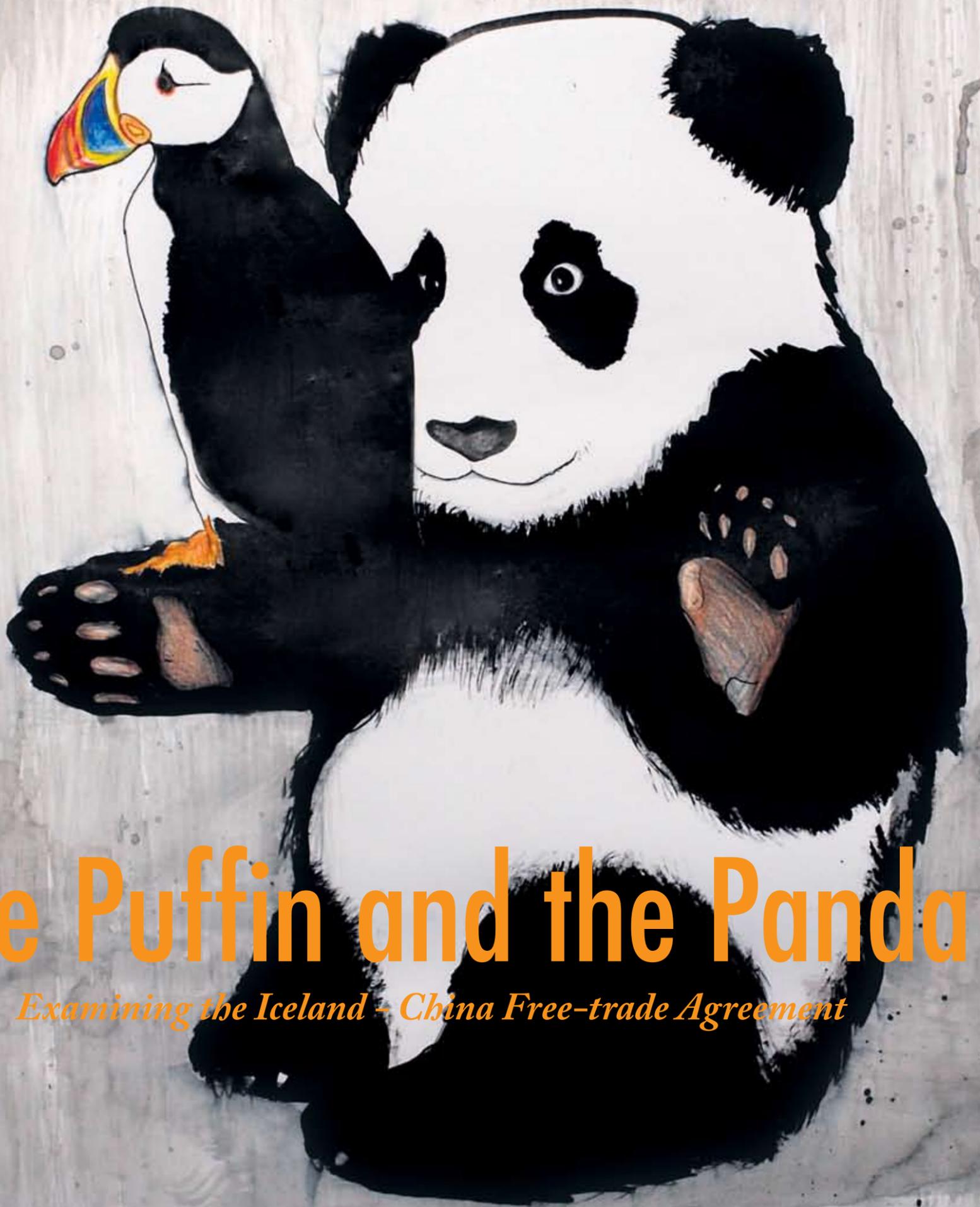




FREE



The Puffin and the Panda

Examining the Iceland - China Free-trade Agreement

The Lonesome Traveller is Out and About • Taking in Belgium • Is There Future For Music?
Art Terrorist Returns • Books on the North Atlantic • Reykjavík International Film Festival

The myth that the future of business is in China is very old. As early as 1840, European and American manufacturers ran the numbers and calculated that they could get hugely rich if they could just sell one toothpick or button to each person in China.

Text by Ian Watson

As Iceland and China moved closer towards signing a free trade agreement, the state television news came up with a great graphic to illustrate what might happen. Two lace-less shoes arrive duty-free in Iceland from China. Icelanders tie on a set of laces. Then we resell the shoes duty-free to Europe at way less than Europe's price for importing direct.

The unstated fear that this news story played upon runs basically like this: China has infiltrated the Icelandic government and has a secret plan to use Iceland as a back door to Europe's markets. A few people in Iceland will make lots of money on this, at the moral cost of collusion with an ethically bankrupt country which mistreats its people and is ruining the environment.

In fact, country-of-origin rules mean that Iceland would have to add more value than tying on a pair of shoelaces in order to be able to re-label Chinese products as its own. But this story illustrates how the China buzz in Iceland is riddled with myths and hype. The Grapevine's editor asked me to cut through them and find out what is really happening.

Conspiracy theorists probably imagine that all of the talk about China in Iceland is because rich, corrupt Chinese businessmen-cum-politicians have paid off rich, corrupt Icelandic businessmen-cum-politicians to be able to influence the political process here (and kick some Falun Gong butt in the process!) But the more I looked into the situation, the less sensational it turned out to be. China is neither as much of a threat, nor as much of an opportunity, as it is made out to be.

Not Just Free Trade

Iceland is not really that special. China has already signed several free trade agreements, and is now working on adding New Zealand, Australia, Switzerland, Iceland, and Norway. For the time being, China has left the big fish – the EU, the USA, and Japan – out of their sights, probably because those negotiations are trickier and more politically charged. Smaller, peripheral countries like Norway and New Zealand have more to gain from an agreement, and China's smaller successes might pave the way for bigger ones.

Signing a free trade agreement requires recognising China as a "market economy," which is something that many countries would prefer not to do. China is, increasingly, a free-market society, but it is also still opaque, authoritarian, and centralised. So being among the first to recognise China as a market economy means being among the first willing to say that the glass is half full rather than half empty. This is a justifiable move at this point in history, and at the same time it is a somewhat dubious honour for countries like Iceland.

There has been lots of talk about how the agreement between China and Iceland will be a "new generation" free trade agreement, which will cover services as well as goods. I have heard people say that thousands of Chinese workers will flood Iceland to offer their services to the construction or fishing industries at very low wages.

However, it seems that free trade in "services" really means things like letting Icelandic shipping companies move goods not just from Reykjavik to China, but also between two different Chinese ports (what's called "cabotage" in the language of international

Iceland–China

Is Free-trade as Good as Claimed?

info.

▲ Grettir Kabaret 2007 *Elíza Release Concert* The Solars System of the Elves *Megas & Senuþjófarnir in Concert* Eggert Pétursson – Two Exhibitions
 “Daagblaðið Vísir!” Reykjavík International Film Festival *Food Reviews*
 Shopping *Music, Art, Films and Events Listings* ▾



(riff) B6

Reykjavik International Film Festival

ORGAN

FRI SEP 21 – 23:00

GusGus / Dj Andrés (3,500 ISK)

SAT SEP 22 – 22:00

Bacon Live Support Unit Release Concert

WED SEP 26 – 21:00

Elíza Release Concert

THU SEP 27 – 21:00

Benny Crespos Gang / Royal Fortune

SAT SEP 29 – 23:00

Metor Area (USA)

THU OCT 4 – 21:00

Mónitor Concert

FRI OCT 5 – 21:00

Lee Hazelwood Tribute Concert

SAT OCT 6 – 22:00

Skátar / Bloodgroup

www.myspace.com/organreykjavik

Hafnarstræti 1-3, back alley – Open: Mon-Thu 19-01 / Fri 17-05 / Sat 19-05 / Sun closed



transport). It also might be defined to include the types of banking services that an Icelandic-registered bank like Glitnir can offer to its customers in Shanghai. The free trade agreement will not change the residence and work permit system that limits Chinese workers' ability to come to Iceland.

Old-Fashioned Gains

It seems that Iceland's main gains from a free trade agreement with China will be very old-fashioned and simple, and incremental rather than revolutionary. To start with, halibut and redfish exported from Iceland to China are currently subject to a customs tariff of 10-15%, which would hopefully disappear under the agreement.

Meanwhile, ninety-eight percent of Iceland's imports from China are manufactured goods like shoes or telephones. Export manufacturing has boomed in China, especially in the coastal cities, over the last two or three decades – just as it once did in other Asian countries like Japan, Korea, and Taiwan. For the first time in 2006, Iceland imported more from China than it did from Japan.

Many Chinese goods actually stop in other European countries on their way to Iceland. Some are subject to a 15% tariff when they enter the European Union. This is supposed to be refunded if the goods are re-exported to Iceland. But in practice the refund doesn't always take place. So imports wind up being subject to Icelandic tariffs on top of the European ones, which increases Icelandic retail prices.

As long as Iceland remains outside of the EU, a free-trade agreement may encourage more Icelandic wholesalers to import directly from China, by making the savings from doing so significant enough to offset any inefficiency in importing directly to such a small market instead of through larger mainland facilities. As any introductory economics class teaches, free trade is, at least in principle, good for both parties' bottom lines.

Refrigerated Transport: Eimskip

Icelandic exports to China totalled 2.75 billion ISK in 2006, 80% of which were frozen seafood products. Fish is a high-status protein in Chinese culture, although the Chinese prefer to buy live rather than frozen fish when possible. Much of the Icelandic fish that is sent to China travels with Eimskip, Iceland's largest shipping line.

Eimskip has four offices in China and just signed a contract to manage China's largest refrigerated warehouse in Qingdao. While Icelandic frozen fish will surely spend time in this warehouse, it will also serve other shippers from other nations, as do Eimskip's operations in general.

This is in turn a sign that growth opportunities for Iceland, in China and elsewhere, may no longer be in raw exports of Icelandic goods. The game now is to manage, own, or invest in all sorts of businesses, which serve clients worldwide and employ local people. This might mean logistics and transport, or supply chain management, or airlines, or banking.

Modern Icelandic businesspeople no longer move abroad to sell fish, like in the old days. They drive their jeeps to work in Reykjavik, where they might own part of a company based in London which serves German clients in Asian markets. While Iceland's "flag" products are still important – the ones that tourists talk about, like fish and geothermal know-how – Icelandic companies have, very sensibly, grown up and gone global.

Virtual realities: EVE Online

A completely different example of Icelandic operations in China involves CCP, a successful computer-game company based in Reykjavik. Their star product is EVE Online, a multiplayer role-playing game with about 200,000 users worldwide who pay \$15 a month to play. CCP needs to offer user support 24 hours a day, so they opened two extra offices in places where people are awake when Iceland is asleep. They chose Atlanta and Shanghai as the locations and now have around twenty employees, mostly Chinese, working in the Shanghai office.

China's bureaucracy requires that providers of online computer games be licensed by the government – few other countries have such rules – and no foreign company in Chi-

na has yet received such a license. So even though CCP has an office in China, they cannot offer EVE Online to Chinese users. They do, however, lease EVE Online to a Chinese company which sells it to Chinese users under a different name. However, the virtual world in the Chinese version of EVE Online is not connected to the virtual world accessible to users in other countries, so Chinese users can only play with each other, not with Europeans or Americans.

Naturally, CCP hopes that a free trade agreement between Iceland and China would let them sell their services directly to Chinese customers, so that Chinese players could register and pay directly to CCP for membership in EVE Online and participate in the same virtual environment as the rest of the world. No one seems sure whether the free trade agreement under discussion will actually bring about any change in this kind of complex situation, where regulatory power, Internet freedoms, and online payment issues interact.

Idealism and Pragmatism

China's growing importance in world trade disturbs the "China idealists" who still feel that Western relations with China should be conditional on the humane development of Chinese society. Idealists are horrified by the quality of life in Chinese society, and the Chinese government's seeming indifference to its peoples' suffering. They condemn China's use of the death penalty, its cultural imperialism in Tibet and Xinjiang, the working conditions in its factories, its lack of freedom of speech, the way that ordinary Chinese people keep each other under ideological surveillance, the weak rule of law, the poor state of the environment and public health, China's belligerent ethnocentric tendencies, and its stubborn opposition to letting Taiwan become a normal independent country. They want the rest of the world to act harshly towards China – no Olympics, no free trade – until it changes.

These days, the idealists are losing their battle to the so-called China pragmatists. Deep down, pragmatists sympathize with the idealists' concerns, but they have concluded that the only sensible way to deal with China is to engage it economically and politically. They suspect that criticising Chinese society is counterproductive. (On a personal level, direct criticism can make Chinese representatives feel they have lost face, and thus disengage.) They see benefit in increased business with China and hope that in an economically stronger China, social and environmental conditions will improve from the bottom up.

Iceland's China policy has long since moved from idealism to pragmatism. But even to pragmatists, the degree of recent Icelandic-Chinese contact sometimes seems disproportionate. A recent report in Fréttablaðið (June 24) says that 20 official Chinese delegations were expected in Iceland in 2007.

All of them will take up Icelandic public servants' time and money. One can't help but wonder whether this will be time and money wisely spent. Chinese officials tend to come to Iceland in large groups. Of course one wants to be hospitable and to promote cultural exchange. But the protocol and security arrangements for Chinese visitors have sometimes seemed excessive. Even Minister of Justice Björn Bjarnason, a person who normally takes pride in Iceland's police and border security capability, has repeatedly criticised the Icelandic government's heavy-handedness towards Falun Gong protesters during Chinese president Jiang Zemin's visit to Iceland in 2002.

It's easy to see how these visits make some people start to imagine that Iceland has lost track of its self-interest and swung beyond pragmatism to a point where it is letting itself be manipulated. I haven't managed to learn enough about the costs, incentives and outcomes of these visits, the interests behind them, the time they take or the amount of free food involved, to really judge whether this is the case.

New Zealand is another country which has moved from idealism to pragmatism in the last few years. Much like in Iceland, critics accuse New Zealand's government of suppressing protests against visiting Chinese leaders, stonewalling local journalists who have idealistically criticised China, and moving too quickly towards a free trade agreement with a country for which many New Zealanders feel

a considerable amount of moral queasiness.

But for now, economics has trumped idealism. When I studied Chinese in Beijing in 1992, the atmosphere was still politically charged, and it is only a small exaggeration to say that every conversation with Chinese students was thought of as an example of friendship between nations. Now, most foreigners in China have making money on their mind, not political principles. This has pulled the podium away from those who are troubled by social, environmental, and human rights issues in China.

Europeans' personal relations with Chinese have started to resemble their relations with Americans, in which feelings about, say, the death penalty or the war in Iraq are mostly set aside.

Still, it never takes long before a disturbing story comes over the news from China – or the United States – about pollution, or corruption, or discrimination, or cultural imperialism. Such stories force the idealist deep inside every pragmatist to ask again what we should do when we see fellow humans suffer. No amount of business success can ever quite make this question go away.

The History of China Hype

It's skilful marketing, in addition to business realities, that has created a China buzz in Iceland. And marketing often means creating expectations that people can get excited about, even if they never fully pan out.

The myth that the future of business in China is very old. As early as 1840, European and American manufacturers ran the numbers and calculated that they could get hugely rich if they could just sell one toothpick or button to each person in China. Iceland's current exports to China work out to only about two ISK per Chinese. What if we could boost that to two hundred ISK, by getting every Chinese person to eat half an Icelandic cod fillet on average every year? Just a few hundred grams – that's not much, now!

These speculative dreams have a history of not working out. One of the most poignant examples was the story of the Icelandic-owned Scandinavian Guangzhou Candy Company, which began producing liquorice in China in March 1993 and closed amid land ownership disputes in the summer of 1994. (For more detail, see Stefán Úlfarsson's master's thesis, "Kina í íslenskum veruleika.")

I lived through a more modest example of high expectations when I went to work for the then Bifröst School of Business in 2005. Amid much fanfare, the school had signed a partnership agreement with a university in Shanghai. The hype was that just as many Chinese students have come to American and European universities in the past couple decades, dozens of Chinese students would soon be studying business at Bifröst. This sounded exciting at the time, but little by little it turned out to have been a misjudgement of the market. No Chinese students ever came to Iceland. But there was actually a workable business model in the relationship. Shanghai became a popular, inexpensive, and exotic study abroad destination for Bifröst students – essentially, another outsourcing role for China, with Icelanders as purchasers, and teaching rather than phones or TVs as the product.

Besides sheer size, another way to get people excited about China is to play on the natural tendency to imagine that foreign cultures possess secret spiritual wisdom. Owners of Zen retreats, purveyors of meditation, massage, and Chinese medicine, and tattoo artists who post Chinese character designs on their walls all lick their lips when Europeans and North Americans come through the door convinced that Asians understand the path to cosmic bliss. (Similarly, Landsbanki's recent English-language advertising campaign, which

China is neither as much of a threat, nor as much of an opportunity, as it is made out to be.

imbued everyday Icelanders with the mythical qualities of their first names, relies on the myth of the Land of the Vikings – where everyone believes in elves and speaks an ancient language of great wisdom and power.) But as the two German brothers in the 2000 movie Enlightenment Guaranteed find out when they are put to work scrubbing floors at a Japanese monastery, we are all human, and Asian cultures, though different, are neither more nor less spiritual than our own.

I am often concerned when I hear students speaking casually about plans to study Chinese. Spoken Mandarin is easy once you figure out its four tones. But the writing system is an inefficient beast (which other Asian countries have mostly abandoned and which Chinese schoolkids also find difficult). It takes two to three years of intensive study before you can even begin to read a newspaper. Like studying any language, it's a fascinating journey, but not one to be undertaken lightly. You can make quicker progress in any other Asian language.

To hook a customer, one doesn't always have to deliver tangible returns; sometimes just expectations of returns are enough, and sometimes even expectations of others' expected returns. So before you drop everything and get on the China bandwagon, or any other, be an informed consumer: try to find out whether there's something real on offer, or you're just a sucker in a buzzmakers' scheme.

Not the Only Asian Country

In the grip of the China buzz, mainland China starts to seem like the only country in Asia. But there are over 700 million East Asians in countries like Malaysia, Thailand, Korea, Singapore, and Japan, and roughly 1.2 billion in India, Nepal, and Bangladesh. These countries are important business partners, outweigh China as a source of imports to Iceland, offer considerable investment growth potential, and produce (on average) higher-quality products. For example, Asian food importers in Iceland prefer to buy from Thailand, the Philippines, and Japan, not from China.

China is just one of the scenes on a broader Asian tapestry. The real long-term story is the two-way encounter between Asian and Euro-American cultures. Two hundred years ago, there were virtually no Asians in Europe or North America. Now people of Asian ancestry make up about 4% of Britain's population, about 5% in the United States, and closer to 10% in Canada. Iceland is at around 1%, but already Southeast Asian cooking has had a huge influence on us, to the point where fish sauce and coconut milk have become commodities that we buy in bulk at Bónus.

The encounter may be just beginning. Although Asia is far away, I can well imagine that in fifty years Europeans will be eating more Asian food, reading more Asian literature, seeing more Asian movies, and using more Asian design ideas than they do now. The three billion people in Asia (compared to less than one billion in Europe and North

America) have plenty of interesting, practical ideas that are worth knowing and learning about. And that means Indonesian peanut sauce and Japanese red bean paste just as much as Chinese pot stickers or Peking duck.

China within Asia

The cultural differences and relations between Asian countries are as complex as those within Europe. China has a special position in Asian history. In medieval times, when China was more powerful, many Chinese settled in other Asian countries. These communities were prominent in business life, and in some cases enjoyed special favour from European colonial administrations. Substantial ethnic Chinese minority communities still exist in countries like Thailand, Vietnam, Indonesia, Malaysia, and the Philippines.



Especially after World War II, Asian countries promoted their indigenous languages, religions and value systems at the expense of Chinese culture. This process was comparable to the twentieth-century rollback of German-speaking influence in Eastern Europe, as countries like Poland and Hungary promoted their own identities. The measures used were often drastic. Thailand closed Chinese-language schools and made ethnic Chinese take Thai names. Indonesia passed a law in 1959 forbidding Chinese to own businesses. Tensions continue: in 1998, anti-Chinese riots broke out in Jakarta.

During the thirty years since the Cultural Revolution, as mainland China has slowly reopened to the rest of the world, the image of mainland China in other Asian countries has been a less than positive one, of chain-smokers with rude manners, who dress badly, spit in public, and are suspicious of anything non-Chinese. In a way, the mainland Chinese have been the Ugly Americans of Asia. This is a stereotype, of course, with only limited

truth behind it. Many people who travel to China aim at getting beyond the stereotypes to make human contact with the "real" China. In the same way, thoughtful travellers to America know that stereotypes of Americans only apply to a minority.

Just as those with a Jewish identity do not automatically identify with Israel, not everyone who is "Chinese" lives in or identifies with mainland China. So overseas Chinese can be as critical of mainland China as anyone else. Singapore's anti-spitting campaign, for example, was not just a way of cleaning up the city but also of symbolically distancing Chinese Singaporean customs from those in mainland China.

Many Asians feel they have worked hard to create relatively tolerant, relatively open societies and to develop sensible trade relations with the rest of the world. At one level,

the same bookshelf with the story of Lancashire in the early 1800s, the north-eastern United States in the later 1800s, or Japan after World War II. Cities like Shenzhen have sprawled from nothing to New York size in a matter of two or three decades. Emigrants, often young women, have arrived from the Chinese countryside, and work 12 hours a day, six days a week, for \$100 a month. They live in company dormitories, eat in company cafeterias, and overworked but reasonably secure, assemble the goods that China sells to the world.

There's no question that Iceland can benefit from establishing more direct trade channels with China. It's likely that Iceland can modestly increase its exports to China, and that Icelandic investors can significantly increase their holdings in China. It's important to have sensible political relations with China. Understanding Chinese culture is important.

...But Location Still Matters

I mentioned that Icelandic exports to China totalled 2.75 billion krónur in 2006. That may have sounded like a lot. Here's another statistic: the same year's exports to the Faroe Islands totalled 2.89 billion krónur. Exports to the Faroes have outpaced exports to China for many years running. China has twenty-five thousand times as many people as the Faroe Islands. But it is many times further away.

We need to understand these sorts of numbers to avoid building castles in the air. As Stefán Úlfarsson put it, the "lack of critical discussion about China in Iceland" has "probably played a role in Icelanders' considerable gullibility towards unrealistic 'miracle stories' about the Chinese economy."

Here are some more facts: Lithuania and Nigeria are bigger purchasers of Icelandic seafood than China. Japan is a far more important export destination for Icelandic goods than China. And something like 70% of Iceland's trade is with Europe anyway.

Now that China is open again, it is likely to become a trade partner with Iceland of an importance proportional to its size and distance from us. That means that it is going to be a significant partner, but surely never the biggest one, and probably one subject to relatively high geopolitical risk. I know this isn't a really exciting conclusion – but hey, my goal was to evaluate the buzz, not perpetuate it.

China's high rate of manufacturing growth will continue for some time, but it will not last forever, just as Japan and Taiwan matured as manufacturing centres. Iceland is in the North Atlantic, and will always be closely tied to its closest neighbours: Europe, Canada, and the United States.

So, here's my advice. Go to China. Learn about it. Work with Chinese suppliers. It's a fascinating place. But keep in mind that the Great Wall of China is not visible from the moon. And don't forget to learn some Faroese.

Diamond Circle
Unique Nature

Dettifoss
Ásbyrgi
Hljóðaklettur
Mývatn
Goðafoss
Grenjaðarstaður
Húsavík
Melrakkasléttur
Raufarhöfn

Information centre
Garðarbraut 7 | 640 Húsavík | ICELAND | Tel: +354 464 4300
e-mail: info@husavik.is | www.markthing.is

ExperienceIce-land

Easy Glacier Adventures for Everyone

Ice Climbing

Ascension of Iceland's Highest Peak

Hot Spring Hike

Trekking and Backpacking

Icelandic Mountain Guides
Booking and information: www.mountainguide.is - Tel: +354 587 9999

Inside Reykjavík

The Grapevine Guide

The only guide that tells you the talk of the swimming pools, how to find the best cafes, how to recover from all night parties, an A to Z of Icelandic music and what "Viltu kaffi?" can really mean.

Travel Guides Can Be Honest. Really

Available at your nearest bookstore