownership with a modernised version that required approval from the authorities for investments of more than a third of a company considered of important national interest. In 2012, a new law on foreign corporate acquisitions was passed that regulates foreign investment in defence-related industries. The number of reported investments has steadily increased; in 2019 15 investments were reported to the ministry of labour and business. So far, the ministry has not stopped any investment.¹⁷² The law was amended in 2020 and is more comprehensive now.¹⁷³ In addition, in order to prevent foreign ownership of land and real estate adjacent to strategic facilities, a law on permits for real estate acquisitions for buyers outside EU and the European Economic Community (EEC) took effect in 2020.¹⁷⁴

The Danish parliament has passed a law on foreign direct investment that went into effect in July 2021 and is similar to Sweden's.¹⁷⁵ The law divides investments

technical assistance for such products; activities that manufacture, develop, conduct research into or supply military equipment or supply technical support for military equipment. Government of Sweden, *Granskning av utländska direktinvesteringar*, SOU 2021:87, Stockholm, 2021, pp. 44-47.

¹⁶⁸ Ibid, p. 31.

¹⁶⁹ Ibid, p. 266.

¹⁷⁰ Ibid, p. 24.

¹⁷¹ Government of Sweden, "Regeringen stärker skyddet för Sveriges säkerhet", Pressmeddelanden, March, 2021. <https://www.regeringen.se/pressmeddelanden/2021/03/regeringen-starker-skyddet-for-sveriges-sakerhet/>.

¹⁷² Mattlin, 2020.

¹⁷³ Finlex, "Lag om ändring av lagen om tillsyn över utlänningars företagsköp", Helsingki, October 2, 2020. <https://www.finlex.fi/sv/laki/alkup/2020/20200682>.

¹⁷⁴ Finland's Ministry of Defence, "Tillstånd för fastighetsköp för köpare utanför EU- och EES-området", October 20, 2021, https://www.defmin.fi/sv/tillstand_och_tjanster/tillstand_for_fastighetskop_for_kopare_utanfor_eu_och_ees-området#72e9b835.

¹⁷⁵ Bech Bruun Law firm, "Investeringsscreeningslov om udenlandske direkte investeringer vedtaget af Folketinget", May 21, 2021. <https://www.bechbruun.com/da/nyheder/2021/investeringsscreeningslov-om-udenlandske-direkte-investeringer-vedtaget-af-folketinget>.

into two different categories. The first category includes especially sensitive sectors related to national security, such as defence, IT security and classified information, dual-use products, critical infrastructure, and critical technology. The latter includes for example artificial intelligence (AI), robot technology, and biotech, etc. For this sector, a foreign investor is required to obtain prior approval from the Danish Business Authority for any investment above 10 per cent ownership.¹⁷⁶ The second category includes all other sectors that may be vital to national security. In this category, the investor “can inform the Danish Business Authority” if the investment means a controlling stake of at least 25 per cent.¹⁷⁷ In other words, reporting in the second category is voluntary. The screening requirement does not apply to citizens in other EU or (European Free Trade Association) EFTA states.

Norway’s national security law, effective from 2019, allowed for screening of foreign investment in Norwegian companies. The law in effect requires prior notification of an acquisition above a third of the capital share or control or comparable power over management “in a company or in an asset that is identified as essential for national security”.¹⁷⁸ According to one expert on China-Norway relations, there are examples of Chinese investments that have been stopped.¹⁷⁹

In Iceland, no new investment-screening regulations have emerged as a consequence of the heated European debate on Chinese investments, probably because Iceland already has very strict laws regulating foreign investment. Since 1991, Iceland has had a law that restricts ownership in “hydropower and geothermal power as well as energy production and -distribution, which are restricted to nationals, residents or residents of European Economic Area (EEA) countries”. Also, “Aggregate ownership of individual business by non-residents—not counting ownership of EEA residents—is capped at 49%”. In addition, the Minister of Commerce has the power to intervene and prevent any foreign investment that the Minister considers a “threat to national security, public order, public safety or public health”.¹⁸⁰

In summary, in recent years the Nordic countries have strengthened their legal mechanisms to protect them from foreign investment in sensitive sectors. This will make it more difficult in future for China to invest in sensitive infrastructure and acquire companies that produce dual-use products, thus reducing the security risks related to specific Chinese investments.

¹⁷⁶ Government of Denmark, *Lov om screening af visse udenlandske direkte investeringer m.v. i Danmark (investeringsscreeningloven)* [Law on screening of some foreign direct investments in Denmark (investment screening law)], 10 May 2021.

¹⁷⁷ *Ibid.*, chapter 3.

¹⁷⁸ OECD, *Acquisition- and ownership-related policies to safeguard essential security interests*, May 2020, p. 143. <https://www.oecd.org/Investment/OECD-Acquisition-ownership-policies-security-May2020.pdf>.

¹⁷⁹ Interview of Norwegian China scholar, expert on China-Norway relations, May 28, 2021.

¹⁸⁰ OECD, 2020, p. 130.

4 Chinese economic influence in Russia

The study now turns to Russia. As in the previous chapter, we are interested in analysing the national security implications of China's economic statecraft, which requires an examination of the general economic trade flows and structure, along with investments. The chapter begins by providing an overview of China-Russia trade and economic exchange, focusing on China's share of Russia's overall trade and foreign investment inflows. This is done to assess the potential level of Russian economic exposure to China. The next section analyses China's economic measures towards Russia. The subsequent parts of the chapter examine more specifically Chinese investments in the Russian Arctic and discusses Russian responses to Chinese economic engagement in the region.

4.1 The growing economic partnership

The complementarity of both countries' economies and markets, coupled with geographic proximity, create certain favourable conditions for deeper Sino-Russian economic ties. Nonetheless, the economic dimension has long remained underdeveloped, not least when compared to the political dimension of the bilateral relationship. That said, in the recent decade, or so, bilateral trade has witnessed an incremental upward trajectory (see Figure 4) and, in 2021, it hit a record high of USD 146.88 billion.¹⁸¹ The proclaimed official ambition is to reach USD 200 billion by 2024.¹⁸² As a comparison, bilateral trade turnover during the 1990s averaged USD 5-7 billion.

¹⁸¹ TASS, "Trade turnover between Russia and China gained 35.8% in 2021 - Chinese Customs", January 4, 2022, https://tass.com/economy/1387967?utm_source=google.com&utm_medium=organic&utm_campaign=google.com&utm_referrer=google.com.

¹⁸² Xinhua, "Putin says Russia-China relations at highest-ever level", June 5, 2021. http://www.xinhuanet.com/english/2021-06/05/c_139990358.htm.

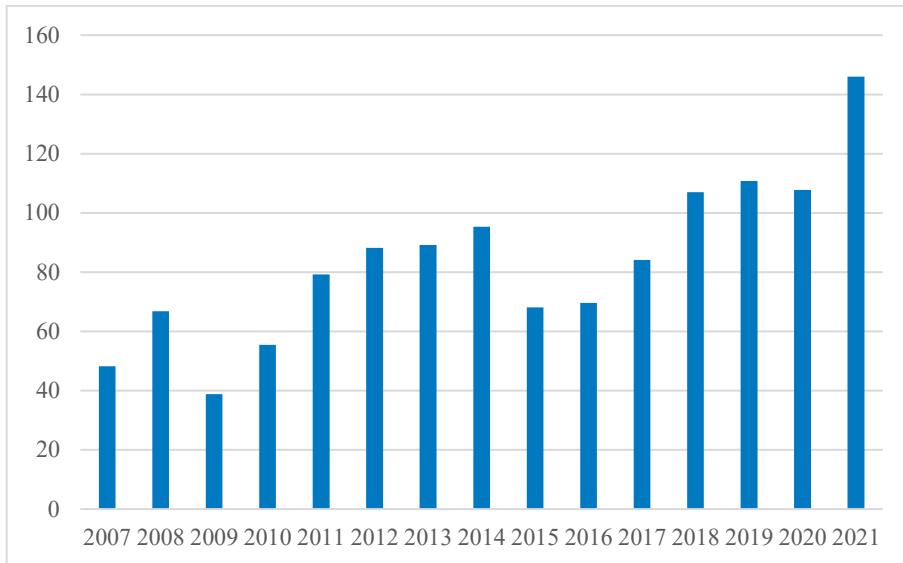


Figure 4: China-Russia annual bilateral trade turnover, 2007-2021 (USD billions)

Sources: Adopted from Sergey Luzyanin and Zhao Huasheng, *China-Russia Dialogue: The 2021 Model*, p. 41. Data for 2021 added by authors from TASS. See TASS, "Trade turnover between Russia and China gained 35.8% in 2021 - Chinese Customs", January 4 January, 2022, https://tass.com/economy/1387967?utm_source=google.com&utm_medium=organic&utm_campaign=google.com&utm_referrer=google.com.

In 2010, China overtook Germany to become Russia's largest trading partner, a position China has held since then. In 2020, China's share of Russia's foreign trade was 18.3 per cent, a record high. The role that Russia plays for China is less significant, however; at the end of 2020, Russia was only its eleventh-largest trading partner.¹⁸³

Russia is also an important energy partner to China.¹⁸⁴ Russia is a top crude oil producer and the second-largest natural gas producer in the world. China is the world's second-largest net importer of crude oil and largest natural gas importer. Indeed, it is in the energy sector where the Sino-Russian economic relationship is the most developed.¹⁸⁵

¹⁸³ Sergey Luzyanin and Zhao Huasheng, *China-Russia Dialogue: The 2021 Model*, pp. 41-42.

¹⁸⁴ In this report, we do not consider other energy sources, such as coal or nuclear energy, to any great extent. It can be noted, however, that coal constitutes a part of the energy trade relationship. For instance, in 2020 China was in fact the biggest importer of Russian coal, accounting for 15 per cent of Russia's total coal exports. Most coal to China, however, comes from Indonesia and Australian. See more: Vita Spivak, "What Does China's energy crisis mean for Russia?", *The Moscow Times*, October 15, 2021, <https://www.themoscowtimes.com/2021/10/15/what-does-chinas-energy-crisis-mean-for-russia-a75307>.

¹⁸⁵ See for instance Tom Røseth, "Russia's energy relations with China: passing the strategic threshold?", *Eurasian Geography and Economics*, Vol 58, no 1 2017, 23-55.

In 2021, Russia was China's second biggest supplier of crude oil.¹⁸⁶ China receives imported crude oil from Russia through the Eastern Siberia Pacific Ocean oil pipeline (ESPO), and the Kazakhstan-China pipeline, as well as via maritime crude oil shipments. In 2021, Russia provided China 1.6 million barrels per day (bpd), accounting for 16 per cent of China's total imports. Russia is also an increasingly important provider of natural gas, both through pipelines and, increasingly, as liquefied natural gas (LNG). In May 2014, Gazprom and China National Petroleum Corporation (CNPC) concluded a deal to construct the Power of Siberia pipeline, worth USD 400 billion and with an expected annual capacity of 38 billion cubic metres (bcm) per year.¹⁸⁷ In December 2019, the first natural gas deliveries entered China and in 2021 Gazprom delivered 10 bcm via the pipeline.¹⁸⁸ A second pipeline, the Power of Siberia 2, originating in western Siberia, and with an annual capacity of 50 bcm, is currently under discussion.¹⁸⁹ When Vladimir Putin met with Xi Jinping in Beijing on February 4, 2022, two new energy deals were concluded. Russia agreed to export 100 million tons of oil via Kazakhstan over the next 10 years and, via the Far Eastern Route, 10 billion cubic metres of natural gas. In 2021, Russia accounted for 10 per cent of China's imports, making it China's third largest natural gas supplier.¹⁹⁰

Other dimensions in the economic domain are also developing. Following the U.S.-China trade war, when the Trump administration imposed tariffs on steel and aluminium, China followed suit with similar tariffs on U.S. agricultural and industrial products. Russia stepped in and provided China with a growing level of agricultural exports.¹⁹¹ Russian agricultural exports reached a record high of USD 5.55 billion in 2020, up 13.7 per cent from 2019 and becoming a leading export market for Russian meat products.¹⁹² At the recent Xi-Putin meeting, mentioned

¹⁸⁶ Russia and Saudi Arabia have for the last several years held the top position, alternatively. For instance, from 2016 to 2018, Russia was China's top supplier and Saudi Arabia number two.

¹⁸⁷ The pipeline supplies gas from the Chayandinskoye field in eastern Siberia to domestic consumers in Russia's Far East and to China.

¹⁸⁸ The International Energy Agency (IEA), "Energy Fact Sheet: Why does Russian oil and gas matter?", March 21, 2022, <https://www.iea.org/articles/energy-fact-sheet-why-does-russian-oil-and-gas-matter>.

¹⁸⁹ The project has suffered several setbacks, but a major step forward has been to opt for a pipeline route via Mongolia, instead of to Xinjiang via the Altai Mountains, as previously discussed (and which was the Russian preference). The new proposed route will make the project less capital-intensive, as the pipeline will use existing operational fields in Western Siberia and Yamal. The project seems to be moving forward with, for instance, Gazprom's initiating a feasibility study of the pipeline in 2020 in Mongolia. See Reuters, Gazprom starts work on Power of Siberia-2 pipeline to China", May 18, 2020. <https://www.reuters.com/article/russia-china-gazprom-idUSR4N2CB012>.

¹⁹⁰ Erica Downs, "Q&A | China-Russia Energy Relations: Will New Oil and Natural Gas Deals Help Russia Weather Economic Sanctions?", Colombia SIPA, Center on Global Energy Policy, March 16, 2022, <https://www.energypolicy.columbia.edu/research/qa/qa-china-russia-energy-relations-will-new-oil-and-natural-gas-deals-help-russia-weather-economic>.

¹⁹¹ Elizabeth Wishnick, "Sino-Russian Consolidation at a Time of Geopolitical Rivalry", *China Leadership Monitor*, 2020. <https://www.prcleader.org/elizabeth-wishnick>.

¹⁹² TASS, "China, Russia set new record for agricultural trade in 2020", 28 January, 2021. <https://tass.com/economy/1250071>.

above, an agreement was signed where China opened up for wheat imports from all Russian regions; there had previously been restrictions on imports from certain parts in Russia.¹⁹³

Financial cooperation is developing with the expansion of trade and investment exchange conducted using national currencies, especially in Chinese Renminbi (RMB). The Russian Central Bank has increased the portion of the RMB in its foreign currency reserves from 0.1 per cent, in 2015, to 13.2 per cent, in 2020.¹⁹⁴ In 2021, that figure had increased slightly to 13.8 per cent, reportedly making China the biggest foreign currency holder of Russian Central Bank reserves.¹⁹⁵

Bilateral investment cooperation is being promoted, especially to boast greater economic integration in the border regions between the Russian Far East and China's northeast. Both sides aim to reach higher levels of sophistication in their interaction, particularly in boosting cooperation in emerging industries, innovation and technology.¹⁹⁶ 2020-2021 were designated as Years of "Russian-Chinese Scientific, Technical and Innovation Cooperation", expected to add new dimensions to the bilateral economic relationship.

The trade structure of Sino-Russian trade in recent years has been rather consistent, with Russia mainly providing China with raw materials and China exporting finished products to Russia.¹⁹⁷ Below, in Figure 5, we show the breakdown of Russian exports to China in 2020. Mineral fuel, oil and petrochemicals are substantial, and accounted for almost 60 per cent of Russia's exports to China. . Chinese exports to Russia consist of mostly high-value-added products such as machinery; almost half of Chinese exports to Russia were in this category in 2020. Other major items are clothes, shoes and chemical products (see Figure 6).

¹⁹³ Reuters staff, "UPDATE 1-China lifts restrictions on imports of Russian wheat, barley", *Reuters*, 4 February, 2022, <https://www.reuters.com/article/russia-china-grains-idAFL1N2UF10Y>.

¹⁹⁴ Alexander Gabuev and Temur Umarov, "Will the Pandemic Increase Russia's Economic Dependence on China? *Carnegie Moscow Center*, July 8, 2020, <https://carnegiemoscow.org/2020/07/08/will-pandemic-increase-russia-s-economic-dependence-on-china-pub-81893>.

¹⁹⁵ Katharina Buchholz, "Who Holds Russia's Central Bank Reserves?", *Statista*, 28 February, 2022, <https://www.statista.com/chart/26940/russian-central-bank-foreign-currency-and-gold-reserves-by-holder/>.

¹⁹⁶ Christopher Weidacher Hsiung, "China's technology cooperation with Russia: geopolitics, economics and regime security", *The Chinese Journal of International Politics*, Volume 14, Issue 3, Autumn 2021, pp. 447–479.

¹⁹⁷ Alicia Garcia-Herrero and Jianwei Xu, "How does China fare on the Russian market? Implications for the European Union", *Russian Journal of Economics* 5 (2019), p. 391.

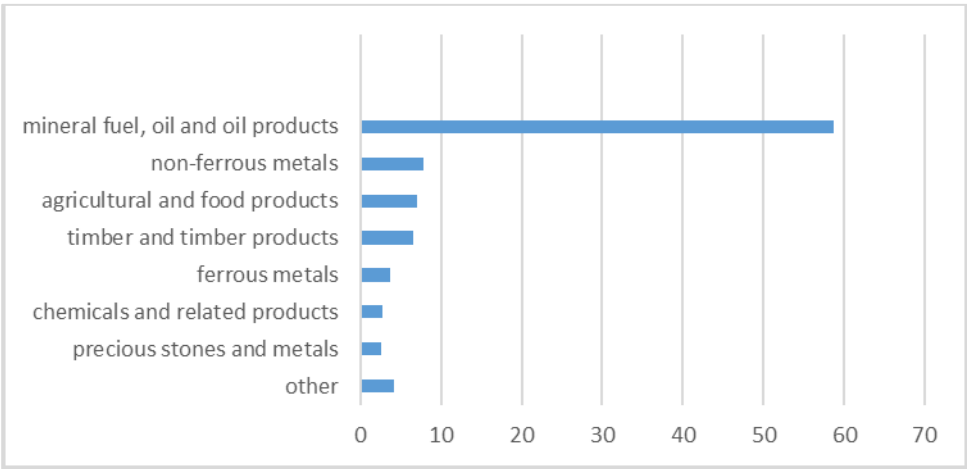


Figure 5: Russian exports to China, commodity structure, 2020
Sources: Adopted from Sergey Luzyanin and Zhao Huasheng (eds), *China-Russia Dialogue: The 2021 Model*, p. 44.

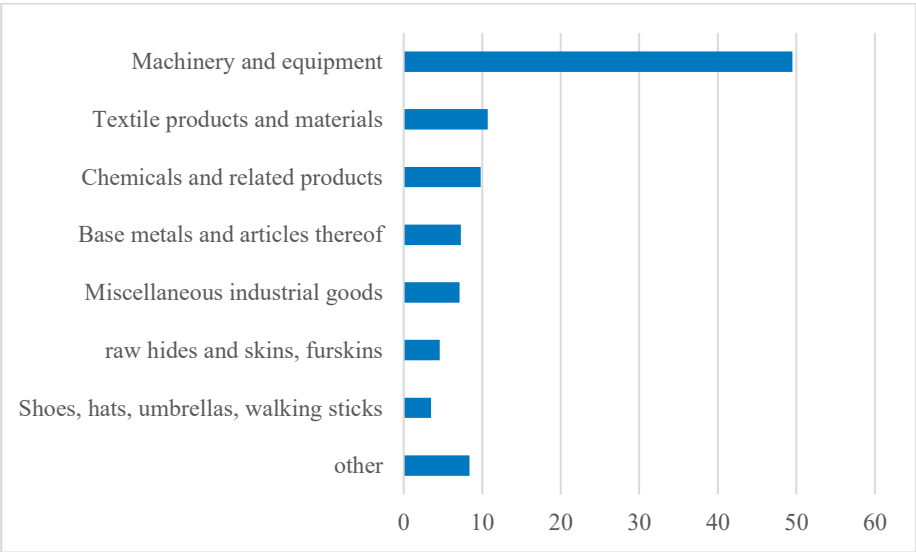


Figure 6: Chinese exports to Russia, commodity structure, 2020
Sources: Adopted from Sergey Luzyanin and Zhao Huasheng (eds), *China-Russia Dialogue: The 2021 Model*, p. 45.

4.2 Chinese investments in Russia

Before examining Chinese investment in Russia, two important considerations must be pointed out. First, a large bulk of Chinese FDI runs through offshore locations such as Hong Kong, which could imply that the total volume of investments is underestimated. Second, different Chinese bureaucracies and officials sometimes tend to present figures that are different from each other and generally over-report data compared to Russian authorities. This means, according to observers, that it can be challenging to assess the real level of Chinese investment in Russia. A likely assessment, however, is that Chinese investment in Russia is probably higher than official data indicate, but that the exact numbers are hard to detail.¹⁹⁸ This leads us to make four general observations, as follows.

Firstly, starting from a very low post-Cold War base, it is only in the last 10-15 years that Chinese FDI inflows have shown a gradual increase, reaching a peak in 2014.¹⁹⁹ However, in 2014 the positive trend of Chinese FDI inflows has declined albeit with a small recovery in 2020 (see figure 7). In 2014, total Chinese investments reached USD 4.5 billion, but as of January 2021 had fallen to USD 2.17 billion.²⁰⁰ It should be noted that Russian investments in China are even lower; in 2014 they stood at merely USD 530 million, and in 2018 amounted to USD 247 million.²⁰¹ And, moreover, EU investments in Russia still dwarf those of Chinese investments, even though the relative gap is shrinking. For instance, in 2017 and 2018, the EU investment inflows reached USD 15 billion.²⁰² That said, with Russia's war on Ukraine, EU (and, more broadly, Western) investments into Russia are set to stop.

¹⁹⁸ Vasily Kashin, "Is China Investing Much in Russia?" *Valdai Club*, September 9, 2017, at: <https://valdaiclub.com/a/highlights/chinese-investments-in-russia> ; See also Alicia Garcia-Herrero and Jianwei Xu, "How does China fare on the Russian market? Implications for the European Union".

¹⁹⁹ Alicia Garcia-Herrero and Jianwei Xu, "How does China fare on the Russian market? Implications for the European Union", p. 391.

²⁰⁰ Sergey Luzyanin and Zhao Huasheng (eds), *China-Russia Dialogue: The 2021 Model*, p. 48.

²⁰¹ *Ibid*, pp. 21-22.

²⁰² Alicia Garcia-Herrero and Jianwei Xu, "How does China fare on the Russian market? Implications for the European Union", p. 396.

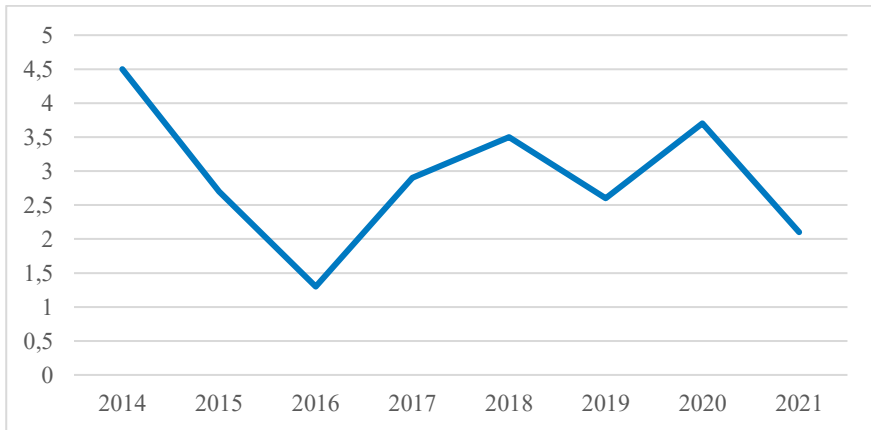


Figure 7: Chinese FDI into Russia, 2014-2021, USD billion

Sources: Adopted from Sergey Luzyanin and Zhao Huasheng (eds), *China-Russia Dialogue: The 2021 Model*, p. 48.

Secondly, activities occur mostly in greenfield and much less in brownfield investments.²⁰³ According to one study, Chinese greenfield investments have grown significantly since 2012. In three of the six years between 2012 and 2017, Chinese investment totaled more than half of all investment in the EU and U.S. In other words, considering the relatively small size of the Russian economy, Chinese greenfield investments are comparatively significant. In terms of brownfield investments, the figures are less impressive. From 2014 to 2019, Russia accounted for merely 4 per cent of China's total outbound investments.²⁰⁴ At the same time, Chinese-registered companies in Russia have gradually increased. In 2013, 378 ventures were registered, 693 in 2015 and 702 in 2017.²⁰⁵ However, according to China's Ministry of Commerce, in 2019, 400 Chinese companies were registered at the Chinese Embassy in Russia, indicating a slight downturn.²⁰⁶

Thirdly, Chinese investments are sector-specific and mostly centered in certain geographical areas, in and around Moscow and in the Russian Far East and Siberia (in particular Khabarovsk Krai, Primorsky Krai and Irkutskaya Oblast). For instance, China remains the largest trading partner and foreign investor in the Russian Far East. In 2019, China accounted for 80 per cent of total FDI in the

²⁰³ Greenfield investments refers to investments in new production facilities or units, and brownfield investments are those made in already existing ones (merger and acquisition deals, for instance of companies, are thus part of brownfield investment).

²⁰⁴ Alicia Garcia-Herrero and Jianwei Xu, "How does China fare on the Russian market? Implications for the European Union", pp 391-392.

²⁰⁵ Feng Shaolei and Cui Heng, "Developing the Far East and Chinese-Russian Relations: New Perceptions and New Practices," *Russia in Global Affairs*, September 30, 2019, pp. 18-19.

²⁰⁶ Chinese Ministry of Commerce, 对外投资合作国别（地区）指南。俄罗斯，"Country Guide for Foreign Investment and Cooperation – Russia, 2020, available here: <http://www.mofcom.gov.cn/dl/gbdqzn/upload/eluosi.pdf>.

region.²⁰⁷ In the view of Chinese assessments, these regions are characterised by rich resources, favourable economic and social conditions, rich resources and suitable climate for foreign investments.²⁰⁸ While Chinese investments include an expanded range of sectors such as real estate, the service sector, tourism and even the digital economy, the bulk of Chinese investments aim to develop Russian natural resources and often related infrastructure and transportation networks. Investments in the oil and natural gas sector stand out as the primary target for Chinese interests, particular in Siberia and the Russian Far East, as exemplified by the Power of Siberia pipeline noted above. As is elaborated further, below, the Arctic has also emerged as a venue for Chinese energy investments.

Fourthly, and not directly “investment-specific”, Chinese lending and in particular project-financing occupies a major role in Chinese economic engagement with Russia. According to data provided by the American Enterprise Institute (AEI), which tracks China’s global investments, between 2005 to 2019 Chinese construction projects in Russia totaled USD 20.7 billion, ranking the country as twelfth on a global basis. Moreover, about one-third of Chinese investments, USD 7.7 billion, were made in the energy sector.²⁰⁹

In sum, Chinese investment into Russia has increased in total value over the years, but has since 2014 witnessed a relative decline. Overall investments remain fairly low and indicate a certain degree of instability. Several factors, often intertwined, can highlight the challenges. Broadly, the Chinese have long been confused and cautious over the Russian investment climate. The regulatory framework, local-central political relations and societal factors make for a complex and complicated investment environment that Chinese business and commercial actors have not yet fully learned how to navigate.²¹⁰ Existing Sino-Russian economic cooperation is mainly a “top-down” affair, involving large state-owned energy firms and state-owned banks, where projects often also require substantial political backing or support to either more forward or be realised. While this allows for certain projects to be realised (not least those that are deemed strategically or politically important), more private and “organic” corporate and small and medium business cooperation remains hampered. Russians, on the other hand, claim that Chinese investors have limited knowledge of local Russian business culture, administration and regulations, which thus hampers the smooth implementation of joint investment projects.²¹¹ In addition, one often hears from the Russian side that the Chinese

²⁰⁷ Sergey Luzyanin and Zhao Huasheng, *China-Russia Dialogue: The 2020 Model*, p. 61.

²⁰⁸ Li Fujia et al. “Investment Environment Assessment and Strategic Policy for Subjects of Federation in Russia”, *Chinese Geographical Science*, 29(5), 2018, pp. 897-898.

²⁰⁹ See American Enterprise Institute (AEI), China Global Investment Tracker, <https://www.aei.org/china-global-investment-tracker/>.

²¹⁰ Zhang Hongxia, “中俄经贸关系:回顾与展望 [Sino-Russian Economic and Trade Relations: Review and Prospect] 俄罗斯东欧中亚研究 [Russian, East European and Central Asian Studies], No. 5 (2013), pp. 48-56.

²¹¹ Sergey Luzyanin and Zhao Huasheng (eds), *China-Russia Dialogue: The 2020 Model*, (Moscow: Russian International Affairs Council, 2020), p. 63.

drive hard bargains and do not invest the declared capital that is often proclaimed in political declarations and statements, when leaders of both sides meet.²¹²

4.3 How exposed is the Russian economy to China?

We now turn to assessing Russia's general economic exposure to China, a task similar to the one we performed in the previous chapter, regarding Chinese investments in the Nordic countries. Several observations follow.

Based on our conceptualisation of economic exposure as laid out in the chapter on theory, a general assessment suggests that the overall trade patterns and investment trends observed above broadly reflect the prevailing development, where the Russian economy is increasingly and gradually moving into China's orbit, thus indicating a growing dependency and potential vulnerability to China.²¹³ Following Western sanctions and isolation of Russia due to Putin's war on Ukraine, it is likely that Russia will become even more economically dependent on China.

The Chinese economy is ten times the size of Russia's. As noted above, China is Russia's largest trading partner, while Russia ranks as only number eleven (as of 2020) for China. The structure of trade, because of its mix, is considerably unbalanced. In fact, China and Russia experts believe that since the bilateral trade turnover is expected to grow, the trade structure will become a more apparent challenge, notably for Russia. As China continues its path to developing into a more sophisticated economy, with even more high-added-value products, and Russia remains dependent on exporting mostly low-end products, in particular natural resources, the potential of a mutually beneficial trade interaction between China and Russia could be hampered, making the trade structure even more unbalanced.²¹⁴ As pointed out by Koehane and Nye, unbalanced trade relations, especially when including natural resources, leads to asymmetric interdependence, which can have a negative effect on political cooperation.²¹⁵ Moreover, while Russia aims to diversity its energy relations away from past dependencies on the European market by engaging with more Asian partners, in reality China has come

²¹² James Hendersen and Tatiana Mitrova, "Energy Relations between China and Russia: Playing Chess with the Dragon", *OEIS PAPER*, Oxford Institute for Energy Studies, 2016.

²¹³ This perception, in fact, is one of the most commonly held perceptions in the analysis of Sino-Russian relations, i.e., that of Russia's growing dependency on China. Where differences emerge is over how much of a problem this is for Russia, and how much of a challenge this is for broader development of the Sino-Russian strategic partnership, as such.

²¹⁴ China-Russia Dialogue Model 2020, pp. 47-48.

²¹⁵ Robert O. Koehane and Joseph S. Nye Jr., *Power and Interdependence*, Boston: MA Little Brown, 1977.

to assume the role of main customer and energy partner for Russia in Asia.²¹⁶ The war in Ukraine will force Russia to speed up this process even more.

In addition, in the domain of technology, China is also becoming an important partner to Russia, where it could find itself increasingly dependent on China. China is set to become a technological superpower, if not surpassing the U.S., then at least on par in several key technologies and strategic sectors, such as AI, ICT and biotechnology. For instance, China's Huawei is to help develop Russia's 5G infrastructure and assist in Russia's AI ecosystem development.²¹⁷ There have already been experimental trials in Moscow to test Huawei's 5G equipment. If Huawei becomes a successful player in Russia's 5G infrastructure, this can have major implications for the country's technological development and security. The fact that Russia has invited Huawei into the Russian market indicates a rather different situation than in Europe and North America.²¹⁸

Even regarding military-technical cooperation, interactions with China are changing. Once a "one-way street", with Russia providing China with major conventional arms and weapons systems, China is seemingly less in need of Russia's military systems and technologies today (barring some niche technologies, such as combat-aircraft engines and missile technology) due to its own technological and industrial modernization. In addition, Russia is also now importing parts (such as diesel engines for its navy) from China, partly a function of Western sanctions over Russia's illegal annexation of Crimea, in 2014. Finally, coproduction schemes are developing, for instance a project to develop heavy-lift helicopters.²¹⁹

Following U.S. and EU sanctions on Russia for its aggression towards Ukraine, China needs to calculate whether maintaining trade and economic exchanges with Russia can damage its economic and trade links with Europe and the U.S. Chinese companies are therefore treading carefully, so as not to be targeted by secondary sanctions. For instance, Chinese manufactures are reportedly not providing parts and components to the Russian aircraft industry. Chinese banks and financial institutions are keen on obliging the Western sanctions regime.²²⁰ It is possible to envision a scaling-back of economic exchanges.

²¹⁶ Richard Connolly, "Russia's Economic Pivot to Asia in a Shifting Regional Environment", *RUSI Insight*, London: The Royal United Services Institute, September, 2021.

²¹⁷ Dimitri Simes, "Huawei plays a star role in the new China-Russia AI partnership", *Nikkei Asia*, February 4, 2020, <https://asia.nikkei.com/Spotlight/Asia-Insight/Huawei-plays-star-role-in-new-China-Russia-AI-partnership>.

²¹⁸ Alexander Gabuev, "Huawei's courtship of Moscow leaves west in the cold", *Financial Times*, June 21, 2020, <https://www.ft.com/content/f36a558f-4e4d-4c00-8252-d8c4be45bde4>.

²¹⁹ Lyle L. Goldstein and Vitaly Kozyrev, "China-Russia Military Cooperation and the Emergent U.S.-China Rivalry: Implications and Recommendations for U.S. National Security", *Journal of Peace and War Studies*, (October 2020), pp. 24-48.

²²⁰ Alicia García Herrero, "Early Warning Brief: China's Contorted Response to Russia Sanctions", *The Jamestown Foundation*, March 30, 2022, <https://jamestown.org/program/early-warning-brief-chinas-contorted-response-to-russia-sanctions/>.

It should also be pointed out that overall Sino-Russian bilateral trade remains low compared with other major trading partners. For instance, Russia's trade with the EU stood at USD 173 billion in 2020 and China's trade with EU in 2020 accounted for USD 586 billion.²²¹ China's trade with the U.S. for the same year was USD 559 billion.²²² Moreover, the EU is a much larger foreign investor in Russia and China still prefers to invest in Western industrial countries, especially the EU, with its higher level of sophistication and where China's need for investments is most acute.²²³

In terms of natural gas imports, Russia-EU cooperation remains more developed than between China and Russia. In 2018, Russia exported 70 per cent of its natural gas to the EU, while Russian natural gas imports to Russia only comprised 1 per cent of China's total gas imports the same year. However, as noted above, in 2021 Russia accounted for 10 per cent of Chinese natural gas imports, indicating a significant increase. In fact, the Chinese government views natural gas as a key transition energy source in its quest to lower the domestic consumption of coal, which is still the biggest source of energy in China's domestic energy consumption basket. Moreover, China has also to a certain degree committed itself to Russian natural gas with the construction of the Power of Siberia, and potentially further if the plans and contracts for Power of Siberia 2 materialize.²²⁴

Future EU-Russia trade will likely change, as the EU will halt its trade and investment engagement with Russia in the wake of the Ukraine war. The question, however, is whether China can, and wants to, compensate for the fall-off of Western trade and investments in Russia. Overall, Russia, in comparison to the EU and U.S., remains a marginal market for China. Even if the proposed Power of Siberia 2 natural gas pipeline materializes, the bulk of gas exports is still tied to Europe through the more expansive pipeline network there than is the case with China.

However, although the Russian market and the investment opportunities it presents remain challenging for China in the wake of the Ukraine war, Beijing could still decide to continue, albeit selectively and cautiously, to engage economically with

²²¹ European Commission, Country profiles. For China-EU trade, see: <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/> ; For EU-Russia trade see: <https://ec.europa.eu/trade/policy/countries-and-regions/countries/russia/>.

²²² United States Census Bureau, "Trade in Goods with China", see here: <https://www.census.gov/foreign-trade/balance/c5700.html>.

²²³ Marta Domínguez-Jiménez and Niclas Frederic Poitiers, "An Analysis of EU FDI inflow into Russia", *Russian Journal of Economics* 6, (2020), pp. 144-161.

²²⁴ In general, natural gas pipelines are of greater risk to buyers than to sellers, since the transport of gas can be more easily manipulated by the seller. Natural gas through pipelines can therefore function as a geopolitical tool for a seller who wants to use it as leverage. At the same time, LNG imports also carry the risks of being affected by maritime blockades, piracy, or natural conditions such as hurricanes or storms, etc. Pipelines can thus guarantee more "stable" deliveries, but remain dependent on political circumstances.

Russia. As Russia faces what looks to be sustained Western isolation, the economic reliance and dependency on China is only likely to grow stronger.

More broadly, “political identity”, and whether the economic relationship is contentious influence the level of exposure a target country can accept.²²⁵ While Russia does seem to tie itself increasingly to the Chinese economy, this does apparently not bother the Russian leadership, at least not officially and for the near and medium terms.²²⁶ Moreover, the political relationship has deteriorated, either; on the contrary, Sino-Russian bilateral relations seem to be at a historical high point, including in their security and military ties.²²⁷ China and Russia officially define their relationship as “a comprehensive strategic partnership of coordination for a new era”.²²⁸ China ascribes Russia the role of being its key foreign partner. In June 2021, the two sides also extended the so-called China-Russia Treaty of Good-Neighbourliness and Friendly Cooperation, signed first in 2001, and a key bilateral agreement that largely defines not only the nature and content of the bilateral relationship but also its future trajectory.²²⁹ At the recent meeting between Xi and Putin mentioned above, the two sides issued a joint declaration proclaiming that the relationship has “no limits” and “no forbidden areas of cooperation”.²³⁰

²²⁵ Jikon Lai and Amalina Anuar. “Measures of Economic Vulnerability and Inter-Dependency in the Global Economy”.

²²⁶ Alexander Gabuev, “Unwanted but inevitable: Russia’s Deepening Partnership with Russia post-Ukraine”, in Jo Inge Bekkevold and Bobo Lo eds. *Sino-Russian Relations in the 21st Century* (London: Palgrave MacMillan, 2019), pp. 41-66.

²²⁷ U.S.-China Economic and Security Review Commission, *An Emerging China-Russia Axis? Implications for the United States in an Era of Strategic Competition*, Hearing Transcript, March 21, 2019. <https://www.uscc.gov/hearings/emerging-china-russia-axis-implications-united-states-era-strategic-competition>.

²²⁸ China Ministry of Foreign Affairs, 中华人民共和国和俄罗斯联邦关于发展新时代全面战略协作伙伴关系的联合声明 [Joint statement of the People’s Republic of China and the Russian Federation on the development of a comprehensive strategic partnership of cooperation in the new era], June 6, 2019. https://www.mfa.gov.cn/web/gjhdq_676201/gj_676203/oz_678770/1206_679110/1207_679122/201906/20190606_9337173.shtml.

²²⁹ Xinhua, “Xi, Putin announce extension of China-Russia friendly cooperation treaty”, *Xinhua*, June 29, 2021, http://www.xinhuanet.com/english/2021-06/29/c_1310032860.htm.

²³⁰ President of Russia, “Joint Statement of the Russian Federation and the People’s Republic of China on the International Relations Entering a New Era and the Global Sustainable Development”, February 4, 2022, <http://en.kremlin.ru/supplement/5770>.

4.4 Chinese economic measures towards Russia

As we observed in the case of the Nordic countries, China has at times deployed different punitive measures when the Beijing leadership has perceived its core interests to be at stake. However, as outlined in the introduction, economic statecraft can also include positive incentive measures. Moreover, as pointed out, positive measures can be more difficult to identify clearly, as these can be seen as part of the general economic relationship.

That said, it can be argued that in the case of China-Russia, Beijing has more comprehensively used positive incentives in its economic engagement with Moscow than in the case of the Nordics. This does not exclude measures or incidents where China has not always been so forthcoming with Russia, or even acted against Russia's economic or other interests. For example, as other countries have, China has often played hardball when negotiating economic, trade, or investment projects.²³¹ In 2011, CNPC and Rosneft were engaged in a dispute over contract terms and price, in the end leading Rosneft to grant CNPC a lower oil price.²³² In addition, China is often accused of illegal copying of Russian military technology, for example as in the case of China's combat aircraft, Jian-11 (J-11), which is allegedly based on Russia's blueprints for its Sukhoi-27 (Su-27). While it is certainly the case that incidents like these have implied points of friction, they have not led to major rifts in the bilateral relationship. Moreover, in our view, as outlined in the introduction, they do not account as punitive measures.

Firstly, and most concretely, is the fact that China has offered large loans, financial support and assistance to Russia. This has perhaps been most evident in the case of energy cooperation. As noted above, Chinese lending to Russia has been substantial; the energy sector has received the bulk of that share. Many of these financing schemes can be categorised as so-called "loan-for-oil" deals, resembling practices also performed by China elsewhere.²³³ Nonetheless, many of these loans to Russia have often benefited Russia in a number of ways (beyond boosting exports), not least by alleviating the financial challenges or capital needs of Russian oil companies. For instance, in 2006, CNPC provided Russian state-owned Rosneft with a loan of USD 6 billion for a contract to supply oil to China by rail until 2010. Rosneft then used the loan to help fund its purchase of Yuganskneftegaz (for USD 9.4 billion), the main production unit of Yukos. In 2009, China provided Russia with another massive loan, to Rosneft and Transneft,

²³¹ Pavel K. Baev, "Russia's Pivot to China goes Astray: the impact on the Asia-Pacific security architecture", *Contemporary Security Studies*, Vol. 37, Issue 1, 2016, pp. 89-110.

²³² Edward C. Chow, "Russia-China Gas Deal and Redeal", *Analysis*, Washington D.C.: Center for Strategic and International Studies (CSIS), May 11, 2015, <https://www.csis.org/analysis/russia-china-gas-deal-and-redeal>.

²³³ Øystein Tunsjø, *Security and Profit in China's Energy Policy. Hedging against Risk*. Colombia University Press, 2013.

a state-controlled pipeline and transport company. China's Development Bank provided USD 15 billion to the companies, which at the time were in dire financial difficulties. Rosneft and Transneft used the money to refinance debts and engaged in needed investments. For example, Transneft could use some of the capital to approve the construction of the ESPO line, which had been halted by the Russian side due to financial challenges, among other things. China, of course, also received benefits, as for instance Rosneft committed itself to supplying China with a twenty-year delivery of 30 million barrels of oil annually, worth an estimated (at that time) USD 160 billion.²³⁴ And as is shown below, similar practices have also been deployed in the Arctic, notably in the Yamal LNG project. As noted above, China at times bargains hard, capitalising on Russian predicaments. According to some observers, this was the case for the conclusion of the Power of Siberia deal; China extracted a very favourable price from Russia, as Moscow's negotiation space had become severely curtailed because of Western sanctions.²³⁵ On the other hand, China had tried for years to reach a natural gas deal, whereas Moscow was often dragging its feet, which in fact reflects Russia's broader approaches on energy cooperation with China.²³⁶ By concluding the deal, China provided Russia with needed economic relief and important diplomatic support, at a time when Moscow faced international isolation and scrutiny.

Secondly, China has also offered financial support and investment initiatives to improve regional economic cooperation, especially between China's northern provinces and the Russian Far East. Developing and modernising the Russian Far East has assumed a key priority in the Russian government's broader efforts at integrating itself more closely to the Asia-Pacific region, a shift commonly referred to as "Russia's pivot to Asia".²³⁷ China of course has strong domestic reasons for engaging in regional cooperation with Russia, not least its efforts to revitalise its northeast (these are regions that lag economically, compared to the more developed coastal and southern regions of China).²³⁸

Nonetheless, economic, trade and investment initiatives have also served to benefit Russia. In 2009, Chinese President Hu Jintao and his counterpart Dimitri Medvedev had already agreed on an ambitious programme for closer regional economic integration, the so-called "Northeast China Region and Far East and Siberia Russia Region 2009-2018 Cooperation Plan Outline". The plan listed 205 projects and items slated for joint cooperation, including border infrastructure,

²³⁴ Erica Downs, "Sino-Russian Energy relations". In *The Future of China-Russia Relations*, ed. James Bellaqua, Kentucky: Kentucky University Press, 2010, pp. 156-157.

²³⁵ James Hendersen and Tatiana Mitrova, "Energy Relations between China and Russia: Playing Chess with the Dragon".

²³⁶ Keun-Wook Paik, *Sino-Russian Oil and Gas Cooperation: The Reality and Implications*, Oxford: Oxford University Press, 2012.

²³⁷ Richard Connolly, "Russia's Pivot to Asia in a shifting Regional Environment".

²³⁸ Li Fujia et al. "Investment Environment Assessment and Strategic Policy for Subjects of Federation in Russia", pp. 897-898.

transport, financial investments, service and environmental cooperation.²³⁹ However, by the end of the programme, only a small part of the projects had been implemented, in part due to Russian difficulties in implementing the projects because of poor communication between central and local authorities on the Russian side. That said, the cooperation plan has been refitted and replaced by a less ambitious programme (Programme for the Development of Russian-Chinese Cooperation in Trade, Economic and Investment Spheres in the Far East of the Russian Federation, 2018-2024), focusing more on the Russian Far East than economic integration, despite the fact that China suffered large economic losses in the previous plan.²⁴⁰ Despite the difficulties with the programme, an important positive outcome has been that it has forced the local bureaucracies to more actively and better facilitate cross-border economic exchanges that, in part, helped to overcome the impact of the 2008 global financial crisis and led to a gradual growth in regional trade.²⁴¹

Third, efforts to increase economic cooperation and boost investments are channeled through China's BRI. Russia is part of several of China's economic corridors, notably the China-Mongolia-Russia economic corridor and the New Eurasian Land Bridge.²⁴² As is noted in more detail below, the Polar Silk Road has since 2017 been a formal part of China's BRI, as one of China's three "blue economic passages".²⁴³ That said, the reality is more mixed, with few concrete projects having materialised so far. At the second BRI forum, in 2019, the Chinese government provided a comprehensive list of the planned and implemented investment projects involving countries that were formally part of the BRI cooperation. Only a few projects were linked to Russia.²⁴⁴

Nonetheless, Russia remains a major partner for China in its quest and ambition to build a China-centred economy and infrastructure in Eurasia. China and Russia remain close partners in the Shanghai Cooperation Organisation (SCO) and have aimed to coordinate their respective ambitions and policies in Eurasia, notably by harmonising the BRI with Russia's Eurasia Economic Union (EEU), through a cooperation framework agreement signed in 2015 and complemented by several additional joint cooperation initiatives and projects.²⁴⁵

²³⁹ China Ministry of Foreign Affairs, *中国外交 2010* [China's Diplomacy 2010], p. 169.

²⁴⁰ Gaye Christoffersen, "Chinese Northeast-Russian Far East Regional Cooperation: Old and New Programmes", *The Asia Dialogue*, 19 June, 2019.

²⁴¹ Victor Larin, "Russia-China Economic Relations in the 21st Century: Unrealized Potential or Predetermined Outcome?" p. 10.

²⁴² Alicia Garcia-Herrero and Jianwei Xu, "How does China fare on the Russian market? Implications for the European Union" p. 386.

²⁴³ The other two are: the China-India Ocean Africa-Mediterranean passage and the China-Oceania South-Pacific passage. For the official declaration, see: ²⁴³ Xinhua, "Full text: Vision for Maritime Cooperation under the Belt and Road Initiative", *Xinhua*, June 6, 2017. http://www.xinhuanet.com/english/2017-06/20/c_136380414.htm.

²⁴⁴ Official Homepage of the Second Belt and Road Forum, "List of Deliverables of the Second Belt and Road Forum for International Cooperation", April 27, 2019. See full list of here: <http://www.beltandroadforum.org/english/n100/2019/0427/c36-1312.html>.

²⁴⁵ Nadège Rolland, "A China-Russia Condominium over Eurasia", *Survival*, Vol. 61, 2019, pp. 7-22.

4.5 Chinese engagement in the Russian Arctic

This section focuses more specifically on Chinese investment in the Russian Arctic.²⁴⁶ Investments in the Arctic, unsurprisingly, are focused mostly on natural resource extraction projects, as has generally been the case when it comes to Russia (as shown above). In addition, there is a certain degree of involvement in infrastructure and logistics related to the NRS, as well as in related developments linked to digital communication networks and infrastructure. These two broad categories are also, essentially, where Chinese investments fall. In general, although China has indeed increased its commercial engagement in the Russian Arctic, the projects that have been implemented and still exist remain more limited than is often stated.

4.5.1 Natural resource extraction

By far the most far-reaching and, indeed, successful Chinese investment project in the Russian Arctic (and in the Arctic in general) has been in the Yamal LNG Terminal. The project is a joint venture between Russian energy company Novatek, French Total, and CNPC and the Silk Road Fund, with a total financing cost of USD 27 billion. Chinese involvement was already begun in 2013, when CNPC obtained a 20 per cent share in the project and committed itself to importing no less than 3 million tons of LNG annually over a 20-year period (amounting to 18 per cent of the total capacity). In 2015, a second Chinese actor stepped in when China's state-owned Silk Road Fund acquired a further 9.9 per cent. Novatek is the major shareholder, with 50.1 per cent, and Total, with 20 per cent. CNPC has invested USD 5 billion, while the Silk Road Fund has committed USD 5 billion, with an additional USD 800 million to implement the project. Total and Novatek have invested USD 3.7 and 3.9 billion, respectively.²⁴⁷ Moreover, in 2016, Chinese state-owned banks the Export-Import Bank of China and China Development Bank offered two 15-year credit lines of total value of Euro 9.3 billion (approximately USD 10.4 billion) and RMB 9.8 billion respectively (approximately USD 1.4 billion).²⁴⁸ The remaining financing was obtained domestically, from the Russian National Welfare Fund and Sberbank and Gazprombank.

²⁴⁶ As mentioned in the introduction, in the section analysing specific investments in infrastructure and other sensitive sectors that are geographically located or relate to the Russian Arctic region.

²⁴⁷ Anastasia Ufimtseva & Tahnee Prior, "Developing Hydrocarbon Resources in Arctic Russia: The Role of Sino-Russian Collaboration", *Arctic Yearbook 2017*, <https://arcticyearbook.com/arctic-yearbook/2017/2017-briefing-notes/251-developing-hydrocarbon-resources-in-arctic-russia-the-role-of-sino-russian-collaboration>.

²⁴⁸ Yamal LNG, Press Center, May 28, 2021, <http://yamallng.ru/en/press/news/7540/>.

The LNG project is now operational, shipping natural gas to mainly Asian markets, China included. The project is hailed by both sides as the very cornerstone of Sino-Russian Arctic energy cooperation. A crucial fundament for the success of the project has been the political support granted by the top leadership in Moscow, including favourable tax reductions and subsidies.²⁴⁹

Chinese actors are also participating in a similar upcoming project, the so-called Yamal LNG 2, on Gydan Peninsula, projected to cost USD 21 billion. As is Yamal LNG, the project is a joint venture. The main shareholder is Novatek, with 60 per cent of the shares. French Total holds 10 per cent, China's CNOOC and CNPC, 10 per cent each, and the remaining 10 per cent is held by a consortium of Mitsui and Jorgmec. Financing will be split between its shareholders and domestic and Asian banks. The Russian banks, VEB.RF, Sberbank and Gazprombank will account for Russian domestic financing and China Development Bank (CDB), the Export-Import Bank of China, the Bank of Japan for International Cooperation (JBIC), Intesa Sanpaolo and Raiffeisen Bank International will contribute the financing for the Asian banks.²⁵⁰ In addition, Novatek has signed a deal with China's Shenergy to ship 3 million tonnes of LNG annually over a 15-year period. Presently, operations are scheduled to begin in 2023. Considering that the Yamal LNG project has been implemented fully and now operates accordingly, it can be expected that the Yamal LNG 2 project will succeed. That said, continued development of the Yamal LNG 2 project will much depend on whether Western firms remain committed to the project in the wake of the war in Ukraine.

There are several other projects worth mentioning but that have at best shown mixed results. A project still in progress, located in the Payakha oilfield, is dubbed the second Arctic Silk Road energy project, after Yamal. China National Chemical Engineering Group (CNCEC) and Russian firm Neftegazholdin have signed a deal to develop cooperation, including oil processing and storage facility as well as port development. The project is located in an oilfield on the Taymyr peninsula, in the region of Krasnoyarsk. Promised investments of USD 5 billion over 4 years have been announced.²⁵¹

Finally, there are emerging signs of Chinese interest in mining rare earth minerals in the Russian Arctic, which connects to China's broader strategic goals, in terms of global interest in rare earth elements. For instance, Russia's Nor Nickel Company has sought Chinese investment for exploitation of rare earth metals such as vanadium, molybdenum, and wolframite in the Kola and Taimyr Peninsulas and

²⁴⁹ Christopher Weidacher Hsiung, "China and Arctic energy: drivers and limitations", *The Polar Journal*, Volume 6, issue 2, 2016, pp. 243-258.

²⁵⁰ Thomas Nielsen, "Novatek plans to raise \$11 billion for second Arctic LNG project from Russian, Asian banks", *Arctic Today*, April 2, 2021, <https://www.arctictoday.com/novatek-plans-to-raise-11-billion-for-second-arctic-lng-project-from-russian-asian-banks/>.

²⁵¹ Zhang Chun, "China's Arctic Silk Road projects", *China Dialogue Ocean*, January 9, 2020, <https://chinadialogueocean.net/12569-chinas-arctic-silk-road-projects/>.

in the Republic of Sakha.²⁵² In a related move, in May 2015 a Chinese consortium of investors bought a 12 per cent stake in an iron, copper and gold mine in Russia, 400 km from the Chinese border. Furthermore, China Development Bank offered a loan of USD 15 billion to a Russian bank to invest in the project. The equity purchase was the first ever by Chinese investors in the Russian mining sector and the project's entire output is slated for the Chinese market.²⁵³

4.5.2 Shipping infrastructure and transportation and communication networks

Russia has great ambitions to develop the NSR not only as a fully operational and commercially viable maritime transit route between Europa and Asia, but also as an alternative for intra-regional transport of natural resources. However, there is a significant need to improve Russia's logistics and transport infrastructure if it is to realise its ambitious goals. Beyond this, shipping capabilities and technological development in communication and navigation are required. In addition, past and existing use of the NSR indicate a more modest scale than is often assumed. In reality, the numbers of transits each year still remain quite low and Asian countries, including China, maintain a considerably more cautious approach than what is often proclaimed.²⁵⁴ That said, China is expressing growing interest and could indeed play a role in addressing some of these needs, in particular as it tries to anchor its Arctic engagement with the larger BRI project, emphasising investments in infrastructure and transportation networks along its economic corridors, of which the Polar Silk Road is an example.²⁵⁵

Cooperation with Russia related to shipping activities on the NSR dates back to at least the beginning of 2010, when a trial transit, by sea, to transport LNG from Russia's Murmansk to Ningbo in China was conducted. Since then, several oil tankers, LNG carriers and bulk ships have travelled along the NSR between China and Russia. The perhaps most notable initiatives have come from Chinese shipping company China Ocean Shipping Company, Limited (COSCO). High representatives of the company have publicly expressed growing interest in the potential of the NSR for commercial shipping and, more importantly, conducted several transits

²⁵² Rebecca Pincus, "Three-Way Power Dynamics in the Arctic", *Strategic Studies Quarterly*, Spring 2020, p. 49.

²⁵³ Paul Stronski and Nicole Ng, *Cooperation and Competition. Russia and China in Central Asia, the Russian Far East and in the Arctic*, Washington D.C.: Carnegie Endowment for International Peace, 2018, p. 21.

²⁵⁴ Arild Moe and Olav Schram Stokke, "Asian Countries and Arctic Shipping: Policies, Interests and Footprints on Governance".

²⁵⁵ Deng Beixi, "Shipping Matters: The Role of Arctic Shipping in Shaping China's Engagement in Arctic Resource Development", *Arctic Yearbook*, 2018. <https://arcticyearbook.com/arctic-yearbook/2018/china-the-arctic/2018-sp-scholarly-papers/262-shipping-matters-the-role-of-arctic-shipping-in-shaping-china-s-engagement-in-arctic-resource-development>.

along the route.²⁵⁶ Indeed, COSCO is the Chinese commercial actor who has shown most concrete interest in moving ahead. For instance, in 2019 the company signed an agreement with Russian Sovcomflot, Novatek and the Silk Road Fund to create a joint venture, Maritime Arctic Transport LLC, to forge long-term partnerships to develop the logistics for shipping hydrocarbons from the Russian Arctic zone to the Asia-Pacific, as well as for arranging cargo shipments along the NSR between Europe and Asia.²⁵⁷ Politically, in 2017 China and Russia declared that the NSR should formally be included in China's BRI and that they would jointly build a Polar Silk Road, as noted above.

Along these lines, there are therefore certain concrete Chinese investment interests in contributing to developing Russian ports to improve infrastructure and transport networks along the NSR. For instance, Chinese assistance in the development of the Arkhangelsk deep-water port has been reported. Moreover, the port is expected to connect to the Belkomur Railway and shorten the shipping of cargo by rail from Siberia to the new port. The Belkomur Project has been discussed and negotiated for several years and despite repeated declarations and statements from Russian leaders and officials, the project has experienced several setbacks. Chinese investors have, however, expressed interest in the railway, in which for instance China Poly Group signed an agreement in 2016 for an investment of USD 5 million. COSCO has also expressed an interest in operating in the port.²⁵⁸ However, progress on the project remains unclear. Russia's central government seems less enthusiastic and committed financially than local authorities in Arkhangelsk. Further real interest from Chinese investors also seems to have subsided, due to concerns over the financial feasibility and organization of the project, more limited cargo capacity and Russia's overly optimistic hopes of obtaining Chinese capital.²⁵⁹

Another port project involving Chinese participation is the Zarubino Port, close to Vladivostok. Here, China's local government, in Jinlin, and China's Merchant Group have provided financial support. The Zarubino port aims to improve transportation links in China's northeast regions and assist in development in the Russian Far East, also facilitating the broader goal of Arctic shipping opportunities.

Finally, China has also incorporated the Arctic in its plans for developing its Digital Silk Road (DSR). The DSR constitutes a broad effort by China to promote

²⁵⁶ Christopher Weidacher Hsiung and Tom Røseth, "The Arctic dimension in Sino-Russian relations", in *Sino-Russian Relations in the 21st Century*, eds. Jo Inge Bekkevold and Bobo Lo, London: Palgrave Macmillan, 2019, pp. 172-173.

²⁵⁷ Novatek, "Novatek, Cosco Shipping, Sovcomflot and Silk Road Fund sign an agreement in respect of Maritime Arctic Transport LLC", *Novatek Press Release and Events*, June 7, 2019. https://www.novatek.ru/en/press/releases/printable.php?print=1&id_4=3243.

²⁵⁸ Thomas Nilsen, "Governor Orlov confirms China as key Arctic partner", *The Barents Observer*. December 28, 2017, <https://thebarentsobserver.com/en/industry-and-energy/2017/12/governor-orlov-eyes-china-key-arctic-partner>.

²⁵⁹ Arild Moe, "En kinesisk jernbane til Arktis? Historien om Belkomur – så langt", *Nordisk Østforum*, 35, 2021: 126–143.

digital connectivity in Eurasia and beyond and functions as a key component in China's overall BRI framework of building infrastructure and strengthening cross-national integration among participating countries. Moreover, digital connectivity requires the harmonisation of standards and data among the countries involved.²⁶⁰

Related to the Arctic, specifically, Chinese actors have shown interest in the Arctic Connect Project. The project aims not only to connect Asia and Europe through a long submarine communications cable, but also to help facilitate better local network infrastructure in the Russian Arctic. The project is run by an international consortium involving Finnish state-owned company, Cinia Oy, in partnership with Megafon, a Russian telecommunications provider, and Japanese and Norwegian partners. China Telecom has announced interest in the project and a Chinese firm, HMN Technologies (formerly Huawei Marine), is to provide technical platforms in the construction of Arctic Connect.²⁶¹ However, the progress of the project remains unclear, as Megafon has halted its involvement in order to further assess the economics and structure of the project.²⁶² Related to more regional projects, in 2019 China Telecom opened a local office in Vladivostok that will provide telecommunications infrastructure and service-based assistance to local customers as well as to business and government actors. For instance, fibre-optic cables offer direct connections between Russia and the Chinese border cities of Suifenhe, Heihe and Manzhouli, and interconnections through Mongolia and Kazakhstan.²⁶³

Finally, while not specifically Arctic-related but with implications for the region, China and Russia have developed closer collaboration between their national navigation systems; China's BeiDou and Russia's GLONASS, partly to decrease dependency in relying on the U.S.'s GPS system. The aim is to increase the compatibility and interoperability between the systems, which can also have relevance for Arctic shipping, navigation and communication. For China, increasing the level of satellite and navigation capabilities in the Arctic will enhance its possibilities to utilise Arctic sea lanes. In addition, improved satellite and communications capabilities can also play a dual-use function.²⁶⁴

²⁶⁰ Camilla T.N. Sørensen & Christopher Weidacher Hsiung, "The role of technology in China's Arctic engagement: A means as well as an end in itself", *Arctic Yearbook 2021*, <https://arcticyearbook.com/arctic-yearbook/2021/2021-scholarly-papers/383-the-role-of-technology-in-china-s-arctic-engagement-a-means-as-well-as-an-end-in-itself>.

²⁶¹ Frank Jüris, "Handing over infrastructure for China's strategic objectives: Arctic Connect and the Digital Silk Road in the Arctic". Synopsis. Estonia: International Center for Defense and Security (ICDS), March 7, 2020.

²⁶² Alte Staalesen, "Megafon halts trans-Arctic cable project Arctic Connect", *The Barents Observer*, May 28, 2021, <https://thebarentsobserver.com/en/arctic/2021/05/megafon-halts-its-trans-arctic-cable-project>.

²⁶³ China Telecom, "China Telecom (Europe) Ltd. Strengthens Russia's presence with new Vladivostok office", September 20, 2019, <https://www.chinatelecomeurope.com/china-telecom-europe-ltd-strengthens-russia-presence-with-new-vladivostok-office/>.

²⁶⁴ Camilla T.N. Sørensen & Christopher Weidacher Hsiung, "The role of technology in China's Arctic engagement: A means as well as an end in itself".

4.6 Russian responses to Chinese economic statecraft

Attracting foreign investment is a priority of the Russian government. The first law on foreign investment was enacted in 1991 and was replaced, in 1999, by the currently effective Federal Law on Foreign Investments in the Russian Federation. In addition, several other administrative and legislative measures have been undertaken in order to improve the climate for investment and provide protection for foreign businesses operating in Russia. At the same time, as the number of foreign investments in Russia has been growing, it has also become apparent that the process of foreign investments requires stricter state oversight and control.²⁶⁵

In general, Russia's legislation governing foreign investments is divided into two broad categories. The first contains general rules that apply for both Russian and foreign investments, based on the Constitution, and includes a number of laws, such as the Civil Code of the Russian Federation, the Federal Law on Limited Liability Companies and others. The second category specifically regulates foreign investments and is composed of two laws: the Foreign Investment Law and the Strategic Investment Law. The first law regulates state guarantees for foreign investors' rights to invest, make profits and revenues and stipulates general conditions for commercial activities within Russian territory. In addition, Russia, as a member of the WTO, has also committed to implementing treaties and regulations.²⁶⁶ The second law, which is more relevant for our present purposes, regulates the procedures for foreign investments in strategic industries and sectors.

Russia manages the risks of foreign investments through a review mechanism, under the Federal Law No. 57-FZ, called "Procedures for Foreign Investments in the Business Entities of Strategic Importance for Russian National Defence and State Security". The mechanism was initially established in 2008 (and has been amended several times) and is administered by the Government Commission for Control over Foreign Investments. The Federal Antimonopoly Service (FAS) prepares the decision of the Commission. The review mechanism is constituted of several elements. For instance, it requires prior approval of transactions that lead to foreign control of a Russian entity in a strategic domain or the acquisition of certain property of such enterprises. As of May 2020, there are 47 such areas, for example in natural resources, defense and media. Other components include regulations on acquisitions in certain enterprises beyond 25 percent stakes by foreign government investors and investors who fail to disclose their beneficial owner. In addition, there are several other restrictions that are motivated by national security interests. A prohibition called the "Land Code" under the Federal

²⁶⁵ Alexander Viktorov and Olga Kovtunova, "The Foreign Investment Regulation Review: Russia", *The Law Reviews*, October 17, 2021, <https://thelawreviews.co.uk/title/the-foreign-investment-regulation-review/russia>.

²⁶⁶ Baker and McKenzie, *Doing Business in Russia. 2021* Baker&McKenzie – CISI, Limited, 2021, pp. 32-33.

Law restricts foreigners from obtaining land near international borders, in seaports and in certain territories specified and stipulated by the President. There is also a control mechanism for foreign investments in “Closed Administrative Territorial Zones”. The location and extent of these zones are not publicly open and are designated by the President, in effect blocking any foreign investments in them, unless subjected to special requirements.²⁶⁷

The above laws and regulations are designed to regulate all foreign direct investments in Russian territories and are not designed to “target” any specific country, including China. Nonetheless, as in the case of the Nordic countries, and the EU more broadly, there is also growing awareness and even concern in Russia over Chinese investments and their impact on the Russian economy.

Broadly speaking, Russian attitudes and practices in allowing China an economic presence and influence in the Russian economy have shown a mixed approach. On the one hand, top Russian leaders and officials welcome and indeed encourage closer Sino-Russian economic interaction and investment activities. In 2012, Putin famously stated that the Chinese economy holds enormous potential and that Russian business should catch the Chinese wind in the sail of the Russian economy.²⁶⁸ Of particular importance has been the notion of greater economic cooperation in order to assist Russia in its objective of developing and modernising the Russian Far East, and to which end Moscow has designed a set of policies and other initiatives. For instance, one venue for interaction is the Eastern Economic Forum (EEF), where Russian authorities have been eager to attract foreign investors, including Chinese. Notably, the number of agreements concluded between China and Russia has gradually expanded, from 80 agreements in 2015 to 270 in 2019. Moreover, the value of the contracts has also grown over time; in 2015, the total value was 1.3 trillion rubles and, in 2019, 3.4 trillion.²⁶⁹ In addition, Russia has established several so-called special economic zones (SEZs) to increase foreign investments. In the Russian Far East, the Russian government has established more than 20 such SEZs. However, there have only been 6 Chinese investments, totalling no more than USD 38 million, between 2015 and 2018.²⁷⁰

On the other hand, there is a certain degree of scepticism, even concern, over Chinese investments. In particular, concern over China’s entry and presence in strategic sectors and industries restricts its activities. While Russia welcomes Chinese capital and financing, there are few examples where Chinese investors have been granted ownership in more strategic or sensitive sectors. Broadly

²⁶⁷ OECD Report, *Acquisition- and ownership-related policies to safeguard essential security interests*, May 2020, pp. 14-147.

²⁶⁸ Anton Bespalov, “Russia’s Turn to the East: Expectations and Reality”. *Expert Opinion*. The Valdai Club, 7 January, 2019, <https://valdaiclub.com/a/highlights/russia-s-turn-to-the-east-expectations-and-the-real/>.

²⁶⁹ Sergey Luzyanin and Zhao Huasheng (eds.), *China-Russia Dialogue: The 2020 Model*, pp. 55-56.

²⁷⁰ Jonathan Hillman, *China and Russia: Economic Unequals* Washington D.C.: Center for Security and International Studies, July 2020.

speaking, as mentioned above, Russian experts claim that Chinese investors have limited knowledge of local Russian business culture, administration and regulations, thus hampering the smooth implementation of joint investment projects.²⁷¹ The Chinese, for their part, do not want to merely provide capital in exchange for energy resources, but instead are also interested in gaining know-how and expertise in the energy sector. This reluctance on the part of Russia to open up to any form of increased Chinese political influence could create irritation in China in the long term.

A similar context also reflects the Russian Arctic. The Russian response to Chinese inroads in the Arctic region, and here specifically with regard to economic engagement and investments, is often officially expressed as optimism. In 2015, Russian foreign minister Sergey Lavrov had already said that China is a priority partner for Russia in the Arctic.²⁷² As Russia has assumed the chairmanship of the Arctic Council for 2021-2023, the growing role of non-Arctic states, including China, is welcomed.

At the same time, for Russian policymakers there is a clear limit on what such participation should entail.²⁷³ Russia (and Canada) was long reluctant to grant China observer status in the Arctic Council. Russia wants and indeed needs Chinese help to fulfil its Arctic plans and ambitions but does not aim to do so by giving up its control over resources. Sino-Russian cooperation in the Arctic thus hinges on issues of trust and control.²⁷⁴ This is the case with Chinese investments in Russia, more broadly, but plays a particular salient role in the Russian Arctic, given the sensitivity and national interest that Moscow ascribes the Arctic. In addition, China may over time even become a competitor to Russia in certain areas. For instance, China's Hudong Zhonghua plans to construct LNG tankers for the Yamal project, putting it in competition with Russia's Zvezda shipyard and South Korea's Daewoo Shipbuilding & Marine Engineering (DSME).²⁷⁵

Chinese observers of course remain more optimistic. As Zhao Huasheng, a Chinese Russian expert at Fudan University states, as long as China stays clear of infringing on Russia's core security and territorial issues in the Arctic, Beijing will not threaten Russia's fundamental interests in the region.²⁷⁶ However, there is much that suggests that Russia views Chinese rhetoric about "internationalisation"

²⁷¹ Sergey Luzyanin and Zhao Huasheng (eds), *China-Russia Dialogue: The 2020 Model*, p. 63

²⁷² TASS, "China is Russia's priority partner in Arctic cooperation — Lavrov", TASS, August 25, 2015, <https://tass.com/russia/816048>.

²⁷³ Russian wariness of Chinese involvement in the Arctic was a recurrent topic raised in the TTX.

²⁷⁴ Rebecca Pincus, "Three-Way Power Dynamics in the Arctic", *Strategic Studies Quarterly*, Spring 2020, pp. 40-63.

²⁷⁵ Malte Humpert, "China Looks to Further Its Arctic Role by Constructing Arc7 LNG Carriers", *High North News*, January 22, 2020, <https://www.highnorthnews.com/en/china-looks-further-its-arctic-role-constructing-arc7-lng-carriers>.

²⁷⁶ Zhao Huasheng, "China-Russian Strategic Partnership: From Continental to Marine", Russian International Affairs Council (RIAC), August 9, 2021, <https://russiancouncil.ru/en/analitics-and-comments/analitics/china-russian-strategic-partnership-from-continental-to-marine/>.

of the Arctic as being the result of an unclear intention to hide its possible interest in gaining growing influence in the region.²⁷⁷ While Russia indeed needs more foreign capital and investments, including from China, to develop the Arctic region, this will be done carefully and with a clear eye on its own national security interests. It is therefore not uncommon that both sides feel disappointment in their Arctic interaction, as the Chinese mainly tend to look after their specific interest, while the Russians often expect too much support and assistance from the Chinese, which they cannot or are unwilling to provide for.²⁷⁸ Russia is therefore also eying other Asian costumers and investors, such as Japan, South Korea and India. For instance, Russia and India have also initiated energy cooperation in the Arctic and South Korea and Japan, along with China, are main investors in the Russian Far East. At the same time, China also seeks a balanced approach and wants to engage in more cooperation with other Arctic states.

²⁷⁷ Interview of a Nordic Russian Arctic expert, June 2, 2021.

²⁷⁸ Interview of an American China-Russia scholar, June 7, 2021.

5 Comparing the Nordic region and Russia

This chapter compares our two cases and assesses similarities and differences in China's economic statecraft in each of them. As such, the chapter provides an answer to the second research question: How does China's economic statecraft differ between the Nordic region and Russia? An important task is to compare the level of economic exposure, the nature of Chinese economic measures and to assess the success or failure of Chinese economic statecraft toward the Nordic countries and Russia. Based on the argument by Norris (as discussed in the section on theory), which states that unity improves the conditions for successful economic statecraft, we argue that such conditions have improved since Xi Jinping came to power, due to the centralisation of decision-making and the Party state's increasing control over Chinese companies. However, that success is also related to reactions and policy responses in the target countries. Power concentration and the CCP's increasing control over companies has resulted in negative reactions towards China in target countries.

This chapter also analyses the security implications of Chinese investments in sensitive sectors in both regions, providing an answer to the second research question: What are the security implications of China's economic engagement in the region? It concludes with an overall assessment of the implications of China's economic influence in the Arctic. In the case of the Nordic countries, there are also differences, of course, between the different countries, but we nevertheless believe that there are some general observations that are valid for all the Nordic countries and that can be contrasted with the Russian case.

5.1 Chinese economic influence in the Nordic region and Russia

In the next section, we assess and discuss the different economic approaches China has used towards the Nordic countries and Russia. As shown in the previous chapters, China has been willing to use more punitive measures toward the Nordics compared with Russia. The reasons behind this difference is discussed in the chapter. Finally, we assess the failure or success of China's economic statecraft in our two cases. In other words, has Beijing been able to achieve its strategic goals through economic means?

5.1.1 Level of economic exposure

As Chapter 3 shows, the Nordic countries, in terms of trade and investments, are not overly exposed, economically, to China. Still, China is an important trade

partner for most of the Nordic countries, in particular Norway, where China became the main source of Norwegian imports in 2020, with a 12 per cent share, slightly ahead of Germany. China's share of Norwegian imports increased to a record 13.1 per cent in 2021. China is also a major source of foreign investment, especially in Finland, where Chinese investments have reached 5.7 per cent of GDP and are now the number three source of FDI in Finland. The trend also points toward increasing economic interactions with China. However, the Nordic countries have a diversified range of trade partners and, similarly to Australia, which has a far greater economic exposure to China, the Nordic countries would likely find alternative markets for their products if exposed to Chinese trade sanctions. It is also useful to recall that even though the Nordic economies are far smaller than the Chinese, China has a need of Nordic high-tech products and know-how. To that extent, economic relations between the Nordic region and China are not characterised by dependence in either direction.

While the Nordic countries, generally speaking, are not overly exposed to China on a national level, specific investments may have important socioeconomic consequences because of their sheer size. Volvo Cars is an example of a Chinese-owned company of great importance to Sweden, both in terms of the number of employees, but also in terms of its many Swedish subsidiaries and suppliers who are dependent on Volvo. However, this importance is not reflected in terms of economic exposure, based on the investment amount.

As for Russia, its economic exposure can be said to be relatively higher and can assumingly rise higher in the wake of the Ukraine war, as the Russian economy is gradually becoming more linked to the Chinese market and economy, especially in the domain of energy, which is by far the most important source of revenue for the Russian state. In addition, China is also strengthening its position vis-à-vis Russia in other domains of the relationship. That is not to say that Russia has no say in the relationship. Russia remains a military great power and with a proven will and ambition to use military force. In addition, China has invested in Russian energy pipelines and, to that extent, similarly to the Nordic cases, there is also a certain degree of interdependence in China's economic relationship with Russia.

More specifically, concerning Russia's vulnerability to China in the Arctic, it can also be discussed how much influence China has gained in the Russian Arctic. Except for the Yamal LNG project, Chinese energy engagement has followed the Russian mode of preference, that is, with long-term supply contracts and loans. Russia has remained reluctant in granting Chinese companies upstream ownership rights. Russia has also been careful in sharing technology and other types of advanced know-how. Of course, involvement in the Yamal LNG project has allowed China to learn and obtain new technical skills and to test its own equipment and personnel in a technically and physically challenging environment (for instance, Chinese companies provide so-called Arctic modules to the LNG project), but so far this remains of limited scale and depth. In other words, it is true

that China is a major importer of Russian oil and gas, but it has not yet gained a strategic influence in the energy sector as an owner or upstream equity holder upstream. While both sides value and indeed push for the deepening of Arctic economic cooperation, both China and Russia have their own national interests, as broader regional goals that at times coincide, but also collide.

Nonetheless, Russia seems to be increasingly moving into China's economic orbit and its need of Chinese capital, financing and markets in the face of strong Western sanctions and rapidly deteriorating West-Russian tensions will leave Russia with few options than to move even closer to China. As a result of the Ukraine war, several major Western companies and investors have decided to pull out of projects in the Russian Arctic.²⁷⁹ It is too early to tell whether Chinese companies will move in to fill the void. Chinese officials has urged Chinese companies to sustain the Russian economy. A growing degree of dependency on China for much-needed strategic leverage against the West could be the trade-off Russia is willing to pay if Moscow wants to develop the Arctic economically.

5.1.2 Chinese economic measures

Looking at how China has deployed its economic measures towards the Nordics and Russia, we find a rather stark difference, which relates to the type of measures used: for the Nordics, China seems willing to apply more punitive measures, while in the case of Russia, more positive incentives have been used. There are several factors potentially at play here, many of which relate to specific conditions between the target states and China. But there are also factors that relate to how target states fit into the broader political conditions and geopolitical goals and strategy.

Much of China's punitive economic statecraft towards Norway, Sweden and Denmark is China's reactions to what it perceives as a Nordic critique of China's human rights issues, such as jailing of dissidents, or on other issues that China considers as interfering in its internal affairs. To a large extent, this comes down to an issue of conflicting values between the Nordic governments and the Chinese Communist Party and to what extent the Nordic governments press for human rights in their foreign policies. Finland and Iceland have so far managed to avoid provoking the CCP and consequently have not been targets of China's punitive economic statecraft.

The case of Russia stands as a stark contrast. Firstly, the Chinese leadership holds that economic engagement with Russia constitutes a strategic element in cultivating and broadening the bilateral relationship. Russia is a neighbouring great power with whom China shares a long border and complicated history. Russia will likely

²⁷⁹ Melody Schreiber, "Major oil companies and investors pull back from Russian Arctic oil and gas", *Arctic Today*, March 2022, <https://www.arctictoday.com/major-oil-companies-and-investors-pull-back-from-russian-arctic-oil-and-gas/>.

also remain a military force after the Ukraine war, a nuclear power, not least. Upholding friendly and preferably constructive bilateral ties thus serves Chinese interests in maintaining a stable and cordial relationship with Russia for its own sake. Secondly, Russia constitutes China's most important international partner. Both sides share common views of the international order, in particular in their joint opposition to what is perceived as U.S. global hegemony. Beijing and Moscow are particularly concerned over US strategic influence and military presence in their respective regions; for Russia, in Europe and the post-Soviet sphere and, for China, in the Asia-Pacific. Thirdly, the Russian and Chinese governments share common concerns over regime security. Beijing and Moscow view U.S. efforts at promoting democracy and human rights issues as efforts to undermine the political regimes of their authoritarian states. Considering these basic fundaments, engagement with Russia thus also plays a far higher strategic role for China.

In more concrete terms, China has consistently tried to position itself as a desirable and beneficial partner for Russia. By advocating closer ties to the Chinese economy, Chinese leaders have argued that the future Russian economy would also benefit from the growth of Chinese trade, commerce and investments. This Chinese approach is perhaps most evident in the case of energy cooperation. China has offered loans, financial assistance, and other binding agreements to secure oil and natural gas delivery, signaling a long-term commitment to the establishment of an energy partnership. For instance, as noted in the previous chapter, loans to Rosneft and other Russian energy companies have been crucial for Russia. Similar practices are evident in the Arctic, as shown with the Yamal LNG project.

This does not of course exclude economic measures that are of a more negative nature, as we note above. Moreover, by tying Russia closer, economically, China could gain increased leverage over it that could increase its vulnerability to Chinese pressure or even coercion, which, as is noted above, could increase as Russia finds itself even more dependent on China following its isolation from the West. Nonetheless, in the end, Russia plays an important role for China in its broader national development plans and geopolitical ambitions. This also means that China will view and adjust its economic interaction with Russia, including in its investments, from this broader strategic perspective.

5.1.3 Success or failure of Chinese economic statecraft?

To what extent has Chinese economic statecraft been successful? That depends of course on how we define success. It also differs between punitive measures and positive incentives. Here, we consider success as the extent to which China has achieved its strategic objectives. Exactly what these objectives are differs from case to case and is often multidimensional. If the objective of punitive economic measures, such as trade boycotts or a threat thereof, has been to affect the Nordic economies negatively, then Chinese economic statecraft has been a failure. This

indicates that there are limits to China's economic influence in the Nordic region. But if the objective has been to make the Nordic countries less prone to act against the core national interests of China, the result is less certain. It is hard to tell to what extent Nordic governments have engaged in self-censorship or adopted their behaviour in order to avoid enraging the Chinese regime. China has on several occasions used punitive economic statecraft measures against Nordic countries, which sometimes has resulted in the latter's proffering official conciliatory statements. These "apologies" have been used in China's propaganda towards its domestic as well as international audiences to show China's increasing international power and support its narrative about the legitimacy of China's core national interests.

When it comes to concrete actions, however, the Nordic countries have made a number of policy decisions that go against Chinese interests. All Nordic countries have, to different degrees and in different ways, in effect banned Chinese telecom companies, Huawei and ZTE, from participating in the development of 5G. Also, legislation aimed at screening foreign investments has been strengthened, no doubt with a primary focus on the risks related to China as a foreign investor. In these cases, Chinese investments and access to its market have not provided sufficiently strong economic statecraft incentives to prevent the Nordic countries from asserting policy measures that go against China's strategic goals, such as acquiring technology.²⁸⁰

Moreover, China's generally assertive foreign policy and its particular application towards the Nordic countries has also resulted in negative perceptions of China in countries such as Finland and Iceland, which have not been targeted by Chinese punitive measures to the same extent. One objective for Chinese foreign policy is to improve the image of China abroad.²⁸¹ Arguably, this has not succeeded in the Nordic region and to that end it can be said that China's soft power has been weakened.

Returning to Norris' analysis on the conditions for China's successful economic statecraft, we argue that the result is ambiguous. On the one hand China's centralisation of power during the reign of Xi Jinping has improved the conditions for China's capacity to *exercise* economic statecraft. However, the CCP's increasing control over companies has made many target countries more suspicious towards Chinese investors. Increased suspicion has resulted in the counter measures mentioned above which has made some Chinese economic activities in the Nordic countries more difficult. In the end, this has reduced China's chances for successful economic statecraft.

With regard to Russia, the picture is more mixed. Chinese economic engagement is official and politically welcomed. Public opinion also seems to indicate more

²⁸⁰ Hellström, 2014

²⁸¹ Ibid.

positive assessments of China. It does seem that Moscow is less concerned with Chinese economic influence than the Nordics are. This can be explained by the current geopolitical context, with its Russia-West tensions and China-U.S. strategic rivalry. Broadly speaking, China has been somewhat successful in achieving its objectives in the Russian Arctic, as Russia has allowed and even made possible greater Chinese participation there, notably through its opening up for Chinese investments and participation in commercial projects such as the Yamal LNG projects. Both sides, at least officially, view Arctic cooperation as an achievement of more general Sino-Russian bilateral cooperation.

At the same time, segments of the Russian elite and public remain sceptical and even concerned. As we note above, there are clear limits to how much Russia is allowing Chinese participation around key issues of control and trust. Given the current Western sanctions regime against Russia, Moscow has turned to China for capital, support and, increasingly, technology but is not willing to do so if this implies a potentially significant increase of Chinese influence at the cost of Russian control. Equally important to note is that China of course does not blindly run into investment opportunities and will be aware of what benefits and costs are connected to specific projects.

Finally, we should also emphasise that China itself is cautious in tying itself too much to one actor, as this might also affect its broader Arctic objectives and it being viewed as a responsible stakeholder in the Arctic region, and not only in terms of commercial activities. While the war in Ukraine might open up new possibilities for increased Chinese commercial activities with Russia in the Arctic, Chinese entities also need to tread carefully and assess the costs and benefits of greater Arctic engagement.

5.2 Security implications

In order to analyse the security implications of Chinese economic engagement, we return to the theoretical discussion presented in Chapter 1. On a general level, economic dependence makes countries more or less exposed to economic statecraft, which in turn can be used to coerce a vulnerable country into accepting policies detrimental to its national interest. As the above discussion shows, China's overall economic influence in the Nordic region in terms of trade and investment is not strong enough to make the Nordic countries economically vulnerable to it.

However, specific companies or sectors might be more exposed to or dependent on China than others. A targeted trade sanction or denial of a certain product dominated by China but deemed critical to the target country can have more severe consequences. Security implications can also be related to individual investments in sensitive industries. Security implications include disruption and espionage in

connection to control over critical infrastructure.²⁸² In the Nordic region, Chinese infrastructure investments are few and limited. In the energy sector, Chinese companies control about 10 per cent of Swedish wind energy capacity, which is the equivalent of 2 per cent of total Swedish energy capacity. In addition, Chinese companies are involved in Sweden as constructors and operators of rail traffic and a port. In the other Nordic countries, Chinese infrastructure investments are almost non-existent. However, this is not due to lack of Chinese interest. Many Chinese companies have made efforts to invest in Nordic infrastructure, such as deep water ports, in Sweden, Greenland and Iceland, but for different reasons very few deals have actually been realised. Sometimes this has been because of actions taken by Nordic governments, such as the Danish government's intervention in China's efforts to build a deep water port in Greenland. While Huawei was an active partner in the development of 4G in many Nordic countries, all Nordic countries have in different ways effectively stopped Chinese telecom companies from being part of 5G development.

Compared to infrastructure investments, China has been far more successful in acquiring Nordic high-tech companies. Chinese corporate acquisitions in Denmark, Finland and Sweden include many companies specialising in high-tech areas, such as fuel cells, semiconductors, biotech, and ICT. Nordic companies have in this way participated in China's technological modernisation, which is intimately connected to the Chinese military's capacity-building.

Recent and coming legislation, including investment-screening mechanisms, will reduce China's chances of acquiring Nordic high-tech companies that could be used to strengthen China's military, or that may pose other security challenges to the Nordic countries. In addition, heightened awareness of security risks related to Chinese investments in the Nordic countries will likely work as another restraint to Chinese investments in sensitive sectors.

The case of Russia has different dynamics. On one hand, Russia will continue to guard the Arctic carefully, despite the fact that its growing international isolation will also impact the Arctic region. Much hinges not only upon to what degree Russia is willing to allow China a greater role in the Russian Arctic, but also on how Moscow responds to other Chinese activities and initiatives in the broader Arctic region, such as scientific research, efforts to increase its voice in Arctic governance, and so forth. As we also note above, Russia is also trying to attract other non-Arctic states, including Asian ones such as Japan, India and South Korea, as a way to diversify its Arctic strategy.

On the other hand, developments in the broader Sino-Russian economic relationship do suggest Russia's growing dependency on China, one where Russia

²⁸² Moran and Oldenski, 2013; Hemmings, 2017.

is gradually drifting into a China-centric geo-economic arrangement.²⁸³ Before the Ukraine war, Russia had already begun to gradually reduce its trade exports with EU and incrementally become more exposed to China. In terms of investments, the EU is still a larger player in Russia, but the relative share is declining in relation to China. Perhaps even more crucially, however, the trade structure remains strongly unbalanced, with Russia exporting mainly natural resources to China.

In the domain of technology, however, Russia could become more dependent on Chinese technology, equipment and resources. The example of 5G and Huawei can have major implications for Russia's development and security. Here, the key question for Russia is what is considered the best option under current circumstances. Russia's own industry lacks the capacity to develop commercial large-scale 5G rollouts and needs to rely on foreign technology and supplies. It seems, at least for the moment that Russia is opening up for Chinese contractors, much due to continued strained relations between Russia and the West and considering the warm relations between Beijing and Moscow.

Gradual financial cooperation and interaction intertwines, moreover, the two countries. In the long term, then, China could play a vital role for Russia as a source of financing and technology. If the Russian economy becomes even more exposed to China, it is quite possible that Beijing can use such leverage to extract deals on favourable terms. As we note above, such incidents have happened before, on several occasions. Additionally, it may also be plausible for Beijing to use its economic leverage to pressure Moscow to align with its policy and position on other issues that are not directly linked to economic interactions. One such case could for instance be to pressure Moscow to more directly support China's position regarding its territorial claims in the South China Sea. At the same time, Beijing has so far been cautious in pressuring Moscow and respected its interests and concerns which has been a key characteristic of China's Russia policy towards Russia since the end of the Cold War.²⁸⁴ Nonetheless, China's approach to Russia might change in the future and China could very well use its relative power capabilities and Russia's dependency on it to pressure for more beneficial outcomes at the latter's expense.

5.3 Implications for the Arctic region

What are the specific security implications for the Arctic region? China's Arctic interests, although long-term, are not a top strategic priority. Beijing wants to ensure that it becomes a major player in the Arctic, be it scientifically, commercially, or with regard to governance issues. The primary current interest is to engage in

²⁸³ Alexander Gabuev, "As Russia and China Draw Closer, Europe Watches with Foreboding", *Carnegie Moscow Center*, March 19, 2021, <https://carnegiemoscow.org/commentary/84135>.

²⁸⁴ Christopher Weidacher Hsiung *Too big to fail: China's Russia Policy in the Post-Cold war period*, PhD. Dissertation, University of Oslo, 2019.

the region commercially, not the least through investments and participation in different Arctic economic projects.

This report shows that current Chinese investment levels in the Nordic and Russian Arctic are limited. Major obstacles to further development relate not only to the harsh physical environment that the Arctic represents, but also the response and willingness of Arctic states to welcome a greater Chinese economic presence. As with the Nordics, recent trends suggest a growing awareness about the role and impact of Chinese investments, and, indeed, the policy responses to ensure, if not a shutting out of Chinese investments, then at least the creation of legal mechanisms that allow for better screening possibilities that can take into account national security concerns. Similar investment regulations exist in Russia, albeit Chinese investments are not (yet) subjected to the same level of formal and public scrutiny as in the Nordics.

An underlying factor impacting China's Arctic engagement and interests is on-going global U.S.-China strategic rivalry, which is having a spillover effect into the Arctic.²⁸⁵ There is growing U.S. opposition to China's Arctic presence, which also includes mobilising other Arctic states, notably Canada and the Nordics, to be more cautious toward Chinese activities and intentions in the region.²⁸⁶ For the Nordic countries, this will entail a delicate and complicated balancing between not wanting to come into conflict with the U.S. but at the same time also not opening up for unchecked Chinese investments and activities. Improved investment regulations and laws, and better regional coordination, could be a way forward.

Another potential implication is that China, to counter perceived U.S.-led opposition to its presence in the Arctic, could move even closer to Russia. Considering the gradual strengthening of the Arctic dimension in their bilateral relationship, and more importantly the strategic partnership as such, this could be a likely development. Such a scenario could see increased Chinese economic activities in the Russian Arctic, but also potentially stronger political alignment, scientific cooperation and perhaps even security cooperation, for instance in joint military exercises in the Arctic region. West-Russia tensions are set to be deeply strained for years to come due to Russia's war in Ukraine. This will likely also have an effect in the Arctic, with a more "divided Arctic" emerging, between a U.S.-led Arctic coalition and a Russia-China Arctic strategic partnership.

At the same time, Beijing would remain careful in wanting to draw too close to Moscow. In the end, China benefits from an open, inclusive and stable Arctic region. Heightened security developments and not least intensified militarisation

²⁸⁵ Camilla T.N. Sørensen, "Intensifying U.S.-China security dilemma dynamics play out in the Arctic: Implications for China's Arctic strategy", *Arctic Yearbook 2019*
<https://arcticyearbook.com/arctic-yearbook/2019/2019-scholarly-papers/323-intensifying-u-s-china-security-dilemma-dynamics-play-out-in-the-arctic-implications-for-china-s-arctic-strategy>.

²⁸⁶ The point of having a pro-actively engaged US in the Arctic was raised by several participants during the TTX.

of the region would be harmful for China's economic and commercial interests, its core strategic objective, there. A well-functioning Arctic governance system, wherein all Arctic states ensure a stable environment, is in China's best interests. Closer alignment with Russia allows China to enter the Arctic and participate in some important commercial projects. It is therefore also in the interest of China that Russia and other Western, Arctic states do not embark on an overly confrontational path, but that both sides remain open to cooperation in the region. The prospects for a Russia-West thaw in the Arctic, however, seem an unlikely scenario for the foreseeable future.

Much of what happens to China's presence in the Arctic is decided by China's domestic political development. For it to increase its presence there in terms of investments and scientific cooperation, it must be accepted by the Arctic countries. China would have to improve its image in order to change the present scepticism towards its intentions to a more accommodating view. Much of the Western negative view towards China is related to the deteriorating political freedoms in China, in particular the developments in Xinjiang and Hong Kong. China is also seen as pursuing an increasingly aggressive foreign policy. There are no signs that the current leadership under Xi Jinping intends to move towards less repressive domestic, and less assertive foreign policies. As long as this situation remains, resistance in the host countries will make it hard for China to increase its presence in the Arctic outside Russia.²⁸⁷

²⁸⁷ Several participants in the TTX expressed this view.

6 Conclusions and discussion

This study set out to examine China's economic influence in the Nordic region and Russia and its security implications. The following three questions were posed: What is the extent, with a specific focus on the Arctic, of China's economic influence in the Nordic region and Russia? How does China's economic statecraft differ between the Nordic region and Russia? What are the security implications of China's economic engagement in the region?

In the study, economic influence is analysed through two dimensions. The first dimension is *general economic exposure*, which is measured as China's share of a country's export, import and Chinese FDI, as well as sector-specific trade and investments, in order to examine Chinese economic influence in certain sectors. The second dimension examines *specific Chinese investments*. For the Nordic region, while trade with China and Chinese FDI in the region keep increasing, general economic exposure to China is still limited. China's share of trade with the Nordic countries remains between 5-9 per cent. The exception is Norway, where China became the main source of Norwegian imports in 2020, and in 2021 reached a record 13.1 per cent share. China is also a major source of foreign investment, especially in Finland, where Chinese investment has reached 5.7 per cent of GDP and is now the number three source of FDI there.

As for Russia, economic vulnerability can be said to be relatively higher. China is Russia's largest trading partner, but Russia is far less important for China. The Russian economy is gradually becoming more linked to the Chinese market and economy, especially in the domain of energy, which is by far the most important source of revenue for the Russian state. In addition, China is also strengthening its position vis-à-vis Russia in other domains of the relationship.

Due to the ongoing war in Ukraine, Russia could be more forcefully moving into China's economic orbit; Russia's need of Chinese capital, financing and markets in the face of continued Western sanctions and more broadly persistent West-Russian tensions will leave Russia with few options than to move even closer to China. A certain degree of dependency on China for much needed strategic leverage against the West could be the trade-off Russia is willing to pay, for now.

Chinese economic statecraft is not always directed against a country's economy as a whole but may target specific companies or sectors. Therefore, general economic exposure cannot fully capture all economic exposure to Chinese economic statecraft. As shown in this study, China has, with varied degrees of success, used punitive economic methods against some Nordic governments and other actors in order to attain political goals. This differs from the case of Russia where China has used positive incentives rather than punitive economic statecraft measures.

In terms of specific investments, the study identifies a number of cases that could potentially have negative national security consequences. Chinese acquisitions of small and medium Nordic high-tech companies could serve to strengthen China's military modernization. In general, realised Chinese infrastructure investment in the Nordic region is limited. In many cases, this is due to government intervention, for security reasons.

An elevated awareness in the Nordic countries, among governments and society in general, of the risks regarding Chinese economic influence, together with recent and coming legislation restricting foreign investments, are factors that should work to reduce the risk that China will invest in sensitive sectors in the future.

6.1 Looking forward

Clearly, much has changed since Xi Jinping in 2014 stated that China would become a "Polar Great Power". Nordic nations that previously welcomed Chinese investments with open arms are now wary of the risks of China's expanding influence. This has been detrimental to China's efforts to expand its economic presence in the Arctic region. Does this mean that China must give up its Arctic ambitions? In the current situation, it is highly unlikely that China would make any larger infrastructure investments in the Nordic part of the Arctic.

This does not mean that China will reduce its economic influence in the Nordic region in general. While Chinese FDI has slowed down since 2019 this may be partly explained by the Covid-19 pandemic. As for trade, Chinese exports to the Nordic region has continued to increase despite the pandemic. With growing economic influence comes leverage that could potentially be used by China to gain strategic advantages.

Nordic government should continue to monitor Chinese economic activities in the region. Legal instruments, such as investment screening, will be very helpful in this endeavour. More work will be needed to identify weaknesses in the legal and economic systems that might be exploited by actors seeking to gain influence. For Nordic companies and local governments searching for investments, alternatives to Chinese funding need to be identified, at least for investments in security sensitive sectors.

As mentioned in the study, much of what happens to China's presence in the Arctic comes down to how China acts and presents itself to the world. A China that continues with the current level of domestic repression and assertive foreign policy will find it hard to gain the trust of the Nordic countries, which is necessary if it wants to expand its economic presence in the Nordic part of the Arctic.

Russia's invasion of Ukraine will have profound effects also on China's presence in the Arctic. China can take advantage of Russia's isolation and replace western firms, notably in the energy and infrastructure sector. This would see a large

increase of Chinese investments but one that surely would be conducted on terms beneficial for China. At the same time, questions abound on how closely tied China wants to be with Russia. NATO will surely increase its presence in the region, and likely also be strengthened by the Swedish and Finnish membership into the organization once accepted as full members. Western states before the Ukraine war already perceived an emerging alignment between China and Russia in the Arctic. With China's tacit support of Russia's war in Ukraine, such perceptions are only further reinforced. For Beijing the question becomes which states and partners best guarantee that China can achieve its ambitions of becoming a major Arctic player in the coming decades.

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7.1 List of interviews

This list consists of interviews and written correspondence that the study has referred to. Only interlocutors that have explicitly agreed to appear with name have been listed as such.

1. Correspondence with staff at the owner Ports of Stockholm, April 21, 2021. Almén.
2. Correspondence with representative of Tillväxtanalys (Swedish Agency for Growth Policy Analysis), May 5, 2021. Almén.
3. Interview of Danish Scholar Camilla Sørensen, May 17, 2021. Almén.
4. Interview of scholar specialising in Finnish-Chinese relations, May 18, 2021. Almén.
5. Interview of Hans Henrik Pontoppidan, Secretary General Danish-Chinese Business Forum, May 24, 2021. Almén.
6. Interview of Norwegian China scholar, May 28, 2021. Almén.
7. Interview of Nordic Russian Arctic expert, June 2, 2021. Hsiung.
8. Interview of Icelandic China scholar, June 3, 2021. Almén.
9. Interview of an American China-Russia scholar, June 7, 2021. Hsiung.
10. Interview of Tomas Hallberg, at the Swedish Wind Energy Organisation, October 22, 2021. Almén.

As Chinese investment and engagement in the Arctic have increased, so have the suspicions and concerns, of not only the Nordic states, but also Russia, for the security implications of larger Chinese engagement in the region. Using its economic influence for strategic purposes has become a main component in Chinese foreign policy strategy, or in what is often referred to as economic statecraft.

This study, which is a part of a research collaboration between FOI and the RAND Corporation on China's activities in the Arctic, examines Chinese economic statecraft towards the Nordic countries and Russia. The study finds that Chinese actors have expended much effort in attempting to invest in the Arctic, but few of these plans have actually resulted in completed deals. For the Nordic countries, while trade with China and Chinese foreign direct investment in the region keep increasing, general economic exposure to China is still limited. As for Russia, economic vulnerability is relatively higher. The Russian economy is gradually becoming more linked to the Chinese market and economy, especially in the domain of energy. These trends have all been exacerbated due to the ongoing war in Ukraine. As shown in this study, China has, with varying degrees of success, used punitive economic methods against some Nordic governments and other actors in order to attain political goals.