

Selling Energy to China:
Chinese Energy Politics in the Arctic



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KIN4593 Master's Thesis in Chinese Society and Politics

Parallel Master's degree with Zhejiang University

30 credits

Spring 2015

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Oslo

Abstract

Until recently, the Arctic including the Arctic Ocean was only mentioned in the context of global warming. However, global warming has led to a thawing of ice that unveiled great findings of natural resources. The Arctic is now in the middle of a rapid environmental, geopolitical and economic transformation. The planting of the Russian flag by Russian researchers in 2007 on the bottom of the Arctic Ocean triggered an overwhelming attention from other actors and states outside the region. Within a short time, all the Arctic countries, the US, Canada, Denmark (Greenland), Iceland, Norway, Sweden, Finland and Russia, have all developed their own Arctic strategy and outside actors have voiced their interest for influence in the region.

One outside actor that has had a great presence in the Arctic region is China. China has signed bilateral agreements with several of the Arctic states and shown growing interest in the development of Arctic natural resources. Beijing does not have an official Arctic strategy, and the Arctic countries, as well as the global community, are curious about what China's intention is in the region.

In this thesis, I analyse the Icelandic, Russian and, supposedly, Chinese Arctic strategy; what is China's role in these two Arctic countries' strategy and what do the activities in the Arctic mean to China.

The thesis shows that, for both Iceland and Russia, China appears like the partner that best suits their strategic priorities. In Iceland's case, China is the only country that has both the technology and the economic capacity to develop Icelandic resources. Chinese presence in the Arctic supports two of Iceland's primary Arctic priorities: the legitimisation of Iceland as a coastal Arctic state and preventing the region from becoming an exclusive region just for the Arctic littoral states, that are the US, Canada, Russia, Denmark (Greenland), Norway and Russia.

Russia is undoubtedly the country that possesses the biggest share of the Arctic's riches. Early on, Russia was flirting with international companies with licenses in the Arctic region. However, in the light of the Crimea annexation in 2014, the Western sanctions that followed ignited a series of bilateral agreements with China that makes it seem like the beginning of Russia's pivot towards the East.

Both Iceland and Russia are looking for a partner who can boost their economy and help them achieve their strategic goals; develop natural resources and, as a consequence, boost socio-economic developments. The findings in this thesis show that Chinese companies have a strong advantage in the Arctic compared to other companies. The Chinese companies are eager to make foreign investments and have deep enough pockets to support potential projects. Simultaneously, their investments receive great support from Beijing, and China's political leaders work actively at improving diplomatic relations and make use of China's strongest card, economic wealth and access to the world's biggest market.

Key Words : China, Russia, Iceland, Arctic, energy politics, geopolitics

Foreword

I am feeling nostalgic writing this foreword; I have learned and experienced so much throughout my education and I feel so blessed being able to meet all the people who I have met during this journey.

First I would like to express my gratitude to Koen and Mette: I cannot thank you both enough for your immense support and optimism that you have shown me throughout my master studies. The advices and feedback you have given me has helped me so much throughout this learning process. I also want to thank my supervisor Guo Yi and also professor Liu Wei for your understanding and patience while I was studying at Zhejiang University.

I am also incredible grateful to Dr Yang Hui Gen for accepting me as an intern at the Polar Research Institute of China. I feel so lucky being able to write my thesis under the influence of some of China's foremost experts on Arctic research. A special thank you to Egill who helped conceptualise the topic of my thesis, provide continuous flow of feedback and who helped me by providing literature.

My classmates Henrietta and Camilla, thank you girls so much for keeping me company and calming me down during my most stressful moments in Hangzhou. We really are the last ones standing and I'm so proud of that! Carl, I know you complain about me manhandling you all the time but you'll always be my one and only Chinese brother. Thank you for all the help I received at Zhejiang University. Tang Qiyang, thank you so much for helping me at UiO when I needed it the most, I owe you so much.

David, Noëlle, Caro, Phoebe, Kathryn and Cam, thank you all for the support and advice I received from you during my time in Shanghai. Thank you all for the constructive advice on my thesis and David, Kathryn and Cam in particular for proofreading.

Lastly, my family: my mom and dad, my brother Vy and my sisters MinQin and Minh Tam for always telling me to be strong and pursue my dreams.

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List of abbreviations

AC	The Arctic Council
CCP	The Chinese Communist Party
CNPC	China National Petroleum Corporation
CNOOC	China National Offshore Oil Corp
FTA	Free Trade Agreement
UNCLOS	The United Nations Convention on Law of the Sea

1. Introduction

Whilst the polar ice caps in the Arctic are continuing to melt, the increased traffic and regional cooperation between the Arctic coastal states becomes increasingly important. The Arctic states are the US, Canada, Denmark (Greenland), Iceland, Norway, Sweden, Finland and Russia. These countries all have portions of their territories that lie within the Arctic Circle and hence are all represented in the Arctic Council, the current leading forum for Arctic affairs. Arctic littoral states (A5) are the US, Canada, Denmark (Greenland), Norway and Russia, these states not only have territories within the Arctic Circle but also hold the rights to exploit the Ocean for natural resources within their respective parts of the Arctic.

The growing range and scope of activities taking place between the eight-country Arctic Council members has rapidly drawn the attention of non-council parties, both from sovereign states as well as international organisations, such as the EU and NATO. In 2013 China, along with other countries from Asia and Europe (India, Italy, Singapore, South Korea and Japan¹), was granted an observer seat in the council. Although the permanent members of the council were cautious and made revisions to the application procedures, the members were still uncertain about the role of the observer states. While most observer countries emphasized that they see the Arctic as an important environmental zone and as an arena for economic opportunities, they put less emphasis on talk related to political and security concerns².

As pointed out by Young, natural sciences are heavily represented in Arctic studies, however, in the last few decades; Arctic studies have extended greatly to include social sciences. The Arctic has become the new testing ground for constitutional issues, as well as giving us a deeper understanding of the role of regimes and institutions in achieving sustained cooperation at the international level³.

This is the reason why I was first drawn to writing about the Arctic region; activities in the Arctic are new and on going, its future is unpredictable and all we can

¹ Arctic Yearbook "2013 highlights", <http://www.arcticyearbook.com/index.php/2013-highlights>, accessed 08.05.15

² (Solli, Wilson Rowe, & Yennie Lindgren, 2013)

³ (Young, 1992)

do is to try and foresee the future developments of the Arctic by combining different forms of analysis. What intrigued me the most was how China became one of the earliest and most visible non-Arctic actor in Arctic affairs.

Much of the literature that exists discussing China in the Arctic specifically focuses on Chinese national aspirations in the Arctic area, however, there were several significant dialogues that were not focused upon within the scholarly articles used for this research; Mainly a closer and more detailed description of Chinese cooperation with Arctic states, especially in energy politics.

My approach rests on a set of hypotheses drawn from existing research. My hypotheses are; firstly, Chinese foreign politics centres on energy acquisition, and thus, Chinese politics in the Arctic is driven by energy politics. As a big power without territorial claims in the Arctic, China needs to use other measures to make sure that they too get a share of the Arctic's riches. Some scholars have suggested that China might go as far as using military measures to achieve its aspirations in the Arctic. However, I agree with most other scholars that China will rather try to reach consensus through bilateral agreements, which has been in line with Chinese foreign policy strategy throughout the last 3 decades.

Secondly, China historically has not been an aggressive super power that has pushed itself onto the Arctic states; the Arctic states have just as much, if not more, to gain from cooperation than China. International media often creates an image of China as an aggressive actor that has no scruples while in search for global resources to satisfy its energy hunger. China tries to keep a low profile and emphasises again and again that they are only interested in win-win cooperation. That is not to say that there are no politics involved at all; most of the joint energy exploitation projects occur between national energy companies and with these companies politics and economy have stronger bonds than in other multinational projects.

1.1 Methodology

My general method will be focusing on qualitative research methods, as I wish to gain an in-depth understanding of Chinese energy activities in the Arctic, with special focus on two Arctic countries; Iceland and Russia. I wish to test my hypotheses by crosschecking Icelandic and Russian Arctic strategy with Chinese energy politics. If

the political priorities of China and the Arctic state matches, it is clear that a stronger incentive to cooperate occur, and consequently, China's visibility and role in the Arctic increases.

I chose these two countries, as I wanted to see how Chinese energy policy is employed with different policies and strategies of two distinctly different countries. Russia, a large super power with abundant natural resources; and Iceland, a small state whose natural resource reserves are miniscule in comparison. Additionally, Iceland's experience with natural resource exploration is far more limited than energy giant Russia.

In my thesis I wish to analyse the Icelandic, Russian and Chinese Arctic strategy, because of the lack of an official strategy I will base this on Chinese activities in the Arctic the last 15 years. My research question is as followed: *How does China and Chinese politics fit with these two Arctic countries' strategy and what sort of role do the activities in the Arctic have in Chinese energy politics?*

In the last decade there has been a great amount of academic literature published about the Arctic and more is to be published as developments within the Arctic continues. I will also use quite many news articles in my thesis as they have the latest updates on Arctic developments.

In sum, most of my data will be a collection of peer-reviewed literature, policy documents, and media articles.

Chapter two will be divided in two, one historical background and one theoretical part. I will begin with a historical review of Chinese foreign diplomacy starting from the period of Deng Xiaoping. The Chinese Communist Party (CCP) is internationally known for being flexible and adapting quickly to new challenges. This historical review will not only show us the priorities but also the challenges that have faced Chinese foreign diplomacy in the last 3 decades. The reason behind my choice in this specific time frame is due to the reforms enacted in this period and there on going effects and influence on today's policies. From Deng, domestic Chinese diplomacy promoted economic growth, which quickly influenced China's foreign policy, as China became increasingly dependant on energy to sustain its economic growth.

For the theoretical part I will use Saul B Cohen's work "Geopolitics: the Geography of International Relations"⁴ as a basis. Much of the scepticism and circumspection against China and Chinese corporations is the backdrop of a global world that is experiencing a great geopolitical shift. Will China make a great geopolitical shift in the global context? Does China have the ability to influence the geopolitical changes in the Arctic?

As for now, the Arctic is still a conflict-free region, but given the attention the region has been afforded in the last decade, it is without doubt that a new political club is developing among the Arctic states. As China sees itself as a "near Arctic state", Beijing will most likely make sure that China will not be excluded from activities in this region, but to what extent?

The third chapter will discuss Chinese aspirations in the Arctic. This chapter will be a general overview of Chinese interests in the Arctic while a more detailed description of Chinese activities with each of the Arctic states will follow in latter chapters. There are 8 Arctic states, but I will focus only on Iceland and Russia. The reason I have chosen these two states is because China has been most active with the states holding controlling access to Arctic natural resources, as emphasised earlier is a Chinese priority. Another reason is that because of the scope of the thesis I wish to narrow it down to these nations only.

The fourth and fifth chapter will be about my two focus countries, which are my case studies, Iceland and Russia respectively. In both chapters I will begin with an introduction to each countries' Arctic strategy and the motivation behind it. Then I will analyse how China has become their biggest partner in the Arctic based on these strategies.

2 Chinese Energy Politics

2.1 Background: Chinese Foreign Policy

⁴ (2009)

As China is becoming increasingly more active in global activities, the rest of the world is anxious to know Chinese foreign policy strategies, as these policies can give us an idea of what kind of image China wishes to promote abroad and what sort of strategy Beijing wishes to pursue.

Within 30 years, China has transformed from being an isolated country to becoming one of the world's biggest economic markets. China's power internationally weighs heavily on this; access to the Chinese market. This transformation is largely due to the change in foreign policy since the late 1970s. Before the 1970s, Chinese politics were dominated by a single political actor, the Chinese Communist Party (Zhongguo Gongchandang 中国共产党). The decision making process in Chinese foreign policy from Mao to Deng Xiaoping was more centralised than in other states, though after Deng, Chinese foreign policy would see the increase of more actors, for instance from the business sector or other interest groups⁵. China developed its foreign policy in a time of globalisation and interdependence, and in these circumstances it is difficult to separate between domestic political interests and foreign diplomacy. In shaping its foreign policy, Beijing needed to develop a strategy that would maintain the socioeconomic reforms domestically, whilst at the same time oversee China's rapid rise in the international arena⁶. Since the late 1970s and early 1980s, China was in search of its own independent foreign policy, as a consequence Chinese foreign policy has had three phases of development:

1. Pragmatism: in the aftermath of the Great Leap Forward, China was to undergo an economic reconstruction. Chinese foreign policy in the late 1970s focused less on Mao's political ideologies and more on pragmatism. Deng Xiaoping developed a new thinking where a pragmatic approach to market economy was incorporated with the CCP's socialist ideology, thus maintaining the dominant role of the party. China was to be opened up for international trade and to go through a liberalisation of the Chinese market. Before China could enter the global market, financial assistance from abroad was necessary, hence Deng opened the door of the Chinese market to foreign investments⁷.

⁵ (Lanteigne, 2013)

⁶ (Lanteigne, 2013)

⁷ (Lanteigne, 2013, p. Location 722 of 6889)

2. Building a stable periphery: improving relations with superpowers and immediate neighbours. Before his retirement, Deng Xiaoping emphasised the importance of maintaining regional stability, a task that was given to his successor Jiang Zemin. Under Jiang's leadership, China gained increasingly more attention globally. Chinese foreign policy makers would now have to assess and evaluate China's role in international politics. From the 1990s, China emerged as a "joiner" and would participate more on the international arena and join international organisations. In order for China to continue with its domestic reforms, peacetime and a stable environment were necessary. From the 1990s China sought to increase its relations with its immediate neighbours as well as the super powers of the US and USSR/Russian Federation. During the late 1990s, Beijing began to promote a new policy that would characterize contemporary.
3. Chinese foreign politics: the "go out" policy (*zou chu qu* 走出去). The purpose of the policy is to encourage Chinese enterprises to invest overseas. To Beijing, Chinese investments abroad are just as important as domestic investments from overseas. Enterprises are encouraged to go abroad, invest and also bring expertise and experience home to China and Chinese products. Thus, Beijing wishes for Chinese enterprises to join the international market, to create global brands and participate in projects with foreign partners⁸. In accordance with the policy, Beijing's first step was becoming a member of the World Trade Organisation in 2001⁹.
An important difference between this phase and the previous is that unlike Deng Xiaoping who was able to consolidate power, Jiang Zemin needed more support from several political actors. And consequently, from the 1990s, the decision making process in China's foreign policy became more complex¹⁰.
4. Expansion and reconstruction: expansion of China's geopolitical interests and reconstruction of China's foreign policy institutions. From 2008 and early 2011, China surpasses Japan and becomes the world's second biggest economy after the US. Under the leadership of Hu, the institutions responsible

⁸ (Lanteigne, 2013, p. Location 957 of 6889; Shambaugh, 2013) 中华人民共和国中央人民政府《更好地实施“走出去”战略》

⁹ https://www.wto.org/english/thewto_e/countries_e/china_e.htm

¹⁰ (Lanteigne, 2013)

for the development of China's foreign policy were reconstructed if necessary to adjust to changing domestic and international circumstances. Out-dated ideas were discarded and old concepts were brought back for reviewing¹¹. Under Deng and Jiang, Chinese foreign policy makers were more cautious, and followed Deng Xiaoping's advice on conducting foreign policy as if "crossing the rivers by feeling the stones"¹². Under Hu, China took a more active role in international politics, instead of just reacting to international challenges, China is now more active in improving its international status by engaging internationally through unilateral and multilateral approaches¹³.

In sum, after the later 1970s until today, economic development was and is the supreme goal in Chinese domestic and foreign policy. Chinese policy-making shows more pragmatism on the behalf of ideology and improving diplomatic relations has become a priority. In order for Chinese domestic politics to be more compatible with global economy, building foreign economic relations is a necessity. This is particularly important in a Chinese context where much of Chinese economy is in state control¹⁴.

Another important change compared to the times of Mao and Deng is how the policy-making process in Chinese foreign diplomacy opens the way for more actors resulting in policy-making becoming less centralised. An important reason for this being China emerging as a new great power: as any other great power, Chinese foreign policies are becoming more distinct and numerous as China grows in strength and capability¹⁵.

2.2 Chinese Energy Politics

The politics ever since the reforms of the 1970s have made China the world's largest trader and second largest economy¹⁶. Additionally, China is the world's most populous country with a fast-growing economy that has led it to be the largest energy

¹¹ (Lanteigne, 2013, p. Location 257 of 6889)

¹² (Lanteigne, 2013, pp. 171, Location 5629 of 6889)

¹³ (Lanteigne, 2013, pp. 35, Location 1231 of 6889)

¹⁴ (Lanteigne, 2013, pp. 5, Location 346 of 6889)

¹⁵ (Lanteigne, 2013, pp. 1, Location 223 of 6889)

¹⁶ "Why Trade With China: An Arctic Perspective: China's interest in the Arctic makes perfect economic sense", The Diplomat. <http://thediplomat.com/2015/02/why-trade-with-china-an-arctic-perspective/> [Accessed 14.04.2015]

consumer and producer in the world. China was a net oil exporter until 1993, and by 2009 it became the world's second-largest net importer of crude oil and petroleum products. EIA projects that China is likely to surpass the United States in net oil imports on an annual basis by 2014 as U.S. oil production and Chinese oil demand increase simultaneously¹⁷. This projection was fulfilled in March 2014 as China became the world's largest net importer of petroleum and other liquid fuels¹⁸

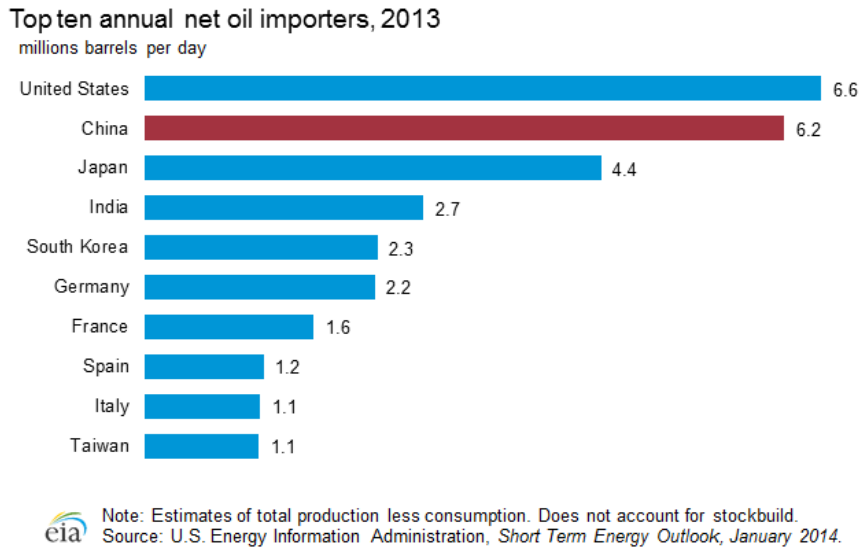


Table 1. Top ten annual net oil importers, 2013

China is Asia Pacific's biggest producer of oil, however, the production growth has not kept pace with demand growth during this period. Trends show a long-term decline of oil production, this will lead and has led to a rapid increase of energy import. While it has made China extremely influential in world energy markets, it has also left China very vulnerable¹⁹.

As we can see in the previous sub-chapter, Chinese policy makers are still unsure about which image they wish to portray on the international political scene. But based on Chinese activities broad, it is safe to say that China's increased reliance on

¹⁷ "China", U.S. Energy Information Administration. <http://www.eia.gov/countries/cab.cfm?fips=CH> accessed 14.05.2015

¹⁸ "China is now the world's largest net importer of petroleum and other liquid fuels", U.S. Energy Information Administration. <http://www.eia.gov/todayinenergy/detail.cfm?id=15531#> accessed 13.05.2015

¹⁹ "China", U.S. Energy Information Administration. <http://www.eia.gov/countries/cab.cfm?fips=CH> accessed 14.04.2015
 (Brown & Wu, 2003)

imported energy is influencing Chinese foreign policy and that energy policy is a priority in Chinese foreign diplomacy.

Economic growth is generally linked with increased energy consumption, and as we can see in table 1, several of China's neighbouring countries are economic giants in Asia and consequently, these countries like China are dependent on oil import. Unlike the US, who is increasingly becoming more energy self-sufficient, China finds herself more vulnerable to disruption of energy import.

As China was during the 1970s and 1980s self-sufficient on oil, and state central planners regulated prices, the tumultuous episode in the oil world market during the 1970s and 1980s did not hit China as hard as it did for the rest of the world. In the aftermath, while the other big economies adjusted their policies and strategies to be better prepared against a new crisis, Chinese leaders could afford being indifferent to conflicts in the Middle East or other oil-producing regions. In recent years however, China has satisfied its energy hunger with oil from a few Middle-Eastern countries, in particular Oman, Yemen and Iran²⁰. Overall, Middle Eastern oil accounts for over 54% of China's total foreign import, 75% of Asian import, and at the same time, Asia is the Middle East's largest customer²¹. Trends show an increasing Chinese dependency upon Middle-Eastern oil, and thus, with energy security in mind, the Chinese government sought to reduce its dependence on an unstable supply from an unstable region in which China cannot exert direct influence.

Energy security is very broadly, the assurance of adequate energy supplies to maintain the national economy at "normal" levels. If growth is considered normal, then security is likely to require some growth in guaranteed energy supplies over time²². Willrich makes clear that if a great power is not self-sufficient on energy resources, only one obvious strategy is available: "by strengthening its guarantees of foreign supplies²³." Additionally, if the power becomes too dependent on foreign supply of energy resources, it exposes itself to countless security risks.

With this in mind, in order to meet its rising domestic demand for oil and maintain energy security, China has taken three strategic steps²⁴:

1. Diversify its importing sources: signing of bilateral agreements with energy-

²⁰ (Jaffe & Lewis, 2002, p. 119)

²¹ (Brown & Wu, 2003, p. 1) (Lai, 2007)

²² (Willrich, 1978, p. 67)

²³ (Willrich, 1978, p. 69&186)

²⁴ (Brown & Wu, 2003; Jaffe & Lewis, 2002; Lai, 2007; Lanteigne, 2014)

rich countries beyond Asia Pacific and the Middle East.

2. Foreign investments: in line with the previously mentioned “go out” policy, the Chinese government has heavily promoted overseas oil investments.
3. Infrastructure: Investing in pipeline projects and exploring shipping alternatives to secure the safety of imported energy resources.

2.3 Theory: Geopolitics

When examining foreign policy, one also needs to examine how the foreign policy, or geostrategy, of a state reflects the underlying geopolitical reality. As Grygiel argues; “states wield their power not on a billiard table, but on seas, through mountains, and across plains, and their success depends above all on their ability to match their foreign policy to the underlying geopolitical situation”²⁵. Geopolitics is “a combination of geological features (e.g. natural resources) with human activity (e.g. production and communication technology) that alters the value of places” or more simply put, it is the study of how factors such as geography, economics, and demography can influence not only political decision-making but also particularly states foreign policy²⁶. It helps to generate a simple model of the world, which can be used in the decision-making process when shaping foreign and security policies. It ranks countries and regions based on geographical significance and separates allies from enemies. Additionally, geopolitics can also inform the audience of the political world system²⁷.

Geopolitics, as theory and an instrument, has the potential to strategize and visualize global territory and resources. However, throughout most of its history as an academic subject, it has been condemned by most scholars.

First coined by the Swedish scholar Rudolf Kjellen in 1899, geopolitics as an academic subject had a realistic approach, putting emphasis on the condition of states based on territory and resources. Geopolitics as a subject developed based on two important factors; global trade was on the rise and nations became increasingly interconnected. Second, imperial nations were more aggressively expanding towards

²⁵ (Grygiel, 2006, p. ix)

²⁶ (ibid.)

²⁷ (Dodds, 2014, p. Location 560 of 3072)

new territories²⁸. For nations to prosper, states need to accumulate more resources and new territories. However, unlike later German interpretation, geopolitics of this period was preoccupied with colonial territories²⁹.

In continental Europe of the early 1900s, in particular mid-war, geopolitics had a resurrection in German academia. Karl Haushofer, a professor of geography from University of Munich, developed a geopolitics that has a greater degree of moral detachment than earlier. He indicates in his work that the state is an organism that has to face geographical realities. The world is ultra-competitive and resources are scarce, in order to survive a nation needs to prioritize national self-interest that should be territory and resources³⁰. Under Nazi-Germany, several of Haushofers terms, such as Lebensraum, was reintroduced and used in the Nazi ideology. Haushofer himself did not prescribe to Nazi doctrine, and unlike Hitler, he did not put an emphasis on the role of humans in the course of history, but part of his works was used in a manner that would stain geopolitics as an academic subject.

After World War II until the 1970s geopolitics as a field was totally absent from academia; it was a subject associated with policies of genocide, racism and expansionism³¹. This absence gave rise to other theories such as international relations despite bearing the same traits as geopolitics³². However, in times when there's great power shift or energy becomes prominent in world politics, geopolitics reappear. It happened during the 1970s oil crisis, and it happened again now after China and India became rising oil consumers³³.

Early geopolitical writers tried to paint a geographical reality and make predictions about the future for a country, usually at the expense of others. Later geopolitics emphasized other geographical ways of representing and understanding the world. It was important to understand, from a geographic standpoint, the geopolitical differences and use this knowledge to balance out the differences³⁴. Saul B. Cohen wrote his book "Geography and Politics in a Divided World" in 1974, in a time when geopolitics saw its revival in academia. Here, he emphasises that "geopolitical

²⁸ (ibid., Location 798 of 3072)

²⁹ (ibid., Location 856,879 of 3072)

³⁰ (ibid., Location 890 of 3072)

³¹ (Dodds, 2014, Location 764 of 3072)

³² (Mamadouh & Dijkink, 2006)

³³ (Claes & Moe, 2014)

³⁴ (Dodds, 2014, Location 1192 of 3072)

analysis does not predict the timing of events, crises, and flash points that force radical changes in the geopolitical map.” Instead, geopolitical analysis puts more focus on the changes within the geopolitical system, as well as conditions of geopolitical changes that policy makers need to be more aware of³⁵.

As mentioned previously, China’s foreign policy has been shaped in a time of globalization and global interdependence. Many writers today claim that geopolitics has lost its importance in a time of globalization; there is no need to have direct command over routes and resources in order to accumulate wealth and have leverage over others. States can prosper by simply tapping into the market and gain access to both resources and routes. However, most geopolitical writers argue that the market can never completely replace exclusive control of resources³⁶.

China’s presence in the Arctic has to some been interpreted as a threat to the geopolitical environment in the region. According to Cohen, having the ability to alter geopolitics means one possess power. Geopolitics is about power, but what is true power and how do you utilize your power most efficiently? Cohen separates power in four pillars³⁷:

1. Overwhelming military strength and the willingness to use it
2. Surplus economic energy to enable a state to provide aid and invest in other states
3. Ideological leadership that serves as a model for other nations
4. A cohesive system of governance

Based on these pillars he concludes that the US is the world’s currently only great super power; the US still has the strongest military and the world’s biggest military budget, in addition being the world’s biggest economy. And finally, the US has a political system and an ideology that is acknowledged and respected globally. China is a rising military power and its military budget continues to increase, but its military power is still lagging behind the US. China, unlike the US, concentrates its military power close to its border. China instead relies heavily on economic trade and uses investments to extend its influence. China’s deep pockets has led to different kinds of purchases or investments in natural resources in different parts of the world.

³⁵ (Cohen, 2009)

³⁶ (Grygiel, 2006, p. xi)

³⁷ (Cohen, 2009, p. 2)

However, these initiatives have led to political pressures as these actions have often been met with suspicion and opposition. Cohen concludes that even though there is a possibility that China one day might become the world's leading military and economic power, Chinese lack of soft power will hamper China from being the most influential super power. In his overview he mentions that soft power is increasingly becoming a very powerful tool and when comparing China with the US, the latter holds the lead in soft power³⁸.

3 China and the Arctic

China's dependence on energy import has implications for its foreign behaviour. Energy need in particular is an important component of China's international relations. Thus, the primary objective of China's foreign policy is resource acquisition³⁹. Oil consumption in China is currently estimated at 9.9 million barrels per day, half of which is imported. Because of the nation's limited domestic-resource base, China has become dependent on foreign resources, and identifies oil as a component of China's national economic security since 2003⁴⁰. Chinese lack of transparency, aggression in their quest for energy resources combined with mutual distrust between China and the West might result in an unfortunate outcome for China. However, compared to the West, which has over 100 years of history in extracting and trading energy worldwide, China is very much a latecomer in terms of handling the norms of international energy business. Chinese dependence on oil and energy has spread Chinese economic and diplomatic presence to wherever there is spare supply⁴¹.

In recent years, as the ice in the Arctic continues to melt and the riches of the Arctic becomes more evident, China has been very active in strengthening its ties with Arctic countries. China prioritises strong diplomatic ties to the Arctic by having the largest embassy in Iceland's capital Reykjavik, it invests strongly on science by maintaining a large scientific research presence in Spitsbergen, and just recently celebrated its 25th anniversary in polar research.

³⁸ (Cohen, 2009)

³⁹ (Zha & Breslin, 2010)

⁴⁰ (Rainwater, 2013)

⁴¹ (Zha & Breslin, 2010)

Additionally, China operates the world's largest nonnuclear icebreaker, Snow Dragon (Xue Long, 雪龙), and it has plans to build another icebreaker to accompany the Snow Dragon⁴². In spring 2013, China became an observer member of the Arctic Council, a high level intergovernmental forum "to provide a means for promoting cooperation, coordination and interaction among the Arctic States"⁴³. Shortly after, China signed a Free Trade Agreement with Iceland, China's first with a European country⁴⁴. Clearly, China sees the Arctic not only as an environmental zone, but also as an arena for economic opportunities. Chinese interest in the Arctic is crosscutting and the Chinese want to preserve the Arctic as well as exploit the opportunities in the Arctic. Because China is not a littoral and/or Arctic state, China is worried that the Arctic state may change their open, legal-minded tune and exclude non-Arctic states. Therefore, Chinese scholars have expressed different arguments to enhance Chinese development in the High North⁴⁵.

In order to legitimise its role in the Arctic region, Chinese news articles formulate China as a "near-Arctic country" and an "Arctic stakeholder"⁴⁶. According to Yuan, Chinese interest in the Arctic has significantly increased because climate changes in the Arctic have a direct influence on Chinese ecosystem, and pose a great threat to Chinese "food security"⁴⁷. China has been attempting to keep a low profile in the Arctic but simultaneously promoting heavily its research activities in the region. However, its efforts to become an observer in the Arctic Council and its interests in developing Arctic energy resources and minerals have caused concerns about China's true ambitions. The Arctic states, both big and small are apprehensive about Chinese presence and question whether China will challenge the interests of Arctic states⁴⁸. In a public opinion survey made among the population in eight of the Arctic countries, China was actually the country the Arctic population least wanted to co-operate with, Russia being the exception as they listed the US at the bottom. In the past two years,

⁴² (Kraska, 2011; Yang, 31.07.2012)

⁴³ "About the Arctic Council", Arctic Council web pages, 07.04.2011, (accessed 09.12.13)
<http://www.arctic-council.org/index.php/en/about-us/arctic-council/about-arctic-council>

⁴⁴ ("The Rice Man Comet," April 20th 2013)

⁴⁵ (Solli et al., 2013)

⁴⁶ (Hellström, 2014); 中国成为北极理事会观察员国 没表决权有参与权, 新华网, 16.05.2013
http://news.xinhuanet.com/tech/2013-05/16/c_124717352.htm; 中国成为北极理事会正式观察员, 新华网, 16.05.2013
http://news.xinhuanet.com/politics/2013-05/16/c_124717587.htm

⁴⁷ 陆俊元 (2011, p. 2)

⁴⁸ (Hellström, 2014)

China has been more assertive in its approach towards the Arctic, and has expressed very clearly that it wishes to exploit natural resources in the region⁴⁹. It has also been proposed by scholars from Shanghai Ocean University to use the Arctic Council to promote, among other, energy cooperation between the member states⁵⁰.

China was among the first countries to apply for an observer seat, they did so already in 2006 and since 2007, China has been an ad hoc observer of the Arctic Council. Despite the fact that Chinese officials have left no comments on the issue, Chinese scholars and officials have privately been quite aggressive in their statements about the Arctic Council's treatment of China⁵¹. Statements made by Admiral Yin Zhou from the People's Liberation Army Navy represents the general sentiment of China's Arctic policies so far; "The Arctic belongs to all the people around the world as no nation has sovereignty over it. China must play an indispensable role in Arctic exploration as we have one-fifth of the world's population"⁵². China claims that the Arctic is "common heritage", thus implying that the "Arctic Five" (the littoral states of Russia, Norway, Denmark, Canada and the U.S.) cannot resolve the territorial sovereignty dispute without regards to other countries⁵³.

China's present Arctic policy and research agenda are based on the premise that, as more and more countries becomes aware of the riches in the Arctic, the more the Arctic countries will restrain external pressure, it will eventually lead to China having no choice but to "look after its own rights and what it perceives as its right"⁵⁴.

Chinese officials state that the territorial rights of the Arctic countries are clear and that China will cooperate with the respective countries through bilateral agreements. The Chinese "respect the sovereignty of the Arctic states", and that the land, islands and coastal areas belong to the Arctic states. On the issue of territorial control of the Arctic region, the United Nations Convention on Law of the Sea (UNCLOS), signed by every Arctic state, with the exception of the U.S), remains as the most comprehensive international legal framework for governance of state activities over the world's oceans, including the Arctic Ocean⁵⁵. And although

⁴⁹ (Kraska, 2011, pp. 257 - 258)

⁵⁰ 朱明亚, 平瑛, 贺书锋 (2013 年 06 月)

⁵¹ (Jakobson & Peng, 2012)

⁵² (Akin, 23.06.2010)

⁵³ (Rainwater, 2013)

⁵⁴ (Jakobson & Peng, 2012, pp. 12- 13)

⁵⁵ (Campbell, 13.04.2012; Jakobson & Peng, 2012)

Chinese assistant minister of foreign affairs claims that China respects the Arctic states legal rights in accordance with UNCLOS, many Chinese scholars believe that UNCLOS does not safeguard China's Arctic interests. Therefore, both Chinese scholars and officials have expressed that even if the Arctic states do get their territorial claims approved by the UN, the considerations of the global community also need be taken into consideration. So it has happened that Chinese scholars publically criticized the legal framework of the Arctic Council and have instead emphasized the "common heritage" when referring to the ocean that is not claimed by any states⁵⁶.

To sum up, China has three main interests in the region: research in the Arctic, the economic potential in the development of sea routes and energy resources. The Chinese Arctic aspirations with Iceland and Russia will be covered in the following chapters.

4 Iceland

4.1 Iceland and the Arctic

Keflavik September 2006 marked the end of an era and the beginning of a new in Icelandic foreign policy⁵⁷. As a NATO member but having no standing military of its own, Iceland signed in 1951 a bilateral defence agreement with the United States. The US military made arrangements for Iceland's defence on behalf of NATO from the naval military base on Keflavik. The US still provide for Iceland's defence but after fall 2006, the US military no longer has any personnel on Icelandic soil. Within a month, all American military personnel on Iceland were sent home, ending a 45 years of American military operations in support of the defence of Iceland⁵⁸.

For decades, Icelandic foreign policy focused on maintaining the USA–Iceland relationship and keeping the US at Keflavik. When the US military finally left, it was clear to the Icelandic government that it was time for a new foreign policy, one that was not too dependent on one single nation. In 2008, Iceland was also struck

⁵⁶ (Rainwater, 2013)

⁵⁷ "US military set to quit Iceland", BBC news, <http://news.bbc.co.uk/2/hi/europe/5383922.stm>, accessed 14.04.2015

⁵⁸ "U.S. Relations With Iceland", U.S. Department of State: Diplomacy in Action. <http://www.state.gov/r/pa/ei/bgn/3396.htm> accessed 14.04.2015

"Naval Air Station Keflavik Disestablishes After 45 Years", Official Website of the United States Navy, http://www.navy.mil/submit/display.asp?story_id=25499 accessed 14.04.2015

by a major economic recession and the Icelandic government then sought to pursue a strategy that would streamline both its domestic and foreign policy that would bring Iceland an economic recovery⁵⁹.

The Arctic appeared to be an obvious arena; Iceland has been active in the Arctic for decades, its location made Iceland an important strategic partner for the American military during the Cold war, additionally, it is also a founding member of the Arctic Council. Iceland has been active in the AC and even held chairmanship in 2003 – 2004. Moreover, the country also has a long history of polar research and has hosted a number of international Arctic conferences⁶⁰. With this background, Iceland sought to integrate the Arctic in its domestic and foreign policy.

Icelandic Arctic ambitions began already before the closing of Keflavik and the economic recession. In 2006, a report from the Icelandic Foreign Ministry “North meets North: Navigation and the Future of the Arctic” proposed that Iceland would be a hub for transport through the Trans-arctic Shipping Route, based on the Icelandic strategic geographical location ‘in the middle of the Northern Atlantic’⁶¹.

Three years later, the government issued a new report that aimed for a broader multi-functional role for Iceland in the Arctic. The document had six key priorities ranging from social to military priorities. Iceland had to prioritise international security and resource development in particular as it is “the only country” located “entirely within the Arctic region”, and whose economic development depends heavily on the resources in the Arctic⁶².

Approved by Althingi in March 28 2011, Iceland is one of the last Arctic countries to finalise and officially publicise its Arctic strategy. In the “Parliamentary Resolution on Iceland’s Arctic Strategy”, the government lists 12 principles concerning “climate change, environmental issues, natural resources, navigation and social development as well as strengthening relations and cooperation with other States and stakeholders on the issues facing the region”. Protection of environment, supporting the rights of indigenous people, improve relations with other Arctic states, promote Arctic research and safeguarding security interest are among some of the

⁵⁹ ”Iceland's Stabilized Economy Is A Surprising Success Story”, Forbes magazine, <http://www.forbes.com/sites/traceygreenstein/2013/02/20/icelands-stabilized-economy-is-a-surprising-success-story/>, accessed 14.04.2015

⁶⁰ (Bailes & Heininen, 2012)

⁶¹ (Bailes & Heininen, 2012, p. 74)

⁶² (Bailes & Heininen, 2012)

principles listed. Of these twelve, Iceland's core priorities are as followed; "promoting and strengthening the Arctic Council as the most important consultative forum on Arctic issues" and through the Arctic Council resolve international issues; and lastly, "securing Iceland's position as a coastal State within the Arctic region"⁶³.

Iceland's current Arctic strategy emphasizes open and inclusive Arctic dialogue, the government wishes to be an equal player in the Arctic, a region where super powers such as Russia and the US have a strong position. To legitimise these ambitions, Iceland is actively using multilateral institutions and international conventions to emphasise Iceland's position as a 'coastal state'. In 2009, Iceland had a shift of leadership and the new coalition government of the Social Democrat Alliance and the Left-Greens had two foreign policy processes; EU membership and a stronger pivot towards the Arctic. The last proposal was received by a great support by the Icelandic elite and the governmental apparatus devoted governmental resources on exploring what sort of opportunities Iceland has in the region⁶⁴.

Iceland's pivot towards the Arctic was a natural direction in Icelandic policy shift. The developments of natural resources will not only boost the Icelandic economy, which is still trying to recover from the economic collapse in 2008, but also legitimise an Icelandic voice in a region that is gaining an increased interest globally.

In 2008, the Arctic 5, met in the city of Ilulissat, Greenland to discuss the future of the Arctic region. The topics on the agenda were "climate change and the melting of ice have a potential impact on vulnerable ecosystems, the livelihoods of local inhabitants and indigenous communities, and the potential exploitation of natural resources". The Ilulissat Declaration, which is the product of the meeting, stresses that it is necessary with "a new comprehensive international legal regime to govern the Arctic Ocean". This Declaration is also to be used as the foundation for responsible management for "the 5 coastal States and other users of this Ocean"⁶⁵. After this meeting, Iceland has been promoting very heavily the importance of the AC. Iceland's strategy is to avoid being excluded and pushing the AC to be the

⁶³ "A Parliamentary Resolution on Iceland's Arctic Policy", Ministry of Foreign Affairs, <http://www.mfa.is/media/nordurlandaskrifstofa/A-Parliamentary-Resolution-on-ICE-Arctic-Policy-approved-by-Althingi.pdf>, Accessed 05.05.15

⁶⁴ (Hastings, 2014, p. 218&227)

⁶⁵ "The Ilulissat Declaration", http://www.oceanlaw.org/downloads/arctic/Ilulissat_Declaration.pdf, accessed 05.05.15

preeminent Arctic forum⁶⁶. Despite government reports claiming that Iceland is the only country whose territory is entirely in the Arctic region or formulating Iceland's position as "a Coastal State", the Ilulissat Declaration clearly does not include Iceland in its definition of an Arctic coastal state. According to Hastings, small states such as Iceland tend to turn to multilateral institutions as they see these institutions as 'creating norms which constrain the behaviour and ambitions of great powers'. Institutions such as the AC enable Iceland to have a stronger standing against great powers⁶⁷. As a matter of fact, Russian officials have supported a stronger role for the AC, and at the same time, suggested that through the AC, a regionally determined set of rules for the development of the region is to be developed⁶⁸.

In sum, the development of Iceland's Arctic strategy was a result of three factors:

1. The search for a new focus in Icelandic foreign policy, additionally, a policy that would simultaneously promote domestic economic growth in the aftermath of the 2008 financial crisis.
2. The desire to partake in the new role of the Arctic and the possibilities that emerged in the region.
3. The need to manage the changes and risks in Arctic geopolitics, environment and security.

4.2 Iceland and China

Among the smaller Arctic states, Iceland is without any doubt the country in the Arctic in which China is most involved with. According to the 2012 statistical report from Polar Research Institute of China, in 2009, Iceland was the only Arctic "territory" in which China had direct investments⁶⁹.

⁶⁶ (Hastings, 2014, p. 215)

⁶⁷ (ibid.)

⁶⁸ (Klimenko, 2014)

⁶⁹ 中国极地研究所中心：中国对北极地区的直接投资存量 There is another table that shows Chinese direct investments with Arctic countries (and not Arctic territory only), and in that table America, Russia and Canada is top 3.

In a global context, even in the Arctic, Iceland is a small state with its populations at only 317,351⁷⁰. Iceland's strategic position in the Arctic may make Iceland an important Arctic player in the decades ahead. Its location is actually right outside the Arctic Circle, which explains why according to the Ilulissat Declaration, it is not an Arctic coastal state in the formal sense. However, Iceland has been able to put itself on the map by promoting itself as a meeting place and gate opener for actors with interests in the Arctic⁷¹.

Several Asian nations have expressed interest in the Arctic; they are no different from other actors approaching the Arctic. The interests in the Arctic is mostly driven by commercial interests but also for issues in a more global scale such as climate change, sustainable development, and strengthened research efforts⁷².

China is the Asian country with the most visible interests in the Arctic, and in Iceland specifically. Since the mid-2000s, the diplomatic relationship between Iceland and China did not only increase but also deepened. Iceland became the first European country to sign a bilateral Chinese–Iceland free trade agreement (FTA) in April of 2013. The European Union remains Iceland's biggest trading partner, but China is now Iceland's fourth biggest importing country and the biggest trading partner in Asia. Iceland is a small state compared to China, in population, GDP, and geopolitical/economic power. Icelandic export to China in 2012, consisted mostly of fish worth some €47,6 million to China. And in return, Iceland imported some €264 million in goods and services from China⁷³.

While in Iceland, China has carried three main overtures; political, scientific and economic. These have been received a favourably among the elite in Iceland. Among the elite, there is a strong belief that the changes in the Arctic are “everyone's business”. According to Lunde, this is a very typical Nordic mind set;

Nordic countries are pragmatic institutionalists with realist flair. They acknowledge that recent developments, including climate change, trade, shipping, and the development of natural resources, serve to globalize the Arctic. The Asian countries

⁷⁰ CIA World Factbook, Iceland (July 2014 estimation)

⁷¹ (Hellström, 2014)

⁷² (Hastings, 2014, p. 216; Lunde, 2014)

⁷³ Iceland signs first European free trade pact with China, EUobserver, <https://euobserver.com/eu-china/119811>, accessed 06.05.15

have come to the Arctic to stay, and the Nordics believe it is better to integrate them into regional affairs (at a given level of involvement) than to ostracize them and risk the formation of potentially unhelpful alliances of non-Arctic states⁷⁴.

The impact of the climate changes in the Arctic will not affect the Arctic states alone, and this is a view that the Icelandic share with the Chinese. The involvement of Asian actors will also increase and strengthen the visibility of the Arctic. And more importantly, Asian participation will strengthen Arctic institutions; the importance of AC will increase and prevent an emergence of an alternative forum⁷⁵.

In research, Chinese participation has also been positively received. Scientific cooperation with China is perceived as a way to leverage existing scientific resources, and at the same time, a way to track the global climate change trend⁷⁶.

While political and scientific overtures have gained little attention from the public, the elite and the public have very mixed reactions towards Chinese economic overtures. Iceland finds it hard to attract foreign direct investment, especially after the global financial crisis. The core of Sino-Icelandic economic cooperation is the common interest that includes fishing, shipping, and recently oil and gas development.

In 2014, China National Offshore Oil Corp (CNOOC), China's biggest offshore oil and gas developer, became the first Chinese firm licensed to look for oil in the Arctic. CNOOC will operate with two Arctic firms, Eykon Energy (Iceland) and Petoro Iceland AS (Norway) in the Icelandic Dreki area of the Jan Mayen ridge. In this operation CNOOC holds a majority stake of 60 percent⁷⁷.

Chinese investments are thus most welcome in Iceland, however, only if it helps Icelandic industries. In 2012, the Chinese investor, Huang Nubo tried to bid for a piece of Icelandic land to build an eco-tourism project. This bidding received a lot of attention among the Icelandic population and the response was not in Huang's favour⁷⁸. As mentioned above, as a small state, Iceland is driven to seek alliances, but

⁷⁴ (Lunde, 2014, p. 43)

⁷⁵ (Hastings, 2014, pp. 222,223,225)

⁷⁶ (Hastings, 2014, p. 224)

⁷⁷ CNOOC headed for Arctic, first Chinese company granted exploration license in Iceland, About Oil Net, <http://www.abo.net/oilportal/topic/view.do?contentId=2214544>, accessed 06.05.15;

China's CNOOC granted license to probe Arctic oil, GB Times Beijing, <http://gbtimes.com/china/chinas-cnooc-granted-license-probe-arctic-oil>, accessed 06.05.15.

⁷⁸ (Hastings, 2014, p. 215)

like its Nordic countries, Iceland is wary of Chinese strategic objectives in Arctic. Icelandic experts agree that in order for Iceland to prosper from Arctic involvement, Iceland needs to open up for international partners. They do however emphasise that Iceland needs to have a clear picture of who these partners should be⁷⁹.

In sum, Iceland is pursuing a strategy that can boost Icelandic economy and at the same time bolster Iceland's status in the Arctic as a 'coastal state'. The economic connections with China have been perceived by most Icelanders as a crucial development to achieve Iceland's Arctic ambitions. This cooperation can be interpreted as a part of a broader Arctic cooperation strategy, not just for Iceland but also for China. However, despite what Lunde describes as an "embrace" of China into the Arctic, Iceland tries to balance between the pursuit of Arctic ambitions and exposing vulnerability to a country that outweighs Iceland in both size, power and influence.

5 Russia

5.1 Russia and the Arctic

'Russia is a great polar empire', said Artur Chilingarov, a Russian veteran scientist and explorer who had just come back from an expedition in the Arctic Seas in 2007⁸⁰. If you take a look at the map of the Arctic Region, there is no doubt that Russia is the regional major power; naturally, Russian Arctic policies will have big influence on the region.

The great Arctic power already caused stirs in the Arctic region during the era of the Soviet Union. During a speech in 1987, then Soviet president Mikhail Gorbachev called for intergovernmental cooperation in the Arctic. The call for cooperation was a response to several factors⁸¹;

⁷⁹ Iceland's Arctic Awakening, World Policy Blog, <http://www.worldpolicy.org/blog/2015/04/22/iceland%E2%80%99s-arctic-awakening>, accessed 06.05.15

⁸⁰ (Howard, 2009, p. 2)

⁸¹ (Bailes & Heininen, 2012, pp. 44-47)

1. The entire North was a part of an important modernization campaign during the Soviet era. Most of the seven federal districts and regions are in the Northern region and thus strategically important for the Russian Federation.
2. The vast riches in natural resources, such as minerals and hydrocarbons, make the North an important reserve and resource area for the whole Russian Federation.
3. More focus on academia in the Arctic region and also, the need to create an academic network to address and redefine the Federation's role in the Arctic.

According to Bailes and Heininen (2012), this was a turning point for the Arctic region as a whole as Russia is the biggest Arctic country, in both size and share of natural resources. However, it would take Russia several decades before developing an official Arctic strategy, despite this, Russia was still among the first Arctic nations to do so.

In 2004, president Vladimir Putin mentions the need to develop an Arctic strategy, and in 2008 “Fundamentals of State Policy of the Russian Federation in the Arctic in the Period up to 2020 and Beyond” was adopted by the president at the time, Dmitry Medvedev, however, it was not made public until 2009⁸².

The State Policy has 10 strategic priorities. First, to make Russia seek to settle maritime disputes with neighbouring Arctic states in accordance with international law; second, to create a search and rescue regime to respond to man-made accidents; third, to strengthen bilateral relations through regional organizations such as the Arctic Council and the Barents Euro-Arctic Council; fourth, through the organizations, to manage cross-polar air routes and the Northern Sea Route more effectively for national and international navigation; fifth, to contribute to Arctic forums by being active in partnerships; sixth, to determine mutually advantageous borders and limits in the Arctic Ocean; seventh, to improve the management of Arctic affairs, especially through research; eighth, to improve the social and economic activities of the indigenous people; ninth, to develop the Arctic into a resource base; tenth, to develop and modernize infrastructure⁸³.

Although the State Policy very clearly highlights the Russian priorities in the Arctic Zone as well as for the entire region, scholars, domestic and foreign alike, are unsure how to identify which of these are Russia's “core priorities”. Bailes and

⁸² (Bailes & Heininen, 2012, p. 42)

⁸³ (ibid., p. 43)

Heininen argue that the Russian State Policy is ‘designed to achieve President Putin’s primary aim – the stabilization of the Federation and its economy’⁸⁴; the Arctic and its natural resources are important to Russia’s future economic plans. State Policy envisions that the Arctic and the northern territories will be Russia’s “leading strategic resource base”⁸⁵. This is seen as a condition for solving challenges of social and economic development, such as bridging the gap of socio-economic disparities between Russian Arctic regions and the rest of the country⁸⁶.

The State Policy emphasizes that Russia continues its commitment towards international law, and that it is necessary to maintain a stable and peaceful environment in the Arctic region. To achieve these objectives, Russia seeks to use bilateral and multilateral cooperation in areas that provide favourable gains and strengthen national security.

Although a contradiction in the State Policy, Russia emphasizes that while maintaining a peaceful zone, it also wishes to strengthen its military activities in the Arctic. Russia is here trying to link energy security with traditional forms of security⁸⁷. According to Konyshchev and Sergunin (2012), Russia has assembled an Arctic Group of Forces, a general-purpose force whose main assignment is to defend territory by executing border controls and patrols along the entire Northern Sea Route. The Northern Sea Route is here unique; it has been given the status of a national passage and federal line of communications but it can also give Russia major economic gains by letting international vessels sail through. The purpose of the Arctic Group of Forces is hence to defend Russian territories along with Russian economic interests in the region⁸⁸.

The 2007 Arctic expedition that is mentioned in the beginning of the chapter ultimately became an international public event and received huge media coverage outside of Russia as well. At the time, the State Policy had not yet been published and the world was anxious to know the Russian standpoint on Arctic affairs. Some scholars, such as Howard (2009) argue that, for the rest of the world, this Arctic expedition was the Russians expressing their claim of a region that seems to belong to no one. It was in line with president Vladimir Putin’s 2004 speech which called for an

⁸⁴ (ibid., p. 51)

⁸⁵ (Konyshchev & Sergunin, 2012, p. 47)

⁸⁶ (Bailes & Heininen, 2012, pp. 48-49)

⁸⁷ (Bailes & Heininen, 2012)

⁸⁸ (Bailes & Heininen, 2012; Konyshchev & Sergunin, 2012, p. 47)

urgent need to secure its ‘strategic, economic, scientific and defense’ interest. The purpose of this expedition was to first, secure geological samples to prove Russian territorial claim; secondly, to show the world that Russia has put the Arctic on its political agenda⁸⁹.

To other scholars, such as Bailes and Heininen (2012), this expedition was ‘largely misunderstood and misinterpreted abroad’ and illustrates how ‘an activity that is basically scientific can be transformed into a highly (geo) political incident’⁹⁰. It triggered other Arctic nations, such as Denmark and the US, to hastily deploy their own Arctic research expeditions to find evidence for their own territorial claims⁹¹.

Before both the 2007 Arctic expedition and the publication of the State Policy, Russia has been sending teams on Arctic expeditions annually. Not even the economic crisis in 2008 seemed to affect Russian activities in the Arctic. In fact, sharp price increase in summer 2008 sent waves of worry among the big oil importing countries, making Arctic oil exploration even more lucrative⁹². Fact remains, with or without the State Policy to emphasize it or the 2007 expedition to prove it, Russia is generally viewed as an Arctic nation, in some cases even ‘the’ Arctic nation⁹³. As mentioned earlier, large parts of Russian territory are situated in the Arctic and so do most of the natural resources of the region.

According to the Russian Ministry of Natural Resources and Environment, the resources of the Russian Arctic shelf are estimated as equivalent to 83 billion tonnes of oil, 80 per cent of which are located in the Barents and Kara seas. The Russian Arctic shelf contains between 5 and 9 per cent of Russia’s liquid hydro-carbon resources (of which at least 2 per cent is oil) and up to 12.5 per cent of its gas resources. The Arctic zone also contains significant onshore resources: the gas resources of the Yamal peninsula alone are 505 569 billion cubic metres, while gas reserves equal 10 847 billion cubic metres; and oil resources amount to 4144 million tonnes, with reserves of 2921 million tonnes⁹⁴. It is estimated that 81 per cent of total Arctic oil production from 2008 to 2030 will come from Russia, while for total Arctic

⁸⁹ (Howard, 2009, p. 3)

⁹⁰ (Bailes & Heininen, 2012, p. 45)

⁹¹ (Konyshev & Sergunin, 2012, p. 49)

⁹² (Howard, 2009)

⁹³ (Bailes & Heininen, 2012)

⁹⁴ (Klimenko, 2014, pp. 3-4)

gas production, 94 per cent will come from Russia alone⁹⁵.

Geological explorations of its continental shelf took place already during early 1970s Soviet Union; this was soon followed by exploration drilling during the 1980s. Findings created great expectations and foreign observers predicted immediate developments in the next decades. These expectations were more strongly felt abroad, because, domestically, development of offshore exploration received little support from both institutions and politicians alike. According to Claes and Moe, many foreign observers forget that the Soviet Union carried out long-term mapping of their resources, meaning big discoveries do not necessarily imply immediate developments. Additionally at the time, the Soviet Union had significant onshore resources; offshore exploration was thus not a priority⁹⁶. It would then take Russia several decades before Arctic offshore exploration would come back on the political agenda.

In line with Putin's policy of nationalizing the oil and gas sector since the 2000s, the Russian government has given state controlled companies the position to play a leading role in the exploitation of energy resources from continental shelf to the Arctic region. From 2008, in order to gain exclusive rights to new offshore licenses, the companies need to have a state majority and at least 5 years of experience working on the Russian continental shelf. Finally, the only companies that qualified were Gazprom and Rosneft. By then end of 2013, these two state companies were granted licenses that made up 80 per cent of the Russian Arctic shelf. Although lastly, just because of the amount of licenses granted, it was clear that a significant amount of resources was necessary for the companies to meet the amount of work they had to carry out⁹⁷.

In sum, during the early 2000s, energy security came back on the political agenda, reflecting global trends; the emergence of big oil importers such as China and India sent sparks of speculations on future supply shortage. Continued high price of energy and natural resources and Arctic thawing created strong expectations about the new opportunities on Russian soil. In the early years, Russia focussed on territorial claims. However, Russia has thus far respected the territorial claims set in accordance with the 1982 United Nations Convention on the Law of the Sea (UNCLOS). Russia has already gained large areas of the Arctic Ocean in accordance with UNCLOS and

⁹⁵ (Claes & Moe, 2014)

⁹⁶ (Claes & Moe, 2014)

⁹⁷ (Klimenko, 2014)

thus Russia will continue to respect the Convention rather than question its legitimacy. The Russian Federation's biggest interest in the Arctic is primarily economic, as the region makes about 11 per cent of the Federation's income⁹⁸. From the outside it seems like Russia is responding to changing geopolitical environment, but according to Bailes and Heininen, it is Russia taking an advantage of the changes in the Arctic to fit with their priorities in domestic politics⁹⁹.

5.2 Russia and China

Oil and gas exploration outside national jurisdiction is a very lucrative business for energy companies. They can choose which projects they wish to invest in, using their capital and technology as leverage. When states cannot be in direct control of the production, they usually seek foreign companies. In order to gain revenue from the production, states use taxation to claim parts of the profit. It seems like a win-win situation; foreign companies get access and the possibility to invest in upstream oil production, while governments, who control the resources, gain profit coming from the production. Also, here in the case of Russian resource development, there is a tighter control as both foreign companies and private Russian companies are only allowed to work on the shelf in cooperation with Gazprom or Rosneft¹⁰⁰.

As mentioned above, the two Russian state companies now have the control of most of the licenses on Russian territory. However, neither Rosneft nor Gazprom has the experience, capital or technology to develop production. Traditionally, Russia has a longer experience with Europe as an energy-trading partner. Western countries are Russia's primary energy market, and in return, Western companies provide Russian companies with necessary investment partners, expertise and technology¹⁰¹. However, after the Russian annexation of Crimea in 2014, diplomatic relations between Russia and Western countries deteriorated. This led to Western sanctions against Russia, and eventually preventing any cooperation between Western and Russian companies¹⁰². Around the same time, Russian and Chinese diplomatic relations began developing

⁹⁸ (Konyshchev & Sergunin, 2012, p. 46)

⁹⁹ (Bailes & Heininen, 2012)

¹⁰⁰ (Claes & Moe, 2014)

¹⁰¹ (Klimenko, 2014, p. 6)

¹⁰² (Lanteigne, 2014)

and currently, both Russian and Chinese described their current relations as ‘the best in history’.

Europe has been Russia’s biggest energy market for several decades. Because of this trade, Russia has not been looking towards China as contracts with European countries yielded more profit and flexibility. And unlike China, pipelines and infrastructure needed to transfer gas to the European continent are also finished projects. Russia needs the European market; the European market counts for 67 percent of Russia's gas exports and 69 percent of Russia's oil exports¹⁰³. Disruption in this trade would affect Russia’s income and budget drastically. Thus, Russian policy documents have periodically expressed a need and desire to tap the Asian energy market and to attract investments from Asia. The countries in focus were not only China but also the other energy giants; India, Japan and South Korea. According to a report from Stockholm International Peace Research Institute, the Russian government published an energy strategy in 2003 where it predicted that the Asian market would by 2020, constitute a huge chunk of the Russian hydrocarbon export. By 2020, Asia is to account for 30 per cent of Russia’s oil exports and 25 per cent of natural gas exports¹⁰⁴.

Talks of energy trade with China thus took place before the Western sanctions; Rosneft and China National Petroleum Corporation (CNPC) signed what was then thought to be the biggest Sino-Russian energy deal, worth an estimated \$270 billion. So for the next 25 years, Rosneft is to provide CNPC with about 365 million tons of oil¹⁰⁵. Another historic energy deal was made in 2014: a 30-year energy agreement, estimated at \$400 billion. Leaders of both states, Presidents Vladimir Putin and Xi Jinping signed this historical deal securing CNPC and its subsidiary PetroChina, natural gas supplies for the next 30 years¹⁰⁶.

As for energy investments in the Arctic, in 2013, Novatek granted CNPC a

¹⁰³ Why Moscow Says No; A Question of Russian Interests, Not Psychology, The Diplomat, <https://www.foreignaffairs.com/articles/russia-fsu/2011-01-01/why-moscow-says-no>, accessed 09.10.15

¹⁰⁴ (Jakobson, Holtom, Knox, & Peng, 2011, p. 27)

¹⁰⁵ Russia’s Energy Deals with East Asia: Who Wins?, The Diplomat <http://thediplomat.com/2013/07/russias-energy-deals-with-east-asia-who-wins/>, accessed 09.10.15

¹⁰⁶ Russia-China energy deal: Geopolitical tectonic shift: Can an emerging China-Russia axis challenge US hegemony?, Aljazeera, <http://www.aljazeera.com/indepth/opinion/2014/06/russia-china-energy-alliance-ge-201461765254926525.html>, accessed 09.05.10

20% stake in its LNG project on the Yamal Peninsula, earning CNPC an import of about 3 million tons of natural gas annually¹⁰⁷.

The closer diplomatic relations between Moscow and Beijing has had great influence on the countries' energy politics. In Xi Jinping's first visit abroad, which was to Moscow in March 2013, he came home with the 2013 energy deal and an agreement that allows CNPC to do joint exploration of Arctic waters with Rosneft. Energy deals between China and Russia have had strong political overtones and it is obvious that a further strengthening of Sino-Russian relations receives great support high up in the political sphere as well as among prominent energy figures¹⁰⁸.

According to Klimenko, much of Russia's success as a major energy state is thanks to Rosneft's president Igor Sechin; he is also an influential figure in Russian politics. Sechin envisions shaping Rosneft into a 'major global oil company', but this is an aspiration that requires both cash and capital¹⁰⁹.

Sechin, has been in touch with several prominent Chinese figures, such as CNPC's Zhou Jiping and the director of the National Energy Administration of the People's Republic of China, Wu Xinxiong. On Rosneft's own press pages, these talks emphasise satisfaction with the cooperation and promote expansion of partnerships¹¹⁰.

Despite continued media coverage about continued warm relations between Russia and China, many scholars are now questioning for how long this romance is going to last¹¹¹. Also, will Russia let China have a bigger stake in the Arctic? So far most scholars say that there are more complications to this relationship than what most media portray.

First of all, there is already great mistrust between Russia and China; China has in the last decades built qualities that create a bigger leverage when negotiating

¹⁰⁷ Russia's Energy Deals with East Asia: Who Wins?, The Diplomat <http://thediplomat.com/2013/07/russias-energy-deals-with-east-asia-who-wins/>, accessed 09.10.15

¹⁰⁸ (Lanteigne, 2014)

¹⁰⁹ (Klimenko, 2014)

¹¹⁰ Rosneft and CNPC Sign Memorandum to Expand Cooperation in Upstream Projects in East Siberia, Rosneft's webpages, <http://www.rosneft.com/news/pressrelease/18102013.html>, accessed 09.05.10; Igor Sechin Held Talks with the Director of China's National Energy Administration, Rosneft's webpages, http://www.rosneft.com/news/news_in_press/14052014.html, accessed 09.05.10

¹¹¹ At Russia's Military Parade, Putin and Xi Cement Ties: China and Russia emphasized their common vision (of both history and the future) during the Victory Day celebrations, The Diplomat, <http://thediplomat.com/2015/05/at-russias-military-parade-putin-and-xi-cement-ties/>, accessed 10.10.15.

with Russia, such as heavy investment in technological developments¹¹².

Second, in a survey conducted among young Russians, more and more young people in Russia identify themselves culturally closer to Western Europe and Moscow will just grow further away from Beijing as cultural differences occur. In the early years of PRC, Beijing's relations with Moscow were good, but, historically, China has always held a junior position. Today, China sees itself as a more equal partner next to Russia and uses the term 'partnership between equals'. Both the Chinese government and Chinese corporations are more than aware of the fact that although Russia seems to be warming up to China, Moscow will still take precautions as to not let the balance fall into China's favour¹¹³.

Cooperation between Russia and China seems to be taking great steps, but in truth, it is a more pragmatic relationship where both are still being wary of the other part's intentions. In order to maintain a sustained and steady economic growth in the backdrop in the global financial crisis, Russia will not ignore a possible cooperation with China¹¹⁴. However, the grand expectations that media have of Sino-Russian relations will most likely not take place, but both will most likely try to find a common ground to nurture the interest on both sides of the border.

6 Conclusion

During the 2000s, energy and energy security was back on the political agenda as China emerged as a major energy consumer. The seemingly unlimited thirst for energy combined with a peak in oil prices created a global presumption that a new oil crisis would emerge. China's thirst for energy is not something that is unusual, all developing countries, especially those that grow at a rapid pace, experience an unprecedented need for energy as energy is a necessity in a country's economic growth. And unlike the US who is becoming less dependent on energy import, China is desperate for more as Chinese energy production cannot keep up with Chinese consumption. So China does what most other industrial countries did; China went abroad. In search for additional energy reserves, China had to tap into untapped

¹¹² Why Moscow Says No; A Question of Russian Interests, Not Psychology, The Diplomat, <https://www.foreignaffairs.com/articles/russia-fsu/2011-01-01/why-moscow-says-no>, accessed 09.10.15

¹¹³ (Klimenko, 2014)

¹¹⁴ 万芳芳, 王琦 (2013 年)

regions of the world, such as South America and Africa. Some of the countries that China has approached are considered rogue states, and the political fallout following these initiatives has created a global wariness of Chinese businesses abroad.

This study attempted to describe Chinese energy politics in the Arctic by looking closely into Chinese foreign policy, Russian Arctic policy and Icelandic Arctic policy.

Trends in Chinese foreign policy show that China has been careful in dealing with foreign policy. As a country with almost no allies, China is alienated in a global world order where American liberal democracy is the norm. China represents a differentness that its foreign relations do not have experience with. China is very flexible in its decision-making process and Chinese policy makers have yet to decide on an international strategic identity that Beijing should pursue; these factors make China a wild card on the international arena and a partner most states are hesitant of collaborating with.

China does have a clear cut state policy and its strategic identity in Asia is quite distinct. However, like Cohen says in his book; it is not easy to compare Chinese foreign relations in one region and compare it with an other. Based on the findings in chapter 2, we can see that Chinese foreign policy is becoming more complex and multi faceted. This study has given us the opportunity to observe how China interacts with both a big state and a small state in a region outside of Asia.

From the data collected from chapter 3, 4 and 5, we can draw two conclusions:

1. China is the most visible non-Arctic actor in Arctic affairs; this is because China is the partner that compliments the political needs and priorities of the Arctic states the most.

China could offer technology, human resources and capital required. In conclusion, China's contribution to Arctic development could only benefit the Arctic states¹¹⁵.

In the last decades, there have been great geopolitical shifts, but these shifts are not coming as a direct consequence of Chinese policy making. Global warming, financial recession and the US' retreat from Iceland changed the geopolitical situation

¹¹⁵ 吴瑶, 唐薇 (2012 年 07 月 21 日)

in Iceland. Multiple outside actors approached Iceland but finally it was China that gained most access to the little island state. This was not because China played a “big power-small power” game with Iceland, but because China had what was needed to suit Icelandic political priorities. China has the capital necessary to develop the newly discovered natural resources found on Icelandic territory. China is still Asia-Pacific’s biggest consumer of energy and these energy investments are to China long-term investments. Thus China has qualities that best suit Icelandic circumstances; enough capital and again enough capital and time to wait for the projects to bear fruits.

This is also applicable in Chinese activities in Russia. The political fall out after Crimea was not the sole reason for why Moscow decided to strengthen its political ties with Beijing. Russia was looking towards the East before 2014 and the Western sanctions were more like what ignited the Russian shift towards the East. Like mentioned, this resulted with bilateral agreements in 2013 and 2014 between Russia and China, which are both long-term agreements.

2. China is not attempting to make geopolitical shifts in the Arctic; instead, China promotes scientific and institutional cooperation.

China sees the downside of instability in a world where it depends on resources from around the world. That is why alongside making bilateral agreements with specific states, China is also increasingly becoming more active in international institutions. The Arctic region and in particular the Arctic Council are becoming a new political hub with prominent members such as the US and Russia. As a great power, it would only be natural for China to partake in that political community. China applied for observer status in the AC early on and that is in line with both Icelandic and Russian stance in the region. Both Iceland and Russia have put regional cooperation through the AC as one their Arctic strategy priority. Just like China, being a big country dependent on trade, Russia has more to gain on having peaceful cooperation with the other Arctic states. And in Iceland there is a broad consensus among elites, the public and the scientists that Arctic matters concerns all. Although, the strongest incentive for the strengthening of the AC authority is to prevent Iceland from being excluded from the region as Iceland is situated just outside the polar circle.

In accordance with Cohen's four pillar of power, China does not possess enough in order to make a geopolitical shift in the Arctic.

Chinese has formulated a number of non-negotiable core interests (国家的核心利益): these policies are pursued more aggressively by Beijing and the stances on these policies are much more clear cut. These core interests are regional ones and Beijing is clearer about these in its rhetoric. Thus, if Arctic and Arctic strategy were political priorities for China, a public strategy would already have been formulated. Instead in 2009, the Chinese Assistant Manager of Foreign Affairs Hu Zhengyue announced publically that China does not have an Arctic strategy and is thus not a priority at the Chinese Ministry of Foreign Affairs¹¹⁶. In sum, China will not use military power to pursue its interests in the Arctic.

The analysis in this thesis shows that China can only execute economic power in both Iceland and Russia, but only to a certain degree. Both Iceland and Russia takes measure to prevent China from having too much influence in their state affairs. Chinese corporates can only cooperate with Russian national companies, in which the Russian Federation has control of. As on Iceland, scientific and economic cooperation, which are transparent and beneficial for both parts, are widely accepted, but other cases such as Huang Nubo are not.

Finally, to answer the research questions posed in the beginning of the study: *How does China and Chinese politics fit with these two Arctic countries' strategy and what sort of role do the activities in the Arctic have in Chinese energy politics?*

To many of the Arctic states, cooperation with China might yield more advantages than disadvantages. This is especially true in the case of Iceland. Recent events in international politics have enabled China to approach the Arctic states, and China has not been pushing aggressively on any of the Arctic states. This is in line with Chinese own policy of non-interference and respect for sovereignty. China will neither push for a great geopolitical shift by using military power. First of all, China is not a military super power, because Chinese military does not expand far from China's own borders. Its power rest on economy and it is this power that China uses when negotiating with foreign partners. Additionally, as seen in the empirical evidence

¹¹⁶ (Campbell, 13.04.2012; Rainwater, 2013)

presented in this thesis, China's foreign partners do take measures to ensure that they are in control of their own resources, and these are terms that China so far has accepted.

Despite the gigantic energy deals signed between Russia and China, and despite China being the first non-Arctic country to receive an oil license in Iceland, the Arctic is just a part of a bigger energy security strategy. Chinese foreign policy has emphasised cross-diplomatic relations. The Arctic seems an ideal region as Arctic policy is currently based on consensus politics. The chance of a political backlash is much smaller in the Arctic than elsewhere where China do business, despite that the profit in the Arctic is not as big. It is just a matter of opportunities that have opened up for China, which seized them.

This thesis sheds light on two very current issues, Arctic affairs and Chinese foreign diplomacy. This study proves that both topics are very complex and not easy to investigate, hence such subjects cannot be exhaustively studied through a single thesis. Due to limited time and also limited resources, this thesis focus only on Chinese energy politics and Icelandic and Russian Arctic strategy. If possible, it would have been ideal to do a further investigation on the Arctic strategies of both Denmark (Greenland) and Norway also to have a bigger picture of Chinese overall approach in the Arctic Circle. Another interesting finding that could also have been further developed; what is the relationship between Chinese energy companies and the Chinese state. So far, most of the energy cooperation between China and the Arctic states has been between national energy companies, and much less private companies.

When they invest in energy projects outside of China, are they doing it as a part of a commercial partner on the global market? Or are they just an extension of Beijing's reach?

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